His Majesty Sultan Qaboos Bin Said

BRINGING TOGETHER
PEOPLE, POWER & PROGRESS

Corporate Vision & Mission

Vision

The vision of the company is to provide a safe operating and working environment through to asset retirement.

Mission

The mission of the company is to demonstrate the ability to perform as a 'prudent and competent licensed operator' in a regulated industry, and in a safe and professional manner.

Plant Key Performance Indicators

KPI Metric	Target	Exceeding Target	Actual	Weightage	Qualified
LTA	Not more than 2	Zero Injuries	1	20%	Yes
EBIT (RO)	RO 5.6m	RO 6.16m	6.16m	20%	Yes
Availability **(Power)**	77.69%	83.30%	80%	10%	Yes
Availability **(Water)**	83.0%	84.70%	85.05	10%	Yes
Compliance Article 116 notice	No Non-Compliance notice	-	0	10%	Yes
Submission of regulatory requirements to AER	Within due date	-	0	10%	Yes
Percentage of projects on schedule	80%	90%	82%	20%	Yes

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Board of Directors

Chairman of the Board: **Mr. Omar Khalfan Al Wahaibi** (second from right)

Mr. Wahaibi has held this position since 2005, he also holds other senior positions in the country, he is currently the Chief Executive Officer of Haya Wastewater Company as well as a Member of Power Electricity.

Vice Chairman of the Board: **Mr. Saed Mohammed Al Nabhani** (left)

Mr. Nabhani has been in this position since 2008. He is also the General Director for Customer Affairs in the Public Authority for Electricity and Water.

Member of the Board: **Mr. Hassan Mohammed Abdawani** (centre)

Mr. Abdawani has held this post since 2008. He is also the Deputy Chief Executive Officer of the Electricity Holding Company, and the Chairman of the Internal Tender Committee**.**

Member of the Board: **Mr. Hamed Jaber Al Mahrooqi** (right)

Mr. Mahrooqi has been in this position since 2005. He is also the General Manager of the Ministry of National Economy, and Chairman of the Internal Audit Committee.

Member of the Board: **Mr. Abdulaziz Mohammed Al Kharousi** (second from left)

Mr. Kharousi has been in this position since 2005. He is also the Director of the Budget Services Sector in the Ministry of Finance.

Management Team

Eng. Allen Conroy	*General Manager*
Eng. Ali Mohammed Al Balushi	*Plant Manager*
Eng. Ali Saleh Al Jaafari	*Maintenance Manager*
Eng. Saif Farooq Al Mawali	*Planning Manager*
Eng. Said Saud Al Kindi	*Project Manager*
Dawood Al Bahri	*Operations Manager*
Eng. Ismail Khamis Al Harrasi	*Human Resources Manager*
Eng. Amit Bose	*Commercial Manager*
Vipul Kotecha	*Finance Manager*
Ahmed Al Hinai	*Head of IT*
Amer Mohammed Al Mahrooqi	*Head of Stores*

Chairman's Report

Dear Shareholders,

On behalf of the Board of Directors I have pleasure in presenting the annual report for the year ended 31 December 2010, together with the audited financial statement of accounts for Al Ghubrah Power and Desalination Company SAOC (GPDCo).

This year has again been an interesting and challenging one for the company, as we have continued to follow the vision and mission corporate objectives, which are: to provide a safe operating and working environment through to asset retirement, and to continue to perform as a 'prudent and competent licensed operator' within the regulated industry, in a safe and professional manner.

In this regard, it is especially reassuring for me as the Chairman, to observe that the company again operated the assets competently in a safe and reliable manner, and in doing so achieved 1 million man hours without a lost time accident.

I am also pleased to report that during 2010 the company managed the assets and liabilities, in accordance with the principles defined in the Sector Law, and in line with the regulatory requirements, license obligations and the Grid Codes, and achieved the expectations of the shareholders in terms of the predetermined performance indicators.

With respect to the financial presentations it is perhaps worth noting that under International Accounting Standard 17, the company again ran the business on a 'finance lease' model, and we have prepared the financial statements on this basis for the year 2010 accordingly.

It is also worth mentioning that as the company's older plant (i.e. phase 1 assets) are now at the end of their operating life, and in the process of being 'phased out' then there will be significant changes to the future income potential of the business, particularly after next year, and this is reflected in the 5 year business plan 2011 - 2015.

In following the 5 year business plan the company is obligated by the shareholders to ensure the assets, and associated inventory, are wholly depreciated, coincident with the termination of the income generating potential of these assets (i.e. at the end of the power water purchase agreements).

Therefore, as we start the new year, notwithstanding our above mentioned contracted capacity obligations with OPWP, we do so with a more pragmatic and judicial management approach towards O&M and major capital expenditure, as well as with an objective review of the net present value of the assets and liabilities as they reach the end of their economic life, in order to determine the necessary provisions to be made available in the company's reserves for subsequent retirement, closure, settlements and disposal, with a neutral impact to the shareholders.

Financial Position

Under the terms and conditions of the financial service level agreement as entered into with the parent company EHC, GPDCo have followed the Auditors recommendations regarding the International Accounting Standards and International Financial Reporting Interpretations Committee (IFRIC) for the year ended 2010.

The net book value of the company assets as at end of the year 2010 is RO 14.6 million, as per the accounting policy, the gross profit was RO 7.4 million and net profit after tax was RO 6.1 million, giving a return of RO 12.308 per Share.

Plant Performance

During the year 2010 the highest system 'peak' power demand on the grid was 3626 MW which occurred on 1st June 2010.

The maximum system water demand was 176766 M^3 which occurred on 6th May 2010.

The maximum power generation achieved by the company was 507 MWh on 18th May 2010 and the minimum was 116 MWh on 9th February 2010.

The maximum water production achieved by the company was 4678328 M^3 in May 2010 and the minimum was 3299364 M^3 on November 2010.

The average annual availability for the power units was 80% and for the desalination units was 85.05%.

Company Establishment/Governance

During the year, the company continued to operate in accordance with the conditions of commercial registration, as well as the company's Memorandum & Articles of Association, and as per the required Corporate Banking and Financial Arrangements.

Thanks and Appreciation

On behalf of the company, I would like to take this opportunity to thank the Chairman of the Board of Directors of the Electricity Holding Company for his support and guidance during this year of operation.

The Board also appreciates the support provided by the shareholders and the continued hard work and dedication of the management and employees of the company.

Finally, and in conclusion, I would like to convey our extreme thanks and appreciation to His Majesty Sultan Qaboos Bin Said and his Government, for their continued support for the improvement and development of the electricity and water sector in Oman.

Omar Bin Khalfan Al Wahaibi

Chairman of the Board of Directors

Corporate Governance & Compliance

The role duties and obligations of the Board of Directors is defined by the codes of corporate governance and compliance. The following statement has therefore been adopted as the Policy of GPDC in respect of Compliance:

"From 2011, the Board and Management declare that the Company shall adopt in letter and spirit, 'Total Compliance' with the laws and regulations applicable to the Company in the Sultanate of Oman as a Corporate Policy. In so doing, earnings or profit or any other motive shall not take precedence over Compliance as a policy of the Company."

The following principles which support the development and implementation of corporate Compliance arrangements across the company have been adopted as follows:

Integrity:

The company will be honest and straightforward in all business dealings.

Business Imperative:

The company will view Compliance as an imperative for the business and central to the decision-making process.

Best Practice:

The company will develop Compliance procedures on a 'Best Practice' basis and not only to meet minimum legal and regulatory requirements.

Market Conduct:

The company will ensure that all business dealings are conducted in accordance with the highest standards of market conduct.

Management & Control:

The company will ensure that appropriate procedures are put in place to manage and control the business effectively and to meet regulatory requirements.

Relations with Regulatory Authorities:

The company will manage affairs with regulatory authorities in an open and co-operative way.

Data Protection & Confidential Information:

The company will respect the confidentiality of our data, as well as others, and information at all times, and will protect data and information received in accordance with the law and in accordance with its terms of use.

Environment, Health & Safety:

The company will act in a responsible manner in all the issues of the environment, health and safety for our employees, as well as customers and the community.

Board of Directors:

The Board comprises five non executive members appointed by the Council of Ministers.

The Board held six (6) Board meetings in 2010.

The dates of the Board meetings were:

17 February 2010, 9 March 2010, 24 April 2010, 25 August 2010, 21 September 2010 and 20 October 2010.

Member Name	Designation
Eng. Omar Al Wahaibi	Chairman
Mr. Saed Mohammed Al Nabhani	Vice Chairman
Mr. Hassan Mohammed Abdawani	Member
Mr. Hamed Jaber Al Mahrooqi	Member
Mr. Abdulaziz Al Kharousi	Member

Committees of the Board of Directors:

The Board members sit on

- The Board of Directors Meeting
- The Internal Audit Committee (IAC)
- The Internal Tender Committee (ITC)

Board Meetings:

The Board's responsibilities are defined in the rules of corporate governance, and include reviewing and updating strategic plans for the company, as well as ensuring the effectiveness of the internal controls. The Board are also required to approve the company's 5 year business plans and annual budgets, in addition to which the Board are required to receive and comment on the interim and annual financial statements, as well as approve the company organization, policies and procedures.

Internal Audit Committee:

The Internal Audit Committee (IAC) comprises a Chairman and two other members, and the IAC duties are again defined in the rules of corporate governance, as aligned to the requirements of the parent company. The IAC undertakes a quarterly review of the business and receives the Auditors findings which are then discussed with management. The IAC are required to evaluate and approve external Auditor and internal Auditor's fees and terms of engagement. The IAC oversees all Audit activities and internal controls and conducts any special investigations, and reports accordingly to the Board of Directors.

Internal Tender Committee:

The Internal Tender Committee (ITC) comprises a Chairman and one other member, both of whom are members of the GPDCo Board of Directors. The ITC responsibility is to oversee the procurement and contracting requirements of the company on values between RO 50,000/- to RO 250,000/- and to ensure that the correct tendering and bidding procedures are being followed.

The Management Report

Eng. Allen Conroy

General Manager

The twelve month period ending 31 December 2010 reviewed in this report was one of consolidation, and responding to the many challenges of operating as a licensed power and water producer in the electricity sector.

The priority has again been one of maintaining a high standard of safety throughout the organisation, and in so doing the company has surpassed the 1 Mn MHWLTA, and are now targeting to achieve 2 Mn MHWLTA in 2011.

Essentially the objectives throughout the year have focused on meeting the national power and water demand, whilst simultaneously satisfying the commercial, regulatory, and compliance requirements of the business, and in this respect we are in the process of producing standard procedures for corporate governance.

The performance of the company throughout the year 2010 is now reflected in the key business performance indicators (page 5) as set by the Shareholders. By achieving these objectives the company's commitments to the shareholders, and the off taker, have been more than adequately demonstrated, and it should be remembered that these were achieved whilst simultaneously seeking to optimize profits through better management of the O&M activities and in particular ensuring availability of aging plant with improved fuel losses.

The year 2010 ended without any lost time accidents, which is also quite an achievement considering that there were 10 major projects carried out at site during 2010 and also the company employed over 300 full time staff.

The PWPAs are the only source of revenue for the company, and, based on the schedule of contracted capacity agreements, they will no longer be required after the end of the periods as shown below.

GPDCo Guaranteed Capacity Chart 2011			
PHASE	Power (MW)	Water CuM/hr	Contracted up to
Phase-1 (a)	242.5	1886	Sep-12
Phase-1 (b)	94	1136	Sep-13
Phase-2	-	2272	Sep-17
Phase-3	32.4	1136	Sep-17
Phase-4	190	-	Sep-17
Phase-5	32.4	1136	Sep-17
Phase-6	-	1326	Sep-17

It is clear from the above then that the company will have to 'adapt' to these PWPA closures as and when they occur, and this will necessitate 'changes' to the business, which will need to be responded to and carefully 'managed' and this now forms a significant part of the 2011 - 2015 business plan.

In responding to these changes the management have adopted a 'judicial approach' to the way the business will be 'operated' prior to, during, and after these changes, and this will be the modus operandi up to business closure.

2010 Performance Highlights

Progress through Safety

One Million Man Hour WLTH

Successfully completed 1 Million Man Hour without any accidents.

Improving the safety culture at GPDCo, and the subsidiaries as a whole has become one of the prime objective for the group. For this reason, the company continues to train and develop employees to IOSH & NEBOSH standards with a full time safety staff being dedicated to this task.

The main concern of the Executives and the Management in 2011 will be the continuation of adherence to the group HSE framework, and in particular, compliance with the GPDCo site safety procedures.

These procedures are based on 'best practices' and developed specifically for the company.

In keeping with the above initiative and in order to conduct the business safely, the company has issued appropriate HSE related policies, principles and procedures, aimed at ensuring individual safety of employees at all times.

HSE activities are given top priority to improve the safety awareness among employees, in order to maintain safe working conditions. HSE-related training especially during any emergencies is in progress. In order to ensure enhanced reliability of fire fighting systems, routine checks are carried out as per schedule.

Human Resources

Training & Development

The company considers training and development as one of the key factors of its business. Despite the fact that the company is phasing out, training has continued in order to improve staff competencies and provide all staff with the required skills for their future.

During the year the company conducted several technical in-house courses and sent some of the staff for overseas courses. The company sponsored two of its key managers to study at a leadership program that was developed by the IMD, a Swiss business school. In addition, the company is funding part-time engineering degree programs for some staff in order to help them acquire accredited degrees in Engineering.

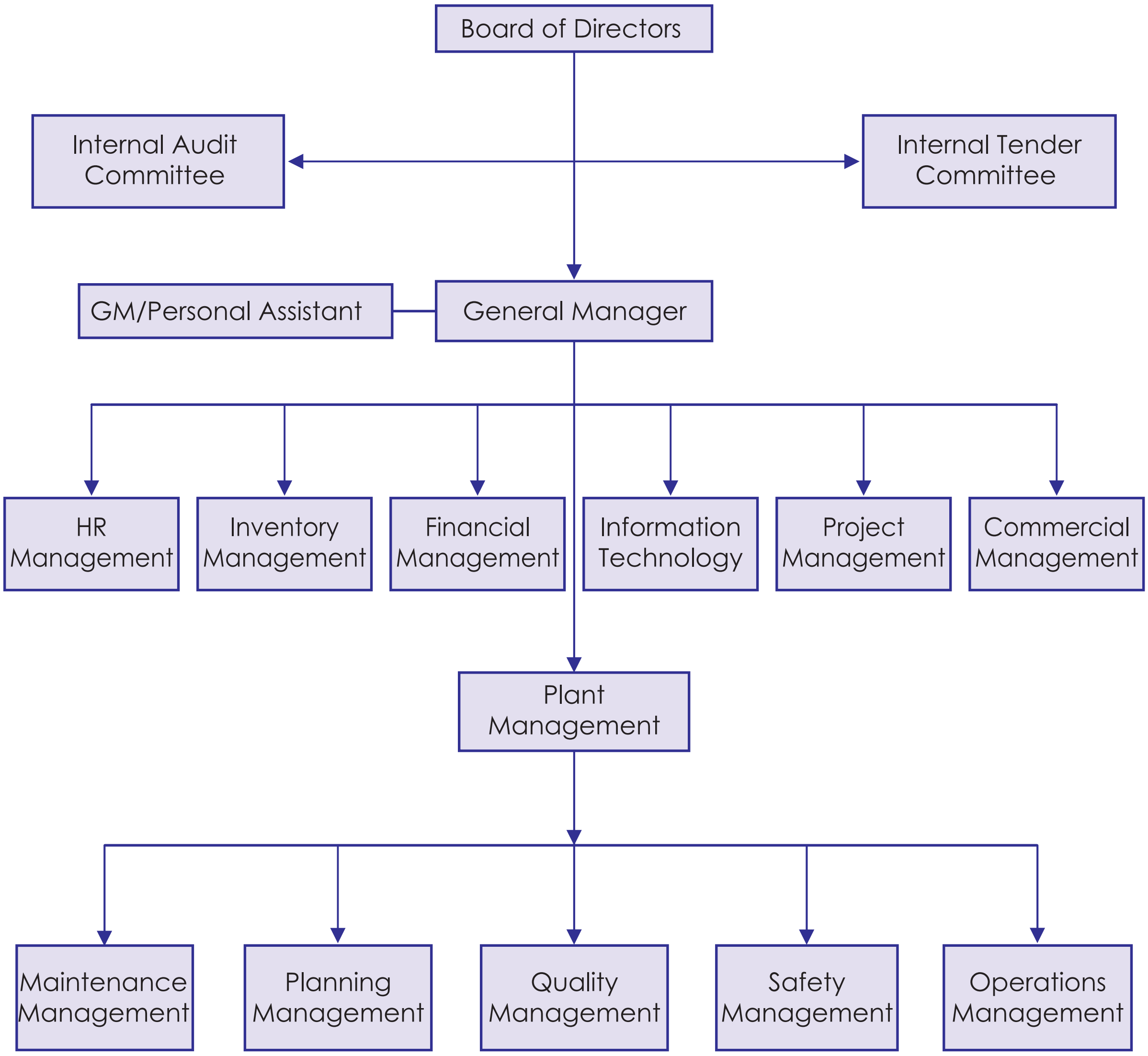
Summary Training Data	31 December 2010
Total no. of courses	24
No. of days	164
Total no. of training hours	3,824
No. of hours per attendee	24.76

2010 Performance Highlights

Organisation Structure & Human Resources

The company's organization was established along the line of an IPWP. This was done in order to align the business with the market competition and to utilize the existing manpower resources in an optimal and efficient manner. The basic organization has remained largely unchanged during the year 2010.

Figure-1: Organization Structure



During 2010, the average number of employees was 300, of which 194 were nationals.

The percentage of Omanization achieved during the year was 64%.

2010 Performance Highlights

Finance

Key Financial Ratios

In the year 2010 GPDCO in consultation with its Holding Company and Auditor concluded that the guidance given under IAS 17 would result in the Power and Water Procurement Agreement (PWPA) being classified as a finance lease as against the previous classification of non-lease item. The company has applied this revision in the accounting policy retrospectively with effect from year 2005 and accordingly prepared the financial statements for the year 2010. As part of the financial reporting for the Year 2010, GPDCo have included a 'year to year' comparison of financial key performance indicators with restated financial statement from the year 2006 to demonstrate the way the company has performed since year 2006.

Description	Financial KPIs – RO 000s				
	2010	2009	2008	2007	2006
Revenue	42,050	43,192	44,726	44,095	42,613
Gross Profit	7,356	7,470	7,484	9,651	8,345
Profit before Interest & Tax	6,062	7,279	7,194	8,008	8,141
Profit before Tax	5,971	7,127	7,053	7,873	8,011
Gross Margin (%)	17.49	17.29	16.73	21.89	19.58
Net Margin(%)	14.3	15.7	15.4	17.5	18.1
ROCE (%)	3.95	4.44	4.59	5.11	5.41

Table-1: Key performance ratios for year 2006 to year 2010.

Revenue

During the period from 1 January 2010 to 31 December 2010, all the invoices for power and water were submitted to the off taker in accordance with the PWPA, and after negotiations between the two parties, all monies due to the company were recovered via the PWPA.

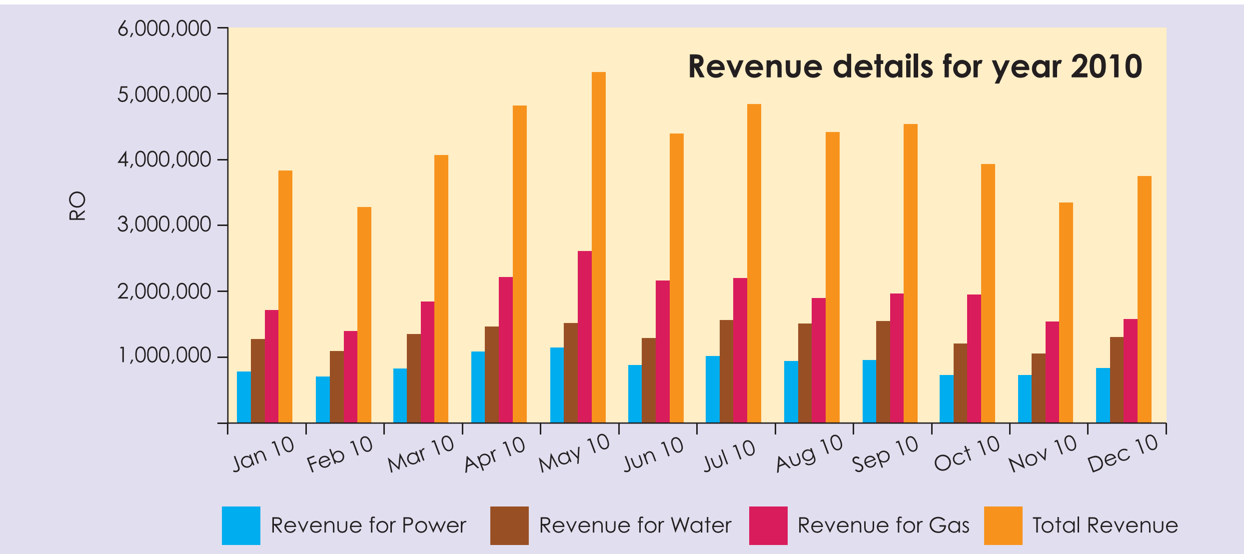


Figure- 2: Revenue distribution between power, water & fuel

2010 Performance Highlights

Cost Details

The illustration below shows the apportionment of the major cost elements for the business during the year 2010, the most significant cost being the fuel, which represents 68% of the total costs of the year during 2010.

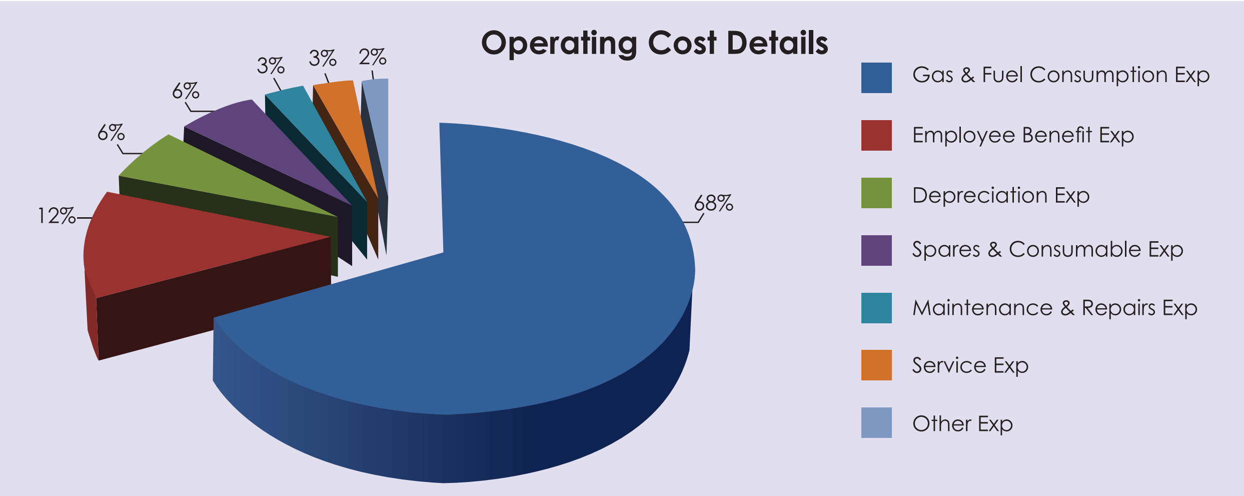


Figure-3: Operating Cost break-ups of Year 2010

Gas Cost v/s Recovery

Gas cost recovery is determined as a pass-through charge to the company. However, due to inefficiencies of the older assets together with the discrepancies in the fuel recovery model coupled with invoicing practice of MOG, the company could not recover all the fuel cost from OPWP.

In the year 2009 the company negotiated the terms and conditions in the agreement with MOG. The methodology was changed from volumetric basis to calorific basis. This invoicing process continued through 2010 resulted in saving of RO 1.02 million.

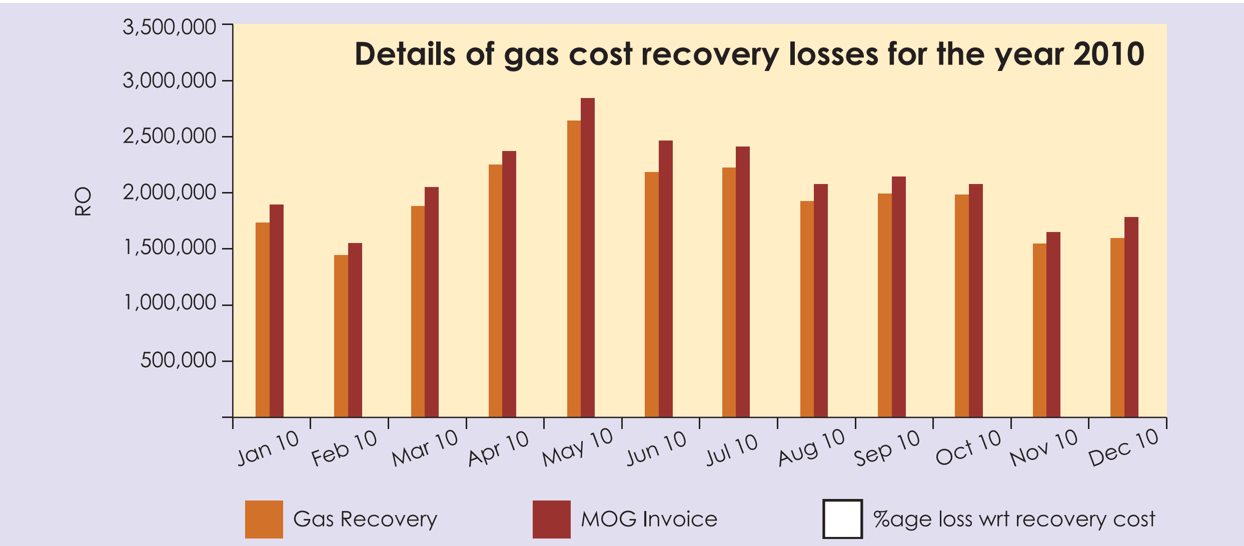


Figure-4: Details of Gas Recovery for the Year 2010

2010 Performance Highlights

Power & Water delivery details to OPWP

Due to efficient plant management & reduction in forced outages, the company was able to meet the country's growing demand for power. There has been a considerable increase in power delivered to the grid from Year-05 to Year-10. This is reflected in the graphs below:-

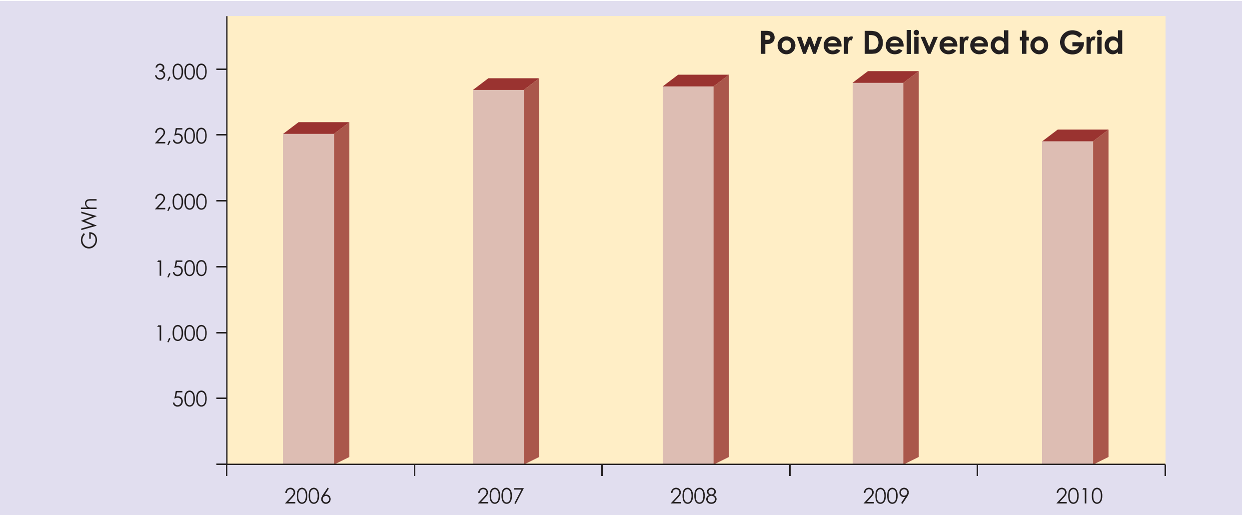


Figure-5: Year-wise power (GWh) delivered to Grid

Water delivered to Network from the station has experienced a significant drop after commissioning of new water line between Muscat and Sohar since April-2009. This is reflected in the graphs below:-

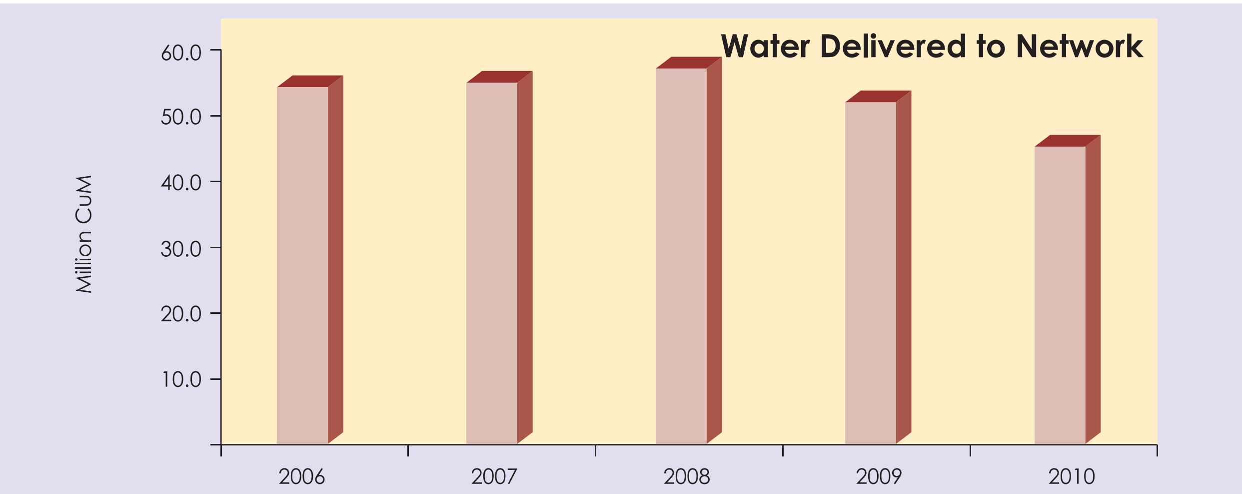


Figure- 6: Year-wise water delivered (million CuM) to Network

2010 Performance Highlights

Operations

The Operations Department performed extremely well during 2010 and they consistently met the committed levels of production with an acceptable degree of reliability and availability.

Power Generation for the Year 2010 & 2009

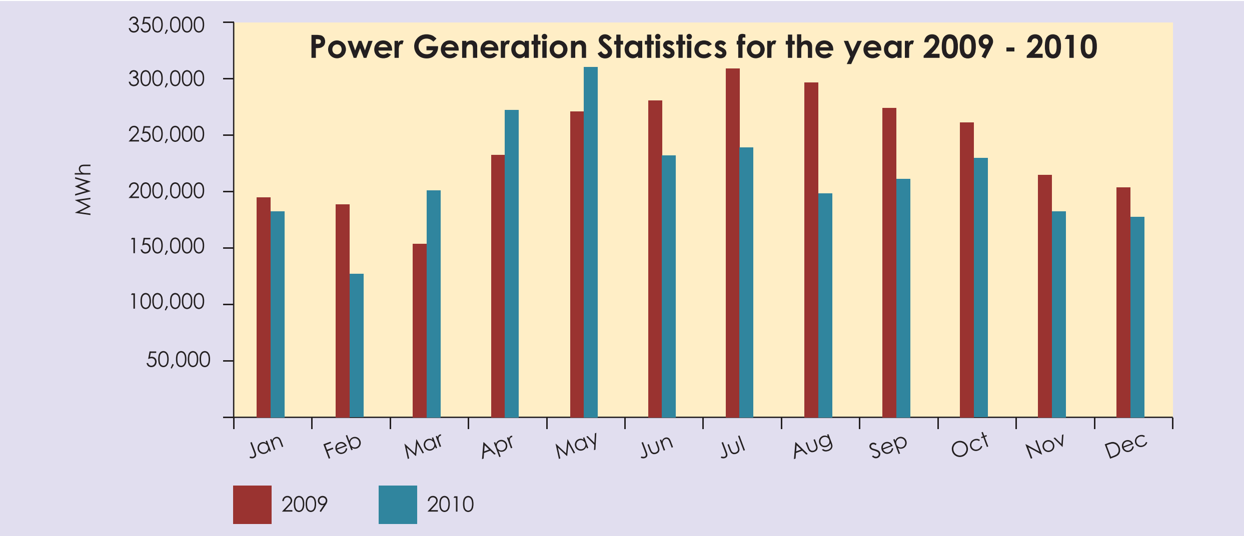


Figure- 7: Power Generation Statistics for year 2010 & 2009

Water Production for the Year 2010 & 2009:

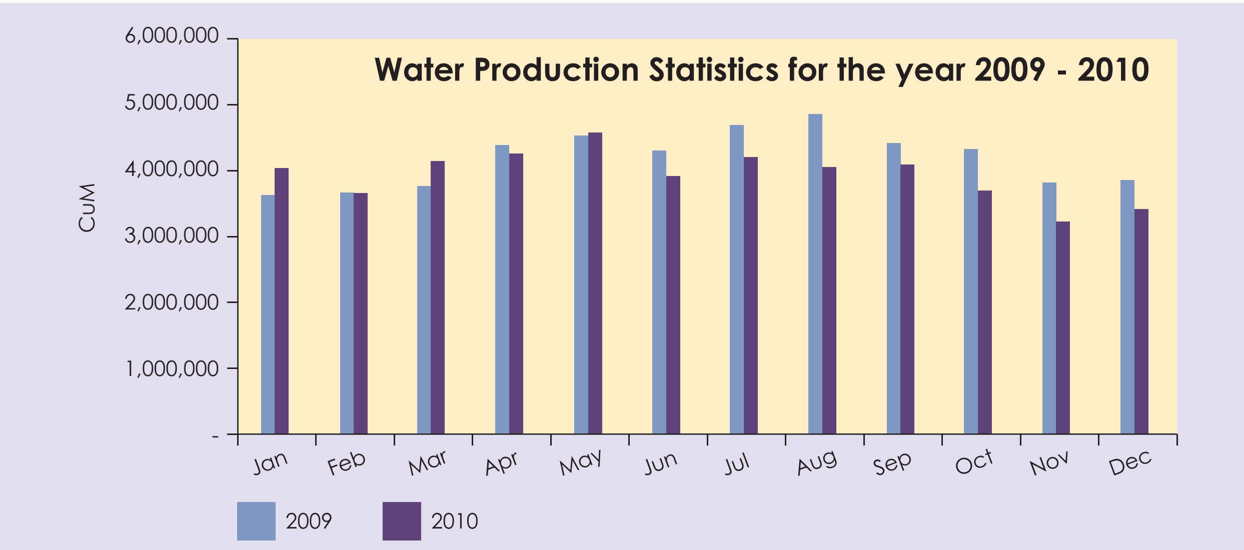


Figure-8: Production Statistics of Water for year 2010 & 2009

2010 Performance Highlights

Fun Day

GPDCO's staff celebrated the Fun Day in February 2010. The event was held at the company's recreation facilities, along with the family and friends of all staff of GPDCO. The event was a huge success and was enjoyed by colleagues and friends alike.

2010 Performance Highlights

Sports Events

During 2010 GPDCo again sponsored and supported other important sporting events which took place at the GPDCO sports facilities during 2010 including:-

- The GPDCo sponsored Ramadan soccer league
- The EHC Sector soccer league knock out
- The GPDCo Sport Challenge

The Ramadan Soccer League
Hyer, The winning team

The GPDCo Sports Challenge
Operation v Maintenance

GPDCo Sports Challenge Winners

EHC Soccer Tournament Knockout

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Independent auditor's report to the shareholders of Al Ghubrah Power & Desalination Company SAOC

We have audited the accompanying financial statements of **Al Ghubrah Power & Desalination Company SAOC** (the company) which comprise the statement of financial position as at 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Commercial Companies Law of 1974, as amended and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Commercial Companies Law of 1974, as amended.

PricewaterhouseCoopers LLP

2 March 2011
Muscat, Sultanate of Oman

Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	**2010 RO'000**	2009 RO'000
Revenue	5	**42,050**	43,192
Operating costs	6	**(34,694)**	(35,722)
Gross profit		**7,356**	7,470
General and administrative expenses	7	**(2,366)**	(1,179)
Other income	9	**308**	144
Operating profit		**5,298**	6,435
Finance income	10	**764**	844
Finance costs	10	**(91)**	(152)
Finance income - net	10	**673**	692
Profit before tax		**5,971**	7,127
Taxation	11	**183**	(178)
Profit and comprehensive income for the year		**6,154**	6,949

The notes on pages 28 to 48 form an integral part of these financial statements.

Report of the Auditors - page 23.

Statement of Financial Position

As at 31 December 2010

	Note	2010 RO'000	2009 RO'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**14,638**	15,372
Amount due from Holding Company	25	**32,235**	23,235
Finance lease receivable	13	**75,519**	83,361
Total non-current assets		**122,392**	121,968
Current assets			
Inventories	14	**8,577**	7,419
Trade and other receivables	15	**5,244**	8,934
Finance lease receivable	13	**7,842**	8,716
Bank deposits	16	**10,565**	9,924
Cash and cash equivalents	17	**7,850**	5,988
		40,078	40,981
Total assets		**162,470**	162,949
EQUITY			
Share capital	18	**500**	500
Legal reserve	19	**167**	167
General reserve	20	**250**	250
Retained earnings		**14,015**	14,812
Shareholders' funds	21	**140,778**	140,778
Total equity		**155,710**	156,507
LIABILITIES			
Non-current liabilities			
Provisions	22	**3,167**	3,068
Deferred tax liability	23	**101**	284
Total non-current liabilities		**3,268**	3,352
Current liabilities			
Trade and other payables	24	**3,282**	2,906
Provisions	22	**210**	184
Total current liabilities		**3,492**	3,090
Total liabilities		**6,760**	6,442
Total equity and liabilities		**162,470**	162,949

The financial statements on pages 24 to 48 were approved by the Board of Directors on 20 February 2011 and were signed on their behalf by:

Omar Khalfan Al Wahaibi	**Hamed Jaber Al Mahrooqi**	**Allen Conroy**
Chairman	Director	General Manager

Report of the Auditors - page 23.

Statement of Changes in Equity

For the year ended 31 December 2010

	Note	Share capital RO '000	Legal reserve RO '000	General reserve RO '000	Retained earnings RO '000	Share-holders' Funds RO '000	Total Equity RO '000
At 1 January 2009		500	167	250	13,187	138,864	152,968
Comprehensive income:							
Profit for the year		-	-	-	6,949	-	6,949
Transaction with owners:							
Adjustment	21	-	-	-	-	1,914	1,914
Dividends paid	26	-	-	-	(5,324)	-	(5,324)
At 31 December 2009		500	167	250	14,812	140,778	156,507
At 1 January 2010		**500**	**167**	**250**	**14,812**	**140,778**	**156,507**
Comprehensive income:							
Profit for the year		**-**	**-**	**-**	**6,154**	**-**	**6,154**
Transaction with the owners:							
Dividends paid	26	**-**	**-**	**-**	**(6,951)**	**-**	**(6,951)**
At 31 December 2010		**500**	**167**	**250**	**14,015**	**140,778**	**155,710**

The notes on pages 28 to 48 form an integral part of these financial statements.

Report of the Auditors - page 23.

Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 RO '000	2009 RO '000
Operating activities			
Profit before tax		**5,971**	7,127
Adjustments for:			
Depreciation		**2,393**	1,741
Loss on sale/write off of property, plant and equipment		**2**	88
Loss on sale of general spares		**500**	-
Sale of scrap and inventory		**(64)**	(144)
Write back and write offs of inventory obsolescence provision		**(84)**	(1,166)
End of service benefits expense		**313**	110
Finance charges on decommissioning liability		**87**	147
Operating cash flows before payment of end of service benefits and working capital changes		**9,118**	7,903
Payment of end of service benefits		**(5)**	(33)
Working capital changes:			
Inventories		**(98)**	587
Trade and other receivables		**3,690**	(325)
Finance lease receivable		**8,716**	11,103
Trade and other payables		**376**	(1,808)
Net cash generated from operating activities		**21,797**	17,427
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,410)**	(3,525)
Proceeds on sale of scrap and inventory		**64**	144
Proceeds on disposal of property, plant and equipment		**3**	-
Net investment/(encashment) of bank deposits with a maturity of greater than three months		**(641)**	3,946
Net cash generated (used in)/generated from investing activities		**(3,984)**	565
Cash flows from financing activities			
Dividends paid		**(6,951)**	(5,324)
Amounts advanced to Parent company		**(9,000)**	(9,000)
Net cash used in financing activities		**(15,951)**	(14,324)
Net change in cash and cash equivalents		**1,862**	3,668
Cash and cash equivalents at the beginning of the year		**5,988**	2,320
Cash and cash equivalents at the end of the year	17	**7,850**	5,988

The notes on pages 28 to 48 form an integral part of these financial statements.

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Notes to the Financial Statements

For the year ended 31 December 2010

1 Legal status and principal activities

Al Ghubrah Power & Desalination Company SAOC (the company) is a closed Omani joint stock company registered under the Commercial Companies Law of Oman on 2 February 2003.

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

The principal activities of the company are electricity generation and water desalination under a license issued by the Authority for Electricity Regulation, Oman (AER).

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

Al Ghubrah Power & Desalination Company SAOC is a 99.99% subsidiary of Electricity Holding Company SAOC (the parent company), a company registered in the Sultanate of Oman and 0.01% is held by the Ministry of Finance, of the Government of Sultanate of Oman.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) The financial statements are prepared on the historical cost basis and in accordance with International Financial Reporting Standards (IFRS).

(b) The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(c) Standards and amendments effective in 2010 and relevant for the company's operations:

For the period ended 31 December 2010, the company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2010.

The adoption of these standards and interpretations has not resulted in changes to the company's accounting policies and has not affected the amounts reported for the current period.

Notes to the Financial Statements

For the year ended 31 December 2010 continued

2 Summary of significant accounting policies (continued)

2.2 Revenue

Revenue comprises tariffs for capacity and energy charges calculated in accordance with the agreement with Oman Power and Water Procurement Company SAOC, a related party, for sale of generated electricity and desalinated water. Revenue also includes finance lease interest income.

2.3 Foreign currency translation

Items included in the company's financial statements are measured using Rial Omani which is the currency of the Sultanate of Oman, being the economic environment in which the company operates (the functional currency). The financial statements are prepared in Rial Omani, rounded to the nearest thousand.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.4 Finance costs and income

Finance income comprises interest received or receivable on funds invested. Interest income is recognised in the statement of comprehensive income as it accrues taking into account the effective yield on the asset. Interest expense is recognised in the statement of comprehensive income as it accrues using the effective interest rate method.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of property, plant and equipment is their purchase price together with any incidental expenses necessary to bring the assets to its usable condition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the year in which they are incurred.

The cost of property, plant and equipment is written down to residual value in equal instalments over the estimated useful lives of the assets. The estimated useful lives are:

Assets	Years
Buildings	30
Other plant and machinery	12 - 40
Furniture, vehicles and equipment	5 - 7
Plant spares	20
Decommissioning assets	9 - 13

2 Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

Capital work-in-progress is not depreciated until the asset is put to use.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount it is written down immediately to its recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profits.

2.6 Financial assets

The company classifies its financial assets into loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

2.7 Impairment

Financial assets

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

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the counterparty or;
- default or delinquency in payments and ;
- it becoming probable that the borrower or customer will enter bankruptcy or financial reorganisation.

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

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

Notes to the Financial Statements

For the year ended 31 December 2010 continued

2 Summary of significant accounting policies (continued)

2.7 Impairment (continued)

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

When a trade receivable is considered uncollectible, it is directly written off as bad. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

Non-financial assets

The carrying amounts of the company's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprises 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 where necessary, based on management's assessment.

2.9 Trade receivables

Trade and other receivables are stated at their fair value. Trade debtors are initially recognised at fair value and subsequently are stated at amortised cost using the effective interest rate method less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

2.10 Cash and cash equivalents

Cash and cash equivalents comprises cash and bank balances, including short-term deposits with a maturity of three months or less from the date of placement.

2.11 Trade and other payables

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the company.

2.12 Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the year when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date. 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. The carrying amount of deferred tax assets is reviewed at reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset as there is a legally enforceable right to offset these in Oman.

Current and deferred tax is recognised as an expense or benefit in the statement of comprehensive income except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

2.13 Employee benefits

End of service benefits are accrued in accordance with the terms of employment of the company's employees at the statement of financial position date, having regard to the requirements of the Oman Labour Law 2003 as amended. Employee entitlements to annual leave and leave encashments are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the statement of financial position date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Law 1991, are recognised as an expense in the statement of comprehensive income as incurred.

Notes to the Financial Statements

For the year ended 31 December 2010 continued

2 Summary of significant accounting policies (continued)

2.14 Provisions

Provisions are recognised in the statement of financial position 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 reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Where some or all of the economic benefits required to settle a provision are expected to be recovered from third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.15 Provision for decommissioning

A provision for decommissioning is recognised when there is a present obligation as a result of activities undertaken pursuant to the usufruct agreements, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of provision can be measured reliably. The estimated future obligations include the costs of removing the facilities and restoring the affected areas.

The provision for future decommissioning cost is a best estimate of the present value of the expenditure required to settle the decommissioning obligation at the reporting date based on the current requirements as per the usufruct agreement. Future decommissioning cost is reviewed annually and any changes in the estimate are reflected in the present value of the decommissioning provision at each reporting date. Changes in the estimate of the provision for decommissioning is treated in the same manner, except that the unwinding of the effect of the provision is recognised as a finance cost in the statement of comprehensive income rather than being capitalised into the cost of the related asset.

2.16 Dividends

Dividends are recognised as a liability in the period in which they are approved by the company's shareholders.

Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the balance sheet date.

2.17 Leases

The company leases certain property, plant and equipment. The present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

2 Summary of significant accounting policies (continued)

2.17 Leases (continued)

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. Each lease payment is allocated between the lease receivable and finance income so as to achieve a constant rate on the finance lease receivable balance outstanding. The interest element of the finance lease is recognised in the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the finance lease receivable for each period.

3 Financial risk management

The company's activities expose it to a variety of financial risks including the effects of changes in market risk (including price risk, interest rate risk and foreign currency risk), liquidity and credit risk. However, the company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Credit risk management is carried out by the company and liquidity and market risk by the holding company's treasury department under policies approved by the Board of Directors of the company. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and investment of excess liquidity.

3.1 Financial risk factors

(a) Market risk

(i) Price risk

The permitted tariff (prices) for generation of electricity and water is determined by long term power purchase agreements (PPA) with Oman Power and Water Procurement Company SAOC (OPWP), a related party. Hence, the company is not subject to significant price risk.

(ii) Interest rate risk

The company has deposits which are interest bearing and are exposed to changes in market interest rates. The company carries out periodic analysis and monitors the market interest rate fluctuations taking into consideration the company's needs.

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

	2010	2009
	RO '000	RO '000
Bank deposits with a maturity of greater than three months from the date of the deposit	**10,565**	9,924

Notes to the Financial Statements

For the year ended 31 December 2010 continued

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

Interest rates on the company's deposits are fixed and subject to change as and when renewed.

A 1% increase or decrease in interest rates at the reporting date would have an impact on interest income by RO 105,000 (2009 - RO 99,000) on annual basis.

(iii) Foreign currency risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollar. Rial Omani is pegged to US Dollar. Since most of the foreign currency transactions are in US Dollar or other currencies linked to the US Dollar, management believes that the exchange rate fluctuations would have an insignificant impact on the pre-tax profit.

(b) Liquidity risk

Liquidity risk is limited as its liabilities are short term and the management aims to maintain sufficient cash for operation purposes. Trade and other payables are normally settled within thirty days of the date of purchase.

The table below summarises the company's financial liabilities into relevant maturity grouping based on the remaining period at the statement of financial position date to the contractual maturities date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying values, as the impact of discounting is not significant.

The following are the contractual undiscounted cash flows associated with financial liabilities:

31 December 2010	**Carrying amount RO '000**	**Less than 1 month RO '000**	**1 month to 3 months RO '000**	**3 months to 1 year RO '000**
Non-interest bearing Trade and other payables	**3,282**	**2470**	**811**	**1**

31 December 2009	Carrying amount RO '000	Less than 1 month RO '000	1 month to 3 months RO '000	3 months to 1 year RO '000
Non-interest bearing Trade and other payables	2,906	2,543	230	133

(c) Credit risk

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

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Credit risk (continued)

Trade and other receivables

The company's exposure to credit risk on trade and other receivables is influenced mainly by the individual characteristics of each customer. The company has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables.

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

	2010	2009
	RO '000	RO '000
Amount due from Holding Company	**32,235**	23,235
Trade receivables	**3,779**	7,633
Other receivables	**1,353**	1,099
	37,367	31,967

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

	2010	2009
	RO '000	RO '000
Oman Power & Water Procurement Company SAOC	**3,779**	7,633

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

	31 December 2010		31 December 2009	
	Gross	**Impairment**	Gross	Impairment
	RO '000	**RO '000**	RO '000	RO '000
Not past due	**3,779**	**-**	7,633	-

There is no impairment assessed for trade and other receivables as these are considered fully recoverable.

Investment in bank deposits and bank balances

The company's bank deposits are placed with financial institutions with a credit rating of at least BAA.

Notes to the Financial Statements

For the year ended 31 December 2010 continued

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Credit risk (continued)

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

	2010	2009
	RO '000	RO '000
Bank deposit with a maturity of greater than three months from the date of the deposit	10,565	9,924
Cash and cash equivalents	7,847	5,985
	18,412	15,909

	2010	2009
Rating of the Bank	RO '000	RO '000
P1 - Bank Muscat SAOG	7,847	5,985
P2 - National Bank of Oman SAOG	7,833	7,192
P2 - Bank Dhofar SAOG	2,732	2,732
	18,412	15,909

The rest of the statement of financial position item, 'cash and cash equivalent' is cash on hand.

3.2 Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern and to provide an adequate return to shareholders.

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The capital structure of the company's comprises share capital, reserves, retained earnings and shareholders' funds. The company is not subject to externally imposed capital restrictions.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

3.3 Fair value estimation

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

4 Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are set out below:

Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

Provision for inventory obsolescence

Provision for inventory obsolescence is based on management's assessment of various factors such as usability, the maintenance programmes, and normal wear and tear using best available estimates.

Provision for decommissioning cost

Upon expiry of their respective usufruct agreement, the company will have a legal obligation to remove the facilities and restore the affected area. The estimated costs, discount rate and risk rate used in the calculation are management's best estimates.

Deferred taxation

The company makes provision for deferred tax liability during the term of the power purchase agreement, arising primarily from accelerated tax depreciation.

The official executive regulation for the treatment of finance leases is yet to be announced by the Oman taxation authorities. Pending such decision, the management is still continuing the tax treatment previously used for the property, plant and equipment after the adoption of IFRIC 4 and IAS 17. The outcome of the final regulation could have a significant financial impact on the current and deferred tax liability carried out in the books and consequently on the profit for the year in which such decision is made.

5 Revenue

	2010	2009
	RO '000	RO '000
Additional electricity and water capacity and operations and maintenance charges	**7,993**	6,137
Electricity and water fuel charges	**23,427**	25,133
Finance lease interest income	**10,630**	11,922
	42,050	43,192

Notes to the Financial Statements

For the year ended 31 December 2010 continued

5 Revenue (continued)

Additional electricity and water capacity and operations and maintenance charges are the amounts received by the company in excess of the finance lease principal and interest payments.

	2010 RO '000	2009 RO '000
Electricity and water capacity charges billed	**27,339**	29,162
Less: finance lease principal payment	**(8,716)**	(11,103)
Less: finance lease interest income	**(10,630)**	(11,922)
	7,993	6,137

6 Operating costs

	2010 RO '000	2009 RO '000
Gas and fuel consumption	**25,329**	27,201
Employee benefit expenses	**3,664**	3,081
Depreciation	**2,147**	1,593
Spares and consumable expenses	**1,709**	1,875
Maintenance and repairs expenses	**1,179**	1,277
Chemicals consumption	**512**	466
Transmission connection charges	**54**	34
Other direct costs	**100**	195
	34,694	35,722

7 General and administrative expenses

	2010 RO '000	2009 RO '000
Employee benefit expenses	**538**	770
Inventory write offs	**355**	224
Insurance expenses	**323**	366
Legal and consultancy expenses	**281**	187
Accounting services charges to holding company	**250**	344
Depreciation	**246**	148
Other services expenses	**123**	101
Training expenses	**101**	111
Directors' remuneration and sitting fees	**45**	58
Staff welfare expenses	**42**	46
License fee	**31**	55
Telephone and internet expenses	**26**	28
Audit fees	**16**	24
Immigration and labour expenses	**4**	32
Write back of inventory provisions	**(84)**	(900)
Write back of accruals and provisions	**-**	(501)
Other miscellaneous expenses	**69**	86
	2,366	1,179

8 Staff costs

	2010 RO '000	2009 RO '000
Wages and salaries	**2,912**	2,780
End of service benefits	**84**	110
Other benefits	**1,206**	961
	4,202	3,851
Allocated to:		
Operating cost	**3,664**	3,081
General and administrative expenses	**538**	770
	4,202	3,851

9 Other income

	2010 RO '000	2009 RO '000
Operation and maintenance charges from PAEW	**267**	-
Sale of scrap	**33**	144
Miscellaneous income	**8**	-
	308	144

10 Finance income/costs

	2010 RO '000	2009 RO '000
Interest income	**684**	787
Exchange gain	**80**	57
	764	844
Bank charges	**(4)**	(5)
Unwinding of discount on decommissioning cost provision	**(87)**	(147)
	(91)	(152)
Finance income – net	**673**	692

11 Taxation

(a) The taxation charge for the year is as follows:

	2010 RO '000	2009 RO '000
Deferred tax (credit)/charge in respect of current year	**(183)**	178

(b) The reconciliation of the accounting profit at the applicable rate of 12% (2009 - 12%) after the basic exemption of RO 30,000 with the taxation charge in the financial statements is as follows:

	2010 RO '000	2009 RO '000
Accounting profit before tax	**5,971**	7,127
Tax on accounting profit before tax at 12%	**713**	852
Less tax effect of:		
Deferred tax asset on tax losses not recognised	**(896)**	(674)
Tax charge as per statement of comprehensive income	**(183)**	178

Notes to the Financial Statements

For the year ended 31 December 2010 continued

11 Taxation (continued

(c) Tax assessments for the years 2005 to 2010 are pending assessment by Oman taxation authorities.

(d) The company has carried forward tax losses of RO 7.655 million as at 31 December 2010 (2009 - RO 16.816 million).

(e) The company has not created a deferred tax asset on the carry forward tax losses as the Oman Taxation authorities is yet to release the executive regulation which will confirm the accounting treatment of finance leases for tax purposes.

12 Property, plant and equipment

(a) Details of movement in property, plant and equipment is set out on pages 23 and 24.

(b) The company's property, plant and equipment are constructed on land leased from Ministry of Housing, Government of Sultanate of Oman.

13 Finance lease receivables

	2010 RO '000	2009 RO '000
Current	**7,842**	8,716
Non-current	**75,519**	83,361
	83,361	92,077
Represented by: Gross finance lease receivables	**125,742**	145,088
Less: unearned finance lease interest	**(42,381)**	(53,011)
	83,361	92,077

The following table shows the maturity analysis of finance lease receivables:

At 31 December 2010	**Less than 1 year RO'00**	**Between 1 and 2 years RO'000**	**Between 2 and 5 years RO'000**	**More than 5 years RO'000**	**Total RO'000**
Gross finance lease receivable	**17,536**	**17,521**	**51,412**	**39,273**	**125,742**
Less: unearned finance lease interest	**(9,694)**	**(8,687)**	**(18,780)**	**(5,220)**	**(42,381)**
	7,842	**8,834**	**32,632**	**34,053**	**83,361**

At 31 December 2009	Less than 1 year RO'000	Between 1 and 2 years RO'000	Between 2 and 5 years RO'000	More than 5 years RO'000	Total RO'000
Gross finance lease receivable	19,346	17,536	52,080	56,126	145,088
Less: unearned finance lease interest	(10,630)	(9,694)	(22,534)	(10,153)	(53,011)
	8,716	7,842	29,546	45,973	92,077

14 Inventories

	2010 RO '000	2009 RO '000
Fuel	661	724
Spares, chemicals and consumables	19,662	16,439
	20,323	17,163
Provision for inventory obsolescence	(11,746)	(9,744)
	8,577	7,419

Movement in provision for inventory obsolescence

	2010 RO '000	2009 RO '000
At beginning of the year	9,744	10,910
Amounts transferred/written-off during the year	2,086	(266)
Write back of provision	(84)	(900)
At end of the year	11,746	9,744

15 Trade and other receivables

	2010 RO '000	2009 RO '000
Trade receivables from related party	3,779	7,633
Other receivables	1,346	1,073
Prepayments	112	202
Amount due from related parties	7	26
	5,244	8,934

(a) All trade receivables are due within thirty days at the statement of financial position date and are fully performing.

(b) None of the trade and other receivable balances were impaired at 31 December 2010.

(c) At the year end 100% (2009 - 100%) of trade receivables were due from Oman Power and Water Procurement Company SAOC (OPWP), a fellow subsidiary company registered in the Sultanate of Oman.

16 Bank deposits

Bank deposits have a maturity of greater than three months from date of placement at interest rates ranging from 5.25% to 6.6% (2009 - 5.25% to 6.6%) per annum.

17 Cash and cash equivalents

	2010 RO '000	2009 RO '000
Cash at bank	7,847	5,985
Cash on hand	3	3
	7,850	5,988

Notes to the Financial Statements

For the year ended 31 December 2010 continued

18 Share capital

The company's authorised, 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 issued	2010 RO	2009 RO
Electricity Holding Company SAOC	99.99%	499,950	499,950	499,950
Ministry of Finance	0.01%	50	50	50
		500,000	500,000	500,000

19 Legal reserve

In accordance with the Commercial Companies Law of 1974 (as amended), the reserve is equal to one-third of the company's issued share capital and is not available for distribution to shareholders.

20 General reserve

In accordance with the company's policy, an amount not exceeding 20% of the profit after transfer to legal reserve should be transferred to a general reserve until the balance of the general reserve reaches one half of the share capital, which has been achieved. This reserve is available for distribution to shareholders.

21 Shareholders' funds

Following the implementation of a decision of the Sector Law and in accordance with the transfer scheme, the Parent company received certain assets and liabilities from the Ministry of Housing, Electricity and Water (MHEW) on 1 May 2005, the transfer date.

Subsequently, part of the assets and liabilities were transferred to the company. The value of the net assets transferred is represented in the books as shareholders' funds under equity as there is no contractual obligation to repay this amount.

22 Provisions

	2010 RO '000	2009 RO '000
Non-current		
Employee benefits	413	130
Decommissioning obligation	2,754	2,938
	3,167	3,068
Current		
Employee benefits	210	184

22 Provisions (continued)

Movement in employee benefits is as follows	2010 RO '000	2009 RO '000
At 1 January	**314**	237
Changes for the year	**313**	110
Payments	**(4)**	(33)
At 31 December	**623**	314

Movement in provision for decommissioning obligation	2010 RO '000	2009 RO '000
At 1 January	**2,938**	3,663
Changes in cost estimates	**(271)**	(872)
Unwinding of discount on decommissioning cost provision	**87**	147
At 31 December	**2,754**	2,938

The decommissioning costs represents the present value of management's best estimate of the future sacrifice of the economic benefits that will be required to remove the facilities and restore the affected area at the company's leased sites. The estimate has been made on the basis of quotes obtained from contractors on a periodic basis.

23 Deferred tax liability

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

2010	**At 1 January 2010 RO '000**	**(Charge)/credit for the year RO '000**	**At 31 December 2010 RO '000**
Asset			
Decommissioning asset	**(62)**	**220**	**158**
Liability			
Accelerated tax depreciation	**(222)**	**(37)**	**(259)**
Net Deferred tax liability	**(284)**	**183**	**(101)**

2009	At 1 January 2009 RO '000	Charge for the year RO '000	At 31 December 2009 RO '000
Asset			
Decommissioning asset	87	(149)	(62)
Liability			
Accelerated tax depreciation	(193)	(29)	(222)
Net Deferred tax liability	(106)	(178)	(284)

24 Trade and other payables

	2010 RO '000	2009 RO '000
Trade payables	**346**	338
Amount due to related parties	**21**	25
Accrued expenses	**2,915**	2,543
	3,282	2,906

Notes to the Financial Statements

For the year ended 31 December 2010 continued

25 Related parties

Related parties comprise the shareholders, directors, key management personnel and business entities in which these related parties have the ability to control or exercise significant influence in financial and operating decisions.

The company entered into transactions in the ordinary course of business with related parties other affiliates and parties in which certain members and senior management have a significant influence (other related parties).

The details of transactions with related parties are as follows:

(a) The summary of significant transactions with related parties during the year is as follows:

	2010 RO '000	2009 RO '000
Revenue		
Sale of electricity and water to OPWP		
Electricity and water capacity charges-billed	**27,339**	29,162
Electricity and water fuel charges-billed	**23,427**	25,133
	50,766	54,295
Expenses recovered from Muscat Electricity Distribution Company SAOC	**7**	27
Expenses		
Accounting service charges to Electricity Holding Company SAOC	**250**	344
Transmission connection charges to Oman Electricity Transmission Company SAOC	**54**	61

(b) Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly, including any director (whether executive or otherwise). The compensation for key managerial personnel during the year is as follows:

	2010 RO '000	2009 RO '000
Short term employee benefits	**541**	444
Post employment benefits	**46**	50
Directors remuneration and sitting fees	**45**	58
	632	552

(c) Amount due from related parties

	2010 RO '000	2009 RO '000
Non-current		
Finance lease receivable from OPWP	**75,519**	83,361
Electricity Holding Company SAOC	**32,235**	23,235
Current		
Oman Power and Water Procurement Company SAOC	**3,779**	7,633
Finance lease receivable from OPWP	**7,842**	8,716
Muscat Electricity Distribution Company SAOC	**7**	26

(d) Amount due to related parties

	2010	2009
Wadi Al Jizzi Power Company SAOC	**-**	20
Electricity Holding Company SAOC	**21**	5

25 Related parties (continued)

Amounts due from Electricity Holding Company SAOC is interest free and have no fixed repayment terms and are not intended to be repaid within one year from the statement of financial position date. These loans are stated at cost and it is not practicable to determine their fair value in the absence of fixed repayment terms.

26 Proposed dividend

The Board of Directors of the company at their meeting held on 20 February 2011 have proposed a cash dividend of RO 12.308 per share aggregating RO 6,154,000 on the company's existing share capital. (2009 - RO 13.896 per share aggregating RO 6,951,000 was proposed and paid as dividend in 2010). This dividend is subject to the approval of the company's shareholders in the Annual General Meeting.

27 Contingencies and operational commitments

	2010	2009
	RO '000	RO '000
Commitments		
Capital commitment	**241**	1,719
Letters of credit issued	**814**	814
Shipping Guarantee	**104**	9

	2010	2009
	RO '000	RO '000
Contingent liability		
Claims against the company not acknowledged as debt	**462**	511

The management of the company is currently pursuing arbitration proceedings against the previous operation and maintenance (O&M) contractor, claiming compensation for damages, in excess of RO 10 million, resulting from their poor performance of the O&M contract, leading to excessive deterioration of certain plant and equipment. The contractor in turn has claimed RO 461,956 towards their invoices for supply of miscellaneous material and services, which are disputed by the company and covered under the arbitration proceedings, for which provision has not been made as the management believe that the contractor has no case to claim this amount.

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Movement of property, plant and equipment (note 12)

	Buildings RO '000	Other plant and machinery RO '000	Furniture, fixtures and vehicles RO '000	Plant spares RO '000	Decommis-sioning asset RO '000	Capital work-in-progress RO '000	Total RO '000
Cost							
At 1 January 2010	374	11,271	1,002	4,359	2,300	52	**19,358**
Additions	235	1,439	232	120	-	1,384	**3,410**
Transfers	52	(375)	-	375	-	(52)	**-**
Transfer to inventory	-	-	-	(2,114)	-	-	**(2,114)**
Disposal	-	-	(11)	-	-	-	**(11)**
Adjustments	-	-	-	-	(271)	-	**(271)**
At 31 December 2010	661	12,335	1,223	2,740	2,029	1,384	**20,372**
Depreciation							
At 1 January 2010	35	2,452	221	983	295	-	**3,986**
Charge for the year:							
Operating cost	15	1,695	-	143	294	-	**2,147**
General and administrative expenses	-	-	246	-	-	-	**246**
Transfers	-	(375)	-	375	-	-	**-**
Transfer to inventory	-	-	-	(639)	-	-	**(639)**
Disposal	-	-	(6)	-	-	-	**(6)**
At 31 December 2010	50	3,772	461	862	589	-	**5,734**
Net book value At 31 December 2010	**611**	**8,563**	**762**	**1,878**	**1,440**	**1,384**	**14,638**

Movement of property, plant and equipment (note 12)

	Buildings RO '000	Other plant and machinery RO '000	Furniture, fixtures and vehicles RO '000	Plant Spares RO '000	Decommis-sioning asset RO '000	Capital work-in-progress RO '000	Total RO '000
Cost							
At 1 January 2009	261	6,776	503	4,973	3,172	1,174	**16,859**
Additions	100	2,606	335	432	-	52	**3,525**
Transfer	13	1,889	205	(933)	-	(1,174)	**-**
Disposal	-	-	(41)	(113)	-	-	**(154)**
Adjustments	-	-	-	-	(872)	-	**(872)**
At 31 December 2009	374	11,271	1,002	4,359	2,300	52	**19,358**
Depreciation							
At 1 January 2009	24	1,082	91	882	232	-	**2,311**
Charge for the year:							
Operating cost	11	1,181	-	338	63	-	**1,593**
General and administrative expense	-	-	148	-	-	-	**148**
Transfer	-	188	-	(188)	-	-	**-**
Disposal	-	-	(17)	(49)	-	-	**(66)**
At 31 December 2009	35	2,451	222	983	295	-	**3,986**
Net book value At 31 December 2009	339	8,820	780	3,376	2,005	52	**15,372**