

annual report 2008



Sohar Power Company SAOG



His Majesty Sultan Qaboos Bin Said





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Board of Directors and Management

| | | Representing |
|---------------|--|----------------------------------|
| Chairman | Mr. Murtadha Ahmed Sultan | W.J. Towell & Co. LLC. |
| Vice Chairman | Mr. Guy Richelle | - |
| Director | Mr. Antoine H. Georgiou * | National Trading Co. LLC. |
| Director | Mr. C.S. Badrinath | The Zubair Corporation |
| Director | Ameed Rukn/Mohammad Bin Suleyam Bin Nasser Al Mazidi | Ministry of Defence Pension Fund |
| Director | Mr. Abdulaouf Abudayyah | Sogex (Oman) LLC |
| Director | Mr. Pierre De Pauw | - |
| Director | Mr. Eric Kenis | - |
| Director | Mr. Shankar Krishnamoorthy | - |
| Director | Mr. Mahinder Nath ** | Tractebel Parts & Repairs FZE |

Key Executive Officers

| | |
|---|---------------------------------|
| Chief Executive Officer | Mr. Arnaud de Limburg Stirum*** |
| Chief Financial Officer & Company Secretary | Mr. Zoher Karachiwala |

* Resigned during the year

** Replaced Mr. Rajit Nanda, who resigned during the year.

*** In place of Mr. Frederic Henning





Board of Directors' Report

Dear Shareholders,

On behalf of the Board of Directors of Sohar Power Company SAOG ("SPC" or the "Company"), I am glad to present you with the Fifth Annual Report of the Company for the year ended 31 December 2008.

SPC was incorporated in 2004 after award of the Sohar IWPP project in a competitive tender. The Company has built and owns the 585MW electricity generation and 33MIGD seawater desalination plant in Sohar. Since it reached commercial operation on 27 May 2007, it has been selling power and water to Oman Power and Water Procurement Company SAOC under a long-term Power and Water Purchase Agreement ("PWPA").

Under the 15-year PWPA, the Company is not subject to market competition and enjoys revenues guaranteed by the Government of the Sultanate.

The Sohar plant has been running smoothly and efficiently in 2008, its second year of operation. Some outstanding repairs and warranties from the construction period have been successfully completed, and the plant is now running in safe and stable operation mode.

2008 has been marked by significant events for the Company:

- First, the Company completed in March the refinancing of its USD 446 million senior facility, taking advantage of the improved financing market condition. Despite a deterioration of the financing market during the refinancing process, the Company managed to successfully close it on schedule. The Mandated Lead Arrangers were HSBC and Standard Chartered.
- In August, the Company reached a significant milestone, by offering 35% of its shares to the public in Oman. Since the inception of the Sohar Power project, it has been the intention that Omani nationals should be able to participate in such strategic projects. Accordingly, the original shareholders of the Company converted the Company from Société Anonyme Omanaise Close (SAOC) to Société Anonyme Omanaise Générale (SAOG) and offered 9,730,000 shares (equivalent to 35% of the issued share capital of the Company) in an Initial Public Offering on the Muscat Securities Market. We believe that listing of our shares on the stock exchange will reinforce our strong anchorage in the economy of the Sultanate and will enhance our visibility and brand name.
- In October, the Company declared an exceptional dividend of 120 baizas, as had been announced in the IPO prospectus.

Irrespective of these achievements, 2008 will be primarily remembered by the global financial crisis that with some delay, is also affecting the region. In this respect, we are pleased to confirm that the Company is relatively immune from the consequences of such an economic downturn. Long-term revenues under the PWPA are not subject to market fluctuation. As the refinancing was closed in March, the Company is also not directly affected by the reduced credit availability. The recent fluctuation in interest rates may impact the un-hedged portion



of the loans, but this represents only 5% of the total debt of the Company. The Company is in turn aiming at hedging such un-hedged portions in the short-term, while the interest rates are at historically low levels.

The Company has achieved this year top decile key performance indicators. The plant remained commercially available at 93.7% and 93.99% for power and water respectively. The Company recorded in 2008 a net profit of RO 4.29 million. The revenues and costs are generally in line with the budget. The Board of Directors has recommended a final ordinary dividend of RO 2.22 million, which represent a total dividend for the year of 8% of the current share capital of the Company.

The operational and financial results are outlined hereafter. As regards safety, the Company has completed 262,355 man hours in 2008 without any lost time accident.

Following the IPO, the Company will ensure that its high standards of corporate governance are compliant with the Code of Corporate Governance promulgated by the Capital Market Authority. The Board has undertaken to set up an Audit Committee and to enact an Ethic Charter for the Company.

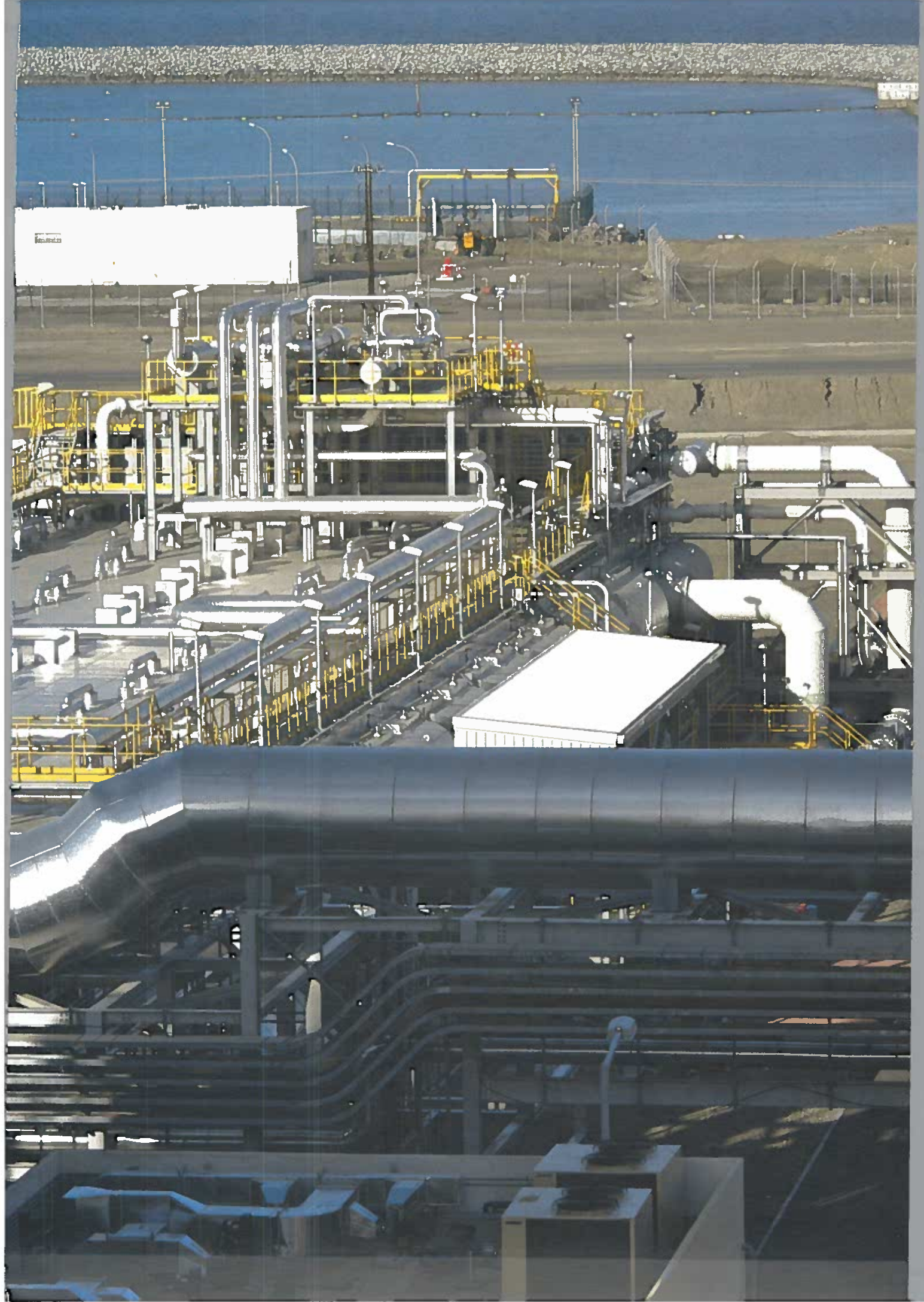
Oman Power and Water Procurement Company SAOC has approached SPC to study the possibility of supplying distillate water to neighbouring industries in Sohar, in addition to SPC current supply of potable water. In line with its objective to support the development of the Sultanate, SPC is hopeful to conclude in 2009 a long-term agreement with OPWP in this respect.

I would like to thank all the personnel associated with the operation of the Sohar plant and the staff of the Company for their dedication and hard work.

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

Murtadha Ahmed Sultan

Chairman of the Board



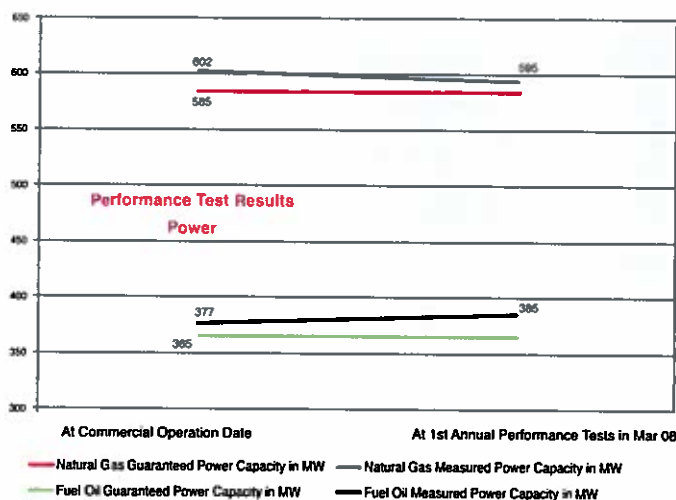




Operational Highlights

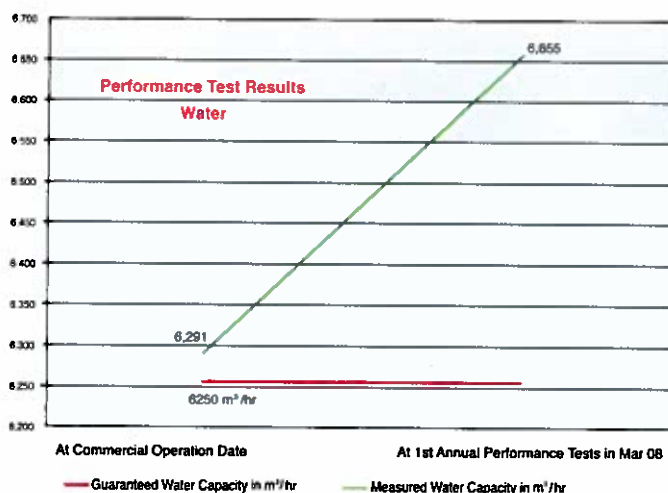
Capacity

The Capacity of a plant is defined as the total electrical power (in MW) and water (in m³/day), which can be delivered by the Plant under specific environmental conditions (Site Reference Conditions). The contractual Capacity of SPC's Plant is 585 MW and 6,250 m³/hr, constant over the 15-year period of the PWWA. The performance tests conducted to date show performance better than the guarantees (see the graph below). This Capacity is expected to decline over the period of PWWA due to normal degradation of the Plant but is expected to remain above 585 MW and 6,250m³/hr and meet contractual requirements under the PWWA.



Availability

Availability is the amount of time the Plant is technically capable of generating power and water as per specifications. Under the PWWA, SPC's Plant shall be available for 100% of time in the summer period, and 85% of the time for power and 87% of the time for water in the winter period. Forced Outages of 2% for power plant and the water plant have been assumed in the Company budget. However, in 2008, the Forced Outages were limited to 0.46% for the power plant and to 0.81% for the water plant.



The total power made available during 2008 was 4,782.4 GWh which works to an availability of 92.8%.

The total water made available during 2008 was 49,566,587 m³ which works to an availability of 90.04%. The water delivery remained low for first three quarters of the year until the Sohar-Muscat water pipe link was established in October. We expect an increase in the water delivery in the future.

Reliability

The reliability of the Plant is the ability of the Plant to deliver the declared availability, as per PWWA. Any failure to deliver the declared capacity will be treated as forced outage. The goal of SPC is to minimize these forced outages. During 2008 the forced outages for power plant was 0.46 % resulting in a reliability factor of 99.54%. The forced outage rate for water plant was 0.81%, with reliability factor being 99.19%.



Plant Efficiency (Heat Rate)

The efficiency of the power plant is measured in terms of the amount of heat required to produce one unit of power. Demonstrated efficiency in the original performance test was better than contractual requirements under the PWWA, thus bringing an upside to the Company.

The Contracted Heat Rate is 8,997 MJ/MWh for natural gas; the initial performance tests demonstrated a heat rate of 8,512 MJ/MWh.

Utilization

During the year 2008 the energy delivered was 3,045 GWh with a utilization factor of the power plant of 63.67%. The total water delivered by the water plant was 27,005,579 m³ with a utilization factor of 54.48%.

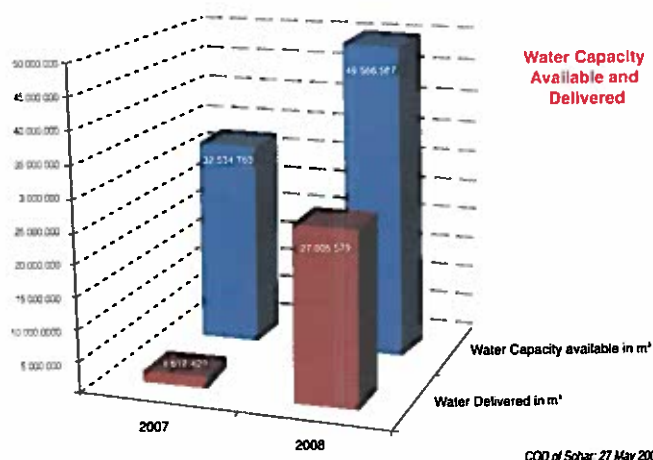
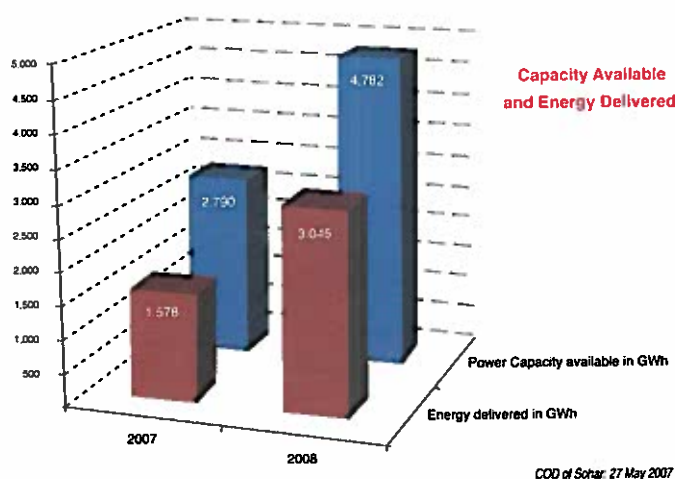
Energy and Water Delivered

The total power delivered to the Grid during 2008 was 3,045 GWh and the total water delivered to the Grid was 27,005,579 m³. Evolution of these statistics since Commercial Operation Date of the Plant is depicted in the following charts.

Impact of the Red Tide in Seawater

Occurrences of red tide blooms are a common phenomenon in the coastal waters of Oman. Red tide is a common name for a phenomenon known as an algal bloom, an event in which algae accumulate rapidly in the water column, or "bloom". These algae, more correctly termed phytoplankton, are microscopic, single-celled, plant-like organisms that can form dense, visible patches near the water's surface.

These algae hindered plant intake seawater conditions, with MISC (the Company's provider of chlorinated seawater) being unable to meet Seawater Extraction Agreement's chlorination levels requirement. MISC claimed forced majeure due to the red tide, consuming all the chlorine their generators could provide. As SPC was able to still meet the potable water specifications, the Plant remained available. However, foul smell in the potable water appeared in water tanks and distribution network as the strength of the chlorine gradually decreased over





time and distance. Following comments by customers, MISC provided for additional manual dosing of chlorine, which solved the issue. MISC, OPWP and PAEW, while thanking the Company for continuing the potable water supply in those difficult conditions, are taking steps to avoid recurrence of such an event. Further, the Company is coordinating with MISC to see if improvements can be implemented in MISC chlorine dosing.

Maintenance

The Steam Turbine annual maintenance took place between 22 October and 12 November 2008. The maintenance included replacement of Steam Turbine insulation.

The MSF desalination unit #1 was under maintenance between 4 and 24 October 2008: the works performed included normal annual maintenance, plus corrosion repairs to secondary air ejectors, seawater supply isolation valve, and water boxes. Temporary parts were purchased by SPC to ensure safe operation of the Plant through the summer 2009 period, while new parts of higher grade material are expected to be received from EPC Contractor as part of a settlement of warranty issues. Those new parts could be installed during next winter outage.

Besides the above, routine maintenance activities of power units, desalination units and balance of Plant were carried out.

EPC warranty issues

SPC Management is discussing with the EPC Contractor the possibility of a settlement of all-pending warranty and punch list issues. Upon reaching an understanding with EPC Contractor, a proposal will be presented to the Company's Board of Directors in this respect.



Financial Highlights

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

| All figures in USD'000 | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|---------|---------|---------|----------|----------|
| Net Profit | 11,142 | 8,121 | 1,011 | - | - |
| Total Assets | 528,010 | 602,607 | 532,242 | 298,379 | 87,660 |
| Total Revenue | 114,545 | 71,677 | 27,845 | - | - |
| Total Shareholders' Fund including hedging deficit | 23,575 | (9,209) | (5,871) | (11,487) | (14,911) |
| Paid-up Capital | 1,299 | 1,299 | 1,299 | 1,299 | 1,299 |
| Increase in Capital | 71,001 | - | - | - | - |
| Current Paid-up Capital | 72,300 | 1,299 | 1,299 | 1,299 | 1,299 |

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|-------------------------------------|-------|-------|-------|-------|-------|
| Return on Total Assets | 2.11% | 1.34% | 0.19% | - | - |
| Debt: Capital ratio (*) | 15:85 | 26:74 | 31:69 | 36:64 | 39:61 |
| Ordinary Dividend (Current Capital) | 8.0% | - | - | - | - |

* Till 2007, for capital ratio equity bridge loan was considered under "Capital."



Description of the Project

1. History of the Project

The Project was awarded to the Promoters, comprising Suez Tractebel S.A., National Trading Company, SOGEX Oman, Ministry of Defense Pension Fund, W.J. Towell & Co and Zubair Enterprises, by the Government following a competitive bidding process. The Promoters formed Sohar Power Company SAOC for the purposes of entering into the project agreements and undertaking the Project.

SPC has been established under a BOO scheme. The BOO concept enables the Company to operate as a concern going beyond the project horizon of 15 years by either extending the PWPA (if agreed to by OPWP), or selling into a liberalized electricity market which may exist at that time. It may be noted that the anticipated useful life of the Plant is 30 years. Previous IWPP projects in Oman, such as Al Kamil and Barka 1 were formed on a BOO basis. However, this is unlike the BOOT (Build Own Operate and Transfer) scheme under which the Manah project was awarded to United Power Company SAOG, where the project is required to be handed over to the Government after the initial contracted period.

The 585 MW combined cycle gas-fired power plant and 150,000 m³/d desalination plant is located in the Sohar Industrial Port Area in the Al Batinah region of the Sultanate of Oman. The site is strategically located near the main gas transmission system and electricity grid network.

The power section of the plant uses three Siemens SGT5-2000E gas turbines (formerly known as V94.2) driving three electrical generators, each fitted with Heat Recovery Steam Generators ("HRSG"), which utilise the exhaust heat of the gas turbines. The steam and this exhaust gas are supplied to one condensing steam turbine to complete the combined cycle. The steam turbine manufacturer is Alstom, one of the world's leading suppliers of steam turbine technology. The balance of the steam produced from the HRSGs is supplied to the desalination plant. The HRSGs are dual pressure natural circulation with a horizontal gas flow. The manufacturer of HRSGs is Doosan Heavy Industries ("DHI"), which is a recognised supplier of HRSGs.

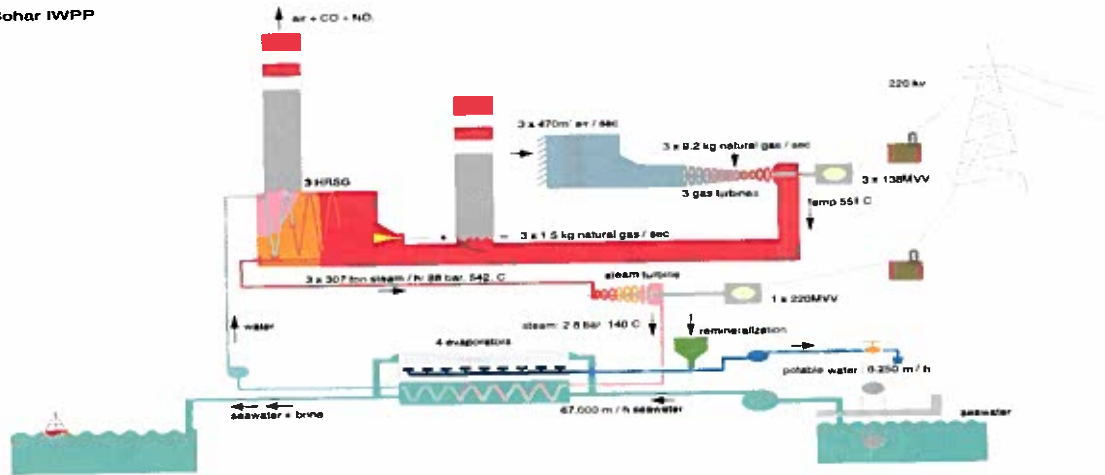
Four conventional Multi Stage Flash ("MSF") desalination units are installed in the Plant. Each unit has an installed gross capacity of 32,750 m³/d at design conditions. The manufacturer is DHI, which is one of the most experienced suppliers of MSF type desalination units. Each unit has 17 heat recovery stages and 3 heat reject stages, and has a performance ratio of 8.2 kg distillate per kg of steam at a Turbine Blade Temperature of 108°C and at reference conditions.

The seawater intake and outfall are part of the Sohar Industrial Port area common facilities and are owned by Ministry of National Economy (MNE) and operated by Majlis Industrial Supply Co. ("MISC"). The potable water is exported through a connection at the site boundary to OPWP potable water network. The process is detailed briefly in the sketch on the following page.

The land for the power plant is owned by the Government which (through the Ministry of Transport and Communication) has entered into an Usufruct Agreement with Sohar Industrial Port Company SAOC ("SIPC"). SIPC entered into a Sub-Usufruct agreement with SPC to grant the Company Usufruct rights for 15 years on



Sohar IWPP



the land (renewable for another 10 years). Additionally, Ministry of Transport and Communication committed towards SPC to extend the lease up to 30 years under a Sub-Usufruct Direct Agreement.

Natural Gas is supplied by the Ministry of Oil and Gas to a pressure reduction station supplying the consumer of the Sohar Industrial Port area. The power output of the gas turbine generator feeds the auxiliary of the Plant and is exported to the grid through a 220 kV substation owned by OETC.

2. Contractual arrangements

Off-taker

The entire output from the Plant's installed Capacity is contracted for through a single long-term PWWA with the Oman Power and Water Procurement Company SAOC ("OPWP") until 31st March 2022. Beyond this date, SPC will either extend its PWWA with OPWP or sell its output in a liberalized market in a pool or to eligible customers, depending on the evolution of the market regulation set by the Regulatory Authority.

Fuel

The natural gas is supplied by Ministry of Oil & Gas ("MOG") for 15 years (commences and ends with the PWWA). In accordance with the Natural Gas Sales Agreement ("NGSA"), natural gas will be supplied up to the gas delivery point of the Plant. In case of non-availability of gas conforming to specifications, SPC is obliged to run the Plant on fuel oil for a continuous period of 3 days as per the provisions of the PWWA and the NGSA. SPC would be reimbursed all the additional costs of running the Plant on fuel oil by MOG and any capacity shortfall, which arises therefrom.

Sea Water

The raw seawater is made available by MNE for 15 years (commences and ends with the PWWA). In accordance with the Sea Water Extraction Agreement ("SWEA"), MISC shall operate, maintain, and avail Seawater Intake/ Outfall facility and provide chlorinated seawater to the Company. In return, SPC is making monthly payments to MISC.



Electrical connection

The power produced is supplied to the OETC-owned Grid at the connection point in the 220 kV sub-station under an Electrical Connection Agreement ("ECA") valid for 15 years (commences and ends with the PWWA).

Water supply connection

As per PWWA, the potable water is supplied under a Water Connection Agreement ("WCA"), valid for 15 years (commences and ends with the PWWA), to the storage facility and its downstream transmission network owned by PAEW.

During the commissioning of the water plant, OPWP and MISC approached SPC to provide process water (the output of the evaporators prior to potabilization) in order to meet the industrial requirements of the Sohar Industrial Complex. Owing to the criticality of the water requirement of certain industries, a temporary agreement was entered into during March 2008 and small quantities are being supplied to the temporary network of MISC. A permanent long-term agreement is being negotiated with OPWP. The modifications that would be required for such long-term supply have already been studied and found to be of no risk to the originally designed process.

EPC Contractor

Sohar Global Contracting and Construction Company LLC ("SGCCC"), with Doosan Heavy Industries as subcontractor. The construction was completed in 2007, and outstanding claims were settled in March 2008 through a Settlement Agreement. The period of warranty under the EPC contract expired on May 28th 2008, and few items are outstanding under a renewed warranty period.

Owner's Engineers

Electrowatt Engineering Oman acted as the owner's engineers reporting to SGCCC and provided the design review, shop inspections and site supervision services.

O&M

The operation and maintenance services are provided by Sohar O&M Company LLC ("SOMC"), a partnership held 50% by Sogex Oman and 50% by Tractebel Parts and Repairs FZE. The contract broadly covers the following scope:

- Day-to-day operation of the Plant, procurement of spare parts and maintenance services necessary to perform scheduled maintenance;
- Training of human resources;
- Health and security policies and procedures;
- Maintain and generate invoices based on fuel demand model and settlement system;
- Performance testing, periodic reporting;
- Management of inventory and wastes.

The Operation and Maintenance Agreement is expiring at the same time as the PWWA. The performance and payment obligations of SOMC under the O&M Agreement are guaranteed by several corporate indemnities from each of Suez-Tractebel S.A. and Suhail Bahwan Holding Group.



3. Revenue Details

Operating Revenues comprise Capacity Charge and Energy Charge and Water Output Charge. Revenues are indexed to the RO-USD exchange rate, US Purchasing Power indices, and Omani Consumer Price indices.

Capacity Charges

Capacity Charges are payable for each hour during which the Plant is available for generation and is paid by OPWP. The Capacity Charge is the total of:

1. Investment charge: covers capital and all related costs of the Project like tax payments, service and return on capital,
2. Fixed operation and maintenance charge: covers fixed operation and maintenance and all related costs of the Plant and
3. New Industry charge: covers period licensing costs under the Sector Law.

Force Majeure events

If SPC is prevented or hindered in performing of its obligations for reasons outside of its control, it will constitute a Force Majeure (FM) event. Following SPC's declaration the following FM events have been approved by OPWP.

| Brief description | | | Duration in Days |
|-------------------|----------|---|------------------|
| 1 | April 07 | OETC non-authorization for Acceptance Tests | 13.00 |
| 2 | May 07 | Sea water supply cut-off - leakage in pipe to SRC | 10.00 |
| 3 | June 07 | Gonu - no chlorinated water from MISC | 1.17 |

In accordance with the PWPA, declaration of FM results in extension of the Term by an amount of time equal to the period of the FM. Revenues during the FM is delayed and paid during the Term extension.

Energy and Water Output Charges

The energy and water output charge is the short-term marginal cost of power and water delivered and is paid by OPWP. It is the total of:

1. Variable operating costs;
2. Start-up Costs: payable to SPC for the costs of the starts.

Fuel Costs

Based on the theoretical natural gas consumption to produce the electrical energy and water output delivered, which will be calculated with the help of a fuel demand model and on the basis of the contractual heat rate.



Profile of the Founders

1. Tractebel Parts and Repairs F.Z.E. ("TPR")

TPR is a wholly owned subsidiary of GDF SUEZ Energy International ("GSEI"), and vehicle through which GSEI conducts its energy business in the Middle East. GSEI is developing and operating energy projects throughout the world. Working with both electricity and gas, it benefits from the close relationship between these two sources of energy.

Headquartered in Belgium, it has operations in North America, Latin America and Middle East - Asia & Africa. It had a power capacity of nearly 30,000 MW at the end of 2007, spread over several countries and using a wide range of fuels and technologies. This enables it to be a low-cost producer and mitigate risks.

GDF SUEZ Energy International is one of the main LNG importers in the US market and a significant player in the Atlantic Basin. It has gas transport and distribution activities in North and Latin America and Asia, as well as transmission lines connecting its facilities to main consumption areas or directly to its customers.

In 2007, GDF SUEZ Energy International sold 124.6 million MWh of electricity and 12.51 billion m³ of natural gas to more than one million customers.

As part of its philosophy of adapting to meet the changing needs of its customers, GDF SUEZ Energy International supports customers in converting their installations to natural gas, to minimize costs and to maximize comfort, reliability, efficiency and safety. It also offers outsourcing services for cogeneration plants and related power, steam, and water distribution grids, guaranteeing our customers a reliable and high quality supply.

In the Middle East GDF Suez Energy International became in 2006 the region's first project developer in the energy and water desalination sector, currently managing 12,396 MW of installed power generation capacity and 1.8 million m³/day of installed water production capacity. In 2008, GDF SUEZ Energy International confirmed that leading position with the award of three major projects in the Middle East: the Ras Laffan C project in Qatar, the largest power and water plant in the country (2,730 MW electricity and 286,000 m³ desalinated water per day), the Shuweihat 2 project in Abu Dhabi (1,507 MW of electricity and 454,610 m³/day of water), and the Al Dur project in Bahrain (1,234 MW of electricity and 218,000 m³ of water/day).

In 2008 GDF SUEZ Energy International booked a sales revenue of 7,623 million euros, representing a gross increase of 14.1% compared to 2007 and 18.4% organic growth.

2. National Trading Company LLC ("NTC")

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

Focusing on the development of Oman, the Company establishes corporations to facilitate projects and develop industries as a diversified group. The corporations are engaged in activities such as power generation, harvesting of fish, travel, security equipment, oil & gas, printing & electronics and providing contracting services. Other corporations supported by the Company produce chemicals and procure raw materials. The established areas



of operation are construction and contracting, engineering and business promotion. Associated/subsidiary companies consist of Gulf of Oman Fishing International LLC, Al Madina Development & Supply LLC, Mideast Data Systems LLC, Security Printing Press LLC, Falcon Insurance SAOC, Power Development Company LLC, Oman Chlorine Company SAOG, Oman Holding International SAOG, National Trading & Projects Company LLC, Oryx Metal Industries LLC, Qatar Building Co. LLC, Stow NTC LLC, Gulfcon Logistics, Al Rusail Power Company SAOC, SMN Barka Power Company SAOC and SMN Power Holding Company Ltd.

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

3. W.J. Towell & Co. LLC ("Towell")

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

Distribution of Fast Moving Consumer goods, property development both residential and commercial, manufacturing of paints, dairy products, mattresses, linen, etc., and services related to shipping, insurance and telecommunications.

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

The group has brought into Oman some of the world famous brands like Unilever, Nestle, Mars, Colgate, British American Tobacco, Mazda, Bridgestone, Jotun Paints etc., either in the form of joint ventures or as sole distributors.

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

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

4. The Zubair Corporation LLC ("Zubair")

Founded in 1967, Zubair today is a diversified corporation consisting of almost 60 wholly owned companies, subsidiaries and associates that operate in Oman, the rest of the Middle East, Europe and the USA. The group has a marked presence in the automotive, furnishing, electric, energy, information and communication technology, property and construction, investment, tourism, manufacturing and trading in a host of products and services.



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

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

5. Ministry of Defence Pension Fund ("MODPF")

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

6. SOGEX Oman LLC

SOGEX Oman Company LLC started in Oman in 1971 as a small contracting firm and then contributed remarkably in the development of Sultanate of Oman to meet the challenge of rapid growth. SOGEX has grown within a short time into a multinational group of companies located throughout the Middle East, Europe and in the United States.

SOGEX Oman as a partnership company and one of SOGEX Group Companies continues its operations in Oman and has participated in supply, construction and services of a number of large projects covering various fields on turnkey basis such as Building and Civil Construction. EPC (Engineering, Procurement, Construction) Contractor for Power & Desalination Plants, Electrical Transmission Lines and Associated Sub-stations of Voltage level up and including 132KV.

On November 15, 1984 Messers Bahwan Group of Companies acquired the whole of SOGEX and renamed as SOGEX Oman Co LLC and thereafter all legal relations with SOGEX International were discontinued.



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

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

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

We found the Report reflects, in all material respects, the Company's application of the provisions of the Code for the period from 18 August 2008 to 31 December 2008 and is free from any material misrepresentation.

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

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Company's annual report for the year ended 31 December 2008 and does not extend to the financial statements or any other reports of the Company, taken as a whole.

7 March 2009

KPMG



Corporate Governance Report

1. Company's Philosophy on Code of Corporate Governance

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

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

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

In compliance with the Article 26 of the above code, Sohar Power Company (SAOG) is including this separate chapter on Code of Governance in its annual financial statement for the year ended December 31 2008.

2. Board of Directors

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

| Name of Directors | Category of Directors | Board Meeting held and attended during 2008 | | | 2008 AGM |
|--|-------------------------------------|---|--------|-------|----------|
| | | 9 Apr | 29 Oct | Total | |
| Mr. Murtadha Ahmed Sultan (Chairman) | Non-Executive Nominee & Independent | ✓ | ✓ | 2 | Yes |
| Mr. Guy Richelle (Vice Chairman) | Non-Executive & Independent | ✓ | - | 1 | No |
| Mr. Antoine H. Georgiou | Non-Executive Nominee & Independent | ✓ | ✓ | 2 | No |
| Mr. C.S. Badrinath | Non-Executive Nominee & Independent | ✓ | ✓ | 2 | Yes |
| Ameed Rukn/Mohammad Bin Sulayem Bin Nasser Al Mazidi | Non-Executive Nominee & Independent | ✓ | ✓ | 2 | Yes |
| Mr. Abdulraouf Abudayyah | Non-Executive Nominee & Independent | ✓ | - | 1 | No |
| Mr. Pierre De Pauw | Non-Executive & Independent | ✓ | - | 1 | No |
| Mr. Eric Kenis | Non-Executive & Independent | - | - | 0 | No |
| Mr. Shankar Krishnamoorthy | Non-Executive & Independent | - | - | 0 | No |
| Mr. Rajit Nanda (resigned during the year) replaced by Mr. Mahinder Nath | Non-Executive Nominee & Independent | ✓ | - | 1 | No |

Further, during the year a meeting by circulation was held on 15 September 2008.



Directorship / membership in other SAOG companies in Oman, held during the year.

| Name of Directors | Position held | Name of the Company |
|--|---------------------------------------|---|
| Mr. Murtadha A. Sultan | Director Director Chairman | Gulf International Chemicals Oman Flour Mills United Power Company |
| Mr. Guy Richelle | Vice Chairman | United Power Company |
| Mr. Antoine H. Georgiou | Vice Chairman Director Director | Oman Holding International Oman Chlorine Company United Power Company |
| Mr. C.S. Badrinath | Director Director Director | Muscat Finance Co. Sweets of Oman United Power Company |
| Ameed Rukn/Mohammad Bin Sulayem Bin Nasser Al Mazidi | None | - |
| Mr. Abdurouf Abudayyah | None | - |
| Mr. Pierre De Pauw | Director | United Power Company |
| Mr. Eric Kenis | Director | United Power Company |
| Mr. Shankar Krishnamoorthy | None | - |
| Mr. Rajit Nanda (resigned during the year) | Director | United Power Company |
| Mr. Mahinder Nath | None | - |

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

3. Audit Committee

3.1 Brief description of the terms of reference.

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing: the financial reports and other financial information provided by the Company to any governmental body or the public; the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; and the Company's auditing, accounting and financial reporting processes generally.

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

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

- Serve as an independent and objective party to monitor the Company's financial reporting process and internal control system;
- Review and appraise the audit efforts of the Company's statutory and internal auditors;
- Provide an open avenue of communication among the statutory and internal auditors, financial and senior management and the Board of Directors.



3.2 Composition of Audit Committee and attendance record of Committee Members.

After conversion to a SAOG company the Directors of the Company in their meeting on 29 October 2008 formed the Audit Committee and approved the following directors as committee members:

- Mr. Rajit Nanda (resigned subsequently), replaced by Mr. Mahinder Nath
- Mr. C. S. Badrinath
- Mr. Pierre De Pauw

3.3 Activities

The Audit Committee will convene its first meeting in 2009.

4. Process of Nomination of Directors

The election of the Board is governed by the Company's Articles of Association (Article 19 to 22).

Further, as required by CMA circulars, the Company obtained "Nomination Form" from all, other than temporary, Directors and the forms were verified to its compliance and authenticity by the Company's Secretary and its legal counsel, before forwarding to the 'Capital Market Authority.'

The Board of Directors was elected on 14 May 2008 for the term of three years and the election process was done in accordance with the amended Articles of Association. However, as agreed and disclosed in the IPO, two new seats will be added to the present 10 members Board. Consequently, fresh elections for the new Board comprising of all 12 seats will be undertaken in the forthcoming AGM.

5. Remuneration

5.1 Directors – Remuneration / Attendance Fee

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

The total remuneration to the Directors were as follows:

| | |
|-------------------------|------------|
| | RO'000 |
| Director's remuneration | 119 |
| Sitting fee | 5 |
| Total | 124 |



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

| Sl. No. | Name of Director | No. of meeting Paid | Sitting fees in RO | Total Remuneration in RO |
|--------------|--|---------------------|--------------------|--------------------------|
| 1 | Mr. Murtadha Ahmed Sultan | 2 | 800 | 9,163 |
| 2 | Mr. Guy Richelle | 1 | 400 | 16,493 |
| 3 | Mr. Antoine H. Georgiou | 2 | 800 | - |
| 4 | Mr. C. S. Badrinath | 2 | 800 | 9,163 |
| 5 | Ameed Rukn Mohammad Bin Suleyam Bin Nasser Al Mazidi | 2 | 800 | 9,163 |
| 6 | Mr. Abdulraouf Abudayyah | 1 | 400 | 9,163 |
| 7 | Mr. Pierre De Pauw | 1 | 400 | 16,493 |
| 8 | Mr. Eric Kenis | 0 | 0 | 16,493 |
| 9 | Mr. Shankar Krishnamoorthy | 0 | 0 | 16,493 |
| 10 | Mr. Rajit Nanda (resigned during the year) replaced by Mr. Mahinder Nath | 1 | 400 | 16,496 |
| TOTAL | | | 4,800 | 119,117 |

The Company will continue to pay sitting fee per Director per meeting amounting to RO 400 in the year 2009, up to a maximum of RO 10,000 to any individual Director.

5.2 Top Five Officers

The Company has no specific officers on its payroll and is provided support by an associate company.

6. Non-Compliance Penalties

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

7. Means of Communication with the Shareholder and Investors

- 7.1 Annual accounts and quarterly accounts are put on the official website of MSM as per the guidelines by the market regulators. Notice to the annual general meetings is sent by post to the registered shareholders.
- 7.2 The Company has its own website. The Chairman gives press releases in case of important news and developments that arise. Such press releases are posted to the website of MSM in accordance with the guidelines issued by the market regulators.



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

7.4 Management Discussion and Analysis (MD&A).

A. Industry structure and development

The Company is the largest privately owned Independent Water & Power project in the country.

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

B. Opportunities and threats

The Company was formed specifically for the Plant located at Sohar and cannot undertake new ventures. Long-term WPPA with Government protects the Company from market forces.

C. Analysis of income statement (stated in functional currency i.e. US Dollars)

- SPC had a seven-month operation in 2007, as Commercial Operation Date of the project occurred on 28 May 2007. However, in 2008 SPC operated for a complete term of 12 months.
- In view of these different operational periods of 2007 and 2008, the results of these two years are not comparable. However, the projected net profit of USD 11,558K for the year 2008, given in the the prospectus of the Company, issued at the time of its IPO in July 2008 is comparable with the actual profit of USD 11,140K registered by SPC for the year ended 31 December 2008.

D. Analysis of Balance Sheet (stated in functional currency i.e. US Dollars)

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

- Net reduction in property, plant and equipment in the amount of USD 17,312K in the year under review is equivalent to the depreciation charge for the year.
- The collection of debt from trade debtors improved during 2008. Consequently, trade debtors for current year were lower by USD 5,766K as compared to the previous year. During the year under review, the Company has considered making 100% provision against doubtful debts and as a result, increased the provision for doubtful debts by USD 2,294K.
- There was no change in value of inventories; however, the amortization on inventories has gone up by USD 252K, which represents amortization for the current year.
- Amount due from related parties as on 31 December 2007 was USD 18,482k. This amount has been recovered during the year and the amount due from related parties was showing a 'Nil' balance at the end of 2008.
- The year under review was quite an eventful year in terms of cash flow of the Company. Besides the normal flow of funds from operations, following financing activities also affected the cash flow of the Company.
 - There was a flow of funds amounting to USD 71,000K on account of increase in share capital of the Company.
 - During the current year, the Company entered into refinancing agreements, resulting in increasing the repayment term of its Base Loan by 3 years, full repayment of Equity Bridge Loan USD 137,860K, whose full settlement was originally planned in 2009, and acquisition of a new long-term loan amounting to USD 72,000K.
 - The Company also paid USD 8,760K as Dividend pertaining to the year 2007.
 - The increase of USD 71,000K in Share capital, as explained earlier, is on account of increase in share capital of the Company, during the current year.



- Prior to the refinancing agreements the Company had hedged 80% of its long-term loans outstanding. Subsequent to refinancing, 95% of the long-term loan were hedged.

The hedging deficit on Company's three swap agreements, at the close of 2008, was USD 60,989 (2007 – USD 20,091K). 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.

- The decrease in long-term loan, as explained above, is mainly due to the full settlement of Equity Bridge Loan amounting to USD 137,860K and acquisition of a new long-term loan of USD 72,000K.
- The Trade Creditors balance at the close of the 2008 was lower by USD 23,087K, as compared to the same at 31 December 2007. The decrease in the Trade Creditors was due to settlement of their liabilities during the year.
- On 31 December 2007 USD 49,882K were payable to related parties. On 31 December 2008 the balance of the same was USD 3,292K. The decrease in balance was on account of settlement of liabilities of these parties during the year 2008.

E. Outlook for 2009

Due to the nature of its activities and as explained before, that the Company is regulated by the terms of Water & Power Purchase Agreement, we see no major change in our activities. Due to tariff structure contained in the Water & Power Purchase Agreement, the revenue will show a similar trend.

F. Note of Distillate Water

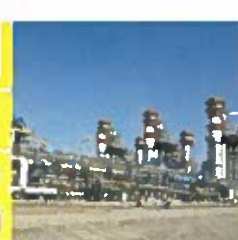
At the request of OPWP, SPC has been providing in 2008 distillate water to neighboring industries in the Sohar Industrial Port area. What started as an emergency supply has become recurrent in the second half of the year. SPC entered into a temporary supply agreement with OPWP in this respect. Note that revenues under such agreement are not affecting the revenues under the PWPA.

The Company is currently in discussion with OPWP for the conclusion of a long-term distillate water supply agreement, which would provide the local industries with reliable supply.

G. Internal control systems and their adequacy

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

Besides in-house process, our principal shareholders also oversee that we continue to maintain highly efficient and adequate controls.



8. Market Price Data

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

| Month | Low | High | Average | MSM Index (Service sector) |
|-------|-------|-------|---------|-------------------------------|
| Aug | 1.690 | 2.000 | 1.845 | 4607.845 |
| Sept | 1.610 | 1.800 | 1.705 | 4038.075 |
| Oct | 1.530 | 1.850 | 1.690 | 3386.510 |
| Nov | 1.350 | 1.610 | 1.480 | 2883.805 |
| Dec | 1.350 | 1.429 | 1.390 | 2640.305 |

Distribution of shareholding

The Shareholder pattern as on 31 December 2008 is as follows:

| Category of Shareholders | Number of Shareholders | Total Shareholders | Share Capital% |
|---|---------------------------|-----------------------|-------------------|
| Major Shareholders | 6 | 19,460,000 | 70.00 |
| Shareholders less than 5%; more than 1% | 3 | 1,234,085 | 4.44 |
| Shareholders below 1% | 17,028 | 7,105,912 | 25.56 |
| Total | 17,037 | 27,800,000 | 100.00 |

9. Specific Areas of Non-Compliance with the Provisions of Corporate Governance and Reasons

NONE

10. Professional Profile of the Statutory Auditors

The shareholders of the Company have appointed KPMG as the auditors for the year 2008. KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. They operate in 144 countries and have more than 137,000 professionals working in member-firms around the world.

KPMG is one of the leading accredited accounting firms in Oman and has more than 100 employees including 3 Partners, 2 Directors, and 15 Managers. KPMG has many years of experience in the Middle East. They have a reputation for providing quality professional services to a well-diversified client portfolio, both in public and private sectors.

During the year 2008, RO 12,012 was charged by external auditors against the services rendered by them to the Company (RO 7,200 for audit and RO 4,812 for other audit related services).



11. Acknowledgement by the Board of Directors

The Board of Directors confirms the following:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.
- Review of the efficiency and adequacy of internal control systems of United Power Company SAOG and that it complies with internal rules and regulations.
- That there are no material matters that affect the continuation of the Company and its ability to continue its operations during the next financial year.





Brief profiles of Directors

Annexure

Name : **Murtadha Ahmed Sultan – Chairman**
Year of Joining : 2004
Education : Graduate - Sales and Marketing Management
Experience : Director of W. J. Towell Group of Companies
 Well-known in the business community, Mr. Sultan has more than 30 years' experience in different commercial fields; he is holding or has held various positions in public, private and government organizations. Mr Murtadha Sultan is also the Chairman of United Power Company. He is also a Director of Oman Flour Mills, Gulf International Chemicals, and Modern Poultry Farms Company.

Name : **Guy Richelle – Vice Chairman**
Year of Joining : 2004
Education : Masters in Civil/Physics Engineering
 Management Diploma
 Certification as Senior Reactor Operator
Experience : After graduating from the Université de Liège in 1978 as Physics Engineer specializing in nuclear power, Mr. Richelle worked for a number of major companies across the world, such as Westinghouse and Eskom. In 1998, he joined GDF Suez (formerly Tractebel EGI) as CEO of UPC, the company operating the Al Manah power plant in Oman. He returned to Brussels in 2001 to work as Business Developer for the Middle East region. In November 2003, with the opening of the SEI office in Dubai, Mr. Richelle became CEO of SUEZ Energy Middle East and Head of Business Development in the Middle East region. At the same time, he acted as General Delegate for SUEZ in the United Arab Emirates and Oman. He took up his current position as a President and CEO of SUEZ Energy Middle East - Asia & Africa on January 1, 2007.

Name : **A.H. Georgiou**
Year of Joining : 2004
Experience : Managing Partner of National Trading Company LLC. Well known for his rallying achievements, Mr. Georgiou has been in Oman for 31 years, founded National Trading Company LLC in 1982 and has been the Managing Partner since then. Mr. Georgiou was instrumental in the first power privatization of Manah back in 1992 and has been involved in subsequent power companies in Oman, namely United Power Company SAOC, Al Rusail Power Company SAOC and SMN Barka Power Company SAOC. Mr. Georgiou also sits on the Board of OHI SAOG and Oman Chlorine Company SAOG.



Name : **C.S. Badrinath**
Year of Joining : 2004
Education : Chartered Accountant and Cost and Management Accountant
Experience : Mr. Badrinath is with the Zubair Group for the last 26 years having handled different finance functions and is presently the Senior Vice President – Group Finance. Mr. Badrinath is a member of all the monitoring and executive committees and shareholders' forums of the Zubair Group companies. Mr. Badrinath represents Zubair Group as Director in many of the public limited companies.

Name : **Mohammad Bin Suleyam Bin Nasser Al Mazidi**
Year of Joining : 2004
Education : M.A. Defence Studies, Madras University, India
Experience : Since June 2003, Brigadier Mr. Mohammed Al Mazidi has been working as Director, General Finance and Account till date. He has also been a member of the Board of United Power Company until March 2008 and is a member of the Board of Sohar Power since inauguration.

Name : **A.R. Abu Dayyeh**
Year of Joining : 2004
Education : B.S. Engineering
Experience : Mr. Abu Dayyah has 42 years' experience in Power and Desalination plant project management and Operation Maintenance of Power and Water facilities. CEO of Sogex Oman Co. LLC since 1977.

Name : **Pierre De Pauw**
Year of Joining : 2007
Education : Masters in Electrical & Mechanical Engineering - University of Ghent, Belgium
Masters in Business Administration - University of Ghent, Belgium
Experience : Mr. De Pauw has 39 years of techno-commercial experience. He is on the Board of SPC and has been closely involved in the construction of the Sohar project.

Name : **Eric Kenis**
Year of Joining : 2007
Education : Masters Degree in Electromechanical, Nuclear and Safety Engineering, University of Leuven, Belgium
Business Administration Program CEDEP Fontainebleau, France



Experience : Mr. Kenis has 33 years of technical, commercial and managerial experience, of which 30 years have been in the Power business. At present he is responsible for coordinating all operational and commercial activities of Suez Energy International. He is also a Board member of various Suez affiliates. He is currently Chief Operating Officer, Suez Energy International.

Name : **Mahinder Nath**
Year of Joining : 2009
Education : Bachelor of Engineering (Mechanical), University of Delhi, India
Experience : Mr. Nath has a total of 29 years of experience in the industry, out of which he has spent more than 20 years in the energy industry. He has been involved in EPC contracting, project management, business development and general management functions in the power industry. As Head of Business Development, Mr. Mahinder worked with Thermax Limited, India, a leading boiler and water treatment equipment manufacturer and power EPC contractor. He also worked as Head – Projects for one of the emerging Indian power development companies. Among his other assignments, he was profit centre head of a textile machinery manufacturing company.

Mr. Nath joined the Suez group in Dubai in 2005 and worked on the development of IWPPs in Saudi Arabia. He is currently the Head - Business Development for Middle East and North Africa.

Name : **Shankar Krishnamoorthy**
Year of Joining : 2007
Education : Bachelor of Electrical Engineering with Honours
Experience : After graduating with honours as an electrical engineer, Shankar worked with BHEL, the dominant Indian power equipment manufacturer and Crompton Greaves Limited.
 Mr. Krishnamoorthy joined the GDF Suez group in India in 1997 (becoming the CEO of Tractebel in India) and worked on South Asian projects for the Suez group. He moved to Suez's Bangkok operations in 2002 and was responsible for the development of business in Asia and Southern Africa. Mr. Krishnamoorthy has nearly 25 years of experience in the electricity industry. He has been involved in construction, project management, business development and general management in the power industry.

Till 31 December 2008, Mr. Krishnamoorthy was the Chief Business Developer for MENA, Turkey and India. From 1 January 2009 he assumes the role of CEO.



Under the terms of the management agreement entered into with Power Development Company LLC ("PDC") in 1994, PDC provides day-to-day management of SPC and gives all support by providing manpower and other infrastructure. For this, PDC is paid an annual fee and reimbursed expenses.

It provides the following personnel:

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

The management team has been empowered and jointly operates within a well-defined authorization limits.

Brief profile of the current managerial team is as follows:

| | |
|------------------------|--|
| Name | : Arnaud de Limburg Stirum |
| Year of Joining | : 2008 |
| Education | : Law Degree – University of Leuven, Belgium Post-graduate in Economics and International Relations – London School of Economics, UK General Management Program – CEDEP, France |
| Experience | : 10 years of experience in the field of power project development in Europe, Asia and the Middle East. He joined GDF SUEZ in 1999. As General Counsel for the Middle East, based in Dubai since 2004, he contributed to the development of GDF SUEZ Energy International in the region. In his current role as CEO, he is responsible for managing the operations of the company. |

| | |
|------------------------|--|
| Name | : Zoher Karachiwala |
| Year of Joining | : 2007 |
| Education | : Chartered Accountant |
| Experience | : 32 years in the field of Statutory Audit & Accounting and Finance. He was KPMG Audit Partner in Pakistan before joining United Power Company in 1995. Acted as Honorary Chairman of Audit Committee and the Board of Directors for a public company in Oman. Currently Group Company Secretary and, as Chief Financial Officer, assists the CEO in running the company besides managing all matters of finance & administration. |



Name : **Garuda Prakash**
Year of Joining : 2004
Education : Bachelor of Engineering (Electrical), Bangalore University, India.
 PG Diploma in Marketing Management, Institute of Marketing & Management, Delhi, India.
Experience : 28 years of work experience in project management, operation and maintenance, HSE management of electrical power generation, transmission, distribution projects and manufacture of power transformers. In his current position as Technical Manager, Mr Prakash is responsible for the entire technical liaison with the client, statutory authorities, and contractors and provides technical support to the CEO. He is also a member of the Grid Code Review Panel (GCRP) of Oman and a Member of the College Council of Nizwa College of Technology, Directorate General of Technological Education, Ministry of Manpower.

Name : **S.M. Tariq**
Year of Joining : 2004
Education : MBA, West Coast Institute of Management & Technology, Australia.
 ACA (Intermediate), Institute of Chartered Accountants of Pakistan.
Experience : 32 years of experience in External Audit (KPMG, Karachi Office and Muscat office) Internal Audit (National Trading Company, Muscat) and Accounting & Finance (United Power Company SAOG and Sohar Power Company SAOG, Muscat). In this current position as Finance Manager, he is responsible for management of accounting department; he co-ordinates external / internal auditors.

Name : **Jamal Al Bloushi**
Year of Joining : 2004
Education : Diploma in Computers
 Certificate in Advanced English from Cambridge University 1998
Experience : 14 years' experience in administration activity, including managing spare parts, logistics, liaisons with government organizations, licenses, translation function and supervising local insurance programs and assisting CFO at statutory meetings.



Independent Auditors Report to the Shareholders of Sohar Power Company SAOG

Report on the financial statements

We have audited the financial statements of Sohar Power Company SAOG ("the Company") set out on pages 38 to 62, which comprise the balance sheet as at 31 December 2008, the income statement for the year ended 31 December 2008, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sohar Power Company SAOG as of 31 December 2008 and its financial performance for the year ended 31 December 2008, statement of changes in equity and cash flow statement for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion, the financial statements of the Company as at and for the year ended 31 December 2008, in all material respects, comply with:

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

Emphasis of matter

Without qualifying our opinion we draw your attention to note 3(a) on page 43 which sets out the basis on which the Management has concluded that it is not appropriate to recognize revenue on a straight line basis as required in accordance with the International Financial Reporting Standards.

7 March 2009



Income Statement

| | Note | For the year ended 31 December 2008 | | For the period from 28 May 2007 to 31 December 2007 | |
|---|------|--|-----------------|---|----------|
| | | RO'000 | USD'000 | RO'000 | USD'000 |
| Revenue | | 44,099 | 114,545 | 27,596 | 71,677 |
| Direct cost | 5 | (27,195) | (70,638) | (20,332) | (52,810) |
| Gross profit | | 16,904 | 43,907 | 7,264 | 18,867 |
| Other income | 6 | - | - | 4,810 | 12,494 |
| Administrative and general expenses | | (1,765) | (4,584) | (989) | (2,568) |
| Result from operating activities | | 15,139 | 39,323 | 11,085 | 28,793 |
| Finance cost | 7 | (10,481) | (27,224) | (7,701) | (20,003) |
| Profit before income tax | | 4,658 | 12,099 | 3,384 | 8,790 |
| Income tax | 15 | (368) | (957) | (258) | (669) |
| Net profit for the year/period | | 4,290 | 11,142 | 3,126 | 8,121 |
| Basic earning per share | 21 | 0.21 | 0.55 | 6.25 | 16.24 |

The notes on pages 42 to 62 form an integral part of these financial statements.
The report of the Auditors is set forth on page 37.



Balance sheet

As at 31 December

| | Note | 2008 RO'000 | 2008 USD'000 | 2007 RO'000 | 2007 USD'000 |
|--------------------------------------|------|----------------|-----------------|----------------|-----------------|
| Non-current assets | | | | | |
| Property, plant and equipment | 8 | 188,887 | 490,615 | 195,552 | 507,927 |
| Total non-current assets | | <u>188,887</u> | <u>490,615</u> | <u>195,552</u> | <u>507,927</u> |
| Current assets | | | | | |
| Trade and other receivables | 9 | 8,493 | 22,059 | 11,603 | 30,137 |
| Inventories | | 1,107 | 2,877 | 1,205 | 3,129 |
| Due from related parties | 17 | - | - | 7,114 | 18,482 |
| Cash and cash equivalent | 10 | 4,797 | 12,459 | 16,529 | 42,932 |
| Total current assets | | <u>14,397</u> | <u>37,395</u> | <u>36,451</u> | <u>94,680</u> |
| Total assets | | <u>203,284</u> | <u>528,010</u> | <u>232,003</u> | <u>602,607</u> |
| Equity and reserves | | | | | |
| Share capital | 11 | 27,800 | 72,300 | 500 | 1,299 |
| Legal reserve | 12 | 595 | 1,545 | 166 | 433 |
| Retained earnings | | 3,909 | 10,059 | 3,349 | 8,699 |
| Shareholders' fund | | <u>32,304</u> | <u>83,904</u> | <u>4,015</u> | <u>10,431</u> |
| Hedging deficit | 13 | (23,226) | (60,329) | (7,560) | (19,640) |
| Total equity | | <u>9,078</u> | <u>23,575</u> | <u>(3,545)</u> | <u>(9,209)</u> |
| Liabilities | | | | | |
| Hedging deficit | 13 | 23,480 | 60,989 | 7,734 | 20,091 |
| Long-term loans | 14 | 156,015 | 405,233 | 188,048 | 488,436 |
| Deferred tax liability | 15 | 726 | 1,885 | 358 | 928 |
| Total non-current liabilities | | <u>180,221</u> | <u>468,107</u> | <u>196,140</u> | <u>509,455</u> |
| Current liabilities | | | | | |
| Current portion of long-term loans | 14 | 7,773 | 20,190 | 6,370 | 16,546 |
| Trade and other payables | 16 | 5,331 | 13,846 | 13,835 | 35,933 |
| Amounts due to related parties | 17 | 881 | 2,292 | 19,203 | 49,882 |
| Total current liabilities | | <u>13,985</u> | <u>36,328</u> | <u>39,408</u> | <u>102,361</u> |
| Total liabilities | | <u>194,206</u> | <u>504,435</u> | <u>235,548</u> | <u>611,816</u> |
| Total equity and liabilities | | <u>203,284</u> | <u>528,010</u> | <u>232,003</u> | <u>602,607</u> |
| Net asset per share | 21 | <u>1.60</u> | <u>4.17</u> | <u>8.03</u> | <u>20.1</u> |

These financial statements were approved and authorized for issue by the Board of Directors on 7 March 2009 and were signed on its behalf by:

Mr. Murtadha Ahmed Sultan
Chairman

Mr. Pierre De Pauw
Director

The notes on pages 42 to 62 form an integral part of these financial statements.

The report of the Auditors is set forth on page 37.



Statement of changes in equity

| | Share capital RO'000 | Hedging deficit RO'000 | Legal reserve RO'000 | Retained earning RO'000 | Total equity RO'000 | Total equity USD'000 |
|--|----------------------------|------------------------------|----------------------------|-------------------------------|---------------------------|----------------------------|
| 1 January 2007 | 500 | (3,150) | 38 | 351 | (2,261) | (5,871) |
| Fair value adjustment-net of tax | - | (4,410) | - | - | (4,410) | (11,456) |
| Net profit for the period | - | - | - | 3,126 | 3,126 | 8,118 |
| Transfer to legal reserve | - | - | 128 | (128) | - | - |
| 31 December 2007 | 500 | (7,560) | 166 | 3,349 | (3,545) | (9,209) |
| 1 January 2008 | 500 | (7,560) | 166 | 3,349 | (3,545) | (9,209) |
| Share capital increase | 27,300 | - | - | - | 27,300 | 71,000 |
| Payment of dividend | - | - | - | (3,337) | (3,337) | (8,670) |
| Fair value adjustment-net of tax | - | (15,666) | - | - | (15,666) | (40,688) |
| Share capital conversion difference | - | - | - | 36 | 36 | - |
| Net profit for the year | - | - | - | 4,290 | 4,290 | 11,142 |
| Transfer to legal reserve | - | - | 429 | (429) | - | - |
| 31 December 2008 | 27,800 | (23,226) | 595 | 3,909 | 9,078 | 23,575 |

The notes on pages 42 to 62 form an integral part of these financial statements.

The report of the Auditors is set forth on page 37.



Cash flow statement

| | For the year ended 31 December 2008 | | For the period from 28th May 2007 to 31 December 2007 | |
|---|--|-----------------|---|-----------------|
| | RO'000 | USD'000 | RO'000 | USD'000 |
| Cash flows from operating activities | | | | |
| Cash receipts from customers and others | 53,435 | 138,793 | 17,831 | 46,310 |
| Cash paid to suppliers and employees | (48,129) | (125,011) | (28,353) | (73,828) |
| Cash generated from (used in) operations | 5,306 | 13,782 | (10,522) | (27,518) |
| Interest paid | (9,759) | (25,348) | (6,979) | (18,128) |
| Cash flows used in operating activities | (4,453) | (11,566) | (17,501) | (45,646) |
| Investing activities | | | | |
| Addition to property, plant and equipment | (12) | (30) | (10,749) | (27,728) |
| Proceeds from disposal of property, plant and equipment | 7 | 18 | - | - |
| Cash used in investing activities | (5) | (12) | (10,749) | (27,728) |
| Financing activities | | | | |
| Payment of dividend | (3,338) | (8,670) | - | - |
| Increase in share capital | 27,335 | 71,000 | - | - |
| Drawdown of loans | 27,720 | 72,000 | 35,873 | 93,177 |
| Repayment of loans | (58,991) | (153,225) | (3,135) | (8,147) |
| Cash flows (used in) from financing activities | (7,274) | (18,895) | 32,738 | 85,030 |
| Net (decrease) increase in cash and cash equivalents | (11,732) | (30,473) | 4,488 | 11,656 |
| Cash and cash equivalent at the beginning | 16,529 | 42,932 | 12,041 | 31,276 |
| Cash and cash equivalent at the end | 4,797 | 12,459 | 16,529 | 42,932 |

The notes on pages 42 to 62 form an integral part of these financial statements.

The report of the Auditors is set forth on page 37.



Notes

(forming part of the financial statements)

1. Legal status and principal activities

Sohar Power Company SAOG (the "Company") was registered as a closed joint stock company 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 with an authorized share capital of RO 60 million and an issued share capital of RO 27.8 million. The issued share capital was fully subscribed and paid by 14 April 2008 and the proceeds used to repay part of the equity bridge loan, the balance of which was repaid out of incremental long-term loan drawn down the same day. Subsequently in July 2008, the founder shareholder of the Company had offer 35% of their capital to the public at a premium, in accordance with the Project Founder Agreement, provision of Commercial Companies Law, RD 4/74 and the amendments thereto (the "CCL") and Capital Market Law, RD 80/98 (the "CMAL").

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) 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) Usufruct agreement with the Government for grant of Usufruct rights over the project site for 15 years, with the option possibility of extension to 25 years;
- (iv) Seawater Extraction Agreement with the Ministry of National Economy of the Government, 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;



2 Significant agreements (continued)

- (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 termination date of PWPA, whichever is earlier. SOMC shareholding consists of Tractebel Parts and Repairs FZE (50%) and SOGEX Oman LLC (50%); and
- (vii) Financing Agreements with Lenders for long-term loan facilities.

3 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS), and the requirements of the Commercial Companies Law of 1974, as amended.

The Power Capacity Investment charge rate and Water Capacity Investment charge rate in PWPA has been structured in such a way that the investment tariff rates are reducing at constant rate each year over the term of agreement.

In 2005, IFRIC 4 ("Determining whether an arrangement contains a lease") was issued and it became effective from 1 January 2006. The Company considers the applicability of IFRIC 4. IFRIC 4 provides guidance for determining whether an arrangement is, or contains, a lease that should be accounted for in accordance with IAS 17. If such an assessment results in an operating lease; then lease income from such an operating lease shall be recognized in income on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern of the use benefit of the asset. The Management has reviewed the applicability of the IFRIC 4 and conclude that:

- The PWPA conveys a right of use on the Company's plant. This lease qualifies as an operating lease.
- Any change in the recognition of revenue from the billing pattern will mean non-compliance with PWPA and other project agreement.
- Adherence to IAS 17 will result in recognizing lease income on a straight-line basis over the term of the PWPA. However, IAS 17 does not provide guidance for recognizing the corresponding cost, such as depreciation which is similar over the term of the PWPA and finance cost which is significantly higher in earlier years and lower in the later years. Consequently straight-line revenue recognition would result in lower net profit in the initial period and significantly higher in later periods. Management believes that, adherence to IAS 17 will result in unfair presentation of the economic reality and it would conflict with the following objectives of the financial statements:
 - The matching principle of revenue and expense, and
 - The recognition of a liability; i.e. deferred revenue, without having incurred a present obligation stemming from the billing of the decreasing lease payments.

Management believes that the gradually decreasing lease payments reflect the fair value of the consideration for the Company's availability with respect to Electrical Energy generating capacity, and Water Output desalination capacity in the respective years, evidenced by:

- The off-taker's acceptance of the decreasing tariff, recognizing that the expense incurred by the Company to make available capacity to generate the energy and the desalinated water also follows a decreasing pattern. This pattern is driven by the importance of the debt service costs;



Notes

(forming part of the financial statements)

3 Basis of preparation (continued)

- The PWPA explicitly mentioning that the (frontloaded) lease payments compensate for its debt service costs; and
- The absence of any explicit claw-back provisions for the off taker with respect to the initially higher amounts of Investment Charge paid, in case of a breach of contract by the Company.

Because of the above, the Management believes that calculating the impact of not recognizing revenue on a straight line basis will be misleading and not appropriate.

(b) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(c) 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 financial statements have been prepared under the historical cost basis modified for derivative financial instruments, which are stated at fair value. Exchange rate considered for conversion is RO 1 = USD 2.6. Company's functional currency is US Dollars.

4. Significant accounting policies

(a) Operating lease payments

Payments made under operating leases are recognised on a straight-line basis over the term of the lease.

(b) Property, plant and equipment

Items of property, plant and equipment are stated at cost. Borrowing costs, net of interest income, which are directly attributable to acquisition of items of property, plant and equipment are capitalised as the cost of property, plant and equipment.

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.



4. Significant accounting policies (continued)

Depreciation

Depreciation is recognized on a straight line basis over the estimated useful lives of property, plant and equipment. 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 |

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(c) 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 amortized 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 income statement. 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 the income statement.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. 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 specified 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 amortization, if no impairment loss had been recognized.

(d) 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 the income statement as incurred. The Company's obligation in respect of non-Omani terminal benefits, under defined contribution



Notes

(forming part of the financial statements)

4. Significant accounting policies (continued)

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.

(e) 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 balance sheet 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. During the construction period, exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost are capitalised.

(f) Financial instruments

(i) Non-derivative financial instruments

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

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

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

(ii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(g) Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects the income statement.



4. Significant accounting policies (continued)

(h) Interest bearing borrowings

Interest bearing borrowings are recognised initially at cost, less attributable costs such as loan arrangement fee during the construction period. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowings on an effective interest rate basis.

(i) Inventories

Inventories comprising of fuel oil and is measured at the lower of cost and net realizable value on a first-in-first-out basis. The cost of inventories includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realizable value is the estimated resale price.

(j) Revenue

Revenue comprises tariffs for power capacity, electrical energy, water capacity and water output charges. Tariffs are calculated in accordance with the PWPA. 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. We also refer to note 3 (a).

(k) 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 the income statement.

(l) Income tax

Income tax comprises current and deferred tax. Income tax expense is recognised in the income statement 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 balance sheet 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.



Notes

(forming part of the financial statements)

4. Significant accounting policies (continued)

(m) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

(n) Embedded derivatives

Changes in fair value of separable embedded derivatives are recognised immediately in profit or loss.

(o) Earnings per share

The Company presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(p) 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.

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied but are relevant and will be applicable to the Company:

- Revised IAS 1 Presentation of Financial Statements introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Revised IAS 1, which becomes mandatory for the Company's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements as the Company plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements.
- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Management does not prepare separate internal operation reports for any segment and considers power generation to be the only segment and accordingly does not believe that IFRS 8 will have any impact on the financial statements.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. It is not expected that revised IAS 23 will have any significant impact on the financial statements.



4. Significant accounting policies (continued)

(r) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

(i) Plant and equipment

The market value of items of plant and equipment is based on the quoted market prices for similar items.

(ii) Inventories

The fair value of inventories is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iii) Trade and other receivables

The fair value of trade and other receivables approximates to their carrying amount due to their short-term maturity.

(iv) Derivatives

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

5. Direct cost

| | For the year ended 31 December 2008 | | For the period from 28 May 2007 to 31 December 2007 | |
|--------------------------|--|---------------|---|---------------|
| | RO'000 | USD'000 | RO'000 | USD'000 |
| Fuel gas | 14,388 | 37,372 | 10,770 | 27,974 |
| O & M fee | 4,576 | 11,886 | 2,540 | 6,597 |
| Liquidated damages | - | - | 2,212 | 5,746 |
| Depreciation | 6,664 | 17,310 | 3,827 | 9,940 |
| Seawater extraction | 645 | 1,676 | 617 | 1,604 |
| Other operating expenses | 922 | 2,394 | 366 | 949 |
| | 27,195 | 70,638 | 20,332 | 52,810 |

During 2006 and 2007, OPWP deducted liquidated damages in connection with the delays in Early Power period ("EPP") and Commercial Operation date ("COD"), aggregating to RO 1.1 million (USD 2.9 million) and R.O. 2.2 million (USD 5.7 million).

During 2008, all the issues relating to the liquidated damages have been settled with OPWP.

6. Other income

During 2008, the Company agreed for settlement of the claim for liquidated damages with SGCCC in connection with the delays in Early Power Period ("EPP") and Commercial Operation Date ("COD") as defined in the EPC.



Notes

(forming part of the financial statements)

6. Other income (continued)

The liquidated damages arising due to delay in Early Power period resulted in RO 1.8 million (USD 4.6 million) receivable from SGCCC, these amounts were recognized in the year 2006. Furthermore delay in Commercial Operation Date results in liquidated damages of RO 4.8 million (USD 12.4 million) receivable from SGCCC, these amounts were recognized in year 2007.

During the year 2008, all the amounts relating to the liquidated damages have been settled with SGCCC.

7. Finance costs

| | For the year ended 31 December 2008 | | For the period from 28 May 2007 to 31 December 2007 | |
|---|-------------------------------------|---------------|---|---------------|
| | RO'000 | USD'000 | RO'000 | USD'000 |
| Interest on base facility | 6,540 | 16,987 | 5,435 | 14,116 |
| Interest on EBL facility | 771 | 2,004 | 1,795 | 4,663 |
| Interest on Repayment loan | 816 | 2,119 | - | - |
| Amortization of deferred financing cost | 641 | 1,666 | 658 | 1,710 |
| Ineffective portion cash flow hedge | 1,722 | 4,472 | (338) | (878) |
| Other financial charge/(income) | (9) | (24) | 151 | 392 |
| | 10,481 | 27,224 | 7,701 | 20,003 |

8. Property, plant and equipment

| | Building RO'000 | Plant and machinery RO'000 | Technical parts RO'000 | Other assets RO'000 | Total USD'000 | Total USD'000 |
|---------------------------|--------------------|----------------------------------|------------------------------|---------------------------|------------------|------------------|
| Cost | | | | | | |
| 1 January 2008 | 7,009 | 189,031 | 4,110 | 41 | 200,191 | 519,978 |
| Additions during the year | - | - | - | 12 | 12 | 30 |
| Disposal during the year | - | - | - | (14) | (14) | (37) |
| 31 December 2008 | 7,009 | 189,031 | 4,110 | 39 | 200,189 | 519,971 |
| Depreciation | | | | | | |
| 1 January 2008 | 186 | 4,348 | 78 | 27 | 4,639 | 12,051 |
| Charge for the year | 233 | 6,295 | 137 | 12 | 6,677 | 17,341 |
| Disposal | - | - | - | (14) | (14) | (36) |
| 31 December 2008 | 419 | 10,643 | 215 | 25 | 11,302 | 29,356 |
| Carrying Amount | | | | | | |
| 31 December 2008 | 6,590 | 178,388 | 3,895 | 14 | 188,887 | 490,615 |
| 31 December 2007 | 6,823 | 184,683 | 4,032 | 14 | 195,552 | 507,927 |

Land on which the power station, building and auxiliaries are constructed has been leased from the Government of the Sultanate of Oman for a period of 15 years from Commercial Operation Date. Lease rent is paid at the rate of approximately USD 63,000 per annum.



9. Trade and other receivables

| | 2008 RO'000 | 2008 USD'000 | 2007 RO'000 | 2007 USD'000 |
|----------------------------|----------------|-----------------|----------------|-----------------|
| Tariff receivables | 9,626 | 25,003 | 11,846 | 30,769 |
| Less: Impairment provision | (1,498) | (3,891) | (615) | (1,597) |
| | 8,128 | 21,112 | 11,231 | 29,172 |
| Advances and prepayments | 260 | 676 | 73 | 190 |
| Other receivables | 105 | 271 | 73 | 190 |
| | 8,493 | 22,059 | 11,603 | 30,137 |

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

The ageing of trade receivables is as follows:

| | 2008 | | 2007 | |
|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| | Receivables RO'000 | Impairment RO'000 | Receivables RO'000 | Impairment RO'000 |
| Not past due | 7,281 | - | 5,658 | - |
| Past due 1-90 days | 87 | - | 1,208 | 62 |
| Past due 91-360 days | 798 | 224 | 4,255 | 523 |
| More than one year | 1,460 | 1,274 | 725 | 30 |
| Total | 9,626 | 1,498 | 11,846 | 615 |

| | 2008 | | 2007 | |
|----------------------|------------------------|-----------------------|------------------------|-----------------------|
| | Receivables USD'000 | Impairment USD'000 | Receivables USD'000 | Impairment USD'000 |
| Not past due | 18,908 | - | 14,695 | - |
| Past due 1-90 days | 226 | - | 3,138 | 162 |
| Past due 91-360 days | 2,076 | 582 | 11,051 | 1,358 |
| More than one year | 3,793 | 3,308 | 1,885 | 77 |
| Total | 25,003 | 3,890 | 30,769 | 1,597 |



Notes

(forming part of the financial statements)

10 Cash and cash equivalent

| | 2008 RO'000 | 2008 USD'000 | 2007 RO'000 | 2007 USD'000 |
|--------------|----------------|-----------------|----------------|-----------------|
| Cash in hand | 2 | 5 | 2 | 5 |
| Cash in bank | 4,795 | 12,454 | 16,527 | 42,927 |
| | 4,797 | 12,459 | 16,529 | 42,932 |

11. Share capital

Authorised share capital of 60,000,000 shares of RO 1 each

| | | | | |
|--|---------------|----------------|-----|-------|
| | 60,000 | 156,000 | 500 | 1,299 |
|--|---------------|----------------|-----|-------|

Issued and fully paid-up share capital of 27,800,000 shares of RO 1 each

| | | | | |
|--|---------------|---------------|-----|-------|
| | 27,800 | 72,300 | 500 | 1,299 |
|--|---------------|---------------|-----|-------|

The Company's shareholders at 31 December, 2008 after the Initial Public Offer "IPO" were as follows:

| | Number of shares | % |
|--|-------------------|------------|
| Tractebel Parts and Repairs 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 |
| | 27,800,000 | 100 |

The Shareholders in their extraordinary general meeting held on 23 March 2008 resolved to increase the Company's share capital from 500,000 shares to 27,800,000 shares of RO 1 each. In accordance with agreement between the founder shareholders and Government of Sultanate of Oman; the shareholders offered 35% of their shares to the public in July 2008.

Dividend

The Company has paid a dividend of RO 0.120 per share amounting to RO 3,337,000 during the year ended 31 December 2008 which relates to the year 2007.

12. 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.



13. Hedging deficit

The long-term loan facilities of the Company bear interest at USD LIBOR plus applicable margins (refer note 15). 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 USD 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 December 2008 is approximately RO 159.74 million (USD 414.91 million) bearing fixed interest rate of HSBC at 4.0%, 2.98% and SCB 5.70% per annum, excluding applicable margin.

This includes the new swap with the HSBC with the corresponding maximum hedged notional amount of approximately RO 40.3 million (USD 104.71 million) at a fixed interest rate of 2.98% per annum, excluding margin.

At 31 December 2008, the USD LIBOR was approximately 3.9% per annum, (2007:4.7%) whereas the Company has fixed interest on its borrowing as described above. Based on the interest rates gap, over the life of the IRS, the indicative losses were assessed at approximately RO 26.7 million (USD 69.2 million) [2007: RO 8.8 million (USD 22.8 million)] by the counter parties to IRS. In case the Company terminates the IRS at 31 December 2008, it may incur losses to the extent of approximately RO 26.7 million (USD 69.2 million) [2007: RO 8.8 million (USD 22.8 million)]. However, under the term of Loan Agreements, the Company is not permitted to terminate the interest rate swap agreements.

In order to comply with International Financial Reporting Standard 39 "Financial Instruments: Recognition and Measurement," the hedge is being tested at least annually for its effectiveness and consequently effective and ineffective portions are being recognized in equity or income statement respectively. During the year fair value of the hedge instruments' indicative losses net of deferred tax in the amount of approximately RO 23.2 million (USD 60.3 million) [2007: RO 7.5 million (USD 19.6 million)] has been recorded within the equity a similar amounts are recorded under long-term liabilities.

14. Long-term loans

| | 2008 RO'000 | 2008 USD'000 | 2007 RO'000 | 2007 USD'000 |
|--|----------------|-----------------|----------------|-----------------|
| Base facility (ii) | 141,048 | 366,359 | 144,126 | 374,353 |
| Repayment facility (iii) | 27,128 | 70,463 | - | - |
| Equity bridge loan facilities ("EBL") (iv) | - | - | 53,076 | 137,860 |
| Less: Current portion of loans | (7,773) | (20,190) | (6,370) | (16,546) |
| | 160,403 | 416,632 | 190,832 | 495,667 |
| Less: Deferred financing cost | (4,388) | (11,399) | (2,784) | (7,231) |
| | 156,015 | 405,233 | 188,048 | 488,436 |



Notes

(forming part of the financial statements)

14. Long-term loans (continued)

(i) Syndicate facilities

The Company has syndicated long-term loan facilities ("syndicate 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 BankMuscat has respectively been appointed as the offshore security trustee and on-shore security agent for the secured finance parties.

(ii) Base facility drawdowns

The availability period of drawdowns under the Base Facility is from the execution date of the Facilities Agreement, on 21 November 2004, until the earliest of (i) the date on which the amount of the Availability of Base Facility has been reduced to zero; (ii) Sunset date i.e. 17 October 2007, being the date falling 200 days after the Scheduled Commercial Operation Date; and (iii) the date falling 21 Business Days after the Completion Date as defined in the Facilities Agreement (i.e. the date on which, among others, the following conditions have been satisfied: the Commercial Operation Date has been achieved, the plant has substantially been completed, no event of default of its continuing, all necessary consent for construction and operation of plant has been obtained, all payments due to EPC contractor has been made).

(iii) Repayment facility drawdowns

The availability period of drawdowns under the Repayment Facility is from the execution date of the Facilities Agreement, on 21 November 2004, until the earliest of (i) the date on which the amount of the Availability of Repayment Facility has been reduced to zero; and (ii) 31 March 2009.

The Company has obtained the term loan under repayment facility in an aggregate amount of USD 72 million. The repayment loan facility of the Company bear interest at USD LIBOR plus applicable margin.

(iv) Equity Bridge loan term facility drawdowns

The availability period of drawdowns under the EBL Term Facility is from the execution date of the Equity Bridge Loan Agreement, on 21 November 2004, up to and including 30 June 2005 or such later date (falling not later than 30 September 2005) as Equity Bridge Lenders may agree. Company had withdrawn all the funds under EBL Term Facility by 15 March 2005, and subsequently repaid all the EBL term facility loan by 14 April, 2008.

EBL Standby facility drawdowns

The availability period of drawdowns under the EBL Standby Facility is from the date on which the Term Tranche has been fully drawn up to the end of the Base Availability Period.

Repayments

Base facility repayments

The aggregate amount of revised Base facility is repayable in 34 (thirty four) semi-annual installments, of which twenty-eight installments ranging between USD 6.5 million and 13.2 million. The last six, post concession, installments shall be of USD 20.35 million each. Repayments under revised Base facility commences from 30 September 2008.



14. Long-term loans (continued)

Repayment facility repayments

The aggregate amount of repayment facility is repayable in 34 (thirty four) semi-annual installments, of which Twenty-eight installments ranging between USD 1.2 million and 2.5 million. The last six, post concession, installments shall be of USD 3.91 million each. Repayments under Repayment facility commences from 30 September 2008.

EBL facility repayments

The full amount of EBL facility has been fully repaid by 14 April 2008.

Interest

The facilities bear interest at USD LIBOR rates plus applicable margins. The margins vary depending upon outstanding facilities. The margin on these facilities ranges from 1.15% to 1.75% per annum.

Commitment and other fees

Under the terms of the loan facilities, the Company is required to pay Commitment Fees, Performance Bond Fee, Front End Fee for the facilities, 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.

15. Income 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. The Company has recognized a deferred tax liability during the current year in respect of temporary differences arising on account of accelerated tax depreciation allowances that would be deemed to be granted in respect of property, plant and equipment.

The PPA is for a period of 15 years from COD. It is not possible to determine the net realizable value of the property, plant and equipment and the taxable profits after the PPA period, consequently, the deferred tax calculation is based on temporary differences arising/reversing each year but which are adjusted for timing differences which reverse, without resulting in any actual tax liability arising during the period. In this approach the deferred tax asset on tax losses is considered only to the extent that these are actually recoverable. The Management believes this is a more accurate interpretation of IAS 12 and a more realistic approach.



Notes

(forming part of the financial statements)

15. Income tax (continued)

Deferred tax asset (liability) consists of the following

| | 2008 RO'000 | 2008 USD'000 | 2007 RO'000 | 2007 USD'000 |
|---|----------------|-----------------|----------------|-----------------|
| Timing difference of depreciation | (756) | (1,964) | (378) | (982) |
| Interest accrual on hedging instruments | 30 | 79 | 20 | 54 |
| Deferred tax liability | (726) | (1,885) | (358) | (928) |
| Deferred tax asset recognized directly in equity: | | | | |
| Fair value adjustment | 3,167 | 8,227 | 1,032 | 2,678 |

16. Trade and other payables

| | 2008 RO'000 | 2008 USD'000 | 2007 RO'000 | 2007 USD'000 |
|-----------------------------|----------------|-----------------|----------------|-----------------|
| Trade payable | 463 | 1,200 | 5,704 | 14,813 |
| Payable to OPWP (note 6) | - | - | 3,343 | 8,684 |
| Accruals and other payables | 4,868 | 12,646 | 4,788 | 12,436 |
| | 5,331 | 13,846 | 13,835 | 35,933 |

17. Related party transactions

The Company has entered into transactions with the Directors and entities over which certain Directors are able to exercise significant influence. In the ordinary course of business, such related parties provide goods, services and funding to the Company. The Company also provides goods, services and funding to the related parties. The Board of Directors believes that the terms of purchases, sales, provision of services and funding arrangements are comparable with those that could be obtained from unrelated third parties. The value of significant related party transactions during the year was as follows:

| | 2008 RO'000 | 2008 USD'000 | 2007 RO'000 | 2007 USD'000 |
|---|----------------|-----------------|----------------|-----------------|
| Goods and services provided by SGCCC under the EPC Contract | - | - | 28,224 | 73,308 |
| Liquidated damages (note 6) | - | - | 4,805 | 12,494 |
| Services provided by SOMC | 4,576 | 11,886 | 3,656 | 9,496 |
| Services provided by PDC | 209 | 544 | 222 | 577 |
| Directors remuneration | 119 | 309 | - | - |
| Directors sitting fee | 5 | 12 | - | - |



17. Related parties transactions (continued)

Due from related parties:

| | 2008 RO'000 | 2008 USD'000 | 2007 RO'000 | 2007 USD'000 |
|-------------------------------------|----------------|-----------------|----------------|-----------------|
| SGCCC | - | - | 2,309 | 5,988 |
| Liquidated damages – SGCCC (note 6) | - | - | 4,805 | 12,494 |
| | <u>-</u> | <u>-</u> | <u>7,114</u> | <u>18,482</u> |

Amount due to related parties:

| | | | | |
|-------|------------|--------------|---------------|---------------|
| SGCCC | 432 | 1,122 | 18,827 | 48,915 |
| SOMC | 449 | 1,170 | 376 | 967 |
| | <u>881</u> | <u>2,292</u> | <u>19,203</u> | <u>49,882</u> |

Amount due to and due from is interest free and repayable on demand.

18. Contingent liabilities

| | 2008 RO'000 | 2008 USD'000 | 2007 RO'000 | 2007 USD'000 |
|---------------------------------|----------------|-----------------|----------------|-----------------|
| Performance bond under the PWPA | - | - | 27,000 | 70,130 |

19. Commitments

Land on which the Sohar Power and Water Plant is constructed, has been leased from the Government for a 15-year period. At 31 December future minimum lease commitments under non-cancellable operating leases are as follows:

| | 2008 RO'000 | 2008 USD'000 | 2007 RO'000 | 2007 USD'000 |
|----------------------------|----------------|-----------------|----------------|-----------------|
| Within one year | 50 | 130 | 48 | 125 |
| Between two and five years | 201 | 522 | 193 | 500 |
| After five years | <u>281</u> | <u>729</u> | <u>317</u> | <u>823</u> |

20. Financial instruments

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.



Notes

(forming part of the financial statements)

20. Financial instruments (continued)

Risk management policies and systems are reviewed regularly to ensure that 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. The Company is exposed to credit risk on its bank balance & receivables. Management consider the credit risk associated with its financial asset to be very low because the receivable are from the Government and cash is placed in reputable banks.

Guarantee

At 31 December 2008 no guarantees were outstanding (2007: None).

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.



20. Financial instruments (continued)

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

| | Carrying value RO'000 | Contractual cash flow RO'000 | 6 months or less RO'000 | 6 to 12 months RO'000 | 1 to 2 years RO'000 | 2 to 5 years RO'000 | More than 5 years RO'000 |
|---|-----------------------------|------------------------------------|-------------------------------|-----------------------------|---------------------------|---------------------------|--------------------------------|
| 31 December 2008 | | | | | | | |
| <i>Non-derivative financial liabilities (A)</i> | | | | | | | |
| Secured bank loans | 163,788 | 168,176 | 3,165 | 4,608 | 7,569 | 30,473 | 122,361 |
| Trade and related party | 6,212 | 6,212 | 6,212 | - | - | - | - |
| <i>Derivative financial liabilities (B)</i> | | | | | | | |
| Interest rate swaps used for hedging | 23,226 | 26,394 | 496 | 713 | 1,188 | 4,750 | 19,247 |
| Total (A + B) | 193,226 | 168,782 | 9,873 | 5,321 | 8,757 | 35,223 | 141,608 |
| 31 December 2007 | | | | | | | |
| <i>Non-derivative financial liabilities (A)</i> | | | | | | | |
| Secured bank loans | 194,418 | 197,203 | 3,168 | 3,203 | 6,468 | 73,347 | 111,017 |
| Trade and related party | 33,038 | 33,038 | 33,038 | - | - | - | - |
| <i>Derivative financial liabilities (B)</i> | | | | | | | |
| Interest rate swaps used for hedging | 7,560 | 8,594 | (57) | 989 | 4,830 | 2,624 | 208 |
| Total (A+B) | 235,016 | 238,835 | 36,149 | 4,192 | 11,298 | 75,971 | 111,225 |



Notes

(forming part of the financial statements)

20. Financial instruments (continued)

| | Carrying value USD'000 | Contractual cash flow USD '000 | 6 months or less USD '000 | 6 to12 months USD '000 | 1 to 2 years USD'000 | 2 to 5 years USD'000 | More than 5 years USD'000 |
|---|------------------------------|--------------------------------------|---------------------------------|------------------------------|----------------------------|----------------------------|---------------------------------|
| 31 December 2008 | | | | | | | |
| Non-derivative financial liabilities (A) | | | | | | | |
| Secured bank loans | 425,423 | 436,822 | 8,220 | 11,970 | 19,660 | 79,150 | 317,822 |
| Trade and related party | 16,138 | 16,138 | 16,138 | - | - | - | - |
| Derivative financial liabilities (B) | | | | | | | |
| Interest rate swaps used for hedging | 60,329 | 68,556 | 1,288 | 1,851 | 2,715 | 14,247 | 48,455 |
| Total (A + B) | 501,890 | 521,516 | 25,646 | 13,821 | 22,375 | 93,397 | 366,277 |
| 31 December 2007 | | | | | | | |
| Non-derivative financial liabilities (A) | | | | | | | |
| Secured bank loans | 504,982 | 512,212 | 8,228 | 8,319 | 16,799 | 190,511 | 288,355 |
| Trade and related party | 85,815 | 85,815 | 85,815 | - | - | - | - |
| Derivative financial liabilities (B) | | | | | | | |
| Interest rate swaps used for hedging | 19,640 | 22,318 | (149) | 2,567 | 12,545 | 6,815 | 540 |
| Total (A+B) | 610,437 | 620,345 | 93,894 | 10,886 | 29,344 | 197,326 | 288,895 |



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.

20. Financial instruments (continued)

Currency risk

The Company's is exposed to currency risk on borrowings that are denominated in a currency other than the respective 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 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.

Capital management

The Management policy is to maintain a strong capital base so as to maintain investor, lenders 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 year.

The Company is not subject to externally imposed capital requirements, except as required by Commercial Company Law and Capital Market Authority.

Fair value

The Management believes that the fair values of financial assets and liabilities are not significantly different to their carrying amounts at the Balance sheet date.

Embedded derivatives

The PWPA between the Company and OPWP contain embedded derivatives in the pricing formulae that computes the investment charge rate and the fixed operation and maintenance charge rate for each of the power facility and the desalination facility. Percentages of the fixed operation and maintenance charge rate for each of power facility and the desalination facility will be adjusted to reflect changes in US price index and the Omani Consumer price index.

These embedded derivative are not separated from the host contract, the PWPA, and accounted for as a stand alone derivative under IAS 39, as the Management believes that the economic characteristics and risk associated with the embedded derivative are closely related to those of the host contract.



Notes

(forming part of the financial statements)

21. Basic earning and net asset per share

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

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

| | 2008 | 2008 | 2007 | 2007 |
|--|---------------|---------------|-------------|-------------|
| | RO'000 | USD'000 | RO'000 | USD'000 |
| Net profit for the year(period) | 4,290 | 11,142 | 3,126 | 8,121 |
| Shareholders fund | 32,304 | 83,904 | 4,015 | 10,431 |
| | <u>2008</u> | <u>2008</u> | <u>2007</u> | <u>2007</u> |
| Weighted average number of shares ('000) | <u>20,096</u> | <u>20,096</u> | <u>500</u> | <u>500</u> |

| | 2008 | 2008 | 2007 | 2007 |
|---------------------|------|------|------|--------|
| | RO | USD | RO | USD |
| Earning per share | 0.21 | 0.55 | 6.25 | 16.242 |
| Net asset per share | 1.60 | 4.17 | 8.03 | 20.1 |

22. Comparatives

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

Corresponding figures for income statement, cash flow statement and statement of changes in equity presented for comparative purposes are for a period of seven months whilst current period figures are for one year. Accordingly, current period and comparative figures are not readily comparable.