

Board of Directors' Report



Dear Shareholders,

On behalf of the Board of Directors of Al Kamil Power Company SAOG (AKPC), I am pleased to present you with the financial results of AKPC for the year ended 31st December 2004, together with the report of the Auditors.

Plant Operation and Profit Earned

The Al Kamil power station has been running smoothly and efficiently with average availability of 99.74% during the summer and 100% during the winter. The plant has exported 1244 GWh to the Omani grid during the year in response to dispatch instructions received from MHEW. The average load factor of the power station was 50.25% for the year.

There have been a number of plant improvements completed during the year. In particular, further emissions monitoring equipment has been installed to meet Ministry of Regional Municipality Environment & Water Resources requirements and flood protection works have been implemented.

Operation and maintenance was efficiently performed by the Operation and Maintenance contractor, Al Kamil Construction & Services LLC.

The Company recorded a net profit of Rials Omani 1.609 million in 2004.

Dividend

In January 2004 at the Ordinary General Meeting of shareholders of AKPC, an interim dividend of 6% was declared and disbursed thereafter. The Directors of AKPC have recommended a final ordinary dividend of 6%, which brings the total ordinary dividend for 2004 to 12% of the current share capital of the Company.

Corporate Governance

AKPC is in full compliance with the Code of Corporate Governance which was implemented by the Capital Market Authority and is described in the related section of this report.

The Board of Directors, through the Audit Committee, has reviewed the effectiveness of the Company's system of Internal Controls. The Audit Committee has considered the internal audit report and is pleased to confirm that internal controls within the company are in place and are fully effective.

I would like to thank all the personnel associated with the operation of the Al Kamil Power Plant and the staff of the Company for their dedication and hard work during the year.

On behalf of the Board of Directors, I would also like to take this opportunity to extend our gratitude to His Majesty Sultan Qaboos Bin Said and His Government for their continued support and encouragement to private sector investors.

Dr. Ranald G.L. Spiers
Chairman of the Board



Management Discussion and Analysis Report

The management of Al Kamil Power Company SAOG (AKPC) is pleased to present this report on the company's structure, current performance, future outlook and other relevant matters of importance to the shareholders.

Structure and Development

AKPC was initially registered as a closed joint stock company in the Sultanate of Oman and was incorporated on 15th July 2000. The Company was established to build, own and operate a 285 MW electricity generating station at Al Kamil in the Sharqiya Region.

The Project Founders' Agreement made it obligatory for AKPC to be registered on the Muscat Securities Market as a publicly held company by offering 35% of the Project Founders' shares to the Omani public and Omani registered corporate entities within four years of its incorporation. In the Extraordinary General Meeting of the shareholders of AKPC held on 28th April 2004, a resolution was passed to convert the company into a public joint stock company.

Following the successful Initial Public Offering (IPO) on 25th August 2004, the Company submitted all of the relevant documents to the Capital Market Authority (CMA), Muscat Securities Market (MSM) and the Ministry of Commerce and Industries (MOCI). The Company was legally and formally transformed to a general joint stock company on 22nd September 2004.

The establishment of AKPC as an independent power producer is a part of the Government's on-going privatisation programme. The Company operates within agreed project documentation with different agencies of the Government that provide both assured revenue and cost recovery - the Power Purchase Agreement with MHEW (PPA) and the Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas (MOG).

The current PPA and NGSA are valid until 30th April 2017. The plant life (as represented by the management and as reported by the Company's auditors) is about 30 years.

In August 2004, the Government promulgated the Sector Law, which formally initiated the process of full privatisation of the power industry in Oman. The Company is working with the newly formed Oman Power and Water Procurement Company SAOC (PWP) to effect the smooth novation of the relevant agreements from MHEW. This process is expected to be completed by mid 2005.

Demand and Supply Scenario

The MHEW supply system covering Oman is divided into two principal elements, namely the northern 132kV transmission grid and the distribution system in Dhofar. Elsewhere, electricity is provided by local small diesel power stations.

AKPC is the first independent (private sector) power plant in the Sharqiya region, providing 285 MW of electricity into the northern transmission grid.

In the course of day-to-day operations, MHEW conveys its planned power offtake via the load dispatch centre and accordingly the power is generated and delivered to the grid.

Revenue and Major Cost Details

Operating revenues consist of Capacity Charges and Energy Charges recovered on a monthly basis from MHEW. Revenues are indexed to the RO: \$ exchange rate and inflation.

Capacity Charges are payable for each hour during which the Plant is available for generation. Capacity Charge is the total of:



- the investment charge covering capital expenditure and all related costs of the project such as tax payments, debt service and return on capital;
- the fixed operation and maintenance charge covering the fixed operation and maintenance costs of the plant; and
- the new industry charge providing compensation for Sector Law costs.

Energy Charges are payable for the energy generated in response to offtake instructions issued by MHEW. Energy Charges are the total of:

- the variable operating costs of generation;
- the fuel costs - based on the theoretical natural gas consumption to produce the electrical energy delivered, which will be calculated on the basis of the agreed heat rate; and
- the Start-up Charges - payable to AKPC for the costs of fuel for starts in excess of 100 starts per year for each gas turbine.

The major operating costs are the fuel required to operate the gas turbines and the replacement of hot gas path parts such as blades and vanes.

The primary fuel used in the plant is natural gas, which is supplied to the power station by MOG. AKPC purchases fuel at the RO equivalent of US\$ 1.50 per MMBTU. The fuel charge element of the PPA allows a full pass through of the gas price to the extent that electricity is generated with the plant efficiency as specified. In accordance with the NGSA, AKPC is required to pay for the gas consumed for the generation of power.

The operation and maintenance of the power station has been contracted to Al Kamil Construction & Services LLC (AKCS). AKCS is responsible for the operation and maintenance of the station for the duration of the PPA for a consideration of a fixed, as well as a variable fee. The fixed fee covers fixed operational expenses including expert services and the maintenance of mandatory spares for the plant. In addition, AKCS receives the actual variable energy charges paid by MHEW under the PPA based on the actual energy delivered.

Opportunities and Threats

Opportunities

The sole purpose of AKPC is to generate power to meet the hourly offtake requirements of MHEW. The remuneration for this service is described separately in this report.

Under the PPA, AKPC is precluded from selling power to any other party and, therefore, such business opportunities that may arise will be at the particular request of the Government to meet any future growth in demand.

The PPA requires that the plant be constructed to facilitate possible future expansion up to 100% of its rated capacity.

Threats

The PPA substantially protects AKPC from commercial risks provided that the power station remains available to generate power on demand. The undertaking by the Government to pay Capacity Charges for the full duration of the PPA means that AKPC is protected against any competitive pressures.

The plant has been built using high quality components provided by recognised suppliers. AKPC has implemented operation and maintenance arrangements through Al Kamil Construction and Services LLC, incorporating the services of the gas turbine manufacturers to maintain the primary generating units. These measures mitigate the possibility of plant failure.

Al Kamil Power Plant



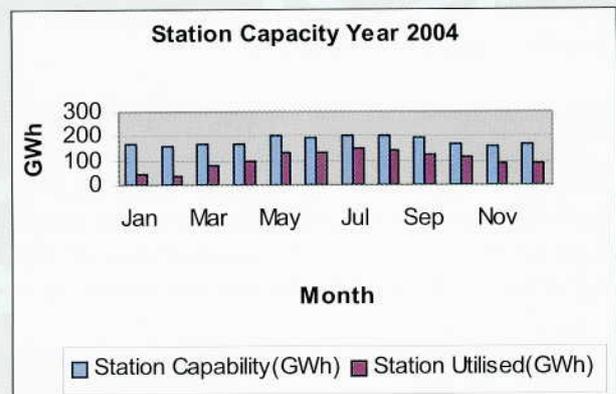
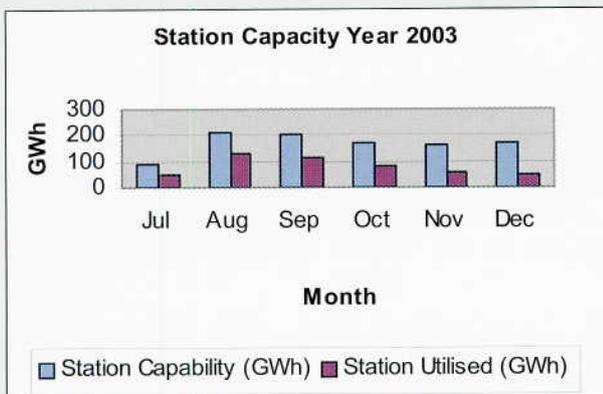


Plant Performance

The generating plant at the power station comprises three Frame 9171E gas turbines provided by General Electric in open cycle configuration together with associated ancillary equipment required to facilitate fully independent operation. The gas turbines are designed to run on both gas and distillate fuel oil.

The plant has operated well throughout the year in compliance with MHEW instructions. The gas turbine units have reliably generated 1,229,332 MWh of energy and have incurred 236 starts. This represents a utilisation load factor of 50.25 %

Month-wise capability and utilisation are represented graphically for 2004 and additionally for 2003 from the Commercial Operation Date.

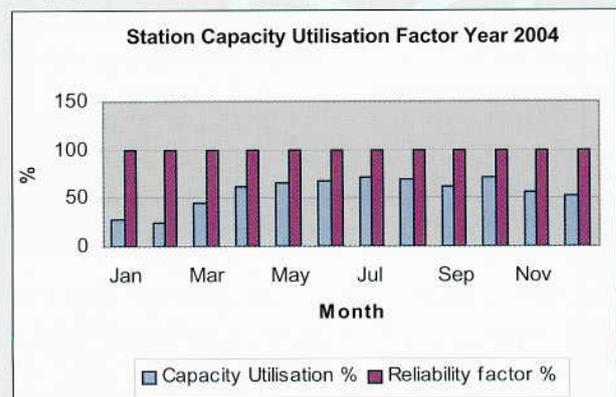
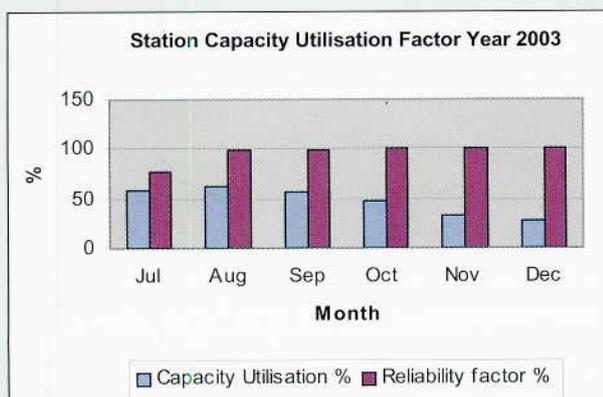


Comparison of the data shows that the station utilisation has increased during 2004 but a substantial margin for a further increase in output remains at the disposal of MHEW.

The current lack of full utilisation of the plant does not affect the financial income of AKPC as Capacity Payments are received for the full available capacity of the power station.

The PPA anticipates an availability of 99% during the Summer Period (May – Sept) and 80% during the Winter Period (Oct – Apr). As Capacity Payments to AKPC are restricted to 80% during winter months irrespective of actual availability, all scheduled outages and maintenance activities are carried out during this period.

The measure of the effectiveness of the plant operation and maintenance is the Forced Outage Rate (breakdown factor). It can be seen from the graphical representations for both 2003 and 2004 that the Forced Outage Rate is very low. During the whole of 2004 there were only 23 hrs of breakdown of any unit of generating capability. This represents a Forced Outage Rate of 0.26 % or a reliability of 99.74 %.





Operation and Maintenance Contract

The operation and maintenance of the power station has been contracted to Al Kamil Construction & Services LLC (AKCS). The major shareholder of AKCS is International Power plc, the UK based global power generation developer. O&M standards at the plant are based on international best practice in accordance with International Power's policies and principles derived from its substantial experience in the operation of power generation plant worldwide.

Staff

AKCS employs 39 qualified staff drawn from Oman and overseas to fulfill its O&M obligations to the Company.

Operating staff control the routine operation of the plant in compliance with the dispatch requirements of MHEW's Load Dispatch Centre.

The operating staff are formed into five teams to ensure continuous availability and response.

The maintenance teams at Al Kamil comprise electrical, mechanical, control / instrumentation engineers and technicians trained to undertake day-to-day maintenance of the plant. Major inspections and overhauls are contracted out to specialist organisations, in particular to GE via the 10-year LTSA (Long Term Service Agreement), which covers the primary generating units.

Routine inspections are carried out as envisaged within the operation and maintenance schedules and defects repaired as necessary.

Engineering Asset Management

The engineering management of the asset is primarily monitored and maintained in conjunction with GE through the LTSA. This includes not only maintenance but also comprehensive tele-diagnostics and monitoring.

The basis of the engineering management of the remaining plant is through compliance with AKPC Policies, Principles and Directives in addition to OEM (Original Equipment Manufacturer) instructions. Condition monitoring is carried out on strategic plant items.

Ongoing protection of the asset is ensured through routine testing and inspection.

Station Outages

In accordance with the requirements of the PPA, planned station outages are arranged during Winter Periods according to a schedule agreed in advance with MHEW. During each Winter Period, 126 days are available for outage maintenance.

GE's scheduled combustion inspections (at 12,000 equivalent operating hours), hot gas path inspections (at 24,000 equivalent operating hours) or major inspections (at 48,000 equivalent operating hours) are all undertaken during planned outages in the Winter Periods.

The first combustion inspection under the LTSA has been successfully completed on GT1A with no additional costs incurred and the equipment confirmed to be in good condition.

Health and Safety, Environment and Quality Management

The Company and its O&M Contractor are committed to achieving the best possible Health & Safety, Environmental and Quality performance standards and seek continuous improvement. In all aspects, zero reportable incidents is the primary objective. The principles of Health & Safety management are based on training and procedures. All staff and visitors to the site are subjected to an induction process before being given access to conduct any work on the premises. State-of-the-art permitting systems are implemented to ensure that maximum precautions are taken before work is allowed to proceed on any operational plant. Regular surveys of the plant are undertaken to identify safety improvements and a 10% reduction in potential hazards is targeted annually. There were no reportable accidents in 2004.

Environmental and Quality objectives are focused on system effectiveness and performance enhancement through continual improvement programmes.

During 2004 the station achieved accreditation to ISO 9001:2000 for its Quality Management system and ISO 14001:1996 for its Environmental Management system. Compliance audits are carried out annually.

The plant installed at Al Kamil consists of GE Frame 9E technology with DLN1 burners. This is a sophisticated firing system, which changes the firing mode from a simple diffusion flame to a pre-mixed operation in the higher output range. This substantially reduces NO_x (oxides of nitrogen) gas production as compared to standard 9E design. Emissions of gases are monitored on a continuous basis both within the exhaust stacks and at ground level. Records of NO_x, CO (carbon monoxide) and unburned hydrocarbons are maintained at the power station and also sent to the Ministry of Regional Municipality, Environment & Water Resources in line with the requirements of the environmental licence. During 2004, the emissions from the plant were within the limits laid down by the Government and there were no reportable incidents. Station staff are active in raising general environmental awareness in the local community in conjunction with the local Environment Agency and schools in Al Kamil and Al Wafi.

Omanisation

The station employs Omani engineers, technicians and administrative staff, forming 39% of the total complement. This is in excess of the Omanisation obligations under the Power Purchase Agreement.

Development of individuals is proceeding to allow phased replacement of expatriates over the coming years. Employee training and development is achieved through both formal and on the job training and mentoring through application of skill matrices. A formal training plan for individuals is encouraged based on development needs identified against these skill matrices.

Financial Performance

During the year 2004, the Company achieved a net profit in line with the profit forecast given in the Prospectus issued during the IPO process. The actual profit was RO 1.609 million against forecast profit of RO 1.613 million and as against RO 4.043 million achieved in the year 2003.

The financial results for the year 2003 are not strictly comparable to 2004 as the Annual Accounts for 2003 include capacity charges for the period October 2002 to December 2002 and also liquidated damages recovered from the EPC contractor (less the costs and liquidated damages paid to MHEW). The 2002 Annual Accounts could not include these costs as the Supplemental Agreements to the Power Purchase Agreement and Natural Gas Sales Agreement were approved after the 2002 audit was concluded.



A comparison of net profit earned in 2004 to the net profit earned in 2003 is given in the following table:

	RO Amounts in '000	RO Amounts in '000
Profit & Loss Account for 2003		4,043
Less:		
Liquidated damages (less costs)	(1,090)	
Capacity charge for the period October 2002 to December 2002 considered in 2003 accounts	(850)	
Exceptional items for 2003 as compared to 2004		(1,940)
Net Profit from 2003 operations		2,103
Net Profit for 2004		1,609

Note: Depreciation charged for the year 2003 was for part of the year commencing from COD (19th July 2003). However, pursuant to the Supplemental Agreement to the PPA, AKPC received the Capacity Charge for the entire year 2003. The variation between the net profit for 2003 and 2004 is primarily due to this depreciation charge.

The Company achieved its projected capacity charge during 2004 with 99.74% availability during the Summer Period and with actual availability exceeding the guaranteed availability during the Winter Period.

Balance Sheet

A summary of the asset position for 2003 and 2004 are given in the following table:

	2004	2003	Variance
	RO million	RO million	RO million
Fixed assets	46.12	47.29	-1.17
Long term advances	0.44	0	0.44
Working capital and provisions	3.01	2.49	0.52
Net debt including shareholders' loan	-34.29	-36.11	1.82
Net assets	15.28	13.67	1.61
Gearing (net debt to equity)	224%	264%	

Notes:

- * Fixed assets have decreased by RO 1.17 million mainly on account of depreciation.
- * Two instalment payments to the senior lenders during the year have reduced the net debt. Gearing has accordingly improved.
- * An additional loan of RO 262,500 was obtained from the founder shareholders.
- * The improved recovery of MHEW invoices has improved the overall cash position.



Cash Flow

The Company achieved a positive cash movement by consistent follow-up with MHEW, which led to a reduction in unpaid invoices to two months by the end of 2004.

Because the EPC contractor has outstanding issues with their own bankers, the final payment due under the EPC Contract was retained by AKPC and consequently the cash balance as of December 2004 was high. Presently, the Primary Court of Justice, Ministry of Justice, has directed AKPC to deposit with the Court a significant portion from this amount to settle the amount due to local subcontractors.

AKPC is negotiating with a leading bank to refinance the shareholders' subordinated loans. AKPC has postponed the payment of the instalment of US\$1.982 million due on the shareholders' subordinated loan in November 2004 in view of the proposed refinancing. This has further improved the year-end cash balance.

Dividend Payout

Interim Dividend

In the Ordinary General Meeting of the shareholders held on 27th January 2005, an interim dividend for 2004 of 6% was declared and paid.

Final Dividend

The Company has sufficient free reserves to consider a final dividend for 2004. The Board of Directors recommends a final dividend of 6%.

Future Outlook

The management is optimistic about AKPC's future, recognising that the long-term future of AKPC depends upon its efficient operational base and, accordingly, it will strive to achieve the plant availability targets and to monitor closely the overhead costs.

MHEW has not advised their offtake requirements for the forthcoming Contract Year. However, AKPC expects that the offtake for 2005/6 will be broadly in line with that of 2004/5, with the possibility of a nominal increase to meet growth in demand.

AKPC management, under the guidance of the Board of Directors, is committed to ensuring that the company maintains its efficient and profitable operation.

Risks and Concerns

Loss of Availability due to Mechanical Breakdown

The primary risk to AKPC is the loss of availability of the plant due to mechanical breakdown. In this respect AKPC ensures that the O&M Company, AKCS, operates and maintains the Plant in line with AKPC Policies, Principles and Directives and international best practice.

Loss of Availability due to Accidental Damage

AKPC ensures that suitable insurance policies are maintained to protect the business against loss of property and income arising from accidental damage in line with best-industry practice.



Heat Rate Losses

The plant suffers a heat rate shortfall caused by a variance in the performance of the gas turbines when compared with the original specification. AKPC has established that there is no economically viable technical remedy for this condition available at this time. AKPC is mitigating the financial losses by judicious operation of the Plant and by suitable financial provisions within its accounts. A provision has been included in the budget forecast for 2005 and this provision will be reviewed on an annual basis based on the results of the annual performance tests.

MHEW Payments

Since achieving COD, payments from MHEW have been consistently late. During 2004, payments have been delayed by up to three months. AKPC has tried to secure improvement and achieved some success towards the end of 2004. However, payments are still not being made in line with the programme laid down in the PPA. The delay in payment is causing AKPC cash flow difficulties. However, AKPC believes that the situation may improve when the responsibility for payment is transferred to the Oman Power & Water Procurement Company SAOC during 2005.



Note

The Annual Corporate Governance Report has been prepared in a format within the guidelines issued by the Capital Market Authority of the Sultanate of Oman



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Report to the Shareholders of Al Kamil Power Company SAOG ("the Company") of Factual Findings in Connection with Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance.

We have performed the procedures prescribed in Capital Market Authority ("CMA") Circular No. 16/2003, dated 29 December 2003, with respect to the corporate governance report of the Company ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002, and its amendments. The Report is set out on pages 17 to 20.

Our engagement was undertaken in accordance with the International Standard on Auditing applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Company's application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the Company's corporate governance report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Company's annual report for the year ended 31 December 2004 and does not extend to the financial statements or any other reports of the Company, taken as a whole.

22 March 2005



KPMG



Corporate Governance Report for 2004

Company's Philosophy on Code of Corporate Governance

The Capital Market Authority of Oman (CMA) established the "Code of Corporate Governance for Muscat Securities Market listed Companies" in its Circular No. 11/2002 on 3rd June 2002.

Al Kamil Power Company SAOG believes that the Code of Corporate Governance is a complete tool to improve the operational and financial performance of listed companies. The Code of Corporate Governance ensures accountability, which leads to transparency and ensures impartial treatment of all investors. This ultimately increases the confidence of shareholders and prospective investors in companies' results.

Al Kamil Power Company SAOG confirms that it will maintain its existing high standards of corporate governance in compliance with the Code and to act as a "good corporate citizen".

In compliance with Article 26 of the Code, Al Kamil Power Company SAOG is including this separate chapter on the Code of Corporate Governance in its annual financial statements for the year ended 31st December 2004.

Board Of Directors

The election of the Board is governed by the Company's Articles of Association (Article 24 to 27).

Elections for a new Board of Directors were held following the transformation of AKPC to a public joint stock company on 22nd September 2004.

In line with CMA procedures, the Company obtained "Nomination Forms" from prospective directors, which were vetted by the Company's legal counsel, before forwarding to the Capital Market Authority for formal verification.

The Board of Directors were elected at the first Ordinary General Meeting of the shareholders held on 3rd November 2004 under the supervision of the CMA. The Board will stand for a term of three years.

The following table details the composition of the Board of Directors, and the attendance at Board Meetings and Audit Committee Meetings held during the year after the company was converted to a publicly held joint stock company:

Name of Director	Category of Director	Board Meetings held during the year	Board Meetings attended	Audit Committee Meetings attended
Dr. Ranald G.L. Spiers	Chairman (nominee)	2	2	N/A
Ms. Carol Rees	Vice-Chairman (nominee)	2	1	1
Mr. Keith Marsh	Executive Director (nominee)	2	2	N/A
Mr. Ammar bin Maqbool Hameed Al Saleh	Independent Director	2	2	1
Mr. Ajeet Walavalkar	Independent Director (nominee)	2	2	1



The dates of these meetings were 3rd November 2004 and 29th November 2004.

Other Interests

Mr. Ammar bin Maqbool Hameed Al Saleh has declared that he is also an Executive Director of Oman Holding International Company SAOG. Otherwise, none of the Directors are board members of other Omani companies

Audit Committee

Brief Description of Terms of Reference

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing:

- the financial reports and other financial information provided by the Company to any governmental body or the public;
- the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that the management and the Board have established; and
- the Company's auditing, accounting and financial reporting processes generally.

Consistent with this function, the Audit Committee will encourage continuous improvement of, and will foster adherence to, the Company's policies, procedures and practices at all levels.

The Audit Committee's primary duties and responsibilities are to:

- serve as an independent and objective party to monitor the Company's financial reporting process and internal control system;
- review and appraise the audit efforts of the Company's statutory and internal auditors;
- provide an open avenue of communication among the statutory and internal auditors, financial and senior management and the Board of Directors.

The Audit Committee consists of three members of the Board. The members were elected at the first meeting of the new Board held after the OGM on 3rd November 2004. Mr. Ajeet Walavalkar, being an Independent Director, qualified for the position of Chairman and was duly elected.

The following table details the composition of the Audit Committee and attendance record of Committee Members.

Name of Committee Member	Position	Meetings held during the year	Meetings attended during the year
Mr. Ajeet Walavalkar	Chairman	1	1
Ms. Carol Rees	Member	1	1
Mr. Ammar bin Maqbool Hameed Al Saleh	Member	1	1

The date of this meeting was 28th November 2004.



Activities During 2004

The Audit Committee has met the external auditors and reviewed, on behalf of the Board, the financial statements for the year 2004. During the year 2005, the Audit Committee proposes to review the effectiveness of the Company's internal controls by meeting the internal auditors.

The Board has reviewed the operational reports generated by the management of the Company, which compares the budget with the actual income and expenditure.

The Audit Committee and the Board are pleased to inform the shareholders that, in their opinion, an adequate and effective system of internal controls is in place.

Remuneration

Directors – Remuneration / Attendance Fee.

The total attendance fee paid to the Directors and Audit Committee members for 2004 was RO 1,575.

Aggregate Remuneration to Management ("Top Five Officers")

The aggregate remuneration paid to the top five officers of the Company was RO 111,000.

Non-Compliance Penalties

No penalties or strictures were imposed on the Company by Muscat Securities Market / Capital Market Authority or any other statutory authority on any matter related to Capital Market during the last year.

Communications with the Shareholders and Investors

Half-yearly and annual accounts will be sent to each shareholder by post to their postal addresses.

The Company has not launched its own web site but gives press releases in cases of important news and development that arise.

The Company is available to meet its shareholders and their analysts at their convenience.

Outlook for 2005

The terms of operation of the Company are defined in the Power Purchase Agreement (PPA) until 1st May 2017. No significant changes are envisaged.

Due to the tariff structure within the Power Purchase Agreement, the revenue will continue to show marginal downward trend. This trend is not a reflection of the technical performance of the Company but is solely dependent on the agreed tariff structure for the life of the project.

Following the promulgation of the Sector Law in August 2004, the PPA will be novated to the newly formed Oman Power & Water Procurement Company SAOC (PWP) during 2005.

Internal Control Systems and their Adequacy

The Company believes in strong internal control systems as an efficient tool to contribute to high performance in the operation and management of the Company. In addition to internal processes, our principal shareholders' also ensures that efficient and adequate controls are maintained.



Market Price Data

The following table details the market prices of AKPC since listing on the Muscat Securities Market in September 2004.

Month	High Price (RO)	Low Price (RO)	Average Price (RO)
Sept	1.76	1.70	1.70
Oct	1.70	1.60	1.60
Nov	1.69	1.63	1.65
Dec	1.62	1.58	1.62

Distribution of Shareholding.

The Shareholder pattern as on 31st December 2004 was as follows:

Category of Shareholders	Number of Shareholders	Total Shares	% Share Capital
Ordinary Shareholders above 5%	2	6,255,656	65%
Ordinary Shareholders below 5%, but above 1%	8	1,512,633	15.7%
Ordinary Shareholders below 1%	448	1,856,771	19.3%
Total		9,625,000	100%

Specific Areas of Non-Compliance with the Provisions of Corporate Governance

The Articles of Association of the Company require that the Board of Directors holds four meetings per annum provided that a maximum period of four months should lapse between each two consecutive meetings. Since the conversion of the company into a Omani joint stock company on 22nd September 2004, the Board has met twice during the remainder of 2004.

Due to the limited activities of the Company, a full-time internal auditor is not required. The Board has outsourced this function to an independent professional firm, BDO Jawad Habib & Co, Chartered Accountants.

The Statutory Auditors

KPMG are the appointed Statutory Auditors of the Company.

KPMG is an international accounting firm operating in 148 countries from 715 cities and having more than 100,000 staff. KPMG in Oman has over 80 employees (including three partners and thirteen managers) and trains the largest number of Omanis in the auditing and accounting profession.



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REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF AL KAMIL POWER COMPANY SAOG

We have audited the balance sheet of Al Kamil Power Company SAOG ("the Company") as at 31 December 2004 and the related statement of income, changes in equity and cash flows for the year then ended, as set out on pages 22 to 40.

Respective responsibilities of the Board of Directors and the Auditors

These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Al Kamil Power Company SAOG as at 31 December 2004, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board, the minimum disclosure requirements of the Capital Market Authority and comply, in all material respects, with the Commercial Companies Law of 1974, as amended.

22 March 2005



KPMG



Income Statement for the year ended 31 December 2004

	Note	2004 RO'000	2004 US\$'000	2003 RO'000	2003 US\$'000
Operating revenue	5	16,675	43,356	13,036	33,892
Operating costs	6&22	(12,050)	(31,331)	(6,981)	(18,152)
Gross profit		4,625	12,025	6,055	15,740
Administrative and general expenses	7&22	(399)	(1,037)	(318)	(825)
Profit from operations		4,226	10,988	5,737	14,915
Net financing costs	16&19	(2,397)	(6,232)	(2,476)	(6,438)
Profit before exceptional items and tax		1,829	4,756	3,261	8,477
Exceptional income	8	-	-	1,090	2,834
Profit before tax		1,829	4,756	4,351	11,311
Deferred taxation	17	(220)	(572)	(308)	(799)
Net profit for the year		1,609	4,184	4,043	10,512
Basic earnings per share	23	0.167	0.435	0.420	1.092

The notes on pages 26 to 40 form part of these financial statements.

The report of the Auditors is set forth on page 21.

Balance Sheet at 31 December 2004

	Note	2004 RO'000	2004 US\$'000	2003 RO'000	2003 US\$'000
Assets					
Property, plant and equipment	9&18	46,118	119,906	47,288	122,950
Long term advance		438	1,139	-	-
Total non-current assets		46,556	121,045	47,288	122,950
Inventories	10	2,651	6,892	3,012	7,831
Tariff receivables	11	2,463	6,403	4,013	10,434
Other receivables and prepayments	12	532	1,384	368	954
Cash at bank	13	6,030	15,679	4,793	12,461
Total current assets		11,676	30,358	12,186	31,680
Total assets		58,232	151,403	59,474	154,630
Equity					
Share capital	14	9,625	25,025	9,625	25,025
Legal reserve	15	565	1,469	404	1,051
Retained earnings		5,087	13,226	3,639	9,460
Shareholders' fund		15,277	39,720	13,668	35,536
Hedging deficit	16	(2,938)	(7,638)	(3,543)	(9,211)
Total equity		12,339	32,082	10,125	26,325
Liabilities					
Hedging deficit	16	2,938	7,638	3,543	9,211
Deferred tax liability	17	528	1,372	308	799
Long-term loans	18	30,446	79,160	32,441	84,346
Loans from shareholders	19	3,291	8,557	3,029	7,875
Interest payable on shareholders' loans	19	23	59	329	855
Total non-current liabilities		37,226	96,786	39,650	103,086
Current maturities of long-term loans	18	1,995	5,186	1,830	4,758
Payables and accruals	20	6,216	16,162	7,240	18,826
Amounts due to related parties	21	456	1,187	629	1,635
Total current liabilities		8,667	22,535	9,699	25,219
Total liabilities		45,893	119,321	49,349	128,305
Total equity and liabilities		58,232	151,403	59,474	154,630
Net assets per share	24	1.587	4.127	1.420	3.692

The notes on pages 26 to 40 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 22nd March 2005 and were signed on its behalf by:


Chairman


Director

The report of the Auditors is set forth on page 21



Statement of Changes in Equity for the year ended 31 December 2004

	Share capital RO'000	Legal reserve RO'000	Retained earnings RO'000	Shareholders' fund RO'000	Hedging deficit RO'000	Total equity RO'000	Total equity US\$'000
1 January 2004	9,625	404	3,639	13,668	(3,543)	10,125	26,325
Net profit for the year	-	-	1,609	1,609	-	1,609	4,184
Transfer to legal reserve	-	161	(161)	-	-	-	-
Interest expense	-	-	-	-	1,261	1,261	3,278
Fair value adjustment	-	-	-	-	(656)	(656)	(1,705)
31 December 2004	<u>9,625</u>	<u>565</u>	<u>5,087</u>	<u>15,277</u>	<u>2,938</u>	<u>12,339</u>	<u>32,082</u>
1 January 2003	9,625	-	-	9,625	(4,424)	5,201	13,522
Net profit for the year	-	-	4,043	4,043	-	4,043	10,512
Transfer to legal reserve	-	404	(404)	-	-	-	-
Interest expense	-	-	-	-	1,330	1,330	3,459
Fair value adjustment	-	-	-	-	(449)	(449)	(1,167)
31 December 2003	<u>9,625</u>	<u>404</u>	<u>3,639</u>	<u>13,668</u>	<u>(3,543)</u>	<u>10,125</u>	<u>26,325</u>

The notes on pages 26 to 40 form part of these financial statements.

The report of the Auditors is set forth on page 21.

Cash Flow Statement

for the year ended 31 December 2004

	2004 RO'000	2004 US \$'000	2003 RO'000	2003 US \$'000
Cash flow from operating activities				
Cash receipts from MHEW and others	18,225	47,385	10,064	26,165
Cash paid to suppliers and employees	(12,357)	(32,126)	(1,308)	(3,400)
	<hr/>	<hr/>	<hr/>	<hr/>
Cash generated from operations	5,868	15,259	8,756	22,765
Interest paid	(2,123)	(5,520)	(2,929)	(7,614)
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash from operating activities	3,745	9,739	5,827	15,151
Cash flows from investing activities				
Acquisition of property, plant and equipment	(378)	(983)	(2,258)	(5,872)
Proceeds from disposal of fixed assets	8	21	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash used in investing activities	(370)	(962)	(2,258)	(5,872)
Cash flows from financing activities				
Repayment of long-term loans	(1,830)	(4,758)	(1,655)	(4,303)
Loan from shareholders	262	681	-	-
Interest on loan from shareholders	(570)	(1,482)	245	638
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash used in financing activities	(2,138)	(5,559)	(1,410)	(3,665)
Net increase in cash and cash equivalents	1,237	3,218	2,159	5,614
Cash and cash equivalents at the beginning of the year	4,793	12,461	2,634	6,847
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at 31 December	6,030	15,679	4,793	12,461

Cash and cash equivalents at the end of the year represent bank balances of the Company.

The notes on pages 26 to 40 form part of these financial statements.

The report of the Auditors is set forth on page 21.



Notes (forming part of the financial statements)

Notes
(forming part of the financial statements)

1 Legal status and principal activities

Al Kamil Power Company SAOG (the "Company") was registered as a closed joint stock company in the Sultanate of Oman. The Company was incorporated on 15 July 2000. The Company has been established to build and operate a 285 MW electricity generating station at Al Kamil in the Sharqiya Region. The Company was converted to a general joint stock company on 22 September 2004.

2 Significant agreements

The Company has entered into the following significant agreements:

- (i) Power Purchase Agreement ("PPA") with the Government of Sultanate of Oman (the "Government") granting the Company right to generate electricity in the Sharqiya region. The Company has entered into a long-term power supply agreement with the Ministry of Housing, Electricity and Water ("MHEW") of the Government for a period of fifteen years commencing from the scheduled Commercial Operation Date.
- (ii) Natural Gas Sales Agreement with the Ministry of Oil and Gas ("MOG") for the purchase of natural gas from MOG for the period of fifteen years at a pre-determined price;
- (iii) Usufruct agreement with the Government for grant of Usufruct rights over the project site for 25 years;
- (iv) Operation & Maintenance Agreement with Al Kamil Construction & Services LLC ("AKCS"), a related party, for operations and maintenance for a period of 15 years from the Commercial Operation Date;
- (v) Engineering, Procurement and Construction ("EPC") contract with International Power plc., a related party and a company registered in the United Kingdom, and Arabian International Construction ("AIC"), a company registered in Egypt, for construction of power generating facilities;
- (vi) Agreement with Societe General and Bank Muscat SAOG for long-term loan facilities; and
- (vii) Supplemental Agreements ("SA") to Natural Gas Supply Agreement and Power Purchase Agreement with MHEW, MOG and ratified by Ministry of Finance ("MOF").

3 Basis of preparation of financial statements

In accordance with the PPA the scheduled Commercial Operation Date ("COD") of the plant was 1 April 2002. However, the project was delayed due to various technical difficulties. The Company was granted deemed COD with effect from 1 October 2002 and the COD was confirmed by the Government as on 19 July 2003.

Before 19 July 2003, the Company carried out testing and commissioning of the plant on natural gas. In accordance with the SA, the Company received capacity charge and fuel recovery income from 1 October 2002. The comparative figures for 2003 include income and expenditure for the period from 1 October to 31 December 2002.

Notes (forming part of the financial statements)

3 Basis of preparation of financial statements (cont.)

During 2003, the Company paid liquidated damages to the MHEW. The Company also recovered certain liquidated damages from EPC Contractors for delay in completion of project. The net income in this respect has been considered as exceptional income.

4. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board, the minimum disclosure requirements of the Capital Market Authority and the requirements of the Commercial Companies Law of 1974, as amended.

(b) Basis of preparation

These financial statements are presented in Rial Omani ("RO") and United States Dollars ("US\$"), rounded off to the nearest thousand. These financial statements are prepared on the historical cost basis except for derivative financial instruments, which are stated at fair value. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

(c) Operating revenue

Operating revenue comprises tariffs for fixed capacity and energy charges. Tariffs are calculated in accordance with the Power Purchase Agreement (PPA). The operating revenue is recognised by the Company on an accrual basis of accounting. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

(d) Operating lease payments

Payments made under operating leases are recognised on a straight-line basis over the term of the lease.

(e) Employee benefits

Contributions to defined contribution retirement plans for Omani employees, in accordance with Oman Social Insurance Scheme, are recognised as expense in the income statement as incurred.

Provision for non-Omani employee terminal contributions, which is an unfunded defined benefit retirement plan, is made in accordance with Omani Labour Laws and calculated on the basis of the liability that would arise if the employment of all employees were terminated at the balance sheet date.

(f) Net financing expenses

Net financing expenses comprise interest payable on borrowings and interest receivable on Escrow account.

Interest income is recognised in the income statement as it accrues. Interest expense is recognised in the income statement as incurred.



Notes (forming part of the financial statements)

4. Significant accounting policies (cont.)

(f) Net financing expenses (cont.)

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. All other interest expenses are recognised as an expense in the income statement on an effective interest rate method.

(g) Foreign currencies

Transactions in foreign currencies are translated to Rials Omani at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Rials Omani at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to Rials Omani at the foreign exchange rate ruling at the date of the transaction. During the construction period, exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost are capitalised. All other foreign exchange differences are recognised in the income statement.

(h) Derivative financial instruments and hedging

The Company uses derivative financial instruments to hedge its exposure to certain portion of its interest rate risks arising from financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at their fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement immediately.

(i) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses [refer accounting policy (l)]. 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, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Notes (forming part of the financial statements)

4. Significant accounting policies (cont.)

(i) Property, plant and equipment (continued)

Depreciation

Capital work-in-progress is not depreciated. Depreciation is charged on a straight-line basis over the estimated useful lives of items of property, plant and equipment and major components that are accounted for separately as follows:

	Years
Plant and machinery	6 - 30
Buildings and civil works	40
Other assets	
- Furniture, fixtures and office equipment	4
- Motor vehicles and computer equipment	3

(j) Inventories

Fuel and spares stock is stated at the lower of cost and net realizable value. Cost is determined on the weighted average principle and includes all costs incurred in acquiring the inventories and bringing them to their existing location and condition.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalent for the purposes of statement of cash flows.

(l) Impairment

The carrying amounts of the Company's assets, other than inventories [refer accounting policy (j)] and deferred tax [refer accounting policy (p)] are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of the Company's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.



Notes (forming part of the financial statements)

4. Significant accounting policies (cont.)

(l) Impairment (cont.)

An impairment loss in respect of receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Interest bearing borrowings

Interest bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowings on an effective interest rate basis.

(n) Payables and accruals

Other payables and accruals are stated at cost.

(o) 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 an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(p) Income Tax

Income tax on the results for the year comprises deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation 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.

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 (forming part of the financial statements)

5 Operating revenue

	2004 RO'000	2004 US \$'000	2003 RO'000	2003 US \$'000
<i>Revenue for the period prior to 19 July 2003</i>				
Capacity charges (refer note 3)	-	-	4,162	10,820
Energy charges (refer note 3)	-	-	2,103	5,469
	<u>-</u>	<u>-</u>	<u>6,265</u>	<u>16,289</u>

	Year ended 31 December 2004		From 19 July to 30 December 2003	
	RO'000	US \$'000	RO'000	US \$'000
Capacity charges	7,151	18,592	3,039	7,901
Energy charges	9,524	24,764	3,732	9,702
	<u>16,675</u>	<u>43,356</u>	<u>6,771</u>	<u>17,603</u>
Total operating revenue	<u>16,675</u>	<u>43,356</u>	<u>13,036</u>	<u>33,892</u>

6 Operating costs

	2004 RO'000	2004 US \$'000	2003 RO'000	2003 US \$'000
Fuel cost	8,645	22,478	5,417	14,085
Operation and maintenance charges	1,558	4,051	604	1,571
Depreciation	1,847	4,802	960	2,496
	<u>12,050</u>	<u>31,331</u>	<u>6,981</u>	<u>18,152</u>

7 Administrative and general expenses

Employee costs	111	288	76	198
Depreciation	87	226	98	254
Legal and professional fees	62	162	54	138
Plant opening expenses	49	127	-	-
Travelling	10	25	22	56
Social development costs	21	54	19	49
Utilities charges	12	31	15	37
Rent, rates and taxes	7	18	6	16
Directors / Shareholders meeting expenses	5	13	-	-
Provision for asset retirement	5	13	-	-
Miscellaneous expenses	30	80	28	77
	<u>399</u>	<u>1,037</u>	<u>318</u>	<u>825</u>



Notes (forming part of the financial statements)

7 Administrative and general expenses (cont.)

Employee related expenses comprise the following:

Wages and salaries	87	227	62	161
Other benefits	19	49	18	48
Contributions to defined contribution retirement plan	1	2	1	2
Increase (reversal) in liability for unfunded defined benefit retirement plan	4	10	(5)	(13)
	<u>111</u>	<u>288</u>	<u>76</u>	<u>198</u>

The number of employees at 31 December 2004 was 5 (31 December 2003: 6).

8 Exceptional income

Liquidated damages charged to AIC	-	-	5,089	13,232
Liquidated damages paid to MHEW	-	-	(2,160)	(5,616)
Expenses and financial charges incurred	-	-	(1,839)	(4,782)
	<u>-</u>	<u>-</u>	<u>1,090</u>	<u>2,834</u>

9 Property, plant and equipment

	Capital work-in progress RO'000	Plant and machinery RO'000	Other assets RO'000	Building and civil works RO'000	Total RO'000	Total US\$'000
Cost						
At 1 January 2004	52	47,319	338	731	48,440	125,944
Acquisitions	2	341	35	-	378	982
Disposals	-	-	(22)	-	(22)	(57)
Transfer from inventories	-	386	-	-	386	1,002
Transfers	(54)	-	-	54	-	-
At 31 December 2004	<u>-</u>	<u>48,046</u>	<u>351</u>	<u>785</u>	<u>49,182</u>	<u>127,871</u>
Depreciation						
At 1 January 2004	-	(952)	(192)	(8)	(1,152)	(2,994)
Charge for the year	-	(1,828)	(87)	(19)	(1,934)	(5,028)
Disposals	-	-	22	-	22	57
At 31 December 2004	<u>-</u>	<u>(2,780)</u>	<u>(257)</u>	<u>(27)</u>	<u>(3,064)</u>	<u>(7,965)</u>
Carrying amount						
At 31 December 2004	<u>-</u>	<u>45,266</u>	<u>94</u>	<u>758</u>	<u>46,118</u>	<u>119,906</u>
At 31 December 2003	<u>52</u>	<u>46,367</u>	<u>146</u>	<u>723</u>	<u>47,288</u>	<u>122,950</u>

Land on which the power station, building and auxiliaries are constructed has been leased from the Government of the Sultanate of Oman for a period of 25 years. Lease rent is paid at the rate of RO 1,000 per annum.

Transfer from inventories represent insurance spares reclassified from inventories to property, plant and equipment.

Notes (forming part of the financial statements)

10 Inventories

	2004 RO'000	2004 US \$'000	2003 RO'000	2003 US \$'000
Liquid fuel	919	2,390	923	2,399
Maintenance spares	1,732	4,502	2,089	5,432
	<u>2,651</u>	<u>6,892</u>	<u>3,012</u>	<u>7,831</u>

The Company, in accordance with the Project Agreements, is required to maintain a base stock of liquid fuel equivalent to a minimum of five days' consumption to operate turbines at full capacity for use in case of interruption in supply of gas fuel. Maintenance spares are for gas turbines and held for emergencies.

11 Tariff receivables

Tariff receivables represent the amounts due from the Ministry of Housing, Electricity and Water in respect of energy and capacity charges for the period.

12 Other receivables and prepayments

	2004 RO'000	2004 US \$'000	2003 RO'000	2003 US \$'000
Advances	758	1,971	368	954
Long term advances	(438)	(1,139)	-	-
	<u>320</u>	<u>832</u>	<u>368</u>	<u>954</u>
Prepayments	181	471	-	-
Other receivables	31	81	-	-
	<u>532</u>	<u>1,384</u>	<u>368</u>	<u>954</u>

Advances include an amount of approximately RO 752,000 (US\$ 1,955,000) paid to AKCS for replacement of certain major components.

13 Cash at bank

Current accounts	4,870	12,664	4,793	12,461
Deposit accounts	1,160	3,015	-	-
	<u>6,030</u>	<u>15,679</u>	<u>4,793</u>	<u>12,461</u>

During 2004, the deposit accounts earned interest at the rates ranging between 1.85% and 2.45% per annum, (2003: 1% and 1.5% per annum).

14 Share capital

	2004 RO'000	2004 US \$'000	2003 RO'000	2003 US \$'000
Authorised share capital of 25,000,000 (2003: 25,000,000) shares of RO 1 each	<u>25,000</u>	<u>65,000</u>	<u>25,000</u>	<u>65,000</u>
Issued and fully paid-up share capital of 9,625,000 (2003: 9,625,000) shares of RO 1 each	<u>9,625</u>	<u>25,025</u>	<u>9,625</u>	<u>25,025</u>



Notes (forming part of the financial statements)

14 Share capital (cont.)

The Company's shareholders at 31 December were as follows:

	2004		2003	
	Number of shares	%	Number of shares	%
National Power Al Kamil Investments Limited	4,691,593	48.74	7,217,836	74.99
Al Kamil Investments Limited	1,564,063	16.25	2,406,250	25.00
National Power Oman Investments Limited	594	0.01	914	0.01
Others	3,368,750	35.00	-	-
	9,625,000	100.00	9,625,000	100.00

All the above three shareholding companies are registered in the United Kingdom and are subsidiaries of International Power plc. None of the ordinary shareholders, other than these three companies, own 10% or more of the Company's share capital.

During the current year, the Company made an Initial Public Offering ("IPO") as a result of which 35% shares of International Power plc. (IPR) were offered to the general public. Accordingly, the Company converted from closed to a general joint stock Company and its shares were listed on the Muscat Securities Market ("MSM") with effect from 22 September 2004.

15 Legal reserve

The Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to one-third of the Company's share capital.

16 Hedging deficit

The Term Loan facilities of the Company bear interest at US LIBOR plus applicable margins (refer note 18). In accordance with the Term Loan Agreement, the Company has fixed the rate of interest through Interest Rate Swap Agreements ("IRS") for 75% to 100% of its loan facility amounting to approximately RO 26 million (US\$ 69 million) at a fixed interest rate of 6.29% per annum, excluding margin.

At 31 December 2004, US LIBOR was approximately 2.3% (2003: 1.22 %) per annum, whereas the Company has fixed interest on its long term borrowing at 6.29%. Accordingly, the gap between US LIBOR and fixed rate under IRS was approximately 3.99% (2003: 5.07 %) per annum. Based on the interest rates gap, over the life of the IRS, the indicative losses were assessed at approximately RO 2.938 million (US\$ 7.638 million) by the counter parties to IRS. In case the Company terminates the IRS at 31 December 2004, it may incur losses to the extent of approximately RO 2.938 million (US\$ 7.638 million). However, under the term of Loan Agreements, the Company is not permitted to terminate the interest rate swap agreements. Consequently, in order to comply with International Accounting Standard 39 "Financial Instruments:

Notes (forming part of the financial statements)

16 Hedging deficit (cont.)

Recognition and Measurement" fair value of the hedge instruments' indicative losses in the amount of approximately RO 2.938 million (US\$ 7.638 million) has been recorded within the equity of the Company under "Hedging Deficit" and a similar amount is recorded under long term liabilities.

17 Deferred taxation

The Company is exempt from income tax for an initial period of five years from the commercial operation date.

For the year ended 31 December 2004, the Company has recognized deferred tax liability in the aggregate amount of approximately RO 220,000 (US\$ 572,000) on the temporary differences. The movement in deferred tax liability during the year is as follows:

	2004 RO'000	2004 US \$'000	2003 RO'000	2003 US \$'000
1 January	308	800	-	-
Deferred tax charge for the year	220	572	308	800
31 December	<u>528</u>	<u>1,372</u>	<u>308</u>	<u>800</u>

Deferred tax expense represents the origination and reversal of temporary differences in respect of the following:

Accelerated depreciation	955	2,482	308	800
Tax loss for the year	(427)	(1,110)	-	-
	<u>528</u>	<u>1,372</u>	<u>308</u>	<u>800</u>

The assessments for the years 2003 and 2004 have not been finalised with the Department of Taxation Affairs, Ministry of Finance.

The current deferred tax liability is worked out by the management of the Company, based on the assumption that the tax losses during tax exempt period would be available for carry forward indefinitely in post tax exempt period.

In case the tax department takes a different view on the availability of tax losses during the tax exempt period to be carried forward to post tax exempt period, the Company would need to recognise additional deferred tax liability in the amount of approximately US\$ 281,000 at 31 December 2004.

18 Long-term loans

The Company had syndicated a long-term loan facility from financial institutions in the aggregate amount of approximately RO 36 million (US\$ 94 million).

Société Générale and Bank Muscat are the arrangers of the facilities and have respectively been appointed as the offshore and on-shore security agents for the secured finance parties and as the security trustee. Société Générale is also the Facility and Security Agent for administration and monitoring of the overall loan facilities.



Notes (forming part of the financial statements)

18 Long-term loans (cont.)

The term loan is repayable in twenty-eight six-monthly instalments commencing from 1 November 2002 as follows:

	Total	Payable within one year	Payable between 1 and 2 years	Payable between 2 and 5 years	Payable after 5 years
RO'000	32,441	1,995	2,125	7,345	20,976
US\$'000	84,346	5,186	5,524	19,096	54,540

The loan agreement contains certain restrictive covenants, which include, amongst others, restrictions over debt service and debt equity ratios, certain restrictions on the transfer of shares, payment of dividends, disposal of property, plant and equipment and incurrence of additional debt.

The loan facilities bear interest at US LIBOR plus applicable margins. Margin percentages range from 1.15% to 1.7%. Margin percentages are as follows:

Period	Base Facility
From financial close until COD	1.15%
Thereafter, until the 8th anniversary of COD	1.10%
Thereafter, until the 10th anniversary of COD	1.25%
Thereafter, until the 13th anniversary of COD	1.50%
Thereafter	1.70%

The Company has fixed the rate of interest through an interest rate swap agreement for 75% to 100% of its loan facility amounting to approximately RO 26 million (US\$ 69 million) at a maximum interest rate of 6.29% per annum at 31 December 2004.

The facilities are secured by comprehensive legal and commercial mortgages on all the assets of the Company.

19 Loans from shareholders

	2004 RO'000	2004 US \$'000	2003 RO'000	2003 US \$'000
National Power Al Kamil Investment Limited	2,468	6,417	2,271	5,905
Al Kamil Investment Limited	822	2,139	757	1,969
National Power Oman Investment Limited	1	1	1	1
	3,291	8,557	3,029	7,875

The loan from shareholders is unsecured and interest is charged at the rate of 8% per annum. Repayment terms have not been finalized.

20 Payables and accruals

Trade payable	3,897	10,131	4,846	12,602
Interest payable	357	928	347	902
Payable to EPC Contractor	1,923	5,000	1,923	5,000
Accruals and other payables	39	103	124	322
	6,216	16,162	7,240	18,826



Notes (forming part of the financial statements)

20 Payables and accruals (cont.)

Included in accruals and other payables is liability towards unfunded defined benefit retirement plan as follows:

	2004 RO'000	2004 US \$'000	2003 RO'000	2003 US \$'000
1 January	10	26	15	39
(Reversal) addition	3	8	(5)	(13)
31 December	<u>13</u>	<u>34</u>	<u>10</u>	<u>26</u>

21 Amount due to related parties

Al Kamil Construction & Services LLC	454	1,180	334	868
International Power				
Global Developments Limited	2	7	278	723
National Power International Limited	-	-	9	24
International Power plc.	-	-	8	20
	<u>456</u>	<u>1,187</u>	<u>629</u>	<u>1,635</u>

22 Related party transactions

The Company has a related party relationship with entities over which certain shareholders and Directors are able to exercise significant influence. The Company also has a related party relationship with its Directors. In the ordinary course of business, such related parties provide goods and render services to the Company. Certain promoters also incurred costs on behalf of the Company. These costs were reimbursed by the Company at cost. The Company has entered into an Operation and Maintenance Agreement with Al Kamil Construction Services LLC, a related party, for operations and maintenance of the plant for a period of 15 years from the commercial operations date or the termination date of PPA, whichever is earlier [refer note 2(iv)].

The Company has entered into an EPC contract with International Power plc. for supply of goods and provision of services [refer note 2(v)]. The plant is now commissioned and upon achieving the COD this contract has been successfully concluded.

Prices and terms for these transactions, which are entered into in the normal course of business, are on terms and conditions, which the Directors consider, are comparable with those that could be obtained from unrelated third parties. The volume of related party transactions during the year ended 31 December 2004 was as follows:

Notes (forming part of the financial statements)

22 Related party transactions (cont.)

	2004 RO'000	2004 US \$'000	2003 RO'000	2003 US \$'000
Goods and services procured by International Power plc, under the EPC contract	-	-	9	24
Costs incurred by International Power Global Development Limited on behalf of the Company	55	143	190	494
Fee charged under the Operations and maintenance agreement with AKCS	1,886	4,902	1,057	2,748
Costs incurred by AKCS on behalf of the Company	2	4	616	1,602
Costs incurred by the Company on behalf of AKCS	4	11	26	67
Interest payable on loans from shareholders (refer note 19)	264	687	246	638
Directors' meeting fee	2	4	-	-

The Company has obtained a loan from certain shareholders (refer to note 19).

23 Basic earnings per share

Basic earnings per share is calculated as follows:

	2004	2004	2003	2003
Net profit for the year RO/US\$ ('000)	1,609	4,184	4,043	10,512
Number of shares outstanding at 31 December ('000)	9,625	9,625	9,625	9,625
Basic earnings per share RO/US\$	0.167	0.435	0.420	1.092

24 Net assets per share

Net assets per share is calculated by dividing the shareholders' fund at the year end by the number of shares outstanding as follows:

Shareholders' fund RO/US\$ ('000)	15,277	39,720	13,668	35,536
Number of shares outstanding at 31 December ('000)	9,625	9,625	9,625	9,625
Net assets per share RO/US\$	1.587	4.127	1.420	3.692

25 Dividends

Interim dividend

In the Ordinary General Meeting of the Company held on 27 January 2005, the shareholders of the Company approved an interim dividend in the amount of approximately RO 578,000 (approximately US\$ 1,502,000) at 6% of the Company's capital out of retained earnings as at 31 December 2003.

Notes (forming part of the financial statements)

25 Dividends (cont.)

Final Dividend

In the Board of Directors' meeting held on 22 March 2005, the Board has recommended a final cash dividend in the amount of approximately RO 578,000 (approximately US\$ 1,502,000) at 6% of the Company's capital, pending approval of shareholders.

26 Contingent liabilities

	2004	2004	2003	2003
	RO'000	US \$'000	RO'000	US \$'000
Performance bond under the PPA	-	-	4,000	10,400

27 Commitments

Capital commitments	89	232	49	128
Letter of Credit	1,346	3,500	9	23

Operating lease commitments

Land on which the power station, buildings and ancillaries are constructed, has been leased from the Government for a 25 year period. At 31 December 2004, future minimum lease commitments under non-cancellable operating leases are as follows:

Within one year	1	3	1	3
Between two and five years	4	10	4	10
After five years	16	41	17	44

28 Financial instruments

Exposure to interest rate credit and currency risk arises in the normal course of the Company's business.

Interest rate risk

The Company adopts a policy of ensuring that at least 75% of its exposure to changes in interest rates on long-term loans is on a fixed rate basis. Interest rate swap, denominated in US\$, has been entered into to achieve this purpose. The swap matures over the next 15 years following the maturity of the related loans. While this is subject to the risk of market rates changing subsequent to acquisition, such changes are generally offset by opposite effects on the items being hedged.

Credit risks

The entire tariff receivables represent amounts due from MHEW in respect of power supplied by the Company under the terms of the Project Agreements and accordingly credit risk is minimised.



Notes (forming part of the financial statements)

28 Financial instruments (cont.)

Foreign currency risk

Substantially all of the foreign currency transactions are in US\$ or currencies linked to the US\$ and, accordingly, the foreign currency risk are minimal.

Fair value

The Board of Directors believe that the fair value of financial assets and liabilities of the Company are not significantly different from their carrying amounts.

29 Comparative figures

Certain prior year figures have been reclassified to conform to the presentation adopted in the current year.