

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors of United Power Company SAOG ("UPC" or the "Company"), I am glad to present you with the Seventeenth Annual Report of the Company for the year ended 31 December 2011.

The Company owns the Power Generating Station of Manah under a BOOT (build, own, operate and transfer) scheme, and Interconnection and Transmission Facilities under a BOT (build own and transfer) scheme, for a term of twenty years. All power produced is sold to Oman Power and Water Procurement Company SAOC under a long term Power Purchase Agreement, with guaranteed off-take. As such, the Company is not subject to market competition or fluctuation.

The Manah Power Plant has been running smoothly and efficiently, and there is no particular event worthwhile to mention. The 5 generator sets of the project showed an exceptional reliability, and the performances expected for such high-technology machines.

The Company recorded in 2011, a net profit of Rials Omani 1.872 million. The underlying revenues and costs are in line with the plan and the variation in revenue reflects the agreed tariff structure in PPA of generation and transmission facilities for Phase 1. The Directors of the Company have recommended a final ordinary dividend of Rials Omani 1.709 million, which represents the ordinary final dividend for the year to 14% (140 baiza per share) of the current share capital of the Company

The Company also carried out in December 2011, capital reduction of 10% of the original capital as a consequence to the structured plan of capital reduction approved by the market regulators and the shareholders in the EGM of 2006. The Company has again approached market regulators to renew the plan for further 3 years. In the coming EGM, the plan will be presented for shareholders' approval

The Company during the year distributed share premium reserve amount of R.O 4.764 Million after completing all legal formalities. This was as a consequence to shareholders' approval in the EGM held in March 2011.

Due to the definitive life of the project and its purpose, it is the policy of the company to maximize distributing its available profits and in the years where profits are low, it distributes its funds not required for operations by way of well-structured plan of capital reduction. Past five years' distribution to shareholders, are disclosed separately under 'Management Discussion and Analysis Report'.

UPC complies and maintains high standards to the Code of Corporate Governance implemented by the Capital Market Authority as described in the related attached section of this report. In this respect, the Company complies with the guidelines on dividend policy and we are committed to the objectives underlying such guidelines.

There has been no change in the personnel of the Company during the year.

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The Company is a responsible corporate citizen and contributes to the activities of local municipalities and communities. During the year, the company made the following contributions:

	<u>OMR</u>
• Manah school projects	2,024
• Charity events and donations for:	
➤ Al Noor association Dakhliya	500
➤ Association for Early Intervention	500
➤ Cancer awareness program	100
➤ Omani arts and miscellaneous support	450

I would like to thank all the personnel associated with the operation of our Manah Power Plant and staff of the Company for their dedication and hard work.

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

Murtadha Ahmed Sultan
Chairman of the Board