



Board of Directors' Report

Dear Shareholders,

On behalf of the Board of Directors of United Power Company SAOG (UPC), I am glad to present you with the Twelfth Annual Report of the Company for the year ended 31 December 2006.

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 were operated without problem and showed the reliability and performances expected for such high-technology machines.

The Plant's operation and maintenance was efficiently performed by our contractor Sogex (Oman); the long-term service agreement signed with General Electric (GE), the supplier of all our gas turbines, showed also to be efficient and cost-effective.

The Company recorded in 2006, a net profit of Rials Omani 2.980 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 ordinary dividend of Rials Omani 2.511 million, which represents 9% of the current share capital of the Company.

The Company also carried out 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 last annual general meeting of the shareholders.

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 respects the guidelines on dividend policy and we are committed to the objectives underlying such guidelines.

The Government had indicated in early 2005 to UPC that the unbundling phase would be an opportunity to transfer UPC ITF assets to the Licensed Transmission System Operator owned by them. As a consequence, UPC submitted a proposal to the Government. No negotiations have taken place subsequently. In case of favorable outcome of the discussions with Government, as and when that happens, UPC will submit the transaction to its shareholders.

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