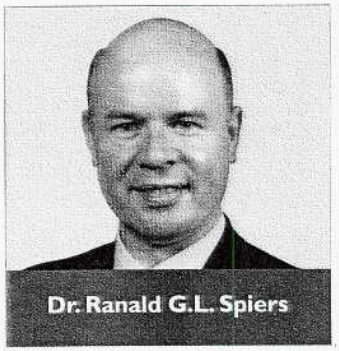
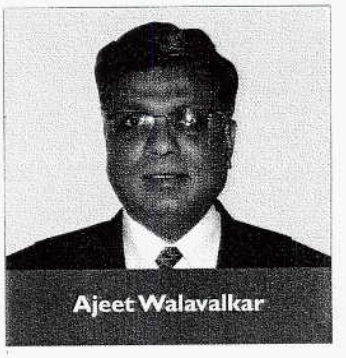
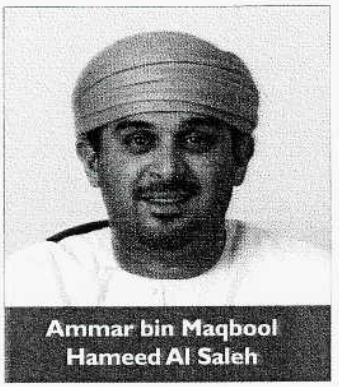
Members of the Board


Dr. Ranald G.L. Spiers

Carol Rees


Ajeet Walavalkar


Ammar bin Maqbool Hameed Al Saleh

Kevin Cox

MANAGEMENT TEAM

Navneet Kasbaker
Chief Executive Officer

S. Gopalakrishnan
Finance Manager

BANKERS

Société Générale
BankMuscat SAOG
Oman International Bank SAOG
National Bank of Oman SAOG
Oman Arab Bank SAOG
Bank Dhofar SAOG

STATUTORY AUDITORS

KPMG

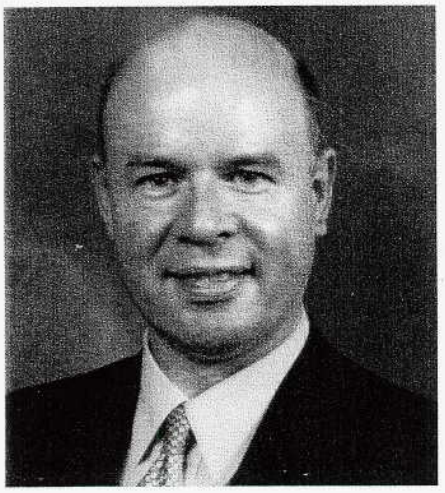
INTERNAL AUDITORS

BDO Jawad Habib

LEGAL CONSULTANTS

Al Alawi Mansoor Jamal & Co

Chairman's Report



Dear Shareholders,

I am pleased to present, on behalf of the Board of Directors of Al Kamil Power Company SAOG (AKPC), the financial results for the year ended 31st December 2006.

Plant Operation and Profits Earned

2006 was an excellent year for Al Kamil Power Company. Not only did the power station run smoothly and efficiently, with commercial availability of 99.02% delivering 1,150 GWh to the Omani grid but also the Company generated a net profit before tax of Rials Omani 1.930 million, an increase of 10% on 2005. This was achieved again with no Lost Time Accidents to any of our staff for the fourth successive year and is reflective of our continued internal focus on Health, Safety, Environment and Quality Management.

Indeed, much credit for the excellence in performance in 2006 lies with our dedicated Operation and Maintenance team, whose innovative modification of the air compressors in our gas turbines, under the supervision of the equipment supplier, General Electric, substantially reduced heat rate losses and in so doing increased the profitability of the Company.

Dividends

The following dividends were declared and disbursed during 2006:

- In May, a final dividend of 10% for 2005, and
- In November, an interim dividend of 8% for 2006.

The Directors have recommended a final ordinary dividend of 12% to be paid in May 2007. Going forward, the Directors expect to pay dividends twice a year (in May and November), subject to Capital Market Authority regulations.

Corporate Governance

Our internal focus on Corporate Governance sees us in full compliance with the Code as implemented by the Capital Market Authority.

Additionally, the Board of Directors, through the Audit Committee, has reviewed the Company's system of internal controls, and has confirmed that all controls are in place and fully effective.

Future Prospects

The long-term future of AKPC depends upon efficient operation of the plant. Plant availability is expected to remain high and accordingly the outlook for the business continues to be positive.

Conclusion

I would like to extend my personal thanks to all personnel associated with the operation of the Al Kamil power plant and the staff of the Company for their hard work and dedication, as well as to those others such as our contractors, whose expertise has assisted us in achieving these excellent results.

Finally, on behalf of the Board of Directors, I would also like to take this opportunity to extend our sincere 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

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

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 it's 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 11 to 16.

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 2006 and does not extend to the financial statements or any other reports of the Company, taken as a whole.

5 February 2007

KPMG

The Capital Market Authority of Oman (CMA) has issued a "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 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.

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 2006.

The Board of Directors is pleased to report that the Company remained in compliance with the principles of the Code.

Board of Directors

The election of the Board is governed by the Company's Articles of Association (Articles 25 to 27). The Company encourages representation of non-executive and independent directors on its Board of Directors.

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

Mr. Kevin Cox who was the Chief Executive Officer and also the Executive Director of the Company, resigned as the Chief Executive Officer on 24 April 2006 but continued on the Board as a non-executive director. At present, the Board consists of five directors, all of whom are non-executive directors. More than one-third of the total members on the Board are independent directors. All the directors have excellent industry and corporate governance experience.

The following table details the composition of the Board of Directors and the attendance at Board Meetings and Annual General Meeting held during the year:

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)	5	5	Yes
Ms. Carol Rees	Vice-Chairman (nominee)	5	5	Yes
Mr. Kevin Cox	Director (nominee)	5	5	Yes
Mr. Ammar bin Maqbool Hameed Al Saleh	Independent Director (nominee)	5	4	Yes
Mr. Ajeet Walavalkar	Independent Director (nominee)	5	5	Yes

The dates of the Board Meetings mentioned above were:
29 January 2006
13 March 2006
24 April 2006
17 July 2006
22 October 2006

Other Interests

Mr. Ammar bin Maqbool Hameed Al Saleh has declared that he is also an Executive Director of Oman Holding International Company SAOG and a Director on the Board of Computer Stationery Industry 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	4	4
Ms. Carol Rees	Member	4	4
Mr. Ammar bin Maqbool Hameed Al Saleh	Member	4	3

The date of these meetings were:
29 January 2006
24 April 2006
17 July 2006
22 October 2006

Activities During 2006
The Audit Committee has met the external auditors, KPMG, and has reviewed the financial statements for the year 2006 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 2007, the Audit Committee will continue to review the effectiveness of the Company's internal controls by meeting the internal auditors.

The Board has reviewed all operational reports generated by the management of the Company, which compare budget projections with 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 2006 was RO 5,250 which is detailed below:

Sl. No.	Name of Director	Number of meetings attended	Total Sitting fees paid in RO
1	Dr. Ranald G.L. Spiers	5	750
2	Ms. Carol Rees	9	1,350
3	Mr. Kevin Cox	5	750
4	Mr. Ammar bin Maqbool Hameed Al Saleh	7	1,050
5	Mr. Ajeet Walavalkar	9	1,350
	Total		**5,250**

No other remuneration was paid to the directors.

Aggregate Remuneration to Management ("Top Five Officers")

The aggregate remuneration paid to the top five officers of the Company was RO 106,000.

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 shareholders, by post to their registered postal address.

The Company has not launched its own web site. The Company provides press releases in cases of important news and developments that arise. 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, in either English or Arabic, to any registered or beneficial shareholder or other interested party who requests it, within seven days of receipt of the request.

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

Outlook for 2007

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. It is important to stress that 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 efficient tool, which will contribute towards 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.

Market Price Data

The following table details the market prices of AKPC for the year 2006 and its performance compared to the MSM Index:

Month	High Price (RO)	Low Price (RO)	Average Price (RO)	MSM Index	No. of shares traded
January	1.800	1.560	1.680	5446	215,626
February	1.850	1.700	1.775	5265	150,752
March	1.750	1.700	1.725	5351	15,854
April	1.750	1.700	1.725	5125	36,200
May	1.700	1.580	1.640	4917	266,550
June	1.700	1.650	1.675	4862	110,172
July	1.700	1.700	1.700	4727	2,750
August	1.700	1.700	1.700	5089	99,109
September	1.700	1.700	1.700	5446	11,604
October	1.705	1.700	1.703	5751	13,000
November	1.720	1.700	1.710	5467	29,511
December	1.720	1.700	1.710	5582	57,507
Full Year	1.850	1.560	1.705	5582	1,008,635

Distribution of Shareholding

The Shareholder pattern as on 31st December 2006 was as follows:

Category of Shareholders	Number of Shareholders	Total Shares	% Share Capital
Ordinary Shareholders above 5%	3	6,868,656	71.40%
Ordinary Shareholders below 5%, but above 1%	9	1,774,156	18.40%
Ordinary Shareholders below 1%	218	982,188	10.20%
Total	230	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 a 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 fifteen countries. KPMG in Oman employs 75 people, has three Partners and eleven 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. An independent professional firm, BDO Jawad Habib, Public Accountants, has been assigned to carry out the agreed internal audit functions.

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

2006 – Operating Highlights

- Completion of another successful year of reliable and safe plant operation, with no Lost Time Accidents.
- Improvements in plant efficiency through modifications to the gas turbines that reduce heat rate loss and result in increased profitability.
- An average load factor of 48.12%, indicating significant margin for increase in output at the disposal of Oman Electricity Transmission Company SAOC (OETC).

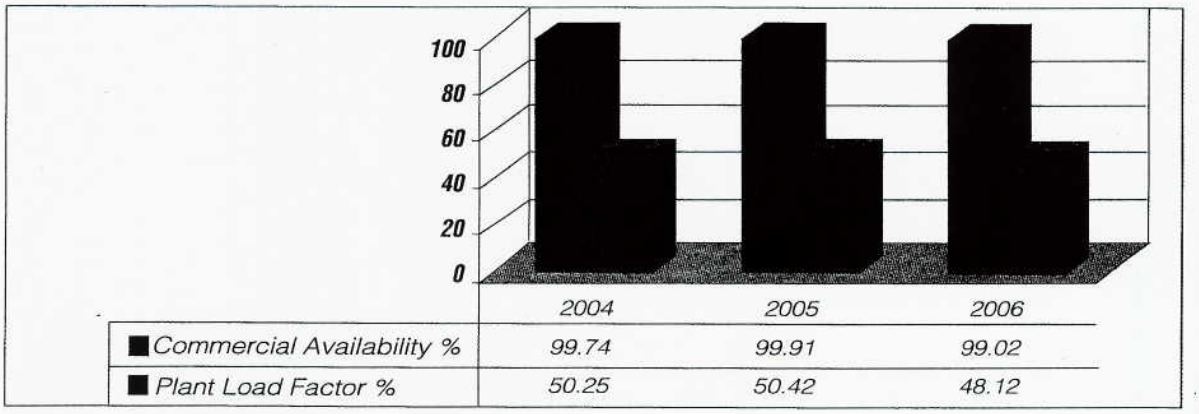
Plant Performance

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. These turbines are designed to run on both natural gas and distillate fuel oil.

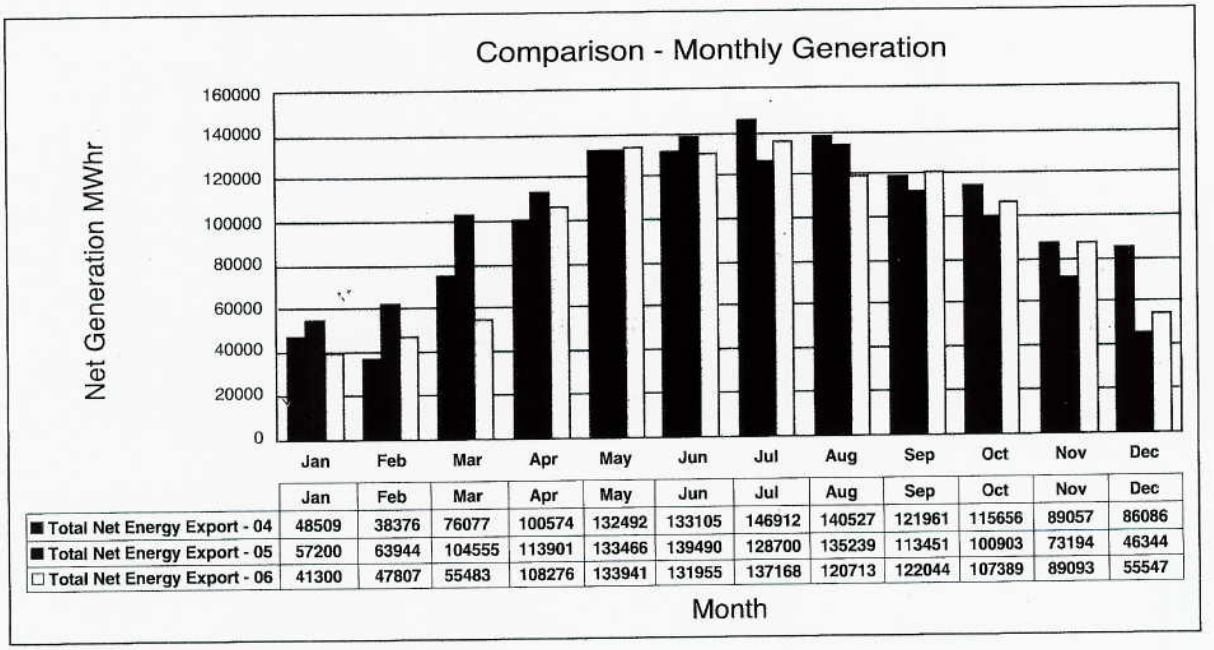
The plant has operated extremely well throughout the year in compliance with OETC instructions. The turbines generated 1,150 GWh of energy with a load factor of 48.12%, which indicates substantial margin for further increase in the output at the disposal of OETC.

Though commercial availability throughout the year was an excellent 99.02%, some impairment was suffered, mainly on account of the failure of generator exciter parts. This parts failure accounted for 245 hours of the total 260 hours forced outage that was experienced in 2006.

The commercial availability and the plant load factor for the years 2004-2006 are shown below:



The power generated over the last three years has followed a similar trend, as shown by the following graph:



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
■ Total Net Energy Export - 04	48509	38376	76077	100574	132492	133105	146912	140527	121961	115656	89057	86086
■ Total Net Energy Export - 05	57200	63944	104555	113901	133466	139490	128700	135239	113451	100903	73194	46344
□ Total Net Energy Export - 06	41300	47807	55483	108276	133941	131955	137168	120713	122044	107389	89093	55547

Power generation decreased marginally during 2006 (1,150 GWh in 2006 as compared to 1,210 GWh in 2005). This fluctuation in generation levels has no direct effect on AKPC's net income, as the Company continues to receive monthly capacity payments on the basis of availability.

The Power Purchase Agreement (PPA) with Oman Power and Water Procurement Company SAOC (OPWP) anticipates an availability of 99% during the critical high demand summer period (May – Sept) and 80% during the winter period (Oct – Apr). As capacity payments to AKPC are maintained at 80% during the winter months, all scheduled outages and maintenance activities are carried out during this period.

An innovative modification to the air compressors of the three gas turbines was carried out in 2006 under the supervision of the equipment supplier, General Electric. This substantially improved the plant heat rate, reducing the heat rate loss to 1.40% from 2.20% in the previous year. The financial benefit of this effort will be felt for many years to come.

Routine maintenance and performance tests were successfully carried out during the course of the year. A hot gas path inspection was carried out on Gas Turbine 1A after completion of 24,000 Factored Fire Hours (FFH) and fuel changeovers were carried out on load.

During annual performance tests carried out in the presence of OPWP representatives, the power station capacity on fuel oil was successfully demonstrated and the power station capacity on natural gas was 6 MW greater than that specified for the current contract year.

Operations and Maintenance Contract with Al Kamil Construction & Services LLC

The operation and maintenance contract for the power station has been contracted to Al Kamil Construction & Services LLC (AKCS) – a company whose major shareholder is International Power plc, the UK based global power generation developer - through an Operation and Maintenance Agreement for 15 years. The operations and maintenance 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 plants worldwide.

Staff

AKCS employs 32 highly competent and qualified staff drawn from Oman and overseas to fulfill its O&M obligations to the Company. These personnel comprise mechanical, electrical and control & instrumentation engineers and technicians, formed into five teams. These teams ensure continuous availability in order to comply with all requirements of the OETC (load dispatch centre) and control routine operations in the plant for every hour of the year.

Some elements of the major inspections and overhauls are contracted to specialist organisations such as GE, the original equipment manufacturer, via a 9-year Long Term Service Agreement (LTSA).

Maintenance Philosophy

Maintenance management of the gas turbines and generators is primarily monitored and maintained in conjunction with GE specialists through an established LTSA. This includes tele-diagnosistic monitoring as well as inspections and overhaul.

Routine maintenance of the plant and apparatus is carried out in accordance with OEM recommendations and Maximo maintenance management software tools have been installed to assist this process.

As recommended by International Power plc, an over-speed test of the gas turbine is carried out on a yearly basis.

Condition monitoring of the transformers is performed through oil DGA tests, and the 132 kV equipment insulators are regularly washed with demineralised water. The safety valves of the pressure vessels are tested periodically in line with international best practice. The turbine bearing oil analysis is done at predetermined intervals and turbine and generator water quality is being constantly monitored through test labs.

As envisaged under the PPA, planned unit outages are arranged during winter periods according to the schedule agreed between AKPC and OETC. GE's scheduled combustion inspections (at 12,000 Factored Fire Hours), hot gas path inspections (at 24,000 Factored Fire Hours) and major inspections (at 48,000 Factored Fire Hours) are all undertaken during planned outages in winter periods.

Operation Philosophy

As demonstrated by our excellent LTA record, great emphasis is placed on safety in the workplace. All operating staff are trained for emergency preparedness tests, and emergency mock drills are conducted four times a year. All shift charge engineers and operations engineers are certified in first aid. Whilst fire-fighting training is carried out yearly, fire equipment is tested for its availability on a weekly basis. The emergency diesel generator set is tested on a bi-weekly basis. All other routine operational checks are performed in every shift.

Health, Safety, Environment and Quality Management

AKCS has been accredited with ISO 9001 for excellent quality management, ISO 14001 for excellent environmental management and OHSAS 18001 for outstanding health and safety management. The Company and AKCS are both committed to achieve the best possible Health, Safety, Environmental and Quality performance standards. In all aspects zero reportable incidents is the primary objective.

Basic health, safety and environmental training is provided to all O & M staff as a matter of course, along with training for emergency preparedness, fire fighting and breathing apparatus set issues.

The audit team deputed by the Authority for Electricity Regulation in Oman has in its report appreciated the quality of health and safety management at the power station. The principles of health and safety management are based on training and written procedures. All staff and visitors are provided with a safety induction prior to being granted access to the site. Maintenance work is carried out through a permit system, by which a designated safety controller issues a permit to a designated acceptor.

The gas turbines installed at Al Kamil use environmentally friendly technology designed to minimize the generation of both NOx (oxides of nitrogen) and CO (carbon monoxide). Emissions are monitored continuously on an hourly basis, with the data being submitted monthly to the Ministry of Environment. This continuous monitoring demonstrates that the plant operates well within the allowable environmental requirements.

Social Responsibility

The Company takes its role as a responsible corporate citizen seriously, and seeks to enhance the community at large, particularly through our encouragement of engineering students from across the Sultanate to undertake vocational training at the Al Kamil plant as part of their regular curricula.

Most of our social responsibility programmes are focused upon the Wilayats of Al Kamil and Al Wafi and the surrounding Wilayats. Here, we encourage environmental awareness and knowledge of environmental issues. A schools programme, which includes visits to the plant, the sponsoring of a school shed and an environmentally based drawing competition, have received an excellent response from the local community.

Health education and assistance is another cornerstone of our social responsibility program, achieving results through a health awareness program, the donation of wheelchairs to assist disabled children and sponsored 'fun runs'.

Omanisation

Another source of pride for the company is our talented and skilled Omani staff. The station employs 14 Omani engineers, technicians and administrative staff, 44% of all employees – well in excess of the PPA requirement of 35%. A plan is in place to train and develop Omani staff in order to replace expatriate staff on an ongoing basis. To this end, skill matrices have been prepared for all disciplines in order to guide Omani staff in developing their futures. To assist with the development of English language skills, professional teachers have been retained. Omani operating staff are sent overseas for gas turbine operation and maintenance training. Omani administrative and finance staff are all provided with training relevant to their individual disciplines from recognised local institutes.

Financial Performance

The summarised financial results for 2006 are set out below

The summarised financial results for 2006

	2006	2005	Change %
	RO'000	RO'000	
Profit & Loss Account			
Operating revenue	**16,114**	16,432	**-1.9%**
Operating costs	**11,578**	12,031	**3.8%**
Gross profit	**4,536**	4,401	**3.1%**
Other Income	**97**	64	**51.6%**
Admin & Gen. Exp.	**283**	282	**-0.6%**
Profit from operations	**4,350**	4,183	**4.0%**
Financing costs	**2,420**	2,435	**0.6%**
Profit before tax	**1,930**	1,748	**10.4%**
Deferred taxation	**432**	209	**106.8%**
Net profit for the year	**1,498**	1,539	**-2.7%**
Summarised Assets & Liabilities			
Total assets	**50,832**	51,569	**-1.4%**
Total shareholders' funds	**14,656**	14,891	**-1.6%**
Paid up capital	**9,625**	9,625	
Cash and cash equivalent	**3,242**	2,780	**16.6%**
Return on total assets	**2.9%**	3.0%	**-1.3%**
Return on paid-up capital	**16%**	16%	
Debt: Equity Ratio	**67:33**	68:32	
Net assets/share	**1.523**	1.547	**-1.6%**
Earnings per share	**0.156**	0.160	**-2.7%**

Revenue and profitability:

- Commercial availability during the year was 99.02% compared with 99.90% during 2005, mainly on account of a forced outage suffered as a result of generator exciter damage.
- Although energy income was 4% lower than the previous year, there was no adverse impact on profitability, due to the fact that the Company's main source of income is based on plant availability and not actual generation.
- Gross margins improved in the Company as a result of the innovative plant modification resulting in a lower heat rate loss.
- During 2006, administrative costs were effectively controlled, and a reduction in debt levels, due to principal repayments, saw a lowering in financial costs.
- Consequently, net profit before tax improved - by over 10% - in comparison with 2005.
- A higher provision for deferred tax resulted in the net profit being marginally lower than the previous year.

Cash flows, Loan repayments and Dividends

- The Company maintained a healthy cash flow due to the good payment record of Oman Power and Water Procurement Company.
- The Company met all its obligations under the loan agreement by servicing the debt in time and complying with all the covenants of the agreement.
- The following dividends amounting to RO 1.733 million were declared and disbursed during 2006:
  - in May, a final dividend of 10% for 2005; and
  - in November, an interim dividend of 8% for 2006.
- The company has sufficient free reserves to consider a final dividend of 12% in respect of the financial year 2006.

Internal Control Systems and their Adequacy

Management has established strong systems for internal control. These are audited by BDO Jawad Habib, Public Accountants, who report to the Audit Committee. All recommendations for improvement are discussed with the Audit Committee and, if thought appropriate, are acted upon. The management believes that efficient and adequate internal controls are in place within the Company.

History of the Company

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 and 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 with OPWP and Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas are valid until 30th April 2017. The life of the plant (as represented by the management and as reported by the Company's auditors) is about 30 years.

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.

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. The capacity charge is the total of:

- an investment charge covering capital expenditure and all related costs of the project such as tax payments, debt service and return on capital;
- a fixed operation and maintenance charge covering fixed operation and maintenance and all related costs of the plant; and
- a 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 (OETC). The energy charges are the total of:

- variable operating costs of generation;
- fuel costs - based on the theoretical natural gas consumption to produce the electrical energy delivered at a specified efficiency; and
- start-up charge - payable to AKPC for the costs of fuel for starts in excess of 100 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 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). Al Kamil Construction & Services LLC 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.

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 was constructed using high quality components provided by recognised suppliers. AKPC has implemented operation and maintenance arrangements through Al Kamil Construction & Services LLC (AKCS) incorporating the services of the gas turbine manufacturer to maintain the primary generating units. These measures mitigate the possibility of plant failure.

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 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
In the future, the plant will suffer a lower heat rate shortfall as a result of the modification that has been carried out to the air compressors of the gas turbines during 2006. AKPC is mitigating future financial losses arising from the now reduced heat rate loss 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.

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. A continued focus on training and development of our Omani personnel, and indeed Omani engineers and technicians in general, will continue to reap both tangible and intangible benefits to the Company. A continued commitment to social responsibility will ensure that our impact on the region of our operation continues to be positive.

OPWP has not advised its offtake requirements for the forthcoming year. However, AKPC expects that the level of generation required for 2007 will be broadly similar to that of 2006, 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.

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Independent Auditors Report to the Shareholders of Al Kamil Power Company SAOG

Report on the Financial Statements

We have audited the financial statements of Al Kamil Power Company SAOG ("the Company") set out on pages 26 and 44, which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards & the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Al Kamil Power Company SAOG as of 31 December 2006 and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

In our opinion, the financial statements of Al Kamil Power Company SAOG as of and for the year ended 31 December 2006, in all material respects:

- Have been properly prepared in accordance with the disclosure requirements of the Capital Market Authority; and
- Comply with the Commercial Companies Law of 1974, as amended.

5 February 2007

KPMG

	Note	2006 RO'000	2006 US $'000	2005 RO'000	2005 US $'000
Operating revenue	4	**16,114**	**41,896**	16,432	42,724
Operating costs	5&20	**(11,578)**	**(30,103)**	(12,031)	(31,280)
Gross profit		**4,536**	**11,793**	4,401	11,444
Other income	6	**97**	**252**	64	165
Administrative & general expenses	7&20	**(283)**	**(736)**	(282)	(732)
Profit from operations		**4,350**	**11,309**	4,183	10,877
Finance costs	17	**(2,420)**	**(6,292)**	(2,435)	(6,330)
Profit before tax		**1,930**	**5,017**	1,748	4,547
Deferred taxation	16	**(432)**	**(1,123)**	(209)	(545)
Net profit for the year		**1,498**	**3,894**	1,539	4,002
Basic earnings per share	21	**0.156**	**0.405**	0.160	0.420

The notes on pages 30 to 44 form part of these financial statements.

The report of the Auditors is set forth on page 25.

as at 31 December 2006

	Note	2006 RO'000	2006 US $'000	2005 RO'000	2005 US $'000
Assets					
Property, plant and equipment	8	**42,084**	**109,417**	43,895	114,127
Long term advance		**-**	**-**	858	2,230
Total non-current assets		**42,084**	**109,417**	44,753	116,357
Inventories	9	**4,057**	**10,548**	2,612	6,790
Tariff receivable	10	**1,012**	**2,632**	1,021	2,654
Other receivables and prepayments	11	**437**	**1,136**	403	1,048
Cash at bank	12	**3,242**	**8,431**	2,780	7,228
Total current assets		**8,748**	**22,747**	6,816	17,720
Total assets		**50,832**	**132,164**	51,569	134,077
Equity					
Share capital	13	**9,625**	**25,025**	9,625	25,025
Legal reserve	14	**869**	**2,258**	719	1,869
Retained earnings		**4,162**	**10,821**	4,547	11,822
Shareholders' fund		**14,656**	**38,104**	14,891	38,716
Hedging deficit	15	**(1,171)**	**(3,045)**	(1,813)	(4,714)
Total Equity		**13,485**	**35,059**	13,078	34,002
Liabilities					
Hedging deficit	15	**1,171**	**3,045**	1,813	4,714
Deferred tax liability	16	**1,169**	**3,040**	737	1,917
Long-term loans	17	**30,460**	**79,195**	32,403	84,247
Total non-current liabilities		**32,800**	**85,280**	34,953	90,878
Current maturities of long-term	17	**2,071**	**5,385**	1,281	3,330
Payables and accruals	18	**2,221**	**5,775**	2,037	5,296
Amounts due to related parties	19	**255**	**665**	220	571
Total current liabilities		**4,547**	**11,825**	3,538	9,197
Total liabilities		**37,347**	**97,105**	38,491	100,075
Total equity and liabilities		**50,832**	**132,164**	51,569	134,077
Net assets per share	22	**1.523**	**3.959**	1.547	4.020

The notes on pages 30 to 44 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 5th February 2007 and were signed on its behalf by:

Chairman

Director

The report of the Auditors is set forth on page 25.

	Share capital	Legal reserve	Retained earnings	Share-holders' fund	Hedging deficit	Total equity	Total equity
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**US$'000**
1 January 2006	9,625	719	4,547	**14,891**	(1,813)	**13,078**	**34,002**
Net profit for the period	-	-	1,498	**1,498**	-	**1,498**	**3,893**
Transfer to legal reserve	-	150	(150)	**-**	-	**-**	**-**
Dividend paid	-	-	(1,733)	**(1,733)**	-	**(1,733)**	**(4,506)**
Interest expense	-	-	-	**-**	277	**277**	**720**
Fair value adjustment	-	-	-	**-**	365	**365**	**950**
31 December 2006	9,625	869	4,162	**14,656**	(1,171)	**13,485**	**35,059**
1 January 2005	9,625	565	5,087	**15,277**	(2,938)	**12,339**	**32,081**
Net profit for the period	-	-	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	9,625	719	4,547	**14,891**	(1,813)	**13,078**	**34,002**

The notes on pages 30 to 44 form part of these financial statements.

The report of the Auditors is set forth on page 25.

	2006 RO'000	2006 US $'000	2005 RO'000	2005 US $'000
Cash flows from operating activities				
Cash receipt from OPWP and others	**16,122**	**41,918**	17,925	46,605
Cash paid to suppliers and employees	**(10,401)**	**(27,041)**	(15,042)	(39,109)
Cash generated from operations	**5,721**	**14,877**	2,883	7,496
Interest paid	**(2,201)**	**(5,722)**	(2,270)	(5,903)
Net cash from operating activities	**3,520**	**9,155**	613	1,593
Cash flows from investing activities				
Acquisition of property, plant and equipment	**(47)**	**(121)**	242	630
Proceeds from the disposal of fixed assets	**3**	**8**	2	5
Net cash used in investing activities	**(44)**	**(113)**	244	635
Cash flows from financing activities				
Repayment of loan	**(1,281)**	**(3,331)**	(2,048)	(5,324)
Subordinated loan account	**-**	**-**	3,290	8,554
Repayment of loan from shareholders	**-**	**-**	(3,291)	(8,557)
Interest paid on loan from shareholders	**-**	**-**	(133)	(347)
Dividend payment	**(1,733)**	**(4,506)**	(1,925)	(5,005)
Net cash used in financing activities	**(3,014)**	**(7,837)**	(4,107)	(10,679)
Net increase in cash and cash equivalents	**462**	**1,205**	(3,250)	(8,451)
Cash and cash equivalents at the beginning of the year	**2,780**	**7,226**	6,030	15,679
Cash and cash equivalents at 31 December	**3,242**	**8,431**	2,780	7,228

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

The notes on pages 30 to 44 form part of these financial statements.

The report of the Auditors is set forth on page 25.

1 Legal status and principal activities

Al Kamil Power Company SAOG (the "Company") was registered, and incorporated on 15 July 2000, as a closed joint stock company in the Sultanate of Oman. The Company was set up 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 a long-term power supply agreement for a period of fifteen years commencing from the scheduled commercial operation date (COD). Under the terms of PPA, the company has the right and obligation to generate electricity. The Company was granted a Generation Licence by the Authority for Electricity Regulation ("AER"), a state regulatory body established under the Sector Law.

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 ("Government"). All the financial commitments of OPWP are guaranteed by the Government of Oman. Provisions for novation and Government Guarantee were embodied in the PPA. The provisions for novation were enacted pursuant to the promulgation of the Sector Law in August 2004;

(ii) Natural Gas Sales Agreement ("NGSA") 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 ("OAMA") with Al Kamil Construction & Services LLC ("AKCS"), a company incorporated in the Sultanate of Oman, and a related party, for operations and maintenance of the power plant. The Agreement is valid for a period of 15 years from the commercial operation date;

(v) Agreement with Société Générale and Bank Muscat SAOG for long-term loan facilities;

(vi) 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*

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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..

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these financial statements:

3 **Significant accounting policies (continued)**

- *IFRS 7 Financial Instruments: Disclosures and the Amendments to IAS 1 Presentation of Financial Statement* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to the Company's financial instruments and share capital.

- *IFRIC 7 Applying the Restoration Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the financial statements.

- *IFRIC 8 Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all goods or services received cannot be specifically identified. IFRIC 8 which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the financial statements.

- *IFRIC 9 reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the financial statements.

- *IFRIC 10 Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Company's 2007 financial statements, and will apply to Goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Company first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004), and is not expected to have any impact on the financial statements.

(b) *Basis of preparation*

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.

The financial statements are presented in Rials Omani ("RO") and United States Dollars ("US$"), rounded off to the nearest thousand.

The presentation of financial statements, in conformity with IFRSs, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditures. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3 Significant accounting policies (continued)

(c) *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.

Interest income is recognised in the income statement using effective interest rate method.

(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 an expense in the income statement as incurred.

The Company's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefits that such employees have earned in return for their services in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value.

(f) *Finance cost*

Finance costs comprise interest payable on borrowings on Escrow account. Finance costs are recognized as an expense in the period in which they are 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.

(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.

3 **Significant accounting policies (continued)**

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 to accounting policy (m)].

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

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

Depreciation is charged from the month of addition to property, plant and equipment while no depreciation is charged in the month of sale. Depreciation method, useful lives as well as residual values are re-assessed annually.

(j) *Inventories*

Fuel and maintenance 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. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Receivables

Receivables are stated at their amortised cost less provision for impairment losses, if any.

3 **Significant accounting policies (continued)**

(l) 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.

(m) *Impairment*

The carrying amounts of the Company's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of a receivable is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, 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 assets' carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss has been recognised.

(n) *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.

(o) *Payables and accruals*

Other payables and accruals are stated at their amortised cost.

(p) *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.

3 **Significant accounting policies (continued)**

(q) *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 in 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**

	2006 RO'000	**2006 US $'000**	2005 RO'000	2005 US $'000
Capacity charges	**7,032**	**18,283**	7,011	18,230
Energy charges	**9,082**	**23,613**	9,421	24,494
	16,114	**41,896**	16,432	42,724

5 **Operating costs**

Fuel cost	**8,211**	**21,349**	8,592	22,338
Operation and maintenance charges	**1,538**	**3,999**	1,525	3,965
Depreciation	**1,829**	**4,755**	1,914	4,977
	11,578	**30,103**	12,031	31,280

6 **Other income**

Interest income	**95**	**247**	64	165
Gain on sale of fixed asset	**2**	**5**	-	-
	97	**252**	64	165

7 Administrative and general expenses

	2006 RO'000	**2006 US $'000**	2005 RO'000	2005 US $'000
Employee costs	**120**	**313**	117	304
Depreciation	**28**	**73**	64	165
Legal and professional fees	**51**	**133**	53	138
Travelling	**6**	**16**	10	26
Social development costs	**8**	**21**	5	12
Utilities charges	**12**	**31**	13	34
Rent, rates and taxes	**7**	**18**	7	18
Directors / Shareholders meeting expenses	**15**	**38**	17	44
Share registration fees	**10**	**26**	10	26
Provision for site restoration	**6**	**15**	5	13
Miscellaneous expenses	**20**	**52**	31	82
Liquidated damages received	**-**	**-**	(50)	(130)
	283	**736**	282	732

Employee related expenses comprise the following:

Wages and salaries	**106**	**276**	101	263
Other benefits	**6**	**16**	11	29
Contribution to defined retirement plan	**1**	**3**	1	2
Increase in liability for unfunded defined benefit retirement plan	**7**	**18**	4	10
	120	**313**	117	304

The number of employees as at 31 December 2006 was 4 (2005: 4).

The remuneration of key management personnel was RO 85,191(2005: RO 81,921)

8 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
Cost					
At 1 January 2006	47,490	347	915	48,752	126,753
Acquisitions	26	21	-	47	121
Disposals	-	(9)	-	(9)	(23)
31 December 2006	47,516	359	915	48,790	126,851
Depreciation					
At 1 January 2006	(4,503)	(306)	(48)	(4,857)	(12,626)
Charge for the period	(1,805)	(28)	(24)	(1,857)	(4,828)
Disposals	-	8	-	8	20
31 December 2006	(6,308)	(326)	(72)	(6,706)	(17,434)
Carrying amount					
At 31 December 2006	**41,208**	**33**	**843**	**42,084**	**109,417**
At 31 December 2005	42,987	41	867	43,895	114,127

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.

9. Inventories

	2006 RO'000	2006 US $'000	2005 RO'000	2005 US $'000
Liquid fuel	**884**	**2,297**	904	2,350
Maintenance spares	**3,173**	**8,251**	1,708	4,440
	4,057	**10,548**	2,612	6,790

In accordance with the terms of the various project agreements, the company is required to maintain a base stock of liquid fuel. Such liquid fuel stock is to be held to cover the contingency of interruption in the supply of gas fuel. The requirement is to hold minimum of five days' consumption in order to operate the turbines at full capacity.

10 Tariff receivable

Tariff receivable represents the amounts due from Oman Power & Water Procurement Company (OPWP) in respect of capacity and energy charges.

11 Other receivables and prepayments

	2006 RO'000	2006 US $'000	2005 RO'000	2005 US $'000
Advances	**261**	**679**	1,084	2,818
Long term advance	**-**	**-**	(858)	(2,230)
	261	**679**	226	588
Prepayments	**162**	**421**	145	377
Other receivables	**14**	**36**	32	83
	437	**1,136**	403	1,048

12 Cash at bank

Current accounts	**-**	**-**	1	1
Deposit accounts	**3,242**	**8,431**	2,779	7,227
	3,242	**8,431**	2,780	7,228

During the year ended 2006 the deposit accounts earned interest at rates ranging between 1.00% and 5.4% per annum, (2005: 1% and 2.45% per annum).

13 Share capital

Authorised share capital of 25,000,000 (2005: 25,000,000) shares of RO 1 each	**25,000**	**65,000**	25,000	65,000
Issued and fully paid-up share capital of 9,625,000 (2005: 9,625,000) shares of RO 1 each	**9,625**	**25,025**	9,625	25,025

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

	2006		2005	
	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
	9,625,000	**100.00**	9,625,000	100.00

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

14 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.

15 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 2005, further 11% of the loan was hedged at a fixed interest rate of 4.1325% per annum, excluding margin.

As at 31 December 2006, based on the interest rates differential over the life of the IRS, an indicative deficit was assessed at approximately RO 1.171 million (US$ 3.045 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 1.171 million (US$ 3.045 million) has been recorded within the equity of the Company under "Hedging Deficit" and a similar amount is recorded under long term liabilities.

16 Deferred taxation

The Company is exempt from income tax for an initial period of five years from the commercial operation date by virtue of Royal Decree 54/2000 .

For the period ended 31 December 2006, the Company has recognized deferred tax liability in the aggregate amount of approximately RO 1.169 million (US$ 3.040 million) arising on temporary timing differences. The movement in deferred tax liability during the year is as follows:

	2006 RO'000	**2006 US $'000**	2005 RO'000	2005 US $'000
1 January 2006	**737**	**1,917**	528	1,372
Deferred tax charge for the year	**432**	**1,123**	209	545
31 December 2006	**1,169**	**3,040**	737	1,917

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

Accelerated depreciation	**1,276**	**4,356**	1,247	3,241
Tax loss for the year	**(507)**	**(1,316)**	(510)	(1,324)
	1,169	**3,040**	737	1,917

The assessments for the years 2003, 2004 and 2005 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 incurred during tax exempt period would be available for carry forward indefinitely in post tax-exempt period.

The Department of Taxation Affairs could disagree with the Company on the availability of tax losses incurred during the tax exemption period, against future taxable profits. Should this be the case, the Company would need to recognise an additional deferred tax liability of R.O. 1 Million (US$ 2,600,000) as of 31 December 2006.

17 Long-term loans

	2006 RO'000	**2006 US $'000**	2005 RO'000	2005 US $'000
Secured Loan	**30,416**	**79,082**	31,286	81,343
Unsecured Loan	**2,879**	**7,485**	3,290	8,554
	33,295	**86,567**	34,576	89,897
Current maturities of long term loans	**(2,071)**	**(5,385)**	(1,281)	(3,330)
Finance cost	**(764)**	**(1,987)**	(892)	(2,320)
Net long term loans	**30,460**	**79,195**	32,403	84,247

The amount of loans outstanding as at 31 December 2006 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	33,295	2,071	2,561	8,837	19,826
US$'000	86,567	5,385	6,659	22,977	51,546

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). Société Générale and Bank Muscat SAOG 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 trustees. Société Générale is also the Facility and Security Agent for administration and monitoring of the overall loan facilities.

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	**Margin Percentage**
2005 to 2010	0.70%
2010 to 2015	0.90%
2016 to 2017	1.20%

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

Unsecured Loan

Bank Muscat SAOG has extended an unsecured loan facility that bears interest at fixed rate of 6.5% per annum and is repayable in eight equal annual instalments commencing from 1 January 2006. The amount of loan outstanding as at 31 December 2006 was RO 2.879 million (US$ 7.485 million).

During the year, the Company incurred the following finance costs:

	2006 RO'000	**2006 US $'000**	2005 RO'000	2005 US $'000
Secured loan	**2,066**	**5,372**	2,143	5,572
Unsecured loan	**187**	**486**	125	324
Shareholders Loan	**-**	**-**	110	287
Amortisation of finance cost	**129**	**335**	22	56
Others	**38**	**99**	35	91
	2,420	**6,292**	2,435	6,330

18 Payables and accruals

Trade payable	**1,054**	**2,740**	979	2,545
Interest payable	**342**	**889**	345	898
Payable to contractors	**685**	**1,782**	673	1,749
Accruals and other payables	**140**	**364**	40	104
	2,221	**5,775**	2,037	5,296

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

1 January	**17**	**44**	13	34
Additional	**7**	**18**	4	10
31 December	**24**	**62**	17	44

19 Amount due to related parties

Al Kamil Construction & Services LLC	**257**	**669**	222	576
National Power International Limited, Abu Dhabi	**(2)**	**(4)**	(2)	(5)
	255	**665**	220	571

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 to note 2(iv)].

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 period ended 31 December 2006 was as follows:

	2006 RO'000	**2006 US $'000**	2005 RO'000	2005 US $'000
Operating costs				
Fees charged by AKCS under the Operations and maintenance agreement	**1,870**	**4,881**	1,941	5,046
Costs incurred by AKCS on behalf of the Company	**65**	**169**	2	5
	1,935	**5,050**	1,943	5,050
Administrative and general expenses				
Costs incurred, on behalf of the Company, by International Power Global Development Limited	**10**	**27**	32	84
Directors' meeting fees	**5**	**14**	6	16
	15	**41**	38	100
Finance costs				
Interest payable on loans from shareholders	**-**	**-**	110	287

21 Basic earnings per share

Basic earnings per share is calculated as follows:

Net profit for the period RO/US$ ('000)	**1,498**	**3,894**	1,539	4,002
Number of shares outstanding at 31 December ('000)	**9,625**	**9,625**	9,625	9,625
Basic earnings per share RO/US$	**0.156**	**0.405**	0.160	0.420

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:

	2006	**2006**	2005	2005
Shareholders' fund RO/US$ ('000)	**14,656**	**38,104**	14,891	38,717
Number of shares outstanding at 31 December('000)	**9,625**	**9,625**	9,625	9,625
Net assets per share RO/US$	**1.523**	**3.959**	1.547	4.020

23 Dividends

During the year the Company declared and paid total dividend amounting to RO 1.733 million (US$ 4.506 million). The board proposes a dividend of 12% (RO 0.120per share), which is subject to approval at the Annual General Meeting.

24 Commitments

	2006 RO'000	**2006 US $'000**	2005 RO'000	2005 US $'000
Letter of credit	**1,923**	**5,000**	1,923	5,000

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 2006, future minimum lease commitments under non-cancellable operating leases were as follows:

Within one year	**5**	**12**	1	3
Between two and five years	**4**	**10**	4	10
After five years	**14**	**35**	15	40

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 that 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 10 years.

Credit risks

The entire tariff receivable represents amounts due from OPWP in respect of power supplied by the Company under the terms of the PPA. This debt is guaranteed by the Government of Oman and accordingly the 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 is 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.