



شركة الغاز العمانية ش.م.ع.م.

OMAN GAS COMPANY S.A.O.C.

ANNUAL REPORT 2005

His Majesty Sultan Qaboos bin Said



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Mission

To contribute to the country's economic progress by providing reliable & efficient management of infrastructure operations utilizing innovative technology whilst generating rewarding employment opportunities.

Vision

To become a world class hydrocarbon infrastructure operator by building a value adding and safe business manned by highly motivated and competent Omanis

Values

- Respect for Stakeholders**
- Equality & Fairness**
- Spirit of Team Work**
- Professionalism**
- Excellence & Quality**
- Competence**
- Transparency & Integrity**
- Environment, Health & Safety**
- Development & Continuous Improvement**

HSE Excellence; Fairness; Quality; Continuous improvement; Team Spirit; Integrity; Professionalism; Respect for all Stakeholders; & Transparency.

Company Profile

As one of the major gas transportation companies in Oman, Oman Gas Company S.A.O.C. (OGC) delivers natural gas to fuel major economic sectors in the country such as power plants and industries. The Company is involved in the transmission and distribution of natural gas, through a large network of gas pipelines and associated facilities. This is besides construction of high-pressure transmission systems which have been undertaken by the Company. Company has also been providing project management services by utilizing its expertise in pipeline construction.

Royal Decree no. 78/2000 granted the Company concession rights for 27 years to own, construct, maintain and operate gas facilities in the Sultanate of Oman. The Company has recently received a similar mandate for oil-lines. The Company is in its 5th year of operation, being established as a closed joint stock company in August 2000.

Company shareholders as of 31 December 2005; are the Ministry of Oil and Gas (80%) and Oman Oil Company (20%).

The vast 2000 km gas pipeline network along with its ancillary facilities (together called the Gas Transportation Facilities – GTF) is spread across the length and breadth of the country covering Fahud, Muscat, Sohar, Barka, Nizwa and Manah in the north and from Saih -Rawl to Salalah in the south of the country.

In the year 2005 OGC delivered 6.1 billion standard cubic meters of gas to the consumers, an increase of nearly 15% over its previous deliveries in 2004. This year also saw OGC breaking the record with respect to daily gas deliveries. For the first time since its operations, daily gas deliveries exceeded 22 million standard cubic meters.

With major plans for expansion, including construction of looplines and installation of compressors, in addition to the ongoing construction of the Combined Sohar Pressure Reduction Terminal which caters to the large scale development in Sohar Industrial Port Area, OGC will be on its way to achieving bigger success in the future.

The Company takes pride in having a state of the art SCADA control system with communications through Voice Over Internet Protocol-VOIP (first of its kind in Oman), Company can claim to have used technology of the future in the present to cut its cost of operations.

Omanisation is another area where the Company has been able to achieve excellent results. To date Company employs an 84% Omani workforce with 100% Omanis in Management, Finance, Human Resources and Projects.

Company believes in being a responsible corporate citizen and in this endeavor, provides support to various social causes by sponsoring events and conferences. After a measured initial start, the Company is taking its firm steps to be a leader in its core business.

Chairman's Report

The year 2005 was another challenging year for OGC. The main event of the year was the taking over of the Operation and maintenance activities from Canadian Energy Services (CES). The successful take over on 1st January 2005, was due to the dedication of our people, and the highly qualified team of personnel that was transferred to OGC from CES. The whole activity was managed with a smooth transition without any impact on the customers.

The Company's strategic goals and mission statements were finalized and approved by the Board of Directors. This transformation will clearly organize the Company's activities and performance.

During the year the new organization structure was implemented, taking into consideration the integration of the Operation & maintenance activities. The Company also appointed Mr. Yousuf Al Ojaili as CEO. Mr. Al Ojaili brings with him long years of experience and knowledge. His eagerness and confidence will back the Company and the workforce in fulfilling the Company's strategic goals. We wish him all the best for the future.

The end of the year was marked by the unfortunate fatal accident by one of the subcontractors. Following this, additional safety measures were implemented to ensure non recurrence. As part of ongoing environmental focus, OGC initiated various environmental projects, such as construction of special yards for the hazardous waste and hazardous chemicals to ensure the safety aspects of the community and the employees. OGC is pleased with its community involvement, environmental awareness and adoption of comprehensive human resources Policies.

2005 witnessed the commencement of gas supply to three new customers, Sohar Refinery, Sohar power plant and Raysut Industrial Estate. Construction activities continued on the Muscat – Sohar crude oil pipeline and OGC continued to manage the project on behalf of Oman Refinery Company. The construction activities for Sohar Pressure Reduction Terminal (PRT) continued during the year.

The ongoing maintenance activities and improvements in the system have helped in delivering a reliable service to our customers. In 2005 the Company continued its investments in the maintenance of the integrity of the facilities, in a bid to fulfill our vision to be a world class hydrocarbon operator.

In response to the country's increasing needs for natural gas and the growing demand for Petrochemical projects and heavy industries in the industrial Port of Sohar and Salalah region, OGC continued to work on the projects to supply gas to the fertilizer, methanol, PVAXX and Aluminum projects in Sohar. The future plans call for major expansion projects such as capacity increase of existing pipelines and installation of compression facilities at Fahud and Al Buraimi will expanding the capacity of as well as the Salalah line. It is projected that the capacity of the OGC transmission system will reach 60 million standard cubic meters per day by 2010. On the other hand,

preparations are underway to make all the facilities in Al Buraimi ready to receive the first imported gas from the Dolphin Energy grid by 2008.

OGC is pleased with its drive in the training and development of Omanis. Continued training, development and education were the main focus of the Company which helped the Omanisation level to reach 84%.

I would like to record my sincere thanks and appreciation to our shareholders for their continuous support.

I would like to thank all the board members for their support and the OGC employees for their dedication and hard work. Thanks to our people and their effort in making our gas business a success.

We sincerely wish to thank His Majesty Sultan Qaboos Bin Said for his vision and wise leadership.

Khalifa Bin Mubarak AL Hinai
Chairman of the Board
Technical Advisor to HE Minister of Oil & Gas
Ministry of Oil & Gas

Board of Directors



Mr. Khalifa bin Mubarak Al Hinai
Chairman



Ms. Awattif bint Mohammed Al Hikmani
Vice Chairman



Mr. Nasser bin Saeed Al Balushi
Board Member



Mr. Salim bin Zahir Al Sibani
Board Member



Mr. Said bin Mohammed Al Massoudi
Board Member

Management Team



Mr. Yousuf bin Mohammed Al-Ojaili
Chief Executive Officer



Mr. Suleiman bin Shambe Al-Balushi
Deputy Chief Executive Officer



Mr. Said bin Rashid Al-Asmi
Technical Division Director



Mr. Abdul Aziz bin Said Al-Mujaibi
Operation & Maintenance Manager



Ms. Asawari Deoras
Finance & Contracts Manager



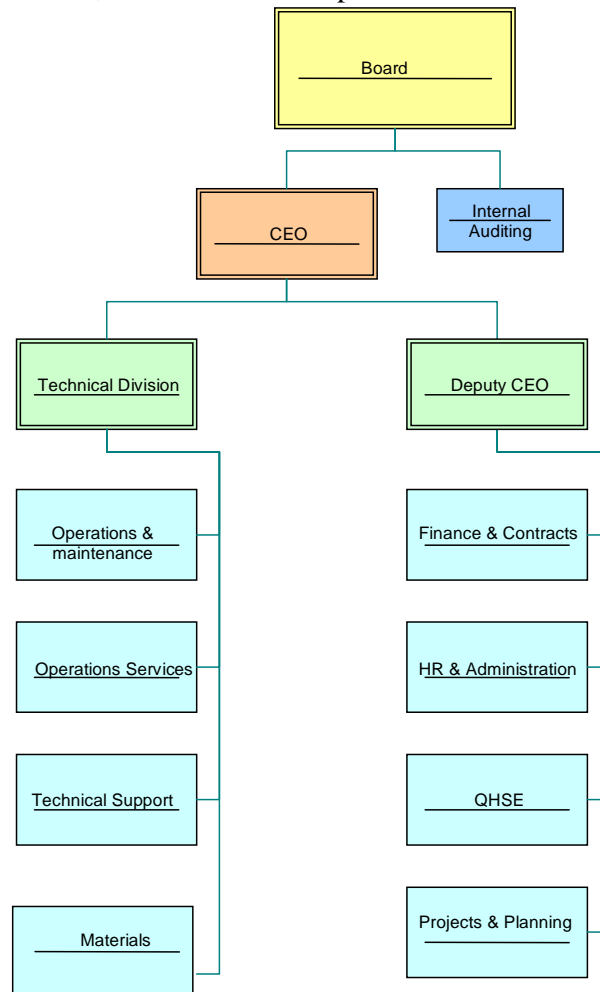
Mr. Saif bin Moahammed Al-Nabhani
Human Resources Manager

Company Report

Corporate

At the beginning of the year, OGC took over the operation and maintenance activities from Canadian Energy Services Company; previously responsible for the operation activities on behalf of OGC for the last 3 years.

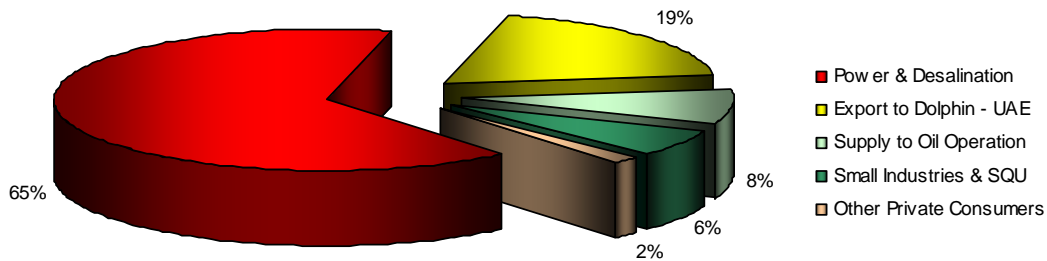
To ensure continuity and the smooth running of the operation a review by a specialized consultant was conducted on the company activities and a new Organization structure was implemented. The organization changes included formations of three main positions; Chief Executive Officer, Deputy Chief Executive Officer responsible for Finance, Contracts, Projects, QHSE, Human Resources, Administration and External Affairs and a Technical Division Directorate position responsible for Operations, Integrity, Information Technology and Telecommunications, Gas Control and Operations Technical Support.



Gas Delivery

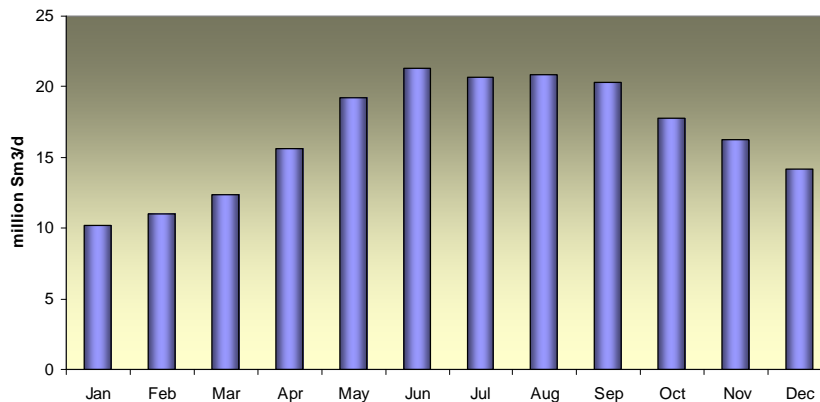
A total of 6.1 Billion Cubic Meter (BCM) of gas was delivered in 2005; 4.9 BCM was delivered by Petroleum Development Oman and 1.2 BCM was delivered by Occidental Company. The majority of the gas delivered was supplied to the power sectors in Oman followed by export to Dolphin Energy in United Arab Emirates. The export to UAE has ranked Oman number 17 in the world in terms of international gas pipeline export.

Gas Supply 2005 to Different Sectors



June 2005 saw the highest ever gas volume delivered by OGC in one day, 22 million standard m³ while August saw the highest gas volume delivered in a month at 647 million standard m³.

Average gas delivery- 2005



Operations and Integrity

Gas continued to be supplied to all the 21 customers at a very high availability rate. With only 6 hours of unplanned interruption to all consumers, the company achieved an availability rate of 99.99%.

During the year two big support contracts were awarded; a four year Maintenance Contract and a two year SCADA maintenance support contract.

Routine inspection and maintenance continued on all pressure reducing terminals and pressure limiting stations. This included vessel inspection, valve maintenance and metering verification work.

The project to upgrade the Corrosion Protection stations along the 16" and 20" pipelines continued as planned and is expected to be completed in 2006. Intelligent inspection by means of pigging runs continued as scheduled and was focused mainly on the aging 20" pipeline. This was followed by the necessary repairs of high and medium corrosion risk areas.

Projects

While the company continued to focus on delivery of agreed gas supply projects to the different sectors in the Sultanate, it gave more focus to the strategic planning part to ensure the medium term gas supply commitments are met in the most valuable economic manner to the government.

Two major gas supply projects were completed in Sohar area; the gas supply to the Sohar refinery and to the Sohar Power and Desalination plant. Both consumers started to consume limited commissioning gas volumes. Work continued on three more projects in the same area, the gas supply to the fertilizer, methanol and PVAXX projects; with procurement of all long lead items by the contractor completed and initial civil work at site in progress. In the Salalah area, a project to supply gas to the Raysut Industrial Estate was completed and minor modifications to increase the gas supply to Raysut Cement Company were completed.

The medium term strategic planning focuses on the capacity of the Sohar 32" pipeline, the 24" Salalah pipeline and the 2008 gas import from Dolphin Energy Limited. For this; Several Concept Study and Front End Design contracts to increase the capacity of the Sohar pipeline and also to receive the Dolphin gas were awarded in 2005. Studies showed that the most economically valuable solution was to install compression facilities at the beginning of Fahud 32" pipeline and at the border point with United Arab Emirates where the Dolphin gas will be arriving at low delivery pressure. In view of more demand in the Mukhaiznah area, a study to increase the capacity of the Salalah line was tendered.

Being in charge of project management of the Muscat to Sohar Crude Pipeline which is owned by Oman Refinery Company, OGC continued to provide the technical advice to the project and by year end most of the construction activities were completed.

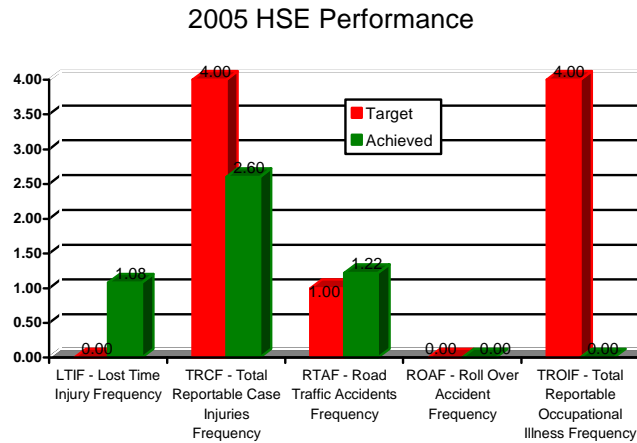
Information Technology and Telecommunications

Development of company's Internet and Intranet websites were initiated. While the Internet will be OGC's main communication tool with the outside world and communities, the Intranet part will enable easy internal access by OGC staff to the general OGC information, and will therefore improve the internal communications within the Company.

Due to the number of pipelines and gas terminals spread over a vast area of the Sultanate, a reliable data communication system becomes very essential. OGC continued to enhance its capabilities in data communication and SCADA control systems. OGC is planning to obtain specific cores from the owner of the Fiber Optic Cable which is installed along the Muscat to Sohar crude pipeline and as a result this will further strengthen OGC's telecommunication network capability, and reduce the reliability on other less reliable third party communication systems.

Health, Safety and Environment

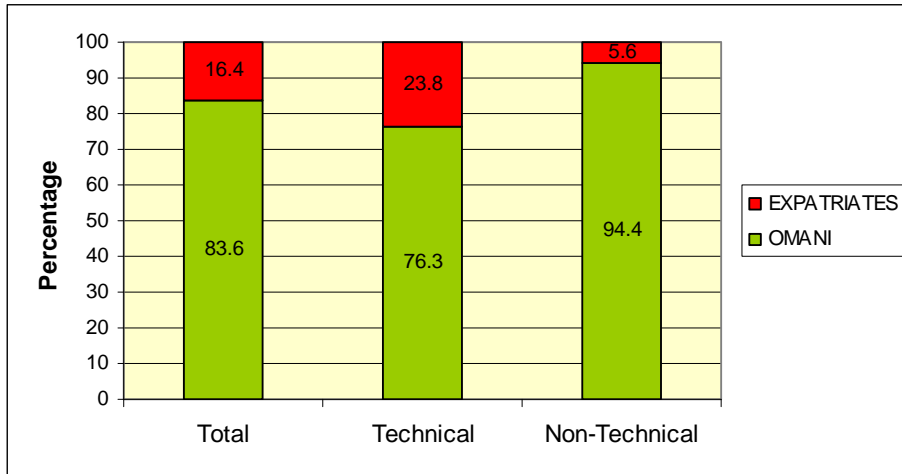
An unfortunate sub-contractor fatality by end 2005 ended the company's excellent safety record after working for over 400 days without a lost time injury. Several corrective measures were implemented. The company continued to focus on reducing the kilometers driven by company vehicles and a reduction of QHSE to fill was achieved compared to 2004 despite a significant increase in activities over the different regions.



Human Resource and Training

The company continued to provide both technical and non technical training to the majority of its staff according to the Company needs and job requirements. Omanisation continued in line with the company plans and by end of the year it has reached 84%. A new Human Resources and Training policy was prepared for implementation in 2006. The policy is designed to provide more clarity and transparency over the existing one and also provides for a clear systematic enhanced allowance, promotion, reward and staff appraisal system. An approval was received for an interest free housing loan scheme for Omani employees who have not taken a loan before from other Oil and Gas related companies. This is expected to be finalized during 2006.

An exercise to review all job categories was initiated using a specialized consultant. The study is expected to complete in 2006 and will give an overview on the company's remuneration against other similar companies in Oman.



External Affairs

The company participated in several technical seminars and presented several papers in local and international conferences related to pipeline integrity and OGC's preparations for growth. The company continued to support different government organizations by means of donations to special needs and disabled organizations, schools, areas where OGC operates and sponsorship of several events like sponsoring the Association of Early Intervention, the National Seminar in support of special needs, the Association of the Welfare of the Handicapped Children and purchasing of equipment for Oman Association for Disabled.

Finance, Contracts and Procurement

The total contracts awarded for 2005 were 21 amounting to total OMR 6 million.

The total amount of Purchase Orders issued during 2005 was OMR 0.5 million

Financial performance

In 2005, Oman Gas Company (OGC) maintained its financial performance of the previous year.

The Tariff income increased slightly by RO 0.11 million (0.6%) from RO 18.14 million in 2004 to RO 18.25 million in 2005.

Operating costs reduced by RO 1.67 million (13.6%). This was attributable to the savings achieved as a result of O&M activities being taken over by OGC from the Canadian Energy Services (CES) of RO 0.75 million and lower Insurance premium charged by RO 0.92 million.

As OGC carried out an active training program as well as filled most of the vacant senior positions within the organization during the year, consequently administration cost increased by RO 0.51 million than the level achieved in the year 2004.

Financial position

The overall non-current assets decreased by RO 5.6 million on the account of the annual depreciation. This decrease was offset by an increase in the current assets of RO 3.5 million, which in turn resulted in an overall decrease in the total assets by RO 2.1 million as of 31st December 2005.

Financing

In 2005, OGC made a repayment of term loans for RO 10.1 million, and at the end of the year the total term and soft loans balances were at RO 121.1 million. The finance costs significantly increased by RO 1.7 million than the cost incurred in 2004, due to the increase in interest rates.