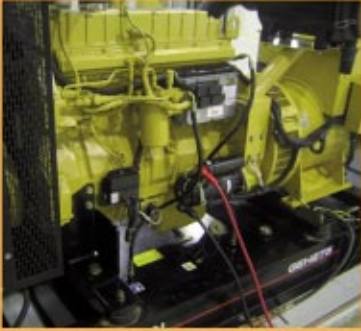




*His Majesty Sultan Qaboos bin Said*



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## Board of Directors



H.E. Dr. Abdul Malik Bin Abdullah Al Hinai  
**Chairman**



Yahia Bin Mohamed Al Ghasani  
**Vice Chairman**



Mohamed Redha Bin Hassan Bin Ali  
**Member**



Mohamed Bin Said Al Rashdi  
**Member**



Humaid Bin Abdullah Al Qatabi  
**Member**



Eng. Hamoud Bin Salim Al Bausaidi  
**General Manager**



## Chairman's Message



On behalf of the Board of Directors, it gives me great pleasure to present the Annual Report of Rural Areas Electricity Company SAOC for the first accounting period from 01 May 2005 to 31 December 2005.

Rural Areas Electricity Company SAOC is a vertically integrated electricity company authorized to desalinate and sell water and generate, transmit, distribute and supply electricity to customers in its franchise areas. RAECO's franchise areas extend throughout the Sultanate and include Musandam, Al-Wusta, parts from Al Dakhliyah, Al-Sharqiyah, Al Dhahirah and Dhofar Governate (excluding the Salalah Concession Area)

The first accounting period was very important and was perhaps the most difficult, since transfer formalities and transition procedures required substantial efforts, time and attention. Our reorganization to an electrical company structure provides the clearest evidence that we are truly becoming a better company, operating in widely dispersed service areas. Our core electric business will continue to provide a powerful foundation for our growth initiatives.

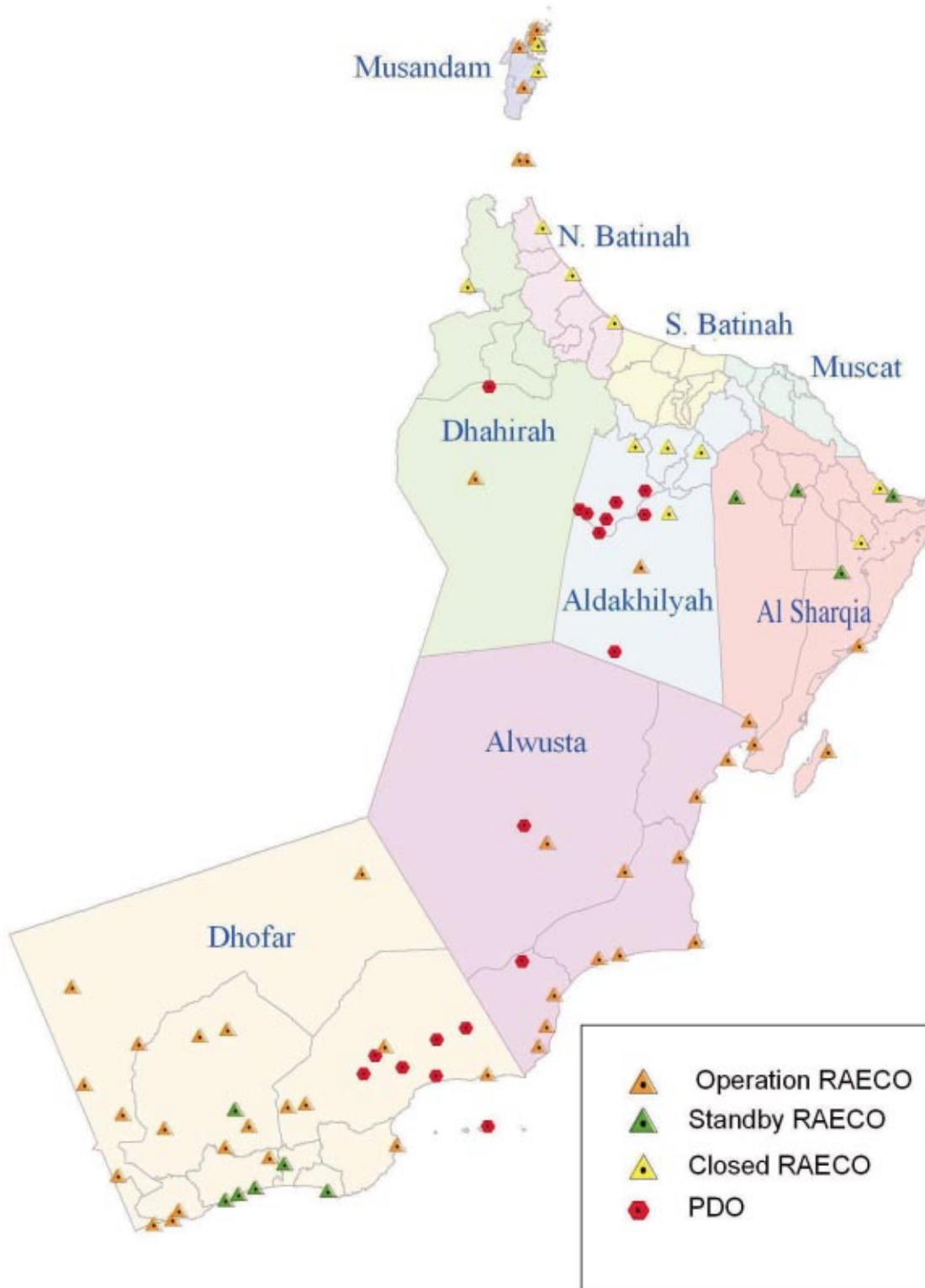
This degree of focus and achievement can result only from strong leadership/management and the dedication of employees some of them veterans with decades of rich experience in the Ministry of Housing, Electricity and Water. I am sure the results of corporate activities in the first reporting period demonstrates the depth of expertise of both management and employees of the Company, who will continue to be backed by the Board of Directors which is committed to furthering the Company's pursuit towards achieving its vision which is to provide power and related services to its customers.

I take this opportunity to express my gratitude and appreciation to the members of the Board of Directors and all employees in the company for their great efforts and excellent performance during the period.

We are committed to the pursuit of excellence, and we will continue to strengthen our policies and practices to promote the interests of our shareholders, customers, employees and, above all our great country under the able leadership of His Majesty Sultan Qaboos Bin Said .

**H.E. Dr. Abdulmalik bin Abdullah Al-Hinai**  
**Chairman of the Board of Directors**

# RAECO's Responsibility Regions





## Establishment of the Company

In December 1999 the Council of Ministers approved a process of restructuring the electricity and related water sector (the Sector) to facilitate further private sector participation in the generation, transmission, distribution and supply of electricity in the Sultanate.

The policy required the implementation of a new market structure and regulatory framework for the Sector and further required that these be implemented through comprehensive sector specific legislation.

The new regulatory framework was implemented and a timetable was set for the implementation of the new market structure through the Law for the Regulation and Privatisation of the Electricity and Related Water Sector (the Sector Law) promulgated by Royal Decree 78/2004. The Sector Law came into effect on 1 August 2004 and the deadline for implementing the new market structure was set as 1 May 2005.

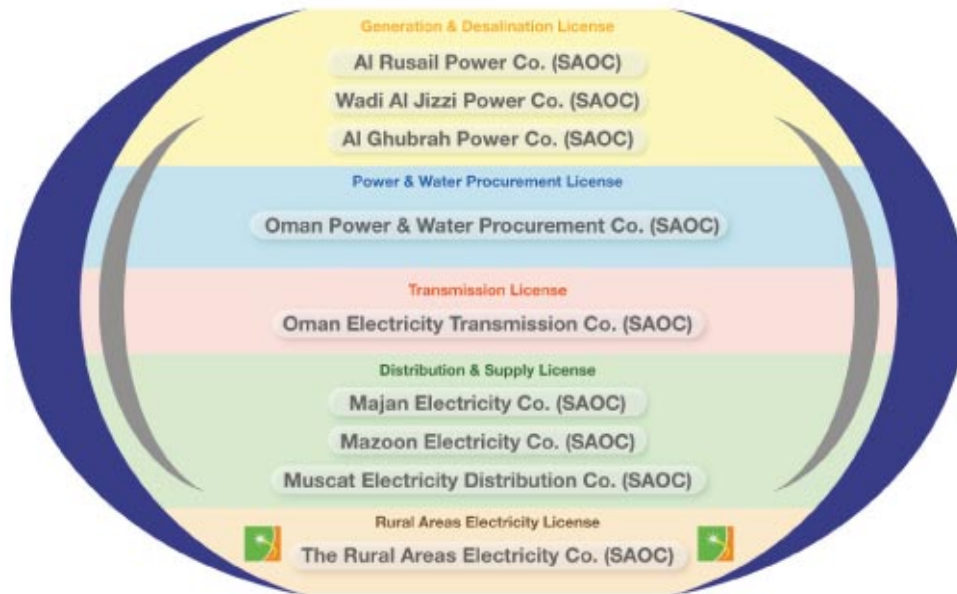
As required by the Sector Law, a Transfer Scheme was implemented by a Decision of the Minister of National Economy on 1 May 2005. The Transfer Scheme transferred the operational assets and liabilities of the Ministry of Housing, Electricity & Water with respect to generation, transmission, distribution and supply of electricity (and related water) to a holding company and its nine subsidiaries.

Consequently, the responsibilities of the Government for undertaking the activities of generation, transmission, distribution and supply of electricity previously undertaken by the Ministry of Housing Electricity and Water were allocated to the subsidiary companies under the supervision of new regulatory legislation embodied in the Sector Law and administered by the Authority for Electricity Regulation, Oman.

The nine subsidiary companies have, from 1 May 2005, undertaken specific regulated activities in a new market structure alongside and on the same terms as existing private sector companies.

The Successor Companies and their associated regulated activities are shown below:

## Electricity Holding Co. (Group of Companies)



The Electricity Holding Company is 100 per cent owned by the Ministry of Finance and each of the subsidiary companies is 0.01 per cent owned by the Ministry of Finance and 99.99 per cent by the Electricity Holding Company.

Of the nine subsidiary companies, all but two (Oman Power and Water Procurement Company and Rural Areas Electricity Company) will be privatised in the near future.

## Our Vision

To become one of the best Omani Power Sector companies, by providing un-interrupted, Safe and Sustainable Power Supply at the least possible cost to the customers and adding values for all stakeholders.

## Our Mission

To provide electricity related services exclusively within the franchise areas, as per the License granted, to generate, distribute and supply power and produce related desalinated water; to perform activities in a manner to increase RAECO Connections and Connections of Rural Premises to the Systems in order to enhance electricity supply in its concession areas. To ensure Safe and Sustainable Power supply at a reduced cost and for the benefits of citizens and residents, and, last but not the least, to be the best Power Company in Oman catering to the needs of the citizens.



## Introduction

Rural Areas Electricity Company SAOC (RAECO) is an Electricity Sector Successor Company formed pursuant to the promulgation of the Law for the Regulation and Privatization of the Electricity and Related Water Sector (The Sector Law) by Royal Decree No.78/2004 which came into force on 1st May 2005.

RAECO has significant responsibilities to support and implement the Government's privatization policies for the Sector including the responsibility to encourage private sector participation in electricity and related water projects and activities in the Sultanate of Oman.

RAECO is also responsible for the electrification of rural areas, and to secure electrification funding through a mechanism established by Article (87) of the Sector Law. The Sector Law requires the Authority for Electricity Regulation, Oman to encourage electricity supply to rural communities.

Article Nos. 84 and 86 of the Sector Law identify the duties and responsibilities of Rural Areas Electricity Company SAOC as follows:-

**Article (84) Without prejudice to the provisions of any other Law, the Rural Areas Electricity Company shall have the following functions and powers and shall be subject to the following duties pursuant to the provisions of this Law and the conditions of its License:**

- (a) To undertake to Supply electricity exclusively within the Authorized Area according to the License granted to it, and the company shall have the right to recover amounts due to it pursuant to this Law including charges for the Supply of electricity and also shall have the right to terminate Supply to a Customer who does not pay the Supply consideration;
- (b) To secure services in Rural Areas as to the establishment, ownership, construction, development, finance, operation and maintenance of the Production Facilities, and the New Capacity and Distribution and Transmission Systems in a secure and effective manner to enable it to meet all reasonable demands for electricity requested by Persons whose Premises are within the Authorized Area, are not Connected, or are not Eligible for Connection;
- (c) To sell Desalinated water produced in Production Facilities owned or operated by it to the Ministry of Housing, Electricity and Water and to charge a Bulk Supply Tariff to this Ministry in respect thereof;
- (d) To sell or dispose of all or part of its assets and Supply business or to transfer them pursuant to the provisions of Article (88) of this Law;
- (e) To cooperate with and provide information and data to the Ministry of Housing, Electricity and Water, and Licensees, in relation to the Total System planning, and the New Capacity planning, and to arrange for the procurement of the same;
- (f) To comply with the conditions of its License in relation to the Rural Systems Code and to become a party to the Grid Code and Distribution Code;
- (g) To undertake not to unduly discriminate without legal justification in favour of any Person or against them in undertaking its regulated activities, and to comply with the performance Security Standards relating to its Systems, and to manage and purchase

goods and services on an Economic Purchase basis, and the applicable government policy in respect of the use and price of fuel;

- (h) To undertake to secure new Desalinated water capacity in the areas where the Rural Areas Electricity Company Supplies electricity if the Ministry of Housing Electricity and Water deems there is a need to secure such capacity and the Ministry of National Economy approves the same, this is in cases where it has been agreed between the company and the Ministry of Housing Electricity and Water to secure the abovementioned capacity combined with or co-located with electricity generation capacity in the same site, and in case of non agreement the Authority shall specify the manner by which the new capacity shall be secured;
- (i) Perform its functions in a manner to increase RAEC Connections and the Connection of Rural Premises to the Systems of other Licensees;
- (j) To offer surplus Production Capacity and Output to the Oman Power and Water Procurement Company but shall not offer such surplus to any company other than the aforementioned company without the approval of the Authority, and to comply with the prices approved by the Authority in respect thereof;
- (k) To meter quantities Supplied to Premises and to charge Permitted Tariffs for Supply of such quantities and RAEC Connection, and to submit the relevant Supply bill to the Customer, and to charge Cost-Reflective Tariffs for the use of RAEC Systems, and to publish any of such tariffs, as the case may be, and to take the procedures prescribed in this Law in case of default of the Customer in payment;
- (l) To contract for the Import and Export of electricity to and from the Sultanate of Oman in accordance with the provisions of Article (114) of this Law.

**Article (86) The Rural Areas Electricity Company shall have the following duties;**

- (a) To develop the methodology to enable Persons to calculate the cost of each individual connection with its System to be paid for Connection with its System.
- (b) Connect and Supply with its System the Premises of any Person in who's case the Permitted Tariff applies and also where the finance for RAEC Connection and Electrification Funding has been arranged, in accordance with regulations issued by the Authority specifying the manner in which such funding is to be expended.

**Article (87) RAEC Connection and Electrification Funding shall be secured in accordance with the following procedures:**

- (a) The Rural Areas Electricity Company shall submit its necessary proposed budget for RAEC Connection and Electrification Funding, which shall be approved by the Authority, to the Electricity Holding Company in the times and periods specified in its License, and the Electricity Holding Company shall submit the above mentioned budget to the Ministry of National Economy;
- (b) If the Ministry of National Economy approves the aforementioned budget, the Electricity Holding Company shall make available to the Rural Areas Electricity Company the financing referred to above in the manner requested by this company.

The Council of Ministers may decide that there is no longer a requirement for RAEC Connection and Electrification Funding, in which case the Ministry of National Economy shall issue a decision suspending the procedures for RAEC Connection and Electrification Funding.



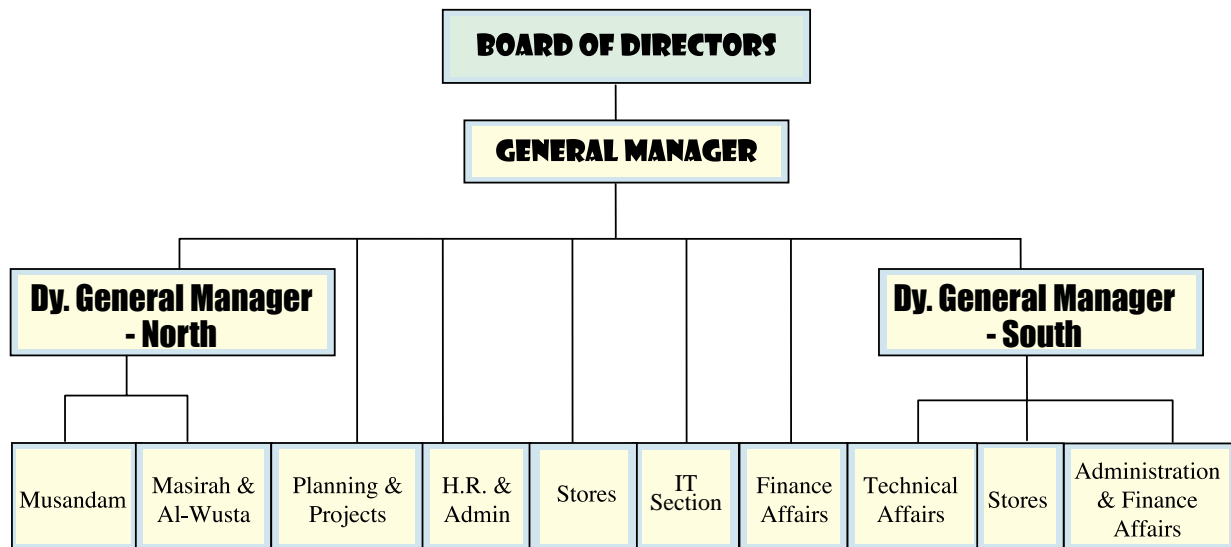
## RAECO Achievements in the year 2005

Description	Unit	May05 – Dec05
<b>General Data</b>		
1. New Connections (Output)	No.	421
2. Total Power Generated	MWh	191,898
3. Auxiliary Power Consumption	MWh	15,080
4. Power Dispatched	MWh	176,817
5. Power purchased from PDO	MWh	20,499
6. Power supplied	MWh	197,329
7. Production of water	m <sup>3</sup>	417,557
8. Internal Consumption of water	m <sup>3</sup>	5,231
9. Water Dispatched	m <sup>3</sup>	410,891
10. Distribution Transformers (Input)	No.	19
11. Distribution Transformers (Input)	MVA	7.23
12. Distribution Network 33 KV O/H & Under Ground	Km	60.5
13. Distribution Network 11 KV O/H & Under Ground	Km	34.2
14. Distribution Network 0.433 KV O/H & Under Ground	Km	13.25
<b>Ratio</b>		
1. MWh per connection	MWh	12.75
2. *Capex / Depreciation	O.R	27.861
3. Average capital costs (Depreciation+ Finance Charges) per installed capacity (MWh)	O.R	4,723
4. Average capital costs (Depreciation+ Finance Charges) per station	O.R	8,633

\* Capex refers to the total fixed assets which were acquired from MHEW on 1/5/2005 and addition during 1<sup>st</sup> May 2005 to 31<sup>st</sup> December 2005.

## Organisation Structure

The Electricity Holding Company SAOC holds the government's majority interest in the new successor companies, and is itself 100% owned by the Ministry of Finance. The Ministry of Finance and Electricity Holding Company SAOC hold 0.01% and 99.99%, respectively of the shares of RAECO. The chart furnished below describes the Organizational Structure of Rural Areas Electricity Company SAOC as on 31 December 2005.



**H.R. & Administration:** The Human Resources & Administration Department provides a full range of human resources and administrative services RAECO. It leads the Company's recruitment and selection processes and administers the compensation, classification and benefit plans. The Department provides leadership in maintaining a positive working environment for all employees by managing staff relations and providing expert advice on collective agreement and human resources issues. The Human Resources & Administration Department is responsible for human resource policies and programs, quality assurance and delivery of staff training and development. It is also responsible for the human resource information management system, advanced labour relations advice, processing payroll, collective bargaining, job evaluation and organizational design, as well as human resources development

**Finance Affairs:** The Finance Affairs duties include processing of all accounts payable. This department also prepares and monitors the annual budget, maintains liquidity and maximizes income in compliance with all governing financial and accounting laws.

During the period under report, services by the Department were rendered to Al-Gbubrah Power and Desalination Company SAOC, Wadi Al-Jizzi Power Company SAOC and Al-Rusail Power Company SAOC.

**Planning & Projects:** The Planning & Projects Department is responsible for all kinds of projects including but not limited to Turnkey Projects, Interconnection Projects, Generation, Desalination, Electrification, Extension Works, Survey and Preparation of Drawings, Supply of Materials and Equipment.



The Planning Section handles short and long term planning and forecasting based on demand and supply of power for various RAECO franchise areas in full conformity with RAECO Code and License.

The Planning & Projects Department has three Sections namely:-

- (1) Tendering & Contracts Section – responsible for preparation of all Tenders (Consultancy works, Contracting Works, Supply of equipment/material), Requests for Proposal (RFPs), Inquiries, Survey Tenders, Specifications etc.) and Contracts (All Contracts for Works awarded to various Contracts in RAECO as well as Power Purchase, Power Supply, Lease, Asset Sales, Consultancy Works, MRBC, Inter Connection Agreements etc).
- (2) Electrical Projects Section – responsible for all distribution works, power supply, extension of networks, distribution facilities, extension of power lines and substations in all RAECO franchise areas including survey and preparation of drawings etc.
- (3) Generation and Desalination Section – responsible for all turnkey projects, construction of new power stations, extension of power stations, construction of Desalination Stations, extension of existing desalination stations etc

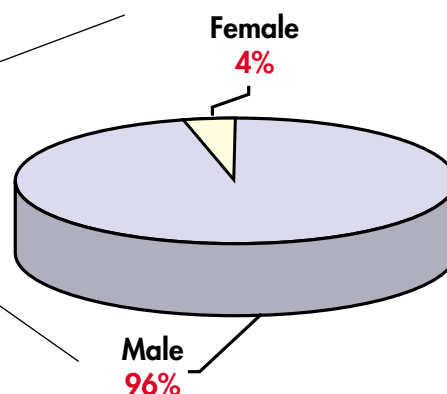
**Information Technology System:** integrates computers and network system into the company network, which encompasses all departments and staff access. It provides complex, high level technical support for computers and network system and undertakes assignment of requiring the development of new or improved IT techniques for the organization. The main responsibilities of Information Technology System are:

- Ensure the setting up and administration of local area network (LAN), personal computers, printers, scanners, photocopier machines, fax, telephone system, etc. in addition to other equipments and Network software.
- Ensure the maintenance of IT services (Hardware & Software).
- Provides assistance to Project Management and technical staff in the implementation, installation of IT systems and, coordinates projects with other external organizations and agencies.

## Human Resources

Total number of RAECO employees, as on 31 December 2005 were 186, consisting of 178 males and 8 females. Number of contract employees in the company were 2 Omanis and 2 Expatriates. The total number of Emergency and Operation & Maintenance employees with contracts were 877.

**Total Rural Areas Electricity Company employment, as reported on 31 December 2005 was 186 employees**



The table below categorizes the employees into Company Direct Employees, Contract Employees and also Employees who are from Contractors Companies in Emergency and Operating & Maintenance Contracts.

Category	Male	Female	TOTAL	% of Omani
Direct Omani	170	8	178	96%
Direct Expatriate	8	0	8	
<b>TOTAL</b>	<b>178</b>	<b>8</b>	<b>186</b>	
Contract Omani	2	0	2	50%
Contract Expatriate	2	0	2	
<b>TOTAL</b>	<b>4</b>	<b>0</b>	<b>4</b>	
Emergency Contract Omani	120	0	120	67%
Emergency Contract Expatriate	60	0	60	
<b>TOTAL</b>	<b>180</b>	<b>0</b>	<b>180</b>	
Operating & Maintenance Contract Omani	365	0	365	52%
Operating & Maintenance Contract Expatriate	332	0	332	
<b>TOTAL</b>	<b>697</b>	<b>0</b>	<b>697</b>	



Rural Areas Electricity Company SAOC has implemented training courses, workshops and seminars for many employees to improve their skills and to create new ideas which help to increase the quality of the work in the company. The table below shows the training courses which were provided during the reporting period.

#### **Training given / provided - 2005**

<b>Total No. of Courses</b>	<b>Number of Participants</b>	<b>Total No. of Days</b>
12	46	1,216

The total recruitment figure during the reporting period was 22 staff, including 3 managers, who were recruited in the reporting period of 8 months ended on 31 December 2005.

## Operational Performance

Electricity supplied to most RAECO rural systems is generated by using diesel fuelled production facilities, although for some rural areas RAECO purchases electricity from Petroleum Development Oman. Table below summarizes the capacity and production of RAECO production facilities in both electricity and water desalination.

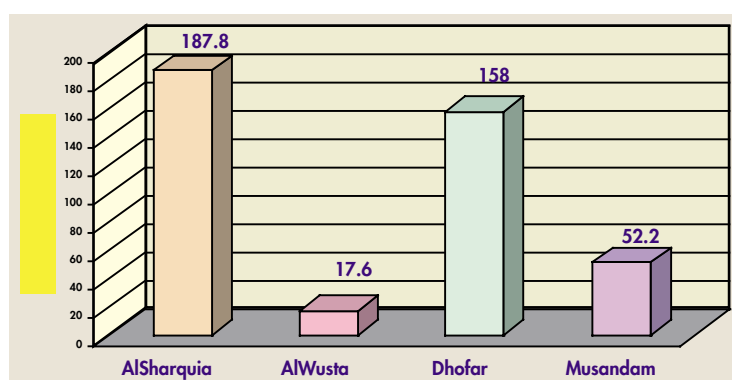
### 1. Capacity & Production in 2005

Region	Fuel	Number of Units		Installed Capacity		Gross production	
		Power	Desalination	Power (MW)	Desalination (M <sup>3</sup> /d)	Power (MWh)	Desalination (M <sup>3</sup> )
AlSharquia	Diesel	73	10	181.765	14,446	22,974	337,974
AlWusta	Diesel	52	2	16.593	150	16,373	27,728
Dhofar	Diesel	114	2	241.913	136	29,348	15,219
Musandam	Diesel	31	2	52.181	250	123,203	36,636
<b>Grand Total</b>		<b>270</b>	<b>16</b>	<b>493.564*</b>	<b>14,982</b>	<b>191,898</b>	<b>417,557</b>

\* Installed capacity of Al-Dakhilyia and Dhahira Regions are included in the Grand Total

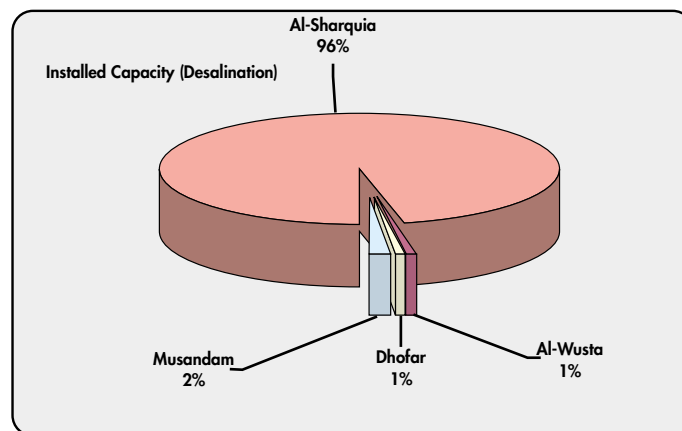
Although RAECO's regulated activities extend over a wide geographical area, there are large differences in electricity and desalinated water production across regions. For example, Musandum accounted for 64% of total RAECO generation, Al-Wusta 9% and Al-Sharquia and Dhofar for 12% and 15% respectively. In contrast, Al-Sharquia accounted for 81% of RAECO desalinated water production and Dhofar only with 4%.

The total installed capacity (MW) from 1st of January 2005 to 31st December 2005 was 493.564 MW in all regions (Al-Sharquia, Al-Wusta, Dhofar, Ad-Dakhilyia, Ad-Dhahira and Musandam). Al-Sharquia region has 73 power units compared to 114 power units in Dhofar. The total installed power (MW) was 181.765 MW in Al-Sharquia and 241.913 MW total installed power in Dhofar Region.



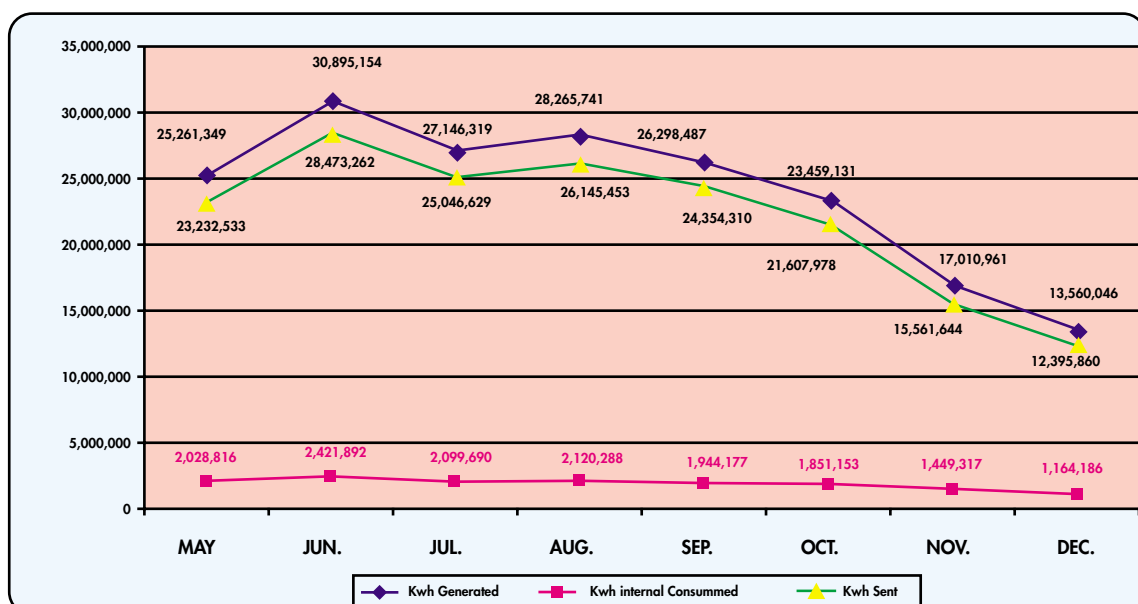


For Desalination installed capacity, Al-Sharqia Region accounted for 96% of the total installed capacity and Musandam, Al-Wusta & Dhofar with 2%, 1% & 1% respectively as shown in the graphs.



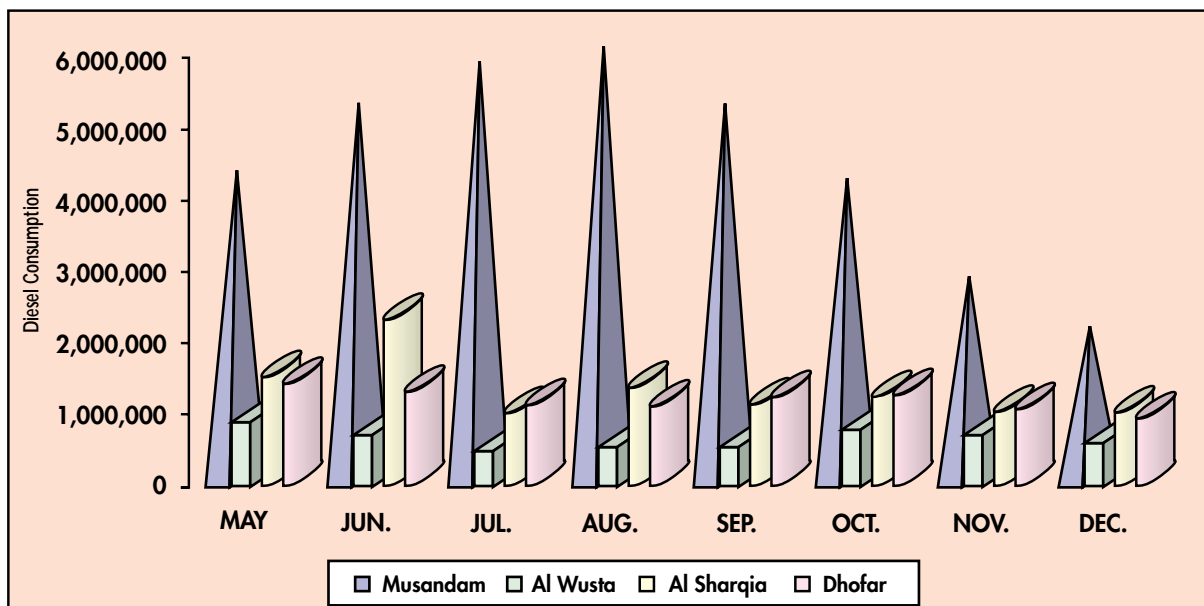
## 2. Generation and Consumption of Electric Power.

The total electric power generated in all regions from May05 – Dec05 was 191,897,188 Kwh (191,897 Mw). The generation of electric power was highest in June with 30,895,154 Kwh and lowest in December with 13,560,046 Kwh. The graph below shows a gradual decrease of electric power generation, consumption & sent from August 2005 to December 2005, after increase from May to June 2005, decrease from June to July 2005 and again slightly increase from July to August 2005.



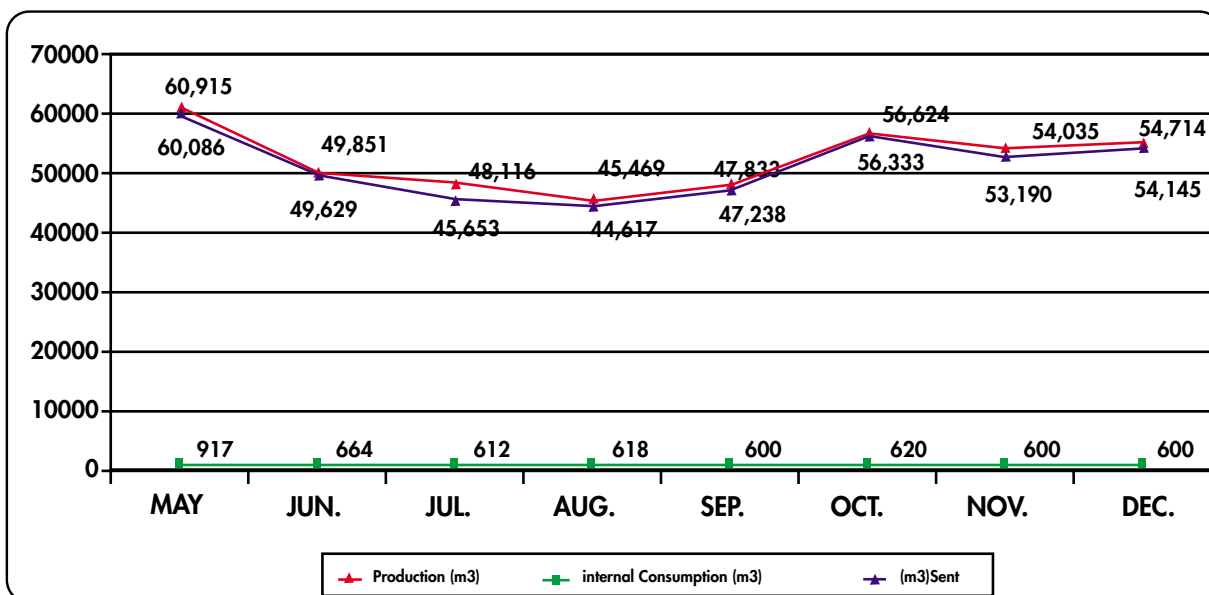
### 3. Diesel Consumption by Regions from May05 – Dec05

The total diesel consumption by all facilities in RAECO's franchise areas was 60,962,545 Liters during the period from 1<sup>st</sup> May 2005 to 31<sup>st</sup> December 2005. Musandam Governate accounted for 58% of the total diesel consumed during the above period, 8% for Al-Wusta, and 18% for Al-Sharqia Region since most of the units are in standby and 16% for Dhofar Region. The month of June 2005 accounted for the peak indiesel consumption i.e. 9,513,069 Liters.



### 4. Water Desalination

The production of water (m<sup>3</sup>) was 417,557 m<sup>3</sup> from 1<sup>st</sup> May2005 to 31<sup>st</sup> December 20005. The graph below shows the production, consumption & sent of water in the above period. The month of May shows the highest production and sent of water (m<sup>3</sup>).





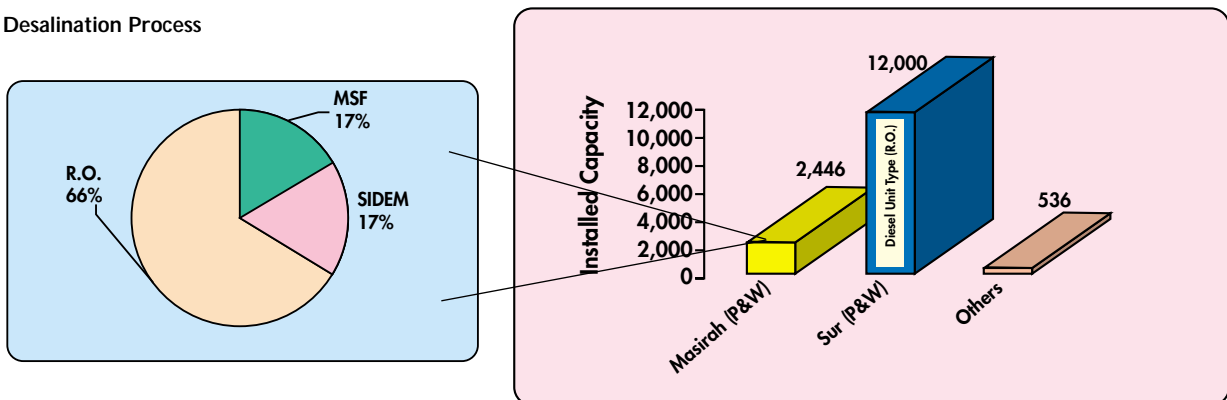
## 5. Desalination Production Facilities:

There are 6 production facilities of desalinated water, which are located in the following regions:

- 2 Desalination Plants in Al-Sharqia Region.
- 1 Desalination Plants in Musandam Governate.
- 2 Desalination Plants in Al-Wusta Region.
- 1 Desalination Plants in Dhofar Governate.

The total installed capacity in all Desalination Plants was 14,982 (m<sup>3</sup>/day) and all the production facilities are using Reverse Osmosis (R.O.) as Diesel Unit Type except Masirah (P&W). In Masirah (P&W) there are 6 Desalination Units, of which 66% accounted for Reverse Osmosis (R.O.), 17% for MSF Type and 17% for SIDEM Diesel Unit Type.

Desalination Process

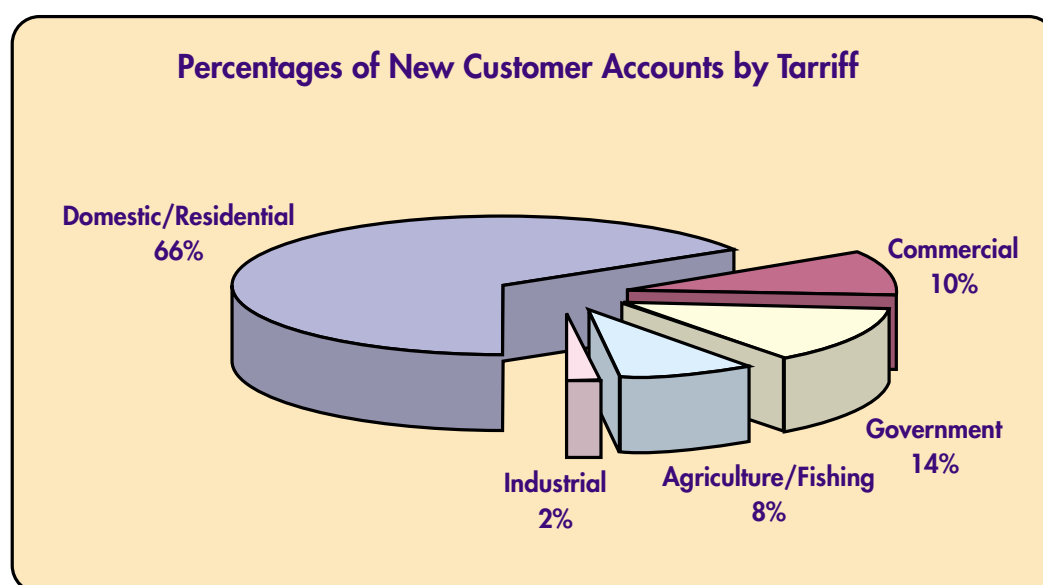


Others: include Kumzar(P&W), Sograh(P&W), AbuMudabi(P&W), AlHalnaya

## 6. Customer Services

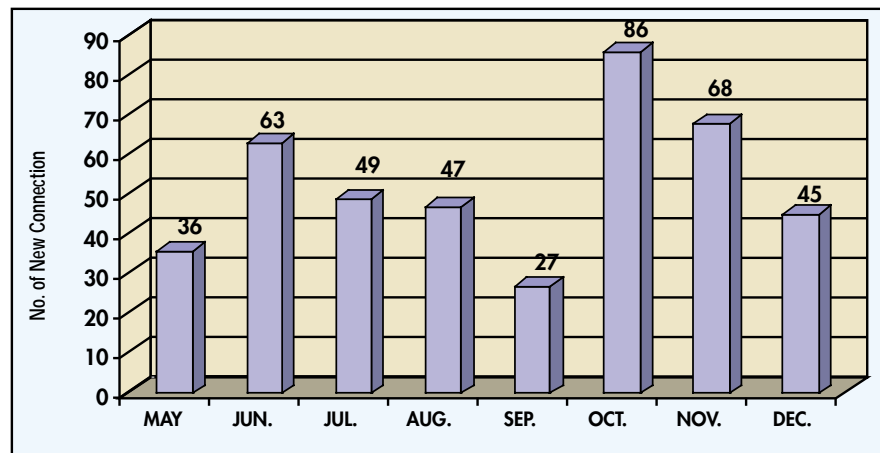
Customer Service is a function of how well an organization meets the needs of its customers. During the year 2005, the total number of accounts was 15,477 accounts and the total number of new accounts from 1<sup>st</sup> May 2005 to 31<sup>st</sup> December 2005 was 421 accounts. From 1<sup>st</sup> May 2005 to 31<sup>st</sup> December 2005, Domestic and Residential categories accounted for 66% of the total number of new accounts followed by Government at 14%, Commercial at 10%, Agriculture / fishers 8% and Industrial at 2% respectively as shown in the following table & graph.

Tariff Category	Total No. of New accounts from May 05-Dec05	Total No. of accounts in 2005	MWh Supplied from Jan 05-Dec05
Domestic/Residential	279	11,080	109,524
Commercial	41	2,475	21,430
Government	58	1,738	68,424
Ministry of Defense	0	14	247
Agriculture/Fishing	35	163	5,578
Hotels/Tourism	0	1	188
Industrial	8	6	862
<b>Total</b>	<b>421</b>	<b>15,477</b>	<b>206,253</b>

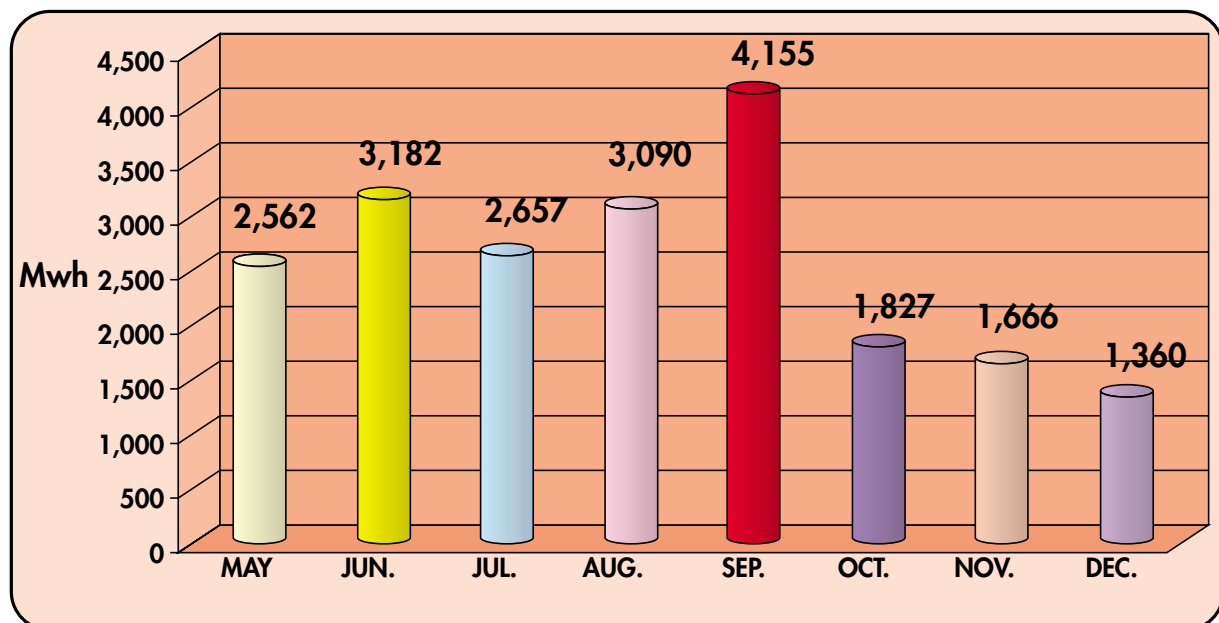




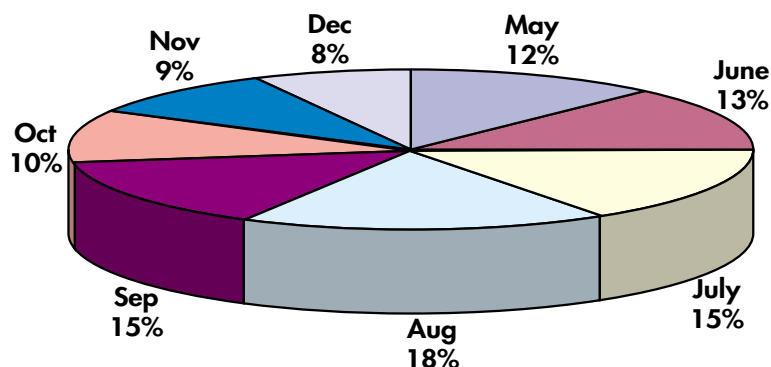
The graph below shows the number of new connections made each month. The highest number of new accounts was reported in October 2005 with 86 new connections in different areas in RAECO's service areas.



RAECO imports power from the Petroleum Development Oman (PDO) for distribution in certain areas. The total power purchased from PDO from 1<sup>st</sup> May 2005 upto 31<sup>st</sup> December 2005 was 20,499 MWh. The total power purchased varied between months mainly because of the climatic changes. For example, power purchased in September 2005 was 4,155 MWh compared to 1,360 MWh purchased in December 2005.



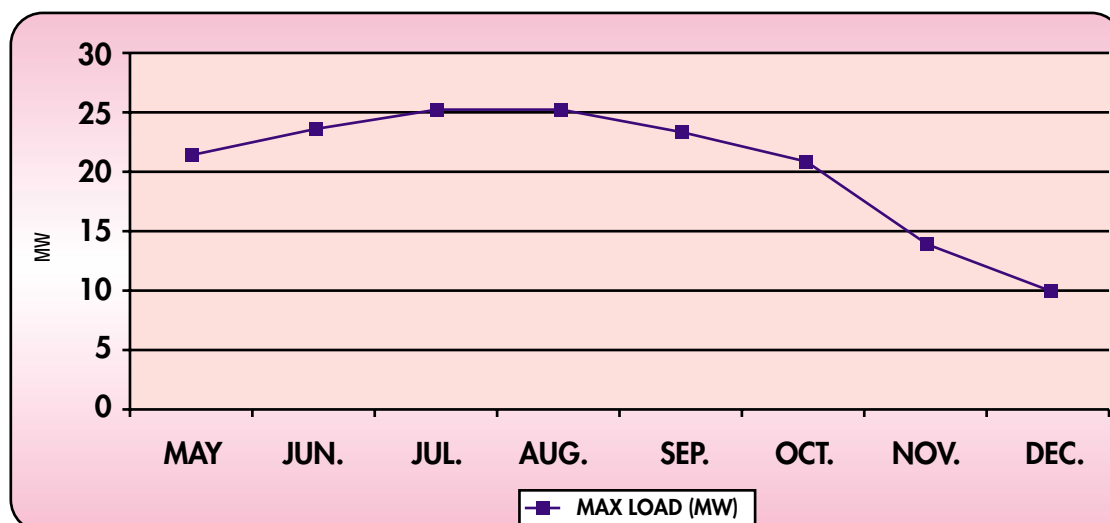
The total value of Power Purchased from PDO for the period from 1<sup>st</sup> May 2005 to 31<sup>st</sup> December 2005 was O.R. 175,971.860. August 2005 accounted for 18% of total power purchase from PDO. The percentages are shown in the chart below.



## 7. Demand Profile

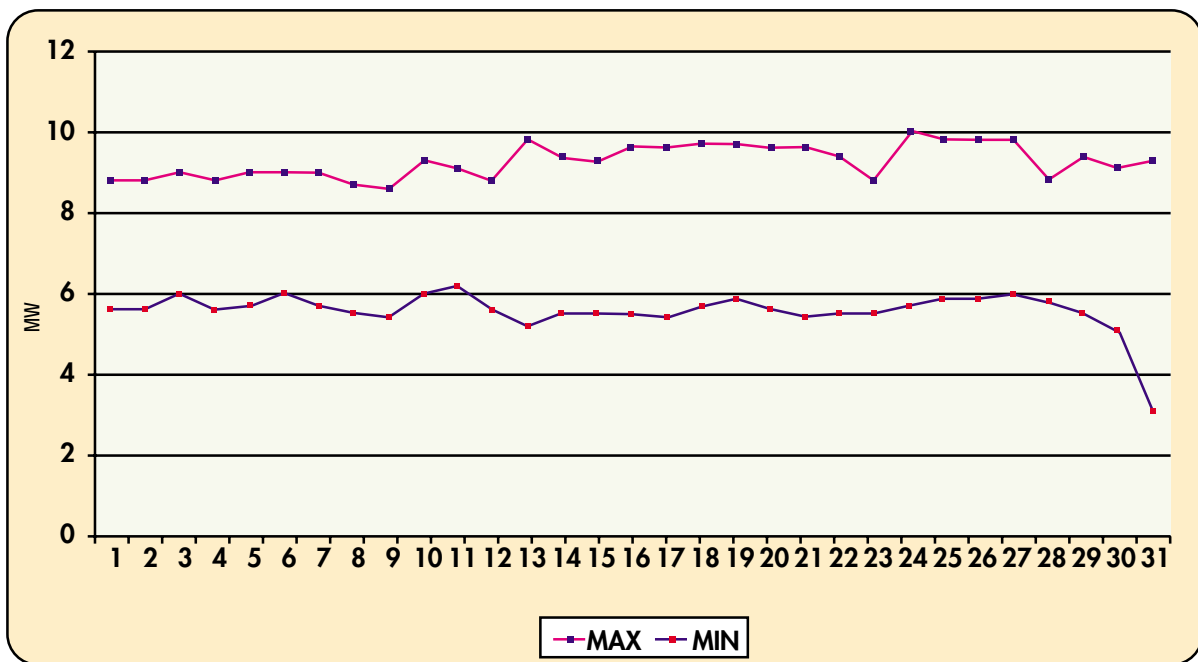
### 1. Rural Power Stations Maximum Demand DAY Load.

(a) The Khasab Power station is located in Musandum Governate. Total installed capacity of the station is 33.5 MW and the peak demand in 2005 was 25.3 MW. The graph below shows the monthly trend of maximum load of peak demand from 1<sup>st</sup> May 2005 to 31<sup>st</sup> December 2005. The average peak demand for Khasab station from 1<sup>st</sup> May 2005 to 31<sup>st</sup> December 2005 was 20.5 MW. It can be seen from the graph that the month of June 2005 starts with a higher power demand than the pervious months (summer) and starting from November 2005, the demand decreases (winter). This decrease is understandably due to climatic changes and pressure & loads to the air conditioners in summer season.

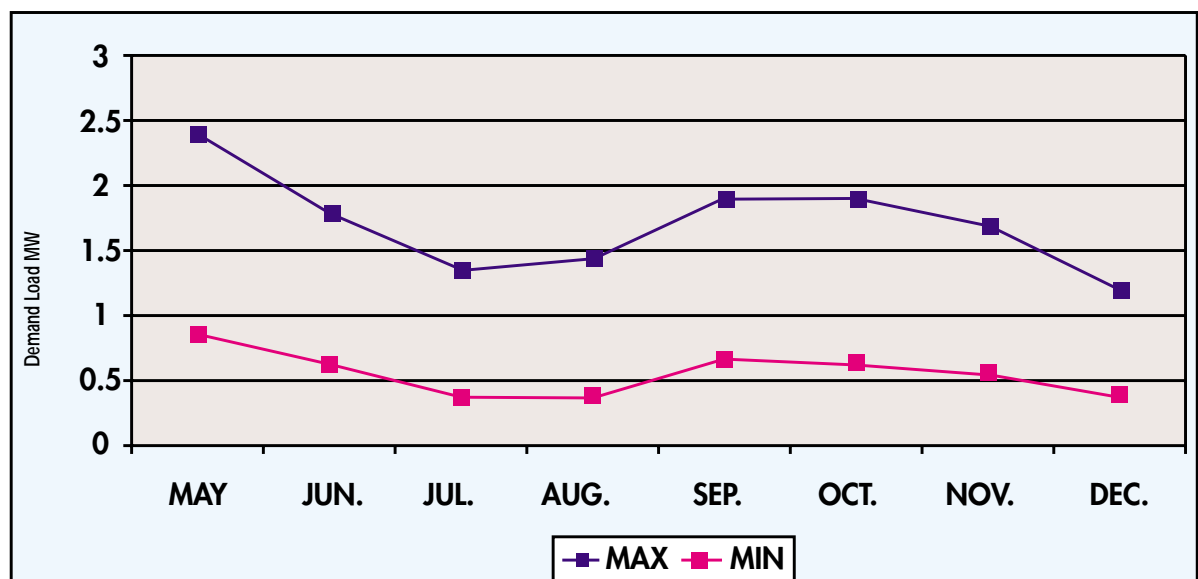




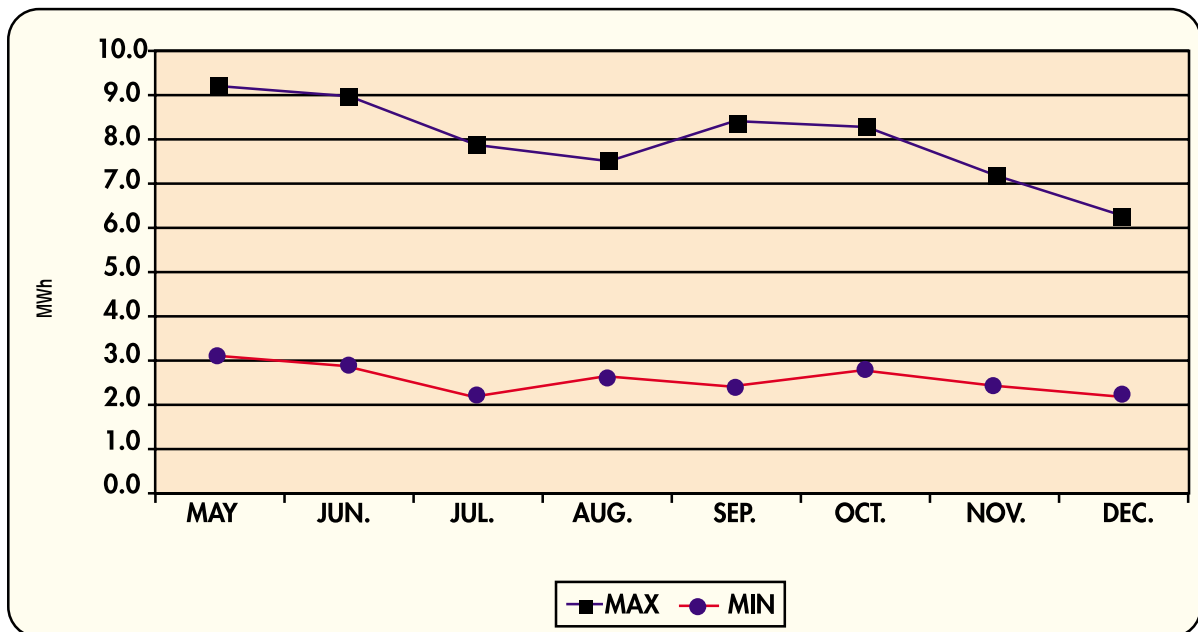
The month of December 2005 was taken as example to show daily maximum and minimum demand on the Khasab station (winter season). The average daily maximum peak demand was 9.3 MW and the average daily minimum peak demand was 5.6 MW.



(b) Al-Hij station in Al-Wusta Region is another example of MW demand profile. The table below shows some trends of power demand for Al-Hij station from the period of 1<sup>st</sup> May 2005 to 31<sup>st</sup> December 2005. The climate is not similar in all regions or areas. As a result, the maximum peak demand was in May 2005 (2.4 MW) and then it decreased in June & July with (1.8 & 1.35 respectively). Again it increased in September & October and then decreased in December 2005 as shown in the graph below.

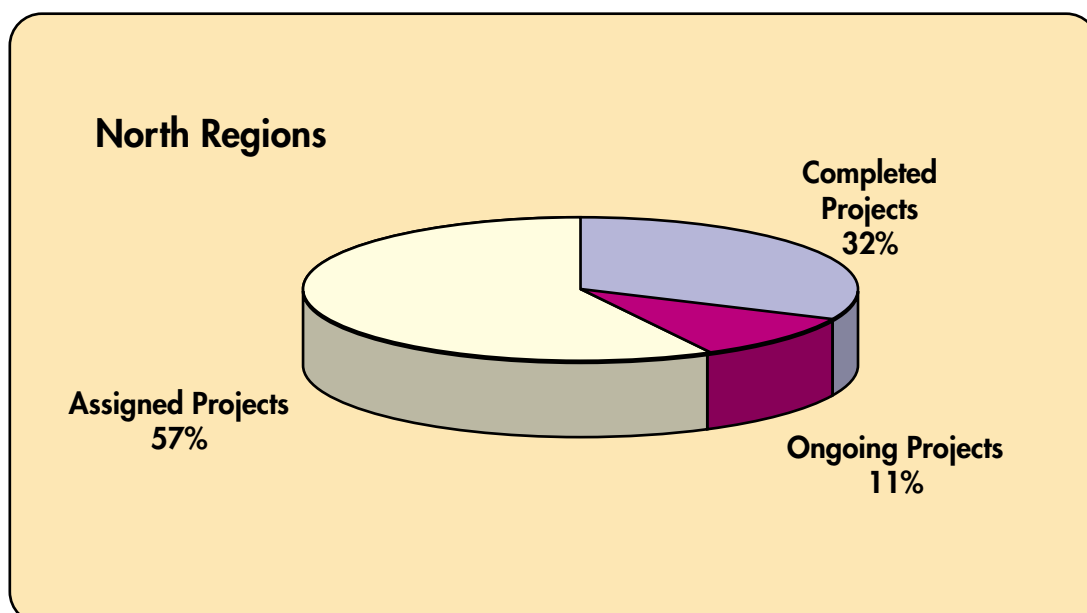


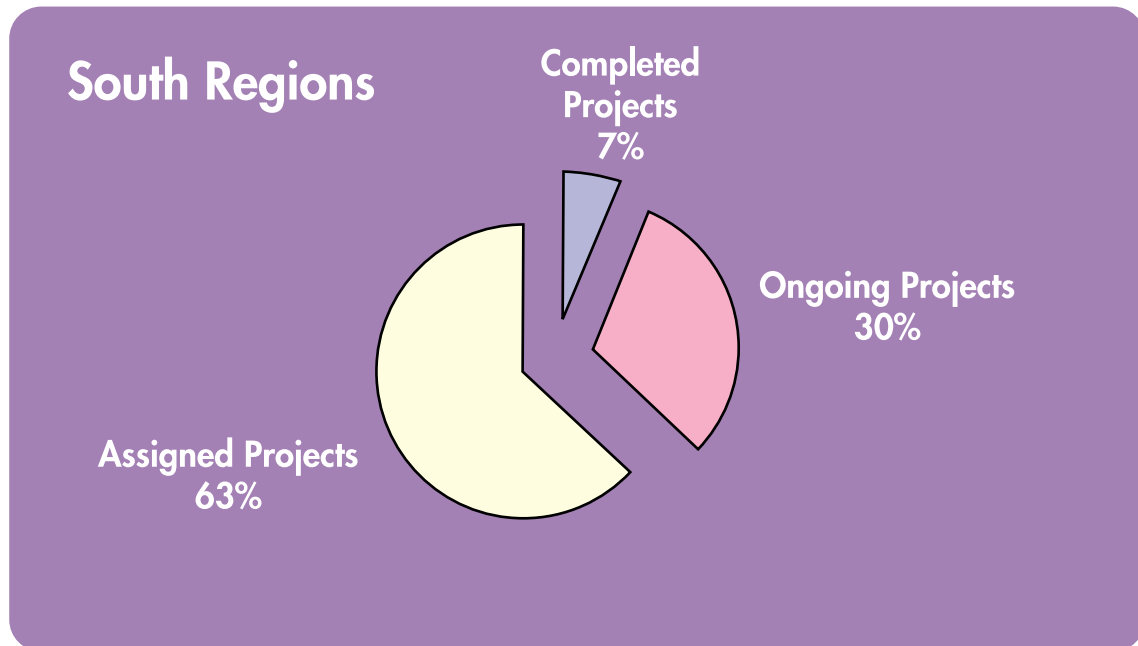
(C) Total maximum and minimum demand load for all the production facilities in Dhofar region for the period 1<sup>st</sup> May 2005 to 31<sup>st</sup> December 2005 was 63.8 MWh, 20.6 Mwh respectively. The highest maximum demand was in May 2005 with 9.2 MWh and decreases on July and August with 7.9 MWh and 7.5 MWh respectively. This decrease may due to climate change in these two months. Again there is an increasing trend after August and this mainly because of the additional air conditioner loads. The graph below shows the total maximum and total minimum loads in Dhofar Region's facilities.



## 8. Projects Profile

There were many executed electrical projects, power generation projects and Consultancy Projects during 2005. The table below and the graph summarize the Assigned, completed and ongoing projects in North Regions and South Regions.





## Health, Safety and Environment

“Safety First” is the motto of RAECO. In RAECO all activities are conducted in a manner that takes foremost account of Health and Safety of its employees and other persons. The safe and healthy working environment for its Staff, Contractors & its other system users, is of paramount importance to the company. RAECO’s employees are required to diligently follow the work procedures at their places of work and ensure no personal injury or financial loss is caused and protection of equipment is assured.

### SAFETY TARGETS

With regard to Rural Areas Electricity Company Health & Safety Regulations and relative Omani Legislation, RAECO is immensely pleased to announce that the Safety targets on its works for last time incident and financial loss is Zero and we shall restore the Environment to its original state, as far as practically possible, after every activity. Awareness of personal safety, mandatory safety training and risk assessment are key elements in achieving zero accidents.

### RESPONSIBILITIES

Although ultimate responsibility for all Health & Safety matters rests with the General Manager, all RAECO employees are responsible for the implementation of our H&S policy in their daily activities.

### REVIEW

The HSE Manual is a live document which may be modified from time to time in accordance with discussions during regular safety meetings. Updates will be issued as per the revision. A primary

concern of Rural Areas Electricity Company is the personal safety and health of its employees. With strong Health & Safety measures in place RAECO believes that all accidents are preventable. Our management is fully committed in achieving its policy objective and shall provide all necessary resources required to ensure adequate safeguards and high H & S measures at workplace.

RAECO complies with the following documents with respect to Health, Safety and Environment aspects:-

1. RAECO's Safety Rules (Electrical and Mechanical)
2. RAECO's Operation and Safety manual
3. The Executive Regulations on Occupational H&S issued by Ministry of Manpower in Feb 2004.
4. RAEC Code (RGC, ROC4, ROC5)

In order to achieve our objective, our Health & Safety program includes, but not limited to the following:

1. The occupational Health and Safety risks
2. An on going initiative to increase Safety awareness.
3. A method for communication, reporting and auditing on Safety records.
4. Monitoring and control through H & S inspections and audit to recognize and eliminate any unsafe work conditions.
5. Providing all required safeguards to the maximum extent possible and practicable.
6. Imparting training to all employees and strictly adhering to the statutory regulations.
7. Reporting of incident / Near misses without affecting reporters' rights.
8. All Contractors working for Rural Areas Electricity Company SAOC must follow this policy.



## Future Outlook of the Company

RAECO endeavors to become one of the best Omani Power Sector Companies, by providing uninterrupted and quality power supply at the least possible cost to the satisfaction of customers and add values for shareholders and stakeholders. Our outlook is to reduce operation & maintenance costs, to raise the company to the modern international levels, by applying modern technology & equipments and also to enable us to meet the increasing power demand in the authorized areas.

Moreover, we want to ensure that generation capacity is available as and when required to supply customers, to ensure that plant operations under the operations and maintenance contracts are in compliance with the RAECO License conditions, to secure the supply of electricity to meet all reasonable demand (consistent with License obligations) to premises within the company's jurisdiction as well as to develop, operate and maintain a safe, secure, efficient and economic generation and distribution system within the company's jurisdiction, to achieve the Government's objectives in respect to the electrification of villages in the Sultanate. Another objective is to ensure that the company meets the financial targets expected by its shareholders and increases shareholder value.

We are quite confident that our Company's inherent strength, wide geographical spread, experience and expertise of employees, regulatory awareness and on-going asset management programs for investing in new infrastructure and sale plan for disposing off uneconomical and unwanted assets has all created an excellent platform for achieving our vision.

We select the best operation and maintenance contractors with technical expertise, review their services and coordinate with them in application of new standards in operation and maintenance, safety, utility management and customer satisfaction. Such stringent measures have to the improvement of the performance of our power generation, distribution and supply and water desalination facilities, reduce fuel costs, enhance and expand our services quantity and quality, increase customer services and customer satisfaction and values of shareholders and all other stakeholders.

## Corporate Governance

Corporate Governance is the system by which companies are directed and controlled. Corporate Governance reporting need to be developed to enable management to demonstrate that key business risks faced by the company are being mitigated by appropriate management controls.

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. Rural Areas Electricity Company SAOC believes that the Code of Corporate Governance is a complete tool to improve operational and financial performance. The Code of Corporate Governance ensures accountability, which leads to transparency and ensures impartial treatment of all investors.

### 1. Board of Directors

The Board is responsible for the governance of the Company. The following table shows the composition of the Board and the attendance at Board meetings during the year:

Name	Category	Board Meetings held	Board Meetings attended	Board Sitting Fees (R.O.)	Bonus (R.O.)
H.E. Dr. Abdul Malik Al-Hinai	Chairman	4	4	1,200	4,000
Mr. Yahya Al-Ghasani	Member	4	4	800	2,600
Mr. Mohd Redha Bin Hassan	Member	3	3	600	2,600
Mr. Humaid Al-Qatabi	Member	4	4	800	2,600
Mr. Mohd Al-Rashdi	Member	4	3	600	2,600
<b>Total (R.O.)</b>				<b>4,000</b>	<b>14,400</b>

**The dates of these meetings were:**

**30/04/2005, 26/07/2005, 29/09/2005 & 23/10/2005**



## 2. Internal Tender Committee (ITC)

This committee was formed for the purposes for assessing, evaluating and recommending all contracts and purchases orders. Table below shows the ITC composition and the attendance at ITC meetings during the year

Name	Category	ITC Meetings held	ITC Meetings attended	ITC Sitting Fees (R.O.)
Mr. Mohd Redha Bin Hassan	Chairman	9	8	1,350
Mr. Yahya Al-Ghasani	Member	4	4	600
Mr. Humaid Al-Qatabi	Member	13	11	1,350
<b>Total (R.O.)</b>				<b>3,300</b>

The dates of these meetings were:

**04/05/2005, 19/06/2005, 27/6/2005, 04/07/2005, 02/08/2005, 09/08/2005, 30/08/2005, 25/09/2005, 01/10/2005, 17/10/2005, 14/11/2005, 05/12/2005, 18/12/2005 & 25/12/2005**

## 3. Internal Audit Committee

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its overall responsibilities by reviewing the internal controls of financial statements, legal compliance and other financial information provided by the company:

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 internal and statutory audits.
- Provide an open avenue of communication among the statutory and internal auditors, financial and senior management and the Board of Directors.

The committee comprises the following members:

<b>Name</b>	<b>Category</b>	<b>IAC Meetings held</b>	<b>IAC Meetings attended</b>	<b>IAC Sitting Fees</b>
Mr. Yahya Al-Ghasani	Chairman	3	3	450 R.O.
Mr. Humaid Al-Qatabi	Member	3	2	300 R.O.
Mr. Mohd Al-Rashdi	Member	3	3	450 R.O.
<b>Total</b>				<b>1,200 R.O.</b>

**The dates of these meetings were:  
17/07/2005, 21/09/2005 & 28/12/2005**

The total remuneration for attending the meetings is 22,900 R.O. (Twenty Two Thousand and nine Hundred Omani Riyals).

## Independent auditor's report to the shareholders of Rural Areas Electricity Company SAOC

We have audited the accompanying balance sheet of **Rural Areas Electricity Company SAOC** as of 31 December 2005 and the related statements of income, changes in equity and cash flows for the period from 1 May 2005 to 31 December 2005 as set out on pages 32 to 48. These financial statements are the responsibility of the Company's management. 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 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As stated in note 2 to the financial statements, the inventories and plant spares may be subject to adjustments based on the ongoing inventory physical count conducted by a team of independent accountants and engineers. The effect of any adjustments arising out of the physical inventory count on these financial statements cannot be quantified at this stage as the results of the physical inventory count are not yet finalised.

As stated in note 2 to the financial statements, certain desalination plants with a net book value of RO 3,571,432 at the balance sheet date are stated based on values estimated by the management. We were unable to satisfy ourselves as to the basis of about the valuation of these assets in the absence of appropriate evidence supporting the valuation.

In our opinion, except for the effects of such adjustments if any, the financial statements present fairly, in all material respects, the financial position of **Rural Areas Electricity Company SAOC** as of 31 December 2005, and the results of its operations and cash flows for the period from 1 May 2005 to 31 December 2005, in accordance with International Financial Reporting Standards.




**Deloitte & Touche (M.E.)**  
Muscat, Sultanate of Oman  
14 September October 2006





## Balance sheet

as at 31 December 2005

	Notes	2005 RO '000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	4	<u>62,612</u>
<b>Current assets</b>		
Inventories	5	7,512
Trade and other receivables	6	6,213
Cash and cash equivalents	7	<u>2,760</u>
<b>Total current assets</b>		<u>16,485</u>
<b>Total assets</b>		<u><u>79,097</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Share capital	8	500
Statutory reserve	9	50
Retained earnings		450
Due to Electricity Holding Company SAOC	2	<u>65,596</u>
<b>TOTAL EQUITY</b>		<u>66,596</u>
<b>Non-current liabilities</b>		
Provision for staff benefits		81
Deferred tax liability	11	397
Deferred revenue	12	<u>69</u>
<b>Total non-current liabilities</b>		<u>547</u>
<b>Current liabilities</b>		
Trade and other payables	13	<u>11,954</u>
<b>Total equity and liabilities</b>		<u>79,097</u>
<b>Net assets per share</b>	14	RO <u><u>133</u></u>
 Chairman	 Director	 Chief Executive Officer Electricity Holding Co. SAOC

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



## Income statement

for the period ended 31 December 2005

	Notes	Period from 1 May 2005 to 31 December 2005 RO'000
Revenue	15	17,830
Operating costs	16	<u>(14,983)</u>
<b>Gross profit</b>		<b>2,847</b>
General and administrative expenses	17	<u>(2,095)</u>
<b>Profit from operations</b>		<b>752</b>
Finance charges		<u>(88)</u>
Other income		<u>233</u>
<b>Profit before tax</b>		<b>897</b>
Income tax charge	18	<u>(397)</u>
<b>Profit after tax</b>		<u><u>500</u></u>
<b>Basic earnings per share</b>	19	RO <u><u>1</u></u>

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



## Statement of changes in equity

for the period ended 31 December 2005

	Share capital RO '000	Statutory reserve RO '000	Retained earnings RO '000	Due to EHC SAOC RO '000	Total RO '000
Balances taken over from MHEW (note 2)	-	-	-	65,596	65,596
Share capital issued	500	-	-	-	500
Profit for the period	-	-	500	-	500
Transfer to Statutory reserve	-	50	(50)	-	-
<b>31 December 2005</b>	<b><u>500</u></b>	<b><u>50</u></b>	<b><u>450</u></b>	<b><u>65,596</u></b>	<b><u>66,596</u></b>

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



## Statement of cash flows

for the period ended 31 December 2005

Period from  
1 May 2005 to  
31 December  
2005  
RO '000

<b>Operating activities</b>	
Profit before tax	897
Adjustments for:	
Depreciation of property, plant and equipment	2,331
Net transfer to provision for end of service benefits	81
Provision for inventory obsolescence	279
Interest received	(87)
Finance charges	88
Deferred revenue	11
Pre-incorporation expense	43
	<hr/>
<b>Operating cash flows before movement in working capital</b>	<b>3,643</b>
Changes in working capital:	
Inventories	144
Trade and other receivables	(4,168)
Trade and other payables	7,954
	<hr/>
<b>Cash generated from operations</b>	<b>7,573</b>
Finance charges paid	(88)
	<hr/>
<b>Net cash from operating activities</b>	<b>7,485</b>
	<hr/>
<b>Investing activities</b>	
Purchase of property, plant and equipment (net)	(5,315)
Interest received	87
	<hr/>
<b>Net cash used in investing activities</b>	<b>(5,228)</b>
	<hr/>
<b>Financing activities</b>	
Share capital issued	500
	<hr/>
<b>Net change in cash and cash equivalents</b>	<b>2,757</b>
Cash and cash equivalents taken over from MHEW (Note 2)	3
	<hr/>
<b>Cash and cash equivalents at the end of the period</b>	<b>2,760</b>
	<hr/> <hr/>

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



# Notes to the financial statements

for the period ended 31 December 2005

## 1 Legal status and principal activities

Rural Areas Electricity Company SAOC (the "Company") is a closed Omani joint stock Company registered under the Commercial Companies Law of Sultanate of Oman. The Company is primarily undertaking electricity generation, water desalination and distribution activities under a license issued by Authority for Electricity Regulation, Oman.

The Company commenced its operations on 1 May 2005 following the implementation of a decision of the Ministry of National Economy (the "Transfer Scheme") issued pursuant to Royal Decree 78/2004 (the "Sector Law").

The registered address of the Company is P O Box: 1166, PC 133, Al-Khuwair, Sultanate of Oman.

## 2 Transfer scheme and the Sector Law

The establishment and operations of the Company is governed by the provisions of the Law for the Regulation and Privatisation of the Electricity and Related Water Sector (the Sector Law) promulgated by Royal Decree 78/2004.

The Sector Law requires that the assets and liabilities of Ministry of Housing, Electricity and Water (MHEW) that relate to the functions and duties of the Company be transferred to it by a Transfer Scheme and that the operations of the Company be regulated by authorisation from Authority for Electricity Regulation, Oman.

The assets and liabilities of the Company were duly transferred in accordance with the Sector Law on 1 May 2005 (the Transfer Date) pursuant to Ministry of National Economy (MNE) decision 44/2005.

The Company is wholly owned by Government of the Sultanate of Oman (Government) and is a subsidiary of the Electricity Holding Company SAOC (EHC).

In accordance with transfer scheme, the Company received the following assets and liabilities from the MHEW on the transfer date:

	<b>RO '000</b>
Property, plant and equipment	<b>58,084</b>
Plant spares	<b>1,545</b>
Trade and other receivables	<b>2,045</b>
Inventories	<b>7,935</b>
Bank balances and cash	<b>3</b>
	<hr/>
<b>Total assets</b>	<b>69,611</b>
Trade and other payables	<b>(3,957)</b>
Deferred revenue	<b>(58)</b>
	<hr/>
<b>Due to Electricity Holding Company SAOC</b>	<b><u>65,596</u></b>



# Notes to the financial statements

for the period ended 31 December 2005

## 2 Transfer scheme and the Sector Law (continued)

The inventories and plant spares values are based on the values stated by the MHEW at the Transfer Date and carried forward for transactions during the period, in accordance with the accounting policies and procedures of the Company. Inventory values and plant spares may be subject to adjustment based on ongoing physical stock counts conducted by independent accountants and engineers.

Included in property, plant and equipment are certain desalination plants with a net book value of RO 3,698,701 and 3,571,432 at 1 May 2005 and 31 December 2005 respectively. In the absence of appropriate documentary evidence supporting the acquisition cost to MHEW, these assets are stated at values estimated by the management and they are in the process of obtaining necessary evidence to support the valuation of these assets.

## 3. Summary of significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board.

### Basis of accounting

These financial statements are presented in Omani Rials ("RO") which is the currency in which the majority of transactions are denominated and are rounded off to the nearest thousand. These financial statements are prepared on historical cost basis as modified by measurement of certain financial instruments at fair value.

### Adoption of new and revised international financial reporting standards

The Company has adopted all of the new and revised standards and interpretations effective for periods beginning on 1 January 2005 issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations.

In the opinion of the management, the adoption of Standards and Interpretations not yet effective will not have any material impact on the financial statements of the Company for periods beginning after 1 January 2006.

### Property plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss. Borrowing costs, net of interest income, which are directly attributable to acquisition of items of property, plant and equipment, are capitalised as the cost of property, plant and equipment.

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

Depreciation is charged so as to write off the cost less residual value of property, plant and equipment (other than capital work in progress) on a straight line basis over the expected remaining useful economic life of the asset concerned.



# Notes to the financial statements

for the period ended 31 December 2005

## 3. Summary of significant accounting policies (continued)

The principal depreciation periods used for this purpose are:

Buildings	30 Years
Gas Turbines	25 Years
Steam Turbines	30 Years
Other plant & machinery	25- 40 Years
Furniture, fixtures & vehicles	5 - 7 Years
Plant spares	20 Years

Property, plant and equipment include plant spares, which are depreciated over their estimated economic useful life. Inventory spares with a unit cost of RO 5,000 or greater are recorded as plant spares and included in property, plant and equipment at the time of their purchase and are transferred to the appropriate asset category upon issue.

### Impairment

At the balance sheet date, the Company reviews the carrying amounts of its assets (or cash-generating units) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any).

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and the carrying amount of the asset and is recognized immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount and the increase is recognized as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized earlier.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise purchase cost and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated principally using the weighted average method. Provision is made for slow moving and obsolete inventory items on criteria determined by the Company.

### Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

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

The principal financial liabilities are trade and other payables. Trade and other payables are stated at their nominal values.



# Notes to the financial statements

for the period ended 31 December 2005

## 3. Summary of significant accounting policies (continued)

The Company uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are dealt with in the income statement.

Share capital is stated at the net proceeds received.

### **Provision for staff end of service benefits**

Provision for end of service benefits for non-Omani employees is made in accordance with the Oman Labour Law and is based on current remuneration and cumulative years of service at the balance sheet date.

End of service benefits for Omani employees are contributed in accordance with the terms of the Social Securities Law 1991 and Civil Service Employees Pension Fund Law for direct hires by the Company and employees transferred from MHEW respectively.

### **Deferred revenue**

Deferred revenue shown under non-current liabilities represents network connection charges collected from the customers. These charges are deferred over the life of the cable lines.

### **Provisions**

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

### **Taxation**

Income tax is calculated as per the fiscal regulations of the Sultanate of Oman.

Current tax is the expected tax payable on the taxable income for the period, using the tax rates ruling at the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The tax effects on the temporary differences are disclosed under non-current liabilities as deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.



# Notes to the financial statements

for the period ended 31 December 2005

## 3. Summary of significant accounting policies (continued)

However for the purposes of deferred tax, it is assumed that carrying amount of assets and liabilities is equal to the carrying amounts used for income tax purposes on the transfer date.

### Revenue

Revenue represents the sale of electricity to the Government, commercial and residential customers within the Company's distribution network and includes an estimate of the sales value of electricity supplied to customers between the date of their last meter reading and the period end date. Revenue also comprises tariffs for capacity & energy charges calculated in accordance with the agreement with Oman Power and Water Procurement Company SAOC, a related Company for sale of generated electricity and MHEW in respect of desalinated water. in respect of plants in the Sharqiyah region.

Total revenue in excess of the maximum allowed by the regulatory formula in accordance with the licensing requirements, if any is deferred to future year and is shown as a current liability.

Other operating income includes meter connection fees, tender fees, bank interest, fines and network connection charges are accounted on cash basis.

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

### Foreign currency

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. Gains and losses arising from foreign currency transactions are dealt with in the income statement.

### Cash and cash equivalents

For the purposes of the statement of cash flows, the Company considers all bank and cash balances with an original maturity of less than three months from the date of placement to be cash and cash equivalents.

### Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value for the period. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated assets and liabilities.

## Notes to the financial statements

for the period ended 31 December 2005

### 4. Property, plant and equipment

	Capital work-in- progress RO '000	Buildings RO '000	Electricity distribution works RO '000	Electrical lines and cables RO '000	Diesel generators RO '000	Gas turbine RO '000	Other plant and machinery RO '000	Furniture, fixtures and vehicles RO '000	Plant spares RO '000	Total RO '000
<b>Cost</b>										
Acquired from MHEW (note 2)	72	3,327	6,013	8,921	25,258	7,426	6,866	200	1,545	59,628
Additions	1,047	987	266	943	194	-	1,650	164	64	5,315
Transfers	-	-	-	-	-	-	203	-	(203)	-
<b>31 December 2005</b>	<b>1,119</b>	<b>4,314</b>	<b>6,279</b>	<b>9,864</b>	<b>25,452</b>	<b>7,426</b>	<b>8,719</b>	<b>364</b>	<b>1,406</b>	<b>64,943</b>
<b>Depreciation</b>										
Charge for the period	-	204	225	238	1,012	277	285	49	41	2,331
<b>31 December 2005</b>	<b>-</b>	<b>204</b>	<b>225</b>	<b>238</b>	<b>1,012</b>	<b>277</b>	<b>285</b>	<b>49</b>	<b>41</b>	<b>2,331</b>
<b>Carrying amount</b>										
<b>31 December 2005</b>	<b>1,119</b>	<b>4,110</b>	<b>6,054</b>	<b>9,626</b>	<b>24,440</b>	<b>7,149</b>	<b>8,434</b>	<b>315</b>	<b>1,365</b>	<b>62,612</b>

Rights to the land on which the power plant, substation and buildings are constructed were transferred from MHEW as part of the transfer scheme and will be subject to a usufruct agreement.





## Notes to the financial statements

for the period ended 31 December 2005

### 5. Inventories

	2005 RO '000
Fuel	563
Chemicals	16
Spares and consumables	16,565
Provision for inventory obsolescence	(10,049)
Goods in transit	417

7,512

### 6. Trade and other receivables

Amounts due from Oman National Electric Company SAOG (ONEC)	524
Amounts due from Government debtors	1,148
Provision for impaired debts	(900)

Net trade receivables	772
Due from related parties (Note 1820)	1,409
Prepayments	82
Advances	190
Other receivables	3,760

6,213

The Company has an agreement with ONEC whereby the monthly customer billing function for private and government customers have been outsourced to ONEC. The Company has also assigned all amounts due from private customers to ONEC. The Company pays commission under the above agreements based on the customer category and the amounts assigned.

The provision for doubtful debts substantially relates to government debts yet to be received, taken over from MHEW as part of the transfer scheme. There is no movement in the provision for impaired debts during the period.

### 7. Cash and cash equivalents

	2005 RO '000
Cash on hand	3
Bank current accounts	2,757

2,760

### 8. Share capital

The Company's authorized, issued and paid-up capital consists of 500,000 shares of RO 1 each. The details of the shareholders are as follows:

	Percentage of Shareholding	Number of Shares	2005 RO
Electricity Holding Co SAOC	99.99%	499,950	499,950
Ministry of Finance	0.01%	50	50
	<u>100%</u>	<u>500,000</u>	<u>500,000</u>



## Notes to the financial statements

for the period ended 31 December 2005

### 9. Statutory reserve

In accordance with the Commercial Companies Law of 1974 (as amended), 10% of the Company's net profits after the deduction of taxes will be transferred to a non-distributable statutory reserve each year until the amount of such statutory reserve becomes equal to one-third of the Company's share capital. This reserve is not available for distribution to shareholders as dividends.

### 10. Proposed dividend

In the Board of Directors' meeting held on 14 October 2006, the Board of Directors has proposed a final cash dividend in the amount of RO 0.9000.666 per share aggregating RO 333 450 thousand on the Company's existing share capital. This dividend is subject to the approval of the shareholders in the Annual General Meeting.

### 11. Deferred tax liability

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

	Charge for the period RO '000	Balance at 31 December 2005 RO '000
<b>Asset</b>		
Provisions	33	33
<b>Liability</b>		
Accelerated tax depreciation	<u>(430)</u>	<u>(430)</u>
	<u>(397)</u>	<u>(397)</u>

### 12. Deferred revenue

Deferred revenue represents network connection charges collected from the customers, which are deferred over the life of the cable lines.

### 13. Trade and other payables

	2005 RO '000
Trade payables	4,445
Due to related parties (note 1820)	2,607
Accrued expenses	4,888
Other payables	14
	<u>11,954</u>

Due to related parties included an amount of RO 2,127 K representing payments made against obligations of the Company relating to the period prior to 1 May 2005. This amount has been funded by the Government through EHC.



## Notes to the financial statements

for the period ended 31 December 2005

### 14. Net assets per share

	2005
Net assets (RO '000)	<u>66,596</u>
Number of shares at period end ('000s)	<u>500</u>
Net assets per share (RO)	<u>133</u>

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

### 15. Revenue

	Period from 1 May 2005 to 31 December 2005 RO '000
Electricity sales to Government	1,054
Electricity sales to Oman Power and Water Procurement Company SAOC (OPWP) [note 2018]	1,407
Electricity sales to other customers	1,397
Water sales to Water Department	1,949
Government subsidy	12,000
Other operating income	<u>23</u>
	<u>17,830</u>

### 16. Operating costs

	Period from 1 May 2005 to 31 December 2005 RO '000
Fuel consumption	9,066
Depreciation	2,227
Contract fee for plant operations	1,662
Spares and consumable expenses	1,230
Power purchases	186
Maintenance and repairs expenses	562
Other direct costs	<u>50</u>
	<u>14,983</u>



## Notes to the financial statements

for the period ended 31 December 2005

### 17. General and administrative expenses

Staff costs	1,097
Insurance expenses	38
Service expenses	422
Depreciation	104
Inventory obsolescence charge	279
Pre-incorporation expense	43
Other expenses	89
Directors' remuneration and sitting fees	23
	<u>2,095</u>

### 18. Income tax charge

Income tax is provided as per the provisions of the law of income tax on companies in Sultanate of Oman as adjusted for items that are either disallowed or non-available. The tax charge applicable to the Company is 12%. As the Company has a tax loss for the period, no provision for current tax has been made. The deferred tax on all temporary differences have been calculated and dealt with in the income statement (Note 9119).

### 19. Basic earnings per share

	Period from 1 May 2005 to 31 December 2005
Profit for the period (RO '000)	<u>500</u>
Number of shares at period end ('000s)	<u>500</u>
Basic earnings per share (RO)	<u>1</u>

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

### 20. Related parties

Related parties comprise the shareholders, directors, key management personnel and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions. For the purpose of IAS 24, the Government of the Sultanate of Oman is not considered as a related party.

The Company maintains balances with these related parties which arise in the normal course of business from the commercial transactions and are entered into at terms and conditions which the directors consider to be comparable with those adopted for arms length transactions with third parties. Outstanding balances at period end are unsecured and settlement occurs in cash.



## Notes to the financial statements

for the period ended 31 December 2005

### 20. Related parties (continued)

No expenses have been recognized in the period for bad or doubtful debts in respect of amounts owed by related parties. Following is the summary of significant transactions with related parties during the period.

	Period from 1 May 2005 to 31 December 2005 Revenue RO '000
Sale of power to OPWP	<u>1,407</u>
Sale of scrap	<u>146</u>
<b>Expenses</b>	
Accounting service charges to EHC	<u>154</u>
	Period from 1 May 2005 to 31 December 2005
Power purchased from Mazoon Electricity Company SAOC	80
Cost sharing agreement with Al Ghubra Power and Desalination company SAOC	32
Cost sharing agreement with Al Rusail Power Company SAOC	18
Cost sharing agreement with Wadi Al Jizi Power Company SAOC	12

The amounts due from / to related parties have been disclosed in note 2, 6 and 11 in these financial statements.

### Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise).

	Period from 1 May 2005 to 31 December 2005 RO '000
Short term benefits	60
Post employment benefits	5
Directors' remuneration and sitting fees	<u>23</u>
	<u>88</u>



# Notes to the financial statements

for the period ended 31 December 2005

## 21. Commitments

2005  
RO '000

Capital commitments

2,203

## 22. Financial instruments

Trade and other receivables comprise amounts due from related parties. The normal credit period granted is 60 days.

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The normal credit period availed is 30 days.

### Credit risk

The credit risk of the Company is primarily attributable to bank balances and trade and other receivables.

The Company's bank accounts are placed with reputed financial institutions.

A significant portion of trade receivables is due from one national company who is subcontracted to provide customer meter reading, billing and collection services. Management do not consider that there is any significant exposure from this concentration of credit risk

### Currency risk

The Company uses forward contracts to hedge its exposure to foreign currency risk. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks.

### Interest rate risk

The Company has no significant interest rate risk.

### Fair value of financial assets and liabilities

The carrying value of the financial assets and liabilities as recorded in the balance sheet approximates to their fair value.



# Notes to the financial statements

for the period ended 31 December 2005

## 23. Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue in their meeting held on 14 October 2006.

## 24. Comparative figures

These financial statements represent the financial position, results of operations and changes in cash flow since commencement of operations from 1 May 2005 to 31 December 2005. As this is the first period of operations of the Company, no comparative figures have been provided.