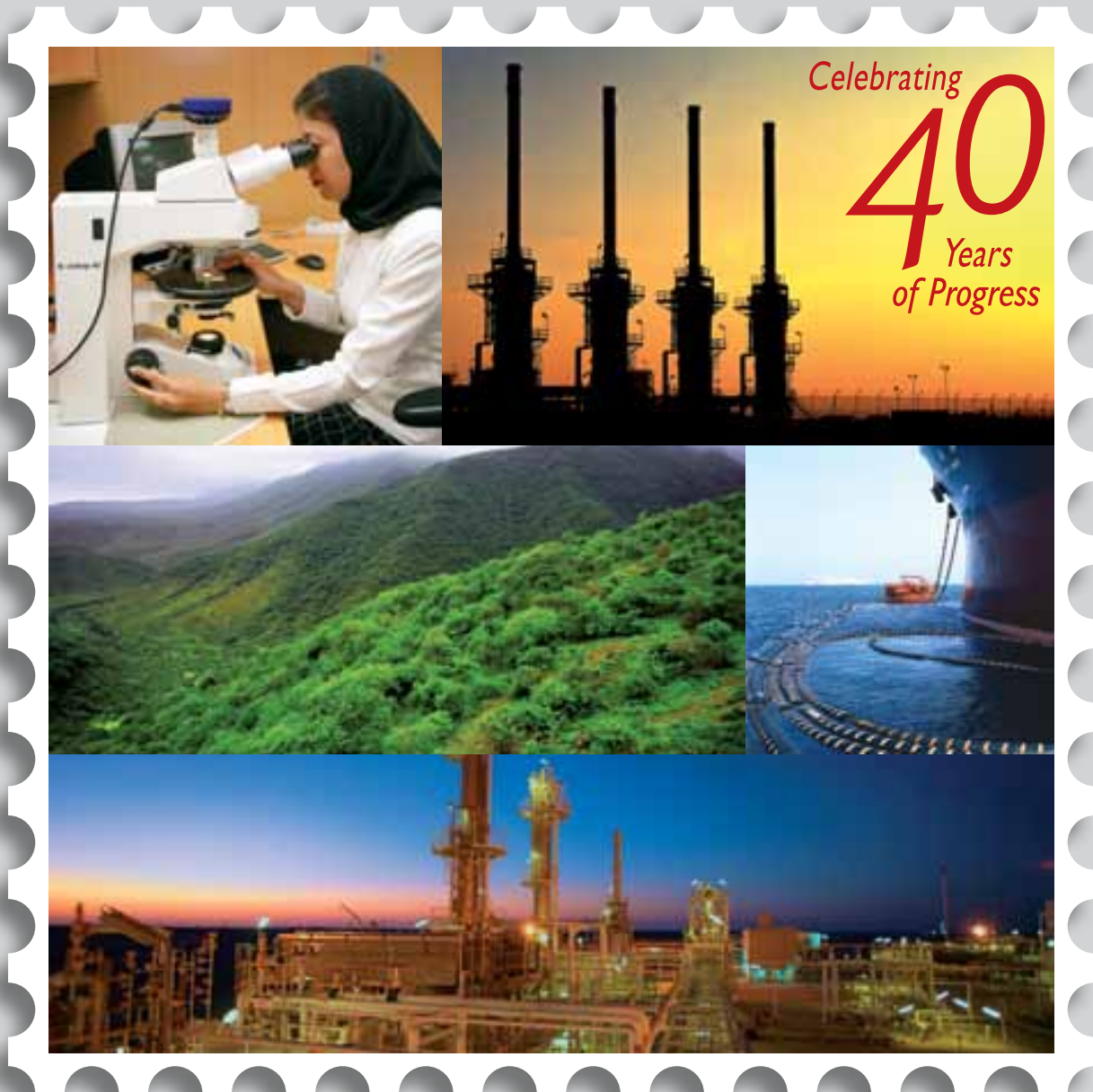


ANNUAL REPORT 2010
TO
HIS MAJESTY SULTAN QABOOS BIN SAID
SULTAN OF OMAN

Progressing towards a Sustainable Future



شركة تنمية نفط عُمان
Petroleum Development Oman



Collaborative Work Environment

Throughout 2010, PDO worked on a range of initiatives to improve the professional excellence of its staff with a view to improving operational efficiency. The Company continued to work on implementing its Collaborative Work Environment (CWE) initiative which began in 2009 with the inauguration of the Fahud Collaboration Centre and the electronic Delivering the Limit (eDTL) Centre at Mina al Fahal. Throughout the year, both Centres were used to great effect and a new centre opened covering the Lekhwair field. The CWE concept will be expanded during 2011 when the new corporate headquarters is completed at Mina al Fahal in mid-2011. The CWE is an example of how throughout PDO's operations people are seizing opportunities offered by new technology to make their operations smarter.

It is my privilege, on behalf of Petroleum Development Oman, to report to Your Majesty on the various activities that the Company undertook in 2010 to contribute to the aspirations and comprehensive development of the Sultanate.

I am glad to report that the Company has been able to deliver strong results during the year.

For the fifth successive year, combined production of oil, gas, liquefied petroleum gases and condensates exceeded one million barrels of oil equivalent per day.

During the year we undertook an ambitious exploration programme, which I'm delighted to note resulted in the discovery of a material oil discovery at Amal Southeast in addition to three more oil fields at Sayyah in the northern part of the concession area, Al Ghubar East and Aqeeq in the Central region of the Sultanate. The Company also made a significant gas discovery at Khulud West in the north of the concession area.

PDO's Study Centre had another year of intense activity. Four conventional Field Development Plans (FDPs) were completed for the Fahud Natih, Rima, Runib and Al Huwaisah fields. We continue to expand our enhanced oil recovery programmes across our portfolio with the goal of maximising efficient recovery of our hydrocarbons.

Intense efforts to improve the Company's safety record were undertaken during the year; nevertheless our safety record in 2010 was mixed. Although our safety record continued to improve on our 5 year average and the Company was able to reduce the number of road traffic accidents, it regrettably experienced six road fatalities, three of which were work-related.

Throughout the year, PDO continued to focus on efforts to be a good corporate citizen. Working in close collaboration with Your Majesty's Government, we supported a large number of social initiatives including provision of drinking water to the villages of Al Furjah in the northern part of the concession area together with the villages of Dhahboun and Barbazoun in the southern part of the concession area. The social investment efforts also included supporting local handicrafts and developing skills for employment as the Company funded a programme for 20 women in Mahoot in the Wusta region to teach them to manufacture traditional woolen handbags. Oman's environment also benefitted from PDO's social investment programme. The Company supported three important environmental initiatives to plant new mangroves and replace harmful trees in Wilayat Al Jazir. Moreover, the Company offered its Gift to the Nation to mark the 40th anniversary of the National Day. The EcOman Centre highlights how we can change our life styles and energy consumption habits to ensure a sustainable future for ourselves and our children.

Through these and other actions we aimed to enhance our role in corporate social responsibility, guided and inspired by the wise policies of Your Majesty whom we all faithfully serve.

Raoul Restucci

Managing Director



HIS MAJESTY SULTAN QABOOS BIN SAID



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In 1974 the Government of Oman acquired a 60% shareholding in PDO, the remaining interest in the Company being shared amongst Royal Dutch Shell (34%), Total (4%) and the Partex Corporation (2%). On 1 January 1980, PDO was registered by Royal Decree as a limited liability company in the Sultanate.

The body of this Report is organised according to six priority areas, which are integrated into the Company's business processes. The Company continues to aim to strike the right balance between successfully delivering oil and gas to its shareholders, whilst respecting the welfare of society and of the natural environment.

Throughout this report, a billion = 1000 million, and a trillion = 1000 billion.

Foreword from H.E. the Minister of Oil & Gas



In the name of Allah, the Beneficent, the Merciful

On behalf of all the employees in the oil and gas sector in Oman I wish to express our thanks and gratitude to Your Majesty for guiding our Nation's journey of comprehensive development which has showered benefits all over our beloved country. What has been achieved over the past forty years is beyond expectations and is a clear proof that Oman is confidently moving forward with pride and prudence. Nevertheless, much still remains to be done and we are all proud to work under Your Majesty's guidance to help fulfill your plans in seeing the economy flourish, the environment protected and the society united in brotherhood.

Although we now face many challenges posed by the maturity of the fields which have been producing oil for more than forty years, Your Majesty's far-sighted guidance, has always encouraged the staff in this industry to live up to their responsibilities. We assure Your Majesty that we will save no effort to ensure that challenges are met with professional solutions in the areas of improved well and reservoir management, operational excellence and adoption of the latest technology in all aspects of our operations to build sustainable future for the oil and natural gas production to benefit future Omani generations.

May Allah protect Your Majesty so that this nation of dedicated and loyal people may long continue to prosper under Your wise leadership.

Mohammed bin Hamad bin Saif al Rumhy
Minister of Oil & Gas and Chairman of the Board of Directors



Board of Directors

Representing the Government of Oman



H. E. Dr. Mohammed bin Hamad bin Saif Al Rumhy
Minister of Oil & Gas, Chairman



H. E. Mohammed bin Nasser Al Khasibi
Secretary General, Ministry of National Economy
Deputy Chairman



H. E. Darwish bin Ismail Al Balushi
Secretary General,
Ministry of Finance



H. E. Nasser bin Khamis Al Jashmi
Undersecretary,
Ministry of Oil & Gas



Dr. Zaid bin Khamis Al Siyabi
Director General of Exploration
and Production for Oil & Gas,
Ministry of Oil & Gas



Mr. Juma bin Abdallah Al Hinai
Director General of Income,
Ministry of Finance



Dr. Saleh bin Ali Al Anbouri
Director General of Management
of Petroleum Investments,
Ministry of Oil & Gas

Representing the Private Shareholders



Mr. Mark Carne
Shell Petroleum Co. Ltd.



Mr. Jonathan Osborne
Shell Petroleum Co. Ltd.



Mr. John Blascos
Shell Petroleum Co. Ltd.



Mr. Arnaud Breuillac
Total



Dr. Antonio C Silva
Partex Corporation

Executive Officers

Secretary



Mr. Raoul Restucci
Managing Director



Dr. Abdullah bin Mohamed Al Lamki
Deputy Managing Director



Ms. Fatma bint Masoud Al Kharusi
Finance Director

MD Review



“To be renowned and respected for the excellence of our people and the value we create for Oman and all our stakeholders.”

It is my honour to present to His Majesty Sultan Qaboos, Petroleum Development Oman's Annual Report for the Year 2010, the 40th Anniversary of the Sultanate's National Day. Throughout 2010 the Company sought to respond to a fast-changing business landscape with a robust response on multiple fronts. Internally, the Company faced production declines from aging fields, increased project complexity and growing demand from the Sultanate's domestic gas market. External challenges included higher oil and commodity prices leading to increasing competition for resources, be it people, raw materials, equipment or services, from regional and global projects.

PDO's response to these challenges included putting safety first; sustaining exploration efforts and development drilling activities; strengthening project delivery, operation efficiency and cost reduction initiatives; increasing enhanced recovery projects that uses low energy intensity methods wherever possible; and working with new long term engineering, construction and supply contracts.

I am pleased to say that these responses had a positive impact. Daily average oil production in 2010 stood at 553,000 barrels per day, slightly above the 2009 level of 552,000 barrels per day, and within the Company's target of 540-560,000 barrels per day. Daily average production of natural gas, used to fuel the Sultanate's economy, stood at 71 million cubic metres equivalent to 542,000 barrels per day of oil.

Our ambitious exploration efforts, once again, bore fruits. The discovery of four new oil fields, one of them with material volume of oil in place shows that there is still plenty of potential for new oil and gas in the Sultanate. PDO made an important oil discovery at Amal Southeast, close to the existing Amal and Amal East oil fields both of which are part

of our important Enhanced Oil Recovery (EOR) development portfolio. The amount of oil in place could be in excess of 300 million barrels making this a significant discovery.

During 2010, PDO made three additional oil discoveries at Sayyah in the north of PDO's concession, Al Ghubar East and Aqeeq in the central region of the Sultanate.

In addition, PDO has also made a significant gas discovery at Khulud West in the north of PDO's concession area, with a gas column of more than 150 metres in the Amin reservoir at a depth close to 5,000 metres.

In a major success for the Company, PDO drilled what is believed to be the deepest well in the Middle East. Using state-of-the-art technologies PDO well engineering drilled more than 7,000 metres in the search for deep gas in the Fahud Salt Basin. The well, known as Muammal-1, targeted unconventional tight gas reserves known as Basin-Centre Gas.

PDO did face some difficult challenges on the project delivery front. The Company's first full-scale enhanced oil recovery project at Marmul was formally inaugurated. However, some delays were recorded at the Harweel miscible gas and Qarn Alam steam injection projects. The respective project teams worked hard throughout the year to make up for lost time and by year-end, commissioning activities at Harweel were well underway. Qarn Alam remained on track for start-up before end 2011.

PDO's newest EOR project at Amal progressed on schedule. This is a twin field development at Amal East and Amal West, where steam will be used in different ways to increase production. In line with PDO's policy of minimising energy use, steam will be provided using waste heat from the new Amal power station via a co-generation unit which is currently under construction.



PDO's Gas Directorate was also very active and brought on-stream three new gas fields. In January 2010, Burhaan West was commissioned three months ahead of schedule, contributing 1.5 million cubic metres a day of natural gas. The Mabrouk and Harmal gas field were brought on-stream ahead of schedule in the first quarter, giving an important boost to PDO's ability to sustain gas production over the coming years.

Throughout 2010, teams across PDO's operations sought to maximise the opportunities afforded by emerging technologies. I am glad to report that PDO is now a significant player in the application of 'smart' technologies and processes aimed at optimising production. A growing number of wells were equipped with state-of-the-art monitoring and communication systems connected to the head office in Mina al Fahal. Field data was increasingly discussed and analysed by geoscientists and field operations staff in specially built collaborative work environments.

A major PDO operational highlight in 2010 was its success in nurturing Omani companies. The Company has a long history of supporting many Omani-owned companies. One particular group of companies, comprising smaller businesses, based in the concession area, known as Local Community Contractors (LCC), has secured significant attention. PDO has a special team helping LCCs identify business opportunities, and in 2010, the Company awarded USD 90 million worth of contracts to these local businesses.

PDO's safety performance in 2010 was mixed. Although the Company was able to reduce the number of road traffic accidents, it regrettably experienced six road fatalities, three of which were work related. The Company also experienced an increase in Lost Time Incidents (LTIs) for industrial hazards, albeit still well below its five year average.

Despite this, PDO continued to strive to reach Goal Zero with the aim of no harm to people on the road or in the workplace. As a core value in PDO, safety for staff and contractors continued to be an over-arching priority for the Company and its leadership.

One of the main focus areas of PDO's management was getting more qualified Omanis to take leading roles in the Company. By the year-end, there were just two expatriates in PDO's top management team of 13. Furthermore, an increase in the availability of qualified Omani staff allowed PDO to reduce the overall number of expatriates. As a result, the Omani staff count rose from 4,211 to 4,243 in 2010 whilst the total number of expatriates dropped by 52 from 1,228 to 1,176. PDO also recruited 77 new Omani graduates.

PDO continued to work hard on being a good corporate citizen and, in line with previous years, invested heavily in a wide range of social projects. Throughout the year, PDO's Social Investment teams worked closely with the Government and local communities to identify suitable social projects to benefit local people and communities. In 2010, all PDO's major projects were given their own

sustainable development budgets so that local communities can benefit from oil field developments in their areas.

PDO continued to invest in the educational development of young people living in local communities in the Block 6 concession area. In 2010, PDO increased the number of students in its Community Scholarship Programme (CSP) from 40 to 50. The CSP funds the studies of young men and women at universities and colleges throughout Oman.

Also, and coinciding with the 40th Anniversary of His Majesty Sultan Qaboos bin Said's accession to the throne, PDO crafted a very special project: the EcOman Centre at Mina al Fahal. The purpose of this ecological learning centre is to raise the awareness of visitors on the impact of fuel and energy consumption habits and the future of alternative energy resources. The centre also highlights how we can change our lives to ensure a sustainable future for ourselves and our children.

On June 2nd, our emergency response teams were tested by the imminent arrival of a major tropical cyclone, "Cyclone Phet". Fortunately, it caused little damage and showed that our emergency management systems work well.

Looking ahead, the outlook for PDO's core business is exciting. Despite the challenges posed by operating in a mature environment, PDO continues to generate new projects that will ensure a sustainable future for the economy of the Sultanate of Oman. The Company's pipeline of present and possible future projects is healthy with plenty of potential opportunities for the foreseeable future. PDO remains committed to a long term oil production target of 550,000 barrels per day for the coming years with a continued increase in gas production capacity. This will allow the government to plan appropriately within the uncertainties of a volatile oil market and meet increasing domestic gas needs.

Over the next five years, PDO believes that there is continued scope for growth in total hydrocarbons production, which by 2014 is expected to total 1.2 million barrels of oil equivalent.

By the year end, PDO also announced its new vision centered around the ambition of being "renowned and respected for the excellence of our people and the value we bring to Oman and all our stakeholders". With the ongoing support of the Ministry of Oil and Gas, PDO's management and staff will continue to serve His Majesty and the people of Oman with the aim of contributing to the long term future and continued economic development of the Sultanate of Oman.

Raoul Restucci
Managing Director

Hydrocarbon Production and Reservoir Management



CELEBRATING 40 YEARS OF PROGRESS

Hydrocarbon Production and Reservoir Management (HP&RM) encompasses various activities aimed at optimising production from existing oil and gas fields in such a way that short-term output is maximised without jeopardising longer-term output. Some of these activities are: the gathering and analysis of production data from wells; comparing the analysed data with what the field-development plans predict; adjusting oil-production and water-injection rates; modifying field-development plans; and carrying out well workovers. Basically, HP&RM seeks to either make wells and reservoirs behave as planned or adjust the field-development plans to reflect the reality of well and reservoir conditions. It also seeks to solve or prevent problems in wells and reservoirs that may reduce the ultimate recovery of a field.



Hydrocarbon Production and Reservoir Management

This Year's Highlights

- Average oil production in 2010 stood at 553,000 barrels per day
- Combined production of oil, gas, liquid petroleum gases and condensates stood at more than one million barrels of oil equivalent per day

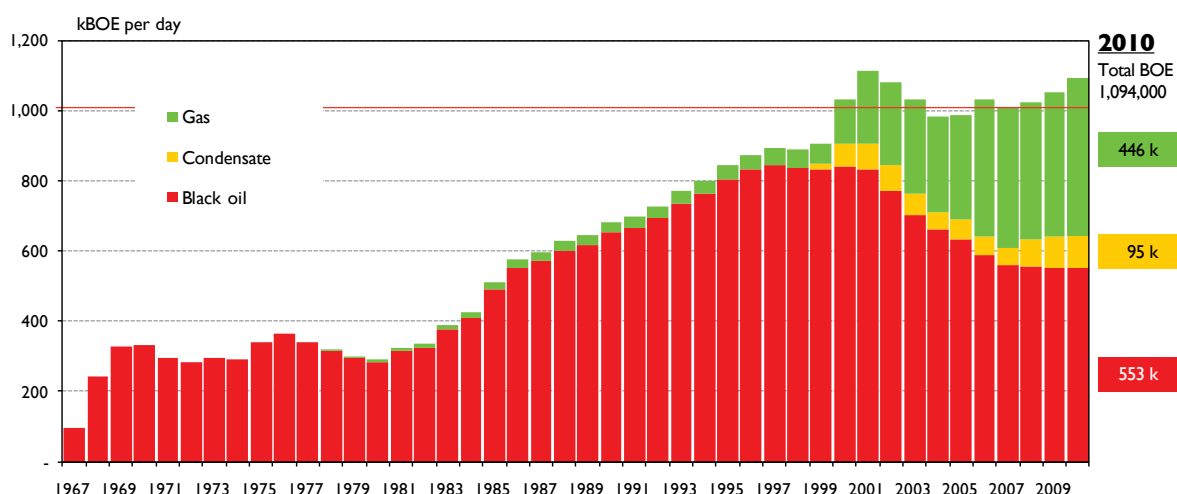
Oil, Gas and Condensate Production

Daily average oil production in 2010 stood at 553,000 barrels per day, slightly above the 2009 level of 552,000 barrels per day, and well within the Company's target of 540-560,000 barrels per day. This was achieved despite the delay in the Harweel 2AB project start-up, scheduled in mid 2010. The impact due to the delay was largely offset by, acceleration of new oil wells, increased production due to improvement in reservoir management, better than planned performance of

production from new wells drilled and improvements in execution of shut-down activities.

For the fifth successive year, combined production of oil, gas, liquid petroleum gases and condensates stood at more than one million barrels of oil equivalent per day. Gas, key to the Sultanate's domestic economy, now accounts for more than 40 percent (50 percent if including condensate) of PDO's barrels of oil equivalent (BOE) production. Daily average production stood at 71 million cubic metres equivalent to 446,000 barrels per day of oil. More important than the average daily output which varies according to customer demand, is gas availability, which for 2010, stood at 100 percent for the first time. That means that Omani gas consumers, such as power and petrochemicals plants, were always able to call on their contracted volumes of gas.

Oil, Condensate & Gas Production



Hydrocarbon Production and Reservoir Management



■ Saih Rawl plant

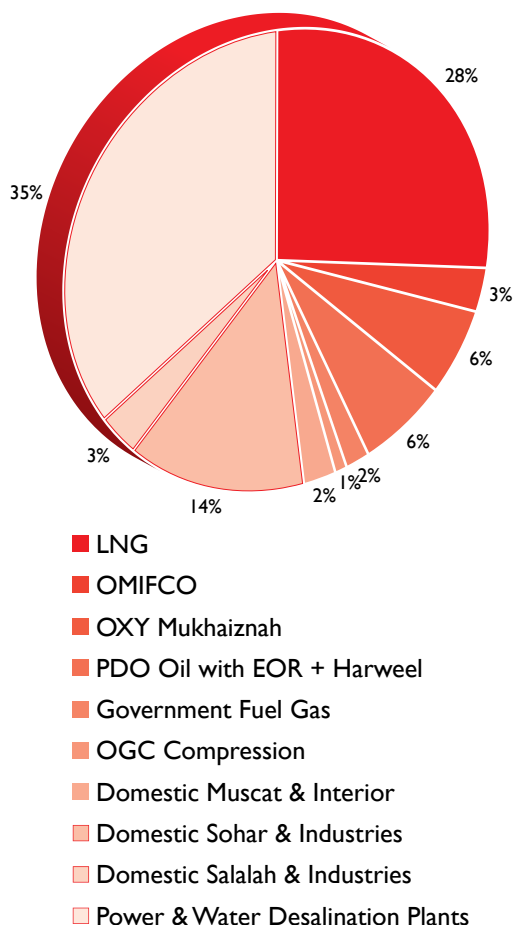
Condensate production was boosted by the first full year of operations from the Kauther gas plant, rising from 89,000 barrels per day in 2009 to 95,000 barrels per day. Engineering teams working at PDO's Gas Directorate also successfully implemented a series of process improvements at the Saih Rawl Central Processing Plant leading to a 20 percent increase in LPG output. LPG is an important by-product of PDO's hydrocarbon production system used extensively as a cooking fuel in Omani homes.

Oil Deferment

Deferment, the loss of oil production for planned and unplanned reasons, showed marked improvement across the PDO operations. Improved maintenance activity through a process known as Integrated Activity Planning led to a decrease in scheduled deferment. On average, 7,800 barrels per day of oil production was lost due to scheduled deferment against an initial target of 9,100 barrels per day.



Customers of Gas in Oman



Gas Directorate Improves Security of Supply

In 2010, PDO's Gas Directorate successfully implemented a new process called Plant Maintenance Optimisation (PMO) to maximise security of supply and to reduce operating costs. A pilot study at the Saih Rawl Central Processing Plant (CPP) which started in late 2009, was successfully completed leading to 253 recommendations most of which were fully implemented in 2010.

Among the tangible results of the PMO project was improved performance in the CPP's booster compressors, which reported fewer shutdowns and quicker recovery times. Overall gas production rose by 193,000 cubic metres a day, while gas availability at the plant rose from 97.8 percent to 98.2 percent. The reliability improved from 97 percent to 98.5 percent. Overall, gas availability from PDO's gas system was 100 percent.

PDO Handles Cyclone Phet

On 2 June 2010, PDO mobilised its Corporate Emergency Coordination Centre in anticipation of a major tropical storm known as Cyclone Phet. As the cyclone built up in the Indian Ocean approached Oman, Company teams rushed to ensure the safety of staff and equipment. Staff were kept informed through an SMS message system established after Cyclone Gonu in 2007.

Families living in low-lying areas at the staff accommodation camp in Ras al Hamra, were relocated to higher ground and well engineering equipment such as rigs and hoists were secured in anticipation of the storm.

Fortunately, despite the severity of the storm, damage was limited. Power was quickly restored after a short failure and fallen trees cleared within hours. Cyclone Phet successfully tested PDO emergency management system and showed that PDO is well prepared for potential emergencies.

Operations Excellence



Operations Excellence basically refers to top-class maintenance and upkeep of all our surface facilities. Keeping the pumps and compressors working, the processing plants running, and the oil and gas flowing, through pipelines allows the Company to meet its production targets and reduce the cost of its operations.



Operations Excellence

This Year's Highlights

- There was a continued focus on 'smart' technologies
- The Company continued to implement 'Collaborative Work' initiatives
- Intensive efforts were made to reduce costs across the range of Company operations
- PDO drilled the deepest well in the Middle East

Smart Production

PDO continued its efforts to be a global leader in the application of 'smart' technologies and processes aimed at optimising production. Throughout 2010, the Company equipped a growing number of wells with state-of-the-art monitoring and communication systems connected to the head office in Mina al Fahal. Field data was increasingly discussed and analysed by geoscientists and field operations staff in a collaborative work environment (see below).

PDO 'smart field' engineers continued to evaluate cutting edge technologies, such as, wireless sensor technology and new multiphase flow metres among others for implementation in 2011 and beyond.

Collaborative Work Environment

Throughout 2010, PDO worked on a range of initiatives to improve the professional excellence of its staff with a view to improving operational efficiency. The Company continues work on implementing its Collaborative Work Environment (CWE) initiative which began in 2009, with the inauguration of the Fahud Collaboration Centre and the electronic Delivering the Limit (eDTL) Centre at Mina al Fahal. Throughout the year, both Centres were used to great effect and a new centre opened covering the Lekhwa



■ PDO's new headquarters

field. The CWE concept will be expanded during 2011, when a new corporate headquarters is being completed at Mina al Fahal in mid-2011. The CWE is an example of how throughout PDO's operations people are seizing the opportunities offered by new technology to make their operations smarter. Direct benefits include faster and better quality decisions, reduced deferment by sharing critical information, data and stronger integrated activity planning, and enhanced knowledge transfer. This trend will continue over the coming years, resulting in improved performance, lower costs and better use of resources.

Improved Drilling Performance

Improved teamwork, including assigning more staff to the interior, had a noticeable impact on PDO's operations throughout 2010, especially in Well Engineering. Drilling wells is not only a core activity but an activity that requires high investments. Drilling more efficiently impacts oil delivery, capital and operational costs.

In 2010, the Well Engineering Directorate drilled 465 new wells while managing to reduce the cost and time per metre drilled, by six and three percent respectively.



■ CWE centres improve the professional excellence of the company

Operations Excellence

PDO's Deep Drilling

In 2010, PDO drilled what is believed to be the deepest well in the Middle East. Using state-of-the-art technologies, a PDO well engineering team drilled more than 7,000 metres in the search for deep gas in the Fahud Salt Basin. The well, known as Muammal-I, targeted unconventional tight gas reserves known as Basin-Centre Gas. The complex well is typical of the new wells being increasingly drilled by PDO in the search for new gas. In 2011, PDO will use hydraulic fracturing technology to test whether the gas can be produced in commercial quantities.



■ Rig operation in progress at Muammal area

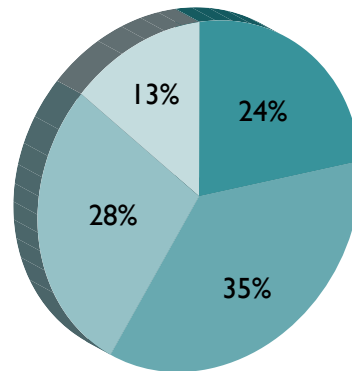
Well Abandonment

According to PDO's code of conduct known as 'Lifecycle Integrity Code of Practice', wells that have not been used for three years have to be closed down, a process known as abandonment, or put to re-use. In 2010, PDO continued with its policy of abandoning its redundant wells in an environmentally sensitive manner, leaving the surrounding area in a pristine condition. In all, PDO's abandonment team shut down 50 wells, removing all associated material and disposing it according to international standards.

Local Community Contracting

A major PDO operational highlight in 2010 was its success in nurturing Omani companies. In 2010, 25 percent of PDO's total spending on well engineering went to Omani companies. By supporting local entrepreneurs, PDO can help itself and the wider economy. In 2010, PDO awarded a four-year contract for two state-of-the-art drilling rigs known as 'super single drilling rigs' to a newly-established Omani company, after a competitive bidding round for drilling rigs. By year-end, the drilling contractor was successfully delivering new wells for PDO at the Lekhwair cluster.

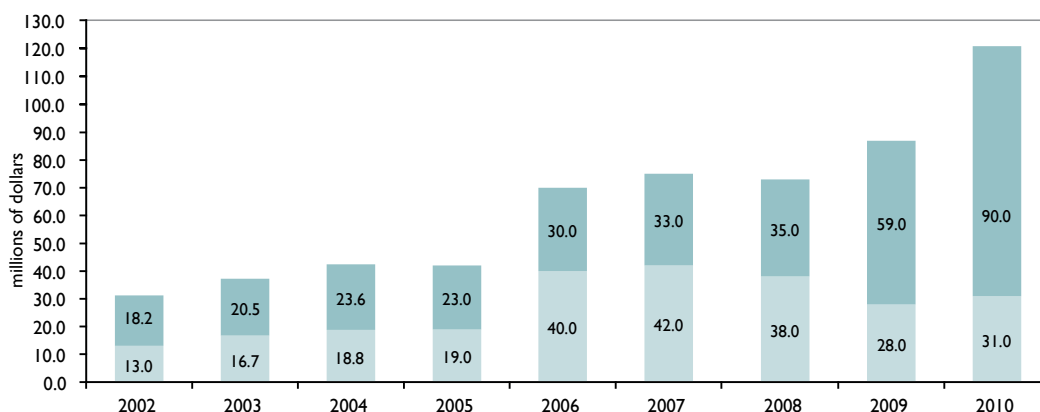
LCC Awarded Contracts Per WC



- Logistics (Transport, Manpower & Water Haulage)
- Engineering (Sub Contract ODC & EMC)
- Well Services
- Others (Pipeline, Elec, Estate and Waste Management)

PDO has a long history of supporting many Omani-owned companies. One particular group of companies, comprising smaller businesses based in the concession area known as Local Community Contractors (LCC), has secured

LCC Contract Spending





significant attention. PDO has a special team helping LCCs identify business opportunities, and in 2010 the Company awarded USD 90 million worth of contracts to these local businesses.

PDO will continue to expand the utilisation of local community companies in the Block 6 concession and increase local capability development. In 2011, PDO will put more focus to develop local capability in its interior operations through the establishment of training and development workshop facilities.

In order to maximise the benefit of the programme to a large population of local communities, PDO in 2010 agreed with the Omani government to support the establishment of five shareholding LCCs (two in northern Oman, two in southern Oman and one in the central region) to replace smaller LCCs. Over 5,500 local people acquired shares in these companies whose larger scale will give them the critical mass that will enable them to acquire skills in complex oil and gas operations.

Reducing Costs

Throughout 2010 there was an intense focus on cost reduction throughout the Company's operations. Five work streams were established to develop a wide range of measures to reduce costs. These included dedicated teams working cost reduction initiatives in, surface, subsurface,

chemicals, manpower and logistics operations. By year-end, the teams had come up with multiple initiatives which together led to large-scale savings. These included the introduction of new budgeting processes and the training of 300 operators to use a new daily cost tracking system. By year-end, annual operating expenses were 6 percent below the budget. These cost-reduction efforts will continue in 2011.

Chairman's Award for Excellence

The 2010 Chairman's Award for Excellence (CAE), known within the Company as the 'PDO Oscars' attracted a record number of 125 nominations, all of which were shining examples of operations excellence in action. The 2010 awards were presented by His Excellency Nasser bin Khamis al Jashmi, Undersecretary at the Ministry of Oil and Gas, with the Gold Award going to a team in the Well Engineering Directorate for a project known as 'Frac Leap Frog Efficiency Approach' under which fracking units are used in concurrent operations. In the first 160 days of evaluation, the project had resulted in a 46 percent improvement in efficiency.

Other examples of operations excellence highlighted by the CAE included, measures by PDO's Infrastructure Directorate which resulted in major fuel savings and lower capital investment and a programme known as 'Taming the Tiger' focused on process safety management.



■ FRAC Leap Frogging Concept (Well Engineering Directorate) wins the CAE Gold Award

Project Delivery



Project Delivery – in its widest possible sense – simply means drilling and completing wells and constructing and commissioning facilities on time and within the budget. In the short-term, it will enable the Company to produce oil and gas in as cost efficient a way as possible from its existing fields, according to existing development plans. But in the long-term, Project Delivery becomes even more important as the Company brings its enhanced-oil-recovery facilities on stream.



Project Delivery

This Year's Highlights

- The Marmul Polymer Project was formally inaugurated
- Commissioning of the Harweel miscible gas project was initiated
- The Gas Directorate completed a range of important projects

Marmul Polymer Project

In October 2010, His Excellency Dr Mohammed bin Hamad al Rumhy, the Minister of Oil and Gas, officially inaugurated the Marmul polymer project, PDO's first full-scale (Enhanced Oil Recovery) EOR project.

The technologically innovative Marmul polymer project will add a further 10,000 barrels a day of incremental production over the coming years. It works by adding polymer as a 'thickening agent' to water which is injected into the field to sweep the oil to producing wells. This is a long term project in which increased production can take many months to take effect. However, early operations in 2010 were very promising with increased production from many wells.

Ongoing Enhanced Oil Recovery Projects

In mid-2010, PDO's project engineers started commissioning the Harweel miscible gas injection project. Compared to Marmul, Harweel is considerably bigger in both scale and complexity. Technological challenges led to some project completion delays, but by the end of 2010, commissioning activities at this project were well underway. Once Harweel reaches full production, it will contribute an additional



■ HE Minister of Oil and Gas opens the Marmul polymer project

40,000 barrels per day of high quality crude oil to PDO's expanding portfolio.

The Qarn Alam steam-injection project is also nearing completion. First production and first steam milestone is expected in August and October 2011, respectively, after which it will also contribute another 40,000 barrels per day to PDO's production.

PDO's newest EOR project at Amal progressed on schedule. This is a twin field development at Amal East and Amal West, where steam will be used in different ways to increase production. At Amal East, steam will heat the reservoir (known as steam soak) making the oil less viscous and easier to pump to the surface. At Amal West, a variant known as steam drive will be used, where steam sweeps the oil to producing wells. Steam will be provided using waste heat from the new Amal power station via two co-generation units. The new power station has been located close to the steam project, rather than to the power customers in order



■ HE Undersecretary, Ministry of Oil and Gas, visits Harweel project.

Project Delivery



■ Qarn Alam Steam Injection Project

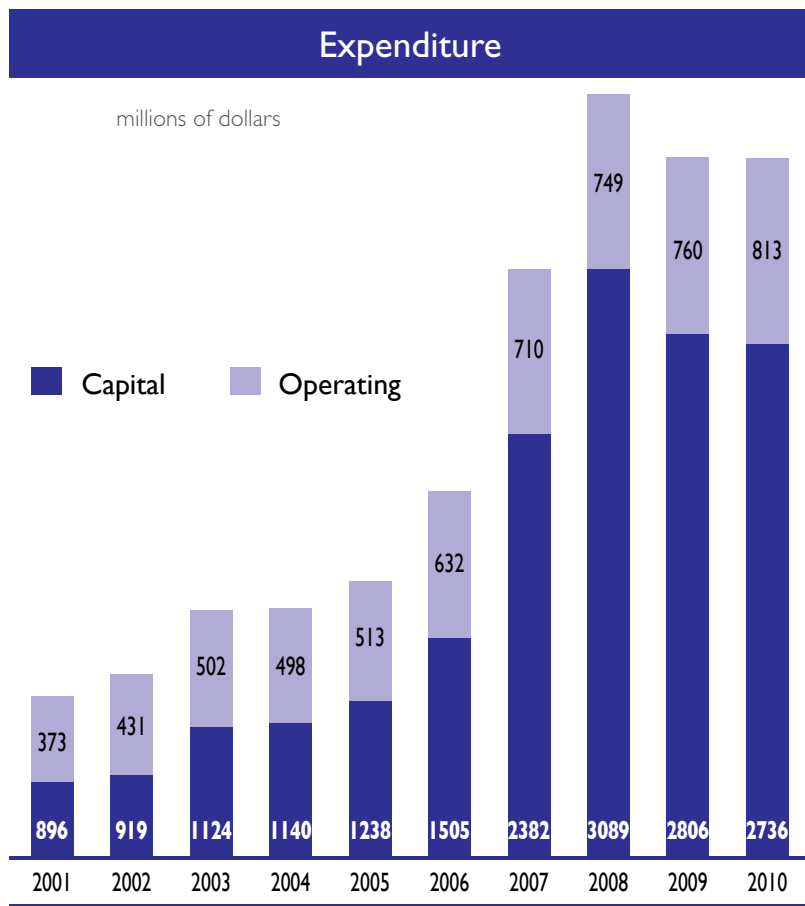
to minimise the amount of fuel gas required to generate the steam. It will take several years to reach its full effect with peak production at the two Amal fields. This is not expected until 2018, when output is projected to reach 23,000 barrels per day.

condensate and to inject up to 40,000 cubic metres a day of water into the field. In addition, over 100 new wells were drilled. Completion of the Nimr C Waterflood project is scheduled for mid-2011.

During the course of 2010, the Amal project team drilled 39 wells in Amal West and three wells in Amal East. A total of 24 of the new wells drilled at Amal West by year-end were producing oil. Between them, the Company's enhanced oil recovery projects at Marmul, Qarn Alam, Harweel and Amal represent an ambitious undertaking that have turned PDO into a global leader in the application of EOR technologies

Secondary Recovery Projects

During 2010, extensive efforts were directed to the Nimr C Waterflood project which aims to revitalise production at the Nimr C field. By injecting water into the reservoir, the Company expects a 43 million barrel increase in recoverable reserves, with production from the field to rise by 10,000 barrels a day by 2014. A stand-alone gathering station was built to process produced oil and





Gas Projects

PDO's Gas Directorate brought onstream three new gas fields. In January 2010, Burhaan West was commissioned three months ahead of schedule, contributing 1.5 million cubic metres a day of natural gas. The Mabrouk and Harmal gas field were also brought on-stream, ahead of schedule, in the first quarter, giving an important boost to PDO's ability to sustain gas production over the coming years.

The Gas Directorate's ambitious programme of depletion compression projects, in which, gas is 'lifted' from reservoirs, advanced steadily throughout the course of 2010. Construction of the Kauther depletion compression project started in May, one month ahead of schedule, while work continued ahead of plan at the Saih Nihayda depletion compression project.

FEED Office

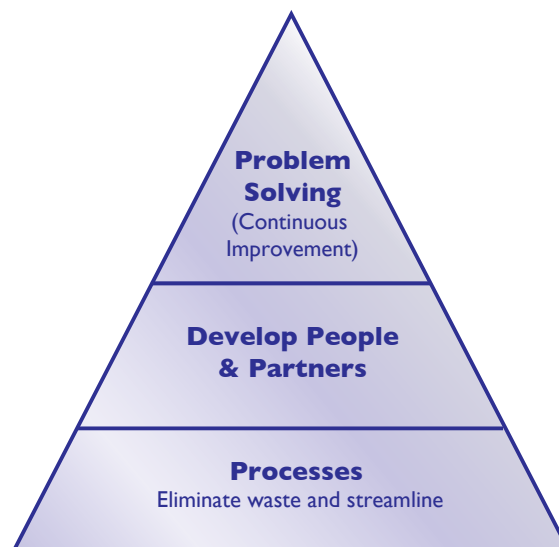
PDO's Front End Engineering and Design (FEED) Office expanded in 2010 in response to a growing number of projects. By year-end, more than 100 people worked in the FEED Office with a large proportion of Omani staff members.

Projects undertaken by the FEED Office during 2010 included:

- Al Noor miscible gas injection project: This was the first project undertaken by the FEED Office requiring expertise in technically challenging, high-pressure hydrogen sulphide projects
- Lekhwair gas plant
- Amin waterflood project
- Al Ghubar South steam trials

In addition, the FEED Office undertook a large number of other projects including, power system infrastructure upgrades, materials testing and external FEED reviews.

Lean Principles



Purpose:

To have skilled and empowered people to identify, and run small improvement initiatives at their work place, every day, all the time.

To have leaders acting as enablers to the front line staff, removing barriers to performance, resolving issues and deciding priorities between the value streams.

In 2010: 20 Lean projects completed.



■ Mabrouk team

Exploration and Hydrocarbon Maturation



Exploration and hydrocarbon maturation concentrates on the subsurface aspects of field-development plans: finding hydrocarbon-bearing reservoirs; appraising their size, structure and properties; accurately simulating the way in which the hydrocarbons flow through them into wells; and then deciding – in light of all the data and all the uncertainties – how best to extract the hydrocarbons from them. The task of discovering new reservoirs is entrusted to the Exploration Directorate. The appraisals, the simulations and even the conceptual planning are all done in a dedicated Study Centre. It allows most of the Company's reservoir engineers and production geologists to plan properly for the future without being sidetracked by the exigencies of short-term production.



Exploration and Hydrocarbon Maturation

This Year's Highlights

- PDO discovered four new oil fields, one of them with material volume of oil in place
- The Company has also found a potentially large gas field
- The Company collected record amounts of seismic data

New Discoveries

Throughout 2010, PDO continued to invest heavily in its ongoing exploration programme. In line with previous years, these efforts were rewarded with significant successes with the discovery of four new oil fields, one of them with material volume of oil in place.

The Company has also found a potentially large gas field. Combined in-place volumes of oil and gas was potentially in excess of 800 million barrels of oil equivalent.

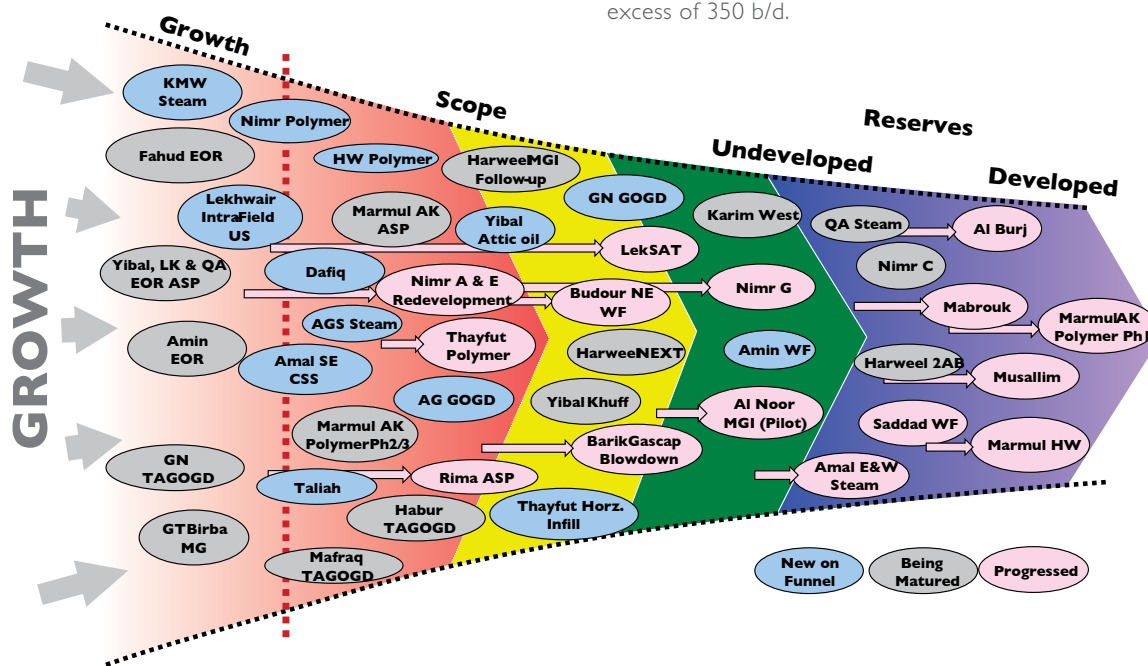
PDO made a material oil discovery at Amal Southeast, close to the existing Amal and Amal East oil fields both of which are part of an important Enhanced Oil Recovery (EOR) development project.

Two exploration wells were drilled in 2010 to confirm the discovery, and further drilling to delineate the field is planned for 2011. The amount of oil in place could be in excess of 300 million barrels making this a significant discovery. The oil, encountered in two reservoir intervals, is viscous but was successfully tested. Initial production from the field is expected in 2011, but the bulk of the production will be through EOR techniques as part of the Amal Steam project.

During 2010, PDO made three additional oil discoveries at Sayyah in the north of PDO's concession, Al Ghubar East and Aqeeq in the central region of the Sultanate.

The Aqeeq discovery, close to the existing Sadad field, followed the same innovative drilling campaign approach adopted in 2009 with the successful discovery at another nearby field at Anbar involving drilling 12 wells in a grid pattern. The discovery will be hooked-up for production in 2011 to nearby infrastructure.

The Sayyah discovery is an oil accumulation, in the excellent quality Natih reservoir. Two wells were drilled and hooked up and produced at a combined rate, in excess of 350 b/d.



■ Hydrocarbon Maturation Funnel

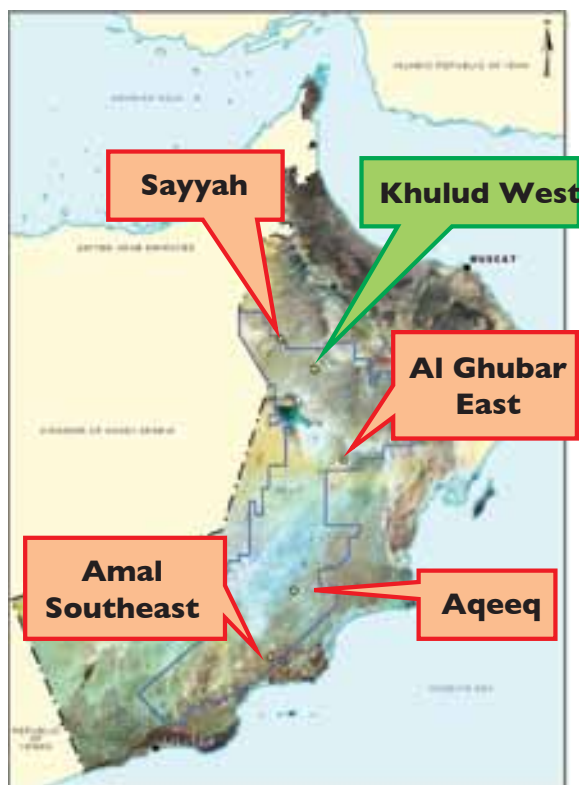
Exploration and Hydrocarbon Maturation

The Al Ghubar East discovery was an immediate follow-up to the important 2009 Al Ghubar South discovery. The exploration well proved oil in the same Shuaiba reservoir and the well subsequently flowed at encouraging rates when tested.

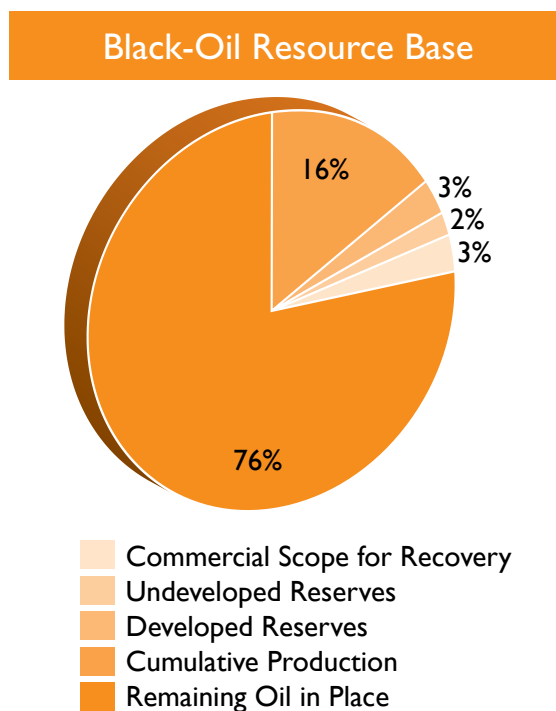
Production plans for this field call for early production from the exploration well followed by subsequent development in tandem with the Al Ghubar Main field.

Gas Discovery

PDO also made a significant gas discovery at Khulud West in the north of PDO's concession area, 5 km west of the Khulud South discovery made in 2009. The exploration well encountered a gas column of more than 150 metres in the Amin reservoir at a depth close to 5,000 metres. Although indications are that the reservoir is better quality than Khulud South, it remains challenging being tight, with low permeability and at high pressure and high temperature. The exploration well is planned to be tested in 2011 and the field will require additional operations and studies to demonstrate commerciality.



■ Oil and Gas Discoveries



Overall, these discoveries come from a variety of reservoirs and depths, demonstrating the significant potential that continues to be available in the PDO concession. As a result, PDO will continue its aggressive efforts to find both new oil and new gas fields.

Geophysics and Seismic Acquisition

The activity of PDO's geophysics team continued to grow. The Geophysics department is responsible for gathering and analysing the seismic data needed for successful oil and gas exploration. In 2010, new generation seismic (NGS) data was acquired covering 7,500 square kilometres. This included very precise data for the Dafiq field in North Oman. Two permanent seismic acquisition crews operating 24 hours a day each, collected seismic data for an average of 10 square kilometres per day.

Study Centre

PDO's Study Centre had another year of intense activity. Four conventional field development plans (FDPs) were completed for the Fahud Natih, Rima, Runib and Al Huwaisah fields. The Study Centre was also active in enhanced oil recovery FDPs and, in 2010, prepared plans



covering the development of the Amin, Thayfut, Marmul, Amal and Al Ghubar South fields. FDP study work and project definitions of the major integrated sour oil & gas developments of Rabab/Harweel, Yibal-Khuff, and Budour/Budour North East progressed as planned and the studies will be completed in 2011/2012.

In addition to full field FDPs, the Study Centre also supports PDO's exploration activities, preparing appraisal plans on the basis of seismic data acquired by the Geophysics Department (see above) and conducting special studies e.g. geomechanic studies. In 2010, the Study Centre prepared two such studies covering parts of the Al Huwaisah field and the Runib field, initiated Yibal compaction and fracture/fault geomechanic studies and a number of water management studies.



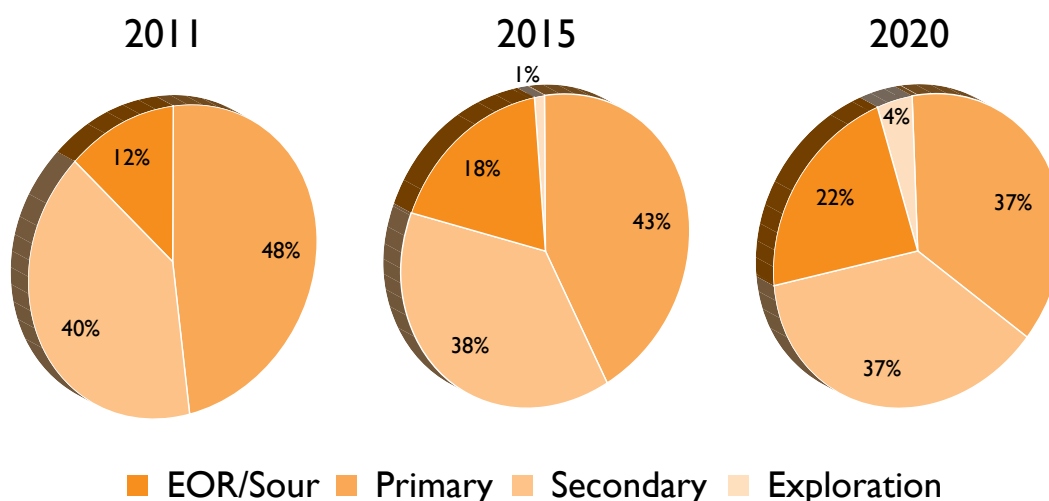
■ Planning in progress at the PDO Study Centre

Exploration Efforts to Continue

PDO firmly believes in the continued potential for new oil and gas discoveries in its Concession Area and will continue to invest heavily in its exploration programme. The Company's ambitious oil exploration plans for 2011-2015 call for extensive 3D seismic data acquisition, continued search for completely new geological opportunities, as well as, the drilling and testing of approximately 140 exploration and appraisal wells.

The search for new gas is focused on deep tight gas exploration. In northern Oman, up to 30 tight gas wells will be drilled and tested over the next four years and extensive 3D seismic data will be acquired. In southern and central Oman, PDO plans to drill new wells to test new gas play concepts, The company will acquire additional 3D seismic data, and will carry out in-depth geological studies.

PDO's Changing Portfolio



Staff Development



PDO's people are the Company's greatest asset. They are skilled, and they are knowledgeable. And the great majority of them are Omani. It will be the collective commitment, skills and expertise of all PDO's people that help to sustain the remarkable development of this nation.



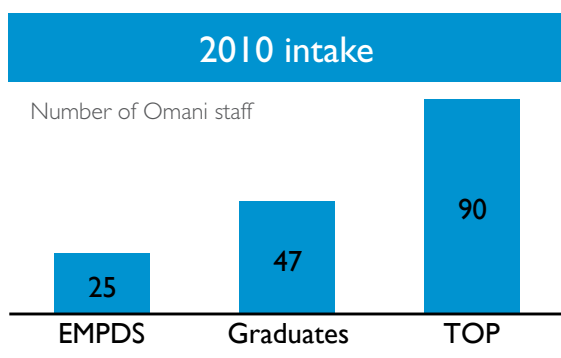
Staff Development

This Year's Highlights

- A rise in the number of Omani staff was mirrored by a fall in expatriate employees
- PDO's Learning and Development Centre delivered 197 courses to over 2,800 employees
- The in-house Accelerated Leadership Programme was enhanced
- A total of 43 young Omanis joined the Technician Omanisation Programme

Staff Recruitment and Omanisation

PDO continued to focus on getting the right people for the right job. In all, the Company brought in over 190 new experienced staff members at a time of tough competition for high quality talent in the oil and gas sector. Fortunately, in 2010, there was an increase in the availability of qualified Omani candidates which allowed PDO to reduce the number of expatriate staff. As a result, the Omani staff count rose from 4,211 to 4,243 in 2010 whilst the total number of expatriates dropped by 52 from 1,228 to 1,176. PDO also recruited 77 new Omani graduates, all of whom are promised a structured long term career with a programme of mentoring and development. These graduates represent the future lifeblood of the Company, and the best among them can aspire to become, in time, top managers.



Staff Progression

The trend of increased Omanisation was also reflected in the Company's senior management team of 13 directors, of which by the end of the year only two directors were



expatriates and by mid-2011, the Managing Director, Raul Restucci, will be the only non-Omani. In parallel with the increasing number of Omani directors, PDO worked hard to ensure the promotion of all Omani staff members from middle management levels to senior positions. By year-end, a total of 22 Omanis had been progressed to senior positions, well above the target of 15.

Improved promotion prospects allied to excellent conditions of employment, including training and development opportunities, meant that few Omanis opted to leave the Company's employment. The number of resignations in 2010 remained stable at 2.3 percent, similar to the previous year.

Technical Training and Leadership Development

During 2010, technical training continued to be given high priority, and PDO's Learning and Development Centre, working closely with the Shell Middle East



■ TOP training

Staff Development

Learning Hub, continued to deliver programmes focused on raising the professional capability of PDO staff. A total of 197 programmes were delivered to over 2,800 staff members.

Throughout 2010, PDO remained firmly focussed on the creation of a new generation of leaders that will ensure the Company's long term future. During the course of the year, senior managers attended management programmes at leading business schools while around 20 middle managers were able to benefit from a range of Shell Group Leadership programmes. PDO's own in-house Accelerated Leadership Programme (ALP), designed for team leaders and supervisors was further enhanced to train a new generation of PDO leaders.

In 2010, PDO's flagship Technician Omanisation Programme (TOP) recruited a total of 43 new Omani trainees who are currently acquiring hands-on skills and knowledge, which will allow them to become operators at PDO's critical oilfield facilities.



■ EMPDS training

Engineers' Monitored Professional Development Scheme (EMPDS)

PDO's flag Engineers' Monitored Professional Development Scheme (EMPDS) continued to train newly-recruited graduates as they gain work experience with the Company. This mandatory programme for Engineering and Operations which aims to let graduates drive their own career development, allows them to benefit from on-site experience, while they learn new



■ PDO scholarship Graduation 2010



■ *Managing Director at his engagement with staff*

skills using experienced mentors and coaches. A total of 186 engineers have successfully completed the scheme since its start in 1995 and 170 engineers are currently enrolled. The scheme includes ten Engineering disciplines with three recently added: Process Control Optimization, Technical Safety Engineering and Quality Engineering.

Scholarship Programme

PDO continued to run its successful scholarship programme. In May 2010, forty seven PDO-sponsored graduates received their degrees at a special ceremony held under the auspices of His Excellency Dr Mohammed bin Hamad Al Rumhy, Minister of Oil and Gas and PDO Chairman. The graduates included 21 students receiving Bachelor degrees, 14 achieving a MScs, 3 receiving PhDs, 7 getting MBAs and a further two earning Marine qualifications.

In 2010, PDO offered a wide range of new scholarships to high-potential candidates likely to make a lasting impact on the Company during their future careers. A total of 11 employees were sent for studies abroad, after going through a rigorous screening process. By

year-end, a total of 116 PDO-sponsored scholars were attending graduate and undergraduate programmes overseas. In addition, 24 PDO scholars were attending local universities such as Sultan Qaboos University and GUtech.



■ *Operational Excellence Souks in PDO enriches professionalism*

General Welfare



The welfare of people and the natural environment are enshrined in PDO's Business Principles – the document at the top of its Corporate Management Framework. The Company will never be satisfied with the way it carries out its ambitious plans unless it does so in a way that respects people's health and safety, that benefits neighbouring communities and that maintains the environmental richness of the country.



General Welfare

This Year's Highlights

- There was a renewed focus on safety following road accident fatalities
- Safety training was ramped up
- PDO installed In-Vehicle Monitoring Systems in its fleet
- The Company launched a full-scale reed bed water treatment project at Nimr
- A large number of Social Investment projects were implemented

Working to Improve Safety

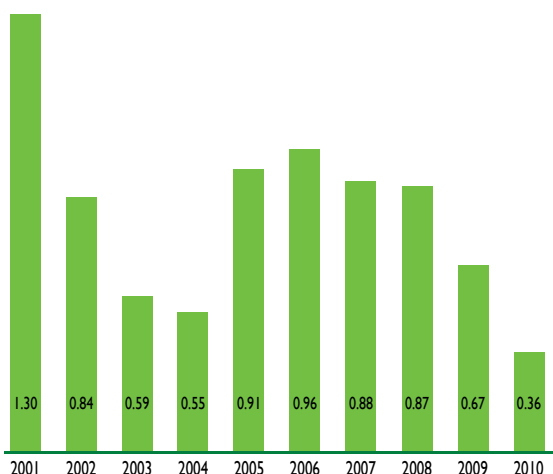
PDO's safety performance in 2010 was mixed. Although the Company was able to reduce the number of road traffic accidents, it regrettably experienced six road fatalities, three of which were work related. The Company also experienced an increase in Lost Time Incidents (LTIs) for industrial hazards, albeit still well below its five year average.



■ PDO participation in the Road Safety conference

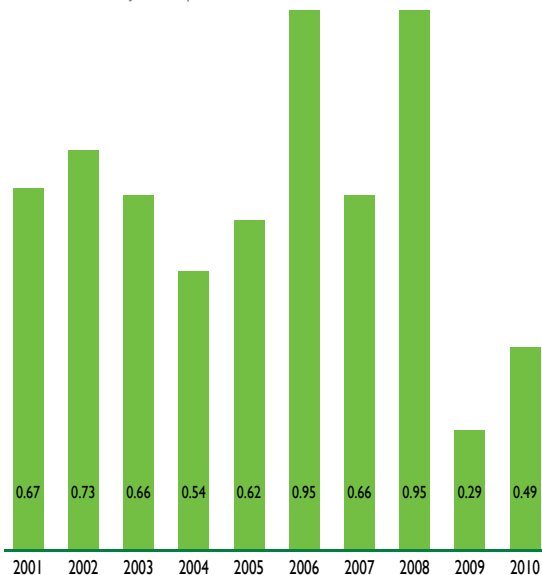
Road Traffic Accidents (Staff & Contractors)

Accidents per million kilometres driven



Occupational Accidents

Lost-Time Injuries per million man-hours



Despite this, PDO continued to strive to reach Goal Zero under which it does not harm or lose a staff member or contractor on the road or in the workplace. As a core value in PDO, safety for staff and contractors continued to be an over-arching priority for the Company and its leadership.

To achieve continued decrease in road traffic accidents, over 11,500 drivers were educated in road safety during 2010. Furthermore, PDO installed In-Vehicle Monitoring Systems (IVMS) in its fleet and made considerable effort on improving roads in the interior. In all its road safety initiatives, PDO worked very closely with the Royal Oman Police, whose support was invaluable.



■ IVMS installation in PDO cars

Throughout 2010, PDO continued to work on a wide range of initiatives aimed at improving safety performance, with four focus areas in road safety, process safety, worksite hazards and contractor safety management.

General Welfare



In total, 3,729 staff members attended 17 core safety programmes, entailing more than 8,000 man-days of safety training. These and other efforts are aimed at securing a substantial improvement in PDO's safety performance in 2011.

Protecting the Environment

At Nimr in southern Oman, PDO in 2010 implemented an innovative project to treat water produced during the oil extraction process. After several years of pilot trials, the full-scale Nimr reed bed project came onstream at the end of the year. Reed plants naturally absorb oil, and at Nimr, a giant farm with 2.4 million sqm of reed beds, the plants treat

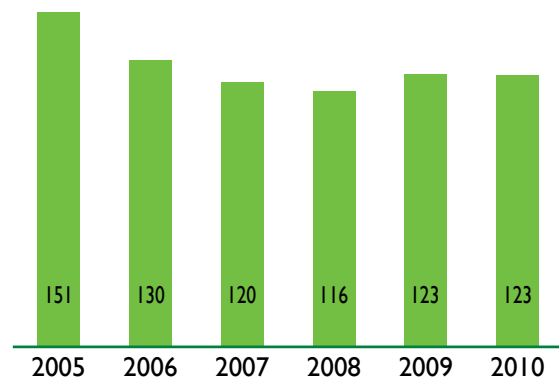
45,000 cubic metres a day of produced water. The new farm treats the produced water, enabling re-use opportunities and reduces deep water disposal and the associated gas consumption for this stream of water. In effect, PDO has created a carbon sink. As well as demonstrating a solution to a major produced water problem, the Nimr reed bed project will save an estimated 12 billion cubic feet of gas over the next decade. Reed beds consume practically zero energy, utilising a gravity fed system and no transfer pumps. The project has the potential to be expanded to other low salinity produced water disposal streams in southern Oman.



■ Nimr Reed beds onstream

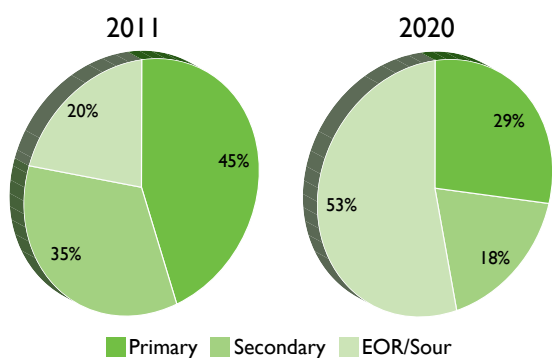
Gas Consumption

Volume of gas consumed to produce the oil, bcf





Energy Needs



Reducing Energy Consumption

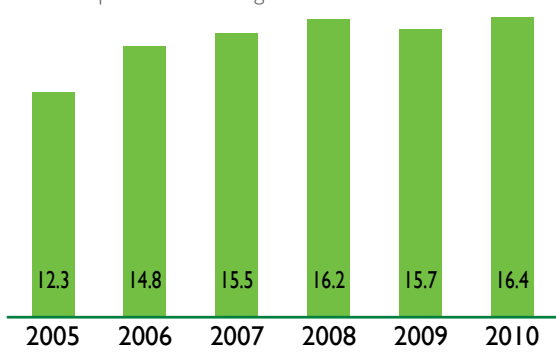
In 2010, PDO implemented a range of measures to reduce energy consumption. In addition to the Nimr reed bed project (see above), steps implemented across PDO's operations during 2010 included measures to reduce gas flaring, improve energy efficiency and find alternative energy sources.

One measure with a massive impact on gas consumption was the construction of cogeneration power plants wherever the Company has a steam injection project. By setting its power plant next to thermal projects, PDO can use excess heat from the generating process to produce steam to inject into underground reservoirs. During 2010, the Company went ahead with the construction of such cogeneration plants at both Qarn Alam and Amal.

Overall, when identifying enhanced oil technologies to be applied at oilfields, PDO prioritised low-energy solutions, such as polymer floods. In addition, PDO pursued two further strategies which together make up the Company's

Energy Efficiency of PDO Total Production

Energy Efficiency of PDO production, BOE oil produced/ BOE gas consumed



'Greenhouse Gas Strategy'. These included carbon capture and storage and trading of carbon credits.

Harnessing alternative sources of energy continued to be high on PDO's agenda, and the Company's new technology team worked hard throughout the year to find innovative technologies aimed at reducing gas consumption. Some of these will be implemented in 2011.

Community Scholarship Programme

PDO continued to invest in the educational development of young people living in local communities in the Block 6 concession area. In 2010, PDO increased the number of students in its Community Scholarship Programme (CSP) from 40 to 50. The CSP funds the studies of young men and women at universities and colleges throughout Oman.

Social Investment

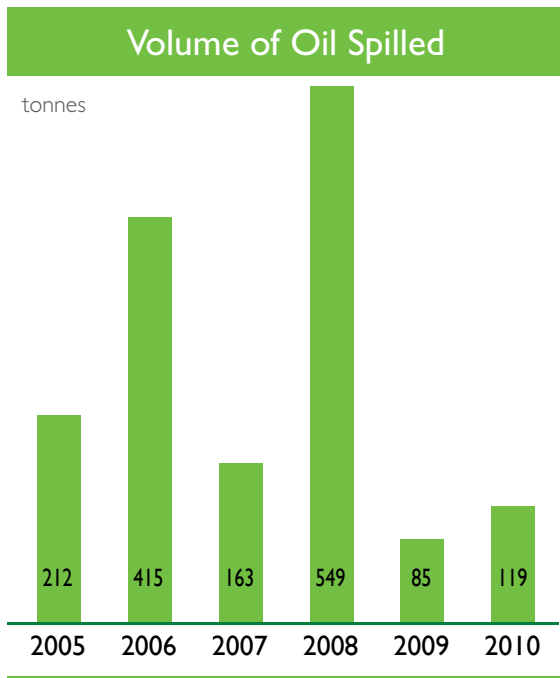
Over the years, PDO has placed special importance on being a good corporate citizen. At a time of intensive capital investment in a large number of infrastructure projects, PDO continued to invest equally heavily in social projects. Throughout the year, PDO's Social Investment teams worked closely with the Government and local communities to identify suitable social projects to benefit local people and communities.



MoU signed for planting Mangroves



MoU signed for women training in Muhoot



In 2010, all PDO's major projects were given their own sustainable development budgets so that local communities can benefit from oil field developments in their areas. For example, in the summer of 2010 the inhabitants of Al-Furjah village in northern Oman started receiving fresh water supplies from the new water treatment plant funded from the sustainable development budget of the Mabrouk development oil field project. Similarly, two villages in southern Oman, Dhahboun and Barbazom, which for years had relied on truck shipments for their fresh water supplies, received their own fresh water plants, thanks to the Harweel project.

Developing skills for employment was another key focus area for PDO's Social Investment efforts. In late 2010, PDO agreed to fund a programme for 20 local women in Mahoot, in the Wusta region, to teach them to manufacture



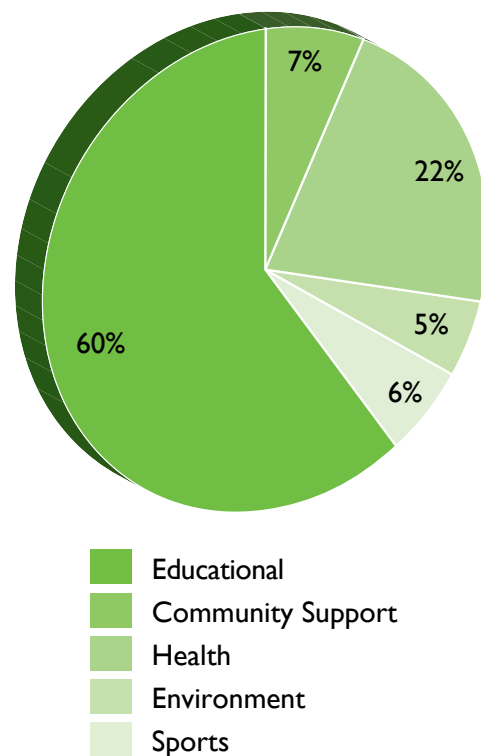
■ Water treatment facilities in Dhahboun

traditional woollen handbags. This project was the latest in a long line of similar projects aimed at promoting Oman's craft industry while, at the same time, giving families an extra source of income.

Oman's environment also benefited from PDO's social investment programme. In April 2010, PDO announced it would support three important environmental initiatives to plant new mangroves and replace harmful trees in Wilayat Al-Jazir. PDO funded this project while also paying for a parallel project to remove the harmful psosopis replacing it with native species. Additionally, PDO launched a waste water reuse project at Niyabat Hamraa Al Duru'u in the Wilayat of Ibri.

In June 2010, PDO partnered with the Ministry of Education to provide interactive classrooms and sunshades at five schools. As a result of this agreement, by year-end almost all schools in PDO's concession area had sunshades and interactive classrooms. In a separate agreement, PDO funded five electronic learning boards and a special auditory system for Al Amal School for the Hearing Impaired. Additionally, PDO was involved in improving the lives of special needs groups. For example, the Company supported the Oman Association for the Disabled, funding the acquisition of 20 electronic wheelchairs.

Grant & Donation 2010 by category





Gift to the Nation: the Oman EcoCentre

Every five years, PDO makes a substantive social investment through offering a 'Gift to the Nation'. In 2010, coinciding with the 40th Anniversary of His Majesty Sultan Qaboos bin Said's accession to the throne, PDO crafted a very special project: the EcOman Centre at Mina al Fahal.

The purpose of this ecological learning centre is to raise the awareness of visitors on the impact of fuel and energy sources and the future of alternative energy resources. The centre also highlights how we can change our life styles to ensure a sustainable future for ourselves and our children. The EcOman Centre follows a prestigious line of "Gifts to the Nation," including the Road Traffic Institute, the Oil & Gas Exhibition Centre, the Planetarium and the Public Knowledge Library.



■ Power tower at EcOman Centre



■ The opening of EcOman Centre

EcOman centre inauguration



Water: a major environmental challenge for PDO

Producing oil and gas with total respect for the Sultanate's environment is the key element of PDO's journey towards a sustainable future. It goes without saying that PDO seeks to avoid any oil spills and ensures that environmentally sensitive areas – such as Mina al Fahal bay where tankers load Oman's export crude – are kept in pristine condition.

PDO's environmental challenges also include more complex issues. Water management is a major challenge. PDO is usually thought of as an oil and gas producer, but for each barrel of oil it recovers out of the ground, it produces a further eight barrels of water known as 'produced water'. All of this water is contaminated with oil, and about half of the water has a salinity higher than seawater, making it unusable for domestic or agricultural use.

To date, most of PDO's produced water was pumped back in the oilfield to help maintain reservoir pressure or into deep reservoirs where it did not interfere with natural fresh water aquifers. However, this comes with a significant environmental and financial cost since pumping water deep underground requires a tremendous amount of energy and leaves a carbon footprint. Projects such as the Nimr reed beds implemented in 2010 are a major step forward and provide long term solution for implementation at other fields in PDO's concession area.

Produced-water Disposal

(millions of barrels)

