



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 Tenth Annual Report of the Company for the year ended 31 December 2004.

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 2004, a net profit of Rials Omani 5.600 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 2.092 million, which brings the total ordinary dividend for the year to 10% of the current share capital of the Company.

In June, 2004 the Company made prior year adjustment to the financial information of prior period's to ensure full compliance with International Financial Reporting Standards.

In late 2004, the Company reached settlement with the Ministry of Housing, Electricity and Water "MHEW" regarding the commencement of Phase I term life of twenty years effective 14th September, 1996 instead of 15th October, 1996. This along with resolution of other matters resulted in overall net settlement of RO.0.9 million which has been taken in the profit for the year.

UPC complies and maintains high standards of 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 law for the regulation and privatization of electricity and related water sector, the Sector Law, came into force on 1st August, 2004. The unbundling of the MHEW will be completed in the first quarter of 2005 and an authority for electricity regulation put in place.

As requested by Sector Law, UPC has to execute with the Government a Novation Agreement, a Generation Licence and an Electrical Connection Agreement, and has to comply with the Grid Code.

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

The Government has indicated to UPC that the unbundling phase may be an opportunity to transfer its ITF assets to the Licensed Transmission System Operator owned by them. Therefore, UPC will submit a proposal to the Government. In case of favorable outcome of the discussions with Government, 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