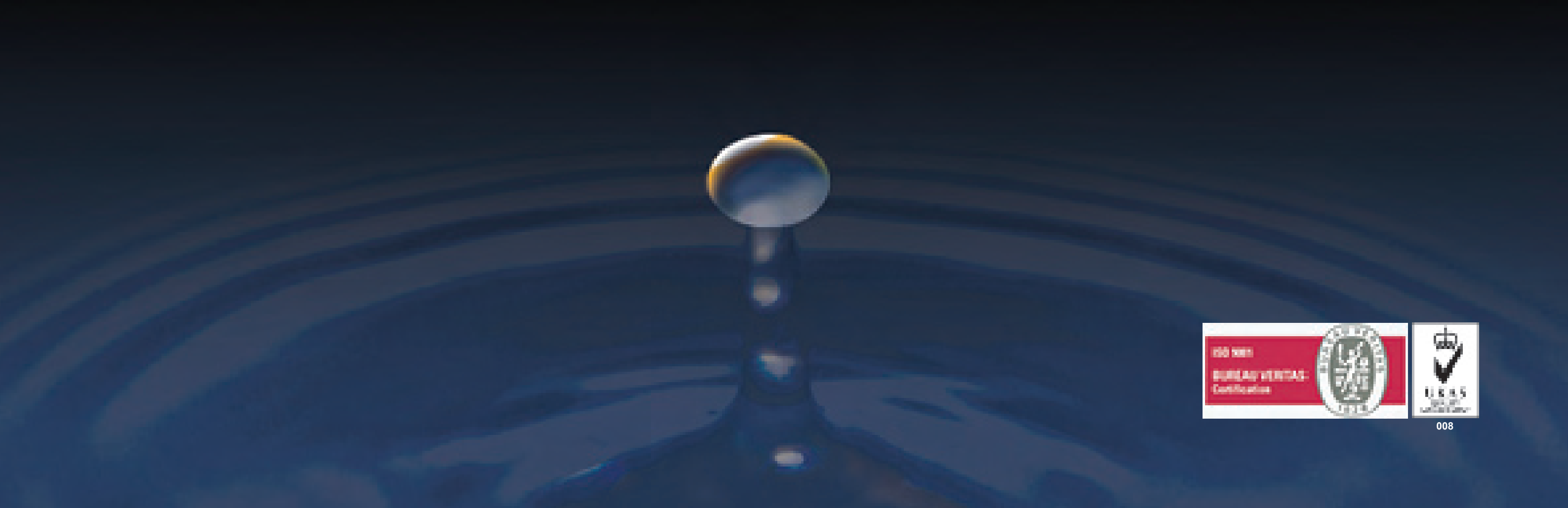
OMAN POWER AND WATER PROCUREMENT CO. (SAOC)

Annual Report 2007



OMAN POWER AND WATER PROCUREMENT CO. (SAOC)

PO Box 1388, Postal Code: 112, Sultanate of Oman. Tel: (+968) 24823000 Fax: (+968) 24816328
Location: Muscat International Centre, 2nd Floor, Suite 504, CBD, Ruwi

His Majesty
Sultan Qaboos bin Said

Vision

To be a leading and professionally managed company meeting international quality standards securing supply of electricity and related water and providing the best work environment in Oman.

Mission

to ensure that there is electricity and related water available at the lowest cost to meet the growing demands in Oman,

to benchmark with the international quality standards;

and to provide challenging employment opportunities for Omanis.

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Board of Directors & Executive Team

HE. 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

Eng. Saleh bin Hamood Al Rashdi
Chief Executive officer (Acting)

Chairman's Foreword

Dear Shareholders,

It is my pleasure, on behalf of the members of the Board, to present to you the Annual Report, for the year 2007, of Oman Power and Water Procurement Company (SAOC).

The Company has achieved good financial results during 2007. The net profit after tax stood at RO 1.301 million in 2007 compared to RO 0.451 million earned in 2006. The earning per share stood at RO 2.602 per share in 2007 compared to 0.902 per share in 2006.

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 31st December 2007 together with the Auditor's Report. (Deloitte and Touche – Middle East).

Following are some of the achievements of the Company during the year 2007:

- Salalah Independent Water and Power Project's Request for Proposals has been issued to the Pre-Qualified Bidders by Government Tender Board.
- Commercial Operation of Sohar Power and Desalination Project commenced on 28th May 2007.
- Successful re-commissioning of two turbines in Salalah Power System.

In addition:

- Oman Power and Water Procurement Company has become the first company amongst the companies owned by Electricity Holding Co. to obtain the prestigious ISO 9001:2000 Quality Management System (QMS) Certification; and
- the internationally-recognized financial rating agency, Moody's Investor Service, has assigned long local and foreign currency issuer ratings of A2 to OPWP. OPWP is one of the first companies in the electricity sector in Oman to be assigned a rating by Moody's. The rating provides independently – verified assurance to companies doing business with OPWP of the soundness of OPWP's business and of its ability to meet its financial obligations. It came after a thorough assessment of OPWP's organization and operations by Moody's.

The Company shall endeavor, during the upcoming period, to further improve its performance and the level of services and fulfill its obligations as per the Sector Law and its Licence 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 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 3rd year of operation satisfactorily. I would also like to thank the Electricity Holding Company, other Affiliated Companies in the Sector and Authority for Electricity Regulation - Oman for the support they have extended to the Company.

Finally, I would like, on behalf of the Board Members, the Executive Management and the 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 Oman Power & Water Procurement Company

The OPWP 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) states 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 (MHEW) 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 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% is 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 of Public Authority for Electricity and Water (PAEW) 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 1140 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.

Compliance with Licence Requirements

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. The following are the requirements completed in 2007:

- Seven Year Statement

In accordance with Condition 5 of the Licence, OPWP has prepared its 7 Year Statement which provides a 7-year outlook (for the years 2008 to 2014) 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 Power System.

- Bulk Supply Tariff

In accordance with Article 74 of the Sector Law, Condition 21 of the Licence and the terms of the relevant Bulk Supply Agreements, OPWP has issued the Bulk Supply Tariffs of electricity and water for the year 2008.

The Bulk Supply Tariff means the tariff charged by the OPWP for the bulk supply of electricity to the licensed suppliers (namely Muscat Electricity Distribution Company, Majan Electricity Company and Mazoon Electricity Company) and bulk supply of desalinated water to the Public Authority for Electricity and Water (PAEW).

OPWP has published Bulk Supply Tariff leaflets which set out for both electricity and desalinated water:

- The rates to be charged for Bulk Supplies.
- The method to be used to determine the quantities of Bulk Supply chargeable.
- The arrangements for invoicing and payment.

Power and Water Generation Projects

OPWP chief concern is developing Power and Related Water Projects through the Private Sector in conformity with the Sector Law and in the form of Build, Own and Operate (BOO), so that the demand on electricity and related water is met in coordination with other competent authorities. Some of those projects are:

- Sohar Independent Water and Power Project (IWPP)

The Government and Sohar Power Company SAOC (SPC) executed the Project Agreements in July 2004. The project consists of a 585 MW Combined Cycle Gas Turbine power generation plant and a 33 million imperial gallons a day (6250 cubic meters per hour) water desalination plant.

Early generation embarked upon to support the main grid requirement during summer 2006 of approximately 360 MW was achieved on 1st May 2006, as against the scheduled early power as per the Power and Water Purchase Agreement (PWPA) was on 1st April 2006. The plant Commercial Operation Date (COD) was achieved on 28th May 2007, as against the scheduled plant COD was on 1st April 2007.

- Barka IWPP (Phase II)

The OPWP and SMN Barka Power Company executed the Project Agreements on 6th December 2006 for power capacity of 678 MW and desalination water of 5000 cubic meters per hour. The project is to be implemented in two phases:

Phase one: Early power of 363 MW starting on 29th May 2008.

Phase two: The commercial operation of 678 MW and 5000 Cubic Meter per hour Plant starting on 1st April 2009.

The final notice to proceed with construction has been issued by SMN Barka Power Company to Doosan Heavy Industries & Construction Company (an EPC Contractor) on 25th January 2007 in order to proceed with the construction of the plant. The construction of the plant and associated projects is in progress.

- Salalah IWPP (New Project)

OPWP has identified a need for additional capacity for electricity and desalinated water of around 400 MW and 15 MIGD respectively to meet the increasing demand for electricity and water in Dhofar Region, as a result of the developments of the domestic, industrial and tourism sector.

The project will cover the design, construction, development, financing, operation and maintenance and ownership of a power and water plant to be commissioned in three Phases by 2010 with Commercial Operation Date by the Forth Quarter of 2010. The Project will be located in the costal area between Taqah and Mirbat and will be implemented in three phases:

Phase one: at least power capacity of around 80 MW by June 2010.

Phase two: at least power capacity of around 220 MW and desalinated water capacity of 15 MIGD by August 2010.

Phase three: Commercial Operation Date of the Plant with full capacity of around (400 MW of electricity and 15 MIGD of water by November 2010.

After a successful Pre-Qualification process completed on September 2007, the Government Tender Board issued the Request for Proposal (RFP) to the qualified bidders on 26th November 2007, with due date of submission as 7th April 2008.

Internal Audit

The Company believes that the presence of effective internal audit and control contributes to efficient and effective performance of Company activities and assists in ensuring compliance with the laws and regulations. The Company has appointed Ernst & Young (E&Y) as internal auditor for the period from 1st January 2007 to 31st December 2007 to carry out the audit using the business risk approach which includes consideration of external management, financial, operational and strategic risks.

E&Y's approach during the risk assessment is to:

- Identify the universe of business risks associated with the Company's business goals and strategies.
- Align and prioritize internal audit work to address those risks, the associated critical success factors and the appropriateness and accuracy of key performance indicators used to manage those risks.

Operational Performance

- Long Term Power & Water Purchase, Concession and Bulk Supply Agreements:

The following table shows the Plant's type of Agreement and Ownership:

Generation/Desalination Plant	Type of Agreement	Ownership
Al Ghubra Power & Desalination Plant	Power and Water Purchase Agreement	Al Ghubra Power & Desalination Company SAOC (Government Ownership)
Al Rusail Power Plant	Power Purchase Agreement	Al Rusail Power Company SAOC (Private Ownership)
Wadi Al Jizzi Power Plant	Power Purchase Agreement	Wadi Al Jizzi Power Company SAOC (Government Ownership)
Barka Power & Desalination Plant Phase 1	Power and Water Purchase Agreement	AES Barka SAOG (Private Ownership)
Al Kamil Power Plant	Power Purchase Agreement	Al Kamil Power Company SAOG (Private Ownership)
Manah Power Plant	Power Purchase Agreement	United Power Company SAOG (Private Ownership)
Sohar Power & Desalination Plant	Power and Water Purchase Agreement	Sohar Power Company SAOC (Private Ownership)
Barka Power and Desalination Plant Phase 2 (under construction)	Power and Water Purchase Agreement	SMN Barka Power Company SAOC (Private Ownership)
Dhofar Power Plant	Concession Agreement	Dhofar Power Company SAOG (Private Ownership)

The following table shows bulk supply customers and the type of supply:

Bulk Supply Customers	Type of Supply
Muscat Electricity Distribution Company SAOC (Government Ownership)	Electricity
Majan Electricity Company SAOC (Government Ownership)	Electricity
Mazoon Electricity Company SAOC (Government Ownership)	Electricity
Public Authority for Electricity and Water	Desalinated Water

The following table shows the power and water capacity of the plants, the quantity of power and water purchased and gas consumption during year 2007, 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	465	7575	2604.093	52.887	1261
Al Rusail Power Plant	653	-	2526.528	-	898.1
Wadi Al Jizzi Power Plant	274	-	998.752	-	367.5
Barka Power & Desalination Plant Phase (1)	427	3800	2169.972	29.430	602.3
Al Kamil Power Plant	272	-	1089.399	-	379.1
Manah Power Plant	271	-	981.848	-	350.8
Sohar Power and Desalination Plant	585	6250	1993.949	1.886	486.4
Main Interconnected System (Total)	**2947**	**17625**	**12364.541**	**84.203**	**4345.2**
Dhofar Power Plant	235	-	1372.862	-	444
Total	**3182**	**17625**	**13737.403**	**84.203**	**4789.2**

The following table shows the power and water charges of the plants during year 2007:

Plant	Total Power & Water Purchase Cost	Total Fuel Cost (Power & Water)
	Million RO	Million RO
Al-Ghubra Power & Desalination Plant	52.233	25.733
Al-Rusail Power Plant	27.561	18.327
Wadi Al-Jizzi Power Plant	13.704	7.5
AES Barka Power & Desalination Plant	40.351	12.291
Al-Kamil Power Plant	15.88	7.736
Manah Power Plant	17.342	7.159
Sohar Power & Desalination Plant	25.927	10.3
Privisions/adjustments	3.152	–
Main Interconnected System	**196.150**	**89.046**
Dhofar Power Plant	18.912	9.077
Total	**215.062**	**98.123**

- 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 2007:

Company Name	Quantity of Power (GWh)	Power Purchased Cost (Million RO)
Oman Cement Company	5.857	0.033
Oman Mining Company	76.970	0.846
Others	32.485	0.163
Main Interconnected System (Total)	115.312	1.042
Rural Area Electricity Company (Raysut A & B)	14.524	2.267
Total	**129.836**	**3.309**

- Figures showing power and water statistics from various plants

Figure 1: Shows the net plants capacities (MW) feeding the Main Interconnected System at 50º C Ambient Temperature. The net plant capacities in 2007 are 2947 MW.

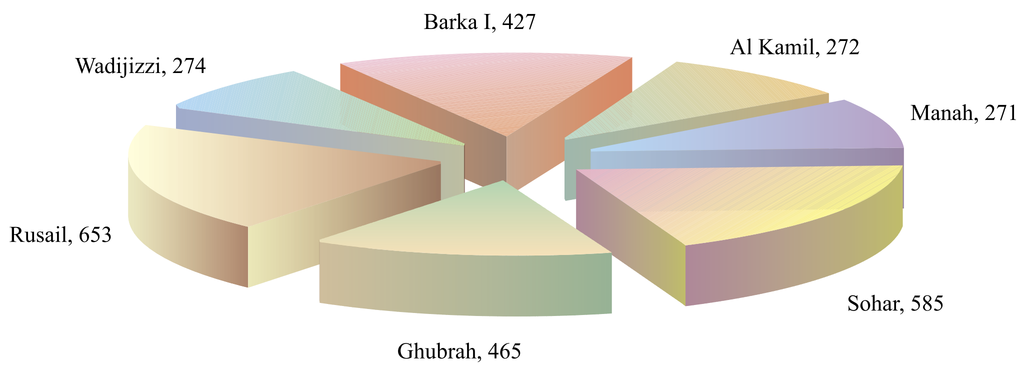


Figure 2: Shows the power peak demand of 2007 in the Main Interconnected System and the contribution of each plant. Peak demand in the Main Interconnected System (plus exports to the interconnected system of PDO) reached 2687 MW on 15th July 2007. The peak demand in 2007 in Salalah Power System reached 251 MW on 20th May 2007.

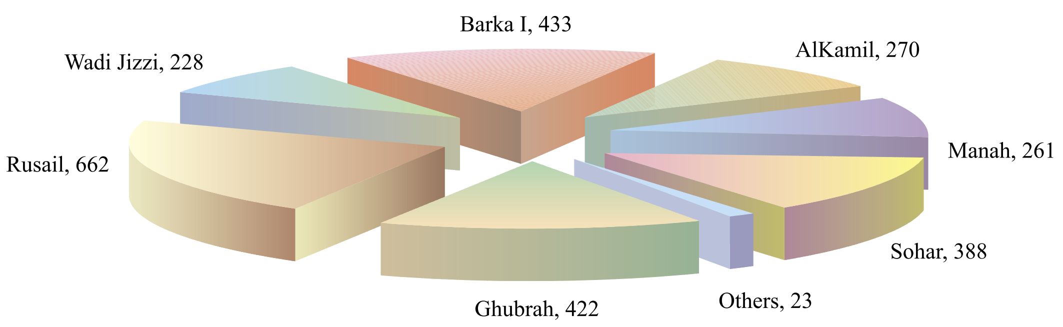


Figure 3: Shows power plants utilization in 2007.

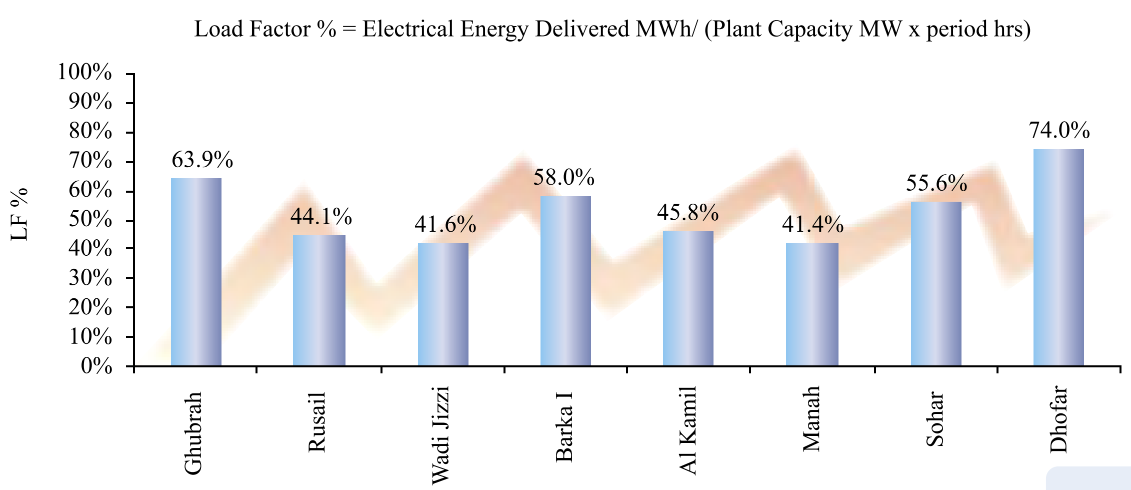


Figure 4: Shows Desalination Plants Capacities (Cubic Meter/hr) in 2007.

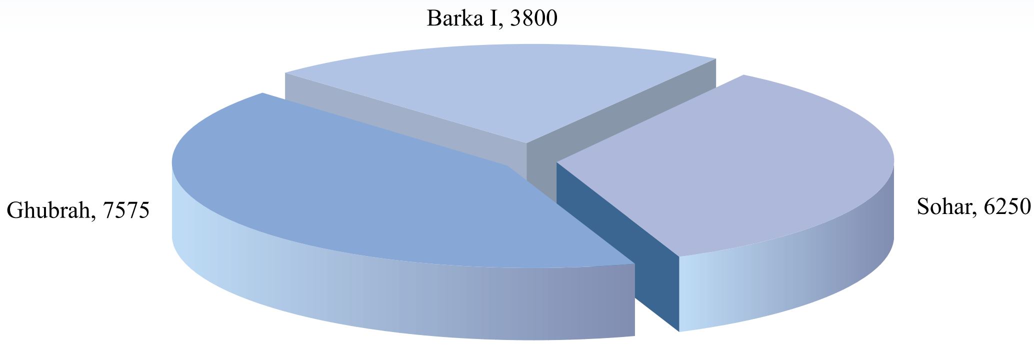


Figure 5: Shows Desalination plants utilization in 2007. The utilization of Sohar power and water plant is low due to delayed completion of the distribution network.

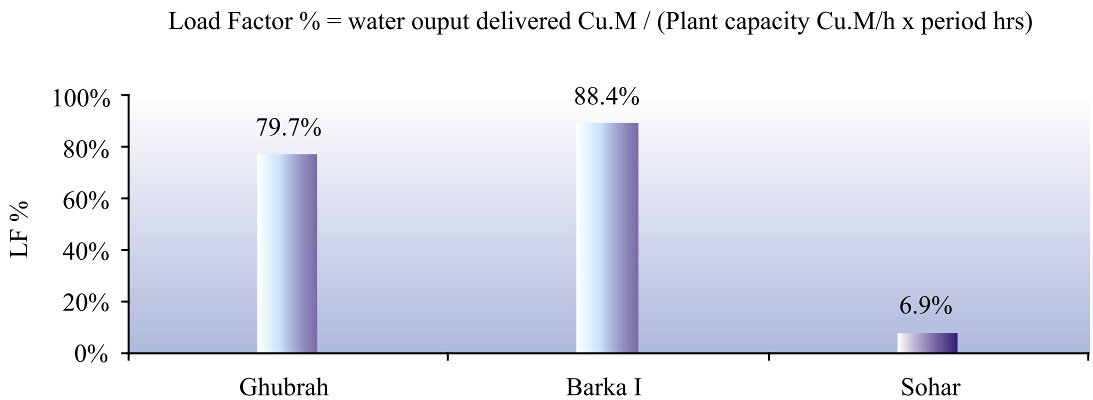


Figure 6: Shows Electrical Energy purchased in 2007.

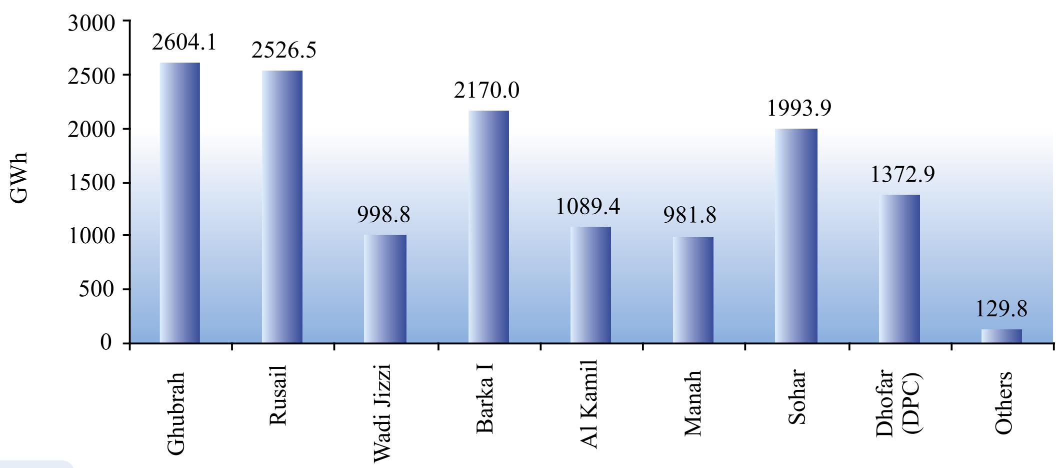


Figure 7: Shows Water output purchased in 2007.

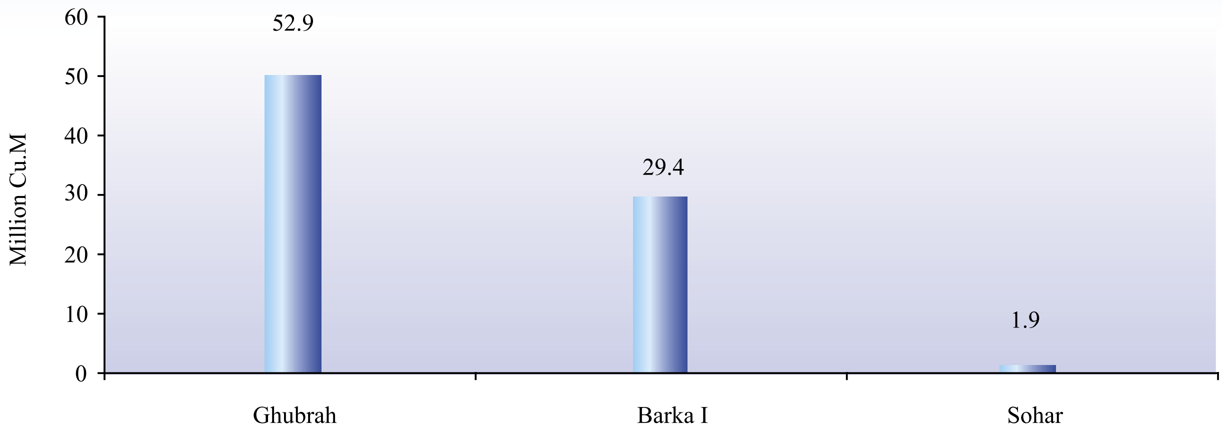


Figure 8: Shows Fuel Gas consumption in 2007.

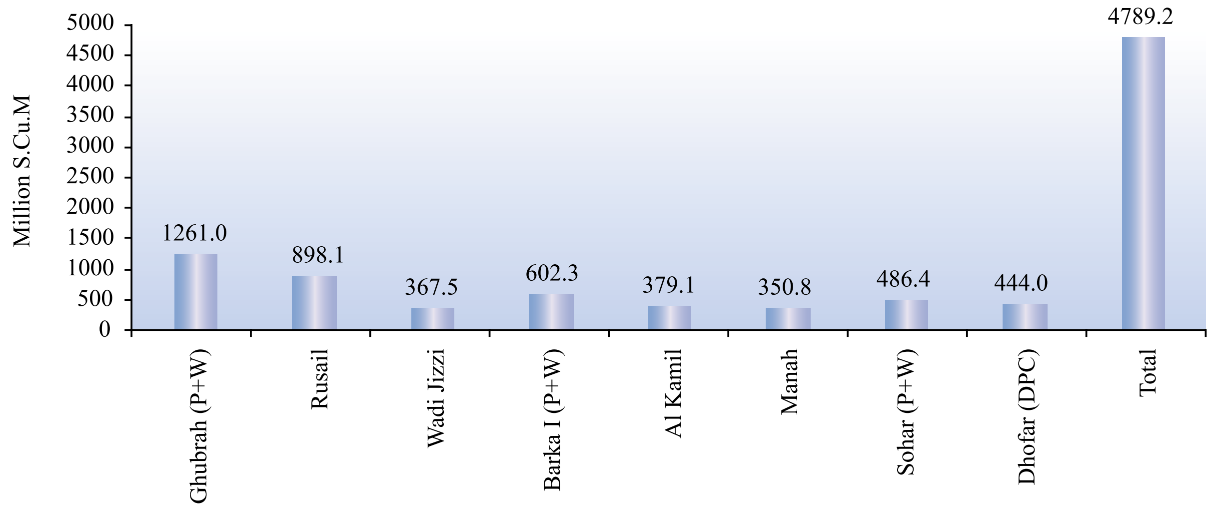


Figure 9: Shows the monthly electrical energy purchased in 2007 in the Main Interconnected System.

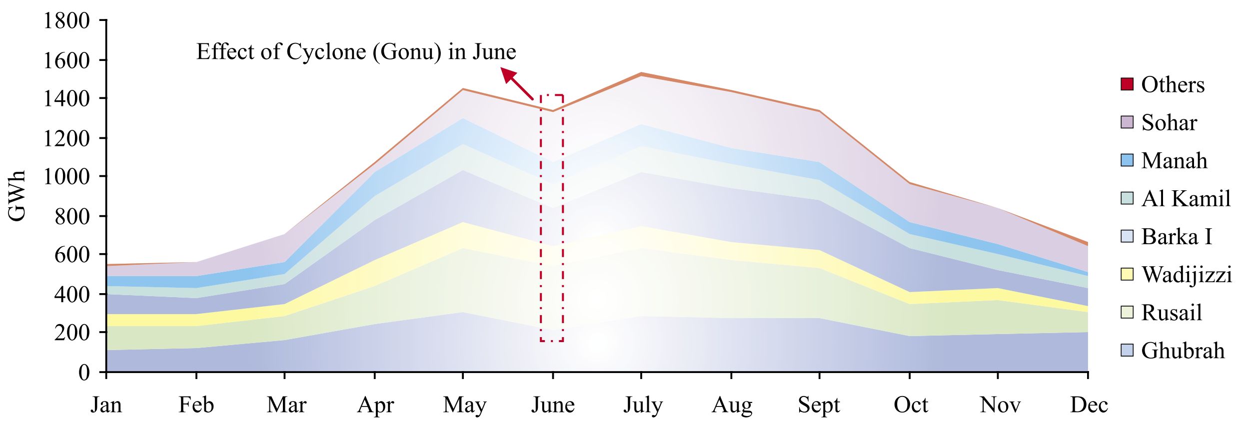


Figure 10: Shows water sold to Public Authority for Electricity and Water in 2007.

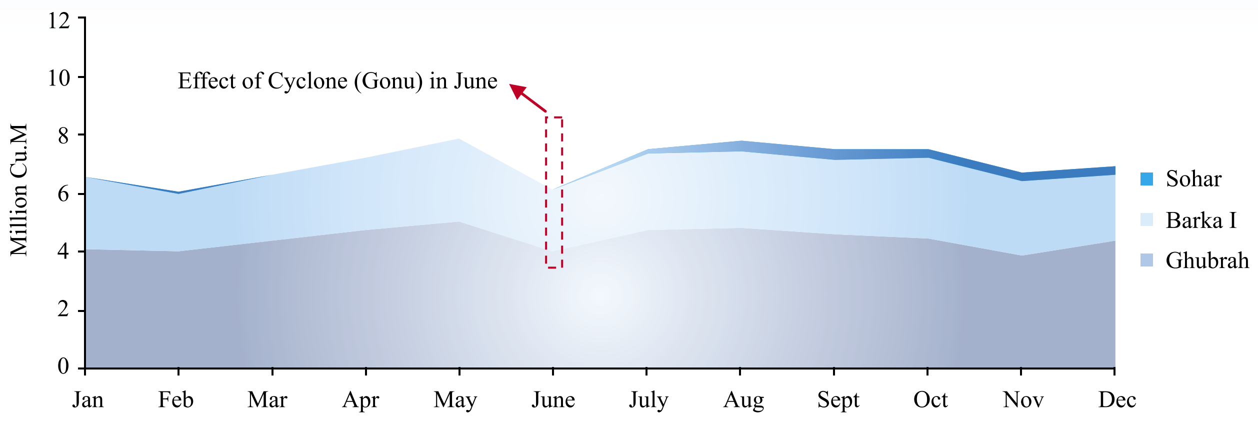


Figure 11: Shows the Electrical Energy delivered to the Main Interconnected System in the years (2004-2007) and indication of the yearly power demand growth.

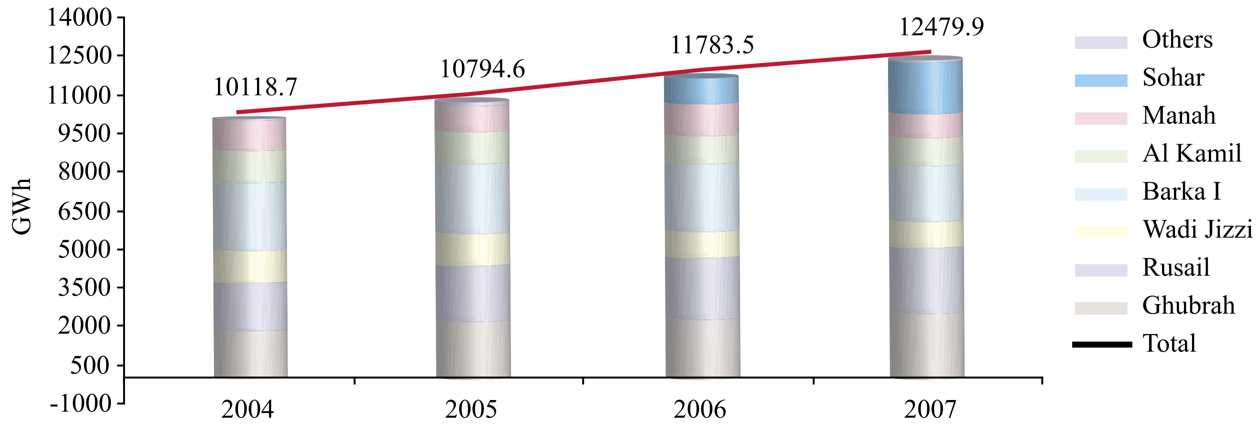


Figure 12: Shows water output exported to Public Authority for Electricity and Water in the years (2004-2007) and indication of yearly water demand growth.

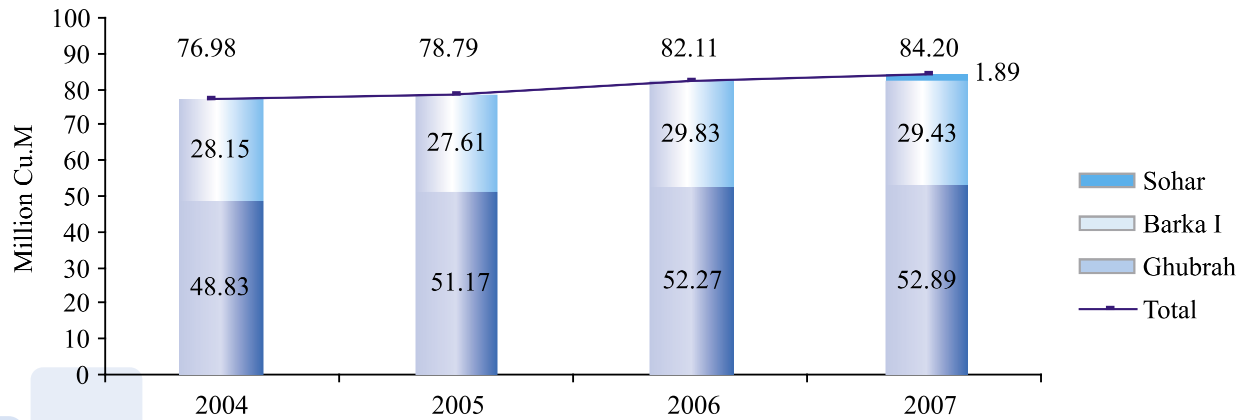


Figure 13: Shows power peak demand in the Main Interconnected System in the years (2004-2007).

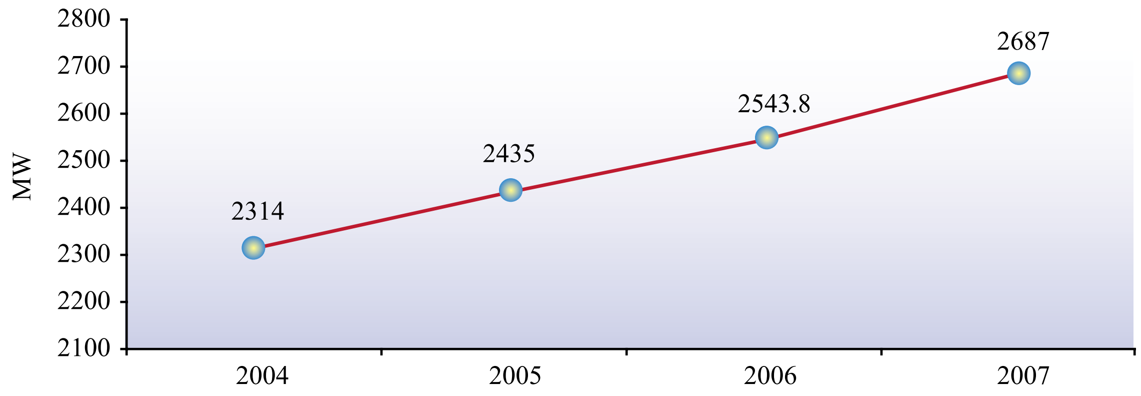


Figure 14: Shows the quantities of Electricity Supplied to Distribution Companies (Muscat, Majan and Mazoon) in 2007.

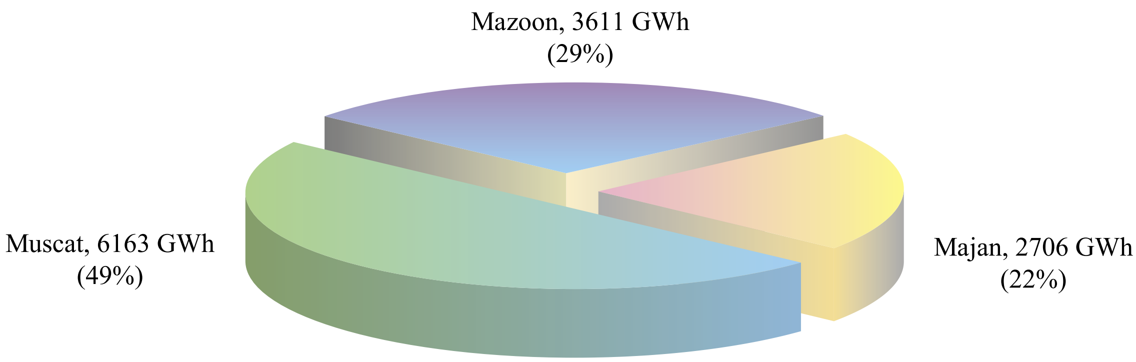


Figure 15: Shows the Electricity Bulk Supply Charges in 2007.

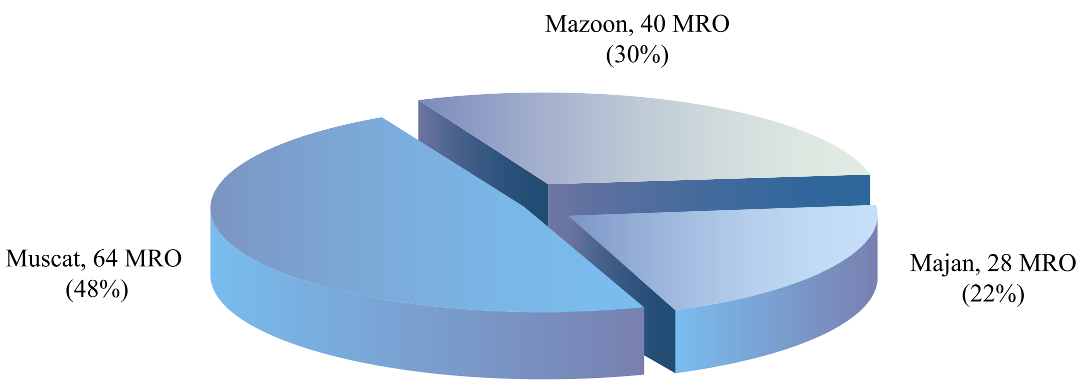


Figure 16: Shows monthly Electricity Bulk Supply and charges in 2007.

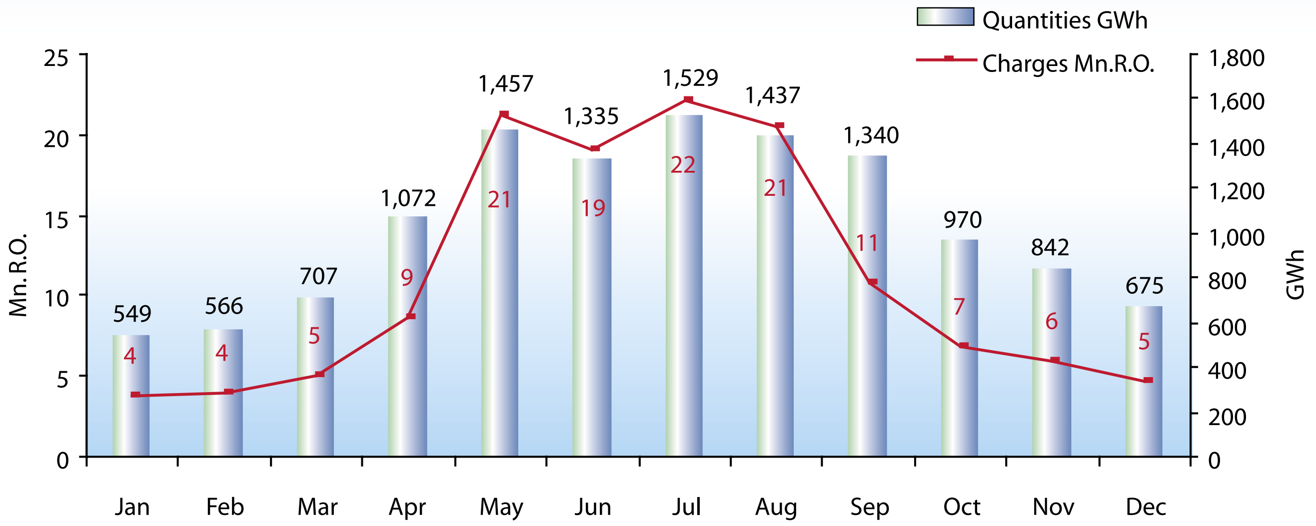


Figure 17: Shows the average monthly Electricity Bulk Supply Tariff in 2007.

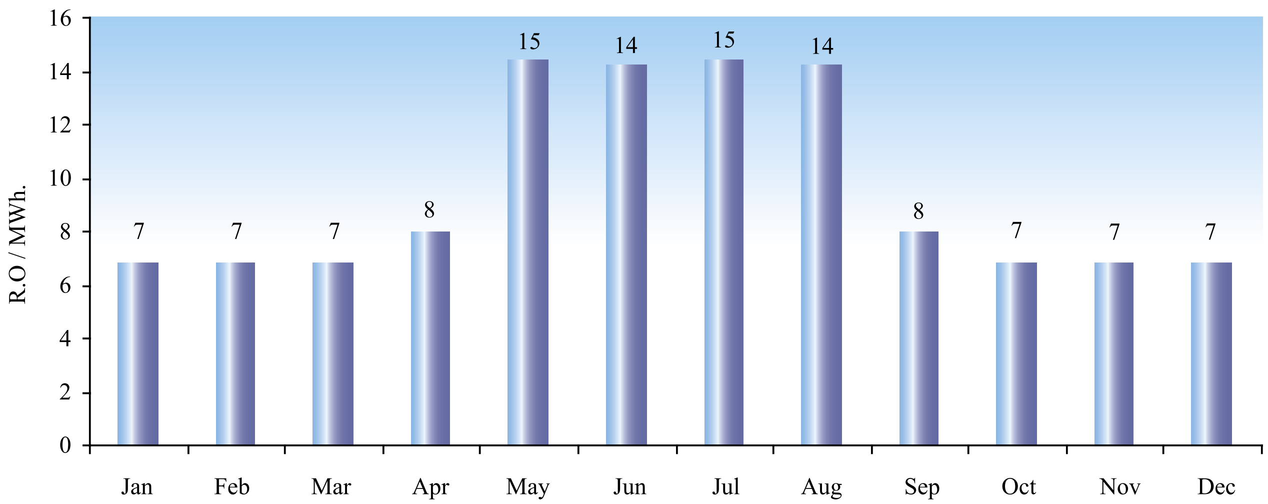


Figure 18: Shows Water Bulk Supply Charges classified by plant in 2007.

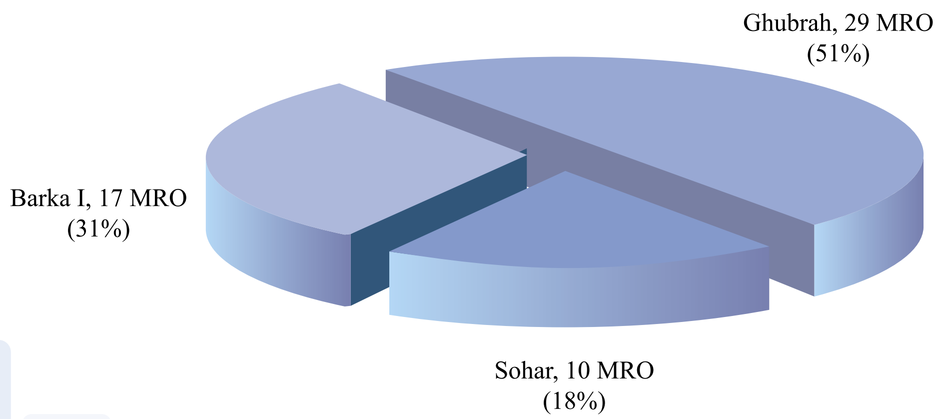


Figure 19: Shows Water Bulk Supply Charges in 2007 classified by plant and type of charge.

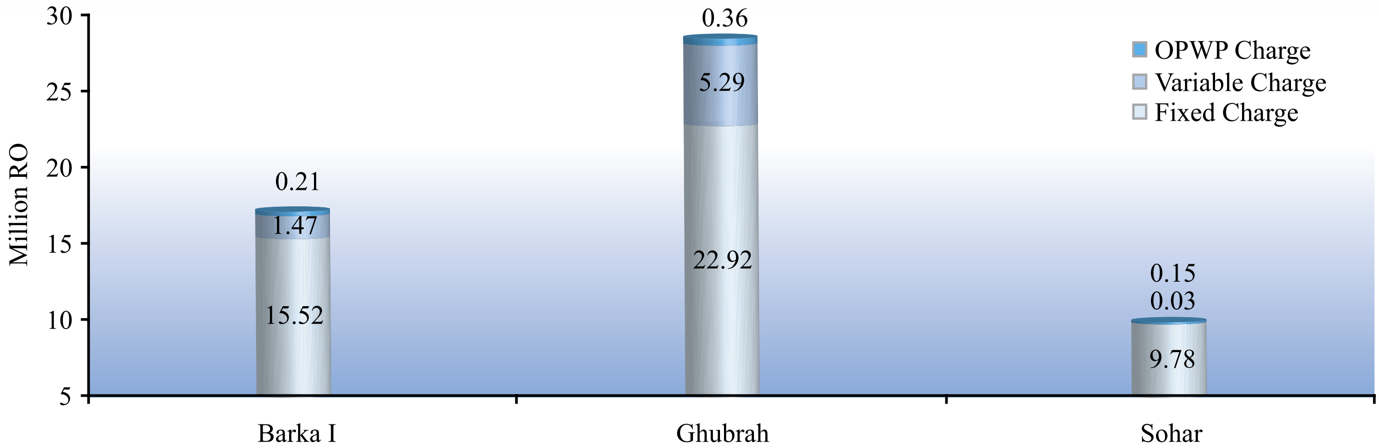
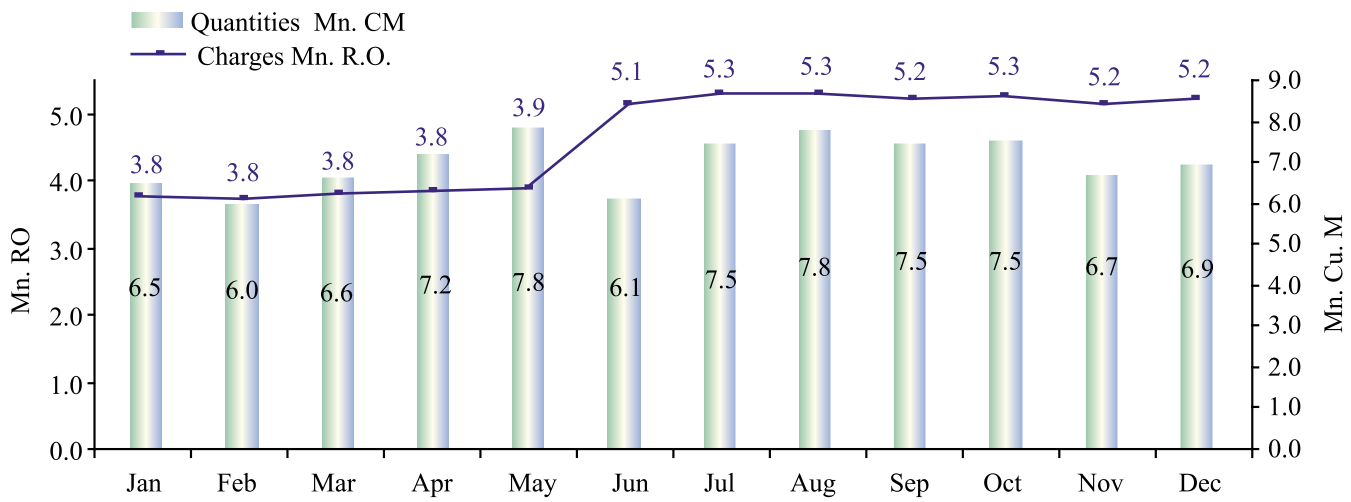


Figure 20: Shows monthly Water Bulk Supply (quantities and related charges) in 2007.



Management of Power and Water Purchase Agreements:

Due to the importance of maintaining business relations and smooth interfaces, the Company is putting in efforts into the improvement of the management of the P(W)PAs, and is eager to improve relationship with the Generators and to develop a professional performance of its activities. However, OPWP is facing some challenges that need to be resolved namely:

- Dispute with Dhofar Power Company (DPC) 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 Concession Agreement). The expert decided in favor of DPC. OPWP has notified DPC of its intention to refer the dispute to arbitration as stipulated in the Concession Agreement. OPWP and DPC have agreed to suspend action on the dispute pending the outcome of the implementation of the Memorandum of Understanding (MoU) with regard to the restructuring of Salalah Power System.

- The dispute with DPC regarding the penalties for power outages as per Customer Services and Supply Standard of Concession Agreement for the year 2003 was referred in accordance with the Concession Agreement to an Expert who decided in favour of DPC. OPWP has notified DPC of its intention to refer the dispute to Arbitration in accordance with the provisions of the Concession Agreement. Differences in calculation of penalties occurred also in the years 2004, 2005 and 2006. These differences / disputes by agreement of the parties have been suspended pending the outcome of the restructuring of the Salalah Power System under the MoU. More details can be referred in Financial Statements.

- 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 is under process of resolution.

- The company has claimed from SPC liquidated damages for delay in achieving Early Power Comercial Operation Date (COD) and Plant COD.

- The dispute with Al Rusail Power Company (RPC) with regard to the deductions made in their monthly invoices was a result of RPC not conducting the Annual Performance Tests to the generation units as stipulated in the provisions of the Power Purchase Agreement executed with the Company. RPC has submitted a complaint to the Authority for Electricity Regulation, Oman, which is not in confirmity with the mechanism stipulated in this Agreement to resolve such difference/ dispute.

Salalah Power System

As a privatization initiative of the Government, the Salalah Power System commenced the operation from May 2003 pursuant to the Salalah Concession Agreement entered into by the Government with Dhofar Power Company SAOC (DPC). Since May 2005, OPWP is managing Salalah Concession Agreement. The activities covered under the agreement are monitoring of operation and maintenance of Salalah Power System, new expansion in production, transmission, distribution and customer services related activities and review the System Performance and quality service reports submitted by (DPC). The Company also reviews and approves Five year and Annual Business Plan submitted by DPC.

A. Restructuring of the Salalah Power System

The shareholders of DPC have signed a MoU on 20th October 2006 with OPWP for the restructuring of the Salalah Power System with a term of 12 months which has been recently extended to 24 months. Efforts are being expended by the related parties to achieve a successful conclusion.

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

OPWP and DPC entered into Second Agreement relating to Generation Assets for the handover of the two Gas Turbines (LM2500 and 30 MW GT) on 28/10/2006.

The scheduled completion dates of the 30 MW Gas Turbine and LM2500 Gas Turbine have been successfully achieved in accordance to the Second Agreement Relating to the Generation Assets as follows:

- The 30 MW Gas Turbine completion date was in 15/05/2007

- The LM2500 Gas Turbine completion date was in 11/09/2007.

Management Performance

A. The Board of Directors

The Board of Directors is comprised of five non-executive members appointed by the shareholders. 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 Audit Committee: The committee observe and study all aspects related to appointment of External and Internal Auditors, review Audit plan and results of the audit, checking financial fraud particularly fictitious and fraudulent portions of the financial statement, oversight of aspects related to preparation of financial statement with particular reference to review of annual and quarterly financial statements before issue and review of reservations of external auditors on the draft financial statements.

- 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 manual and recruitment of 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 the top management positions. The following table shows the number of meetings held by the Board and its committees and attendance of members:

Board Members	Board Meeting	Internal Tender Committee	Human Resources Committee	Audit Committee	Board sitting fees	Committee meeting fees	Bonus
	Number of Member's Meeting				R.O		
	10	18	4	4			
H.E Sultan Hamdoon Al Harthi	7	7	0	0	2,100	1,225	10,000
Eng. Said Mohammed Al Nabhani	8	0	4	0	1,600	700	5,000
Mr. Saber Said Al Harbi	10	0	4	4	1,525	875	5,000
Sh. Mohammed Owfait Al Shanfari	8	0	3	3	1,400	1,000	5,000
Mr. Hilal Khalfan Al Naamani	4	2	0	2	400	475	2,222
Mr. Mohammed Rashid Al Khamyasi (Alternate member)	5	1	0	2	1,000	525	2,778
Total					**8,025**	**4,800**	**30,000**

The total remuneration for attending the meetings and bonus is approximately R.O. 42,825

B. Credit Rating

The internationally-recognized financial rating agency, Moody's Investor Service, has announced in October 2007 that it has assigned long term local and foreign currency issuer ratings of A2 to OPWP.

OPWP is one of the first companies in the electricity sector in Oman to be assigned a rating by Moody's. The rating provides independently-verified assurance to companies doing business with OPWP of the soundness of OPWP's business and of its ability to meet its financial obligations. It came after a thorough assessment of OPWP's organization and operations by Moody's.

C. ISO 9001:2000 Certification

OPWP has become the first company in the Sultanate's electricity sector to obtain the prestigious ISO 9001:2000 Quality Management System (QMS) Certification. It is to be noted that OPWP has been officially awarded the certification by Bureau Veritas, an internationally recognized independent certification body on 30th December 2007. This means that OPWP's accredited management processes are certified to meet the stringent requirements of ISO, which acts as the benchmark for QMS.

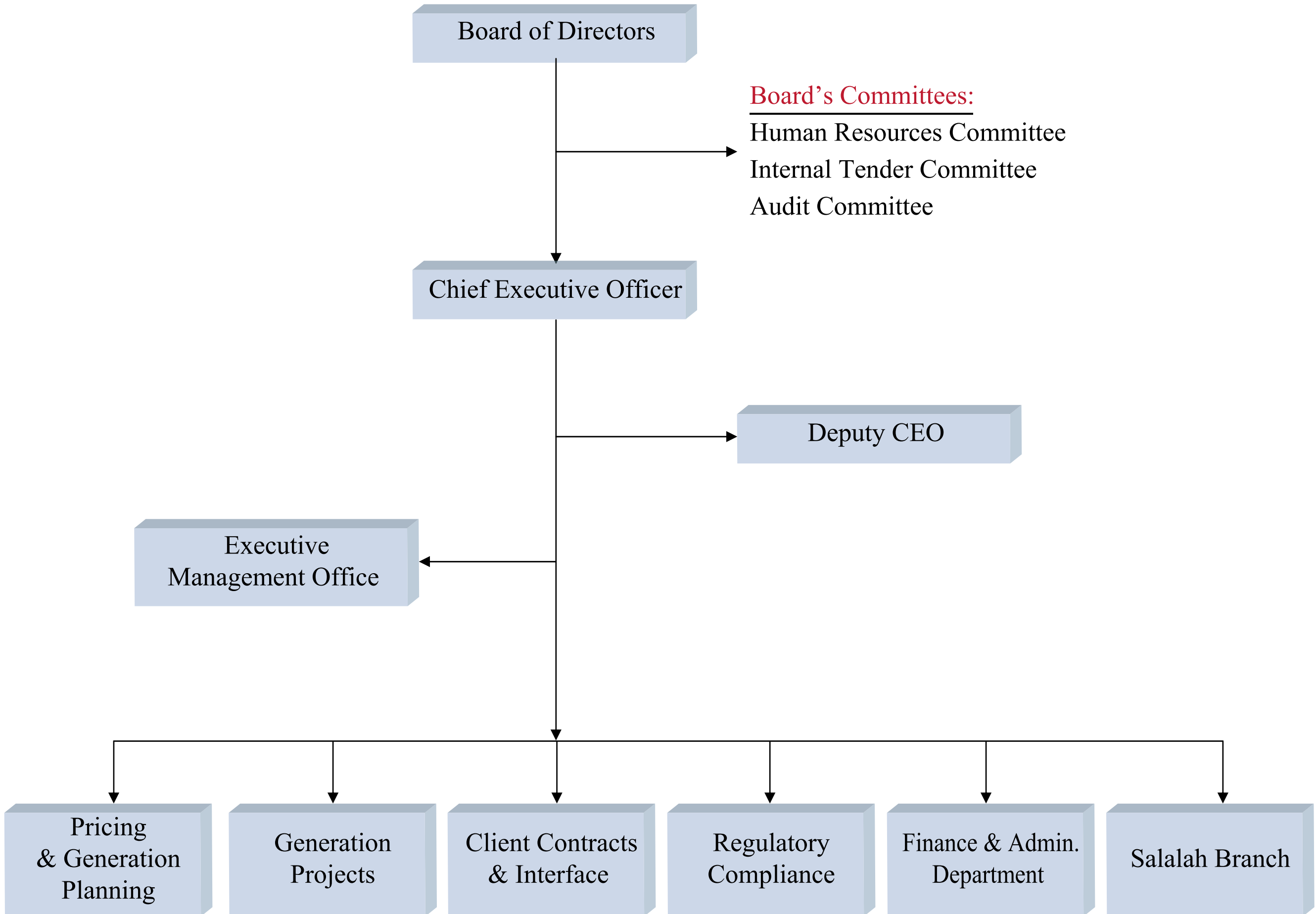
D. Personnel

During the year, most of the key positions of the Company were filled in accordance with the employment plan. The total staff strength in the Main office and Salalah Branch is 43 employees.

E. Omanization

The total number of Omani personnel at end of year is 35 out of 43 employees representing 81.4 % of the total work force. The executive management aims at recruitment and training of Omani nationals in different job categories of the Company in an organized and phased manner. The training cost during the year 2007 was R.O. 48,220, representing about 5% of the total staff cost.

THE ORGANIZATION CHART OF THE COMPANY



Financial Performance

The Financial Statements of the Company for the year ending 31st December 2007 and the Report of the Company's External Auditor Deliotte & Touch Middle East is attached.

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2007

Report and financial statements for the year ended 31 December 2007

Deloitte.

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

Report on the financial statements

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 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended 31 December 2007, and a summary of significant accounting policies and other explanatory notes as set out on pages 3 to 29.

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)

Basis of qualified opinion

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 the arrangement between the company and the 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 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 be inconsistent with certain provisions in the license issued by the Authority of Electricity Regulation, Oman and other provisions of the sector law. The effect of such non-adoption of the interpretation on these financial statements has not been quantified.

Qualified opinion

In our opinion, except for the effects of the matters described in the basis of qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of **Oman Power and Water Procurement Company SAOC** as of 31 December 2007, and of its financial performance and its cash flows for the year ended 31 December 2007 in accordance with International Financial Reporting Standards.

Deloitte & Touche

Deloitte & Touche (M.E.)
Muscat, Sultanate of Oman
29 March 2008

Balance sheet
as at 31 December 2007

	Notes	2007 RO '000	2006 RO '000
ASSETS			
Non-current assets			
Property, plant and equipment	4	77	93
Advance payments	5	18,847	20,232
Total non-current assets		18,924	20,325
Current assets			
Inventories		567	567
Trade and other receivables	6	36,660	26,939
Cash and cash equivalents	7	6,231	14,504
Total current assets		43,458	42,010
Total assets		62,382	62,335
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	8	500	500
Statutory reserve	9	167	131
General reserve	10	250	-
Retained earnings		1,015	406
Due to Electricity Holding Company SAOC	1	9,172	9,172
Total equity		11,104	10,209
Non-current liabilities			
Inter-corporate loans and advances	23	12,306	10,754
Provision for staff benefits		100	69
Deferred tax liability	12	5	3
Total non-current liabilities		12,411	10,826
Current liabilities			
Trade and other payables	13	38,696	39,854
Bank overdraft	14	-	1,390
Provision for current tax	20	171	56
Total current liabilities		38,867	41,300
Total equity and liabilities		62,382	62,335
Net assets per share (RO)	15	22	20

for / **Chairman**   **Director**   **Chief Executive Officer**

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

Income statement
for the year ended 31 December 2007

	Notes	For the year ended 31 December 2007	For the year ended 31 December 2006
		RO'000	RO'000
Revenue	16	214,032	200,477
Operating costs	17	(210,653)	(197,312)
Gross profit		3,379	3,165
General and administrative expenses	18	(2,407)	(2,534)
Profit from operations		972	631
Finance charges	19	(13)	(583)
Other income	20	515	462
Profit before tax		1,474	510
Income tax charge	21	(173)	(59)
Profit after tax		1,301	451
Basic earnings per share (RO)	22	2.602	0.902

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

Statement of changes in equity for the year ended 31 December 2007

	Share capital RO '000	Statutory reserve RO '000	General reserve RO '000	Retained earnings RO '000	Due to EHC RO '000	Total equity RO '000
Balance at 1 January 2006	500	86	-	777	9,172	**10,535**
Profit for the year	-	-	-	451	-	**451**
Transferred to statutory reserve	-	45	-	(45)	-	-
Dividend paid	-	-	-	(777)	-	**(777)**
Balance at 1 January 2007	500	131	-	406	9,172	**10,209**
Profit for the year	-	-	-	1,301	-	**1,301**
Dividend paid	-	-	-	(406)	-	**(406)**
Transferred to statutory reserve	-	36	-	(36)	-	-
Transferred to general reserve	-	-	250	(250)	-	-
Balance at 31 December 2007	**500**	**167**	**250**	**1,015**	**9,172**	**11,104**

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

Statement of cash flows
for the year ended 31 December 2007

	For the year ended 31 December 2007 RO '000	For the year ended 31 December 2006 RO '000
Operating activities		
Profit before tax	**1,474**	510
Adjustments for:		
Depreciation of property, plant and equipment	**24**	24
Profit on sale of property, plant and equipment	**-**	(3)
Interest paid	**13**	583
Interest received	**(492)**	(385)
Advance payments amortized	**1,385**	817
Net transfer to provision for staff benefits	**31**	38
Operating cash flows before movement in working capital	**2,435**	1,584
Decrease/(increase) in working capital		
Trade and other receivables	**(9,721)**	17,427
Trade and other payables	**(1,158)**	2,937
Cash generated (used in) / from operations	**(8,444)**	21,948
Interest paid	**(13)**	(583)
Income tax paid	**(56)**	(114)
Net cash (used in) / from operating activities	**(8,513)**	21,251
Investing activities		
Purchase of property, plant and equipment	**(8)**	(28)
Disposal of property, plant and equipment	**-**	14
Interest received	**492**	385
Net cash from investing activities	**484**	371
Financing activities		
Inter-corporate loans advanced by / (to) Electricity Holding Company SAOC	**1,552**	(275)
Bank overdraft	**(1,390)**	(6,071)
Dividend paid	**(406)**	(777)
Net cash used in financing activities	**(244)**	(7,123)
Net change in cash and cash equivalents	**(8,273)**	14,499
Cash and cash equivalents at the beginning of the year	**14,504**	5
Cash and cash equivalents at the end of the year	**6,231**	14,504

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

Notes to the financial statements for the year ended 31 December 2007

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 (AER).

The establishment and operations of Oman Power and Water Procurement Company SAOC 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 company commenced trading on 1 May 2005 (the "Transfer Date") following the implementation of a decision of the Ministry of National Economy (the "Transfer Scheme") issued pursuant to Royal Decree 78/2004.

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, plant and equipment	**26**
Inventories	**567**
Trade and other receivables	**1,198**
Advance payments	**21,809**
Cash and cash equivalents	**1**
Total assets	**23,601**
Trade and other payables	**(14,429)**
Dues to Electricity Holding Company SAOC	**9,172**

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 2007, 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 2007 except, IFRIC 4-"Determining whether an arrangement contains a lease".

Notes to the financial statements
for the year ended 31 December 2007 (continued)

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

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 year.

Under IFRIC 4 – "Determining whether an arrangement contains a lease", the arrangement between the company and the 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 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 the 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
IFRIC 11: IFRS 2 : Group and Treasury Share Transactions	1 March 2007
IFRIC 12: Service Concession Agreements	1 January 2008
IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 January 2008
IFRIC 13: Customer Loyalty Programs	1 July 2008
IFRS 2: (Revised) Presentation of Financial Statements	1 January 2009
IFRS 8: Operating Segments	1 January 2009
IAS 1: (Revised) Presentation of Financial Statements	1 January 2009
IAS 23: (Revised) Borrowing Costs	1 January 2009
IAS 32: (Revised) Financial Instruments: Presentation	1 January 2009
IFRS 3: (Revised) Business Combinations	1 July 2009
IAS 27: (Revised) Consolidated and Separate Financial Statements	1 July 2009
IAS 28: (Revised) Investments in Associates	1 July 2009
IAS 31: (Revised) Interests in Joint Ventures	1 July 2009

The management anticipates that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the company.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

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 Rial Omani ("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, plant and equipment

Property, plant 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, plant and equipment, are capitalised as the cost of property, plant and equipment.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment including major inspection and overhaul expenditure is capitalized. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other maintenance expenditure is recognised in the income statement as an expense as and when incurred.

Depreciation

Depreciation is charged so as to write off the cost of property, plant 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 and 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 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.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Summary of significant accounting policies (continued)

Impairment (continued)

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.

Inventories

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

Provision for staff benefits

Provision for end of service indemnity for non-Omani employees is made generally in accordance with the Oman Labour Law unless specified higher in the contract of employment or Human resource manual 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 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 year 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.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

3 Summary of significant accounting policies (continued)

Taxation (continued)

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 and sale of desalinated water to the Public Authority for Electricity and Water (PAEW) and Majis Industrial Services Co. SAOC (MISC), on tariff approved by AER. Revenue also includes recharge relating to 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 SAOG (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, power purchased from Rural Area Electricity Company SAOC (RAECO) for Dhofar region, notified value allowed by the AER and the License fees.

Power purchase cost

Fixed capacity contractual payments made to United Power Company SAOG 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 translation

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.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments

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

Financial assets

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

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non current assets.

Financial liabilities

The principal financial liabilities are dues to EHC, inter-corporate loans and advances, bank overdraft, trade and other payables. These 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.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the counterparty or
- default or delinquency in payments.

For certain categories of financial asset, such as trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account.

When a trade receivable is considered uncollectible, it is written off as bad after appropriate approvals. Subsequent recoveries of amounts previously written off are credited to a revenue account "bad debts recovered."

Financial risk management

Overview

The company's activities and its use of financial instruments expose it to a variety of financial risks:

- Credit risk
- Liquidity risk
- Market risk

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. The company uses derivative financial instruments to hedge certain foreign currency fluctuation risk exposures.

Credit risk management is carried out by the company and Liquidity and Market risk by the Group treasury department at EHC under policies approved by the Board of Directors. The Group treasury department identifies, evaluates and hedges financial risks in close co-operation with the company. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and investment of excess liquidity.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

3 Summary of significant accounting policies (continued)

Financial risk management (continued)

(i) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the company's receivables from customers. The credit risk of the company is primarily attributable to trade and other receivables and investment in bank deposits.

Trade and other receivables

The company's exposure to credit risk on trade and other receivables is influenced mainly by the individual characteristics of each customer. The company has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables. Trade receivables represents amount due from Distribution companies (related parties), PAEW and MISC. The company do not consider this as an undue exposure since all are part of government or government owned entities. The other receivables are short term in nature, primarily advances to suppliers of goods and services and prepaid expenditures.

Investments

The company limits its exposure to credit risk on its investments by only investing in liquid securities and only with counterparties which have a good credit rating. Given good credit ratings and liquidity, management does not expect any counterparty to fail to meet its obligations.

Investment in bank deposits and bank balances

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

(ii) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking the company's credit worthiness.

Typically the company ensures that it has sufficient cash on demand to meet expected operational expenses covering a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition the company has access to credit facilities.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

3 Summary of significant accounting policies (continued)

Financial risk management (continued)

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Price risk

The company sells electricity to licensed distributors, and water to water departments, according to bulk supply tariffs determined annually by the company and approved by the AER. The company determines bulk supply tariffs according to cost-plus method following the principles set forth in its licence. This eliminates the price risk for the company.

Foreign currency risk

The company's functional and presentation currency is Rial Omani and the company's performance is substantially independent of changes in foreign currency rates.

There are no significant financial instruments denominated in foreign currency and consequently, foreign currency risk is not significant.

Capital management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern and benefit other stakeholders.

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

The company is confident of maintaining the current level of profitability by enhancing top line growth and prudent cost management. The company is not subject to externally imposed capital requirements.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

3 Summary of significant accounting policies (continued)

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.

(ii) Provision for doubtful debts

Provision for doubtful debts is based on management assessment of various factors such as company's past experience of collecting receivables from customers and the age of debt.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

4 Property, plant and equipment

	Capital work in progress RO '000	Furniture and equipment RO '000	Motor vehicles RO '000	Total RO '000
Cost				
1 January 2006	-	61	51	**112**
Additions	-	28	-	**28**
Disposals	-	-	(14)	**(14)**
1 January 2007	-	89	37	**126**
Additions	4	4	-	**8**
31 December 2007	**4**	**93**	**37**	**134**
Depreciation				
1 January 2006	-	6	6	**12**
Charge for the year	-	17	7	**24**
Disposals	-	-	(3)	**(3)**
1 January 2007	-	23	10	**33**
Charge for the year	-	18	6	**24**
31 December 2007	**-**	**41**	**16**	**57**
Net book value				
31 December 2007	**4**	**52**	**21**	**77**
31 December 2006	-	66	27	93

5 Advance payments

Advance payments pertain to fixed capacity payments made to United Power Company SAOG 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 2007 (continued)

6 Trade and other receivables

	2007 RO '000	2006 RO '000
Trade receivable from related parties (Note 23)	**10,172**	10,948
Due from PAEW – Water sales	**23,821**	14,985
Due from MISC – Water sales	**989**	-
Other receivable from related parties (Note 23)	**821**	879
Prepayments	**57**	63
Other receivables (See Note below)	**800**	64
	36,660	26,939

Other receivables at 31 December 2007 represent costs incurred in connection with Salalah IWPP, which will be recoverable from MOF once the company's license is amended.

7 Cash and cash equivalents

	2007 RO '000	2006 RO '000
Cash on hand	**1**	1
Bank current accounts	**6,230**	3
Bank deposit with a maturity of three months or less from the value date of the deposit	**-**	14,500
	6,231	14,504

Bank deposits are with commercial banks in Oman denominated in US Dollars, short term in nature, with an effective interest rates ranging from 2007- Nil (2006- 5.1% to 5.3% per annum).

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	2007 RO	2006 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 2007 (continued)

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 36 thousand has been transferred to this reserve. The company has thus achieved the minimum amount required for the statutory reserve. This reserve is not available for distribution to shareholders as dividends.

10 General reserve

In accordance with the company's accounting policy, an amount not exceeding 20% of the profit after transfer to statutory reserve should be transferred to a general reserve till the balance of the general reserve reaches one half of the share capital. Accordingly, the company transferred during the year RO 250 thousand towards this reserve and has thus achieved the minimum amount so required.

11 Proposed dividend

The Board of Directors, in their meeting held on 29 March 2008 have proposed a cash dividend of RO 2.030 per share aggregating RO 1,015,000 on the company's existing share capital. (For the year ended 31 December 2006, RO 0.812 per share aggregating RO 405,767 was proposed and paid as dividend). This dividend is subject to the approval of the shareholders in the Annual General Meeting.

12 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 in the balance sheet and deferred tax charge in the income statement are attributable to the following items:

	Balance at 1 January 2007 RO '000	Charge for the year RO '000	Balance at 31 December 2007 RO '000
Liability			
Accelerated tax depreciation	3	2	5
	3	2	5

Notes to the financial statements
for the year ended 31 December 2007 (continued)

13 Trade and other payables

	2007 RO '000	2006 RO '000
Trade payables to related parties (Note 23)	**10,260**	14,976
Accrued expenses	**22,696**	11,225
Dues to Ministry of Finance	**4,308**	999
Revenue in excess of maximum allowed as per Price Control Formula, deferred to next year (Note 16)	**477**	11,996
Interest on revenue in excess of maximum allowed as per Price Control Formula	**9**	557
Suppliers and contractors payables	**843**	4
Other payables	**103**	97
	38,696	39,854

14 Bank overdraft

The company has credit facilities with Bank Muscat SAOG, to finance the working capital requirements. Bank overdraft is payable on demand and carries interest at 2% (2006- 2%) per annum.

15 Net assets per share

	2007	2006
Net assets (RO '000)	**11,104**	10,209
Number of shares at the year end ('000)	**500**	500
Net assets per share (RO)	**22**	20

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

Notes to the financial statements for the year ended 31 December 2007 (continued)

16 Revenue

	For the year ended 31 December 2007 RO '000	For the year ended 31 December 2006 RO '000
Bulk supply tariff for electricity	132,515	150,038
Bulk supply tariff for desalinated water	55,346	44,085
Net funding from Ministry of Finance	11,110	12,226
Recharge of interconnection and transmission facilities	2,985	3,666
	201,956	210,015
Add: Previous year revenue in excess of maximum allowed as per Price Control Formula, reversed	11,996	2,427
Add: Previous year interest on revenue in excess of maximum allowed as per Price Control Formula, reversed	557	31
Less: Revenue in excess of maximum allowed as per Price Control Formula, deferred to next year (Note 13)	(477)	(11,996)
	214,032	200,477

17 Operating costs

	For the year ended 31 December 2007 RO '000	For the year ended 31 December 2006 RO '000
Electricity capacity and output purchase costs	147,836	145,266
Desalinated water capacity and output purchase costs	54,615	43,476
Funding for Dhofar Power Company SAOG	8,202	8,570
	210,653	197,312

18 General and administrative expenses

	For the year ended 31 December 2007 RO '000	For the year ended 31 December 2006 RO '000
Staff costs	884	866
License fee to regulator	274	143
Service expenses	1,030	1,289
Directors' remuneration (including bonus) and sitting fees (Note 23)	43	27
Depreciation (Note 4)	24	24
Other expenses	152	185
	2,407	2,534

Notes to the financial statements for the year ended 31 December 2007 (continued)

19 Finance charges

	For the year ended 31 December 2007 RO '000	For the year ended 31 December 2006 RO '000
Interest on bank overdraft	**4**	26
Interest on excess revenue billed over maximum allowed revenue under the price control formula	**9**	557
	13	583

20 Other income

	For the year ended 31 December 2007 RO '000	For the year ended 31 December 2006 RO '000
Interest on bank accounts	**492**	385
Penalties and fines	-	2
Sale of Forms and Tenders	-	9
Profit from sale of property, plant and equipment	-	3
Other revenues	**23**	63
	515	462

21 Income tax charge

Income tax is provided as per the provisions of the "Law of Income Tax on Companies" in Oman after adjusting the items which are non-assessable or disallowed. The tax charge applicable to the Company is 12%. The effective tax rate is 11.6%(2006- 10.9%). The deferred tax on all temporary differences have been calculated and dealt with in the income statement (Note 12).

	For the year ended 31 December 2007 RO '000	For the year ended 31 December 2006 RO '000
Tax charge for the year comprise of:		
Current tax	**171**	56
Deferred tax	**2**	3
	173	59

Notes to the financial statements
for the year ended 31 December 2007 (continued)

21 Income tax charge (continued)

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

	For the year ended 31 December 2007	**%**	For the year ended 31 December 2006	%
	RO '000		RO '000	
Profit before tax	**1,474**		510	
Tax @ 12% after basic exemption of RO 30 thousand	**173**	**11.8**	59	11.5
Tax effect of temporary differences	**(2)**	**(0.2)**	(3)	(0.6)
Current tax charge and provision for tax	**171**	**11.6**	56	10.9

22 Basic earnings per share

	For the year ended 31 December 2007	For the year ended 31 December 2006
Profit for the year (RO '000)	**1,301**	451
Number of shares outstanding at the year end ('000)	**500**	500
Earnings per share (RO)	**2.602**	0.902

The face value of each share is RO 1. The earnings per share is calculated by dividing the profit for the year by the number of shares outstanding at the year end.

23 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 is considered 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 year for bad or doubtful debts in respect of amounts owed by related parties.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

23 Related parties (continued)

Following is the summary of significant transactions with related parties during the year:

	For the year ended 31 December 2007 RO '000	For the year ended 31 December 2006 RO '000
Revenue		
Bulk supply tariff for electricity to Muscat Electricity Distribution Company SAOC	**64,197**	72,646
Bulk supply tariff for electricity to Mazoon Electricity Company SAOC	**39,824**	48,488
Bulk supply tariff for electricity to Majan Electricity Company SAOC	**28,494**	28,904
Recharge of interconnection and transmission facilities to Oman Electricity Transmission Company SAOC	**2,985**	3,666
Expenses		
Electricity capacity and output purchase from Al Ghubrah Power and Desalination Company SAOC	**25,401**	22,690
Electricity capacity and output purchase from Wadi Al Jizzi Power and Desalination Company SAOC	**13,704**	13,824
Electricity capacity and output purchase costs Al Rusail Power Company SAOC (up to Jan-2007)	**1,427**	27,471
Electricity capacity and output purchase costs Rural Areas Electricity Company SAOC	**2,275**	3,155
Desalinated water capacity and output purchase cost from Al Ghubrah Power and Desalination Company SAOC	**26,832**	27,645
Accounting service charges to Electricity Holding Company SAOC	**267**	233
Funding of obligations prior to 1 May 2005 during the year		
Electricity Holding Company SAOC	**52**	1,586
Inter-corporate loans and advances		
Electricity Holding Company SAOC	**12,306**	10,754

During the year, company has re-grouped advances received from Electricity Holding Company SAOC for payment of obligations prior to 1 May 2005 of RO 12,306 thousand (2006- RO 12,254 thousand) under non-current liabilities as "Inter-corporate loans and advances". The balance of loans advanced to EHC of RO Nil (2006- RO 1,500 thousand) has been netted off in this account.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

23 Related parties (continued)

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

The amount due from / to related parties other than inter-corporate loans and advances have been disclosed in Notes 6 and 13 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).The compensation for key managerial personnel during the year is as follows.

	For the year ended 31 December 2007 RO '000	For the year ended 31 December 2006 RO '000
Short term benefits	**297**	229
Post employment benefits	**62**	15
Directors' remuneration (including bonus) and sitting fees	**43**	27
	402	271

24 Contingencies

Contingent assets

a. Transmission & Distribution allowance

The company has been paying increased Transmission and Distribution-Extension and Enhancement (T&DEE) allowance to Dhofar Power Company SAOG (DPC) based on the Experts determination in August 2005 and has claimed the same as pass through cost from Ministry of Finance. However the company intends to challenge the ruling through the process of Arbitration. The cumulative amount paid to DPC on account of increased (T&DEE) allowance till 31 December 2007 stands at RO 897,641.

b. Salalah Concession Agreement related penalties

For 2003

During 2004, the company notified DPC, of its claim for penalties on it of approximately RO 1.10 million in respect of certain non-compliances with the Concession Agreement by DPC during the year 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.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

24 Contingencies (continued)

b. Salalah Concession Agreement related penalties (continued)

For 2004

In 2005, the company has claimed RO 1.965 million, as penalties from DPC for certain non-compliances with the Concession Agreement during the year 2004. DPC has disputed the claim of the company. The company is evaluating its options of pursuing the matter further.

For 2005

In March 2006, the company has claimed from DPC RO 439,453, as penalties for certain non-compliances with the Concession Agreement during the year 2005. DPC has disputed the claim of the company. The company is evaluating its options of pursuing the matter further.

For 2006

The assessment of the amount of claim for penalties from DPC for certain non-compliances with the Concession Agreement during 2006 is still under progress.

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

c. Liquidated damages

The company has claimed liquidated damages of RO 2.210 million, from Sohar Power Company SAOC (SPC) for delay in achieving Commercial Operation Date (COD) and RO 1.131 million for early power delay claims. While SPC has contested the claim, it has not yet exercised its option of Experts' determination in this matter.

Contingent liabilities

For the year 2007, an amount of RO 1,252,920 has been claimed by DPC on account of increased Transmission and Distribution System Operating Cost Allowance. The matter is under dispute with DPC and hence no provision has been made for this amount in these financial statements.

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 2007 (continued)

25 Financial risks

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the balance sheet date is on account of:

	2007 RO '000	2006 RO '000
Trade receivables	34,982	25,933
Other receivables	1,678	1,006
Cash and cash equivalents	6,231	14,504
	42,891	41,443

The exposure to credit risk for trade receivables at the balance sheet date by type of customer is:

	2007 RO '000	2006 RO '000
Muscat Electricity Distribution Company SAOC	5,416	4,000
Mazoon Electricity Company SAOC	1,447	5,342
Majan Electricity Company SAOC	3,309	1,606
Due from Public Authority for Electricity and Water	23,821	14,985
Due from Majis Industrial Services Co. SAOC	989	-
	34,982	25,933

The age of trade receivables and related impairment loss at the balance sheet date is:

	31 December 2007		31 December 2006	
	Gross RO '000	Impairment RO '000	Gross RO '000	Impairment RO '000
Not past due	27,913	-	22,160	-
Past due 1-365 days	7,069	-	3,773	-
	34,982	-	25,933	-

There is no impairment assessed on trade receivables.

Notes to the financial statements for the year ended 31 December 2007 (continued)

25 Financial risks (continued)

Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

	Carrying amount RO '000	1-365 days RO '000	1-2 years RO '000	More than 2 years RO '000
31 December 2007				
Trade and other payables	**28,436**	**28,436**	-	-
Due to related parties	**10,260**	**10,260**	-	-
Inter-corporate loans and advances	**12,306**	-	-	**12,306**
	51,002	**38,696**	-	**12,306**

	Carrying amount RO '000	1-365 days RO '000	1-2 years RO '000	More than 2 years RO '000
31 December 2006				
Trade and other payables	24,878	24,878	-	-
Due to related parties	14,976	14,976	-	-
Bank overdraft	1,390	1,390		
Inter-corporate loans and advances	10,754	-	-	10,754
	51,998	41,244	-	10,754

Interest rate risk

At the balance sheet date the interest rate risk profile of the company's interest bearing financial instruments was:

	2007 RO '000	2006 RO '000
Fixed rate instruments		
Bank deposit with a maturity of three months or less from the value date of the deposit (included in cash and cash equivalents)	-	14,500

Fair value sensitivity analysis for fixed rate instruments

The company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the balance sheet date would not affect profit or loss.

Notes to the financial statements for the year ended 31 December 2007 (continued)

25 Financial risks (continued)

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.

26 Comparative figures

Certain comparative figures have been regrouped and reclassified wherever necessary to match with current year presentation.

27 Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue in their meeting held on 29 March 2008.

OMAN POWER AND WATER PROCUREMENT CO. (SAOC)