



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 2005, together with the report of the Auditors.

PLANT OPERATION AND PROFIT EARNED

The Al Kamil power station has been running smoothly and efficiently with commercial availability throughout the year at an exceptionally high 99.9%. The plant has exported 1,210 GWh to the Omani grid during the year in response to dispatch instructions received from Oman Electricity Transmission Company SAOC. This represents an average utilisation of the power station of 50.42% for the year.

The Company recorded a net profit of Rials Omani 1.539 million in 2005.

CONTRACTUAL MATTERS

In accordance with the privatisation process and as envisaged within the Power Purchase Agreement (PPA),

on 1st May 2005 the PPA was novated from the Ministry of Housing, Electricity and Water (MHEW) to Oman Power and Water Procurement Company SAOC (OPWP). OPWP is a closed joint stock company entirely owned by the Government of Oman. All the financial commitments of OPWP under the PPA are guaranteed by the Government of Oman.

FUNDING ARRANGEMENTS

The Company's principal debt facility is an \$81.34 million term loan facility with a consortium of lenders headed by Société Générale and BankMuscat SAOG. In November 2005 this facility was successfully renegotiated with those lenders. As a result of this renegotiation, the margins payable on the facility have been reduced, repayment of principal has been pushed back and the term of the loan has been extended by one year. This is a very good result for the shareholders of AKPC as not only does it reduce the cost of borrowing but it also provides greater flexibility to pay dividends to shareholders over the next few years.

DIVIDENDS

The following dividends were declared and disbursed during 2005:

- in January, an interim dividend of 6% for 2004;
- in May, a final dividend of 6% for 2004; and
- in November, an interim dividend of 8% for 2005;

thus making a total dividend of 20% paid during 2005.

The Directors of AKPC have recommended a final ordinary dividend of 10% to be paid in May 2006. Going forward, subject to Capital Market Authority (CMA) regulations, the Directors expect to pay dividends twice a year in May and November.

CORPORATE GOVERNANCE

AKPC is in full compliance with the Code of Corporate Governance which was implemented by the CMA and is described in more detail in the relevant section of this report.

CHAIRMAN'S 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.

2005 was a very good year for AKPC and 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 the encouragement and support they continue to provide to private sector investors.



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



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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 9 to 13.

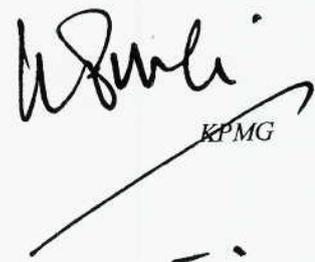
Our engagement was undertaken in accordance with the International Standard on Auditing applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Report.

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 2005 and does not extend to the financial statements or any other reports of the Company, taken as a whole.

6 February 2006



KPMG

Company's Philosophy on Code of Corporate Governance

The Capital Market Authority of Oman (CMA) has issued the "Code of Corporate Governance for Muscat Securities Market listed Companies" vide its Circular No. 11/2002 on 3rd June 2002 which is amended from time to time.

Al Kamil Power Company SAOG believes that the Code of Corporate Governance is a complete tool to improve 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.

The Company has well-implemented systems and policies together with established internal controls and a management committed to the highest standards of business practice. Al Kamil Power Company SAOG confirms that it will continue to maintain these high standards of corporate governance in compliance with the Code of Corporate Governance.

In compliance with the Article 26 of the above code, Al Kamil Power Company SAOG has included a separate chapter on the Code of Corporate Governance

in its annual financial statements for the year ended 31st December 2005.

Board Of Directors

The election of the Board is governed by the Company's Articles of Association (Articles 25 to 27).

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 for a term of three years.

On 19th July 2005 Mr. Keith Marsh (a nominee of National Power Al Kamil Investments Limited) tendered his resignation as a director of the Company and as Chief Executive Officer. On the same date, National Power Al Kamil Investments Limited nominated Mr. Kevin Cox as its new nominee director and this appointment was accepted by the Board of Directors. At the Board meeting held on 19th July 2005, the Board recorded their thanks and appreciation to Mr. Marsh for all his hard work whilst at AKPC. At that meeting, the Chairman also proposed Mr. Cox as Chief Executive Officer and this was unanimously approved by the Board with effect from that date.

The following table details the composition of the Board of Directors, the attendance at Board Meetings and at the last Annual General Meeting of the Company:

Name of Director	Category of Director	Board Meetings held during the period	Board Meetings attended	Last AGM attended
Dr. Ranald G.L. Spiers	Chairman (nominee)	7	7	Yes
Ms. Carol Rees	Vice-Chairman (nominee)	7	7	Yes
Mr. Keith Marsh - Resigned 19 July 2005	Executive Director (nominee)	5	5	Yes
Mr. Kevin Cox - Appointed 19 July 2005	Executive Director (nominee)	2	2	No
Mr. Ammar bin Maqbool Hameed Al Saleh	Independent Director	7	5	No
Mr. Ajeet Walavalkar	Independent Director (nominee)	7	7	Yes

CORPORATE GOVERNANCE REPORT

The dates of these meetings were:

26th January 2005
15th March 2005
22nd March 2005
26th April 2005
19th July 2005
24th October 2005
1st November 2005

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; and
- 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 period	Meetings attended during the period
Mr. Ajeet Walavalkar	Chairman	5	5
Ms. Carol Rees	Member	5	5
Mr. Ammar bin Maqbool Hameed Al Saleh	Member	5	4

The date of these meetings were:

26th January 2005
15th March 2005
25th April 2005
19th July 2005
24th October 2005

Activities During 2005

The Audit Committee has met the external auditors, KPMG, and has reviewed the financial statements for the year 2005 on behalf of the Board. The Audit Committee also met the internal auditors, BDO Jawad Habib and discussed and reviewed with them all the matters reported in the internal audit reports. During the year 2006, the Audit Committee will continue 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 Fees

The total attendance fees paid to the Directors and Audit Committee members for 2005 was RO 6,600.

Aggregate Remuneration to Management ("Top Five Officers")

The aggregate remuneration paid to the top five officers of the Company was RO 102,000.

Non-Compliance and 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 markets during the last three years.

Communications with the Shareholders and Investors

The Annual Report remains the main channel of communication with shareholders. The Annual Report will be sent to each shareholder by post to their registered postal address.

The Company has not launched its own website. The Company gives press releases in cases of important news and developments that arise. The financial results and important announcements can be viewed on the web site of Muscat Securities Market.

The Company will provide directly or by mail (as requested) a complete copy of any accounts which have been submitted to the Capital Market Authority, to any registered or beneficial shareholder or other interested party who requests it (in either Arabic or English as requested) within seven days of receipt of the request.

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

Outlook for 2006

The terms of operation of the Company are defined in the Power Purchase Agreement until 30th April 2017. No significant changes are envisaged.

Due to the tariff structure within the Power Purchase Agreement, revenue will continue to show a 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.

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 shareholder (International Power plc) also ensures that efficient and adequate controls are maintained.

CORPORATE GOVERNANCE REPORT

Market Price Data

The following table details the market prices of AKPC for the year 2005 and its performance compared to the MSM Index:

Month	High Price (RO)	Low Price (RO)	Average Price (RO)	MSM Index
January	1.750	1.650	1.666	3573
February	1.700	1.520	1.629	3635
March	1.670	1.610	1.645	4275
April	1.700	1.500	1.582	4675
May	1.750	1.500	1.580	4997
June	1.750	1.500	1.586	5450
July	1.710	1.470	1.650	5355
August	1.630	1.600	1.606	5193
September	1.750	1.500	1.734	5076
October	1.750	1.510	1.595	5024
November	1.740	1.470	1.641	4837
December	1.540	1.530	1.533	4875

Distribution of Shareholding

The Shareholder pattern as on 31st December 2005 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%	9	1,886,823	20%
Ordinary Shareholders below 1%	298	1,482,521	15%
Total	309	9,625,000	100%

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

We are pleased to report that there are no areas of non-compliance with the Code of Corporate Governance.

The Statutory Auditors

KPMG is the appointed Statutory Auditors of the Company.

KPMG is the global professional accounting and advisory organisation with over 94,000 people and 6,719 Partners, the firm provides audit, tax and

consulting services from 850 locations in 155 countries.

KPMG in the Middle East and South Asia Region employs 3,500 people, has 150 Partners and operates in 15 countries. KPMG in Oman employs 75 people, has 3 Partners and 11 Managers and has offices in Muscat and Salalah.

Other Relevant Information

Due to the level of 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.

MANAGEMENT DISCUSSION & 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 shareholders.

1. 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.

Following the successful Initial Public Offering on 25th August 2004, 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 Company's principal agreements are a Power Purchase Agreement (PPA) originally signed with the Ministry of Housing, Electricity and Water (MHEW) and a Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas (MOG). As part of the privatisation process and as envisaged by the PPA, on 1st May 2005 the obligations of MHEW were novated to the Oman Power and Water Procurement Company SAOC (OPWP), a closed joint stock company owned by the Government of Oman. The Government of Oman guarantees all the financial commitments of OPWP.

The 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.

2. Demand and Supply Scenario

The electricity 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 132kV transmission grid.

3. Revenue and Major Cost Details

Operating revenues consist of Capacity Charges and Energy Charges, recovered on a monthly basis from OPWP. 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 fixed operation and maintenance and all related 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 Oman Electricity Transmission Company SAOC (Transco). 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 at a specified efficiency; and
- the start-up charge - payable to AKPC for the costs of fuel for starts in excess of 100 starts per year for each gas turbine.

The largest operating cost of the power station is the fuel required to operate the gas turbines. 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. In accordance with the NGSA, AKPC is required to pay for the gas consumed for the generation of power. However, the fuel charge element of the PPA allows a full pass-through of the gas price to the extent that

MANAGEMENT DISCUSSION & ANALYSIS REPORT

electricity is generated with the plant efficiency specified in the PPA.

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.

4. Opportunities and Threats

Opportunities

The sole purpose of AKPC is to generate power to meet the hourly offtake requirements of OPWP. 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 request of the Government of Oman to meet any future growth in demand. The plant has been constructed to facilitate possible future expansion of up to 100% of its current 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 OPWP to pay Capacity Charges for the full duration of the PPA and the guarantee given by the Government of Oman to

support the financial commitments of OPWP, means that AKPC is protected against any competitive pressures and consequent financial risks.

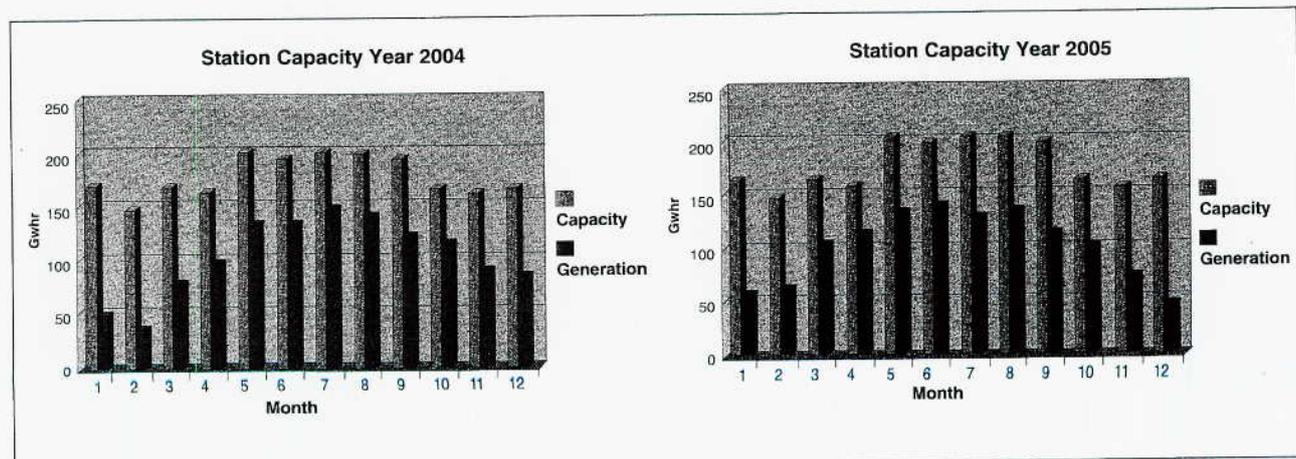
The plant has been built using high quality components provided by recognised suppliers. AKPC has implemented operation and maintenance arrangements through AKCS incorporating the services of the gas turbine manufacturer to maintain the primary generating units. These measures mitigate the possibility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

5. Plant Performance

The generating plant at the power station comprises three General Electric Frame 9171E gas turbines 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 extremely well throughout the year in compliance with Transco instructions. The gas turbine units have generated 1,210 GWh of energy and have incurred 209 starts. This represents a utilisation load factor of just 50.42% and there is therefore a substantial margin for further increase in output at the disposal of Transco.

Station capacity and actual utilisation is shown below for 2005 and 2004. As expected, the monthly levels of generation follow a similar trend over the two years. The highest utilisation is during the summer months when the electricity system in Oman experiences its maximum demand to cope with air-conditioning load.



MANAGEMENT DISCUSSION & ANALYSIS REPORT

Comparison of the data shows that station generation has decreased very marginally during 2005 (1,210GWh in 2005 as compared to 1,229GWh in 2004). The actual level of generation does not directly affect AKPC's net income, as the Company receives monthly Capacity Payments on the basis of availability and is thus broadly indifferent to the actual level of generation.

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). During the whole of 2005, there were only 6 hours of breakdown and 18 hours of scheduled outage of any unit of generating capability. This represents a commercial availability of 99.9% - meaning that the Company received 99.9% of all Capacity Payments available to it under the terms of the PPA.

Operation and Maintenance Contract

As mentioned earlier, the operation and maintenance of the power station has been contracted to 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 33 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 Transco Load Dispatch Centre. The operating staff are formed into five teams to ensure continuous availability and response for every hour of the year.

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 a 9-year Long Term Service Agreement (LTSA).

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 the Original Equipment Manufacturer's instructions. Condition monitoring is carried out on strategic plant items and ongoing protection of the asset is ensured through routine maintenance, 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 Transco.

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

The Company successfully completed two combustion inspections under the LTSA during 2005 with no additional costs and the equipment confirmed to be in good condition.

Health and Safety, Environment and Quality Management

The Company and its O&M contractor, AKCS, are both committed to achieving the best possible Health and Safety, Environmental and Quality performance standards. In all aspects zero reportable incidents is the primary objective. The principles of Health and Safety management are based on training and written

MANAGEMENT DISCUSSION & ANALYSIS REPORT

procedures. All staff and visitors to the site are provided with a safety induction 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 potential safety improvements.

There were no reportable accidents in 2005. Environmental and Quality objectives are focused on system effectiveness and performance enhancement through continual improvement programs. During 2004, the station achieved accreditation to ISO 9001:2000 for its Quality Management system and ISO 14001:1996 for its Environmental Management systems. Compliance audits are carried out annually. The Company is working towards obtaining OHSAS 18001 (Health and Safety) accreditation during 2006.

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 2005, the emissions from the plant were within the limits laid down by the Government and there were no reportable incidents.

In conjunction with the local Environment Agency, staff are active in raising general environmental awareness in the local community and in particular within the schools in Al Kamil and Al Wafi.

Omanisation

The station employs Omani engineers, technicians and administrative staff forming 44% of the total employees.

This is substantially in excess of the current 35% Omanisation obligation in the PPA and reflects the importance that the Board of AKPC places on training and employing Omani staff whenever possible. Improving yet further on this level of Omanisation will continue to be a key priority of senior management. Training and development of Omani staff is proceeding in order to allow further phased replacement of expatriates over the coming years. Employee training and development is achieved through both classroom and on the job training and a formal training plan for each individual is encouraged.

6. Financial Performance

Profit and Loss Account

During the year 2005, the Company achieved a net profit of RO 1.539 million as against RO 1.609 million achieved in the year 2004. A summarised profit and loss account for 2005, together with a comparison of 2004 results is set out below:

	2005 RO '000	2004 RO '000	Change %
Operating revenue	16,432	16,675	-1%
Operating costs	(12,031)	(12,050)	0%
Gross profit	4,401	4,625	-5%
Administrative and general expenses	(282)	(384)	27%
Operating Profit	4,119	4,241	-3%
Net financing costs	(2,371)	(2,412)	2%
Profit before tax	1,748	1,829	-4%
Deferred taxation	(209)	(220)	-5%
Net profit	1,539	1,609	-4%
Earnings per share	0.160	0.167	-4%

Operating Revenue:

- the excellent commercial availability of 99.9% achieved by the Company during 2005 enabled it to meet its budget target. However, a deduction of RO 49,000 made by MHEW from the current year's

MANAGEMENT DISCUSSION & ANALYSIS REPORT

invoices (but in respect of excess capacity charges paid between October 2002 and April 2003) reduced the net Capacity Charge received for the year;

- although the Energy Charge is intended as pass-through income for the Company, the full cost of fuel paid to MOG is not always fully recovered under the PPA; and
- the plant depreciation was higher by 4% as compared to 2004.

Overhead Costs:

- during 2005, the management was able to effectively control the administrative and general expenses; and
- financing costs were marginally lower as the debt level had been reduced during the year by principal repayments.

Balance Sheet

A summary of the asset position for 2004 and 2005 are given in the following table:

Summarised Balance sheet as at 31 December 2005

	31 Dec '05 RO '000	31 Dec '04 RO '000	% Change
Non-current assets	44,753	46,556	-4%
Current assets	6,816	11,676	-42%
Less: Current liabilities	(3,538)	(8,667)	59%
Working Capital	3,278	3,009	9%
Net assets	48,031	49,565	-3%
Shareholders' Equity	13,078	12,339	6%
Non-current liabilities	34,953	37,226	6%
Equity and non current liabilities	48,031	49,565	3%
Net assets per share	1.547	1.587	-3%
Gearing (Net Debt to equity)	236%	241%	2%

Comments on Balance Sheet:

- the movement in fixed assets was mainly on account of the depreciation of RO 1.978 million charged during the year;
- the net working capital movement was a result of the following important factors:
 - the reduction in the cash balance following the payment of dividends totaling RO 1.925 million;
 - timely payments of creditors (payables and accruals reduced from RO 6.216 million in 2004 to RO 2.037 million in 2005); and
 - a large portion (RO 1.25 million) of the EPC contractor's dues paid directly to the EPC contractor's suppliers as directed by the Primary Court of Justice, Sultanate of Oman.

Restructuring of Financial Facilities

During 2005, AKPC has restructured its entire external financing:

- the subordinated loan from International Power was refinanced through a sub-loan from BankMuscat with a lower interest cost (6.5% against 8%) and with a longer tenure (8 years against 5 years);
- an additional letter of credit facility of US\$ 1.5 million was obtained in order to free the cash required to be held in the debt service reserve account under the senior debt facility;
- the term loan was refinanced by way of a waiver resulting in an extension of the term by one year, a back-ending of the repayment profile, and a reduction in the margins payable on the facility; and
- pursuant to the loan agreement, the Company had originally hedged 75% of its interest payment liabilities. During the year, the management decided to take advantage of the low interest rate environment and entered into an additional hedge to lock in the balance of the Company's interest payment obligations at a very competitive rate.

Cash Flow

Due to the very good payment record of OPWP and the rescheduling of the senior debt facility, the Company has been able to maintain a healthy cash flow. This has

MANAGEMENT DISCUSSION & ANALYSIS REPORT

enabled the Company to disburse during the year a total amount of RO 1.925 million as dividends to shareholders.

The Company continues to retain a balance of RO 664,000 at the request of the EPC contractor awaiting the resolution of the outstanding issues the EPC contractor has with its own bankers.

Dividend Payout

The following dividends were declared and disbursed during 2005:

- in January, an interim dividend of 6% for 2004;
- in May, a final dividend of 6% for 2004; and
- in November, an interim dividend of 8% for 2005.

In total therefore, dividends of 20% have been paid and declared in 2005.

Final Dividend

The Company has sufficient free reserves to consider a final dividend for 2005. The Board of Directors recommends a final dividend of 10% in respect of financial year 2005.

7. Internal Control Systems and their Adequacy

The management has put in place a strong system of internal controls. These controls are audited by BDO Jawad Habib & Co, Chartered Accountants, who report to the Audit Committee. All recommendations for improvements are discussed with the Audit Committee and if thought appropriate acted upon. The management believes that efficient and adequate internal controls are in place within the Company.

8. Future Outlook

The management is optimistic about the future of AKPC. Recognising that the long-term future of AKPC depends upon its efficient operational base, management will continue to focus on ensuring high levels of plant availability whilst controlling closely overhead costs. OPWP has not advised their offtake requirements for the forthcoming year. However, AKPC expects that the level

of generation required for 2006 will be broadly similar to that of 2005, with the possibility of a small 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.

9. 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 best-industry 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 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.

OPWP Payments

Since the novation of the PPA to OPWP, there has been a considerable improvement in the settlement of invoices. No invoice has been outstanding more than five days beyond its due date for payment. The Company will continue to work with OPWP to encourage continued timely payment of invoices.



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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 2005 and the related statement of income, changes in equity and cash flows for the year then ended, as set out on pages 22 to 38.

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.

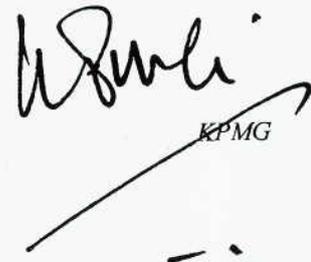
Basis of opinion

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 2005, 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.

29 January 2006



KPMG

INCOME STATEMENT

for the year ended 31 December 2005

	<i>Note</i>	2005 RO'000	2005 US \$'000	2004 RO'000	2004 US \$'000
Operating revenue	4	16,432	42,724	16,675	43,356
Operating costs	5 & 20	<u>(12,031)</u>	<u>(31,280)</u>	<u>(12,050)</u>	<u>(31,331)</u>
Gross profit		4,401	11,444	4,625	12,025
Administrative and general expenses	6 & 20	<u>(282)</u>	<u>(732)</u>	<u>(384)</u>	<u>(997)</u>
Profit from operations		4,119	10,712	4,241	11,028
Net financing costs	16 & 17	<u>(2,371)</u>	<u>(6,165)</u>	<u>(2,412)</u>	<u>(6,272)</u>
Profit before tax		1,748	4,547	1,829	4,756
Deferred taxation	15	<u>(209)</u>	<u>(545)</u>	<u>(220)</u>	<u>(572)</u>
Net profit for the year		<u>1,539</u>	<u>4,002</u>	<u>1,609</u>	<u>4,184</u>
Basic earnings per share	21	<u>0.160</u>	<u>0.420</u>	<u>0.167</u>	<u>0.435</u>

The notes on pages 26 to 38 form part of these financial statements.

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

BALANCE SHEET

at December 2005

	Note	2005 RO'000	2005 US \$'000	2004 RO'000	2004 US \$'000
Assets					
Property, plant and equipment	7	43,895	114,127	46,118	119,906
Long term advance	10	858	2,230	438	1,139
Total non-current assets		44,753	116,357	46,556	121,045
Inventories	8	2,612	6,790	2,651	6,892
Tariff receivables	9	1,021	2,654	2,463	6,403
Other receivables and prepayments	10	403	1,048	532	1,384
Cash at bank	11	2,780	7,228	6,030	15,679
Total current assets		6,816	17,720	11,676	30,358
Total assets		51,569	134,077	58,232	151,403
Equity					
Share capital	12	9,625	25,025	9,625	25,025
Legal reserve	13	719	1,869	565	1,469
Retained earnings		4,547	11,822	5,087	13,226
Shareholders' fund		14,891	38,716	15,277	39,720
Hedging deficit	14	(1,813)	(4,714)	(2,938)	(7,638)
Total equity		13,078	34,002	12,339	32,082
Liabilities					
Hedging deficit	14	1,813	4,714	2,938	7,638
Deferred tax liability	15	737	1,917	528	1,372
Long-term loans	16	32,403	84,247	30,446	79,160
Loans from shareholders	17	-	-	3,314	8,616
Total non-current liabilities		34,953	90,878	37,226	96,786
Current maturities of long-term loans	16	1,281	3,330	1,995	5,186
Payables and accruals	18	2,037	5,296	6,216	16,162
Amounts due to related parties	19	220	571	456	1,187
Total current liabilities		3,538	9,197	8,667	22,535
Total liabilities		38,491	100,075	45,893	119,321
Total equity and liabilities		51,569	134,077	58,232	151,403
Net assets per share	22	1.547	4.020	1.587	4.127

The notes on pages 26 to 38 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 29th January 2006 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 2005

	Share capital RO'000	Legal reserve RO'000	Retained earnings RO'000	Share- holders' fund RO'000	Hedging deficit RO'000	Total equity RO'000	Total equity US\$'000
1 January 2005	9,625	565	5,087	15,277	(2,938)	12,339	32,081
Net profit for the year	-	-	1,539	1,539	-	1,539	4,002
Transfer to legal reserve	-	154	(154)	-	-	-	-
Dividend paid	-	-	(1,925)	(1,925)	-	(1,925)	(5,005)
Interest expense	-	-	-	-	838	838	2,179
Fair value adjustment	-	-	-	-	287	287	745
31 December 2005	<u>9,625</u>	<u>719</u>	<u>4,547</u>	<u>14,891</u>	<u>(1,813)</u>	<u>13,078</u>	<u>34,002</u>
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)	(1,706)
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>32,081</u>

The notes on pages 26 to 38 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 2005

	2005 RO'000	2005 US \$'000	2004 RO'000	2004 US \$'000
Cash flows from operating activities				
Cash receipt from customers and others	17,925	46,605	18,225	47,385
Cash paid to suppliers and employees	(15,042)	(39,109)	(12,341)	(32,086)
Cash generated from operations	2,883	7,496	5,884	15,259
Interest paid	(2,270)	(5,903)	(2,139)	(5,560)
Net cash from operating activities	613	1,593	3,745	9,739
Cash flows from investing activities				
Acquisition and transfer of property, plant and equipment	242	630	(378)	(983)
Proceeds from disposal of other assets	2	5	8	21
Net cash used in investing activities	244	635	(370)	(962)
Cash flows from financing activities				
Repayment of loan	(2,048)	(5,324)	(1,830)	(4,758)
Subordinated loan account	3,290	8,554	-	-
Repayment of loan from shareholders	(3,291)	(8,557)	262	681
Interest paid on loan from shareholders	(133)	(347)	(570)	(1,482)
Dividend payment	(1,925)	(5,005)	-	-
Net cash used in financing activities	(4,107)	(10,679)	(2,138)	(5,559)
Net increase in cash and cash equivalents	(3,250)	(8,451)	1,237	3,218
Cash and cash equivalents at the beginning of the year	6,030	15,679	4,793	12,461
Cash and cash equivalents at 31 December	2,780	7,228	6,030	15,679

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

The notes on pages 26 to 38 form part of these financial statements.

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

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 Ministry of Housing, Electricity and Water ("MHEW"), Sultanate of Oman granting the Company right to generate electricity and a long-term power supply agreement for a period of fifteen years commencing from the scheduled Commercial Operation Date. On 1 May 2005 the PPA was novated to Oman Power and Water Procurement Co SAOC (OPWP), a closed joint stock company owned by the Government of Oman. All the financial commitments of OPWP are guaranteed by the Government of Oman. Provisions for novation and Government Guarantee were embodied in the PPA. Provisions for novation were enacted pursuant to the promulgation of the Sector Law in August 2004;
- (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) Generation Licence granted by the Authority for Electricity Regulation, a governmental regulatory body established under the Sector Law.
- (vi) Agreement with Société Générale and BankMuscat SAOG for long-term loan facilities;
- (vii) Agreement with National Bank of Oman for Stand-by Letter of Credit to fund the debt service reserve requirements of the long-term loan facilities

3 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.

3 Significant accounting policies (continued)

(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.

(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. All the foreign exchange differences are recognised in the income statement.

NOTES

(forming part of the financial statements)

3 Significant accounting policies (continued)

(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)].

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.

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

(ii) 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.

3 **Significant accounting policies (continued)**

(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.

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 costs such as loan arrangement fee and interest during the construction period. 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.

NOTES

(forming part of the financial statements)

3 Significant accounting policies (continued)

(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.

4 Operating revenue	2005	2005	2004	2004
	RO'000	US \$'000	RO'000	US \$'000
Capacity charges	7,011	18,230	7,151	18,592
Energy charges	9,421	24,494	9,524	24,764
	<u>16,432</u>	<u>42,724</u>	<u>16,675</u>	<u>43,356</u>
5 Operating costs				
Fuel cost	8,592	22,338	8,645	22,478
Operation and maintenance charges	1,525	3,965	1,558	4,051
Depreciation	1,914	4,977	1,847	4,802
	<u>12,031</u>	<u>31,280</u>	<u>12,050</u>	<u>31,331</u>
6 Administrative and general expenses				
Employee costs	117	304	111	288
Depreciation	64	165	87	226
Legal and professional fees	63	164	47	122
Plant opening expenses	-	-	49	127
Travelling	10	26	10	25
Social development costs	5	12	21	54
Utilities charges	13	34	12	31
Rent, rates and taxes	7	18	7	18
Directors / Shareholders meeting expenses	17	44	5	13
Provision for asset retirement	5	13	5	13
Miscellaneous expenses	31	82	30	80
Liquidated damages received	(50)	(130)	-	-
	<u>282</u>	<u>732</u>	<u>384</u>	<u>997</u>

NOTES

(forming part of the financial statements)

6 Administrative and general expenses (continued)

	2005 RO'000	2005 US \$'000	2004 RO'000	2004 US \$'000
Employee related expenses comprise the following:				
Wages and salaries	101	263	87	227
Other benefits	11	29	19	49
Contributions to defined contribution retirement plan	1	2	1	2
Increase (reversal) in liability for unfunded defined benefit retirement plan	4	10	4	10
	<u>117</u>	<u>304</u>	<u>111</u>	<u>288</u>

The number of employees at 31 December 2005 was 4 (31 December 2004: 5).

7 Property, plant and equipment

	Plant and machinery RO'000	Other assets RO '000	Building and civil works RO'000	Total RO'000	Total US\$'000
<i>Cost</i>					
At 1 January 2005	48,046	351	785	49,182	127,872
Acquisitions	324	14	130	468	1,215
Disposals	-	(18)	-	(18)	(46)
Transfers	(880)	-	-	(880)	(2,288)
At 31 December 2005	<u>47,490</u>	<u>347</u>	<u>915</u>	<u>48,752</u>	<u>126,753</u>
<i>Depreciation</i>					
At 1 January 2005	(2,780)	(257)	(27)	(3,064)	(7,965)
Charge for the year	(1,893)	(64)	(21)	(1,978)	(5,142)
Disposals	-	15	-	15	39
Transfer	170	-	-	170	442
At 31 December 2005	<u>(4,503)</u>	<u>(306)</u>	<u>(48)</u>	<u>(4,857)</u>	<u>(12,626)</u>
<i>Carrying amount</i>					
At 31 December 2005	<u>42,987</u>	<u>41</u>	<u>867</u>	<u>43,895</u>	<u>114,127</u>
At 31 December 2004	<u>45,266</u>	<u>94</u>	<u>758</u>	<u>46,118</u>	<u>119,906</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.

During the year finance cost, comprising interest expenses during construction period and loan arrangement fee, which were previously capitalised as part of plant and machinery have been transferred and offset against long term loans (note 16).

NOTES
(forming part of the financial statements)

8 Inventories

	2005	2005	2004	2004
	RO'000	US \$'000	RO'000	US \$'000
Liquid fuel	904	2,350	919	2,390
Maintenance spares	1,708	4,440	1,732	4,502
	<u>2,612</u>	<u>6,790</u>	<u>2,651</u>	<u>6,892</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.

9 Tariff receivables

Tariff receivables represent the amounts due from Oman Power & Water Procurement Company (OPWP) in respect of energy and capacity charges for the period.

10 Other receivables and prepayments

Advances	1,084	2,818	758	1,971
Long term advances	(858)	(2,230)	(438)	(1,139)
	<u>226</u>	<u>588</u>	<u>320</u>	<u>832</u>
Prepayments	145	377	181	471
Other receivables	32	83	31	81
	<u>403</u>	<u>1,048</u>	<u>532</u>	<u>1,384</u>

Advances include an amount of approximately RO 1.084 million (US\$ 2.818 million) paid to AKCS for replacement of certain major components.

11 Cash at bank

Current accounts	1	1	4,870	12,664
Deposit accounts	2,779	7,227	1,160	3,015
	<u>2,780</u>	<u>7,228</u>	<u>6,030</u>	<u>15,679</u>

During 2005 the deposit accounts earned interest at rates ranging between 1% and 3.55% per annum, (2004: 1.85% and 2.45% per annum).

NOTES

(forming part of the financial statements)

12 Share capital

	2005 RO'000	2005 US \$'000	2004 RO'000	2004 US \$'000
Authorised share capital of 25,000,000 (2004: 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 (2004: 9,625,000) shares of RO 1 each	<u>9,625</u>	<u>25,025</u>	<u>9,625</u>	<u>25,025</u>

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

	2005		2004	
	Number of shares	%	Number of shares	%
National Power Al Kamil Investments Limited	4,691,593	48.74	4,691,593	48.74
Al Kamil Investments Limited	1,564,063	16.25	1,564,063	16.25
National Power Oman Investments Limited	594	0.01	594	0.01
Others	3,368,750	35.00	3,368,750	35.00
	<u>9,625,000</u>	<u>100.00</u>	<u>9,625,000</u>	<u>100.00</u>

The three main 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.

13 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.

14 Hedging deficit

The Term Loan facilities of the Company bear interest at US LIBOR plus applicable margins (refer to note 16). In accordance with the Term Loan Agreement, the Company is obliged to fix the rate of interest through Interest Rate Swap Agreements ("IRS") for a minimum of 75% of its loan facility. In the prior year IRS amounting to approximately 75% of the loan was hedged at a fixed interest rate of 6.29% per annum, excluding margin. During the year a further 11% of the loan was hedged at a fixed interest rate of 4.1325% per annum, excluding margin.

As at 31 December 2005, based on the interest rates differential over the life of the IRS, an indicative deficit was assessed at approximately RO 1.813 million (US\$ 4.714 million) by the counter parties to the IRS. In order to comply with International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" fair value of the hedge instruments' indicative losses in the amount of approximately RO 1.813 million (US\$ 4.714 million) has been recorded within the equity of the Company under "Hedging Deficit" and a similar amount is recorded under long term liabilities.

NOTES

(forming part of the financial statements)

15 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 2005, the Company has recognized deferred tax liability in the aggregate amount of approximately RO 737,000 (US\$ 1.917 million) on the temporary differences. The movement in deferred tax liability during the year is as follows:

	2005 RO'000	2005 US \$'000	2004 RO'000	2004 US \$'000
1 January	528	1,372	308	800
Deferred tax charge for the year	<u>209</u>	<u>545</u>	<u>220</u>	<u>572</u>
31 December	<u><u>737</u></u>	<u><u>1,917</u></u>	<u><u>528</u></u>	<u><u>1,372</u></u>

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

	2005 RO'000	2005 US \$'000	2004 RO'000	2004 US \$'000
Accelerated depreciation	1,247	3,241	955	2,482
Tax loss for the year	<u>(510)</u>	<u>(1,324)</u>	<u>(427)</u>	<u>(1,110)</u>
	<u><u>737</u></u>	<u><u>1,917</u></u>	<u><u>528</u></u>	<u><u>1,372</u></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 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 the event 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. The liability as at 31 December 2005 would be in the amount of approximately RO 400,000.

16 Long-term loans

	2005 RO'000	2005 US \$'000	2004 RO'000	2004 US \$'000
Secured Loan	31,286	81,343	32,441	84,346
Unsecured Loan	<u>3,290</u>	<u>8,554</u>	-	-
	<u><u>34,576</u></u>	<u><u>89,897</u></u>	32,441	84,346
Current maturities of long term loans	<u>(1,281)</u>	<u>(3,330)</u>	<u>(1,995)</u>	<u>(5,186)</u>
Finance cost	<u>(892)</u>	<u>(2,320)</u>	-	-
Net long term loans	<u><u>32,403</u></u>	<u><u>84,247</u></u>	<u><u>30,446</u></u>	<u><u>79,160</u></u>

NOTES

(forming part of the financial statements)

16 Long-term loans (continued)

The amount of loan outstanding as at 31 December 2005 is analysed 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	<u>34,576</u>	<u>1,281</u>	<u>2,071</u>	<u>8,206</u>	<u>23,019</u>
US\$'000	<u>89,897</u>	<u>3,330</u>	<u>5,385</u>	<u>21,335</u>	<u>59,849</u>

Secured Loan

The Company had syndicated long-term loan facility from financial institutions in the aggregate amount of approximately RO 36 million (US\$ 94 million). Societe Generale 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. Societe Generale is also the Facility and Security Agent for administration and monitoring of the overall loan facilities. During the year the Company renegotiated the terms of the outstanding balance of the loan with the following amendments:

- The term of the loan was extended by one year to 30 April 2017.
- The repayment schedule was amended to reduce the initial principal payments and "back-end" the repayment profile.
- The margins payable on the facility were reduced.

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 are as follows:

Period	Base Facility	
	2005	2004
2005 to 2010	0.70%	1.10%
2010 to 2015	0.90%	1.25%
2010 to 2015	0.90%	1.50%
2016 to 2017	1.20%	1.70%

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

Unsecured Loan

During the year the Company obtained an unsecured loan facility of RO 3.290 million (US\$ 8.554 million) from BankMuscat SAOG that bears interest at 6.5% per annum and is repayable in eight equal instalments commencing from 1 January 2006.

NOTES

(forming part of the financial statements)

17 Loans from shareholders

The unsecured loan from shareholders was fully repaid during the year.

18 Payables and accruals

	2005 RO'000	2005 US \$'000	2004 RO'000	2004 US \$'000
Trade payable	979	2,545	3,897	10,131
Interest payable	345	898	357	928
Payable to Contractors	673	1,749	1,923	5,000
Accruals and other payables	40	104	39	103
	<u>2,037</u>	<u>5,296</u>	<u>6,216</u>	<u>16,162</u>

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

	13	34	10	26
1 January	13	34	10	26
Addition	4	10	3	8
31 December	<u>17</u>	<u>44</u>	<u>13</u>	<u>34</u>

19 Amount due to related parties

	222	576	454	1,180
Al Kamil Construction & Services LLC	222	576	454	1,180
IPR Global Development Limited	-	-	2	7
National Power International Limited - Abu Dhabi	(2)	(5)	-	-
	<u>220</u>	<u>571</u>	<u>456</u>	<u>1,187</u>

20 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)].

NOTES

(forming part of the financial statements)

20 Related party transactions (continued)

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 half year ended 31 December 2005 was as follows:

	2005 RO'000	2005 US \$'000	2004 RO'000	2004 US \$'000
Costs incurred by International Power Global Development Limited on behalf of the Company	32	84	55	143
Fee charged under the Operations and maintenance agreement with AKCS	1,941	5,046	1,885	4,902
Costs incurred by AKCS on behalf of the Company	-	-	2	4
Costs incurred by the Company on behalf of AKCS	2	5	6	11
Interest payable on loans from shareholders	110	287	264	687
Directors' meeting fee	6	16	2	4

21 Basic earnings per share

Basic earnings per share is calculated as follows:

Net profit for the year RO/US\$ ('000)	1,539	4,002	1,609	4,184
Number of shares outstanding at 31 December ('000)	9,625	9,625	9,625	9,625
Basic earnings per share RO/US\$	0.160	0.42	0.167	0.435

22 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)	14,891	38,716	15,277	39,720
Number of shares outstanding at 31 December ('000)	9,625	9,625	9,625	9,625
Net assets per share RO/US\$	1.547	4.020	1.587	4.127

23 Dividends

During the year the Company declared and paid total dividend amounting to RO 1,925,000 (approximately US\$ 5.005 million). The Board proposes a dividend of 10% (RO 0.100 per share) which is subject to approval at the Annual General Meeting.

NOTES

(forming part of the financial statements)

24 Commitments	2005	2005	2004	2004
	RO'000	US \$'000	RO'000	US \$'000
Capital commitments	-	-	89	232
Letter of credit	<u>1,923</u>	<u>5,000</u>	<u>1,346</u>	<u>3,500</u>

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 2005, 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	<u>15</u>	<u>39</u>	<u>16</u>	<u>41</u>

25 **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 a minimum of 75% of all its exposure to changes in interest rates on long-term loans is on a fixed rate basis. Interest rate swaps, denominated in US Dollars, have been entered into to achieve this purpose. The swaps mature over the next 11 years following the maturity of the related loans.

Credit risks

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

Foreign currency risk

Substantially all of the foreign currency transactions are in US Dollars or currencies linked to the US Dollar 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.

26 **Comparative figures**

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