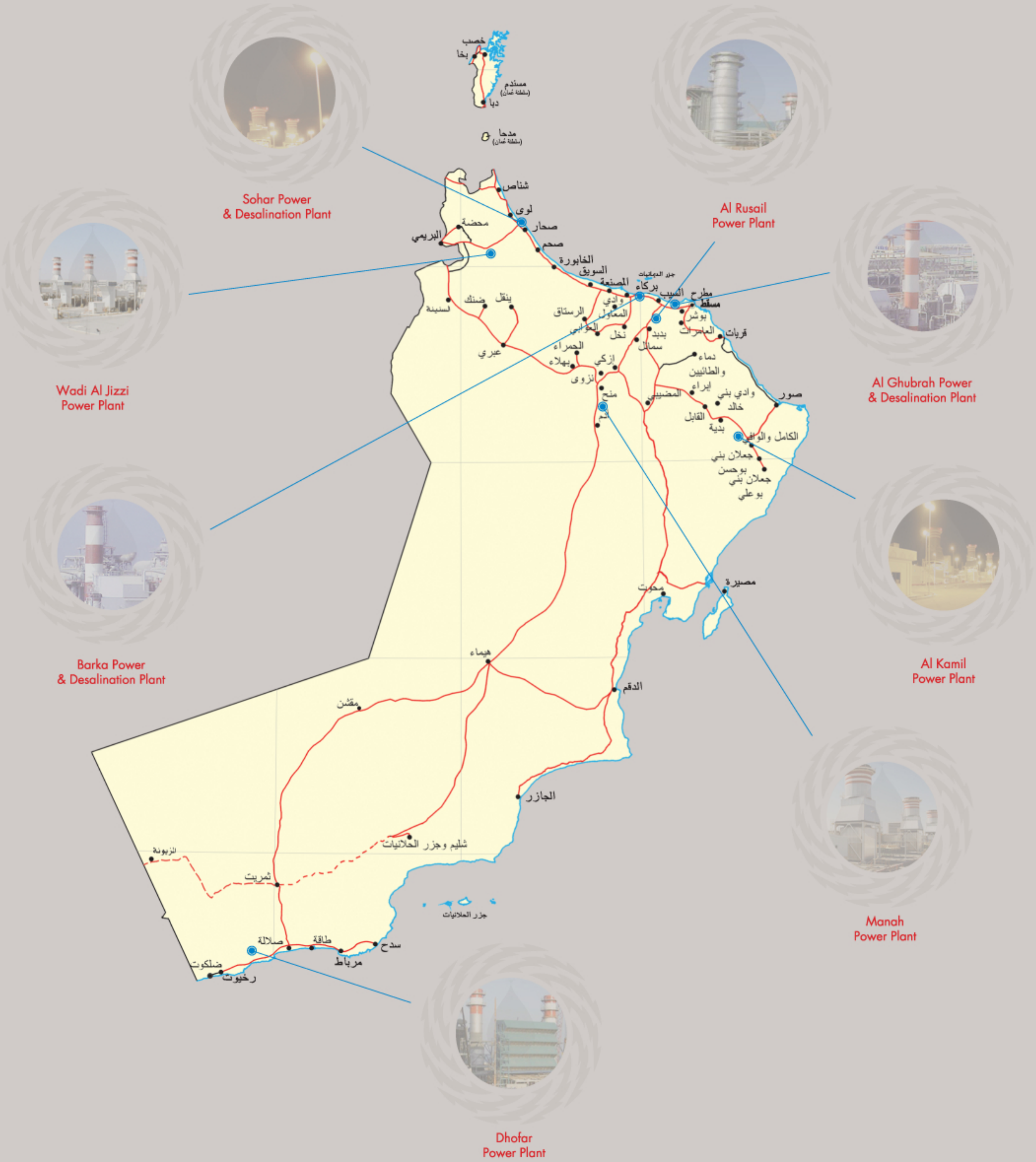
OMAN POWER AND WATER PROCUREMENT CO. (SAOC)



Annual Report 2006

His Majesty Sultan Qaboos bin Said

Contents

Oman Power And Water Procurement Co. (SAOC)
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Board of Directors & Executive Team

H.E. Eng. Sultan bin Hamdoon Al Harthi
Chairman

Eng. Said bin Mohammed Al Nabhani
Vice Chairman

Sheikh Mohammed bin Awfait Al Shanfari
Member

Mr. Saber bin Said Al Harbi
Member

Mr. Hilal bin Khalfan Al Naamani
Member

Mr. Mohammed bin Abdullah Al Mahrouqi
Chief Executive Officer

Eng. Saleh bin Hamood Al Rashdi
Deputy Chief Executive Officer

Foreword by the Chairman of The Board of Directors

Dear Shareholders,

It is my pleasure, on behalf of the members of the Board, to present to you the Second Annual Report, for the year 2006, of Oman Power and Water Procurement Company (SAOC).

The report summarizes major achievements during the year, highlights the most important activities and functions of the Company, and provides statistics and data regarding power and desalinated water purchased and sold by the Company. The report also includes the financial results for the year ending 31 December 2006 together with the Auditor's Report.

Following are some examples of the achievements made by the Company during the year 2006: -

1. Execution of contracts for the establishment of the Barka II (IWPP), for the production of power and desalinated water.
2. Preparation and publication of the seven year statement for the period of 2007-2013.
3. Entering into the Second Agreement Related to the Generation Assets (second ARGA) with Dhofar Power Company.
4. Overseeing the completion of early power units in Sohar Power Project and commencing their operation during summer 2006 as part of the main interconnected system.
5. Implementation of the Company's Performance Management System.
6. Completion of the Electricity Bulk Supply Tariffs for 2007.

The Company shall endeavor, during the upcoming period, to further improve its performance and the level of services and fulfill its obligations in a professional and competent manner.

I would like to take this opportunity to express my gratitude and appreciation to the Members of the Board of Directors, Executive Management and the Company staff for their sincere and dedicated approach in discharging their duties which enabled the Company to achieve a high standard of capability and competence. They have all spared no effort to ensure that the Company carried out its duties during its second year of operation satisfactorily. I would also like to thank the Electricity Holding Company, the Authority for Electricity Regulation and other Affiliated Companies in the Sector for the support they have extended to the Company.

Finally, I would like, on behalf of the Board Members, the Executive Management and the Company staff, to take this opportunity to confirm our utmost allegiance and devotion to His Majesty Sultan Qaboos bin Said and to His Majesty's Government for their continuous guidance and relentless support in pursuance of development and improvement of both Electricity and Water Sectors in the Sultanate.

Eng. Sultan bin Hamdoon Al Harthi

Chairman

Overview of OPWP

The 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 (the Sector Law) issued by Royal Decree no. (78/2004) establishes the functions and duties of the Company. The Transfer Scheme was issued pursuant to the Sector Law to effect the transfer of electricity and related water activities from the Ministry of Housing, Electricity & Water to the newly established companies as per the functions set for each company with effect from 1st 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 of the Sultanate of Oman with 99.99% of the Company's shares held by the Electricity Holding Company on behalf of the Government and 0.01% owned by the Ministry of Finance.

Article (74) of the Sector 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 otherPersons.

6. To make Bulk Supply of Electricity to licenced 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.

Operational Performance

Long Term Power & Water Purchase Agreements :

The following table shows the power and water capacity of the plants, the amount of power and water purchased and gas consumption during year 2006, based on long term contract agreements:

Plant	Power Capacity (Net)	Water Production Capacity	Quantity of Power Purchased	Quantity of Water Purchased	Quantity of Gas Consumption
	MW	Cubic Meter/hr	GWh	Million Cubic Meter	Million Standard Cubic Meter
Al-Ghubra Power & Desalination Plant	484.8	7766	2339.5	52.27	1178.8
Al-Rusail Power Plant	661.3	-	2373.3	-	834.8
Wadi Al-Jizzi Power Plant	290.6	-	1043.2	-	375.1
Barka Power & Desalination Plant	427.4	3800	2624.1	29.83	689.1
Al-Kamil Power Plant	273.2	-	1150.7	-	396.1
Manah Power Plant	270.6	-	1187.9	-	413.0
Sohar Plant (early power)	360	-	1035.9	-	341.4
Main Interconnected System- Total	**2767.9**	**-**	**11754.6**	**-**	**-**
Dhofar Power Plant	188.7	-	1224.4	-	391.8
Total	**2956.6**	**11566**	**12979**	**82.10**	**4620.2**

The following table shows the power and water charges of the plants during year 2006:

Plant	Total Power Purchase Cost	Power Purchase Cost per MWh	Total Water Purchase Cost	Unit Cost per Cubic Meter Water Purchase
	Million RO	RO/MWh	Million RO	RO/Cubic Meter
Al-Ghubra Power & Desalination Plant	21.3	9.1	29	0.555
Al-Rusail Power Plant	27.4	11.5	-	-
Wadi Al-Jizzi Power Plant	13.8	13.3	-	-
Barka Power & Desalination Plant	27.7	10.6	16	0.538
Al-Kamil Power Plant	16.1	14.0	-	-
Manah Power Plant	19.1	16.1	-	-
Sohar Power Plant	10.4	10.0	-	-
Main Interconnected System- Total	**135.8**	**11.55**	**45**	**0.549**
Dhofar Power Plant	18.0	14.7	-	-
Total	153.8	Average=12.06	**45**	Average=0.549

Short Term Power Purchase Agreements :

The following table shows the quantity of power purchased mainly during the summer period from other producers under short term agreements in 2006.

Company Name	Quantity of Power (GWh)	Power Purchase Cost (Million RO)
Rural Area Electricity Company (Raysut A & B)	34.5	3.123
Rural Area Electricity Company (Sharqiyah)	-	0.032
Oman Cement Company	1.0	0.059
Oman Minining Company	27.9	0.3
Total	**63.4**	**3.514**

Figures showing power and water statistics in various plants :

Figure-1 shows the plants capacities (MW) feeding the main interconnected system (MIS).

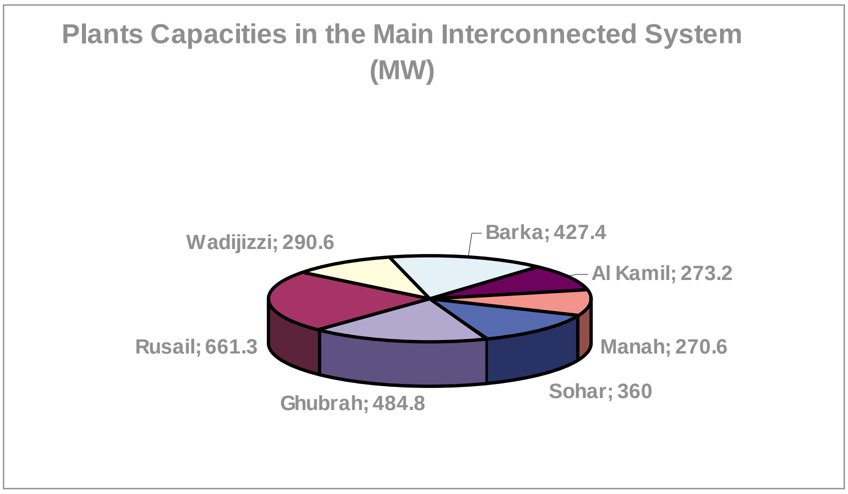


Figure-2 shows the power peak demand of 2006 in the main interconnected system and the contribution of each plant. Peak demand in the main interconnected system reached 2544 MW on 16th July 2006. The peak demand of 2006 in Salalah System reached 232.3 MW on 30th May 2006.

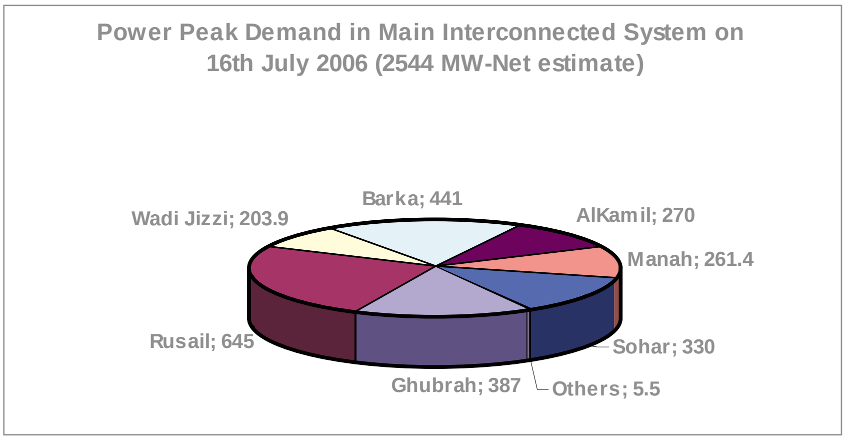


Figure-3 shows power plants utilization in 2006.

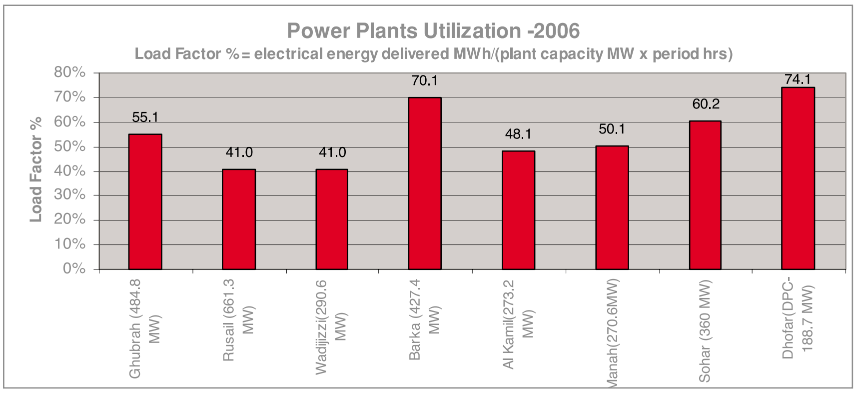


Figure-4 shows Desalination plants Capacities in 2006.

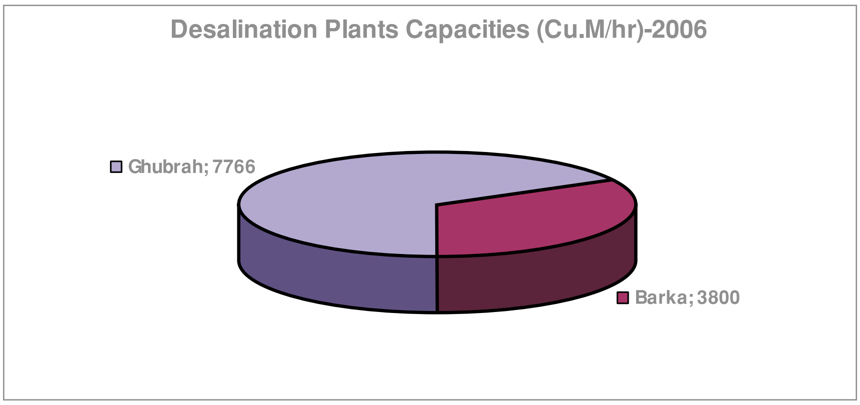


Figure-5 shows Desalination plants utilization in 2006.

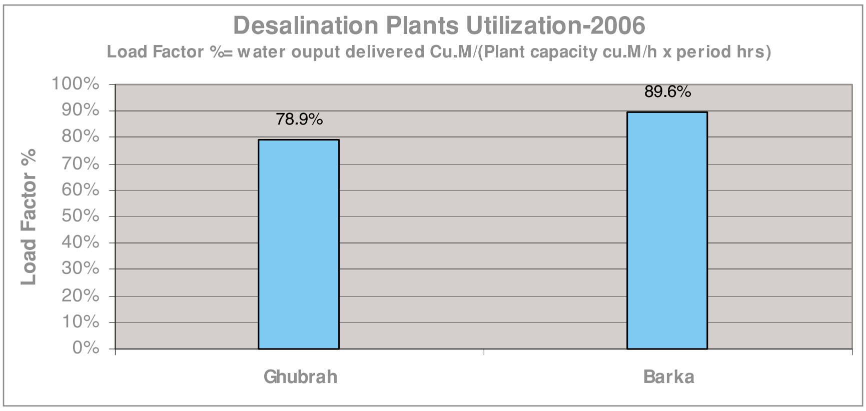


Figure-6 shows Electrical Energy purchased in 2006.

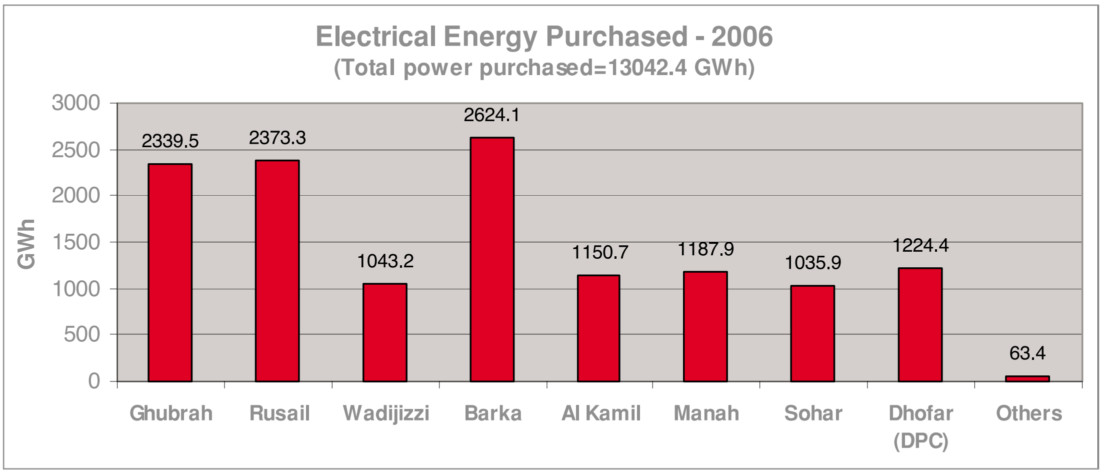


Figure-7 shows Water output purchased in 2006.

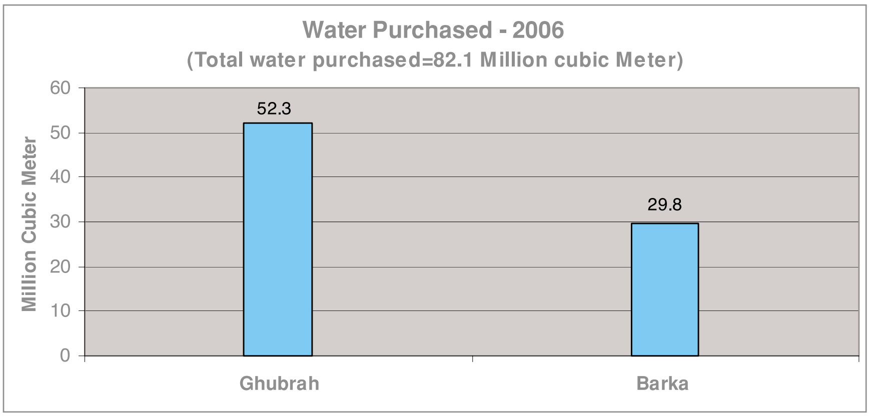


Figure-8 shows Fuel Gas consumption in 2006.

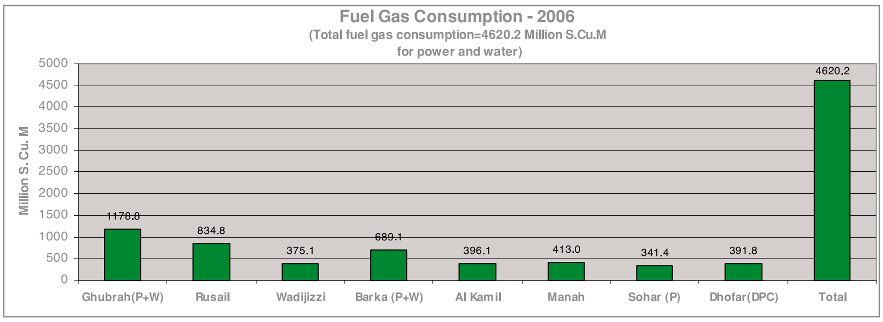


Figure-9 shows unit cost per MWh for power purchased in 2006.

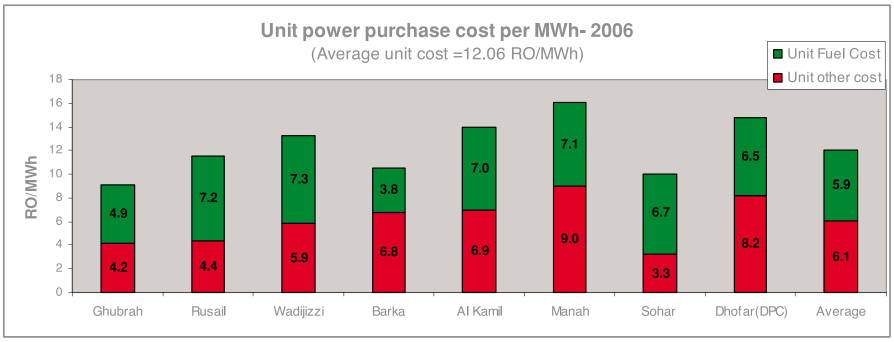


Figure-10 shows total cost of power purchased in 2006.

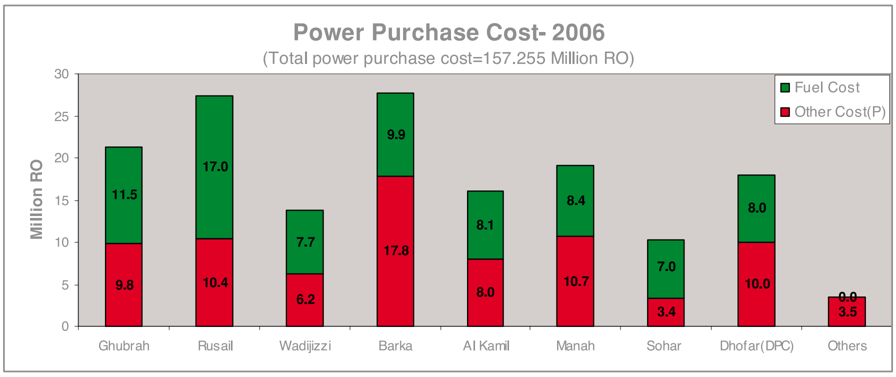


Figure-11 shows unit cost per cubic meter of water purchased in 2006.

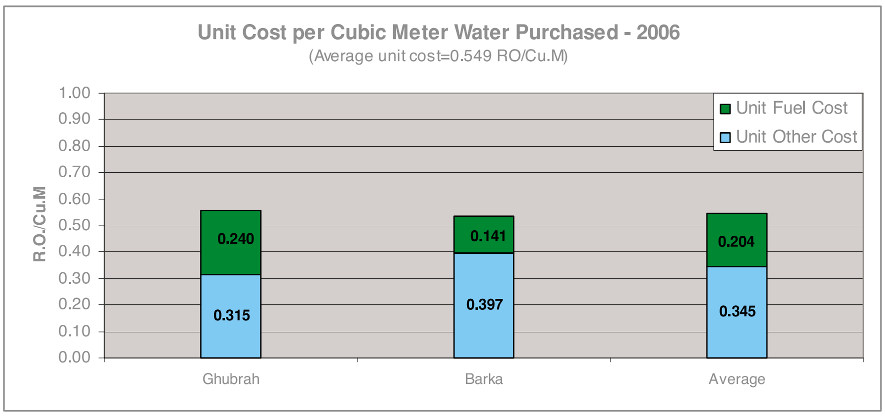


Figure-12 shows total cost of water output purchased in 2006.

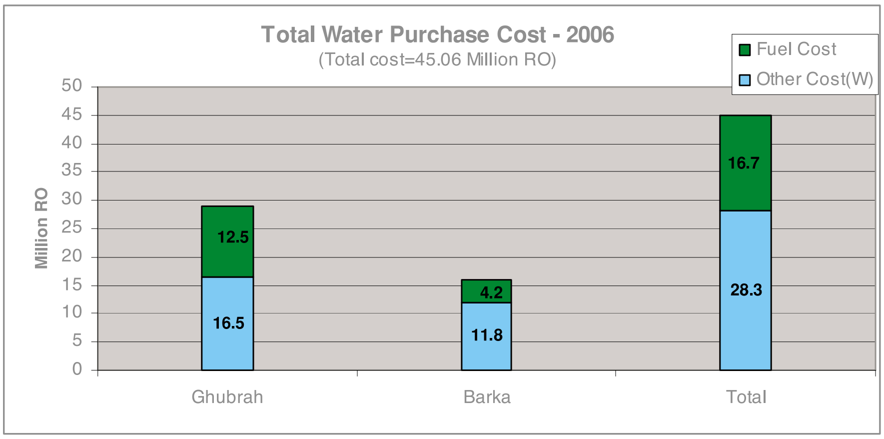


Figure-13 shows the monthly electrical energy exported in 2006 to the main interconnected system.

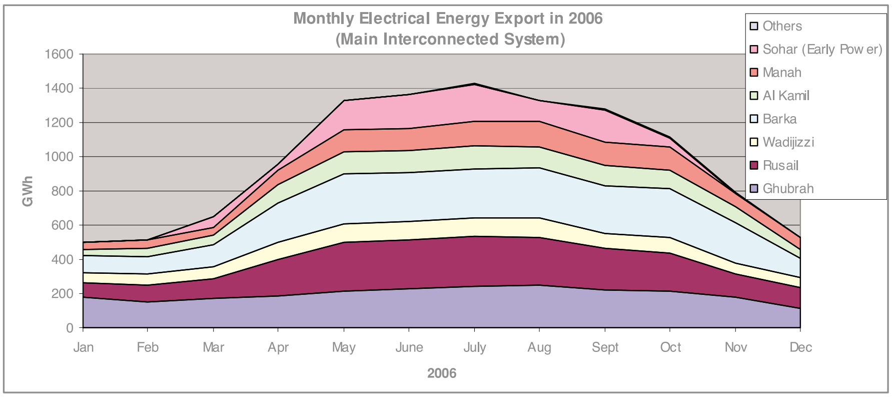


Figure-14 shows water exported to Ministry of Housing, Electricity and Water (MHEW) from Barka and Al Ghubrah plants.

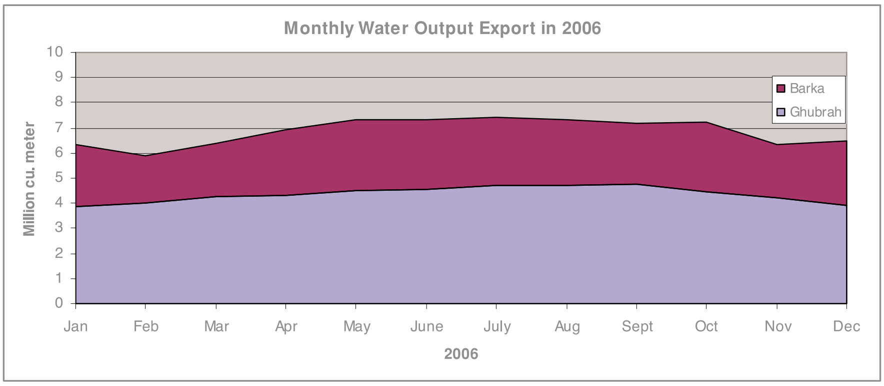


Figure-15 shows the Electrical Energy delivered to the main interconnected system in 2004, 2005 & 2006 and indication of the yearly power demand growth.

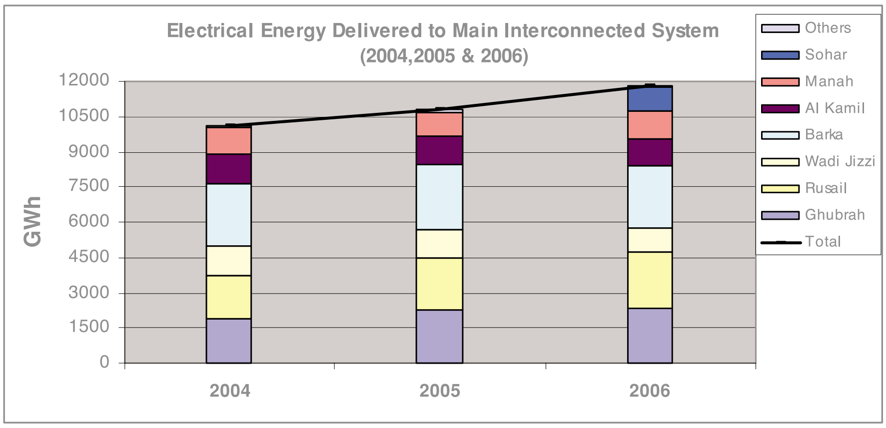


Figure-16 shows Water output exported to MHEW in 2004, 2005 & 2006 and indication of yearly water demand growth.

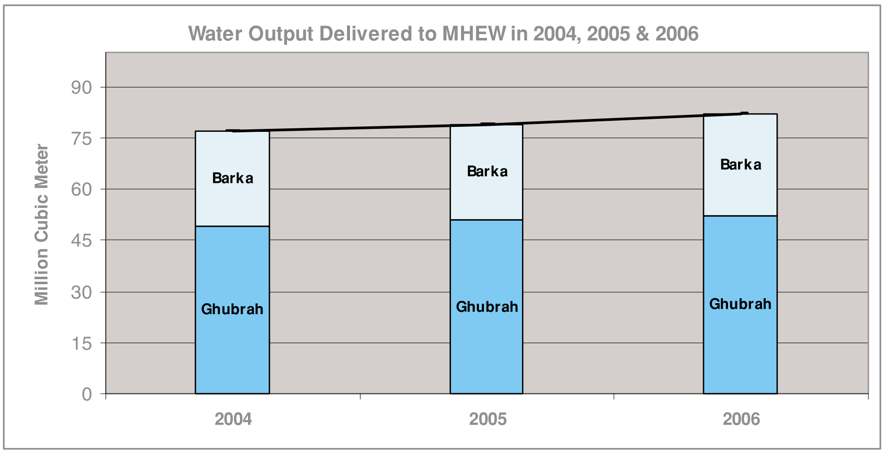


Figure-17 shows Power peak demand in the main interconnected system in 2004, 2005 & 2006.

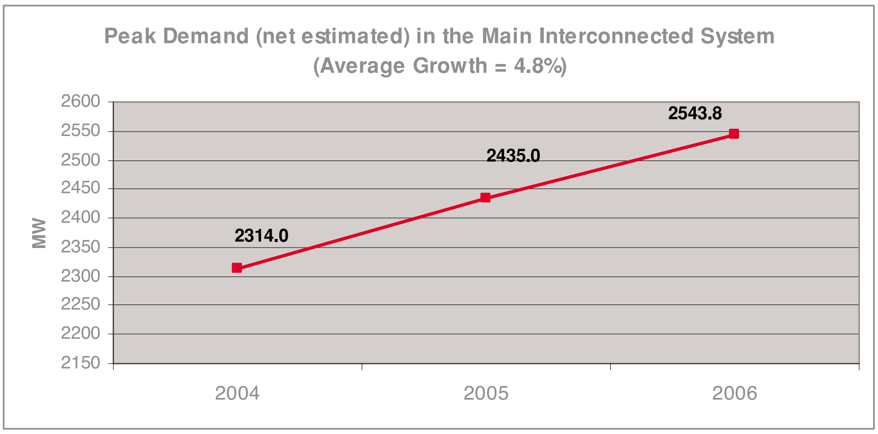


Figure-18 shows the Quantities of Electricity supplied to Distribution Companies (Muscat, Majan and Mazoon).

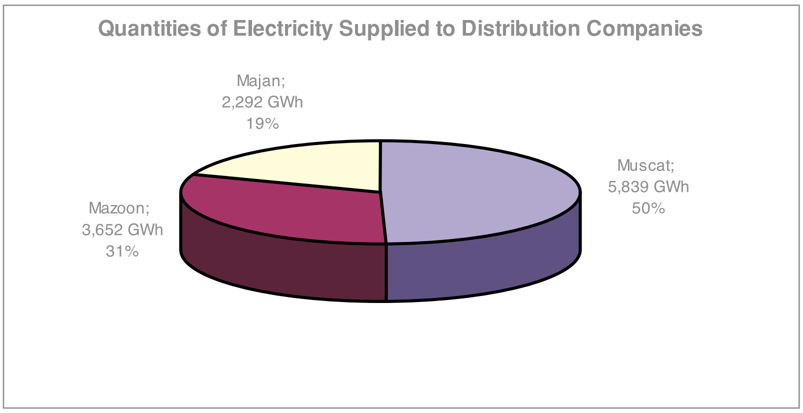


Figure-19 shows the Electricity Bulk Supply Charges in 2006.

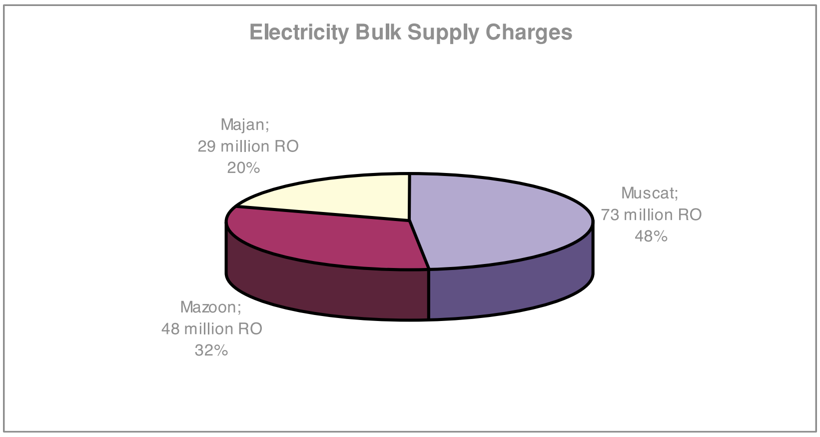


Figure-20 shows monthly Electricity Bulk Supply and charges in 2006.

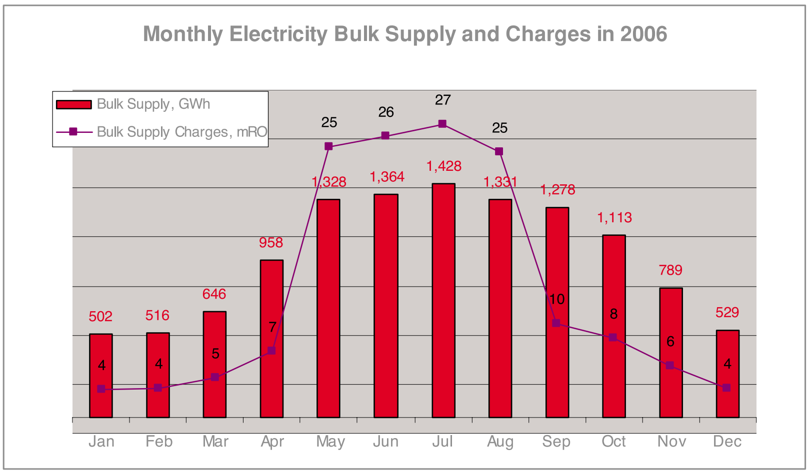


Figure-21 shows the average monthly Electricity Bulk Supply Tariff in 2006.

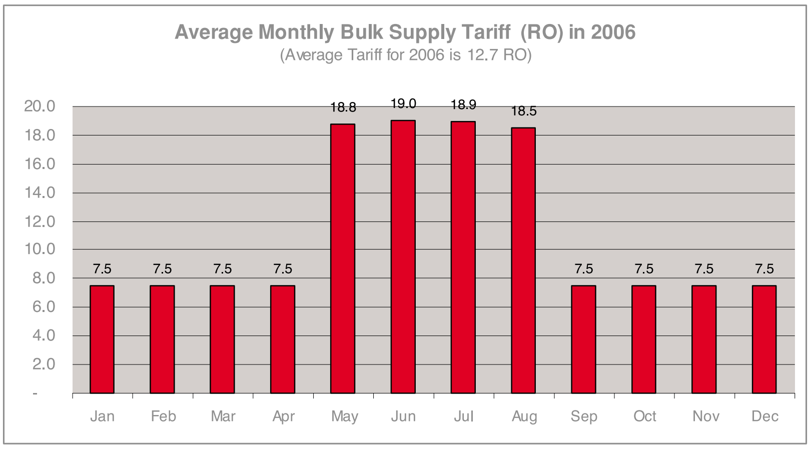


Figure-22 shows the Water Bulk Supply classified by plant.

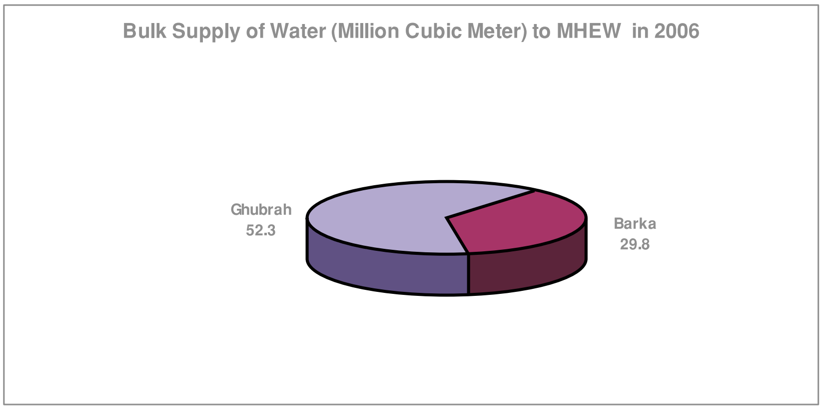


Figure-23 shows Water Bulk Supply Charges classified by plant

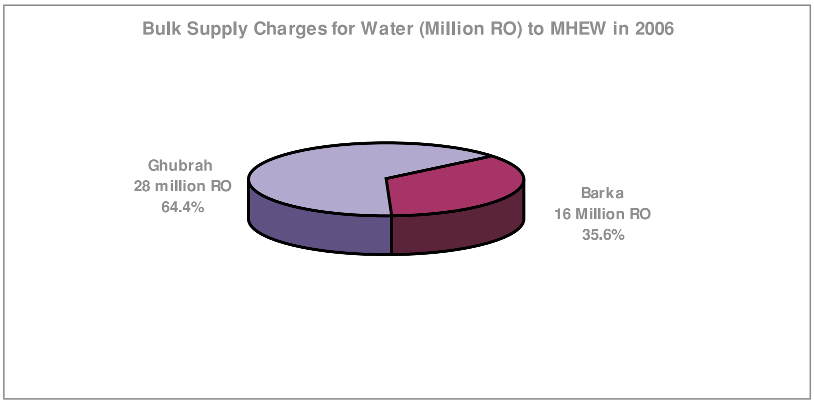


Figure-24 shows Water Bulk Supply Charges classified by plant and type of charge.

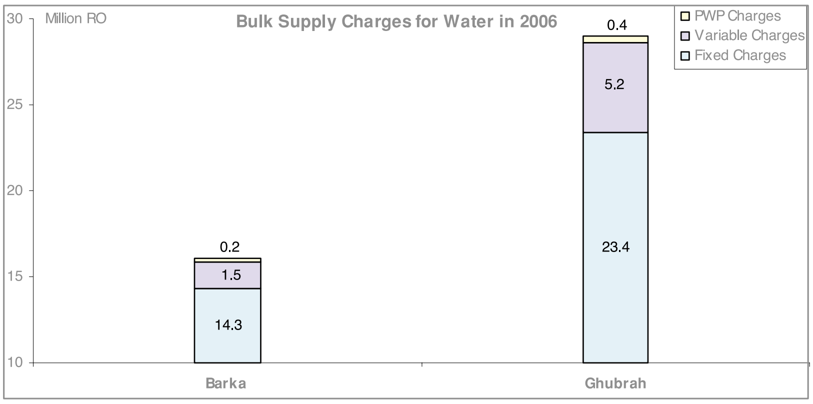


Figure-25 shows monthly Water Bulk Supply (quantities and related charges).

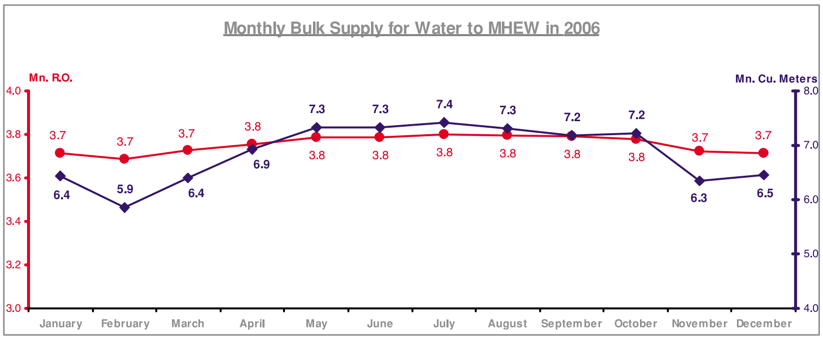
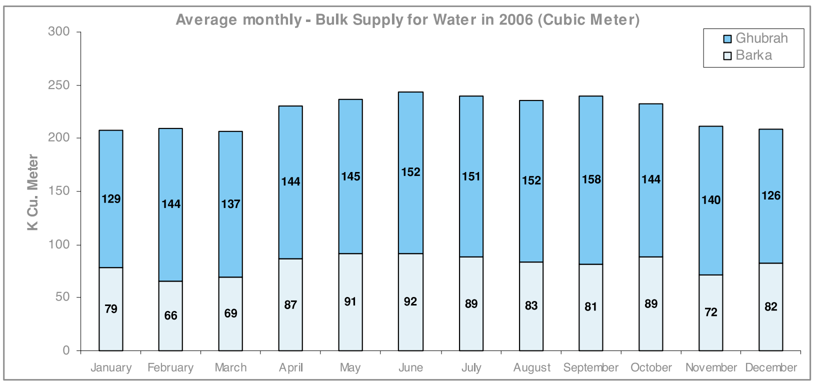


Figure-26 shows the monthly average of the Water Bulk Supply Charges classified by the plant and the month.



Salalah Power System :

The Salalah Power System is different as the Dhofar Power Company (DPC) pursuant to the Concession Agreement is responsible for the production, transmission and distribution activities.

A. Sale of PSEG's shareholding in Dhofar Power Company and the feasibility of restructuring the Concession:

During 2006, PSEGS sold all of its shares in DPC (46%) to the Oman Technical Partners Limited (OTPL). On 20th October 2006, the OPTL, Maltan LLC and Muscat Overseas LLC entered into Memorandum of Understanding (MOU) with OPWP to review the feasibility of restructuring of the Concession Agreement. The proposed restructure means the separation of the T&D Business and the Generation Business of DPC.

B. Agreement on the two turbines handover to Dhofar Power Company:

The Concession Agreement between the Government and Dhofar Power Company (DPC) was signed on March 2001. The signed agreements include the Asset Sale Agreement which stipulates that the Dhofar Power Company shall acquire the electricity assets of the Concession area with effect from the Commercial Operation Date on March 1st 2003. The assets to be sold include two Gas Turbines (LM2500 and 30 MW GT). On the Commercial Operation Date of the project, the company has declined to take-over the two Gas Turbines claiming non-compliance of the units with the project agreements. On 28th October 2006, OPWP and DPC entered into Second Agreement Relating to the Generation Assets for the handover of the two turbines. DPC has appointed General Electric (the OEM) to carry out the major inspection and performance tests of both Turbines. The scheduled completion date for the 30 MW Gas Turbine and LM2500 Gas Turbine is 15/5/2007 and 31/12/2007 respectively. Mott Macdonald Company has been appointed by OPWP to witness the performance tests of both Turbines.

Management of Agreements :

Due to the importance of agreements in the Company's business, the Company is giving great attention to improvement of 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:

A. The dispute with Dhofar Power Company in respect of the calculation of the allowances for enhancement and extension of the transmission and distribution system for the year 2003 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 and 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.

B. The dispute with Dhofar Power Company regarding the penalties for power outages as per Customer Service and Supply Standard of Concession Agreement for the year 2003 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. There are differences in the calculation of penalties for certain non-compliances with the Concession Agreement during 2004 and 2005. Re-2006, the annual system performance and quality of service report has not been received as yet from DPC. More details to be found in the Auditor's rerport.

C. The dispute with AES Barka regarding some of the deductions made from some of the Company's monthly invoices in respect of fuel and capacity calculations which is pending due to the unavailability of supporting documents from AES Barka to substantiate their claim.

Projects Under Progress

Sohar Independent Water and Power Project :

The Government and Sohar Power Company signed the project agreements in July 2004. The project consists of a 585 MW Combined Cycle Gas Turbines plant and a 33 million imperial gallons a day (6250 cubic meters per hour) water desalination plant.

The early generation of approximately 360 MW of electric power was achieved on 1st May 2006 to support the main grid requirements during summer. The second phase of the plant construction is in progress and the scheduled date for full commercial operation is expected to be achieved on 1st April 2007.
Oman Power & Water Procurement Co. is supervising the activities of the project during the construction period. The Company is also following up the construction of the water, electricity and gas networks associated with the project.

Barka Power and Desalination Project (Phase Two) :

The Government and SMN Barka Power Company signed the project agreements on 11th December 2006 for power capacity of 678 MW and desalination water of 120000 m3/d. The project is to be implemented in two phases as follows:
Phase one: Early power of 363 MW starting on 29th May 2008.
Phase two: The commercial operation of the station starting on 1st April 2009.

Planning for New Capacity :

It was determined that there is a need for new electricity generating and water Desalination Project within Dhofar Region. The proposed project consists of power production capacity of 400 MW Power & 15 MIGD of Water. The appointed Advisors to develop the project transactions are comprised of (i) BNP Paribas - The Lead Financial Advisors (ii) Denton Wilde Sapte -Legal Advisors (iii) Fichtner Consulting Engineers - Technical Advisors. The Advisors have been appointed on May, June and July 2006 respectively. The team has started the preparation of the project specifications and it is planned to float tendering during the second quarter of 2007.

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. Following are some requirements completed in 2006:-

Seven Year Statement :

In accordance to the Condition 5 of the OPWP License, Oman Power & Water Procurement Company has prepared and published its first 7 - Year Statement which provides a 7-year outlook (for 2007 to 2013) on the demands for electricity and desalinated water, and the power generation and desalination resources required to meet those demands, in the two main systems in Oman, the Main Interconnected System and the Salalah System.

Bulk Supply Tariff for Electricity:

In accordance to the Article 74 of the Sector Law, Condition 21 of the OPWP Licence and the terms of each Licensed Supplier's Bulk Supply Agreement, Oman Power & Water Procurement Company has issued the Bulk Supply Tariff of electricity for the year 2007.

The Bulk Supply Tariff means the tariff charged by the Oman Power and water Procurement Company for the bulk supply of electricity to the three licensed Companies which are bulk supplied (Muscat Electricity Distribution Company, Majan Electricity Company and Mazoon Electricity Company).

Internal Audit

The Company believes that the presence of effective internal audit and controls shall contribute to efficient performance of Company activities and shall ensure compliance with the laws and regulations. The Company has appointed Ernst & Young as its internal auditor to examine the Company's transactions during the period 01/01/2006 to 31/12/2006 using the compliance-based methodology. This is based on conducting compliance check in order to determine the efficiency of the Company's internal 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 reports directly to the Audit Committee.

Management Performance

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 three other members represent the Electricity Holding Company, and one member represents the Ministry of Finance. The Board has formed the following three committees:

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

The Human Resources Committee: The Committee's main responsibility is to assist the Board in establishing and developing the Company's human resources policies, including the human resources guide and making the 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	Internal Tender Committee	Human Resources Committee	Internal Audit Committee
Number of Meetings	10	5	2	3
Members:				
H.E. Eng. Sultan Hamdoon Al Harthi	10	4	-	-
Eng. Said Mohammed Al Nabhani	9	4	2	-
Mr. Saber Said Al Harbi	7	-	1	3
Sheikh Mohammed Awfait Al Shanfari	9	-	2	3
Mr. Hilal Khalfan Al Naamani	7	4	-	2

The total remuneration for attending the meetings is R.O. 27,300 (Twenty Seven Thousand Three Hundred Omani Rials)

Human Resources Manual :

The company has implemented its human resource manual in 2005 which has further amended to bring OPWP manual in line with that of Electricity Holding Company.

Performance Management system :

During 2006, the Company has introduced a new Performance Management System based on the Balance Scorecard approach to appraise and reward employees.

Budget 2007 :

The management proposed the Budget for 2007 within the stipulated time frame and it has been approved by the OPWP Board. The approved budget has been submitted to Electricity Holding Company management to obtain approval from both Electricity Holding Company Board and Ministry of Finance.

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 (41) employees.

The training cost during the year 2006 was R.O. 38,570 (Thirty Eight Thousand Five Hundred Seventy Omani Rials), representing about 4.5% of the total work force cost.

Omanisation :

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 manner. The total number of Omani personnel reached 32 out of 41 employees representing 78% of the total work force.

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 as close as possible to the Maximum Allowed Revenue. In case of any deviation (over-recovery or under-recovery), the difference is compensated by a correction factor in the following year's tariffs and charges.

For the Main Business, the Maximum Allowed Revenue is:

Cost of purchased power and desalinated water	
Add:	Cost of purchased fuel (net of sales)
Add:	Licence fee
Add:	Allowance specified by the Authority for the Company's other costs
Add/Less:	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 2006 was O.R.185,792,752 whereas the actual revenue of the Company for the same period was O.R. 197,788,063 i.e. with a difference amounting to approximately 6.5 %.

The company's actual cost for 2006 is O.R 2,475,316 as against the allowance specified by the authority of O.R 2,576,231. This resulted in O.R 100,915 as profit from operations from Main activity.

For the Salalah business, the Maximum Allowed Revenue is:

License fee
Add: Allowance specified by the Authority for the Company's other costs.

The Maximum Allowed Revenue for the Company's Salalah business for 2006 as per the above formula is O .R. 534,032 against which company's actual cost is O.R 560,452. This resulted in the loss from operations of O.R 26,420 for Salalah Activity.

Thus the total profit from operations for Main & Salalah activity for 2006 is O.R 74,495

Audit Reports and Financial Statements :

The attached appendix shows the Financial Statements of the Company for the year ending 31st December 2006, and report of the Company's External Auditor (Deloitte & Touche Middle East).

Deloitte.

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

We have audited the accompanying financial statements of **Oman Power and Water Procurement Company SAOC**, which comprise of the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year ended 31 December 2006, and a summary of significant accounting policies and other explanatory notes as set out on pages 28 to 46.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

As explained in note 2 of these financial statements, the Company has not adopted IFRIC 4 – "Determining whether an arrangement contains a lease", under which certain agreements between the company and relevant power producing companies will be treated as a finance lease as per the provisions of IAS 17 – "Leases" which would result in the following:

- Recognition of the fixed assets related to the generation, transmission and distribution facilities at fair value and the corresponding lease liabilities.
- Depreciation of these assets over their estimated useful lives.
- Recognition of interest cost implicit in the leases.

In the opinion of the management, adoption of this interpretation will result in violation of the conditions in the licence issued by Authority for Electricity Regulation, Oman and other provisions of the sector law. The effect of such non-adoption of the interpretation on these financial statements cannot be quantified.

Opinion

In our opinion, except for the effects of the above, the financial statements present fairly, in all material respects, the financial position of **Oman Power and Water Procurement Company SAOC** as of 31 December 2006, and of its financial performance and its cash flows for the year ended 31 December 2006 in accordance with International Financial Reporting Standards and the relevant disclosure requirements of Commercial Companies Law of 1974, as amended, of the Sultanate of Oman.

Deloitte & Touche

Deloitte & Touche (M.E.)
Muscat, Sultanate of Oman
24 March 2007

P.O.Box 258, P.C. 112
Sultanate of Oman
Deloitte & Touche (M.E.)

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Balance sheet
as at 31 December 2006

	Notes	2006 RO '000	2005 RO '000
ASSETS			
Non-current assets			
Property and equipment	4	93	100
Advance payments	5	20,232	21,049
Total non-current assets		20,325	21,149
Current assets			
Inventories		567	567
Trade and other receivables	6	26,939	44,366
Cash and cash equivalents	7	14,504	5
Total current assets		42,010	44,938
Total assets		62,335	66,087
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	8	500	500
Statutory reserve	9	131	86
Retained earnings		406	777
Due to Electricity Holding Company SAOC	1	7,672	9,172
Total equity		8,709	10,535
Non-current liabilities			
Provision for end of service benefits		69	31
Deferred tax liability	11	3	-
		72	31
Current liabilities			
Trade and other payables	12	52,108	47,946
Bank overdraft	13	1,390	7,461
Provision for current tax	18	56	114
Total current liabilities		53,554	55,521
Total equity and liabilities		62,335	66,087
Net assets per share	14	RO 17	RO 21

Chairman | Director | Chief Executive Officer

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

Income statement
for the year ended 31 December 2006

	Notes	1 January 2006 to 31December 2006	1 May 2005 to 31December 2005
		RO'000	RO'000
Revenue	**15**	**199,920**	137,374
Operating costs	**16**	**(197,312)**	(135,195)
Gross profit		**2,608**	2,179
General and administrative expenses	**17**	**(2,534)**	(1,248)
Profit from operations		**74**	931
Finance charges		**(26)**	(7)
Other income		**462**	53
Profit before tax		**510**	977
Income tax charge	**18**	**(59)**	(114)
Profit after tax		**451**	863
Basic earnings per share (RO)	**19**	**0.902**	1.726

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

Statement of changes in equity
for the year ended 31 December 2006

	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 on 1 May 2005	-	-	-	9,172	9,172
Share capital issued	500	-	-	-	500
Profit for the period	-	-	863	-	863
Transfer to statutory reserve	-	86	(86)	-	-
Balance at 1 January 2006	500	86	777	9,172	10,535
Profit for the year	-	-	451	-	451
Dividend paid	-	-	(777)	-	(777)
Transferred to statutory reserve	-	45	(45)	-	-
Net repayment during the year	-	-	-	(1,500)	(1,500)
Balance at 31 December 2006	**500**	**131**	**406**	**7,672**	**8,709**

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

Statement of cash flows
for the year ended 31 December 2006

	1 January 2006 to 31December 2006 RO '000	1 May 2005 to 31December 2005 RO '000
Operating activities		
Profit before tax	510	977
Adjustments for:		
Depreciation	24	12
Finance charges	26	7
Interest received	(385)	(53)
Advance payments amortized	817	760
Provision for end of service indemnity	38	31
Profit on sale of asset	(3)	-
Operating cash flows before movement in working capital	1,027	1,734
Decrease/(increase) in working capital		
Trade and other receivables	17,427	(43,168)
Trade and other payables	4,162	33,517
Cash generated from / (used in) operations	22,616	(7,917)
Interest paid	(26)	(7)
Income tax paid	(114)	-
Net cash from / (used in) operating activities	22,476	(7,924)
Investing activities		
Acquisition of property and equipment	(28)	(86)
Disposal of property and equipment	14	-
Interest received	385	53
Net cash from / (used in) investing activities	371	(33)
Financing activities		
Share capital issued	-	500
Dividend paid	(777)	-
Bank overdraft	(6,071)	7,461
Net repayment of dues to Electricity Holding Company	(1,500)	-
Net cash (used in) / from financing activities	(8,348)	7,961
Net change in cash and cash equivalents	14,499	4
Cash and cash equivalents at the beginning of the year/period	5	1
Cash and cash equivalents at the end of the year/period	14,504	5

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

Notes to the financial statements
for the year ended 31 December 2006

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 procurement activities pertaining to electricity and related 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").

In accordance with Transfer Scheme, the Company received the following assets and liabilities from the Ministry of Housing, Electricity and Water (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
Total assets	23,601
Trade and other payables	(14,429)
Dues to Electricity Holding Company SAOC as on 1 May 2005	9,172
Net repayment during the year	(1,500)
Dues to Electricity Holding Company SAOC as on 31 December 2006	7,672

Oman Power and Water Procurement Company SAOC is a 99.99% subsidiary of the Electricity Holding Company SAOC (EHC).

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

2 Adoption of new and revised International Financial Reporting Standards (IFRS)

For the year ended 31 December 2006, 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 year beginning on 1 January 2006 except, IFRIC 4 – "Arrangements that contains a lease"

The adoption of these standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current period.

Notes to the financial statements
for the year ended 31 December 2006

2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

Under IFRIC 4 – "Determining whether an arrangement contains a lease", the power purchase agreement between the company and relevant power producing companies will be treated as a finance lease as per the provisions of IAS 17 – "Leases" which will result in the following:

- Recognition of the fixed assets related to the generation, transmission and distribution facilities at fair value and corresponding lease liabilities.

- Depreciation of these assets over their estimated useful lives.

- Recognition of interest cost implicit in the leases.

The management believes that adoption of this interpretation will result in recognition of costs, associated with relevant agreements on a profile inconsistent with the cost recovery mechanism provided for in the licence issued by the Authority for Electricity Regulation, Oman (AER) and recognition of fixed assets which relate to production of power, desalinated water, transmission and distribution activities, which are prohibited under the licence issued by AER and provisions of the sector law. The management is thus of the opinion that adoption of IFRIC 4 and IAS 17 will result in inappropriate reporting of the costs and profits of the Company and hence has not adopted these.

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
IFRS 7	Financial Instruments	1 January 2007
IFRIC 7	Applying the Restatement Approach under IAS 29, Financial reporting in hyper inflationary economies	1 March 2006
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 March 2006
IFRIC 12	Service concession Arrangements	1 January 2008

The directors anticipate that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the Company

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.

Notes to the financial statements
for the year ended 31 December 2006

3 Summary of significant accounting policies (continued)

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.

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

Depreciation is calculated so as to write off the cost amount 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 estimated useful lives used for this purpose are:

Asset	Years
Motor vehicles	7 years
Furniture & equipment	5 years

Impairment

At each 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.

Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Notes to the financial statements
for the year ended 31 December 2006

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

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

The principal financial liabilities are dues to EHC, bank overdraft, trade and other payables. Trade and other payables are stated at their nominal values.

Bank borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, bank borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the years of the borrowings on an effective interest basis.

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.

3 Summary of significant accounting policies (continued)

Taxation (continued)

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.

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.

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

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

Revenue also includes the 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 makes payments to Dhofar Power Company SAOC (DPC) and incurs other related cost. Cash calls are made on an estimated basis to the MOF. The funding for the year is equal to the payments made to DPC, and all other administrative and other costs incurred in respect of the Salalah business and power purchased from Rural Area Electricity Company SAOC (RAECO) for Dhofar region.

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.

Notes to the financial statements
for the year ended 31 December 2006

3 Summary of significant accounting policies (continued)

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.

The following are the significant estimates used in the preparation of the financial statements:

(i) Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

Notes to the financial statements for the year ended 31 December 2006

4 Property and equipment

	Furniture and equipment RO '000	Motor vehicles RO '000	Total RO '000
Cost			
Acquired from MHEW	4	22	26
Additions during the period	57	29	86
1 January 2006	61	51	112
Additions	28	-	28
Deletions	-	(14)	(14)
31 December 2006	**89**	**37**	**126**
Depreciation			
Charge for the period 2005	6	6	12
1 January 2006	6	6	12
Charge for the year	17	7	24
Elimination on disposal	-	(3)	(3)
31 December 2006	23	10	33
Net book value			
31 December 2006	**66**	**27**	**93**
31 December 2005	55	45	100

5 Advance payments

Advance payments pertain to fixed capacity payments made to United Power Company SAOC in respect of power purchases from their 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.

Notes to the financial statements
for the year ended 31 December 2006

6 Trade and other receivables

	2006 RO '000	2005 RO '000
Trade receivable from related parties (Note 20)	**11,827**	13,068
Due from MHEW – Directorate of Water	**14,985**	31,268
Prepayments	**63**	30
Other receivables	**64**	-
	26,939	44,366

7 Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise the following:

	2006	2005
Bank balances and cash	**4**	5
Bank deposit with a maturity of three months or less from the value date of the deposit	**14,500**	-
	14,504	5

8 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	2006 RO	2005 RO
Electricity Holding Co SAOC	99.99%	499,950	**499,950**	499,950
Ministry of Finance	0.01%	50	**50**	50
		500,000	**500,000**	500,000

Notes to the financial statements
for the year ended 31 December 2006

9 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 has reached a minimum one-third of the Company's issued share capital. During the year a sum of RO 45k has been transferred to this reserve from the retained earnings. This reserve is not available for distribution to shareholders as dividends.

10 Proposed dividend

The Board of Directors, in their meeting held on 24 March 2007 have proposed a cash dividend in the amount of RO 0.812 per share aggregating RO 405,767 on the Company's existing share capital. (For the period ended 31 December 2005, RO 1.554 per share aggregating RO 777,000 was proposed and paid as dividend). This dividend is subject to the approval of the shareholders in the Annual General Meeting.

11 Deferred tax liability

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12%. The net deferred tax liability / (asset) and deferred tax charge in the income statement are attributable to the following items:

	Charge for the year RO '000	Balance at 31 December 2006 RO '000
Liability		
Accelerated depreciation	**3**	3
	3	3

12 Trade and other payables

	2006 RO '000	2005 RO '000
Suppliers and contractors payables	**4**	2,612
Dues to Ministry of Finance	**999**	673
Other payables	**97**	100
Due to related parties (Note 20)	**27,055**	34,374
Accrued expenses	**11,400**	7,729
Deferred revenue	**12,553**	2,458
	52,108	47,946

Notes to the financial statements
for the year ended 31 December 2006

12 Trade and other payables (continued)

Included under due to related parties is an amount of RO 1,586k (previous period RO 11,657k) representing payments made against obligations of the Company relating to the period prior to 1 May 2005. An amount of RO nil (previous period RO 9,425 k) was paid directly by Ministry of Finance and remaining amount has been funded by the Government through the Electricity Holding Company SOAC during the year.

13 Bank overdraft

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

14 Net assets per share

	2006 RO '000	2005 RO '000
Net assets (RO '000)	**8,709**	10,535
Number of shares at year/period end ('000)	**500**	500
Net assets per share (RO)	**17**	21

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

15 Revenue

	1 January 2006 to 31December 2006 RO '000	1 May 2005 to 31 December 2005 RO '000
Bulk supply tariff for electricity	**139,943**	97,286
Bulk supply tariff for desalinated water	**44,085**	31,268
Net funding from Ministry of Finance	**12,226**	6,634
Recharge of interconnection transmission facilities	**3,666**	2,186
	199,920	137,374

Notes to the financial statements
for the year ended 31 December 2006

16 Operating costs

	1 January 2006 to 31 December 2006 RO '000	1 May 2005 to 31 December 2005 RO '000
Electricity capacity and output purchase costs	**145,266**	97,880
Desalinated water capacity and output purchase costs	**43,476**	30,843
Funding for Dhofar Power Company SAOG	**8,570**	5,774
Fuel costs	**-**	698
	197,312	135,195

17 General and administrative expenses

Staff costs	**866**	512
License fee to regulator	**143**	132
Service expenses	**1,289**	428
Directors' remuneration and sitting fees	**27**	25
Depreciation	**24**	12
Other expenses	**185**	139
	2,534	1,248

18 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-available. The tax charge applicable to the Company is 12%. The effective tax rate is 11.1%.The deferred tax on all temporary differences have been calculated and dealt with in the income statement (Note 11).

	1 January 2006 to 31 December 2006 RO '000	1 May 2005 to 31 December 2005 RO '000
Tax charge for the year /period comprises:		
Current tax	**56**	114
Deferred tax	**3**	-
	59	114

Notes to the financial statements
for the year ended 31 December 2006

18 Income tax charge (continued)

The reconciliation between tax on accounting profit and tax profit is as follows:

	1 January 2006 to 31 December 2006 RO '000	%	1 May 2005 to 31 December 2005 RO '000	%
Profit before tax	**510**	**-**	977	-
Tax @ 12% after basic exemption of RO 30k	**59**	**11.6**	114	11.7
Tax effect of temporary differences	**(3)**	**(0.5)**		
Tax charge for the year/period and provision for tax	**56**	**11.1**	114	11.7

19 Basic earnings per share

	2006	2005
Profit for the year/period (RO '000)	**451**	863
Number of shares at year/period end ('000)	**500**	500
Earnings per share (RO)	**0.902**	1.726

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

20 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.

Notes to the financial statements
for the year ended 31 December 2006

20 Related parties (continued)

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 /period end are unsecured and settlement occurs in cash.

No expenses have been recognized in the year/ 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 year/period:

	2006 RO '000	2005 RO '000
Revenue		
Bulk supply tariff for electricity	**139,943**	97,286
Recharge of interconnection transmission facilities	**3,666**	2,186
Expenses		
Electricity capacity and output purchase costs	**67,109**	50,871
Desalinated water capacity and output purchase costs	**27,645**	20,802
Accounting service charge	**233**	154
Funding of obligations prior to 1 May 2005		
Electricity Holding Company SAOC	**1,586**	11,657

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 1, 6 and 12 in these financial statements.

Key management benefits

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).

	1 January 2006 to 31 December 2006 RO '000	1 May 2005 to 31 December 2005 RO '000
Short term benefits	**229**	141
Post employment benefits	**15**	3
Directors' sitting fees and remuneration	**27**	25
	271	169

Notes to the financial statements
for the year ended 31 December 2006

21 Contingencies

Contingent assets

a. Transmission & distribution allowance

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 determined in favor of the DPC on 24 August 2005. Based on the expert's determination, the Company has paid to DPC its claim amount of RO 676,361 as well as continued to pay the higher allowance of RO 106,855 during the year and has claimed the same, as pass through cost, from MOF. However, the Government has notified to DPC that it intends to challenge the ruling of the Expert through the process of arbitration.

b. Salalah Concession Agreement Related Penalties

For 2003

During 2004, the Company notified Dhofar Power Company "DPC", its claim on it for penalties of approximately RO 1.1 million in respect of certain non-compliance with the concession agreement by DPC during 2003.

In accordance with the provisions of the Concession Agreement, the parties referred the issues in this regard to an independent expert. The Expert determined 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.

For 2004

In 2005, the Company has claimed RO 1.965 million, as penalties from DPC for certain non-compliance with the Concession Agreement during 2004.

For 2005

In March 2006, the Company has claimed from DPC RO 439,453, as penalties for certain non-compliance with the Concession Agreement during 2005.

For 2006

The Company is yet to receive the System Performance Report for the year 2006, which may identify any non-compliance with the Concession Agreement leading to claims by the Company on DPC.

All receipts and payments related to DPC are pass through transactions to Ministry of Finance.

Notes to the financial statements
for the year ended 31 December 2006

22 Financial instruments

Trade and other receivables comprise amounts due from related parties.

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs.

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.

23 Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue in their meeting held on 24 March 2007.

24 Comparative figures

Certain comparative figures have been regrouped and reclassified wherever necessary to match with current year presentation. The comparative figures in the income statement and cash flow statement represents results of operations for an eight month period commencing on 1 May 2005 to 31 December 2005 and are not comparable to current year presentation.