

UNITED POWER COMPANY SAOG

**Unaudited Financial statements
For the 9 month period ended 30 September 2011**

Registered office:

Office No. 2
Jawharat Al Shatti
P O Box 147
Postal Code 134
Sultanate of Oman

Principal place of business:

Manah
17 KM South of Nizwa
Sultanate of Oman

UNITED POWER COMPANY (SAOG)

Unaudited Financial statements

For the 9 month period ended 30 September 2011

<i>Contents</i>	Page
Directors' Report	2-3
Statement of Financial Position	4
Statement of Comprehensive Income	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 23

UNITED POWER COMPANY (SAOG)

Unaudited Financial statements

For the 9 month period ended 30 September 2011

Directors' report

Overview

United Power Company (SAOG) was formed and registered as a joint stock Company on January 9, 1995. The Company was awarded concession for a project consisting of a 90 MW gas fired power station consisting of 3 open cycle gas turbines near Manah on a build, own, operate and transfer (BOOT) basis and a related network of interconnection and transmission facilities on a build, own and transfer (BOT) basis. It was commissioned in October 1996.

In 1999, the Company was awarded concession to carry out extension of plant by installing additional 180MW capacity. The extension project went into commercial operation in May 2000.

Operations

The Manah Power Plant has been running smoothly and efficiently, and there is no particular event worthwhile to mention.

During the reporting period, UPC made a total of 1,632GWh, available for dispatch by OPWP, which corresponds, to 84.5% of plant's available capacity.

OPWP actually dispatched 1,091GWh, which represents 63.4% of the capacity made available.

Financial Results

The Company registered a net profit of 1,585(RO'000) in the first nine-month period of 2011. Net profit in the first nine month of previous year was 1,753(RO'000). As discussed in forthcoming paragraphs, the decrease in net profit in the current period was mainly due to decrease in revenue and higher taxation provision. This was partly offset by saving in repairs and maintenance expenses.

Revenue in the current nine months was 9,666(RO'000) as against previous year's nine months revenue of 10,237(RO'000). Revenue in the current period and previous period are in the line with the tariff prescribed in the project agreements.

The net provision for taxation in 2010 was less due to reversal of prior year's provision. Provision for taxation in September 2011 represents tax provided for the current period only.

Operating cost was lower in first nine months of 2011 as against the same period in 2010, mainly due to decrease in repairs & maintenance costs.

UNITED POWER COMPANY (SAOG)

Unaudited Financial statements

For the 9 month period ended 30 September 2011

Directors' report (continued)

The decrease in financial cost is due to less utilisation of working capital facility during nine month period.

The variance in fixed assets was on account of depreciation expenses. Further, depreciation in first nine months of 2011 was lesser compared to its corresponding period of 2010, as some assets of Phase I were fully depreciated.

During the quarter, the company availed its working capital facility to meet its current obligations. This should be seen in the context of higher Cash and Bank balance and outstanding Trade and Other Payable, which were settled subsequent to 30 September 2011.

Murtadha A. SULTAN

Chairman of the Board of Directors

UNITED POWER COMPANY (SAOG)

Unaudited Financial Statements

For the 9 month period ended 30 September 2011

Statement of financial position

	<i>Notes</i>	30 September 2011 RO '000	31 December 2010 RO '000
ASSETS			
Non-current assets			
Property, plant and equipment	6	<u>27,802</u>	<u>32,037</u>
Current assets			
Inventories	7	260	265
Trade and other receivables	8	2,553	2,394
Bank balances and cash	22	<u>2,576</u>	<u>250</u>
Total current assets		<u>5,389</u>	<u>2,909</u>
Total assets		<u><u>33,191</u></u>	<u><u>34,946</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	9	15,691	15,691
Share premium	10	-	4,764
Statutory reserve	11	5,230	5,230
Retained earnings		<u>1,778</u>	<u>2,344</u>
Total equity		<u>22,699</u>	<u>28,029</u>
Non-current liabilities			
Provision for staff end of service benefits		9	6
Deferred tax liability	13	<u>2,736</u>	<u>3,221</u>
Total non-current liabilities		<u>2,745</u>	<u>3,227</u>
Current liabilities			
Provision for income tax	13	1,178	1,418
Trade and other payables	14	2,069	1,272
Bank overdraft	15	<u>4,500</u>	<u>1,000</u>
Total current liabilities		<u>7,747</u>	<u>3,690</u>
Total liabilities		<u>10,492</u>	<u>6,917</u>
Total equity and liabilities		<u><u>33,191</u></u>	<u><u>34,946</u></u>
Net assets per share (RO)	16	<u>1.447</u>	<u>1.786</u>

The notes on pages 8 to 23 form an integral part of these financial statements.

UNITED POWER COMPANY (SAOG)

Unaudited Financial statements

For the 9 month period ended 30 September 2011

Statement of comprehensive income

	<i>Notes</i>	30 September 2011 RO '000	30 September 2010 RO '000
Revenue		9,666	10,237
Operating and administrative expenses	<i>17</i>	(3,626)	(3,990)
Operating profit before depreciation		6,040	6,247
Depreciation on property, plant and equipment	<i>6</i>	(4,236)	(4,348)
Profit from operations		1,804	1,899
Net financing expenses	<i>18</i>	(41)	(67)
Other Income		-	9
Profit before income tax		1,763	1,841
Income tax charge	<i>13</i>	(178)	(88)
Total comprehensive income for the period		1,585	1,753
Earnings per share – basic (RO)	<i>19</i>	0.101	0.091

The notes on pages 8 to 23 form an integral part of these financial statements.

UNITED POWER COMPANY (SAOG)

Unaudited Financial statements

For the 9 month period ended 30 September 2011

Statement of changes in equity

	Share capital RO'000	Share premium RO'000	Statutory reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2010	19,178	4,764	6,897	1,736	32,575
<i>Total comprehensive income for the year</i>					
Net profit for the year	-	-	-	2,070	2,070
Transfer (from)/to	-	-	(1,667)	1,667	-
<i>Transactions with owners recognised directly in equity</i>					
Payment of final dividend for 2009	-	-	-	(1,618)	(1,618)
Payment of interim dividend 2010	-	-	-	(1,511)	(1,511)
Capital reduction	(3,487)	-	-	-	(3,487)
At 1 January 2011	15,691	4,764	5,230	2,344	28,029
<i>Total comprehensive income for the period</i>					
Net profit for the period	-	-	-	1,585	1,585
<i>Transactions with owners recognised directly in equity</i>					
Payment of final dividend for 2010	-	-	-	(2,151)	(2,151)
Payment of share premium	-	(4,764)	-	-	(4,764)
At 30 September 2011	15,691	-	5,230	1,778	22,699

The notes on pages 8 to 23 form an integral part of these financial statements.

UNITED POWER COMPANY (SAOG)

Unaudited Financial statements

For the 9 month period ended 30 September 2011

Statement of cash flows

	30 September 2011 RO '000	30 September 2010 RO '000
Operating activities:		
Cash receipts from customers and others	9,637	9,981
Cash paid to employees, directors and suppliers	(2,951)	(3,557)
Cash generated from operations	6,686	6,424
Interest paid	(41)	(67)
Income tax paid	(903)	(796)
Net cash from operating activities	5,742	5,561
Investing activities:		
Purchase of property, plant and equipment	(1)	(20)
Net cash used in investing activities	(1)	(20)
Financing activities		
Dividends paid	(2,151)	(1,618)
Share premium paid	(4,764)	-
Net cash used in financing activities	(6,915)	(1,618)
Net change in cash and cash equivalents	(1,174)	3,923
Cash and cash equivalents at the beginning of the year	(750)	(1,692)
Cash and cash equivalents at the end of the period (note 22)	(1,924)	2,231

The notes on pages 8 to 23 form an integral part of these financial statements.

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

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. 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.
- iii. 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”).
- iv. 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 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.

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

3. Agreements (contd.)

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.

- v. 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.

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.

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

4. Basis of preparation of financial statements (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.

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.

(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.

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

5. Summary of significant accounting policies (continued)

(a) Property, plant and equipment (continued)

(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.

(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.

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

5. Summary of significant accounting policies *(continued)*

(b) Impairment *(continued)*

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 recognized 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.

Cash and cash equivalents comprise cash balances and bank overdraft. Other non-derivative financial instruments are measured at amortized 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.

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

5. Summary of significant accounting policies *(continued)*

(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 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 short term working capital facilities.

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

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

5. Summary of significant accounting policies *(continued)*

(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.

The estimates and underlying assumptions are reviewed on an on-going 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 30 September 2011, and have not been applied in preparing these financial statements. Other than IFRS 9: 'Financial Instruments' published on 12th November 2009, none of these are expected to have an effect on the financial statements of the Company. The Company is in the process of evaluating the impact of the standard and has not early adopted.

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

6. Property, plant and equipment

	Capital work in-progress RO '000	Gas turbines RO '000	Balance of plant RO '000	Plant spares RO '000	ITF RO '000	Plant buildings and ancillaries RO '000	Other assets RO '000	Total RO '000
Cost								
1 January 2010	240	18,689	26,032	5,391	49,994	7,453	117	107,916
Additions during the year	-	16	-	-	-	-	4	20
Transfer during the year	(240)	240	-	-	-	-	-	-
1 January 2011	-	18,945	26,032	5,391	49,994	7,453	121	107,936
Additions during the year	-	-	-	-	-	-	1	1
30 September 2011	-	18,945	26,032	5,391	49,994	7,453	122	107,937
Depreciation								
1 January 2010	-	14,092	14,567	3,491	32,956	4,919	90	70,115
Charge for the year	-	1,291	1,303	310	2,498	373	9	5,784
1 January 2011	-	15,383	15,870	3,801	35,454	5,292	99	75,899
Charge for the period	-	872	975	228	1,876	279	6	4,236
30 September 2011	-	16,255	16,845	4,029	37,330	5,571	105	80,135
Carrying value								
30 September 2011	-	2,690	9,187	1,362	12,664	1,882	17	27,802
31 December 2010	-	3,562	10,162	1,590	14,540	2,161	22	32,307

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.

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

7. Inventories

	30 September 2011	31 December 2010
	RO '000	RO '000
Liquid fuel stock	259	259
Spares stock	63	63
	<u>322</u>	<u>322</u>
<i>Less: provision for obsolescence</i>	<u>(62)</u>	<u>(57)</u>
	<u><u>260</u></u>	<u><u>265</u></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

	30 September 2011	31 December 2010
	RO '000	RO '000
Tariff receivable from the OPWPC	2,288	2,259
<i>Less: allowance for impaired debts</i>	<u>(89)</u>	<u>(89)</u>
Net trade receivables	2,199	2,170
Other receivables and prepayments	354	224
	<u><u>2,553</u></u>	<u><u>2,394</u></u>

9. Share capital

Authorized share capital

At 30 September 2011 and 31 December 2010, the Company's authorised share capital comprised 15,965,760 ordinary shares and 23,948,640 preference shares of RO 1 each.

Paid-up share capital

At 30 September 2011 and 31 December 2010, the Company's issued and paid-up share capital consists of 15,691,245 shares of RO 1 each analysed as follows:

	Total RO' 000	%	Paid in cash RO' 000	Paid in kind RO' 000
Preference shares	9,415	60	8,377	1,038
Ordinary shares	6,276	40	6,276	-
	<u><u>15,691</u></u>	<u><u>100</u></u>	<u><u>14,653</u></u>	<u><u>1,038</u></u>

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

9. Share capital (continued)

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.

30 September 2011	Number of Preference Shares	% to preference shares	% to total shares
Mena Infrastructure Investments Limited	5,982,699	63.56	38.12
Ministry of Defense, Pension Fund	858,008	9.11	5.47
M GEC (Oman) Holdings Limited	2,574,024	27.33	16.41
Fractions from capital reduction	10	-	-
	<u>9,414,741</u>	<u>100.00</u>	<u>60.00</u>

The company carried out during 2010, 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 become nil at the end of the Project Life.

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

10. Share premium

The premium of RO 0.800 per share, on rights issue for a total amount of RO 4.764 million (2009: RO 4.764 million) had been transferred to the share premium account, as a consequence of right issue undertaken by the company in 1999.

Capital Market Authority ("CMA") has now approved to distribute share premium amount. In the EGM of the shareholders held on 21 March 2011, shareholders had also approved distribution of the amount, During the quarter the amount has been distributed to the shareholders.

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 already achieved this minimum amount required for the legal reserve.

In the EGM held on 21 March 2010, the shareholders resolved, with CMA approval, to transfer the statutory reserve amount in excess of one third of the current issued share capital to retained earnings.

12. Proposed dividend

On 30 January 2011, the Board of Directors had proposed ordinary and preference dividend of RO 1.961 million and RO 0.190 million respectively (2009: RO 1.534 million and RO 0.084 million). The ordinary dividend translates to RO 0.125 per share. This dividend has been approved by the shareholders in the annual general meeting held on 21 March 2011, and has been distributed subsequently.

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

13. Taxation

(a) Recognized in profit and loss

	30 September 2011	30 September 2010
	RO '000	RO '000
Current tax expense	(664)	(572)
Deferred tax income	<u>486</u>	<u>484</u>
	<u><u>(178)</u></u>	<u><u>(88)</u></u>

(b) Current status of tax assessments

The Company's income tax assessments for the tax years 2003 to 2010 have not yet been finalized by the Secretariat General for Taxation at the Ministry of Finance. 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 30 September 2011.

14. Trade and other payables

	30 September 2011	31 December 2010
	RO '000	RO '000
Accruals and other payables	648	765
Trade payable	1,421	460
Directors' remuneration payable	-	47
	<u><u>2,069</u></u>	<u><u>1,272</u></u>

15. Bank overdraft

The Company had entered into credit facility agreements with two commercial banks consisting of revolving working capital facility aggregating to RO 5.8 million. The facility is renewable yearly. Interest charge on the working capital facility range between 6.5% and 7.0% per annum.

The facilities 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.

16. Net assets per share

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

	30 September 2011	31 December 2010
Net assets (RO'000)	<u><u>22,699</u></u>	<u><u>28,029</u></u>
Number of preference and ordinary shares outstanding at the year end ('000)	<u><u>15,691</u></u>	<u><u>15,691</u></u>
Net assets per share (RO)	<u><u>1.447</u></u>	<u><u>1.786</u></u>

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

17. Operating and administrative expenses

	30 September 2011 RO' 000	30 September 2010 RO' 000
Repair and maintenance expenses – plant	17	387
Operation and maintenance expenses-STOMO	2,037	2,103
Operation and maintenance expenses-SOGEX	56	-
	<u>2,110</u>	<u>2,490</u>
Management Fee	636	616
Insurance expense	390	389
Salaries, wages and other benefits	62	33
Office expenses	19	18
Staff cost sharing with PDC (note 3 and 20)	249	241
Legal and professional fees	38	48
Government fees	12	15
Claim tax rate change	90	90
Local services	-	28
Meetings and other related expenses	20	22
	<u>3,626</u>	<u>3,990</u>

18. Net financing expenses

	30 September 2011 RO '000	30 September 2010 RO '000
Interest expenses	41	67
	<u>41</u>	<u>67</u>

19. Earnings per share - basic

Earnings per share basic are calculated as follows:

	30 September 2011	30 September 2010
Profit for the Period (RO'000)	1,585	1,753
	<u>1,585</u>	<u>1,753</u>
Weighted average number of preference and ordinary shares outstanding throughout the year ('000)	15,691	19,178
	<u>15,691</u>	<u>19,178</u>
Basic earnings per share (RO)	0.101	0.091
	<u>0.101</u>	<u>0.091</u>

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

20. 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 Management consider to be comparable with those adopted for arm's length transactions with third parties. The volumes of related party transactions were as follows:

	30 September 2011	30 September 2010
	RO' 000	RO' 000
Management fee	<u>636</u>	<u>616</u>
Local fee and other costs	<u>-</u>	<u>28</u>
Staff and other costs under the Management Agreement:		
- Charged from a related party (note 17)	<u>249</u>	<u>241</u>
Insurance Premium	<u>-</u>	<u>217</u>

21. 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 30 September 2011, future minimum lease commitments under non-cancellable operating leases are as follows:

	30 September 2011	31 December 2010
	RO' 000	RO' 000
Within one year	1	1
Between two and five years	4	4
After five years	5	5
	<u>10</u>	<u>10</u>

22. Cash and cash equivalents

	30 September 2011	31 December 2010
	RO' 000	RO' 000
Bank balances and cash	2,576	250
Bank overdraft (note 15)	(4,500)	(1,000)
	<u>(1,924)</u>	<u>(750)</u>

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

23. 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:

	30 September 2011	31 December 2010
	RO' 000	RO' 000
Trade receivables – OPWP (note 8)	2,199	2,170
Cash and cash equivalents (note 22)	(1,924)	250
	<u>275</u>	<u>2,420</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:

	30 September 2011		31 December 2010	
	Gross	Impairment	Gross	Impairment
	RO '000	RO '000	RO '000	RO '000
Not past due	<u>2,288</u>	<u>89</u>	<u>2,259</u>	<u>89</u>

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

	30 September	31 December
	2011	2010
	RO '000	RO '000
Balance at 1 January	89	15
Provided during the period	-	74
Balance at 30 September	<u>89</u>	<u>89</u>

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

23. Financial risk management (continued)

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:

	Carrying amount RO'000	Contractual cash flows RO'000	Up to 1 year RO'000
30 September 2011			
Trade and other payables (note 14)	2,069	2,069	2,069
Overdraft	4,500	4,500	4,500
	6,569	6,569	6,569
 31 December 2010			
Trade and other payables (note 14)	1,272	1,272	1,272
Overdraft (note 22)	1,000	1,000	1,000
	<u>2,272</u>	<u>2,272</u>	<u>2,272</u>

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

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.

UNITED POWER COMPANY (SAOG)

Notes

(forming part of unaudited financial statements for the 9 month period ended 30 September 2011)

23. Financial risk management *(continued)*

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

Board of Directors believes that the carrying amounts of financial assets and liabilities at 30 September 2011 included in the statement of financial position approximate their fair values.

24. Comparative figures

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