

صحة للطاقة  
SOHAR POWER

ANNUAL REPORT 2010





*His Majesty Sultan Qaboos Bin Said*



Contents	Page No.
Board of Directors and Management	4
Board of Directors' Report	7
Operation Highlights	10
Description of the Project	13
Profile of the Founders	17
Management Discussion and Analysis Report	20
Report of the Auditors on Corporate Governance	23
Corporate Governance Report	24
Report of the Auditors on Financial Statements	36
Financial Statements	38



## Board of Directors and Management

		Representing:
Chairman	Mr. Murtadha Ahmed Sultan	W.J. Towell & Co. LLC.
Vice Chairman	Mr. Shankar Krishnamoorthy	-
Director	Mr. C.S. Badrinath	The Zubair Corporation
Director	Mr. Abdulraouf Abudayyah	Sogex (Oman) LLC
Director	Ameed Rukn Mohammad Bin Suleyam Bin Nasser Al Mazidi	Ministry of Defence Pension Fund
Director	Mr. Johan De Saeger	-
Director	Mr. Guillaume Baudet	Kahrabel FZE (GDF Suez Group)
Director	Mr. Frederic Henning	-
Director	Mr. Jan Vanoudendycke	-
Director	Mr. Mario Savastano	-
Director	Mr. Johan Van Kerrebroeck	-
Director	Mr. Ghassan K. Al Hashar	-



## Key Executive Officers

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





## 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 Seventh Annual Report of the Company for the year ended 31 December 2010.

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

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

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

In 2010 the Company consulted with the relevant authorities in respect of the issue of recognition of revenue, and the relevance of applying certain accounting rules to the Company. Sohar Power recognizes revenue on the basis of the PWPA, in line with the economic reality of the project. Such a treatment accurately reflects the actual cash flow and overall profitability of the Company. The Capital Market Authority ("CMA") has recognized the particular nature of the electricity sector in the Sultanate, and has confirmed that qualification of accounts in this respect does not affect dividend distribution either. With this support, the Company had distributed an interim dividend of 8% (bz.0.080 per share) in 2010, and proposes to distribute further 8% (bz.0.080 per share) as final dividend for the year 2010.

The Sohar plant has been running smoothly and efficiently in 2010, its fourth year of operation. The Company has achieved this year very good key performance indicators. The plant remained commercially available at 92.09% and 92.84% for power and water respectively. The Company performed in the last quarter of the year substantial repairs to the seawater piping of the plant's desalination units. The need for such repairs had been identified as part of the warranty obligation of our EPC contractor, and their successful implementation this year completes all warranty related matters.

The Company recorded an increase of its EBITDA from 55,254 (USD'000) [21,273 (RO'000)] in 2009 to 55,337 (USD'000) [21,305 (RO'000)] in 2010. Net profit of the Company for the year 2010 after tax is 11,849 (USD'000) [4,562 (RO'000)]. The same was 8,454 (USD'000) [3,255 (RO'000)] in 2009. The positive variance of 3,395 (USD'000) [1,307 (RO'000)] between the profits of 2009 and 2010 is mainly due to deferred tax liability of 4,954 (USD'000) [1,907 (RO'000)], booked by the Company during 2009 on account of new tax law promulgated on 1<sup>st</sup> June 2009.

The operational and financial results are outlined hereafter. As regards safety, the Company has completed in December 2010, 1,903 days without any lost time accident, an outstanding achievement of our operator.

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

Sohar Power has in 2010 supported the Al Noor Association for the Blinds, through financial contribution to the establishment of Al Noor's new Batinah and Al Dhahira branch office, support to a cultural event organized by the association, and recently, in association with related companies, by offering 13 computers as part of Al Noor's program for enhancing IT literacy for the blinds. Sohar Power prides itself in actively supporting communities it lives in. The Company supports every year a broad array of initiatives, with a particular focus on education and social services.

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 on the celebration of its 40<sup>th</sup> National Day. 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. The Board of Directors places on record its gratitude to the CMA, the Authority for Electricity Regulation ("AER") and other government and non-government bodies for their strong support and guidance. Finally, we would like to thank all the personnel associated with the operation of the Sohar plant and the staff of the Company for their dedication and commitment in ensuring that it achieves its goals and objectives.

May Allah protect them for all of us.

**Murtadha Ahmed Sultan**

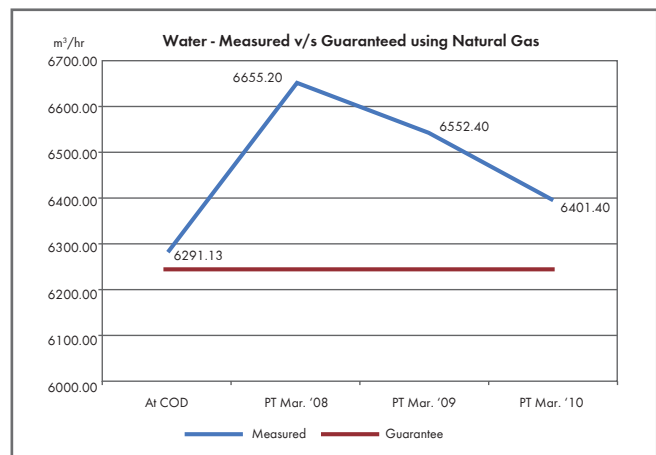
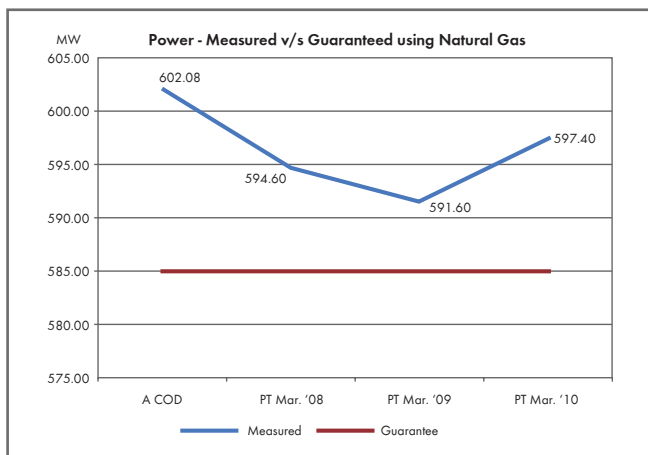
Chairman of the Board



## OPERATION HIGHLIGHTS

### Capacity

The Capacity of a plant is defined as the total electrical power (in MW) and water (in m<sup>3</sup>/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 m<sup>3</sup>/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 6,250m<sup>3</sup>/hr and meet contractual requirements under the PWPA.



### Availability

Availability is the amount of time the plant is technically capable of generating power and water as per specifications. Under the PWPA, Sohar Plant shall be available for 100% of time in summer period, and 85% of the time for power and 87% of the time for water in the winter period. Forced Outages of 2% for power plant and the water plant have been assumed in the Company budget.

However, in 2010, the Forced Outages were limited to 0.33% for the power plant and to 0.65% for the water plant. The total power made available during 2010 was 4,719.1 GWh which works to an availability of 92.09%. The total water made available during 2010 was 50,829,918 m<sup>3</sup> which works to an availability of 92.84%.

### Reliability

The reliability of the Plant is the ability of the Plant to deliver the declared availability, as per PWPA. Any failure to deliver the declared capacity will be treated as forced outage. The goal of Sohar Power is to minimize these forced outages, in order to maximize its revenues. During 2010 the plant showed an exceptional reliability. The forced outage rate for power plant was 0.33% resulting in a reliability factor of 99.67%. The forced outage rate for water plant was 0.65%, with reliability factor being 99.35%.

### Plant Efficiency (Heat Rate)

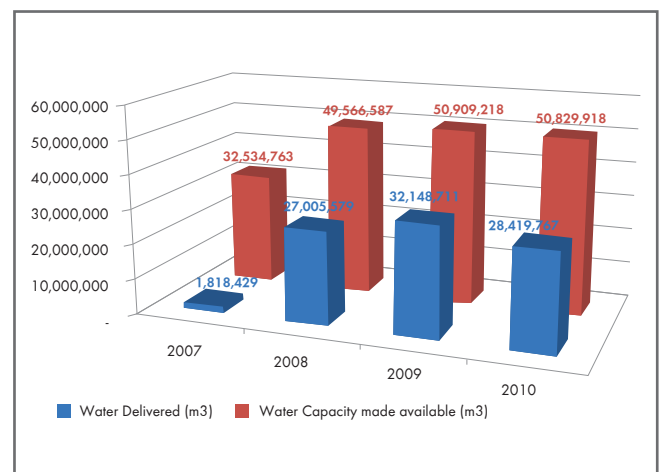
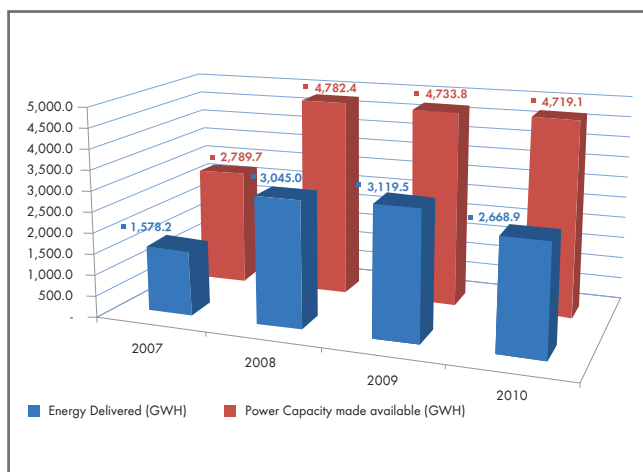
The efficiency of the power plant is measured in terms of the amount of heat required to produce one unit of power. Demonstrated efficiency in the original performance test was better than contractual requirements under the PWPA, thus bringing an upside to the Company.

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 year 2010 the energy delivered was 2,668.9 GWh with a utilization factor of the power plant of 56.56%. The total water delivered by the water plant was 28,419,767 m<sup>3</sup> with a utilization factor of 55.66%.

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



### Impact of the Red Tide in Seawater

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

These conditions hindered plant operations twice – in January and April 2009. The Company's claim under Force Majeure has been accepted by OPWP and the terms of the PWPA has been extended accordingly for the water Plant. There was no such occurrence in 2010.

### Maintenance

Routine maintenance work was carried out on the Gas Turbines (Minor Inspection), Steam Turbine ("B" type Inspection) and MSF Units during the scheduled outages in the two winters – 2009-10 and 2010-11. All units were found to be generally in good condition. In GT#1 and GT#2, uneven wear was noticed at the flame tube transition area and mixing chamber. This was corrected for concentricity.

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

### **EPC Warranty**

In May 2009, Sohar Power entered into an agreement with the EPC Contractor for settlement of all pending warranty and punch list issues. Following that settlement, action has been taken to complete the activities during the scheduled outages in two winters - 2009-2010 and 2010-2011. In 2010, the Company contracted the repair of the seawater piping affected by corrosion. The work have been performed satisfactorily on MSF units # 1 and # 2 so far and will be completed in February 2011. This will close all warranty related matters.

## 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 Zubair Enterprises, by the Government following a competitive bidding process. The promoters formed Sohar Power Company SAOC for the purposes of entering into the project agreements and undertaking the Project.

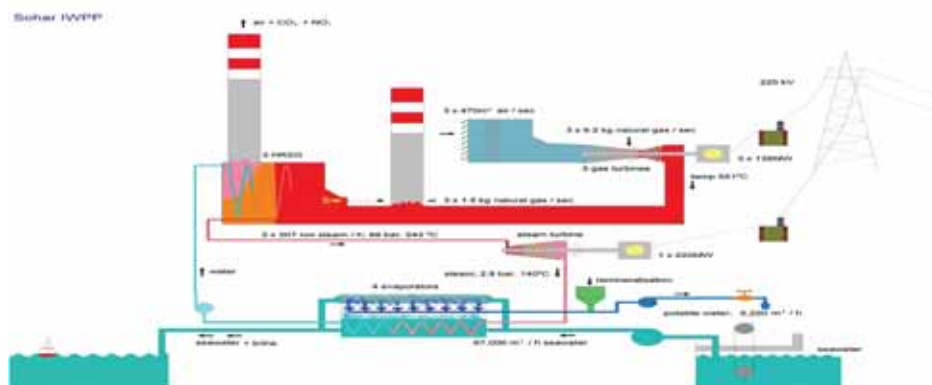
Sohar Power has been established under a Build-Own-Operate scheme. The BOO concept enables the Company to operate as a going concern beyond the project horizon of 15 years by either extending the PWPA (if agreed to by OPWP) or selling into a liberalized electricity market which may exist at that time. It may be noted that the anticipated useful life of the Plant is 30 years.

The 585 MW combined cycle gas fired power plant and 150,000 m<sup>3</sup>/d desalination plant is located in the Sohar Industrial Port Area in the Al Batinah region of the Sultanate of Oman. The site is strategically located near the main gas transmission system and electricity grid network.

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

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

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



The land for the power plant is owned by the Government which (through the Ministry of Transport and Communication) has entered into an Usufruct Agreement with Sohar Industrial Port Company SAOC ("SIPC"). SIPC entered into a Sub-Usufruct agreement with Sohar Power to grant the Company Usufruct rights for 15 years on the land (renewable for another 10 years). Additionally, Ministry of Transport and Communication committed towards Sohar Power to extend the lease up to 30 years under a Sub-Usufruct Direct Agreement.

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

### 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<sup>st</sup> 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 there from.

#### Sea Water

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

#### Electrical connection

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

#### Water supply connection

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

During the commissioning of the water plant, OPWP and MISC approached Sohar Power to provide distillate water (the output of the evaporators prior to potabilization) in order to meet the industrial requirements of the Sohar industrial complex. Owing to the criticality of the water requirement of certain industries, a temporary agreement was entered during March 2008 and small quantities are being supplied to the temporary network of MISC. A permanent long term agreement has been entered into with OPWP in July 2009. The long term supply was studied and found to be of no risk to the originally designed process, while providing additional revenues to the original PWPA revenues.

### EPC Contractor

The Company entered into an EPC Contract with Sohar Global Contracting and Construction Company LLC ("SGCCC"), with Doosan Heavy Industries as subcontractor. The construction was completed in 2007, and outstanding claims were settled in March 2008 through a Settlement Agreement. The period of warranty under the EPC contract expired on 28th May 2008, and the few items outstanding under a renewed warranty period were settled in 2009.

### 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;
- Health and security policies and procedures;
- Maintain and generate invoices based on fuel demand model and settlement system;
- Performance testing, periodic reporting;
- Management of inventory and wastes.

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

### 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 and
- New Industry charge: covers period licensing costs under the Sector Law.

### Force Majeure events

If Sohar Power is prevented or hindered in performing of its obligations for reasons outside of its control, it will constitute a Force Majeure (FM) event.

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

### Energy and Water Output Charges

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

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

### Fuel Costs

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



## Profile of the Founders

### **Kahrabel FZE (GDF Suez Group)**

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

Headquartered in Belgium, GDF SUEZ Energy International has operations in Europe (outside France), North America, Latin America and Middle East-Asia & Africa. It has an installed power capacity exceeding 63 GW, spread over more than 30 countries and using a wide range of fuels and technologies. This enables it to be a low-cost producer and mitigate risks. It has over 25,000 employees and its sales revenues for 2009 were € 28.3 billion.

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

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

In the Middle East GDF Suez Energy International became in 2006 the region's first project developer in the energy and water desalination sector. In 2010, GDF SUEZ Energy International confirmed that leading position with the award of the Sohar II IPP and Barka III IPP in Oman, as well as of the Riyadh IPP in Saudi Arabia.

In the second half of the year GSEI announced its intention to combine its activities with those of International Power. The combined group will become world leader in independent power generation.

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

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

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

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

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

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

### **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 29<sup>th</sup> 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 & desalination plants, electrical transmission lines and associated sub-stations of voltage level up and including 132KV.

On November 15, 1984 Messrs Bahwan Group of Companies acquired the whole of Sogex and renamed it as Sogex Oman Co LLC. Thereafter all legal relations with Sogex International were discontinued.



## Management Discussion and Analysis

### Industry structure and development

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

The Government regulates the development of the electricity sector under a well-formulated program on long-term basis. The Sector Law is in existence since 2004.

### 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 with Government protects the Company from market fluctuations.

### Analysis of Results

Sohar Power registered a net profit of 11,849 (USD'000) [4,562 (RO'000)] for the year 2010. The same was 8,454 (USD'000) [3,255 (RO'000)] in 2009. The variance of 3,395 (USD'000) [1,307 (RO'000)] between the profits of 2009 and 2010 is mainly due to deferred tax liability of 4,954 (USD'000) [1,907 (RO'000)], booked by the company during 2009 on account of new tax law promulgated on 1<sup>st</sup> June 2009.

Revenue of the Company for the year under review was lower as against the Revenue for the year 2009. The decrease in Revenue is explained below:

- Lower income from Distillate Water and Fuel (which does contribute to profit as Fuel cost is directly proportional to Fuel revenue) during current year adversely affected the Revenue. However, the adverse effect was mitigated by capacity charge and lower negative adjustment for water dumped to sea.
- Provision for the operator's incentive due under the contract, for the years 2007 to 2010 and provision for import of electricity, booked during the year resulted in increasing the direct cost. However, decrease in O&M variable cost & plant insurance and absence of MOG claim during the year favourably affected the same.
- Administrative & General cost for 2010 was higher than 2009 on account of higher Directors' remuneration (based on profit for the year) and PMC/PDC sharing cost.

### Analysis of Balance Sheet

There was no increase in Property, Plant and Equipment during the year. The reduction in the same was on account of Depreciation for the year. 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).

The collection of debt from Trade Debtors improved during current year. Consequently, in 2010, only one month billing was outstanding, whereas, two month billing was outstanding at the close of 2009.

The net Hedging Deficit after deferred tax on it in 2010 (excluding Deficit on account of net settlement of Swaps - Accruals) on three the Swap agreements, which does not affect the profitability of the Company, was 50,441 (USD'000) [19,420 (RO'000)]; the same was 39,881 (USD'000) [15,354 (RO'000)] in 2009. As per IAS 39, this is calculated on each Balance Sheet date and represents the loss, which Company would incur, if it opts to terminate its Swap agreement on this

date. However, under the terms of its Financing Agreements, Sohar Power is not permitted to terminate its Swap agreements.

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

Trade and other liabilities at the close of current were comparable with that of previous year and shall be settled or reversed in due course.

### Financial Highlights

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

All figures in USD'000	2010	2009	2008	2007	2006
Net Profit	11,849	8,454	11,142	8,121	1,011
Total Assets	511,463	522,099	528,010	602,607	532,242
Total Revenue	110,743	117,405	114,545	71,677	27,845
Total Shareholders' Fund including hedging deficit	31,468	35,956	23,575	(9,209)	(5,871)
Paid up Capital	72,300	72,300	1,299	1,299	1,299
Increase in Capital	-	-	71,001	-	-
Current Paid up Capital	72,300	72,300	72,300	1,299	1,299

	2010	2009	2008	2007	2006
Return on Total Assets	2.32%	1.62%	2.11%	1.34%	0.19%
Net Profit to Revenue	10.70	7.20	9.73	11.33	3.63
Debt: Capital ratio (*)	16:84	15:85	15:85	26:74	31:69
Ordinary Dividend (**)	16%	-	8.0%	-	-

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

\*\* includes 8% proposed final dividend for 2010.

### **Outlook for 2010**

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

### **Internal control system and their adequacy**

The Company believes in strong internal control systems as a tool to contribute high performance in operation and management of the Company. Sohar Power started implementation in 2009 of an Internal Control tool that entails critical review of all unique processes of the Company, and that for these appropriate control and segregation of duties is applied. This process has been continued in 2010, and was subjected to an audit in October. The conclusions from such audit were that "the control activities that are currently executed within the Company cover the most important risks faced by Sohar Power".

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

### **Transfers to Investors Trust Fund**

During 2010, Muscat Depository Securities Registration Company did not transfer any amount to 'Investors Trust Fund' on behalf of the Company, as company did not declare Final Dividend for the year 2009 in 2010 and Interim Dividend for 2010 was announced in November 2010. The unclaimed dividend representing Interim Dividend for 2010 shall be transferred to 'Investors' Trust Fund' in 2011 (after completion of 7 months from the date of declaration of Dividend).

## TO THE SHAREHOLDERS OF SOHAR POWER COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) Circular No. 16/2003 dated 29 December 2003 with respect to the accompanying corporate governance report of **Sohar Power Company SAOG** and its application of corporate governance practices in accordance with CMA Code of Corporate Governance issued under circular No. 11/2002 dated 3 June 2002 as supplemented by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading approved by Administrative Decisions no. 5/2007 dated 27 June 2007 and the Executive Regulation of the Capital Market Law issued under the Decision No. 1/2009 dated 18 March 2009 (collectively the Code and additional regulations and disclosures). Our engagement was undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Company's compliance with the code as issued by the CMA.

We report our findings as below:

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

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, 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 accompanying corporate governance report of **Sohar Power Company SAOG** to be included in its annual report for the year ended 31 December 2010 and does not extend to any financial statements of **Sohar Power Company SAOG**, taken as a whole.

*Deloitte & Touche*  
  
**Deloitte & Touche (M.E.) & Co. LLC**  
Muscat, Sultanate of Oman  
6 March 2011

## Corporate Governance Report

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

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

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

In compliance with the Article 26 of the above code, Sohar Power is including this separate chapter on Code of Governance in its annual financial statements for the year ended December 31, 2010.

### Board of Directors

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

Name of Directors	Category of Directors	Board Meeting held and attended during 2010					2010
		7 Mar	27 Apr	27 Jul	27 Oct	Total	AGM
Mr Murtadha Ahmed Sultan (Chairman)	Non-Executive Nominee & Independent	✓	✓	✓	✓	4	✓
Mr Shankar Krishnamoorthy (Vice Chairman)	Non-Executive & Independent	✓	✓	✓	-	3	-
Mr C.S. Badrinath	Non-Executive Nominee & Independent	✓	✓	-	✓	3	✓
Mr Abdullaouf Abudayyah	Non-Executive Nominee & Independent	✓	✓	✓	✓	4	-
Ameed Rukn Mohammad Bin Sulayem Bin Nasser Al Mazidi	Non-Executive Nominee & Independent	✓	✓	✓	✓	4	✓
Mr Frederic Henning	Non-Executive & Independent	✓	✓	✓	✓	4	-
Mr Jan Vanoudendycke	Non-Executive & Independent	✓	✓	✓	✓	4	-
Mr Mario Savastano	Non-Executive & Independent	-	-	-	✓	1	✓
Mr Ghassan K. Al Hashar	Non-Executive Nominee & Independent	✓	✓	✓	✓	4	✓
Mr Guillaume Baudet **	Non-Executive & Independent	-	-	-	✓	1	-
Mr Johan Van Kerrebroeck **	Non-Executive Nominee & Independent	-	-	-	✓	1	-
Mr Johan de Saeger **	Non-Executive & Independent	-	-	-	-	0	-
Mr Pierre De Pauw *	Non-Executive & Independent	✓	✓	✓	-	3	-
Mr Mahinder Nath *	Non-Executive Nominee & Independent	✓	✓	✓	-	3	-
Mr Daniel H. Pellegrini *	Non-Executive & Independent	✓	✓	✓	-	3	-

\* Resigned on 27/07/2010

\*\* Appointed on 27/07/2010

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

Name of Directors	Position held	Name of the Company
Mr Murtadha A. Sultan	Director Director Chairman	Gulf International Chemicals Oman Flour Mills, United Power Company
Mr Shankar Krishnamoorthy	None	-
Mr C.S. Badrinath	Director Director	National Finance Co. Sweets of Oman
Mr Abdulraouf Abudayyah	None	-
Ahmed Rukn Mohammad Bin Sulayem Bin Nasser Al Mazidi	None	-
Mr Frederic Henning	None	-
Mr Jan Vanoudendycke	None	-
Mr Mario Savastano	None	-
Mr Ghassan K. Al Hashar	None	-
Mr Guillaume Baudet **	None	-
Mr Johan de Saeger **	None	-
Mr Johan Van Kerrebroeck **	None	-
Mr Pierre De Pauw *	None	-
Mr Mahinder Nath *	None	-
Mr Daniel H. Pellegrini *	None	-

\* Resigned on 27/07/2010

\*\* Appointed on 27/07/2010

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.

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

Name of Committee Members	Position	Meetings held and attended during 2010				
		07/03	27/04	27/07	27/10	Total
Mr C.S. Badrinath	Chairman	✓	✓	-	✓	3
Mr Pierre De Pauw *	Member	✓	✓	✓	-	3
Mr Mahinder Nath *	Member	✓	✓	✓	-	3
Mr Guillaume Baudet	Member	-	-	-	✓	1
Mr Johan Van Kerrebroeck	Member	-	-	-	✓	1

\* Resigned on 27/07/2010

#### c. 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 2010, the Board of Directors, through the Audit Committee, reviewed and assessed the Company's system of internal controls based on the audit report submitted by the Auditors. The Company has hired an internal auditor in January 2010. The internal auditor, in coordination with the Audit Committee, has implemented a systematic review of the Company main process and ensured the effectiveness of adequate controls. In October 2010, this process has been audited by auditors from GDF Suez, which concluded that the control activities that are currently executed within Sohar Power cover the most important risks faces by the Company.

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

## REMUNERATION

### a. Directors – Remuneration / Attendance Fee.

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

The total remuneration to the Directors were as follows:

	RO
Director's remuneration	119,350
Sitting fee	<u>16,800</u>
<b>Total</b>	<b><u>136,150</u></b>

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

#	Name of Director	No. of meeting Paid	Total Sitting fees paid in RO	Total Remuneration in RO
1	Mr Murtadha Ahmed Sultan	4	1,600	9,946
2	Mr Shankar Krishnamoorthy	3	1,200	9,946
3	Mr C. S. Badrinath	3	1,200	9,946
4	Mr Abdulraouf Abudayyah	4	1,600	9,946
5	Ameed Rukn Mohammad Bin Sulayem Bin Nasser Al Mazidi	4	1,600	9,946
6	Mr Ghassan Al Hashar	4	1,600	9,946
7	Mr Frederic Henning	4	1,600	9,946
8	Mr Jan Vanoudendycke	4	1,600	9,946
9	Mr Mario Savastano	1	400	9,946
10	Mr Johan de Saeger **	0	-	9,946
11	Mr Johan Van Kerrebroeck **	1	400	9,945
12	Mr Guillaume Baudet **	1	400	9,945
13	Mr Daniel Pellegrini *	3	1,200	-
14	Mr Mahinder Nath *	3	1,200	-
15	Mr Pierre De Pauw *	3	1,200	-
<b>TOTAL</b>			<b>16,800</b>	<b>119,350</b>

\* Resigned on 27/07/2010

\*\* Appointed on 27/07/2010

The Company will continue to pay sitting fee per Director per meeting amounting to RO 400 in the year 2011, up to a maximum of R.O. 10,000 to any individual Director.

The directors remuneration is payable to directors holding their seat at 31 December 2010.

#### b. Top Five Officers.

The aggregate remuneration paid to the top five officers of the Company was RO 341,000. Pursuant to Management Sharing Agreement only 40% of the amount is chargeable to the Company, namely RO 136,400.

#### NON-COMPLIANCE PENALTIES

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

#### MEANS OF COMMUNICATION WITH THE SHAREHOLDER AND INVESTORS

Annual accounts and quarterly accounts are put on official 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.

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

The Company has redesigned and updated its website by end 2010. 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](http://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	1.435	1.480	1.458	2,694.070
Feb	1.450	1.292	1.371	2,651.730
Mar	1.391	1.485	1.438	2,687.985
Apr	1.425	1.470	1.448	2,659.095
May	1.275	1.450	1.363	2,519.890
Jun	1.275	1.350	1.313	2,390.130
Jul	1.275	1.320	1.298	2,360.645
Aug	1.300	1.444	1.372	2,355.265
Sep	1.380	1.425	1.403	2,402.365
Oct	1.460	1.400	1.430	2,561.085
Nov	1.450	1.630	1.540	2,615.475
Dec	1.480	1.549	1.515	2,651.790

## DISTRIBUTION OF SHAREHOLDING

The Shareholder pattern as on 31 December 2010:

Category of shareholders	Number of Shareholders	Total Shareholders	Share capital %
Major Shareholders	7	22,240,691	80 %
Shareholders less than 5% more than 1%	-	-	-
Shareholders below 1%	12,196	5,559,309	20 %
TOTAL	12,203	27,800,000	100 %

## PROFESSIONAL PROFILE OF THE STATUTORY AUDITORS

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

Deloitte Touché Tohmatsu Limited, a UK private company limited, a network of member firms around the world devoted to excellence in providing professional services and advice. Deloitte is focused on client service through a global strategy executed locally in over 150 countries. With access to the deep intellectual capital of approximately 170,000 people worldwide, Deloitte delivers services in four professional areas: audit, tax, consulting and financial advisory services.

Deloitte & Touché in the Middle East is among the region's leading professional services firms, providing audit, tax, consulting, and financial advisory services through 26 offices in 15 countries with over 2,400 partners, directors and staff. The Oman Practice currently has three Partners and over 65 professionals.

## ACKNOWLEDGEMENT BY THE BOARD OF DIRECTORS

The Board of Director confirms the following:

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

## Brief Profiles of Directors

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

**Name** : **Shankar Krishnamoorthy – Vice Chairman**  
**Year of Joining** : 2007  
**Education** : Bachelor of Electrical Engineering with Honours  
**Experience** : After graduating with honours as an electrical engineer, Mr Krishnamoorthy worked with BHEL, the dominant Indian power equipment manufacturer, and Crompton Greaves Limited.

Mr Krishnamoorthy joined the GDF Suez group in India in 1997 (becoming the CEO of Tractebel in India) and worked on South Asian projects for the group. He moved to GDF Suez's Bangkok operations in 2002 and was responsible for the development of business in Asia and Southern Africa

Mr Krishnamoorthy has nearly 25 years of experience in the electricity industry. He has been involved in construction, project management, business development and general management in the power industry.

Mr Krishnamoorthy till 2008 was the Chief Business Developer for MENA, Turkey and India. From 1 January 2009 he assumes the role of CEO for Middle-East, Turkey and Africa.

**Name** : **C.S. Badrinath**  
**Year of Joining** : 2004  
**Education** : Chartered Accountant and Cost and Management Accountant  
**Experience** : Mr. Badrinath is with the Zubair Group for the last 27 years having handled different finance functions and is presently the Senior Vice President – Group Finance. Mr. Badrinath is a member of all the monitoring and executive committees and shareholders' forums of the Zubair Group companies. Mr. Badrinath represents Zubair Group as Director in many of the public limited companies.

**Name** : **Abdulraouf Abudayyeh**  
**Year of Joining** : 2004  
**Education** : B.S. Engineering  
**Experience** : Mr Abudayyeh has Forty two (43) years in Power and Desalination plants project management and Operation Maintenance of Power and Water facilities. He is the CEO of Sogex Oman Co. LLC since 1977.

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

**Name** : **Johan De Saeger**  
**Year of Joining** : 2010  
**Education** : Master in Business Administration – Cornell University, USA  
 Commercial Engineer – Catholic University of Louvain, Belgium  
**Experience** : Mr Johan De Saeger is with GDF Suez Group since 1994. He joined Tractebel Electricity & Gas International, Hong Kong and Bangkok as Business Developer in 1994 and in 2000 he was promoted as Senior Vice President Strategy & Portfolio Management. In 2005, he was responsible for determining business potential of GDF Suez in India until 2006. He is currently with GDF Suez, Bangkok as Executive Vice President, Head Business Development for Asia.

**Name** : **Guillaume Baudet**  
**Year of Joining** : 2009  
**Education** : Master Degree in Finance and Accounting – Institute Superior de Commerce, France  
 Management Program – CEDEP/INSEAD, France  
 Degree in Business and Administration – Universite de Toulon, France  
**Experience** : Mr. Guillaume Baudet has 16 years of experience in Finance. He joined GDF SUEZ Energy International in 2007 as Head of Business Control for the MENA region. Since January 2011, Guillaume has been appointed Chief Financial Officer at Hidd Power Company in Bahrain, in charge of Finance and Administration areas. Before joining GDF SUEZ he occupied several CFO positions in Europe and North America.

**Name** : **Frederic Henning**  
**Year of Joining** : 2009  
**Education** : Master Degree in Civil Engineering – University of Liege, Belgium  
 Master of Science in Management – Boston University  
**Experience** : Mr Henning has 36 years of technical, commercial and managerial experience in the power business in the GDF Suez Group. In his current role as CEO of Tawellah Al project in Abu Dhabi, he is responsible for managing the operation of that company. He is also a Board Member of SMN Barka Power SAOC and was previously CEO of Sohar Power and United Power Company. He supervised and developed the construction and commissioning of the Sohar Power Plant.

**Name** : **Jan Vanoudendycke**  
**Year of Joining** : 2009  
**Education** : Electro Mechanical Engineer - University of Leuven, Belgium  
**Experience** : Mr Jan Vanoudendycke is with the GDF Suez Group for the last 24 years. He occupied different positions in Generation, HR and Marketing and Sales in Belgium and outside Europe. Presently, he is the COO of Kahrabel based in Dubai. He is in charge of the management of all the O&M Companies in the Middle East. Kahrabel has 14.00 MW and 620 MIGD in operation and construction.

**Name** : **Mario Savastano**  
**Year of Joining** : 2008  
**Education** : Master Degree in Mechanical Engineering – University of Louvain, Belgium Business Education – INSEAD, France and Singapore

**Experience** : Mr. Savastano has 20 years of technical, commercial and managerial experience in the power business. He was from 2006 to 2010 Chief Executive Officer of the SMN Group of Companies that comprises the Barka Phase 2 and the Al-Rusail plants in the Sultanate of Oman. He is now Executive Vice President, Construction Assets and Technology, in International Power plc for Middle-East, Turkey and Africa, based in Dubai.

**Name** : **Johan Van Kerrebroeck**  
**Year of Joining** : 2010  
**Education** : Master Degree Industrial Engineering Electricity  
 Business Education-Vlerick Management School, Belgium and CEDEP/INSEAD, France  
**Experience** : Mr. Johan Van Kerrebroeck is with the GDF Suez group since 1989, and developed over this period experience in energy business in Belgium and outside Europe. Presently he is CEO of SMN Power Holding Company in the Sultanate of Oman.

**Name** : **Ghassan K. Al Hashar**  
**Year of Joining** : 2009  
**Education** : Bachelor Degree in Finance & Accounting and Master's Degree in Finance and Investment Management.  
**Experience** : Mr Al-Hashar is with the Public Authority for Social Insurance for the last 13 years having handled different finance and investment functions and is presently the Head of Asset Management-Local. Mr Al-Hashar represents the Public Authority for Social Insurance in numerous public and private companies.

## Brief Profile of Management Team

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

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

The management team has been empowered by the Board of Directors and jointly operates within well defined authorization limits.

Brief profile of the current managerial team is as follows:

**Name** : **Arnaud de Limburg Stirum**  
**Year of Joining** : 2008  
**Education** : Law Degree - University of Leuven, Belgium  
 Postgraduate in Economics and International Relations - London School of Economics, UK  
 General Management Program - CEDEP/INSEAD, France  
**Experience** : 12 years of experience in the field of power project development in Europe, Asia and the Middle East. He joined GDF SUEZ in 1999. As General Counsel for the Middle East, based in Dubai since 2004, he was instrumental in the development of GDF SUEZ Energy International in the region. In his current role of CEO, he is responsible for managing the operation of the Company.

**Name** : **Zoher Karachiwala**  
**Year of Joining** : 1995  
**Education** : Chartered Accountant  
**Experience** : Currently Company Secretary, he was CFO until June 2009. He also acts as Company Secretary for other GDF Suez group of companies in Oman. Mr Karachiwala has been for 33 years in field of Statutory Audit & Accounting and Finance. He was KPMG Audit Partner in Pakistan before joining United Power Company in 1995. He acted as Honorary Chairman of Audit Committee and the Board of Directors for a public company in Oman.

**Name** : **Sreenath Hebbar**  
**Year of Joining** : 2009  
**Education** : Bachelor of Engineering (Mechanical), VJTI, Mumbai University  
**Experience** : 26 years of work experience, primarily in Business Development of Engineer Procure Construct (EPC) Contracts in Gas Turbine based Cogeneration & Combined Cycle Power Plants. In his current position as Technical Manager, he is responsible for technical liaison with the client, statutory authorities, contractors and provides technical support to the CEO. He is also currently a member of the Oman grid code review panel.

**Name** : S.M. Tariq  
**Year of Joining** : 1995  
**Education** : Aca (Intermediate), Institute of Chartered Accountants of Pakistan  
MBA  
**Experience** : 34 Years of experience in External Audit (KPMG, Karachi Office and Muscat office), Internal Audit (National Trading Company, Muscat) and Accounting & Finance (United Power Company SAOG and Sohar Power Company SAOG, Muscat). In this current position as Financial Controller, he is responsible for management of accounting department; he co-ordinates external / internal auditors

**Name** : Jamal Al Bloushi  
**Year of Joining** : 1995  
**Education** : Diploma in Computer  
**Experience** : 16 years experience in administration activity including managing spare parts logistics, liaisons with government organizations, licenses, translation function and supervising local insurance programs and assisting CEO for statutory meetings



## **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** (the Company) which comprise of the statement of financial position as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 42 to 66.

### **Board of Directors' responsibility for the financial statements**

Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from 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 whether the financial statements are free from material misstatement.

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

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

**Independent auditor's report  
to the shareholders of  
Sohar Power Company SAOG (continued)**

**Basis for qualified opinion**

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

**Qualified opinion**

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of **Sohar Power Company SAOG** as of 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on other legal and regulatory requirements**

In our opinion, the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.

*Deloitte & Touche*

**Deloitte & Touche (M.E.) & Co. LLC**  
**Muscat, Sultanate of Oman**  
**6 March 2011**



*Robert O'Hanlon*

**Signed by**  
**Robert O'Hanlon**  
**Partner**

## Statement of financial position

at 31 December 2010

	Notes	2010 RO'000	2010 USD'000	2009 RO'000	2009 USD'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	6	176,580	458,650	183,297	476,096
<b>Current assets</b>					
Trade and other receivables	7	4,443	11,540	7,758	20,151
Inventories		722	1,875	679	1,764
Cash and cash equivalents	8	15,168	39,398	9,274	24,088
<b>Total current assets</b>		<b>20,333</b>	<b>52,813</b>	17,711	46,003
<b>Total assets</b>		<b>196,913</b>	<b>511,463</b>	201,008	522,099
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	9	27,800	72,300	27,800	72,300
Legal reserve	10	1,377	3,577	921	2,392
Retained earnings		2,358	6,032	476	1,145
<b>Shareholders' fund</b>		<b>31,535</b>	<b>81,909</b>	29,197	75,837
Hedging deficit	11	(19,420)	(50,441)	(15,354)	(39,881)
<b>Total equity</b>		<b>12,115</b>	<b>31,468</b>	13,843	35,956
<b>Non-current liabilities</b>					
Hedging deficit	11	23,890	62,052	19,064	49,517
Long-term loans	12	141,781	368,262	148,892	386,732
Provision for decommissioning costs	13	967	2,512	909	2,361
Deferred tax liability	18	4,760	12,364	4,556	11,834
<b>Total non-current liabilities</b>		<b>171,398</b>	<b>445,190</b>	173,421	450,444
<b>Current liabilities</b>					
Current portion of long term loans	12	7,539	19,582	7,573	19,670
Trade and other payables	14	5,582	14,498	5,707	14,824
Due to related parties	20	279	725	464	1,205
<b>Total current liabilities</b>		<b>13,400</b>	<b>34,805</b>	13,744	35,699
<b>Total liabilities</b>		<b>184,798</b>	<b>479,995</b>	187,165	486,143
<b>Total equity and liabilities</b>		<b>196,913</b>	<b>511,463</b>	201,008	522,099
<b>Net asset per share</b>	19	<b>1.13</b>	<b>2.95</b>	1.05	2.73

Director

Director

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

## Statement of comprehensive income

for the year ended 31 December 2010

	Notes	2010 RO'000	2010 USD'000	2009 RO'000	2009 USD'000
Revenue		<b>42,636</b>	110,743	45,201	117,405
Direct cost	15	<b>(27,264)</b>	(70,816)	(30,035)	(78,012)
<b>Gross profit</b>		<b>15,372</b>	39,927	15,166	39,393
Administrative and general expenses	16	<b>(784)</b>	(2,036)	(634)	(1,647)
<b>Result from operating activities</b>		<b>14,588</b>	37,891	14,532	37,746
Finance costs	17	<b>(9,252)</b>	(24,031)	(9,370)	(24,338)
<b>Profit before income tax</b>		<b>5,336</b>	13,860	5,162	13,408
Income tax	18	<b>(774)</b>	(2,011)	(1,907)	(4,954)
<b>Profit for the year</b>		<b>4,562</b>	11,849	3,255	8,454
<b>Basic earnings per share</b>	19	<b>0.16</b>	<b>0.43</b>	0.12	0.30
<b>Profit for the year</b>		<b>4,562</b>	11,849	3,255	8,454
<b>Other comprehensive income</b>					
Fair value (loss) / gain on interest rate swap		<b>(4,636)</b>	(12,042)	8,945	23,238
Related income tax	18	<b>570</b>	1,481	(1,073)	(2,787)
<b>Total other comprehensive (loss) / income</b>		<b>(4,066)</b>	(10,561)	7,872	20,451
<b>Total comprehensive income for the year</b>		<b>496</b>	1,288	11,127	28,905

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

## Statement of changes in equity

for the year ended 31 December 2010

	Share capital	Legal reserve	Retained earnings	Share holders' fund	Hedging deficit	Total equity	Total equity
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	USD'000
At 1 January 2009	27,800	595	3,909	32,304	(23,226)	9,078	23,575
Restatement of deferred taxation (note 3.1)	-	-	(4,018)	(4,018)	-	(4,018)	(10,436)
Effect of accounting for provision for decommission (note 3.1)	-	-	(120)	(120)	-	(120)	(312)
As restated at 1 January 2009	27,800	595	(229)	28,166	(23,226)	4,940	12,827
Payment of dividend for 2008 (note 9)	-	-	(2,224)	(2,224)	-	(2,224)	(5,776)
Profit for the year	-	-	3,255	3,255	-	3,255	8,454
Other comprehensive income for the year	-	-	-	-	7,872	7,872	20,451
Transfer to legal reserve	-	326	(326)	-	-	-	-
<b>At 31 December 2009</b>	<b>27,800</b>	<b>921</b>	<b>476</b>	<b>29,197</b>	<b>(15,354)</b>	<b>13,843</b>	<b>35,956</b>
<b>At 1 January 2010</b>	<b>27,800</b>	<b>921</b>	<b>476</b>	<b>29,197</b>	<b>(15,354)</b>	<b>13,843</b>	<b>35,956</b>
Payment of dividend for 2009 (note 9)	-	-	(2,224)	(2,224)	-	(2,224)	(5,776)
Profit for the year	-	-	4,562	4,562	-	4,562	11,849
Other comprehensive loss for the year	-	-	-	-	(4,066)	(4,066)	(10,561)
Transfer to legal reserve	-	456	(456)	-	-	-	-
<b>At 31 December 2010</b>	<b>27,800</b>	<b>1,377</b>	<b>2,358</b>	<b>31,535</b>	<b>(19,420)</b>	<b>12,115</b>	<b>31,468</b>

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

## Statement of cash flows

for the year ended 31 December 2010

	2010	2010	2009	2009
	RO'000	USD'000	RO'000	USD'000
<b>Operating activities</b>				
Cash receipts from customers and others	45,951	119,353	45,859	119,114
Cash paid to suppliers and employees	(21,588)	(56,073)	(22,458)	(58,332)
<b>Cash generated from operations</b>	<b>24,363</b>	<b>63,280</b>	23,401	60,782
Interest paid	(8,672)	(22,524)	(8,926)	(23,185)
<b>Net cash from operating activities</b>	<b>15,691</b>	<b>40,756</b>	14,475	37,597
<b>Investing activities</b>				
Addition to property, plant and equipment	-	-	(3)	(8)
<b>Net cash used in investing activities</b>	<b>-</b>	<b>-</b>	(3)	(8)
<b>Financing activities</b>				
Payment of dividend	(2,224)	(5,776)	(2,224)	(5,776)
Repayment of loans	(7,573)	(19,670)	(7,771)	(20,184)
<b>Net cash used in financing activities</b>	<b>(9,797)</b>	<b>(25,446)</b>	(9,995)	(25,960)
<b>Net increase in cash and cash equivalents</b>	<b>5,894</b>	<b>15,310</b>	4,477	11,629
Cash and cash equivalents at the beginning of year	9,274	24,088	4,797	12,459
<b>Cash and cash equivalents at the end of year</b>	<b>15,168</b>	<b>39,398</b>	9,274	24,088

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

## Notes to the financial statements for the year ended 31 December 2010

### 1. Legal status and principal activities

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

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

### 2. Significant agreements

The Company has entered into the following significant agreements:

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

## Notes to the financial statements

### for the year ended 31 December 2010 (continued)

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

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

For the year ended 31 December 2010, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2010.

The adoption of these standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current period.

#### 3.1 Standards affecting presentation and disclosure

The following new and revised Standards were adopted during 2009 :

##### Provision of decommissioning costs

During 2009, the Company provided for decommissioning costs as required by the sub-usufruct agreements and the costs of the related assets which had not been capitalised in prior years. A provision for decommissioning costs was made and the costs of the related assets were capitalised in accordance with the provisions of IAS 8: Accounting policies, changes in accounting estimates and errors. The impact of the changes on the prior periods is provided below:

	31 December 2009		31 December 2008		1 January 2008	
	RO'000	USD'000	RO'000	USD'000	RO'000	USD'000
Increase of property, plant and equipment	-	-	-	-	762	1,979
Increase in provisions	-	-	-	-	804	2,089
Decrease in retained earnings	-	-	-	-	43	113
Increase in depreciation charge for the year	<b>26</b>	<b>67</b>	26	67	-	-
Increase in finance costs for the year	<b>54</b>	<b>140</b>	51	132	-	-
Decrease in profit for the year	<b>80</b>	<b>207</b>	77	199	-	-
Cumulative effect for restatement of accounting for provision for decommissioning costs	-	-	120	312	43	113

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### Restatement of deferred taxation

During 2009, workings for deferred taxation were reviewed and based on the revised workings there was an overall shortfall of deferred tax liability of RO 4,018 thousand in prior years. Accordingly it was considered necessary to restate the comparative amounts of the prior periods in accordance with IAS 8. The impact of the revised computation on the prior periods is provided below:

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

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

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

- Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions

The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
- Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2008)

The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Company is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Company will retain a non-controlling interest in the subsidiary after the sale.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
- IFRIC 17 Distributions of Non-cash Assets to Owners

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

## Notes to the financial statements

### for the year ended 31 December 2010 (continued)

- IFRIC 18 Transfers of Assets from Customers

The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 Revenue.

### 3.3 Standards and Interpretations adopted with no effect on the financial statements

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

New Standards and amendments to Standards:	Effective for annual periods beginning on or after
IAS 32: Financial Instruments: Presentation, <i>amendments relating to classification of rights issues</i>	February 2010
IFRS 3: Business Combinations, <i>amendments resulting from May 2010 annual Improvements to IFRSs</i>	July 2010
IAS 27: Consolidated and Separate Financial Statements, <i>amendments resulting from May 2010 Annual Improvements to IFRSs</i>	July 2010
IFRS 7: Financial Instruments: Disclosures, <i>amendments resulting from May 2010 Annual Improvements to IFRSs</i>	January 2011
IAS 1: Presentation of Financial Statements, <i>amendments resulting from May 2010 Annual Improvements to IFRSs</i>	January 2011
IAS 24: Related Party Disclosures, <i>revised definition of related parties</i>	January 2011
IAS 34: Interim Financial Reporting, <i>amendments resulting from May 2010 Annual Improvements to IFRSs</i>	January 2011
IFRS 7: Financial Instruments: Disclosures, <i>amendments enhancing disclosures about transfers of financial assets</i>	July 2011
IAS 12: Income Taxes, <i>limited scope amendment (recovery of underlying assets)</i>	January 2012
IFRS 9: Financial Instruments: <i>Classification and Measurement</i> (intended as complete replacement for IAS 39 and IFRS 7)	January 2013
IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments	July 2010
IFRIC 13 Customer Loyalty Programmes, <i>amendments resulting from May 2010 annual Improvements to IFRSs</i>	January 2011
IFRIC 14: IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, November 2009 Amendments with respect to voluntary prepaid contributions	January 2011

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

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 4. Significant accounting policies

#### Statement of compliance

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

#### Power and Water Purchase Agreement

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

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

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

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

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

## Notes to the financial statements for the year ended 31 December 2010 (continued)

- The absence of any explicit claw-back provisions for the off taker with respect to the initially higher amounts of Investment Charge paid, in case of a breach of contract by the Company.

Because of the above, the Management believes that calculating the impact of not recognizing revenue on a straight line basis will be misleading and not appropriate. Therefore the effect of such non-adoption of the Standard on these financial statements has not been quantified. The management has concluded that the non-adoption of the Standard would have no impact on the Company's cash flows at the current or future reporting periods since it complies with the provisions contained in the PWPA.

### Basis of preparation

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

### Presentation and functional currency

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

The principal accounting policies are set out below :

### Property, plant and equipment

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

#### Subsequent expenditure

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

#### Depreciation

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

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

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### *Disposal or retirement*

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

### **Impairment**

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

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

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

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

### **Inventory**

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

### **Cash and cash equivalents**

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

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### Trade and other receivables

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

### Impairment

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

### Derecognition

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

### Financial liabilities

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

### Derecognition of financial liabilities

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

### Provisions

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

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

### Provision for decommissioning costs

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

## Notes to the financial statements for the year ended 31 December 2010 (continued)

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

### Employee benefits

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

### Dividend distribution

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

### Borrowing costs

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

### Deferred financing costs

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

### Derivative financial instruments

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

## Notes to the financial statements for the year ended 31 December 2010 (continued)

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

### *Hedge accounting*

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

### *Cash flow hedges*

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

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

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

## **Taxation**

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

### *Current tax*

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

### *Deferred tax*

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

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

## Notes to the financial statements for the year ended 31 December 2010 (continued)

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

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

Current and deferred tax for the period

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

### Foreign currencies

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

### Revenue

Revenue comprises tariffs for power capacity, electrical energy, water capacity and water output charges. Tariffs are calculated in accordance with the PWPA. The operating revenue is recognized by the Company on an accrual basis of accounting. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due and associated costs (refer to note 4: *Power and Water Purchase Agreement*).

## 5. Critical accounting judgments and key sources of estimation uncertainty

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

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

## Notes to the financial statements

### for the year ended 31 December 2010 (continued)

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

(i) Depreciation

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

(ii) Decommissioning costs

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

(iii) Allowance for impaired debts

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

#### 6. Property, plant and equipment

	Building RO'000	Plant and machinery RO'000	Technical parts RO'000	Other assets RO'000	Decommi- ssioning assets RO'000	Total RO'000	Total USD'000
<b>Cost</b>							
1 January 2009	7,009	189,031	4,110	39	777	200,966	521,989
Additions	-	-	412	3	-	415	1,078
Disposal	-	-	-	(13)	-	(13)	(34)
<b>1 January 2010 and 31 December 2010</b>	<b>7,009</b>	<b>189,031</b>	<b>4,522</b>	<b>29</b>	<b>777</b>	<b>201,368</b>	<b>523,033</b>
<b>Depreciation</b>							
1 January 2009	419	10,643	215	25	41	11,343	29,463
Charge for the year	233	6,295	182	5	26	6,741	17,508
Disposal	-	-	-	(13)	-	(13)	(34)
1 January 2010	<b>652</b>	<b>16,938</b>	<b>397</b>	<b>17</b>	<b>67</b>	<b>18,071</b>	<b>46,937</b>
Charge for the year	<b>233</b>	<b>6,300</b>	<b>151</b>	<b>7</b>	<b>26</b>	<b>6,717</b>	<b>17,446</b>
<b>31 December 2010</b>	<b>885</b>	<b>23,238</b>	<b>548</b>	<b>24</b>	<b>93</b>	<b>24,788</b>	<b>64,383</b>
<b>Carrying amount</b>							
<b>31 December 2010</b>	<b>6,124</b>	<b>165,793</b>	<b>3,974</b>	<b>5</b>	<b>684</b>	<b>176,580</b>	<b>458,650</b>
31 December 2009	6,357	172,093	4,125	12	710	183,297	476,096

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

## Notes to the financial statements

for the year ended 31 December 2010 (continued)

### 7. Trade and other receivables

	2010 RO'000	2010 USD'000	2009 RO'000	2009 USD'000
Tariff receivables	5,633	14,631	9,133	23,722
Less: allowance for impaired debts	(1,575)	(4,091)	(1,575)	(4,091)
	<u>4,058</u>	<u>10,540</u>	<u>7,558</u>	<u>19,631</u>
Advances and prepayments	154	400	194	504
Other receivables	231	600	6	16
	<u>4,443</u>	<u>11,540</u>	<u>7,758</u>	<u>20,151</u>

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

The ageing of trade receivables is as follows:

	2010 Receivables RO'000	2010 Impairment RO'000	2009 Receivables RO'000	2009 Impairment RO'000
Not past due	3,278	-	6,754	-
Past due 1-90 days	-	-	83	40
Past due 91-360 days	-	-	852	852
More than one year	2,355	1,575	1,444	683
Total	<u>5,633</u>	<u>1,575</u>	<u>9,133</u>	<u>1,575</u>
	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>

	Receivables USD'000	Impairment USD'000	Receivables USD'000	Impairment USD'000
Not past due	8,514	-	17,543	-
Past due 1-90 days	-	-	216	104
Past due 91-360 days	-	-	2,213	2,213
More than one year	6,117	4,091	3,750	1,774
Total	<u>14,631</u>	<u>4,091</u>	<u>23,722</u>	<u>4,091</u>

Included in the Company's trade receivables are debtors with carrying amount of RO 780 thousand (USD 2,026 thousand) [2009 : RO 804 thousand (USD 2,088 thousand)] which are past due at the end of the reporting period for which the Company has not provided as there has not been a significant change in credit quality and amounts are considered recoverable.

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 8. Cash and cash equivalents

	2010 RO'000	2010 USD'000	2009 RO'000	2009 USD'000
Cash in hand	1	3	1	3
Cash in bank	15,167	39,395	9,273	24,085
	<u>15,168</u>	<u>39,398</u>	<u>9,274</u>	<u>24,088</u>

### 9. Share capital

	2010 RO'000	2010 USD'000	2009 RO'000	2009 USD'000
Authorised share capital of shares of RO 1 each	<u>60,000</u>	<u>156,000</u>	<u>60,000</u>	<u>156,000</u>
Issued and fully paid-up share capital of shares of RO 1 each	<u>27,800</u>	<u>72,300</u>	<u>27,800</u>	<u>72,300</u>

The Company's shareholders at 31 December, 2010 were as follows:

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

#### Dividend

Dividend of RO 0.080 per share amounting to RO 2,224 thousand paid during the year ended 31 December 2010 relates to the year 2009 (2009: Dividend of 2,224 thousand paid during 2009 relates to the year 2008).

### 10. Legal reserve

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

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 11. Hedging deficit

#### *Interest rate swap*

The long-term loan facilities of the Company bear interest at US LIBOR plus applicable margins (refer note 12). In accordance with the term loan agreement, the Company has fixed the rate of interest through Interest Rate Swap Agreements ("IRS") to hedge the risk of variation in US LIBOR for 95% (for outstanding amounts until 6 years post scheduled COD) and decreasing to not less than 60% of its loan facility for the entire tenure of the agreement. The corresponding maximum hedged notional amount of HSBC and SCB swaps at 31 December 2010 is approximately RO 145 million (USD 377 million) bearing fixed interest rates of HSBC at 4.25%, 2.98% and SCB at 5.70% per annum, excluding applicable margin.

At 31 December 2010, the USD LIBOR was approximately 0.4 % per annum, (2009: 0.6% per annum) whereas the Company has fixed interest on its borrowing as described above.

	2010	2010	2009	2009
Cash flow hedge	RO'000	USD'000	RO'000	USD'000
Hedging deficit (equity)	19,420	50,441	15,354	39,881
Related income tax	2,665	6,922	2,095	5,441
Ineffective portion of hedging cost (note 17)	126	328	-	-
Fair value of derivative financial liabilities	22,211	57,691	17,449	45,322
Interest accrual on hedging instrument	1,679	4,361	1,615	4,195
Hedging deficit (liability)	<u>23,890</u>	<u>62,052</u>	<u>19,064</u>	<u>49,517</u>

In case the Company terminates the IRS at 31 December 2010, it may incur losses to the extent of approximately RO 23.9 million (USD 62 million) [2009: RO 19 million (USD 49.5 million)]. However, under the term of Loan Agreements, the Company is not permitted to terminate the interest rate swap agreements.

In order to comply with International Financial Reporting Standard 39 "Financial Instruments: Recognition and Measurement" the hedge is being tested at least annually for its effectiveness and consequently effective and ineffective portions are being recognized in equity or statement of comprehensive income respectively.

## Notes to the financial statements

for the year ended 31 December 2010 (continued)

### 12. Long-term loans

	2010	2010	2009	2009
	RO'000	USD'000	RO'000	USD'000
Base facility	128,179	332,932	134,530	349,429
Repayment facility	24,653	64,034	25,875	67,207
Less: current portion of loans	(7,539)	(19,582)	(7,573)	(19,670)
	145,293	377,384	152,832	396,966
Less: deferred financing cost	(3,512)	(9,122)	(3,940)	(10,234)
	141,781	368,262	148,892	386,732

#### *Syndicate facilities*

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

#### *Base facility*

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

#### *Repayment facility*

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

#### *Interest*

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

#### *Commitment and other fees*

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

#### *Security*

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

## Notes to the financial statements

### for the year ended 31 December 2010 (continued)

#### Covenants

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

#### 13. Provision for decommissioning costs

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

Movement in provision for decommissioning costs

	2010	2010	2009	2009
	RO'000	USD'000	RO'000	USD'000
At 1 January	909	2,361	855	2,221
Unwinding of discount on decommissioning cost provision (note 17)	58	151	54	140
At 31 December	<u>967</u>	<u>2,512</u>	<u>909</u>	<u>2,361</u>

#### 14. Trade and other payables

	2010	2010	2009	2009
	RO'000	USD'000	RO'000	USD'000
Trade payables	1,206	3,132	1,185	3,078
Accruals and other payables	4,376	11,366	4,522	11,746
	<u>5,582</u>	<u>14,498</u>	<u>5,707</u>	<u>14,824</u>

#### 15. Direct cost

	2010	2010	2009	2009
	RO'000	USD'000	RO'000	USD'000
Fuel gas	13,362	34,707	16,416	42,639
O & M fee	5,239	13,608	5,392	14,005
Depreciation	6,710	17,428	6,736	17,495
Seawater extraction	672	1,745	646	1,678
Other operating expenses	1,281	3,328	845	2,195
	<u>27,264</u>	<u>70,816</u>	<u>30,035</u>	<u>78,012</u>

## Notes to the financial statements

for the year ended 31 December 2010 (continued)

### 16. Administrative and general expenses

	2010	2010	2009	2009
	RO'000	USD'000	RO'000	USD'000
Management fee	154	400	154	400
Depreciation	7	18	5	13
Legal and professional fee	120	312	51	133
Allowance for impaired debts	-	-	77	200
Staff cost	14	36	20	52
Directors sitting fees and remuneration	136	353	63	164
Other administrative expenses	353	917	264	685
	<u>784</u>	<u>2,036</u>	<u>634</u>	<u>1,647</u>

### 17. Finance costs

	2010	2010	2009	2009
	RO'000	USD'000	RO'000	USD'000
Interest on Base facility	1,731	4,493	3,947	10,251
Interest on Repayment facility	333	865	759	1,971
Amortization of deferred financing cost	428	1,112	448	1,165
Interest on net settlement of swaps	6,431	16,704	4,057	10,539
Other financial charge	145	378	105	272
Ineffective portion of hedging cost (note 11)	126	328	-	-
Unwinding of discount on decommissioning cost provision (note 13)	58	151	54	140
	<u>9,252</u>	<u>24,031</u>	<u>9,370</u>	<u>24,338</u>

### 18. Income tax

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

Income tax recognized in profit or loss

	2010	2010	2009	2009
	RO'000	USD'000	RO'000	USD'000
Deferred tax expense relating to origination and reversal of temporary differences	774	2011	1,907	4,954
Deferred tax arising on income and expenditure in other comprehensive income				
Fair value (loss) / gain on interest rate swap	570	1,481	(1,073)	(2,787)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

Deferred tax liability at the end of the reporting period

	2010 RO'000	2010 USD'000	2009 RO'000	2009 USD'000
Deferred tax liability	<u>4,760</u>	<u>12,364</u>	<u>4,556</u>	<u>11,834</u>

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

	Opening balance RO'000	Recognised in profit or loss RO'000	Recognised in other comprehensive income RO'000	Closing balance RO'000	Opening balance USD'000	Recognised in profit or loss USD'000	Recognised in other comprehensive income USD'000	Closing balance USD'000
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### 31 December 2010

Interest accrual on hedging instruments	188	14	-	202	488	35	-	523
Provisions	223	512	-	735	579	1,331	-	1,910
Fair value of hedging instrument	2,095	-	570	2,665	5,441	-	1,481	6,922
Depreciation	<u>(7,062)</u>	<u>(1,300)</u>	<u>-</u>	<u>(8,362)</u>	<u>(18,342)</u>	<u>(3,377)</u>	<u>-</u>	<u>(21,719)</u>
	<u>(4,556)</u>	<u>(774)</u>	<u>570</u>	<u>(4,760)</u>	<u>(11,834)</u>	<u>(2,011)</u>	<u>1,481</u>	<u>(12,364)</u>

### 31 December 2009

Interest accrual on hedging instruments	30	158	-	188	79	409	-	488
Provisions	-	223	-	223	-	579	-	579
Fair value of hedging instrument	3,168	-	(1,073)	2,095	8,228	-	(2,787)	5,441
Depreciation	<u>(4,774)</u>	<u>(2,288)</u>	<u>-</u>	<u>(7,062)</u>	<u>(12,400)</u>	<u>(5,942)</u>	<u>-</u>	<u>(18,342)</u>
	<u>(1,576)</u>	<u>(1,907)</u>	<u>(1,073)</u>	<u>(4,556)</u>	<u>(4,093)</u>	<u>(4,954)</u>	<u>(2,787)</u>	<u>(11,834)</u>

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 19. Basic earnings and net asset per share

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

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

	2010 RO'000	2010 USD'000	2009 RO'000	2009 USD'000
Profit for the year	4,562	11,849	3,255	8,454
Weighted average number of shares ('000)	27,800	27,800	27,800	27,800
Earnings per share	0.16	0.43	0.12	0.30
Shareholders' fund	31,535	81,909	29,197	75,837
Number of shares at the end of the year ('000)	27,800	27,800	27,800	27,800
Net asset per share	1.13	2.95	1.05	2.73

### 20. Related party transactions

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

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

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

	2010 RO'000	2010 USD'000	2009 RO'000	2009 USD'000
Services provided by Sohar Operation and Maintenance Co. LLC	5,239	13,608	5,392	14,005
Services provided by Power Management Co. LLC :				
Management fee	154	400	81	209
Other administrative expenses	239	621	128	333
Services provided by Power Development Co. LLC				
Management fee	-	-	73	191
Other administrative expenses	-	-	46	119
Services provided by Suez - Tractabel S.A.	36	94	-	-
Directors remuneration	116	301	50	130
Directors sitting fee	20	52	13	34

## Notes to the financial statements for the year ended 31 December 2010 (continued)

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

	2010 RO'000	2010 USD'000	2009 RO'000	2009 USD'000
<b>Due to related parties:</b>				
Sohar Operations and Maintenance Co. LLC	<u>279</u>	<u>725</u>	<u>464</u>	<u>1,205</u>

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

### 21. Contingent liabilities

*Amounts in dispute with MoG*

In 2009 RO 121,681 (2010: Nil) in respect of two invoices raised by the Ministry of Oil and Gas (MoG) for supply of natural gas for the months of September and October 2009 were in dispute. No accruals were made in relation to these invoices in 2009. During the year Company has paid these invoices fully.

### 22. Commitments

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

	2010 RO'000	2010 USD'000	2009 RO'000	2009 USD'000
Within one year	54	140	54	140
Between two and five years	217	564	217	564
After five years	<u>339</u>	<u>880</u>	<u>393</u>	<u>1,022</u>
	<u>610</u>	<u>1,584</u>	<u>664</u>	<u>1,726</u>

### 23. Financial risk management

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

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

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

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables. At 31 December 2010 the entire trade receivables was from a government owned company (OPWP). The maximum exposure to credit risk as of the end of the year was RO 5.63 million (USD 14.63 million) [(2009: RO 9.13 million (USD 23.72 million)]. The Company is exposed to credit risk on its bank balance and receivables. Management considers the credit risk associated with its financial assets to be very low because the receivables are from the Government and cash is placed in reputable banks.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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

	Carrying value RO'000	Contractual cash flow RO'000	6 months or less RO'000	6 to 12 months RO'000	1 to 2 years RO'000	2 to 5 years RO'000	More than 5 years RO'000
<b>31 December 2010</b>							
Non-derivative financial liabilities (A)							
Secured bank loans	149,320	152,832	2,983	4,184	7,573	24,000	114,092
Trade and related party payable	5,582	5,582	5,582	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	19,420	23,890	3,279	3,380	7,811	8,375	1,045
Total (A + B)	<u>174,322</u>	<u>182,304</u>	<u>11,844</u>	<u>7,564</u>	<u>15,384</u>	<u>32,375</u>	<u>115,137</u>
<b>31 December 2009</b>							
Non-derivative financial liabilities (A)							
Secured bank loans	156,465	160,405	3,016	4,556	7,168	23,302	122,363
Trade and related party payable	6,171	6,171	6,171	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	15,354	19,064	2,955	2,986	4,902	6,585	1,636
Total (A + B)	<u>177,990</u>	<u>185,640</u>	<u>12,142</u>	<u>7,542</u>	<u>12,070</u>	<u>29,887</u>	<u>123,999</u>

## Notes to the financial statements

for the year ended 31 December 2010 (continued)

	Carrying value	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
<b>31 December 2010</b>							
Non-derivative financial liabilities (A)							
Secured bank loans	387,844	396,966	7,749	10,868	19,670	62,339	296,340
Trade and related party payable	14,498	14,498	14,498	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	50,441	62,052	8,517	8,780	20,284	21,753	2,718
Total (A + B)	452,783	473,516	30,764	19,648	39,954	84,092	299,058
<b>31 December 2009</b>							
Non-derivative financial liabilities (A)							
Secured bank loans	406,402	416,636	7,835	11,835	18,617	60,524	317,825
Trade and related party payable	16,029	16,029	16,029	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	39,881	49,517	7,683	7,764	12,745	17,121	4,204
Total (A + B)	462,312	482,182	31,547	19,599	31,362	77,645	322,029

### Market risk

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

### Currency risk

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

### Interest rate risk

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

## Notes to the financial statements for the year ended 31 December 2010 (continued)

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

### 24. Capital management

The Management policy is to maintain a strong capital base so as to maintain investor, lenders and market confidence and to sustain future development of the business.

There were no changes in the Company's approach to capital management during the year.

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

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

	2010 RO	2010 USD	2009 RO	2009 USD
Long term loans	152,832	396,966	160,405	416,636
Less: cash and cash equivalents (note 8)	(15,168)	(39,398)	(9,274)	(24,088)
Net debt	137,664	357,568	151,131	392,548
Total equity	12,115	31,468	13,843	35,956
Total capital	149,779	389,036	164,974	428,504
Gearing ratio	92%	92%	92%	92%

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 25. Fair value

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

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

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

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

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

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

	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000	Total USD'000
<b>2010</b>					
Financial Liabilities					
Derivative financial liabilities	-	22,211	-	22,211	57,691
<b>2009</b>					
Financial Liabilities					
Derivative financial liabilities	-	17,449	-	17,449	45,322

There were no transfers between Level 1 and 2 during the year.

### 26. Approval of financial statements

These financial statements were approved by the Board of Directors and authorized for issue on 6 March 2011.