صحار للطاقة
SOHAR POWER

SOHAR POWER COMPANY SAOG
ANNUAL REPORT 2012

His Majesty Sultan Qaboos Bin Said

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BOARD OF DIRECTORS AND MANAGEMENT

Board of Directors		Representing
Chairman	Mr. Murtadha Ahmed Sultan	W.J. Towell & Co. LLC.
Vice Chairman	Mr. Frederic Henning	-
Director	Mr. C.S. Badrinath	The Zubair Corporation
Director	Mr. Atif Abdul Hameed Ahmed Al Raisi	Ministry of Defence Pension Fund
Director	Mr. Bernard Esselinckx	Kahrabel FZE (GDF Suez)
Director	Mr. Navneet Kasbekar	-
Director	Mr. Karel Breda	-
Director	Mr. Malcolm Wrigley	-
Director	Mr. Marc Van Haver	-
Director	Mr. Kemal Teragay	-
Director	Mr. Saif Abdullah Al Harthy	Qalhat LNG
Director	Mr. Sami Abdullah Khamis Al-Zadjali	-

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

صحار للطاقة
SOHAR POWER

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 eighth Annual Report of the Company for the year ended 31 December 2012.

Sohar Power was incorporated in 2004 after award of the Sohar IWPP project. The Company owns and operates the 585MW electricity generation and 33MIGD seawater desalination plant in Sohar industrial estate. It is selling electricity and water to Oman Power and Water Procurement Company SAOC ("OPWP") under a 15-year Power and Water Purchase Agreement ("PWPA"). The Company was listed on the Muscat Securities Market since 2008.

The Company has achieved the year without safety incident (439 days without LTI at 31 December 2012). In December, the Authority for Electricity Regulation conducted a safety audit at the plant and highlighted areas for improvement. Sohar Power and its operator Sohar Operation & Maintenance LLC ("SOMC") have addressed AER's recommendations and are in the process of reviewing the Company's policies, trainings and reporting in order to improve the HSE culture among employees and contractors. We will aim at achieving Health and Safety performance that demonstrate the best practices within the power and water industry.

Sohar Power started its sixth year of operation in a very challenging situation, facing unplanned maintenance on its three Gas Turbines' generators. Damages had been discovered end of 2011 on the generators retaining rings and it necessitated replacement of the rings. The cost of repairs and the loss of availability due to extended outage have adversely affected the Company's revenues in the first quarter of the year. The Company has introduced an insurance claim therefore, which is still ongoing. No amount has been recognized in these financial statements.

The most probable root cause for the issue has been determined as being torsional vibrations caused by grid disturbances. Sohar Power has since then installed permanent torsion monitoring, to prevent re-occurrence of similar damage. Our operation team has also conducted an inspection of GT1 and GT2 generators in November and December, and both generators have been found in good condition. The Company is actively working with the Regulator, AER, the transmission company OETC and neighbouring industries in Sohar to determine the origin of those grid disturbances and filter them adequately.

Aside of this, 2012 has been an excellent operational year for Sohar Power.

- After completion of the generators' repairs, the plant has demonstrated a very high reliability and availability, with less than 0.32% forced outages on power, and 1.48% on water (from April to December).
- Sohar Power provided to OPWP an additional 12MW of power capacity for the summer months, bringing the Company additional revenues.
- In May, the Company concluded a settlement of all outstanding disputes with OPWP, some dating as far as 2006. This settlement has led to a favourable financial outcome for the Company that is reflected in the Financial Statements.
- Sohar Power also concluded a settlement with SOMC of a past liability related to use of energy in 2006-2008, realizing an upside in 2012.
- Finally, a conclusion was also attained in an outstanding dispute with the Ministry of Oil and Gas in respect to gas supply during commissioning of the plant.

All the above have contributed to significantly reducing the losses made in the first quarter, and the Board is proud to announce that the Company has concluded the year with a profit of 2,940 (OMR'000) [7,636 (USD'000)].

The Company recorded an EBITDA of 19,395 (OMR'000) [50,376 (USD'000)] in 2012 compared to 19,481 (OMR'000) [50,604 (USD'000)] in 2011. Profit is 2,940 (OMR'000) [7,636 (USD'000)] for the year 2012. The same was 2,519 (OMR'000) [6,542 (USD'000)] in 2011, a positive variance of 421 (OMR'000) [1,094 (USD'000)]. The Company did not have sufficient profit to distribute interim dividend in 2012. However, the Directors of the Company have recommended a final cash dividend of OMR 2.780 million, which represents 12.57% (125.7 baiza per share) of the share capital of the Company after capital reduction.

Past five years' distribution to shareholders, are disclosed separately under the 'Management Discussion and Analysis Report'.

The Company has proposed in 2012 a reduction of its capital. Following change in the tax law in 2009, the Company restated its provision for deferred tax and has since then maintained a cash position in excess of its requirement. The capital reduction was approved at the Extraordinary Shareholders Meeting of 25 November 2012 and we expect to complete the process in the first quarter of this year.

2012 also witnessed continued efforts by the Company and its operator in the training and employment of young Omani graduates in our operations. A new group of 10 trainees, having completed their program, have joined the operation and maintenance teams this year.

The Company ensures that its high standard of corporate governance is in full compliance with the Code of Corporate Governance promulgated by the Capital Market Authority.

Every uear, the Company supports a broad array of community initiatives, with a focus on education in 2012. Sohar Power partnered with the DG Education of the Northern Batinah region, by offering projection installations to schools in the Sohar area, and donated other equipment to primary and secondary schools close to our main place of operation. In 2012, Sohar Power supported a local initiative to develop traditional sewing skills and activities for girls and women in the communities it is present in.

On behalf of the Board of Directors, I would also like to take this opportunity to wish His Majesty Sultan Qaboos Bin Said long life, good health and prosperity. The Board wishes to express its gratitude to the Government of Oman for their continued support and encouragement to the private sector in creating an environment that allows us to participate effectively in the growth of the economy and dedicate our humble achievements towards the building of strong Oman.

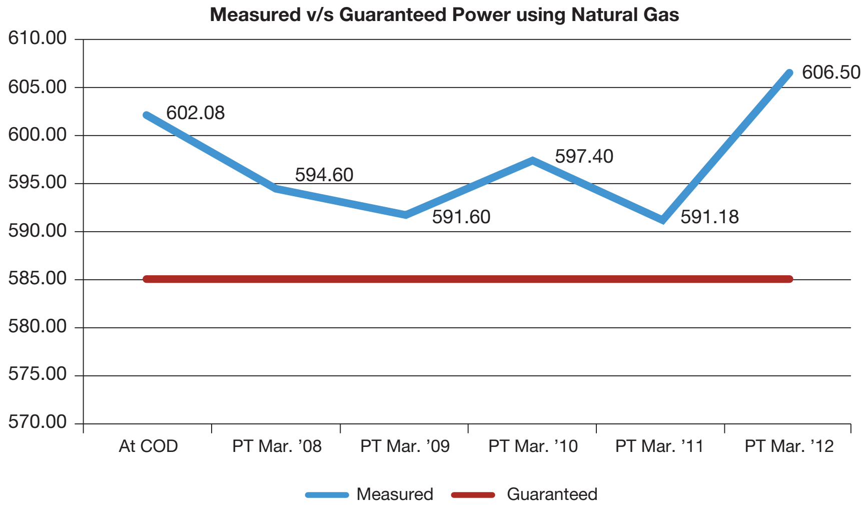
We wish to thank our valued shareholders for their continued support for their trust and confidence in us. Finally, we would like to thank all the personnel associated with the operation and maintenance of the Sohar plant and the staff of the Company for their dedication and commitment in ensuring that it achieves its goals and objectives.

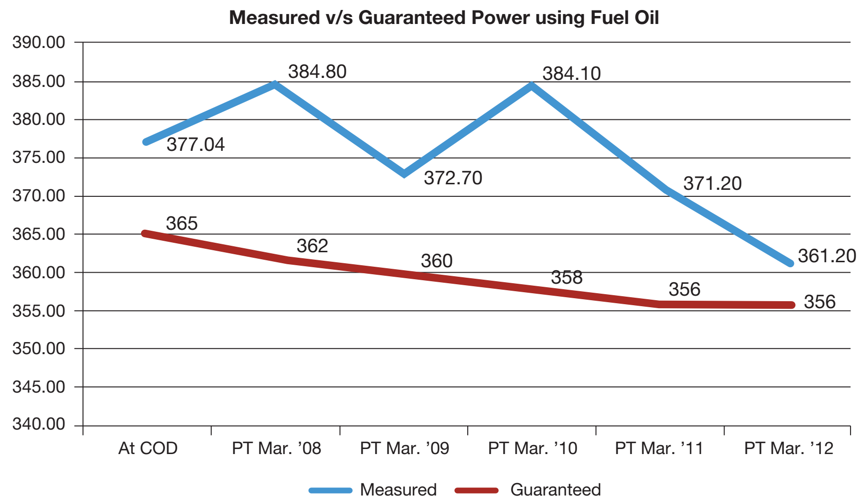
May Allah protect them for all of us.

Murtadha Ahmed Sultan
Chairman of the Board

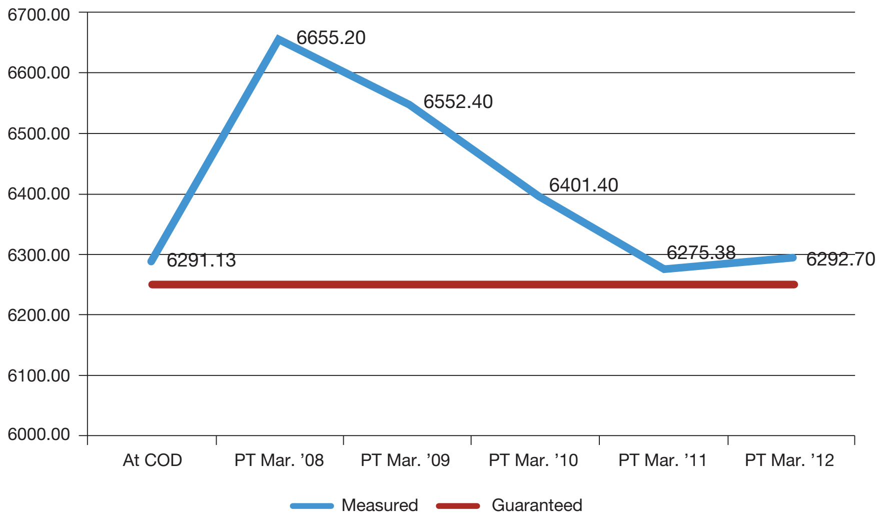
Capacity

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.

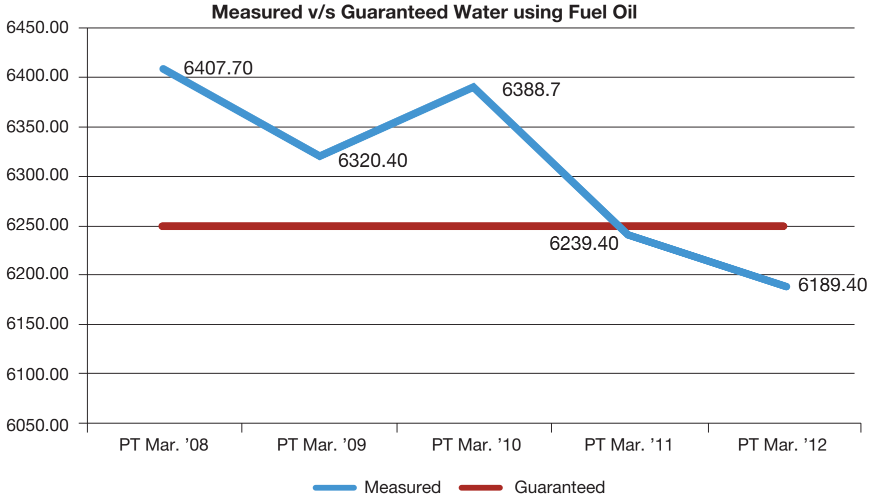




Measured v/s Guaranteed Water using Natural Gas



Measured v/s Guaranteed Water using Fuel Oil



(Note: Measured water capacity using Fuel Oil is within 1% tolerance on guaranteed values allowed during the Performance Tests)

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 2012, the Forced Outage rate was 12.01% for the power plant and 5.43% for the water plant. The main reason for this increase over the budgeted numbers was due to the complete plant outage in January 2012 on account of unforeseen repairs to the generator rotor retaining rings on all Gas Turbines. The high forced outage rate continued over February and March 2012 till the repairs were completed on GT3. Due to these unforeseen events, the first three months of the year averaged 47.07% forced outage rates on power. The remaining 9 months averaged 0.32%. The corresponding figures for water are 17.31% and 1.48% respectively. Please see the section on Maintenance for details. The total power made available during 2012 was 4,334.8 GWh which works to an availability of 83.5%. The total water made available during 2012 was 48,277,528 m3 which works to an availability of 87.94%.

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 objective of Sohar Power is to minimize these forced outages, in order to maximize its revenues. During 2012 the plant showed reliability of 87.99% for power and 94.57% for water for the complete year.

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.

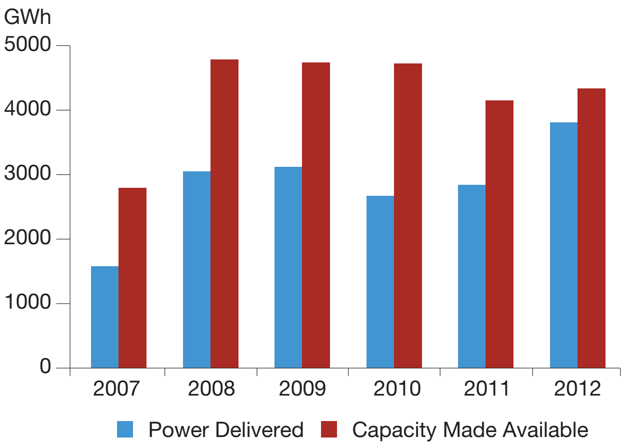
The Contracted Heat Rate is 8,997 MJ/MWh for natural gas; the initial performance tests demonstrated a heat rate of 8,512 MJ/MWh.

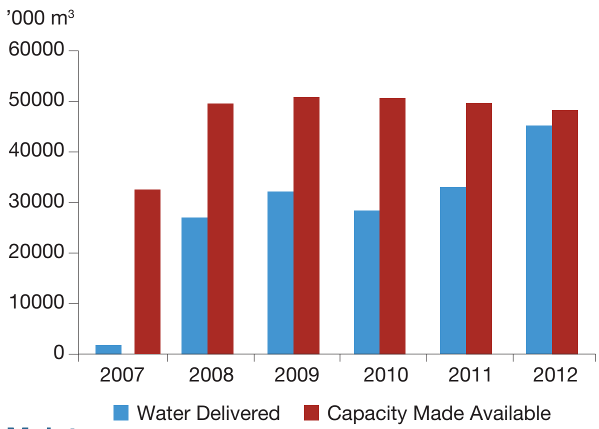
Utilization and Energy and Water Delivered

During the summer months of April to September 2012, in accordance with an Agreement to supply additional power, Sohar Power made available an additional 12 MW to OPWP. Very high demand for both power and water (over 90% of capacity) was experienced for the last three quarters of the year.

During the year 2012 the energy delivered was 3,806.7 GWh with a utilization factor of the power plant of 87.82%. The total water delivered by the water plant was 45,177,805 m3 with a utilization factor of 93.58%.

Evolution of these statistics since Commercial Operation Date of the Plant is depicted in the following charts.





Maintenance

During the Major Inspections of GT1 and GT2 in 2011, cracks were discovered in the Generator rotor retaining rings. Similar cracks were also detected in early January 2012 on GT3. The Original Equipment Manufacturer of the Generators, Siemens, undertook a detailed Root Cause Analysis ("RCA") on the issue. The RCA was also overseen by independent experts appointed by Sohar Power, Laborelec, as well as consultants appointed by the Insurance Companies. The RCA report which was submitted in August 2012 by Siemens identified that the most probable cause was due to torsional vibrations on account of high transient loads such as electric arc furnaces in the vicinity of the power plant.

The RCA findings have been shared with the Authority for Electricity Regulation, the Grid Operator and our customers. The Authority is studying the RCA report.

In the meantime, Sohar Power is following the recommendations made by Siemens and has undertaken an inspection of the retaining rings for GT1 and GT2. The reports confirm that there are no imperfections or damages in any of these retaining rings. GT3 shall undergo a Major Inspection in February 2013 and the retaining rings shall be inspected at this time.

Acid cleaning of one of the Desalination Units was undertaken in 2012 and the results have been encouraging. Acid cleaning of the other units shall be done in early 2013.

DESCRIPTION OF THE PROJECT

History of the Project

The Project was awarded to the promoters, comprising GDF SUEZ, National Trading Company, SOGEX Oman, Ministry of Defense Pension Fund, W.J. Towell & Co and The Zubair Corporation, 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. The anticipated useful life of the Plant is 30 years.

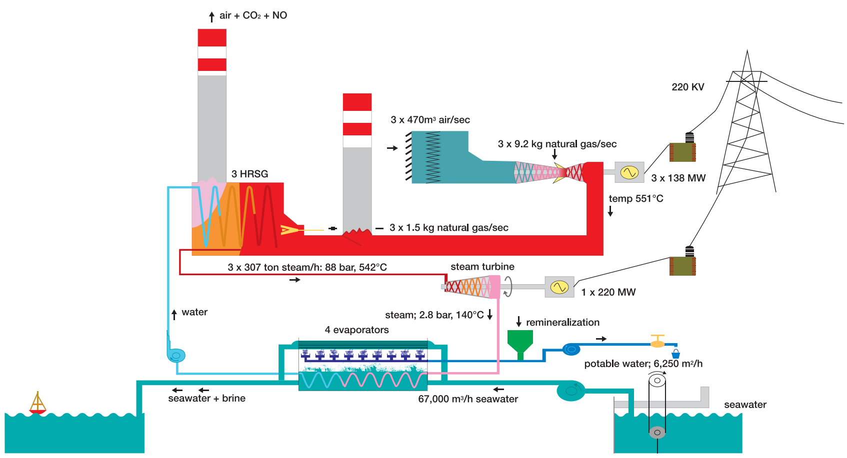
The 585 MW combined cycle gas fired power plant and 150,000 m3/d desalination plant is located in the Sohar Industrial Port area in the North Al Batinah Governorate of the Sultanate of Oman. The site is strategically located near the main gas transmission system and electricity grid network.

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 utilize the exhaust heat of the gas turbines. The steam and this exhaust gas are supplied to one condensing steam turbine to complete the combined cycle. The steam turbine manufacturer is Alstom, one of the world's leading suppliers of steam turbine technology. The balance of the steam produced from the HRSGs is supplied to the desalination plant. The HRSGs are dual pressure natural circulation with a horizontal gas flow. The manufacturer of HRSGs is Doosan Heavy Industries ("DHI").

Four conventional Multi Stage Flash ("MSF") desalination units are installed in the Plant. Each unit has an installed gross capacity of 32,750m3/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 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 outlined in the following sketch:

Sohar IWPP



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). 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.

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 31 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 Supply

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 shall 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 thereof.

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"). The ECA was executed in June 2011 and is valid for the term of the PWPA. Charges payable to OETC under the ECA passed through are under the PWPA to OPWP, keeping the Company neutral.

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. A 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 issues 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.

Operation and Maintenance

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, with focus on meeting Omanization requirements;
- 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 GDF SUEZ and Suhail Bahwan Holding Group.

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:

- Investment charge: covers capital and all related costs of the Project like tax payments, debt service and return on capital.
- Fixed operation and maintenance charge: covers fixed operation and maintenance and all related costs of the plant.
- New Industry charge: covers period licensing costs under the Sector Law, and charges due to OETC under the ECA.

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 event.

In accordance with the PWPA, declaration of Force Majeure results in extension of the Term by an amount of time equal to the period of the Force Majeure. Revenues during the Force Majeure 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:

- Variable operating costs;
- Start-up Costs: payable to Sohar Power for the costs of the starts.

Fuel Costs

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

ENVIRONMENT

The Sohar Power and Desalination Plant utilizes Gas Turbine technology for power generation and Multi-Stage Flash Desalination technology for Seawater Desalination. Natural gas is the primary fuel.

Maximizing Efficiency

The essence of a combined cycle unit like Sohar Power plant is an attempt to extract the maximum possible output from a scarce resource, natural gas.

The technology consists of utilizing the high grade heat from the exhaust of the Gas Turbine to generate high pressure steam, which in turn powers the steam turbine. Through that heat recovery, approximately 50% additional power can be generated from the steam turbine without using any additional fuel.

The HRSGs generate steam at two pressure levels and are equipped with supplementary firing burners. Supplementary firing in the HRSG utilizes the excess oxygen available in the gas turbine exhaust, thereby adding heat capacity. Reduction of excess oxygen in the exhaust from the HRSG has the effect of improving the efficiency of the HRSG unit.

In addition to increase in efficiency of the HRSG unit, additional heating added by supplementary firing enables the HRSG to generate high pressure/high temperature steam and low pressure steam. Generation of steam at two pressure levels at Sohar Power plant helps reduce the temperature of the exhaust from the HRSG thereby further enhancing the efficiency of the unit:

- The high pressure steam allows the steam turbine to operate at high efficiency levels; and
- The low pressure steam is utilized for the generation of distillate water from seawater.

The Sohar Power plant is therefore a Cogeneration – Combined Cycle plant.

The low pressure steam generated by the HRSG, utilizing the exhaust gases of the Gas Turbines acts as the motive force for the generation of water. Further, the steam turbine is an extraction condensing type unit, meaning that residual steam is extracted from the steam turbine to be used in the desalination units, which further enhances the efficiency of the system multi-fold. Condensing this extracted steam (and the steam generated in the low pressure section of the HRSG) in the MSF Units utilizes heat to the fullest extent to evaporate seawater in the MSF Units.

This is a combination of efficiency and environmental friendliness that reinforces one another.

Low Emissions

The gas turbines are equipped with low NOx combustors to ensure that Omani and international environmental norms are strictly adhered to.

During the process of distillate production, potable water production and steam production in the HRSG, chemicals are utilized for various purposes. Some of these chemicals are also drained out periodically. Such effluents are all collected and treated so that all discharges from the plant are harmless to the environment.

PROFILE OF THE FOUNDERS

Kahrabel FZE (GDF SUEZ)

Kahrabel FZE is a wholly owned subsidiary of GDF SUEZ Energy International, responsible for GDF SUEZ's energy activities in 30 countries across six regions worldwide. GDF SUEZ Energy International is a world leading independent power generator with a strong competitive position. Together with power generation, GDF SUEZ Energy International is also active in closely linked businesses including downstream LNG, gas distribution, desalination and retail. GDF SUEZ Energy International has a strong presence in its markets with a 76.8GW gross in operation and a significant program of 9.8GW gross of projects under construction as at 30 June 2012.

In the Middle East, Turkey & Africa region ("META"), GDF SUEZ has a direct equity interest in more than 26 GW power capacity and almost 4.8 million m³/day of desalination capacity in operation and under construction. In the Gulf Cooperation Council countries, it is the leading operating independent power and desalinated water producer, with over 15 years of experience and a track record of excellent operational performance and successful project delivery. Its technical, financial and design teams constantly work towards their mission of delivering solutions for the energy and water needs in the Middle East, Turkey and Africa in a competitive, reliable and responsible matter.

In Turkey, GDF SUEZ has two plants in operation with a total capacity of 1.2 GW, and runs a natural gas distribution and retail company, IZGAZ, with over 200,000 subscribers east of Istanbul. In Africa, GDF SUEZ is actively pursuing a number of projects, specifically in Morocco and South Africa.

W.J. Towell & Co. LLC

W.J. Towell & Co. LLC ("Towell") was established in the year 1866 and today it is one of the leading and respected business houses in Oman, having interests in over 40 industries. Its business activities include Distribution of Fast Moving Consumer goods, property development both residential and commercial, manufacturing of paints, dairy products, mattresses, linen, etc., and services related to shipping, insurance and telecommunications.

Apart from the above, the group has interests 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 and more, 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.

The Zubair Corporation LLC

Founded in 1967, the Zubair Corporation LLC ("Zubair") today is a 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 played primary roles in industry, public utilities, technological advancement and financial services. The group is constantly engaged in identifying and participating in new ventures to fulfill the socio-economic needs of the Sultanate of Oman.

All Zubair companies are professionally managed by internationally experienced executives. The emphasis

on transparency, responsible corporate governance and professional management has made The Zubair Corporation one of the most respected names in Oman and the Middle East.

Ministry of Defence Pension Fund

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

Sogex (Oman) LLC

SOGEX Oman Company LLC ("Sogex") 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 and desalination plants, electrical transmission lines and associated sub-stations of voltage level up to 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.

CORPORATE AND SOCIAL RESPONSIBILITY

"The private sector is one of the basic pillars of development, both in the economic concept which represents commerce, industry, agriculture, tourism, finance and the economy in general, as well as the social concept which denotes human resources development, training, the upgrading of scientific and practical skills, the offering of new employment opportunities and incentives to take up jobs in the private sector".

Qaboos bin Said, Sultan of Oman.

Driven by its duty towards its stakeholders, Sohar Power is actively involved in the community it is present in.

The Company's Corporate and Social Responsibility activities are primarily focused on educational projects in the North Batinah region, close to its operations in Sohar. These initiatives are addressed to students, teachers and the society in general.

The Sewing Classroom project funded in 2012 aims at empowering schoolgirls and women in the local society. It aims to give girl students sewing skills and encourages them to engage professionally in that activity at a later stage. Current products from the classes represents a source of income for members of the society.

The students' Forum of English sponsored by Sohar Power this year, invites students to demonstrate their abilities in the English language and to highlight their talents in skills such as presentations, plays or drama sketches, song writing and other initiatives, using advanced technologies. This forum allows them to put into practice the language they have learned, and is a means to promote their ideas and interests.

Like in previous years, Sohar Power supported students coming from low income families. School bags filled with all stationery needed for the school year were delivered for 140 students in Liwa schools in North Batinah region.

New technologies have become useful learning tools. They help facilitate the learning process and add variety to teaching methods. It contributes in creating a successful learning environment within classrooms. In its most important project in 2012, Sohar Power has associated itself with the DG Education in Northern Batinah and has offered LCD projectors to 34 schools.

Industry structure and development

The Company is one of the largest privately owned Independent Water and Power project in the Sultanate of Oman.

The Sector Law for the electricity sector has been promulgated in 2004. It regulates the development of the electricity sector under a well-defined framework that encourages private participation in the sector on a long-term basis.

Opportunities and Threats

The Company was formed specifically to build, own and operate the plant located at Sohar and its Generation License, issued by the Authority for Electricity Regulation of Oman ("AER") does not allow it to undertake new ventures.

A long term PWPA with guaranteed off-take by Government protects the Company from market fluctuations and Sohar Power enjoys revenues guaranteed by the Government of the Sultanate.

Analysis of Results

Sohar Power earned profit of 2,940 (OMR'000) [7,636 (USD'000)] for the year 2012. The same was 2,519 (OMR'000) [6,542 (USD'000)] in 2011. The positive variance of 421 (OMR'000) [1,094 (USD'000)] between the profits of 2011 and 2012 is the net effect of the following variances:

- Lower scheduled outages in 2012, as the same was higher than 15% (Power) in 2011 and the Company recovered part of this excess in the first quarter of 2012.
- Forced outages adversely affected the net profit of 2012 on account of Retaining Ring issue.
- Sohar Power had a positive delta between fuel revenues and costs in 2011; in 2012 the same was, though negligible, negative due to some inefficiency of the steam turbine at high load. The issue is currently being investigated and should be improved in 2013.
- Other income in 2012 as compared to 2011 was higher on account of Sohar Power settlements with OPWP and SOMC. All the disputes with OPWP, which were long outstanding, were resolved and the issue of import of electricity was resolved with SOMC.
- Deferred tax favourably affected the results of 2012, as it was higher in 2011 on account of understatement of deferred tax liability in years prior to 2011.
- Ineffective loss in 2012 was higher as compared to previous year as the change in fair value of hedging instrument was higher than the change in present value of future cash flows of hedged item in 2012.

Analysis of Balance Sheet

There was a small increase in Property, Plant and Equipment during the year. The reduction in this account was due to Depreciation. Company continued capitalizing cost of decommissioning of its Property, Plant and Equipment, to be incurred in 2037 (end of the life of the Sohar plant).

Trade debtors were outstanding for one month both in 2011 and 2012 end. The volume of December 2012 billing was higher than December 2011.

The net Hedging Deficit after deferred tax on it in 2012 (excluding Accruals) on its three Interest Rate Swaps ("IRS"), which does not affect the profitability of the Company, was 26,204 (RO'000) [68,062 (USD'000)]; the same was 26,877 (RO'000) [69,811 (USD'000)] in 2011. As per IAS 39, this is calculated on each Balance Sheet date and represents the loss, which Company would have incurred, if it had opted to terminate its IRS agreements on this date. However, under the terms of its Financing Agreements, Sohar Power is not permitted to terminate

its swap agreements and the loss is therefore notional.

The Company repaid installments of its long term loans in accordance with the agreed loan repayment schedule under its Financing Agreements.

Capital Reduction

Following a change in tax law, the Company restated its provision for deferred tax in 2009. This restatement was an accounting effect only, which impaired Sohar Power's ability to distribute dividend in that year, however, it did not affect its revenues or cash position. Sohar Power has since then maintained a cash position in excess of its requirement.

Subsequently, the Board of Directors proposed a reduction of capital of the Company to distribute the excess cash held by the Company. Board's proposal was reviewed by Sohar Power's statutory auditors and approved by Capital Market Authority and the shareholders of the Company. The Audit Committee has also reviewed the adequacy of proposing a reduction in capital of the Company.

Sohar Power anticipates this capital reduction to be non-recurring, as the same is resulting from an exceptional accounting impact in 2009. The proposed reduction will not affect the projected dividend distribution of the Company.

The proposed reduction (OMR 5,699,000) in the first quarter of 2013 shall be 20.5% of the original capital of the Company and payment for reduction in the value of shares shall be based on nominal value of the shares.

Financial Highlights

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

All figures in USD'000		2012	2011	2010	2009	2008
Net Profit	1	7,636	6,542	11,849	8,454	11,142
Total Revenue	2	121,096	109,231	110,743	117,405	114,545
Total Assets	3	474,780	486,813	511,463	522,099	528,010
Total Shareholders' Fund before hedging deficit	4	84,535	76,899	81,909	75,837	83,904
Total Shareholders' Fund including hedging deficit	5	16,473	7,088	31,468	35,956	23,575
Paid up Capital	6	72,300	72,300	72,300	72,300	72,300

		2012	2011	2010	2009	2008
Net Profit to Revenue	1÷2	6.30%	6.00%	10.70%	7.20%	9.73%
Return on Total Assets	1÷3	1.61%	1.34%	2.32%	1.62%	2.11%
Return on Current Paid-up capital	1÷6	10.56%	9.05%	16.39%	11.69%	15.41%
Debt: Capital ratio		17:83	16:84	16:84	15:85	15:85
Ordinary Dividend (interim)		-	8.0%	8.0%	-	-
Ordinary Dividend (Final)		10.0%	-	8.0%	-	8.0%

Outlook for 2013

Due to the nature of the Company's activities no major change is expected in 2013. Due to decreasing tariff structure contained in the Power & Water Purchase Agreement, the revenue will show a similar trend.

The generators' issue that affected the Company results in 2011 and 2012 is now being closely monitored, and Sohar Power does not expect re-occurrence of similar damage. The Company is still in discussion with its insurers in respect of possible coverage for the losses incurred in those years.

The Company expects to distribute interim dividend in addition to final dividend in 2013.

Internal control system and their adequacy

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

Since 2009, Sohar Power has implemented an Internal Control tool 'INCOME', which entails critical review of all unique processes of the Company. For these processes, appropriate control and segregation of duties is applied. Further implementation of these processes has been continued in 2012, and was subjected to an audit in December. The conclusions from such an audit will lead to further improvement of the internal control processes, to ensure that the Company's main risks are covered.

Besides in-house processes, the principal shareholders also oversee that the Company continues to maintain highly efficient and adequate controls.

Transfers to Investors' Trust Fund

On behalf of the Company, Muscat Clearing & Depository Company SAOC transferred an amount of RO 4,932.720 being the unclaimed amount for the interim dividend of 2011 to the Investors' Trust Fund account in May 2012.

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REPORT OF FACTUAL FINDINGS ON THE CORPORATE GOVERNANCE REPORTING 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 the Company and its application of the Corporate Governance practices in accordance with the CMA's code of corporate governance issued under circular no. 11/2002 dated 3 June 2002 and its amendments as detailed under Rules and Guidelines on Disclosure by Issuer of Securities and Insider Trading approved by Administrative Decision No. 5/2007 dated 27 June 2007. Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. These 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 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, we do not express any assurance on the Corporate Governance report.

Had we performed additional procedures or had we performed an audit or review in accordance with International Standards on Auditing, other 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 Board of Directors' Corporate Governance report included in its annual report for the year ended 31 December 2012 and does not extend to any financial statements of Sohar Power Company SAOG, taken as a whole.

20 February 2013

Moore Stephens

مور ستيفنز وشركاه
ص.ب: ٩٣٣، الرمز ١١٢
روي، سلطنة عمان
P.O. Box : 933, P.Code 112
Ruwi, Sultanate of Oman
MOORE STEPHENS

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 ensures impartial treatment to all investors. This ultimately increases the confidence of shareholders and prospective investor in the results.

We confirm that we are complying with the Code and that we are aiming at the highest standards of governance and at enhancing our image as a good corporate citizen.

Power is including this separate chapter on Governance in its annual financial statements for the year ended December 31, 2012.

Board of Directors

During the year CMA vide its circular K/14/2012 dated 24th October 2012 amended the definition of Independent Director and Related Parties. The Company has decided to implement disclosure of independent directors as and when the election of the new Board takes place. Till such time the Company will classify the directors as defined under CMA rules that existed before the issue of the new circular.

Composition of the Board of Directors, category of Directors, their attendance record and number of Board of Directors meeting held during the year is as follows:

Name of Directors	Category of Directors	Board Meeting held and attended during 2012						2012	
		07 Mar	27 Mar	25 Apr	18 Jul	24 Oct	Total	AGM	EGM
Mr. Murtadha Ahmed Sultan (Chairman)	Non-Executive Nominee & Independent	✓	✓	✓	✓	✓	5	✓	✓
Mr. Frederic Henning (Vice Chairman)	Non-Executive & Independent	✓	✗	✓	✓	✓	4	✗	✗
Mr. C.S. Badrinath	Non-Executive Nominee & Independent	✓	✓	✓	✓	✓	5	✓	✓
Mr. Atif Abdul Hameed Ahmed Al Raisi[4]	Non-Executive Nominee & Independent	✗	✓	✓	✓	✓	4	✗	✓
Mr. Bernard Esselinckx[3]	Non-Executive Nominee & Independent	✗	✗	✗	✗	✓	1	✗	✗
Mr. Navneet Kasbekar	Non-Executive & Independent	✓	✓	✓	✓	✓	5	✓	✓
Mr. Karel Breda	Non-Executive & Independent	✓	✓	✓	✓	✗	4	✗	✗
Mr. Malcolm Wrigley[2]	Non-Executive & Independent	✗	✗	✗	✗	✓	1	✗	✗
Mr. Marc Van Haver	Non-Executive & Independent	✓	✗	✓	✓	✗	3	✗	✗
Mr. Kemal Teragay[2]	Non-Executive & Independent	✗	✗	✗	✗	✗	0	✗	✗
Mr. Saif Abdullah Al Harthy	Non-Executive Nominee & Independent	✓	✗	✓	✓	✓	4	✗	✗
Mr. Sami Abdullah Khamis Al Zadjali[4]	Non-Executive & Independent	✗	✓	✓	✓	✓	4	✗	✓

Name of Directors	Category of Directors	Board Meeting held and attended during 2012						2012	
		07 Mar	27 Mar	25 Apr	18 Jul	24 Oct	Total	AGM	EGM
Mr. Johan Van Kerrebroeck[3]	Non-Executive Nominee & Independent	✓	✓	✓	✓	✗	4	✓	✗
Mr. Abdulraouf Abudayyeh[5]	Non-Executive Nominee & Independent	✓	✗	✗	✗	✗	1	✗	✗
Ameed Rukn Mohammad Bin Sulayem Al Mazidi[5]	Non-Executive Nominee & Independent	✓	✗	✗	✗	✗	1	✓	✗
Mr. Sankaran Subramaniam[1]	Non-Executive & Independent	✓	✗	✗	✗	✗	1	✗	✗
Mr. Jean Rappe[1]	Non-Executive & Independent	✓	✗	✓	✓	✓	4	✗	✗
Mr. Joe Helou[1]	Non-Executive & Independent	✗	✗	✓	✓	✓	3	✗	✗

1. Resigned during the year
2. Temporary appointment
3. Replacement / appointed as Juristic person
4. Elected during the year
5. Term completed

Directors of Sohar Power holding directorship and chairmanship in other SAOG companies in Oman at 31 December 2012 are the following:

Name of Directors	Position held	Name of the Company
Mr. Murtadha A. Sultan	Director Director Chairman	Gulf International Chemicals Oman Flour Mills Company United Power Company
Mr. C.S. Badrinath	Director	Oman International Development & Investment Co.
Mr. Karel Breda	Director	Al Kamil Power Company

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

Audit Committee

a. Brief description of terms of reference

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

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

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

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

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

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

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

Name of Committee Members	Position	Meetings held and attended during 2012				
		07 Mar	25 Apr	18 Jul	22 Oct	Total
Mr. C.S. Badrinath	Chairman	✓	✗	✓	✓	3
Mr. Johan Van Kerrebroeck	Member	✓	✓	✓	✓	4
Mr. Karel Breda	Member	✓	✓	✓	✓	4

c. Sitting fee

A sitting fee of RO 200 per meeting is paid to the attendee member.

d. Activities during the year

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

In 2012, 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 internal auditor. The internal auditor, in coordination with the Audit Committee, has implemented a systematic review of the Company's main process and ensured the effectiveness of adequate controls. Internal controls have been reviewed. Implementation of required changes and application of controls has also been audited by auditors from GDF SUEZ for the following processes:

- Valuation of depreciation;
- Equity and debt;
- Delegation of authority and delegation of signature; and
- Compliance with law and ethics.

This audit recommended improvements to the current controls in place, and those will be addressed in the coming term to provide a reasonable assurance on the design and operational effectiveness of the processes and that the main risks are covered. The following processes have been reviewed in 2012 and the control activities implemented:

- Financial policies and strategies;
- Liquidity; and
- Access and security management.

The Board of Directors 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 of Directors 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 (Articles 19 to 22). The Board of Directors was elected on 27 March 2012 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 the nomination forms from all directors and the forms were verified for 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 and Attendance Fee

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

The total remuneration to the Directors was as follows:

	RO
Total sitting fee and remuneration	65,450
Sitting fee	(14,800)
Directors' remuneration	**50,650**

The sitting fees paid to Directors for meetings of the Board attended during the year are given below. The Company does not pay sitting fees for participation in Board sub-committees meetings, except for the Audit Committee meetings. The Directors' remuneration is paid pro-rata each Directors' participation in the Board meetings. Attendance at Board meetings and Audit Committee meetings by video or teleconference is deemed to be attendance in person; attendance by proxy is not considered for remuneration purposes.

Name of Director	No. of meetings for sitting fee Paid	Total Sitting fees paid in RO	Total Remuneration in RO
Mr. Murtadha Ahmed Sultan (Chairman)	4	1,600	5,475
Mr. Frederic Henning (Vice Chairman)	3	1,200	4,107
Mr. C.S. Badrinath	3	1,200	4,107
Mr. Atif Abdul Hameed Ahmed Al Raisi[4]	3	1,200	4,107
Mr. Bernard Esselinckx[3]	1	400	1,369
Mr. Navneet Kasbekar	3	1,200	4,107
Mr. Karel Breda	3	1,200	4,107
Mr. Malcolm Wrigley[2]	1	400	1,369
Mr. Marc Van Haver	2	800	2,737
Mr. Kemal Teragay[2]	0	-	-
Mr. Saif Abdullah Al Harthy	3	1,200	4,107
Mr. Sami Abdullah Khamis Al Zadjali[4]	3	1,200	4,107
Mr. Johan Van Kerrebroeck[3]	3	1,200	4,107
Mr. Abdulraouf Abudayyeh[5]	1	400	1,369
Mr. Ameed Rukn Mohammad Bin Sulayem Al Mazidi[5]	1	400	1,369
Mr. Sankaran Subramaniam[1]	0	-	
Mr. Jean Rappe[1]	1	400	1,369
Mr. Joe Helou[1]	2	800	2,737
TOTAL		**14,800**	**50,650**

1. Resigned during the year
2. Temporary appointment
3. Replacement / appointed as Juristic person
4. Elected during the year
5. Term completed.

The Company will continue to pay sitting fee per Director per Board meeting amounting to RO 400 and per Audit Committee member per meeting of the Audit Committee amounting to RO 200, in the year 2013, up to a maximum of RO 10,000 to any individual Director, including Directors' remuneration.

b. Top Five Officers

The aggregate remuneration paid to the top five officers of the Company was RO 381,192. Pursuant to Management Sharing Agreement only 40% of the amount is chargeable to the Company, namely RO 152,477.

NON-COMPLIANCE PENALTIES

No penalties or strictures were imposed on the Company by Muscat Securities Market ("MSM") or the 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 published on the official website of MSM as per the guidelines by the market regulators. Notice to the annual general meetings is sent by post to the registered shareholders. Further, the Board has on 25 October 25 2011, adopted new Procedures, Rules and Guidelines on Disclosure regulating its communication with Shareholders, in compliance with CMA guidelines.

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. Disclosures to investors and company events are disclosed on the website regularly. Information on the project, Company's management and financial information is also available. The website is www.soharpower.com

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 based index of MSM (service sector).

Month	Low Price	High Price	Average Price	MSM Index (Service Sector)
Jan	1.615	1.655	1.635	2,496.11
Feb	1.600	1.615	1.608	2,713.94
Mar	1.485	1.575	1.530	2,639.81
Apr	1.451	1.550	1.501	2,673.53
May	1.380	1.465	1.423	2,619.64
Jun	1.313	1.396	1.355	2,642.16
Jul	1.301	1.400	1.351	2,580.08
Aug	1.360	1.400	1.380	2,621.18
Sep	1.369	1.550	1.460	2,724.14
Oct	1.475	1.550	1.513	2,815.87
Nov	1.520	1.600	1.560	2,793.73
Dec	1.580	1.620	1.600	2,941.28

DISTRIBUTION OF SHAREHOLDING

The Shareholder pattern as on 31 December 2012:

Category of shareholders	Number of Shareholders	Total Shareholders	Share capital %
Major Shareholders	7	22,184,737	79.80
Shareholders less than 5% more than 1%	1	296,386	1.07
Shareholders below 1%	10,431	5,318,877	19.13
TOTAL	**10,439**	**27,800,000**	**100 %**

PROFESSIONAL PROFILE OF THE STATUTORY AUDITORS

The Oman branch of Moore Stephens commenced practice in 1988. Over the years, the practice has developed considerably and now services a number of clients, including major listed companies, Groups, government organizations and Ministries providing either audit, tax or management consultancy services. The local staff strength is around 40, most of whom are qualified Chartered Accountants, internal auditors and information systems auditors.

Since Moore Stephens London was founded 100 years ago, the Moore Stephens International Limited network has grown to be one of the largest international accounting and consulting groups worldwide. Moore Stephens International is regarded as one of the world's major accounting and consulting networks consisting of 301 independent firms with 636 offices and 21,197 people across 100 countries.

During the year RO 11,300 was charged by statutory auditors against services rendered by them to the Company (RO 8,500 for audit, RO 2,800 for other services)

ACKNOWLEDGEMENT BY THE BOARD OF DIRECTORS

The Board of Directors confirm 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 are no material matters that affect the continuation of the Company and its ability to continue its operations during the next financial year.

BRIEF PROFILES OF CURRENT DIRECTORS

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 31 years' experience in different commercial fields, holding various positions in public, private and government organizations. Mr. Murtadha Sultan is the Chairman of United Power Company SAOG. He is also a Director of Oman Flour Mills and Gulf International Chemicals.

Name	:	**Frederic Henning – Vice Chairman**
Year of Joining	:	2009
Education	:	Master's Degree in Civil Engineering – University of Liege, Belgium Master of Science in Management – Boston University
Experience	:	Mr. Henning has 39 years of technical, commercial and managerial experience in the power business in the GDF SUEZ Group. He is currently Executive Managing Director of Gulf Total Tractebel Power Company of the Tawellah A1 Power and Desalination Plant in Abu Dhabi. He was previously CEO of Sohar Power and United Power Company SAOG. He supervised and developed the construction and commissioning of the Sohar Power plant.

Name	:	**C.S. Badrinath**
Year of Joining	:	2004
Education	:	Chartered Accountant and Cost and Management Accountant
Experience	:	Mr. Badrinath is a member of the Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India, and has been with the Zubair Group for the last 29 years. He has handled senior positions and important responsibilities with the group over this period, and is presently the Chief Executive Officer of The Zubair Corporation Group. He is also a Member of the Board of the Zubair Automotive Group. Mr. Badrinath represents the Zubair Group as Director in several Joint Ventures as well as some of the public limited companies.

Name	:	**Atif Abdul Hameed Ahmed al Raisi**
Year of Joining	:	2012
Education	:	Secondary 1970
Experience	:	Mr. Al Raisi has 35 years of work experience in Ministry of Defence in the field of purchase, manpower, regulations and studies. He is presently a Director of Studies and Regulations in office of Chief of Sultan's Armed Forces. For the past 6 years until March 2012 he was one of the board members of Raysut Cement Co SAOG and Shell Marketing Oman SAOG.

Name	:	**Bernard Esselinckx**
Year of Joining	:	2012
Education	:	Master in Business Administration, IMD, Lausanne, Switzerland MSc Environmental Engineering, Trinity College, Dublin, Ireland MSc Civil Engineering, Université Catholique de Louvain, Belgium
Experience	:	Mr. Esselinckx is the Chief Executive Officer of Al Suwadi Power Company SAOC in Oman. Prior to that, he was a Senior Business Developer with GDF SUEZ Energy International in the Middle East where he successfully led, among others, the bid for a 1,700 MW greenfield CCGT IPP in Riyadh, Saudi Arabia. Prior to joining GDF SUEZ in 2007, he worked with ACV, URS Corporation, and Arthur D. Little.

Name:	:	**Navneet Kasbekar**
Year of Joining	:	2011
Education:	:	Graduate in Commerce, Bombay University Member of Institute of Chartered Accountants of India
Experience	:	Totalling 37 years of work experience in finance and managing businesses in India and the Sultanate of Oman, of which 32 years of experience in Oman, Mr. Kasbekar is since 2001 Chief Executive Officer of Al Kamil Power Company SAOG. From 1995 to 2000 worked as General Manager and Director of Muscat Real Estate Development Company SAOC. From 1989 to 1995 he was a General Manager of Computer Stationary Industry SAOG and from 1981 to 1988 worked as a Finance Manager for Al Yousef International Enterprises.

Name	:	**Karel Breda**
Year of Joining	:	2011
Education	:	Master's Degree in Applied Economics, KU Leuven, Belgium Master in Business Administration, University of Chicago
Experience	:	Mr. Breda is the Chief Financial Officer of GDF SUEZ Energy Middle East, Turkey & Africa. Prior to that, he was the Head of the Acquisitions, Investments & Financial Advisory department for GDF SUEZ Energy International in the Middle East and North Africa. He has nine years of Energy Finance and Mergers & Acquisitions experience, working mainly on transactions in Europe (Italy, Poland, Belgium and the Netherlands) and in the Middle East. Some of the landmark transactions he spearheaded in the Middle East include the project financing of Al Dur in Bahrain, Shuweihat 2 in Abu Dhabi, Riyadh IPP in Saudi Arabia and Barka3/Sohar2 in Oman. Prior to joining GDF SUEZ in 2002, he worked as a Strategy Consultant in a start-up strategy consulting firm specializing in e-business.

Name	:	**Malcolm Wrigley**
Year of Joining	:	2012
Education	:	Honor's Degree in Electrical Power Engineering
Experience	:	Since 2010, Mr. Wrigley is the Chief Executive Officer of Al Ezzel Power Company and Al Dur Power & Water Company in Bahrain. Before joining Al Ezzel and Al Dur, he worked as FD of IPP Project Company for 3 years, and 2 years in Asset Management at the group's headquarter.

Name	:	**Marc Van Haver**
Year of Joining	:	2011
Education	:	Commercial and Enterprise Economics Engineer, KU Leuven, Belgium.
Experience	:	Mr. Van Haver has more than 22 years of experience in the energy business in operations, sales & marketing and business development. He was from 2007 to 2010 Managing Director of the natural gas distribution companies in Mexico. He is now Chief Executive Officer Turkey for GDF SUEZ Energy International and based in Istanbul.

Name	:	**Kemal Teragay**
Year of Joining	:	2012
Education	:	B.S. in Mechanical Engineering, Middle East Technical University, Turkey.
Experience	:	Mr. Taragay has a long experience in the Turkish energy sector. He primarily worked for the governmental company EUAS as Head of Department for electricity generation before joining the GDF SUEZ Group. Presently serving as the CEO and Board Member of Baymina Enerji, a joint stock electrical power company located in Ankara. Mr.Taragay serves as board member in several GDF SUEZ companies.

Name	:	**Saif Abdullah Al Harthy**
Year of Joining	:	2011
Education	:	Master's in Chemical Engineering, University of Nottingham, UK
Experience	:	Mr. Al Harthy started his career as a field Engineer in Petroleum Development Oman (PDO), where he was involved in the design and upgrade of the major gas exporting facilities in central Oman. He later worked as a senior Business Planner for the PDO gas directorate before joining Qalhat LNG in 2006 as a Technical Coordinator. Mr. Al Harthy is now working for Qalhat LNG as Vice President for Technical and Investments.

Name	:	**Sami Abdullah Khamis Al-Zadjali**
Year of Joining	:	2012
Education	:	Bachelor's Degree in Accounting Diploma in Information and Systems Management Diploma in Social Insurance
Experience	:	Mr. Zadjali has been working with Civil Services Employee Pension Fund for the last 14 years. He is presently Contribution Manager and a member of GCC committee for pension issues.

BRIEF PROFILE OF MANAGEMENT TEAM

Management is provided under a management agreement entered with Power Management Company LLC ("PMC") in 2009. PMC provides day to day management of Sohar Power and offers supports by providing manpower and other infrastructure. 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	10	6	16

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 : General Management Program, CEDEP/INSEAD, France
Degree in Economics and International Relations, London School of Economics, UK
Law Degree, KU Leuven, Belgium

Experience : 14 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 between 2004 and 2008, he was instrumental in the development of GDF Suez Energy International in the region. In his current role of Chief Executive Officer, he is responsible for managing the operation of the Company.

Name : **Zoher Karachiwala**

Year of Joining : Since inception of the Company in 2004

Education : Chartered Accountant

Experience : Currently Company Secretary, he was Chief Financial Officer until June 2009. He also acts as Company Secretary for other GDF SUEZ companies in Oman. Mr. Karachiwala has been for 35 years in the field of Statutory Audit & Accounting and Finance. He was KPMG Audit Partner in Pakistan before joining United Power Company SAOG 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, India

Experience : 27 years of work experience, primarily in Business Development of Engineer Procure Construct (EPC) Contracts in Gas Turbine based Cogeneration and Combined Cycle Power Plants. In his current position as Technical Manager, he is responsible for technical liaison with the client, statutory authorities and contractors, and provides technical support to the Chief Executive Officer.

Name : **S.M. Tariq**

Year of Joining : Since inception of the Company in 2004

Education : MBA and Aca (Intermediate), Institute of Chartered Accountants of Pakistan.

Experience : Overall 36 years of experience of external audit, internal audit and accounting & finance. Currently working as Chief Financial Officer of the Company. Prior to this, he was Financial Controller of United Power Company SAOG. Before which he had worked as Internal Auditor for National Trading Company LLC, Muscat and as External Auditor for KPMG, Muscat (Oman) and Karachi (Pakistan) Offices.

Name : **Jamal Al Bloushi**

Year of Joining : Since inception of the Company in 2004

Education : Diploma in Computer

Experience : 18 years of experience in administration activity including managing spare parts logistics, liaisons with government organizations, licenses, translation function and supervising local insurance programs and assisting Chief Executive Officer for statutory meetings.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SOHAR POWER COMPANY SAOG

Report on the financial statements
We have audited the accompanying financial statements of Sohar Power Company SAOG set out on pages 41 to 66, which comprise the statement of financial position as at 31 December 2012, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements
The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended). The Board of Directors is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our report, we draw your attention to note 4 to the financial statements which sets out the basis on which the Management has determined the most appropriate method of recognizing income over the period of the Power and Water Purchase Agreement (PWPA).

Report on regulatory requirements
The Company's financial statements also comply in all material respects with the relevant requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) and the relevant disclosure requirement for public joint stock companies issued by the Capital Market Authority.

20 February 2013

مور ستيفنز وشركاه
ص.ب: ٩٣٣، الرمز ١١٢
روي، سلطنة عمان
P.O. Box : 933, P.Code 112
Ruwi, Sultanate of Oman
MOORE STEPHENS

Moore Stephens

STATEMENT OF FINANCIAL POSITION

at 31 December 2012

	Note	2012 RO'000	2012 USD'000	2011 RO'000	2011 USD'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	**163,269**	**424,076**	169,863	441,202
Current assets					
Inventories	4 c)	**744**	**1,933**	728	1,890
Accounts and other receivables	6	**3,946**	**10,250**	3,103	8,060
Bank balances and cash	7	**14,831**	**38,521**	13,729	35,661
Total current assets		**19,521**	**50,704**	17,560	45,611
Total assets		**182,790**	**474,780**	187,423	486,813
EQUITY AND LIABILITIES					
Equity					
Share capital	8	**27,800**	**72,300**	27,800	72,300
Legal reserve	9	**1,923**	**4,996**	1,629	4,232
Retained earnings		**2,823**	**7,239**	177	367
Shareholders' funds		**32,546**	**84,535**	29,606	76,899
Hedging deficit	11	**(26,204)**	**(68,062)**	(26,877)	(69,811)
Total equity		**6,342**	**16,473**	2,729	7,088
Liabilities					
Non-current liabilities					
Hedging deficit	11	**31,685**	**82,299**	32,461	84,314
Non-current portion of long-term loans	12	**127,608**	**331,449**	134,979	350,595
Provision for decommissioning costs	13	**1,093**	**2,839**	1,028	2,671
Deferred tax liability	16	**5,146**	**13,367**	4,632	12,032
Total non-current liabilities		**165,532**	**429,954**	173,100	449,612
Current liabilities					
Current portion of long-term loans	12	**7,755**	**20,143**	7,573	19,670
Accounts and other payables	14	**2,707**	**7,032**	3,341	8,677
Due to related parties	15 c)	**454**	**1,178**	680	1,766
Total current liabilities		**10,916**	**28,353**	11,594	30,113
Total liabilities		**176,448**	**458,307**	184,694	479,725
Total equity and liabilities		**182,790**	**474,780**	187,423	486,813
Net assets per share	21	**1.171**	**3.04**	1.065	2.77

Director

Director

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

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Note	2012 RO'000	2012 USD'000	2011 RO'000	2011 USD'000
INCOME					
Revenue	4 k)	**46,622**	**121,096**	42,054	109,231
Direct costs	17	**(34,488)**	**(89,579)**	(29,285)	(76,064)
Gross profit		**12,134**	**31,517**	12,769	33,167
Other income	18	**1,248**	**3,243**	664	1,725
Administrative and general expenses	19	**(707)**	**(1,837)**	(669)	(1,739)
Result from operations		**12,675**	**32,923**	12,764	33,153
Finance costs	20	**(9,335)**	**(24,247)**	(9,351)	(24,289)
Profit before taxation		**3,340**	**8,676**	3,413	8,864
Taxation	16	**(400)**	**(1,040)**	(894)	(2,322)
Profit for the year		**2,940**	**7,636**	2,519	6,542
Other comprehensive income					
Fair value gain / (loss) on interest rate swap		**787**	**2,044**	(8,479)	(22,024)
Related taxation	16	**(114)**	**(295)**	1,022	2,654
Other comprehensive income for the year		**673**	**1,749**	(7,457)	(19,370)
Total comprehensive income for the year		**3,613**	**9,385**	(4,938)	(12,828)
Basic earnings per share	22	**0.106**	**0.27**	0.091	0.23

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Share capital	Legal reserve	Retained earnings	Total Share-holders' funds	Hedging deficit	Total equity	Total equity
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	USD'000
	(note 8)	(note 9)			(note 11)		
At 31 December 2010	27,800	1,377	2,358	31,535	(19,420)	12,115	31,468
Total comprehensive income for the year:							
Profit for the year	--	--	2,519	2,519	--	2,519	6,542
Other comprehensive income for the year	--	--	--	--	(7,457)	(7,457)	(19,370)
	--	--	2,519	2,519	(7,457)	(4,938)	(12,828)
Transfer to legal reserve	--	252	(252)	--	--	--	--
Payment of dividend for the year 2010	--	--	(2,224)	(2,224)	--	(2,224)	(5,776)
Payment of interim dividend for the year 2011	--	--	(2,224)	(2,224)	--	(2,224)	(5,776)
At 31 December 2011	27,800	1,629	177	29,606	(26,877)	2,729	7,088
At 31 December 2011	**27,800**	**1,629**	**177**	**29,606**	**(26,877)**	**2,729**	**7,088**
Total comprehensive income for the year:							
Profit for the year	**--**	**--**	**2,940**	**2,940**	**--**	**2,940**	**7,636**
Other comprehensive income for the year	**--**	**--**	**--**	**--**	**673**	**673**	**1,749**
	--	**--**	**2,940**	**2,940**	**673**	**3,613**	**9,385**
Transfer to legal reserve	**--**	**294**	**(294)**	**--**	**--**	**--**	**--**
At 31 December 2012	**27,800**	**1,923**	**2,823**	**32,546**	**(26,204)**	**6,342**	**16,473**

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

STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	2012	2012	2011	2011
	RO'000	USD'000	RO'000	USD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	46,605	121,051	43,355	112,610
Cash paid to suppliers and employees	(29,679)	(77,085)	(24,379)	(63,323)
Cash generated from operations	16,926	43,966	18,976	49,287
Interest paid	(8,128)	(21,114)	(8,799)	(22,855)
Net cash from operating activities	8,798	22,852	10,177	26,432
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of plant and equipment	3	5	--	--
Additions to plant and equipment	(126)	(327)	--	--
Net cash used in investing activities	(123)	(322)	--	--
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividend paid	--	--	(4,448)	(11,552)
Repayment of long-term loans	(7,573)	(19,670)	(7,168)	(18,617)
Net cash used in financing activities	(7,573)	(19,670)	(11,616)	(30,169)
Net increase / (decrease) in cash and cash equivalents during the year	1,102	2,860	(1,439)	(3,737)
Cash and cash equivalents at the beginning of the year	13,729	35,661	15,168	39,398
Cash and cash equivalents at the end of the year [notes 4 e) & 7]	14,831	38,521	13,729	35,661

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

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Sohar Power Company SAOG ('the Company') was registered as a closed joint stock company in the Sultanate of Oman on 17 July 2004. The Company was incorporated on 22 June 2004. The Company has been established to build and operate a 585 MW electricity generating station and 33 Million Imperial Gallon per Day 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 into a public joint stock Company.

2. SIGNIFICANT AGREEMENTS

The Company has entered into the following significant agreements:

a) Power and Water Purchase Agreement ("PWPA") with the Government of Sultanate of Oman (the "Government") granting the Company the 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 (also refer note 4).

b) 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.

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

d) Seawater Extraction Agreement with the Ministry of National Economy of the Government of Oman, to provide seawater inlet and reject facilities for the plant. The Seawater Extraction Agreement is co-terminus with PWPA.

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

f) Financing Agreements with lenders for long-term loan facilities (also refer note 12).

3. BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS

3.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the minimum disclosure requirements of the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended).

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

3.2 New and amended IFRS adopted by the Company

The Company has adopted the following new and revised Standards and Interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee, which were effective for the current accounting period:

3. BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS *(continued)*

3.2 New and amended IFRS adopted by the Company *(continued)*

- Amendments to IAS 12 'Deferred Taxes' issued in December 2010 provides a practical approach for measuring deferred tax assets and liabilities when investment property is measured using the fair value model under IAS 40 'Investment Property'. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

- Amendments to IFRS 7 'Financial Instruments' issued in October 2010 helps the users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and promotes transparency in the reporting of transfer transactions, particularly those that involve securitization of financial assets.

The Management believes that the adoption of the amendments have not had any material impact on the presentation and disclosure of items in the financial statements for the current period.

3.3 New and amended IFRS which are in issue but not yet effective

At the end of the reporting period, the following new and revised standards were in issue but not yet effective:

IFRS 9, 'Financial Instruments', is effective for accounting periods beginning on or after 1 January 2015. The standard was issued in November 2009, which was added to in October 2010 and further amended in December 2011 amending the effective date from 1 January 2013 to 1 January 2015. Currently, IFRS 9 outlines the recognition and measurement of financial assets, financial liabilities and the derecognition criteria for financial assets. Financial assets are to be measured either at amortised cost or fair value through profit and loss, with an irrevocable option on initial recognition to recognise some equity financial assets at fair value through other comprehensive income. A financial asset can only be measured at amortised cost if the entity has a business model to hold the asset to collect contractual cash flows and the cash flows arise on specific dates and are solely for payment of principal and interest on the principal outstanding.

- Amendments to IAS 1 'Presentation of Financial Statements' issued in June 2011 improves the consistency and clarity of the presentation of items of other comprehensive income (OCI). The amendments require an entity to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is effective for annual periods beginning on or after 1 July 2012.

- The revised IAS 19 'Employee benefits' issued in June 2011 has resulted, amongst other amendments, in the removal of 'corridor approach' to defer some gains and losses arising from defined benefit plans. The revised IAS is effective for annual periods beginning on or after 1 January 2013.

- IFRS 10 'Consolidated Financial Statements' was issued in May 2011 primarily to deal with divergence in practice in applying the existing IAS 27 'Consolidated and Separate Financial Statements' and SIC 12 'Consolidation – Special Purpose Entities'. IFRS 10 and revised IAS 27 'Separate Financial Statements' together supersede the current IAS 27 'Consolidated and Separate Financial Statements'. The standard is effective for annual periods beginning on or after 1 January 2013.

- IFRS 11 'Joint arrangements' was issued in May 2011 and improves on IAS 31 'Joint ventures' by establishing principles to the accounting for all joint arrangements. IFRS 11 also eliminates the option available for accounting of joint ventures by the proportionate consolidation method. The standard is effective for annual periods beginning on or after 1 January 2013.

3. BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS *(continued)*

3.3 New and amended IFRS which are in issue but not yet effective *(continued)*

- IFRS 12 'Disclosure of interest in other entities' was issued in May 2011 and requires an entity to disclose information to evaluate the nature of, and risks associated with, its interests in other entities and effects of those interests on its financial position, performance and cash flows. The standard is effective for annual periods beginning on or after 1 January 2013.

- IFRS 13 'Fair value Measurements' was issued in May 2011 and sets out in a single IFRS a framework for measuring and disclosing fair values. The standard is effective for annual periods beginning on or after 1 January 2013.

- IFRIC 20 'Stripping costs in the production phase of a surface mine' was issued in October 2011 deals with the accounting for benefits arising from the 'stripping activity' during the production phase of the mine. The IFRIC is effective for annual periods beginning on or after 1 January 2013.

- Amendments to IFRS 7 'Financial Instruments: Disclosures' issued in December 2011 amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013.

- Annual improvements to IFRS issued in May 2012 (effective for annual periods beginning on or after 1 January 2013) has resulted, amongst other amendments, changes to the following standards:

  - IAS 1 'Presentation of Financial Statements clarifies the requirements for comparative information.

  - IAS 16 'Property, plant and equipment' clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment. If they do not meet this definition they shall be classified as inventory.

  - IAS 32 'Financial Instruments: Presentation' addresses the perceived inconsistencies between IAS 12 'Income Taxes' and IAS 32 with regards to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

- Amendments to IFRS 10, IFRS 11 and IFRS 12 issued in June 2012 provide additional transition relief by limiting the requirement to present adjusted comparative information to the period immediately preceding the date of initial application. The amendments are effective for annual periods beginning on or after 1 January 2013.

- Amendments to IFRS 10, IFRS 12 and IAS 27 issued in October 2012 define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27. The amendments are effective for annual periods beginning on or after 1 January 2014.

The Management believes the adoption of the above amendments is not likely to have any material impact on the presentation and disclosure of items in the financial statements for future periods.

4. SIGNIFICANT ACCOUNTING POLICIES

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 a 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 at that time considered the applicability of IFRIC 4, which 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 would 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 IFRIC 4 and concluded that, although the PWPA conveys a right of use of the Company's plant consistent with an operating lease arrangement, the income from that right is only one component of the billing arrangements. Therefore the Management's view is that application of IFRIC 4 and IAS 17 on the overall contractual revenues will result in unfair presentation of the economic reality and would not reflect a fair value of amounts earned in any one reporting period. That view is supported in that:

- any change in the recognition of revenue from the billing pattern will not be consistent with the intention of the PWPA and other project arrangements;
- recognising income on a straight line basis without considering the pattern of related costs (such as finance costs which are significantly higher in earlier years and lower in later years) would result in uneven distribution of results of operations over the term of the contract, so that there would be lower profits in earlier years;
- the recognition of deferred revenue as a liability that arises from the application of IFRIC 4 would not be consistent with the principle that liabilities should only be recognized if an event has occurred with a 'present obligation'.

The 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 that are significantly higher in the earlier years and lower in the later years; 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.

The following accounting policies have been consistently applied in dealing with items considered material to the Company's financial statements:

a) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the measurement at fair value of certain financial instruments.

b) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Following initial recognition at cost, expenditure incurred to replace a component of an item of property, plant and equipment which increases the future economic benefits embodied in the item of property, plant and equipment is capitalised. All other expenditures are recognised in the statement of comprehensive income as an expense as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Property, plant and equipment *(continued)*

Items of property, plant and equipment are derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the statement of comprehensive income in the year the item is derecognized.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of items of property, plant and equipment. The estimated useful economic lives are as follows:

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

c) Inventories

Inventories comprise of fuel oil and are stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on first-in-first-out basis and includes expenditure incurred in acquiring the inventories and includes an appropriate share of fixed and variable overheads.

d) Accounts and other receivables

Accounts and other receivables originated by the Company are measured at cost. An allowance for credit losses of accounts and other receivables is established when there is objective evidence that the Company will not be able to collect the amounts due. When an account or other receivable is uncollectible, it is written off against the allowance account for credit losses.

The carrying value of accounts and other receivables approximate their fair values due to the short-term nature of those receivables.

e) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents consist of bank balances and cash and short term deposits with maturity of three months or less from the date of placement.

f) Impairment

Financial assets

At the end of each reporting period, the Management assesses if there is any objective evidence indicating impairment of financial assets carried at cost or non collectability of receivables. An impairment loss, if any, arrived at as a difference between the carrying amount and the recoverable amount, is recognised in the statement of comprehensive income. The recoverable amount represents the present value of expected future cash flows discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted.

Non-financial assets

At the end of each reporting period, the Management assesses if there is any indication of impairment of non financial assets. If an indication exists, the Management estimates the recoverable amount of the asset and recognizes an impairment loss in the statement of comprehensive income. The Management also assesses if there is any indication that an impairment loss recognized in prior years no longer exists or has reduced. The resultant impairment loss or reversals are recognised immediately in the statement of comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g) Dividends

Dividends are recognised as a liability in the period in which they are declared.

The Board of Directors recommend to the shareholders the dividend to be paid out of Company's profits. The Directors take into account appropriate parameters including the requirements of the Commercial Companies Law, 1974 (as amended), while recommending dividend.

h) Employees' end of service benefits

Payment is made to Omani Government's Social Security Scheme under Royal Decree number 72 / 91 (as amended) for Omani employees. Provision is made for amounts payable under the Sultanate of Oman's labour law under Royal Decree number 35 / 2003 applicable to non-Omani employees' accumulated periods of service at the end of the reporting period.

i) Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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.

j) Accounts and other payables

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

k) Revenue

Revenue comprises tariffs for power capacity, electrical energy, water capacity and water output charges. Tariffs are calculated in accordance with the Power and Water Purchase Agreement (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.

l) Operating lease payments

The operating lease payments are charged to the statement of comprehensive income on a straight line basis, unless another systematic basis is representative of the time pattern of the benefit.

m) Borrowing costs

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m) Borrowing costs *(continued)*

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.

n) Foreign currency transactions

Transactions denominated in foreign currencies are translated to Rial Omani at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to Rial Omani at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

o) Taxation

Taxation for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period.

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax are recognised as an expense or income in the statement of comprehensive income, except when they relate to items that are recognised in statement of other comprehensive income, in which case the tax is also recognised in the statement of other comprehensive income.

p) Deferred financing costs

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

q) Financial liabilities

All financial liabilities are initially measured at fair value and are subsequently measured at amortised cost.

r) 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 the statement of comprehensive income immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the statement of comprehensive income 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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

r) Derivative financial instruments *(continued)*

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 the statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Amounts previously recognised in and accumulated in statement of other comprehensive income are reclassified to statement of comprehensive income in the periods when the hedged item is recognised in the statement of comprehensive income.

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.

s) Directors' remuneration

The Company follows the Commercial Companies Law 1974 (as amended), and other latest relevant directives issued by CMA, in regard to determination of the amount to be paid as Directors' remuneration. Directors' remuneration is charged to the statement of comprehensive income in the year to which they relate.

t) Estimates and judgements

In preparing the financial statements, the Management is required to make estimates and assumptions which affect reported income and expenses, assets, liabilities and related disclosures. The use of available information and application of judgements based on historical experience and other factors are inherent in the formation of estimates. Actual results in future could differ from such estimates.

The estimates and assumption considered by the Management to have a significant risk of material adjustment in subsequent years primarily comprise:

- Estimation of future taxable income against which available carry forward losses will be utilized for set off;
- Estimation of useful lives of the assets which 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;
- Decommissioning costs which are based on the Management's technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant facilities;
- Estimation is involved in the determination of the fair value of the interest rate swaps and accordingly the amount of hedging deficit at the end of the reporting period; and
- Allowance for credit losses which is based on the Management's estimates of recoverability of the amounts based on historical experiences.

5. PROPERTY, PLANT AND EQUIPMENT

a) The movement schedule of property, plant and equipment for the years 2012 and 2011 are set out on pages 65 and 66 respectively.

b) 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 the Commercial Operation Date. The sub-lease is further extendable for another 15 years (refer note 23). Lease rent is paid at the rate of approximately USD 140,000 per annum.

c) Property, plant and equipment is mortgaged against long-term loan facilities availed by the Company (note 12).

6. ACCOUNTS AND OTHER RECEIVABLES

	2012	2012	2011	2011
	RO'000	USD'000	RO'000	USD'000
Accounts receivable	4,973	12,917	4,350	11,298
Less: Allowance for credit losses [note 6 c)]	(1,392)	(3,616)	(1,593)	(4,137)
	3,581	9,301	2,757	7,161
Advances and prepayments	174	452	167	433
Other receivables	191	497	179	466
	3,946	10,250	3,103	8,060

The following further notes apply:

a) The entire receivables is from a single domestic customer (31 December 2011 – single domestic customer).

b) The ageing analysis of accounts receivables is as follows:

	2012	2012	2011	2011
	Receivables	Allowance for credit losses	Receivables	Allowance for credit losses
	RO'000	RO'000	RO'000	RO'000
Not past due (0 – 26 days)	3,581	--	1,985	--
More than one year	1,392	1,392	2,365	1,593
	4,973	1,392	4,350	1,593

	2012	2012	2011	2011
	Receivables	Allowance for credit losses	Receivables	Allowance for credit losses
	USD'000	USD'000	USD'000	USD'000
Not past due (0 – 26 days)	9,301	--	5,154	--
More than one year	3,616	3,616	6,144	4,137
	12,917	3,616	11,298	4,137

c) The movement in allowance for credit losses during the year is as follows:

	2012	2012	2011	2011
	RO'000	USD'000	RO'000	USD'000
At the beginning of the year	1,593	4,137	1,575	4,091
Add: Provided during the year	--	--	18	46
Less: Written back during the year	(201)	(521)	--	--
At the end of the year	1,392	3,616	1,593	4,137

7. BANK BALANCES AND CASH

	2012	2012	2011	2011
	RO'000	**USD'000**	RO'000	USD'000
Bank balances and cash	**2,831**	**7,352**	13,729	35,661
Short term deposits (see note below)	**12,000**	**31,169**	--	--
	14,831	**38,521**	13,729	35,661

The following further note applies:

Short term deposits are placed with a local commercial bank at commercial interest rates and have an original maturity period of 3 months from the date of placement.

8. SHARE CAPITAL

a) At the end of the reporting period, the Company's authorised and issued / paid up share capital is as follows:

	2012	2012	2011	2011
	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
Issued and fully paid up share capital of shares of RO 1 each	**27,800**	**72,300**	27,800	72,300

b) At the Extraordinary General Meeting held on 25 November 2012, the shareholders resolved to reduce the Company's issued and fully paid up share capital from RO 27.80 million (USD 72.3 million) to RO 22.10 million (USD 57.48 million). At the end of the reporting period, the Company's Management is in the process of carrying out the statutory formalities relating to the reduction of the capital.

c) At the end of the reporting period, shareholders who own 10% or more of the Company's share capital and the number of shares they hold are as follows:

	2012		2011	
	No of shares held	**%**	No of shares held	%
Kahrabel FZE	**12,510,000**	**45**	12,510,000	45

9. LEGAL RESERVE

In accordance with Article 106 of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended), 10% of the Company's net profit for the year has been transferred to a non-distributable legal reserve until the amount of the legal reserve becomes equal to one-third of the Company's issued share capital.

10. DIVIDEND

The Board of Directors have proposed a final cash dividend of RO 0.100 per share for the year 2012 amounting to RO 2.78 million (2011 – interim dividend of RO 0.080 per share amounting to RO 2.20 million was declared and paid), subject to approval of the shareholders at the forthcoming Annual General Meeting.

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% of its loan facility for the entire tenure of the agreement. The corresponding maximum hedged notional amount of the swaps at 31 December 2012 is approximately RO 138 million (USD 359 million) [31 December 2011 - approximately RO 146 million (USD 378 million)] bearing fixed interest rates of 7.87%, 4.36% and 5.70% per annum. (31 December 2011 – 5.75%, 4.36% and 5.70% per annum) excluding applicable margin.

At 31 December 2012, the USD LIBOR was approximately 0.65% per annum, (31 December 2011 - 0.55% per annum) whereas the Company has fixed interest on its borrowing as described above.

	2012	**2012**	2011	2011
	RO'000	**USD'000**	RO'000	USD'000
Cash flow hedge				
Hedging deficit (equity)	**26,204**	**68,062**	26,877	69,811
Related taxation	**3,573**	**9,281**	3,687	9,576
Ineffective portion of hedging cost	**339**	**880**	159	414
Fair value of derivative financial liabilities	**30,116**	**78,223**	30,723	79,801
Interest accrual on hedging instrument	**1,569**	**4,076**	1,738	4,513
Hedging deficit (liability)	**31,685**	**82,299**	32,461	84,314

In case, the Company terminates the IRS at 31 December 2012, it may incur losses to the extent of approximately RO 31.69 million (USD 82.30 million) [31 December 2011 - RO 32.46 million (USD 84.31 million)]. However, under the term of Loan Agreements, the Company is not permitted to terminate the interest rate swap agreements.

In accordance with 'IAS 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 and statement of comprehensive income respectively.

12. LONG TERM LOANS

	2012	**2012**	2011	2011
	RO'000	**USD'000**	RO'000	USD'000
Base facility	**115,816**	**300,821**	122,168	317,319
Repayment facility	**22,276**	**57,859**	23,497	61,031
Less: current portion of loans	**(7,755)**	**(20,143)**	(7,573)	(19,670)
	130,337	**338,537**	138,092	358,680
Less: deferred financing cost	**(2,729)**	**(7,088)**	(3,113)	(8,085)
	127,608	**331,449**	134,979	350,595

12. LONG TERM LOANS *(continued)*

The following further notes apply:

a) *Syndicated 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.

b) *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 2007.

c) *Repayment facility*

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

d) *Interest*

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

e) *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.

f) *Security*

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

g) *Covenants*

The facilities agreements contain certain covenants pertaining to, amongst other things, project finance ratios, 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. The movement in provision for decommissioning costs is a follows:

	2012	**2012**	2011	2011
	RO'000	**USD'000**	RO'000	USD'000
At the beginning of the year	**1,028**	**2,671**	967	2,512
Unwinding of discount on decommissioning cost	**65**	**168**	61	159
At the end of the year	**1,093**	**2,839**	1,028	2,671

14. ACCOUNTS AND OTHER PAYABLES

	2012	2012	2011	2011
	RO'000	**USD'000**	RO'000	USD'000
Accounts payable	**--**	**--**	713	1,851
Accruals and other payables	**2,707**	**7,032**	2,628	6,826
	2,707	**7,032**	3,341	8,677

15. RELATED PARTY TRANSACTIONS

The Company has entered into transactions with entities and shareholders who have significant influence over the Company. The Company also entered into transactions with entities related to these significant shareholders or directors ("other related parties"). These transactions are entered into on terms and conditions approved by the Management.

a) The following is a summary of significant transactions with related parties during the year:

	2012	2012	2011	2011
	RO'000	**USD'000**	RO'000	USD'000
Services provided by Sohar Operations and Maintenance Co. LLC (SOMC)	**6,513**	**16,918**	5,778	15,007
Other income from SOMC	**437**	**1,135**	--	--
Services provided by Power Management Co. LLC				
- Management fee	**154**	**400**	154	400
- Other administrative expenses	**275**	**714**	264	640
Services provided by Suez –Tractebel S.A.	**42**	**110**	48	125
Directors' remuneration	**51**	**132**	32	83
Directors' meeting attendance fees	**15**	**38**	14	36

b) Amounts due to related parties are interest free and repayable on demand.

c) The following are the details of amounts due to related parties:

	2012	2012	2011	2011
	RO'000	**USD'000**	RO'000	USD'000
Due to related parties				
Sohar Operations and Maintenance Co LLC	**454**	**1,178**	680	1,766

16. TAXATION

	2012 RO'000	2012 USD'000	2011 RO'000	2011 USD'000
Statement of comprehensive income				
Deferred tax charge (net)				
- Current year	(400)	(1,040)	(486)	(1,262)
- Previous year	--	--	(408)	(1,060)
	(400)	(1,040)	(894)	(2,322)
Statement of other comprehensive income				
Taxation (charge) / credit relating to interest rate swap	(114)	(295)	1,022	2,654
Statement of financial position				
Deferred tax liability	5,146	13,367	4,632	12,032

The following further notes apply:

a) 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.

b) The Company's taxation assessments for the years 2006 to 2008 have been finalized by the Secretariat General for Taxation (SGT) during the year with no additional demand for tax.

c) The Company's taxation assessments for the years 2009 to 2011 have not been finalised by the SGT. The Management believes that any additional tax assessed in respect of the above tax years would not be material to the Company's financial position at the end of the reporting period.

d) The deferred tax liability and the deferred tax charge in the statement of comprehensive income and statement of other comprehensive are attributable to the following items:

	At 31 December 2011 RO'000	Recognised in the statement of comprehensive income RO'000	Recognised in the statement of other comprehensive income RO'000	At 31 December 2012 RO'000
Interest accrual on hedging instruments	209	(22)	--	187
Provisions	221	(15)	--	206
Tax losses	1,005	359	--	1,364
Fair value of hedging Instrument	3,687	--	(114)	3,573
Depreciation	(9,754)	(722)	--	(10,476)
	(4,632)	(400)	(114)	(5,146)
	USD'000	USD'000	USD'000	USD'000
Interest accrual on hedging instruments	544	(55)	--	489
Provisions	573	(40)	--	533
Tax losses	2,610	932	--	3,542
Fair value of hedging Instrument	9,576	--	(295)	9,281
Depreciation	(25,335)	(1,877)	--	(27,212)
	(12,032)	(1,040)	(295)	(13,367)

17. DIRECT COSTS

	2012	2012	2011	2011
	RO'000	USD'000	RO'000	USD'000
Fuel gas	19,233	49,956	14,366	37,314
O & M fee	6,222	16,161	5,531	14,366
Depreciation	6,717	17,446	6,715	17,441
Seawater extraction	698	1,813	663	1,721
Other operating expenses	1,618	4,203	2,010	5,222
	34,488	89,579	29,285	76,064

18. OTHER INCOME

	2012	2012	2011	2011
	RO'000	USD'000	RO'000	USD'000
Reversal of excess provisions	1,025	2,662	664	1,725
Profit on disposal of plant and equipment	3	5	--	--
Others	220	576	--	--
	1,248	3,243	664	1,725

19. ADMINISTRATIVE AND GENERAL EXPENSES

	2012	2012	2011	2011
	RO'000	USD'000	RO'000	USD'000
Management fee	154	400	154	400
Depreciation	3	7	2	6
Legal and professional fee	66	172	70	181
Staff costs	16	42	18	46
Directors' meeting attendance fees and remuneration	66	170	46	119
Other administrative expenses	402	1,046	379	987
	707	1,837	669	1,739

20. FINANCE COSTS

	2012	2012	2011	2011
	RO'000	USD'000	RO'000	USD'000
Interest on base facility	1,787	4,644	1,620	4,209
Interest on repayment facility	344	893	312	810
Amortisation of deferred financing costs	384	997	399	1,037
Interest on net settlement of swaps	6,355	16,506	6,788	17,630
Other financial charges	221	573	139	359
Ineffective portion of hedging cost	179	466	32	85
Unwinding of discount on decommissioning cost (note 13)	65	168	61	159
	9,335	24,247	9,351	24,289

21. NET ASSETS PER SHARE

Net assets per share is calculated by dividing the shareholders' funds by the number of shares at the end of the reporting period.

	2012	2012	2011	2011
	RO'000	USD'000	RO'000	USD'000
Shareholders' funds (in '000)	32,546	84,535	29,606	76,899
Number of shares at the end of the reporting year (in '000)	27,800	27,800	27,800	27,800
Net assets per share	1.171	3.04	1.065	2.77

The Management believes that the hedging deficit of RO 26.20 million (USD 68.06 million) [31 December 2011 – RO 26.88 million (USD 69.81 million)] at the end of the reporting period represents the loss which the Company would incur, if it opts to terminate its swap agreement on this date. However, under the terms of its financing agreements, the Company is not permitted to terminate the swap agreements. Accordingly the hedging deficit has been excluded from the Shareholders' funds.

22. BASIC EARNINGS PER SHARE

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

	2012	2012	2011	2011
	RO'000	USD'000	RO'000	USD'000
Profit for the year (in '000)	2,940	7,636	2,519	6,542
Weighted average number of shares at the end of the reporting year (in '000)	27,800	27,800	27,800	27,800
Basic earnings per share	0.106	0.27	0.091	0.23

As the Company does not have any dilutive potential shares, the diluted earnings per share is the same as the basic earnings per share.

23. LEASE COMMITMENTS

Land on which the Sohar Power and Water Plant is constructed, has been leased from Sohar Industrial Port Company SAOC for a 15 year period [note 5 b)]. At the end of the reporting period, future minimum lease commitments under non-cancellable operating leases are as follows:

	2012	**2012**	2011	2011
	RO'000	**USD'000**	RO'000	USD'000
Within 1 year	**60**	**155**	54	140
Between 2 and 5 years	**239**	**620**	217	564
After 5 years	**253**	**658**	285	740
	552	**1,433**	556	1,444

24. CONTINGENT ASSET – INSURANCE CLAIM

During the year 2011, the Company had encountered unexpected technical faults with two gas turbine generators, and the same fault was encountered during the year in the third gas turbine generator.

As a result of the above, the Company has incurred and charged certain repair costs and also lost revenue during the years 2011 and 2012.

The Company has insurance arrangements in place to cover both the repairs and loss of revenues from specified events. Because it is not yet certain how much, if any, of the revenue losses and repair costs will be recovered through insurance claims, no amounts have been recognised in these financial statements. At the end of the reporting period, the management is in the process of pursuing the claims with the insurers.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT

The Company's activities expose it to various financial risks, primarily being, market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Company's risk management is carried out internally in accordance with the policies approved by the Board of Directors. Risk management policies and systems are reviewed regularly to ensure that they reflect any changes in market conditions and the Company's activities.

a) Market risk

Foreign 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, the Management believes the Company is not exposed to the currency risk as the RO is effectively pegged to the USD. At the end of the reporting period, the Company had bank balances denominated in USD amounting to RO 1.5 million (31 December 2011 – RO 1.6 million).

Interest rate risk

The Company's interest rate risk arises from long-term loans availed by the Company. 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.

25. FINANCIAL RISK AND CAPITAL MANAGEMENT *(continued)*

b) 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 the end of the reporting period, the entire accounts receivable was from a government owned company (OPWP). The Management considers the credit risk associated with the receivables to be very low because the receivables are from the Government. Furthermore, the cash and short term deposits are also placed in reputable banks, which minimize the credit risk.

c) 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 maintains sufficient bank balances and cash to meet the Company's obligations as they fall due for payment.

The table below analyses the expected contractual maturities of the financial liabilities at the end of the reporting year.

31 December 2012

	Carrying value	Contrac-tual cash flow	6 months or less	6 to12 months	1 to 2 years	2 to 5 years	More than 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Non-derivative financial liabilities (A)							
Secured bank loans	135,363	138,092	3,086	4,669	7,975	25,898	96,464
Accounts and related party payable	3,161	3,161	3,161	--	--	--	--
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	26,204	31,685	3,058	2,805	5,831	13,360	6,631
Total (A + B)	164,728	172,938	9,305	7,474	13,806	39,258	103,095
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Non-derivative financial liabilities (A)							
Secured bank loans	351,592	358,680	8,014	12,129	20,712	67,265	250,560
Accounts and related party payable	8,210	8,210	8,210	--	--	--	--
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	68,062	82,299	7,941	7,284	15,145	34,699	17,230
Total (A + B)	427,864	449,189	24,165	19,413	35,857	101,964	267,790

25. FINANCIAL RISK AND CAPITAL MANAGEMENT *(continued)*

c) Liquidity risk *(continued)*

31 December 2011

	Carrying value	Contrac-tual cash flow	6 months or less	6 to12 months	1 to 2 years	2 to 5 years	More than 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Non-derivative financial liabilities (A)							
Secured bank loans	142,552	145,665	2,973	4,600	7,754	24,864	105,474
Accounts and related party payable	4,021	4,021	4,021	--	--	--	--
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	26,877	32,461	3,401	2,841	5,946	12,685	7,588
Total (A + B)	173,450	182,147	10,395	7,441	13,700	37,549	113,062
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Non-derivative financial liabilities (A)							
Secured bank loans	370,265	378,350	7,721	11,949	20,139	64,582	273,959
Accounts and related party payable	10,443	10,443	10,443	--	--	--	--
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	69,811	84,314	8,833	7,380	15,444	32,948	19,709
Total (A + B)	450,519	473,107	26,997	19,329	35,583	97,530	293,668

d) Capital management

The Company's objectives when managing capital are:

– to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

– to provide an adequate return to shareholders and sustain future development of the business.

The Company has complied with externally imposed capital requirements as stipulated in the Commercial Companies Law, 1974 (as amended) and by the Capital Market Authority. [see also note 8 b) relating to capital reduction]

26. FAIR VALUE MEASUREMENT

The Management believes that the fair values of financial assets and liabilities are not significantly different from their carrying amounts at the end of the reporting period. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- 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 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The derivative financial liabilities with a carrying value of RO 30.1 million (USD 78.2 million) [31 December 2011 – RO 30.7 million (USD 79.8 million)] have been fair valued under the Level 2 hierarchy. There were no transfers between the Level 1 and Level 2 hierarchies in the current period.

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

31 December 2012	Buildings	Plant and machinery	Technical parts	Other assets	Decommissioning assets	Total	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	USD'000
Cost							
At 31 December 2011	7,009	189,031	4,522	27	777	201,366	523,027
Additions during the year	--	--	122	4	--	126	327
Disposals during the year	--	--	--	(10)	--	(10)	(26)
At 31 December 2012	7,009	189,031	4,644	21	777	201,482	523,328
Depreciation							
At 31 December 2011	1,120	29,540	699	24	120	31,503	81,825
Charge for the year	234	6,302	155	3	26	6,720	17,453
Relating to disposals	--	--	--	(10)	--	(10)	(26)
At 31 December 2012	1,354	35,842	854	17	146	38,213	99,252
Net book value							
At 31 December 2012	5,655	153,189	3,790	4	631	163,269	424,076
At 31 December 2011	5,889	159,491	3,823	3	657	169,863	441,202

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

31 December 2011	Buildings	Plant and machinery	Technical parts	Other assets	Decommissioning assets	Total	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	USD'000
Cost							
At 31 December 2010	7,009	189,031	4,522	29	777	201,368	523,033
Disposals during the year	--	--	--	(2)	--	(2)	(6)
At 31 December 2011	7,009	189,031	4,522	27	777	201,366	523,027
Depreciation							
At 31 December 2010	885	23,238	548	24	93	24,788	64,383
Charge for the year	235	6,302	151	2	27	6,717	17,447
Relating to disposals	--	--		(2)		(2)	(5)
At 31 December 2011	1,120	29,540	699	24	120	31,503	81,825
Net book value							
At 31 December 2011	5,889	159,491	3,823	3	657	169,863	441,202
At 31 December 2010	6,124	165,793	3,974	5	684	176,580	458,650