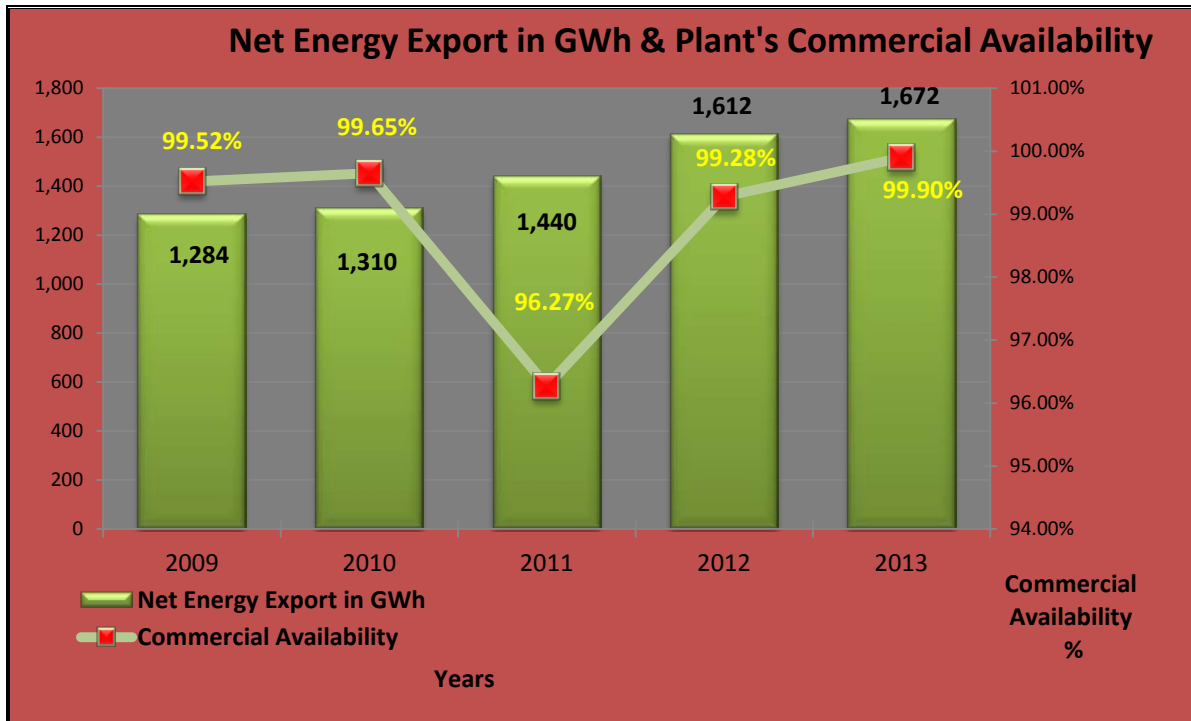


Performance Summary



CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to present, on behalf of the Board of Directors, the Annual Report on the business and operations of the Company and the financial results for the year 2013.

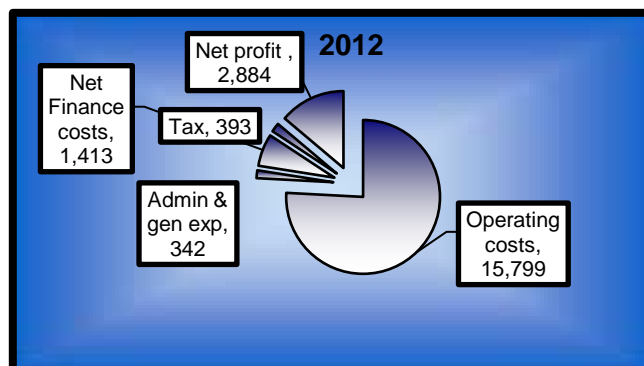
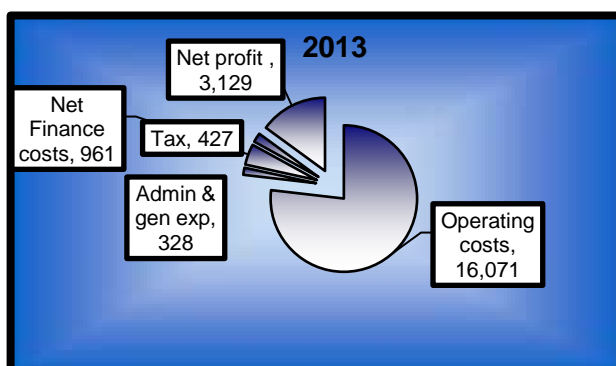
Summarised Results

Plant Operation

	2013	2012
Power Generation (GWh)	1,672	1,612
Commercial availability	99.90%	99.28%
Thermal Performance Factor	99.61%	99.61%

Summarised Financial Results

(Amt in RO '000)



Operational and Financial Highlights

2013 was an excellent year for Al Kamil Power Company. Not only did the power station run smoothly and efficiently, with commercial availability of 99.90%, it delivered 1,672 GWh to the Omani grid, which is the highest power generation in the plant's history. The thermal efficiency, which determines the efficiency in the economical utilisation of the gas, was maintained at a healthy level of 99.61%. Again, this admirable performance was achieved with no Lost Time Accidents to any of our staff for the eleventh successive year and is reflective of our continued internal focus on Health, Safety, Environment and Quality Management. We acknowledge the excellent performance of our dedicated and diligent Operation and Maintenance team.

The brilliant plant performance supported by overhead cost controls and substantial savings achieved in finance cost has enabled the Company to achieve a net profit of RO 3.129 million (US\$ 8.136 million), an increase of 8.5% over 2012.

Since the Agreement with The Oman Power and Water Procurement Company SAOC (OPWP) to supply additional power of 14 MW during the Summer Period expired at the end of September 2012, there was reduction in Capacity Income during 2013 as

compared to the previous year. The financial results of the Company for 2013 would have been far superior but for this reduction in the Capacity Income. Incidentally, the Company continues to have additional power generation capacity which when offered to OPWP was declined.

The highest standards of Health, Safety, Environment and Quality Management continue to be a central feature of the Company's operations. M/S Parsons Brinckerhoff, auditors appointed by Authority for Electricity Regulation, conducted Health and Safety audit of the Plant operations during the year. The auditor's report found Al Kamil plant compliant with the health and safety requirements stipulated in the generation license. The auditor's few suggestions for further improvement in health and safety standards are being implemented.

The current year's financial results were partially impacted until April 2013 by higher interest cost imposed on the Company by the Company's project lenders, who unilaterally invoked the 'Market Disruption Event' clause of the loan agreement. However, as a result of the Company's resolute efforts and importantly, as the lenders failed to muster a majority agreement to continue invoking this clause, since May 2013, the Company has not been called upon to pay 'Market Disruption Event' clause related additional interest cost.

The earnings per share increased from Baizas 300 in 2012 to Baizas 325 in 2013.

Power Sector in Oman

AKPC's entire output generated is purchased by Oman Power and Water Procurement Company SAOC (OPWP) pursuant to the Power Purchase Agreement between OPWP and AKPC. The Company generated 7.4% of the total power produced in the Main Interconnected System (North) of the Sultanate of Oman for 2013. The total power delivered to the Main Interconnected System (North) grid increased from 21,619 GWh in 2012 to 22,702 GWh in 2013, an increase of 5% over 2012.

Suite of Project Agreements

- ❖ The Power Purchase Agreement (PPA) sets out the terms for the generation and supply of power exclusively to OPWP, a closed joint stock company owned by the Government of Oman. The Agreement covers a fifteen year period from 1 May 2002.
- ❖ The Generation Licence is granted by the Authority for Electricity Regulation, a state regulatory body established under the Sector Law.
- ❖ The Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas (MOG) for the purchase of natural gas from MOG for a period of fifteen years at a pre-determined price.
- ❖ Electricity Connection Agreement (ECA) with Oman Electricity Transmission Company SAOC (OETC) for establishing a framework between OETC and the Company to provide connection of the power station to the transmission system and enforcement of the Grid Code between OETC and the Company.

- ❖ The Operation & Maintenance Agreement (OMA) with Al Kamil Construction & Services LLC (AKCS). Pursuant to OMA, AKCS is responsible for the operations and maintenance of the plant in return for a fixed, as well as a variable, fee. The Agreement covers a fifteen year period from 1 May 2002.

The Company does not anticipate any changes in the above agreements, until the end of the term of PPA, which may have a detrimental impact on the Company's operations due to the explicit change in law protection provisions within the agreements.

Future Outlook and Expansion Plans

- ❖ OPWP has communicated to the Company the possibility of extending the PPA of Al Kamil Power Company up to the end of 2020. The negotiations with OPWP on the terms and conditions in this respect have commenced. AKPC will remain actively and constructively engaged in this process with a view of extending its PPA in a manner which is beneficial to all stakeholders.
- ❖ The Company has been informed of the possibility of reduction in the demand for power in the coming years after the commissioning of the power plant at Sur. However, it be noted that the actual level of power generation has no direct effect on net income.
- ❖ The agreement with OPWP to generate 14 MW additional power during the summer months expired at the end of September 2012. As requested by OPWP the Company has offered to generate additional 10 MW power during the months of May to July 2014. A final decision in this regard from OPWP is awaited. If agreed by OPWP, the additional generation capacity income will enhance the projected net income of the Company for 2014.
- ❖ Efforts are in progress to refinance the Company's debt. If these prove successful, the Company's cash flow will see significant improvement with a future possibility of higher dividend payments.
- ❖ The management is optimistic about the future of AKPC. Recognising that the long-term future of AKPC depends upon its efficient operational base, management will continue to focus on ensuring high levels of plant availability whilst closely controlling overhead costs.

Donation and contribution to local community

The Company made the following donations and contributions during 2013:

Community support:	Amount in RO
Development of public park at Al Kamil	<u>7,475</u>
Total	<u>7,475</u>

The Company takes its role as a responsible corporate citizen seriously. The Company encourages engineering students across the Sultanate to undertake vocational training at the Al Kamil plant as part of their regular curricula.

Most of the Company's social responsibility programmes are focused at the Wilayat of Al Kamil and Al Wafi. During the year the Company funded the setting up of children's play facilities in the Al Kamil public park supported and funded by the Company.

Dividends

The Company disbursed the following dividends during the year 2013:

- ❖ The Company paid final dividend of 9% for the year 2012 amounting RO 0.866 million (RO 0.090 per share).
- ❖ Further, the Company paid an interim dividend of 9% for the year 2013 amounting to RO 0.866 million (RO 0.090 per share).

The Directors recommend a final dividend of 10% for the year 2013, to be paid in July 2014.

Our dividend policy of distributing available cash is conditional upon reserves being available after bank covenants are met and provision has been made for forecasted loan repayments and operating expenses. Consistent with the Company's declared policy - and in accordance with Capital Market Authority regulations - the Directors have in the past declared and paid an interim and final dividend.

The following is a table of dividends declared by the Company in the last five years:

Year	Interim dividend %	Final Dividend %	Total Dividend %
2009	-	12%	12%
2010	-	8%	8%
2011	6%	6%	12%
2012	6%	9%	15%
2013	9%	10% (proposed)	19%

Other Matters

- ❖ Oman Tax Law provide that financial statements submitted along with the income tax return are prepared in accordance with Royal Decree 77/86 (providing that taxable income shall be computed in accordance with a generally accepted method of commercial accounting) and Royal Decree 77/86 (mandating all companies to prepare the financial statements in accordance with the International Accounting Standards - now IFRS), and such financial statements are audited by Independent Auditor. The income tax assessment order passed by the Oman's Tax authorities for the year 2007 is against the accepted accounting standards. Objection letter against the assessment order has been filed and the management, as advised by the tax consultant, is confident of succeeding in this endeavour. Further, the interpretation by the tax authorities of the Royal Decree 54/2000 (which grants 5 years' tax exemption to the Company) by not allowing indefinite carry forward of tax losses incurred by the Company during tax exempt period is also being contested and it is

proposed to seek clarification on the Royal Decree. The final outcome in this respect would be known during the course of the year 2014. The financial statements for the year 2013 have been prepared, in consultation with Company's lawyers and tax consultants, on the postulation that the Company has a fair chance in succeeding in the above-noted tax matters.

- ❖ There is a continuous process for identifying, evaluating and managing the key risks faced by the company. The internal audit plan is framed to appraise any identifiable high-risk areas. The report of the internal auditor is reviewed and any necessary actions taken. During the year, the Company identified various risks and finalised mitigation plans to deal with these.
- ❖ The auditors have given an unqualified audit report on the financial results of the Company for the year 2013.

Conclusion

I would like to extend my personal thanks to all personnel associated with the operation of the Al Kamil power plant and the staff of the Company for their hard work and dedication, as well as to those others such as our contractors, whose expertise has assisted us in achieving these excellent results.

Finally, on behalf of the Board of Directors, I would also like to take this opportunity to extend our sincere gratitude to His Majesty Sultan Qaboos bin Said and His Government for the encouragement and support they continue to provide to private sector investors.

On behalf of the Board of Directors,

Ramani Hariharan
Chairman