



OMAN POWER AND WATER PROCUREMENT CO. (SAOC)



ANNUAL REPORT 2005



His Majesty Sultan Qaboos Bin Said

Contents

• Forward by the Chairman of the Board of Directors	5
• Brief Summary of a restructuring of the Electricity and Related Water Sector	7
• Incorporation phase	9
• Concluded contracts and agreements, and regulations issued during the Year 2005	10
• Operational performance	11
• Projects under progress	17
• Compliance with corporate governance	18
• Internal audit	18
• Management structure	18
• The organization chart of the company	19
• Financial performance	20
• Auditor's report and financial statements	22

Board of Directors & Executive team



HE Sultan bin Hamdoon Al Harthi
Chairman



Eng. Said bin Mohammed Al-Nabhani
Vice Chairman



Mr. Mohammed bin Awfai Al-Shanfary
Director



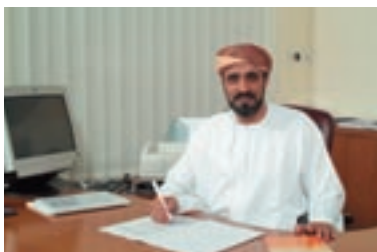
Mr. Saber bin Said Al-Harbi
Director



Mr. Hilal bin Khalfan Al-Naamani
Director



Mr. Mohammed bin Abdullah Al Mahrouqi
Chief Executive Officer



Eng. Saleh bin Hamood Al Rashdi
Deputy Chief Executive Officer



Forward by the Chairman of the Board Of Directors

After Compliments,

*I*t is my pleasure, on behalf of the members of the Board, to present to you the first Annual Report, for the year 2005, of Oman Power and Water Procurement Company (SAOC). The report reveals major achievements and highlights the most important activities and functions of the Company, and includes statistics and data regarding the power and water purchased and sold by the Company. The Company commenced undertaking its responsibilities specified in the Law for the Regulation and Privatisation of the Electricity and Related Water Sector issued by the Royal Decree No. (78/2004) with effect from 1 May 2005 after the issuance of Ministerial Decision No. (44/2005) by the Ministry of National Economy implementing the Transfer Scheme. On the same date, the Company was granted the power and water procurement licence by the Authority for Electricity Regulation, Oman. The Report also includes the Company's financial results for the eight month ending 31 December 2005 together with the Auditor's Report.

Despite the fact that the Company has officially commenced the exercise of its functions only on 1 May 2005, it started preparations to assume its responsibilities in 2004 its responsibilities. The Company has actively contributed to all activities and functions to achieve successful implementation of the Transfer Scheme of the assets and liabilities from the Ministry of Housing, Electricity & Water to the new companies established pursuant to the Law for the Regulation and Privatization of the Electricity and Related Water Sector.

The establishment of Oman Power & Water Procurement Company ensued from the policy adopted by the government aiming at the promotion and development of the private sector's role in the electricity sector. Without doubt, the responsibilities and functions assigned to the Company are playing an important role in the sector, as

the Company is an essential pillar of the new structure of the sector, particularly in its continuous forward planning to procure the electricity and water to meet the increasing demand through coordination with the Government and other companies of the sector. The Company is contracting for new generation capacity as required, in addition to establishing the bulk supply tariff for the distribution companies, and water tariff for the Ministry of Housing, Electricity & Water after obtaining approval of the Authority. In addition, the Company is responsible for the management of the agreements signed with the independent production companies for the purchase of power and water, and is responsible to ensure compliance of the parties with the obligations stipulated in the said agreements. The Company is also managing the concession agreement for the Salalah electricity system.

During the first year, the Company has faced many challenges in meeting its obligations in accordance with the Law and the license granted to it, and the agreements transferred to it. The most important challenge was to complete the necessary procedures to establish the company and to secure the necessary resources to assume its responsibilities. The company has after due selection transferred the services of a number of competent staff from the Ministry of Housing, Electricity and Water, and has appointed some other staff that had the required experience and expertise. In its first year, the company has prepared and approved its internal regulations, which will upgrade risk management and promote transparency.

During the year, the Company has assumed the promotion of a project for construction of a new additional project for the production of power and desalinate water at Barka (phase II). The Tender Board issued the tender document of the project in November 2005.

The Company shall endeavor, during the upcoming period, to develop its performance, and continuously improve the level of services provided to its customers and other parties dealing with the Company, in order to fulfill its obligations in a professional and competent manner consistent with the expectations of its customers.

I would like to take this opportunity to express my gratitude and appreciation to the Members of the Board of Directors and the Company staff for their sincere and unwavering commitment in discharging their duties which enabled the Company to achieve the highest standard of capability and competence. They spared no effort to ensure the Company carries out satisfactorily its duties during its first year of operation. I would like also to thank the Electricity Holding Company and other affiliated companies in the sector and the Authority for Electricity Regulation for the effort and support they have extended to the Company during its 1st year of operation.

I would like also to take the opportunity to express my appreciation to the Ministry of National Economy, the Ministry of Finance, the Ministry of Housing, Electricity & Water and other government entities for their support to the Sector in general and to Oman Power & Water Procurement Company in particular.



Sultan Bin Hamdoon Al-Harthy
Chairman of the Board of Directors



Brief Summary of a restructuring of the Electricity and Related Water Sector

In December 1999 the Council of Ministers approved a process of restructuring the electricity and related water sector (the Sector) to facilitate further private sector participation in the generation, transmission, distribution and supply of electricity in the Sultanate.

The policy required the implementation of a new market structure and regulatory framework for the Sector and further required that these be implemented through comprehensive sector specific legislation.

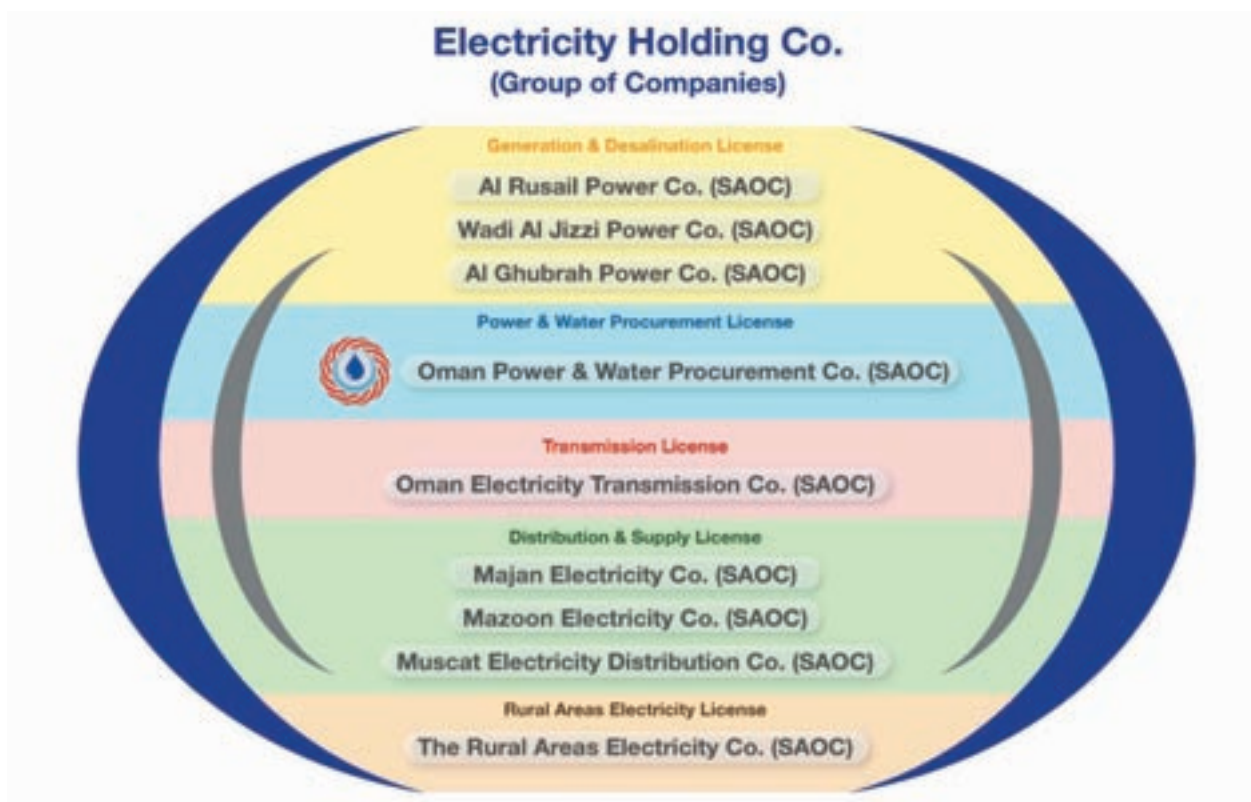
The new regulatory framework was implemented and a timetable was set for the implementation of the new market structure through the Law for the Regulation and Privatisation of the Electricity and Related Water Sector (the Sector Law) promulgated by Royal Decree 78/2004. The Sector Law came into effect on 1 August 2004 and the deadline for implementing the new market structure was set as 1 May 2005.

As required by the Sector Law, a Transfer Scheme was implemented by a Decision of the Minister of National Economy on 1 May 2005. The Transfer Scheme transferred the operational assets and liabilities of the Government and in respect of the generation, transmission, distribution and supply of electricity (and related water) to a holding company and nine subsidiaries.

Coincidentally, the responsibilities of the Government for undertaking the activities of generation, transmission, distribution and supply of electricity previously undertaken by the Ministry of Housing Electricity and Water were allocated to the subsidiary companies under the supervision of new regulatory legislation embodied in the Sector Law and administered by the Authority for Electricity Regulation, Oman.

The nine subsidiary companies have, from 1 May 2005, undertaken specific regulated activities in a new market structure alongside and on the same terms as existing private sector companies.

The Successor Companies and associated regulated activities are shown below:



The Electricity Holding Company is 100 per cent owned by the Ministry of Finance and each of the subsidiary companies is 0.01 per cent owned by the Ministry of Finance and 99.99 per cent by the Electricity Holding Company.

Of the nine subsidiary companies, all but two (Oman Power and Water Procurement Company and Rural Areas Electricity Company) will be privatised in the near future.



Report on Management Systems, Performance and Achievements of the Company during the year.

1. Incorporation Phase:

Oman Power & Water Procurement Company has been established as a closed joint stock company (SAOC) in the year 2003. The Law for the Regulation and Privatization of the Electricity and Related Water Sector was issued pursuant to the Royal Decree No. (78/2004), states the functions and duties of the Company. The Transfer Scheme was issued pursuant to the Law to effect the transfer of electricity and related water activities from the Ministry of Housing, Electricity & Water to the new established companies as per the functions of each of them with effect from 1 May 2005.

The Company was formed with a capital of R.O. 500,000 (Five Hundred Thousand Omani Rials) divided into five hundred thousands shares, each with a nominal value of one Omani Rial. The company is wholly owned by the government represented by the Electricity Holding Company (EHC) (a Company also wholly owned by the government) with 99.99% of the shares and the Ministry of Finance with 0.01% of the shares.

Article (74) of above mentioned law specifies the functions and duties of the Company as follows:

1. To secure Production Capacity and Output to meet all reasonable demands for electricity in the Sultanate of Oman in coordination with the Rural Areas Electricity Company.
2. To secure the production of Desalinated Water according to the maximum limit consistent with the Economic Purchase of Production Capacity and Output of Desalinated Water and electricity.
3. To cooperate with the Rural Areas Electricity Company in respect of forward planning for reasonable demand for electricity and New Capacity required thereof,
4. To secure the procurement of Ancillary Services, when and in the manner required, in coordination with the Oman Electricity Transmission Company.
5. To make Bulk Supply of Desalinated water to the Water Department in accordance with an agreement concluded for this purpose in which the consideration, conditions, and terms for such Bulk Supply are specified, and to secure the sale of de-mineralized water to other Persons.
6. To make Bulk Supply of electricity to licensed Suppliers in consideration of a Bulk Supply Tariff and to secure adequate supplies of electricity is available to Licensees to enable them to meet all reasonable demand for electricity.
7. To import or export electricity in accordance with the provisions of Article (114) of the Sector Law.
8. To meet the requirement for new capacity which the company strives to be designed, constructed, financed, owned and operated by local and foreign investors.
9. The company shall in all cases abstain from discrimination or partiality, without due legal justification,



between Persons, and comply with the general policy of the state when undertaking the functions assigned to it pursuant to the Sector Law particularly those relating to the price and use of fuel.

10. The purchase, procurement, and management of Production Capacity and Output, Ancillary Services and all goods and other services shall be on the basis of Economic Purchase.
11. To issue instructions to the Salalah Project Company for the transfer of its System assets to the Electricity Holding Company on the termination or expiry of the Concession Agreement.

The Authority for Electricity Regulation in exercise of the powers conferred upon by Article (2) of the Law for the Regulation and Privatization of the Electricity & Related Water Sector granted to Oman Power & Water Procurement Company a licence on 01/05/2005. The functions and duties of the Company included its duty to secure the Production Capacity and Output to meet all reasonable demands for electricity in the Sultanate of Oman in coordination with the Rural Areas Electricity Company. In addition it is to secure the production of Desalinated Water according to the maximum limit consistent with the Economic Purchase of Production Capacity and Output of Desalinated Water and electricity.

As per the licence, the Company is to make Bulk Supply of electricity to licensed Suppliers in consideration of a Bulk Supply Tariff, and to export and import electricity, in addition to the responsibility of managing the Concession Agreement of the Salalah Power System which was duly novated by the government to OPWP

The financial year of the Company commenced on 1st May 2005, the date of transfer as declared by virtue in the Ministerial Decision No. (44/2005) of the Ministry of National Economy issuing the Transfer Scheme, which was issued in accordance with the provisions of the Law for the Regulation and Privatization of the Electricity and Related Water Sector.

The Company is discharging its businesses from its main office located in Muscat Governorate, with a branch office located in Salalah which was opened during the year 2005.

2. Concluded Contracts and Agreements, and regulations issued during the year 2005.

During its first fiscal year 01/05/2005 - 31/12/2005, the Company was able to accomplish some major tasks as follows:

- Concluded the Novation Agreements for all power & water purchase agreements entered into by the Ministry of Housing, Electricity & Water prior to the transfer date.
- Concluded the Water Bulk Supply Agreement with the Ministry of Housing, Electricity & Water.
- Concluded the Electricity Bulk Supply Agreement with the licensed distribution companies. i.e: Muscat Electricity Distribution Company, Mazoon Electricity Company and Majan Electricity Company.
- Concluded the Power Purchase Agreements with Al-Rusail Power Company, Wadi Al-Jizzi Power Company, and the Power & Water Purchase Agreement with Al-Ghubrah Power and Desalination Company.



- Concluded the Power Purchase Agreements with a number of licensed power producers so that it meets the demand for electricity during the peak load in the summer of 2005.
- The Company has issued a guide to calculation of bulk supply tariff for the years 2005 and 2006.
- The Company issued the following manuals of its internal systems:
 - Health and Safety Manual
 - Environmental Health Statement
 - Human Resources Manual
 - Financial Authorities Manual

3. Operational Performance:

- Long Term Power & Water Purchase Agreements:

The following table shows the power and water capacity of the generators, and the amount of power & water purchased during the period from May until December 2005, in pursuance of long term contract agreements:

S/N	Name of the Station	Electricity Capacity MW	Water Production Capacity Cu.m/hr	Qty./ of Elect. Power (MWhr)	Qty. of Water (Cu. Meter)
1.	Al-Ghubra Power & Desalination Plant	484.8	7,756	1,792,418	35,411,662
2.	Al-Rusail Power Station	661.3	N/A	1,829,811	N/A
3.	Wadi Al-Jizzi Power Station.	290.6	N/A	966,938	N/A
4.	Barka Power & Desalination Plant	427.4	3,800	1,991,316	19,189,755
5.	Al-Kamil Power Station	273.2	N/A	870,787	N/A
6.	Manah Power Station	270.6	N/A	821,765	N/A
7.	Dhofar Power Co.	188.7	N/A	748,889	N/A
	Total	2,596.6	11,556	9,021,924	54,601,417

- Short term Power Purchase Agreements:

The following table shows the capacity availability and quantity of power purchased during the summer period from other producers pursuant to short term agreements during the period from May until December 2005:

S/N	Company Name	Electrical Capacity (Megawatt)	Qty. of Elect. Power (MWhr)
1	Rural Area Electricity Company (Sharqiya Diesel Stations)	116	3,930
2.	Rural Area Electricity Company (Raysut A & B Power Stations)	30	984
3.	Oman Cement Company	8	965
4.	Oman Mining Company	20	92,266
	Total	174	98,145

- Figures showing power and water statistics in various plants:

Figure-1 shows the power peak demand of 2005 in the main grid and the contribution of each plant. The peak demand in the main grid on 25th June 2005 was 2494.8 MW.

The peak demand of 2005 in Dhofar grid on 13th June 2005 was 199.3 MW.

Power Peak Demand in the main grid on 25th June 2005, MW

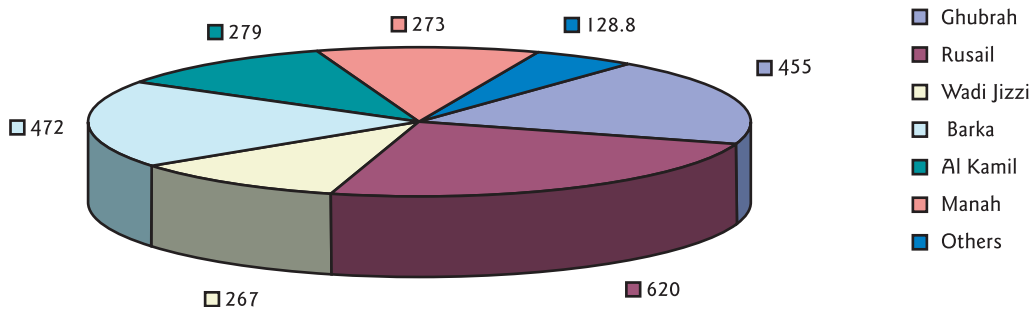


Figure-2 shows the power plants utilization from May to December 2005.

Power Plants Utilisation (May -December 2005)

Load factor % = electrical energy delivered, MWh/ (Plant net capacity, MW x period, hrs)

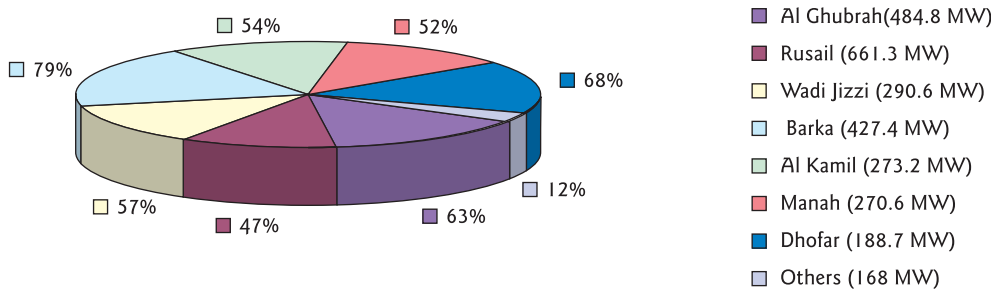


Figure-3 shows the Desalination plants utilizations from May to December 2005.

Desalination Plants Utilisation (May-December 2005)

Load factor % = water output delivered cu.M/(plant) capacity cu.M/h x period. hr)

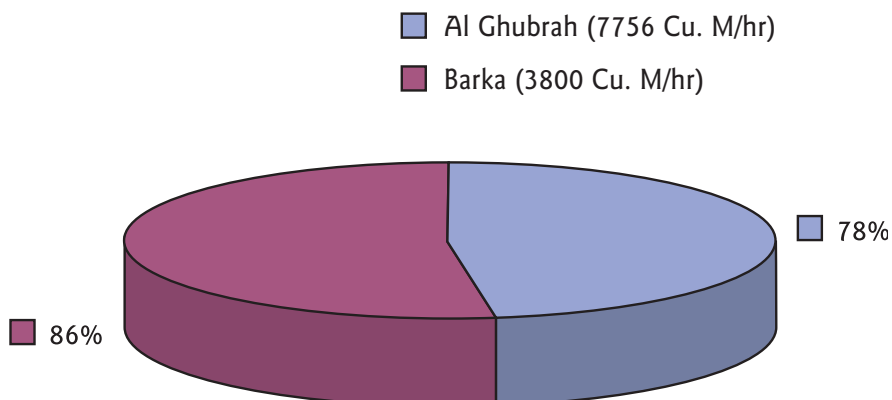




Figure-4 shows Electrical Energy purchased during the period May to December 2005

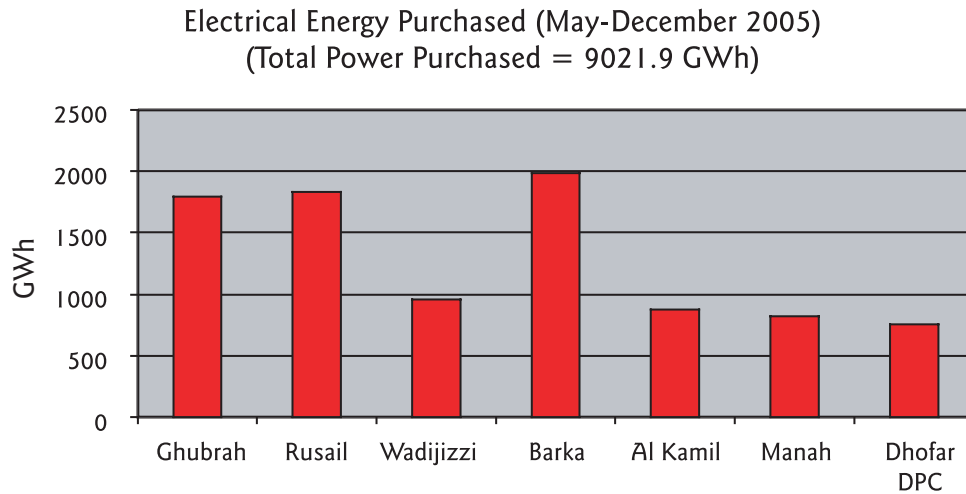


Figure-5 shows water output purchased during the period May to December 2005.

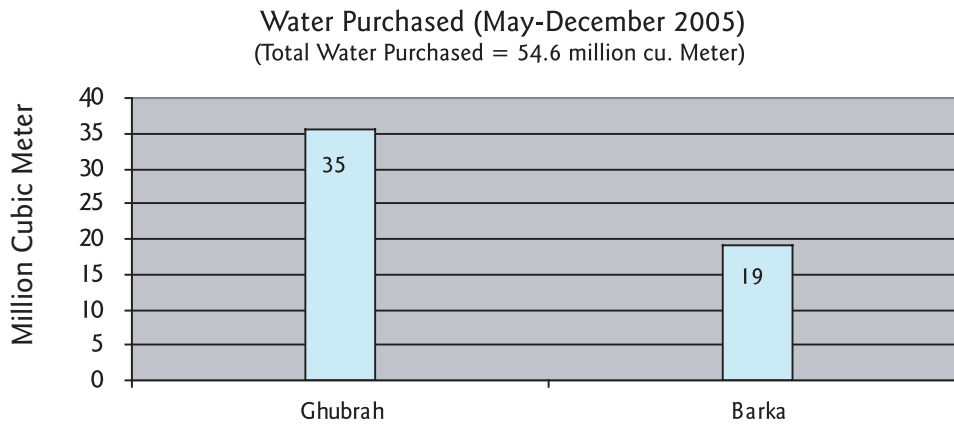


Figure-6 shows fuel gas consumption during the period May to December 2005

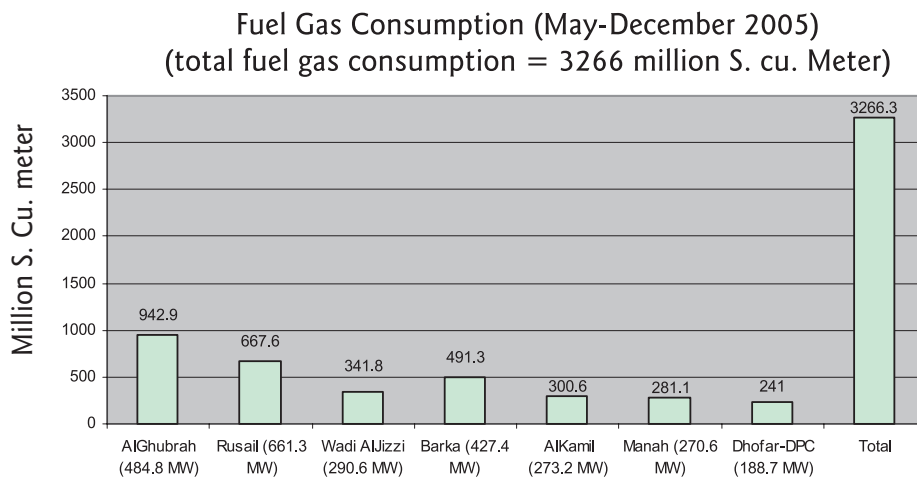


Figure-7 shows unit cost per MWh power purchased.

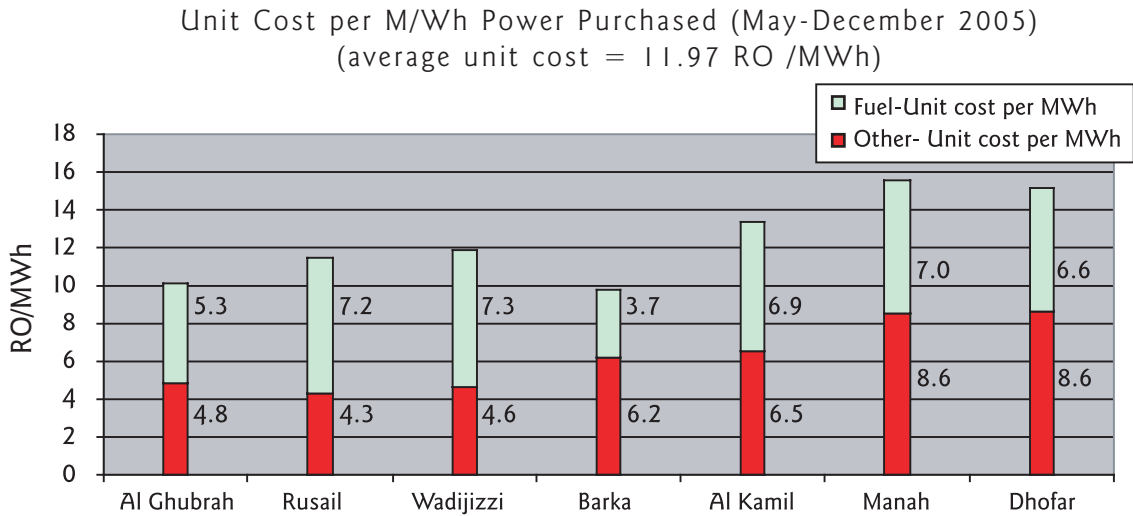


Figure-8 shows total power purchased cost from May to December 2005.

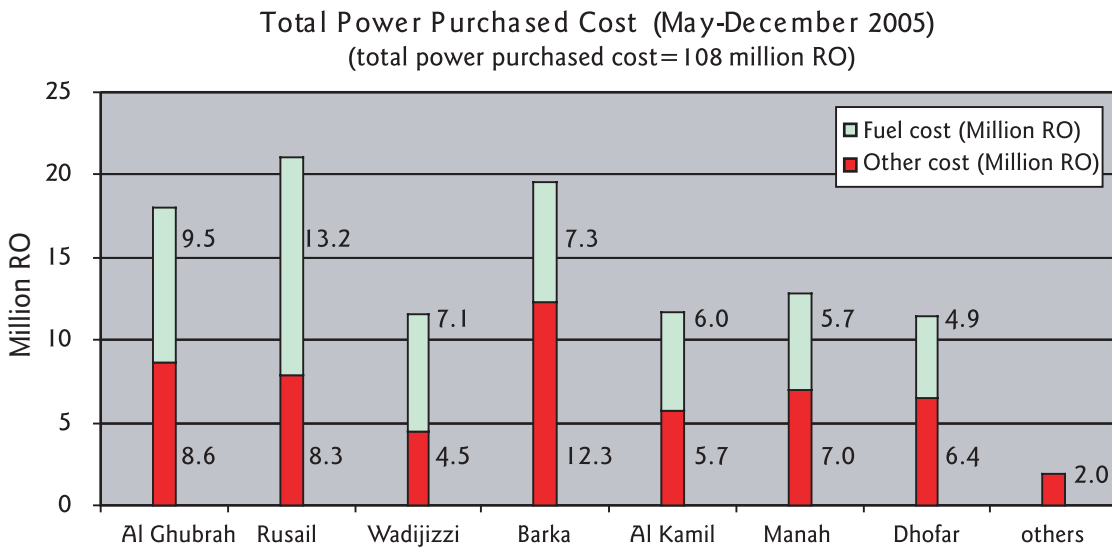


Figure-9 shows unit cost per cubic meter of water purchased.

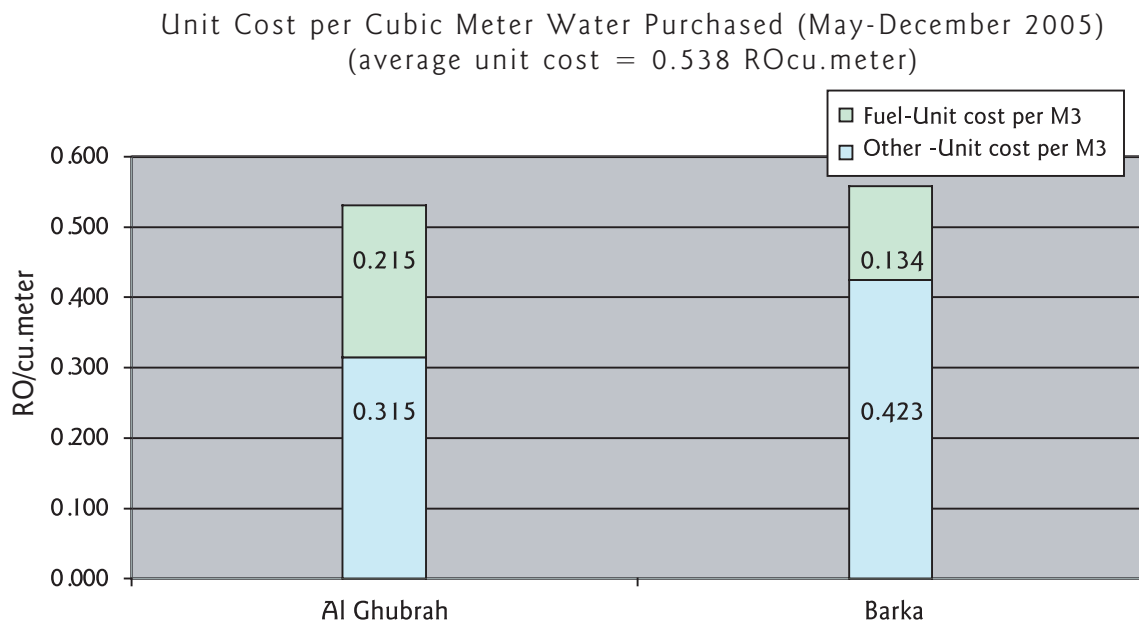




Figure-10 shows total water output purchased cost from May to December 2005.

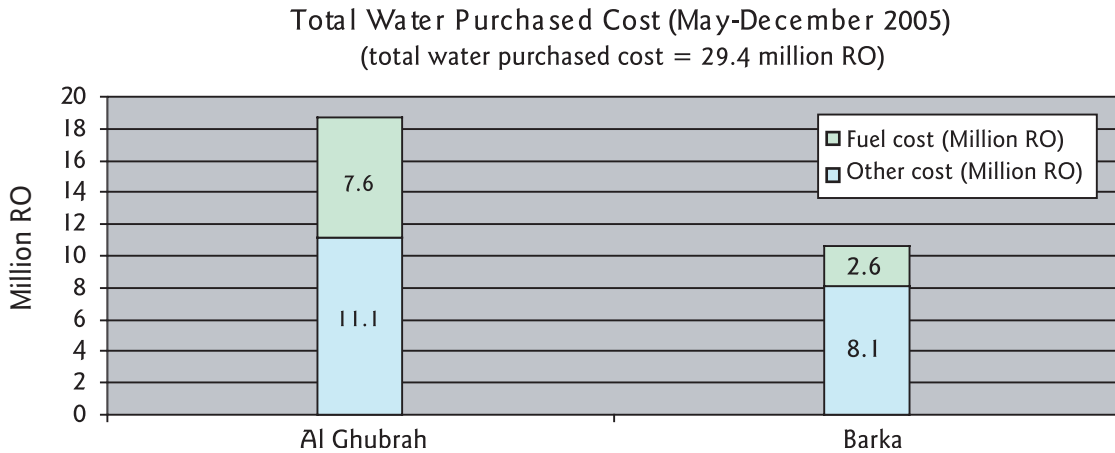


Figure-11 shows the monthly electrical energy exported in 2005 in the Main Grid

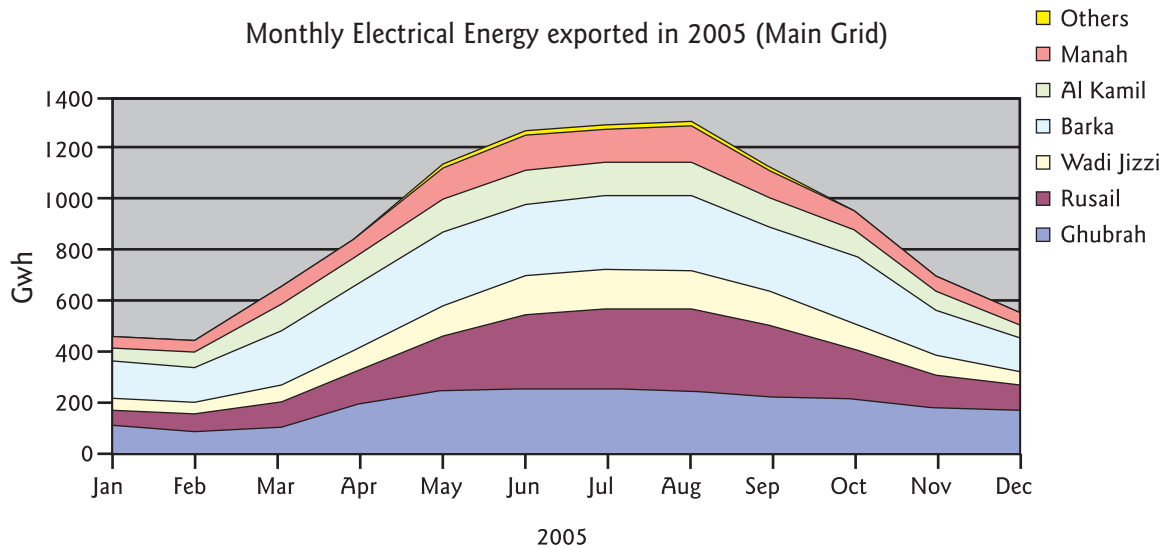
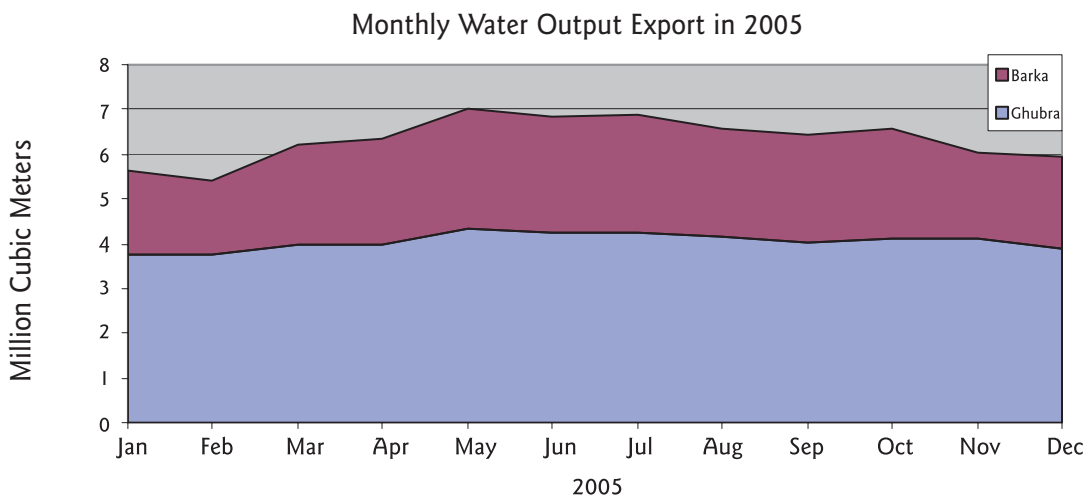


Figure-12 shows water exported to MHEW in 2005 from Barka and Ghubra plants.

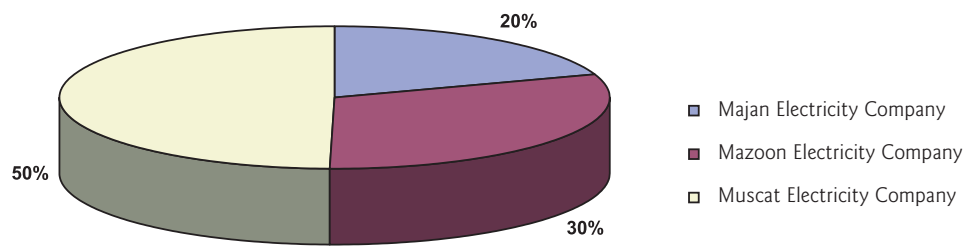


- Quantities of Electricity & Water Exported to Distribution Companies:

The amount of the desalinated water sold the Ministry of Housing, Electricity and Water was 54,601,417 cubic meter. The quantities of the electricity sold to the three distribution companies were as follows:

Company Name	Qty. of Electricity Sold (MW/hr)
Majan Electricity Company	1,660,192
Mazoon Electricity Company	2,539,966
Muscat Electricity Distribution Co.	4,170,038

Quantities of Electricity Exported To Discos



- Salalah Power System:

The arrangements for Salalah Power System are different as the Dhofar Power Company pursuant to the Concession Agreement is responsible for the production, transmission and distribution activities. The following table shows the power purchased by the customers from the power station of Dhofar Power Company, and the power purchased from the Rural Area Electricity Company during the fiscal year 2005.

S/N	Company Name	Net Power Generated (Megawatt/hr.)
1	Dhofar Power Company	748,888,824
2	Rural Area Electricity Company	983,678

- Management of Agreements:

Due to the importance of agreements in the Company's business, the Company is giving great attention to improve the management of the said contracts, and is eager to amplify the relationship with its clients, and to develop the professional performance of its activities. However, there are still some issues that need to be resolved namely:

- Handing over the two GT units (LM 2500 & GT 30MW) to Dhofar Power Company. Despite the two years have elapsed since the commercial operation date of the Salalah Power System (01/03/2003), the two GT units have not yet been handed over to Dhofar Power Company due to the dispute regarding maintenance procedures. There are ongoing negotiations and proposals to resolve the issue that are under consideration.



- B. The dispute with Dhofar Power Company in respect of the calculation of the allowances for enhancement and extension of the transmission and distribution system was referred to an independent expert (as per the agreement). The expert decided in favor of Dhofar Power Company. Oman Power & Water Procurement Company has notified Dhofar Power Company of its intention to refer the dispute to arbitration as stipulated in the Concession Agreement. Dhofar Power Company has however expressed its doubt of the possibility of that contending non compliance by Oman Power & Water Procurement Company with the procedures stipulated in the agreement to refer the dispute to arbitration. The Company is assessing the feasibility of referring the dispute to arbitration.
- C. The dispute with Dhofar Power Company regarding the penalties for power outages as per customer service and supply standard of Concession Agreement was referred to an independent expert (in accordance with the Agreement) who decided in favor of Dhofar Power Company. Oman Power & Water Procurement Company has notified Dhofar Power Company of its intention to refer the dispute to arbitration. The Company is proceeding with the arbitration procedures.
- D. The dispute with AES Barka regarding the deductions made from the Company's monthly billing in respect of fuel and fixed capacity calculations is pending the production by Barka of the necessary documentation in support of its claim.
- E. The difference in reading the water meters between the Ministry of Housing, Electricity & Water and Al-Ghubra Power & Desalination Company, which resulted in delay of the settlement of water bulk supply invoices is being resolved by the installation of new meters.

4. Projects under progress:

- **Construction of Sohar Power Station Project:**

The Government and the Sohar Power Company signed the project agreements on November 2004. The project is to be implemented in two phases as follows:

Phase One: Early generation of approximately 360 MW of electric power, starting 01/04/2006

Phase Two: The Commercial Operation of the Station, (584 MW of power and 33 million gallons, per day of desalinated water) starting 01/04/2007.

Oman Power & Water Procurement Company has supervised the activities during the construction period. The Company is also following up the construction of the water, electricity and gas networks associated with the project.

- **Planning for new capacity:**

It was determined that there is a need for construction of a new power and desalination plant at Barka (phase). The production capacity of the new station is to range between 500 - 700 MW, whereas the desalination capacity, as per the requirement of MHEW and approval of MNE, is approximately 120,000 cubic meter/day. The tender documents of the project were issued at the beginning of November 2005 and the initial production is to commence on May 2008, whilst the commercial operation of the plant is expected to be achieved by April 2009.



It was also determined that there is a need for the construction of a new power and desalination plant at Salalah. The Company has initiated the necessary studies for construction of such station to be operational by the beginning of the year 2009.

The Company is developing its resources to upgrade planning methods, and has already initiated the preparation of demand planning for the next seven years (2006-2013) in accordance with its license requirements.

5. Compliance with corporate governance:

The Company has complied with the basic requirements stipulated in its licence and there are no deviations, in the Company's opinion, that may be considered as major breaches.

6. Internal Audit:

The Company believes that the presence of effective internal regulations and controls shall contribute to improve and develop the performance of Company activities. The Company has appointed Ernst & Young as its internal auditor to examine the Company's transactions during the period 01/05/2005 to 31/12/2005 using the compliance-based methodology. This is based on conducting compliance check in order to determine the efficiency of the Company's internal regulations and controls, and consistency with the governance requirements and risk review, which may affect conducting of the Company's business performance in future. The Internal Auditor provides reports directly to the Audit Committee.

7. Management Structure:

A. The Board of Directors:

The Board of Directors is comprised of five non-executive members appointed by the Council of Ministers. The Chairman of the Board and other three members are representing the Electricity Holding Company, and one member represents the Ministry of Finance. The Board has formed the following three committees:

The Internal Audit Committee: which assists the Board in the review of reports and financial statements referred to the Board by the Executive Management or the Company's external auditor. In addition, the Committee provides assurance to the Board regarding the efficiency of the internal audit environment through the appointment of an internal auditor.

The Human Resources Committee: The Committee's main assignment is to assist the Board in establishing and developing the Company's human resources policies, including the human resources guide and appointments for top executive management positions.

The Internal Tender Committee: The Committee's main task is to assist the Board in approving contracts in accordance with the financial delegation of authority

The Board and its Committees are responsible for establishing the general policies of the Company, supervising the execution of its activities, approving its budget and the appointment of top management positions. The following table shows the number of meetings held by the Board and its committees and attendance of members:



	Board Meetings	Tender Committee	Human Resources	Internal Audit Committee	Board Sitting Fees	Committee Meeting Fees	Bonus
Number of Meeting Members:	8	1	2	1			
H.E. Sultan Hamoud Al-Harithy	8	1	-	-	2,400	175	4,000
Mr. Said Mohammed Al-Nabhani	8	1	2	-	1,600	525	2,600
Mr. Saber Said Al-Harbi	6	-	2	1	1,200	525	2,600
Mr. Mohammed Ofait Al-Shanfari	7	-	2	1	1,400	525	2,600
Mr. Hilal Khalfan Al-Noa'mani	8	1	-	1	1,600	350	2,600
Total					8,200	2,100	14,400

The total remuneration for attending the meetings is R.O. 24,700 (Twenty-four Thousand and Seven Hundred Omani Riyals)

B. The Executive Management:

The previous year has witnessed some changes in the Company's top management positions as the Chief Executive Officer resigned in October 2005. Mr. Mohammed Bin Abdullah Al-Mahrouqi was seconded by the Ministry of National Economy and appointed as Acting CEO of the Company. Such change did not affect the Company's performance. All other executive management positions of the Company were filled.

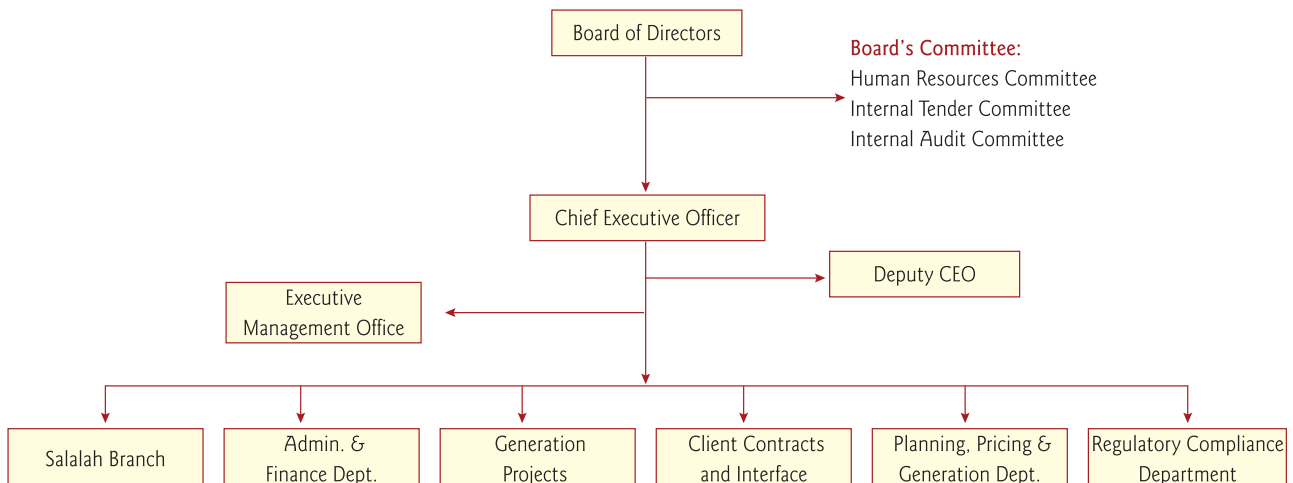
C. Personnel:

During the year, most of the key positions of the Company were filled in accordance with the employment plan. The total number of employees at the Head Office and Salalah Branch reached (38) employees.

The training cost during the year 2005 was R.O. 10,440 (Ten Thousand, Four Hundred Forty Omani Rials), representing 2% of the total work force cost.

D. Omanization:

The human resources training plan established by the executive management aims at appointing Omani nationals in different job categories of the Company in an organized and phased way. The total number of Omani personnel reached (31) employee, representing 79% of the total number of employees. Currently the total number of expatriates is (8) employees.



• The organization chart of the company



8. The Financial Performance:

Maximum Allowed Revenue during the year:

In accordance with its licence, the Company is subject to Price Control Formulae specified by the Authority for Electricity Regulation for each of (i) the main business and (ii) the Salalah business. The Maximum Allowed Revenues for each business during the year are calculated based on these Formulae.

The Company's tariffs and charges are set with the aim of achieving actual revenues for the year that are as close as possible to the Maximum Allowed Revenue. In case of any deviations (over-recovery or under-recovery), the difference is compensated in the following year's tariffs and charges.

For the main business, the Maximum Allowed Revenue is:

Cost of purchased power and desalinated water

Plus: Cost of purchased fuel (net if sales)

Plus: Licence fee

Plus: allowance specified by the Authority for Electricity Regulation for the Company's other costs

Less: the Correction Factor (for under-recovery or over-recovery in the previous year)

The Maximum Allowed Revenue for the Company's main business during the year 2005 (from 01 May 2005 to 31 December 2005) was O.R. 130,751,000 whereas the actual revenue of the Company for the same period was O.R. 133,198,000 i.e. with a difference amounting to approximately (1.87 %).

For the Salalah business, the Maximum Allowed Revenue is:

Licence fee

Plus: allowance specified by the Authority for Electricity Regulation for the Company's other costs

The Maximum Allowed Revenue for the Company's Salalah business during the year 2005 (from 01 May 2005 to 31 December 2005) was O.R. 6,634,000 which is equivalent to the actual revenue of the Company for the same period.



Audit Reports and Financial Statements

The attached appendix shows the Financial Statements of the Company for the year ending 31 December 2005 (period from 1 May to 31 December 2005), and report of the Company's External Auditor (Deliott & Touch Middle East).

Independent auditor's report to the shareholders of Oman Power and Water Procurement Company SAOC

We have audited the accompanying balance sheet of **Oman Power and Water Procurement Company SAOC** as of 31 December 2005 and the related statements of income, changes in equity and cash flows for the period from 1 May 2005 to 31 December 2005 as set out on pages 23 to 36. These financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Oman Power and Water Procurement Company SAOC** as of 31 December 2005, and the results of its operations and cash flows for the period from 1 May 2005 to 31 December 2005, in accordance with International Financial Reporting Standards.

Deloitte & Touche (M.E.)
Muscat, Sultanate of Oman
6 June 2006

Audit . Tax . Consulting . Financial Advisory.



Member of
Deloitte Touche Tohmatsu

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Balance sheet as at 31 December 2005

	Notes	2005 RO '000
ASSETS		
Non-current assets		
Property and equipment	4	100
Advance payments	5	21,049
Total non-current assets		<u>21,149</u>
Current assets		
Inventories		567
Trade and other receivables	6	44,366
Cash and cash equivalents		5
Total current assets		<u>44,938</u>
Total assets		<u>66,087</u>
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	7	500
Statutory reserve	8	86
Retained earnings		777
Due to Electricity Holding Company SAOC	2	9,172
Total equity		<u>10,535</u>
Non-current liabilities		
Provision for staff benefits		31
Current liabilities		
Trade and other payables	10	47,946
Bank overdraft	11	7,461
Current tax liabilities	16	114
Total current liabilities		<u>55,521</u>
Total equity and liabilities		<u>66,087</u>
Net assets per share	12	<u>RO 21</u>


.....
Chairman


.....
Director




.....
Chief Executive Officer
Electricity Holding Co. SAOC

The accompanying notes form an integral part of these financial statements.

**Income Statement
for the period ended 31 December 2005**

	Notes	Period from 1 May 2005 to 31 December 2005 RO'000
Revenue	13	137,374
Cost of sales	14	(135,195)
Gross profit		2,179
General and administrative expenses	15	(1,248)
Profit from operations		931
Finance charges		(7)
Other income		53
Profit before tax		977
Income tax charge	16	(114)
Profit after tax		863
Basic earnings per share	17	RO 2

The accompanying notes form an integral part of these financial statements.

**Statement of changes in equity
for the period ended 31 December 2005**



	Share capital RO '000	Statutory reserve RO '000	Retained earnings RO '000	Due to EHC RO '000	Total RO '000
Balances taken over from MHEW (Note 2)	-	-	-	9,172	9,172
Share capital issued	500	-	-	-	500
Profit for the period	-	-	863	-	863
Transfer to statutory reserve	-	86	(86)	-	-
Balance at 31 December 2005	500	86	777	9,172	10,535

The accompanying notes form an integral part of these financial statements.

**Statement of cash flows
for the period ended 31 December 2005**

	Period from 1 May 2005 to 31 December 2005 RO '000
Operating activities	
Profit before tax	977
Adjustments for:	
Depreciation	12
Finance charges	7
Interest received	(53)
Advance payments amortised	760
Provision for end of service indemnity	31
Operating cash flows before changes in operating assets and liabilities	1,734
Changes in working capital:	
Trade and other receivables	(43,168)
Trade and other payables	33,517
Cash used in operations	(7,917)
Interest paid	(7)
Net cash used in operating activities	(7,924)
Investing activities	
Acquisition of property and equipment	(86)
Interest received	53
Net cash used in investing activities	(33)
Financing activities	
Share capital issued	500
Bank overdraft	7,461
Net cash from financing activities	7,961
Net change in cash and cash equivalents	4
Cash and cash equivalents acquired from MHEW (Note 2)	1
Cash and cash equivalents at the end of the period	5

The accompanying notes form an integral part of these financial statements.



1 Legal status and principal activities

Oman Power and Water Procurement Company SAOC (the “company”) is a closed Omani joint stock company registered under the Commercial Companies Law of Oman. The company is primarily undertaking purchase and procurement activities pertaining to electricity and desalinated water and the supervision of Salalah concession under a license issued by the Authority for Electricity Regulation, Oman.

The company commenced trading on 1st May 2005 following the implementation of a decision of the Ministry of National Economy (the “Transfer Scheme”) issued pursuant to Royal Decree 78/2004 (the “Sector Law”).

The registered address of the company is at PO Box: 1388, PC 112, Ruwi, Sultanate of Oman.

2 Transfer scheme and the Sector Law

The establishment and operations of Oman Power and Water Procurement Company are governed by the provisions of the Law for the Regulation and Privatisation of the Electricity and Related Water Sector (the Sector Law) promulgated by Royal Decree 78/2004.

The Sector Law requires that the assets and liabilities of Ministry of Housing, Electricity and Water (MHEW) that relate to the functions and duties of Oman Power and Water Procurement Company be transferred to it by a Transfer Scheme and that the operations of Oman Power and Water Procurement Company be regulated by authorisation from the Authority for Electricity Regulation, Oman.

Relevant assets and liabilities of MHEW were transferred to Oman Power and Water Procurement Company SAOC in accordance with the Sector Law on 1 May 2005 (the Transfer Date) pursuant to Ministry of National Economy (MNE) decision 44/2005.

Oman Power and Water Procurement Company SAOC is wholly owned by the Government of the Sultanate of Oman and is a subsidiary of the Electricity Holding Company SAOC (EHC).

In accordance with transfer scheme, the company received the following assets and liabilities from the MHEW on the transfer date:

	RO '000
Property and equipment	26
Inventories	567
Trade and other receivables	1,198
Advance payments	21,809
Bank balances and cash	1
	23,601
Trade and other payables	(14,429)
Dues to Electricity Holding Company SAOC	9,172



3 Summary of significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board.

Basis of accounting

These financial statements are presented in Omani Rials ("RO") which is the currency in which the majority of transactions are denominated and are rounded off to the nearest thousand. These financial statements are prepared on historical cost basis as modified by measurement of certain financial instruments at fair value.

Adoption of new and revised international financial reporting standards

In the current year, the company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2005.

The management are currently reviewing the implications of IFRIC 4 - "Determining Whether an Arrangement Contains a Lease" in respect of its power and water purchase agreements that are applicable for accounting periods commencing on or after 1 January 2006.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any identified impairment loss. Borrowing costs, net of interest income, which are directly attributable to acquisition of items of Property and equipment, are capitalised as the cost of Property and equipment.

Depreciation is charged so as to write off the cost less residual value of Property and equipment (other than capital work in progress) on a straight line basis over the expected remaining useful economic life of the asset concerned. The principal depreciation periods used for this purpose are:

Motor vehicles	7 years
Furniture, fixtures & equipment	5 years

Estimated useful life takes into account normal wear and tear.

Impairment

At the balance sheet 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 assets 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 the carrying amount of the asset and is recognized immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount and the increase is recognized 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 recognized earlier.



3 Summary of significant accounting policies (continued)

Financial instruments

Financial assets and liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

The principal financial assets are trade and other receivable balances and are stated at their nominal values less any allowance for estimated impaired debts.

The principal financial liabilities are trade and other payables. Trade and other payables are stated at their nominal values.

Share capital is stated at the net proceeds received.

Inventories

Inventories represent fuel stock of Phase 2 at Manah Power Plant at the year end and are stated at cost.

Provision for staff end of service indemnity

Provision for end of service indemnity for non-Omani employees is made in accordance with the company's employee benefits scheme and is based on current remuneration and cumulative years of service at the balance sheet date.

End of service indemnity for Omani employees are contributed in accordance with the terms of the Social Securities Law 1991 and Civil Service Employees Pension Fund Law for direct hires by the company and employees transferred from Ministry of Housing, Electricity and Water (MHEW) respectively.

Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event and it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

Taxation

Income tax is calculated as per the fiscal regulations of the Sultanate of Oman. Current tax is the expected tax payable on the taxable income for the year, using the tax rates ruling at the balance sheet date.

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The tax effects on the temporary differences are disclosed under non-current liabilities as deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

However for the purposes of deferred tax, it is assumed that carrying amount of assets and liabilities is equal to the carrying amounts used for income tax purposes on the transfer date.



3 Summary of significant accounting policies (continued)

Revenue

Revenue represents bulk supply tariff in respect of the sale of electricity to the Distribution Companies in accordance with the agreements and sale of desalinated water to the Ministry of Housing, Electricity and Water based on a water sales agreement. Revenue also includes recharge of interconnection and transmission facilities in respect of an Independent Power Plant to Oman Electricity Transmission Company SAOC.

Revenue also includes the net funding received from Ministry of Finance (MOF) in respect of cost relating to the Salalah business. As a part of its regulated activities, the Company make payments to DPC and incurs other related cost. Cash calls are made on an estimated basis to the MOF. The net funding for the period is assumed to be equal to the payments made to DPC and all other administrative and other costs incurred in respect of the Salalah business.

Total revenue in excess of the maximum allowed by the regulatory formula in accordance with the licensing requirements is deferred to future years.

Interest income is accounted on accrual basis by reference to the amount outstanding and the applicable interest rates.

Power purchase cost

Fixed capacity contractual payments made to United Power Company for Manah Power Plant are recognised in the income statement on a straight line basis over the period of the contract, which is representative of the time pattern of the user's benefit. Fixed capacity payments in respect of other Independent Power and Water Projects, are recognised in the income statement based on actual payments made which is representative of the time pattern of the user's benefit.

Foreign currency

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. Gains and losses arising from foreign currency transactions are dealt with in the income statement.

Cash and cash equivalents

For the purposes of the statement of cash flows, the company considers all bank and cash balances with an original maturity of less than three months from the date of placement to be cash and cash equivalents.

Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value for the year. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated assets and liabilities.



4 Property and equipment

	Furniture and equipment RO '000	Motor vehicles RO '000	Total RO '000
Cost			
Acquired from MHEW (Note 2)	4	22	26
Additions during the period	57	29	86
31 December 2005	61	51	112
Depreciation			
Charge for the period	6	6	12
31 December 2005	6	6	12
Net book value			
31 December 2005	55	45	100

5 Advance payments

Advance payments pertain to fixed capacity payments made to United Power Company in respect of power purchases from Manah Power Plant. The tariff in respect of fixed capacity contractual payments for Phase I comprising plant facilities has been structured in such a way that the tariff rates are significantly higher during initial years as compared to the later period of the contract. Fixed capacity contractual payments are recognised as an expense in the income statement on a straight line basis, over the period of the contract, which is representative of the time pattern of the user's benefit.

Advance payments represent total cumulative payments made to date reduced by total cumulative charges to date recognised in the income statement.

6 Trade and other receivables

	2005 RO '000
Due from related parties (Note 18)	13,068
Due from MHEW - Directorate of Water	31,268
Prepayments	30
	44,366



7 Share capital

The company's authorized, issued and paid-up capital consists of 500,000 shares of RO 1 each. The details of the shareholders are as follows:

	Percentage of shareholding	Number of Shares	2005 RO
Electricity Holding Co SAOC	99.99%	499,950	499,950
Ministry of Finance	0.01%	50	50
		500,000	500,000

8 Statutory reserve

In accordance with the Commercial Companies Law of 1974 (as amended), 10% of the company's net profits after the deduction of taxes will be transferred to a non-distributable statutory reserve each year until the amount of such statutory reserve becomes equal to one-third of the company's share capital. This reserve is not available for distribution to shareholders as dividends.

9 Proposed dividend

In the Board of Directors' meeting held on 06 June 2006, the Board of Directors has proposed a final cash dividend in the amount of RO 1.554 per share aggregating RO 777,000/- on the Company's existing share capital. This dividend is subject to the approval of the shareholders in the Annual General Meeting.

10 Trade and other payables

	2005 RO '000
Suppliers and contractors payables	2,612
Dues to Ministry of Finance	673
Other payables	100
Due to related parties (Note 18)	34,374
Accrued expenses	7,729
Deferred revenue	2,458
	47,946

Included under due to related parties is an amount of RO 11,657 K representing payments made against obligations of the Company relating to the period prior to 1 May 2005. An amount of R.O 9,425 k was paid directly by MOF and remaining amount has been funded by the Government through the Electricity Holding Company SOAC during the period and remaining subsequent to the period end.

11 Bank overdraft

The Company has credit facilities with Bank Muscat SAOG comprising of overdraft, to finance the working capital requirements.



12 Net assets per share

	2005 RO '000
Net assets (RO '000)	10,535
Number of shares at period end ('000)	500
Net assets per share (RO)	21

Net assets per share is calculated by dividing the shareholders equity at the period end by the number of shares outstanding.

13 Revenue

	Period from 1 May 2005 to 31 December 2005 RO '000
Bulk supply tariff for electricity	97,286
Bulk supply tariff for desalinated water	31,268
Net funding from Ministry of finance	6,634
Recharge of interconnection transmission facilities	2,186
	137,374

14 Cost of sales

	Period from 1 May 2005 to 31 December 2005 RO '000
Electricity capacity and output purchase costs	97,880
Desalinated water capacity and output purchase costs	30,843
Funding for Dhofar Power Company SAOG	5,774
Fuel costs	698
	135,195

15 General and administrative expenses

Staff costs	512
License fee to regulator	132
Service expenses	428
Pre-incorporation expenses	66
Directors' remuneration and sitting fees	25
Depreciation	12
Other expenses	73
	1,248

16 Income tax charge

Income tax is provided as per the provisions of the law of income tax on companies in Sultanate of Oman as adjusted for items that are either disallowed or non-assessable. The tax charge applicable to the Company is 12% after allowing the basic exemption of RO 30,000.

**17 Basic earnings per share**

	2005
Profit for the period (RO '000)	863
Number of shares at period end ('000)	500
Earnings per share (RO)	2

The par value of each share is RO 1. The earnings per share is calculated by dividing the profit for the period by the number of shares outstanding during the period.

18 Related parties

Related parties comprise the shareholders, directors, key management personnel and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions. For the purpose of IAS 24, the Government of the Sultanate of Oman is not considered as a related party.

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 conditions which the directors consider to be comparable with those adopted for arms length transactions with third parties. Outstanding balances at year end are unsecured and settlement occurs in cash.

No expenses have been recognized in the period for bad or doubtful debts in respect of amounts owed by related parties. Following is the summary of significant transactions with related parties during the period:

	2005 RO '000
Revenue	
Bulk supply tariff for electricity	97,286
Bulk supply tariff for water	31,268
Recharge of interconnection transmission facilities	2,186
Expenses	
Electricity capacity and output purchase costs	50,871
Desalinated water capacity and output purchase costs	20,802
Accounting service charge	154

These transactions arise in the normal course of business from commercial sources and are at arm's length.

The amounts of due from related parties and due to related parties are disclosed in Note 2, 6 and 10 in these financial statements.

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).



18 Related parties (continued)

	Period from 1 May 2005 to 31 December 2005 RO '000
Short term benefits	141
Post employment benefits	3
Directors' sitting fees and remuneration	25
	169

19 Contingencies

a. Transmission & Distribution

The Government has fixed Transmission and Distribution- Extension and Enhancement (T & DEE) allowance based on the actual value of work executed by the Dhofar Power Company SAOG (DPC). Accordingly, the Government has been making payments of T & DEE allowance, determined on the basis of estimated actual value, at a monthly rate of RO. 88,415. However, DPC has accrued the T & DEE Allowance at a rate of RO 106,855 per month based on the contracted value of T & DEE work.

In accordance with the provisions of Concession Agreement, the matter was referred to a Legal Expert for determination of the T& DEE allowance. The Expert has given his opinion in favor of the DPC on 24 August 2005. Based on the expert opinion, the Company has made provision for the claim amount of RO 455 k and has claimed the same amount from MOF. However, the company has notified DPC that it intends to challenge the ruling of the Expert through the process of arbitration.

b. Contingent assets

Salalah Concession Agreement-Penalties for 2003

During 2004, the Company has notified Dhofar Power Company "DPC" its penalties claim of approximately R.O 1.1 million in respect of certain non-compliance with the concession agreement in Salalah Region during 2003.

In accordance with the provisions of the Concession Agreement, the parties referred certain issues in this regard to an independent expert. The expert gave his opinion in favour of DPC on 14 July 2005. The company has notified DPC that it intends to challenge the ruling of the Expert through the process of arbitration.

Salalah Concession Agreement -Penalties for 2004

In 2005, the company has claimed R.O 1.965 million as penalties for certain non-compliance with the concession agreement during 2004.

The company has the right to refer the matter to an Expert for resolution.

Salalah Concession Agreement -Penalties for 2005

During 2005, certain non-compliance with the concession agreement of power failure occurred in Salalah Region, was identified by the Company while reviewing the System Performance Report submitted by DPC in March 2006. The Company will shortly notify DPC the claim amount. However, the said claim is still under review by the Authority for Electricity Regulation, Oman.

**19 Contingencies (continued)**

As payments related to DPC are pass through costs, no revenue in respect of the above claims have been booked.

20 Financial instruments

Trade and other receivables comprise amounts due from related parties. The normal credit period granted is 30 days.

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The normal credit period availed is 30 days.

Credit risk

The credit risk of the company is primarily attributable to bank balances and trade and other receivables.

The company's bank accounts are placed with reputed financial institutions.

The entire trade receivables represent amounts due from three electricity distribution companies that are related parties and a Ministry. The Company does not consider this as an undue exposure since the obligation of these distribution companies is guaranteed by the Government of the Sultanate of Oman.

Interest rate and currency risk

The company has no significant interest rate and foreign currency risk.

Fair value of financial assets and liabilities

The carrying value of the financial assets and liabilities as recorded in the balance sheet approximates to their fair value.

21 Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue in their meeting held on 06 June 2006.

22 Comparative figures

These financial statements represent the result of operations from commencement of operations from 1 May 2005 to 31 December 2005. As this is the first period of operations of the company, no comparative figures have been provided.