

**HIS MAJESTY SULTAN QABOOS BIN SAID**





**UNITED POWER COMPANY (SAOG)**  
**ANNUAL REPORT – 2009**

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## BOARD OF DIRECTORS AND MANAGEMENT

### REPRESENTING:

Chairman	Mr. Murtadha Ahmed Sultan	W. J. Towell & Co. LLC.
Vice Chairman	Mr. Mark Lemmon	MENA Infrastructure Fund (GP) Ltd.
Director	Mr. Antoine H. Georgiou	National Trading Co. LLC.
Director	Mr. C.S. Badrinath	The Zubair Corporation
Director	Dr. Mohd Bin Nasser Bin Ali Al Zaabi	Ministry of Defence (Pension Fund)
Director	Mr. Anshul Rai	-
Director	Mr. Yaseen Abdullatif	-
Director	Mr. Hamad Lal Baksh Al Balushi	-
Director	Mr. Ahmed Al Sinani	-
Director & Co. Secretary	Mr. Arnaud de Limburg Stirum	-
Director	Mr. Zoher Karachiwala	-

### MANAGEMENT

Chief Executive Officer	Mr. Zoher Karachiwala
Financial Controller	Mr. S. M. Tariq
Technical Manager	Mr. Sreenath Hebbar
Administration Manager	Mr. Jamal Al Bloushi



## BOARD OF DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors of United Power Company SAOG ("UPC" or the "Company"), I am glad to present you with the Fifteenth Annual Report of the Company for the year ended 31 December 2009.

The Company owns the Power Generating Station of Manah under a BOOT (build, own, operate and transfer) scheme, and Interconnection and Transmission Facilities under a BOT (build, own and transfer) scheme, for a term of twenty years. All power produced is sold to Oman Power and Water Procurement Company SAOC under a long term Power Purchase Agreement, with guaranteed off-take. As such, the Company is not subject to market competition or fluctuation.

The Manah Power Plant has been running smoothly and efficiently, and there is no particular event worthwhile to mention. The 5 generator sets of the project showed an exceptional reliability, and the performances expected for such high-technology machines.

The Company recorded in 2009, a net profit of Rials Omani 1.701 million. The underlying revenues and costs are in line with the plan and the variation in revenue reflects the agreed tariff structure in PPA of generation and transmission facilities for Phase 1. The Directors of the Company have recommended a final ordinary dividend of Rials Omani 1.534 million, which represents the total ordinary dividend for the year to 8% of the current share capital of the Company.

The Company also carried out in December 2009, capital reduction of 10% of the original capital as a consequence to the structured plan of capital reduction approved by the market regulators and the shareholders in the annual general meeting of 2006.

Due to the definitive life of the project and its purpose, it is the policy of the company to maximize distributing its available profits and in the years where profits are low, it distributes its funds not required for operations by way of well structured plan of capital reduction. Past five years' distribution to shareholders, are disclosed separately under 'Management Discussion and Analysis Report'.

UPC complies and maintains high standards to the Code of Corporate Governance implemented by the Capital Market Authority as described in the related attached section of this report. In this respect, the Company complies with the guidelines on dividend policy and we are committed to the objectives underlying such guidelines.

During the year, GDF Suez, a major shareholder of the company since inception, divested its shareholding in favour of MENA Infrastructure Fund. As part of the resultant restructuring of the Company's operations, the Company outsourced the operation and maintenance of the Plant, including related technical activities, to STOMO, an experienced operator of power plants in the region. This restructuring was approved by the shareholders in their meeting held on 28 March 2009.



In the light of the international financial crisis in 2008, the Board considered appropriate in December 2008 to repay its entire international loan funding through local bank financing. Repayment of international loans was executed in January 2009. We are happy to state that in December 2009, we have repaid local bank financing and besides the working capital facility, the Company is now debt free.

During the year Mr. Zoher Karachiwala was appointed as CEO of the Company in place of Mr. Arnaud de Limburg Stirum, and Mr. Sreenath Hebbar was inducted as Technical Manager in place of Mr. Garuda Prakash.

The Company is a responsible corporate citizen and contributes to the activities of local municipalities and communities. During the year, the Company made contribution to youth activities in Manah of OMR 2,150. Further, the Company associated itself with pride to Oman Football Team who won the 19<sup>th</sup> GCC Football Tournament, by offering an amount of OMR 25,000 to the victorious team.

I would like to thank all the personnel associated with the operation of our Manah Power Plant and staff of the Company for their dedication and hard work.

On behalf of the Board of Directors, I would also like to take this opportunity to extend our gratitude to His Majesty Sultan Qaboos Bin Said and His Government for their continued support and encouragement to the private sector. May Allah protect them for all of us.

**MURTADHA AHMED SULTAN**

Chairman of the Board

## OPERATION HIGHLIGHTS

### Power Generation

The total power exported by the plant in 2009 (Phases I and II) amounts to 1,045 GWh. The cumulative energy exported by the plant from initial commissioning is 13,466 GWh.

The maximum load recorded during the year was 304.1 MW on May 10, 2009 at 23:00 hrs. The maximum ambient temperature recorded was 50°C on May 31, 2009 at 16:00 hrs and minimum temperature was 8°C on January 25, 2008 at 07:00 hrs.

The average plant guaranteed net output (PGNO) for the reporting period was 92.887 MW for Phase I, and 205.295 MW for Phase II at an average ambient temperature of 29.9°C. The use factor was 44%.

Manah recorded 98.25% Reliability of the total Plant (phase 1 & phase 2 units) with 616.9 hours of forced outages in 2009. The bulk of the forced outage was on GT2A in April (608.1 hours). GT2A underwent a Major Inspection in the current year, during which a hole was discovered in the fir tree of the first stage wheel on account of off-centre drilling of the locking pin hole. An initial study was undertaken by UPC with the assistance of STOMO and Laborelec to ascertain the extent of damage and to explore the possibility of re-installing the same wheel till the completion of a detailed study. The time taken for the initial analysis & risk assessment delayed putting GT2A back into service and hence this additional time was considered as forced outage.

For the whole plant, the evolution of these figures from the date of Phase I commercial operation date is as under:

Year	Available energy (GWh)	Availability factor (%)	Energy generated (GWh)	Use factor (%)	Reliability factor (%)
1996(*)	176.5	93.0	106.3	60.2	99.9
1997	811.2	95.6	680.1	83.8	99.8
1998	776.6	97.4	667.1	85.9	99.9
1999	760.3	93.3	615.9	81.0	99.9
2000(**)	1,758.8	87.8	1,057.5	60.1	92.4
2001	2,541.6	94.9	1,274.7	50.2	99.7
2002	2,525.8	95.4	1,442.3	57.1	99.5
2003	2,526.6	94.9	1,337.4	52.9	99.9
2004	2,469.2	93.9	1,125.5	46.4	99.9
2005	2,502.4	95.3	1,046.0	41.9	99.9
2006	2,536.1	96.6	1,187.9	47.0	99.9
2007	2,476.1	94.8	981.8	40.0	100.0
2008	2,557.9	97.4	1,012.8	40.4	99.99
2009	2,371.6	90.5	1,045.1	44.0	98.25

(\*)COD Phase 1: 15<sup>th</sup> October 1996

(\*\*) COD Phase 2: 19<sup>th</sup> May 2000

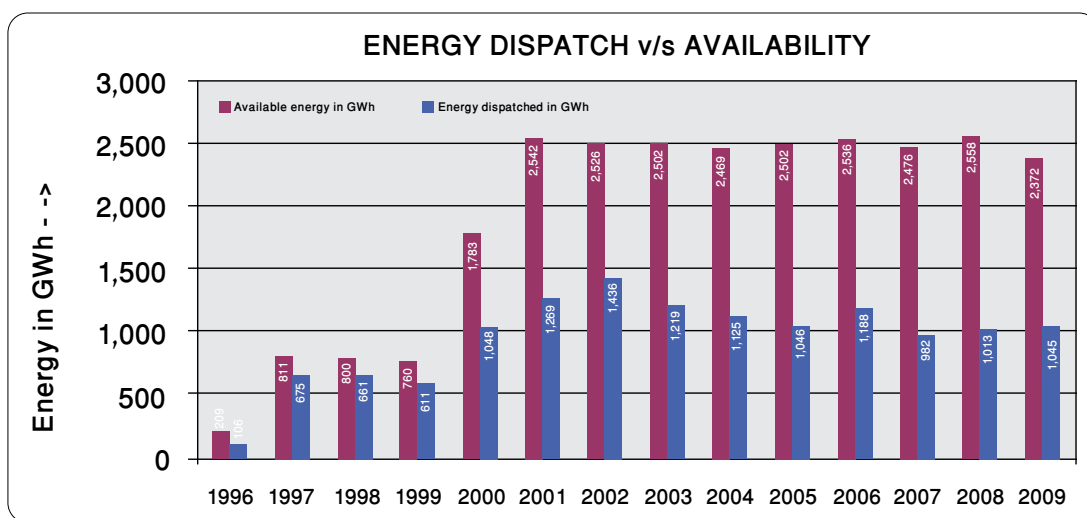


## OPERATION HIGHLIGHTS Continued...

### Maintenance and operation methodology

The PPA and its additional agreements lay down norms for operation and maintenance of the station and expect certain minimum levels of performance. However, in formulating the strategy for operation and maintenance, UPC strives to meet the highest industry standards.

Gas turbines are highly reliable power generating machines, provided they are operated and maintained under certain norms. Efforts have been constantly put in to further improve reliability.



During the initial years of service of the gas turbines in Manah, valuable experience has been gained and used to establish unique signature for each machine. This experience is used in evolving better operations and maintenance methodologies.

For Phase I, UPC entered in November 1997 into a Spare Parts Supply & Repair Contract with EGT (now GE) the term of this contract ended on 31<sup>st</sup> December 2005. Following a competitive bidding process, UPC entered in September 2005 into a Long Term Parts and Repair Agreement (LTPA) with GE the term of this new contract is 15 years.

For Phase II, UPC entered in December 2000 into a Long Term Service Agreement (LTSA) with GE. This agreement secures the procurement of the spares needed for the whole commercial life of the 2 new Frame 9 units (20 years).

In 2009, UPC changed the structure of its O&M Contracts and entered into an agreement with Suez-Tractebel Operation & Maintenance Oman (STOMO). With this agreement in place, UPC has a single point of contact for O&M services as opposed to multiple contractors in the earlier structure. STOMO now co-ordinates all the O&M activities (including the LTSA with GE) and procurement of parts through the LTPA Contract.

According to the terms of these contracts, a suitable and sufficient stock of spares is maintained in order to avoid unplanned outage of the gas turbines.

The combined efforts of UPC and its contractors - GE and STOMO, have produced best results in terms of reliability, efficiency and best value for resources used.

### Maintenance Activities

#### Phase I Scheduled maintenance:

The total maintenance time consumed for the year was 531.2 hours, i.e. 2.02% of total calendar hours or an availability factor of 97.98%.

**GT1A, GT1C:** Annual Maintenance was conducted on these Gas Turbines in the months of January and November 2009 respectively. In general the wear on the parts were very minimal.

**GT1B:** The Combustion Inspection that was scheduled to take place in December 2008 which was postponed by LDC to accommodate shutdowns and other activities of OETC, was conducted in January 2009. Again, condition of various components was found to be normal.

#### Phase II Scheduled maintenance:

The total time consumed for maintenance was 1451.2 hours in the reporting period, i.e. 8.28% of total calendar hours during reporting period or an availability factor of 91.72%.

Annual Inspection of GT2B was performed during January 2009. This inspection was routine in nature and there has been no special findings or observations to record.

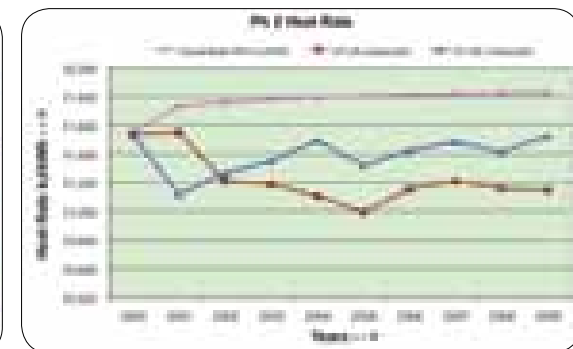
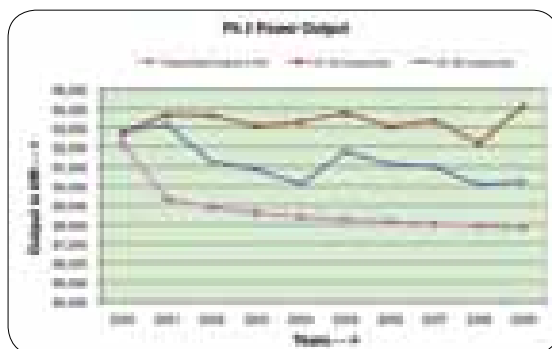
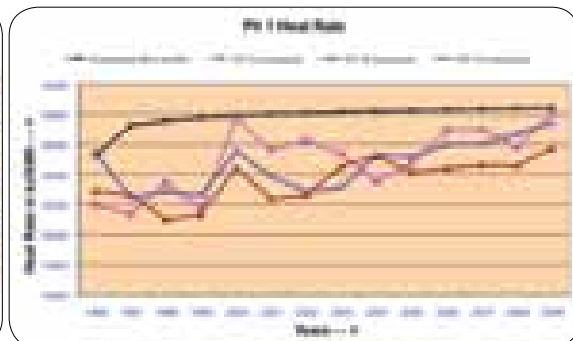
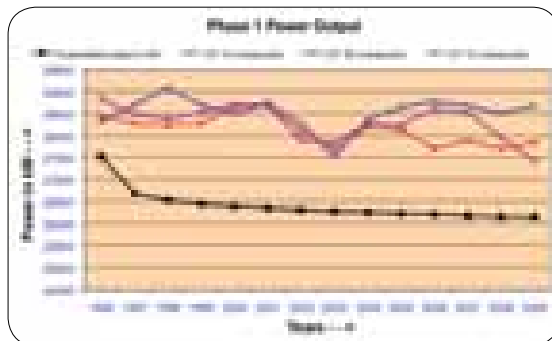
The first Major Inspection (MI) of the Frame 9 units (i.e. GT2A) was scheduled between 14<sup>th</sup> February 2009 and 26<sup>th</sup> March 2009; the first Generator Major Inspection was also scheduled at the same time. However, due to the discovery of a hole in the fir tree of the first stage wheel due to an off-centre drilling of the locking pinhole, there was a delay in completion of the MI as per schedule. The work was finally completed and the GT2A was put back in service on April 29, 2009. The delay was mainly on account of the initial due diligence conducted to assess the risks of continuing with the same wheel. After a careful analysis, it was decided that the wheel will be put back into service. Meanwhile, UPC contracted with Laborelec, a leading research organization within the GDF Suez Group, to assess the damage and come up with recommendations. Laborelec conducted a finite element analysis and concluded that there was no risk in continuing operations with the existing wheel. Recommendations included regular inspection and being in readiness for replacement in case cracks were noticed. Accordingly, the replacement wheel was ordered on the OEM (GE) and is available at site. The Board has also decided to replace the wheel during the outage in the winter of 2010.

#### Performance Tests

Performance tests were conducted during October 2009 in the presence of OPWP. The test results were quite satisfactory, all machines have higher electrical output capacity and lower heat rate values (gas consumption) when compared to the guaranteed values as per contract.



## OPERATION HIGHLIGHTS Continued...



### Omanization

UPC and its O&M contractor STOMO pay the greatest attention to respect the requirements of the Power Purchase Agreement in matters of Omanisation: at the end of the year 2009, Omani employees were 65.5% of the plant staff of STOMO.

New Omani employees are scheduled to join the plant workforce on regular basis. We have to mention that the difficulty in Omanisation is to find adequately skilled and experienced people. Our operator, STOMO, has therefore put in place training programmes for young graduates from Oman Universities. We are confident that with the efforts undertaken by the Government in this matter, solutions will be found rather soon.

### HSE Audit

The Loss Time Incident (LTI) of Manah Power Plant remains ZERO during the O&M regime following COD of both phases. In February 2010, the Plant will celebrate 5000 days LTI free days since the commencement of operations.

The O&M Operator, STOMO is also developing an Environment Plan that is expected to improve the current practices by enabling the operating personnel to benefit from best practices being employed at other facilities.

### Permits:

Ministerial Decision No (118/2004), issued by MRMEWR in 2004, implemented new regulations for air pollution control, and introduced new 'Standards of Emissions' from Stationary Sources, including Power Plants.

The oldest four of the licensed Production Facilities (Manah, Ghubrah, Wadi Jizzi and Rusail) are considered to be generally non-compliant with the obligations in MD (118 / 2004), whilst the newest Production Facilities (Sohar, Al-Kamil and AES Barka) are deemed to be generally compliant.

AER took the initiative to study the issue with respect to oldest four licensed production facilities with the help of an independent consultant - Advantica of UK. The recommendation / report of Advantica have been issued to UPC by AER, the recommendations is to implement a Predictive Emission Monitoring System (PEMS).

Following a competitive bidding process a contract was awarded to Cogsys of UK, who developed the PEMS, this was installed together with weather monitoring station and tested. The monthly reporting to Ministry of Environment and Climatic Affairs (MECA) has been established since November 2008.

Regular monthly updates have been provided to the MECA based on the PEMS software through 2009.

Our Environment Permits for Phase - 1 has been re-validated for a period of a further two years – till May 13, 2011. We have submitted the request for re-validation for Phase - 2 and are expecting the same shortly.



## DESCRIPTION OF THE PROJECT

### History of the Project

United Power Company (SAOG) (the “Company”) was formed and registered as a joint stock Company on January 9<sup>th</sup>, 1995. The public currently owns 40% of the Company’s shares while the founder shareholders own 60%.

The founder shareholders are Tractebel S.A., International Finance Corporation (part of the World Bank Group), National Trading Company LLC, W.J. Towell & Co. LLC, The Zubair Corporation LLC, and Tawoos LLC.

Shares of Tawoos LLC have been transferred to the Ministry of Defence Pension Fund of Oman in 2003.

Tractebel SA (now GDF Suez), has transferred its shares to MENA Infrastructure Fund (GP) Limited in 2009.

Prior to formation of the Company, founder shareholders were awarded, following a competitive bidding process, the concession for a project consisting of a 90 MW gas-fired power station comprising 3 open cycle gas turbines (the “Units”) near Manah, to be developed on a build, own, operate and transfer (so-called “BOOT”) basis, and a related network of interconnection and transmission facilities (the “ITF”), keep (“BOT”) basis on land leased by the Government.

Construction of the Manah Power Station began in March 1995 and the Company began delivering electricity on May 31, 1996 upon completion of two Units and approximately 58 kilometers of overhead transmission lines to Nizwa and Bahla replacing the supply by the obsolete local diesel engine power plants.

Full supply to Dakhliya region from Manah (3<sup>rd</sup> Unit and Izki line) was achieved in early August 1996 and project completion occurred in October 1996 with the interconnection of network fed by the Manah Power Station to Muscat network at Al Rusayl. The lines owned by UPC have a total of about 170 kilometers in 132KV. Responsibility for the operation and maintenance of the ITF was transferred in stages to the Government during construction, with the final transfer occurring on October 15, 1996.

During 1999, the Company was awarded a contract for an extension of its generation facilities consisting of two 90 MW open cycle gas turbines and the necessary auxiliary facilities (GIS, fire fighting system, liquid fuel storage, etc.).

The construction and installation of the turbines were completed in May 2000, and thereafter the electricity was delivered to the grid. The official commercial operation was notified as 19 May 2000. The total capacity of the plant, therefore, reached 270 MW. Consequent to the extension of the facilities, the life of the project has been extended to 30 April 2020 taking into account the initial term of the extension project and the Company life has been extended by another five years to 9 January 2025. The Company will continue to own and operate the Manah Power Station (both Phases) and own the ITF till this date.

The Manah Power Station operates on Dispatch Orders from Oman Power and Water Procurement Company (“OPWP”) and all of the net energy from the Manah Power Station is sold to OPWP, which is responsible for all power purchase in Oman.

## DESCRIPTION OF THE PROJECT Continued...

UPC maintains an administrative office in Muscat.

The Project constitutes the first privately developed and owned power plant in Sultanate of Oman and the first interconnection of privately constructed transmission facilities with the country's national grid.

### Brief Technical Description of the Project

#### Manah Power Station

The Manah Power Station is located on 200 acres of land, approximately 180 kilometers South-West of Muscat, and 20 kilometers south of Nizwa at an elevation of 378 meters above sea level.

#### Phase I – Power generation facilities

Originally, the Manah Power Station consisted of three open cycle dual fuel Gas Turbine Units, each having a capacity of approximately 28,076 KW at 50° C, completed with 11/132 KV step-up generator transformers, a GIS sub-station interconnecting the Manah Power Station with the two 132 KV overhead line feeders to the Nizwa substation, natural gas pipeline facilities, back-up diesel oil facilities, water storage tanks, a control and administration building, a work shop and storage facilities for spare parts, staff housing and access roads.

#### Phase II – Power generation facilities

The Manah Power Station Phase II consists of two GE Frame 9E dual fuel Gas Turbines, with 15/132 KV step-up transformers, two GIS identical to the existing ones. These cells are connected with the two existing 132 KV circuits, each of them being originally sized to carry the whole expanded capacity of the Manah Power Station. The Phase II includes extension of auxiliary facilities: fire fighting system, lightning protection system and additional 4000 m<sup>3</sup> back-up diesel oil storage. The nominal capacity of each gas turbine is 92,160 KW (at 50° C) with a guaranteed heat rate of 11,555 kJ/kWh (at 50°C).

#### Interconnection and Transmission Facilities

The ITF includes the following substations: a 132 KV GIS substation at Manah; a 132 KV outdoor substation at Nizwa; a 132 KV outdoor substation at Izki; a 132/33 KV substation at Bahla; a 33/11 KV substation at Nizwa town; and a 132 KV GIS substation extension at the Al-Rusayl Power Station.

In addition, the ITF includes approximately 168.7 kilometers of 132 KV double circuit (i.e. two circuits on one tower) overhead transmission lines, constructed with steel lattice towers running between the Manah and Nizwa substations (18.8 km; 63 towers), between the Nizwa and Bahla sub stations (32.2 km; 92 towers), between the Nizwa and Izki substations (30.7 km; 94 towers) and over very mountainous terrain, between the Izki and Al-Rusayl substations (87 km; 287 towers).

The ITF includes one 33 KV double circuit overhead transmission line comprised of two single circuits (i.e. two parallel single lines on wooden poles) between Nizwa and Nizwa Town substations (7.25 km, 140 wood poles) and one 11 KV overhead distribution network comprising three single circuit 11 kV wood pole lines between the Izki substation and the Izki power station (2 km).



## DESCRIPTION OF THE PROJECT Continued...

These lines and the related switching facilities of the ITF enable the power generated at the Manah Power Station to supply the local electricity demands in the town of Manah, Nizwa, Bahla and Izki.

Excess electrical power can also be transmitted to the Muscat grid to help support the demand in the coastal region of Oman through an interconnection at the Al-Rusayl power station.

### Fuel Supply

The Manah Power Station has been designed to use natural gas as its primary fuel with diesel oil as a back-up fuel. Natural gas is supplied to the power station from a 36-inch pipeline delivering gas at 70 Bar from the Yibal gas collecting station, which is located 198 kilometers from the Manah Power Station, to a pressure reducing station, including metering equipment, located outside the northeast corner of the Site. The pipeline is owned and controlled by PDO.

### Environmental Aspect

The Manah Power Station represents an environmentally benign source of power for the local market and although the gas fired is free of sulphur, impact on air quality are monitored on a monthly basis by UPC. Predictive Emission Monitoring System (PEMS) has been implemented at the Plant in 2008, on recommendation by Authority for Electricity Regulation and in coordination with the Ministry of Environment and Climatic Affairs.



## PROFILE OF THE FOUNDERS

### MENA INFRASTRUCTURE FUND (GP) LIMITED

The MENA Infrastructure Fund (GP) Limited is a specialist US\$500 million private equity fund established in the Dubai International Finance Centre (DIFC) and regulated by the Dubai Financial Services Authority (DFSA). It is a regional investor, targeting investments in the infrastructure and energy sectors across the Middle East and North Africa.

The Fund is sponsored by three prominent business groups in the MENA region: DICAM (a wholly owned subsidiary of Dubai International Capital), HSBC Bank Middle East and Waha Capital. A dedicated investment team leverages the support of these strong and experienced sponsors to deliver investment opportunities to its investors, along with capital and financial expertise to the companies in which it invests.

In September 2007, the Fund announced a first closing at \$US300 million, following this with the announcement of its first investment in April 2008.

### NATIONAL TRADING COMPANY LLC (“NTC”)

NTC, which was founded in 1982 with a capital of RO 210,000, serves as a holding group for investment and project development. The capital was later increased to RO 1 million.

Focusing on the development of Oman, the Company establishes corporations to facilitate projects and develop industries as a diversified group. The corporations are engaged in activities such as power generation, harvesting of fish, travel, security equipment, oil & gas, printing & electronics and providing contracting services. Other corporations supported by the Company produce chemicals and procure raw materials. The established areas of operation are construction and contracting, engineering and business promotion. Associated/subsidiary companies consist of Gulf of Oman Fishing International LLC, Al Madina Development & Supply LLC, Mideast Data Systems LLC, Security Printing Press LLC, Falcon Insurance SAOC, Power Development Company LLC, Oman Chlorine Company SAOG, Oman Holding International SAOG, National Trading & Projects Company LLC, Oryx Metal Industries LLC, Qatar Building Co. LLC, Stow NTC LLC, Gulfcon Logistics, Al Rusail Power Company SAOC, SMN Barka Power Company SAOC and SMN Power Holding Company Ltd.

The owners of NTC are HH Sayyid Haitham bin Tarik Al-Said and Antoine Hadji Georgiou.

### W.J. TOWELL & CO. LLC

W.J. Towell was established in the year 1866 and today it is one of the leading and respected business houses in Oman, having interests in over 40 industries. Its business activities include:

*Distribution* of Fast Moving Consumer goods, *Property* development both residential and commercial, *Manufacturing* of paints, dairy products, mattresses, linen, etc., and *Services* related to shipping, insurance and telecommunications.

Apart from above, the group has interest in automobiles, printing, retailing, computer services, building materials, electronic goods, engineering etc.

The group has brought into Oman some of the world famous brands like, Unilever, Nestle, Mars,



## PROFILE OF THE FOUNDERS Continued...

Colgate, British American Tobacco, Mazda, Bridgestone, Jotun Paints etc either in the form of Joint ventures or as sole distributors.

The group is headquartered in Oman and also has offices in Dubai, Kuwait and Iran. It prides itself as being professionally managed and governed by the Board of Directors.

The Board consists of Hussain Jawad (Chairman), Tawfiq Ahmed Sultan (Deputy Chairman), Anwar A. Sultan, Murtadha A. Sultan, Jamil. A Sultan, Hassan Q. Sultan, Mushtaq Q. Sultan, Mohamed Ali A. Sultan and Imad Sultan.

### **THE ZUBAIR CORPORATION LLC (“ZUBAIR”)**

Founded in 1967, Zubair today is diversified corporation consisting of almost sixty wholly owned companies, subsidiaries and associates that operate in Oman, the rest of the Middle East, Europe and the USA. The group has a marked presence in the automotive, furnishing, electric, energy, information and communication technology, property and construction, investment, tourism, manufacturing and trading in a host of products and services.

With reliable high-quality resources and expertise at its command, Zubair has played a lead role in the fulfillment of many national projects, which have primary roles in industry, public utilities, technological advancement and financial services. The group is constantly engaged in identifying and participating in new ventures to fulfill the socio-economic needs of the Sultanate of Oman.

All Zubair companies are professionally managed by internationally experienced executives. The emphasis on transparency, responsible corporate governance and professional management has made The Zubair Corporation one of the most respected names in Oman and the Middle East.

### **MINISTRY OF DEFENCE PENSION FUND (“MODPF”)**

The Ministry of Defence Pension Fund is a public legal entity in the Sultanate of Oman duly organized under, and registered pursuant to, Sultani Decree 87/93 issued on 29<sup>th</sup> December 1993. The Ministry of Defence Pension Fund is one of the largest pension funds in Oman and is a major investor in the local capital markets, both in equities and bonds. It is also a major participant in project investments and Real Estate investments. The fund is represented on the boards of several prominent Corporate in Oman.



KPMG  
8th Floor, HSBC Bank Building  
MRO  
PO Box 691  
FC 112  
Subsidiary of Grant

Tel: 966 24728181  
Fax: 966 24700039

**Report to the Shareholders of United Power Company SAOG ("the Company") of Factual Findings in connection with the Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance**

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Company ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007. The Report is set out on pages 1 to .

Our engagement was undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Company's application of the provisions of the Code and is free from any material misrepresentation.

Because the Procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Company's annual report for the year ended 31 December 2009 and does not extend to the financial statements or any other reports of the Company, taken as a whole.

24 February 2010

**Khalid Masud Ansari**

## MANAGEMENT DISCUSSION AND ANALYSIS

### A. Industry Structure and Development

The Company is the first privately owned power project in the country.

The Government regulates the development of this sector under a well-formulated program on long-term basis. The new sector law is in existence.

### B. Opportunities and Threats

The Company was formed specifically to build, own and operate the Plant located at Manah and built and own related distribution network of overhead transmission lines, and cannot undertake new ventures. Long term Power Purchase Agreement with Government protects the Company from market forces.

### C. Analysis of Results

The net profit for the year under review was lower by RO 737K as compared to previous year. This was mainly on account of higher O&M costs during the current year, as explained in forthcoming paragraph.

Increase in revenue by RO 101K in the year under review as compared to previous year, is mainly on account of indexation and increase in energy revenues. The structure of power tariff has been designed in such a way that tariff rates are higher during the initial years as compared to later period of the project life. The tariff decreased by RO 336K, but the indexation and increase in energy revenue of RO 437 offset the decrease.

Operation and administration expenses increased by RO 1,115K. The reasons for the increase were on account of the following:

- Indexation effect on the new O&M agreement entered during the year in addition to production variance (RO 308K)
- Repair on GT2A machine (RO215K)
- Payment to new O&M contractors for future spare parts requirements as a consequence of the new organization of the Company (RO 526K)
- Net miscellaneous (RO 66K)

The interest on long-term loans in 2009 has decreased by RO 176K as compared to 2008. This is due to lower long-term loans balances in current year on account of repayment of the same. Further there was less amortization of transaction costs of RO 102K. However, this was offset by termination of loan costs (RO 226K), resulting in net decrease of RO 52K.

Variance in income tax charge was mainly on account of lower profit during the year, while in 2008, there was additional provision for previous year.

Income tax liability for the year under review has been fully provided.

### D. Analysis of Balance Sheet

The variations in balance sheet section can be explained as follows:

Net reduction in tangible assets in the amount of RO 5,402K in the year under review is net impact of decrease due to the depreciation charge (RO 5,700K) for the current year and increase on account of net addition to fixed assets amounting to RO 298K.

Trade Debtors, for the current year represent 2 months billing outstanding, as against 3 months in 2008.

## MANAGEMENT DISCUSSION AND ANALYSIS

In 2009 Company further reduced its paid-up share capital by 10% of the original share capital. First reduction was carried out in December 2005.

The decrease in balance of long-term loans is due to the early repayment of loans. This also resulted in lower cash and bank balances.

The net decrease of RO 154K in 2009 in trade and other payables can be attributed to the following:

- There was a decrease of RO 418K in the accrual and other payables in the year 2009 as compared to 2008.
- There was increase in Trade payable of RO 380K.
- Other net decrease of RO 116K.

### E. Financial Highlights

The Company's performance for the past five years was as follows:

	2009	2008	2007	2006	2005
	OMR'000	OMR'000	OMR'000	OMR'000	OMR'000
Net Profit	1,701	2,438	2,327	2,980	1,496
Total Assets	40,748	51,966	55,964	61,457	69,893
Total Revenue	13,477	13,376	13,156	14,229	13,095
Total Shareholders' Fund	32,575	36,737	39,983	42,044	44,504
Paid up Capital (Original)	34,869	34,869	34,869	34,869	34,869
Capital reduction-accumulated to date	15,691	12,204	8,717	6,974	3,487
Current Paid up Capital	19,178	22,665	26,152	27,895	31,382
Weighted average number of Shares	22,374	25,861	27,750	31,091	34,578

	2009	2008	2007	2006	2005
Return on total assets	4.2%	4.7%	4.2%	4.8%	2.1%
Return on Current paid up Capital	8.9%	10.8%	8.9%	10.7%	4.8%
Long Term Debt: Capital ratio	0:100	20:80	26:74	31:69	36:64
Ordinary Dividend (Current capital)	8.0%	10.0%	8.0%	9.0%	6.0%
Book value per share on weighted average shares	1.46	1.43	1.44	1.35	1.29
Reduction of original paid up capital	10.0%	10.0%	5.0%	10.0%	10.0%

The variance in total revenue and net profit is due to tariff as contained in the Power Purchase Agreement. This trend, as a consequence of the agreed tariff structure for the life of the Project, will continue in future years and bears no reflection on the operational performance of the Company.

The above trend should also be seen in the light of the fact that the value of the Company's shares shall become nil at the end of the project life.



## MANAGEMENT DISCUSSION AND ANALYSIS

### F. Outlook for 2010

Due to nature of its activities and the fixed contractual framework within which the Company operates we foresee no major change in the Company's activities.

Due to tariff structure contained in the Power Purchase Agreement, the revenue will continue to show downward trend. This trend is not reflection of the operational performance of the Company, but is solely dependent on the agreed tariff structure for the life of the project.

The Company, based on the plan approved by shareholders will carry out capital reduction within the band of 5 to 10% of the original Paid up Capital. This has been envisaged as a measure to maximize the return to shareholders in the absence of dividend or in case of low dividend in subsequent years.

The Company is in the initial stage of discussing transfer of its transmission network with the representatives of the Government. Also, the Company has conducted feasibility studies on the possible conversion of Phase II in combined cycle. The Company intends to seek shareholders' prior approval if and when any of these transactions become effective.

### G. Internal Control System and their adequacy

The Company believes in strong internal control systems as a tool to contribute high performance in operation and management of the Company.

Besides in-house process, our principal shareholders' also oversee that the Company maintains highly efficient and adequate controls.

### H. Transfers to Investors Trust Fund

On behalf of the Company, Muscat Depository Securities Registration Company transferred an amount of RO 7,262.300 to the Investors Trust Fund representing the unclaimed dividends declared in March 2009.

## CORPORATE GOVERNANCE REPORT

### PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

In the Sultanate of Oman, Capital Market Authority implemented the Code of Governance by issuing "Code of Corporate Governance for Muscat Securities Market listed Companies" vide its Circular No. 11/2002 on June 3, 2002.

The Company believes that Code of Governance is an effective tool to improve operational and financial performance of listed companies. Code of Governance ensures accountability, which leads to transparency and ensuring impartial treatment to all investors. This ultimately increases the confidence of shareholders and prospective investor in the results.

We confirm to comply and maintain high standards to the Code and enhance our image as a good corporate citizen.

In compliance with the Article 26 of the above code, the Company is including this separate chapter on Code of Governance in its annual financial statements for the year ended 31 December, 2009.

### BOARD OF DIRECTORS

Composition of the Board of Directors, Category of Directors, their attendance record and number of Board meeting held during the year.

Name of Directors	Category of Directors	Board Meeting held and attended during 2009							2009 AGM	2009 OGM
		07/03	29/04	30/06	27/07	21/10	08/12	TOTAL		
Mr. Murtadha A. Sultan (Chairman)	Non-Executive Nominee & Independent	ü	ü	ü	ü	ü	ü	6	ü	ü
Mr. Mark Lemmon * (Vice Chairman)	Non-Executive Nominee & Independent			ü	ü	ü	ü	4		ü
Mr. Antoine H. Georgiou	Non-Executive Nominee & Independent	ü		ü			ü	3		ü
Mr. C.S. Badrinath	Non-Executive Nominee & Independent	ü	ü		ü	ü	ü	5	ü	ü
Dr Mohd. Bin Nasser Bin Ali Al Zaabi	Non-Executive Nominee & Independent	ü	ü	ü	ü	ü	ü	6	ü	ü
Mr. Ahmed El Sinani	Non-Executive & Independent	ü	ü	ü	ü	ü	ü	6	ü	ü
Mr. Anshul Rai *	Non-Executive & Independent			ü		ü	ü	3		ü
Mr. Hamad Lal Baksh Al Balushi *	Non-Executive & Independent			ü	ü	ü		3		
Mr. Yaseen Abdullatif *	Non-Executive & Independent				ü		ü	2		ü
Mr. Arnaud de Limburg *	Non-Executive & Independent			ü	ü		ü	3		ü
Mr. Zoher Karachiwala **	Executive & Non Independent						ü	1		ü

\* Appointed in June 2009, and elected in December 2009

\*\* Elected in December 2009



## CORPORATE GOVERNANCE REPORT

### Directors resigned during the year

Name of Directors	Category of Directors	Board Meeting held and attended during 2009							2008	2009
		07/03	29/04	30/06	27/07	21/10	08/12	TOTAL	AGM	EGM
Mr. Guy Richelle	Non-Executive & Independent							0		
Mr. Adil Marghub	Non-Executive Nominee & Independent	ü	ü					2		
Mr. Pierre De Pauw	Non-Executive Nominee & Independent							0		
Mr. Eric Kenis	Non-Executive & Independent							0		
Mr. Mario Savastano	Non-Executive & Independent	ü	ü					2	ü	
Mr. Guillaume Baudet	Non-Executive Nominee & Independent	ü						1		

### Directorship / membership of the Company's directors in other SAOG companies in Oman, held during the year.

Name of Directors	Position held	Name of the Company
Mr. Murtadha A. Sultan	Director Director Chairman	Gulf International Chemicals Oman Flour Mills Sohar Power Company
Mr. Mark Lemmon	None	
Mr. Antoine H. Georgiou	Vice Chairman Director	Oman Holding International Oman Chlorine Company
Mr. C.S. Badrinath	Director Director Director	National Finance Co. Sweets of Oman Sohar Power Company
Dr. Mohd bin Nasser bin Ali Al Zaabi	None	-
Mr. Anshul Rai	None	-
Mr. Yaseen Abdullatif	Director	Sahara Hospitality
Mr. Hamad Lal Baksh Al Balushi	None	-
Mr. Arnaud de Limburg	None	-
Mr. Zoher Karachiwala	None	-
Mr. Ahmed El Sinani	Vice Chairman Director	Interior Hotels Company Oman National Engineering & Investment Company

The profile of directors and management team is included as an Annexure to the Corporate Governance Report.

### AUDIT COMMITTEE

#### (a) Brief description of terms of reference.

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing: the financial reports and other financial information

## CORPORATE GOVERNANCE REPORT

provided by the Company to any governmental body or the public; the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; and the Company's auditing, accounting and financial reporting processes generally.

Consistent with this function, the Audit Committee encourages continuous improvement of, and fosters adherence to, the Company's policies, procedures and practices at all levels.

The Audit Committee's primary duties and responsibilities are to:

Serve as an independent and objective party to monitor the Company's financial reporting process and internal control system;

Review and appraise the audit efforts of the Company's statutory and internal auditors;

Provide an open avenue of communication among the statutory and internal auditors, financial and senior management and the Board of Directors.

(b) Composition of Audit Committee and attendance record of Committee Members.

Name of Committee Members	Position	Meetings held and attended during 2009				
		07/03	29/04	27/07	21/10	Total
Mr C.S. Badrinath	Chairman	ü	ü	ü	ü	4
Mr Anshul Rai (appointed in June 2009)	Member	-	-	-	ü	1
Mr Yaseen Abdullatif (appointed in June 2009)	Member	-	-	ü		1
Mr Pierre De Pauw (resigned in June 2009)	Member	-	-	-	-	0
Mr Guillaume Baudet (resigned in June 2009)	Member	ü	ü	-	-	2

(c) Activities during the year

The Audit Committee has reviewed, on behalf of the Board, the effectiveness of internal controls by meeting the internal auditors of the company reviewed the internal audit reports and its recommendations, met the external auditor, and reviewed the audit findings and the management letter.

In 2009, the Board of Directors, through the Audit Committee, reviewed and assessed the Company's system of internal controls based on the audit report submitted by the Auditors. The Board also reviews the operational reports generated by the Management of the Company, which compares the budget and the actual. The Audit Committee and the Board are pleased to inform the shareholders that, in their opinion, an adequate and effective system of internal controls is in place.

## PROCESS OF NOMINATION OF DIRECTORS

The election of the Board is governed by the Company's Articles of Association (Article 24 to 27). The Board of Directors was elected on 31 March 2008 for the term of three years and

## CORPORATE GOVERNANCE REPORT

the election process was done in accordance with the amended Articles of Association of the Company. Further, as required by CMA circulars, the Company obtained "Nomination Form" from all directors and the forms were verified to its compliance and authenticity by the Company's Secretary and its legal counsel, before being sent to the Capital Market Authority.

Due to divestment of shares by GDF Suez and IFC during the year, majority of the directors stood resigned. To fill up the vacant position, the shareholders in the OGM held in December 2009, elected new directors to complete tenure of the Board.

### REMUNERATION

#### (a) Directors – Remuneration and Attendance Fee.

As per Articles of Association, the Company was entitled to pay directors' remuneration equivalent to 10% of calculated net profit. However, due to administrative decision 11/2005 issued by CMA, the Directors' remuneration including sitting fees are restricted to 5% and is also subject to limits prescribed.

The total remuneration to the Directors were as follows:

	RO
Director's remuneration	31,196
Sitting fee	18,800
Total	49,996

The sitting fees paid to Directors for meetings attended during the year are given below. The Company does not pay any sitting fee for the sub-committee meetings.

## CORPORATE GOVERNANCE REPORT

Sl. No.	Name of Director	No. of meeting Paid	Total Sitting fees paid in RO	Total Remuneration in RO
1	Mr Murtadha Ahmed Sultan	6	2,400	2,836
2	Mr Mark Lemmon	4	1,600	2,836
3	Mr Antoine H. Georgiou	3	1,200	2,836
4	Mr C. S. Badrinath	5	2,000	2,836
5	Dr Mohd Bin Nasser Bin Ali Al Zaabi	6	2,400	2,836
6	Mr Anshul Rai	3	1,200	2,836
7	Mr Yaseen Abdullatif	2	800	2,836
8	Mr Hamad Lal Baksh Al Balushi	3	1,200	2,836
9	Mr Arnaud de Limburg	3	1,200	2,836
10	Mr Zoher Karachiwala	1	400	2,836
11	Mr Ahmed El Sinani	6	2,400	2,836
12	Mr Mario Savastano (resigned during the year)	2	800	-
13	Mr Guillaume Baudet (resigned during the year)	1	400	-
14	Mr Adil Marghub (resigned during the year)	2	800	-
<b>TOTAL</b>			<b>18,800</b>	<b>31,196</b>

The Company will continue to pay sitting fee per Director per meeting amounting to R.O.400 in the year 2010, up to a maximum of R.O. 10,000 to any individual Director.

### (b) Top Five Officers

The aggregate remuneration paid to the Top Five Officers of the Company was RO 267,000.

### NON-COMPLIANCE PENALTIES OR NON-COMPLIANCE OF CORPORATE GOVERNANCE AND REASON

No penalties or strictures were imposed on the Company by Muscat Securities Market / Capital Market Authority or any other statutory authority on any matter related to Capital Market during the last three years.

There were no instances of non-compliance of corporate governance.

### MEANS OF COMMUNICATION WITH THE SHAREHOLDER AND INVESTORS

Annual accounts and quarterly accounts are put on official web site of MSM as per the guidelines by the market regulators. Notice to the annual general meetings is sent by post to the registered shareholders.

The Company has launched its own web site [www.upcmanah.com](http://www.upcmanah.com). The Chairman gives press releases in case of important news and development that arises. Such press releases are posted to the web site of MSM in accordance with the guidelines issued by the market regulators.

The Company is available to meet its shareholders and their analysts on as and when need basis.

## CORPORATE GOVERNANCE REPORT

### MARKET PRICE DATA

High / Low during each month in the last financial year and performance in comparison to broad based index of MSM (service sector).

Month	Low Price	High Price	Average Price	MSM Index (Service sector)
Jan	0.690	0.730	0.710	2363.370
Feb	0.760	0.800	0.780	2316.265
Mar	0.750	0.914	0.832	2251.141
Apr	0.750	0.774	0.762	2325.210
May	0.750	0.800	0.775	2331.160
Jun	0.750	0.810	0.780	2426.850
Jul	0.750	0.850	0.800	2398.250
Aug	0.800	0.900	0.850	2542.635
Sept	0.850	0.900	0.875	2703.980
Oct	0.900	0.980	0.940	2821.405
Nov	0.860	0.975	0.918	2685.290
Dec	0.901	0.975	0.938	2635.935

### DISTRIBUTION OF SHAREHOLDING

The Shareholding pattern as on 31 December 2009 is as follows:

Category of Shareholders	Number of Shareholders	Total Shareholders	Share Capital%
Preference Shareholders (Local):	4	4,194,708	21.87
Preference Shareholders (Foreign):	1	7,312,187	38.13
Fractions from capital reduction		8	
Ordinary Shareholders above 5%:	1	1,122,838	5.86
Ordinary shareholders below 5% but above 1%:	7	3,147,634	16.41
Ordinary Shareholders below 1%:	915	3,400,810	17.73
<b>TOTAL</b>	<b>928</b>	<b>19,178,185</b>	<b>100.00</b>

### PROFESSIONAL PROFILE OF THE STATUTORY AUDITORS

The shareholders of the company have appointed KPMG as the auditors for the year 2009. KPMG is one of the leading accounting firms in Oman. Oman practice of KPMG, which forms parts of KPMG Lower Gulf, was established in 1974 and currently has a staff compliment of professional staff in excess of 130, including 3 partners, 4 directors and 21 managers.

KPMG Lower Gulf (UAE and Oman), is a member of the KPMG network of independent firms affiliated with KPMG International Co-operative. The KPMG network operates in 144 countries and employs 137,000 people worldwide. KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's).

During the year 2009, RO 14,000 was charged by external auditors against the services rendered by them to the Company (RO 9,000 for audit and RO 5,000 for other audit related services).

## CORPORATE GOVERNANCE REPORT

### ACKNOWLEDGEMENT BY THE BOARD OF DIRECTORS

The Board of Director confirms the following:

Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.

Review of the efficiency and adequacy of internal control systems of United Power Company SAOG and that it complies with internal rules and regulations.

That there is no material matters that affect the continuation of the Company and its ability to continue its operations during the next financial year.



## BRIEF PROFILES OF DIRECTORS - ANNEXURE

Name	<b>Murtadha AHMED SULTAN – Chairman</b>
Year of Joining	1994
Education	Graduate - Sales and Marketing Management
Experience	Director of W. J. Towell Group of Companies Well known in the business community, Mr. Sultan has more than 30 years experience in different commercial fields; holding or held various positions in public, private and government organizations. Mr. Murtadha Sultan is also the Chairman of Sohar Power Company. He is also a Director of Oman Flour Mills and Gulf International Chemicals.

Name	<b>Mark LEMMON</b>
Year of Joining	2009
Education	Chartered Accountant and Masters in finance from the London School of Economics
Experience	Mr. Lemmon, the Chief Executive Officer of MENA Infrastructure Fund (GP) Limited, was previously Deputy Chief Executive of HSBC's global Project and Export finance business, responsible for growing that business over recent years to its current pre-eminent position in infrastructure and energy finance. He has substantial experience leading business development and winning and executing financing mandates across transportation, social infrastructure, power, water and energy sectors throughout the Middle East and elsewhere. An investment banker of twenty five years standing.

Name	<b>A.H. GEORGIU</b>
Year of Joining	1994
Education	Managing Partner of National Trading Company LLC.
Experience	Well known for his rallying achievements, Mr. Georgiou has been in Oman for 31 years, founded National Trading Company LLC in 1982 and has been the Managing Partner since then. Mr. Georgiou was instrumental in the first power privatization of Manah back in 1992 and has been involved in subsequent power companies in Oman, namely Sohar Power Company SAOG, Al Rusail Power Company SAOC and SMN Barka Power Company SAOC. Mr. Georgiou also sits on the Board of OHI SAOG and Oman Chlorine Company SAOG.

Name	<b>C.S. BADRINATH</b>
Year of Joining	1997
Education	Chartered Accountant and Cost and Management Accountant
Experience	Mr. Badrinath is with the Zubair Group for the last 26 years having handled different finance functions and is presently the Senior Vice President – Group Finance. Mr. Badrinath is a member of all the monitoring and executive committees and shareholders' forums of the Zubair Group companies. Mr. Badrinath represents Zubair Group as Director in many of the public limited companies

## BRIEF PROFILES OF DIRECTORS - ANNEXURE

Name	<b>Dr. Mohammed Nasser AL-ZAABI</b>
Year of Joining	2008
Education	A Chartered Quantity Surveyor with PhD in contracting out government services. M.Sc. in Projects Management. B.Sc.Hons in Quantity Surveying and an Engineering Diploma all from the UK.
Experience	Mr. Al-Zaabi is Head of planning and quality management departments of MODF since January 2006 with more than 16 years experience in projects and contracts management. Thoroughly involved in contracting out projects, both pre and post contract activities since 1996.

Name	<b>Anshul RAI</b>
Year of Joining	2009
Education	B.Tech, MBA (Finance)
Experience	Mr. Rai is a seasoned infrastructure investment professional with over twelve years experience in acquisition, development and management of infrastructure assets. Mr Rai has been in the region for five years, having been involved in project development, deal structuring, financing and M&A across a wide range of infrastructure sectors across the GCC, North Africa and the Levant

Name	<b>Yaseen ABDULLATIF</b>
Year of Joining	2009
Education	Bachelor of Arts degree in Business Administration (major – Finance) from the American University in December 1996.
Experience	Mr. Abdullatif has been with the Bank Muscat since March 1987 and he has handled different functions from being branch manager to managing credit assessment and credit controls. In 1998, he was promoted to the position of assistant general manager to handle the Risk Management function of the bank and later on finance function has been an additional responsibility. Currently, Mr. Abdullatif is responsible for managing finance, strategy and administration functions of the bank. Also, he is a member of several committees in the bank.

Name	<b>Hamad Lal Baksh AL BALUSHI</b>
Year of Joining	2009
Education	Diploma in Business Administration, University of Strathclyde, Business School
Experience	Mr. Al Balushi has been working with HSBC Bank, Muscat for the past 12 years in the Corporate Banking Division. He is one of the senior management team members in HSBC Oman involved in the planning, coordination and implementation of the corporate finance and credit activities within the Bank's corporate customer base



## BRIEF PROFILES OF DIRECTORS - ANNEXURE

Name	<b>Arnaud de LIMBURG</b>
Year of Joining	2009
Education	Law Degree, University of Leuven , Belgium Postgraduate in Economics and International Relations – London School of Economics, UK General Management Program, CEDEP, France
Experience	10 years of experience in the field of power project development in Europe, Asia and the Middle East. He joined GDF SUEZ in 1999. As General Counsel for the Middle East, based in Dubai since 2004, he contributed to the development of GDF SUEZ Energy International in the region. He also acts as Company's Secretary.

Name	<b>Zoher KARACHIWALA</b>
Year of Joining	2009
Education	Chartered Accountant
Experience	Currently CEO of the Company, Mr Karachiwal was CFO until June 2009. He also acts as Company Secretary for GDF Suez group of companies in Oman. 32 years in field of Statutory Audit & Accounting and Finance. He was KPMG Audit Partner in Pakistan before joining United Power Company in 1995. Acted as Honorary Chairman of Audit Committee and the Board of Directors for a public company in Oman.

Name	<b>Ahmed EL SINANI</b>
Year of Joining	2005
Education	Master of Business Administration
Experience	Mr Sinani has more than 16 years of experience in the fields of finance, accounting, human resources management, public administration and management. He represents the Civil Service Employees Pension Fund in a number of forums. Currently, he sits on the board of directors of Interior Hotels Company as the Vice Chairman.

## BRIEF PROFILES MANAGEMENT TEAM

Under the terms of the management agreement entered with Power Development Company LLC (PDC) in 1994, PDC provides day to day management of the Company and gives all supports by providing manpower and other infra structure. For this PDC is paid an annual fee and reimbursement of its expenses. It provides the following:

Particulars	Omani	Non-Omani	Total
Managers	1	4	5
Other staff	7	6	13

The management team has been empowered and jointly operates within a well defined authorization limits set by the Board of Directors.

Brief profile of the current managerial team is as follows:

<b>Name</b>	<b>Zoher KARACHIWALA</b>
<b>Year of Joining</b>	1995
<b>Education</b>	Chartered Accountant
<b>Experience</b>	Currently CEO of the Company, he was CFO until June 2009. He also acts as Company Secretary for GDF Suez group of companies in Oman. 32 years in field of Statutory Audit & Accounting and Finance. He was KPMG Audit Partner in Pakistan before joining United Power Company in 1995. Acted as Honorary Chairman of Audit Committee and the Board of Directors for a public company in Oman.

<b>Name</b>	<b>Sreenath HEBBAR</b>
<b>Year of Joining</b>	2009
<b>Education</b>	Bachelor of Engineering (Mechanical), VJTI, Mumbai University
<b>Experience</b>	25 years of work experience, primarily in Business Development of Engineer Procure Construct (EPC) Contracts in Gas Turbine based Cogeneration & Combined Cycle Power Plants. In his current position as Technical Manager, he is responsible for technical liaison with the client, statutory authorities, contractors and provides technical support to the CEO

<b>Name</b>	<b>S.M. TARIQ</b>
<b>Year of Joining</b>	1995
<b>Education</b>	MBA. ACA (Intermediate), Institute of Chartered Accountants of Pakistan.
<b>Experience</b>	33 Years of experience in External Audit (KPMG, Karachi Office and Muscat office) Internal Audit (National Trading Company, Muscat) and Accounting & Finance (United Power Company SAOG and Sohar Power Company SAOG, Muscat). In this current position as Financial Controller, he is responsible for management of accounting department; he coordinates external / internal auditors



## BRIEF PROFILES MANAGEMENT TEAM

Name	<b>Jamal AL BLOUSHI</b>
Year of Joining	1995
Education	Diploma in Computer Certificate in Advance English from Cambridge University 1998
Experience	15 years experience in administration activity including managing spare parts logistics, liaisons with government organizations, licenses, translation function and supervising local insurance programs and assisting CEO for statutory meetings





# Annual Report 2009





**KPMG**  
8th Floor, HSBC Bank Building  
MSD  
PO Box 941  
FC-112  
Sultanate of Oman

Tel: 968 24700181  
Fax: 968 24700809

## **REPORT OF THE INDEPENDENT AUDITOR'S TO THE SHAREHOLDERS OF UNITED POWER COMPANY SAOG**

### **Report on the financial statements**

We have audited the financial statements of United Power Company SAOG ("the Company"), set out on pages 2 to 26 which comprise the statement of financial position as at 31 December 2009 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the financial statements**

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Markets Authority and the Commercial Companies Law of 1974, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud and error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the statement of financial position of United Power Company SAOG as at 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on legal and regulatory requirements**

In our opinion, the financial statements of the Company as at and for the year ended 31 December 2009, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

### **Emphasis of matter**

Without qualifying our opinion we draw your attention to note 4 on page 8 which sets out the basis on which the Management has concluded that it is not appropriate to change the basis of accounting and have not adopted IFRIC 12 for the year ended 31 December 2008 and 2009.

24 February 2010

**Khalid Masud Ansari**

## STATEMENT OF FINANCIAL POSITION

at 31 December

	Notes	2009 RO'000	2008 RO'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	37,801	43,203
<b>Current assets</b>			
Inventories	7	272	279
Trade and other receivables	8	2,367	3,635
Bank balances and cash		308	4,849
<b>Total current assets</b>		<b>2,947</b>	<b>8,763</b>
<b>Total assets</b>		<b>40,748</b>	<b>51,966</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	9	19,178	22,665
Share premium	10	4,764	4,764
Statutory reserve	11	6,897	6,897
Retained earnings		1,736	2,411
<b>Total equity</b>		<b>32,575</b>	<b>36,737</b>
<b>Non-current liabilities</b>			
Provision for staff end of service benefits		5	106
Deferred tax liability	14	3,859	4,456
<b>Total non-current liabilities</b>		<b>3,864</b>	<b>4,562</b>
<b>Current liabilities</b>			
Current portion of term loans	13	-	5,307
Provision for income tax	14	1,318	1,510
Trade and other payables	15	991	1,145
Bank overdraft	16	2,000	2,705
<b>Total current liabilities</b>		<b>4,309</b>	<b>10,667</b>
<b>Total liabilities</b>		<b>8,173</b>	<b>15,229</b>
<b>Total equity and liabilities</b>		<b>40,748</b>	<b>51,966</b>
<b>Net assets per share (RO)</b>	17	<b>1.699</b>	<b>1.621</b>

These financial statements were approved and authorised for issue by the Board of Directors on 24 February 2010 and have been signed on its behalf by:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

The notes on pages 39 to 60 form an integral part of these financial statements  
The report of the auditors' is set forth on page 34.



## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

	Notes	2009 RO'000	2008 RO'000
<b>Revenue</b>		<b>13,477</b>	13,376
Operating and administrative expenses	18	(5,155)	(4,040)
<b>Operating profit before depreciation</b>		<b>8,322</b>	9,336
Depreciation on property, plant and equipment	6	(5,700)	(5,496)
<b>Profit from operations</b>		<b>2,622</b>	3,840
Net financing expenses	19	(740)	(792)
<b>Profit before income tax</b>		<b>1,882</b>	3,048
Income tax charge	14	(181)	(610)
<b>Comprehensive income for the year</b>		<b>1,701</b>	2,438
<b>Earnings per share – basic (RO)</b>	20	<b>0.082</b>	0.098

The notes on pages 39 to 60 form an integral part of these financial statements.  
The report of the auditors' is set forth on page 34.

## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

	Share capital RO'000	Share premium RO'000	Statutory reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2008	26,152	4,764	6,653	2,414	39,983
<b><i>Comprehensive income</i></b>					
Net profit for the year	-	-	-	2,438	2,438
Transfer to statutory reserve	-	-	244	(244)	-
<b><i>Transactions with owners recognised directly in equity</i></b>					
Payment of final dividend for 2007	-	-	-	(2,197)	(2,197)
Capital reduction	(3,487)	-	-	-	(3,487)
<b>At 1 January 2009</b>	<b>22,665</b>	<b>4,764</b>	<b>6,897</b>	<b>2,411</b>	<b>36,737</b>
<b><i>Comprehensive income</i></b>					
Net profit for the year	-	-	-	1,701	1,701
<b><i>Transactions with owners recognised directly in equity</i></b>					
Payment of final dividend for 2008	-	-	-	(2,376)	(2,376)
Capital reduction	(3,487)	-	-	-	(3,487)
<b>At 31 December 2009</b>	<b>19,178</b>	<b>4,764</b>	<b>6,897</b>	<b>1,736</b>	<b>32,575</b>

The notes on pages 39 to 60 form an integral part of these financial statements.  
The report of the auditors' is set forth on page 34.



## STATEMENT OF CASH FLOWS

for the year ended 31 December

	2009 RO'000	2008 RO'000
<b>Operating activities</b>		
Cash receipts from customers and others	14,633	12,211
Cash paid to employees, directors and suppliers	(5,257)	(3,857)
	<hr/>	<hr/>
<b>Cash generated from operations</b>	9,376	8,354
Interest paid	(517)	(556)
Income tax paid	(970)	(649)
	<hr/>	<hr/>
<b>Net cash from operating activities</b>	7,889	7,149
	<hr/>	<hr/>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(364)	(882)
Proceeds from disposal of property, plant and equipment	66	-
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	(298)	(882)
	<hr/>	<hr/>
<b>Financing activities</b>		
Payment of dividend	(2,376)	(2,197)
Repayment of term loans	(5,564)	(3,547)
Repayment of share capital	(3,487)	(3,487)
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	(11,427)	(9,231)
	<hr/>	<hr/>
<b>Net change in cash and cash equivalents</b>	(3,836)	(2,964)
	<hr/>	<hr/>
Cash and cash equivalents at the beginning of the year	2,144	5,108
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year (note 23)</b>	<u>(1,692)</u>	<u>2,144</u>

The notes on pages 39 to 60 form an integral part of these financial statements.  
The report of the auditors' is set forth on page 34

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

## 1. GENERAL

United Power Company SAOG (the "Company") is registered as a joint stock company in the Sultanate of Oman. The Company has been established to undertake a project primarily to build, own, operate and transfer ("BOOT") to the Government of the Sultanate of Oman (the "Government") a power station at Manah, and to build, own and transfer ("BOT") to the Government, interconnection and transmission facilities. The Company may also undertake activities related to the expansion of its primary objective. Accordingly, the Company implemented the Phase II-Expansion Project ("Expansion Project") during the year ended 31 December 2000.

## 2. DURATION OF THE COMPANY

The original duration of the Company was for a period of twenty-five years commencing from 9 January 1995 being the date of its registration in the Commercial Register of the Ministry of Commerce and Industry ("MOCI"). At an extra-ordinary general meeting held on 17 January 2000, the duration of the Company was increased by five years thereby revising the duration of the Company to thirty years commencing from 9 January 1995. The MOCI has approved the extension to the Company's life on 11 October 2000.

All the property, plant and equipment of the Company shall be transferred at RO 1 to the Government of the Sultanate of Oman automatically at the end of the Project Life, which, in accordance with Supplemental Agreements for the Expansion Project, expires on 30 April 2020. (At the end of the Project Life the value of the shares of the Company shall become nil).

## 3. AGREEMENTS

- i. Agreements with the Government for project implementation, power purchase and land lease for Phase 1 ("Project Agreements") were entered into on 27 June 1994 by the United Power Group (the "Group") comprising some of the Founder Shareholders. Under a Novation Agreement entered into by the Company with the Group, the Company has assumed all rights, duties, liabilities and obligations of the Group pursuant to the Project Agreements.
- ii. Effective 1 May 2005, the rights and obligations of MHEW under the PPA have been novated to the Oman Power and Water Procurement Company SAOC ("OPWPC") in accordance with the arrangements described in the Master Novation Agreement signed on 8 October 2005. All the financial obligations of the OPWPC under the Project Agreements are secured under the Guarantee issued by the Ministry of Finance, Government of Oman, which has come into force on execution of the Novation Agreements. The PPA contains embedded derivatives in the pricing formulae that compute the variable capacity charge rate and energy charge rate for Phase 1 and Phase 2. The percentages of the variable capacity charge rate and energy charge rate for Phase 1 and Phase 2 is adjusted to reflect changes in US Consumer price index and the Omani Consumer price index assuming an exchange rate pegged to the United States Dollar ("USD").
- iii. The Company has entered into a Management Agreement ("the Management Agreement") with Power Development Company LLC ("PDC"), a related party, to provide full management and administrative services to the Company. Up to



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

31 December 2008, management fee of USD 1,200,000 per annum (“the Base Fee”), adjusted annually in line with Consumer Price Index (“CPI”) of France and the United Kingdom as of 31 December immediately preceding the relevant year at the weighted average of the French CPI (60%) and the United Kingdom CPI (40%), was payable under the Management Agreement for Phase I of the plant. With effect from 1 January 2009, the Base Fee was fixed at RO 601,842 (USD 1.561 million being the indexed Base Fee for 2008 converted to Rials Omani at the exchange rate prevailing on 31 December 2008). The Base Fee in Rials Omani will henceforth be indexed annually based on Sultanate of Oman CPI published by Ministry of National Economy. The Company is also liable to an annual management fee of USD 400,000 (RO 154,200) for each calendar year in respect of Phase II of the plant (“the Expansion Project”). No indexation is applicable on the Expansion Project fee. The Management Agreement contains embedded derivative in the pricing formulae that computes the management fee for Phase I. In addition to the Management Fee for Phase I and Phase II, the Company shall also pay to PDC, all proper costs and expenses which are incurred by PDC in rendering the above services.

- iv. The Company had entered into an Operations & Maintenance Agreement with Sogex Oman LLC, a Shareholder, for the operation and maintenance of its power station. Effective 1 January 2009, the Company has entered into a new operation and maintenance agreement with Suez Tractebel Operation and Maintenance Oman (“STOMO”), a company owned by GDF Suez group (70%) and Sogex (30%). Consequently, the operation and maintenance agreement with Sogex was terminated.
- v. The Company had also entered into a Project Supervision Undertaking Agreement with Suez-Tractebel SA (formerly Powerfin SA) for providing technical support to the Company’s operations. The Project Supervision Undertaking Agreement with Suez Tractebel contained embedded derivative in the pricing formulae that computes the project supervision fees for Phase 1. The supervision fee was adjusted to reflect changes in French consumer price index and UK consumer price index. Consequent to GDF Suez divestment in the Company, this agreement has now been terminated (see viii below).
- vi. Pursuant to the Project Agreements, the Company had, on 19 December 1999, entered into Supplemental and Addendum Agreements with the Government for the expansion of the power generation facilities. The above agreements have been amended and the duration of all the agreements has now been extended up to 30 April 2020.
- vii. The Company has entered into Long Term Parts and Repair Agreement for Phase 1 with GE Energy Products France SNC. The agreement is effective from 12 October 2005 and is for the duration of the project life of Phase 1. The Company also has a long-term service agreement with General Electric International Inc. for the Phase 2 of the project and is for the duration of project life of Phase 2. The agreement is effective from 3 December 2000. Effective 1 January 2009, both the agreements have been novated to STOMO as part of restructuring activities. These agreements form part of the new O&M agreement.
- viii. During the second quarter of 2009, the Company saw the divestment of one of the Company’s founding shareholder, Tractebel Parts & Repairs FZE, part of GDF Suez Group, to Mena Infrastructure Investments Limited. GDF Suez has become one of the major power and water plants operator in Oman and in line with the directives of the Government authorities, its divestment from the Company’s capital had been planned since 2007 in close coordination with the authorities and other founder shareholders. The Company has entered into a long term, comprehensive

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (Continued)*

operation and maintenance contract with STOMO, also operator of the Al Rusail and Barka 2 power plants, to ensure continuity in the technical expertise once provided by GDF Suez. The Company has received approval of shareholders in the annual general meeting held on 28 March 2009 for executing the above agreements.

### 4. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These financial statements have been prepared on the basis that the Company commenced full generation and distribution of electricity on 15 October 1996. All costs incurred during the construction period of the project were capitalized on 15 October 1996.

The Company commenced partial generation of electricity on 31 May 1996. On 15 October 1996 the entire constructions of the power station and transmission facilities was completed and from that date the Company commenced full generation of electricity. The MHEW had initially determined 1 January 1997 as the "Commercial Operation Date" and has issued the Commercial Completion Certificate on that date.

During 2004, the Company reached settlement with the MHEW ("OPWPC") regarding the commencement of Phase 1 term life of twenty years effective 14 September 1996 instead of 15 October 1996. The effect of this change and resolution of other matters has been taken into account in the financial year ended 31 December 2004.

Under the Supplemental and Addendum Agreement to the power purchase agreement ("Supplemental Agreement"), the operation date for the Expansion Project was 1 May 2000. The MHEW ("OPWPC") issued an interim completion certificate for the first unit of the Expansion Project on 29 April 2000. The interim completion certificate for the second unit of the Expansion Project as well as the commercial operations certificate for the Expansion Project was issued by the OPWPC on 19 May 2000. Accordingly, 19 May 2000 has been determined as the "Commercial Operation date" for the Expansion Project. The Company has billed the MHEW from the respective completion dates for the two units of the Expansion Project as per the Supplemental Agreement.

The tariff for electricity generated and supplied to OPWPC has been structured in the Project Agreements in such a way that the tariff rates are significantly higher during the initial years as compared to the later period of the Project Life. The tariff for electricity to be generated and supplied from the Expansion Project under the Supplemental Agreement has been structured so that the tariff is more uniformly received over the Project Life.

The Company's gas turbines, interconnection and transmission facilities, balance of plant, plant spares and plant buildings and ancillaries are being depreciated over a period of eight to twenty years on a straight-line basis in accordance with the Project Agreements. Accordingly, while the combined tariff revenue for the Company after the first eight years of operations will significantly reduce, the annual depreciation charges will remain constant. The net profits available for appropriation to the Shareholders will be significantly higher during the first half and will be lower during the second half of the Project life. Based on the current projections, the Company is expected to incur accounting losses during certain years. It is, however, not possible to quantify the effect on the net profit for the year if revenue recognized was matched with the depreciation charge. To provide a return to the Shareholders in the years where the profit is low or there are losses, the Company has planned reduction of share capital during certain periods.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

In terms of a power purchase agreement (PPA) signed in 1994 between the Company and the Government of Oman, the Company was given the right to build, own, operate and transfer a power plant and build, own and transfer interconnection and transmission facilities, to the government.

Since inception, the financial statements of the Company have disclosed that:

- The Company has recognized the 'revenue' based on the agreed Tariff prescribed under the PPA between the Government of Oman and the Company.
- Depreciation on property, plant and equipment has been booked on straight-line basis at rates prescribed in the above mentioned agreement.
- The tariff has been agreed based on covenants of financing agreements, which includes a prescribed repayment profile, debt coverage ratios and other security features.

In view of the above and to ensure that the financial statements result in fair presentation and relevant and reliable information for the users of the financial statements, the Board of Directors believe it would not be appropriate to change the basis of accounting and have not opted for adoption of IFRIC 12 for the year ended 31 December 2009.

The Company applied revised IAS 1 Presentation of Financial Statement (2007), which became effective as of 1 January 2009. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. The application of this standard has not had any impact on the previously reported profit and financial position.

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), Project Agreements, the minimum disclosure requirements of the Capital Market Authority and the requirements of the Commercial Companies Law of 1974, as amended.

These financial statements are presented in Rials Omani ("RO") rounded off to the nearest thousand. The financial statements have been prepared under the historical cost basis.

A summary of significant accounting policies, which have been adopted consistently, is set out below:

#### (a) Property, plant and equipment

##### (i) Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Borrowing costs, net of interest income, which are directly attributable to the construction of plant, are capitalised as part of the cost of the plant and equipment. Cost of property, plant and equipment and capital work-in-progress is their purchase price together with any incidental expenses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour and any other costs attributable to bringing the asset to a working condition for its intended use.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### (ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in profit and loss as an expense as incurred.

### (iii) Depreciation

Depreciation is charged to profit and loss on a straight-line basis over the estimated useful lives of items of property, plant and equipment and major components that are accounted for separately. Capital work-in progress is not depreciated until it is transferred into one of the below categories, which occurs when the asset is brought into use.

	Years
Gas turbines	15
Balance of plant	20
Plant spares	8
Interconnection and transmission facilities ("ITF")	18-20
Plant buildings and ancillaries	20
Other assets – furniture, equipment and motor vehicles	4

Management re-assess the useful lives, residual values and depreciation methods for property, plant and equipment annually. Where the carrying amount of the property, plant and equipment is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and the gain or loss is taken into account in determining operating profit.

## (b) Impairment

### (i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit and loss.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### (ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories [refer policy (c) below] and deferred tax asset [refer policy (g) below], are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or cash generating unit exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

At each statement of financial position date, the Company reviews the carrying amounts of its assets (or cash-generating units) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and carrying amount of the asset and is recognised immediately in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised earlier.

### (c) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out principle and includes all costs incurred in acquiring the inventories and bringing them to their existing location and condition.

### (d) Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

Cash and cash equivalents comprise cash balances and bank overdraft. Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

### (e) Employee benefits

Obligations for contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognized as an expense in profit and loss as incurred. The Company's obligation in respect of non-Omani terminal benefits, under defined contribution retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate used reflects current market assessments of the time value of money.

### (f) Foreign currencies

Transactions in foreign currencies are translated to Rials Omani at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Rials Omani at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to Rials Omani at the foreign exchange rate ruling at the date of the transaction.

### (g) Taxation

Income tax comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### (h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### (i) Revenue

Operating revenue comprises tariffs for fixed capacity charges for transmission facilities and turbines, variable capacity charges and energy charges. Tariffs are calculated in accordance with the Project Agreements. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due and associated costs.

Tariff revenue has been accounted net of gas fuel costs, which are borne by the Government of the Sultanate of Oman.

### (j) Net financing expense

Net financing expense comprises interest payable on borrowings and interest receivable on escrow accounts.

Interest expense is recognised in profit and loss as incurred. Interest income is recognised in profit and loss as it accrues.

### (k) Deferred financing costs

The cost of obtaining long-term financing is deferred and amortised over the term of the long-term loan using the effective interest rate method. Deferred financing costs less accumulated amortisation are offset against the drawn amount of long-term loans. The amortisation of deferred financing costs was capitalised as part of the cost of the plant during construction. Subsequent to plant completion, the element of amortisation of deferred financing costs is charged to profit and loss.

### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and term deposits having maturity periods of less than or equal to three months. Bank borrowings that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank borrowings.

### (m) Use of estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. In particular, estimates that involve uncertainties and judgements which have a significant effect on the financial statements include employees' end of service benefits [refer policy (e) above].

### **(n) New standards and interpretations not yet effective**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009 and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Company.



## 6. PROPERTY, PLANT AND EQUIPMENT

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

	Capital work in-progress	Gas turbines	Balance of plant	Plant spares	ITF Plant buildings and ancillaries	Other assets	Total
Cost	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
1 January 2008	1,071	18,559	26,032	3,536	49,994	313	106,958
Additions	784	74	-	-	-	24	882
Disposals	-	-	-	-	-	-	-
1 January 2009	1,855	18,633	26,032	3,536	49,994	337	107,840
Additions	240	56	-	-	-	68	364
Disposal	-	-	-	-	-	(288)	(288)
Transfer	(1,855)	-	-	1,855	-	-	-
<b>31 December 2009</b>	<b>240</b>	<b>18,689</b>	<b>26,032</b>	<b>5,391</b>	<b>49,994</b>	<b>117</b>	<b>107,916</b>
<b>Depreciation</b>							
1 January 2008	-	11,614	11,971	3,030	28,062	295	59,141
Charge for the year	-	1,235	1,298	210	2,374	4	5,496
Disposals	-	-	-	-	-	-	-
1 January 2009	-	12,849	13,269	3,240	30,436	299	64,637
Charge for the year	-	1,243	1,298	251	2,520	13	5,700
Disposals	-	-	-	-	-	(222)	(222)
<b>31 December 2009</b>	<b>-</b>	<b>14,092</b>	<b>14,567</b>	<b>3,491</b>	<b>32,956</b>	<b>90</b>	<b>70,115</b>
<b>Carrying value</b>							
<b>31 December 2009</b>	<b>240</b>	<b>4,597</b>	<b>11,465</b>	<b>1,900</b>	<b>17,038</b>	<b>27</b>	<b>37,801</b>
31 December 2008	1,855	5,784	12,763	296	19,558	38	43,203

Land on which the power station, buildings and ancillaries are constructed has been leased from the Government for the duration of the Project Life. Lease rent is paid at the rate of RO 1,000 per annum.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### 7. INVENTORIES

	2009 RO' 000	2008 RO' 000
Liquid fuel stock	259	259
Spares stock	63	63
	<u>322</u>	<u>322</u>
Less: provision for obsolescence	(50)	(43)
	<u>272</u>	<u>279</u>

The Company, in accordance with the Project Agreements, is required to maintain a base stock of liquid fuel to be used in case of interruption of gas fuel. Spares stock is maintained for the gas turbines and ITF and is held for emergencies.

### 8. TRADE AND OTHER RECEIVABLES

	2009 RO' 000	2008 RO' 000
Tariff receivable from the OPWP	2,165	3,329
Less: allowance for impaired debts	(15)	(8)
	<u>2,150</u>	<u>3,321</u>
Net trade receivables		
Due from related parties (note 21)	-	31
Other receivables and prepayments	217	283
	<u>2,367</u>	<u>3,635</u>

### 9. SHARE CAPITAL

#### Authorized share capital

At 31 December 2009 and 31 December 2008, the Company's authorised share capital comprised 15,965,760 ordinary shares and 23,948,640 preference shares of RO 1 each.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### Paid-up share capital

At 31 December 2009 the Company's issued and paid-up share capital consists of 19,178,185 shares of RO 1 each analysed as follows:

	Total RO' 000	%	Paid in cash RO' 000	Paid in kind RO' 000
Preference shares	11,507	60	10,469	1,038
Ordinary shares	7,671	40	7,671	-
	<u>19,178</u>	<u>100</u>	<u>18,140</u>	<u>1,038</u>

At 31 December 2008 the Company's issued and paid-up share capital consisted of 22,665,125 shares of RO 1 each analysed as follows:

	Total RO' 000	%	Paid in cash RO' 000	Paid in kind RO' 000
Preference shares	13,599	60	12,561	1,038
Ordinary shares	9,066	40	9,066	-
	<u>22,665</u>	<u>100</u>	<u>21,627</u>	<u>1,038</u>

Preference shareholders have the right to two votes per share at any general meeting of the Company and are entitled to a dividend of up to 5% of the net profit of the Company prior to and in addition to any dividend to the holders of ordinary shares. The holders of ordinary shares have the right to one vote per share at any general meeting of the Company.

	Number of Preference Shares 2009	Number of Preference Shares 2008	% to preference shares 2009	% to total shares 2009
MENA Infrastructure Fund (GP) Limited.	7,312,187	-	63.56	38.12
Tractebel Parts and Repair FZE	-	7,209,433	-	-
National Trading Co. LLC	1,048,677	1,239,348	9.11	5.47
Ministry of Defense, Pension Fund	1,048,677	1,239,348	9.11	5.47
W J Towell & Co. LLC	1,048,677	1,239,348	9.11	5.47
The Zubair Corporation	1,048,677	1,239,348	9.11	5.47
International Finance Corporation, USA	-	1,205,590	-	-
STSA Dubai branch	-	226,651	-	-
	<u>11,506,895</u>	<u>13,599,066</u>	<u>100.00</u>	<u>60.00</u>

The Company carried out during December 2009, capital reduction of 10% of the original capital as a consequence to the structured plan of capital reduction approved by the market regulators and the shareholders in the annual general meeting of 2006. The value of the shares shall become nil at the end of the Project Life.

None of the ordinary shareholders own more than 10% of the Company's share capital.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### 10. Share premium

The premium of RO 0.800 per share, on rights issue for a total amount of RO 4.764 million had been transferred to the share premium account.

### 11. Statutory reserve

The Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable statutory reserve until the amount of statutory reserve becomes equal to one-third of the Company's issued share capital. No transfer has been made during the year as the Company has achieved this minimum amount required for the legal reserve. This reserve is not available for distribution to shareholders as dividends.

### 12. Proposed dividend

Subsequent to statement of financial position date the Board of Directors have proposed ordinary and preference dividend of RO 1.534 million and RO 0.084 million respectively (2008: RO 2.267 million and RO 0.122 million). The ordinary dividend translates to RO 0.080 per share. This dividend is subject to the approval of the shareholders in the annual general meeting.

### 13. Term loans

	2009 RO'000	2008 RO'000
Long term loans	-	5,564
Loans transaction cost	-	(9,183)
Accumulated amortization	-	8,926
Non-current portion of term loans	-	5,307
Current portion of long term borrowings	-	(5,307)
Non-current portion of term loans	-	-

The above loans were denominated in US Dollars and were secured pari-passu by registered mortgages over property, plant and equipment and the beneficial interest of the leased land of the Company.

In December 1999, the Company entered into a Buyer Credit Agreement with COFACE ("COFACE Loan Phase II") to part finance the Expansion Project with a facility in the amount of approximately RO 20.5 million (US\$ 53.2 million) at a fixed interest rate of 6.28% per annum. The loan comprised principal amount, insurance premium due to COFACE and interest due to COFACE on drawdowns till the Commercial Operation Date. The loan was repayable in twenty semi-annual instalments beginning 1 December 2000.

On 29 December 2008, the Company made formal irrevocable notice of voluntary payment of the outstanding loan obtained under COFACE and Commercial loan facilities and paid the amount, in full, on 30 January 2009 to respective lenders.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### 14. Taxation

#### (a) Recognized in profit and loss

	2009 RO'000	2008 RO'000
<b>Current tax expense</b>		
Current period	778	968
Adjustment for prior periods	-	257
	<u>778</u>	<u>1,225</u>
<b>Deferred tax expense</b>		
Reversal of temporary difference	(597)	(615)
<b>Income tax charge</b>	<u>181</u>	<u>610</u>

#### (b) Reconciliation of income tax expense

The Company is liable to income tax, in accordance with the income tax laws of Sultanate of Oman, at the rate of 12% of the taxable income in excess of RO 30,000.

The following is reconciliation of income taxes calculated at the applicable tax rate with the income tax expense for the year;

	2009 RO'000	2008 RO'000
Net profit for the year	1,882	3,048
Income tax as per rates mentioned above	222	362
Under provided in prior years	-	257
Previously unrecognized deferred tax asset	(41)	(9)
<b>Tax expense for the year</b>	<u>181</u>	<u>610</u>

#### *Deferred tax asset / (liability)*

Recognised deferred tax assets and liabilities are attributable to the following items:

Particular	Recognised in		
	2008 RO'000	income RO'000	2009 RO'000
Property, plant and equipment	(4,462)	596	(3,866)
Provision for doubtful debts	1	-	1
Provision for inventory obsolescence	5	1	6
<b>Net deferred tax asset / (liability)</b>	<u>(4,456)</u>	<u>597</u>	<u>(3,859)</u>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### (c) Current status of tax assessments

The Company's income tax assessments for the tax years 2003 to 2008 have not yet been finalised by the Secretariat General for Taxation at the Ministry of Finance. The Management considers that additional taxes, if any, that may become payable on finalization of the assessments in respect of these open years would not be material to the Company's financial position as at 31 December 2009.

### 15. Trade and other payables

	2009 RO'000	2008 RO'000
Accruals and other payables	519	937
Interest payable	-	29
Due to related parties (note 21)	15	94
Trade payable	426	46
Directors' remuneration payable	31	39
	<u>991</u>	<u>1,145</u>

### 16. Bank overdraft

The Company had entered into a credit facility agreement with a commercial bank consisting of revolving working capital facility amounting to RO 3.023 million (Tranche I) and refinancing term loan facility amounting to RO 3.465 million (Tranche II).

Interest was charged at the rate of 8.5% per annum, payable monthly on Tranche I and quarterly in case of Tranche II. The availability period was from 15 December 2008 to 15 December 2009 (with an option to renew the facility for another year) in case of Tranche I while Tranche II was available for drawdown from 30 December 2008 to 30 January 2009 repayable in four quarterly installments starting 31 March 2009.

As at 31 December 2009, the Company had extended Tranche I of the facility for a period of one year in accordance with the facility agreement. The outstanding balance was RO 2 million at the year end. Tranche II of the facility had been fully repaid during the year.

The facility contains certain covenants pertaining to, amongst other things, liquidation and merger, entering into material new agreements, negative pledge, change of business, loan and guarantee, etc.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### 17. Net assets per share

Net assets per share is calculated by dividing the net assets at the year end by the number of preference and ordinary shares outstanding as follows:

	2009	2008
Net assets (RO'000)	<u>32,575</u>	<u>36,737</u>
Number of preference and ordinary shares outstanding at the year end ('000)	<u>19,178</u>	<u>22,665</u>
Net assets per share (RO)	<u>1.699</u>	<u>1.621</u>

### 18. Operating and administrative expenses

	2009 RO' 000	2008 RO' 000
Repair and maintenance expenses – plant	517	890
Site and office expenses	46	75
Project Supervision Fees and Costs	-	308
Site security	-	38
Operation and maintenance expenses		
- Sogex	-	762
- STOMO	<u>2,559</u>	-
	<u>3,122</u>	2,073
Management Fee	813	760
Insurance expense	509	536
Salaries, wages and other benefits	258	400
Office expenses	64	124
Staff cost sharing with PDC	165	-
Legal and professional fees	37	42
Escrow account charges and IFC fees	-	52
Government fees	23	26
Claim tax rate change	120	21
Local services	38	38
Meetings and other related expenses	24	16
Telecommunication expenses	3	7
Provision for doubtful debts	7	-
Less: Cost charged to a related party under the Management Agreement (note 21)	<u>(28)</u>	<u>(55)</u>
	<u>5,155</u>	<u>4,040</u>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### 19. Net financing expenses

	2009 RO'000	2009 RO'000
Interest expenses	488	536
Amortization of loan transaction costs	257	360
Interest income	(5)	(104)
	<u>740</u>	<u>792</u>

### 20. Earnings per share - basic

	2009	2008
Earnings per share basic is calculated as follows:		
Profit for the year (RO'000)	<u>1,829</u>	<u>2,438</u>
Weighted average number of preference and ordinary shares outstanding throughout the year ('000)	<u>22,374</u>	<u>24,945</u>
Basic earnings per share (RO)	<u>0.082</u>	<u>0.098</u>

### 21. Related party transactions

Related parties comprise the shareholders, directors, key business personnel and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The Company maintains balances with these related parties which arise in the normal course of business from the commercial transactions, and are entered into at terms and condition which the management consider to be comparable with those adopted for arm's length transactions with third parties. The volume of related party transactions were as follows:

	2009 RO' 000	2008 RO'000
Management fee	<u>813</u>	<u>760</u>
Project supervision fee, local fee and other costs	<u>38</u>	<u>345</u>
Interest on IFC loans	<u>-</u>	<u>25</u>
Insurance premium	<u>210</u>	<u>204</u>
Staff and other costs under the Management Agreement:		
- Charged to a related party	<u>(28)</u>	<u>(55)</u>
- Charged from a related party	<u>165</u>	<u>-</u>



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise). The remuneration of directors and other members of key management during the year were as follows:

	2009 RO '000	2008 RO '000
Short term benefits	241	279
End of service benefits	26	23
Directors' remuneration	31	39
Directors' sitting fees	19	10
	<u>317</u>	<u>351</u>

At the statement of financial position date, amount due from / to related parties is as follows:

	2009 RO '000	2008 RO' 000
<b>Due from related parties</b>		
Suez Tractebel S.A. Dubai Branch	-	31
	<u>-</u>	<u>31</u>
<b>Due to related parties</b>		
Suez Tractebel S.A. Dubai Branch	-	94
Power Development Company	15	-
	<u>15</u>	<u>94</u>

Consequent to GDF Suez divestment in the Company, Suez Tractebel S.A. ceases to be a related party as at 31 December 2009.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### 22. Commitments

Operating lease commitments

Land on which the power station, buildings and ancillaries are constructed has been leased from the Government for the duration of the Project Life. At 31 December 2009, future minimum lease commitments under non-cancellable operating leases are as follows:

	2009 RO '000	2008 RO '000
Within one year	1	1
Between two and five years	4	4
After five years	6	7
	<u>11</u>	<u>12</u>

Purchase commitments

The Company is committed to long term contracts with Power Development Company and National Trading Company which provides management services required by the Company for the duration of the project life. The minimum guaranteed commitments (ignoring the impact of future indexation) as at the statement of financial position date were as follows:

	2009 RO '000	2008 RO '000
Within one year	850	794
Between two and five years	3,400	3,176
More than five years	2,372	3,054
	<u>6,622</u>	<u>7,024</u>

Other commitments consist of letter of credits amounting to RO Nil (2008: RO 328,000).

### 23. Cash and cash equivalents

	2009 RO '000	2008 RO '000
Bank balances and cash	308	4,849
Bank overdraft (note 16)	(2,000)	(2,705)
	<u>(1,692)</u>	<u>2,144</u>



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

### 24. Financial risk management

The following note presents information on the risks, arising from the Company's use of financial instruments namely credit risk, liquidity risk and market risk that the Company is exposed to, its objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Risk management policies and systems are reviewed regularly to ensure that they reflect any changes in market conditions and the Company's activities. The Company, through its induction and training program, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

#### *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company has significant concentration of credit risk as the Company has entered into Power Purchase Agreement (PPA) with OPWP. The credit risk is mitigated by guarantee provided by the Government.

#### *Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the statement of financial position date was on account of:

	2009	2008
	RO '000	RO '000
Trade receivables – OPWP	2,150	3,321
Cash and cash equivalents (note 23)	308	4,849
	<u>2,458</u>	<u>8,170</u>

Management considers the credit risk associated with its financial assets to be very low because the receivables are from a Government owned entity and cash is placed in reputable banks.

The age of trade receivables and related impairment loss at the statement of financial position date was:

	2009		2008	
	Gross RO '000	Impairment RO '000	Gross RO '000	Impairment RO '000
Not past due	<u>2,165</u>	<u>15</u>	<u>3,329</u>	<u>8</u>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (Continued)

The movement in allowance for impairment of receivables is as follows:

	2009 RO '000	2008 RO '000
Balance at 1 January	8	8
Provided during the year	7	-
Balance at 31 December	<u>15</u>	<u>8</u>

The allowance account in respect of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at which point the amount considered irrecoverable is written off against allowance account.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Company's reputation.

The Company uses cash flow forecasting methods which assist it in monitoring cash flow requirements and optimizing its cash flow cycle. Typically the Company ensures that it has sufficient cash on demand to meet its expected operational expenses, including the servicing of financial obligations.

The maturities of Company's undiscounted financial liabilities at reporting date is given below:

31 December 2009	Carrying amount RO'000	Contractual cash flows RO'000	Upto 1 year RO'000
Trade and other payables	977	977	977
Overdraft	2,000	2,000	2,000
	<u>2,977</u>	<u>2,977</u>	<u>2,977</u>

31 December 2008	Carrying amount RO'000	Contractual cash flows RO'000	Upto 1 year RO'000
Term loans	5,307	5,847	5,847
Trade and other payables	1,145	1,145	1,145
Overdraft	2,705	2,840	2,840
	<u>9,157</u>	<u>9,832</u>	<u>9,832</u>



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

### *Market Risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

### *Currency risk*

The Management considers that the Company is not exposed to significant foreign exchange risk arising from currency exposure primarily because significant portion of revenues and major operating costs are denominated in RO and indexed to the USD / RO exchange rates. The balance operating costs denominated in USD are covered by the fact that RO is pegged to the USD and has remained unchanged since 1986.

### *Interest rate risk*

The Company's borrowings (long-term and short-term) are on fixed rate basis. Accordingly, the Company is not exposed to interest rate risk due to fluctuation in market interest rate.

### *Capital management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and benefit other stake holders. The management's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

There were no changes in the Company's approach to capital management during the period except for reduction of capital under a well defined plan approved by the shareholders in 2006. The Company is not subject to externally imposed capital requirements.

### *Fair value*

The Board of Directors believes that the carrying amounts of financial assets and liabilities at 31 December 2009 included in the statement of financial position approximate their fair values.

## **25. Comparative figures**

Certain comparative information has been reclassified to conform to the presentation adopted in these financial statements.