

# **SOHAR POWER COMPANY SAOG**

Unaudited Financial Statements  
for the 3 month period ended 31 March 2011

## **Registered office**

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

## **Principal place of business**

Plot No.19A  
Sohar Industrial Port Area  
Sultanate of Oman

Unaudited Financial Statements  
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Unaudited Financial Statements  
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## **Board of Directors' Report**

### Overview

Sohar Power Company SAOC was incorporated in 2004 and the plant reached commercial operation on 28th May 2007. The Company sells its total production capacity to Oman Power and Water Procurement Company SAOC ("OPWP") under a 15-year power and water purchase agreement (the "PWPA"), with guaranteed off take by the Government of Oman.

In August 2008 the Company reached a significant milestone, when its founder shareholders offered 35% of their shares to the public in Oman. Refinancing of its USD 446 million senior loan facilities was closed in March 2008, and as such the Company was not directly affected by the reduced credit availability in 2008-2009.

The Company had made proposals to OPWP for providing additional power capacity for 2011 and 2012, in addition to Sohar Power current guaranteed contracted capacity under the PWPA. In line with its objective to support the development of the Sultanate, Sohar Power is hopeful to conclude this year an agreement with OPWP in this respect.

In accordance with the IPO prospectus and the decision made by the shareholders of the Company during the Annual General Meeting on 30<sup>th</sup> March 2011, the Company is to distribute a final dividend of 8%, i.e. 80 baiza per share for the year 2010 in the month of April 2011.

### Operations

The Company exported a net power of 484.0 GWh during the first 3 months of 2011. A total of 6.222 million m<sup>3</sup> of distillate was produced of which 5.8 million m<sup>3</sup> of potable water was delivered as drinking water and 0.042 million m<sup>3</sup> of distillate water was delivered to neighbouring industries in the Sohar industrial area under the distillate water supply agreement. The power plant was dispatched 45.15% of the available capacity. Water produced was 52.32% of the available capacity.

All key performance parameters achieved by the Company were positive. Overall reliability was excellent at 99.84% for power and 99.79% for water. The cumulative forced outage rate of the plant for 2011 is now 0.16% for power and 0.21% for water vs. projected of 1.7% for power and 1.74% for water.

During the first quarter, repairs of construction-related warranty items were completed on the desalination units, in addition to the scheduled annual maintenance of the units.

Towards the end of the first quarter, an Annual Performance Test was conducted for the forthcoming Contract Year. The results for power and water were well in excess of the contracted capacities of 585 MW and 6250 m<sup>3</sup>/hr for power and water respectively.

As regards safety, the Company has completed 67,792 man hours till the first quarter of 2011 without any lost time accident.

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**Board of Directors' Report (continued)**Financial Results

The Company registered a net profit of 547(RO'000) [1,421(USD'000)] in the first quarter of 2011. Net profit in the corresponding quarter of previous year was 454(RO'000) [1,184 (USD'000)].

Revenue in the first quarter of 2011 was higher by 944 (RO'000) [2,452(USD'000)] as against the first quarter of 2010 mainly due to higher Fuel Revenue during the current period. However, this increase does not favourably affect the Net profit because the Fuel Costs went up in the same proportion.

Deferred tax was overstated in the first quarter of 2010 as compared to current year's first quarter. However, this overstatement of provision was reversed in subsequent quarters of the year.

There was no addition/deletion in the non-current assets during the quarter ended 31 March 2011. Only normal depreciation was charged to the same. There was no major variance in Debtors' and creditors' balances at 31 March 2011 as compared to the same at 31 December 2010.

Payments under long term and swap agreements were settled on their due dates. The hedging deficit on Company's swap agreements, at the close of business at 31 March 2011 was 17,126 (RO'000) [44,482 (USD'000)] (31 December 2010: 19,420 (RO'000) [50,441 (USD'000)]). As per IAS 39, hedging deficit is calculated on each balance sheet date and it represents the loss, which the Company may incur, if it opts to terminate the swap agreements on this date. However under the terms of loan agreements, the Company is not permitted to terminate its swap agreements and the loss is therefore not realized.

**Murtadha Ahmed Sultan**  
Chairman of the Board

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for 3 month period ended 31 March 2011

## Statement of comprehensive income

	Notes	3 month period ended 31 March 2011		3 month period ended 31 March 2010	
		RO'000	USD'000	RO'000	USD'000
Revenue		9,459	24,568	8,543	22,192
Direct cost	4	(6,146)	(15,965)	(5,190)	(13,480)
<b>Gross profit</b>		<b>3,313</b>	<b>8,603</b>	3,353	8,712
Other income		-	-	65	169
Administrative and general expenses		(157)	(408)	(198)	(514)
<b>Result from operating activities</b>		<b>3,156</b>	<b>8,195</b>	3,220	8,367
Finance costs	5	(2,507)	(6,508)	(2,234)	(5,803)
<b>Profit before income tax</b>		<b>649</b>	<b>1,687</b>	985	2,564
Deferred tax	13	(102)	(266)	(531)	(1,380)
<b>Profit for the period</b>		<b>547</b>	<b>1,421</b>	454	1,184
<b>Basic earnings per share</b>	15	<b>0.02</b>	<b>0.05</b>	0.02	0.04

The accompanying notes form an integral part of these financial statements.

Unaudited Financial Statements  
as at 31 March 2011

### Statement of financial position

	Notes	2011 RO'000	2011 USD'000	2010 RO'000	2010 USD'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	6	174,901	454,288	176,580	458,650
<b>Current assets</b>					
Inventories		722	1,876	722	1,875
Trade and other receivables	7	4,502	11,694	4,443	11,540
Cash and cash equivalents	8	13,392	34,785	15,168	39,398
<b>Total current assets</b>		<b>18,616</b>	<b>48,355</b>	20,333	52,813
<b>Total assets</b>		<b>193,517</b>	<b>502,643</b>	196,913	511,463
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	9	27,800	72,300	27,800	72,300
Legal reserve	10	1,431	3,719	1,377	3,577
Retained earnings		2,850	7,311	2,358	6,032
<b>Shareholders' fund</b>		<b>32,081</b>	<b>83,330</b>	31,535	81,909
Hedging deficit	11	(17,126)	(44,482)	(19,420)	(50,441)
<b>Total equity</b>		<b>14,955</b>	<b>38,848</b>	12,115	31,468
<b>Non-current liabilities</b>					
Hedging deficit	11	19,772	51,356	23,890	62,052
Long-term loans	12	139,281	361,769	141,781	368,262
Provision for decommissioning costs		981	2,548	967	2,512
Net Deferred tax liability	13	5,356	13,913	4,760	12,364
<b>Total non-current liabilities</b>		<b>165,390</b>	<b>429,586</b>	171,398	445,190
<b>Current liabilities</b>					
Current portion of long term loans	12	7,157	18,589	7,539	19,582
Trade and other payables	14	5,717	14,846	5,582	14,498
Due to related parties	16	298	774	279	725
<b>Total current liabilities</b>		<b>13,172</b>	<b>24,209</b>	13,400	34,805
<b>Total liabilities</b>		<b>178,562</b>	<b>463,795</b>	184,798	479,995
<b>Total equity and liabilities</b>		<b>193,517</b>	<b>502,643</b>	196,913	511,463
<b>Net asset per share</b>	15	<b>1.15</b>	<b>3.00</b>	1.13	2.95

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Director

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Director

The accompanying notes form an integral part of these financial statements.

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Unaudited Financial Statements  
for 3 month period ended 31 March 2011

## Statement of Changes in Equity

	Share capital USD'000	Hedging deficit USD'000	Legal reserve USD'000	Retained earning USD'000	Total equity USD'000	Total equity RO'000
<b>1 January 2011</b>	72,300	(50,441)	3,577	6,032	31,468	12,115
Fair value (net of deferred tax)	-	5,959	-	-	5,959	2,293
Net profit for the period	-	-	-	1,421	1,421	547
Transfer to legal reserve	-	-	142	(142)	-	-
<b>31 March 2011</b>	<b>72,300</b>	<b>(44,482)</b>	<b>3,719</b>	<b>7,311</b>	<b>38,848</b>	<b>14,955</b>
1 January 2010	72,300	(39,881)	2,392	1,145	35,956	13,843
Fair value (net of deferred tax)	-	(10,560)	-	-	(10,560)	(4,066)
Net profit for the year	-	-	-	11,849	11,849	4,562
Transfer to legal reserve	-	-	1,184	(1,184)	-	-
Final dividend - 2009	-	-	-	(5,777)	(5,777)	(2,224)
31 December 2010	72,300	(50,441)	3,576	11,810	31,468	12,115

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for 3 month period ended 31 March 2011

## Statement of cash flows

	2011 RO'000	2011 USD'000	2010 RO'000	2010 USD'000
<b>Operating activities</b>				
Cash receipts from customers and others	9,377	24,357	12,125	31,493
Cash paid to suppliers and employees	(4,450)	(11,558)	(4,417)	(11,473)
<b>Cash generated from operations</b>	<b>4,927</b>	<b>12,799</b>	<b>7,708</b>	<b>20,020</b>
Interest paid	(3,719)	(9,661)	(3,697)	(9,604)
<b>Net cash from operating activities</b>	<b>1,208</b>	<b>3,138</b>	<b>4,011</b>	<b>10,416</b>
<b>Investing activities</b>				
<b>Net cash used in investing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financing activities</b>				
Repayment of loans	(2,984)	(7,751)	(3,016)	(7,835)
<b>Net cash used in financing activities</b>	<b>(2,984)</b>	<b>(7,751)</b>	<b>(3,016)</b>	<b>(7,835)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,776</b>	<b>(4,613)</b>	<b>944</b>	<b>2,581</b>
Cash and cash equivalents at the beginning of period	15,168	39,398	9,274	24,088
<b>Cash and cash equivalents at the end of period</b>	<b>13,392</b>	<b>34,785</b>	<b>10,268</b>	<b>26,669</b>

The accompanying notes form an integral part of these financial statements.

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Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

## 1. Legal status and principal activities

Sohar Power Company SAOG (the “Company”) was registered as a closed joint stock company (SAOC) in the Sultanate of Oman on 17 July 2004. The Company was incorporated on 22 June 2004. The Company has been established to build and operate a 585 MW electricity generating station and 33 Million Imperial Gallon per Day (“MIGD”) of water desalination plant at Sohar. The commercial operation date (“COD”) has been determined to be 28 May 2007.

The shareholders in their extraordinary general meeting held on 23 March 2008 resolved to convert the Company from a closed joint stock Company to a public joint stock Company.

## 2. Significant agreements

The Company has entered into the following significant agreements:

- (i) Power and Water Purchase Agreement (“PWPA”) with the Government of Sultanate of Oman (the “Government”) granting the Company right to generate electricity and produce water at Sohar and; (i) to make available to the Government the Guaranteed Contracted Power Capacity and the Guaranteed Contracted Water Capacity (ii) to sell to the Government the Electrical Energy and Potable Water associated with the Guaranteed Contracted Power Capacity and the Guaranteed Contracted Water Capacity. The Company has entered into a long-term power and water supply agreement with the Ministry of Housing, Electricity and Water (“MHEW”) of the Government for a period of fifteen years commencing from the scheduled Commercial Operation Date (“COD”) of 28 May 2007. On 1 May 2005 the PWPA was novated to Oman Power and Water Procurement Co SAOC (“OPWP”), a closed joint stock company owned by the Government of Oman. All the financial commitments of OPWP are guaranteed by the Government of Oman;
- (ii) Natural Gas Sales Agreement with the Ministry of Oil and Gas (“MOG”) for the purchase of natural gas from MOG. The Natural Gas Sale Agreement is co-terminus with PWPA;
- (iii) Sub-usufruct agreement with Sohar Industrial Port Company SAOC for grant of Usufruct rights over the project site for 15 years, with the option possibility of extension of 15 years;
- (iv) Seawater Extraction Agreement with the Ministry of National Economy of the Government of Oman, to provide seawater inlet and reject facilities for the plant. The Seawater Extraction Agreement is co-terminus with PWPA;
- (v) Engineering, Procurement and Construction (“EPC”) contract with Sohar Global Contracting and Construction Company LLC (“SGCCC”), a related party and a company registered in the Sultanate of Oman, for supply of goods and provision of services, in particular for the turnkey construction and commissioning of the plant. SGCCC shareholding consists of Suez-Tractebel S.A. (95%) and Telfin S.A. (5%). Turnkey project has been successfully completed in the year 2007;
- (vi) Operation and Maintenance Agreement (“O & M” Agreement) with Sohar Operation and Maintenance Company LLC, a related party, for operations and maintenance of the plant for a period of 15 years from the commercial operations date or the date of termination of PWPA, whichever is earlier.; and
- (vii) Financing Agreements with Lenders for long-term loan facilities.

Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

### 3. Significant accounting policies

#### **Basis of preparation**

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

#### **Presentation and functional currency**

These financial statements are presented in Rials Omani (“RO”) and United States Dollars (“USD”) rounded off to the nearest thousand.

The principal accounting policies are set out below:

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

#### *Subsequent expenditure*

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment.

#### *Depreciation*

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives and residual values are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The estimated useful lives for the current and comparative periods are as follows:

	Years
Buildings	30
Plant and machinery	30
Technical parts	30
Other assets	4
Decommissioning assets	30

#### *Disposal or retirement*

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

**Impairment**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Inventory**

Inventory is comprising of fuel oil and is stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to the inventory, which is being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash and bank balances and bank deposits with a maturity of less than three months from the date of placement. Bank overdrafts 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 equivalent for the purposes of statement of cash flows.

**Trade and other receivables**

Trade and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

### *Impairment*

Trade and other receivables are assessed for indicators of impairment at the end of each reporting period. These are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

### *Derecognition*

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

### **Financial liabilities**

Financial liabilities, including borrowings and trade and other payables are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method.

### *Derecognition of financial liabilities*

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

### *Provision for decommissioning costs*

A provision for future decommissioning costs is recognised, when there is a present obligation as a result of activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of provision can be measured reliably. The estimated future obligations include the costs of removing the facilities and restoring the affected areas.

The provision for future decommissioning cost is the best estimate of the present value of the expenditure required to settle the decommissioning obligation at the reporting date based on the current requirements as per the sub-usufruct agreement. Future decommissioning cost is reviewed annually and any changes in the estimate are reflected in the present value of the decommissioning provision at each reporting date. The initial estimate of the decommissioning provision is capitalized into the cost of the asset and depreciated on the same basis as the related asset. Changes in the estimate of the provision for decommissioning is treated in the same manner, except that the unwinding of the discount is recognised as a finance cost rather than being capitalised into the cost of the related asset.

Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

**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 or 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.

**Dividend distribution**

Dividend distribution by the Company is recognized as a liability in the financial statements only in the period in which the dividends are approved by the Company's shareholders.

**Borrowing costs**

Borrowing costs comprise interest payable on borrowings. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets. All other borrowing costs are recognized as expenses in the period in which they are incurred.

**Deferred financing costs**

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

**Derivative financial instruments**

The Company holds derivative financial instruments to hedge its interest rate risk exposures. Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

*Hedge accounting*

The Company designates the hedging instrument as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

## Notes to the unaudited financial statements for the 3 month period ended 31 March 2011 (continued)

### *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognized in and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### *Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### *Current and deferred tax for the period*

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (directly in equity), in which case the tax is also recognised outside profit or loss.

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Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

## 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. All exchange differences are taken to profit or loss.

## Revenue

Revenue comprises tariffs for power capacity, electrical energy, water capacity and water output charges. Tariffs are calculated in accordance with the PWWA. The operating revenue is recognized by the Company on an accrual basis of accounting. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due and associated costs (refer to note 2: *Power and Water Purchase Agreement*).

## 4 Direct cost

	3 month period 31 March 2011		3 month period 31 March 2010	
	RO'000	USD'000	RO'000	USD'000
Fuel gas	2,820	7,324	1,971	5,120
O & M fee	1,262	3,277	1,113	2,892
Depreciation	1,678	4,360	1,671	4,340
Seawater extraction	163	424	113	293
Other operating expenses	223	580	322	835
	<b>6,146</b>	<b>15,965</b>	5,190	13,480

## 5 Finance costs

	3 month period 31 March 2011		3 month period 31 March 2010	
	RO'000	USD'000	RO'000	USD'000
Interest on Base facility	405	1,051	484	1,257
Interest on Repayment facility	78	202	93	242
Amortization of deferred financing cost	102	264	108	281
Interest on net settlement of swaps	1,557	4,043	1,502	3,900
Other financial charge	238	618	-	-
Ineffective portion of hedging cost (note 11)	113	293	33	256
Unwinding of discount on decommissioning cost provision (note 14)	14	37	14	37
	<b>2,507</b>	<b>6,508</b>	2,234	5,803

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Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

### 6. Property, plant and equipment

	<b>Building USD'000</b>	<b>Plant and machinery USD'000</b>	<b>Technical parts USD'000</b>	<b>Other assets USD'000</b>	<b>Decommissioning assets USD'000</b>	<b>Total USD'000</b>	<b>Total RO'000</b>
<b>Cost</b>							
1 January 2011	18,205	490,990	11,745	75	2,018	523,033	201,368
Additions	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-
<b>31 March 2011</b>	<b>18,205</b>	<b>490,990</b>	<b>11,745</b>	<b>75</b>	<b>2,018</b>	<b>523,033</b>	<b>201,368</b>
<b>Depreciation</b>							
1 January 2011	2,299	60,358	1,423	62	241	64,383	24,788
Charge for the period	151	4,094	99	3	15	4,362	1,679
	<b>2,450</b>	<b>64,452</b>	<b>1,522</b>	<b>65</b>	<b>256</b>	<b>68,745</b>	<b>26,467</b>
<b>31 March 2011</b>	<b>15,755</b>	<b>426,538</b>	<b>10,223</b>	<b>10</b>	<b>1,762</b>	<b>454,288</b>	<b>174,901</b>
<b>Carrying amount</b>							
31 December 2010	15,906	430,632	10,322	13	1,777	458,650	176,580

Land on which the power station, building and auxiliaries are constructed has been sub-leased from Sohar Industrial Port Company SAOC for a period of 15 years from Commercial Operation Date, extendable for another 15 years. Lease rent is paid at the rate of approximately USD 140,000 per annum.

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Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

## 7. Trade and other receivables

	31 March 2011		31 December 2010	
	RO'000	USD'000	RO'000	USD'000
Tariff receivables	5,714	14,842	5,633	14,631
Less: allowance for impaired debts	(1,575)	(4,091)	(1,575)	(4,091)
	<u>4,139</u>	<u>10,751</u>	<u>4,058</u>	<u>10,540</u>
Advances and prepayments	132	343	154	400
Other receivables	231	600	231	600
	<u>4,502</u>	<u>11,694</u>	<u>4,443</u>	<u>11,540</u>

The entire trade receivable is from a single domestic customer; OPWP.

## 8. Cash and cash equivalents

	31 March 2011		31 December 2010	
	RO'000	USD'000	RO'000	USD'000
Cash in hand	1	3	1	3
Cash in bank	13,391	34,782	15,167	39,395
	<u>13,392</u>	<u>34,785</u>	<u>15,168</u>	<u>39,398</u>

## 9. Share capital

	31 March 2011		31 December 2010	
	RO'000	USD'000	RO'000	USD'000
Authorised share capital of shares of RO 1 each	<u>60,000</u>	<u>156,000</u>	<u>60,000</u>	<u>156,000</u>
Issued and fully paid-up share capital of shares of RO 1 each	<u>27,800</u>	<u>72,300</u>	<u>27,800</u>	<u>72,300</u>

The Company's shareholders at 31 December 2010 and 31 March 2011 were as follows:

	Number of shares	%
Kahrabel FZE	12,510,000	45
Sogex Oman Company LLC	1,390,000	5
Ministry of Defence Pension Fund ("MODPF")	1,390,000	5
W J Towell & Co. LLC ("WJT")	1,390,000	5
The Zubair Corporation ("Zubair")	1,390,000	5
General Public	9,730,000	35
	<u>27,800,000</u>	<u>100</u>

Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

## 10. Legal reserve

Article 106 of the Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to at least one-third of the company's issued share capital. This reserve is not available for distribution.

## 11. Hedging deficit

### *Interest rate swap*

The long-term loan facilities of the Company bear interest at US LIBOR plus applicable margins (refer note 12). In accordance with the term loan agreement, the Company has fixed the rate of interest through Interest Rate Swap Agreements ("IRS") to hedge the risk of variation in US LIBOR for 95% (for outstanding amounts until 6 years post scheduled COD) and decreasing to not less than 60% of its loan facility for the entire tenure of the agreement. The corresponding maximum hedged notional amount of HSBC and SCB swaps at 31 March 2011 is approximately RO 145 million (USD 377 million) bearing fixed interest rates of HSBC at 5.25%, 2.978% and SCB at 5.70% per annum, excluding applicable margin.

At 31 March 2011, the USD LIBOR was approximately 0.4 % per annum, (2010: 0.6% per annum) whereas the Company has fixed interest on its borrowing as described above.

## 12. Long-term loans

	31 March 2011		31 December 2010	
	RO'000	USD'000	RO'000	USD'000
Base facility	125,677	326,433	128,179	332,932
Repayment facility	24,172	62,784	24,653	64,034
<i>Less: current portion of loans</i>	<i>(7,157)</i>	<i>(18,589)</i>	<i>(7,539)</i>	<i>(19,582)</i>
	<b>142,692</b>	<b>370,628</b>	145,293	377,384
<i>Less: deferred financing cost</i>	<i>(3,411)</i>	<i>(8,859)</i>	<i>(3,512)</i>	<i>(9,122)</i>
	<b>139,281</b>	<b>361,769</b>	141,781	368,262

### *Syndicate facilities*

The Company has syndicated long-term loan facilities ("syndicated facilities") in the aggregate maximum amount of USD 550 million. HSBC Bank PLC is the facility agent ("Facility Agent") for administration and monitoring of the overall loan facilities. HSBC Bank USA - National Association and Bank Muscat have respectively been appointed as the offshore security trustee and on-shore security agent for the secured finance parties.

Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

**12. Long-term loans** *(continued)**Base facility*

The Company has obtained the term loan under base facility in an aggregate amount of USD 382.50 million. The aggregate amount of Base facility is repayable in 34 (thirty four) semi-annual installments, of which twenty eight installments are ranging between USD 6.5 million and USD 13.2 million. The last six, post concession, installments shall be of USD 20.35 million each. Repayments under revised Base facility commenced from 30 September 2008.

*Repayment facility*

The Company has obtained the term loan under repayment facility in an aggregate amount of USD 72 million. The aggregate amount of repayment facility is repayable in 34 (thirty four) semi-annual installments, of which twenty eight installments are ranging between USD 1.2 million and USD 2.5 million. The last six, post concession, installments shall be of USD 3.91 million each. Repayments under repayment facility commenced from 30 September 2008.

*Interest*

The facilities bear interest at USD LIBOR rates plus applicable margins. The margins vary depending upon outstanding facilities.

*Fees*

Under the terms of the loan facilities, the Company is required to pay Agency Fee and all Bank Fees.

*Security*

The facilities are secured by comprehensive legal and commercial mortgages on all the assets of the Company.

*Covenants*

The facilities agreements contain certain covenants pertaining to, amongst other things, project finance ratios, liquidation and merger, entering into material new agreements, negative pledge, change of business, loan and guarantee, etc.

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Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

## 13. Deferred tax

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

Deferred tax assets/(liabilities) arise from the following temporary differences:

	Opening balance RO'000	Recogn- ised in profit or loss RO'000	Recogn- ised in other compreh ensive income RO'000	Closing balance RO'000	Opening balance USD'000	Recogn- ised in profit or loss USD'000	Recogn- ised in other compreh ensive income USD'000	Closing balance USD'000
<b>31 March 2011</b>								
Fair value of hedging instruments	2,665	-	(298)	2,367	6,922	-	(773)	6,149
Provisions/Others	735	146	-	881	1,910	377	-	2,287
Accrual on hedging instruments	202	(197)	-	5	523	(511)	-	12
Depreciation	(8,362)	(247)	-	(8,609)	(21,719)	(642)	-	(22,361)
	<u>(4,760)</u>	<u>(298)</u>	<u>(298)</u>	<u>(5,356)</u>	<u>(12,364)</u>	<u>(776)</u>	<u>(773)</u>	<u>(13,913)</u>
<b>31 December 2010</b>								
Fair value of hedging instruments	2,095	-	570	2,665	5,441	-	1,481	6,922
Provisions/Others	223	512	-	735	579	1,331	-	1,910
Accrual on hedging instruments	188	14	-	202	488	35	-	523
Depreciation	(7,062)	(1,300)	-	(8,362)	(18,342)	(3,377)	-	(21,719)
	<u>4,556</u>	<u>(774)</u>	<u>570</u>	<u>(4,760)</u>	<u>(11,834)</u>	<u>(2,011)</u>	<u>1,481</u>	<u>(12,364)</u>

## 14. Trade and other payables

	31 March 2011		31 December 2010	
	RO'000	USD'000	RO'000	USD'000
Trade payables	<b>1,768</b>	<b>4,593</b>	1,206	3,132
Accruals and other payables	<b>3,949</b>	<b>10,253</b>	4,376	11,366
	<u><b>5,717</b></u>	<u><b>14,846</b></u>	<u>5,582</u>	<u>14,498</u>

Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

**15. Basic earnings and net asset per share**

Earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares issued during the year/period.

Net asset per share is calculated by dividing the shareholders' fund by the number of shares at the end of the year/period.

	<b>3 month period 31 March 2011</b>		3 month period 31 March 2010	
	<b>RO'000</b>	<b>USD'000</b>	RO'000	USD'000
Profit for the period	<b>547</b>	<b>1,421</b>	454	1,184
Weighted average number of shares ('000)	<b>27,800</b>	<b>27,800</b>	27,800	27,800
Earnings per share	<b>0.02</b>	<b>0.05</b>	0.02	0.04
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>31 March 2011</b>		31 December 2010	
	<b>RO'000</b>	<b>USD'000</b>	RO'000	USD'000
Shareholders' fund	<b>32,081</b>	<b>83,330</b>	31,535	81,909
Number of shares at the end of the period/year ('000)	<b>27,800</b>	<b>27,800</b>	27,800	27,800
Net asset per share	<b>1.15</b>	<b>3.0</b>	1.13	2.95
	<hr/>	<hr/>	<hr/>	<hr/>

**16. 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.

Transactions with these related parties arise in the normal course of business from the commercial transactions, and are entered into at terms and conditions which the management considers to be comparable with those adopted for arm's length transactions with third parties.

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Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

## 16. Related party transactions (continued)

The following is a summary of significant transactions with related parties which are included in the financial statements:

	3 month period 31 March 2011		Year ended 31 December 2010	
	RO'000	USD'000	RO'000	USD'000
Services provided by Sohar Operation and Maintenance Co. LLC	<u>1,262</u>	<u>3,278</u>	<u>5,239</u>	<u>13,608</u>
Power Management Co. LLC :				
- Management fee	<u>39</u>	<u>100</u>	<u>154</u>	<u>400</u>
- Other administrative expenses	<u>45</u>	<u>116</u>	<u>239</u>	<u>621</u>
Services provided by Suez – Tractabel S.A.	<u>10</u>	<u>25</u>	<u>36</u>	<u>94</u>
Directors remuneration	<u>23</u>	<u>60</u>	<u>116</u>	<u>301</u>
Directors sitting fee	<u>5</u>	<u>12</u>	<u>20</u>	<u>52</u>

The following balances were outstanding at the end of the reporting period:

	31 March 2011		31 December 2010	
	RO'000	USD'000	RO'000	USD'000
<i>Due to related parties:</i>				
Sohar Operations and Maintenance Co. LLC	<u>298</u>	<u>774</u>	<u>279</u>	<u>725</u>

Amount due to related parties is interest free and repayable on demand.

## 17. Commitments

Land on which the Sohar Power and Water Plant is constructed, has been leased from Sohar Industrial Port Company SAOC for a 15 year period (Note 6). At 31 December 2010 and 31 March 2011 future minimum lease commitments under non-cancellable operating leases are as follows:

	31 March 2011		31 December 2010	
	RO'000	USD'000	RO'000	USD'000
Within one year	<u>54</u>	<u>140</u>	<u>54</u>	<u>140</u>
Between two and five years	<u>217</u>	<u>564</u>	<u>217</u>	<u>564</u>
After five years	<u>339</u>	<u>880</u>	<u>339</u>	<u>880</u>
	<u>510</u>	<u>1,584</u>	<u>610</u>	<u>1,584</u>

Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

## **18. 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 Management 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. At 31 December 2010 the entire trade receivables was from a government owned company (OPWP). The maximum exposure to credit risk at 31 March 2011 was RO 5.71 million (USD 14.84 million) [(31 December 2010: RO 5.63 million (USD 14.63 million)]. The Company is exposed to credit risk on its bank balance and receivables. Management considers the credit risk associated with its financial assets to be very low because the receivables are from the Government and cash is placed in reputable banks.

### *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 risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

### *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. There has been no change to the Company's exposure to market risks on the manner in which these risks are managed and measured.

Notes to the unaudited financial statements  
for the 3 month period ended 31 March 2011 (continued)

*Currency risk*

The Company is exposed to currency risk on borrowings that are denominated in a currency other than the functional currency of Company. The currency in which these transactions are denominated is USD. In respect of Company's transactions denominated in USD, Management believes the Company is not exposed to the currency risk as the RO is effectively pegged to the USD.

*Interest rate risk*

The Company has entered into an interest rate swap to hedge its interest rate risk exposure. Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Company's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously.

## **19. Fair value**

The Management believes that the fair values of financial assets and liabilities are not significantly different from their carrying amounts at the statement of financial position date.

*Fair value measurements recognised in the statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## **20. Comparative figures**

Certain comparative figures have been reclassified where necessary to conform to the current year presentation.