



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 Eleventh Annual Report of the Company for the year ended 31 December 2005.

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 2005, a net profit of Rials Omani 1.536 million. The underlying revenues and costs are in line with the plan and reflect the decreasing schedule of the Phase I and ITF Capacity Charge. The Directors of the Company have, therefore, recommended a final ordinary dividend of Rials Omani 1.883 million, which brings the total ordinary dividend for the year to 6% of the current share capital of the Company.

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.

During the year, as a consequence to the Sector Law, the unbundling of the MHEW was completed and an authority for electricity regulation was put in place.

As requested by Sector Law, UPC executed with the Government a Novation Agreement, a Generation Licence and an Electrical Connection Agreement, and now complies with the Grid Code.

UPC has adapted itself to the new environment, and will use its best effort to protect the shareholders' long-term interest.

The Government had indicated in early 2005 to UPC that the unbundling phase may 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 has 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.

During the last quarter of 2005, Company completed an approx. 10% of the Capital Reduction, as approved by the shareholders in their meeting of 27 April, 2005. The Company intends to approach Capital Market Authority for a structured plan for reduction in future.

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