



TAX SERVICES

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 **ERNST & YOUNG**

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Sultanate of Oman:

A Summary of Economic, Commercial
and Tax Developments in 2007

Notes to Readers

We have prepared this summary to provide general information relating to economic, commercial and tax developments in Oman during 2007, to a busy executive. The information has been extracted from published articles in the press and from information available on the Internet. It is not intended to provide an exhaustive listing of all developments that took place in 2007. The changes to laws and regulations mentioned in this publication may be subject to further clarifications and interpretations to be issued by the appropriate authorities. Therefore, it is strongly recommended that timely professional advice should be obtained prior to taking any decision based on the contents of this publication.

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The photograph on the cover page was taken by Alkesh Joshi, Assistant Tax Manager at our Muscat Office. The photograph was taken in the Wadi Shab and won a contest conducted by Ernst & Young worldwide.

Economy in 2007

- A judicious macro-economic management strategy has ensured a positive performance for the Sultanate despite the decreasing oil production.
- Preliminary estimates of GDP indicate that the national economy achieved a growth of 11.6% in 2007.
- Oil has continued to be at the hub of Oman's economic activities in 2007 contributing significantly to the country's Gross Domestic Product (GDP). Backed by increasing sales of Liquefied Natural Gas (LNG), Oman has registered stable economic growth with substantial investments in power, telecommunications, tourism and downstream industries.
- In spite of a decline in production of oil by 3.7%, the sector grew by 5.5% due to an increase in oil prices and a higher contribution from gas revenue.
- Oman is expected to achieve a financial surplus of \$ 4.5 billion in 2007.
- Exports grew by 4% whilst imports grew by 46%.
- A notable feature of Oman's economy is the promising growth of the service sector. The services sector reportedly registered a 19 percent growth for the current year.
- The country has registered key progress in the diversification of economic activities, including the development of Duqm, Sohar and Salalah ports.
- The inflation rate in the first 10 months of the year was 5.3%. A strong local demand, high growth of the economy, increase in property rentals, weakening of the US Dollar and inflation in the major trading partners all contributed to this high rate.
- One of the key performance indicators of Oman's economy has been the ascendant and stable Muscat Securities Market (MSM). This has largely been attributed to the increasing presence of foreign investors in the local market and a high confidence level of investors.
- The Muscat Securities Market performed very well. The general index rose to 8443 points, a gain of 54%. The market capitalization grew by 50% and reached a record level of US\$ 23.4 billion.
- A tropical cyclone, Gonu, struck northern Oman in June causing extensive damage to infrastructure in the capital and other areas. The country recovered from the devastating impact very quickly.
- Oman moved up to 18th spot in the Economic Freedom Survey released by the International Research Foundation.
- The World Economic Forum has ranked Oman the second best performing Arab economy among 40 countries in their middle stage of development.
- Oman was declared the most peaceful country in the Middle East topping a list of 18 regional countries featured in the first ever Global Peace Index compiled by the Economist Intelligence Unit. It was also ranked 22nd out of 121 countries in the world.
- Oman was ranked sixth among countries in the Middle East and 42nd in the world in a global competitive index prepared by the World Economic Forum.
- 2007 must be characterized as the year of Tourism. A number of major projects were initiated in the year 2007. The sector grew by 8%.



Economic Outlook for 2008

- A growth oriented budget, envisaging a total expenditure of US\$ 15 billion has been announced in Oman.
- Revenues are forecast to be US\$ 14 billion, based on an assumption of an average oil price of US\$ 45 per barrel and production of 790,000 barrels per day.
- An increase of \$ 2.4 billion in expenditure represents 19% growth over previous year.
- Development of projects listed in the Seventh Five Year Plan (2006-2010) received an allocation of US\$ 1.9 billion representing an increase of 45% over last year.
- Production of oil and gas, reconstruction after cyclone gonu, ports and gas together account for an allocation of US\$ 6 billion.
- The economy is expected to perform exceptionally well, considering the increase in oil production, high price of oil, rise in government expenditure and implementation of several new projects.
- Major developmental expenditure involving roads, ports and airports will spur the growth of the economy. Duqm and Sohar Port areas will lead the developmental efforts.
- Tourism is expected to play a major part in the growth of the economy in 2008



Project Developments

TRANSPORT AND COMMUNICATION

- As part of its overall development agenda, Oman has currently embarked on various projects to develop its transport and communication facilities. While the existing ports at Muscat, Salalah and Sohar essentially continue to be the strategic hub of all shipping activities of the country, a new port complex at Duqm will be the focus of attention in 2008. Oman has also promoted multi million dollar investments to develop road and air transport facilities.



- A two phase expansion plan for the Khasab port was initiated in February 2007. The proposed first stage would see the expansion of the existing breakwater, construction of a new breakwater, deepening the dock, and building a commercial dock and zone. The second stage shall involve construction of buildings for departure, administration, coast guard, immigration and customs facilities and the construction of 4 storages.
- Belgian Jan De Nul, Turkish STFA and Oman's CCC were awarded a contract for \$ 486 million to develop the marine infrastructure for the Duqm port complex.
- Oman Dry Dock Company is developing a \$ 650 million ship repair yard

within the Duqm port complex. It is expected to commence operations in 2010. A consortium of Galfar, the largest construction company in Oman and South Korea's Daewoo Engineering and Construction will build the facility.

- The Government has signed an agreement to triple the size of Port Sohar and to establish a Special Economic Zone.
- Oman International Container Terminal has inaugurated its second phase at the Port of Sohar.
- The Port of Salalah's Berth 6, expected to be commissioned in early 2008, will increase its capacity to 4.5 TEU.
- Port Sultan Qaboos at Muscat is planning an expansion to increase its container terminal capacity to 1 million.
- Oman will invest more than US\$3bn for development of airports infrastructure in the country. The Oman ministry of transport announced that the project will include the construction of three new airports. One of the three new airports to be constructed will be located in Sohar.
- Muscat International Airport (renamed from Seeb international Airport) has plans to increase its handling capacity from the present 3 million passengers per year to 12 million in 2010.
- A Ministerial Committee was set up under the instructions of His Majesty Sultan Qaboos bin Said to repair infrastructure affected by Cyclone Gonu. The country recovered very quickly after the cyclone devastated infrastructure.
- One of the biggest road projects in Oman's modern history, a \$ 342 million Southern Expressway project, is under execution by Galfar, the largest construction company in Oman.
- The Government has announced plans to sell a part of government holdings in Omantel to a strategic investor.
- The first privately owned FM station, owned by the OHI group, was launched in May 2007.

OIL AND GAS

- Petroleum Development Oman (PDO) announced the discovery of three new oil fields in 2007: extensions of the Ufuq and Dafiq fields and a third field in the Birba area. The company has also reported a decrease in its crude oil production from 589,000b/d in 2006 to an average production of 560,000- 570,000b/d in 2007.



- Occidental Petroleum has announced that it will invest approximately US\$ 3 billion in the Mukhaizna field over the next few years. The field is expected to have an increase in oil production by 150,000 barrel per day and is expected to yield approximately 1 billion barrels of oil over its life time.
- Dolphin Energy Limited, a joint venture between the UAE, Occidental and Total, is set to link the gas networks of Qatar, UAE and Oman. Oman is part of the venture, which shall eventually enhance the requirements of the south-Asian subcontinent.
- British Petroleum signed a major production sharing agreement with Oman in January 2007.
- Petroleum Development Oman has awarded a major engineering, procurement and construction contract to Dodsal for enhancing oil production at Qarn Alam. The steam injection project is the largest of its kind in the world and is expected to cost US\$ 1 billion.

- The contract to construct Saih Rawl field, gas compression project, was awarded to Tecnicas Reunidas Oman (TR Oman). The contract estimated at US\$480-mn would involve the construction of a 120- MW power station and the installation of a power distribution grid connecting the Saih Rawl area with Qarn Alam and Saih Nihayda. The project is set to be completed by the end of the year 2008.

POWER AND WATER

- Oman Power and Water Procurement Company (Oman-PWP), as a part of developing a 400MW and 15mn gallons per day desalination plant in Salalah, has short listed eight local and international companies in September. The selected company will build, own and operate the proposed plant.
- One of the largest independent power and water desalination projects in Oman has been announced. A power generation of 700 MW and a desalination plant of 130,000 cu m/day capacity has been planned on a Build-Own-Operate basis in the Batinah coast.
- SMN Power Holding Company, (representing a consortium of Suez Tractabel SA, Mubadala Development Company of Abu Dhabi and Oman's National Trading Company) acquired the ownership of the 668 MW power plant at Rusayl as a part of the privatization. As part of the project, a co-generation plant (capacity 678MW and 26.4mn gallons a day) would be constructed at Barka.
- The \$ 520 million Sohar IWPP was inaugurated in December 2007.
- France's Veolia Water and Oman's Suhail Bahwan Group has won a Build, Own, Operate contract for a reverse osmosis desalination plant near Sur, south of Muscat. The plant will supply 80,200 m³ potable water per day to the eastern Sharqiyah region.
- Oman's Waste Water Service Company has announced that it will construct a sewage treatment plant at Seeb near Muscat. The estimated capacity of the plant is 82,000 m³ per day. The project cost is estimated to be more than \$ 260 million.

INDUSTRIAL

- Sohar Aluminium, owner of the largest single potline in the world with a capacity of 350,000 MT per year, is expected to commence production in 2008. The \$ 1.4 billion project is under construction.
- A joint venture between Austrian Salzburger Aluminium and Takamol Investments (Oman Oil Company) will produce aluminium busbars. The new company will form part of a significant downstream aluminium industry in Sohar.

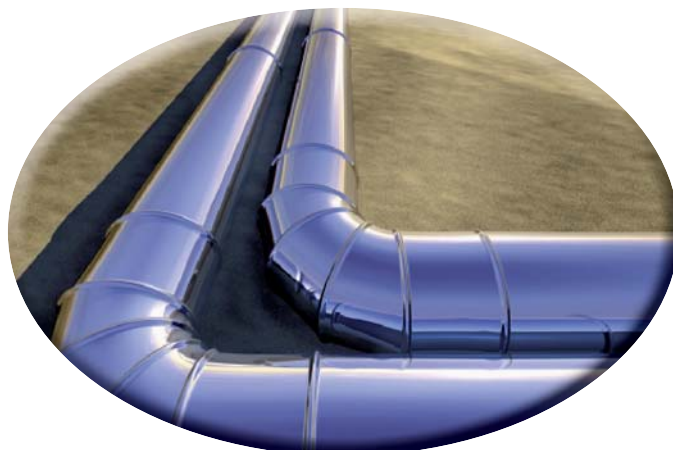


- South Korean Pohang Iron and Steel Company (POSCO) has reportedly tied up with Gulf Investment Corp (GIC) to construct a spiral welded tubular products plant in Oman.
- Gulf International Pipe Industry is establishing a project in Sohar to produce 250,000 tonnes of steel pipes and casing.
- The Brazilian mining giant, Companhia Vale do Rio Doce (CVRD) plans to establish an iron ore pelletisation plant at the port of Sohar at an estimated cost of \$1 billion.
- The UAE based Al Gaith Group has announced plans to set up a major seamless tubes plant at Sohar at an estimated cost of \$ 4 billion in a joint venture with India's Jindal Saw.

- Oman Cement Company has awarded a contract for \$ 162 million to build a third production line to China National Building Material Equipment Corporation.
- An agreement was reached between the government and Larsen&Turbo (L&T) India, to build a unit to manufacture oil drilling equipment, including rigs and platforms at Sohar Port. The company is also engaged in building a fabrication facility.
- Plans to establish a major sugar refinery at the port of Sohar were announced in November 2007.

PETROCHEMICALS

- Aromatics Oman Ltd project, a joint venture of Oman Oil Company (60%), Oman Refinery Company(20%) and LG International (20%) is set to commence its operations by 2009.
- Sohar International Urea & Chemical Industries, promoted by Sheikh Suhail Bahwan, is expected to commence production in 2008. The plant has a production capacity of 3500 MT of urea and is the largest private sector Greenfield fertilizer project in the world.
- A \$ 300 million project to manufacture APET sheet and PET resin is under construction at the Salalah Free Zone. Octal Holding Company SAOC is the developer.



- Salalah Methanol Company is establishing a methanol production facility in Salalah Free Zone. The company has awarded the engineering, procurement and construction contract to GS Engineering and Construction Company. The total cost of the project is \$ 910 million. The company concluded its project financing in December 2007.
- Oman Petrochemical Industries Company, a joint venture of Oman Oil Company, Government of Oman and US Dow Chemicals has reportedly put on hold the multibillion dollar olefins project.
- Sohar Refinery Company (SRC) has started operating at full capacity. The refinery manufactures propylene and naphtha that is used as feedstock by Oman Polypropylene (OPP) and Aromatics Oman (AOL), respectively.
- Yenkit Tourism Development LLC, a joint venture of several Omani private investors and Majid Al Futtaim Group, has undertaken to develop a US \$2 billion Integrated Tourist Resort Complex at Yenkit in Muscat governorate. The Integrated facility is proposed to accommodate four 5-star hotels, residential villa, residential apartments and townhouses. The Integrated Tourist Resort Complex project is expected to commence in 2008.



TOURISM AND REAL ESTATE

- The Wave Muscat's construction of beachfront residential properties along 6 km of beach is in progress. The Wave is a fully master planned community including a green golf course, luxury hotels, villas, retail outlets and apartments.
- The Government of Oman and the Muria Tourism Development Company signed agreements to develop two projects at Al Seifa and Salalah. Egypt's Orascom is the major shareholder in the ventures.
- The ground breaking ceremony of the first phase of Blue City, an integrated tourism development project, was held in December, 2007.
- Omagine Inc and its subsidiary Journey of Light Inc are developing a beachfront project west of Muscat. The project will be located on 1.2M square metres land.
- The UAE based SAMA, Dubai is developing a \$ 1.4 billion Salam Resort & Spa at Yiti, a picturesque beach in Oman. Sama is a subsidiary of Dubai Holdings.
- A joint venture of Radiance International and Malaysia's Transmit Nanyang Engineering Construction plans to build \$ 500 million mixed use development, including a golf course, driving range, hotels, stables and riding school, shopping centre and residential areas.
- The Oman Tourism Development Company (Omran) is in the process of developing a project to construct a convention centre with capacity of 7000, a sports centre and exhibition galleries. The master planned development is likely to include hotels, serviced apartments, shopping malls and business parks.
- A number of other tourism development projects have been announced and are at various stages of planning with development expected to commence within the next two years.
- UK-based hotel group InterContinental plans to build a Crowne Plaza hotel in Oman's Sohar port district.
- A Ministerial Decision has been issued governing the Integrated Tourism Complexes (ITC). Foreigners are allowed to own properties only in an ITC.

Commercial Developments

- The banking sector has done extremely well in 2007. The combined net profit of all commercial banks increased by 27.1% with asset growth up by 34% in the first 9 months of 2007 compared to the previous year.
- The Central Bank of Oman now requires all new commercial banks to have a minimum capital of RO 100 million (\$ 260 million). Branches of foreign banks should have a minimum capital of RO 20 million (\$ 52 million).
- Bank Sohar, with a capital of RO 50 million (\$ 130 million) commenced operations in April 2007.
- The Central Bank of Oman has issued a licence to establish the Oman Merchant Bank with a capital of RO 50 million (\$ 130 million). The new bank is expected to make an initial public offering.
- Bahrain based Ahli United Bank has acquired a 35% stake in Oman's Alliance Housing Bank. The name of the bank has since been changed to Ahli Bank.
- The Capital Market Authority (CMA) issued several guidelines during the year including security issues and insider trading. The CMA has also announced license requirements for insurance business in the country.
- The Capital Market Authority has decided to impose fines on companies that fail to disclose financial and other information within the stipulated periods.
- Sohar Refinery Company has been merged with Oman Refinery Company to form Oman Oil Refinery Company.
- The government of Oman and the Salalah Free Zone Company have signed a land lease agreement with a view to progress the development of the Free Zone.
- The Government of Oman has increased its stake in Oman Air to 81%, effectively nationalizing the airline.
- Galfar, the largest construction company in Oman, created a record when its initial public offering was oversubscribed 14 times raising more than \$ 2.2 billion. This has been the most popular IPO in Oman.
- The Information Technology Authority signed a MOU with the Info Communications Development Authority of Singapore. It also signed a contract to establish a centralized e-government portal.
- The Government has reduced royalties paid by telecommunication service providers, Omantel and Nawras.
- The Council of Ministers, in September 2007, placed a ceiling of 15% over the next two years on increases in property rentals.
- A 49% ceiling on foreign holding in mutual funds has been lifted.
- The Gulf Cooperation Council States has launched the Gulf Common Market from 1 January 2008. Under the Common Market, citizens of the member states will receive equal treatment without discrimination regarding economic, investment and labour rights.



Administrative Developments

- A number of new ministries were set up and the Cabinet was reshuffled in September 2007.
- A Ministry for Environment and Climate Affairs has been established (previously a part of the Ministry of Regional Municipality, Environment and Water Affairs).
- A Ministry for Fisheries has been established (previously a part of the Ministry of Agriculture and Fisheries).
- A Public Authority for Electricity and Water has been established. His Excellency Mohammed bin Abdullah bin Mohammed Al Mahrouqi has been appointed as Chairman (previously a part of Ministry of Housing, Electricity and Water).
- Names of Ministries were changed as follows:
 - Ministry of Regional Municipalities, Environment and Water Resources as Ministry of Regional Municipalities and Water Resources
 - Ministry of Agriculture and Fisheries as Ministry of Agriculture
 - Ministry of Housing, Electricity and Water as Ministry of Housing
- The Telecommunications Regulatory Authority has been re-structured with His Excellency Mohammed bin Nasser Al Khusaibi as Chairman
- His Excellency Sultan bin Salim bin Said Al Habsi has been appointed as the Undersecretary for Financial Affairs in the Ministry of Finance.
- His Excellency Khalil bin Abdullah bin Mohammed Al Khonji has been appointed as the Chairman of the Oman Chamber of Commerce and Industry.
- A Directorate General has been established at the Ministry of Commerce and Industry for the development of small and medium sized business entities.
- Elections for the Parliament (Majlis Ash'Shuraa) for the term 2008 to 2011 took place peacefully in October 2007. 632 candidates contested for 84 seats. Every Omani citizen, male or female, who is 21 years old was eligible to vote. The voter turnout was 62.7%.

Man-power Related Developments

- The Omanisation programme of the government has achieved commendable progress with approximately 90 percent Omani nationals in the government sector and steady achievements for the targets set in the private sector. Government initiatives to promote Omanisation in the private sector include issuing preferential green cards to companies meeting Omanisation requirements.
- According to estimates, at least 55,694 Omani nationals were employed in the private sector as of 18 November 2007. The rise in the number of Omani nationals employed in the private sector indicates a growing partnership between the private and public sectors and the growing willingness of individuals to join the sector.
- The minimum monthly basic salary for Omani nationals has been set at RO 120 (\$ 312). If accommodation and transport is not provided, an additional RO 20 (\$ 52) should be paid.
- Private sector companies are required to transfer the salaries of their employees to banks in Oman.
- The Ministry of Manpower and International Computer Driving License (ICDLGCC Foundation) has embarked on an initiative to implement the ICDL certification programme. The programme intends to train more than 20,000 male and female students enrolled in the public vocational training centers, technology colleges and private training centers in Oman. The Omani government expects to maintain high education and training standards through the proposed programme.
- His Majesty the Sultan awarded Royal grants to private universities, each receiving \$ 44 million, to upgrade basic infrastructure, buildings, laboratories and utilities.



Tax Related Developments

- The double tax treaty between Oman and Morocco has been ratified
- Oman has signed a double tax treaty with the Republic of Belarus



Ernst & Young as Tax Advisors

The Oman tax laws are constantly evolving and undergoing significant changes to keep pace with the dynamic economic scenario in the country in particular, and in the region in general. Ernst & Young realize that the complexity and the developing nature of tax laws in the region mean that all of our clients seek expert professional assistance. Accordingly, all of the tax affairs of Ernst & Young's clients are managed carefully by dedicated tax professionals, supported by dedicated staff.

Our tax services, in Oman, include:

- Advice on initial investment and entry level strategies
- Advance planning to minimise tax
- Tax efficiency reviews
- Audit for tax filing purposes
- Preparation and filing of tax declarations
- Representing clients before the tax authorities
- Assistance in appellate procedures

The firm's clients are kept continually informed of taxation developments, both within Oman and internationally.

Ernst & Young is the largest professional services firm in Oman, having had a permanent office in the country since 1974. The practice comprises of 200 people, and is under the direction of 4 partners.

The Oman office forms part of Ernst & Young's Middle East practice, with 104 partners and nearly 3,400 other professionals in 17 offices throughout the region.

The Middle East practice is a member of Ernst & Young Global, operating in more than 140 countries with approximately 130,000 personnel worldwide.

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