Annual Report 2009

صحار للطاقة

SOHAR POWER

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. Shankar Krishnamoorthy	-
Director	Mr. C.S. Badrinath	The Zubair Corporation
Director	Mr. Abdulraouf Abudayyah	Sogex (Oman) LLC
Director	Ameed Rukn/Mohammad Bin Suleyam Bin Nasser Al Mazidi	Ministry of Defence Pension Fund
Director	Mr. Pierre De Pauw	-
Director	Mr. Mahinder Nath	Tractebel Parts & Repairs FZE
Director	Mr. Frederic Henning	-
Director	Mr Jan Vanoudendycke	-
Director	Mr. Mario Savastano	-
Director	Mr Daniel H. Pellegrini	-
Director	Mr Ghassan K. Al Hashar	Public Authority for Social Insurance

Key Executive Officers

Chief Executive Officer	Mr. Arnaud de Limburg Stirum
Technical Manager	Mr Sreenath Hebbar
Financial Controller	Mr S. M. Tariq
Administration Manager	Mr Jamal Saleh Al Bloushi
Company Secretary	Mr. Zoher Karachiwala

Board of Directors' Report

Dear Shareholders,

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

Sohar Power 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 industrial estate. Since it reached commercial operation on 27th May 2007, it has been selling power and water to Oman Power and Water Procurement Company SAOC ("OPWP") under a long term Power and Water Purchase Agreement ("PWPA").

Under the 15-years PWPA with guaranteed off take, the Company is not subject to market competition and enjoys revenues guaranteed by the Government of the Sultanate. The Company has been relatively immune from the consequences of the economic downturn experienced in 2009 and with its refinancing closed in 2008, the Company is also not directly affected by the reduced credit availability.

Since its successful Initial Public Offering in August 2008, 35% of the Company's shareholding is listed on the Muscat Securities Market.

2009 has witnessed certain milestones for the Company:

- The Company reached in 2009 a final settlement with the EPC Contractor, SGCCC, in respect of the remaining warranty items. The Company is now actively working on completing those repairs with the funds received from SGCCC under the Settlement Agreement.

- Also, the Company entered in June 2009 into a Management Agreement with Power Management Company LLC ("PMC"), following the termination of its previous Management Agreement with Power Development Company LLC. Under this new Management Agreement, PMC is providing all management, staffing and administrative services to the Company.

- Finally, the Company entered on July 27, 2009, into an amendment to the PWPA for the long term supply of distillate water to OPWP. Under this amendment up to 14,000 m3/day of distillate water can be sold for use by neighboring industries in the Sohar industrial area, without affecting the existing revenues for electricity and Potable Water under the PWPA.

The Sohar plant has been running smoothly and efficiently in 2009, its third year of operation. The Company has achieved this year very good key performance indicators. The plant remained commercially available at 92.37% and 92.98% for power and water respectively.

The Company recorded a decrease of its EBITDA from 56,848 (USD'000) [21,886 (RO'000)] in 2008 to 55,398 (USD'000) [21,328 (RO'000)] in 2009, which is above budget. The net result of the Company has been affected by the issuance of the new tax law on 1 June 2009, effective from the tax year 2010, which significantly amended the depreciation rules particularly on Plant & Equipment. The new tax law moved from a straight line basis to a written down value basis for computing depreciation. As a consequence, the Company has to recognize additional deferred tax liability at 31 December 2009 in the amount of 15,808 (USD'000) [RO 6.094 Million], compared to 2008 necessitating restatement of opening balances. It should be emphasized that this is not cash loss but a temporary adjustment to comply with the relevant IFRS regulation. This deferred tax liability will reverse in future years and offset the current tax expenses of those years.

There is a difference of opinion with the auditors on the issue of recognition of revenue. The Company recognizes revenue on the basis of the Power Purchase Agreement. Such a treatment does not in any way affect the cash flow and overall profitability of the Company.

The operational and financial results are outlined hereafter. As regards safety, the Company has completed in December 2009 1,500 days without any lost time accident, a milestone that was duly celebrated with its operator.

The Company does all efforts to ensure that its high standards of corporate governance are compliant with the Code of Corporate Governance promulgated by the Capital Market Authority.

Finally, Oman Power and Water Procurement Company SAOC has approached Sohar Power to study the possibility of providing additional power capacity, in addition to Sohar Power current guaranteed contracted capacity under the PWPA. In line with its objective to support the development of the Sultanate, Sohar Power is hopeful to conclude in 2010 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.

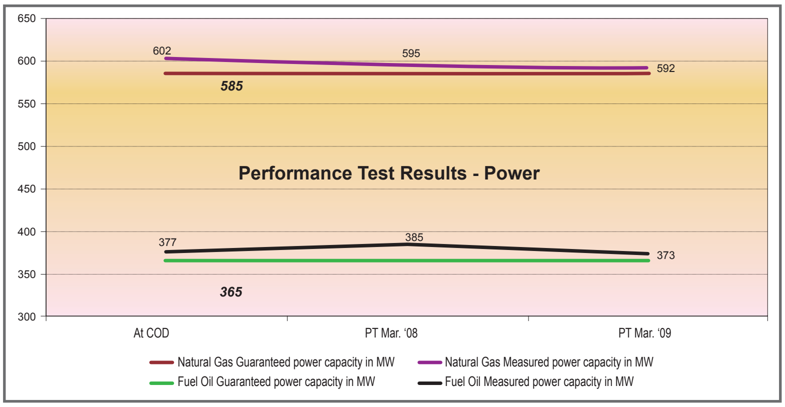
On behalf of the Board of Directors, I would also like to take this opportunity to extend our gratitude to His Majesty Sultan Qaboos Bin Said and His Government for their continued support and encouragement to the private sector. May Allah protect them for all of us.

Murtadha Ahmed Sultan
Chairman of the Board

Operation Highlights

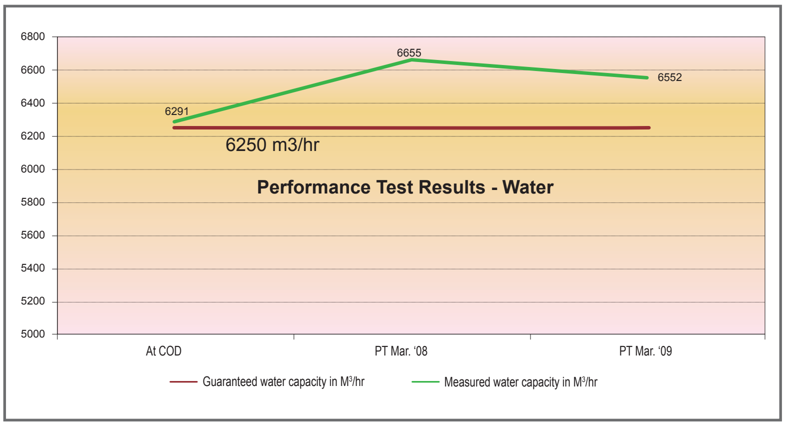
Capacity

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 Sohar Plant is 585 MW and 6,250 m3/hr, constant over the 15 years period of the PWPA. The performance tests conducted to date shows performance better than the guarantees (see the graph below). This Capacity is expected to decline over the period of PWPA due to normal degradation of Plant but is expected to remain above 585 MW and 6,250m3/hr and meet contractual requirements under the PWPA.



Availability

Availability is the amount of time the plant is technically capable of generating power and water as per specifications. Under the PWPA, Sohar Plant shall be available for 100% of time in 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 2009, the Forced Outages were limited to 0.5% for the power plant and to 0.31% for the water plant.



The total power made available during 2009 was 4,733.8 GWh which works to an availability of 92.37%.

The total water made available during 2009 was 50,909,218 m3 which works to an availability of 92.98%.

Reliability

The reliability of the Plant is the ability of the Plant to deliver the declared availability, as per PWPA. Any failure to deliver the declared capacity will be treated as forced outage. The goal of Sohar Power is to minimize these forced outages. During 2008 the forced outages for power plant was 0.5% resulting in a reliability factor of 99.5 %. The forced outage rate for water plant was 0.31%, with reliability factor being 99.69 %.

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 PWPA, thus bringing an upside to the Company.

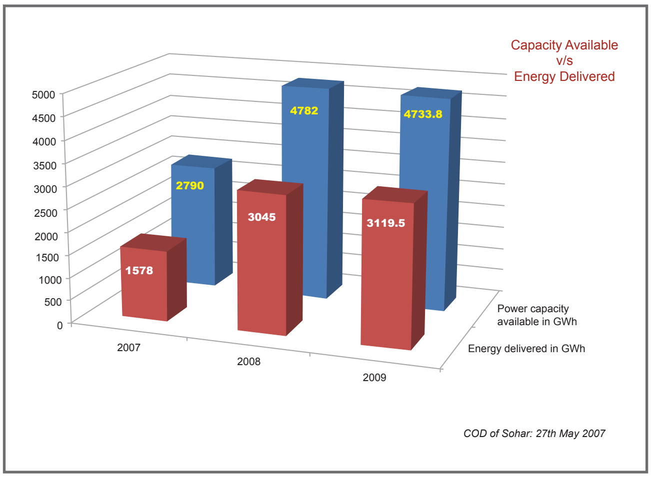
The Contracted Heat Rate is 8,997 MJ/MWh for natural gas; the initial performance tests demonstrated a heat rate of 8,512 MJ/MWh.

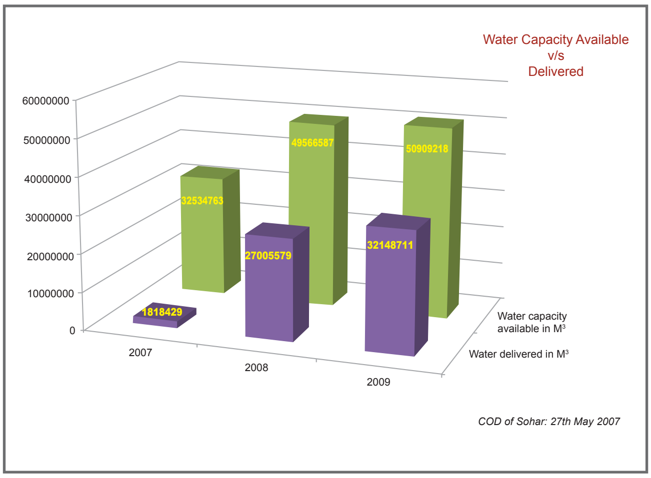
Utilization

During the year 2009 the energy delivered was 3,119.4 GWh with a utilization factor of the power plant of 65.9 %. The total water delivered by the water plant was 32,148,711 m3 with a utilization factor of 63.15%.

Energy and Water Delivered

The total power delivered to the Grid during 2008 was 3,119.4 GWh and the total water delivered to the Grid was 32,148,711 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 becoming 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 conditions hindered plant operations twice – in January and April 2009. The company's claim under Force Majeure has been accepted by OPWP. Accordingly, the terms of the PWPA will be extended by 11.5 days for the water Plant.

These algae hindered plant intake sea water 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. While the potabilization plant could not be run, due to the foul smell in the water on account of swings in chlorine concentration, the Company did maintain a supply of process water to industries; despite the extenuating circumstances. The Company is coordinating with MISC to see if improvements can be implemented in MISC chlorine dosing.

Maintenance

The MSF desalination unit #1 was under maintenance for 22 days in December 2009: the works performed included normal annual maintenance, plus replacement of secondary air ejectors, seawater supply isolation valve and after condensers. In addition, 30% of the seawater piping that was corroded was replaced with rubber lined piping. All replacements have been executed under the settlement agreement with the EPC Contractor on outstanding warranty issues.

Similar works are expected to be carried out during the first quarter of 2010 to ensure that the Reliability of Plant operations is not compromised.

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

EPC warranty issues

In May 2009, Sohar Power entered into an agreement with the EPC Contractor for settlement of all pending warranty and punch list issues. Accordingly, action has been taken to complete the activities during the outages in two winters – 2009-10 and 2010-11. Work planned for the 2009-10 winter has been executed satisfactorily.

Description of The Project

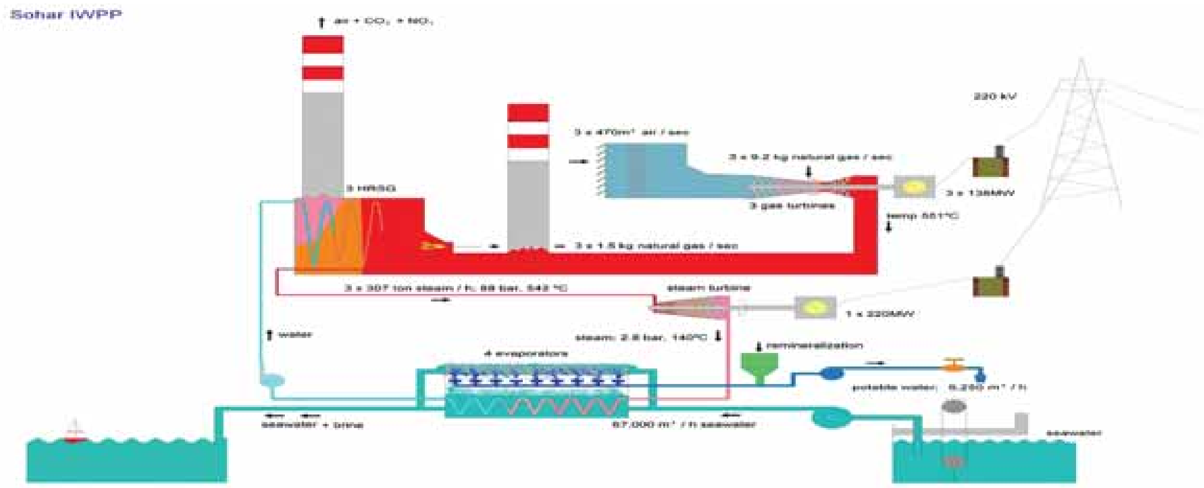
History of the Project

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.

Sohar Power has been established under a Build-Own-Operate scheme. The BOO concept enables the Company to operate as a going concern 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.

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 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 recognized 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 Majis 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:

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 Sohar Power to grant the Company Usufruct rights for 15 years on the land (renewable for another 10 years). Additionally, Ministry of Transport and Communication committed towards Sohar Power 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.

1. Contractual arrangements

Off-taker

The entire output from the Plant's installed Capacity is contracted for through a single long term PWPA with the Oman Power and Water Procurement Company SAOC ("OPWP") until 31st March 2022. Beyond this date, Sohar Power will either extend its PWPA 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 PWPA). 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, Sohar Power is obliged to run the Plant on fuel oil for up to a continuous period of 3 days as per the provisions of the PWPA and the NGSA. Sohar Power would be reimbursed all the additional costs of running the Plant on fuel oil by MOG and any capacity shortfall, which arises there from.

Sea Water

The raw Seawater is made available by MNE for 15 years (commences and ends with the PWPA). 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, Sohar Power 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 PWPA).

Water supply connection

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

During the commissioning of the water plant, OPWP and MISC approached Sohar Power to provide distillate 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 during March 2008 and small quantities are being supplied to the temporary network of MISC. A permanent long term agreement has been entered into with OPWP in July 2009. The long term supply was studied and found to be of no risk to the originally designed process, while providing additional revenues to the original PWPA revenues.

EPC Contractor

The Company entered into an EPC Contract with 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 28th May 2008, and the few items outstanding under a renewed warranty period were settled in 2009.

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 Operations & Maintenance Company LLC ("SOMC"), a part of Suez Tractebel Operation and Maintenance Oman LLC ("STOMO"), an experienced power plant operator in the region. 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 PWPA. 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.

2. 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, debt 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 Sohar Power is prevented or hindered in performing of its obligations for reasons outside of its control, it will constitute a Force Majeure (FM) event. Following Sohar Power's declaration the following FM events have been approved by OPWP in 2009.

	Brief description		Duration in Days
1	Jan 09	Sea water supply off specifications – contamination by red tide	5.5
2	Apr 09	Sea water supply cut off – contamination by red tide	6.0

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 Sohar Power 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"), now called KAHRABEL FZE

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, GDF SUEZ Energy International has operations in Europe (outside France), North America, Latin America and Middle East-Asia & Africa. It has an installed power capacity exceeding 59 GW, spread over more than 30 countries and using a wide range of fuels and technologies. This enables it to be a low-cost producer and mitigate risks. It has over 25,000 employees and its sales revenues for 2008 were €30.5 billion.

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.

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 2009, GDF SUEZ Energy International confirmed that leading position with the successful financing of the Shuweihat 2 project in Abu Dhabi (1,507 MW of electricity and 454,610 m^3/day of water), and the Al Dur project in Bahrain (1,234 MW of electricity and 218,000 m^3 of water/day).

National Trading Company sold in 2008 its participation in Sohar Power to GDF Suez Energy International. Following the IPO, GDF Suez Energy International now holds 45% of the Company.

2. 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 above, the group has interest in automobiles, printing, retailing, computer services, building materials, electronic goods, and engineering.

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 headquarted in Oman and also has offices in Dubai, Kuwait and Iran. It prides itself as being professionally managed and governed by its 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.

3. The Zubair Corporation LLC (“Zubair”)

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

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

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

4. 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.

5. 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 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 Messrs Bahwan Group of Companies acquired the whole of SOGEX and renamed it as SOGEX Oman Co LLC. Thereafter all legal relations with SOGEX International were discontinued.

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
Muscat International Centre
Location: MBD Area
P.O. Box 258, Ruwi
Postal Code 112
Sultanate of Oman

Tel: +968 2481 7775
Fax: +968 2481 5581
www.deloitte.com

TO THE SHAREHOLDERS OF
SOHAR POWER COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) Circular No. 16/2003 dated 29 December 2003 with respect to the accompanying corporate governance report of **Sohar Power Company SAOG** and its application of corporate governance practices in accordance with CMA code of corporate governance issued under Circular No. 11/2002 dated 3 June 2002 and CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standards on Related Services to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Company's compliance with the code as issued by the CMA.

We report our findings as below:

We found that the Company's corporate governance report fairly reflects the Company's application of the provisions of the Code and is free from any material misrepresentation.

Because the above 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 corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, the matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose, This report relates only to the accompanying corporate governance report of **Sohar Power Company SAOG** to be included in its annual report for the year ended 31 December 2009 and does not extend to any financial statements of **Sohar Power Company SAOG**, taken as a whole.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
10 March 2010

Management Discussion and Analysis

A. Industry structure and development

The Company is one of 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 sector law is in existence since 2004.

B. Opportunities and threats

The Company was formed specifically to build, own and operate the Plant located at Sohar and cannot undertake new ventures. A long term PWPA with guaranteed off-take with Government protects the Company from market forces.

C. Analysis of Results

1. Sohar Power registered a profit of 13,408 (USD'000) [5,162 (RO'000)] before tax for the year 2009. The same was 11,899 (USD'000) [4,581 (RO'000)] in 2008. Due to the new tax law promulgated on 1st June 2009 and effective from tax year 2010, the Company had to book Deferred Tax liability of 4, 954 (USD'000) [1,907 (RO'000)] for the year, which adversely affected the profitability of the Company and eventually it has an income after tax of 8,454 (USD'000) [3,255 (RO'000)] for the year 2009. The restated net income after tax for the year 2008 was 4,893(USD'000) [1,884 (RO'000)].

   In order to comply with the new tax law, Company restated its Deferred Tax charge for the year 2008 by 6,049 (USD'000) [2,329 (RO'000)] and year 2007 by 4,387 (USD'000) [1,689 (RO'000)].

2. Revenue of the Company for the year was higher as against the 2008 Revenue. The increase in Revenue is explained below:
   - Higher Capacity Charge, Variable Operation & Maintenance Fee, and Fuel Charge, as well as income from Distillate Water sales, favourably affected the Revenue. Fuel and Variable Operation & Maintenance Fee do not contribute to profit and loss, as they are directly proportional to the Fuel cost and Variable Operation & Maintenance cost.
   - Adjustment to the manner in which the Winter Period Scheduled Unavailability is accounted for adversely affected the revenue. This is a one-time adjustment.

3. Higher Fuel cost and Operation & Maintenance cost resulted in correspondingly increasing the Direct Cost during the current year.

4. Administrative & General cost for 2009 was significantly lower than 2008 on account of lower Doubtful Debts during the current year.

5. Decrease in Finance Cost for 2009 can, as usual, be attributed to lower long term loans during the current year.

D. Analysis of Balance Sheet

1. There was no increase in Property, Plant and Equipment during the year. The reduction in the same was on account of Depreciation for the year. In 2009 the Company has capitalized cost of decommissioning of its Property, Plant and Equipment, to be incurred in 2037 (end of the life of the Sohar plant). Accordingly, the Company restated its PP&E by 1,911 (USD'000) [736 (RO'000)] in 2008 and 1,979 (USD'00) [762 (RO'000)] in 2007 on account of capitalization of decommissioning cost and depreciation on it.
2. The collection of debt from Trade Debtors were consistent during 2009. Consequently, like in previous year, two months billing for the year was outstanding at the end of 2009.
3. The net Hedging Deficit after deferred tax on it in 2009 (excluding Deficit on account of net settlement of Swaps - Accruals) on three the Swap agreements, which does not affect the profitability of the company, was 39,881 (USD'000) [15,354 (RO'000)].The same was 60,329 (USD'000) [23,226 (RO'000)] in 2008. As per IAS 39, this is calculated on each Balance Sheet date and represents the loss, which Company would incur, if it opts to terminate its Swap agreement on this date. However, under the terms of its Financing Agreements, Sohar Power is not permitted to terminate its Swap agreements.
4. The Company repaid installments of its long term loans in accordance with the agreed loan repayment schedule under its Financing Agreements.
5. Trade and other liabilities at the close of current were comparable with that of previous year and shall be settled or reversed in due course. In 2009 the Company also restated its long term liabilities by recording liability of 2,221 (USD'000) [855 (RO'000)] in 2008 and 2,089 (USD'000) [804 (RO'000)] in 2007 for the decommissioning cost of its PP&E (please refer D1 above for further details on decommissioning cost).

E. Financial Highlights

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

All figures in USD'000	2009	2008	2007	2006	2005
Net Profit	8,454	11,142	8,121	1,011	-
Total Assets	522,099	528,010	602,607	532,242	298,379
Total Revenue	117,405	114,545	71,677	27,845	-
Total Shareholders' Fund including hedging deficit	35,956	23,575	(9,209)	(5,871)	(11,487)
Paid up Capital	72,300	1,299	1,299	1,299	1,299
Increase in Capital	-	71,001	-	-	-
Current Paid up Capital	72,300	72,300	1,299	1,299	1,299

	2009	2008	2007	2006	2005
Return on Total Assets	-	2.11%	1.34%	0.19%	-
Debt: Capital ratio (*)	15:85	15:85	26:74	31:69	36:64
Ordinary Dividend (Current Capital)	-	8.0%	-	-	-

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

F. Outlook for 2010

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

G. Distillate Water and Additional Power Capacity

At the request of OPWP, Sohar Power 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 mid 2009. Sohar Power entered into a Long term supply agreement with OPWP in this respect. Note that revenues under such agreement are additional to the revenues under the PWPA.

Oman Power and Water Procurement Company SAOC has approached Sohar Power to study the possibility of providing additional power capacity, in addition to Sohar Power current guaranteed contracted capacity under the PWPA. In line with its objective to support the development of the Sultanate, Sohar Power is hopeful to conclude in 2010 a long term agreement with OPWP in this respect.

H. Internal control system and their adequacy

The Company believes in strong internal control systems as a tool to contribute high performance in operation and management of the Company. Sohar Power started implementation in 2009 of an Internal Control tool, that entails critical review of all unique processes of the Company, and that for these appropriate control and segregation of duties is applied.

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

I. Transfers to Investors Trust Fund

On behalf of the Company, Muscat Depository Securities Registration Company transferred an amount of RO 8,903.440 to the Investors Trust Fund representing the unclaimed dividends declared in March 2009.

SOHAR POWER

Corporate Governance Report

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.

Sohar Power 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 is including this separate chapter on Code of Governance in its annual financial statements for the year ended December 31, 2009.

BOARD OF DIRECTORS

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

Name of Directors	Category of Directors	Board Meeting held and attended during 2009					2009 AGM
		7 Mar	29 Apr	27 Jul	28 Oct	Total	
Mr Murtadha Ahmed Sultan (Chairman)	Non-Executive Nominee & Independent	✓	✓	✓	-	3	✓
Mr Shankar Krishnamoorthy (Vice Chairman)	Non-Executive & Independent	✓	✓	✓	-	3	
Mr C.S. Badrinath	Non-Executive Nominee & Independent	✓	✓	✓	✓	4	✓
Mr Abdulraouf Abudayyah	Non-Executive Nominee & Independent	✓	-	✓	-	2	
Ameed Rukn Mohammad Bin Sulayem Bin Nasser Al Mazidi	Non-Executive Nominee & Independent	✓	✓	✓	✓	4	✓
Mr Pierre De Pauw	Non-Executive & Independent	-	-	-	✓	1	
Mr Mahinder Nath	Non-Executive Nominee & Independent	✓	✓	✓	✓	4	
Mr Frederic Henning	Non-Executive & Independent	-	✓	-	✓	2	
Mr Jan Vanoudendycke	Non-Executive & Independent	-	✓	-	✓	2	
Mr Mario Savastano	Non-Executive & Independent	-	✓	✓	✓	3	
Mr Daniel H. Pellegrini	Non-Executive & Independent	-	-	✓	-	1	
Mr Ghassan K. Al Hashar	Non-Executive Nominee & Independent	-	✓	✓	✓	3	

A meeting by circulation was held on 28 March 2009.

Directors resigned during the year

Name of Directors	Category of Directors	Board Meeting held and attended during 2009					2009 AGM
		7 Mar	29 Apr	27 Jul	28 Oct	Total	
Mr Antoine H. Georgiou	Non-Executive Nominee & Independent	✓	-	-	-	1	
Mr Guy Richelle	Non-Executive & Independent	-	-	-	-	0	

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 Shankar Krishnamoorthy	None	-
Mr C.S. Badrinath	Director Director Director	National Finance Co. Sweets of Oman United Power Company
Mr Abdulraouf Abudayyah	None	-
Ameed Rukn Mohammad Bin Sulayem Bin Nasser Al Mazidi	None	-
Mr Pierre De Pauw	Director	United Power Company (till June 2009)
Mr Mahinder Nath	None	-
Mr Frederic Henning	None	-
Mr Jan Vanoudendycke	None	-
Mr Mario Savastano	Director	United Power Company (till June 2009)
Mr Daniel H. Pellegrini	None	-
Mr Ghassan K. Al Hashar	None	-

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

AUDIT COMMITTEE

(a) Brief description of terms of reference.

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing

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

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

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

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

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

Name of Committee Members	Position	Meetings held and attended during 2009				
		07/03	29/04	27/07	21/10	Total
Mr C.S. Badrinath	Chairman	✓	✓	✓	✓	4
Mr Mahinder Nath	Member	✓	✓	✓		3
Mr Pierre De Pauw	Member	-	-	-	✓	1

(c) Activities during the year

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

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

PROCESS OF NOMINATION OF DIRECTORS

The election of the Board is governed by the Company's Articles of Association (Article 19 to 22). The Board of Directors was elected on 28 March 2009 for the term of three years and the election process was done in accordance with the amended Articles of Association of the Company. Further, as required by CMA circulars, the Company obtained "Nomination Form" from all directors and the forms were verified to its compliance and authenticity by the Company's Secretary and its legal counsel, before being sent to the Capital Market Authority.

REMUNERATION

(a) 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
Director's remuneration	36,800
Sitting fee	13,200
Total	**50,000**

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	Total Sitting fees paid in RO	Total Remuneration in RO
1	Mr Murtadha Ahmed Sultan	3	1,200	3,066.667
2	Mr Shankar Krishnamoorthy	3	1,200	3,066.667
3	Mr Antoine H. Georgiou	1	400	-
4	Mr C. S. Badrinath	4	1,600	3,066.667
5	Mr Abdulraouf Abudayyah	2	800	3,066.667
6	Ameed Rukn Mohammad Bin Sulayem Bin Nasser Al Mazidi	4	1,600	3,066.667
7	Mr Pierre De Pauw	1	400	3,066.667
8	Mr Mahinder Nath	4	1,600	3,066.667
9	Mr Frederic Henning	2	800	3,066.667
10	Mr Jan Vanoudendycke	2	800	3,066.666
11	Mr Mario Savastano	3	1,200	3,066.666
12	Mr Daniel Pellegrini	1	400	3,066.666
13	Mr Ghassan Al Hashar	3	1,200	3,066.666
TOTAL			**13,200**	**36,800.000**

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

(b) Top Five Officers.

The aggregate remuneration paid to the top five officer of the Company was RO 43,471.000.

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.

MEANS OF COMMUNICATION WITH THE SHAREHOLDER AND INVESTORS

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

The Company has its own web site. The Chairman gives press releases in case of important news and development that arises. Such press releases are posted to the web site of MSM in accordance with the guidelines issued by the market regulators.

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

MARKET PRICE DATA

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

Month	Low Price	High Price	Average Price	MSM Index (Service sector)
Jan	1.200	1.425	1.313	2363.370
Feb	1.301	1.401	1.351	2316.265
Mar	1.230	1.400	1.315	2251.141
Apr	1.280	1.390	1.335	2325.210
May	1.300	1.360	1.330	2331.160
Jun	1.200	1.338	1.269	2426.850
Jul	1.303	1.390	1.347	2398.250
Aug	1.310	1.654	1.482	2542.635
Sept	1.565	1.700	1.633	2703.980
Oct	1.351	1.649	1.500	2821.405
Nov	1.300	1.460	1.380	2685.290
Dec	1.300	1.459	1.380	2635.935

Distribution of shareholding

The Shareholder pattern as on 31 December 2009:

Category of Shareholders	Number of Shareholders	Total Shareholders	Share Capital%
Major Shareholders	7	21,329,873	76.73
Shareholders less than 5%; more than 1%	1	320,741	1.15
shareholders below 1%	14,019	6,149,386	22.12
TOTAL	**14,027**	**27,800,000**	**100.00**

PROFESSIONAL PROFILE OF THE STATUTORY AUDITORS

The Committee has the authority to meet with internal and external auditors without management present. Each year, the Committee considers the performance of the external auditors prior to a resolution on their reappointment and remuneration at the AGM.

Deloitte Touché Tohmatsu is an organization of member firms around the world devoted to excellence in providing professional services and advice. Deloitte is focused on client service through a global strategy executed locally in over 140 countries. With access to the deep intellectual capital of approximately 168,000 people worldwide, Deloitte delivers services in four professional areas: audit, tax, consulting, and financial advisory services.

Deloitte & Touché in the Middle East is among the region's leading professional services firms, providing audit, tax, consulting, and financial advisory services through 25 offices in 14 countries with over 1,700 partners, directors and staff. The Oman Practice currently has three Partners and over 65 professionals.

ACKNOWLEDGEMENT BY THE BOARD OF DIRECTORS

The Board of Director confirms the following:

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

Brief Profiles of Directors

Annexure

Name	**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; holding or held various positions in public, private and government organizations. Mr Murtadha Sultan is the Chairman of United Power Company. He is also a Director of Oman Flour Mills and Gulf International Chemicals.

Name	**Shankar Krishnamoorthy – Vice Chairman**
Year of Joining	2007
Education	Bachelor of Electrical Engineering with Honours.
Experience	After graduating with honours as an electrical engineer, Mr Krishnamoorthy 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 group. He moved to GDF 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. Mr Krishnamoorthy till 2008 was the Chief Business Developer for MENA, Turkey and India. From 1 January 2009 he assumes the role of CEO.

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	**Abdulraouf Abudayyeh**
Year of Joining	2004
Education	B.S. Engineering.
Experience	Mr Abudayyeh has Forty two (42) years in Power and Desalination plants project management and Operation Maintenance of Power and Water facilities. He is the CEO of Sogex Oman Co. LLC since 1977.

Name	**Mohammad Bin Sulayem 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 to date. He has also been a member of BOD United Power Company till March 2008 and now member of BOD Sohar Power since inauguration to date.

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

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 Nath 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 has worked on the development of major IWPPs in Saudi Arabia, including the Marafiq IWPP. Mr Nath is currently the Head of Business Development for Middle East and North Africa for GDF Suez.

Name	**Frederic Henning**
Year of Joining	2009
Education	Master Degree in Civil Engineering – University of Liege, Belgium. Master of Science in Management – Boston University.
Experience	Mr Henning has 35 years of technical, commercial and managerial experience in the power business in the GDF Suez Group. In his current role as CEO of Tawellah Al project in Abu Dhabi, he is responsible for managing the operation of that company. He is also a Board Member of SMN Barka Power SAOC and was previously CEO of Sohar Power and United Power Company. He supervised and developed the construction and commissioning of the Sohar Power Plant.
Name	**Jan Vanoudendycke**
Year of Joining	2009
Education	Electro Mechanical Engineer, University of Leuven, Belgium.
Experience	Mr Jan Vanoudendycke is with the GDF Suez Group for the last 23 years. He occupied different positions in Generation, HR and Marketing and Sales in Belgium and outside Europe. Presently, he is the COO of Kahrabel based in Dubai. He is in charge of the management of all the O&M Companies in the Middle East. Kahrabel has 14.00 MW and 620 MIGD in operation and construction.
Name	**Mario Savastano**
Year of Joining	2008
Education	Master Degree in Mechanical Engineering – University of Louvain, Belgium Business Education – INSEAD, France and Singapore.
Experience	Mr. Savastano has 17 years of technical, commercial and managerial experience in the power business. He is currently Chief Executive Officer of the SMN Group of Companies that comprises the Barka Phase 2 and the Al-Rusail plants in the Sultanate of Oman.
Name	**Daniel Hector Pellegrini**
Year of Joining	2009
Education	Electrical and Mechanical Engineer.
Experience	Mr Pellegrini has been working for GDF Suez during 10 years, he is actually Executive Vice President in charge of Engineering and Construction for the Middle East and North Africa region. In the past he worked for the group in South and North America where he also occupied executive's positions. He is also Director of many other GDF Suez subsidiaries in the region.
Name	**Ghassan K. Al Hashar**
Year of Joining	2009
Education	Bachelor Degree in Finance & Accounting and Master's Degree in Finance and Investment Management.
Experience	Mr Al-Hashar is with the Public Authority for Social Insurance for the last 12 years having handled different finance and investment functions and is presently the Head of Asset Management-Local. Mr Al-Hashar represents the Public Authority for Social Insurance in numerous public and private companies.

SOHAR POWER

Brief Profile of Management Team

Under the terms of the management agreement entered with Power Management Company LLC ("PMC") in 2009, PMC provides day to day management of Sohar Power and gives all supports by providing manpower and other infra structure. For this PMC is paid an annual fee and its expenses. It provides the following staff to Sohar Power:

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

The management team has been empowered by the Board of Directors and jointly operates within 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. Postgraduate in Economics and International Relations – London School of Economics, UK. General Management Program – CEDEP, France.
Experience	11 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 was instrumental in the development of GDF SUEZ Energy International in the region. In his current role of CEO, he is responsible for managing the operation of the Company.

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

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

Name	**S.M. Tariq**
Year of Joining	1995
Education	MBA. Aca (Intermediate), Institute of Chartered Accountants of Pakistan
Experience	33 Years of experience in External Audit (KPMG, Karachi Office and Muscat office), Internal Audit (National Trading Company, Muscat) and Accounting & Finance (United Power Company SAOG and Sohar Power Company SAOG, Muscat). In his current position as Finance Manager, he is responsible for management of accounting department; he co-ordinates external / internal auditors.

Name	**Jamal Saleh Al Bloushi**
Year of Joining	1995
Education	Diploma in Computer Science Certificate in Advance English from Cambridge University 1998.
Experience	15 years experience in administration activity including managing spare parts logistics, liaisons with government organizations, licenses, translation function and supervising local insurance programs and assisting CEO for statutory meetings.

Deloitte.

Independent auditor's report to the shareholders of Sohar Power Company SAOG

Deloitte & Touche (M.E.) & Co. LLC
Muscat International Centre
Location: MBD Area
P.O. Box 258, Ruwi
Postal Code 112
Sultanate of Oman

Tel: +968 2481 7775
Fax: +968 2481 5581
www.deloitte.com

Report on the financial statements

We have audited the accompanying financial statements of **Sohar Power Company SAOG**, (the Company) which comprise of the statement of financial position as at 31 December 2009, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 3 to 38. The financial statements of the Company for the year ended 31 December 2008 were audited by another auditor whose report dated 7 March 2009 included an emphasis of matter regarding the basis on which the management concluded that it is not appropriate to recognise revenue on a straight line basis as required by International Financial Reporting Standards.

Board of Directors' responsibility for the financial statements

Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority, effective 1 October 2007. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, 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 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 judgment, 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 Proprietorship's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Proprietorship's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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.

Basis for qualified opinion

We draw your attention to note 4 to the financial statements where the management has concluded that the Power and Water purchase Agreement (PWPA) qualifies as an operating lease in accordance with IFRIC 4: Determining whether an arrangement contains a lease. However, the lease income revenue has not been recognized on a straight line basis over the lease term, or another systematic basis more representative of the time pattern in which use benefit derived from the leased asset is diminished, as required by International Accounting Standard (IAS) 17: Leases. Management believes that adherence to IAS 17 will result in unfair presentation of the economic reality and would conflict with the objectives of the financial statements and the PWPA. The effect of such non-adoption of the Standard on these financial statements has not been quantified.

Qualified opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary, of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of **Sohar Power Company SAOG** as of 31 December 2009, and of its financial performance and cash flows 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 comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority, effective 1 October 2007.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
10 March 2010

Signed by
Robert O'Hanlon
Partner

Statement of financial position

at 31 December 2009

	Note	31 December 2009 RO'000	31 December 2009 USD'000	31 December 2008 RO'000 Restated	31 December 2008 USD'000 Restated	1 January 2008 RO'000 Restated	1 January 2008 USD'000 Restated
ASSETS							
Non-current assets							
Property, plant and equipment	6	**183,297**	**476,096**	189,623	492,526	196,314	509,906
Total non-current assets		**183,297**	**476,096**	189,623	492,526	196,314	509,906
Current assets							
Trade and other receivables	7	**7,758**	**20,151**	8,493	22,059	11,603	30,137
Inventories		**679**	**1,764**	1,107	2,877	1,205	3,129
Due from related parties	20	**-**	**-**	-	-	7,114	18,482
Cash and cash equivalents	8	**9,274**	**24,088**	4,797	12,459	16,529	42,932
Total current assets		**17,711**	**46,003**	14,397	37,395	36,451	94,680
Total assets		**201,008**	**522,099**	204,020	529,921	232,765	604,586
EQUITY AND LIABILITIES							
Capital and reserves							
Share capital	9	**27,800**	**72,300**	27,800	72,300	500	1,299
Legal reserve	10	**921**	**2,392**	595	1,545	166	433
Retained earnings		**476**	**1,145**	(229)	(689)	1,617	4,200
Shareholders' fund		**29,197**	**75,837**	28,166	73,156	2,283	5,932
Hedging deficit	11	**(15,354)**	**(39,881)**	(23,226)	(60,329)	(7,560)	(19,640)
Total equity		**13,843**	**35,956**	4,940	12,827	(5,277)	(13,708)
Non-current liabilities							
Hedging deficit	11	**19,064**	**49,517**	26,648	69,216	8,766	22,769
Long-term loans	12	**148,892**	**386,732**	156,015	405,233	188,048	488,436
Provision for decommissioning costs	13	**909**	**2,361**	855	2,221	804	2,089
Deferred tax liability	18	**4,556**	**11,834**	1,576	4,093	1,015	2,636
Total non-current liabilities		**173,421**	**450,444**	185,094	480,763	198,633	515,930
Current liabilities							
Current portion of long term loans	12	**7,573**	**19,670**	7,773	20,190	6,370	16,546
Trade and other payables	14	**5,707**	**14,824**	5,332	13,849	13,836	35,936
Due to related parties	20	**464**	**1,205**	881	2,292	19,203	49,882
Total current liabilities		**13,744**	**35,699**	13,986	36,331	39,409	102,364
Total liabilities		**187,165**	**486,143**	199,080	517,094	238,042	618,294
Total equity and liabilities		**201,008**	**522,099**	204,020	529,921	232,765	604,586
Net asset per share	19	**1.05**	**2.73**	1.01	2.63	4.57	11.86

Director **Director**

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

Statement of comprehensive income

for the year ended 31 December 2009

	Note	2009 RO'000	2009 USD'000	2008 RO'000 Restated	2008 USD'000 Restated
Revenue		**45,201**	**117,405**	44,099	114,545
Direct cost	15	**(30,035)**	**(78,012)**	(27,221)	(70,706)
Gross profit		**15,166**	**39,393**	16,878	43,839
Administrative and general expenses	16	**(634)**	**(1,647)**	(1,765)	(4,584)
Result from operating activities		**14,532**	**37,746**	15,113	39,255
Finance costs	17	**(9,370)**	**(24,338)**	(10,532)	(27,356)
Profit before income tax		**5,162**	**13,408**	4,581	11,899
Income tax	18	**(1,907)**	**(4,954)**	(2,697)	(7,006)
Profit for the year		**3,255**	**8,454**	1,884	4,893
Basic earnings per share	19	**0.12**	**0.30**	0.09	0.24
Profit for the year		**3,255**	**8,454**	1,884	4,893
Other comprehensive income					
Fair value gain / (loss) on interest rate swap		**8,945**	**23,238**	(17,802)	(46,237)
Related income tax	18	**(1,073)**	**(2,787)**	2,136	5,549
Total other comprehensive income / (loss)		**7,872**	**20,451**	(15,666)	(40,688)
Total comprehensive income / (loss) for the year		**11,127**	**28,905**	(13,782)	(35,795)

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

Statement of changes in equity

for the year ended 31 December 2009

	Share capital RO'000	Legal reserve RO'000	Retained earnings RO'000	Share-holders' fund RO'000	Hedging deficit RO'000	Total equity RO'000	Total equity USD'000
At 1 January 2008	500	166	3,349	4,015	(7,560)	(3,545)	(9,209)
Restatement of deferred taxation (note 3.1)	-	-	(1,689)	(1,689)	-	(1,689)	(4,387)
Effect of accounting for provision for decommissioning costs (note 3.1)	-	-	(43)	(43)	-	(43)	(112)
As restated	500	166	1,617	2,283	(7,560)	(5,277)	(13,708)
Share capital increase (note 9)	27,300	-	-	27,300	-	27,300	71,000
Payment of dividend	-	-	(3,337)	(3,337)	-	(3,337)	(8,670)
Share capital conversion difference	-	-	36	36	-	36	-
Profit for the year	-	-	1,884	1,884	-	1,884	4,893
Other comprehensive loss for the year	-	-	-	-	(15,666)	(15,666)	(40,688)
Transfer to legal reserve	-	429	(429)	-	-	-	-
As restated at 1 January 2009	**27,800**	**595**	**(229)**	**28,166**	**(23,226)**	**4,940**	**12,827**
Payment of dividend (note 9)	**-**	**-**	**(2,224)**	**(2,224)**	**-**	**(2,224)**	**(5,776)**
Profit for the year	**-**	**-**	**3,255**	**3,255**	**-**	**3,255**	**8,454**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**7,872**	**7,872**	**20,451**
Transfer to legal reserve	**-**	**326**	**(326)**	**-**	**-**	**-**	**-**
At 31 December 2009	**27,800**	**921**	**476**	**29,197**	**(15,354)**	**13,843**	**35,956**

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

Statement of cash flows
for the year ended 31 December 2009

	2009 RO'000	2009 USD'000	2008 RO'000	2008 USD'000
Cash flows from operating activities				
Cash receipts from customers and others	**45,859**	**119,114**	53,434	138,793
Cash paid to suppliers and employees	**(22,458)**	**(58,332)**	(48,129)	(125,011)
Cash generated from operations	**23,401**	**60,782**	5,305	13,782
Interest paid	**(8,926)**	**(23,185)**	(9,759)	(25,348)
Cash flows from / (used in) operating activities	**14,475**	**37,597**	(4,454)	(11,566)
Investing activities				
Addition to property, plant and equipment	**(3)**	**(8)**	(12)	(30)
Proceeds from disposal of property, plant and equipment	**-**	**-**	7	18
Cash used in investing activities	**(3)**	**(8)**	(5)	(12)
Financing activities				
Payment of dividend	**(2,224)**	**(5,776)**	(3,337)	(8,670)
Increase in share capital	**-**	**-**	27,336	71,000
Drawdown of loans	**-**	**-**	27,720	72,000
Repayment of loans	**(7,771)**	**(20,184)**	(58,992)	(153,225)
Cash flows used in financing activities	**(9,995)**	**(25,960)**	(7,273)	(18,895)
Net increase / (decrease) in cash and cash equivalents	**4,477**	**11,629**	(11,732)	(30,473)
Cash and cash equivalents at the beginning of year	**4,797**	**12,459**	16,529	42,932
Cash and cash equivalents at the end of year	**9,274**	**24,088**	4,797	12,459

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

Notes to the financial statements
for the year ended 31 December 2009

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 offered 35% of their capital to the public, 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) to sell to the Government the Electrical Energy and Potable Water associated with the Guaranteed Contracted Power Capacity and the Guaranteed Contracted Water Capacity. The Company has entered into a long-term power and water supply agreement with the Ministry of Housing, Electricity and Water ("MHEW") of the Government for a period of fifteen years commencing from the scheduled Commercial Operation Date ("COD") of 28 May 2007. On 1 May 2005 the PWPA was novated to Oman Power and Water Procurement Co SAOC ("OPWP"), a closed joint stock company owned by the Government of Oman. All the financial commitments of OPWP are guaranteed by the Government of Oman;

(ii) Natural Gas Sales Agreement with the Ministry of Oil and Gas ("MOG") for the purchase of natural gas from MOG. The Natural Gas Sale Agreement is co-terminus with PWPA;

(iii) Sub-usufruct agreement with Sohar Industrial Port Company SAOC for grant of Usufruct rights over the project site for 15 years, with the option possibility of extension to 15 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;

Notes to the financial statements

for the year ended 31 December 2009

2. Significant agreements (continued)

(v) Engineering, Procurement and Construction ("EPC") contract with Sohar Global Contracting and Construction Company LLC ("SGCCC"), a related party and a company registered in the Sultanate of Oman, for supply of goods and provision of services, in particular for the turnkey construction and commissioning of the plant. SGCCC shareholding consists of Suez-Tractebel S.A. (95%) and Telfin S.A. (5%). Turnkey project has been successfully completed in the year 2007;

(vi) Operation and Maintenance Agreement ("O & M" Agreement) with Sohar Operation and Maintenance Company LLC, a related party, for operations and maintenance of the plant for a period of 15 years from the commercial operations date or the termination date of PWPA, whichever is earlier.; and

(vii) Financing Agreements with Lenders for long-term loan facilities.

3. Adoption of new and revised International Financial Reporting Standards (IFRS)

3.1 Standards affecting presentation and disclosure

The following new and revised Standards have been adopted in the current period in these financial statements. Details of other Standards and Interpretations adopted but that have had no effect on the financial statements are set out in section 3.2.

• *IAS 1 (as revised in 2007) Presentation of Financial Statements*	IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.
• *Improving disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)*	The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Company has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

Provision of decommissioning costs

The company has provided for decommissioning costs as required by the sub-usufruct agreements and the costs of the related assets which had not been capitalised in prior years. A provision for decommissioning costs has been made and the costs of the related assets have been capitalised in the current year in accordance with the provisions of IAS 8: Accounting policies, changes in accounting estimates and errors.

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Notes to the financial statements
for the year ended 31 December 2009

3. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

3.1 Standards affecting presentation and disclosure (continued)

The impact of this change is provided below:

	31 December 2009		31 December 2008		1 January2008	
	RO'000	**USD'000**	RO'000	USD'000	RO'000	USD'000
Increase of property, plant and equipment	**-**	**-**	-	-	762	1,979
Increase in provisions	**-**	**-**	-	-	804	2,089
Decrease in retained earnings	**-**	**-**	-	-	43	112
Increase in depreciation charge for the year	**26**	**67**	26	67	-	-
Increase in finance costs for the year	**54**	**140**	51	132	-	-
Decrease in profit for the year	**80**	**207**	77	199	-	-
Cumulative increase of property, plant and equipment	**710**	**1,844**	736	1,911	762	1,979
Cumulative increase in provisions	**909**	**2,361**	855	2,221	804	2,389

Restatement of deferred taxation

During the year, workings for deferred taxation were reviewed and based on the revised workings there was an overall shortfall of deferred tax liability of RO 4,018 thousand in prior years. Accordingly it was considered necessary to restate the comparative amounts of the prior periods in accordance with IAS 8. The impact of the revised computation on the prior periods has been provided and disclosed below:

	31 December 2009		31 December 2008		1 January2008	
	RO'000	**USD'000**	RO'000	USD'000	RO'000	USD'000
Increase of deferred tax liability	**-**	**-**	-	-	1,689	4,387
Decrease in retained earnings	**-**	**-**	-	-	1,689	4,387
Increase in deferred tax charge for the year	**-**	**-**	2,329	6,049	-	-
Decrease in profit for the year	**-**	**-**	2,329	6,049	-	-
Cumulative increase of deferred tax liability	**-**	**-**	4,018	10,436	1,689	4,387

Notes to the financial statements

for the year ended 31 December 2009

3. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

3.2 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

• IFRS 8 *Operating Segments*	IFRS 8 is a disclosure Standard that requires re-designation of the company's reportable segments based on the segments used by the Chief Operating Decision Maker to allocate resources and assess performance.
• IFRS for SMEs Small and Medium-sized Entities	This Standard is available immediately but the adoption has to be decided by the jurisdiction of implementation.
• Amendments to IFRS 2 *Share-based Payment*	The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.
• IAS 23 (as revised in 2007) *Borrowing Costs*	The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred.
• Amendments to IAS 32 *Financial Instruments: Presentation and* IAS 1 *Presentation of Financial Statements*	The revisions to IAS 32 amend the criteria for debt / equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.
• IFRIC 13 *Customer Loyalty Programmes*	The Interpretation provides guidance on how entities should account for customer loyalty programmes by allocating revenue on sale to possible future award attached to the sale.
• IFRIC 15 *Agreements for the Construction of Real Estate*	The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue from the construction of real estate should be recognised.
• IFRIC 16 Hedges of a Net Investment in a Foreign Operation	The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.
• IFRIC 18 Transfers of Assets from Customers (adopted in advance of effective date of transfers of assets from customers received on or after 1 July 2009)	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 Revenue.

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Notes to the financial statements

for the year ended 31 December 2009

3. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

3.2 Standards and Interpretations adopted with no effect on the financial statements (continued)

• Improvements to IFRSs (2008)	Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 resulting from the May and October 2008 *Annual Improvements to IFRSs* majority of which are effective for annual periods beginning on or after 1 January 2009.

3.3 Standards and Interpretations in issue not yet effective

At the date of authorisation of these financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:

New Standards and amendments to Standards:

	Effective for annual periods beginning on or after
• IFRS 1 (revised) *First time Adoption of IFRS* and IAS 27 (revised) *Consolidated and Separate Financial Statements* - Amendment relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 July 2009
• IFRS 3 (revised) *Business Combinations* - Comprehensive revision on applying the acquisition method and consequential amendments to IAS 27 (revised) *Consolidated and Separate Financial Statements*, IAS 28 (revised) *Investments in Associates* and IAS 31 (revised) *Interests in Joint Ventures*	1 July 2009
• IAS 39 (revised) *Financial Instruments: Recognition and Measurement* – Amendments relating to Eligible Hedged Items (such as hedging Inflation risk and Hedging with options)	1 July 2009
• IFRS 1 (revised) *First time Adoption of IFRS* - Amendment on additional exemptions for First-time Adopters	1 January 2010
• IFRS 2 (revised) *Share-based payment* - Amendment relating to cash-settled Share-based payments	1 January 2010
• IAS 32 (revised) *Financial Instruments: Presentation* - Amendments relating to classification of Rights Issue	1 February 2010
• IAS 24 *Related Party Disclosures* - Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government	1 January 2011
• IFRS 9 Financial Instruments: *Classification and Measurement* (intended as complete replacement for IAS 39 and IFRS 7)	1 January 2013
• Amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38 and IAS 39 resulting from April 2009 Annual Improvements to IFRSs.	Majority effective for annual periods beginning on or after 1 January 2010

Notes to the financial statements
for the year ended 31 December 2009

3. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

3.3 Standards and Interpretations in issue not yet effective (continued)

New Interpretations and amendments to Interpretations:

	Effective for annual periods beginning on or after
• IFRIC 17: *Distributions of Non-cash Assets to Owners*	1 July 2009
• IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
• Amendment to IFRIC 14: *IAS 19: The limit on a defined Benefit Asset, Minimum Funding Requirement and their interaction*	1 January 2011
• Amendment to IFRIC 16: *Hedges of a Net Investment in a Foreign Operation*	1 July 2009
• Amendment to IFRIC 9 (revised): *Reassessment of Embedded Derivatives* relating to assessment of embedded derivatives in case of reclassification of a financial asset out of the 'FVTPL' category	1 July 2009

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company in the period of initial application.

4. Significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board, and comply with the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority and the requirements of the Commercial Companies Law of 1974, as amended.

Power and Water Purchase Agreement

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 considered 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:

Notes to the financial statements

for the year ended 31 December 2009

4. Significant accounting policies (continued)

Statement of compliance (continued)

Power and Water Purchase Agreement (continued)

- 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;
- The PWPA explicitly mentioning that the (frontloaded) lease payments compensate for the Company's 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. Therefore the effect of such non-adoption of the Standard on these financial statements has not been quantified. The management has concluded that the non-adoption of the Standard would have no impact on the Company's cash flows at the current or future reporting periods since it complies with the provisions contained in the PWPA.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Notes to the financial statements

for the year ended 31 December 2009

4. Significant accounting policies (continued)

Presentation and functional currency

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

The principal accounting policies are set out below :

Property, plant and equipment

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

Subsequent expenditure

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

Depreciation

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

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

Disposal or retirement

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

Impairment

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Notes to the financial statements
for the year ended 31 December 2009

4. Significant accounting policies (continued)

Impairment (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Inventory

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

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and bank deposits with a maturity of less than three months from the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalent for the purposes of cash flows statement.

Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Notes to the financial statements
for the year ended 31 December 2009

4. Significant accounting policies (continued)

Financial assets (continued)

Financial assets are classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

Objective evidence of impairment for receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

4. Significant accounting policies (continued)

Financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

Derecognition of financial assets

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

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

Provisions

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

Notes to the financial statements
for the year ended 31 December 2009

4. Significant accounting policies (continued)

Provisions (continued)

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

Provision for decommissioning costs

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

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

Employee benefits

Obligations for contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognized as an expense in profit or loss as incurred. The Company's obligation in respect of non-Omani terminal benefits, under defined contribution retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods.

Dividend distribution

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

Borrowing costs

Borrowing costs comprise interest payable on borrowings. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are

Notes to the financial statements
for the year ended 31 December 2009

4. Significant accounting policies (continued)

Borrowing costs (continued)

substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets. All other borrowing costs are recognized as expenses in the period in which they are incurred.

Deferred financing costs

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

Derivative financial instruments

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

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

Hedge accounting

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

Cash flow hedges

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

Notes to the financial statements
for the year ended 31 December 2009

4. Significant accounting policies (continued)

Derivative financial instruments (continued)

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

Notes to the financial statements

for the year ended 31 December 2009

4. Significant accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are translated to Rials Omani at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Rials Omani at the foreign exchange rate ruling at that date.

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 (refer to note 4 : Power and Water Purchase Agreement).

5. Critical accounting judgments and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the significant estimates used in the preparation of the financial statements:

(i) Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

(ii) Decommissioning costs

Decommissioning costs are based on management's technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant facilities.

Notes to the financial statements

for the year ended 31 December 2009

5. Critical accounting judgments and key sources of estimation uncertainty (continued)

(iii) Allowance for impaired debts

Allowance for impaired debts is based on management's best estimates of recoverability of the amounts due along with the number of days for which such debts are due.

6. Property, plant and equipment

	31 December2009		31 December 2008		1 January 2008	
	RO'000	**USD'000**	RO'000	USD'000	RO'000	USD'000
Cost	**201,368**	**523,033**	200,966	521,989	200,968	521,996
Accumulated depreciation	**(18,071)**	**(46,937)**	(11,343)	(29,463)	(4,654)	(12,090)
Carrying amount	**183,297**	**476,096**	189,623	492,526	196,314	509,906
Building	**6,357**	**16,512**	6,590	17,117	6,823	17,722
Plant and machinery	**172,093**	**446,995**	178,388	463,345	184,683	479,696
Technical parts	**4,125**	**10,714**	3,895	10,117	4,032	10,473
Other assets	**12**	**31**	14	36	14	36
Decommissioning assets	**710**	**1,844**	736	1,911	762	1,979
Carrying amount	**183,297**	**476,096**	189,623	492,526	196,314	509,906

Notes to the financial statements
for the year ended 31 December 2009

6. Property, plant and equipment (continued)

	Building RO'000	Plant and machinery RO'000	Technical parts RO'000	Other assets RO'000	Decommi-ssioning assets RO'000	Total RO'000	Total USD'000
Cost							
1 January 2008	7,009	189,031	4,110	41	777	200,968	521,996
Additions	-	-	-	12	-	12	29
Disposal	-	-	-	(14)	-	(14)	(36)
1 January 2009	7,009	189,031	4,110	39	777	200,966	521,989
Additions	-	-	412	3	-	415	1,078
Disposal	-	-	-	(13)	-	(13)	(34)
31 December 2009	7,009	189,031	4,522	29	777	201,368	523,033
Depreciation							
1 January 2008	186	4,348	78	27	15	4,654	12,090
Charge for the year	233	6,295	137	12	26	6,703	17,409
Disposal	-	-	-	(14)	-	(14)	(36)
1 January 2009	419	10,643	215	25	41	11,343	29,463
Charge for the year	233	6,295	182	5	26	6,741	17,508
Disposal	-	-	-	(13)	-	(13)	(34)
31 December 2009	652	16,938	397	17	67	18,071	46,937
Carrying amount							
31 December 2009	**6,357**	**172,093**	**4,125**	**12**	**710**	**183,297**	**476,096**
31 December 2008	6,590	178,388	3,895	14	736	189,623	492,526

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

Notes to the financial statements

for the year ended 31 December 2009

7. Trade and other receivables

	31 December 2009		31 December 2008		1 January 2008	
	RO'000	USD'000	RO'000	USD'000	RO'000	USD'000
Tariff receivables	9,133	23,722	9,626	25,003	11,846	30,769
Less: impairment provision	(1,575)	(4,091)	(1,498)	(3,891)	(615)	(1,597)
	7,558	19,631	8,128	21,112	11,231	29,172
Advances and prepayments	194	504	260	676	299	775
Other receivables	6	16	105	271	73	190
	7,758	20,151	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:

	2009		2008	
	Receivables	Impairment	Receivables	Impairment
	RO'000	RO'000	RO'000	RO'000
Not past due	6,754	-	7,281	-
Past due 1-90 days	83	40	87	-
Past due 91-360 days	852	852	798	224
More than one year	1,444	683	1,460	1,274
Total	9,133	1,575	9,626	1,498

	2009		2008	
	Receivables	Impairment	Receivables	Impairment
	USD'000	USD'000	USD'000	USD'000
Not past due	17,543	-	18,908	-
Past due 1-90 days	216	104	226	-
Past due 91-360 days	2,213	2,213	2,076	583
More than one year	3,750	1,774	3,793	3,308
Total	23,722	4,091	25,003	3,891

Notes to the financial statements

for the year ended 31 December 2009

7. Trade and other receivables (continued)

Included in the Company's trade receivables are debtors with carrying amount of RO 804,000 (USD 2,088,000) [2008: RO 847,000 (USD 2,204,000)] which are past due at the end of the reporting period for which the Company has not provided as there has not been a significant change in credit quality and amounts are considered recoverable.

8. Cash and cash equivalents

	31 December 2009		31 December 2008		1 January 2008	
	RO'000	USD'000	RO'000	USD'000	RO'000	USD'000
Cash in hand	**1**	**3**	2	5	2	5
Cash in bank	**9,273**	**24,085**	4,795	12,454	16,527	42,927
	9,274	**24,088**	4,797	12,459	16,529	42,932

9. Share capital

	31 December 2009		31 December 2008		1 January 2008	
	RO'000	USD'000	RO'000	USD'000	RO'000	USD'000
Authorised share capital of shares of RO 1 each	**60,000**	**156,000**	60,000	156,000	500	1,299
Issued and fully paid-up share capital of shares of RO 1 each	**27,800**	**72,300**	27,800	72,300	500	1,299

The Company's shareholders at 31 December, 2009 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

SOHAR POWER

Notes to the financial statements
for the year ended 31 December 2009

9. Share capital (continued)

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 founder shareholders offered 35% of their shares to the public in July 2008.

Dividend

The Company has paid a dividend of RO 0.080 per share amounting to RO 2,224,000 during the year ended 31 December 2009 which relates to the year 2008.

10. Legal reserve

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

11. Hedging deficit

Interest rate swap

The long-term loan facilities of the Company bear interest at US LIBOR plus applicable margins (refer note 12). In accordance with the term loan agreement, the Company has fixed the rate of interest through Interest Rate Swap Agreements ("IRS") to hedge the risk of variation in US LIBOR for 95% (for outstanding amounts until 6 years post scheduled COD) and decreasing to not less than 60% of its loan facility for the entire tenure of the agreement. The corresponding maximum hedged notional amount of HSBC and SCB swaps at 31 December 2009 is approximately RO 152.38 million (USD 395.79 million) bearing fixed interest rates of HSBC at 4.25%, 2.98% and SCB at 5.70% per annum, excluding applicable margin.

At 31 December 2009, the USD LIBOR was approximately 0.6% per annum, (2008: 3.9%) whereas the Company has fixed interest on its borrowing as described above.

	31 December 2009		31 December 2008		1 January 2008	
Cash flow hedge	**RO'000**	**USD'000**	RO'000	USD'000	RO'000	USD'000
Hedging deficit (equity)	**15,354**	**39,881**	23,226	60,329	7,560	19,640
Related income tax	**2,095**	**5,441**	3,168	8,228	1,032	2,679
Fair value of derivative financial liabilities	**17,449**	**45,322**	26,394	68,557	8,592	22,319
Interest accrual on hedging instrument	**1,615**	**4,195**	254	659	174	450
Hedging deficit (liability)	**19,064**	**49,517**	26,648	69,216	8,766	22,769

Notes to the financial statements
for the year ended 31 December 2009

11. Hedging deficit (continued)

In case the Company terminates the IRS at 31 December 2009, it may incur losses to the extent of approximately RO 19 million (USD 49.5 million) [2008: RO 26.6 million (USD 69.2 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 statement of comprehensive income respectively.

12. Long-term loans

	31 December 2009		31 December 2008		1 January 2008	
	RO'000	**USD'000**	RO'000	USD'000	RO'000	USD'000
Base facility (i)	**134,530**	**349,429**	141,048	366,359	144,126	374,353
Repayment facility (ii)	**25,875**	**67,207**	27,128	70,463	-	-
Equity bridge loan facilities ("EBL")	**-**	**-**	-	-	53,076	137,860
Less: current portion of loans	**(7,573)**	**(19,670)**	(7,773)	(20,190)	(6,370)	(16,546)
	152,832	**396,966**	160,403	416,632	190,832	495,667
Less: deferred financing cost	**(3,940)**	**(10,234)**	(4,388)	(11,399)	(2,784)	(7,231)
	148,892	**386,732**	156,015	405,233	188,048	488,436

(i) Syndicate facilities

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

(ii) Base facility

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

(iii) Repayment facility

The Company has obtained the term loan under repayment facility in an aggregate amount of USD 72 million. The aggregate amount of repayment facility is repayable in 34 (thirty four) semi-annual installments, of which twenty

Notes to the financial statements
for the year ended 31 December 2009

12. Long-term loans (continued)

eight installments are ranging between USD 1.2 million and USD 2.5 million. The last six, post concession, installments shall be of USD 3.91 million each. Repayments under repayment facility commenced from 30 September 2008.

Interest

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

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.

13. Provision for decommissioning costs

The provision for decommissioning costs represents the present value of the management's best estimate of the future sacrifice of the economic benefits that will be required to remove the facilities and restore the affected area at the Company's sites.

Provision for decommissioning costs at the end of the reporting period

	31 December 2009		31 December2008		1 January 2008	
	RO '000	**USD '000**	RO '000	USD '000	RO '000	USD '000
Provision for decommissioning costs	**909**	**2,361**	855	2,221	804	2,089

Notes to the financial statements
for the year ended 31 December 2009

13. Provision for decommissioning costs (continued)

Movement in provision for decommissioning costs

	31 December 2009		31 December2008	
	RO '000	USD '000	RO '000	USD '000
At 1 January	**855**	**2,221**	804	2,089
Unwinding of discount and effect of changes in the discount rate (note 17)	**54**	**140**	51	132
At 31 December	**909**	**2,361**	855	2,221

14. Trade and other payables

	31 December 2009		31 December2008		1 January 2008	
	RO '000	USD '000	RO '000	USD '000	RO '000	USD '000
Trade payables	**1,185**	**3,078**	464	1,203	5,705	14,816
Payable to OPWP	**-**	**-**	-	-	3,343	8,684
Accruals and other payables	**4,522**	**11,746**	4,868	12,646	4,788	12,436
	5,707	**14,824**	5,332	13,849	13,836	35,936

15. Direct cost

	2009	2009	2008	2008
	RO '000	USD '000	RO '000	USD '000
Fuel gas	**16,416**	**42,639**	14,388	37,372
O & M fee	**5,392**	**14,005**	4,576	11,886
Depreciation	**6,736**	**17,495**	6,691	17,378
Seawater extraction	**646**	**1,678**	645	1,676
Other operating expenses	**845**	**2,195**	921	2,394
	30,035	**78,012**	27,221	70,706

Notes to the financial statements
for the year ended 31 December 2009

16. Administrative and general expenses

	2009 RO'000	2009 USD'000	2008 RO'000	2008 USD'000
Management fees	**154**	**400**	154	400
Other administrative expenses	**264**	**685**	417	1,083
Depreciation	**5**	**13**	12	31
Legal and professional fees	**51**	**133**	153	397
Allowance for impaired debts	**77**	**200**	883	2,294
Staff costs	**20**	**52**	22	57
Directors sitting fees and remuneration	**63**	**164**	124	322
	634	**1,647**	1,765	4,584

17. Finance costs

Interest on base facility	**3,947**	**10,251**	6,540	16,987
Interest on EBL facility	**-**	**-**	771	2,004
Interest on Repayment facility	**759**	**1,971**	816	2,119
Amortization of deferred financing cost	**448**	**1,165**	641	1,666
Interest on net settlement of swaps	**4,057**	**10,539**	1,758	4,566
Other financial charge / (income)	**105**	**272**	(45)	(118)
Unwinding of discount on decommissioning cost provision (note 13)	**54**	**140**	51	132
	9,370	**24,338**	10,532	27,356

18. 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.

Income tax recognized in profit or loss

	2009 RO'000	2009 USD'000	2008 RO'000	2008 USD'000
Deferred tax expense relating to origination and reversal of temporary differences	**1,907**	**4,954**	2,697	7,006

Notes to the financial statements
for the year ended 31 December 2009

18. Income tax (continued)

Income tax recognized in other comprehensive income

	2009 RO'000	2009 USD'000	2008 RO'000	2008 USD'000
Deferred tax arising on income and expenditure in other comprehensive income				
Fair value gain / (loss) on interest rate swap	(1,073)	(2,787)	2,136	5,549

Deferred tax liability at the end of the reporting period

	31 December 2009		31 December2008		1 January 2008	
	RO '000	USD '000	RO '000	USD '000	RO '000	USD '000
Deferred tax liability	4,556	11,834	1,576	4,093	1,015	2,636

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

2009	Opening balance RO'000	Recognised in profit or loss RO'000	Recognised in other compre-hensive income RO'000	Closing balance RO'000	Opening balance USD'000	Recognised in profit or loss USD'000	Recognised in other compre-hensive income USD'000	Closing balance USD'000
Interest accrual on hedging instruments	30	158	-	188	79	409	-	488
Provisions	-	223	-	223	-	579	-	579
Fair value of Hedging instrument	3,168	-	(1,073)	2,095	8,228	-	(2,787)	5,441
Depreciation	(4,774)	(2,288)	-	(7,062)	(12,400)	(5,942)	-	(18,342)
	(1,576)	(1,907)	(1,073)	(4,556)	(4,093)	(4,954)	(2,787)	(11,834)

Notes to the financial statements
for the year ended 31 December 2009

18. Income tax (continued)

2008	Opening balance RO'000	Recognised in profit or loss RO'000	Recognised in other comprehensive income RO'000	Closing balance RO'000	Opening balance USD'000	Recognised in profit or loss USD'000	Recognised in other comprehensive income USD'000	Closing balance USD'000
Interest accrual on hedging instruments	20	10	-	30	54	25	-	79
Fair value of hedging instrument	1,032	-	2,136	3,168	2,679	-	5,549	8,228
Depreciation	(2,067)	(2,707)	-	(4,774)	(5,369)	(7,031)	-	(12,400)
	(1,015)	(2,697)	2,136	(1,576)	(2,636)	(7,006)	5,549	(4,093)

19. Basic earnings and net asset per share

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

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

	31 December 2009		31 December 2008		1 January 2008	
	RO'000	**USD'000**	RO'000	USD'000	RO'000	USD'000
Profit for the year	**3,255**	**8,454**	1,884	4,893	-	-
Weighted average number of shares ('000)	**27,800**	**27,800**	20,096	20,096	-	-
Earnings per share	**0.12**	**0.30**	0.09	0.24	-	-
Shareholders' fund	**29,197**	**75,837**	28,166	73,156	2,283	5,932
Number of shares at the end of the year ('000)	**27,800**	**27,800**	27,800	27,800	500	500
Net asset per share	**1.05**	**2.73**	1.01	2.63	4.57	11.86

Notes to the financial statements

for the year ended 31 December 2009

20. Related party transactions

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

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

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

	2009 RO'000	**2009 USD'000**	2008 RO'000	2008 USD'000
Services provided by SOMC	**5,392**	**14,005**	4,576	11,886
Services provided by PDC	**110**	**286**	209	544
Services provided by PMC	**154**	**400**	-	-
Directors remuneration	**50**	**130**	119	309
Directors sitting fee	**13**	**34**	5	13

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

	31 December 2009		31 December 2008		1 January 2008	
	RO'000	**USD'000**	RO'000	USD'000	RO'000	USD'000
Due from related parties:						
SGCCC	**-**	**-**	-	-	2,309	5,988
Liquidated damages - SGCCC	**-**	**-**	-	-	4,805	12,494
	-	**-**	-	-	7,114	18,482
Due to related parties:						
SGCCC	**-**	**-**	432	1,122	18,827	48,915
SOMC	**464**	**1,205**	449	1,170	376	967
	464	**1,205**	881	2,292	19,203	49,882

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

Notes to the financial statements
for the year ended 31 December 2009

21. Contingent liabilities

Amounts in dispute with MoG

RO 121,681 in respect of two invoices raised by the Ministry of Oil and Gas (MoG) for supply of natural gas for the months of September and October 2009 are in dispute. The management is confident of a favourable result and accordingly no accrual is made in relation to these invoices.

22. Commitments

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

	2009 RO'000	**2009 USD'000**	2008 RO'000	2008 USD'000
Within one year	**54**	**140**	50	130
Between two and five years	**217**	**564**	201	522
After five years	**393**	**1,022**	281	729
	664	**1,726**	532	1,381

23. Financial risk management

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

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

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

Notes to the financial statements

for the year ended 31 December 2009

23. Financial risk management (contiued)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables. At 31 December 2009 the entire trade receivables was from a government owned company (OPWP). The maximum exposure to credit risk as of the end of the year was RO 9.13 million (USD 23.72 million) [(2008 : RO 9.63 million (USD 25.00 million)]. The Company is exposed to credit risk on its bank balance and receivables. Management consider the credit risk associated with its financial assets to be very low because the receivables are from the Government and cash is placed in reputable banks.

Guarantee

At 31 December 2009 no guarantees were outstanding (2008: 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.

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

31 December 2009	Carrying value RO'000	Contractual cash flow RO'000	6 months or less RO'000	6 to12 months RO'000	1 to 2 years RO'000	2 to 5 years RO'000	More than 5 years RO'000
Non-derivative financial liabilities (A)							
Secured bank loans	156,465	160,405	3,016	4,556	7,168	23,302	122,363
Trade and related party	6,171	6,171	6,171	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	15,354	19,064	2,955	2,986	4,902	6,585	1,636
Total (A + B)	177,990	185,640	12,142	7,542	12,070	29,887	123,999

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23. Financial risk management (contiued)

31 December 2008	Carrying value RO'000	Contractual cash flow RO'000	6 months or less RO'000	6 to12 months RO'000	1 to 2 years RO'000	2 to 5 years RO'000	More than 5 years RO'000
Secured bank loans	163,788	168,176	3,165	4,608	7,569	30,473	122,361
Trade and related party	6,213	6,213	6,213	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	23,226	26,648	750	713	1,188	4,750	19,247
Total (A + B)	193,227	201,037	10,128	5,321	8,757	35,223	141,608

31 December 2009	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Non-derivative financial liabilities (A)							
Secured bank loans	**406,402**	**416,636**	**7,835**	**11,835**	**18,617**	**60,524**	**317,825**
Trade and related party	**16,029**	**16,029**	**16,029**	**-**	**-**	**-**	**-**
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	**39,881**	**49,517**	**7,683**	**7,764**	**12,745**	**17,121**	**4,204**
Total (A + B)	**462,312**	**482,182**	**31,547**	**19,599**	**31,362**	**77,645**	**322,029**
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	16,141	16,141	16,141	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	60,329	69,216	1,947	1,851	2,715	14,247	48,456
Total (A + B)	501,893	522,179	26,308	13,821	22,375	93,397	366,278

Notes to the financial statements
for the year ended 31 December 2009

23. Financial risk management (contiued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. There has been no change to the Company's exposure to market risks on the manner in which these risks are managed and measured.

Currency risk

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

Interest rate risk

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

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

24. 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.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings') less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

Notes to the financial statements
for the year ended 31 December 2009

24. Capital management (continued)

	2009 RO	2009 USD	2008 RO	2008 USD
Long term loans	**160,405**	**416,636**	168,176	436,822
Less: cash and cash equivalents (note 8)	**(9,274)**	**(24,088)**	(4,797)	(12,459)
Net debt	**151,131**	**392,548**	163,379	424,363
Total equity	**13,843**	**35,956**	4,940	12,827
Total capital	**164,974**	**428,504**	168,319	437,190
Gearing ratio	**92%**	**92%**	97%	97%

25. Fair value

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

Fair value measurements recognised in the statement of financial position

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

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

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

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

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25. Fair value (continued)

	31 December 2009				
	Level 1	Level 2	Level 3	Total	Total
	RO'000	RO'000	RO'000	RO'000	USD'000
Financial Liabilities					
Derivative financial liabilities	-	17,449	-	17,449	45,322

There were no transfers between Level 1 and 2 in the period.

26. Comparative figures

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

27. Approval of financial statements

These financial statements were approved by the Board of Directors and authorized for issue on 10 March 2010.