Management Discussion and Analysis Report

The management of Al Kamil Power Company SAOG (AKPC) is pleased to present this report on the Company's performance, its future outlook, business structure and other relevant matters of importance to shareholders.

Main Objects and Business

Al Kamil Power Company SAOG (AKPC) is contracted under a Power Purchase Agreement (PPA) to supply electricity into the North Oman Transmission Grid. AKPC owns a 285 MW electricity generating plant near Al Kamil in the Sharqiya region of Oman and is the first private sector power plant in this region.

The formation of AKPC as an independent power producer is part of the Government's on-going privatisation strategy. The Company operates within agreed project documentation with different Government agencies and the Oman Power and Water Procurement Company SAOC (OPWP), a closed joint stock company held by the Government of Oman.

The Government of Oman stands behind the financial obligations of OPWP. The PPA with OPWP and the Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas (MOG) are valid until 30 April 2017.

Under the PPA, OPWP commits to pay AKPC Capacity Charges and Energy Charges in return for AKPC making available the electrical generating capacity and selling the electrical energy produced. Oman Electricity Transmission Company SAOC (OETC), conveys its planned power off-take on a daily basis and the power is then generated and delivered to the grid according to these requirements. The project agreements provide both revenue and cost assurance to the Company and its investors. A major source of revenue for the Company is the Capacity Charge, which is payable for all the times the plant is available, based on the minimum availability levels as defined under the PPA. AKPC is safeguarded under the PPA against RO/US$ exchange rate movements and also against inflation. The actual level of power generation has no direct effect on the Company's net income.

Natural gas is received at the plant and burned in the gas turbines to produce power. It is supplied by pipeline from the Saih Rawl gas field, which also supplies gas to major industries in Sur. This energy drives the generator and electricity is produced. The electricity is then transformed up to 132 kV and supplied to the grid.

MOG is responsible for the supply of gas to the plant. In the case of non-availability of gas or gas not conforming to specifications, AKPC has to run the plant on fuel oil as per the provision of the PPA and the NGSA. Under such circumstances, AKPC would be reimbursed any additional costs of running the plant on fuel oil by MOG and for any capacity shortfall that may arise as a consequence.

Al Kamil Construction & Services LLC (AKCS) is contracted to operate and maintain the power station. AKCS, a company whose major shareholder is International Power plc, the UK-based global power generation developer, has an Operation and Maintenance Agreement with AKPC for fifteen years. The operations and maintenance standards of the plant are based on international best practice in accordance with International Power's policies and principles derived from its experience in the operation of power generation plants worldwide.

The generating plant at the power station comprises three General Electric Frame 9171E gas turbines in open cycle configuration, together with related ancillary equipment required to aid fully independent operation. These turbines are designed to run on both natural gas and distillate fuel oil.

The maintenance team of AKCS comprises mechanical, electrical, control and instrumentation engineers including technicians trained to undertake day-to-day activities on the plant. The routine maintenance of the plant and related apparatus is carried out in accordance with the Original Equipment Manufacturers' recommendations and "Maximo" maintenance management software tools have been installed in this regard. Major inspections and overhauls are contracted to specialist organisations, for example, General Electric (GE), the largest Original Equipment Manufacturer, via a nine-year Long Term Service Agreement (LTSA). The over speed test of the gas turbine is carried out annually as recommended by International Power plc.

Planned unit outages are arranged during the winter periods - according to the schedule agreed between AKPC and OETC - in order to maximise generation during summer months. GE's scheduled combustion inspections (at 12,000 Factored Fire Hours), hot gas path inspections (at 24,000 Factored Fire Hours) and major inspections (at 48,000 Factored Fire Hours) are all conducted during these planned outages.

AKCS has been certified with ISO 9001 for excellent quality management, ISO 14001 for excellent environmental management and OHSAS 18001 for outstanding health and safety management. During the year, AKCS was awarded the Gold Award for health and safety performance by ROSPA (the Royal Society for Prevention of Accidents in the UK). The Company and its O&M contractor, AKCS, are both committed to achieving the best possible health, safety, environmental and quality performance standards. The management focus is to drive a health and safety culture in every aspect of its operation. Being an investor in people, the Company believes that all workplace accidents and injuries are avoidable. As such, it encourages safe behaviour and the right attitude to deliver zero accidents and zero incidents. This ethos applies equally while at work and leisure.

The training and awareness programme conducted by AKCS during 2008 included:

Fresh Eyes- The programme coaches and mentors the employees at the work place to ensure that each one takes responsibility for his actions and assists in fostering this attitude among colleagues at the work place. This is a behaviour-based process that stimulates safety awareness in the work place.
Take Five- This programme involves personal hazard identification at the point where work is to be carried out.
Safety walks and audits- This programme seeks continual HSE improvements among the employees.
Toolbox talks- This is a communication and information sharing forum to discuss various aspects of the work with an ultimate aim to improve HSE at the work place.

Income and Expenditure

Operating revenues incorporate Capacity Charges and Energy Charges which are recovered on a monthly basis from OPWP. Revenues are indexed to the RO/US$ exchange rate and inflation.

Capacity Charges are payable for each hour during which the plant is available for generation. The Capacity Charge is the total of:

- an investment charge covering capital expenditure and all related costs of the project such as tax payments, debt service and return on capital;
- a fixed operation and maintenance charge covering fixed operation and maintenance and all related costs to the plant; and
- a new industry charge providing compensation for Sector Law costs.

Energy Charges are payable for the energy generated in response to despatch requests issued by OETC. The Energy Charges are the total of:

- variable operating costs of generation;
- fuel costs- based on an agreed heat rate of natural gas consumption to produce the electrical energy delivered at a specified efficiency; and
- start-up charge- payable to AKPC for the costs of fuel for starts in excess of 100 per year for each gas turbine.

A significant operating cost of the power station is the fuel required to operate the gas turbines. AKPC is required to pay for the gas consumed for the generation of power, in accordance with the NGSA. However, the fuel charge element of the PPA allows a full pass-through of the gas price to the extent that electricity is generated with the plant efficiency detailed in the PPA.

AKCS is paid a fixed and variable fee for the operation and maintenance of the station for the duration of the PPA. This fee covers fixed operational expenses including expert services and the maintenance of mandatory spares for the plant. The actual variable energy charge received from OPWP under the PPA based on the actual energy delivered is paid to AKCS as a variable fee. In addition, the actual cost of any start (after the first combined 300 starts per annum) is reimbursed to AKCS.

Investment Opportunities and Obstacles

As part of its Energy Conservation Programme on behalf of the Government of the Sultanate of Oman, OPWP approached the Company to evaluate the conversion of the existing Open Cycle Gas Turbines (OCGT) to Combined Cycle Gas Turbines (CCGT), thus increasing the power capacity and efficiency of our plant.

AKPC has submitted a technical feasibility study to OPWP. The Company is awaiting a response from OPWP in order to take this proposal to the next stage and prepare a commercial bid together with an EPC contractor.

Risks and Concerns

Loss of Availability due to Mechanical Breakdown

The principal risk to AKPC is the plant being unavailable due to mechanical breakdown. In avoidance of such AKPC ensures that AKCS operates and maintains the plant in line with AKPC policies, principles, directives and best-industry practice.

Loss of Availability due to Accidental Damage

In accordance with best-industry practice, AKPC ensures that adequate insurance policies are in place to protect the business against loss of property and loss of income arising from accidental damage.

OPWP Payments

OPWP has settled all invoices within the agreed credit period.

Financial and Operational Performance

Plant Performance

The plant operated extremely well throughout the year in compliance with OETC instructions with a commercial availability of 99.94%. The following chart displays the performance of the Company over the last five years:

The average plant load factor for 2008 was 47.6%. During 2008, the plant generated 1,136 GWh of electricity, 4% higher than 2007.

Routine maintenance and performance tests were successfully carried out during the course of the year. A hot gas path inspection was carried out on Gas Turbine 2 after it completed 24,000 Factored Fire Hours.

During the annual performance tests carried out in the presence of OPWP, the power station's capacity on natural gas and fuel oil was successfully demonstrated to be in accordance with the guaranteed capacity under the PPA for the current contract year. The plant fully complied with all environmental guidelines issued by the Ministry of Environment and Climate affairs. Since its inception, there have been no Loss Time Accidents to any employees working for the power station.

Financial Performance

The financial performance indicators used by the Company address two key aspects of the business - its profitability and its cash generation.

Highlights of the financial performance of the Company for the year 2008:

	2008 **RO'000**	*2007* *RO'000*	Variation-% %
Operating revenue	**16,241**	*15,881*	2%
Gross profit	**4,705**	*4,700*	0%
Profit from operations	**4,374**	*4,379*	0%
Net profit for the year	**2,043**	*1,905*	7%
Gross Profit ratio	**29%**	*30%*	-2%
Net Profit ratio	**13%**	*12%*	5%
Basic earnings per share-RO	**0.212**	*0.198*	7%

Power generation is a capital intensive business which necessitates a close monitoring of costs in order to achieve our targeted profits. The ultimate goal is to provide a fair return for our shareholders.

Revenue and cost analysis and summarised cash flow for 2008 as compared to 2007 are displayed in the following charts:

(**Amounts in RO'000**)

Summarised cash flow statement	**2008** **RO'000**	**2007** **RO'000**
Net cash from operating activities	**3,931**	**3,310**
Capital maintenance at the plant	**-446**	**-528**
Repayment of project loan	**-2,150**	**-1,660**
Repayment of BankMuscat subordinated loan	**-225**	**-411**
Dividend payments	**-1,829**	**-1,925**
Net increase in cash and cash equivalents	**-719**	**-1,214**
Cash and cash equivalents at the beginning of the year	**2,028**	**3,242**
Cash and cash equivalents at 31 December 2009	**1,309**	**2,028**

The Company is pleased to announce that it met all its obligations under its bank covenants.

The following dividends amounting to RO 1.829 million were declared and disbursed during 2008:

in June, a final dividend of 12% for 2007;
in November, an interim dividend of 7% for 2008.

The Company proposes a final dividend of 8% in respect of the financial year of 2008.

Finally, Earning Per Share (EPS) is a measure of the overall profitability of the Company. It is defined as the profit in Baizas attributable to each share in the company, based on the net profit for the year, after deducting tax. The calculation is shown in Note 24 within the financial statements. The following chart highlights the value added to the shareholders' investment in the Company over the last five years:

The Company conducts no other business in Oman or outside and has no subsidiaries.