



Shell Oman Marketing Company SAOG

Directors' Report for three months ended March 2017

The Board of Directors in its meeting held on April 27, 2017 approved the Company's unaudited financial results for the three months ended March 31, 2017.

THREE MONTHS 2017 UNAUDITED RESULTS

- Q1 2017 Gross Revenues were RO 110.3 million, 31.8% higher than same period last year mainly due to higher retail fuel prices in this quarter.
- Q1 2017 Gross Profit at RO 8.9 million was 9.9% lower than the same period last year.
- Q1 2017 Net Profit was RO 3.0 million, 24.3% lower than same period last year. This is mainly attributable to lower volumes in lubricants, continuous decline in retail volume demand, and a once-off significant item recorded in Q1 2016.
- Q1 2017 Cash flow generated from operating activities was RO (2.2) million compared to RO 2.3 million for the same period last year, resulting from lower net income and higher product inventory pricing together with lower demand.

KEY FEATURES OF THE THREE MONTHS 2017 PERFORMANCE

Retail business remains the largest segment for the Company with network expansion, operational excellence and introduction of innovative customer value propositions remaining key priorities to adapt to the evolving customer needs and changing regulations. The business continued with its long term growth strategy of investing in its retail network with 1 new Retail station and 1 rebuild project delivered during the quarter and many new Retail stations, convenience services and rebuilds projects are in progress. Development of Non-Fuel- Retail (NFR) segment continues to be a key focus with 2 car care service centres and 3 convenience stores commissioned during the quarter, enhancing customer experience for these locations. Volumes were lower than 2016 due to changing market demand patterns.

Commercial Fleet Cards Business continued its penetration in the overall Retail business showing steady year on year volume growth through further enhancing its customer portfolio and signing new customers during the quarter. The Company continues to leverage on its upgraded Cards Management System, allowing significant improvement in its offer to Commercial Fleet customers through better transaction controls and superior experience from the Vehicle Recognition System (VRS).

Commercial Fuel Business environment remained challenging with the changing market conditions, however, the focus continues primarily on higher margin opportunities focusing on operations excellence and quality service to retain key customers with enhanced margins and winning new customers. Q1 witnessed the business signing a new deal with a major power company.

Lubricants Business: The current market environment is challenging due to low oil prices and the economic situation which resulted in lower volume translating to lower profitability across all lubricants segments. The market behaviour in the quarter showed a change to become predominantly price driven. Despite the challenges, the lubricant business continued with its long term growth strategy in strengthening the customer pipeline by securing existing customers and focusing on winning new accounts. It also continued to deliver high product quality and services to its long term partners and customers.

The export market to Shell Group regional customers has seen weaker demand due to regional economic conditions.

Aviation Business volume was significantly higher in comparison to the same period last year mainly driven by the volume of a contract that started in April 2016. The business also managed to secure existing customers and was awarded new customers at both Muscat and Salalah airports.

Bitumen Business has continued to supply market leading technology based product to two key customers.

Marine Business succeeded to acquire new marine fuel supply contracts to local customers. Shell started their fuel bunkering operation in Sohar Port during the quarter and this business is expected to grow further in the coming periods.

Summary of Unaudited Results						
Quarter			RO 000	Three Months		
Q1 2017	Q1 2016	%		2017	2016	%
110,339	83,691	31.8	Revenue	110,339	83,691	31.8
8,925	9,910	(9.9)	Gross Profit	8,925	9,910	(9.9)
1,600	1,601	(0.1)	Add : Other Income	1,600	1,601	(0.1)
6,905	6,815	1.3	Less : Selling, Distribution and Admin Expenses	6,905	6,815	1.3
572	672	(14.9)	Less: Financing & Taxation	572	672	(14.9)
3,048	4,024	(24.3)	Net Profit	3,048	4,024	(24.3)

Extra-ordinary & Ordinary Annual General Meetings

The Company held its EGM and AGM on March 27, 2017. In the EGM the shareholders approved the changes to the Articles of Association.

In the AGM, the dividend for 2016 (at 106 baiza per share) totalling RO 10.6 million, was approved and was paid in the first half of April 2017. Ernst & Young were appointed as the statutory auditors for the financial year 2017. The shareholders also appointed Protiviti Oman to appraise the performance of the Board of Directors for the year 2017, and renewed two key Brand and Support contracts with the Shell Group

Health, Safety, Security and Environment:

The Company closed the quarter with 357 days without a recordable Lost Time Injury (LTI) incident. Prior to this, the Company reported 70 days without an LTI. The Company has continued its focus on safety of operations through promoting and building up the culture of self-caring, caring for others and early intervention.

Muscat: April 27, 2017