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 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.

During the year 2010 the Company entered into a Supplementary Power Purchase Agreement with OPWP to supply additional power capacity of 14 MW for the summer period for the three years 2010-2012 with the best possible terms including competitive pricing. At the Annual Performance Test conducted during April 2010 the Company successfully demonstrated additional power capacity of 14 MW.

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. The actual level of power generation has no direct effect on the Company's net income. AKPC is safeguarded under the PPA against RO/US$ exchange rate movements and also against inflation.

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.

AKCS has been certified with ISO 9001 for excellent quality management, ISO 14001 with latest version of ISO 14001-2004 for excellent environmental management and OHSAS 18001 for outstanding health and safety management. 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.

Business Income and Cost

Operating revenues consist of Capacity Charges and Energy Charges, recovered on a monthly basis from OPWP. Revenues are indexed to the RO: $ 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 of the plant; and
- a new industry charge providing compensation for Sector Law costs.

Energy charges are payable for the energy generated in response to offtake instructions issued by OETC. The energy charges are the total of:

- variable operating costs of generation;
- fuel costs - based on the theoretical 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.

The largest operating cost of the power station is the fuel required to operate the gas turbines. The primary fuel used in the plant is natural gas, which is supplied to the power station by MOG. In accordance with the NGSA, AKPC is required to pay for the gas consumed for the generation of power. 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 specified in the PPA.

AKCS is paid a fixed as well as a variable fee for the operation and maintenance of the station for the duration of the PPA. The fixed 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 variable fee. In addition, the actual cost of any start (after the first 100 starts per annum) is reimbursed to AKCS.

Future Outlook, Investment Opportunities and Obstacles

1. 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. OPWP has informed the Company that a decision to take the proposal to the next stage and obtain a commercial bid from the company will be taken during early 2011.

2. Since May 2009 the Company's financial results are negatively impacted as a result of the higher interest claimed by the Company's project lenders, who have unilaterally invoked the 'Market Disruption Event' clause (MDE) of the loan agreement. The Company is unable to get assurances from the project lenders as to when they would end the invocation of the MDE clause of the loan agreement in the future roll-overs of the project loan. Future profits will continue to be adversely impacted if the project lenders persist with MDE claims.

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 order to mitigate this risk, 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.

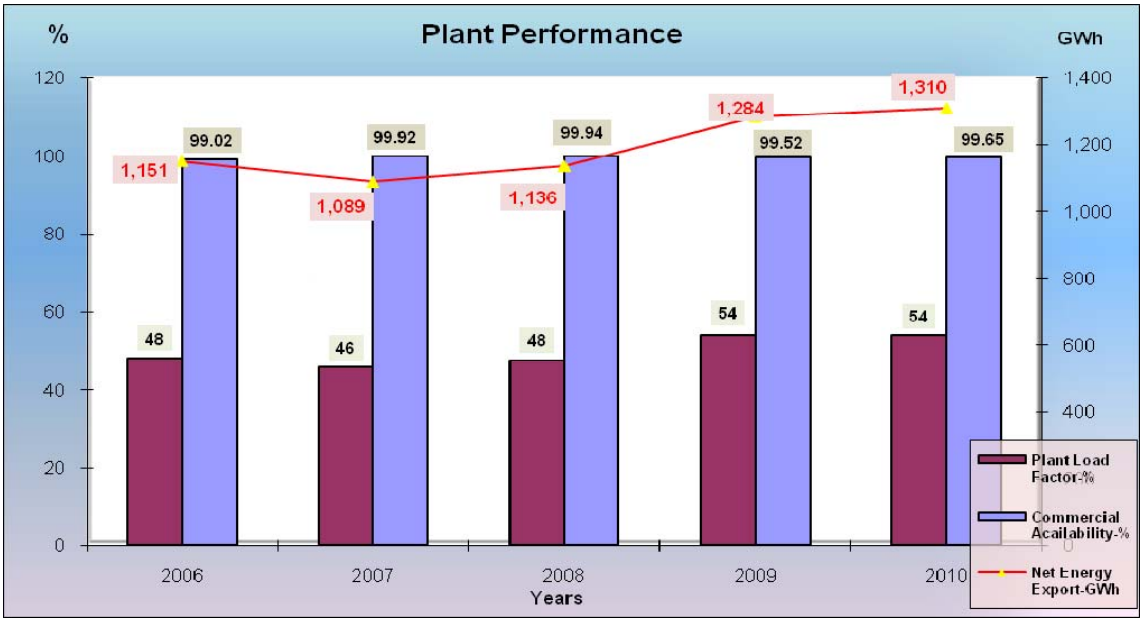
OPWP Payments

OPWP has settled all invoices within the agreed credit period.

Financial and Operational Performance

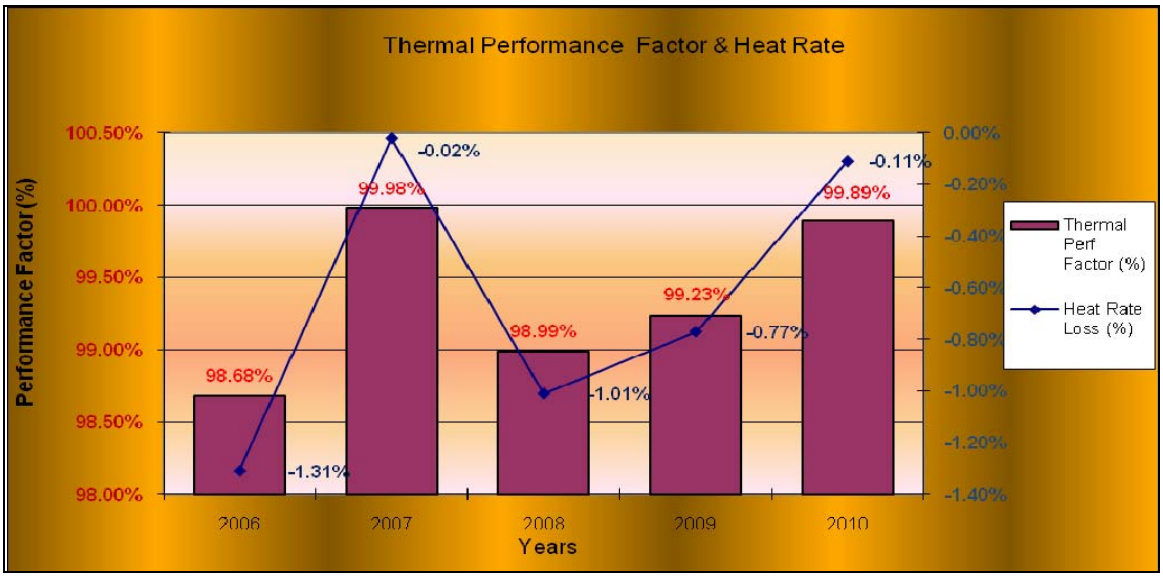
Plant Performance

The commercial availability of the plant during the year was 99.65%. The Company has consistently maintained an excellent level of plant availability. The following chart displays the performance of the Company over the last five years:



The Company exported 1,310 GWh during 2010. The energy exported by the Company over the last five years has gradually increased in sync with the increase in Oman's power demand and consequently, the plant load factor during this period has also improved. This increase in generation levels has no direct effect on AKPC's net income.

Thermal efficiency describes the amount of fuel required to generate a unit of electricity. An efficiency increase translates into less fuel, which is used to produce the same unit of electricity. In short, improvement in thermal efficiency translates into lower heat rate loss which financially benefits the company. The following chart shows an impressive improvement in thermal efficiency achieved by the Company:



To ensure the plant's sustained reliability, periodical maintenance of the plant including combustion inspection of gas turbine 1B was successfully carried out during 2010.

The following major plant improvement activities took place during the year:

1. Unit Auxiliary Transformer for gas turbine 1B was installed;
2. Major improvements were made to the Pressure Reduction Terminal protection system software which will now make the system more robust and dependable.

During the annual performance tests carried out in the presence of OPWP, the additional power generation capacity of 14 MW on natural gas was successfully demonstrated. 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.

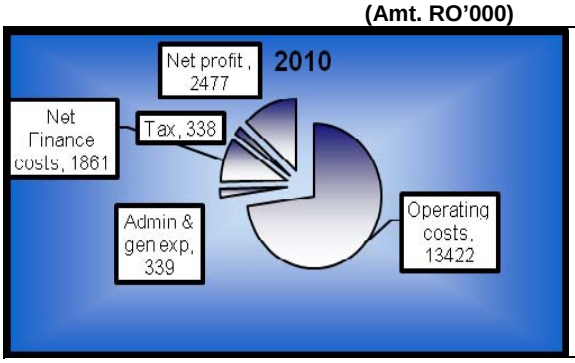
Power generation is a capital intensive business which necessitates a close monitoring of costs in order to achieve our targeted profits. The ultimate goal is to provide a fair return for our shareholders.

Highlights of financial performance:

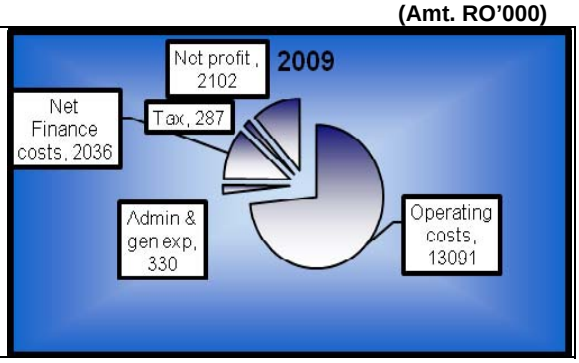
	RO'000	US $'000	RO'000	US $'000
Operating revenue	**18,437**	**47,936**	**17,846**	**46,400**
Gross Profit	**5,015**	**13,039**	**4,755**	**12,363**
Net Profit	**2,477**	**6,440**	**2,102**	**5,465**
Gross profit %	**27.20%**	**27.20%**	**26.64%**	**26.64%**
Net Profit %	**13.43%**	**13.43%**	**11.78%**	**11.78%**
Basic earnings per share	**0.257**	**0.67**	**0.218**	**0.57**

The following charts compare how the revenue earned during 2010 and 2009 was spent:

(Amt. RO'000)



(Amt. RO'000)



While the operating revenue for 2010 at RO 18.437 million (US$ 47.936 million) increased by 3.3% over 2009, the net profit grew by 18% to RO 2.477 million (US$ 6.440 million). There was marked improvement in the gross profit and net profit ratios.

The following important factors contributed towards improving the financial performance of the Company during the year:

1. The capacity income appreciably increased on account of the additional power generation capacity of 14 MW agreed with OPWP for the summer months.
2. The improvement in thermal efficiency reduced heat rate loss. The heat rate loss reduced from -0.77% in 2009 to -0.11% in 2010.
3. Close monitoring of general and administrative costs ensured they remained at the same level as in 2009.
4. The repayment of project loan reduced the finance costs.

It is important to note that the invocation by the project lenders of 'Market Disruption Event' clause (MDE) of the loan agreement negatively impacted the net profit of the Company. The additional interest as a result of MDE for 2010 amounted to RO 0.316 million (US$ 0.821 million). If MDE had not been invoked by the lenders, the net profit of the Company would have been RO 2.793 million (US$ 7.262 million), earning Baizas 290 per share.

Summarised Cash flow statement for 5 years

	2006 RO'000	2007 RO'000	2008 RO'000	2009 RO'000	2010 RO'000
Cash generation from operations	5721	5425	5917	5774	6275
Net cash used in investing activities	(44)	(528)	(446)	(241)	(310)
Net cash available	5677	4897	5471	5533	5965
Interest paid	(2201)	(2115)	(1986)	(1925)	(1800)
Repayment of loan	(1281)	(2071)	(2375)	(2549)	(2723)
Cash utilised for debt servicing	(3482)	(4186)	(4361)	(4474)	(4523)
Cash available for dividend and future debt servicing	2195	711	1110	1059	1442
Dividend paid	(1733)	(1925)	(1829)	(770)	(1155)
Net increase in cash and cash equivalents	462	(1214)	(719)	289	287
Cash and cash equivalents at the beginning of the year	2780	3242	2028	1309	1598
Cash and cash equivalents at 31 Dec	3242	2028	1309	1598	1885

Whilst the cash generated from operations has steadily increased over the years, escalating debt servicing commitments and the additional interest claimed by the Company's project lenders by invoking MDE clause of the loan agreement have dented the Company's ability to declare higher dividends. Going forward, should the project lenders continue to invoke the

MDE clause, it is envisaged that future dividends will be at a lower level than in previous years.

In adherence to its dividend policy, the Company paid a dividend of 12% during 2010 amounting to RO 1.155 million (US$ 3.003 million).

The Directors have recommended an ordinary dividend of 8% for the year 2010, to be paid in June 2011.

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

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. EPS for 2010 was Baizas 257 (US$ 0.67), an increase of 18% over the previous year's EPS of Baizas 218 (US$ 0.57).

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