HIS MAJESTY SULTAN QABOOS BIN SAID

CONTENTS

BOARD OF DIRECTORS AND MANAGEMENT

		Representing
Chairman	Mr. Murtadha Ahmed Sultan	MGEC (Oman) Holdings Limited
Vice Chairman	Mr. Mark Lemmon	MENA Infrastructure Fund (GP) Ltd.
Director	Dr. Mohd Bin Nasser Bin Ali Al Zaabi	Ministry of Defence Pension Fund
Director	Mr. Anshul Rai	-
Director	Mr. James S. Harper	-
Director	Mr. Rahul Mittal	-
Director	Mr. Ahmed Al Sinani	-
Director	Mr. Yaseen Abdullatif	-
Director	Mr. Hamad Lal Baksh Al Balushi	-
Director & Co. Secretary	Mr. Arnaud de Limburg Stirum	-
Director & CEO	Mr. Zoher Karachiwala	-

Management

Chief Executive Officer	Mr Zoher Karachiwala
Financial Controller	Mr S. M. Tariq
Technical Manager	Mr Sreenath Hebbar
Administration Manager	Mr Jamal Al Bloushi

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

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 2010, a net profit of Rials Omani 2.070 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 1.961 million, which represents the ordinary final dividend for the year to 12.5% of the current share capital of the Company. This is in addition to the interim dividend of 7.5% paid in November 2010.

The Company also carried out in December 2010, 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.

Pursuant to the approval of the shareholders in EGM held in March 2010, and after completing legal procedures, the legal reserve in excess of 1/3rd of the capital at 31 December 2010 was transferred to the Retained Earnings.

The Company intends to seek shareholder's approval of distribution of the share premium reserve, as per the plan approved by the CMA, in the extra-ordinary general meeting scheduled to be held on 21st March 2011. Actual distribution will commence once Company has completed all legal formalities.

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.

BOARD OF DIRECTORS' REPORT

In December 2010, three founding shareholders of the Company, mainly National Trading Company LLC, W J Towell & Co LLC, and The Zubair Corporation LLC, divested its shareholding in favour of MGEC (Oman) Holdings Limited. The divestment will not result in changes to the personnel or operation of the Company.

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

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:

	OMR
• Community welfare projects of Manah Municipality	5,000
• Charity events and donations for Al Noor and Down Syndromes	2,663
• Event for the benefit of flood victims	1,000

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

OPERATION HIGHLIGHTS

POWER GENERATION

The total power exported by the plant in 2010 (Phases I and II) amounts to 1,321 GWh. The cumulative energy exported by the plant from initial commissioning is 14,786 GWh.

The maximum load recorded during the year was 312.4 MW on August 9, 2010 at 02:00 hrs. The maximum ambient temperature recorded was 49°C on July 1, 2010 at 17:00 hrs and minimum temperature was 10°C on December 31, 2010 at 04:00 hrs.

The average plant guaranteed net output (PGNO) for the reporting period was 93.027 MW for Phase I, and 205.433 MW for Phase II at an average ambient temperature of 29.6°C. The use factor was 55%.

Manah recorded 99.96% Reliability of the total Plant (phase 1 & phase 2 units) with 15.03 hours of forced outages in 2010.

For the whole plant, the evolution of these figures from the date of Phase I commercial operation date is as under:

Year	Available energy (GWh)	Availability factor (%)	Energy generated (GWh)	Use factor (%)	Reliability factor (%)
1996(*)	176.5	93.0	106.3	60.2	99.9
1997	811.2	95.6	680.1	83.8	99.8
1998	776.6	97.4	667.1	85.9	99.9
1999	760.3	93.3	615.9	81.0	99.9
2000(**)	1,758.8	87.8	1,057.5	60.1	92.4
2001	2,541.6	94.9	1,274.7	50.2	99.7
2002	2,525.8	95.4	1,442.3	57.1	99.5
2003	2,526.6	94.9	1,337.4	52.9	99.9
2004	2,469.2	93.9	1,125.5	46.4	99.9
2005	2,502.4	95.3	1,046.0	41.9	99.9
2006	2,536.1	96.6	1,187.9	47.0	99.9
2007	2,476.1	94.8	981.8	40.0	100.0
2008	2,557.9	97.4	1,012.8	40.4	99.99
2009	2,371.6	90.5	1,045.1	44.0	98.25
2010	2,335.1	89.7	1,320.8	54.9	99.96

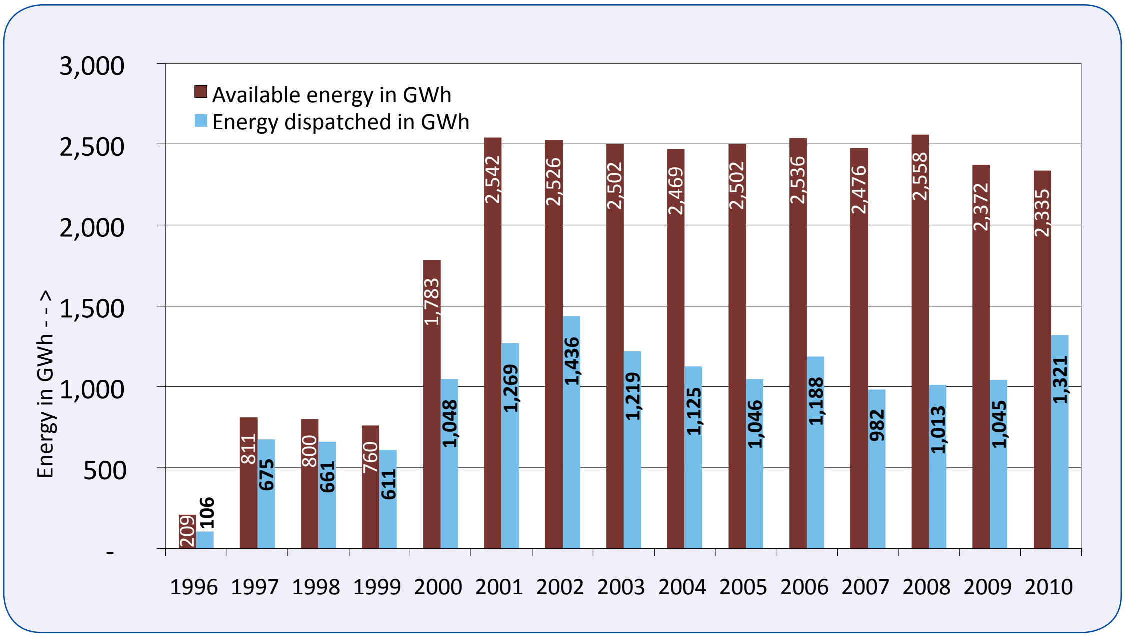
(*) COD Phase 1: 15th October 1996
(**) COD Phase 2: 19th May 2000

OPERATION HIGHLIGHTS

MAINTENANCE AND OPERATION METHODOLOGY

The PPA and its additional agreements lay down norms for operation and maintenance of the station and expect certain minimum levels of performance. However, in formulating the strategy for operation and maintenance, UPC strives to meet the highest industry standards.

Gas turbines are highly reliable power generating machines, provided they are operated and maintained under certain norms. Efforts have been constantly put in to further improve reliability.



During the initial years of service of the gas turbines in Manah, valuable experience has been gained and used to establish unique signature for each machine. This experience is used in evolving better operations and maintenance methodologies.

For Phase I, UPC entered in November 1997 into a Spare Parts Supply & Repair Contract with EGT (now GE) the term of this contract ended on 31st December 2005. Following a competitive bidding process, UPC entered in September 2005 into a Long Term Parts and Repair Agreement (LTPA) with GE the term of this new contract is 15 years.

For Phase II, UPC entered in December 2000 into a Long Term Service Agreement (LTSA) with GE. This agreement secures the procurement of the spares needed for the whole commercial life of the 2 new Frame 9 units (20 years).

In 2009, UPC changed the structure of its O&M Contracts and entered into an agreement with Suez-Tractebel Operation & Maintenance Oman (STOMO). With this agreement in place, UPC has a single point of contact for O&M services as opposed to multiple contractors in the earlier structure. STOMO now co-ordinates all the O&M activities (including the LTSA with GE) and procurement of parts through the LTPA Contract.

According to the terms of these contracts, a suitable and sufficient stock of spares is maintained in order to avoid unplanned outage of the gas turbines.

The combined efforts of UPC and its contractors - GE and STOMO, have produced best results in terms of reliability, efficiency and best value for resources used.

OPERATION HIGHLIGHTS

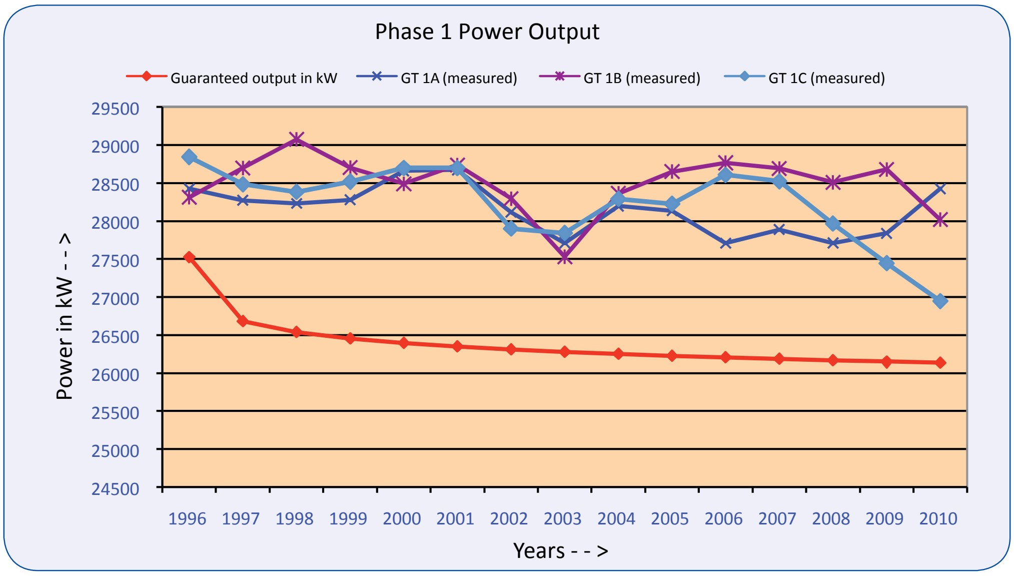
MAINTENANCE ACTIVITIES

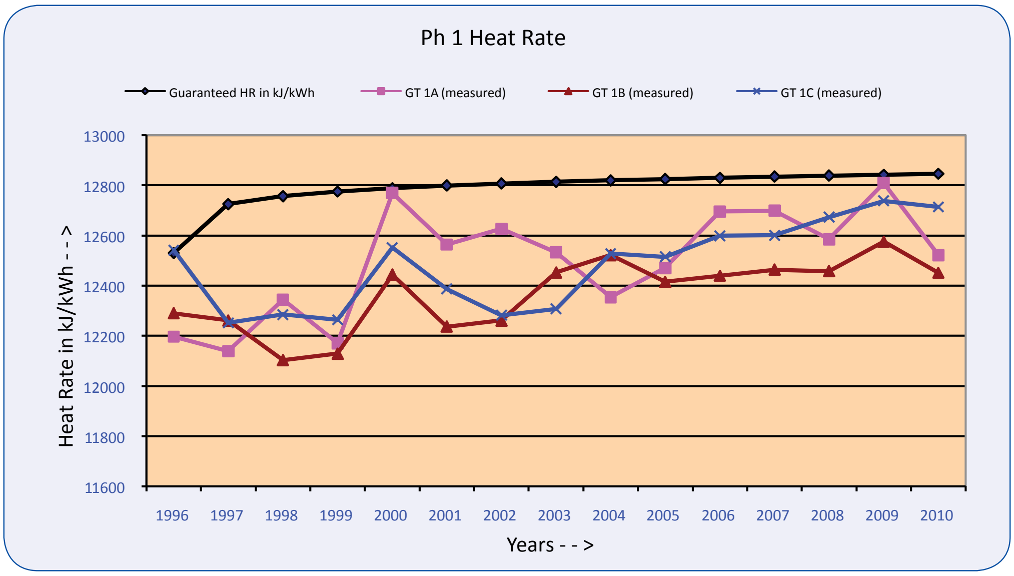
Phase I Scheduled maintenance:

The total maintenance time consumed for the year was 1,269.2 hours, i.e. 4.83% of total calendar hours or an availability factor of 95.17%.

GT1A: Major Inspection was conducted in November 2010. Condition of various components was found to be normal.

GT1C: Combustion Inspection was conducted in March 2010. Again, condition of various components was found to be normal.





OPERATION HIGHLIGHTS

Phase II Scheduled maintenance:

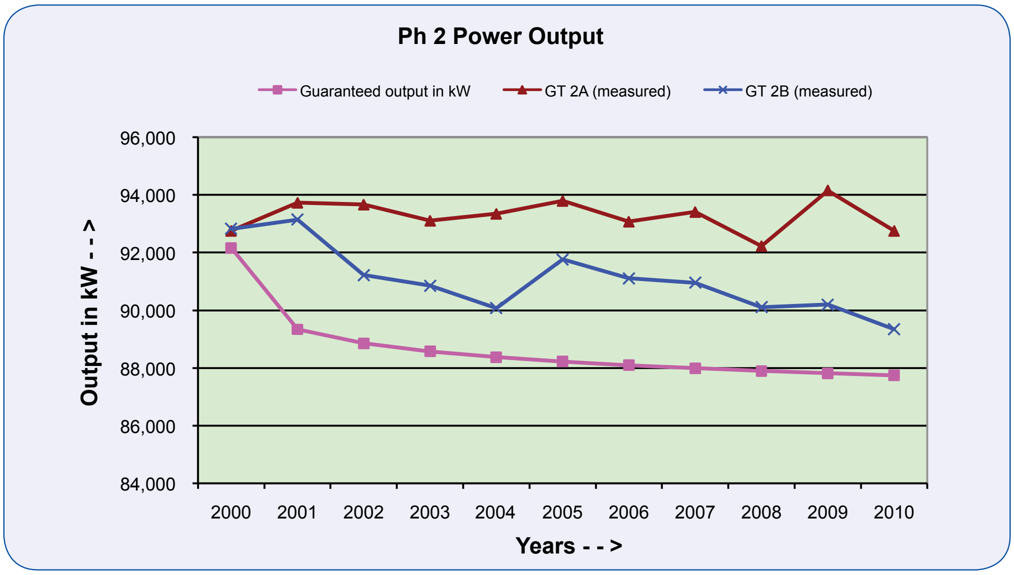
The total time consumed for maintenance was 2,152.1 hours in the reporting period, i.e. 12.28% of total calendar hours during reporting period or an availability factor of 87.72%.

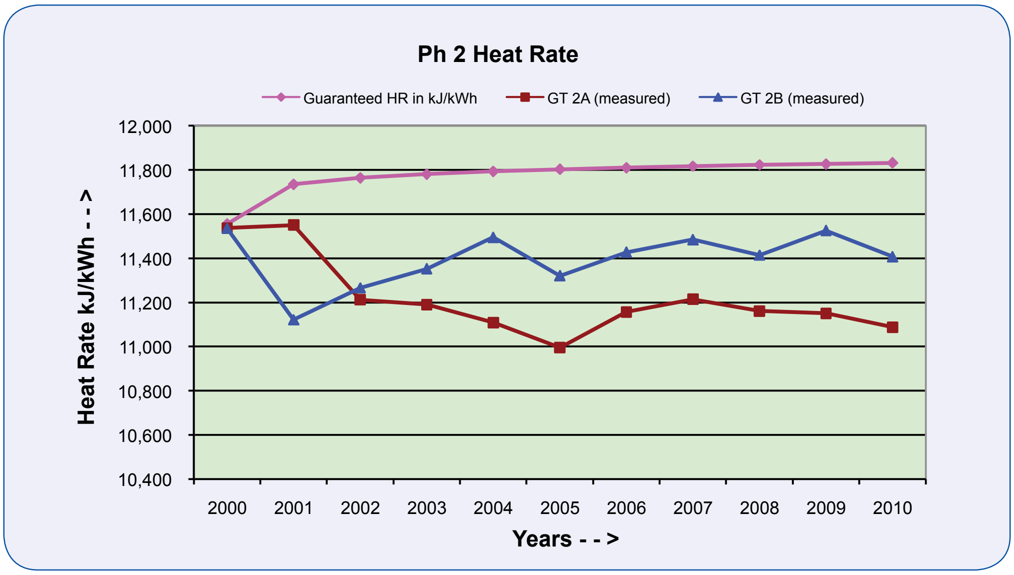
GT2A: Following the Major Inspection in February – March 2009, where a hole was discovered in the first stage wheel of GT2A, it was decided by the Board that this would be repaired at the first available opportunity. This contract was awarded to GE and it involves removal of the rotor and transporting it to GE's workshop in Saudi Arabia where the new wheel will be fitted and the entire rotor alongwith the buckets would be balanced before shipment back to Manah. The shut-down was commenced in December 2010. As of end December, the rotor was undergoing repair work at GE's workshop.

GT2B: Major Inspection was conducted in January – February 2010. There were no abnormalities detected in the condition of various components.

Performance Tests:

Performance tests were conducted during November 2010 (Phase 2) and December 2010 (Phase 1) in the presence of OPWP. The test results were quite satisfactory, all machines have higher electrical output capacity and lower heat rate values (gas consumption) when compared to the guaranteed values as per contract.





OPERATION HIGHLIGHTS

Omanization

UPC and its O&M contractor STOMO pay the greatest attention to respect the requirements of the Power Purchase Agreement in matters of Omanisation: at the end of the year 2010, Omani employees were 71.2% of the plant staff of STOMO.

In order to achieve greater Omanization our operator, STOMO, had put in place in 2009, training programmes for young graduates from Oman Universities. This effort is paying dividends with a number of these trainees being inducted into the operation & maintenance personnel of the Plant after undergoing training.

HSE Audit

The Loss Time Incident (LTI) of Manah Power Plant remains ZERO during the O&M regime following COD of both phases. In February 2010, the Plant celebrated 5000 days LTI free days since the commencement of operations.

The O&M Operator, STOMO is also developing an Environment Plan that is expected to improve the current practices by enabling the operating personnel to benefit from best practices being employed at other facilities.

Permits

Ministerial Decision No (118/2004), issued by MRMEWR in 2004, implemented new regulations for air pollution control, and introduced new 'Standards of Emissions' from Stationary Sources, including Power Plants.

The oldest four of the licensed Production Facilities (Manah, Ghubrah, Wadi Jizzi and Rusail) are considered to be generally non-compliant with the obligations in MD (118 / 2004), whilst the newer Production Facilities are deemed to be generally compliant.

AER took the initiative to study the issue with respect to oldest four licensed production facilities with the help of an independent consultant - Advantica of UK. Based on the recommendations, a Predictive Emission Monitoring Systems (PEMS) was installed

The monthly reporting to MECA (Ministry of Environment and Climatic Affairs) has been established since November 2008.

Our Environment Permits for Phase – 1 has been re-validated for a period of a further two years – till May 13, 2011.

Our request for re-validation of Phase – 2 is still pending. The MECA had sought certain clarifications on PEMS / CEMS and on the installation of Ambient Air Quality Monitoring Station. Responses have been furnished. We are awaiting confirmation from MECA in this regard.

DESCRIPTION OF THE PROJECT

HISTORY OF THE PROJECT

United Power Company (SAOG) (the "Company") was formed and registered as a joint stock Company on January 9th, 1995. The public currently owns 40% of the Company's shares while the founder shareholders own 60%.

The founder shareholders were Tractebel S.A., International Finance Corporation (part of the World Bank Group), National Trading Company LLC, W.J. Towell & Co. LLC, The Zubair Corporation LLC, and Tawoos LLC.

Shares of Tawoos LLC have been transferred to the Ministry of Defence Pension Fund of Oman in 2003. While, Tractebel SA (now GDF Suez), had transferred its shares to MENA Infrastructure Fund (GP) Limited in 2009 and National Trading Company LLC. W.J. Towell & Co. LLC and The Zubair Corporation LLC transferred its shares to MGEC (Oman) Holdings Limited in December 2010.

Prior to formation of the Company, founder shareholders were awarded, following a competitive bidding process, the concession for a project consisting of a 90 MW gas-fired power station comprising 3 open cycle gas turbines (the "Units") near Manah, to be developed on a build, own, operate and transfer (so-called "BOOT") basis, and a related network of interconnection and transmission facilities (the "ITF"), keep ("BOT") basis on land leased by the Government.

Construction of the Manah Power Station began in March 1995 and the Company began delivering electricity on May 31, 1996 upon completion of two Units and approximately 58 kilometers of overhead transmission lines to Nizwa and Bahla replacing the supply by the obsolete local diesel engine power plants.

Full supply to Dakhliya region from Manah (3rd Unit and Izki line) was achieved in early August 1996 and project completion occurred in October 1996 with the interconnection of network fed by the Manah Power Station to Muscat network at Al Rusayl. The lines owned by UPC have a total of about 170 kilometers in 132KV. Responsibility for the operation and maintenance of the ITF was transferred in stages to the Government during construction, with the final transfer occurring on October 15, 1996.

During 1999, the Company was awarded a contract for an extension of its generation facilities consisting of two 90 MW open cycle gas turbines and the necessary auxiliary facilities (GIS, fire fighting system, liquid fuel storage, etc.).

The construction and installation of the turbines were completed in May 2000, and thereafter the electricity was delivered to the grid. The official commercial operation was notified as 19 May 2000. The total capacity of the plant, therefore, reached 270 MW. Consequent to the extension of the facilities, the life of the project has been extended to 30 April 2020 taking into account the initial term of the extension project and the Company life has been extended by another five years to 9 January 2025. The Company will continue to own and operate the Manah Power Station (both Phases) and own the ITF till this date.

The Manah Power Station operates on Dispatch Orders from Oman Power and Water Procurement Company ("OPWP") and all of the net energy from the Manah Power Station is sold to OPWP, which is responsible for all power purchase in Oman.

UPC maintains an administrative office in Muscat.

The Project constitutes the first privately developed and owned power plant in Sultanate of Oman and the first interconnection of privately constructed transmission facilities with the country's national grid.

DESCRIPTION OF THE PROJECT

Manah Power Station

The Manah Power Station is located on 200 acres of land, approximately 180 kilometers South-West of Muscat, and 20 kilometers south of Nizwa at an elevation of 378 meters above sea level.

Phase I – Power generation facilities

Originally, the Manah Power Station consisted of three open cycle dual fuel Gas Turbine Units, each having a capacity of approximately 28,076 kW at 50º C, completed with 11/132 kV step-up generator transformers, a GIS sub-station interconnecting the Manah Power Station with the two 132 kV overhead line feeders to the Nizwa substation, natural gas pipeline facilities, back-up diesel oil facilities, water storage tanks, a control and administration building, a work shop and storage facilities for spare parts, staff housing and access roads.

Phase II – Power generation facilities

The Manah Power Station Phase II consists of two GE Frame 9E dual fuel Gas Turbines, with 15/132 kV step-up transformers, two GIS identical to the existing ones. These cells are connected with the two existing 132 kV circuits, each of them being originally sized to carry the whole expanded capacity of the Manah Power Station. The Phase II includes extension of auxiliary facilities: fire fighting system, lightning protection system and additional 4000 m^3 back-up diesel oil storage. The nominal capacity of each gas turbine is 92,160 kW (at 50º C) with a guaranteed heat rate of 11,555 kJ/kWh (at 50ºC).

Interconnection and Transmission Facilities

The ITF includes the following substations: a 132 kV GIS substation at Manah; a 132 kV outdoor substation at Nizwa; a 132 kV outdoor substation at Izki; a 132/33 kV substation at Bahla; a 33/11 kV substation at Nizwa town; and a 132 kV GIS substation extension at the Al-Rusayl Power Station.

In addition, the ITF includes approximately 168.7 kilometers of 132 kV double circuit (i.e. two circuits on one tower) overhead transmission lines, constructed with steel lattice towers running between the Manah and Nizwa substations (18.8 km; 63 towers), between the Nizwa and Bahla sub stations (32.2 km; 92 towers), between the Nizwa and Izki substations (30.7 km; 94 towers) and over very mountainous terrain, between the Izki and Al-Rusayl substations (87 km; 287 towers).

The ITF includes one 33 kV double circuit overhead transmission line comprised of two single circuits (i.e. two parallel single lines on wooden poles) between Nizwa and Nizwa Town substations (7.25 km, 140 wood poles) and one 11 kV overhead distribution network comprising three single circuit 11 kV wood pole lines between the Izki substation and the Izki power station (2 km).

These lines and the related switching facilities of the ITF enable the power generated at the Manah Power Station to supply the local electricity demands in the town of Manah, Nizwa, Bahla and Izki.
Excess electrical power can also be transmitted to the Muscat grid to help support the demand in the coastal region of Oman through an interconnection at the Al-Rusayl power station.

Fuel Supply

The Manah Power Station has been designed to use natural gas as its primary fuel with diesel oil as a back-up fuel. Natural gas is supplied to the power station from a 36-inch pipeline delivering gas at 70 Bar from the Yibal gas collecting station, which is located 198 kilometers from the Manah Power Station, to a pressure reducing station, including metering equipment, located outside the northeast corner of the Site. The pipeline is owned and controlled by PDO.

Environmental Aspect

The Manah Power Station represents an environmentally benign source of power for the local market and although the gas fired has small traces of sulphur, impact on air quality are monitored on a monthly basis by UPC. Predictive Emission Monitoring System (PEMS) has been implemented at the Plant in 2008, on recommendation by AER and in coordination with the Ministry of Environment and Climatic Affairs.

PROFILE OF THE CURRENT PREFERENCE SHARE HOLDERS

MENA Infrastructure Fund (GP) Limited

The MENA Infrastructure Fund (GP) Limited is a specialist US$500 million private equity fund established in the Dubai International Finance Centre (DIFC) and regulated by the Dubai Financial Services Authority (DFSA). It is a regional investor, targeting investments in the infrastructure and energy sectors across the Middle East and North Africa.

The Fund is sponsored by three prominent business groups in the MENA region: DICAM (a wholly owned subsidiary of Dubai International Capital), HSBC Bank Middle East and Waha Capital. A dedicated investment team leverages the support of these strong and experienced sponsors to deliver investment opportunities to its investors, along with capital and financial expertise to the companies in which it invests.

In September 2007, the Fund announced a first closing at $US300 million, following this with the announcement of its first investment in April 2008.

Ministry of Defence Pension Fund ("MODPF")

The Ministry of Defence Pension Fund is a public legal entity in the Sultanate of Oman duly organized under, and registered pursuant to, Sultani Decree 87/93 issued on 29th 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 and bonds. It is also a major participant in project investments and Real Estate investments. The fund is represented on the boards of several prominent Corporate in Oman.

MGEC (Oman) Holdings Limited

MGEC (Oman) Holdings Limited is 100% owned by Mubadala GE Capital PJSC. Mubadala GE Capital PJSC is a specialized commercial finance company based in the United Arab Emirates, which offers structured financing solutions to help businesses grow and adapt in rapidly evolving economic environments. It is a joint venture between Mubadala Development Company PJSC (Mubadala) and General Electric Capital Corporation (GE) and is headquartered in Abu Dhabi. Mubadala GE Capital offers commercial lending and leasing financing solutions plus strategic project equity investments in energy and infrastructure assets across the Middle East & Africa. For further information about Mubadala GE Capital PJSC, please visit www.mubadala-ge.com

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

A. Industry Structure and Development

The Company is the first privately owned power project in the country.
The Government regulates the development of this sector under a well-formulated program on long-term basis. The new sector law is in existence.

B. Opportunities and Threats

The Company was formed specifically to build, own and operate the Plant located at Manah and built and own related distribution network of overhead transmission lines, and cannot undertake new ventures. Long term Power Purchase Agreement with Government protects the Company from market forces.

C. Analysis of Results

The net profit for the year under review was higher by RO 369K as compared to previous year. This was mainly on account of lower financing cost offset by higher repairs and maintenance costs during the current year, as explained in forthcoming paragraph.

Increase in revenue by RO 135K in the year under review as compared to previous year, is mainly on account of indexation and increase in energy revenues. The structure of power tariff has been designed in such a way that tariff rates are higher during the initial years as compared to later period of the project life. The tariff decreased by RO 330K, but the indexation and increase in energy revenue of RO 465 offset the decrease.

Operation and administration expenses increased by RO 264K. The reasons for the increase were on account of the following:

- Production and Indexation effect on the O&M contract (RO 190K)
- Repair on GT2A machine (RO 500K), offset by reduction in repair and maintenance costs under previous O&M arrangements (RO 493K)
- Net miscellaneous (RO 67K)

The interest on long-term loans in 2010 has decreased by RO 659K as compared to 2009. This is due to early repayment of loans in 2009.
Income tax liability for the year under review has been fully provided.

D. Analysis of Balance Sheet

The variations in balance sheet section can be explained as follows:

Net reduction in tangible assets in the amount of RO 5,764K in the year under review is net impact of decrease due to the depreciation charge (RO 5,784K) for the current year and increase on account of net addition to fixed assets amounting to RO 20K.

In 2010, Company further reduced its paid-up share capital by 10% of the original share capital. First reduction was carried out in December 2005.

In 2010, CMA approved transfer of excess of 1/3 of statutory reserve to retained earnings (RO 1,667K). The transfer was then also ratified by the shareholders in 2010.

The net increase of RO 281K in 2010 in trade and other payables is due to repair cost provisioned, payable in first quarter of 2011.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

E. Financial Highlights

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

	2010	2009	2008	2007	2006
	OMR'000	OMR'000	OMR'000	OMR'000	OMR'000
Net Profit	2,070	1,701	2,438	2,327	2,980
Total Assets	34,946	40,748	51,966	55,964	61,457
Total Revenue	13,612	13,477	13,376	13,156	14,229
Total Shareholders' Fund	28,029	32,575	36,737	39,983	42,044
Paid up Capital (Original)	34,869	34,869	34,869	34,869	34,869
Capital reduction-accumulated to date	19,178	15,691	12,204	8,717	6,974
Current Paid up Capital	15,691	19,178	22,665	26,152	27,895
Weighted average number of Shares	18,887	22,374	25,861	27,750	31,091

	2010	2009	2008	2007	2006
Return on total assets	5.9%	4.2%	4.7%	4.2%	4.8%
Return on Current paid up Capital	13.2%	8.9%	10.8%	8.9%	10.7%
Long Term Debt: Capital ratio	0:100	0:100	20:80	26:74	31:69
Ordinary Dividend (Interim) *	7.5%	-	-	-	-
Ordinary Dividend (Final)**	12.5%	8.0%	10.0%	8.0%	9.0%
Book value per share on weighted average shares	1.48	1.46	1.43	1.44	1.35
Reduction of original paid up capital during theyear	10.0%	10.0%	10.0%	5.0%	10.0%

*Based on paid up capital at 30 June 2010.
** Based on paid up capital at 31 December.

The variance in total revenue and net profit is due to tariff as contained in the Power Purchase Agreement. This trend, as a consequence of the agreed tariff structure for the life of the Project, will continue in future years and bears no reflection on the operational performance of the Company.

The above trend should also be seen in the light of the fact that the value of the Company's shares shall become nil at the end of the project life.

F. Outlook for 2011

Due to nature of its activities and the fixed contractual framework within which the Company operates we foresee no major change in the Company's activities.

Due to tariff structure contained in the Power Purchase Agreement, the Phase I revenues shall be reduced beginning the last quarter of 2011. This trend is not reflection of the operational performance of the Company but is solely dependent on the agreed tariff structure for the life of the project.

The Company, based on the plan approved by shareholders expects to carry out capital reduction within the band of 5 to 10% of the original Paid up Capital. This has been envisaged as a measure to maximize the return to shareholders in the absence of dividend or in case of low dividend in subsequent years.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Company is in the initial stage of discussing transfer of its transmission network with the representatives of the Government. Also, the Company has conducted feasibility studies on the possible conversion of Phase II into combined cycle. The Company intends to seek shareholders' prior approval if and when any of these transactions become effective.

G. **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.

As required under CMA regulations an internal auditor has been appointed in 2010. United Power Company started implementing a critical review of all unique processes of the Company, and that these appropriate control and segregation of duties is applied.

Furthermore, the internal auditor also reviews Company's compliance with applicable laws and CMA regulations.

H. **Transfers to Investors Trust Fund**

On behalf of the Company, Muscat Clearing & Depository Company SAOC transferred an amount of RO 6,254.000 as capital reduction declared in December 2009 and an amount of RO 1,564.320 as unclaimed dividends in March 2010 to the Investors Trust Fund account.

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MBD
P.O. Box 641
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Sultanate of Oman

Tel 968 24709181
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Report to the Shareholders of United Power Company SAOG ("the Company") of Factual Findings in connection with the Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Company ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007. The Report is set out on pages 1 to 6.

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 Report.

We found the Report reflects, in all material respects, the Company's application of the provisions of the Code and is free from any material misrepresentation.

Because the 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 Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this 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.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Company's annual report for the year ended 31 December 2010 and does not extend to the financial statements or any other reports of the Company, taken as a whole.

30 January 2011

KPMG

CORPORATE GOVERNANCE REPORT

PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

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.

The Company 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, the Company 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 meeting held during the year.

Name of Directors	Category of Directors	Board Meeting held and attended during 2010						
		24/02	28/04	27/07	26/10	TOTAL	AGM	EGM
Mr. Murtadha A. Sultan *(Chairman)*	Non-Executive Nominee & Independent	✓	✓	✓	✓	4	✓	✓
Mr. Mark Lemmon (Vice Chairman)	Non-Executive Nominee & Independent	✓	-	✓	✓	3	-	-
Mr. Antoine H. Georgiou	Non-Executive Nominee & Independent	✓	✓	-	✓	3	-	-
Mr. C.S. Badrinath	Non-Executive Nominee & Independent	✓	✓	-	✓	3	✓	✓
Dr Mohd. Bin Nasser Bin Ali Al Zaabi	Non-Executive Nominee & Independent	✓	✓	-	✓	3	✓	✓
Mr. Ahmed El Sinani	Non-Executive & Independent	✓	✓	✓	✓	4	✓	✓
Mr. Anshul Rai	Non-Executive & Independent	✓	✓	✓	✓	4	-	-
Mr. Hamad Lal Baksh Al Balushi	Non-Executive & Independent	✓	✓	-	✓	3	-	-
Mr. Yaseen Abdullatif	Non-Executive & Independent	✓	✓	-	✓	3	-	-
Mr. Arnaud de Limburg	Non-Executive & Independent	✓	✓	✓	✓	4	✓	✓
Mr. Zoher Karachiwala	Executive & Non Independent	✓	✓	✓	✓	4	✓	✓

CORPORATE GOVERNANCE REPORT

In December 2010, pursuant to change in shareholding, following nominee directors stood resigned:

Name	Representing Juristic person
Mr Murtadha A. Sultan	W J Towell & Company LLC
Mr Antoine H. Georgiou	National Trading Company LLC
Mr C.S. Badrinath	The Zubair Corporation LLC

MGEC (Oman) Holdings Limited, the new shareholder have nominated Mr Murtadha Sultan to act as nominee Director. The two vacant seats were filled by temporary directors Mr James S. Harper and Mr Rahul Mittal, in the Board of Directors meeting of 30 January 2011.

Directorship / membership of the Company's directors 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 Sohar Power Company
Mr Mark Lemmon	None	
Mr Antoine H. Georgiou	Vice Chairman Director	Oman Holding International Oman Chlorine Company
Mr C.S. Badrinath	Director Director Director	National Finance Co. Sweets of Oman Sohar Power Company
Dr Mohd bin Nasser bin Ali Al Zaabi	None	-
Mr Anshul Rai	None	-
Mr Yaseen Abdullatif	Director	Sahara Hospitality
Mr Hamad Lal Baksh Al Balushi	None	-
Mr Arnaud de Limburg	None	-
Mr Zoher Karachiwala	None	-
Mr. Ahmed El Sinani	Vice Chairman Director	Interior Hotels Company(till 19 April 2010) Oman National Engineering & Investment Co.

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.

CORPORATE GOVERNANCE REPORT

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				
		24/02	28/04	25/07	26/10	TOTAL
Mr C.S. Badrinath	Chairman	✓	✓	✓	✓	4
Mr Anshul Rai	Member	✓	✓	✓	✓	4
Mr Yaseen Abdullatif	Member	✓	✓	✓	✓	4

(c) **Activities during the year**

The Audit Committee has reviewed, on behalf of the Board, the effectiveness of internal controls by meeting the internal auditors of the company reviewed the internal audit reports and its recommendations, met the 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 Board 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 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 24 to 27). The current Board of Directors was elected on 31 March 2008 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.

The Board is due for election in March 2011.

CORPORATE GOVERNANCE REPORT

REMUNERATION

(a) Directors – Remuneration and 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:

	OMR
Director's remuneration	47,003
Sitting fee	15,200
Total	62,203

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.

Sl. No.	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	4,273
2	Mr Mark Lemmon	3	1,200	4,273
3	Mr Antoine H. Georgiou	3	1,200	4,273
4	Mr C. S. Badrinath	3	1,200	4,273
5	Dr Mohd Bin Nasser Bin Ali Al Zaabi	3	1,200	4,273
6	Mr Anshul Rai	4	1,600	4,273
7	Mr Yaseen Abdullatif	3	1,200	4,273
8	Mr Hamad Lal Baksh Al Balushi	3	1,200	4,273
9	Mr Arnaud de Limburg	4	1,600	4,273
10	Mr Zoher Karachiwala	4	1,600	4,273
11	Mr Ahmed El Sinani	4	1,600	4,273
	TOTAL		**15,200**	**47,003**

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

CORPORATE GOVERNANCE REPORT

(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 60% of the amount is chargeable to the Company.

NON-COMPLIANCE PENALTIES OR NON-COMPLIANCE OF CORPORATE GOVERNANCE AND REASON

- 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.
- There were no instances of non-compliance of corporate governance.

MEANS OF COMMUNICATION WITH THE SHAREHOLDER AND INVESTORS

Annual accounts and quarterly accounts are put on official web site 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 Company has launched its own web site www.upcmanah.com. 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 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	0.990	0.990	0.990	2,694.070
Feb	0.950	1.015	0.983	2,651.730
Mar	0.950	1.035	0.993	2,687.985
Apr	0.928	0.950	0.939	2,659.095
May	0.950	0.950	0.950	2,519.890
Jun	0.901	0.950	0.926	2,390.130
Jul	0.940	0.950	0.945	2,360.645
Aug	0.950	0.980	0.965	2,355.265
Sep	0.980	0.990	0.985	2,402.365
Oct	0.965	0.990	0.978	2,561.085
Nov	0.950	1.010	0.980	2,615.475
Dec	1.000	1.080	1.040	2,651.790

CORPORATE GOVERNANCE REPORT

DISTRIBUTION OF SHAREHOLDING

The Shareholding pattern as on 31 December 2010 is as follows:

Category of Shareholders	Number of Shareholders	Total Shareholders	Share Capital%
Preference Shareholders (Local):	1	858,008	5.47
Preference Shareholders (Foreign):	2	8,556,723	54.53
Fractions from capital reduction	-	10	0.01
Ordinary Shareholders above 5%:	1	1,012,585	6.45
Ordinary shareholders below 5% but above 1%:	7	2,867,446	18.27
Ordinary Shareholders below 1%:	865	2,396,473	15.27
TOTAL	**876**	**15,691,245**	**100.00**

PROFESSIONAL PROFILE OF THE STATUTORY AUDITORS

The shareholders of the company appointed KPMG as the auditors for the year 2010. KPMG is one of the leading accounting firms in Oman. Oman practice of KPMG, which forms parts of KPMG Lower Gulf, was established in 1974 and currently has a staff compliment of professional staff in excess of 130, including 3 partners, 6 directors and 17 managers.

KPMG Lower Gulf (UAE and Oman) is a member of the KPMG network of independent firms affiliated with KPMG International Co-operative. The KPMG network operates in 146 countries and employs 140,000 people worldwide. KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's).

During the year 2010, RO 19,000 was charged by external auditors against the services rendered by them to the Company (RO 9,000 for audit, RO 8,000 for other audit related services and RO 2,000 for tax consultancy).

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 United Power Company SAOG 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 - Annexure

Name	**Murtadha Ahmed SULTAN - Chairman**
Year of Joining	1994
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 also the Chairman of Sohar Power Company. He is also a Director of Oman Flour Mills and Gulf International Chemicals.

Name	**Mark LEMMON - Vice Chairman**
Year of Joining	2009
Education	Chartered Accountant and Masters in finance from the London School of Economics
Experience	Mr. Lemmon, the Chief Executive Officer of MENA Infrastructure Fund (GP) Limited, was previously Deputy Chief Executive of HSBC›s global Project and Export finance business, responsible for growing that business over recent years to its current pre-eminent position in infrastructure and energy finance. He has substantial experience leading business development and winning and executing financing mandates across transportation, social infrastructure, power, water and energy sectors throughout the Middle East and elsewhere. An investment banker of twenty five years standing.

Name	**Dr. Mohammed Nasser AL-ZAABI**
Year of Joining	2008
Education	A Chartered Quantify Surveyor with PhD in contracting out government services. M.Sc. in Projects Management. B.Sc.Hons in Quantity Surveying and an Engineering Diploma all from the UK.
Experience	Mr. Al-Zaabi is Head of planning and quality management departments of MODF since January 2006 with more than 16 years experience in projects and contracts management. Thoroughly involved in contracting out projects, both pre and post contract activities since 1996.

Name	**Anshul RAI**
Year of Joining	2009
Education	B.Tech, MBA (Finance)
Experience	Mr. Rai is a seasoned infrastructure investment professional with over thirteen years experience in acquisition, development and management of infrastructure assets. Mr Rai has been in the region for six years, having been involved in project development, deal structuring, financing and M&A across a wide range of infrastructure sectors across the GCC, North Africa and the Levant

BRIEF PROFILES OF DIRECTORS - Annexure

Name	**James S. HARPER**
Year of Joining	2011
Education	MA (Oxon)
Experience	Mr. Harper is an experienced banking and investment professional with over twelve years experience in investment, advisory and debt financing across a broad range of industries. Mr Harper moved to the region two years ago to joined Mubadala GE Capital where he focuses on infrastructure investment and providing senior secured debt financing to local corporate.

Name	**Rahul MITTAL**
Year of Joining	2011
Education	B.Tech, MBA, CFA
Experience	Rahul Mittal is Director - Investments at Mubadala GE Capital responsible for energy and project finance investments in Middle East and Africa region. Rahul has over 12 years of experience in development, financing and management of large power projects in India, Middle East, Africa and the US. Before joining Mubadala GE Capital, Rahul was leading GE Capital - Energy Financial Services underwriting team in India. Rahul holds B. Tech from IIT Kanpur and MBA from IIM Calcutta. Rahul is a CFA charter holder

Name	**Ahmed AL SINANI**
Year of Joining	2005
Education	Master of Business Administration
Experience	Mr Sinani has more than 18 years of experience in the fields of finance, accounting, human resources management, public administration and management. He represents the Civil Service Employees Pension Fund in a number of forums. Currently, he sits on the board of directors of Oman National Engineering & Investment Company.

Name	**Yaseen ABDULLATIF**
Year of Joining	2009
Education	Bachelor of Arts degree in Business Administration (major – Finance) from the American University in December 1996.
Experience	Mr. Abdullatif has been with the Bank Muscat since March 1987 and he has handled different functions from being branch manager to managing credit assessment and credit controls. In 1998, he was promoted to the position of assistant general manager to handle the Risk Management function of the bank and later on finance function has been an additional responsibility. Currently, Mr. Abdullatif is responsible for managing finance, strategy and administration functions of the bank. Also, he is a member of several committees in the bank.

BRIEF PROFILES OF DIRECTORS - Annexure

Name	**Hamad Lal Baksh AL BALUSHI**
Year of Joining	2009
Education	Master of Business Administration (MBA), University of Strathclyde.
Experience	Mr. Al Balushi has been working with HSBC Bank, Muscat for the past 13 years in the Corporate Banking Division. He is one of the senior management team members in HSBC Oman involved in the planning, coordination and implementation of the corporate finance and credit activities within the Bank›s corporate customer base

Name	**Arnaud de LIMBURG**
Year of Joining	2009
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 contributed to the development of GDF SUEZ Energy International in the region. CEO of the Company in 2008-2009, he became director in 2009. He also acts as Company Secretary.

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

BRIEF PROFILES OF MANAGEMENT TEAM - Annexure

Under the terms of the management agreement entered with Power Development Company LLC (PDC) in 1994, PDC provides day to day management of the Company and gives all supports by providing manpower and other infra structure. For this PDC is paid an annual fee and reimbursement of its expenses. It provides the following:

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

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

Brief profile of the current managerial team is as follows:

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

Name	**Arnaud de LIMBURG**
Year of Joining	2009
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 contributed to the development of GDF SUEZ Energy International in the region. CEO of the Company in 2008-2009, he became director in 2009. He also acts as Company Secretary.

BRIEF PROFILES OF MANAGEMENT TEAM - Annexure

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

Name	**S.M. TARIQ**
Year of Joining	1995
Education	MBA. ACA (Intermediate), Institute of Chartered Accountants of Pakistan.
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 Science.
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

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REPORT OF THE INDEPENDENT AUDITOR'S TO THE SHAREHOLDERS OF UNITED POWER COMPANY SAOG

Report on the financial statements
We have audited the financial statements of United Power Company SAOG ("the Company"), set out on pages 2 to 22 which comprise 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.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 about 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the statement of financial position of United Power Company SAOG as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on legal and regulatory requirements
In our opinion, the financial statements of the Company as at and for the year ended 31 December 2010, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

Emphasis of matter
Without qualifying our opinion we draw your attention to note 4 on page 8 which sets out the basis on which Management has concluded that is not appropriate to change the basis of accounting and have not adopted IFRIC 12 for the year ended 31 December 2010.

30 January 2011

Khalid Masud Ansari

C.R. No. 1/20006/6

STATEMENT OF FINANCIAL POSITION

as at 31 December

	Notes	**2010**	2009
		RO '000	RO '000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**32,037**	37,801
Current assets			
Inventories	*7*	**265**	272
Trade and other receivables	*8*	**2,394**	2,367
Bank balances and cash	*22*	**250**	308
Total current assets		**2,909**	2,947
Total assets		**34,946**	40,748
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	*9*	**15,691**	19,178
Share premium	*10*	**4,764**	4,764
Statutory reserve	*11*	**5,230**	6,897
Retained earnings		**2,344**	1,736
Total equity		**28,029**	32,575
Non-current liabilities			
Provision for staff end of service benefits		**6**	5
Deferred tax liability	*13*	**3,221**	3,859
Total non-current liabilities		**3,227**	3,864
Current liabilities			
Provision for income tax	*13*	**1,418**	1,318
Trade and other payables	*14*	**1,272**	991
Bank overdraft	*15*	**1,000**	2,000
Total current liabilities		**3,690**	4,309
Total liabilities		**6,917**	8,173
Total equity and liabilities		**34,946**	40,748
Net assets per share (RO)	*16*	**1.786**	1.699

These financial statements were approved and authorised for issue by the Board of Directors on 30 January, 2011 and have been signed on its behalf by:

Director **Director**

The notes on pages 39 to 56 form an integral part of these financial statements.
The report of the Auditors is set forth on page 34.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

	Notes	**2010**	2009
		RO '000	RO '000
Revenue		**13,612**	13,477
Operating and administrative expenses	*17*	**(5,419)**	(5,155)
Operating profit before depreciation		**8,193**	8,322
Depreciation on property, plant and equipment	*6*	**(5,784)**	(5,700)
Profit from operations		**2,409**	2,622
Net financing expenses	*18*	**(81)**	(740)
Profit before income tax		**2,328**	1,882
Income tax charge	*13*	**(258)**	(181)
Total comprehensive income for the year		**2,070**	1,701
Earnings per share – basic (RO)	*19*	**0.110**	0.076

The notes on pages 39 to 56 form an integral part of these financial statements.
The report of the Auditors is set forth on page 34.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

	Share capital RO'000	Share premium RO'000	Statutory reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2009	22,665	4,764	6,897	2,411	36,737
Total comprehensive income for the year					-
Net profit for the year	-	-	-	1,701	1,701
Transactions with owners recognised directly in equity					
Payment of final dividend for 2008	-	-	-	(2,376)	(2,376)
Capital reduction	(3,487)	-	-	-	(3,487)
At 1 January 2010	**19,178**	**4,764**	**6,897**	**1,736**	**32,575**
Total comprehensive income for the year					
Net profit for the year	**-**	**-**	**-**	**2,070**	**2,070**
Transfer (from)/to	**-**	**-**	**(1,667)**	**1,667**	**-**
Transactions with owners recognised directly in equity					
Payment of final dividend for 2009	**-**	**-**	**-**	**(1,618)**	**(1,618)**
Payment of interim dividend 2010	**-**	**-**	**-**	**(1,511)**	**(1,511)**
Capital reduction	**(3,487)**	**-**	**-**	**-**	**(3,487)**
At 31 December 2010	**15,691**	**4,764**	**5,230**	**2,344**	**28,029**

The notes on pages 39 to 56 form an integral part of these financial statements.
The report of the Auditors is set forth on page 34.

STATEMENT OF CASH FLOWS

for the year ended 31 December

	2010	2009
	RO '000	RO '000
Operating activities:		
Cash receipts from customers and others	**13,592**	14,633
Cash paid to employees, directors and suppliers	**(5,137)**	(5,257)
Cash generated from operations	**8,455**	9,376
Interest paid	**(81)**	(517)
Income tax paid	**(796)**	(970)
Net cash from operating activities	**7,578**	7,889
Investing activities:		
Purchase of property, plant and equipment	**(20)**	(364)
Proceeds from disposal of property, plant and equipment	**-**	66
Net cash used in investing activities	**(20)**	(298)
Financing activities:		
Dividends paid	**(3,129)**	(2,376)
Repayment of term loans	**-**	(5,564)
Repayment of share capital	**(3,487)**	(3,487)
Net cash used in financing activities	**(6,616)**	(11,427)
Net change in cash and cash equivalents	**942**	(3,836)
Cash and cash equivalents at the beginning of the year	**(1,692)**	2,144
Cash and cash equivalents at the end of the period *(note 22)*	**(750)**	(1,692)

The notes on pages 39 to 56 form an integral part of these financial statements.
The report of the Auditors is set forth on page 34.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December

1. General

United Power Company SAOG (the "Company") is registered as a joint stock company in the Sultanate of Oman. The Company has been established to undertake a project primarily to Build, Own, Operate and Transfer ("BOOT") to the Government of the Sultanate of Oman (the "Government") a power station at Manah, and to build, own and transfer ("BOT") to the Government, interconnection and transmission facilities. The Company may also undertake activities related to the expansion of its primary objective. Accordingly, the Company implemented the Phase II-Expansion Project ("Expansion Project") during the year ended 31 December 2000.

2. Duration of the Company

The original duration of the Company was for a period of twenty-five years commencing from 9 January 1995 being the date of its registration in the Commercial Register of the Ministry of Commerce and Industry ("MOCI"). At an extra-ordinary general meeting held on 17 January 2000, the duration of the Company was increased by five years thereby revising the duration of the Company to thirty years commencing from 9 January 1995. The MOCI has approved the extension to the Company's life on 11 October 2000.

All the property, plant and equipment of the Company shall be transferred at RO 1 to the Government of the Sultanate of Oman automatically at the end of the Project Life, which, in accordance with Supplemental Agreements for the Expansion Project, expires on 30 April 2020. (At the end of the Project Life the value of the shares of the Company shall become nil).

3. Agreements

i. Agreements with the Government for project implementation, power purchase and land lease for Phase 1 ("Project Agreements") were entered into on 27 June 1994 by the United Power Group (the "Group") comprising some of the Founder Shareholders. Under a Novation Agreement entered into by the Company with the Group, the Company has assumed all rights, duties, liabilities and obligations of the Group pursuant to the Project Agreements.

ii. Effective 1 May 2005, the rights and obligations of MHEW under the PPA have been novated to the Oman Power and Water Procurement Company SAOC ("OPWPC") in accordance with the arrangements described in the Master Novation Agreement signed on 8 October 2005. All the financial obligations of the OPWPC under the Project Agreements are secured under the Guarantee issued by the Ministry of Finance, Government of Oman, which has come into force on execution of the Novation Agreements. The PPA contains embedded derivatives in the pricing formulae that compute the variable capacity charge rate and energy charge rate for Phase 1 and Phase 2. The percentages of the variable capacity charge rate and energy charge rate for Phase 1 and Phase 2 is adjusted to reflect changes in US Consumer price index and the Omani Consumer price index assuming an exchange rate pegged to the United States Dollar ("USD").

iii. The Company has entered into a Management Agreement ("the Management Agreement") with Power Development Company LLC ("PDC"), a related party, to provide full management and administrative services to the Company. Up to 31 December 2008, management fee of USD 1,200,000 per annum ("the Base Fee"), adjusted annually in line with Consumer Price Index ("CPI") of France and the United Kingdom as of 31 December immediately preceding the relevant year at the weighted average of the French CPI (60%) and the United Kingdom CPI (40%), was payable under the Management Agreement for Phase I of the plant. With effect from 1 January 2009, the Base Fee was fixed at RO 601,842 (USD 1.561 million being the indexed Base Fee for 2008 converted to Rials Omani at the exchange rate prevailing on 31 December 2008). The Base Fee in Rials Omani will henceforth be indexed annually based on Sultanate of Oman CPI

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

published by Ministry of National Economy. The Company is also liable to an annual management fee of USD 400,000 (RO 154,200) for each calendar year in respect of Phase II of the plant ("the Expansion Project"). No indexation is applicable on the Expansion Project fee. The Management Agreement contains embedded derivative in the pricing formulae that computes the management fee for Phase I. In addition to the Management Fee for Phase I and Phase II, the Company shall also pay to PDC, all proper costs and expenses which are incurred by PDC in rendering the above services.

iv. The Company had entered into an Operations & Maintenance Agreement with Sogex Oman LLC, a Shareholder, for the operation and maintenance of its power station. Effective 1 January 2009, the Company has entered into a new operation and maintenance agreement with Suez Tractebel Operation and Maintenance Oman ("STOMO"), a company owned by GDF Suez group (70%) and Sogex (30%). Consequently, the operation and maintenance agreement with Sogex was terminated.

v. Pursuant to the Project Agreements, the Company had, on 19 December 1999, entered into Supplemental and Addendum Agreements with the Government for the expansion of the power generation facilities. The above agreements have been amended and the duration of all the agreements has now been extended up to 30 April 2020.

4. Basis of preparation of financial statements

These financial statements have been prepared on the basis that the Company commenced full generation and distribution of electricity on 15 October 1996. All costs incurred during the construction period of the project were capitalized on 15 October 1996.

The Company commenced partial generation of electricity on 31 May 1996. On 15 October 1996 the entire constructions of the power station and transmission facilities was completed and from that date the Company commenced full generation of electricity. The MHEW had initially determined 1 January 1997 as the "Commercial Operation Date' and has issued the Commercial Completion Certificate on that date.

During 2004, the Company reached settlement with the MHEW ("OPWPC") regarding the commencement of Phase 1 term life of twenty years effective 14 September 1996 instead of 15 October 1996. The effect of this change and resolution of other matters has been taken into account in the financial year ended 31 December 2004.

Under the Supplemental and Addendum Agreement to the power purchase agreement ("Supplemental Agreement"), the operation date for the Expansion Project was 1 May 2000. The MHEW ("OPWPC") issued an interim completion certificate for the first unit of the Expansion Project on 29 April 2000. The interim completion certificate for the second unit of the Expansion Project as well as the commercial operations certificate for the Expansion Project was issued by the OPWPC on 19 May 2000. Accordingly, 19 May 2000 has been determined as the "Commercial Operation date' for the Expansion Project. The Company has billed the MHEW from the respective completion dates for the two units of the Expansion Project as per the Supplemental Agreement.

The tariff for electricity generated and supplied to OPWPC has been structured in the Project Agreements in such a way that the tariff rates are significantly higher during the initial years as compared to the later period of the Project Life. The tariff for electricity to be generated and supplied from the Expansion Project under the Supplemental Agreement has been structured so that the tariff is more uniformly received over the Project Life.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

The Company's gas turbines, interconnection and transmission facilities, balance of plant, plant spares and plant buildings and ancillaries are being depreciated over a period of eight to twenty years on a straight-line basis in accordance with the Project Agreements. Accordingly, while the combined tariff revenue for the Company after the first eight years of operations will significantly reduce, the annual depreciation charges will remain constant. The net profits available for appropriation to the Shareholders will be significantly higher during the first half and will be lower during the second half of the Project life. Based on the current projections, the Company is expected to incur accounting losses during certain years. It is, however, not possible to quantify the effect on the net profit for the year if revenue recognized was matched with the depreciation charge. To provide a return to the Shareholders in the years where the profit is low or there are losses, the Company has planned reduction of share capital during certain periods.
In terms of a power purchase agreement (PPA) signed in 1994 between the Company and the Government of Oman, the Company was given the right to build, own, operate and transfer a power plant and build, own and transfer interconnection and transmission facilities, to the government.

Since inception, the financial statements of the Company have disclosed that:

- The Company has recognized the 'revenue' based on the agreed Tariff prescribed under the PPA between the Government of Oman and the Company.
- Depreciation on property, plant and equipment has been booked on straight-line basis at rates prescribed in the above mentioned agreement.
- The tariff has been agreed based on covenants of financing agreements, which includes a prescribed repayment profile, debt coverage ratios and other security features.

In view of the above and to ensure that the financial statements result in fair presentation and relevant and reliable information for the users of the financial statements, the Board of Directors believe it would not be appropriate to change the basis of accounting and have not opted for adoption of IFRIC 12.

5. Summary of significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), Project Agreements, the minimum disclosure requirements of the Capital Market Authority and the requirements of the Commercial Companies Law of 1974, as amended.

These financial statements are presented in Rials Omani ("RO") rounded off to the nearest thousand. The financial statements have been prepared under the historical cost basis.

A summary of significant accounting policies, which have been adopted consistently, is set out below:

(a) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Borrowing costs, net of interest income, which are directly attributable to the construction of plant, are capitalised as part of the cost of the plant and equipment. Cost of property, plant and equipment and capital work-in-progress is their purchase price together with any incidental expenses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour and any other costs attributable to bringing the asset to a working condition for its intended use.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in profit and loss as an expense as incurred.

(iii) Depreciation

Depreciation is charged to profit and loss on a straight-line basis over the estimated useful lives of items of property, plant and equipment and major components that are accounted for separately. Capital work-in progress is not depreciated until it is transferred into one of the below categories, which occurs when the asset is brought into use.

	Years
Gas turbines	15
Balance of plant	20
Plant spares	8
Interconnection and transmission facilities (“ITF”)	18-20
Plant buildings and ancillaries	20
Other assets – furniture, equipment and motor vehicles	4

Management re-assess the useful lives, residual values and depreciation methods for property, plant and equipment annually. Where the carrying amount of the property, plant and equipment is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and the gain or loss is taken into account in determining operating profit.

(b) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories [refer policy (c) below] and deferred tax asset [refer policy (g) below], are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or cash generating unit exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing the 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.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

At each statement of financial position date, the Company reviews the carrying amounts of its assets (or cash-generating units) 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).

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and carrying amount of the asset and is recognised immediately in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised earlier.

(c) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out principle and includes all costs incurred in acquiring the inventories and bringing them to their existing location and condition.

(d) Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and bank overdraft. Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

(e) 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 and 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. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate used reflects current market assessments of the time value of money.

(f) 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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to Rials Omani at the foreign exchange rate ruling at the date of the transaction.

(g) Taxation

Income tax comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Revenue

Operating revenue comprises tariffs for fixed capacity charges for transmission facilities and turbines, variable capacity charges and energy charges. Tariffs are calculated in accordance with the Project Agreements. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due and associated costs.

Tariff revenue has been accounted net of gas fuel costs, which are borne by the Government of the Sultanate of Oman.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December (continued)

(j) Net financing expense

Net financing expense comprises interest payable on short term working capital facilities.

Interest expense is recognised in profit and loss as incurred. Interest income is recognised in profit and loss as it accrues.

(k) Deferred financing costs

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

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and term deposits having maturity periods of less than or equal to three months. Bank borrowings 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 equivalents. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank borrowings.

(m) Use of estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is 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. In particular, estimates that involve uncertainties and judgements which have a significant effect on the financial statements include employees' end of service benefits [refer policy (e) above].

(n) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements. Other than IFRS 9: 'Financial Instruments' published on 12th November 2009, none of these are expected to have an effect on the financial statements of the Company. The Company is in the process of evaluating the impact of the standard and has not early adopted.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

6. Property, plant and equipment

	Capital work in-progress	Gas turbines	Balance of plant	Plant spares	ITF	Plant buildings and ancillaries	Other assets	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost								
1 January 2009	1,855	18,633	26,032	3,536	49,994	7,453	337	107,840
Additions during the year	240	56	-	-	-	-	68	364
Disposals during the year	-	-	-	-	-	-	(288)	(288)
Transfer during the year	(1,855)	-	-	1,855	-	-	-	-
1 January 2010	240	18,689	26,032	5,391	49,994	7,453	117	107,916
Additions during the year	-	16	-	-	-	-	4	20
Transfer during the year	(240)	240	-	-	-	-	-	-
31 December 2010	**-**	**18,945**	**26,032**	**5,391**	**49,994**	**7,453**	**121**	**107,936**
Depreciation								
1 January 2009	-	12,849	13,269	3,240	30,436	4,544	299	64,637
Charge for the year	-	1,243	1,298	251	2,520	375	13	5,700
Disposals during the year	-	-	-	-	-	-	(222)	(222)
1 January 2010	-	14,092	14,567	3,491	32,956	4,919	90	70,115
Charge for the year	-	1,291	1,303	310	2,498	373	9	5,784
31 December 2010	**-**	**15,383**	**15,870**	**3,801**	**35,454**	**5,292**	**99**	**75,899**
Carrying value								
31 December 2010	**-**	**3,562**	**10,162**	**1,590**	**14,540**	**2,161**	**22**	**32,037**
31 December 2009	240	4,597	11,465	1,900	17,038	2,534	27	37,801

Land on which the power station, buildings and ancillaries are constructed has been leased from the Government for the duration of the Project Life. Lease rent is paid at the rate of RO 1,000 per annum.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

7. Inventories

	2010	2009
	RO '000	RO '000
Liquid fuel stock	**259**	259
Spares stock	**63**	63
	322	322
Less: provision for obsolescence	**(57)**	(50)
	265	272

The Company, in accordance with the Project Agreements, is required to maintain a base stock of liquid fuel to be used in case of interruption of gas fuel. Spares stock is maintained for the gas turbines and ITF and is held for emergencies.

8. Trade and other receivables

	2010	2009
	RO '000	RO '000
Tariff receivable from the OPWPC	**2,259**	2,165
Less: allowance for impaired debts	**(89)**	(15)
Net trade receivables	**2,170**	2,150
Other receivables and prepayments	**224**	217
	2,394	2,367

9. Share capital

Authorized share capital

At 31 December 2010 and 31 December 2009, the Company's authorised share capital comprised 15,965,760 ordinary shares and 23,948,640 preference shares of RO 1 each.

Paid-up share capital

At 31 December 2010 the Company's issued and paid-up share capital consists of 15,691,245 shares of RO 1 each analysed as follows:

	Total		Paid in cash	Paid in kind
	RO' 000	**%**	**RO' 000**	**RO' 000**
Preference shares	**9,415**	**60**	**8,377**	**1,038**
Ordinary shares	**6,276**	**40**	**6,276**	**-**
	15,691	**100**	**14,653**	**1,038**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

At 31 December 2009 the Company's issued and paid-up share capital consists of 19,178,185 shares of RO 1 each analysed as follows:

	Total RO' 000	%	Paid in cash RO' 000	Paid in kind RO' 000
Preference shares	11,507	60	10,469	1,038
Ordinary shares	7,671	40	7,671	-
	19,178	100	18,140	1,038

Preference shareholders have the right to two votes per share at any general meeting of the Company and are entitled to a dividend of up to 5% of the net profit of the Company prior to and in addition to any dividend to the holders of ordinary shares. The holders of ordinary shares have the right to one vote per share at any general meeting of the Company.

31 December 2010	**Number of Preference Shares**	**% to preference shares**	**% to total shares**
Mena Infrastructure Investments Limited	**5,982,699**	**63.56**	**38.12**
Ministry of Defense, Pension Fund	**858,008**	**9.11**	**5.47**
M GEC (Oman) Holdings Limited	**2,574,024**	**27.33**	**16.41**
Fractions from capital reduction	**10**	**-**	**-**
	9,414,741	**100.00**	**60.00**
31 December 2009			
Mena Infrastructure Investments Limited	7,312,187	63.56	38.12
National Trading Co. LLC	1,048,677	9.11	5.47
Ministry of Defense, Pension Fund	1,048,677	9.11	5.47
W J Towell and Co. LLC	1,048,677	9.11	5.47
The Zubair Corporation	1,048,677	9.11	5. 47
	11,506,895	100.00	60.00

The company carried out during 2010, 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 annual general meeting of 2006. The value of the shares become nil at the end of the Project Life.

None of the ordinary shareholders own more than 10% of the Company's share capital.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

10. Share premium

The premium of RO 0.800 per share, on rights issue for a total amount of RO 4.764 million (2009: RO 4.764 million) had been transferred to the share premium account.

During the year, Capital Market Authority ("CMA") approved a plan to distribute share premium amount. Arrangements to distribute the share premium amount have yet to be finalised with Capital Market Authority.

11. Statutory reserve

The Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable statutory reserve until the amount of statutory reserve becomes equal to one-third of the Company's issued share capital. No transfer has been made during the year, as the Company has already achieved this minimum amount required for the legal reserve.

In the EGM held on 21 March 2010, the shareholders resolved, with CMA approval, to transfer the statutory reserve amount in excess of one third of the current issued share capital to retained earnings. Accordingly, the excess an amount of RO 1.667 million has been transferred from legal reserve to retained earnings at 31 December 2010.

12. Proposed dividend

On 30 January 2011, the Board of Directors have proposed ordinary and preference dividend of RO 1.961 million and RO 0.190 million respectively (2009: RO 1.534 million and RO 0.084 million). The ordinary dividend translates to RO 0.125 per share. This dividend is subject to the approval of the shareholders in the annual general meeting.

13. Taxation

(a) Recognized in profit and los

	2010	2009
	RO'000	RO '000
Current tax expense	**895**	778
Deferred tax income	**(637)**	(597)
	258	181

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

Profit before taxation	**2,328**	1,882
Income tax at the rates mentioned above	**276**	222
Non-deductible expenses	**-**	(41)
Prior year- deferred tax	**(18)**	-
Tax expense for the year	**258**	181

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

(b) Current status of tax assessments

The Company's income tax assessments for the tax years 2003 to 2010 have not yet been finalized by the Secretariat General for Taxation at the Ministry of Finance. Management considers that additional taxes, if any, that may become payable on finalization of the assessments in respect of these open years would not be material to the Company's financial position as at 31 December 2010.

(c) Deferred tax liability

	As at 1 January 2010	**Recongised in profit or loss**	**As at 31 December 2010**
	RO '000	RO '000	RO '000
Property, plant and equipment	(3,866)	627	(3,239)
Provision for inventory obsolescence	6	1	7
Provision for doubtful debts	2	9	11
Net deferred tax asset (liability)	**(3,859)**	**637**	**(3,221)**

14. Trade and other payables

	2010 RO '000	**2009 RO '000**
Accruals and other payables	**765**	519
Due to related parties (note 20)	**-**	15
Trade payable	**460**	426
Directors' remuneration payable	**47**	31
	1,272	991

15. Bank overdraft

The Company had entered into credit facility agreements with two commercial banks consisting of revolving working capital facility aggregating to RO 5.8 million. The facility is renewable yearly. Interest charge on the working capital facility range between 6.5% and 7.0% per annum.

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

16. Net assets per share

Net assets per share are calculated by dividing the net assets at the year ended by the number of preference and ordinary shares outstanding as follows:

	2010	2009
Net assets (RO'000)	**28,029**	32,575
Number of preference and ordinary shares outstanding at the year end ('000)	**15,691**	19,178
Net assets per share (RO)	**1.786**	1.699

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

17. Operating and administrative expenses

	2010 RO' 000	2009 RO' 000
Repair and maintenance expenses – plant	**524**	517
Site office cost	**-**	46
Operation and maintenance expenses-STOMO	**2,749**	2,559
	3,273	3,122
Management Fee	**824**	813
Insurance expense	**535**	509
Salaries, wages and other benefits	**79**	258
Office expenses	**19**	64
Staff cost sharing with PDC (note 3 and 20)	**350**	165
Legal and professional fees	**52**	37
Government fees	**19**	23
Claim tax rate change	**120**	120
Local services	**36**	38
Meetings and other related expenses	**38**	24
Telecommunication expenses	**-**	3
Provision for doubtful debts	**74**	7
Management Agreement (note 20)	**-**	(28)
	5,419	5,155

18. Net financing expenses

	2010 RO' 000	2009 RO' 000
Interest expenses	**81**	488
Amortization of loan transaction costs	**-**	257
Interest income	**-**	(5)
	81	740

19. Earnings per share - basic

Earnings per share basic are calculated as follows:

	2010	2009
Profit for the year (RO'000)	**2,070**	1,701
Weighted average number of preference and ordinary shares outstanding throughout the year ('000)	**18,887**	22,374
Basic earnings per share (RO)	**0.110**	0.076

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

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.

The Company maintains balances with these related parties which arise in the normal course of business from the commercial transactions, and are entered into at terms and condition which Management consider to be comparable with those adopted for arm's length transactions with third parties. The volumes of related party transactions were as follows:

	2010	2009
	RO' 000	RO' 000
Management fee	**824**	813
Local fee and other costs	**36**	38
Staff and other costs under the Management Agreement:		
- Charged to a related party	**-**	(28)
- Charged from a related party (note 17)	**350**	165
Insurance premium	**217**	210

Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise). The remuneration of directors and other members of key management during the year were as follows:

	2010	2009
	RO' 000	RO' 000
Short term benefits	**205**	241
End of service benefits	**-**	26
Directors' remuneration	**47**	31
Directors' sitting fees	**15**	19
	267	317

At the statement of financial position date, amount due from / to related parties is as follows:

Due to related parties:

Power Development Company LLC	-	15

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

21. Commitments

Operating lease commitments

Land on which the power station, buildings and ancillaries are constructed has been leased from the Government for the duration of the Project Life. At 30 September 2010, future minimum lease commitments under non-cancellable operating leases are as follows:

	2010	2009
Within one year	**1**	1
Between two and five years	**4**	4
After five years	**5**	6
	10	11

22. Cash and cash equivalents

	2010	2009
	RO' 000	RO' 000
Bank balances and cash	**250**	308
Bank overdraft (note 15)	**(1,000)**	(2,000)
	(750)	(1,692)

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 Board of Directors 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.

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 from customers.

The Company has significant concentration of credit risk as the Company has entered into Power Purchase Agreement (PPA) with OPWP. The credit risk is mitigated by guarantee provided by the Government.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the statement of financial position date was on account of:

	2010	2009
	RO' 000	RO' 000
Trade receivables – OPWP (note 18)	**2,170**	2,150
Cash and cash equivalents (note 22)	**250**	308
	2,420	2,458

Management considers the credit risk associated with its financial assets to be very low because the receivables are from a Government owned entity and cash is placed in reputable banks.

The age of trade receivables and related impairment loss at the statement of financial position date was:

	2010		2009	
	Gross RO '000	Impairment RO '000	Gross RO '000	Impairment RO '000
Not past due	**2,259**	**89**	2,165	15

The movement in allowance for impairment of receivables is as follows:

	2010	2009
	RO '000	RO '000
Balance at 1 January	**15**	8
Provided during the year	**74**	7
Balance at 31 December	**89**	15

The allowance account in respect of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at which point the amount considered irrecoverable is written off against allowance account.

Liquidity risk

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

The Company uses cash flow forecasting methods which assist it in monitoring cash flow requirements and optimizing its cash flow cycle. Typically the Company ensures that it has sufficient cash on demand to meets it expected operational expenses, including the servicing of financial obligations.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

The maturities of Company's undiscounted financial liabilities at reporting date is given below:

31 December 2010	**Carrying amount RO'000**	**Contractual cash flows RO'000**	**Upto 1 year RO'000**
Trade and other payables (note 14)	**1,272**	**1,272**	**1,272**
Overdraft	**1,000**	**1,000**	**1,000**
	2,272	**2,272**	**2,272**
31 December 2009			
Trade and other payables (note 14)	991	991	991
Overdraft (note 22)	2,000	2,000	2,000
	2,991	2,991	2,991

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.

Currency risk

Management considers that the Company is not exposed to significant foreign exchange risk arising from currency exposure primarily because significant portion of revenues and major operating costs are denominated in RO and indexed to the USD / RO exchange rates. The balance operating costs denominated in USD are covered by the fact that RO is pegged to the USD and has remained unchanged since 1986.

Interest rate risk

The Company's borrowings (long-term and short-term) are on fixed rate basis. Accordingly, the Company is not exposed to interest rate risk due to fluctuation in market interest rate.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and benefit other stake holders. The management's policy is to maintain a strong capital base so as to maintain creditor 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 period except for reduction of capital under a well defined plan approved by the shareholders in 2006. The Company is not subject to externally imposed capital requirements.

Fair value

Board of Directors believes that the carrying amounts of financial assets and liabilities at 31 December 2010 included in the statement of financial position approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December (continued)

24. Comparative figures

Certain comparative information has been reclassified to conform to the presentation adopted in these financial statements.