

Abu Dhabi National Energy Company PJSC



U.S.\$1,000,000,000 5.875 per cent. Bonds due 2016
U.S.\$1,500,000,000 6.5 per cent. Bonds due 2036
€750,000,000 4.375 per cent. Bonds due 2013

The U.S.\$1,000,000,000 5.875 per cent. Bonds due 2016 (the "2016 Bonds"), the U.S.\$1,500,000,000 6.5 per cent. Bonds due 2036 (the "2036 Bonds" and together with the 2016 Bonds, the "U.S.\$ Bonds") and the €750,000,000 4.375 per cent. Bonds due 2013 (the "€ Bonds" and together with the U.S.\$ Bonds, the "Bonds") are being offered inside the United States to qualified institutional buyers in reliance on Rule 144A under the United States Securities Act of 1933 (the "Securities Act") (such Bonds being referred to herein as the "Rule 144A Bonds"). In addition, the Bonds are being offered outside the United States in reliance on Regulation S under the Securities Act (such Bonds being referred to herein as the "Regulation S Bonds"). Each of the 2016 Bonds, the 2036 Bonds and the € Bonds is referred to herein as a "Tranche".

Abu Dhabi National Energy Company PJSC ("TAQA" or the "Issuer") will pay interest on the U.S.\$ Bonds semi-annually in arrear on 27 April and 27 October in each year. The first such payment will be made on 27 April 2007. The Issuer will pay interest on the € Bonds annually in arrear on 28 October in each year. The first such payment will be made on 28 October 2007 in respect of the period from and including the Issue Date (as defined below) to but excluding such date.

Issue Price:

99.485 per cent. (in respect of the 2016 Bonds)
99.049 per cent. (in respect of the 2036 Bonds)
99.357 per cent. (in respect of the € Bonds)

The Issue Prices set forth above do not include accrued interest, if any. Interest on the Bonds will accrue from and including 27 October 2006 (the "Issue Date").

Except as set forth herein, payments in respect of the Bonds will be made without any deduction or withholding for or on account of taxes of the United Arab Emirates ("UAE") or any Emirate therein or any political subdivision thereof or any authority therein or thereof having power to tax.

Unless previously redeemed or purchased and cancelled, the 2016 Bonds will be redeemed at their principal amount on 27 October 2016, the 2036 Bonds will be redeemed at their principal amount on 27 October 2036 and the € Bonds will be redeemed at their principal amount on 28 October 2013. All, but not some only, of the Bonds are subject to redemption at their principal amount (together with interest accrued to but excluding the redemption date) at the option of the Issuer at any time in the event of certain changes affecting taxation in the UAE or any Emirate therein or any political subdivision thereof. In addition, upon the occurrence of a Change of Control (as defined in the Terms and Conditions of the Bonds) the holder of each Bond may at its option require the Issuer to redeem, or at its option purchase (or procure the purchase of), such Bond at its principal amount (together with interest accrued to but excluding the date of such redemption or purchase, as the case may be).

Investing in the Bonds involves certain risks. See "Risk Factors" beginning on page 9.

The Bonds have not been and will not be registered under the Securities Act and are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Bonds are not transferable except in accordance with the restrictions described under "Notice to Investors" and "Transfer Restrictions".

Application has been made to the Financial Services Authority (the "FSA") in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") for the Bonds to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the Bonds to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market (the "Market"). The Market is a regulated market for the purposes of the Investment Services Directive 93/22/EEC. In addition, application will be made to admit the Bonds to trading on the Abu Dhabi Securities Market.

It is expected that the Bonds will be rated Aa3 by Moody's Investors Service Limited ("Moody's") and A+ by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc. ("Standard & Poor's"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The U.S.\$ Bonds will be offered and sold in the denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. The € Bonds will be offered and sold in the denominations of €50,000 and integral multiples of €1,000 in excess thereof. The Regulation S Bonds in respect of each Tranche will initially be represented by interests in a global unrestricted bond certificate in registered form (the "Regulation S Global Bond Certificate"), without interest coupons, which will be deposited with a common depository for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on the Issue Date. Beneficial interests in the Regulation S Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. The Rule 144A Bonds in respect of each Tranche will initially be represented by a global restricted bond certificate in registered form (the "Rule 144A Global Bond Certificate" and together with the Regulation S Global Bond Certificate, the "Global Bond Certificates"), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC") on the Issue Date. Beneficial interests in the Rule 144A Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "Clearing and Settlement". Individual definitive bond certificates in registered form ("Individual Certificates") will only be available in certain limited circumstances as described herein.

Sole Bookrunner and Joint Lead Manager

Goldman Sachs International

Joint Lead Managers

Abu Dhabi Commercial Bank

National Bank of Abu Dhabi

Co-Lead Manager

Gulf International Bank

Co-Managers

**Deutsche Bank
Lehman Brothers**

**HSBC
Morgan Stanley**

UBS Investment Bank

This prospectus (the “Prospectus”) is issued in compliance with the listing rules of the Financial Services and Markets Act 2000 (“FSMA”) for the purpose of giving information with respect to the Issuer, the Issuer and its subsidiaries (the “Group”) and the Bonds which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer, which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Where information has been sourced from a third party, this information has been accurately reproduced and so far as the Issuer is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information sourced from third parties contained in this Prospectus relates to UAE economic and commodity statistics and UAE government finance statistics.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers (as defined in “Subscription and Sale”) to subscribe for or purchase, any Bonds. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and distribution of this Prospectus, see “Subscription and Sale” below.

No person is authorised to provide any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Trustee (as defined in “Summary”) or the Managers. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bond shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus.

None of the Issuer or the Managers makes any representation to any offeree or purchaser of the Bonds offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Bonds.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Bonds or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Bonds must be obtained. The Issuer and the Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of the Bonds under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Bonds, is subject to significant interpretative uncertainties.

In connection with the issue of the Bonds, Goldman Sachs International, (the “Stabilising Manager”) (or any person acting on behalf of it) may over-allot 2016 Bonds, 2036 Bonds or € Bonds (provided that the aggregate principal amount of 2016 Bonds, 2036 Bonds or € Bonds, as the case may be, allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the relevant Tranche at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if commenced, may be discontinued at any time and must be brought to an end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY ANY MANAGER OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS, AND NOTHING CONTAINED IN THIS DOCUMENT IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS. EACH PERSON RECEIVING THIS PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE BONDS MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO INVESTORS

Because of the following restrictions, prospective investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Bonds offered hereby.

Each purchaser of the Rule 144A Bonds offered hereby will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a qualified institutional buyer within the meaning of Rule 144A (a “QIB”), (b) acting for its own account, or for the account of a QIB, (c) not formed for the purpose of investing in the Issuer and (d) aware, and each beneficial owner of such Bonds has been advised, that the sale of such Bonds to it is being made in reliance on Rule 144A.
2. It understands that the Rule 144A Bonds have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.
3. It understands that the Rule 144A Bonds, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:
THIS BOND HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”), THAT IS ACQUIRING THIS BOND FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER RULE 144 UNDER THE SECURITIES ACT (“RULE 144”), IF AVAILABLE, OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THE BONDS.
4. It acknowledges that the Issuer, the Registrar (as defined in the Terms and Conditions of the Bonds), the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Bonds is no longer accurate, it shall promptly notify the Issuer and the Managers. If it is acquiring any Rule 144A Bonds as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.
5. It understands that the Rule 144A Bonds will be evidenced by a Global Bond Certificate (the “Rule 144A Global Bond Certificate”). Before any interest in the Rule 144A Global Bond Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Bond Certificate, it will be required to provide a Paying and Transfer Agent (as defined in the Terms and Conditions of the Bonds) with a written certification (in the form provided in the Agency Agreement executed in respect of the Bonds (the “Agency Agreement”)) as to compliance with applicable securities laws.

The distribution of this Prospectus and the offering and sale of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on the offering and sale of the Bonds, see “Subscription and Sale”. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the Bonds in any jurisdiction in which such offer or invitation would be unlawful.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Bonds outside the United States, the resale of the Bonds in the United States in reliance on Rule 144A under the Securities Act and the admission of the Bonds to the Official List and to trading on the Market. The Issuer and the Managers reserve the right to reject any offer to purchase the Bonds, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB and to whom an offer has been made directly by one of the Managers or its U.S. broker-dealer affiliate. Distribution of this Prospectus by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

FORWARD-LOOKING INFORMATION

This Prospectus contains “forward-looking statements” — that is, statements related to future, not past, events. In this context, forward-looking statements often address TAQA’s expected future business and financial performance, and often contain words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks” and “will”. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For TAQA, particular uncertainties arise from future integration of acquired businesses, from unanticipated loss of power generation or water capacity and from numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive or regulatory nature. These uncertainties may cause TAQA’s actual future results to be materially different from those expressed in TAQA’s forward-looking statements. TAQA does not undertake to update its forward-looking statements.

PRESENTATION OF FINANCIAL INFORMATION

This Prospectus contains the following financial statements:

- TAQA's audited consolidated financial statements at and for the years ended 31 December 2003, 2004 and 2005 prepared in accordance with International Financial Reporting Standards ("IFRS"); and
- TAQA's unaudited interim condensed consolidated financial statements at and for the six months ended 30 June 2006, prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34").

TAQA was established in July 2005 as a public joint stock company with Abu Dhabi Water and Electricity Authority ("ADWEA") as its founding shareholder and 100 per cent. owner. At the time of its establishment TAQA acquired 90 per cent. of ADWEA's interest in five power generation and water desalination companies. The five companies were:

- (i) Emirates Power Company PJSC;
- (ii) Gulf Power Company PJSC;
- (iii) Shuweihat Power Company PJSC;
- (iv) Arabian United Power Company PJSC; and
- (v) Taweelah United Power Company PJSC.

The transfer of these interests was treated as a business combination involving entities or businesses under common control in which all of the combined entities or businesses were controlled by the same party both before and after the business combination. The business combination has been accounted for in the audited consolidated financial statements on the basis of the pooling of interests method and periods prior to the combination have been restated to reflect TAQA's acquisition of 90 per cent. of ADWEA's interest in these companies as if it had occurred on 1 January 2003. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Presentation of Financial Information".

AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any Bonds are “restricted securities” as defined in Rule 144(a)(3) under the Securities Act, it will during any period that it is neither subject to Section 13 or 15(d) of the United States Securities and Exchange Act of 1934 (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder furnish, upon request, to any holder or beneficial owner of Bonds or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

SERVICE OF PROCESS AND ENFORCEMENT OF LIABILITIES

The directors of the Issuer are resident outside the United States and the United Kingdom, and a substantial portion of the assets of such persons and the Issuer are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process within the United States and/or the United Kingdom upon the Issuer or such persons or to enforce against any of them in the United States courts or courts located in the United Kingdom judgments obtained in United States courts or courts located in the United Kingdom, respectively, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

A substantial part of the Issuer’s assets are located in the UAE. The Emirate of Abu Dhabi’s courts are unlikely to enforce a United States or English judgment without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of the transaction. In addition, even if English law is accepted as the governing law, this will only be applied to the extent that it is compatible with the Emirate of Abu Dhabi law and public policy. Moreover, judicial precedent in the UAE has no binding effect on subsequent decisions and there is no formal system of reporting court decisions in the UAE. These factors create greater judicial uncertainty than would be expected in certain other jurisdictions.

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In this Prospectus, references to “\$”, “U.S.\$”, “USD” and “dollars” are to U.S. dollars and references to “dirham” and “AED” are to UAE dirham. The Issuer publishes its financial statements in AED. This Prospectus contains a conversion of certain AED amounts into dollars at specified rates solely for the convenience of the reader. These conversions should not be construed as representations that the AED amounts actually represent such dollar amounts or could actually be converted into dollars at the rate indicated. The UAE dirham has been pegged to the U.S. dollar at a fixed exchange rate of AED 3.67 = U.S.\$1.00 since 22 November 1980 and, unless otherwise indicated, dollar amounts in this Prospectus have been converted from AED at this exchange rate.

SUMMARY

This summary highlights information contained elsewhere in this Prospectus. It does not contain all the information investors may consider important in making their investment decision. Therefore, investors should read this entire Prospectus carefully, including in particular "Risk Factors" and the financial data and related notes.

The Issuer

Abu Dhabi National Energy Company PJSC ("TAQA") is one of the leading electricity generation and water production groups in the UAE. TAQA, through its subsidiaries operating power generation and water desalination plants in the UAE, provides more than 85 per cent. of the water and electricity produced in the Emirate of Abu Dhabi. Each operating subsidiary is partially owned by, and operated under a long-term management contract with, one or more leading international utilities, oil and gas companies and project developers, including International Power plc of the United Kingdom, CMS Energy Corporation of the United States, Total and Suez Energy of France, Marubeni Corporation, Tokyo Electric Power Company and Mitsui Corporation of Japan and SembCorp Utilities of Singapore.

TAQA provides approximately 6,300 megawatts ("MW") of net power generation capacity and 591 million imperial gallons per day ("MIGD") of net water desalination capacity. The operating subsidiaries have contracted out all of their power generation and water desalination capacity under long-term Power and Water Purchase Agreements ("PWPAs") to the Abu Dhabi Water and Electricity Company ("ADWEC"), which is 100 per cent. owned by ADWEA. ADWEC is responsible for the distribution of water and electricity in the Emirate of Abu Dhabi.

For the year ended 31 December 2005, TAQA had consolidated revenues and profit from ordinary activities of AED 3,000.0 million and AED 656.2 million, respectively, and had total assets of AED 30,494.4 million at 31 December 2005. For the six months ended 30 June 2006, TAQA had consolidated revenues and profit from operations of AED 1,488.3 million and AED 693.9 million, respectively, and had total assets of AED 31,928.3 million at 30 June 2006.

TAQA is in the process of completing a major expansion and refurbishment programme, begun in 1998, which, when completed, will increase the Group's net power generation capacity to approximately 7,210 MW and result in net water desalination capacity of approximately 589 MIGD. TAQA anticipates that its plants have economic lives substantially in excess of their respective PWPA contract terms. The plants incorporate reliable power generation and water desalination technologies and have been built by leading international contractors, including Siemens AG of Germany, General Electric of the United States, Fisia of Italy and Doosan of Korea. The plants generally have performed to the standards required by the PWPAs.

TAQA's operating subsidiaries have to date financed their expansion and refurbishment programmes by making extensive use of limited recourse project financing. Each of TAQA's operating subsidiaries is subject to technical, environmental, budgeting, reporting and financial disclosure standards under the PWPAs and the lending agreements with leading international commercial banks and export credit agencies.

Strategy

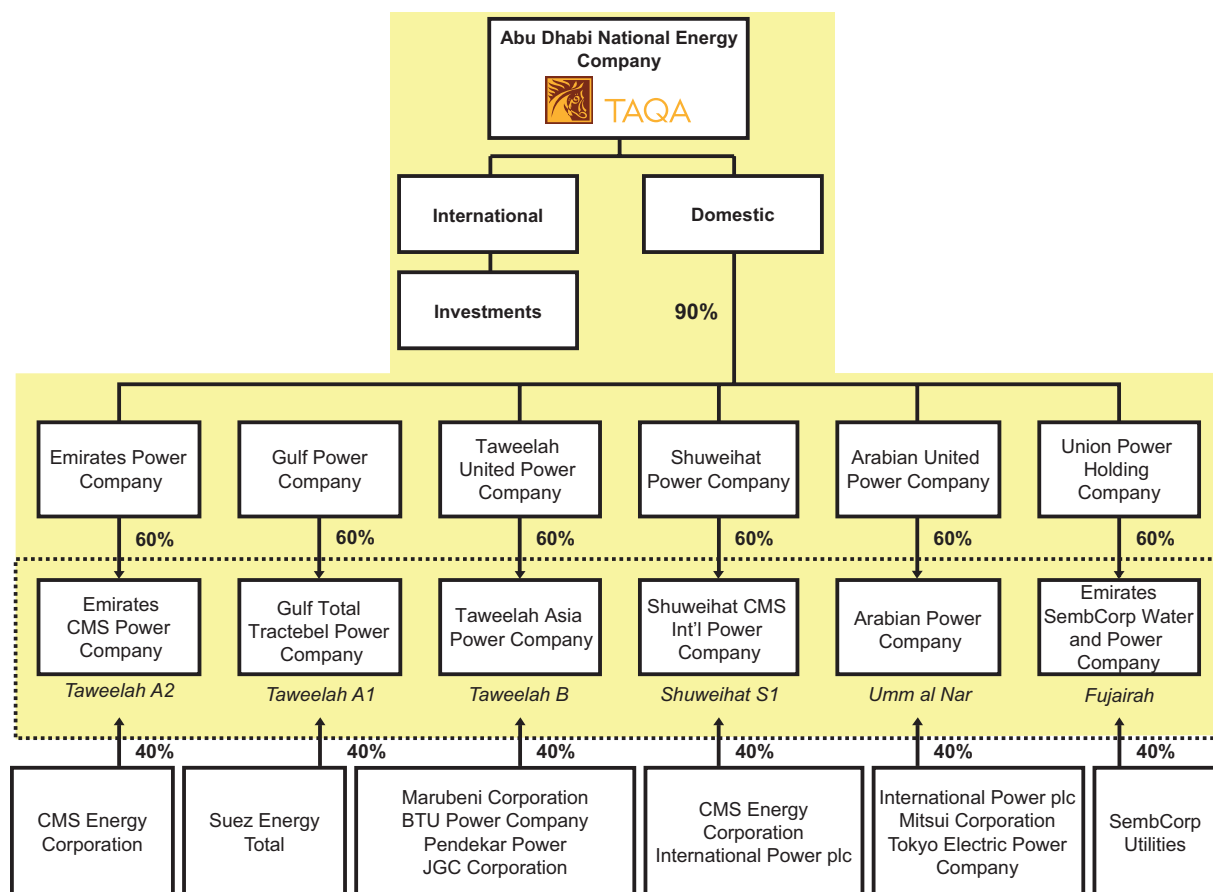
TAQA intends to continue to provide most of the power and water needs of the Emirate of Abu Dhabi. The Group will focus on adding capacity through greenfield projects and upgrading and expanding existing plants. These capacity increases will be funded by limited recourse project financing facilities.

TAQA's long-term strategy includes being the primary conduit for the Emirate of Abu Dhabi's strategic investments in the global energy sector and, to that end, TAQA intends to implement a regional and international investment strategy. TAQA's investment strategy will focus broadly on the

domestic power and water sector, and the energy and infrastructure sectors in markets where the Emirate of Abu Dhabi has meaningful political and economic strategic interests, including the member states of the Gulf Cooperation Council (“GCC”), the wider Middle East, South Asia, Central Asia, South East Asia, Europe and Africa. TAQA intends to make strategic and financial investments in companies and projects active in the energy and infrastructure sectors, and to finance such companies and projects whether within the UAE or abroad. TAQA is building a team of professionals with significant international experience to spearhead the processes by which potential investments are appraised and risks are analysed. TAQA intends to make use of international legal, financial, technical and market consultants to assist with key investment decisions.

Organisational Structure

Set forth below is an overview of TAQA’s organisational structure.



Summary of the Offering

Issuer	Abu Dhabi National Energy Company PJSC
Issue	U.S.\$1,000,000,000 5.875 per cent. Bonds due 2016 (the "2016 Bonds") U.S.\$1,500,000,000 6.5 per cent. Bonds due 2036 (the "2036 Bonds" and, together with the 2016 Bonds, the "U.S.\$ Bonds") €750,000,000 4.375 per cent. Bonds due 2013 (the "€ Bonds") Each of the 2016 Bonds, the 2036 Bonds and the € Bonds is referred to in this Prospectus as a "Tranche". Unless otherwise specified, references in this Prospectus to the "Terms and Conditions of the Bonds" are to the terms and conditions applicable to the relevant Tranche.
Issue Price	99.485 per cent. of the principal amount of the 2016 Bonds 99.049 per cent. of the principal amount of the 2036 Bonds 99.357 per cent. of the principal amount of the € Bonds
Maturity Date	27 October 2016 in respect of the 2016 Bonds 27 October 2036 in respect of the 2036 Bonds 28 October 2013 in respect of the € Bonds
Trustee	Citicorp Trustee Company Limited
Registrar, Principal Paying Agent and Transfer Agent	Citibank, N.A.
Interest	The Bonds will bear interest from and including 27 October 2006. Interest on the U.S.\$ Bonds will be payable semi-annually in arrear on 27 April and 27 October in each year, commencing 27 April 2007, at the rate of 5.875 per cent. per annum on the 2016 Bonds and 6.5 per cent. per annum on the 2036 Bonds. Interest on the € Bonds will be payable annually in arrear on 28 October in each year, commencing 28 October 2007 (in respect of the period from and including the Issue Date to but excluding such date) and at the rate of 4.375 per cent. per annum.
Form and Denomination	The U.S.\$ Bonds will be issued in registered form, in the denominations of U.S.\$100,000 each and integral multiples of U.S.\$1,000 in excess thereof. The € Bonds will be issued in registered form, in the denominations of €50,000 each and integral multiples of €1,000 in excess thereof. The Regulation S Bonds will be represented by the Regulation S Global Bond Certificate and the Rule 144A Bonds will be represented by the Rule 144A Global Bond Certificate, in each case without coupons. The Global Bond Certificates will be exchangeable for Individual Certificates in the limited circumstances specified in the Global Bond Certificates.

Initial Delivery of Bonds	On or before the Issue Date, each Regulation S Global Bond Certificate will be deposited with Citibank, N.A. as common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg and each Rule 144A Global Bond Certificate will be deposited with Citibank, N.A. as custodian for, and registered in the name of a nominee of, DTC.
Investment Considerations	An investment in the Bonds involves certain risks. See “Risk Factors”.
Status of the Bonds	The Bonds are direct, unconditional and (subject as set out in “Negative Pledge” below) unsecured obligations of the Issuer which rank <i>pari passu</i> , without any preference among themselves and, subject as aforesaid, with all other outstanding present and future unsecured and unsubordinated obligations of the Issuer.
Negative Pledge	The Bonds contain a negative pledge in respect of the Issuer and any Material Subsidiary in relation to any Security Interest (other than certain Permitted Security Interests) for Relevant Indebtedness (as each such term is defined in the Terms and Conditions of the Bonds).
Restriction on Disposals	<p>The Bonds contain a restriction on disposals (other than as approved by an Extraordinary Resolution (as defined in the Terms and Conditions of the Bonds)) (1) by the Issuer or any Subsidiary (as defined in the Terms and Conditions of the Bonds) of shares in any Domestic Subsidiary (or any holding company of any Domestic Subsidiary), in each case if, and to the extent that, any such disposal would result in the proportion of the total issued share capital of such Domestic Subsidiary beneficially owned by the Issuer (either directly or indirectly) being less than the proportion so owned by the Issuer on the Issue Date, and (2) disposals by each Domestic Subsidiary of its assets other than:</p> <ul style="list-style-type: none"> (i) disposals of inventory (including for this purpose electricity and desalinated water) in the ordinary course of business; (ii) disposals between one or more Domestic Subsidiaries; (iii) disposals of equipment which is uneconomic, obsolete or no longer useful in the relevant business; and (iv) disposals of assets to a bank or other financial institution made in connection with, and solely for the purpose of, any financing to be extended to the debtor on a Shari’ah compliant basis.
	Domestic Subsidiary (as defined in the Terms and Conditions of the Bonds) includes any subsidiary of the Issuer which is engaged from time to time in the business of power generation and/or water desalination in the Emirates of Abu Dhabi or Fujairah.

Cross Acceleration	The Bonds contain a cross-acceleration provision in respect of other Borrowed Money Indebtedness (as defined in the Terms and Conditions of the Bonds and including for this purpose any guarantee or indemnity in respect of the relevant indebtedness) or a failure by the Issuer or any Material Subsidiary to pay when due, or within any applicable grace period, any Borrowed Money Indebtedness subject to an aggregate threshold amount of such Borrowed Money Indebtedness of U.S.\$50,000,000.
Redemption for Taxation Reasons . .	Unless previously redeemed or purchased and cancelled, the Issuer may redeem the Bonds, in whole but not in part, at any time at their principal amount together with interest accrued to but excluding the date of redemption in the event of certain changes in taxation in the United Arab Emirates or any Emirate therein or any political subdivision thereof.
Bondholder put upon Change of Control	If the Emirate of Abu Dhabi, including, without limitation, any agency of its government or any entity controlled by it, at any time ceases to own and control (directly or indirectly) more than 50 per cent. of the economic and voting rights in respect of the Issuer, then each Bond will be redeemable at the option of the holder at its principal amount plus interest accrued to the date fixed for redemption if such option is exercised within the period of 30 days from the date of such Change of Control occurring or, if later, the date on which notice thereof is given to Bondholders in accordance with the Terms and Conditions of the Bonds.
Listing	Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for the Bonds to be admitted to trading on the Market. In addition, application will be made to admit the Bonds to trading on the Abu Dhabi Securities Market.
Selling Restrictions	United States, United Kingdom, Republic of Italy and United Arab Emirates. See “Subscription and Sale”.
Governing Law	The Bonds and the Trust Deed are governed by and construed in accordance with English law.
Use of Proceeds	The Issuer intends to use the net proceeds of the issue of the Bonds to refinance existing indebtedness of its operating subsidiaries and to make investments in accordance with its international investment strategy. See “Use of Proceeds” and “Description of Business — Overview”.
Ratings	It is expected that the Bonds will be rated Aa3 by Moody’s and A+ by Standard & Poor’s. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.
Security Codes	The Common Code and ISIN for the Regulation S Bonds in respect of each Tranche and the Common Code, ISIN and

CUSIP number for the Rule 144A Bonds in respect of each Tranche are as follows:

2016 Bonds

Regulation S Bonds

Common Code: 027294855

ISIN: XS0272948554

144A Bonds

Common Code: 027324991

ISIN: US00386SAA06

CUSIP: 00386SAA0

2036 Bonds

Regulation S Bonds

Common Code: 027294901

ISIN: XS0272949016

144A Bonds

Common Code: 027325084

ISIN: US00386SAB88

CUSIP: 00386SAB8

€ Bonds

Regulation S Bonds

Common Code: 027294715

ISIN: XS0272947150

144A Bonds

Common Code: 027324878

ISIN: US00386SAC61

CUSIP: 00386SAC6

Clearing Euroclear and Clearstream, Luxembourg (in the case of the Regulation S Bonds) and DTC (in the case of the Rule 144A Bonds).

Summary Financial and Other Information

The summary financial information set forth below has been derived from TAQA's audited consolidated financial statements at and for the years ended 31 December 2003, 2004 and 2005 and its unaudited interim condensed consolidated financial statements at and for the six months ended 30 June 2006. TAQA's financial statements have been prepared in accordance with International Financial Reporting Standards. The transfer to TAQA of 90 per cent. of ADWEA's interest in five operating subsidiaries at 1 July 2005 has been treated as a business combination involving entities or businesses under common control, and the financial statements at and for the years ended 31 December 2003, 2004 and 2005 have been prepared on the basis of the pooling of interests method as if the business combination had occurred at 1 January 2003. See "Presentation of Financial Information". The summary financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and TAQA's consolidated financial statements and the notes thereto included elsewhere in this Prospectus.

	Year ended 31 December				Six months ended 30 June		
	2003	2004	2005	2005 ⁽¹⁾	2005	2006	2006 ⁽¹⁾
	(AED thousands)				(unaudited)		
				(U.S.\$ thousands)	(AED thousands)		(U.S.\$ thousands)
Income Statement Data:							
Sale of electricity and water.....	1,330,059	2,029,146	2,911,056	793,203	1,340,459	1,488,320	405,537
Repairs, maintenance and consumables used	(220,619)	(391,054)	(560,216)	(152,647)	(262,548)	(310,773)	(84,679)
Depreciation and amortisation...	(354,010)	(543,383)	(769,118)	(209,569)	(356,553)	(434,463)	(118,382)
Gross profit	726,430	1,071,806	1,641,738	447,340	709,439	727,804	198,312
Finance costs	(465,300)	(671,078)	(1,027,434)	(279,955)	(441,048)	(583,521)	(158,998)
Profit from ordinary activities....	245,685	379,538	656,156	178,789	236,928	296,055	80,669
Interest income on IPO bank deposits ⁽²⁾	—	—	602,036	164,042	—	—	—
Profit for the year/period	245,685	379,538	1,258,192	342,831	236,928	296,055	80,669
	At 31 December				At 30 June		
	2003	2004	2005		2006	2006 ⁽¹⁾	
	(AED thousands)				(unaudited)		
				(U.S.\$ thousands)			(U.S.\$ thousands)
Balance Sheet Data:							
Property, plant and equipment	15,853,893	17,058,260	23,602,485		24,210,169		6,596,776
Total non-current assets	16,097,660	17,538,674	24,970,647		25,488,676		6,945,143
Inventories	411,504	533,921	680,914		698,594		190,353
Amount due from ADWEA	—	—	1,001,106		—		—
Total current assets	1,554,751	2,093,994	5,523,712		6,439,632		1,754,668
Total assets	17,652,411	19,632,668	30,494,359		31,928,308		8,699,811
Total equity	1,162,892	2,434,088	6,176,514		7,392,294		2,014,249
Term loans	10,856,350	11,575,212	18,594,718		19,110,945		5,207,342
Islamic Ijara loans	1,769,605	2,470,341	2,423,734		2,397,164		653,178
Loans from minority interest shareholders in controlled subsidiaries	280,820	468,323	366,743		424,732		115,731
Total current liabilities	3,171,222	1,989,214	1,912,089		1,552,632		423,060

	Year ended 31 December				Six months ended 30 June		
	2003	2004	2005	2005 ⁽¹⁾	2005	2006	2006 ⁽¹⁾
	(AED thousands)			(U.S.\$ thousands)	(unaudited)		(U.S.\$ thousands)
Cash Flow Data:							
Net cash from (used in)							
operating activities	(252,463)	154,888	1,053,807	287,141	277,262	65,006	17,713
Net cash used in investing							
activities	(6,534,582)	(1,757,391)	(7,386,258)	(2,012,604)	(629,297)	(874,430)	(238,264)
Net cash from financing							
activities	6,641,861	1,637,393	8,549,841	2,329,657	2,697,687	1,499,563	408,600
Cash and cash equivalents at the end of the year / period	687,797	722,687	2,940,077	801,111	3,068,339	3,630,216	989,160

	Power Availability (% contracted capacity)		Water Availability (% contracted capacity)	
	Jan-Dec 2005	Jan-Aug 2006	Jan-Dec 2005	Jan-Aug 2006
Capacity Data⁽³⁾:				
Emirates CMS Power Co.	99.9	99.9	100.0	99.8
Gulf Total Tractebel Power Co.	91.1	81.0	94.5	95.3
Arabian Power Co.	94.9	98.9	93.9	94.0
Shuweihat CMS Int'l Power Co.	98.7	98.2	97.6	96.8
Taweelah Asia Power Co.	99.8	95.2	100.0	99.4

- (1) Solely for the convenience of the reader, AED amounts have been translated into U.S. dollars at the rate of AED 3.67 = U.S.\$1.00.
- (2) Represents interest income carried on funds placed on deposit by subscribers for shares of TAQA offered in connection with the initial public offering of TAQA shares. The funds were held on deposit for three weeks, and funds in respect of subscription amounts for which the allocation was made were repaid without interest.
- (3) Average of monthly averages. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Results of Operations — Power and Water Purchase Agreements".

RISK FACTORS

Before investing in the Bonds, prospective investors should consider carefully the following risks and uncertainties, in addition to the other information presented in this Prospectus and otherwise available to investors. If any of the following risks actually materialises, TAQA's business, results of operations and financial condition could be materially and adversely affected. In that event, TAQA may not be able to pay amounts due on the Bonds and their value could decline, causing investors to lose all or part of their investment. The risks and uncertainties described below are not the only ones faced by TAQA. Additional risks and uncertainties not presently known to TAQA or which are currently deemed to be immaterial may also impair TAQA's business, results of operations and financial condition, and could negatively affect the value of the Bonds.

This Prospectus also contains forward-looking statements that involve risks and uncertainties. TAQA's actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Prospectus.

Risks Relating to TAQA's Business

TAQA's ability to make payments on the Bonds depends upon dividends and distributions from its subsidiaries and the companies in which it invests from time to time

TAQA is a holding company incorporated for the purposes of (i) holding investments in companies that own and operate power generation and water desalination plants in the UAE and (ii) making financial and strategic investments both in the UAE and internationally. As a result of its holding company structure, TAQA's operating cash flow and ability to meet its obligations, including payments of principal and interest on the Bonds, each depend upon the operating cash flow of TAQA's subsidiaries and the companies in which it invests.

The ability of those companies to pay debt service, dividends or make other distributions or payments will be subject to, among other things, the availability of profits or funds, restrictions on the payment of dividends set forth in covenants given in connection with financial indebtedness and applicable laws and regulations, including, as a result of TAQA's focus on regulated utilities, restrictions that may be imposed by regulatory authorities. The Bonds contain no covenants that prevent those companies from entering into agreements which may restrict their ability to pay dividends or make payments to TAQA and its affiliates.

TAQA's subsidiaries' power generation facilities may experience equipment failures or may otherwise not operate as planned

The operation of industrial facilities such as power generation and water desalination plants means that TAQA's business is exposed to material operating risks. These can include, among other things, unplanned outages leading to a loss of revenue and profit, facilities operating inefficiently or below their designed nameplate capacity, unexpectedly high operating and maintenance costs and unforeseen third-party liabilities. Although many of these risks may be mitigated to some extent through contractual and insurance-based protections, there can be no assurance that this will always be the case or that the required amounts of physical damage and business interruption insurance will always be available.

By way of example, since October 2005, TAQA's subsidiary operating the Taweelah A1 facility has suffered a number of unplanned outages due to two defective underground cables and broken rotors in two turbines. While maintenance work on these cables and rotors has been completed, inspection of the remaining underground cables is ongoing. While the current financial impact of these outages is partly offset by the fact that some repairs were made during the winter period when routine maintenance is required under the PWPA without impacting targeted availability and incurring penalties, these incidents will and may continue to negatively impact GTTPC's net income through lost revenue, penalty payments for non-available capacity and increased costs. Equipment

failures in the future may have a significant adverse effect on TAQA's results of operations or financial condition.

TAQA's projects under construction may not commence operation as scheduled, within budget or may not meet project specifications

The period leading to the commencement of operation of newly constructed industrial facilities such as power generation and water desalination plants involves many risks, including:

- environmental, engineering, procurement and construction cost overruns and delays;
- the breakdown or failure of equipment, processes or technology;
- start-up and commissioning problems; and
- problems relating to the connection of the new facilities to national power and water networks.

By way of example, the completion of the Umm al Nar facility has been subject to significant delay in the construction phase, and the plant, which was scheduled to commence full operation in July 2006, is now not expected to be fully operational until November 2007.

These risks may significantly delay or prevent the commencement of operations of such projects, which, in turn, may materially and adversely affect TAQA's results of operations and financial condition.

Plants may not operate at their expected levels of output

If a plant achieves performance below expected levels of output or efficiency, this could materially and adversely affect the return on TAQA's investment in that project through (i) the plant's potential insolvency, (ii) unrecoverable non-payment of debt service to TAQA by that project and/or (iii) distribution reductions or restrictions.

TAQA is subject to joint venture risks

Some of TAQA's current and future investments are or will be in jointly controlled entities and associated companies. Co-operation and agreement among joint venture partners on existing or any future projects are important factors for their smooth operation and financial success. Joint venture partners may (i) have economic or business interests or goals that are inconsistent with those of TAQA, (ii) be unable or unwilling to fulfil their obligations under the relevant joint venture or other agreements or (iii) experience financial or other difficulties which may materially and adversely impact the success of the relevant investment. TAQA can give no assurance as to the performance of any of its joint venture partners.

Further, TAQA may not be able to control the decision-making process of the joint ventures without reference to the joint venture partners, especially if it does not have majority control of the joint venture. Although TAQA intends to seek to exert a degree of influence with respect to the management and operation of its investments by negotiating to obtain positions on management committees, to share control of the project with its joint venture partners and to have veto rights in respect of key decisions, TAQA may not always be successful. Moreover, these provisions may cause the management of relevant companies to become deadlocked. In addition, the consent of its joint venture partners may be required for the payment of distributions or for the sale of those investments. This could prevent TAQA from managing its investments in the manner that it would prefer, and may hinder or prevent TAQA from realising the benefits of its investments.

TAQA may not be able to implement its refinancing programme

TAQA intends to use some of the proceeds from the sale of the Bonds to refinance its operating subsidiaries. As the implementation of this refinancing will be dependent on the agreement of TAQA's joint venture partners in those subsidiaries, there can be no assurance that this can be achieved on terms, and in a timescale, acceptable to TAQA.

TAQA's existing operating subsidiaries have a single customer and primary supplier

Each of TAQA's existing operating subsidiaries is supplied with its primary fuel by ADWEC and sells all of its power and water output to ADWEC. Issues affecting ADWEC's ability to supply fuel or purchase power and water could lead to the termination of the operating subsidiaries' PWPAs, and in these circumstances, alternative supplies of fuel, and/or alternative water and electricity purchasers will be very limited. An inability to find alternative suppliers or purchasers would have a material adverse effect on TAQA's financial condition and results of operations. This risk is mitigated to an extent by the termination payment structure applying to each of the PWPAs and by the Procurer Credit Support.

Reliance on back-up fuel over extended periods of time may have a material adverse effect on plant operations

The primary energy source for each of TAQA's operating subsidiaries' plants is natural gas. From time to time, however, gas suppliers face competing priorities and may be unable to make natural gas available. In such instances, the operating subsidiaries must rely on their alternative seven-day stores of back-up fuel oil to operate their plants. During extended periods of operation on back-up fuel oil, the operating subsidiaries are dependent on the delivery of additional supplies of fuel oil to the plants. The logistics of supplying back-up fuel are such that, over an extended period of operation on back-up fuel, it may not be possible to supply the quantities of back-up fuel needed to continue to operate all of the plants at full capacity. Additionally, operation of the plants on back-up fuel oil over an extended period of time may result in unplanned maintenance costs and may reduce the expected useful life of the plants.

TAQA's operating subsidiaries' facilities could be exposed to catastrophic events, including natural disasters, terrorist attacks or war, over which TAQA has no control

TAQA's operating subsidiaries' facilities may be exposed to the effects of natural disasters and other potentially catastrophic events, such as major accidents, armed conflicts, hostilities and terrorist attacks. Although constructed, operated and maintained to withstand certain of these occurrences, TAQA's operating subsidiaries' facilities will not be adequately protected in all circumstances. In addition, TAQA's operating subsidiaries may suffer adverse consequences from any such events affecting similar or related facilities in the UAE, even if their own facilities are not directly affected. There can be no assurance that any such events will not occur, or will not materially and adversely affect an investment's operations and thereby have a material adverse effect on TAQA's current or future business, results of operations and financial condition, and/or TAQA's ability to meet its obligations under the Bonds.

TAQA's insurance policies may not always be adequate and may not cover all damage and losses

While TAQA takes a conservative approach to managing risk, and uses insurance products to mitigate the effects of unexpected events (and its operating subsidiaries are often required by the terms of their commercial contracts and finance documents to procure comprehensive insurance and reinsurance packages), there can be no assurance that sufficient amounts of insurance and reinsurance will always be available at a reasonable price and on reasonable commercial terms.

In particular, in most cases it is not currently possible to procure insurance on a full reinstatement basis against the risk of terrorist attack. Moreover, the capacity of the international reinsurance market may be materially affected by disasters occurring elsewhere in the world to an extent which may restrict or prevent its ability to write new policies.

In addition, the terms of TAQA's operating subsidiaries' finance documents often impose restrictions on distributions during periods where those companies are not in full compliance with their insurance procurement obligations.

Any of these risks materialising may have a material adverse effect on TAQA's current or future business, results of operations and financial condition, and/or TAQA's ability to meet its obligations under the Bonds.

Violation of the environmental and safety standards and regulations that apply to TAQA and its operating subsidiaries could have a material adverse effect on its results of operations and financial condition

TAQA's operating subsidiaries are subject to environmental and safety standards in each jurisdiction in which they operate in accordance with applicable law. In addition, further social and environmental obligations may be imposed on TAQA's subsidiaries through the terms of its commercial contracts and finance documents.

Should TAQA fail to comply with these obligations, it may be liable for penalties, including the risk of losing its operating licences, the risk of termination of applicable commercial contracts and/or the consequences of default under its finance documents. Any of these could cause a material adverse effect on the business and financial condition of its operating subsidiaries.

In addition, governmental authorities in the UAE and in the jurisdictions where TAQA may invest from time to time, may enforce existing laws and regulations more strictly than they have done in the past and may impose stricter environmental standards, or higher levels of fines and penalties for violations, than those now in effect. Accordingly, TAQA is unable to estimate the future financial impact of compliance with or the cost of a violation of its environmental obligations. There can be no assurance that such environmental obligations will not have a material adverse effect on TAQA's current or future business, results of operations and financial condition and/or its ability to meet its obligations under the Bonds.

Violations of international sanctions could subject TAQA to penalties that could have a material adverse effect on its results of operations and financial condition

International sanctions have been imposed on companies engaging in certain types of transactions with specified countries or companies in those countries, and on companies which trade with such countries and companies. If TAQA violates any such sanctions, penalties could include a prohibition or limitation on its ability to obtain goods and services on the international market or to access the U.S. or international capital markets.

Limited operating history

TAQA was established at the end of June 2005 and has only a limited history of operating as a corporate entity. Additionally, TAQA's management team was assembled during 2006 and has little prior experience with the operations of TAQA or its subsidiaries. TAQA's business and prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development. As a business with a limited operating history and with a new management team, there can be no assurance that TAQA will be successful in implementing its business plan, and the failure to do so could have a material adverse effect on TAQA's business, results of operations and financial condition.

Identifying potentially suitable candidates for international acquisitions and strategic joint ventures is difficult

TAQA's growth strategy is based on, among other things, expanding its presence in existing and new markets and pursuing strategic joint venture and acquisition opportunities to enhance TAQA's capabilities and geographic scope.

It is possible that TAQA may not be able to identify suitable acquisition or investment candidates or joint venture partners, or if it does identify suitable candidates or partners, it may not complete those transactions on terms commercially acceptable to TAQA or at all. Further, while TAQA may have identified cost savings and growth opportunities in connection with an acquisition prior to its completion, it may not achieve such benefits in the long term. The inability to identify suitable acquisition targets, investments or joint ventures or the inability to complete or achieve the benefits of such transactions may materially and adversely affect TAQA's business, results of operations and financial condition.

Potential acquisitions could prove to be costly in terms of TAQA's time and resources and may impose post-acquisition integration risks

TAQA's strategy anticipates future acquisitions, both in the power generation and water desalination industries, as well as in other infrastructure and energy-related businesses in the Middle East and elsewhere. Acquisitions are likely to result in the expenditure of significant amounts of cash, the incurrence of debt and future amortisation expenses related to goodwill and other intangible assets, and require the attention of TAQA's senior management team and other company resources.

Moreover, after the completion of any acquisition, there may be delays, and TAQA may need to allocate resources, including the time and attention of senior management, to manage unexpected operating difficulties. Any such difficulties could distract management and employees, increase expenses, and result in the acquired companies not generating the expected benefits.

Also, should the acquired companies operate at lower margins than those generated by TAQA's existing operations, the overall reduction in operating margins may further limit TAQA's growth and place a significant strain on its business and financial resources.

Further, any acquisition, merger or joint venture that TAQA may attempt, whether or not completed, or any media reports or rumours with respect to any such transactions, may adversely affect the market value of the Bonds. There can be no assurance that one or more of these factors will not have a material adverse effect on TAQA's business, results of operations and financial condition.

Liabilities relating to investments and divestments may have a material adverse effect on TAQA's financial condition or results of operations

In connection with the investment in, or divestment of, shareholdings in or assets of a company, TAQA and/or its relevant subsidiaries are not always fully indemnified by the transferor, or may owe obligations to the transferee, as the case may be, in respect of certain liabilities relating to the companies or the assets transferred. While TAQA is currently not aware of any significant existing or potential claims or liabilities related to its prospective investments or divestments, in the future it may be exposed to such claims or liabilities, including those relating to taxes and the environment. In addition, there can be no assurance that any such claim or liability would not have a material adverse effect on TAQA's results of operations or financial condition.

If TAQA is unable to manage its growth, its business could be disrupted

Future growth that TAQA anticipates in its international operations may challenge its managerial, operational, financial and other resources. There can be no assurance that TAQA's

existing systems and resources will be adequate to support the growth of its operations. Inability of the management to manage operational changes effectively would materially and adversely affect the quality of service which TAQA seeks to provide, its ability to retain key personnel and its business, results of operations and financial condition.

The companies in which TAQA invests will be exposed to various regulatory risks

The companies in which TAQA may invest operate in a number of different jurisdictions, and will be required to comply with complex and varied legal and regulatory requirements. These include tariffs and requirements relating to withholding taxes on remittances and other payments, as well as the risk of litigation or regulatory action by regulators. Any regulatory actions against TAQA or the companies in which it invests could lead to the loss or restriction of operating licences, thereby having a material adverse effect on TAQA's business, results of operations and financial condition.

International expansion in jurisdictions where TAQA has limited local experience may not be easy

TAQA has limited experience in jurisdictions outside the UAE and it is uncertain whether TAQA will be able to penetrate these markets easily. The success of TAQA's international expansion may be affected should its competitors undertake expansion into these markets in a more advantageous manner. There can be no assurance that TAQA will be successful in expanding into markets outside the UAE and generating additional revenues from this expansion.

In addition, there are certain risks inherent in doing business internationally, including regulatory requirements, legal uncertainty, trade barriers, difficulties in staffing and managing foreign operations, different payment cycles, different accounting practices, problems in collecting accounts receivable, political instability and potentially adverse tax consequences. Any of the foregoing could adversely affect the success of TAQA's international operations.

TAQA will face increased foreign exchange risk exposure

TAQA's revenues from its domestic subsidiaries are currently receivable in UAE dirhams. The UAE dirham is currently pegged to the U.S. dollar. Interest and principal payments in respect of the € Bonds will be payable in Euro. As a result, TAQA will be exposed to the risk of adverse fluctuations in the U.S. dollar/Euro exchange rate and, if this risk materialises, it may have a material adverse effect on TAQA's financial condition.

However, this risk may be mitigated by TAQA's entry into U.S. dollar/Euro hedging agreements or, alternatively, TAQA may acquire or develop investments which earn their revenues in Euro, and the profits from such investments may be at least sufficient to pay amounts due on the € Bonds.

In addition, to the extent TAQA expands its international operations and derives its revenues in foreign currencies other than those currencies for which it has entered into foreign exchange hedging arrangements, TAQA will become subject to increased risks relating to exchange rate fluctuations. Such fluctuations in currency exchange rates could affect, on a U.S. dollar equivalent basis, the amount of TAQA's equity contributions to, and distributions from, TAQA's operating subsidiaries, and therefore might have a material adverse effect on its financial condition.

Risks Relating to the UAE

TAQA is subject to political and economic conditions in the UAE and the wider Middle East region

TAQA is incorporated in the Emirate of Abu Dhabi, is listed on the Abu Dhabi Securities Market and has the majority of its operations and interests in the UAE. While the UAE is seen as a stable political environment, certain other jurisdictions in the wider Middle East region are not. TAQA's business may be affected by the financial, political and general economic conditions prevailing from

time to time in the UAE and the wider Middle East region. It is not possible to predict the occurrence of events or circumstances such as war or hostilities, or the impact of such occurrences, and no assurance can be given that TAQA would be able to sustain its current profit levels if adverse political events or circumstances were to occur. A general downturn or instability in certain sectors of the UAE or the regional economy could have an adverse effect on TAQA's business, financial condition, results of operations or prospects.

Investors should also be aware that some of these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Although the UAE has enjoyed significant economic growth, there can be no assurance that such growth or stability will continue. Moreover, while the UAE government's policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained.

The economy of the Emirate of Abu Dhabi depends in large part upon oil products, so that a decline in international prices for oil products could adversely affect TAQA. Such prices have fluctuated in response to changes in many factors over which TAQA has no control. These factors include, but are not limited to:

- economic and political developments in oil producing regions, particularly in the Middle East;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the ability of members of the Organisation of Petroleum Exporting Countries and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major crude oil producing or consuming countries;
- prices and availability of alternative fuels;
- global economic and political conditions;
- prices and availability of new technologies; and
- global weather and environmental conditions.

Additionally, no assurance can be given that the UAE government will not implement regulations or fiscal or monetary policies, including policies, regulations, or new legal interpretations of existing regulations, relating to or affecting taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on TAQA's business, financial condition, results of operations or prospects.

Because of the influence the government of the Emirate of Abu Dhabi has exercised, and can be expected to continue to exercise, over TAQA's operations, unexpected changes in governmental policy may materially affect its results of operations and financial condition

The government of the Emirate of Abu Dhabi has exercised, and can be expected to continue to exercise, a strong influence over TAQA's operations. ADWEA, a governmental agency, is TAQA's founding shareholder and owns 51 per cent. of its equity. Because of its shareholding, ADWEA is in a position to approve the election of all the members of TAQA's board of directors. Any unexpected changes in the government's policy on water production or power generation as it applies to TAQA's

operating subsidiaries could have a material adverse effect on TAQA's results of operations and financial condition.

UAE law and courts and the enforcement of foreign judgments in the Emirate of Abu Dhabi

The Emirate of Abu Dhabi's courts are unlikely to enforce a United States or English judgment without re-examining the merits of the claim and may not observe the parties' choice of English law as the governing law of the transaction. In addition, even if English law is applied as the governing law, this will only be applied to the extent that it is compatible with the Emirate of Abu Dhabi law and public policy. Moreover, judicial precedent in the UAE has no binding effect on subsequent decisions and there is no formal system of reporting court decisions in the UAE. These factors create greater judicial uncertainty than would be expected in certain other jurisdictions.

UAE bankruptcy law

In the event of TAQA's insolvency, UAE bankruptcy law may adversely affect TAQA's ability to make payments to Bondholders.

Risks Related to the Bonds

Bonds may not be a suitable investment for all investors

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risk of investing in the Bonds and the information contained or incorporated by reference in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;
- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Bonds are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of the Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Risks Related to the Structure of the Bonds

Modification, waivers and substitutions

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds also provide that the Trustee may, without the consent of Bondholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Bonds or (ii) determine without the consent of the Bondholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Bonds in place of the Issuer, in the circumstances described in Condition 11 of the Terms and Conditions of the Bonds.

The Bonds may be redeemed prior to their final maturity date for tax reasons

In the event that TAQA would be obliged to increase the amounts payable in respect of any Tranche due to certain changes affecting taxation in the UAE or any Emirate therein or any political subdivision thereof, the Issuer may redeem all but not some only of the outstanding Bonds of such Tranche in accordance with the Terms and Conditions of the Bonds.

Change of law

The Terms and Conditions of the Bonds are based on English law in effect as at the date of issue of the Bonds. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Bonds.

Claims in respect of the Bonds are structurally subordinated to claims of creditors of subsidiaries

Generally, in the event of a winding-up or insolvency of a subsidiary of TAQA, claims of secured and unsecured creditors of such subsidiary will have priority with respect to the assets and revenues of such subsidiary over the claims of creditors of TAQA. Claims in respect of the Bonds will therefore be effectively subordinated to creditors of subsidiaries of TAQA.

However, TAQA is expected to become a secured creditor in relation to operating subsidiaries which it has refinanced and, subject to applicable law, its claims in respect of the refinanced debt will rank in priority to the claims of such operating subsidiaries' unsecured creditors.

Market-Related Risks

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

The secondary market generally

The Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Although application has been made for the Bonds to be admitted to trading on the Official List and to trading on the Market, there is no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a severely adverse effect on the market value of Bonds.

Exchange rate risks and exchange controls

TAQA will pay principal of, and interest on, the U.S.\$ Bonds in U.S. dollars and the € Bonds in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than U.S. dollars or Euro, as the case may be. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or Euro, as the case may be, or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of

the Investor's Currency relative to the U.S. dollar or Euro, as the case may be, would decrease (1) the Investor's Currency equivalent yield on the Bonds, (2) the Investor's Currency equivalent value of the principal payable on the Bonds and (3) the Investor's Currency equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

The Bonds pay a fixed rate of interest, and an investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Bonds are legal investments for it, (2) Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

TAQA's credit ratings may be suspended, downgraded or withdrawn, which could have an adverse effect on the value of an investment in the Bonds

TAQA has been assigned a corporate credit rating of Aa3 by Moody's and A+ by Standard & Poor's. A credit rating is not a recommendation to buy, sell or hold the Bonds. Credit ratings are subject to revision or withdrawal at any time by the assigning rating agency. TAQA cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. TAQA has no obligation to inform Bondholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to TAQA may adversely affect the market price of the Bonds.

USE OF PROCEEDS

A substantial portion of the net proceeds are expected to be used to refinance existing indebtedness of TAQA's operating subsidiaries. The terms of any refinancing are expected to be substantially equivalent to the terms of the existing indebtedness of TAQA's operating subsidiaries and the borrowers are expected to provide covenants, security, reserve accounts and direct agreements customarily included in project financing transactions. The remainder of the proceeds will be used to make investments in accordance with TAQA's international investment strategy or for general corporate purposes.

SELECTED FINANCIAL AND OTHER INFORMATION

The selected financial information set forth below has been derived from TAQA's audited consolidated financial statements at and for the years ended 31 December 2003, 2004 and 2005 and its unaudited interim condensed consolidated financial statements at and for the six months ended 30 June 2006. TAQA's financial statements have been prepared in accordance with International Financial Reporting Standards. The transfer to TAQA of 90 per cent. of ADWEA's interest in the five operating subsidiaries at 1 July 2005 has been treated as a business combination involving entities or businesses under common control, and the financial statements at and for the years ended 31 December 2003, 2004 and 2005 have been prepared on the basis of the pooling of interests method as if the business combination had occurred at 1 January 2003. See "Presentation of Financial Information". The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and its consolidated financial statements and the notes thereto included elsewhere in this Prospectus.

	Year Ended 31 December				Six months ended 30 June		
	2003	2004	2005	2005 ⁽¹⁾	2005	2006	2006 ⁽¹⁾
	(AED thousands)				(unaudited)		
				(U.S.\$ thousands)	(AED thousands)		(U.S.\$ thousands)
Income Statement Data:							
Revenues							
Sale of electricity and water ..	1,330,059	2,029,146	2,911,056	793,203	1,340,459	1,488,320	405,537
Net liquidated damages received	<u>1,325</u>	<u>698</u>	<u>88,924</u>	<u>24,230</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenues	<u>1,331,384</u>	<u>2,029,844</u>	<u>2,999,980</u>	<u>817,433</u>	<u>1,340,459</u>	<u>1,488,320</u>	<u>405,537</u>
Cost of Sales							
Staff costs	(30,325)	(23,601)	(28,908)	(7,877)	(11,919)	(15,280)	(4,163)
Repairs, maintenance and consumables used	(220,619)	(391,054)	(560,216)	(152,647)	(262,548)	(310,773)	(84,679)
Depreciation and amortisation	<u>(354,010)</u>	<u>(543,383)</u>	<u>(769,118)</u>	<u>(209,569)</u>	<u>(356,553)</u>	<u>(434,463)</u>	<u>(118,382)</u>
Total cost of sales	<u>(604,954)</u>	<u>(958,038)</u>	<u>(1,358,242)</u>	<u>(370,093)</u>	<u>(631,020)</u>	<u>(760,516)</u>	<u>(207,225)</u>
Gross Profit	726,430	1,071,806	1,641,738	447,340	709,439	727,804	198,312
Administrative and other expenses	(29,546)	(40,346)	(58,061)	(15,820)	(27,183)	(33,929)	(9,245)
Finance costs	(465,300)	(671,078)	(1,027,434)	(279,955)	(441,048)	(583,521)	(158,998)
Gain on exchange	299	10,010	13,199	3,596	8,652	127	35
Changes in fair value of derivatives	7,888	(3,326)	25,635	6,985	(29,436)	78,433	21,371
Interest income	5,364	9,384	58,938	16,059	15,350	80,905	22,045
Share in the results of associate	—	—	—	—	—	17,120	4,665
Other income	<u>550</u>	<u>3,088</u>	<u>2,141</u>	<u>583</u>	<u>1,154</u>	<u>9,116</u>	<u>2,484</u>
Profit from Ordinary Activities	245,685	379,538	656,156	178,789	236,928	296,055	80,669
Interest income on IPO bank deposits ⁽²⁾	<u>—</u>	<u>—</u>	<u>602,036</u>	<u>164,042</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit for the Year/Period ..	<u>245,685</u>	<u>379,538</u>	<u>1,258,192</u>	<u>342,831</u>	<u>236,928</u>	<u>296,055</u>	<u>80,669</u>

	At 31 December			At 30 June	
	2003	2004	2005	2006	2006 ⁽¹⁾
	(AED thousands)			(unaudited)	(U.S.\$ thousands)
Balance Sheet Data:					
Assets					
Non-current assets					
Property, plant and equipment.....	15,853,893	17,058,260	23,602,485	24,210,169	6,596,776
Investments in an associate	—	—	—	131,291	35,774
Initial spares fee	—	143,180	134,097	128,596	35,040
Advances to related parties	68,242	64,692	423,216	237,444	64,699
Investment — available for sale	356	356	1,032	676	184
Other long-term assets	68,449	168,429	245,373	224,787	61,250
Intangible assets	106,720	103,757	564,444	555,713	151,420
Total non-current assets	16,097,660	17,538,674	24,970,647	25,488,676	6,945,143
Current assets					
Inventories	411,504	533,921	680,914	698,594	190,353
Advances to related parties	3,447	3,498	12,123	11,500	3,134
Amount due from ADWEA	—	—	1,001,106	—	—
Amounts due from related parties	272,005	437,634	507,223	719,062	195,930
Prepayments and other assets	165,045	291,297	255,506	1,217,513	331,747
Bank balances and cash	702,750	827,644	3,066,840	3,792,963	1,033,505
Total current assets	1,554,751	2,093,994	5,523,712	6,439,632	1,754,668
Total assets	17,652,411	19,632,668	30,494,359	31,928,308	8,699,811
Equity and Liabilities					
Equity					
Share capital.....	1,261,530	1,835,280	4,150,000	4,150,000	1,130,790
Statutory reserve.....	29,589	50,197	147,565	147,565	40,208
Legal reserve	29,589	50,197	147,565	147,565	40,208
Retained earnings	233,858	398,722	1,177,662	1,375,574	374,816
Cumulative changes in fair values of derivatives	(585,144)	(567,476)	(390,610)	120,171	32,744
	969,422	1,766,920	5,232,182	5,940,875	1,618,767
Minority interests	193,470	667,168	944,332	1,451,419	395,482
Total equity	1,162,892	2,434,088	6,176,514	7,392,294	2,014,249
Non-current liabilities					
Term loans	10,856,350	11,575,212	18,594,718	19,110,945	5,207,342
Islamic Ijara loans	1,769,605	2,470,341	2,423,734	2,397,164	653,178
Islamic Muqawala loan.....	411,288	573,006	709,236	731,654	199,361
Loans from minority interest shareholders in controlled subsidiaries	280,820	468,323	366,743	424,732	115,731
Employees' end of service benefits	234	116	107	128	35
Assets retirement obligation	—	122,368	218,578	226,119	61,613
Loan from minority interest shareholder — ADWEA	—	—	92,640	92,640	25,243
Total non-current liabilities	13,318,297	15,209,366	22,405,756	22,983,382	6,262,502

	At 31 December			At 30 June	
	2003	2004	2005	2006	2006 ⁽¹⁾
	(AED thousands)			(unaudited)	(U.S.\$ thousands)
Current liabilities					
Accounts payable	54,757	157,752	81,325	46,507	12,672
Term loans	1,485,271	287,540	296,501	172,871	47,104
Current portion of Ijara loans	3,214	47,183	46,607	51,939	14,152
Loans from minority interest shareholders in controlled subsidiaries	75,230	100,236	81,907	76,108	20,738
Dividend payable	35,070	—	18,365	—	—
Amounts due to related parties	4,006	4,472	205,516	119,754	32,631
Accruals and other liabilities	1,498,721	1,287,074	1,055,105	922,706	251,419
Bank overdraft	14,953	104,957	126,763	162,747	44,345
Total current liabilities	<u>3,171,222</u>	<u>1,989,214</u>	<u>1,912,089</u>	<u>1,552,632</u>	<u>423,060</u>
Total Liabilities	<u>16,489,519</u>	<u>17,198,580</u>	<u>24,317,845</u>	<u>24,536,014</u>	<u>6,685,562</u>
Total Equity and Liabilities	<u>17,652,411</u>	<u>19,632,668</u>	<u>30,494,359</u>	<u>31,928,308</u>	<u>8,699,811</u>

	Year ended 31 December				Six months ended 30 June	
	2003	2004	2005	2005 ⁽¹⁾	2005	2006 ⁽¹⁾
	(AED thousands)			(U.S.\$ thousands)	(unaudited)	(U.S.\$ thousands)

Cash Flow Data:

Net cash from (used in) operating activities	(252,463)	154,888	1,053,807	287,141	277,262	65,006	17,713
Net cash used in investing activities ..	(6,534,582)	(1,757,391)	(7,386,258)	(2,012,604)	(629,297)	(874,430)	(238,264)
Net cash from financing activities	6,641,861	1,637,393	8,549,841	2,329,657	2,697,687	1,499,563	408,600
Cash and cash equivalents at the end of the year/period	687,797	722,687	2,940,077	801,111	3,068,339	3,630,216	989,160

	Power Availability (% contracted capacity)		Water Availability (% contracted capacity)	
	Jan-Dec 2005	Jan-Aug 2006	Jan-Dec 2005	Jan-Aug 2006
Capacity Data: ⁽³⁾				
Emirates CMS Power Co.	99.9	99.9	100.0	99.8
Gulf Total Tractebel Power Co.	91.1	81.0	94.5	95.3
Arabian Power Co.	94.9	98.9	93.9	94.0
Shuweihat CMS Int'l Power Co.	98.7	98.2	97.6	96.8
Taweelah Asia Power Co.	99.8	95.2	100.0	99.4

- (1) Solely for the convenience of the reader, AED amounts have been translated into U.S. dollars at the rate of AED 3.67 = U.S.\$1.00.
- (2) Represents interest income carried on funds placed on deposit by subscribers for shares of TAQA offered in connection with the initial public offering of TAQA shares. The funds were held on deposit for three weeks, and funds in respect of subscription amounts for which the allocation was made were repaid without interest.
- (3) Average of monthly averages. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Results of Operations — Power and Water Purchase Agreements".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the information set out in "Selected Financial and Other Information" and the consolidated and combined financial statements and accompanying notes included elsewhere in this Prospectus.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. TAQA'S future results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections entitled "Forward-Looking Information", "Risk Factors" and "Description of Business" elsewhere in this Prospectus.

Overview

TAQA is one of the leading electricity generation and water production groups in the UAE. TAQA, through its operating subsidiaries in the UAE, provides more than 85 per cent. of the water and electricity produced in the Emirate of Abu Dhabi. Each operating subsidiary is partially owned by, and operated under long-term management contracts with, one or more leading international utilities, oil and gas companies and project developers. TAQA is in the process of completing a major refurbishment and expansion programme, begun in 1998, which, when completed, will increase the Group's net power generation capacity to approximately 7,210 MW and result in net water desalination capacity of approximately 589 MIGD. TAQA anticipates that its plants have economic lives substantially in excess of their respective PWPA contract terms. TAQA's operating subsidiaries have to date financed the refurbishment and expansion programmes by making extensive use of limited recourse project financing.

For the year ended 31 December 2005, TAQA had consolidated revenues and profit from ordinary activities of AED 3,000 million and AED 656.2 million, respectively, and had total assets of AED 30,494.4 million at 31 December 2005. For the six months ended 30 June 2006, TAQA had consolidated revenues and profit from operations of AED 1,488.3 million and AED 693.9 million, respectively, and had total assets of AED 31,928.3 million at 30 June 2006.

Presentation of Financial Information

This Prospectus contains the following financial statements:

- TAQA's audited consolidated financial statements at and for the years ended 31 December 2003, 2004 and 2005 prepared in accordance with IFRS.
- TAQA's unaudited interim condensed consolidated financial statements at and for the six months ended 30 June 2006, prepared in accordance with IAS 34.

TAQA commenced operations in July 2005 and at that time acquired 90 per cent. of ADWEA's interest in five power generation and water desalination companies. The five companies are (i) Emirates Power Company PJSC, (ii) Gulf Power Company PJSC, (iii) Shuweihat Power Company PJSC, (iv) Arabian United Power Company PJSC and (v) Taweelah United Power Company PJSC. The transfer of 90 per cent. of ADWEA's interest in the five companies was treated as a business combination involving entities or businesses under common control in which all of the combined entities or businesses were controlled by the same party both before and after the business combination. The acquisition by TAQA of its 90 per cent. interest in these companies has been accounted for in the audited consolidated financial statements on the basis of the pooling of interests method and periods prior to the combination have been restated to reflect the business combination as if it had occurred on 1 January 2003.

In January 2006, 49 per cent. of the equity of Wathba Company for Central Services PJSC ("Wathba") was transferred from ADWEA to TAQA. Wathba was established in 1999 and maintains

and manages a fleet of vehicles and heavy and light equipment for use by ADWEA and its group companies. It also provides general contracting services relevant to the installation of water, electricity and gas pipelines, civil maintenance works and air conditioning works relevant to the field of production, transmission and distribution of water and electricity. TAQA's consolidated income statement for the six months ended 30 June 2006 included the results of operations of Wathba under the caption "share in the results of associate" from the date of its acquisition.

In September 2006, Emirates SembCorp Water and Power Company ("ESWPC") was formed to operate the existing Fujairah power generation and water desalination facility. ESWPC is an operating subsidiary of TAQA and SembCorp Utilities owns a 40 per cent. interest in ESWPC. The results of operations of ESWPC have not been included in TAQA's financial statements for the six months ended 30 June 2006 or prior periods, but will be included in TAQA's financial statements for the year ending 31 December 2006 and subsequent periods. The expansion of the facility currently is expected to be operational in the first quarter of 2009.

Key Factors Affecting Results of Operations

Power and Water Purchase Agreements

The most significant factor affecting TAQA's revenues is its ability to make available power generation and water output capacity. Each of TAQA's six operating subsidiaries has entered into a PWWA with ADWEC. Under the PWWAs, each operating subsidiary undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plants owned by the respective operating subsidiaries during the term of the PWWA in accordance with the terms and conditions set out in the PWWAs. Under each PWWA, the tariff has been structured such that costs are exceeded by matching revenues by a margin intended to allow debt service to be paid and the shareholders to receive an agreed rate of return upon their investment.

Payments under the PWWA consist, broadly, of capacity payments and payments for fixed and variable operating and maintenance expenses that are passed through ADWEC. Capacity payments are determined and invoiced on a monthly basis. Capacity payments are increased or decreased to the extent that an operating subsidiary achieves availability ratings which are above or below contracted targets. The effect of these adjustments is amplified during the summer period by means of the multiplication of any such increase or decrease by an additional co-efficient. For this purpose, the summer period commences on 1 April and ends on 31 October in each year. Capacity payments are also calculated by reference to, among other things, a plant's thermal, or energy conversion, efficiency. Revenues broadly increase to the extent that the plant is able to achieve contracted availability with less than the corresponding agreed amount of fuel.

As a result of the number of factors that determine the calculation of the tariff in respect of any particular month, there is no strict correlation between the annualised figures for power and water availability and the actual amount of revenues of an operating subsidiary. For example, reduced availability during the winter period will have less impact on annual revenues than if the same reduced availability had occurred during summer. Moreover, as reduced availability will also in some circumstances lead to a reduction in operating and maintenance costs, the impact on an operating subsidiary's profit from operations caused by a reduction in revenue as linked to reduced availability will be offset to an extent by the reduction in such costs.

Critical Accounting Policies

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Estimates are evaluated based on available information and experience. Actual results could differ from these estimates under different assumptions or conditions. TAQA's management believes that, in particular, the critical accounting policies and estimates discussed below involve significant management judgment

due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. For a detailed description of significant accounting judgments and estimates, please see Note 2.3 to the consolidated financial statements and Note 2 to the interim financial statements.

PWPAs and Revenue Recognition

Each of TAQA's operating subsidiaries has entered into a PWPA. Under these agreements, the subsidiaries receive payments for the provision of electrical or water capacity whether or not ADWEC requests electrical or water output. Revenue represents the sale of water desalination and electricity generation services comprised of the available capacity and variable output to ADWEC during the period. Revenues are recognised when capacity is made available. Unbilled revenues are based on estimated quantities of kilowatts of electricity and gallons of potable water delivered or made available during the period but not yet billed.

Impairment of Inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, TAQA's management estimates their net realisable value. For individually significant inventory items this estimate is performed on an individual basis. Inventories which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and TAQA's policy for inventory provisioning. The gross carrying amount of inventories at 31 December 2005 was AED 694.9 million and the provision for old and obsolete items was AED 14.0 million.

Impairment of Property, Plant and Equipment

TAQA's management determines whether there are any indications of impairment to the carrying values of property, plant and equipment on an annual basis by reviewing the difference between the duration of contracted cash flows and the accounting depreciation of the related assets. This requires an estimate of the value in use of the cash generating units. Estimating the value in use requires TAQA's management to make an estimate of the expected future cash flows for the period lying beyond the term of the PWPA and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment at 31 December 2005 was AED 23,602.5 million.

Provisions

Provisions are recognised when there is an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured. As part of the land lease agreement between ADWEA and TAQA's operating subsidiaries, the subsidiaries have a legal obligation to remove the power and water desalination plants at the end of the plants' useful lives, or earlier if the subsidiaries become unable to continue their operations to that date, and to restore the land. The operating subsidiaries are required to dismantle, demobilise, safeguard and transport the assets, eliminate soil and ground water contamination, fill all excavation and return the surface to the grade of the designated areas at their own expense. The fair value of this liability is calculated using expected present values, which reflect assumptions as to costs, the subsidiaries' useful lives, inflation and the profit margin that third parties would require to settle the obligation.

Derivatives

TAQA's operating subsidiaries enter into derivative instruments to hedge against interest rate and foreign exchange fluctuations. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivatives using

prevailing market rates. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the income statement. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the income statement. Where the adjustment relates to a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement on a systematic basis such that it is fully amortised by maturity.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the income statement. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the income statement in the period in which the hedged transaction impacts the income statement or capitalised with other borrowing costs in accordance with International Accounting Standard No. 23. The capitalisation of gains or losses will cease when substantially all the activities necessary to prepare each part of the plant for its intended use are completed and commissioned.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the period.

Results of Operations

Six Months Ended 30 June 2006 Compared to Six Months Ended 30 June 2005

Revenues

TAQA's revenues consist of revenues from its generation and sale of electricity and water capacity as well as liquidated damages it receives from contractors and, if applicable, business interruption or delay in start-up insurance proceeds received. Total revenues from the sale of electricity and water were AED 1,488.3 million for the six months ended 30 June 2006, an increase of 11 per cent. compared to total revenues of AED 1,340.5 million for the six months ended 30 June 2005.

The increase in revenues reflected a full six months of revenues from Taweelah United Power Company PJSC, the holding company of the operator of the Taweelah B facility, which recorded revenues of AED 292.0 million for the six months ended 30 June 2006, an increase of AED 177.6 million compared with revenues of AED 114.4 million for the six months ended 30 June 2005. Taweelah United Power Company PJSC commenced operations in April 2005. This increase was partly offset by a decrease of 11 per cent. in the revenues of Gulf Power Company PJSC, the holding company of the operator of the Taweelah A1 facility, to AED 295.1 million for the six months ended 30 June 2006 compared with revenues of AED 330.0 million for the six months ended 30 June 2005. The decrease was due primarily to loss of available capacity for power generation and water output due to technical problems at the Taweelah A1 facility. See "Description of Business—Domestic Operations—Taweelah A1".

The remaining three operating subsidiaries that were part of the Group during the periods ended 30 June 2005 and 2006 did not add significant additional capacity or experience any particular or significant operational difficulties during the periods, and as a result experienced comparatively smaller fluctuations in revenues. Revenues for Shuweihat Power Company PJSC, the holding

company of the operator of the Shuweihat S1 facility, were AED 380.2 million for the six months ended 30 June 2006, an increase of AED 8.2 million, or 2.2 per cent., compared with revenues of AED 372.0 million for the six months ended 30 June 2005. Revenues for Arabian United Power Company PJSC, the holding company of the operator of the Umm al Nar facility, were AED 339.3 million for the six months ended 30 June 2006, an increase of AED 1.4 million, or 0.4 per cent., compared with revenues of AED 337.9 million for the six months ended 30 June 2005. Revenues for Emirates Power Company PJSC, the holding company of the operator of the Taweelah A2 facility, were AED 181.6 million for the six months ended 30 June 2006, a decrease of AED 4.2 million, or 2.3 per cent., compared with revenues of AED 185.8 million for the six months ended 30 June 2005.

Cost of Sales

TAQA's cost of sales consists of staff costs, repairs, maintenance and consumables used and depreciation and amortisation. Cost of sales was AED 760.5 million for the six months ended 30 June 2006, an increase of 20.5 per cent. compared with cost of sales of AED 631.0 million for the six months ended 30 June 2005. The increase in the cost of sales during the six months ended 30 June 2006 reflected a full six months of costs of Taweelah United Power Company PJSC. Cost of sales increased as a percentage of revenues from 47.1 per cent. for the six months ended 30 June 2005 to 51.1 per cent. for the six months ended 30 June 2006. Depreciation and amortisation accounted for AED 434.5 million of cost of sales for the six months ended 30 June 2006, an increase of 22 per cent. compared with depreciation and amortisation of AED 356.6 million for the six months ended 30 June 2005. This increase in depreciation and amortisation was primarily due to new projects coming on line during 2005 and the related increase in the property, plant and equipment that formed the base for the calculation of depreciation and amortisation during the six months ended 30 June 2006.

Finance Costs

Finance costs were AED 583.5 million for the six months ended 30 June 2006 compared with finance costs of AED 441.0 million for the six months ended 30 June 2005. This increase primarily reflected an increase in total indebtedness outstanding during the six months ended 31 June 2006 as a result of TAQA's operating subsidiaries drawing down debt under their commercial loan facilities.

Changes in the Fair Value of Derivatives

TAQA's operating subsidiaries enter into hedge arrangements in respect of their exposure to floating interest rates pursuant to the terms of their project financings. For the six months ended 30 June 2006, TAQA recorded a gain on changes in the fair value of derivatives of AED 78.4 million compared to a loss on changes in the fair value of derivatives of AED 29.4 million during the same period in 2005. The gain in 2006 was attributable to increases in the values of certain interest rate hedges entered into by the Group's operating subsidiaries.

Interest Income

Interest income for the six months ended 30 June 2006 amounted to AED 80.9 million, compared with interest income of AED 15.4 million for the six months ended 30 June 2005. The increase was attributable to interest earned on increased cash deposits resulting primarily from amounts placed on deposit by prospective subscribers in connection with the initial public offering of shares of TAQA during August 2005. The funds were held in interest-bearing accounts and amounts in respect of which no allocation of shares was granted were returned after three weeks without interest. The AED 602 million of interest that accrued on these funds was retained by TAQA. The retained funds were held as cash balances and interest income was generated on these cash balances during the first six months of 2006.

Profit for the Period

Profit for the period was AED 296.1 million for the six months ended 30 June 2006, an increase of 25.0 per cent. compared with profit for the period of AED 236.9 million for the six months ended 30 June 2005. The increase in profit for the period was partially offset by the impact of unplanned outages and repairs which negatively impacted Gulf Power Company PJSC's net income through lost revenue for non-availability of capacity and increased repair costs.

Year Ended 31 December 2005 Compared to Year Ended 31 December 2004

Revenues

Total revenues were AED 3,000.0 million for 2005, an increase of AED 970.1 million, or 47.8 per cent., compared with total revenues of AED 2,029.9 million for 2004. During 2005, Arabian United Power Company PJSC received AED 128.7 million in the form of liquidated damages from its contractor as compensation for loss of revenue, which was offset in part by its payment of AED 39.8 million as liquidated damages to ADWEC. Revenues for Shuweihat Power Company PJSC were AED 753.7 million for 2005 compared with AED 305.8 million for 2004. Shuweihat Power Company PJSC's operating subsidiary began operations in August 2004 and had its first full year of operations in 2005. Revenues for Taweelah United Power Company PJSC, whose operating subsidiary began its operations in April 2005, were AED 420.0 million for 2005.

Revenues for Arabian United Power Company PJSC were AED 683.4 million for 2005, a decrease of AED 2.0 million, or 0.3 per cent., compared with AED 685.4 million for 2004. Revenues for Gulf Power Company PJSC were AED 669.9 million for 2005, a decrease of AED 2.0 million, or 0.3 per cent., compared with AED 671.9 million for 2004. Revenues for Emirates Power Company PJSC were AED 383.6 million for 2005, an increase of AED 17.6 million, or 4.8 per cent., compared with AED 366.0 million for 2004.

Cost of Sales

Cost of sales was AED 1,358.2 million for 2005, an increase of 41.8 per cent. compared with costs of AED 958.0 million for 2004. Cost of sales included depreciation and amortisation in the amount of AED 769.1 million for 2005, an increase of 41.5 per cent. compared with depreciation and amortisation of AED 543.4 million for 2004, reflecting additional capacity coming on stream at Shuweihat S1 and Taweelah B. Costs of sales decreased as a percentage of revenues from 47.2 per cent. for 2004 to 45.3 per cent. for 2005. Cost of sales for Taweelah United Power Company PJSC was AED 205.9 million for 2005. Cost of sales for Shuweihat Power Company PJSC was AED 316.4 million for 2005 compared with AED 123.7 million for 2004.

Cost of sales for Arabian United Power Company PJSC was AED 378.1 million for 2005, an increase of AED 7.7 million, or 2.0 per cent., compared with AED 370.4 million for 2004. Cost of sales for Gulf Power Company PJSC was AED 312.8 million for 2005, a decrease of AED 4.3 million, or 1.4 per cent., compared with AED 317.1 million for 2004. Cost of sales for Emirates Power Company PJSC was AED 141.4 million for 2005, a decrease of AED 5.5 million, or 3.9 per cent., compared with AED 146.9 million for 2004.

Finance Costs

Finance costs were AED 1,027.4 million for 2005, an increase of AED 356.3 million, or 53.1 per cent., compared with finance costs of AED 671.1 million for 2004. The increase primarily reflects an increase in total indebtedness during 2005, reflecting increased indebtedness of TAQA's operating subsidiaries, primarily as a result of the financial close of the Taweelah B facility.

Profit from Ordinary Activities

Profit from ordinary activities was AED 656.2 million for 2005, an increase of 72.9 per cent. compared with profit from ordinary activities of AED 379.5 million for 2004. Profit for the year for 2005 was AED 1,258.2 million compared to AED 379.5 million in 2004. The increase reflected, in addition to profit from ordinary activities, the interest income on IPO bank deposits of AED 602.0 million received in connection with the initial public offering of TAQA, which was over-subscribed and in respect of which subscription amounts for which no allocation was made were received and held as bank deposits before being repaid without interest.

Interest Income on IPO Bank Deposits

TAQA recorded interest income on IPO bank deposits of AED 602 million for the year ended 31 December 2005 in respect of interest earned on deposits of funds by prospective subscribers in connection with the initial public offering of TAQA shares during August 2005. Funds in respect of which there was no allocation of shares were returned after three weeks without interest, and the full amount of the interest income accrued on the funds was retained by TAQA. There was no corresponding interest income on IPO bank deposits during 2004 or prior periods.

Profit for the Year

Profit for the year was AED 1,258.2 million for 2005, an increase of AED 878.7 million from AED 379.6 million for 2004, due primarily to the factors discussed above.

Year Ended 31 December 2004 Compared to Year Ended 31 December 2003

Revenues

Total revenues from the sale of electricity and water and net liquidated damages received were AED 2,029.8 million for 2004, an increase of AED 698.5 million, or 52.5 per cent., compared with total revenues of AED 1,331.4 million for 2003. This increase in revenue reflected new capacity at Shuweihat S1 and Umm al Nar becoming available during 2004 and 2003, respectively.

Shuweihat Power Company PJSC did not record any revenue in 2003 and recorded revenues of AED 305.8 million for 2004. Revenues for Arabian United Power Company PJSC were AED 685.4 million for 2004, compared with revenues of AED 344.9 million for 2003, as 2004 was the first full year of operations of the Umm al Nar facility. Additionally revenues for Gulf Power Company PJSC were AED 671.9 million for 2004, an increase of 8.1 per cent. compared with total revenues of AED 621.6 million for 2003. This increase was due primarily to payments for additional capacity of power and water over the PWPA requirements. Revenues for Emirates Power Company PJSC were AED 366.0 million for 2004, an increase of AED 2.4 million, or 0.7 per cent. compared with AED 363.6 million for 2003. Taweelah United Power Company PJSC did not record any revenues in either 2003 or 2004.

Cost of Sales

Cost of sales was AED 958.0 million for 2004, an increase of 58.4 per cent. compared with costs of AED 605.0 million for 2003. Cost of sales included depreciation and amortisation in the amount of AED 543.4 million in 2004, an increase of 53.5 per cent. compared with depreciation and amortisation of AED 354.0 million for 2003. This increase was due primarily to the completion of additional facilities to provide additional capacity at TAQA's subsidiaries at Shuweihat S1 and the first year of depreciation in respect of the newly completed facilities at Umm al Nar. Cost of sales increased as a percentage of revenues from 45.4 per cent. in 2003 to 47.2 per cent. in 2004.

Cost of sales for Shuweihat Power Company PJSC was AED 123.7 million for 2004, and included depreciation of AED 63.4 million. Cost of sales for Arabian United Power Company PJSC was AED 370.4 million for 2004, compared with cost of sales of AED 192.1 million for 2003. The

increase was also partly due to an increase of 33 per cent. in repairs and maintenance and consumables used at Emirates Power Company PJSC of AED 62.6 million, compared with repairs and maintenance and consumables of AED 47.1 million for 2003. Cost of sales for Gulf Power Company PJSC was AED 317.1 million for 2004, a decrease of AED 32.1 million, or 11.3 per cent., compared with AED 285 million for 2003.

Finance Costs

Finance costs were AED 671.1 million for 2004 compared with finance costs of AED 465.3 million for 2003. This increase was primarily due to finance costs for Shuweihat Power Company PJSC of AED 125.7 million during 2004 being added for the first time. Finance costs for Arabian United Power Company PJSC were AED 160.3 million for 2004, compared with financing costs of AED 73.6 million for 2003 as Arabian United Power Company PJSC only began operations in July 2003.

Profit from Ordinary Activities

Profit from ordinary activities was AED 379.5 million for 2004, an increase of 54.5 per cent. compared with profit from ordinary activities of AED 245.7 million for 2003. This increase was primarily due to projects coming on line and increases in financing costs. Profit for the year as a percentage of revenues increased to 18.7 per cent. for 2004 from 18.5 per cent. for 2003.

Profit for the Year

Profit for the year was AED 379.5 million for 2004 compared with AED 245.7 million for 2003.

Liquidity and Capital Resources

TAQA is a holding company and, as such, has no operations of its own. TAQA depends upon the earnings and cash flows of the power generation and water desalination plants owned by its subsidiaries and the ability of those subsidiaries to pay dividends or repay funds to TAQA.

TAQA's cash requirements arise primarily from the capital-intensive nature of its power generation and water desalination operations as well as the prospective expansion of its business portfolio.

Cash Flow

Changes in cash flow from operating activities are driven mainly by changes in amounts due to other parties and principal payments to related parties. Net cash earned in operating activities was AED 65.0 million in the six months to 30 June 2006 compared with AED 277.3 million in the six months to 30 June 2005.

Changes in cash flow from investing activities are driven mainly by purchases of property, plant and equipment. Net cash used in investing activities was AED 874.4 million in the six months ended 30 June 2006 compared with AED 629.3 million in the six months ended 30 June 2005.

Changes in cash flow from financing activities are driven mainly by drawdown and repayment of TAQA's project finance loans. Net cash from financing activities was AED 2,697.7 million raised in financing activities in the six months ended 30 June 2006 compared with AED 1,499.6 million raised in financing activities in the six months ended 30 June 2005.

Investments

In July 2006, TAQA participated in the Rosneft initial public offering and was awarded 4,107,850 Global Depository Receipts at a price of \$7.55 per GDR. The Rosneft GDRs are listed on the London Stock Exchange.

In September 2006, TAQA agreed to invest \$200 million (over a period up to five years) in Carlyle Infrastructure Partners, L.P. The fund invests in infrastructure assets (including toll roads, bridges and tunnels, mass transit systems, airports, aircraft and water treatment and distribution).

Capital Expenditure

The commitments under TAQA's ongoing operations are expected to be financed with cash provided by operations. At 31 December 2005, the authorised capital expenditure contracted by each subsidiary but not provided for amounted to:

Subsidiary	At 31 December 2005 (AED thousands)
Emirates Power Company PJSC	—
Gulf Power Company PJSC	—
Shuweihat Power Company PJSC	4,000
Arabian United Power Company PJSC	471,000
Taweelah United Power Company PJSC	2,682,000

Planned capital expenditures include Taweelah Asia Power Company PJSC entering into, in 2005, a turnkey agreement with an EPC contractor for the engineering, procurement and construction of the Taweelah B plant extension at an expected cost of \$866 million. The authorised capital expenditure contracted for at 30 June 2006 but not provided for amounted to AED 2,258 million.

Each of TAQA's subsidiaries operating power generation and water desalination plants in the UAE has entered into limited recourse project finance arrangements. These arrangements are described in the following sections. Operating budget capital expenditure for these subsidiaries is non-contractual and discretionary. Those subsidiaries still in the construction phase have committed and pre-defined milestone schedules set out in the relevant construction contract.

Capital Resources

TAQA has not, to date, established any working capital facilities as its cash requirements have been met by its cash balances and cash generated by operations and paid to TAQA as dividends by its subsidiaries. The demand for cash calls by TAQA's operating subsidiaries, including in respect of capital expenditure, is mitigated by the existence of their respective project finance loans and working capital facilities as outlined below. However, TAQA's management believes standby facilities could be put in place as and when needed.

TAQA's subsidiaries are financed by limited recourse project finance conventional loan facilities and Islamic loan facilities as set out below.

Term Loans

Term loans have been taken out with respect to the following subsidiaries:

<u>Subsidiary</u>	<u>At 31 December 2005</u> (AED thousands)
Emirates Power Company PJSC	1,323,318
Gulf Power Company PJSC	3,377,125
Shuweihat Power Company PJSC.....	3,511,177
Arabian United Power Company PJSC	3,829,993
Taweelah United Power Company PJSC.....	<u>6,849,606</u>
	<u>18,891,219</u>
Disclosed in the balance sheet as follows:	
Non-current liabilities.....	18,594,718
Current liabilities.....	<u>296,501</u>
	<u>18,891,219</u>

Emirates Power Company PJSC

During 1999, Emirates CMS Power Company PJSC ("ECPC"), obtained loan facilities from a syndicate of banks led by Barclays Bank amounting to \$596 million out of which \$556 million was fully drawn by 31 December 2001 to finance the construction of the Taweelah A2 plant.

On 15 March 2004, ECPC obtained a \$388 million term loan facility and a \$150 million Islamic loan facility, which is discussed in more detail below under "—Islamic Loans", from a syndicate of international and UAE-based banks to refinance the existing term loan and repay up to \$35 million of a loan from its shareholders. Both loans were fully drawn during 2004. The term loan carries interest at a variable rate of LIBOR plus a premium of between 0.95 per cent. and 1.3 per cent. per annum for its remainder period.

The term loan is repayable in semi-annual instalments until 2020 in accordance with an agreed-upon installment schedule. The term loan is secured by the grant of security interests over substantially all of the assets of ECPC. The term loan is also subject to various covenants as stipulated in the loan facility agreement. See "Summary of the Financing Documents".

Under the terms of the facilities, ECPC is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates. In order to reduce its exposure to interest rate fluctuations on the term loan and the Islamic loan, ECPC has entered into an interest rate arrangement with counterparty banks for a notional amount that matches the outstanding term loan and the Islamic loan. The notional amount outstanding at 30 June 2006 was AED 1,835 million. As a result of the debt refinancing arrangements concluded in March 2004, derivatives existing prior to the refinancing date have been cancelled and new interest rate swap contracts have been entered into as part of the debt refinancing arrangements.

Gulf Power Company PJSC

During 2000, Gulf Total Tractebel Power Company PJSC ("GTTPC"), obtained a loan facility from a syndicate of banks led by BNP Paribas and Citibank, N.A. amounting to \$1 billion which was fully drawn by 31 December 2002 to finance the acquisition, refurbishment and extension of the Taweelah A1 power and desalination plant. During 2003, GTTPC drew down \$5 million of the

\$15 million standby facility. The loan carries interest at a variable rate of LIBOR plus 1.10 per cent. per annum for the period of the loan. The loan also carries a commitment fee of 0.375 per cent. per annum on the undrawn amounts.

The loan is repayable in 27 semi-annual instalments starting from October 2005 until October 2019 in accordance with an agreed-upon installment schedule. The loan is secured by the grant of security interests over substantially all the assets of GTTPC. The loan is also subject to various covenants as stipulated in the loan facility agreement. See “Summary of the Financing Documents”.

Under the terms of its facilities, GTTPC is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates. In order to reduce its exposure to interest rates fluctuations on the term loan, GTTPC has entered into an interest rate arrangement with counterparty banks for a notional amount that mirrors the draw down and repayment schedule of the term loan, covering at least 85 per cent. of the outstanding term loan. The notional amount outstanding at 30 June 2006 was AED 2,856 million.

Shuweihat Power Company PJSC

During 2001, Shuweihat CMS International Power Company PJSC (“SCIPCO”), obtained loan facilities from a syndicate of banks led by Barclays Bank and certain other mandated lead arrangers (term and equity bridge loan facilities) and Abu Dhabi Islamic Bank (Islamic loan facilities) to finance the construction of the Shuweihat S1 plant.

The equity bridge loan amounting to \$252 million and the Islamic loan facility amounting to \$100 million were fully repaid in August 2004. The amount of the term loan facility is \$1,035 million, including a \$50 million standby facility, of which \$985 million was drawn.

The term loan is repayable in 32 semi-annual instalments until 2021 in accordance with an agreed-upon installment schedule. The term loan carries interest at a variable rate of LIBOR plus 1.15 per cent. to 1.75 per cent. per annum for the period of the loan.

The loan is secured by SCIPCO through the grant of security interests over substantially all of its assets. The loan is also subject to various covenants as stipulated in the loan facility agreement. See “Summary of the Financing Documents”.

Under the terms of its facilities, SCIPCO is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates. In order to reduce its exposure to interest rates fluctuations on the loans, SCIPCO, has entered into an interest rate arrangement with counterparty banks for a notional amount that mirrors the draw down and repayment schedule of the loans, covering not less than 75 per cent. of the outstanding loans. The notional amount outstanding at 30 June 2006 was AED 4,402 million. In addition, the company uses forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations relating to scheduled maintenance cost payments to an overseas supplier. The outstanding forward foreign exchange commitment at 30 June 2006 amounted to AED 302 million.

Arabian United Power Company PJSC

During 2003, Arabian Power Company PJSC (“Arabian Power”), obtained loan facilities from a syndicate of banks led by the Bank of Tokyo-Mitsubishi (term loan facilities (1) and (2) and an equity bridge facility) to finance the acquisition, refurbishment and extension of the Umm al Nar power and desalination plant. The equity bridge loan and conventional loans carry interest at a rate of LIBOR plus 0.5 per cent. to 1.65 per cent. per annum for the whole period of the loans. The loans also carry a commitment fee of 0.375 per cent. per annum on undrawn balances.

The equity bridge loan is \$150 million, was fully drawn at 31 December 2003 and is repayable on 21 July 2008.

The loan facility (1) is \$232 million and was fully drawn at 31 December 2003. The loan is repayable from January 2007 in accordance with an agreed-upon repayment schedule with the last repayment on 21 July 2008.

The loan facility (2) is \$855 million of which \$660 million was drawn at 31 December 2005. The loan is repayable from January 2009 in accordance with an agreed-upon repayment schedule with the last repayment on 21 January 2023.

The loans are secured by the grant of security interests over substantially all the assets of Arabian Power. The loans are also subject to various covenants as stipulated in the loan facility agreement. See "Summary of the Financing Documents".

Under the terms of its facilities, Arabian Power is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates. In order to reduce its exposure to interest rates fluctuations on the loans, Arabian Power has entered into an interest rate arrangement with counterparty banks for a notional amount that mirrors the draw down and repayment schedule of the loans, covering not less than 85 per cent. of the outstanding term loan. The notional amount outstanding at 30 June 2006 was AED 5,565 million.

Taweelah United Power Company PJSC

During 2005, Taweelah Asia Power Company PJSC ("TAPCO"), obtained loan facilities from a syndicate of banks to finance the acquisition, refurbishment and extension of the Taweelah B power and water desalination plant. The loans carry interest at a rate of LIBOR plus 0.45 per cent. to 1.4 per cent. per annum for the whole period of the loans. The loans also carry a commitment fee of 0.375 per cent. per annum on undrawn balances.

The equity bridge loan is \$527 million, was fully drawn at 31 December 2005 and is repayable on 30 June 2008.

The term loan facility (1) is \$940 million, of which \$577 million was drawn at 31 December 2005. The term loan is repayable from December 2008 in accordance with an agreed-upon repayment schedule with the last repayment on 15 June 2025.

The term loan facility (2) is \$1,243 million, of which \$760.4 million was drawn at 31 December 2005. The loan is repayable from December 2008 in accordance with an agreed-upon repayment schedule with the last repayment on 15 June 2025.

The loans are secured by the grant of security interests over substantially all the assets of TAPCO. The loans are also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its facilities, TAPCO is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates. In order to reduce its exposure to interest rate fluctuations on the loans, TAPCO has entered into an interest rate arrangement with counterparty banks for a notional amount that mirrors the draw down and repayment schedule of the loans, covering not less than 75 per cent. of the outstanding loans. The notional amount outstanding at 30 June 2006 was AED 7,195 million.

Islamic Loans

Islamic loans are Shari'ah compliant arrangements comparable to leases and have been taken out with respect to the following TAQA operating subsidiaries:

	At 31 December 2005
	(AED thousands)
Subsidiary	
Emirates Power Company PJSC	511,592
Shuweihat Power Company PJSC	891,161
Arabian United Power Company PJSC	<u>1,067,588</u>
	<u>2,470,341</u>
Disclosed in the balance sheet as follows:	
Non-current liabilities	2,423,734
Current liabilities	<u>46,607</u>
	<u>2,470,341</u>

A fluctuating rental payment is paid under the Islamic financing agreements, which is broadly equivalent to the conventional lenders' return. Each of the operating subsidiaries' Islamic Ijara lenders share security with their conventional lenders.

SCIPCO's and ECPC's Islamic loans are repayable in semi-annual instalments commencing from 31 December 2004 and 30 June 2004, respectively.

Arabian Power's Islamic facility of \$291 million is repayable on 21 July 2008.

In addition, a further Islamic loan has been taken out by Arabian Power and relates to the procurement and manufacturing of certain generation assets under an Islamic loan facility agreement dated 2 July 2003. The facility of \$250 million is repayable in 30 semi-annual instalments commencing from January 2009.

Repayment Profile

The conventional and Islamic loans are repayable in the five years following 31 December 2005, in the following amounts:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(AED thousands)				
Subsidiary					
Emirates Power Company PJSC	83,181	87,706	95,254	103,414	105,350
Gulf Power Company PJSC	144,254	156,429	169,341	183,730	198,856
Shuweihat Power Company PJSC	115,673	151,508	169,653	182,354	198,230
Arabian United Power Company PJSC ..	—	302,673	1,617,514	218,935	206,994
Taweelah United Power Company PJSC ..	—	—	136,395	281,250	294,400

Loans from Minority Interest Shareholders in TAQA's subsidiaries

The following table summarises the loans from minority interest shareholders in TAQA's subsidiaries. All these loans are fully subordinated to the senior lenders, and are free of interest,

unsecured and repayable, subject to there being sufficient cash available after payment of all operating expenses and financing costs.

Subsidiary	At 31 December 2005 (AED thousands)
CMS Generation Taweelah Limited	19,770
Total Tractebel Emirates Power Company	212,667
Shuweihat Limited Partnership	<u>216,212</u>
	<u>448,659</u>

Off-Balance Sheet Arrangements

TAQA has not entered into any off-balance sheet arrangements.

Market Risks

TAQA is exposed to market risk from changes in foreign currency exchange rates. TAQA is exposed to credit risk insofar as its subsidiaries sell water and electricity to a single customer. TAQA is exposed to liquidity risk in connection with its subsidiaries' terms of sale.

Foreign Currency Exchange Risk

TAQA's management considers that TAQA and its subsidiaries are exposed to currency risk on their transactions and balances in U.S. dollars and euro. However, because the UAE dirham has been pegged to the U.S. dollar, at a fixed exchange rate of AED 3.67 = U.S.\$1.00 since 22 November 1980, balances in U.S. dollars are not considered to represent significant currency risk. TAQA's subsidiaries use forward currency contracts to hedge the risk associated with euro currency fluctuations.

Credit Risk

TAQA's subsidiaries sell their products to one related party. They seek to limit their credit risk with respect to this customer by monitoring outstanding receivables.

Liquidity Risk

TAQA's subsidiaries limit their liquidity risk by monitoring their current financial position in conjunction with their cash flow forecasts on a regular basis to ensure funds are available to meet their commitments for liabilities as they fall due. The subsidiaries' terms of sale require amounts to be paid within 30 days of the date of sale. Trade payables are normally settled within 30 days of the date of purchase.

Derivatives

For the purpose of reducing interest rate risk and, to a lesser extent, currency risk, TAQA's subsidiaries use a number of derivative instruments, which are described in more detail above under "—Capital Resources—Term Loans". With respect to currency derivatives, the normal policy is to measure these instruments at their fair value, using the spot rate at the year end as the basis for the fair value measurement with resultant gains or losses being reported within gains less losses arising from dealing in foreign currencies in the consolidated income statement.

DESCRIPTION OF BUSINESS

Overview

TAQA is one of the leading electricity generation and water production groups in the UAE. TAQA, through its operating subsidiaries in the UAE, provides more than 85 per cent. of the water and electricity produced in the Emirate of Abu Dhabi. Each operating subsidiary is partially owned by, and operated under long-term management contracts with, one or more leading international utilities, oil and gas companies and project developers, including International Power plc of the United Kingdom, CMS Energy Corporation of the United States, Total and Suez Energy of France, Marubeni Corporation, Tokyo Electric Power Company and Mitsui Corporation of Japan and SembCorp Utilities of Singapore.

TAQA provides approximately 6,300 MW of net power generation capacity and 591 MIGD of net water desalination capacity. Its subsidiaries are situated in various locations in the Emirate of Abu Dhabi and the Emirate of Fujairah. The operating subsidiaries have contracted out all of their power generation and water desalination capacity under long-term PWPAs to ADWEC, which is 100 per cent. owned by ADWEA. ADWEC is responsible for the distribution of water and electricity in the Emirate of Abu Dhabi.

TAQA is in the process of completing a major expansion and refurbishment programme begun in 1998, which, when completed, will increase the Group's net power generation capacity to approximately 7,210 MW and result in net water desalination capacity of approximately 589 MIGD. TAQA anticipates that its plants have economic lives substantially in excess of their respective PWPA contract terms. The plants incorporate reliable power generation and water desalination technologies and have been built by leading international contractors, including Siemens AG of Germany, General Electric of the United States, Fisia of Italy and Doosan of Korea. The plants generally have performed to the standards required by the PWPAs.

TAQA's operating subsidiaries have to date financed their expansion and refurbishment programmes by making extensive use of limited recourse project financing. Each of TAQA's operating subsidiaries is subject to the technical, environmental, budgeting, reporting and financial disclosure standards under the PWPAs and the lending agreements with leading international commercial banks and export credit agencies.

Strategy

TAQA intends to continue to provide most of the power and water needs of the Emirate of Abu Dhabi. The Group will focus on adding capacity through greenfield projects and expanding and upgrading existing plants. These capacity increases will be funded by limited recourse project financing facilities.

TAQA's long-term strategy also includes being the primary conduit for the Emirate of Abu Dhabi's strategic investments in the global energy sector and, to that end, TAQA intends to implement a regional and international investment strategy. TAQA's strategy will focus broadly on the energy and infrastructure sectors in markets where the Emirate of Abu Dhabi has meaningful political and economic strategic interests, including the member states of the GCC, the wider Middle East, South Asia, Central Asia, South East Asia, Europe and Africa. TAQA intends to make strategic and financial investment in companies and projects active in the energy and infrastructure sectors and to finance such companies and projects whether within the UAE or abroad. TAQA generally intends to pursue opportunities in investment grade equivalent assets with emphasis on assets that are already generating cash flows. TAQA may also make investments in greenfield projects. TAQA is building a team of professionals with significant international experience to spearhead the processes by which potential investments are appraised and risks are analysed. TAQA intends to make use of international legal, financial, technical and market consultants to assist with key investment decisions.

At 30 June 2006, TAQA had AED 22,340 million of long-term indebtedness, consisting primarily of project finance indebtedness incurred by its operating subsidiaries. TAQA intends over the medium term to refinance substantially all of that indebtedness by entering into financing arrangements pursuant to which it will act as principal lender to its operating subsidiaries. A substantial portion of the net proceeds of the issue of the Bonds, together with proceeds of certain other indebtedness expected to be raised by TAQA in the regional and international financial markets, will be available for this refinancing programme. The terms of any such refinancing are expected to be substantially equivalent to the terms of its operating subsidiaries' existing project finance indebtedness.

History and Development

In March 1998, pursuant to Abu Dhabi Law (2) of 1998, ADWEA was established to replace the former Water and Electricity Department of the Emirate of Abu Dhabi and to implement a major water and electricity sector restructuring, refurbishment and expansion programme. ADWEA was empowered to determine all matters relating to the formulation, development and implementation of the policy of the Emirate of Abu Dhabi in relation to the water and electricity sector, including all matters relating to the privatisation of the sector. At the time of incorporation, ADWEA's transmission and distribution assets were transferred into a number of wholly owned subsidiaries, with Abu Dhabi Transmission and Despatch Company ("Transco") having responsibility for transmission of power and water, and ADWEC being assigned the role of power and water purchaser and supplier to two licensed water and power distributors, the Abu Dhabi Distribution Company ("ADDC") and Al Ain Distribution Company ("AADC").

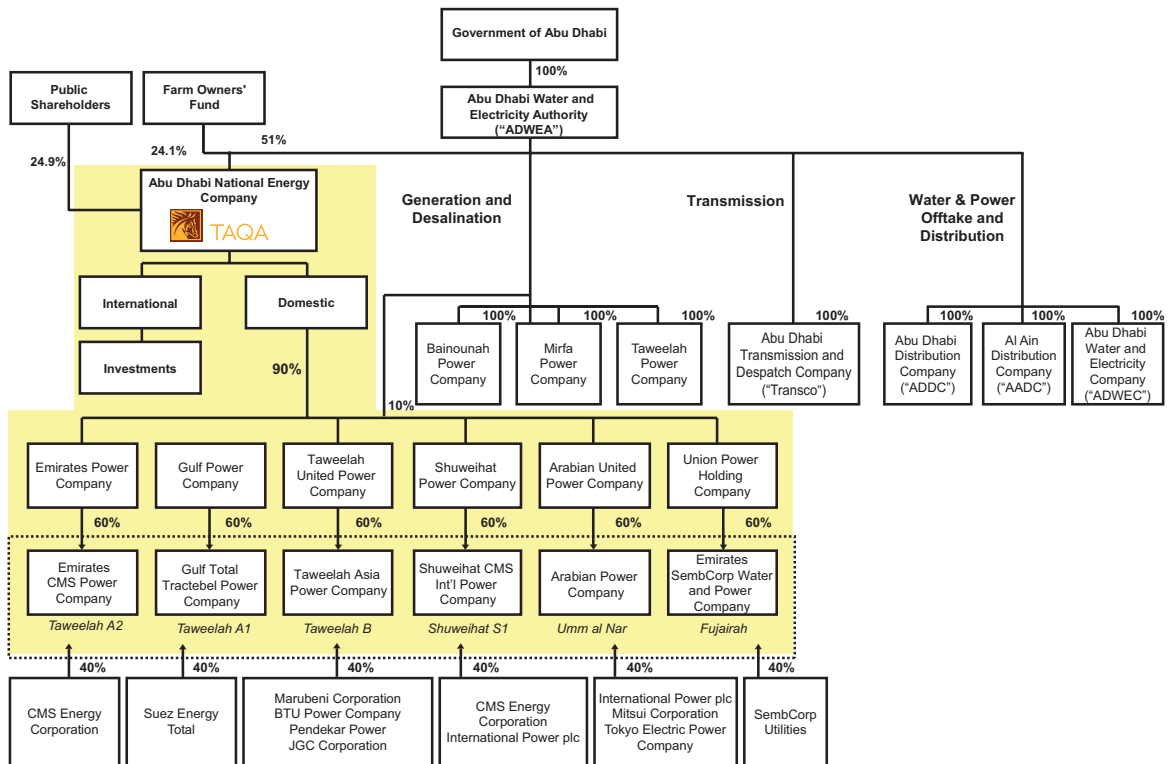
Transco is required to offer non-discriminatory terms to providers of water and power capacity and supply and to distribution companies for connection to transmission systems. ADDC and AADC are required to develop and operate safe and efficient distribution systems for the supply of water and power in the Emirate of Abu Dhabi at rates set within limits imposed by the Regulation and Supervision Bureau.

ADWEA subsequently undertook a privatisation programme with a view to reducing power and water costs and increasing fuel efficiency through market competition, under a process, administered by ADWEA's Department of Privatisation, that invited competitive bids from international developers. The programme succeeded in attracting international know-how and expertise to rehabilitate, expand, and improve the operating efficiencies of ADWEA's power generation and water desalination facilities. In each privatisation, ADWEA divested 40 per cent. of its interest in the relevant facility to the successful bidding consortium, and subsequently transferred 90 per cent. of its remaining 60 per cent. interest to TAQA. Collectively, the privatised facilities provide more than 85 per cent. of the Emirate of Abu Dhabi's water and power requirements.

TAQA was established in June 2005 pursuant to the provisions of Emiri Decree (16) of 2005 as a public joint stock company. At TAQA's inception, ADWEA, then TAQA's sole shareholder, transferred 24.1 per cent. of its shareholding to the Fund for the Support of Farm Owners in the Emirate of Abu Dhabi (the "Farm Owners' Fund") to provide farmers with an income stream and provide longer-term support to farming in the Emirate of Abu Dhabi. The Farm Owners' Fund is administered by a Board of Trustees appointed by the Executive Council of the government of the Emirate of Abu Dhabi. The Under-Secretary of Finance for the Emirate of Abu Dhabi, His Excellency Hamad Al-Hurr Al-Suwaidi, the Chairman of TAQA, is also the current Chairman of the Farm Owners' Fund.

In August 2005, ADWEA elected to list the TAQA shares on the Abu Dhabi Securities Market, and subsequently reduced its shareholding to 51 per cent. At present, TAQA's main shareholders include ADWEA (51 per cent.), the Farm Owners' Fund (24.1 per cent.), and public shareholders (24.9 per cent.). Accordingly, TAQA is a subsidiary of ADWEA. The Emirate of Abu Dhabi controls 75.1 per cent. of TAQA's shareholding.

TAQA's listing on the Abu Dhabi Securities Market has enabled direct domestic private sector participation in Abu Dhabi's water and power sector, and TAQA remains the only avenue through which Abu Dhabi investors may directly invest in the Emirate's power generation and water desalination sector. Ownership of the shares in TAQA is limited to UAE nationals.



Domestic Operating Subsidiaries

TAQA provides approximately 6,300 MW of net power generation capacity and 591 MIGD of net water desalination capacity. TAQA holds its interests in its power generation and water desalination facilities through intermediate holding company subsidiaries, each of which is owned 90 per cent. by TAQA and 10 per cent. by ADWEA. Each intermediate holding company subsidiary holds a 60 per cent. interest in the relevant operating subsidiary owning power generation and water desalination plants at the Taweelah A1, Taweelah A2, Taweelah B, Shuweihat S1, Umm al Nar and Fujairah sites. The remaining 40 per cent. interest in each plant is held by the joint venture partners.

The following table sets out the shareholding of the joint venture partners in the relevant operating subsidiary and current net capacity and expected net capacities of each plant.

Plant	Joint Venture Partners (Percentage Shareholding in TAQA Operating Subsidiary)	Net Capacity		Expected Net Capacity	
Taweelah A2	CMS Energy Corporation (40%)	Power: 710 MW Water: 50 MIGD	Power: 710 MW Water: 50 MIGD	Power: 710 MW Water: 50 MIGD	Power: 710 MW Water: 50 MIGD
Taweelah A1	Suez Energy (20%) Total (20%)	Power: 1,350 MW Water: 84 MIGD	Power: 1,350 MW Water: 84 MIGD	Power: 1,350 MW Water: 84 MIGD	Power: 1,350 MW Water: 84 MIGD
Taweelah B	Marubeni Corporation (14%) BTU Power Company (10%) Pendekar Power (10%) JGC Corporation (6%)	Power: 1,064 MW Water: 92 MIGD	Power: 1,064 MW Water: 92 MIGD	Power: 2,000 MW Water: 160 MIGD	Power: 2,000 MW Water: 160 MIGD
Shuweihat S1	CMS Energy Corporation (20%) International Power plc (20%)	Power: 1,500 MW Water: 100 MIGD	Power: 1,500 MW Water: 100 MIGD	Power: 1,500 MW Water: 100 MIGD	Power: 1,500 MW Water: 100 MIGD
Umm al Nar	International Power plc (20%) Mitsui Corporation (6%) Tokyo Electric Power Company (14%)	Power: 1,040 MW Water: 164 MIGD	Power: 1,040 MW Water: 164 MIGD	Power: 1,550 MW Water: 94 MIGD	Power: 1,550 MW Water: 94 MIGD
Fujairah	SembCorp Utilities(40%)	Power: 535 MW Water: 100 MIGD	Power: 535 MW Water: 100 MIGD	Power: 760 MW Water: 100 MIGD	Power: 760 MW Water: 100 MIGD

Taweelah A2

In October 1998, ECPC was established to construct, own and operate the Taweelah A2 power generation and water desalination plant with a net power generation capacity of 710 MW and a net water output capacity of 50 MIGD. The project commercial operation date ("PCOD") of this plant was in October 2001.

Financial and Operating Data

Set forth below is selected financial data of Emirates Power Company PJSC, the holding company of ECPC, and operating data of ECPC. The financial data has been extracted without adjustment from the consolidated financial statements of Emirates Power Company PJSC.

	Year ended 31 December		
	2003	2004	2005
	(AED thousands)		
Revenue	363,564	366,023	383,615
Profit from operations	227,612	209,920	233,112
Depreciation and amortisation	66,576	67,504	66,821
	At 31 December		
	2003	2004	2005
	(AED thousands)		
Current assets	457,518	590,530	616,057
Property, plant and equipment	2,242,510	2,189,597	2,126,162
Total assets	2,840,984	2,953,704	2,908,521
Current liabilities	448,090	408,814	320,080
Total long-term financial debt ⁽¹⁾	1,769,539	1,834,910	1,751,729

	Year ended 31 December		
	2003	2004	2005
Power Availability (% of contracted capacity) ⁽²⁾	98.6	99.9	100.0
Water Availability (% of contracted capacity) ⁽²⁾	99.9	99.9	100.0

(1) Excluding shareholder loans.

(2) Average of monthly averages.

Facilities

Taweelah A2 is situated on the Al Taweelah site, which is a coastal location approximately 50 kilometres north of Abu Dhabi City. The plant uses natural gas as its primary fuel, and fuel oil as its back-up fuel. Construction of the plant was undertaken by a consortium of Siemens AG and Doosan under a turnkey agreement. The total cost for the plant, including development costs and interest incurred during construction, was \$740 million.

The power generation facilities consist of three Siemens V94.3A1 gas turbines, each with a capacity of 185 MW, which were commissioned between July 2000 and May 2001 and two Siemens back pressure steam turbines, each with a capacity of 111 MW, which were commissioned in October 2001. In addition, the plant contains three Doosan heat recovery steam generators commissioned in October 2001. The water desalination facilities include four Doosan multi-stage flash 12.5 MIGD desalination plants, commissioned in October 2001.

Operation and Maintenance Arrangements

The plant is managed, operated and maintained by the Taweelah A2 Operating Company Limited (a wholly owned subsidiary of CMS Energy Corporation) pursuant to a 20 year management, operation and maintenance agreement.

The Taweelah A2 Operating Company has subcontracted scheduled maintenance and overhaul of the gas turbines, generators and related systems to Siemens. Under its finance documents, ECPC must fund a maintenance reserve account to the extent that this contract or a replacement contract is not in effect.

ECPC shares certain facilities and services with the other power generation and water desalination facilities at the Al Taweelah site, such as the seawater intake works, 400 kV grid station, security, fire fighting and other infrastructure services. This may be expanded in the near future to include the procurement of sabotage and terrorism insurance and reinsurance. The shared facilities company is under the control of a Board of Managers, which includes representatives of each of ECPC and the operating subsidiaries of Taweelah A1 and Taweelah B. The operating subsidiary of Taweelah B is currently the "operating shareholder" of the shared facilities company, and operating costs are funded by the various shareholders based on their respective shareholding. These shared facilities and services are operated, maintained and provided by Taweelah Shared Facilities Company LLC (the "Shared Facilities Company"), a limited liability company incorporated under the laws of the UAE and the Emirate of Abu Dhabi.

Project Finance Facilities

ECPC's current financing facilities consist of a U.S. dollar-denominated term loan facility and a U.S. dollar-denominated Islamic loan facility, which had outstanding principal amounts as at 31 December 2005 of AED 1,323.3 million and AED 511.6 million, respectively. The term loan facility carries interest at a variable rate of LIBOR plus a margin and the Islamic loan facility is structured to provide rental payments having an economic return substantially equivalent to that of the term loan. ECPC also has access to a \$10.0 million working capital facility.

ECPC's loan facilities include an extensive covenant package, and are secured by security interests over substantially all its tangible and intangible assets. See "Summary of the Financing Documents". As part of its covenant package, ECPC is required to fund a debt service reserve account with a balance equal to six months' interest payments and scheduled repayments of loan principal.

Taweelah A1

In December 2000, GTTPC was established to acquire the existing gas-fired power generation and water desalination plant at the Al Taweelah site with a net power generation capacity of 255 MW and a net water desalination output capacity of 29 MIGD. GTTPC also agreed to refurbish, upgrade and extend the plant, resulting in a facility with a net power generation capacity of 1,350 MW and net water desalination output capacity of 84 MIGD. The PCOD of this plant was in April 2003.

Financial and Operating Data

Set forth below is selected financial data of Gulf Power Company PJSC, the holding company of GTTPC, and operating data of GTTPC. The financial data has been extracted without adjustment from the consolidated financial statements of Gulf Power Company PJSC.

	Year ended 31 December		
	2003	2004	2005
	(AED thousands)		
Revenue	622,915	672,608	669,926
Profit from operations	333,458	353,809	354,493
Depreciation and amortisation	179,752	192,865	193,255
	At 31 December		
	2003	2004	2005
	(AED thousands)		
Current assets	322,188	449,940	501,978
Property, plant and equipment	4,796,831	4,645,591	4,475,623
Total assets	5,153,381	5,128,090	5,008,408
Current liabilities	711,758	700,356	522,023
Total long-term financial debt ⁽¹⁾	3,510,409	3,377,193	3,232,871
	Year ended 31 December		
	2003	2004	2005
Power Availability (% of contracted capacity) ⁽²⁾	91.3	93.0	91.1
Water Availability (% of contracted capacity) ⁽²⁾	94.4	95.3	94.5

(1) Excluding shareholder loans.

(2) Average of monthly averages.

Facilities

Taweelah A1 is situated, adjacent to the Taweelah A2 plant, on the Al Taweelah site. The plant uses natural gas as its primary fuel and fuel oil as its back-up fuel. Construction of the plant was undertaken by Total Tractebel Emirates EPC Company, a joint venture company of the consortium partners, under a turnkey agreement.

The combined power generation and water desalination facilities commenced commercial operation in April 2003, substantially on time and within budget.

The power generation facilities include three GE Frame 9151E gas turbines, upgraded to type PG9171E, five GE 9171E gas turbines, each having a site rating of 107.3 MW, five heat recovery

steam generators, and three backpressure steam turbines each producing 202.7 MW. The water desalination facilities include four multistage flash desalination units, upgraded to a capacity of 8 MIGD each, and a new desalination plant consisting of 14 units, each of 3.77 MIGD capacity.

Since operations commenced in April 2003, the plant has generally operated without significant unplanned outages. However, at the end of October 2005, the plant suffered an unplanned outage due to a cable malfunction at a connection to a transformer. Repairs took three months and, during that time, the two turbines connected to that transformer were unavailable. In February 2006, the same transformer suffered a recurrence of the cable malfunction resulting in two turbines being unavailable. An inspection of another transformer carried out in May 2006 found a similar cable malfunction in another transformer and, as a result, one turbine was unavailable. Maintenance work on the cables was completed in May 2006. GTTPC is in the process of inspecting the remaining transformers.

In 2006, problems also developed affecting the generator rotors in two of the turbines which led to capacity availability interruptions.

Operation and Maintenance Arrangements

The plant is managed, operated and maintained by the Total Tractebel Emirates O&M Company (a company controlled by affiliates of Suez Energy and Total) pursuant to a 20 year management, operation and maintenance agreement.

Total Tractebel Emirates O&M Company has sub-contracted long-term scheduled maintenance and overhaul of the gas turbines to General Electric. GTTPC must fund a maintenance reserve account to the extent that this contract or a replacement contract is not in effect.

Babcock Borsig Power, the original contractor and maintenance provider for the existing plant, and Sidem, the provider of the desalination technology for the existing plant, joined General Electric as primary subcontractors of the turnkey contractor for construction of the power and desalination aspects of the plant extension.

GTTPC shares certain facilities with the other power generation and water desalination facilities at the Taweelah site. These shared facilities are operated and maintained by the Shared Facilities Company. See “—Taweelah A2—Operation and Maintenance Arrangements”.

Project Finance Facilities

GTTPC's current financing facilities consist of a U.S. dollar-denominated term loan facility which had an outstanding principal amount at 31 December 2005 of AED 3,377.1 million. The term loan facility carries interest at a variable rate of LIBOR plus a margin. GTTPC also has access to a \$15.0 million standby facility.

GTTPC's loan facilities include an extensive covenant package, and are secured by security interests over substantially all its tangible and intangible assets. See “Summary of the Financing Documents”. As part of its covenant package, GTTPC is required to fund a debt service reserve account with a balance equal to six months' interest payments and scheduled repayments of loan principal.

Taweelah B

In July 2005, TAPCO was established to operate a power plant with a net capacity of 1,064 MW and a water desalination plant with a net output capacity of 92 MIGD. TAPCO also agreed to refurbish, upgrade and extend the plant (the “New B Extension”) which is expected to result in a facility with a net power generation capacity of 2,000 MW and a net water desalination output capacity of 160 MIGD. Commercial operation of new capacity is due to commence from May 2008 and the PCOD is scheduled to be in July 2008.

Financial and Operating Data

Set forth below is selected financial data of Taweelah United Power Company PJSC and operating data of TAPCO. The financial data has been extracted without adjustment from the consolidated financial statements of Taweelah United Power Company PJSC.

	Year ended 31 December		
	2003 ⁽¹⁾	2004 ⁽¹⁾	2005
	(AED thousands)		
Revenue	—	—	420,007
Profit from operations	—	—	199,139
Depreciation and amortisation	—	—	122,374
	At 31 December		
	2003	2004	2005
	(AED thousands)		
Current assets	—	—	300,175
Property, plant and equipment	—	—	6,642,377
Total assets	—	—	7,154,234
Current liabilities	—	—	55,508
Total long-term financial debt ⁽²⁾	—	—	6,849,606
	Year ended 31 December		
	2003	2004	2005
Power Availability (% of contracted capacity) ⁽³⁾	—	—	99.8
Water Availability (% of contracted capacity) ⁽³⁾	—	—	100.0

(1) TAPCO did not commence commercial operations until 2005.

(2) Excluding shareholder loans.

(3) Average of monthly averages.

Facilities

Taweelah B is situated on the Al Taweelah site. The plant uses natural gas as its primary fuel and fuel oil as its back-up fuel. The plant is a brownfield development. The project facilities consist of the initial Taweelah B plant, commissioned between 1995 and 1997, the Taweelah B extension, commissioned between 1999 and 2001, and the New B Extension, due to be fully commissioned by July 2008.

The initial plant has a power generation capacity of 620 MW and a water production capacity of 69.1 MIGD. The power generation facilities consist of six M/S.ABB DKE2-1063 steam turbines, and the water desalination facilities consist of six Fisia multi-stage flash desalination plants. In addition, the plant contains six Deutsche Babcock steam generators.

The initial extension has a power generation capacity of 308 MW and a water production capacity of 22.5 MIGD. The power generation facilities consist of two GE MS9001E gas turbines and one GE back pressure steam turbine. The water desalination facilities consist of three Hitachi Zosen multi-stage flash desalination plants. In addition, the plant contains two heat recovery steam generators.

On completion of the New B Extension, the total Taweelah B power generation capacity will be 2,000 MW and the total water production capacity will be 160 MIGD. The New B Extension power generation facilities consist of three Siemens STG 4500F gas turbines, each with a capacity of 237 MW, and one Siemens back pressure steam turbine with a capacity of 300 MW. The new extension water desalination facilities consist of four Fisia multi-stage flash desalination plants, each with a capacity of 16.8 MIGD.

The New B Extension to the plant is expected to commence early period commercial operation in May 2008 and the entire combined extended power generation and water desalination facilities are to commence commercial operations in July 2008. The total project costs are expected to be over \$3 billion, which includes the payment of \$1.69 billion for the existing assets of ADWEA, construction costs for the New B Extension (including special facilities) and associated developments costs and interest during construction.

Operation and Maintenance Arrangements

The plant is managed, operated and maintained by the Asia Gulf Power Service Company Limited (a company owned by affiliates of the TAPCO consortium partners) pursuant to a 20 year management, operation and maintenance agreement.

The company shares certain facilities with the other power generation and water desalination facilities at the Al Taweelah site. These shared facilities are operated and maintained by the Shared Facilities Company. See “—Taweelah A2—Operation and Maintenance Arrangements”.

Project Finance Facilities

TAPCO’s current financing facilities consist of two U.S. dollar-denominated term loan facilities which had outstanding principal amounts at 31 December 2005 of AED 2,120.3 million and AED 2,792.9 million, respectively, and a U.S. dollar-denominated equity bridge loan facility which had an outstanding principal amount as at 31 December 2005 of AED 1,936.4 million. The term loan facilities and the equity bridge loan facility each carry interest at a variable rate of LIBOR plus their respective margins.

TAPCO’s loan facilities include an extensive covenant package, and are secured by security interests over substantially all its tangible and intangible assets. See “Summary of the Financing Documents”. As part of its covenant package, TAPCO is required to fund a debt service reserve account with a balance equal to six months’ interest payments and scheduled repayments of loan principal.

Shuweihat S1

In November 2001, SCIPCO was established to construct, own and operate a power generation and water desalination facility at Jebel Dhana, near Shuweihat, with a net power generation capacity of 1,500 MW and a net water output capacity of 100 MIGD. The PCOD of this plant was June 2005, following a delay from the planned PCOD in August 2004 caused by the failure by ADWEC and Transco to provide transmission facilities.

Financial and Operating Data

Set forth below is selected financial data of Shuweihat Power Company PJSC and operating data of SCIPCO. The financial data has been extracted without adjustment from the consolidated financial statements of Shuweihat Power Company PJSC.

	Year ended 31 December		
	2003⁽¹⁾	2004	2005
	(AED thousands)		
Revenue	—	305,823	753,677
Profit from operations	—	181,817	429,846
Depreciation and amortisation	—	66,808	169,296

	At 31 December		
	2003	2004	2005
	(AED thousands)		
Current assets	420,197	572,706	693,094
Property, plant and equipment	4,719,043	5,297,982	4,542,764
Total assets	5,139,240	6,084,895	6,144,042
Current liabilities	1,946,177	678,370	812,581
Total long-term financial debt ⁽²⁾	3,467,964	4,402,338	4,286,665
	Year ended 31 December		
	2003	2004	2005
Power Availability (% of contracted capacity) ⁽³⁾	—	97.1	98.7
Water Availability (% of contracted capacity) ⁽³⁾	—	94.6	97.6

(1) SCIPCO did not commence commercial operations until 2004.

(2) Excluding shareholder loans.

(3) Average of monthly averages.

Facilities

The facility is situated at a coastal location approximately 265 kilometres west of Abu Dhabi City. The plant uses natural gas as its primary fuel and fuel oil as its back-up fuel. Construction of the plant was undertaken by a consortium of Siemens and Fisia under a turnkey agreement.

The combined power generation and water desalination facilities commenced commercial operations in June 2005, substantially on time and within budget. The total cost for the plant, including development costs and interest during construction, was \$1,586 million.

The power generation facilities consist of five Siemens V94.3A2 gas turbines, each with a capacity of 224 MW, which were commissioned in August 2004, and two Siemens back pressure steam turbines, each with a capacity of 251 MW, which were commissioned in August 2004. In addition, the plant contains five Siemens heat recovery steam generators commissioned in August 2004. The water desalination facilities include six Fisia multi-stage flash 16.8 MIGD desalination plants commissioned between May and October 2004.

Operation and Maintenance Arrangements

The plant is managed, operated and maintained by the Shuweihat O&M Limited Partnership (a limited partnership owned by affiliates of CMS Energy Corporation and International Power plc) pursuant to a 20 year management, operation and maintenance agreement.

The Shuweihat operating company has sub-contracted the scheduled maintenance and overhaul of the gas turbines, generators and related systems to Siemens. SCIPCO must fund a maintenance reserve account to the extent that this contract or a replacement contract is not in effect.

SCIPCO shares certain facilities at the site and will share additional facilities to be constructed in the future. These shared facilities are operated and maintained by Shuweihat Shared Facilities Company LLC, a limited liability company incorporated under the laws of the UAE and the Emirate of Abu Dhabi.

Project Finance Facilities

SCIPCO's current financing facilities consist of a U.S. dollar-denominated term loan facility and a U.S. dollar-denominated Islamic loan facility, which had outstanding principal amounts as at 31 December 2005 of AED 3,511.2 million and AED 891.2 million, respectively. The term loan facility carries interest at a variable rate of LIBOR plus a margin and the Islamic loan facility is structured to

provide rental payments having an economic return substantially equivalent to that of the term loan. SCIPCO also has access to a \$50 million stand by facility.

SCIPCO's loan facilities include an extensive covenant package, and are secured by security interests over substantially all its tangible and intangible assets. See "Summary of the Financing Documents". As part of its covenant package, SCIPCO is required to fund a debt service reserve account with a balance equal to six months' interest payments and scheduled repayments of loan principal.

Umm al Nar

In July 2003, Arabian Power was established to operate and manage an existing power generation and water desalination plant which has a net power generation capacity of 1,040 MW and a net water output capacity of 164 MIGD. Arabian Power also agreed to build, own and operate additional production capacity at Umm al Nar which is expected to have a net power generation capacity of 1,550 MW and a net water output capacity of 94 MIGD by the end of 2008.

Financial and Operating Data

Set forth below is selected financial data of Arabian Power Company PJSC and operating data of Arabian Power. The financial data has been extracted without adjustment from the consolidated financial statements of Arabian Power Company PJSC.

	Year ended 31 December		
	2003	2004	2005
	(AED thousands)		
Revenue	344,905	685,390	772,755
Profit from operations	140,286	289,003	395,886
Depreciation and amortisation	107,682	216,206	217,356
	At 31 December		
	2003	2004	2005
	(AED thousands)		
Current assets	354,848	480,818	766,113
Property, plant and equipment	4,095,509	4,925,090	5,815,559
Total assets	4,518,806	5,465,979	6,632,863
Current liabilities	65,197	201,674	159,036
Total long-term financial debt ⁽¹⁾	4,289,331	5,004,118	5,606,817
	Year ended 31 December		
	2003	2004	2005
Power Availability (% of contracted capacity) ⁽²⁾	96.2	93.6	94.9
Water Availability (% of contracted capacity) ⁽²⁾	96.6	93.3	93.9

(1) Excluding shareholder loans.

(2) Average of monthly averages.

Facilities

The project involves the continued operation of the existing plant and the building of an extension. The plant uses natural gas as its primary fuel and diesel fuel oil as its back up fuel. Construction of the new plant is being undertaken by Mitsui under a lump-sum turnkey agreement. Mitsui sub-contracted much of the construction work to Toshiba.

The existing plant is comprised of power and desalination units that have been constructed over a period of years, some of which are reaching the end of their economic lives and some of which

were commissioned in the recent past. Arabian Power will be required to decommission the equipment reaching the end of its economic life following the end of commercial operation of the existing plant (targeted for June 2008 and not later than November 2008). The assets must be returned to ADWEA by no later than February 2009.

The recently commissioned equipment will be integrated into the newly built extension to produce the combined power generation and water desalination facilities, full commercial operation of which was expected in July 2006, but the achievement of PCOD has been subject to significant delay and this is not expected to occur until November 2007. The equipment from the existing plant being integrated into the new facility comprises five Hanjung multi-stage flash desalination plants, each with a capacity of 12.6 MIGD which were commissioned in 2002 and two SIDEM multi-stage flash desalination plants, each with a capacity of 3.5 MIGD which were commissioned in 2000.

The power generation facilities installed in the new plant will consist of five new GE Frame 9351FA gas turbines, each with a capacity of 218 MW, and two back pressure steam turbines, each with a capacity of 308 MW. The water desalination facilities will consist of the equipment transferred from the existing plant listed above, plus two new multi-stage flash desalination plants, each with a capacity of 12.5 MIGD. The new facility will have a net total power generation capacity of 1550 MW and net total water output capacity of 94.4 MIGD.

In addition to the above, the new facility includes a new indoor 400 kV grid station, a new indoor 132 kV grid station and connection to an existing indoor 132 kV grid station.

Operation and Maintenance Arrangements

The plant is managed, operated and maintained by the ITM O&M Company Limited (a company jointly owned by affiliates of International Power plc and the Tokyo Electric Power Company) pursuant to a 20 year management, operation and maintenance agreement.

ITM O&M Company Limited and General Electric entered into a contractual services agreement covering the planned and unplanned maintenance of the five General Electric gas turbines for the extension project.

Project Finance Facilities

Arabian Power's current financing facilities consist of two U.S. dollar-denominated term loan facilities and a U.S. dollar-denominated equity bridge loan, which had outstanding principal amounts at 31 December 2005 of AED 852.6 million, AED 2,426.1 million and AED 551.3 million, respectively, and a U.S. dollar-denominated Islamic loan facility and a U.S. dollar-denominated Islamic equity bridge loan which had outstanding principal amounts at 31 December 2005 of AED 709.2 million and AED 1,067.6 million, respectively. The term loan facilities and the equity bridge loan facility each carry interest at a variable rate of LIBOR plus a margin, and the Islamic loan facilities are each structured to provide rental payments having an economic return substantially equivalent to that of the term loans and the equity bridge loan, respectively.

Arabian Power's loan facilities include an extensive covenant package, and are secured by security interests over substantially all its tangible and intangible assets. See "Summary of the Financing Documents". As part of its covenant package, Arabian Power is required to fund a debt service reserve account with a balance equal to six months' interest payments and scheduled repayments of loan principal.

Fujairah

In September 2006, ESWPC was established in the Emirate of Fujairah to operate the existing Fujairah power and water facility which has a net power generation capacity of 535 MW and net water output capacity of 100 MIGD, and to expand the power generation capacity of the facility by

225 MW through the installation of a new plant comprising an additional power generation unit. The new plant is scheduled to achieve PCOD by the first quarter of 2009.

Fujairah is an existing facility but did not operate under the control of TAQA or ADWEA.

Facilities

The facility is situated on the existing Fujairah site, which is a coastal location approximately 280 kilometres north-east of Abu Dhabi City, near the Omani border. The plant uses natural gas as its primary fuel and fuel oil as its back-up fuel. Construction of the plant was undertaken by a consortium of Iberdrola Ingenieria y Construccion S.A.U. of Spain and Arabian Benco Contracting Company of Saudi Arabia, under a turnkey agreement.

The total projected cost for the plant expansion, including development costs and interest during construction, is expected to be \$1,732 million.

The power generation facilities currently installed in the plant, which were commissioned during 2000, consist of four GE PG 9171E gas turbines, each with a capacity of 106 MW, and two Siemens NG 90/90-7 back pressure steam turbines, each with a capacity of 119 MW. In addition, the plant contains two Doosan heat recovery steam generators. The water desalination facilities currently installed in the plant consist of five Doosan multi-stage flash desalination units, each with a capacity of 12.5 MIGD, and one Degremont reverse osmosis plant with a capacity of 37.5 MIGD.

The additional power generation unit will be a GE frame 9FA gas turbine which, together with its associated heat recovery steam generator and ancillary equipment, will add a further net 219 MW of power generation capacity, as well as further steam flow to the existing plant which can be used for power generation in the existing steam turbines and desalination in the multi-stage flash units. On completion of the new plant, the Fujairah facility will have a total of 760 MW of power generation capacity and 100 MIGD of water output capacity.

Operation and Maintenance Arrangements

The plant is expected to be managed, operated and maintained by the SembCorp Gulf O&M Company (“SembCorp O&M”) (a company owned by SembCorp Utilities), pursuant to a 20 year management, operation and maintenance agreement.

Project Finance Facilities

During 2006, ESWPC is expected to obtain a \$225 million equity bridge loan. The estimated project funding requirement is expected to be met by a long-term \$1,235 million term facility, a cost overrun facility of \$20 million and a working capital facility of \$20 million that will be syndicated in late 2006.

Fuel

Natural gas fuel is supplied by ADWEC to each of the plants at no cost. Each operating subsidiary must procure its own store of back-up fuel. Back-up fuel in the form of fuel oil is purchased from Abu Dhabi National Oil Company (“ADNOC”). Each operating subsidiary passes on the cost of the back-up fuel to ADWEC under the PWPA.

ADNOC sets a cap on the amount of natural gas that can be used in a plant. At times an operating subsidiary may use its store of back-up fuel in operating its plants. This can be done over extended periods, but very long periods of use may lead to plant degradation and therefore higher maintenance costs and more frequent maintenance stoppages. An operating subsidiary may be able to offset some of this cost under its maintenance contract but the maintenance contractors may not accept that this is part of their contractually agreed terms. In that case an operating subsidiary

would look to ADWEC to accept that long periods of use of back-up fuel in the plant is not in accordance with the relevant PWPA.

Logistics

In order to maintain adequate and contractually agreed stores of back-up fuel, the operating subsidiaries rely on ADNOC to make these deliveries by road tanker. However, during extended times of back-up fuel usage in plants, ADNOC has had to significantly increase the number of road tankers that it uses on a daily basis. While the operating subsidiaries try to plan deliveries with ADNOC in advance based on the current natural gas usage cap, at times ADNOC has had difficulties in meeting delivery requirements. In the case of Shuweihat S1, SCIPCO is considering possible deliveries by ship on a regular basis, if required.

Insurance Coverage

Each operating subsidiary has arranged for insurance coverage in accordance with the terms of the finance documents for the relevant project. The PWPA and financing agreements for each operating subsidiary must be covered by insurances such as third-party liability, physical damage and business interruption insurance. The Group makes claims from time to time but there are no material outstanding insurance claims.

Litigation

Neither TAQA nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which TAQA is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of TAQA or the Group.

Employees and Pensions

As at 30 September 2006, the Group had the following number of employees:

	<u>Employees</u>
TAQA	15
Umm al Nar	440
Shuweihat S1	126
Taweelah A1	160
Taweelah A2	84
Taweelah B	368
Fujairah	18
Total	<u>1,211</u>

TAQA undertakes initiatives to motivate employees to contribute to its success through bonus programmes. Employees of TAQA are eligible to receive an annual bonus of 50 per cent. of their base salary based on the achievement of their annual performance targets, TAQA's performance and their team performance. Employees can also receive a retention bonus of 50 per cent. of their base salary for every three years of continued employment with TAQA provided no disciplinary actions have been taken or are pending against such employee during that period.

In accordance with the laws of the UAE, the Group provides end of service benefits to non-UAE national employees. Under UAE law, the entitlement to these benefits is based upon the employee's length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to UAE national employees, the members of the Group contribute to the Abu Dhabi Retirement Pensions and Benefits Fund calculated as a percentage of the UAE national employees' salaries. These obligations are limited to these contributions, which are expensed when due.

The nature of the Group's business requires that it recruits international professionals and managers.

Emiratisation

The Group is committed to increasing the population of staff who are UAE nationals and developing existing UAE staff. Training and recruitment of nationals is one of the Group's major objectives and it continues to support training locally. Each PWPA includes provisions for the training of UAE nationals by the relevant operating subsidiary to ensure that certain minimum percentages of UAE nationals employed by such operating subsidiaries are met throughout the term of such PWPA. Each operating subsidiary must increase the UAE national percentage of its workforce by 15 per cent. increments every five years to reach a level of at least 60 per cent. TAQA's operating subsidiaries are broadly in compliance with this requirement. However, the supply of skilled labour may be in short supply over time, and the Group's success in attracting nationals to work at the more remote sites may be limited.

Directors

The current members of the Board of Directors of TAQA (the "Board") are as follows:

<u>Name</u>	<u>Position</u>
H.E. Hamad Al-Hurr Al-Suwaidi	Chairman
H.E. Ahmed Saif Al-Darmaki	Director
H.E. Abdulla Saif Al-Nuaimi	Director
H.E. Salem Al-Sayaari	Director
H.E. Mohammed Foulad	Director

His Excellency Hamad Al-Hurr Al-Suwaidi serves as Chairman of the Board and was appointed in 2005. His Excellency's principal responsibilities outside TAQA are Under-Secretary of the Department of Finance of the Government of Abu Dhabi, Director of Mubadala Development Company, Chairman of the Financial Support Fund for Farm Owners in the Emirate of Abu Dhabi, Executive Director of the Abu Dhabi Investment Authority ("ADIA") and Chairman of the Board of Emirates Power Company.

His Excellency Ahmed Saif Al-Darmaki serves as Vice-Chairman of the Board and was appointed in 2005. His Excellency's principal responsibilities outside TAQA include Chairman of ADWEC, Director of Planning and Development of ADWEA, and Office Manager of the Chairman of ADWEA.

His Excellency Abdulla Saif Al-Nuaimi serves as a Director of the Board and was appointed in 2005. In addition, His Excellency is Director of the Privatisation Directorate of ADWEA, Deputy Managing Director of ADWEC and Chairman of Gulf Power Company.

His Excellency Salem Al-Sayaari serves as a Director of the Board and was appointed in 2005. His Excellency is currently Chief Financial Officer of Abu Dhabi Distribution Company and is a Director of Arabian Power Company.

His Excellency Mohammed Foulad serves as a Director of the Board and was appointed in 2005. His Excellency was previously Chairman and Managing Director of Taweelah Power Company.

The business address of the directors is P.O. Box 55224, Abu Dhabi, United Arab Emirates.

TAQA is not aware of any conflicts of interest between the duties to TAQA of each member of the Board and his private interests or other duties.

Officers

The Board has delegated the day-to-day management of TAQA to executive officers appointed by the Board. The current members of TAQA’s executive management are as follows:

<u>Name</u>	<u>Position</u>
Peter Barker Homek	Chief Executive Officer, acting Chief Financial Officer
Justin Harlow	GVP Appraisal and Origination
Sonia Al Marzouqi	GVP Strategy and Planning
Yasser El-Zein	GVP Technology

Peter Barker Homek is Chief Executive Officer and acting Chief Financial Officer. Mr. Barker Homek’s professional background includes Senior Adviser in M&A at BP plc, Director of Worldwide Downstream Gas Distribution Development at BG International, and Vice-President of Development for Eastern Europe and Latin America at Pacific Enterprises. Mr. Barker Homek worked at the U.S. State Department and was an institutional sales consultant within the Capital Markets Group at Merrill Lynch. Mr. Barker Homek has an MBA from the University of Southern California.

Justin Harlow is Group Vice President for Appraisal and Origination. Mr. Harlow’s previous responsibilities include acting as Senior Manager for Legal Support Services, Risk Capital LLC (New York), Management Information Analyst for BP plc and Senior Consultant for ERAS Ltd.

Sonia Al Marzouqi is Group Vice President for Strategy and Planning. Ms. Al Marzouqi held various positions in ADCO between 1990 and 2005, including Head of Planning and Strategic Development, and worked as a Programmer at EPSON America Corporation LA, USA.

Yasser El-Zein is Group Vice President for Technology. Mr. El-Zein’s previous professional experience includes Application Developer Consultant for the New York Mercantile Exchange, Director of Engineering and Advanced Development, MajorLeagueBaseball.com and Senior Systems Developer at UBS PaineWebber.

Committees

Audit Committee

The audit committee of TAQA is comprised of the following members who are appointed for a term of two years:

<u>Name</u>	<u>Position</u>	<u>Year Appointed</u>
H.E. Hamad Al-Hurr Al-Suwaidi	Chairman	2006
H.E. Ahmed Saif Al-Darmaki	Member	2006
H.E. Salem Al-Sayaari	Member	2006

The Board establishes the duties, responsibilities, procedures and meeting schedule for the audit committee. The responsibilities of the audit committee include:

- establishing guidelines and procedures to co-ordinate the programme of auditing TAQA’s operating and financial activities in order to safeguard its assets and to protect its shareholders’ interests;
- assessing the accuracy of expenditure reports, costs and financial statements; and
- ensuring that TAQA’s activities conform to applicable laws and regulations, decisions of the Board of Directors, duties, responsibilities and authorities vested in management and employees, if any, and its constitutional documents.

The audit committee’s responsibilities include policies and processes covering organisational initiatives (including financial, procurement and administrative policies), financial reporting

processes and outputs, internal control and risk management and internal audit processes and outputs.

Investment Committee

The investment committee of TAQA is comprised of the following members who are appointed for a term of two years:

<u>Name</u>	<u>Position</u>	<u>Year Appointed</u>
H.E. Hamad Al-Hurr Al-Suwaidi	Chairman	2006
H.E. Abdulla Saif Al-Nuaimi	Member	2006
H.E. Ahmed Saif Al-Darmaki	Member	2006

The investment committee acts on behalf of the Board. The responsibilities of the investment committee include approval of investment in projects in the planned business by TAQA that fall outside the authority of the executive management. The investment committee also establishes policies and actions related to bank borrowings and loan repayment and approves disinvestment projects related to core and non-core businesses, including disposal of fixed assets.

Remuneration Committee

The remuneration committee is comprised of the following members who are appointed for a term of two years:

<u>Name</u>	<u>Position</u>	<u>Year Appointed</u>
H.E. Ahmed Saif Al-Darmaki	Chairman	2006
H.E. Abdulla Saif Al-Nuaimi	Member	2006
H.E. Salem Al-Sayaari	Member	2006

Corporate Governance

There is currently no specific UAE corporate governance code, although one is being proposed for Abu Dhabi-listed companies by the Abu Dhabi Securities Market. TAQA is in the process of developing a corporate governance framework supported by a system of internal controls based on international best practices. TAQA has appointed an international consulting and accounting firm to support the development of its risk management and internal controls and has appointed a Group vice president for risk management.

TAQA's Code of Ethics describes and reinforces conduct that is based on its guiding core values, consistent with its policies and practices and essential for its legal and regulatory compliance obligations. This has been posted on TAQA's website together with a summary of its Governance Manual.

REGULATION

The Environment

The Emirate of Abu Dhabi's Environmental Agency is the governmental body charged with introducing and monitoring environmental standards with respect to, among other things, water and air quality, water treatment and disposal. TAQA's subsidiaries are further governed through a set of environmental standards applied to international project financing through their respective financing arrangements, including, in some cases, the Equator Principles which have been adopted by certain leading international financing institutions. See "Summary of the Financing Documents".

As part of the land leases between ADWEA and each operating subsidiary, the operating subsidiaries have a legal obligation to remove the power generation and water desalination plants at the end of the plants' useful lives, or before if the operating subsidiary becomes unable to continue its operations to that date, and to restore the land. The operating subsidiary must at its sole cost and expense dismantle, demobilise, safeguard and transport the assets, eliminate soil and ground water contamination, fill all excavation and return the surface to the grade of the designated area.

Regulation of the Water and Electricity Sector in the Emirate of Abu Dhabi

Law No. (2) of 1998, concerning the Regulation of the Water and Electricity Sector in the Emirate of Abu Dhabi ("Law No. 2"), set up the Regulation and Supervision Bureau of the Water and Electricity Sector in Abu Dhabi (the "Bureau") to undertake the licensing, regulation and supervision of all companies which carry on any production, transmission, storage, desalination, provision, distribution or supply of water and electricity in the Emirate of Abu Dhabi. Law No. 2 sets out the rules that apply to the water and power industries in the Emirate of Abu Dhabi and also provides for the introduction of a licensing framework and the restructuring and future privatisation of the water and power industries.

Law No. 2 authorises the Bureau to review plans pertaining to the provision of water and power in the Emirate of Abu Dhabi, to issue licences relating to the operations that are the subject of the plans, and to supervise such plans and control their implementation in accordance with the provisions of Law No. 2. The duties of the Bureau include consumer protection as to the tariff and water and electricity supply terms and conditions. The Bureau must also exercise its functions under Law No. 2 in the manner that it considers best calculated to:

- ensure the security of the supply of water and power in the Emirate of Abu Dhabi;
- ensure the connection and supply of water and power to all consumers on reasonable demand;
- ensure the operation and development of a safe, efficient and economic water and power sector in the Emirate of Abu Dhabi; and
- protect the interests of consumers of water and power as to the terms and conditions and the price of supply.

Once a licence is issued, the Bureau will monitor, modify where needed, and enforce licences granted to participant companies and has extensive powers to obtain information and take enforcement action. It also has the power to establish and monitor technical, performance, safety and customer standards. Licensed operators that wish to sell off any or all of their assets or purchase the assets of another generator, transmitter or distributor, must first obtain approval from the Bureau.

Each of TAQA's operating subsidiaries has applied for, and been granted, licences by the Bureau.

ADWEA

ADWEA is a public organisation, wholly owned by the Emirate of Abu Dhabi with a separate legal identity and financial and administrative independence. ADWEA was established in March 1998 pursuant to Law No. 2 and replaced the former Water and Electricity Department.

ADWEA has the power to determine all matters relating to the formulation, development and implementation of the policy of the Emirate of Abu Dhabi in relation to the water and power sector, including all matters relating to the privatisation of the sector.

Abu Dhabi Water and Electricity Company and Abu Dhabi Transmission and Despatch Company

ADWEA's wholly owned subsidiaries, ADWEC and Transco, have responsibility for the transmission of power and water in the Emirate of Abu Dhabi.

ADWEC is the single power and water procurer in the Emirate of Abu Dhabi and has a primary duty to ensure that at all times there is sufficient water and power production capacity in the Emirate of Abu Dhabi to satisfy all reasonable demand and to plan for the long term provision of additional water and power capacity and water storage capacity. ADWEC is also required to procure that a supply of fuel is made available to each provider of production capacity in the Emirate of Abu Dhabi for the purposes of ensuring all reasonable demand for water and power.

ADWEC is responsible for supplying each licensed distribution operator with sufficient water and power to meet all reasonable demand in the Emirate of Abu Dhabi. Each licensed distribution operator is charged a bulk supply tariff by ADWEC in respect of supplies of water and electricity. Such tariff is calculated in respect of each calendar year on a basis prescribed by the Bureau in ADWEC's licence.

Transco is responsible for the development, maintenance and operation of a safe, efficient and economical water and power transmission system. It is also required to offer non-discriminatory terms to providers of water and power capacity and supply and to distribution companies for connection to transmission systems.

Abu Dhabi Distribution Company and Al Ain Distribution Company

Distribution of power and water is the responsibility of ADDC and AADC, also wholly owned subsidiaries of ADWEA. Their principal function is the distribution and supply of water and power in their respective geographic areas. ADDC and AADC are required to develop and operate safe and efficient distribution systems, offer access to third parties and offer terms to consumers for the supply of water and power.

RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

Members of the Group have contracts with entities owned in whole or part by TAQA's majority shareholder, ADWEA. These include the PWPAs with ADWEC, land leases relating to the plants and shared facilities at project sites and shareholders' agreements. See "Summary of the Project Agreements".

The aggregate level of related party transactions is disclosed in TAQA's audited consolidated financial statements and reflects transactions with associated companies, major shareholders, directors and key management personnel of TAQA, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by TAQA's management.

In addition, ADWEA has indemnified ECPC for its liabilities in respect of its debt service reserve account letter of credit. The indemnity is subject to a counter-indemnity from CMS Energy Corporation corresponding to its 40 per cent. shareholding in ECPC.

SUMMARY OF THE PROJECT AGREEMENTS

The following are summaries of selected provisions of certain principal agreements governing each of the projects and should not be considered to be a full statement of the terms and provisions of such agreements.

Brownfield / Greenfield Projects

Four of the projects (Umm al Nar, Taweelah A1, Taweelah B and Fujairah) are “brownfield” developments, whereby ownership of existing plants at the relevant site is transferred to the operating subsidiary under an asset transfer agreement and the operating subsidiary develops new extensions and upgrades to such plants.

The remaining projects (Taweelah A2 and Shuweihat S1) are “greenfield” developments for the construction of new plants.

The term “plant” herein means the new plant (in the case of Taweelah A2 and Shuweihat S1) or the existing plant and its new extension (in the case of the other projects).

Power and Water Purchase Agreement

Each project has in place a PWPA between the operating subsidiary and ADWEC as the power and water procurer. The purpose of the PWPA is to govern: (a) the design and construction and operation and maintenance of the relevant plant (and its expansion, where relevant); (b) the design, construction and transfer of the shared and/or special facilities and associated inter-connection facilities developed and built by the operating subsidiary and (where relevant) transferred to the transmission, distribution or shared facilities company; and (c) the sale and purchase of power and water capacity and power and water output to ADWEC for the term of the PWPA.

The term of each PWPA, absent extension by ADWEA, is 20 years from the PCOD. The PWPA for Shuweihat S1 has been extended by a year.

The PWPA sets out the rights and obligations of the operating subsidiary and ADWEC relating to, among other things, the operation and maintenance of the relevant plant, the making of capacity and output payments, risk allocation in the event of force majeure and government action or inaction, events of default, rights of termination and the consequences thereof, insurance, liability and indemnity obligations and dispute resolution. The PWPA requires the operating subsidiary to make available to ADWEC the net dependable power capacity and net dependable water capacity of the relevant plant and to deliver to ADWEC dispatched net electrical energy and net water output. ADWEC is obliged to purchase from the operating subsidiary the net dependable power capacity and net dependable water capacity and take delivery of dispatched net electrical energy and net water output.

Fuel Supply

Under the terms of the PWPA, ADWEC is responsible for procuring natural gas and supplying and delivering it on a substantially continuous basis to the operating subsidiary. ADWEC is required to supply all natural gas necessary for the plant to generate net electrical energy and to produce net water output in accordance with a fuel utilisation schedule provided by the operating subsidiary. The gas supplied by ADWEC must conform to fuel specifications set forth in the PWPA and the operating subsidiary can reject non-conforming natural gas, provided that, broadly, it uses reasonable efforts to use such non-conforming gas to the extent such use would not damage the plant or have a material adverse economic impact on its operations.

The operating subsidiary is required to procure sufficient fuel oil at its own cost to enable the plant to be operated for seven consecutive days (and, in the case of Umm al Nar, in relation to the existing plant, the maximum possible number of days agreed with ADWEC) in the event gas is not made available by ADWEC. Breach by ADWEC of its obligation to procure the supply of natural gas will not give rise to any liability of ADWEC, but neither will it affect its obligation to pay the relevant amount in respect of capacity payments. The tariff mechanism in the PWPA adjusts to pass through the costs of procuring back-up fuel to ADWEC.

Capacity

Capacity from the relevant project is dedicated to ADWEC. Payments for capacity under the PWPA are based on the project's net dependable capacity for each of power and water. The net dependable capacity for both power and water are determined by testing and measured prior to the PCOD and periodically thereafter. The net dependable capacity for power and water cannot be set at a capacity greater than the contracted power capacity or contracted water capacity for the project.

Payments and Fees

The PWPA provides for a four-part tariff structure for each of power and water, and each component of the tariff structure is designed to provide for recovery of certain types of cost. For power, the components consist of capacity component AP (the capital component, which is designed to provide for debt service, return on shareholders' equity contributions and costs arising from taxes, levies and duties), capacity component BP (the fixed O&M component), energy component CP (the fuel component) and energy component DP (the variable O&M component). For water, the components consist of capacity component AW (the capital component), capacity component BW (the fixed O&M component), output component CW (the fuel component) and output component DW (the variable O&M component).

Adjustments to Charge Rates

Under the PWPA, the charge rates used in the payment formulas for capacity and output payments are adjusted monthly for fluctuations in the dirham/U.S. dollar exchange rate. The local portion of the charge rates is adjusted annually for changes in the UAE Consumer Price Index while the foreign portion of the charge rates will be adjusted annually for changes in the U.S. Producer Price Index.

Supplemental Payments

In addition to capacity payments and output payments for supplies and deemed supplies of power and water, the PWPA requires ADWEC to make certain supplemental payments. These vary between the projects but generally include payments for net energy and water output prior to commercial operation, despatched start-ups, black-starts, use of back-up fuel and, where relevant, for certain shared facilities and insurance costs.

Terms of Payment

ADWEC is required under the PWPA to make power and water capacity and output payments on a monthly basis following receipt by ADWEC of an invoice from the operating subsidiary. All payments will be made in AED, and invoices are due and payable 30 days after the day on which the invoice is received by ADWEC.

Procurer Credit Support

Under procurer credit support agreements, the Emirate of Abu Dhabi has agreed to guarantee ADWEC's payment obligations (the "Procurer Credit Support"). This credit support terminates if ADWEC achieves and maintains for a continuous period of 730 days a long-term unsecured debt rating of at least BBB from Standard & Poor's or Baa2 from Moody's, or their equivalent.

Force Majeure and Government Action or Inaction

An event of force majeure or government action or inaction means any circumstance not within the reasonable control, directly or indirectly, of the party affected but only if and to the extent that: (a) such circumstance could not, despite the exercise of reasonable diligence, be prevented or removed by such party; (b) such circumstance prevents the party from performing its obligations and such party has taken all reasonable precautions to avoid its effect and to mitigate the consequences; (c) such circumstance is not the direct or indirect result of a breach by such party of its obligations under any of the project agreements; (d) such party has given the other party notice of such event; and (e) in relation to the operating subsidiary only, if such circumstance occurs prior to the PCOD, it materially delays the critical path for construction and either makes it impossible to satisfy the implementation requirements or requires the operating subsidiary to incur material and substantial costs to satisfy such requirements.

Each party is excused from performance and will not be in default of its obligations under the PWPA for so long as failure to perform such obligation is due to an event of force majeure or government action or inaction, although each party is generally obliged to make reasonable efforts to minimise and mitigate the effects of such event of force majeure or government action or inaction and restore its ability to perform. Certain delays are not excused by an event of force majeure or government action or inaction.

Where the operating subsidiary's performance is affected by events of force majeure, ADWEC is not obliged to make any payment in respect of power or water capacity not made available. Where the operating subsidiary's performance is affected by events of government action or inaction, power and water capacity not made available as a consequence of such events is deemed to have been made available and ADWEC makes capacity payments accordingly.

Events of government action or inaction are circumstances where the action or inaction of any instrumentality of the UAE or the Emirate of Abu Dhabi is the controlling or contributing force that causes the occurrence of such an event. Such events are limited to circumstances caused or arising out of acts of war, rebellion, acts of terrorism or riot occurring in the UAE or the Emirate of Abu Dhabi, change in law, force majeure in connection with gas, electricity or water supply caused by action or inaction or controlled or contributed to by any instrumentality of the UAE or the Emirate of Abu Dhabi, certain countries' boycott or sanction or any other acts or failures to act without justifiable cause by any instrumentality of the UAE or the Emirate of Abu Dhabi, including, without limitation, the denial of or material delay in the granting of any permit, licence or consent.

Termination

A party may terminate the PWPA on the occurrence of an event of default by sending a termination notice specifying such event of default to the defaulting party and setting out the date, which shall be not less than 30 days from the date of the termination notice, on which the party proposes to terminate the PWPA. During the 30-day cure period (or such longer period as may be set out in the termination notice), the parties must consult as to what steps are to be taken with a view to mitigating the consequences of and curing such event of default. If at the end of the cure period the event of default has not been cured, the party having given the notice of termination may terminate the PWPA by giving written notice, whereupon the PWPA will terminate on the date specified for termination or such later date as the parties agree. The cure periods under the PWPAs

are extended pursuant to suspension period provisions agreed by ADWEC, the relevant operating subsidiary and its financing parties pursuant to the relevant direct agreements.

ADWEC Events of Default

ADWEC is subject to a number of events of default, including in relation to non-payment, breach of contract, insolvency, failure of credit support and expropriation or compulsory acquisition.

In the case of Umm al Nar, Shuweihat S1, Taweelah A1 and Taweelah B, pursuant to the direct agreement to the PWPA, additional ADWEC events of default include any material breach by ADWEA of agreements to which it is a party which is reasonably likely to materially impair the interests of the financing parties, or by government instrumentality which is reasonably likely to materially impair the ability of the operating subsidiary to perform its obligations under the project agreements or financing documents. See “Summary of the Financing Documents—Direct Agreements”.

Operating Subsidiary Events of Default

Each operating subsidiary is also subject to a number of events of default. These include a failure to achieve PCOD by a long-stop date, wilful default, abandonment, non-payment, insolvency, average availability of less than 75 per cent. of net dependable power or water capacity for any rolling period of two years or more, and material breach of obligations by the operating subsidiary.

Termination Upon Prolonged Force Majeure or Event of Government Action or Inaction

In addition to termination following an event of default, the PWPA may be terminated by the operating subsidiary if an event of government action or inaction prevents ADWEC from performing any of its obligations under the PWPA for a continuous period of 365 days, provided that if ADWEC elects to continue paying capacity payments for power and water, then the operating subsidiary will not have the right to terminate the PWPA. There is no express right to terminate for an event of force majeure affecting the operating subsidiary, other than in the case of Taweelah A2.

ADWEC may terminate the PWPA if:

- (i) an event of force majeure or government action or inaction prevents ADWEC from performing any of its obligations under the PWPA for a continuous period of 365 days; or
- (ii) an event of government action or inaction (and, in the case of Taweelah A2, an event of force majeure) prevents the operating subsidiary from operating the relevant plant or delivering net power or water output for a continuous period of 365 days.

Consequences of Termination

In the event of termination of a PWPA, the rights of the operating subsidiaries differ according to the nature of the events or circumstances which have caused the termination.

Where an operating subsidiary has a right to terminate the PWPA as a result of (i) a default by ADWEC, or (ii) a prolonged event of government action or inaction affecting ADWEC, the operating subsidiary may require ADWEC to purchase its plant and facilities at a price sufficient to fund the repayment of the operating subsidiary’s lenders and the reimbursement of its shareholders’ equity (including TAQA’s), together with an agreed return on their equity (the “Full Reimbursement Price”).

In addition, where ADWEC has a right to terminate the PWPA as a result of an event of government action or inaction affecting an operating subsidiary or ADWEC, or as a result of

prolonged force majeure affecting ADWEC, ADWEC must purchase the plant and facilities at the Full Reimbursement Price.

However, where ADWEC has a right to terminate the PWPA as a result of a default by an operating subsidiary, ADWEC may require such operating subsidiary to sell its plant and facilities at a price sufficient to fund the repayment of the operating subsidiary's lenders, less the greater of that operating subsidiary's shareholders' uncontributed equity and zero (the "Partial Reimbursement Price").

Payment of the Full Reimbursement Price is guaranteed by the Emirate of Abu Dhabi pursuant to the Procurer Credit Support, although this guarantee will not apply to payment of the Partial Reimbursement Price.

Other Remedies

The right to terminate the PWPA is not exclusive, and in the event of a breach by a party of its obligations under the PWPA, the other party may seek to protect and enforce its rights, to recover any damages to which it may be entitled, or to seek specific performance in accordance with the dispute resolution provisions of the PWPA, other than, pursuant to direct agreements for Umm al Nar, Shuweihat S1, Taweelah A1, Taweelah A2 and Taweelah B, in relation to ADWEC's right to terminate for average availability of less than 75 per cent. of net dependable capacity for two years or more. Apart from its termination right, ADWEC's sole remedy, and the sole liability of the operating subsidiary, is a reduction in capacity payments.

Insurance

The operating subsidiary is required under the PWPA to obtain and maintain insurance policies from financially sound and reputable insurers that generally contain provisions which are reasonably standard in the insurance market with respect to power generating and desalination facilities of similar size, technology and location. The insurance coverage must insure, to the maximum foreseeable loss amount of the plant, against physical damage to the plant.

Additional insurance coverage the operating subsidiary is required to obtain includes: (i) marine cargo insurance, (ii) comprehensive general liability insurance, (iii) automobile liability insurance, (iv) workmen's compensation insurance coverage, (v) construction all risks insurance, and (vi) (in the case of Taweelah A2) fuel insurance to cover loss of or damage to natural gas in the operating subsidiary's custody.

Insurance issues arising from acts of terrorism are expressly dealt with in the following ways. The direct agreements to the relevant PWPA for Shuweihat S1, Taweelah A2, Taweelah B and Umm al Nar require the operating subsidiary to at all times obtain or reinstate terrorism insurance in accordance with the financing documents. In the case of Taweelah B, the operating subsidiary is required to obtain terrorism asset insurance to the full reinstatement value of the assets or such lesser amount as corresponds to the maximum outstanding senior debt.

With regard to Shuweihat S1, the direct agreement to the relevant PWPA provides that where such insurance is either not available on reasonable commercial terms, or is subsequently cancelled and replacement insurance is not available on reasonable commercial terms which meet the requirements in the financing documents, ADWEC shall make available backstop insurance.

The position in relation to Taweelah A2 under the direct agreement to the relevant PWPA is as in relation to Umm al Nar and Shuweihat S1, save that the backstop terrorism insurance provided by ADWEC becomes available where insurance against acts of terrorism is only available for a premium that would result in either the debt service cover ratio or the loan life cover ratio falling below agreed levels.

The position in relation to Umm al Nar and Taweelah B under the direct agreements to the relevant PWPAs is the same as in relation to Shuweihat S1, except that the backstop insurance is subject to a maximum cap.

Operation and Maintenance of Shared Facilities

Where relevant, the PWPA requires the operating subsidiary to monitor that the operation, maintenance and repair of the shared facilities is in compliance with the shared facilities shareholders' agreement. If performance falls below the standards set out in the shared facilities shareholders' agreement or where continued operation of the shared facilities poses a danger to either the shared facilities or the plant, the operating subsidiary is required to perform or cause to be performed such operation, maintenance and repair.

Liability and Indemnity

The operating subsidiary will indemnify ADWEC and its agents from and against claims (i) due to loss of or damage to property, death or injury to persons (except for worker's compensation claims) resulting from any negligent act or omission of the operating subsidiary or its agents in connection with the performance of the PWPA, (ii) under environmental laws or regulations applicable to the project and (iii) arising out of the design or construction of the project. The indemnity does not apply to any such claim to the extent that (a) in the case of (i), above, such loss is attributable to the negligence or misconduct or breach of the PWPA by ADWEC or its agents or the failure of ADWEC or its agents to take reasonable steps in mitigation thereof, and (b) in the case of paragraph (ii), above, such claim results from or arises out of the condition of the land on which the project is situated, existing prior to the effective date of the PWPA.

ADWEC will indemnify the operating subsidiary and its agents from and against claims due to loss of or damage to property, death or injury to persons (except for worker's compensation claims) resulting from any negligent act or omission of ADWEC or its agents in connection with the performance of the PWPA. This indemnity does not apply to any such claim to the extent that such loss, damage, injury or death is attributable to the negligence or misconduct of, or the breach of the PWPA by, the operating subsidiary or its agents or the failure of the operating subsidiary or its agents to take reasonable steps in mitigation thereof.

Assignment and Transfer

ADWEC may at any time assign or transfer its rights or obligations under the PWPA to ADWEA, ADPC or Transco without the prior written consent of the relevant operating subsidiary, provided (and this proviso does not apply in the case of Taweelah A2) that such assignee has the power to perform the PWPA obligations of ADWEC and, if the Procurer Credit Support has terminated, has a rating equal to or higher than the long-term unsecured credit rating of ADWEC. The PWPA provides that the operating subsidiary may assign its rights under the PWPA pursuant to the financing documents. Otherwise, neither the operating subsidiary nor ADWEC are permitted under the PWPA to assign or transfer its rights or obligations under the PWPA without the prior consent of the other.

Management, Operation and Maintenance Agreement

Each operating subsidiary is a party to a management, operation and maintenance agreement (or similar) (the "O&M Agreement") with an operating company (the "Operator"). The term of the agreements is 20 years from the PCOD (matching the terms of the PWPAs) and (other than in the case of Taweelah A1), if the PWPA term is extended, extends accordingly.

Scope of Services

Under the terms of the O&M Agreement, the Operator agrees to provide the management, operation and maintenance services necessary for the production and delivery of electrical energy and water by the plant, which includes to (i) operate and maintain the plant in accordance with good utility practice, all applicable legal requirements, the PWPA and the other project agreements, the requirements of all insurance and reinsurance policies relating to the plant, applicable labour conditions, applicable budgets and the plant equipment manuals, (ii) hire and train personnel (iii) prepare annual operating budgets and maintenance plans for the operating subsidiary's approval, (iv) obtain and maintain all consents, permits and licences required by the Operator, (v) prepare and submit to ADWEC monthly invoices for power and water capacity and output in accordance with the PWPA, (vi) supervise, co-ordinate and administer the project agreements, (vii) develop and maintain an environmental maintenance plan and treat and dispose of all waste, (viii) test the performance of the plant in accordance with the requirements of applicable project agreements, (ix) plan, manage and conduct routine inspection and maintenance programmes, (x) execute scheduled and unscheduled maintenance and repair and major overhauls, (xi) manage, procure and control equipment and consumables inventories in compliance with the PWPA, (xii) maintain accurate books, records and accounts of the project and (xiii) (where relevant) monitor the operation and maintenance of the shared facilities.

Parent Guarantee

The payment obligations of the Operator under the O&M Agreement are guaranteed by its parent(s), subject to a maximum agreed aggregate cap.

Compensation

The Operator is compensated, broadly, either by way of a fixed price payment structure or through a structure whereby costs are, essentially, passed through subject to a premium.

Bonuses / Liquidated Damages

In some cases, the Operator receives bonus payments or is required to pay liquidated damages depending on whether actual monthly values for each of loss of water availability, loss of energy availability, and fuel demand are more or less than their respective projected monthly values. The amount paid in respect of bonuses or liquidated damages is subject to an agreed limit. In addition, incentive payments or liquidated damages payments are, in some cases, assessed by reference to the annual operating budget and total aggregate incentive payment limits per year and total aggregate of liquidated damages payment limits per year may also apply.

Termination

The operating subsidiary may terminate the O&M Agreement if, among other things (i) the Operator or its parent becomes bankrupt, insolvent or is dissolved, (ii) the Operator commits a material breach of the O&M Agreement or fails to pay a properly due sum, (iii) the Operator wilfully fails to operate the plant in accordance with the provisions of the O&M Agreement, (iv) as a result of poor performance by the Operator, the availability of power or water capacity of the plant is less than pre-agreed levels required under the PWPA (see table below), (v) the maximum aggregate amount of liquidated damages is incurred in each of any three consecutive operating years, (vi) any change in ownership takes place in the Operator, or (vii) the PWPA is terminated.

The Operator can terminate the O&M Agreement in certain circumstances, including if (i) the operating subsidiary becomes bankrupt, insolvent or is dissolved, (ii) the operating subsidiary fails

to pay the Operator sums properly due under the O&M Agreement or (iii) the operating subsidiary commits a material breach of the O&M Agreement.

The operating subsidiary will have the right to terminate the O&M Agreement if certain capacity targets are not met over a specified period of time. This termination right will be triggered if the average availability of power or water (unless as a result of an event of force majeure or an event of government action or inaction) is less than a specified percentage of either net dependable power capacity or net dependable water capacity for any rolling period of a certain length of time, which varies according to project, as set out in the table below:

<u>Plant</u>	<u>Availability of water or power as a percentage of maximum capacity</u>	<u>Period</u>
Umm al Nar	75%	Rolling period of 18 months
Shuweihat S1	75%	Rolling period of 18 months
Taweelah A2	80%	Rolling period of two years
Taweelah B	80%	Rolling period of 18 months
Taweelah A1	75%	Rolling period of 18 months

Force Majeure or Government Action or Inaction

The force majeure or government action or inaction provisions in the O&M Agreements are generally similar to such provisions in the PWPA. A party cannot rely on an event of force majeure or government action or inaction to excuse certain circumstances.

Insurance

The operating subsidiary and the Operator each assume responsibility for obtaining insurance coverage from financially responsible insurers in a manner that will avoid duplication of insurance coverage and premium costs. The operating subsidiary is required to effect and maintain insurance in respect of all loss or physical damage to the plant and other property on the land that is subject to the land lease.

Liability and Indemnity

The Operator’s liability with respect to the O&M Agreement is limited to certain fixed amounts depending on operational period (or, in the case of Taweelah A1, its aggregate management fee). This limitation does not apply to gross negligence or wilful misconduct of the Operator or its affiliates.

In the brownfield sites, each party indemnifies the other for claims and losses arising from the existing plant under environmental laws or violation of water and electricity laws for the period during which the existing plant was under such party’s control. In the case of Taweelah A1, this indemnity is given by the Operator only, in favour of the operating subsidiary, ADWEC, ADWEA and the financing parties.

Assignment

The O&M Agreement cannot be assigned without the prior written consent of the other party, provided that the operating subsidiary may assign the O&M Agreement to the lenders (and, in the case of Umm al Nar and Taweelah A1, ADWEC).

Long-Term Maintenance Contracts

Shuweihat S1, Taweelah B, Taweelah A2 and Umm al Nar each have in place a long-term maintenance contract with a contractor in relation to the maintenance of turbines and related systems.

Project and (where relevant) Shared Facilities Lease Agreements

The land required for each project (and its shared facilities, where relevant), including necessary access, utility and other easements, is leased to the operating subsidiary from ADWEA for a period of 25 years under a land lease for each project. The land lease continues on a year-to-year basis following expiry of the initial term, unless the operating subsidiary gives ADWEA at least 180 days' notice prior to expiry of the initial term or any renewal of its intention not to continue.

Termination

The land leases may be terminated (i) by mutual agreement between ADWEA and the operating subsidiary, (ii) by the non-defaulting party on the occurrence of an event of default, (iii) if the plant is completely destroyed or is so damaged that the operating subsidiary elects not to rebuild, restore or repair it or (iv) when the useful life of the plant has ended and demolition and removal has occurred in accordance with the land lease. The events of default include (i) failure to pay amounts due under the land lease within 60 days after the date such amount is due and (ii) failure to perform or meet in any material respect any material condition, covenant or obligation under the land lease which remains uncured for 90 days or, if the defaulting party is diligently pursuing a cure, 180 days. In the event of an operating subsidiary default, ADWEA may, but has no obligation to, cure the operating subsidiary default.

Rent

The basic rent for the initial term of the land lease is a nominal sum.

Construction Agreement

Each operating subsidiary has entered into an agreement with reputable contractor(s) for the design, engineering, procurement, construction, start-up, testing and commissioning services and the equipment and materials necessary for the construction of the relevant plant or extension to the plant on a turnkey basis.

General Warranty

The contractor provides a warranty to repair, replace, correct or make good any defects or deficiencies in the work performed under the construction agreement at no cost to the operating subsidiary during the warranty period. The warranty period for each power and desalination unit commences at the substantial completion date for that unit and continues for a period of 24 months. Generally, for any work replaced or repaired during the warranty period an additional warranty period of 24 months will apply from the date of replacement or repair of the equipment, provided that the warranty period will not be extended beyond a certain period from the relevant completion date.

Latent Defects Warranty

In the case of Umm al Nar, the contractor is responsible for repair, replacement or renewal (at its option and its own cost) of any latent defect which appears within a period of three years from the end of the relevant defects liability period, which arose prior to the expiry of the defects liability

period and which a reasonable examination by the operating subsidiary would not have disclosed. The burden of proof is on the operating subsidiary. In the case of Taweelah B, if any latent defect in regard to design defects, defects in materials and /or manufacturing defects appears within a period of three years from the end of the relevant defects liability period, it shall either be repaired or replaced (at the contractor's option) by the contractor provided that such latent defect was caused by gross misconduct and would not have been disclosed by a reasonable examination prior to the expiry of the relevant defects liability period.

Decennial Warranty

In addition to the warranties described above, if any defect or deficiency results in a partial or total collapse of, or affects the integrity of the structure, civil works or safety of the plant, the contractor's obligations of warranty will continue for a period ending 10 years from the substantial completion date or such other period as required by Article 880 of the United Arab Emirates Civil Law of 1985.

Supplier Warranty

The construction agreement requires the contractor to obtain warranties and guarantees from each supplier/subcontractor. Broadly, the terms of such warranties shall be standard vendor warranties or standard for the international electricity generation and water desalination industry in all material respects and, where possible, be made expressly for the benefit of the operating subsidiary and its assignees as well as the contractor, and must be assignable to the operating subsidiary where unexpired.

Limitation of Liability

Broadly, the construction agreement caps liability of the contractor to the relevant contract price, although there may be exclusions to this cap such as in the case of fraud, death, personal injury or damage to property. Liquidated damages may also be payable for certain delays to acceptance dates or performance failures. Generally, liquidated damages (which are capped at a percentage of the relevant contract price) are the sole and exclusive remedy of the operating subsidiary for such delays or failure, save for the right to terminate and the right of the operating subsidiary to claim costs (in addition to the liquidated damages) to have the construction works completed by a third party or the operating subsidiary. In the case of Umm al Nar, in the event of prolonged delay in the taking over of a plant section, the operating subsidiary may additionally require the contractor to complete the works by a further deadline and, if the relevant works are not completed, the operating subsidiary is entitled to either complete the works itself or by a third party at the contractor's cost, reduce the contract price and accept the plant section, or terminate.

Shareholders' Agreement

Each operating subsidiary has a shareholders' agreement that governs the management of the operating subsidiary and the relationship between its shareholders. Under certain shareholders' agreements applying to operating subsidiaries which have not yet achieved PCOD, TAQA's joint venture partners are required to indemnify TAQA's relevant subsidiary holding company against the consequences of cost overruns.

Shareholder Loans

Under the terms of each shareholders' agreement, the shareholders are required to advance interest-free loans to a pre-agreed maximum, at such time or times as required by the operating

subsidiary, on terms to be established at the time the loan is made. The shareholder loans are subordinated to other operating subsidiary indebtedness under the financing documents.

Restrictions on Transfer

All transfers of operating subsidiary shares are subject to a covenant not to infringe the UAE commercial companies law provision limiting the foreign ownership of each operating subsidiary's share capital to not more than 49 per cent. Except for transfers by the joint venture partners to the relevant ADWEA subsidiary, and transfers by the relevant ADWEA subsidiary to affiliates of ADWEA, transfers required by operation of law or transfers resulting from the creation or enforcement of a lien on shares to secure indebtedness of the operating subsidiary, shareholders cannot sell, transfer, assign, pledge or hypothecate their shares in the operating subsidiary.

Management

The business and affairs of the operating subsidiary are managed by, and under the direction of, its board of directors. The directors are appointed by the shareholders with the relevant subsidiary of ADWEA holding shares in the relevant operating subsidiary nominating a majority of directors. The chairman of the board is nominated by the relevant subsidiary of ADWEA and has no involvement in the day-to-day management of the operating subsidiary. The executive managing director of the operating subsidiary is nominated by the minority shareholder owned by the respective joint venture partners in each project and is responsible for day-to-day management, including compliance by the operating subsidiary with its obligations under the PWPA. In the case of Taweelah B, the relevant subsidiary of ADWEA nominates, and in the case of Fujairah is expected to nominate, the chief financial officer.

Matters Requiring Unanimous Shareholder Approval

All the projects contain certain similar matters which require the unanimous written approval of the shareholders including (i) a change in the general nature and business of the operating subsidiary, (ii) a change in authorised share capital or any amendment to the memorandum and articles of association of the operating subsidiary, (iii) a resolution for winding up, sale, transfer, assignment, pledge or hypothecation of operating subsidiary shares, (iv) the acquisition, formation or disposition of subsidiaries and the acquisition of share or loan capital of any body corporate other than the operating subsidiary, (v) merger, consolidation or reorganisation of the operating subsidiary with another company, (vi) the appointment of the operating subsidiary auditor, (vii) conversion from a private company to a public company, (viii) (where relevant) the disposal of all or any part of the operating subsidiary's ownership interest in the relevant shared facilities company, (ix) a change in voting procedures for shareholder meetings, (x) the sale, transfer, disposition, lease or other disposal of all or substantially all of the operating subsidiary's business, undertaking or assets, (xi) incurring indebtedness in an aggregate amount in excess of an agreed minimum level in a fiscal year, (xii) the creation of a lien on any operating subsidiary assets (except to secure permitted indebtedness), (xiii) the sale, transfer or other disposal of assets other than in the ordinary course of business in excess of an agreed minimum level in a fiscal year, unless proceeds are reinvested in an asset of equal value or used to repay permitted indebtedness secured by such asset, (xiv) the making of loans, providing indemnities or guarantees, other than in the ordinary course of business, (xv) repurchasing shares in the operating subsidiary and (xvi) execution of material contracts or contracts with affiliates of the joint venture partners.

Dividend Policy

Subject to the relevant finance documents, to the greatest extent permitted by the UAE commercial companies law, but subject to forecasted working capital requirements in accordance

with the agreed annual budget, profits are distributed to the shareholders and available cash in the operating subsidiary is to be used to repay subordinated loans.

Term and Termination

The initial term of a shareholders' agreement is 40 years from the operating subsidiary's registration date and it is renewed automatically for five-year periods, unless either party gives at least 12 months' prior written notice to terminate at the end of a relevant period. A shareholders' agreement can be terminated by agreement between the shareholders. In addition, the agreement terminates automatically if either of the shareholders no longer holds shares in the operating subsidiary, if the joint venture partners together own less than 25 per cent. of the shares in the operating subsidiary or if the relevant land lease is terminated as a result of demolition and removal of the relevant plant.

Default

Events of default consist of (i) a material breach of the shareholders' agreement, (ii) voluntary or involuntary winding up of a shareholder or (iii) a breach by the operating subsidiary of its obligations under the PWPA resulting in the termination by ADWEC of the PWPA. Following the occurrence of an event of default caused by the joint venture partners, the relevant subsidiary of ADWEA may purchase all of its shares and shareholder loans in the operating subsidiary. If the relevant subsidiary of ADWEA is the defaulting party, the joint venture partners may require the relevant subsidiary of ADWEA to purchase all of their shares and shareholder loans in the operating subsidiary. The purchase price for the shareholder loans is equal to the outstanding principal amount for the loans. The purchase price for the defaulting party's shares in the operating subsidiary is to be agreed between the parties, failing which the purchase price will be determined by a third-party valuer.

SUMMARY OF THE FINANCING DOCUMENTS

Senior Debt

Each operating subsidiary has in place project finance arrangements customary for projects of this type. These include, in relation to Taweelah A2, Shuweihat S1 and Umm al Nar, Islamic financings, as well as conventional finance arrangements, which are structured to provide a substantially equivalent economic return for Shari'ah compliant lenders to that available to conventional lenders. The conventional loan facilities and the Islamic loan facilities rank equally and are subject to intercreditor arrangements.

Operating subsidiaries may, and in some circumstances are required to, prepay the loan in whole or in part. For example, certain insurance proceeds, compensation payments and asset disposal proceeds received by an operating subsidiary are required to be prepaid. The operating subsidiary also has an option, in most cases, to prepay the loan in whole or part upon an agreed notice period.

Each project financing restricts the ability of the operating subsidiary to make distributions to its shareholders (including repayments of subordinated loans). The restrictions on making distributions include, without limitation, some or all of the following requirements:

- a minimum debt service coverage ratio being achieved (tested on an historic and projected basis);
- a minimum loan life coverage ratio being achieved;
- no default or potential event of default occurring under the relevant facility agreement; and
- any debt service reserve account and, if applicable, the maintenance reserve account being fully funded.

Under each project financing, the operating subsidiary is obliged to open and operate certain onshore and offshore bank accounts. Broadly, these include:

- a deposit account into which PWPA revenues are paid prior to their mandatory conversion to U.S. dollars;
- an onshore operating account into which amounts are transferred from the deposit account to pay onshore project costs, operating and maintenance and other capital costs denominated in dirhams as they fall due;
- an offshore operating account into which the majority of PWPA revenues are transferred following their conversion into U.S. dollars;
- a maintenance reserve account;
- a debt service reserve account funded to an amount equal to six months' payments of interest and scheduled repayments of principal; and
- an insurance and compensation account for receipt of proceeds of insurance or other compensation claims and asset disposal net proceeds and transfers to the offshore operating account, if required.

Amounts in the offshore operating account must be applied, broadly, in the following order of priority:

- project costs, operating and maintenance and other capital costs as they fall due;
- debt service;
- transfers to the maintenance reserve account;
- transfers to the debt service reserve account; and
- distributions to shareholders.

In addition, each project financing imposes a number of positive and negative covenants on the operating subsidiary, including (in most cases):

- creating liens;
- selling or otherwise disposing of assets;
- incurring additional debt;
- changing the general scope of business;
- entering into mergers or acquisitions or making investments;
- amending project agreements;
- reducing share capital;
- operating the project properly and complying with all its obligations under the project documentation;
- maintaining certain insurances;
- providing financial and other information;
- complying with certain financial ratios;
- effecting certain hedging arrangements; and
- restrictions on its ability to amend the project documentation.

The project financings are secured by security interests over substantially all the assets of the relevant operating subsidiary, and over its shares and other ownership interests.

The events of default under the project financings include (in most cases):

- a failure to make due payments;
- misrepresentation;
- non-compliance with covenants;
- cross-default;
- insolvency and analogous events;
- change of control;
- illegality;
- termination or breach of certain finance and project documents;
- loss or material amendment of certain licences;
- expropriation;
- destruction or abandonment of the project;
- non-compliance with minimum debt service coverage ratio and loan life coverage ratio; and
- any other event or circumstance which has a material adverse effect.

If an event of default occurs, the facility agent may, and must if so instructed by the majority lenders, accelerate the loan. No individual lender can take any independent action to enforce the security for the loan or initiate any other creditor's process without the consent of the majority lenders.

Each project financing provides that it may be amended, and breaches of it and events of default under it may be waived, by the majority lenders, provided that any such amendment or

waiver which relates to certain provisions (including any amendment which reduces the amount owed to any lender, changes the currency of any advance, defers the due date for repayment of any advance, amends the interest payable on any advance or changes the definition of majority lenders) will require the consent of all lenders and any such amendment or waiver which subjects a lender to additional obligations will require the consent of that lender.

Direct Agreements

In respect of each of the principal commercial agreements, a direct agreement between the relevant parties and the financing parties for each relevant operating subsidiary is in place. Generally, these permit the financing parties to step-in following an event of default, extend cure periods and in some cases amend the underlying project agreement. In the event of any conflict between any provision of a direct agreement and its underlying project agreement, the direct agreement will prevail.

Working Capital Facility Agreement

Each operating subsidiary which has achieved its PCOD has also entered into a working capital facility agreement with a lender who agrees to make a facility available to the operating subsidiary on a short-term revolving basis. The operating subsidiary is not obliged to draw amounts under the working capital facility agreement.

OVERVIEW OF THE UNITED ARAB EMIRATES

Political Overview of the United Arab Emirates

The UAE was created in 1971 when six of the regional Emirates—Abu Dhabi, Ajman, Dubai, Fujairah, Sharjah and Umm al Qaywayn formed a federation as a sovereign state. Ras Al Khaimah joined the UAE in 1972.

In 1996, the seven Emirates adopted a permanent constitution for the UAE and accepted Abu Dhabi as the capital.

There are five main structures to the federal government: the Supreme Council of Rulers, the Presidency, the Council of Ministers, the Federal National Council and the Federal Supreme Court. Matters reserved for the Federal Government include health, education, foreign affairs, and monetary policy (directed by the UAE Central Bank).

The Supreme Council of Rulers (the “Council”), is composed of the rulers of each of the seven Emirates. The Council is responsible for matters including election of the President and the Vice President of the Federation, appointment and dismissal of the Prime Minister and judges of the Federal Supreme Court, ratification of federal laws and approval of the federal budget.

H.H. Sheikh Zayed bin Sultan Al-Nahyan, the late Ruler of Abu Dhabi, held the position of President from 1971 until his death in November 2004. Following his death, his son H.H. Sheikh Khalifa bin Zayed Al-Nahyan took over as Ruler of Abu Dhabi and has been elected as President of the UAE. The President has powers set forth in the Constitution which include presiding over meetings of the Council, signing and issuing all federal laws, decrees and decisions, and appointing the Prime Minister and other cabinet ministers. The President and Vice President of the UAE are chosen from among the members of the Supreme Council of Rulers and serve for renewable terms of five years.

The Council of Ministers is composed of the Prime Minister, the Deputy Prime Minister and other ministers in charge of specific portfolios. Its responsibilities include initiating draft legislation for review by the Federal National Council and for ultimate ratification by the Council, preparing the federal budget and supervising the functioning of the federal government. The Council of Ministers’ decisions are adopted by simple majority vote.

The Federal National Council is composed of a total of 40 members from all of the Emirates and reviews proposed legislation referred to it by the Council of Ministers. Abu Dhabi and Dubai are each represented by eight members, Ras Al Khaimah and Sharjah by six members each, and Ajman, Fujairah and Umm al Qaywayn by four members each. The procedures for appointment to the Federal National Council have recently been amended so that each Emirate must now select its representatives through an electoral body. The size of each electoral authority must be 100 times greater than the number of representatives it appoints. Half the members of each electoral body will be selected by the ruler of the Emirate while the other half will be directly elected by residents of the Emirate.

The Federal Supreme Court is composed of up to five judges appointed by presidential decree following approval by the Council. Its jurisdiction includes interpretation of the Constitution, constitutional review of federal and local laws, and adjudication between the individual Emirates. The Federal Supreme Court is also the highest federal court of appeals and is permanently seated in Abu Dhabi City.

The Emirate of Abu Dhabi

H.H. Sheikh Khalifa bin Zayed Al-Nahyan is the ruler of Abu Dhabi. The Emirate of Abu Dhabi is overseen primarily by the Abu Dhabi Executive Council, which is chaired by Crown Prince H.H. Sheikh Mohammed bin Zayed Al-Nahyan. The Executive Council has 12 members, including the Under-Secretary of Finance (who also serves as TAQA’s chairman) as one of the

representatives of Abu Dhabi's Department of Finance. The Executive Council's responsibilities include preparing local laws for approval and signature of the Ruler, preparing the local budget and supervising the functioning of local government and matters including supply of electricity and water. There are approximately 1.7 million residents in the Emirate of Abu Dhabi.

Legal System

The UAE legal system is founded on civil law principles and Shari'ah law since the Constitution refers to Shari'ah as a "primary source" of law. However, the influx of commercial enterprises over the last 20 years has resulted in an expanding and increasingly comprehensive body of federal legislation. There are now federal legislative instruments dealing with civil law, commercial law, civil procedure, companies, intellectual property, immigration, maritime law, industrial law, banking and employment.

Each Emirate is subject to the federal laws of the UAE but retains certain rights to administer its own internal affairs and implement its own laws. The UAE Constitution specifically confers on the federal government certain areas of legislation. Those not included are left to the individual Emirates. In particular, each Emirate retains exclusive rights with regard to its land and natural resources and the right to administer its internal affairs. Some areas of legislation are shared between federal and Emirati jurisdiction.

Except for the Emirates of Dubai and Ras Al Khaimah, the rest of the UAE has adopted a federal judicial structure for civil matters, which is comprised of a court of first instance in each Emirate, a first appeal to the federal appeals court in the relevant Emirate and a final appeal on matters of law to the Federal Supreme Court. In Abu Dhabi, criminal matters are adjudicated by separate criminal courts with their own appeals process.

Shari'ah courts also exist as distinct courts at the first instance, with such courts being integrated into the federal system for appeals to the Federal Supreme Court. Shari'ah courts hear mostly family law matters, although criminal matters may also be referred to such courts in certain Emirates.

In the event of any conflict between Emirati law and federal legislation, the UAE Constitution provides that federal legislation has supremacy.

Geography

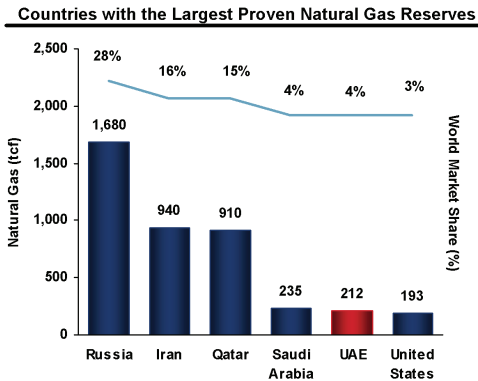
The UAE extends along the southern coast of the Arabian Gulf from Qatar on the west to Oman on the east, bordering Saudi Arabia to the south and has a total area of 83,600 km².



The total population of the UAE in 2005 was 4.1 million (source: UAE Census 2005).

Economy

The UAE is the third largest economy in the Arab world after Saudi Arabia and Egypt. It has a more diversified economy than most of the other countries in the GCC. The UAE has approximately 8 per cent. of proven global oil reserves giving it the sixth largest oil reserves in the world, which would last for 100 years at current rates of production. Approximately 94 per cent. of UAE oil reserves are within the Emirate of Abu Dhabi. Natural gas reserves are the fifth largest in the world and are expected to last over 150 years. Oil production represents one-third of the UAE's gross domestic product ("GDP") and approximately one-half of export earnings. The UAE enjoys one of the highest GDP per capita in the region. The performance of the UAE economy during 2004 and 2005 was very strong. The UAE has foreign exchange reserves of \$21.0 billion and current account surplus of \$19.0 billion. In 2005, gross government debt to GDP stood at 9.2 per cent. Figures calculated in 2005 show that, in addition to high oil prices, the major contribution to GDP growth was from construction, manufacturing, tourism and the service sectors.



Source: U.S. Department of Energy

Sustained current account surpluses have enabled the public and private sectors in the UAE to accumulate a significant foreign asset position. The strong performance of the economy and global commodity price increases have resulted in strong government revenue and expenditure growth, leading to a movement from a fiscal deficit to a surplus.

The UAE is a member of the United Nations, the Arab League, the member states of the GCC, the Organisation of Petroleum Exporting Countries, the International Monetary Fund, the World Trade Organisation and the General Agreement on Tariffs and Trade.

GDP by Economic Activity

	<u>2002</u>	<u>2003</u>	<u>2004*</u>	<u>2005*</u>
	(AED millions, at current prices)			
Economic Sectors				
Non-Financial Sectors:				
Agriculture, livestock and fishery	9,105	9,152	10,100	11,028
Mining and quarrying				
Crude oil and natural gas	72,552	92,136	123,261	173,195
Quarrying	725	765	828	919
Total mining and quarrying	73,277	92,901	124,089	174,114
Manufacturing industries	37,710	42,215	50,159	61,194
Electricity, gas and water	4,930	6,009	6,720	7,935
Construction	21,478	26,072	28,971	34,980
Wholesale, retail trade and repairing services	28,894	35,460	43,458	52,998
Restaurants and hotels	6,025	6,525	7,343	8,946
Transport, storage and communication	21,742	24,692	27,263	32,642
Real estate and business services	22,524	25,355	30,018	35,920
Social and personal services	5,663	6,492	7,113	7,607
Total Non-Financial Sectors	231,348	274,873	335,234	427,364
Financial Corporation Sector	17,314	19,902	23,374	28,426
Domestic Services of Households	2,030	2,065	2,126	2,382
Government Services Sector	27,864	30,737	32,463	34,735
Less: Imputed Bank Services Charges	5,700	5,825	6,662	7,395
TOTAL	272,856	321,752	386,535	485,513
Total Non-Oil Sectors	200,304	229,616	263,274	312,318

Source: Central Bank of the UAE

* Estimates

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006*</u>	<u>2007*</u>
Real GDP (dirhams billion)	190.9	214.3	262.4	269.3	301.3	330.5	357.6	385.0	422.5
Real GDP (\$ billion)	\$ 52.0	\$ 58.4	\$ 71.5	\$ 73.4	\$ 82.1	\$ 90.1	\$ 97.4	\$ 104.9	\$ 115.1
Nominal GDP (dirhams billion)	201.8	258.0	254.2	272.9	321.8	386.5	485.5	588.1	675.6
Population (million)	3.03	3.25	3.49	3.75	4.04	4.32	4.64	4.98	5.35
Per capita \$ GDP	\$18,117	\$21,634	\$19,847	\$19,791	\$21,681	\$24,361	\$28,493	\$32,136	\$34,373

Source: IMF, Central Bank Forecast by the Institute of International Finance (IIF), Article IV Consultation (IMF and Central Bank, 2006), U.S. Department of Energy

* Forecast

Consolidated Government Finance Account

	<u>2002</u>	<u>2003</u>	<u>2004*</u>	<u>2005**</u>
	(AED millions)			
Revenues:				
Tax Revenues				
Customs	1,663	2,449	3,040	3,846
Other	<u>5,218</u>	<u>4,595</u>	<u>6,526</u>	<u>6,345</u>
Total tax revenues	6,881	7,044	9,566	10,191
Non-Tax Revenues				
Oil and Gas	40,926	56,738	73,322	111,377
Enterprise Profits	3,357	2,935	3,322	4,089
Other	<u>6,054</u>	<u>10,295</u>	<u>8,541</u>	<u>34,884</u>
Total non-tax revenues	<u>50,337</u>	<u>69,968</u>	<u>85,185</u>	<u>150,350</u>
Total Revenues	<u>57,218</u>	<u>77,012</u>	<u>94,751</u>	<u>160,541</u>
Expenditures:				
Current:				
Wages and Salaries	14,612	15,159	15,628	16,357
Goods and Services	22,187	23,801	25,032	24,184
Subsidiaries and Transfers	14,782	10,408	11,666	12,665
Other	<u>21,021</u>	<u>24,885</u>	<u>28,658</u>	<u>23,734</u>
Total current	72,602	74,253	80,984	76,940
Development	12,470	16,028	15,207	13,509
Loans and Equity:				
Domestic	592	(810)	3,448	31,436
Foreign	<u>952</u>	<u>1,962</u>	<u>(3,365)</u>	<u>406</u>
Total loans and equity	<u>1,544</u>	<u>1,152</u>	<u>83</u>	<u>31,842</u>
Total Expenditures	<u>86,616</u>	<u>91,433</u>	<u>96,274</u>	<u>122,291</u>
Overall Surplus / (Deficit)	<u>(29,398)</u>	<u>(14,421)</u>	<u>(1,523)</u>	<u>38,250</u>
Financing:				
Changes in net Government Deposits with Banks	(4,339)	2,383	(1,777)	(16,037)
Other ⁽¹⁾	<u>33,737</u>	<u>12,038</u>	<u>3,300</u>	<u>(22,213)</u>
Total financing	<u>29,398</u>	<u>14,421</u>	<u>1,523</u>	<u>(38,250)</u>

Source: Central Bank of the UAE

(1) Transfers of Government Investment Income

* Revised Figures

** Preliminary Figures

TERMS AND CONDITIONS OF THE U.S.\$ BONDS

The following, subject to completion and amendment, is the text of the Terms and Conditions of the 2016 Bonds and the 2036 Bonds, respectively, which will appear on the certificates in respect of the 2016 Bonds and the 2036 Bonds, respectively, in definitive form (if issued):

The issue of the U.S.\$1,000,000,000 5.875 per cent. Bonds due 2016¹/U.S.\$1,500,000,000 6.5 per cent. Bonds due 2036² (the “Bonds”) was authorised by resolutions of the Board of Directors of Abu Dhabi National Energy Company PJSC (the “Issuer”) passed on 3 October 2006 (pursuant to powers delegated by a resolution of the shareholders of the Issuer passed on 3 August 2005). The Bonds are constituted by a Trust Deed (the “Trust Deed”) dated 27 October 2006 between the Issuer and Citicorp Trustee Company Limited (the “Trustee” which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the “Bondholders”). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. Copies of the Trust Deed and of the Paying and Transfer Agency Agreement (the “Agency Agreement”) dated 27 October 2006 relating to the Bonds between the Issuer, the Trustee, the initial registrar named therein, the initial principal paying and transfer agent named therein and other paying and transfer agents named therein, are available for inspection during usual business hours at the principal office of the Trustee (on the issue date of the Bonds at 14th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB) and at the specified offices of the registrar for the time being (the “Registrar”), the principal paying and transfer agent for the time being (the “Principal Paying and Transfer Agent”) and the other paying and transfer agents for the time being (the “Paying and Transfer Agents”, which expression shall include the Principal Paying and Transfer Agent). The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Agency Agreement.

1 Form, Denomination, Title and Status

- (a) **Form and denomination:** The Bonds are in registered form, serially numbered and principal amounts of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (each an “authorised denomination”).
- (b) **Title:** Title to the Bonds will pass by transfer and registration as described in Condition 2. The holder (as defined below) of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related certificate, as appropriate) or anything written on it or on the certificate in respect of it (other than a duly executed transfer thereof)) and no person will be liable for so treating the holder. For this purpose, “holder” shall mean the person in whose name a Bond is registered in the Register (as defined in Condition 2(a)).
- (c) **Status:** The Bonds constitute (subject to Condition 3) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

¹ Applies to 2016 Bonds.

² Applies to 2036 Bonds.

2 Registration and Transfer of Bonds

- (a) **Registration:** The Issuer will cause a register (the “Register”) to be kept at the specified office of the Registrar on which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers and redemptions of Bonds.
- (b) **Transfer:** Bonds may, subject to the terms of the Agency Agreement and to Conditions 2(c) and 2(d), be transferred in whole or in part in an authorised denomination by lodging the relevant Bond (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying and Transfer Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven business days (as defined in Condition 6(c)), in the place of the specified office of the Registrar, of any duly made application for the transfer of a Bond, deliver a new Bond to the transferee (and, in the case of a transfer of part only of a Bond, deliver a Bond for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

- (c) **Formalities free of charge:** Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.
- (d) **Closed Periods:** Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof) (i) during the period of 15 days ending on and including the day immediately prior to 27 October 2016¹/27 October 2036² (the “Final Maturity Date”); or (ii) during the period of 15 days ending on (and including) any Record Date (as defined in Condition 6(a)) in respect of any payment of interest on the Bonds.

3 Covenants

- (a) **Negative Pledge:** So long as any Bond remains outstanding (as defined in the Trust Deed) the Issuer will not and will ensure that none of its Material Subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (each a “Security Interest”) other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the

¹ Applies to 2016 Bonds.

² Applies to 2036 Bonds.

Bondholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

In these Conditions:

“Domestic Subsidiary” means:

- (i) Emirates CMS Power Company PJSC, Gulf Total Tractebel Power Company PJSC, Arabian Power Company PJSC, Shuweihat CMS International Power Company PJSC, Taweelah Asia Power Company PJSC and Emirates SembCorp Water and Power Company PJSC; and
- (ii) any other Subsidiary which is engaged from time to time in the business of power generation and/or water desalination in the Emirates of Abu Dhabi or Fujairah;

“Excluded Subsidiary” means any Subsidiary:

- (i) which is a single purpose company whose principal assets and business are constituted by the ownership, construction, acquisition, development and/or operation of an asset or group of related assets;
- (ii) whose indebtedness for borrowed money in respect of the financing of such ownership, construction, acquisition, development and/or operation of an asset or group of related assets is subject to no recourse (other than any Permitted Recourse) to any member of the Group (other than such Subsidiary or another Excluded Subsidiary) in respect of the repayment thereof; and
- (iii) which has been designated as such by the Issuer by written notice to the Trustee, provided that the Issuer may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary;

“Group” means the Issuer and all the Subsidiaries;

“Material Subsidiary” means each Domestic Subsidiary and, at any time, any other Subsidiary (other than an Excluded Subsidiary):

- (i) whose total assets exceed five per cent. of the consolidated total assets of the Issuer; or
- (ii) whose net profit before taxation exceeds five per cent. of the consolidated net profit before taxation of the Issuer.

For these purposes:

- (1) all calculations shall be determined in accordance with the generally accepted accounting principles used in the preparation of:
 - (A) the then latest annual audited consolidated financial statements of the relevant Subsidiary (in the case of a Subsidiary preparing consolidated financial statements) or the then latest annual audited financial statements of the relevant Subsidiary (in the case of a Subsidiary preparing non-consolidated financial statements); and
 - (B) the then latest annual audited consolidated financial statements of the Issuer;
- (2) upon a Material Subsidiary transferring all or substantially all of its assets or business to another Subsidiary, the transferor shall cease to be a Material Subsidiary on the effective date of such transfer and thereupon the transferee shall be deemed to be a Material Subsidiary until the date of its next annual

audited consolidated financial statements or, as the case may be, annual audited financial statements are prepared after which whether it is or is not a Material Subsidiary shall be determined in accordance with paragraphs (i) and (ii) above; and

- (3) subject to paragraph (2) above, if as a result of any transfer, reconstruction, amalgamation, reorganisation, merger or consolidation of a company which, immediately before such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, satisfied either of the tests set forth in paragraphs (i) or (ii) above, but immediately after such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation does not satisfy either such test, such company shall immediately cease to be a Material Subsidiary;

“Permitted Recourse” means recourse for any indebtedness that may be incurred in connection with the financing of the ownership, construction, acquisition, development, construction and/or operation of an asset or group of related assets by any member of the Group, so long as the terms of such recourse are restricted such that:

- (i) it shall be released following completion of the development or construction of such asset or group of related assets to the satisfaction of the holders of such indebtedness; or
- (ii) it is limited to:
 - (1) an agreed cash amount, and may only be enforced in the event that the development or construction of such asset or group of related assets cannot be completed or is subject to cost overruns or delays; or
 - (2) the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from such asset or group of related assets; or
 - (3) shares, securities or other instruments representing ownership in, or indebtedness of, an Excluded Subsidiary; or
 - (4) an agreement by the relevant member of the Group not to dispose of any or all of such shares, securities or other instruments; or
 - (5) an agreement by the relevant member of the Group to subordinate its rights in respect of such shares, securities or other instruments for the benefit of the holders of indebtedness incurred by an Excluded Subsidiary; or
 - (6) recourse for any indebtedness that may be incurred under a direct agreement entered into by the relevant member of the Group in connection with the project financing of such asset or group of related assets by an Excluded Subsidiary; or
 - (7) recourse in respect of any policy of insurance (or similar instrument, but for the avoidance of doubt not including any financial guarantee) which may be granted by a member of the Group which is not an Excluded Subsidiary for the benefit of an Excluded Subsidiary.

“Permitted Security Interest” means a Security Interest:

- (i) securing indebtedness outstanding as of the Issue Date (as defined in Condition 4);
- (ii) securing indebtedness acquired on acquisition of any Material Subsidiary, or on the acquisition of any property or assets, if, in either case, such Security Interest was not created in contemplation of the acquisition;
- (iii) securing any indebtedness incurred in respect of the refinancing of any of the above, so long as such indebtedness is for an amount not materially greater than the

principal (and any capitalised interest and fees) of such indebtedness and does not extend to property or assets having, in aggregate, a greater value than those to which the Security Interest being replaced relates;

“Project Finance Indebtedness” means any present or future indebtedness for borrowed money incurred to finance the ownership, construction, acquisition, development and/or operation of an asset or group of related assets of a member of the Group;

- (i) which is incurred by an Excluded Subsidiary; or
- (ii) in respect of which the person or persons to whom any such indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) has no recourse (other than any Permitted Recourse) to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof;

“Relevant Indebtedness” means any indebtedness (other than Project Finance Indebtedness) which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities (otherwise than to constitute or represent advances made by banks and/or other lending financial institutions) which (i) for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market and (ii) are denominated or confer a right to payment of principal and/or interest in a currency other than the currency of the jurisdiction of incorporation of the Issuer; and

“Subsidiary” means any entity whose financial statements at any time are required by law or in accordance with then applicable generally accepted accounting principles to be fully consolidated with those of the Issuer.

- (b) **Disposals:** So long as any Bond remains outstanding (except as shall have been approved by an Extraordinary Resolution) (1) the Issuer will not and will procure that no Subsidiary will convey, lease, sell, transfer or otherwise dispose of (or agree to do so at any future time) all or any of the shares in any Domestic Subsidiary (or in any holding company of any Domestic Subsidiary) held by the Issuer or such Subsidiary, as the case may be, in each case if, and to the extent that, any such disposal would result in the proportion of the total issued share capital of such Domestic Subsidiary beneficially owned by the Issuer (either directly or indirectly) being less than the proportion so owned by the Issuer on the Issue Date (as defined in Condition 4) and (2) the Issuer will procure that none of the Domestic Subsidiaries will, convey, lease, sell, transfer or otherwise dispose of (or agree to do so at any future time) all or any part of their assets except (in respect of the restriction in this sub-paragraph (2) only):
 - (i) sales of inventory (including, without limitation, electricity and desalinated water) in the ordinary course of business;
 - (ii) sales or transfers between one or more of Domestic Subsidiaries;
 - (iii) sales of equipment which is uneconomic, obsolete or no longer useful in the business of the relevant Domestic Subsidiary; and
 - (iv) disposals of assets to a bank or other financial institution made in connection with, and solely for the purpose of, any financing to be extended to the debtor on a Shari’ah compliant basis.
- (c) **Certificates:** The Issuer shall within 30 days of a request therefor, provide to the Trustee a certificate setting for the names of all Material Subsidiaries and any Domestic Subsidiary falling within paragraph (ii) of the definition thereof (and, in the case of any Material Subsidiary determined pursuant to paragraphs (i) or (ii) of the definition thereof, the extracted figures used for determining a Material Subsidiary status and the calculation

thereof) signed by a duly authorised officer of the Issuer. The mathematical accuracy of the calculations in such certificate shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee and the Bondholders and the Trustee shall be entitled to rely on such certificate without any further investigation and shall not be liable to Bondholders for so doing.

The Issuer has undertaken in the Trust Deed to deliver to the Trustee annually and within 30 days of a request therefor made by the Trustee a certificate of the Issuer as to there not having been an Event of Default or Potential Event of Default since the date of the last such certificate or, if none, the date of the Trust Deed, or if such an event has occurred, giving details of it. The Trustee shall be entitled to rely on such certificate and shall not be obliged to independently monitor compliance by the Issuer with the covenants set forth in this Condition 3, nor be liable to any person for not so doing and need not enquire further as to circumstances existing on the date of such certificate.

4 Interest

The Bonds bear interest from and including 27 October 2006 (the "Issue Date") at the rate of $5.875^1/6.5^2$ per cent. per annum, payable semi-annually in arrear on 27 April and 27 October in each year (each an "Interest Payment Date"), the first such payment to be made on 27 October 2007.

Each Bond will cease to bear interest from the due date for redemption unless, upon due surrender, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying and Transfer Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). The period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "Interest Period". If interest is required to be calculated for a period of less than an Interest Period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

5 Redemption and Purchase

- (a) **Final redemption:** Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Final Maturity Date. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 5.
- (b) **Redemption for taxation reasons:** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption) if the Issuer satisfies the Trustee immediately prior to the giving of such notice that (i) it has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the United Arab Emirates or any Emirate therein or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after

¹ Applies to 2016 Bonds.

² Applies to 2036 Bonds.

27 October 2006 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver to the Trustee a certificate signed by two duly authorised officers of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on the Bondholders.

- (c) **Redemption at the option of the Bondholders:** If a Change of Control occurs then the holder of each Bond will have the option (a "Put Option") (unless prior to the giving of the relevant Change of Control Notice (as defined below) the Issuer has given notice of redemption under Condition 5(b)) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) the relevant Bond on the Put Date at its principal amount together with interest accrued to but excluding the Put Date. The "Put Date" shall be the tenth business day in New York after the expiry of the Put Period (as defined below).

Promptly upon the Issuer becoming aware that a Change of Control has occurred the Issuer shall, and at any time following the occurrence of a Change of Control the Trustee if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution, shall, give notice (a "Change of Control Notice") to the Bondholders in accordance with Condition 15 specifying the nature of the Change of Control and the procedure for exercising the Put Option.

To exercise the Put Option, the holder of the Bond must present such Bond at the specified office of any Paying and Transfer Agent at any time during normal business hours of such Paying and Transfer Agent falling within the period (the "Put Period") of 30 days after a Change of Control Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying and Transfer Agent (a "Change of Control Put Exercise Notice"). Payment in respect of any Bond so presented will be made by transfer to the U.S.\$ bank account with a bank in New York City specified by the relevant holder in the applicable Change of Control Put Exercise Notice. A Change of Control Put Exercise Notice, once given, shall be irrevocable. The Issuer shall redeem or purchase (or procure the purchase of) the relevant Bonds on the Put Date unless previously redeemed or purchase and cancelled.

If 85 per cent. or more in nominal amount of the Bonds then outstanding have been redeemed pursuant to this Condition 5(c), the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Bondholders (such notice being given within 30 days after the Put Date), redeem, at its option, all but not some only of the remaining outstanding Bonds at their principal amount, together with interest accrued to but excluding the date fixed for redemption.

The Trustee is under no obligation to ascertain whether a Change of Control or any event which could lead to the occurrence of or could constitute a Change of Control has occurred and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Change of Control or other such event has occurred.

For the purpose of this Condition 5(c), a "Change of Control" shall occur if the Emirate of Abu Dhabi, including, without limitation, any agency of its government or any entity controlled by it, at any time ceases to own and control (directly or indirectly) more than 50 per cent. of the economic and voting rights in respect of the Issuer.

- (d) **Notice of redemption:** All Bonds in respect of which any notice of redemption is given under Condition 5(b) or 5(c) shall be redeemed on the date specified in such notice in accordance with this Condition.
- (e) **Purchase:** The Issuer and any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Conditions 8 and 12.
- (f) **Cancellation:** All Bonds so redeemed or purchased will be cancelled and may not be re-issued or resold.

6 Payments

- (a) **Method of Payment:** Payment of principal in respect of the Bonds and accrued interest payable on a redemption of the Bonds other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date and subject to the surrender of the Bonds at the specified office of any Paying and Transfer Agent. Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date. For this purpose, "Record Date" means the fifteenth business day, in New York City and the place of the specified office of the Registrar, before the due date for the relevant payment. Each such payment will be made by transfer to a U.S.\$ account maintained by the payee with a bank in New York City.
- (b) **Payments subject to fiscal laws:** All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Bondholders in respect of such payments.
- (c) **Delay in payment:** Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a business day or (ii) if the holder is late in surrendering the relevant Bonds. In these Conditions "business day" means a day on which commercial banks and foreign exchange markets are open in the relevant city and (where such surrender is required by these Conditions) in the place of the specified office of the relevant Paying and Transfer Agent to whom the relevant Bond is surrendered.
- (d) **Paying and Transfer Agents:** The initial Registrar and Paying and Transfer Agents and their initial specified offices are listed below. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of any Paying and Transfer Agent and/or the Registrar and appoint additional or other Paying and Transfer Agents, provided that it will maintain (i) a Registrar and Principal Paying and Transfer Agent, (ii) so long as the Bonds are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's EEA Regulated Market) a Paying and Transfer Agent having a specified office in London and (iii) to the extent not provided for in paragraph (ii) a Paying and Transfer Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive. In this Condition "EEA Regulated Market" means a market as defined by Article 1(13) of the Investment Services Directive 93/22/EEC.

7 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Arab Emirates or any Emirate therein or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

- (a) **Other connection:** to a holder, or to a third party on behalf of a holder, if such holder is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the United Arab Emirates or any Emirate therein other than the mere holding of the Bond; or
- (b) **Surrendered for payment more than 30 days after the Relevant Date:** surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrender of such Bond for payment on the last day of such period of 30 days; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) **Payment by another Paying and Transfer Agent:** by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by surrendering the relevant Bond to another Paying and Transfer Agent in a Member State of the European Union.

“Relevant Date” means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

8 Events of Default

If any of the following events occurs the Trustee at its discretion may, and if so requested by holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution and subject to being indemnified and/or secured to its satisfaction shall, give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together with accrued interest:

- (a) **Non-Payment:** the Issuer fails to pay any (i) principal in respect of any of the Bonds when due and such failure continues for a period of seven days or (ii) interest on any of the Bonds when due and such failure continues for a period of 14 days; or
- (b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the written opinion of the Trustee capable of remedy, is not in the written opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or
- (c) **Cross-Acceleration:** (i) any other Borrowed Money Indebtedness of the Issuer or any Material Subsidiary becomes due and payable prior to its stated maturity by reason of any

actual or potential default, event of default or the like (howsoever described), or (ii) any such Borrowed Money Indebtedness is not paid when due or, as the case may be, within any applicable grace period provided that the aggregate amount of the relevant Borrowed Money Indebtedness in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.\$50,000,000 or its equivalent in another currency (as reasonably determined by the Trustee); or

- (d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or, in the opinion of the Trustee, any material part of the property, assets or revenues of the Issuer or any Material Subsidiary and is not discharged or stayed within 90 days; or
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person, but excluding the issue of any notification to the Issuer or the relevant Material Subsidiary that such mortgage, charge, pledge, lien or other encumbrance has become enforceable); or
- (f) **Insolvency:** the Issuer or any Material Subsidiary is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or, in the opinion of the Trustee, a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of the debts of the Issuer or any Material Subsidiary; or
- (g) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any Material Subsidiary, or the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a transfer, reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the relevant Material Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary; or
- (h) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed; or
- (i) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

provided that (save in the case of paragraphs (a) and (c) and (in so far as they relate to the Issuer) paragraphs (f) and (g)) the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Bondholders.

For the purpose of this Condition, “Borrowed Money Indebtedness” means, in relation to any person, any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent, comprising or constituted by:

- (i) any liability to repay the principal of or to pay interest on borrowed money or deposits; or

- (ii) any liability under or pursuant to any:
 - (a) letter of credit; or
 - (b) acceptance credit facility; or
 - (c) note purchase facility; or
 - (d) foreign currency transaction; or
- (iii) any liability in respect of any purchase price for property or services, payment for which is deferred for a period in excess of 180 days after the later of taking possession or becoming the legal owner thereof; or
- (iv) any liability under or pursuant to any guarantee or indemnity in respect of any of the obligations referred to in paragraphs (ii) or (iii) above.

9 Prescription

Claims in respect of principal and interest shall be prescribed and will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date and thereafter any amount in respect of principal or interest shall be forfeited and revert to the Issuer.

10 Replacement of Bonds

If any Bond is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying and Transfer Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Bonds must be surrendered before replacements will be issued.

11 Meetings of Bondholders, Modification, Waiver and Substitution

- (a) **Meetings of Bondholders:** The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds or (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Bondholders (whether or not they were present at the meeting at which such resolution was passed).

- (b) **Modification and Waiver:** The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed which is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of certain other entities in place of the Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

12 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Bonds, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least one-quarter in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

14 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may

(with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

15 Notices

Notices to Bondholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in any other English language newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

- (a) **Governing Law:** The Trust Deed and the Bonds are governed by and shall be construed in accordance with English law.
- (b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Bonds (“Proceedings”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts. This submission is made for the benefit of each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
- (c) **Agent for Service of Process:** The Issuer has in the Trust Deed irrevocably appointed an agent in England to receive service of process in any Proceedings in England based on any of the Bonds or the Trust Deed. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

TERMS AND CONDITIONS OF THE € BONDS

The following, subject to completion and amendment, is the text of the Terms and Conditions of the € Bonds which will appear on the certificates in respect of the € Bonds in definitive form (if issued):

The issue of the €750,000,000 4.375 per cent. Bonds due 2013 (the “Bonds”) was authorised by resolutions of the Board of Directors of Abu Dhabi National Energy Company PJSC (the “Issuer”) passed on 3 October 2006 (pursuant to powers delegated by a resolution of the shareholders of the Issuer passed on 3 August 2005). The Bonds are constituted by a Trust Deed (the “Trust Deed”) dated 27 October 2006 between the Issuer and Citicorp Trustee Company Limited (the “Trustee” which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the “Bondholders”). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. Copies of the Trust Deed and of the Paying and Transfer Agency Agreement (the “Agency Agreement”) dated 27 October 2006 relating to the Bonds between the Issuer, the Trustee, the initial registrar named therein, the initial principal paying and transfer agent named therein and other paying and transfer agents named therein, are available for inspection during usual business hours at the principal office of the Trustee (on the issue date of the Bonds at 14th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB) and at the specified offices of the registrar for the time being (the “Registrar”), the principal paying and transfer agent for the time being (the “Principal Paying and Transfer Agent”) and the other paying and transfer agents for the time being (the “Paying and Transfer Agents”, which expression shall include the Principal Paying and Transfer Agent). The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Agency Agreement.

1 Form, Denomination, Title and Status

- (a) **Form and denomination:** The Bonds are in registered form, serially numbered and principal amounts of €50,000 and integral multiples of €1,000 in excess thereof (each an “authorised denomination”).
- (b) **Title:** Title to the Bonds will pass by transfer and registration as described in Condition 2. The holder (as defined below) of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related certificate, as appropriate) or anything written on it or on the certificate in respect of it (other than a duly executed transfer thereof)) and no person will be liable for so treating the holder. For this purpose, “holder” shall mean the person in whose name a Bond is registered in the Register (as defined in Condition 2(a)).
- (c) **Status:** The Bonds constitute (subject to Condition 3) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

2 Registration and Transfer of Bonds

- (a) **Registration:** The Issuer will cause a register (the “Register”) to be kept at the specified office of the Registrar on which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers and redemptions of Bonds.

- (b) **Transfer:** Bonds may, subject to the terms of the Agency Agreement and to Conditions 2(c) and 2(d), be transferred in whole or in part in an authorised denomination by lodging the relevant Bond (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying and Transfer Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven business days (as defined in Condition 6(c)), in the place of the specified office of the Registrar, of any duly made application for the transfer of a Bond, deliver a new Bond to the transferee (and, in the case of a transfer of part only of a Bond, deliver a Bond for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

- (c) **Formalities free of charge:** Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.
- (d) **Closed Periods:** Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof) (i) during the period of 15 days ending on and including the day immediately prior to 28 October 2013 (the "Final Maturity Date"); or (ii) during the period of 15 days ending on (and including) any Record Date (as defined in Condition 6(a)) in respect of any payment of interest on the Bonds.

3 Covenants

- (a) **Negative Pledge:** So long as any Bond remains outstanding (as defined in the Trust Deed) the Issuer will not and will ensure that none of its Material Subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (each a "Security Interest") other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Bondholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

In these Conditions:

"Domestic Subsidiary" means:

- (i) Emirates CMS Power Company PJSC, Gulf Total Tractebel Power Company PJSC, Arabian Power Company PJSC, Shuweiha CMS International Power Company PJSC, Taweelah Asia Power Company PJSC and Emirates SembCorp Water and Power Company PJSC; and

- (ii) any other Subsidiary which is engaged from time to time in the business of power generation and/or water desalination in the Emirates of Abu Dhabi or Fujairah;

“Excluded Subsidiary” means any Subsidiary:

- (i) which is a single purpose company whose principal assets and business are constituted by the ownership, construction, acquisition, development and/or operation of an asset or group of related assets;
- (ii) whose indebtedness for borrowed money in respect of the financing of such ownership, construction, acquisition, development and/or operation of an asset or group of related assets is subject to no recourse (other than any Permitted Recourse) to any member of the Group (other than such Subsidiary or another Excluded Subsidiary) in respect of the repayment thereof; and
- (iii) which has been designated as such by the Issuer by written notice to the Trustee, provided that the Issuer may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary;

“Group” means the Issuer and all the Subsidiaries;

“Material Subsidiary” means each Domestic Subsidiary and, at any time, any other Subsidiary (other than an Excluded Subsidiary):

- (i) whose total assets exceed five per cent. of the consolidated total assets of the Issuer; or
- (ii) whose net profit before taxation exceeds five per cent. of the consolidated net profit before taxation of the Issuer.

For these purposes:

- (1) all calculations shall be determined in accordance with the generally accepted accounting principles used in the preparation of:
 - (A) the then latest annual audited consolidated financial statements of the relevant Subsidiary (in the case of a Subsidiary preparing consolidated financial statements) or the then latest annual audited financial statements of the relevant Subsidiary (in the case of a Subsidiary preparing non-consolidated financial statements); and
 - (B) the then latest annual audited consolidated financial statements of the Issuer;
- (2) upon a Material Subsidiary transferring all or substantially all of its assets or business to another Subsidiary, the transferor shall cease to be a Material Subsidiary on the effective date of such transfer and thereupon the transferee shall be deemed to be a Material Subsidiary until the date of its next annual audited consolidated financial statements or, as the case may be, annual audited financial statements are prepared after which whether it is or is not a Material Subsidiary shall be determined in accordance with paragraphs (i) and (ii) above; and
- (3) subject to paragraph (2) above, if as a result of any transfer, reconstruction, amalgamation, reorganisation, merger or consolidation of a company which, immediately before such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, satisfied either of the tests set forth in paragraphs (i) or (ii) above, but immediately after such transfer, reconstruction, amalgamation,

reorganisation, merger or consolidation does not satisfy either such test, such company shall immediately cease to be a Material Subsidiary;

“Permitted Recourse” means recourse for any indebtedness that may be incurred in connection with the financing of the ownership, construction, acquisition, development, construction and/or operation of an asset or group of related assets by any member of the Group, so long as the terms of such recourse are restricted such that:

- (i) it shall be released following completion of the development or construction of such asset or group of related assets to the satisfaction of the holders of such indebtedness; or
- (ii) it is limited to:
 - (1) an agreed cash amount, and may only be enforced in the event that the development or construction of such asset or group of related assets cannot be completed or is subject to cost overruns or delays; or
 - (2) the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from such asset or group of related assets; or
 - (3) shares, securities or other instruments representing ownership in, or indebtedness of, an Excluded Subsidiary; or
 - (4) an agreement by the relevant member of the Group not to dispose of any or all of such shares, securities or other instruments; or
 - (5) an agreement by the relevant member of the Group to subordinate its rights in respect of such shares, securities or other instruments for the benefit of the holders of indebtedness incurred by an Excluded Subsidiary; or
 - (6) recourse for any indebtedness that may be incurred under a direct agreement entered into by the relevant member of the Group in connection with the project financing of such asset or group of related assets by an Excluded Subsidiary; or
 - (7) recourse in respect of any policy of insurance (or similar instrument, but for the avoidance of doubt not including any financial guarantee) which may be granted by a member of the Group which is not an Excluded Subsidiary for the benefit of an Excluded Subsidiary.

“Permitted Security Interest” means a Security Interest:

- (i) securing indebtedness outstanding as of the Issue Date (as defined in Condition 4);
- (ii) securing indebtedness acquired on acquisition of any Material Subsidiary, or on the acquisition of any property or assets, if, in either case, such Security Interest was not created in contemplation of the acquisition;
- (iii) securing any indebtedness incurred in respect of the refinancing of any of the above, so long as such indebtedness is for an amount not materially greater than the principal (and any capitalised interest and fees) of such indebtedness and does not extend to property or assets having, in aggregate, a greater value than those to which the Security Interest being replaced relates;

“Project Finance Indebtedness” means any present or future indebtedness for borrowed money incurred to finance the ownership, construction, acquisition, development and/or operation of an asset or group of related assets of a member of the Group;

- (i) which is incurred by an Excluded Subsidiary; or

- (ii) in respect of which the person or persons to whom any such indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) has no recourse (other than any Permitted Recourse) to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof;

“Relevant Indebtedness” means any indebtedness (other than Project Finance Indebtedness) which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities (otherwise than to constitute or represent advances made by banks and/or other lending financial institutions) which (i) for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market and (ii) are denominated or confer a right to payment of principal and/or interest in a currency other than the currency of the jurisdiction of incorporation of the Issuer; and

“Subsidiary” means any entity whose financial statements at any time are required by law or in accordance with then applicable generally accepted accounting principles to be fully consolidated with those of the Issuer.

- (b) **Disposals:** So long as any Bond remains outstanding (except as shall have been approved by an Extraordinary Resolution) (1) the Issuer will not and will procure that no Subsidiary will convey, lease, sell, transfer or otherwise dispose of (or agree to do so at any future time) all or any of the shares in any Domestic Subsidiary (or in any holding company of any Domestic Subsidiary) held by the Issuer or such Subsidiary, as the case may be, in each case if, and to the extent that, any such disposal would result in the proportion of the total issued share capital of such Domestic Subsidiary beneficially owned by the Issuer (either directly or indirectly) being less than the proportion so owned by the Issuer on the Issue Date (as defined in Condition 4) and (2) the Issuer will procure that none of the Domestic Subsidiaries will, convey, lease, sell, transfer or otherwise dispose of (or agree to do so at any future time) all or any part of their assets except (in respect of the restriction in this sub-paragraph (2) only):
 - (i) sales of inventory (including, without limitation, electricity and desalinated water) in the ordinary course of business;
 - (ii) sales or transfers between one or more of Domestic Subsidiaries;
 - (iii) sales of equipment which is uneconomic, obsolete or no longer useful in the business of the relevant Domestic Subsidiary; and
 - (iv) disposals of assets to a bank or other financial institution made in connection with and solely for the purpose of any financing to be extended to the debtor on a Shari’ah compliant basis.
- (c) **Certificates:** The Issuer shall within 30 days of a request therefor, provide to the Trustee a certificate setting for the names of all Material Subsidiaries and any Domestic Subsidiary falling within paragraph (ii) of the definition thereof (and, in the case of any Material Subsidiary determined pursuant to paragraphs (i) or (ii) of the definition thereof, the extracted figures used for determining a Material Subsidiary status and the calculation thereof) signed by a duly authorised officer of the Issuer. The mathematical accuracy of the calculations in such certificate shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee and the Bondholders and the Trustee shall be entitled to rely on such certificate without any further investigation and shall not be liable to Bondholders for so doing.

The Issuer has undertaken in the Trust Deed to deliver to the Trustee annually and within 30 days of a request therefor made by the Trustee a certificate of the Issuer as to there not having been an Event of Default or Potential Event of Default since the date of the last

such certificate or, if none, the date of the Trust Deed, or if such an event has occurred, giving details of it. The Trustee shall be entitled to rely on such certificate and shall not be obliged to independently monitor compliance by the Issuer with the covenants set forth in this Condition 3, nor be liable to any person for not so doing and need not enquire further as to circumstances existing on the date of such certificate.

4 Interest

The Bonds bear interest from and including 27 October 2006 (the "Issue Date") at the rate of 4.375 per cent. per annum, payable annually in arrear on 28 October in each year (each an "Interest Payment Date"), the first such payment to be made on 28 October 2007 in respect of the period from and including the Issue Date to but excluding 28 October 2007 in the amount of €2,193.49 per Bond.

Each Bond will cease to bear interest from the due date for redemption unless, upon due surrender, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying and Transfer Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). The period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "Interest Period". If interest is required to be calculated for a period of less than an Interest Period, it will be calculated on the basis of the number of days in the relevant period from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

5 Redemption and Purchase

- (a) **Final redemption:** Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Final Maturity Date. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 5.
- (b) **Redemption for taxation reasons:** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption) if the Issuer satisfies the Trustee immediately prior to the giving of such notice that (i) it has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the United Arab Emirates or any Emirate therein or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 27 October 2006 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver to the Trustee a certificate signed by two duly authorised officers of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such

certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on the Bondholders.

- (c) **Redemption at the option of the Bondholders:** If a Change of Control occurs then the holder of each Bond will have the option (a "Put Option") (unless prior to the giving of the relevant Change of Control Notice (as defined below) the Issuer has given notice of redemption under Condition 5(b)) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) the relevant Bond on the Put Date at its principal amount together with interest accrued to but excluding the Put Date. The "Put Date" shall be the tenth TARGET business day (as defined in Condition 6(c)) after the expiry of the Put Period (as defined below).

Promptly upon the Issuer becoming aware that a Change of Control has occurred the Issuer shall, and at any time following the occurrence of a Change of Control the Trustee if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution, shall, give notice (a "Change of Control Notice") to the Bondholders in accordance with Condition 15 specifying the nature of the Change of Control and the procedure for exercising the Put Option.

To exercise the Put Option, the holder of the Bond must present such Bond at the specified office of any Paying and Transfer Agent at any time during normal business hours of such Paying and Transfer Agent falling within the period (the "Put Period") of 30 days after a Change of Control Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying and Transfer Agent (a "Change of Control Put Exercise Notice"). Payment in respect of any Bond so presented will be made by credit or transfer to the Euro account (or any other account to which Euro may be credited or transferred) with a bank in a city in which banks have access to the TARGET system specified by the relevant holder in the applicable Change of Control Put Exercise Notice. A Change of Control Put Exercise Notice, once given, shall be irrevocable. The Issuer shall redeem or purchase (or procure the purchase of) the relevant Bonds on the Put Date unless previously redeemed or purchase and cancelled.

If 85 per cent. or more in nominal amount of the Bonds then outstanding have been redeemed pursuant to this Condition 5(c), the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Bondholders (such notice being given within 30 days after the Put Date), redeem, at its option, all but not some only of the remaining outstanding Bonds at their principal amount, together with interest accrued to but excluding the date fixed for redemption.

The Trustee is under no obligation to ascertain whether a Change of Control or any event which could lead to the occurrence of or could constitute a Change of Control has occurred and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Change of Control or other such event has occurred.

For the purpose of this Condition 5(c), a "Change of Control" shall occur if the Emirate of Abu Dhabi, including, without limitation, any agency of its government or any entity controlled by it, at any time ceases to own and control (directly or indirectly) more than 50 per cent. of the economic and voting rights in respect of the Issuer.

- (d) **Notice of redemption:** All Bonds in respect of which any notice of redemption is given under Condition 5(b) or 5(c) shall be redeemed on the date specified in such notice in accordance with this Condition.
- (e) **Purchase:** The Issuer and any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on

behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Conditions 8 and 12.

- (f) **Cancellation:** All Bonds so redeemed or purchased will be cancelled and may not be re-issued or resold.

6 Payments

- (a) **Method of Payment:** Payment of principal in respect of the Bonds and accrued interest payable on a redemption of the Bonds other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date and subject to the surrender of the Bonds at the specified office of any Paying and Transfer Agent. Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date. For this purpose, "Record Date" means the fifteenth business day, in New York City and the place of the specified office of the Registrar, before the due date for the relevant payment. Each such payment will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with a bank in a city in which banks have access to the TARGET system. In these Conditions "TARGET system" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereto.

Payments of principal and interest in respect of Bonds registered in the name of, or in the name of a nominee for The Depository Trust Company ("DTC") will be made or procured to be made by the Principal Paying and Transfer Agent in Euro in accordance with the following provisions. The amounts in Euro payable by the Principal Paying and Transfer Agent or its agent to DTC with respect to Bonds held by DTC or its nominee will be received from the Issuer by the Principal Paying and Transfer Agent who will make payments in Euro by wire transfer of same day funds to the designated bank account in Euro of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of payments of interest, on or prior to the third business day in New York City after the Record Date for the relevant payment of interest and, in the case of payments of principal, at least 12 business days in New York City prior to the relevant payment date, to receive that payment in Euro. The Principal Paying and Transfer Agent will convert amounts in Euro into U.S. dollars and deliver such U.S. dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in Euro. The Agency Agreement sets out the manner in which such conversions are to be made.

- (b) **Payments subject to fiscal laws:** All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Bondholders in respect of such payments.
- (c) **Delay in payment:** Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a TARGET business day or (ii) if the holder is late in surrendering the relevant Bonds. In these Conditions "business day" means a day on which commercial banks and foreign exchange markets are open in the relevant city or cities and (where such surrender is required by these Conditions) in the place of the specified office of the relevant Paying and Transfer Agent to whom the relevant Bond is surrendered and "TARGET business day" means a day on which the TARGET system is operating.

- (d) **Paying and Transfer Agents:** The initial Registrar and Paying and Transfer Agents and their initial specified offices are listed below. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of any Paying and Transfer Agent and/or the Registrar and appoint additional or other Paying and Transfer Agents, provided that it will maintain (i) a Registrar and Principal Paying and Transfer Agent, (ii) so long as the Bonds are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's EEA Regulated Market) a Paying and Transfer Agent having a specified office in London and (iii) to the extent not provided for in paragraph (ii) a Paying and Transfer Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive. In this Condition "EEA Regulated Market" means a market as defined by Article 1(13) of the Investment Services Directive 93/22/EEC.

7 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Arab Emirates or any Emirate therein or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

- (a) **Other connection:** to a holder, or to a third party on behalf of a holder, if such holder is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the United Arab Emirates or any Emirate therein other than the mere holding of the Bond; or
- (b) **Surrendered for payment more than 30 days after the Relevant Date:** surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrender of such Bond for payment on the last day of such period of 30 days; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) **Payment by another Paying and Transfer Agent:** by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by surrendering the relevant Bond to another Paying and Transfer Agent in a Member State of the European Union.

"Relevant Date" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

8 Events of Default

If any of the following events occurs the Trustee at its discretion may, and if so requested by holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution and subject to being indemnified and/or secured to its satisfaction shall, give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together with accrued interest:

- (a) **Non-Payment:** the Issuer fails to pay any (i) principal in respect of any of the Bonds when due and such failure continues for a period of seven days or (ii) interest on any of the Bonds when due and such failure continues for a period of 14 days; or
- (b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the written opinion of the Trustee capable of remedy, is not in the written opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or
- (c) **Cross-Acceleration:** (i) any other Borrowed Money Indebtedness of the Issuer or any Material Subsidiary becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such Borrowed Money Indebtedness is not paid when due or, as the case may be, within any applicable grace period provided that the aggregate amount of the relevant Borrowed Money Indebtedness in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.\$50,000,000 or its equivalent in another currency (as reasonably determined by the Trustee); or
- (d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or, in the opinion of the Trustee, any material part of the property, assets or revenues of the Issuer or any Material Subsidiary and is not discharged or stayed within 90 days; or
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person, but excluding the issue of any notification to the Issuer or the relevant Material Subsidiary that such mortgage, charge, pledge, lien or other encumbrance has become enforceable); or
- (f) **Insolvency:** the Issuer or any Material Subsidiary is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or, in the opinion of the Trustee, a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of the debts of the Issuer or any Material Subsidiary; or
- (g) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any Material Subsidiary, or the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a transfer, reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the relevant Material Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary; or

- (h) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed; or
- (i) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

provided that (save in the case of paragraphs (a) and (c) and (in so far as they relate to the Issuer) paragraphs (f) and (g)) the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Bondholders.

For the purpose of this Condition, “Borrowed Money Indebtedness” means, in relation to any person, any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent, comprising or constituted by:

- (i) any liability to repay the principal of or to pay interest on borrowed money or deposits; or
- (ii) any liability under or pursuant to any:
 - (a) letter of credit; or
 - (b) acceptance credit facility; or
 - (c) note purchase facility; or
 - (d) foreign currency transaction; or
- (iii) any liability in respect of any purchase price for property or services, payment for which is deferred for a period in excess of 180 days after the later of taking possession or becoming the legal owner thereof; or
- (iv) any liability under or pursuant to any guarantee or indemnity in respect of any of the obligations referred to in paragraphs (ii) or (iii) above.

9 Prescription

Claims in respect of principal and interest shall be prescribed and will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date and thereafter any amount in respect of principal or interest shall be forfeited and revert to the Issuer.

10 Replacement of Bonds

If any Bond is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying and Transfer Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Bonds must be surrendered before replacements will be issued.

11 Meetings of Bondholders, Modification, Waiver and Substitution

- (a) **Meetings of Bondholders:** The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the

time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds or (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Bondholders (whether or not they were present at the meeting at which such resolution was passed).

- (b) **Modification and Waiver:** The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed which is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of certain other entities in place of the Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

12 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Bonds, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least one-quarter in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

14 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

15 Notices

Notices to Bondholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in any other English language newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

- (a) **Governing Law:** The Trust Deed and the Bonds are governed by and shall be construed in accordance with English law.
- (b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Bonds (“Proceedings”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts. This submission is made for the benefit of each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
- (c) **Agent for Service of Process:** The Issuer has in the Trust Deed irrevocably appointed an agent in England to receive service of process in any Proceedings in England based on any of the Bonds or the Trust Deed. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Global Bond Certificates

The Bonds will be evidenced on issue by the Regulation S Global Bond Certificate (deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg) and the Rule 144A Global Bond Certificate (deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC).

Beneficial interests in the Regulation S Global Bond Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See “Clearing and Settlement — Book-Entry Ownership”. By acquisition of a beneficial interest in the Regulation S Global Bond Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40 day restricted period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in the Rule 144A Global Bond Certificate (if applicable). See “Transfer Restrictions”.

Beneficial interests in the Rule 144A Global Bond Certificate may only be held through DTC at any time. See “Clearing and Settlement — Book-Entry Ownership”. By acquisition of a beneficial interest in the Rule 144A Global Bond Certificates, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed. See “Transfer Restrictions”.

Beneficial interests in each Global Bond Certificate will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and with respect to Rule 144A Bonds, as set forth in Rule 144A, and the Bonds will bear the legends set forth thereon regarding such restrictions set forth under “Transfer Restrictions”. A beneficial interest in the Regulation S Global Bond Certificate may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Bond Certificate in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Bond Certificate and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Bond Certificate may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Bond Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. person and in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Bond Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Bond Certificate will, upon transfer, cease to be an interest in the Regulation S Global Bond Certificate and become an interest in the Rule 144A Global Bond Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Bond Certificate for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Bond Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Bond Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Bond Certificate and become an interest in the Regulation S Global Bond Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Bond Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Bonds, but

the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Bond Certificates will not be entitled to receive physical delivery of certificated Bonds in definitive form (the “Individual Certificates”). The Bonds are not issuable in bearer form.

In the event that a Global Bond Certificate is exchanged for Individual Certificates, such Individual Certificates shall be issued in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (in the case of the U.S.\$ Bonds) and €50,000 and integral multiples of €1,000 (in the case of the € Bonds) in excess thereof. Bondholders who hold Bonds in the relevant clearing system in amounts that are not integral multiples of U.S.\$100,000 or U.S.\$1,000 in excess thereof (in the case of the U.S.\$ Bonds) and €50,000 or €1,000 in excess thereof (in the case of the € Bonds) may need to purchase or sell, on or before the relevant Exchange Date (as defined below), a principal amount of Bonds such that their holding is an integral multiple of U.S.\$100,000 or U.S.\$1,000 in excess thereof (in the case of the U.S.\$ Bonds) and €50,000 or €1,000 in excess thereof (in the case of the € Bonds).

Amendments to Terms and Conditions of the Bonds

Each Global Bond Certificate contains provisions that apply to the Bonds that they represent, some of which modify the effect of the Terms and Conditions of the Bonds. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Bonds evidenced by a Global Bond Certificate will be made against presentation for endorsement by the Principal Paying and Transfer Agent and, if no further payment falls to be made in respect of the relevant Bonds, surrender of such Global Bond Certificate to or to the order of the Principal Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Bond Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Bonds.

Notices

So long as any Bonds are evidenced by a Global Bond Certificate and such Global Bond Certificate is held by or on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for publication thereof as required by Condition 15 of the Terms and Conditions of the Bonds.

Meetings

The holder of each Global Bond Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and in any such meeting as having one vote in respect of each U.S.\$1,000 (in the case of the U.S.\$ Bonds) or €1,000 (in the case of the € Bonds) in nominal amount of Bonds evidenced by Individual Certificates for which the relevant Global Bond Certificate may be exchangeable.

Trustee Powers

In considering the interests of Bondholders while the Global Bond Certificates are held through or on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to each Global Bond Certificate and may consider such interests as if such accountholders were the holders of any Global Bond Certificate.

Cancellation

Cancellation of any Bond required by the Conditions of the Bonds to be cancelled will be effected by reduction in the principal amount of the applicable Global Bond Certificate.

Exchange for Individual Certificates

Exchange

Each Global Bond Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Individual Certificates if: (i) a Global Bond Certificate is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or (ii) if the Issuer would suffer a material disadvantage in respect of the Bonds as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 of the Terms and Conditions of the Bonds which would not be suffered were the Bonds in definitive form and a notice to such effect signed by two duly authorised officers of the Issuer or by any other person(s) empowered by the board of directors of the Issuer to sign on behalf of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar and the Bondholders of its intention to exchange the relevant Global Bond Certificate for Individual Certificates on or after the Exchange Date (as defined below) specified in the notice.

The Registrar will not register the transfer of, or exchange of interests in, a Global Bond Certificate for Individual Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Bonds.

“Exchange Date” means a day falling not later than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the relevant Paying and Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Bond Certificate shall be exchangeable in full for Individual Certificates and the Issuer will, free of charge to the Bondholders (but against such indemnity as the Registrar or any relevant Paying and Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Individual Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Bondholders. A person having an interest in a Global Bond Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Individual Certificates and (b) in the case of the Rule 144A Global Bond Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the

provisions of Rule 144A to a QIB. Individual Certificates issued in exchange for an interest in the Rule 144A Global Bond Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “Transfer Restrictions”.

Legends

The holder of an Individual Certificate may transfer the Bonds evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Individual Certificate bearing the legend referred to under “Transfer Restrictions”, or upon specific request for removal of the legend on a Rule 144A Individual Certificate, the Issuer will deliver only Rule 144A Individual Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

CLEARING AND SETTLEMENT

Custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Bonds and cross-market transfers of the Bonds associated with secondary market trading. See “— Book-Entry Ownership” and “— Settlement and Transfer of Bonds” below.

Investors may hold their interests in the Global Bond Certificates directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders (“Direct Participants”) or indirectly (“Indirect Participants” and together with Direct Participants, “Participants”) through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organization” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Bond Certificate directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Bonds only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Bond Certificate as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “Summary of Provisions Relating to the Bonds while in Global Form—Exchange for Individual Certificates”, DTC will cause its custodian to surrender the Rule 144A Individual Certificate for exchange for individual Rule 144A Definitive Bond Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Payments through DTC

Payments of principal and interest in respect of the U.S.\$ Bonds will be made in accordance with Condition 6(a) of the Terms and Conditions of the U.S.\$ Bonds. Payments of principal and interest in respect of € Bonds registered in the name of, or in the name of a nominee for, DTC will be made or procured to be made by the Principal Paying and Transfer Agent in Euro in accordance with the following provisions. The amounts in Euro payable by the Principal Paying and Transfer Agent or its agent to DTC with respect to € Bonds held by DTC or its nominee will be received from the Issuer by the Principal Paying and Transfer Agent who will make payments in Euro by wire transfer of same day funds to the designated bank account in Euro of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of payments of interest, on or prior to the third business day in New York City after the Record Date for the relevant payment of interest and, in the case of payments of principal, at least 12 business days in New York City prior to the relevant payment date, to receive that payment in Euro. The Principal Paying and Transfer Agent will convert amounts in Euro into U.S. dollars and deliver such U.S. dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in Euro. The Agency Agreement sets out the manner in which such conversions are to be made.

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Bond Certificate representing the Regulation S Bonds will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Bond Certificate representing the Rule 144A Bonds will have an ISIN, Common Code and a CUSIP number and will be deposited with a custodian (the “Custodian”) for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Bonds held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Bond evidenced by a Global Bond Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for its share of each payment made by the Issuer to the holder of such Global Bond (save in the case of payments other than in U.S. dollars outside DTC, as referred to in “— DTC — Payments through DTC” above) and in relation to all other rights arising under such Global Bond Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Bonds evidenced by a Global Bond Certificate, the common depository by whom such Bond is held, or nominee in whose name it is registered, will immediately credit the relevant Participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Bond Certificate as shown on the records of the relevant common depository or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Bond Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly

against the Issuer in respect of payments due on the Bonds for so long as the Bonds are evidenced by such Global Bond Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Bond Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Bond Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Bonds

Subject to the rules and procedures of each applicable clearing system, purchases of Bonds held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Bonds on the clearing system's records. The ownership interest of each actual purchaser of each such Bond (the "Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Bonds held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Bonds, unless and until interests in any Global Bond Certificate held within a clearing system are exchanged for Individual Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Bonds held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Bond Certificate to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Bond Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and / or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Bonds between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures

applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Bonds are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Bond Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Bond Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of the Rule 144A Global Bond Certificate will instruct the Registrar to (i) decrease the amount of Bonds registered in the name of Cede & Co. and evidenced by the Rule 144A Global Bond Certificate of the relevant class and (ii) increase the amount of Bonds registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Bond Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Bonds are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Rule 144A Global Bond Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Bond Certificate who will in turn deliver such book-entry interests in the Bonds free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Bonds registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Bond Certificate; and (ii) increase the amount of Bonds registered in the name of Cede & Co. and evidenced by the Rule 144A Global Bond Certificate.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Bond Certificates among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Paying and Transfer Agent will have the responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Settlement of Pre-issue Trades

It is expected that delivery of Bonds will be made against payment therefor on the Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade Bonds in the United States on the date of pricing or the next succeeding business days until three days prior to the Issue Date will be required, by virtue of the fact the Bonds initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of Bonds may be affected by such local settlement practices, and purchasers of Bonds between the relevant date of pricing and the Issue Date should consult their own advisers.

CERTAIN TAXATION CONSIDERATIONS

The following summary of certain United Kingdom, United States, European Union and United Arab Emirates tax consequences of ownership of Bonds is based upon laws, regulations, decrees, rulings, income tax conventions, administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Bonds. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Bonds. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Bonds, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

United Kingdom

The following is a discussion of certain United Kingdom withholding tax, stamp duty and stamp duty reserve tax considerations relating to the Bonds. It is based on current law and practice in the United Kingdom and does not discuss any other United Kingdom tax considerations relating to the Bonds, including but not limited to their acquisition, holding or disposal. Prospective Bondholders should consult their own tax advisers as to the consequences, both under the tax law of the country of which they are resident for tax purposes and the tax law of the United Kingdom, of acquiring, holding and disposing of the Bonds and receiving payments of interest, principal and/or other amounts under the Bonds.

Withholding Tax

No United Kingdom withholding tax will apply in relation to payments of principal and/or interest on the Bonds.

Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty will be payable on the issue of the Bonds in global form or on the issue of the Bonds in definitive form.

No United Kingdom stamp duty will be payable on a transfer of the Bonds.

No United Kingdom stamp duty reserve tax will be payable on the issue of the Bonds or on an agreement to transfer the Bonds since the Bonds will not be chargeable securities for these purposes.

Provision of Information

Persons in the United Kingdom by or through whom interest is paid to, or by whom interest is received on behalf of, an individual may, in certain circumstances, be required to provide information to HM Revenue & Customs regarding the payment and the individual concerned (including as to the identity of the individual). These provisions will apply whether the individual is resident in the United Kingdom or elsewhere. In certain circumstances, the information may be exchanged with tax authorities in other jurisdictions.

United States

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED

ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Bonds by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Bonds at the issue price that are U.S. Holders and that will hold the Bonds as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Bonds by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, traders in securities that elect mark-to-market treatment, investors that will hold the Bonds as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term “U.S. Holder” means a beneficial owner of Bonds that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Bonds will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Bonds by the partnership.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

General. Interest on a Bond, whether payable in U.S. dollars or a foreign currency, will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes. Interest paid by the Issuer on the Bonds constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Bonds.

Foreign Currency Denominated Interest. With regard to Euro-denominated payments of interest on the € Bonds, if the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in Euro in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the U.S. Internal Revenue Service (the "IRS").

Upon receipt of the interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Bond) denominated in Euro, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Purchase, Sale and Retirement of the Bonds

A U.S. Holder's tax basis in a Bond will generally be its U.S. dollar cost (as defined below). The U.S. dollar cost of a Bond purchased with Euro will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Bonds traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Bond equal to the difference between the amount realised on the sale or retirement and the tax basis of the Bond. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. The amount realised on a sale or retirement for an amount in Euro will be the U.S. dollar value of this amount on the date of sale or retirement, or the settlement date for the sale, in the case of Bonds traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Bond equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Bond (or, if less, the principal amount of the Bond) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Bond. Any such exchange rate gain or loss (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest) will be realised only to the extent of total gain or loss realised on the sale or retirement. Except to the extent attributable to changes in exchange rates, gain or loss recognised by a U.S. Holder on the sale or retirement of a Bond will be capital gain or loss and will be long-term capital gain or loss if the Bond was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Bond generally will be U.S. source.

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of sale or other disposition of Bonds, as well as interest by a U.S. paying agent or other U.S. intermediary, will be reported to the IRS, and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and interest required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Reportable Transactions

A U.S. taxpayer that participates in a “reportable transaction” will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat a foreign currency exchange loss from the € Bonds as a reportable transaction if the loss exceeds U.S.\$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. In the event the acquisition, holding or disposition of Bonds constitutes participation in a reportable transaction for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. Pursuant to U.S. tax legislation enacted in 2004, a penalty in the amount of U.S.\$10,000 in the case of a natural person and U.S.\$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Accordingly, if a U.S. Holder realises a loss on any Bond (or, possibly, aggregate losses from the Bonds) satisfying the monetary thresholds discussed above, the U.S. Holder could be required to file an information return with the IRS, and failure to do so may subject the U.S. Holder to the penalties described above. In addition, the Issuer and its advisers may also be required to disclose the transaction to the IRS, and to maintain a list of U.S. Holders, and to furnish this list and certain other information to the IRS upon written request. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Bonds.

European Union

The Council of the European Union has adopted Council Directive 2003/48/EC (the “Directive”) regarding the taxation of savings income in the form of interest payments. The Directive entered into force on 1 July 2005. The term “paying agent” as used below has to be understood in the sense laid down by the Directive. The Directive provides that certain interest payments made by a paying agent situated within a European Union member state to an individual resident in another EU member state will either have to be reported to the tax authorities of the country of establishment of the paying agent or will be subject to a withholding tax depending on the location of the paying agent. For most EU countries, the tax authorities of the country of establishment of the paying agent will report relevant information to the tax authorities of the country of residence of the individual. For a transitional period, Luxembourg, Austria and Belgium will apply a withholding tax. The applicable withholding tax rate will be 15 per cent. for the first three years of application. This rate will be increased to 20 per cent. for the next three years and then to 35 per cent. thereafter until the end of the transitional period. However, for the countries applying a withholding tax, there exist some procedures to avoid the withholding tax, i.e. a procedure providing an exchange of information or a procedure providing the presentation of a tax certificate to the paying agent.

A number of non-EU countries and territories have adopted similar measures, some of which involve a withholding tax system.

United Arab Emirates

There is currently in force in the Emirates of Abu Dhabi and Dubai legislation establishing a general corporate taxation regime (the Abu Dhabi Income Tax Decree 1965 (as amended) and the Dubai Income Tax Decree 1969 (as amended)). The regime is however not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE, Abu Dhabi or Dubai taxation in respect of payments of principal or interest on the Bonds.

The Constitution of the UAE specifically reserves to the federal government of the UAE the right to raise taxes on a federal basis for the purpose of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into double taxation arrangements with a number of countries, but these are not extensive in number.

SUBSCRIPTION AND SALE

Goldman Sachs International, Abu Dhabi Commercial Bank and National Bank of Abu Dhabi (together, the “Joint Lead Managers”) and Gulf International Bank, Deutsche Bank AG, London Branch, HSBC Bank plc, Lehman Brothers International (Europe), Morgan Stanley & Co. International Limited and UBS Limited (together with the Joint Lead Managers, the “Managers”) have, pursuant to a Subscription Agreement between the Issuer and the Managers (the “Subscription Agreement”) dated 25 October 2006, agreed to subscribe (i) the 2016 Bonds at the issue price of 99.485 per cent. of the principal amount of the 2016 Bonds less a combined management, underwriting and selling commission of 0.125 per cent. of the principal amount of the 2016 Bonds, (ii) the 2036 Bonds at the issue price of 99.049 per cent. of the principal amount of the 2036 Bonds less a combined management, underwriting and selling commission of 0.15 per cent. of the principal amount of the 2036 Bonds and (iii) the € Bonds at the issue price of 99.357 per cent. of the principal amount of the € Bonds less a combined management, underwriting and selling commission of 0.08 per cent. of the principal amount of the € Bonds. The Issuer will reimburse the Managers in respect of certain of their expenses incurred in connection with the issue of the Bonds and the Issuer has agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances set out therein prior to payment to the Issuer.

Certain of the Managers and their affiliates have from time to time performed, and in the future may perform, various financial advisory, commercial banking and investment banking services for the Issuer and its shareholders and affiliates, for which they have received and/or will receive fees and expenses. In addition, the Issuer has agreed to pay to Goldman Sachs International certain additional fees in connection with the Bonds.

United States

The Bonds have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States or the securities laws of any other jurisdiction. Each Manager has agreed that the Bonds may not be offered or sold in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act.

The Subscription Agreement provides that the Joint Lead Managers may, directly or through their respective U.S. broker-dealer affiliates, arrange for the offer and resale of Bonds within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after commencement of the offering of the Bonds, an offer or sale of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Manager has represented and agreed that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (“FSMA”) with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue

or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

Republic of Italy

The offering of the Bonds has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”) pursuant to Italian securities legislation and, accordingly, each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Bonds in the Republic of Italy in a solicitation to the public at large, and that sales of the Bonds in the Republic of Italy:

- (a) shall only be negotiated with “Professional Investors” as defined under Article 31, paragraph 2, of CONSOB Regulation no. 11522 of 1 July 1998 (“Regulation No. 11522”), and effected in compliance with the terms and procedures provided therein; or
- (b) shall only be offered or sold in circumstances which are exempted from the rules of solicitation of investment pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998, as amended (“Legislative Decree No. 58”) and Article 33, first paragraph, of CONSOB Regulation no. 11971 of 14 May 1999, as amended (“Regulation No. 11971”); and
- (c) shall in any event be effected in accordance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations.

Moreover, and subject to the foregoing, each Manager has represented and agreed that the Bonds may not be offered, sold or delivered and neither this Prospectus nor any other material relating to the Bonds may be distributed or made available to the Republic of Italy, unless such offer, sale or delivery of Bonds or distribution or availability of copies of this Prospectus or such other material in the Republic of Italy is:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree no. 385 of 1 September 1993 (the “Banking Act”), Legislative Decree no. 58, Regulation no. 11971, Regulation no. 11522 and any other applicable laws and regulations;
- (ii) in compliance with Article 129 of the Banking Act and the implementing instructions of the Bank of Italy, pursuant to which the issue, trading or placement of securities in Italy is subject to prior and subsequent notification to the Bank of Italy, unless an exemption, depending, *inter alia*, on the amount of the issue and the characteristics of the securities, applies;
- (iii) in compliance with the banking transparency requirements set forth in the Italian Banking Act and the implementing regulations and decrees; and
- (iv) in compliance with any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of Directive 2003/71/EC (the “Prospectus Directive”), such requirements shall be replaced by the applicable requirements under the Prospectus Directive or the relevant implementing laws.

United Arab Emirates

Each Manager has represented and agreed that the Bonds have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE or the Dubai International Financial Centre other than in compliance with laws applicable in the UAE or the Dubai International Financial Centre, as the case may be, governing the issue, offer and sale to the public of securities.

General

Each Manager has represented and agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Bonds or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Bonds or the Issuer.

No action has been taken, in any jurisdiction, by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Bonds or possession or distribution of this Prospectus or any other offering or publicity material relating to the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds or have in its possession, distribute or publish any prospectus, offering circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of the Bonds by it will be made on the same terms.

Persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Bonds, in all cases at their own expense.

TRANSFER RESTRICTIONS

Each purchaser of Rule 144A Bonds, by accepting delivery of this Prospectus and the Bonds, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acting for its own account, or for the account of a QIB, (c) not formed for the purpose of investing in the Issuer, and (d) aware, and each beneficial owner of such Bonds has been advised, that the sale of such Bonds to it is being made in reliance on Rule 144A.
2. It understands that the Rule 144A Bonds have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.
3. It understands that the Rule 144A Bonds, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS BOND HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), THAT IS ACQUIRING THIS BOND FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER RULE 144 UNDER THE SECURITIES ACT ("RULE 144"), IF AVAILABLE, OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THE BONDS.

4. It acknowledges that the Issuer, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Bonds is no longer accurate, it shall promptly notify the Issuer and the Managers. If it is acquiring any Bonds as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.
5. It understands that the Rule 144A Bonds will be evidenced by a Global Bond Certificate (the "Rule 144A Global Bond Certificate"). Before any interest in the Rule 144A Global Bond Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Bond Certificate, it will be required to provide a Paying and Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

GENERAL INFORMATION

1. The Bonds have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and ISIN for the Regulation S Bonds in respect of each Tranche and the Common Code, ISIN and CUSIP number for the Rule 144A Bonds in respect of each Tranche are as follows:

2016 Bonds

Regulation S Bonds

Common Code: 027294855

ISIN: XS0272948554

144A Bonds

Common Code: 027324991

ISIN: US00386SAA06

CUSIP: 00386SAA0

2036 Bonds

Regulation S Bonds

Common Code: 027294901

ISIN: XS0272949016

144A Bonds

Common Code: 027325084

ISIN: US00386SAB88

CUSIP: 00386SAB8

€ Bonds

Regulation S Bonds

Common Code: 027294715

ISIN: XS0272947150

144A Bonds

Common Code: 027324878

ISIN: US00386SAC61

CUSIP: 00386SAC6

2. The Issuer has obtained all necessary consents, approvals, authorisations or other orders for the issue of the Bonds. The issue of the Bonds and their offer, sale and listing was approved by resolutions of the Board of Directors of the Issuer passed on 3 October 2006 (pursuant to powers delegated by a resolution of the shareholders of the Issuer passed on 3 August 2005).
3. The projected yield of (i) the 2016 Bonds is 5.944 per cent. per annum, (ii) the 2036 Bonds is 6.573 per cent. per annum and (iii) the € Bonds is 4.484 per cent. per annum, in each case calculated based on the Issue Price of the relevant Tranche and as at the date of this Prospectus. The projected yield is not an indication of the actual future return for investors.
4. It is expected that admission of the Bonds to the Official List and to trading on the Market will be granted on or before 31 October 2006, subject only to the issue of the Bonds. Prior to official listing and admission to trading, however, the London Stock Exchange will permit dealings in accordance with its rules. Transactions will normally be effected for settlement in U.S. dollars (in respect of the U.S.\$ Bonds) or Euro (in respect of the € Bonds) and for delivery on the third business day in London after the day of the transaction. The Issuer expects that the total expenses related to the listing and admission of the Bonds to trading will be approximately U.S.\$6,150,000 million.

5. There has been no significant change in the financial or trading position of the Issuer since 30 June 2006. There has been no material adverse change in the prospects of the Issuer or the Group since 31 December 2005.
6. For the period of 12 months starting on the date on which this Prospectus is made available to the public as required by the prospectus rules made by the FSA, copies in English of the following documents may be inspected during usual business hours on any weekday (Thursday, Friday and public holidays excepted) at the principal office of the Issuer:
 - (a) the constitutional documents of the Issuer; and
 - (b) audited consolidated financial statements of the Issuer at and for the years ended 31 December 2003, 2004 and 2005 and the unaudited interim condensed consolidated financial statements of the Issuer at and for the six months ended 30 June 2006.
7. This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricenews/marketnews/.
8. Ernst & Young (authorised and regulated by the Ministry of Economy and Planning of the United Arab Emirates) have audited, and rendered unqualified audit reports on, the consolidated financial statements of the Issuer at and for the years ended 31 December 2004 and 31 December 2005.
9. Ernst & Young have consented to the inclusion in this Prospectus of their audit report set out on page F-10 and their review report set out on page F-2, in each case in the form and context in which it is included, and have authorised each such report.
10. TAQA's registered number is 1003072. TAQA's telephone number is +971 2642 2666.

GLOSSARY AND CERTAIN DEFINED TERMS

AADC	Al Ain Distribution Company
ADDC	Abu Dhabi Distribution Company
ADIA	Abu Dhabi Investment Authority
ADNOC	Abu Dhabi National Oil Company
ADPC	Abu Dhabi Power Corporation
ADWEA	Abu Dhabi Water and Electricity Authority
ADWEC	Abu Dhabi Water and Electricity Company
Arabian Power	Arabian Power Company PJSC
AUPC	Arabian United Power Company PJSC
brownfield	The development, extension and upgrade of existing plants at the relevant sites. Umm al Nar, Taweelah A1, Taweelah B and Fujairah are examples of brownfield developments.
Bureau	Regulation and Supervision Bureau of the Water and Electricity Sector in Abu Dhabi
ECPC	Emirates CMS Power Company PJSC
ESWPC	Emirates SembCorp Water and Power Company PJSC
Farm Owners' Fund	Fund for the Support of Farm Owners in the Emirate of Abu Dhabi
GCC	Gulf Cooperation Council
greenfield	The construction of new plants. Taweelah A2 and Shuweihat S1 are examples of greenfield developments.
Group	TAQA and its subsidiaries
GTTPC	Gulf Total Tractebel Power Company PJSC
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
Islamic loan facility	In the context of the transactions described in this Prospectus, a loan facility which has been structured to provide an economic return which is substantially equivalent to that provided by a parallel term loan or equity bridge loan facility while being compliant with Shari'ah law
kV	Kilovolts
MIGD	Million Imperial Gallons per Day
MW	Megawatt

O&M Agreement	Management, operation and maintenance agreement between the operating subsidiary and a contractor
operating subsidiary	A TAQA subsidiary that operates a power generation and water desalination plant
PCOD	Project Commercial Operation Date
Procurer Credit Support	A procurer credit support agreement entered into by the Emirate of Abu Dhabi
PWPA	Power and Water Purchase Agreement
SCIPCO	Shuweihat CMS International Power Company PJSC
SembCorp O&M	SembCorp Gulf O&M Company
TAPCO	Taweelah Asia Power Company PJSC
TAQA	Abu Dhabi National Energy Company PJSC
Transco	Abu Dhabi Transmission and Despatch Company
TUPC	Taweelah United Power Company PJSC
turnkey agreement	A construction contract under which the contractor manages the whole construction process such that, on completion, the asset is ready for immediate use by the owner.
UAE	United Arab Emirates
Wathba	Wathba Company for Central Services PJSC

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**REVIEW REPORT TO THE BOARD OF DIRECTORS OF
ABU DHABI NATIONAL ENERGY COMPANY PJSC (“TAQA”)**

We have reviewed the accompanying interim condensed consolidated balance sheet of Abu Dhabi National Energy Company PJSC (“TAQA” or the “Company”) and its subsidiaries at 30 June 2006 and the related interim condensed consolidated statement of income for the three month and six month periods then ended, and the related condensed consolidated statements of cash flows and changes in equity for the six month period then ended. These interim condensed consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of the Company’s personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

The Company has not disclosed the required comparative figures for the three month period ended 30 June 2005 in the consolidated income statement. These disclosures are required by International Accounting Standard No. 34.

Based on our review, except for the matter referred to in the above paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard No. 34.

Ernst & Young

5 October 2006
Abu Dhabi

Abu Dhabi National Energy Company PJSC (“TAQA”)
CONSOLIDATED INCOME STATEMENT
Six month period ended 30 June 2006 (Unaudited)

	<i>Note</i>	<i>Three month period ended 30 June 2006</i>	<i>Six month period ended 30 June 2006</i>	<i>Six month period ended 30 June 2005</i>
		<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Revenues				
Sale of electricity and water		789,821	1,488,320	1,340,459
Cost of sales				
Staff costs		(7,758)	(15,280)	(11,919)
Repairs, maintenance and consumables used		(161,006)	(310,773)	(262,548)
Depreciation and amortisation		(227,858)	(434,463)	(356,553)
		<u>(396,622)</u>	<u>(760,516)</u>	<u>(631,020)</u>
GROSS PROFIT		<u>393,199</u>	<u>727,804</u>	<u>709,439</u>
Administrative and other expenses		(17,370)	(33,929)	(27,183)
Finance costs		(303,123)	(583,521)	(441,048)
Gain (loss) on exchange		(384)	127	8,652
Interest income		47,874	80,905	15,350
Other income		8,708	9,116	1,154
Share in the results of associate		17,120	17,120	—
Changes in fair values of derivatives		46,814	78,433	(29,436)
PROFIT FOR THE PERIOD		<u>192,838</u>	<u>296,055</u>	<u>236,928</u>
Attributable to:				
Equity holders of the parent		129,874	197,912	130,873
Minority interests		62,964	98,143	106,055
PROFIT FOR THE PERIOD		<u>192,838</u>	<u>296,055</u>	<u>236,928</u>
Basic earnings per share attributable to the equity holders of the parent (AED)	3	<u>0.031</u>	<u>0.048</u>	<u>0.06</u>

The attached notes 1 to 4 form part of these interim
condensed consolidated financial statements.

**Abu Dhabi National Energy Company PJSC (“TAQA”)
CONSOLIDATED BALANCE SHEET
At 30 June 2006 (Unaudited)**

	<i>Audited</i>	<i>Audited</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2006</i>	<i>2005</i>
	<i>AED '000</i>	<i>AED '000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	24,210,169	23,602,485
Investment in an associate	131,291	—
Initial spares fee	128,596	134,097
Advances to related parties	237,444	423,216
Investments—available for sale	676	1,032
Prepaid finance costs	224,787	245,373
Intangible assets	555,713	564,444
	25,488,676	24,970,647
Current assets		
Inventories	698,594	680,914
Advances to related parties	11,500	12,123
Amount due from Abu Dhabi Water and Electricity Authority	—	1,001,106
Amounts due from related parties	719,062	507,223
Prepayments and other assets	1,217,513	255,506
Bank balances and cash	3,792,963	3,066,840
	6,439,632	5,523,712
TOTAL ASSETS	31,928,308	30,494,359
EQUITY AND LIABILITIES		
Equity		
Share capital	4,150,000	4,150,000
Statutory reserve	147,565	147,565
Legal reserve	147,565	147,565
Retained earnings	1,375,574	1,177,662
Cumulative changes in fair value of derivatives	120,171	(390,610)
	5,940,875	5,232,182
Minority interests	1,451,419	944,332
Total equity	7,392,294	6,176,514
Non-current liabilities		
Term loans	19,110,945	18,594,718
Islamic Ijara loans	2,397,164	2,423,734
Islamic Muqawala loan	731,654	709,236
Loans from minority interest shareholders in controlled subsidiaries	424,732	366,743
Employees' end of service benefits	128	107
Assets retirement obligation	226,119	218,578
Loan from minority interest shareholder—Abu Dhabi Water and Electricity Authority	92,640	92,640
	22,983,382	22,405,756
Current liabilities		
Accounts payable	46,507	81,325
Term loans	172,871	296,501
Current portion of Ijara loans	51,939	46,607
Loans from minority shareholders in controlled subsidiaries	76,108	81,907
Dividend payable	—	18,365
Amounts due to related parties	119,754	205,516
Accruals and other liabilities	922,706	1,055,105
Bank overdraft	162,747	126,763
	1,552,632	1,912,089
Total liabilities	24,536,014	24,317,845
TOTAL EQUITY AND LIABILITIES	31,928,308	30,494,359

The attached notes 1 to 4 form part of these interim condensed consolidated financial statements.

Abu Dhabi National Energy Company PJSC (“TAQA”)
CONSOLIDATED STATEMENT OF CASH FLOWS
Six month period ended 30 June 2006 (Unaudited)

	<i>Six months ended 30 June 2006</i>	<i>Six months ended 30 June 2005</i>
	<i>AED '000</i>	<i>AED '000</i>
OPERATING ACTIVITIES		
Profit for the period	296,055	236,928
Adjustments for:		
Profit attributable to minority interest holders	(98,143)	(106,055)
Depreciation	420,231	355,068
Amortisation	14,232	1,485
Employees' end of service benefit, net	21	13
Accretion expense	7,541	3,333
Finance costs	583,521	437,715
Share in results of associate	(17,120)	—
Interest income	(80,905)	(15,350)
Changes in fair value of derivative	(78,433)	29,436
	1,047,000	942,573
Working capital changes		
Inventories	(17,680)	(108,351)
Prepayments and other assets and due from related parties	(545,373)	(203,434)
Accounts payable and accruals and due to related parties	164,580	(19,412)
Cash from operations	648,527	611,376
Interest paid	(583,521)	(334,114)
Net cash from operating activities	65,006	277,262
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,027,915)	(522,231)
Purchase of investment in an associate	(114,171)	—
Advances to related parties	186,751	(122,416)
Interest income	80,905	15,350
Net cash used in investing activities	(874,430)	(629,297)
FINANCING ACTIVITIES		
Share capital contribution	1,000,000	450,000
Term loans	392,597	2,087,534
Islamic loans	1,180	61,761
Dividend paid	(44,547)	(31,699)
Loans from minority interest shareholders in controlled subsidiaries	52,190	11,038
Minority interests	98,143	119,053
Net cash from financing activities	1,499,563	2,697,687
INCREASE IN CASH AND CASH EQUIVALENTS	690,139	2,345,652
Cash and cash equivalents at the beginning of the period	2,940,077	722,687
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3,630,216	3,068,339
Bank balances and cash	3,792,963	3,223,190
Bank overdraft	(162,747)	(154,851)
	3,630,216	3,068,339
Significant non-cash transactions, which have been excluded from the statement of cash flows, are as follows:		
Movement in cumulative change in fair value of derivatives	945,709	(199,020)
Accrued interest expense	—	176,480
Assets retirement obligation	—	85,540
Issue of share capital	—	1,864,720
Purchase of property, plant and equipment	—	6,205,484
Loans payable to ADWEA	—	92,640
Amounts due to related parties	—	84,256
Property, plant and equipment	—	115,699
Advance to related parties	—	(258,230)

The attached notes 1 to 4 form part of these interim condensed consolidated financial statements.

**Abu Dhabi National Energy Company PJSC (“TAQA”)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Six months period ended 30 June 2006 (Unaudited)**

Attributable to equity holders of the parent

	Share capital	Statutory reserve	Legal reserve	Retained earnings	Cumulative changes in fair value of derivatives	Total	Minority interests	Total equity
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance at 31 December 2004	1,835,280	50,197	50,197	398,722	(567,476)	1,766,920	667,168	2,434,088
Movement in changes in fair value	—	—	—	—	(107,457)	(107,457)	(91,547)	(199,004)
Total income for the period recognized directly in equity	—	—	—	—	(107,457)	(107,457)	(91,547)	(199,004)
Profit for the period	—	—	—	130,873	—	130,873	106,055	236,928
Total income for the period	—	—	—	130,873	(107,457)	23,416	14,508	37,924
Issue / (reduction) of share capital	2,314,720	—	—	—	—	2,314,720	(55,266)	2,259,454
Dividend paid	—	—	—	—	—	—	(31,699)	(31,699)
Other movements	—	—	—	—	—	—	260	260
Transfer to statutory reserve	—	13,088	—	(13,088)	—	—	—	—
Transfer to legal reserve	—	—	13,088	(13,088)	—	—	—	—
Balance at 30 June 2005	<u>4,150,000</u>	<u>63,285</u>	<u>63,285</u>	<u>503,419</u>	<u>(674,933)</u>	<u>4,105,056</u>	<u>594,971</u>	<u>4,700,027</u>
Balance at 31 December 2005 (audited)	4,150,000	147,565	147,565	1,177,662	(390,610)	5,232,182	944,332	6,176,514
Movement in changes in fair value	—	—	—	—	510,781	510,781	435,126	945,907
Total income for the period recognized directly in equity	—	—	—	—	510,781	510,781	435,126	945,907
Profit for the period	—	—	—	197,912	—	197,912	98,143	296,055
Total income for the period	—	—	—	197,912	510,781	708,693	533,269	1,215,645
Share Distributions	—	—	—	—	—	—	(26,182)	(26,182)
Balance at 30 June 2006	<u>4,150,000</u>	<u>147,565</u>	<u>147,565</u>	<u>1,375,574</u>	<u>120,171</u>	<u>5,940,875</u>	<u>1,451,419</u>	<u>7,392,294</u>

The attached notes 1 to 4 form part of these interim
condensed consolidated financial statements.

Abu Dhabi National Energy Company PJSC (“TAQA”)
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2006 (Unaudited)

1 LEGAL STATUS AND ACTIVITIES

Abu Dhabi National Energy Company PJSC (“TAQA” or the “Company”) was established pursuant to the provisions of Emiri Decree number 16/2005 as a public joint stock company with Abu Dhabi Water and Electricity Authority (“ADWEA”) as its founding shareholder and 100% owner. During the period from 23 July 2005 to 1 August 2005 24.9% of TAQA’s shares were offered to the public through an Initial Public Offering (IPO) and 24.1% was offered through a private offering. ADWEA retained a 51% interest holding in the Company and accordingly, the Company is a subsidiary of ADWEA. ADWEA was established pursuant to the provisions of Law 2 of 1998, concerning the regulation of the Water and Electricity Sector.

The principal activity of TAQA is to own and invest in companies engaged in power generation and water desalination, oil and gas and metal, in addition to other investments as considered appropriate to meet its objectives.

Following the establishment of TAQA, ADWEA transferred 90% of its interest holding in its wholly owned five subsidiaries, which represent all the Independent Water and Power Producing Companies (IWPPS). The remaining 10% interest holding in these companies was retained by ADWEA. Accordingly, ADWEA is considered the ultimate parent company of the five subsidiaries before and after the establishment of TAQA in addition to being the Holding Company of TAQA.

The five subsidiaries are: Emirates Power Company PJSC, Gulf Power Company PJSC, Al Shuweihat Power Company PJSC, Arabian United Power Company PJSC and Taweelah United Power Company PJSC. Each of the five subsidiaries has 60% interest holding in a controlled subsidiary engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. These subsidiaries are referred to as “controlled subsidiaries” and the 40% interest holders in these subsidiaries are considered minority interests in these consolidated financial statements.

Details of the subsidiaries are as follows:

	<i>Country of inception</i>	<i>% holding</i>
Emirates Power Company PJSC	U.A.E.	90%
Emirates CMS Power Company PJSC	U.A.E.	54%
Gulf Power Company PJSC	U.A.E.	90%
Gulf Total Tractebel Power Company PJSC	U.A.E.	54%
Arabian United Power Company PJSC	U.A.E.	90%
Arabian Power Company PJSC	U.A.E.	54%
Al Shuweihat Power Company PJSC	U.A.E.	90%
Shuweihat CMS International Power Company PJSC	U.A.E.	54%
Taweelah United Power Company	U.A.E.	90%
Taweelah Asia Power Company PJSC	U.A.E.	54%
Al Taweelah Shared Facilities	U.A.E.	48%

Each of the five controlled subsidiaries engaged in the generation of electricity and the production of desalinated water have entered into power and water purchase agreements (PWPA) with Abu Dhabi Water and Electricity Company (ADWEC), a related party, (a wholly-owned subsidiary of ADWEA). Under each of the PWPA agreements, the controlled subsidiaries undertake to make available, and ADWEC undertakes to purchase, the entire net capacity of the plants during the life of the PWPA in accordance with various agreed terms and conditions. The

output payments cover variable operations and maintenance costs and fuel efficiency bonuses or penalty for actual output. Natural gas fuel is supplied by ADWEC at no cost.

TAQA's registered head office is P O Box 55224, Abu Dhabi, United Arab Emirates.

2 ACCOUNTING POLICIES

The interim condensed consolidated financial statements of the Company are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the period ended 31 December 2005. The following additional accounting policy was adopted as a result of the purchase of an investment in an associate during the current period.

Investment in associate

The Company's investment in associate is accounted for under the equity method of accounting. This is an entity in which the Company has between 20% to 50% of the voting power or over which it exercises significant influence and which is neither a subsidiary nor a joint venture. Investments in associate are carried in the balance sheet at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The income statement reflects the Company's share of the results of its associate.

The reporting dates of the associate and the Company are identical and the associate's accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the six months ended 30 June 2006 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2006.

3 BASIC EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the period as follows:

	<i>Three months ended 30 June 2006</i>	<i>Six months ended 30 June 2006</i>	<i>Six months ended 30 June 2005</i>
Profit for the period (AED '000)	129,874	197,912	130,873
Weighted average number of ordinary shares issued ('000)	4,150,000	4,150,000	2,166,764
Basic earnings per share (AED)	0.031	0.048	0.06

4 COMMITMENTS AND CONTINGENCIES

- (i) The authorised capital expenditure contracted for at 30 June 2006 but not provided for amounted to AED 2,258 million (2005: AED 3,157 million).
- (ii) In order to reduce its exposure to interest rates fluctuations on the term loan and Islamic Ijara loan, the controlled subsidiary Emirates CMS Power Company PJSC has entered into an interest rate arrangement with counter-party banks for a notional amount that

matches the outstanding term loan and Islamic Ijara loan. The notional amount outstanding at 30 June 2006 was AED 1,835 million (2005 AED 1,835 million).

The derivative instruments had a net negative fair value of AED 55.4 million (2005: AED 157 million) which is included within accruals and other liabilities. As a result of the debt refinancing arrangements concluded by the Company in March 2004, derivatives existing prior to the refinancing date have been extinguished and new interest rate swap contracts have been entered into as part of the debt refinancing arrangements. Consequently, the cumulative changes in fair values recognised in equity shall be reclassified to the income statement over the period during which the previous hedged forecast transaction affects the income statement. Further, the new interest swap contracts do not qualify for hedge accounting and, accordingly, changes in fair value are recorded in the income statement.

- (iii) In order to reduce its exposure to interest rates fluctuations on the term loan, the controlled subsidiary Gulf Total Tractebel Power Company PJSC has entered into an interest rate arrangement with counter-party banks for a notional amount that mirrors the draw down and repayment schedule of the term loan, covering at least 85% of the outstanding term loan. The notional amount outstanding at 30 June 2006 was AED 2,856 million (2005: AED 2,856 million). The derivative instruments which are entered into for the purpose of cash flow hedge had a negative fair value (unrealised losses) of AED 154.5 million at 30 June 2006 (2005: AED 285 million) which is recognised as a separate component in equity and is included within accruals and other liabilities.
- (iv) In order to reduce its exposure to interest rates fluctuations on the loans, the controlled subsidiary Shuweihat CMS International Power Company PJSC has entered into an interest rate arrangement with counter-party banks for a notional amount that mirrors the draw down and repayment schedule of the loans, covering not less than 75% of the outstanding loans. The notional amount outstanding at 30 June 2006 was AED 4,402 million (2005: AED 4,402 million). In addition the Company uses forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations relating to scheduled maintenance cost payments to an overseas supplier. The outstanding forward foreign exchange commitment at the period end amounted to AED 302 million (2005: AED 327 million). The derivative instruments which are entered into for the purpose of cash flow hedges had a negative fair value (unrealised losses) of AED 193.7 million at 30 June 2006 (2005: AED 377 million) and is included within accruals and other liabilities.
- (v) In order to reduce its exposure to interest rates fluctuations on the loans, the controlled subsidiary Arabian Power Company PJSC has entered into an interest rate arrangement with counter-party banks for a notional amount that mirrors the draw down and repayment schedule of the loans, covering not less than 85% of the outstanding term loan. The notional amount outstanding at 30 June 2006 was AED 5,565 million (2005: AED 5,565 million). The derivative instruments which are entered into for the purpose of cash flow hedge had a positive fair value (unrealised profits) of AED 326.5 million at 30 June 2006 (2005: AED 104 million) and is included within prepayments and other assets.
- (vi) In order to reduce its exposure to interest rates fluctuations on the loans, the controlled subsidiary Taweelah Asian Power Company has entered into an interest rate arrangement with counter-party banks for a notional amount that mirrors the draw down and repayment schedule of the loans, covering not less than 75% of the outstanding loans. The notional amount outstanding at 30 June 2006 was AED 7,195 million (2005: AED 6,630 million). The derivative instruments which are entered into for the purpose of cash flow hedge had a positive fair value (unrealised profits) of AED 384.3 million at 30 June 2006 and is included within prepayments and other assets (2005: negative fair value of AED 2.86 million, included within accruals and other liabilities)



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**AUDITORS' REPORT TO THE SHAREHOLDERS OF
ABU DHABI NATIONAL ENERGY COMPANY PJSC ("TAQA")**

We have audited the accompanying consolidated balance sheet of Abu Dhabi National Energy Company PJSC ("TAQA" or the "Company") and its subsidiaries as of 31 December 2005, 2004 and 2003 and the related consolidated statements of income, cash flows and changes in equity for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of 31 December 2005, 2004 and 2003 and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young

5 October 2006
Abu Dhabi

Abu Dhabi National Energy Company PJSC (“TAQA”)
CONSOLIDATED INCOME STATEMENT
Years ended 31 December 2005, 2004 and 2003

	<i>Notes</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
		<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
Revenues				
Sale of electricity and water	26	2,911,056	2,029,146	1,330,059
Net liquidated damages received	3	88,924	698	1,325
		<u>2,999,980</u>	<u>2,029,844</u>	<u>1,331,384</u>
Cost of sales				
Staff costs		(28,908)	(23,601)	(30,325)
Repairs, maintenance and consumables used ..		(560,216)	(391,054)	(220,619)
Depreciation and amortisation		(769,118)	(543,383)	(354,010)
		<u>(1,358,242)</u>	<u>(958,038)</u>	<u>(604,954)</u>
GROSS PROFIT		1,641,738	1,071,806	726,430
Administrative and other expenses		(58,061)	(40,346)	(29,546)
Finance costs		(1,027,434)	(671,078)	(465,300)
Gain on exchange		13,199	10,010	299
Changes in fair values of derivatives		25,635	(3,326)	7,888
Interest income		58,938	9,384	5,364
Other income		2,141	3,088	550
PROFIT FROM ORDINARY ACTIVITIES		656,156	379,538	245,685
Interest income on IPO bank deposits		602,036	—	—
PROFIT FOR THE YEAR		1,258,192	379,538	245,685
Attributable to:				
Equity holders of the parent		973,676	206,080	133,981
Minority interests		284,516	173,458	111,704
PROFIT FOR THE YEAR		1,258,192	379,538	245,685
Basic earnings per share attributable to the equity holders of the parent AED	4	0.23	0.05	0.03

The attached notes 1 to 31 form part of these consolidated financial statements.

Abu Dhabi National Energy Company PJSC (“TAQA”)
CONSOLIDATED BALANCE SHEET
At 31 December 2005, 2004 and 2003

	<i>Notes</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
		<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
ASSETS				
Non-current assets				
Property, plant and equipment	5	23,602,485	17,058,260	15,853,893
Initial spares fee	6	134,097	143,180	—
Advances to related parties	7	423,216	64,692	68,242
Investments—available for sale	8	1,032	356	356
Other long-term assets		245,373	168,429	68,449
Intangible assets	9	564,444	103,757	106,720
		<u>24,970,647</u>	<u>17,538,674</u>	<u>16,097,660</u>
Current assets				
Inventories	10	680,914	533,921	411,504
Advances to related parties	7	12,123	3,498	3,447
Amount due from Abu Dhabi Water and Electricity Authority	14	1,001,106	—	—
Amounts due from related parties	11	507,223	437,634	272,005
Prepayments and other assets	12	255,506	291,297	165,045
Bank balances and cash	13	3,066,840	827,644	702,750
		<u>5,523,712</u>	<u>2,093,994</u>	<u>1,554,751</u>
TOTAL ASSETS		<u>30,494,359</u>	<u>19,632,668</u>	<u>17,652,411</u>
EQUITY AND LIABILITIES				
Equity				
Share capital	14	4,150,000	1,835,280	1,261,530
Statutory reserve	15	147,565	50,197	29,589
Legal reserve	15	147,565	50,197	29,589
Retained earnings		1,177,662	398,722	233,858
Cumulative changes in fair value of derivatives		(390,610)	(567,476)	(585,144)
		<u>5,232,182</u>	<u>1,766,920</u>	<u>969,422</u>
Minority interests	23	944,332	667,168	193,470
Total equity		<u>6,176,514</u>	<u>2,434,088</u>	<u>1,162,892</u>
Non-current liabilities				
Term loans	16	18,594,718	11,575,212	10,856,350
Islamic Ijara loans	17	2,423,734	2,470,341	1,769,605
Islamic Muqawala loan	18	709,236	573,006	411,288
Loans from minority interest shareholders in controlled subsidiaries ..	19	366,743	468,323	280,820
Employees' end of service benefits	20	107	116	234
Assets retirement obligation	21	218,578	122,368	—
Loan from minority interest shareholder—Abu Dhabi Water and Electricity Authority	22	92,640	—	—
		<u>22,405,756</u>	<u>15,209,366</u>	<u>13,318,297</u>
Current liabilities				
Accounts payable		81,325	157,752	54,757
Term loans	16	296,501	287,540	1,485,271
Current portion of Ijara loans	17	46,607	47,183	3,214
Loans from minority interest shareholders in controlled subsidiaries ..	19	81,907	100,236	75,230
Dividend payable		18,365	—	35,070
Amounts due to related parties	24	205,516	4,472	4,006
Accruals and other liabilities	25	1,055,105	1,287,074	1,498,721
Bank overdraft	13	126,763	104,957	14,953
		<u>1,912,089</u>	<u>1,989,214</u>	<u>3,171,222</u>
Total liabilities		<u>24,317,845</u>	<u>17,198,580</u>	<u>16,489,519</u>
TOTAL EQUITY AND LIABILITIES		<u>30,494,359</u>	<u>19,632,668</u>	<u>17,652,411</u>

The attached notes 1 to 31 form part of these consolidated financial statements.

**Abu Dhabi National Energy Company PJSC (“TAQA”)
CONSOLIDATED STATEMENT OF CASH FLOWS
Years ended 31 December 2005, 2004 and 2003**

	<i>Notes</i>	<u>2005</u>	<u>2004</u>	<u>2003</u>
		<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
OPERATING ACTIVITIES				
Profit for the year		1,258,192	379,538	245,685
Adjustments for:				
Profit attributable to minority interest holders		(284,516)	(173,458)	(111,704)
Depreciation		742,569	536,977	351,047
Amortisation		26,549	6,406	2,963
Employees’ end of service benefit, net		(9)	(118)	(1,393)
Changes in fair values of derivatives		(25,635)	3,326	(7,888)
Interest expense		1,016,764	666,403	465,300
Accretion expense		10,670	4,675	—
Interest income		(58,938)	(9,384)	(5,364)
IPO interest		(602,036)	—	—
		<u>2,083,610</u>	<u>1,414,365</u>	<u>938,646</u>
Working capital changes				
Inventories		(146,993)	(122,417)	(184,164)
Prepayments and other assets		23,094	(282,000)	(88,774)
Amount due from Abu Dhabi Water and Electricity Authority		(1,106)	—	—
Amounts due from related parties		(69,589)	(165,629)	(167,853)
Accounts payable and accruals		(35,567)	6,002	(279,083)
Amounts due to related parties		201,044	466	2,461
Cash from operations		<u>2,054,493</u>	<u>850,787</u>	<u>221,233</u>
Interest paid		<u>(1,000,686)</u>	<u>(695,899)</u>	<u>(473,696)</u>
Net cash from (used in) operating activities		<u>1,053,807</u>	<u>154,888</u>	<u>(252,463)</u>
INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(7,938,089)	(1,773,047)	(6,543,267)
Disposals of property plant and equipment		452	2,773	1,924
Advance to related party		(108,919)	3,499	1,405
Investments-available for sale		(676)	—	(8)
Interest income		58,938	9,384	5,364
IPO interest		602,036	—	—
Net cash used in investing activities		<u>(7,386,258)</u>	<u>(1,757,391)</u>	<u>(6,534,582)</u>
FINANCING ACTIVITIES				
Term loans		7,028,467	(478,869)	4,556,752
Issue of share capital		1,314,720	573,750	1,080
Islamic Ijara loans		(47,183)	744,705	1,541,584
Islamic Muqawala loan		136,230	161,718	411,288
Loans from minority interest shareholders in controlled subsidiaries		(119,909)	212,509	23,251
Loans from minority interest shareholders—Abu Dhabi Water and Electricity Authority		92,640	—	—
Minority interests		229,250	499,890	137,431
Dividends paid		(84,374)	(76,310)	(29,525)
Net cash from financing activities		<u>8,549,841</u>	<u>1,637,393</u>	<u>6,641,861</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>2,217,390</u>	<u>34,890</u>	<u>(145,184)</u>
Cash and cash equivalents acquired at the beginning of the year		722,687	687,797	832,981
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u>2,940,077</u>	<u>722,687</u>	<u>687,797</u>
Significant non-cash transactions, which have been excluded from the statement of cash flows, are as follows:				
Asset retirement obligation		85,540	117,693	—
Accrued interest expense		16,078	29,496	8,396
Cumulative changes in fair value		327,519	34,679	393,372
Transfer of assets		478,153	—	4,740
Transfer to advance to related party		258,230	—	—
Amounts due from ADWEA		1,000,000	—	—
Dividends payable to minority interests		18,365	—	35,070

The attached notes 1 to 31 form part of these consolidated financial statements.

Abu Dhabi National Energy Company PJSC (“TAQA”)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Years ended 31 December 2005, 2004 and 2003

	<i>Attributable to equity holders of the parent</i>							
	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Legal reserve</i>	<i>Retained earnings</i>	<i>Cumulative changes in fair value of derivatives</i>	<i>Total</i>	<i>Minority interests</i>	<i>Total equity</i>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
Balance at 1 January 2003	1,260,450	16,191	16,191	126,673	(797,565)	621,940	(80,637)	541,303
Issue of share capital	1,080	—	—	—	—	1,080	25,727	26,807
Movement in changes in fair values	—	—	—	—	212,421	212,421	180,951	393,372
Total income for the year recognised directly in equity	—	—	—	—	212,421	212,421	180,951	393,372
Profit for the year	—	—	—	133,981	—	133,981	111,704	245,685
Total income for the year	—	—	—	133,981	212,421	346,402	292,655	639,057
Transfer to statutory reserve	—	13,398	—	(13,398)	—	—	—	—
Transfer to legal reserve	—	—	13,398	(13,398)	—	—	—	—
Share of distributions	—	—	—	—	—	—	(44,275)	(44,275)
Balance at 31 December 2003	1,261,530	29,589	29,589	233,858	(585,144)	969,422	193,470	1,162,892
Issue of share capital	573,750	—	—	—	—	573,750	326,432	900,182
Movement in changes in fair values	—	—	—	—	17,668	17,668	15,048	32,716
Total income for the year recognised directly in equity	—	—	—	—	17,668	17,668	15,048	32,716
Profit for the year	—	—	—	206,080	—	206,080	173,458	379,538
Total income for the year	—	—	—	206,080	17,668	223,748	188,506	412,254
Transfer to statutory reserve	—	20,608	—	(20,608)	—	—	—	—
Transfer to legal reserve	—	—	20,608	(20,608)	—	—	—	—
Share of distributions	—	—	—	—	—	—	(41,240)	(41,240)
Balance at 31 December 2004	1,835,280	50,197	50,197	398,722	(567,476)	1,766,920	667,168	2,434,088
Issue (reduction) of share capital	2,314,720	—	—	—	—	2,314,720	(55,266)	2,259,454
Movement in changes in fair values	—	—	—	—	176,866	176,866	150,653	327,519
Total income for the year recognised directly in equity	—	—	—	—	176,866	176,866	150,653	327,519
Profit for the year	—	—	—	973,676	—	973,676	284,516	1,258,192
Total income for the year	—	—	—	973,676	176,866	1,150,542	435,169	1,585,711
Transfer to statutory reserve	—	97,368	—	(97,368)	—	—	—	—
Transfer to legal reserve	—	—	97,368	(97,368)	—	—	—	—
Share of distributions	—	—	—	—	—	—	(102,739)	(102,739)
Balance at 31 December 2005	4,150,000	147,565	147,565	1,177,662	(390,610)	5,232,182	944,332	6,176,514

The attached notes 1 to 31 form part of these consolidated financial statements.

Abu Dhabi National Energy Company PJSC (“TAQA”)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2005, 2004 and 2003

1 LEGAL STATUS AND ACTIVITIES

Abu Dhabi National Energy Company PJSC (“TAQA” or the “Company”) was established on 21 June 2005 pursuant to the provisions of Emiri Decree number 16/2005 as a public joint stock company with Abu Dhabi Water and Electricity Authority (“ADWEA”) as its founding shareholder and 100% owner. During the period from 23 July 2005 to 1 August 2005 24.9% of TAQA’s shares were offered to the public through an Initial Public Offering (IPO) and 24.1% offered through a private offering. ADWEA retained a 51% interest holding in the Company and accordingly, the Company is a subsidiary of ADWEA. ADWEA was established pursuant to the provisions of Law 2 of 1998, concerning the regulation of the Water and Electricity Sector.

The principal activity of TAQA is to own and invest in companies engaged in power generation and water desalination, oil and gas and metal, in addition to other investments as considered appropriate to meet its objectives.

Following the establishment of TAQA, ADWEA transferred 90% of its interest holding in its wholly owned five subsidiaries, which represent all the Independent Water and Power Producing Companies (IWPPS). The remaining 10% interest holding in these companies was retained by ADWEA. Accordingly, ADWEA is considered the ultimate parent company of the five subsidiaries before and after the establishment of TAQA in addition to being the Holding Company of TAQA.

The five subsidiaries are: Emirates Power Company PJSC, Gulf Power Company PJSC, Al Shuweihat Power Company PJSC, Arabian United Power Company PJSC and Taweelah United Power Company PJSC. Each of the five subsidiaries has a 60% interest in a controlled subsidiary engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. These subsidiaries are referred to as “controlled subsidiaries” and the interests of the 40% holders in these subsidiaries are considered minority interests in these consolidated financial statements. Further details on the subsidiaries are shown in note 27.

Each of the five controlled subsidiaries entered into power and water purchase agreements (PWPA) with Abu Dhabi Water and Electricity Company (ADWEC), a related party (a wholly-owned subsidiary of ADWEA). Under each of the PWPA agreements, the controlled subsidiaries undertake to make available, and ADWEC undertakes to purchase, the entire available capacity of the plants during the life of the PWPA in accordance with various agreed terms and conditions. The output payments cover variable operations and maintenance costs and fuel efficiency bonuses or penalty. Natural gas fuel is supplied by ADWEC at no cost.

TAQA’s registered head office is P O Box 5524, Abu Dhabi, United Arab Emirates.

2.1 BASIS OF PREPARATION

The consolidated financial statements of TAQA have been prepared in accordance with International Financial Reporting Standards.

The transfer of ADWEA’s 90% interest holding in the five subsidiaries to TAQA (note 1) is considered to be a business combination involving entities or businesses under common control in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination.

This business combination has been recorded on the basis of the pooling of interests method. In accordance with this method, comparatives have been restated to reflect the business combination as if it had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the combination.

The consolidated financial statements have been presented in United Arab Emirates Dirhams (AED) which is the functional currency of the Company.

The consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivative financial instruments.

2.2 IASB INTERPRETATIONS ISSUED BUT NOT ADOPTED

The following International Accounting Standards Board (IASB) Interpretation has been issued but is not yet mandatory, and has not yet been adopted by the Company:

IFRIC 4 Determining Whether an Arrangement Contains a Lease

Management is aware of the application of the above interpretation, which will take place during 2006 and is in the process of assessing the applicability of the interpretation, if any, to its operations at the balance sheet date.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

As described above, the Company's subsidiaries have entered into long-term power and water purchase agreements. Under the agreements, the Company's subsidiaries receive payment for the provision of electrical/water capacity whether or not ADWEC requests electrical/water output. The Company's subsidiaries have determined, based on the contractual arrangements in place, that they retain all significant risks and rewards of ownership of the plant.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of amounts due from ADWEC

An estimate of the collectible amount is made when collection of the full amount is no longer probable.

At the balance sheet date, the gross amount due from ADWEC was AED 505,135,000 and the provision for doubtful debts was AED 331,000. Any difference between the amounts actually collected in future years and the amounts expected will be recognised in the income statement.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the Company's policy for inventory provisioning. The gross carrying amount of inventories at 31 December 2005 was AED 694,914,000 and the provision for old and obsolete items was AED 14,000,000.

Impairment of property, plant and equipment

Management determines whether there are any indications of impairment to the carrying values of property, plant and equipment on an annual basis because of the difference between the duration of contracted cash flows and accounting depreciation of assets. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows for the year lying beyond the term of the initial power and water purchase agreement and also choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment at 31 December 2005 was AED 23,602,485,000.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and each of its controlled subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All significant inter-company balances, transactions and profits have been eliminated on consolidation.

Minority interests represent the interest in subsidiaries not held by the Company and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Revenue recognition

Revenue represents the sale of water desalination and electricity generation services comprised of the available capacity and variable output to ADWEC during the year. Unbilled revenues are based on estimated quantities of potable water and kilowatts of electricity delivered or made available during the year but not yet billed. These estimates are generally based on contract data and preliminary throughput and allocation measurements.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

Buildings	30 to 40 years
Plant, and machinery	3 to 40 years (with 0-25% estimated residual value)
Office equipment, fixtures and fittings	3 to 5 years
Plant spares	10 - 20 years
Assets retirement obligation	20 - 40 years

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

The cost of spare parts held as essential for the continuity of operations and which are designated as strategic spares are depreciated on a straight-line basis over the estimated remaining operating life of the plant and equipment to which they relate. Spare parts used for normal repairs and maintenance are included in inventories and are expensed when issued.

Capital work in progress

Capital work in progress is included in property, plant and equipment at cost on the basis of the percentage completed at the balance sheet. The capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the above policies when construction of the asset is completed and commissioned.

Borrowing costs

Borrowing costs that are directly attributable to the design, development, procurement and construction of each part of a plant up to the date when all activities necessary to prepare each part of the plant for its intended use are complete, are capitalised net of interest income on temporary investment of borrowings, as part of capital work in progress. Borrowing costs in respect of completed parts of the plant are recognised as an expense in the year in which they are incurred.

Investments—available for sale

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investments. After initial recognition, investments are remeasured at fair value with unrealised gains and losses reported as a separate component in equity until the investment is sold, collected or otherwise disposed of.

Where an investment is determined to be impaired the cumulative loss previously reported in equity is included in the income statement.

Intangible assets

Intangible assets, which represent acquisition of connection rights, are capitalised at cost. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Amortisation is calculated on a straight line basis over the earlier of the useful life of the asset and the connection rights term.

Inventories

Inventories are valued at the lower of cost, determined on the basis of weighted average costs, and net realisable value. Costs are those expenses incurred in bringing each item to its present location and condition.

Initial spares fee

The fee paid for initial spares to be provided under a long-term maintenance contract is amortised over the equivalent operating hours of the related power generating equipment.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in the income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available for sale financial assets

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Employees' end of service benefits

The Company and its subsidiaries provide end of service benefits to their employees. The entitlement to these benefits is usually based upon the employees' length of service and the

completion of a minimum service year. The expected costs of these benefits are accrued over the year of employment.

With respect to its national employees, the Company makes contributions to Abu Dhabi Retirement Pensions and Benefits Fund calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consists of bank balances and cash net of bank overdraft.

Provisions

Provisions are recognised when there is an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured. The Company's subsidiaries have legal obligations to remove the power generation and water desalination assets at the end of their useful lives and restore the land. Accordingly, the Company's subsidiaries are required to record the fair value of the cost to remove the assets at the end of their useful lives.

Term loans

Term loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process. Interest on term loans are charged as an expense or capitalised in accordance with International Accounting Standard No. 23 as it accrues, with unpaid amounts included in "accruals and other liabilities".

Leases

Finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalised at the present value of the minimum lease payments at the inception of the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability. Profits are charged directly against income or capitalised in accordance with International Accounting Standard No. 23, with other borrowing costs.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Derivatives

The Company's subsidiaries entered into derivative instruments to hedge against interest rate and foreign exchange fluctuations. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivatives using prevailing market rates. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the income statement. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the income statement. Where the adjustment relates to a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement on a systematic basis such that it is fully amortised by maturity.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the income statement. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the income statement in the year in which the hedged transaction impacts the income statement or capitalised with other borrowing costs in accordance with International Accounting Standard No. 23. The capitalisation of gains or losses will cease when substantially all the activities necessary to prepare each part of the plant for its intended use are completed and commissioned.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the year.

3 NET LIQUIDATED DAMAGES RECEIVED

The above represent delay liquidated damages from the Company's controlled subsidiaries contractors as compensation for loss of revenue. These are recognised by the subsidiaries net of the amounts incurred by them as delay liquidated damages to ADWEC.

4 BASIC EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED 000</u>	<u>AED 000</u>	<u>AED 000</u>
Profit for the year (AED '000)	973,708	206,080	133,981
Weighted average number of ordinary shares issued ('000)	2,166,764	154,840	126,153
Basic earnings per share (AED)	0.45	1.33	1.06

5 PROPERTY, PLANT AND EQUIPMENT

	<i>Capital work in progress</i>	<i>Buildings</i>	<i>Plant, machinery and equipment</i>	<i>Office equipment</i>	<i>Plant spares</i>	<i>Total</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
2003:						
Balance at 1 January, net of accumulated						
depreciation 2003	3,246,197	196,115	6,208,835	1,477	6,233	9,658,857
Additions	3,561,532	291	2,978,388	3,056	—	6,543,267
Disposals	—	—	(1,924)	—	—	(1,924)
Transfers	(831,376)	—	819,235	822	11,319	—
Transfer to a related party	(3,080)	—	—	—	7,820	4,740
Depreciation charge for the year	—	(5,138)	(344,048)	(1,123)	(738)	(351,047)
Balance at 31 December, net of accumulated depreciation	<u>5,973,273</u>	<u>191,268</u>	<u>9,660,486</u>	<u>4,232</u>	<u>24,634</u>	<u>15,853,893</u>
Property, plant and equipment						
At cost	5,973,273	205,114	10,168,103	6,265	25,795	16,378,550
Accumulated depreciation	—	(13,846)	(507,617)	(2,033)	(1,161)	(524,657)
Net carrying amount at 31 December 2003	<u>5,973,273</u>	<u>191,268</u>	<u>9,660,486</u>	<u>4,232</u>	<u>24,634</u>	<u>15,853,893</u>

	<i>Capital work in progress</i>	<i>Buildings</i>	<i>Plant, machinery and equipment</i>	<i>Office equipment</i>	<i>Plant spares</i>	<i>Total</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
2004:						
Balance at 1 January, net of accumulated depreciation 2004	5,973,273	191,268	9,660,486	4,232	24,634	15,853,893
Additions	1,762,962	—	120,225	7,553	—	1,890,740
Transfers	(5,314,289)	47,392	5,245,104	10,323	11,470	—
Transfer to initial spares fee	(146,623)	—	—	—	—	(146,623)
Adjustment—refund of purchases	—	—	(2,383)	—	(390)	(2,773)
Depreciation charge for the year	—	(6,530)	(524,882)	(3,217)	(2,348)	(536,977)
Balance at 31 December, net of accumulated depreciation	<u>2,275,323</u>	<u>232,130</u>	<u>14,498,550</u>	<u>18,891</u>	<u>33,366</u>	<u>17,058,260</u>
Property, plant and equipment						
At cost	2,275,323	252,506	15,531,049	24,141	36,875	18,119,894
Accumulated depreciation	—	(20,376)	(1,032,499)	(5,250)	(3,509)	(1,061,634)
Net carrying amount at 31 December 2004	<u>2,275,323</u>	<u>232,130</u>	<u>14,498,550</u>	<u>18,891</u>	<u>33,366</u>	<u>17,058,260</u>

	<i>Capital work in progress</i>	<i>Buildings</i>	<i>Plant, machinery and equipment</i>	<i>Office equipment</i>	<i>Plant spares</i>	<i>Total</i>
	<u>AED '000</u>	<u>AED '000</u>	<u>AED '000</u>	<u>AED '000</u>	<u>AED '000</u>	<u>AED '000</u>
2005:						
Balance at 1 January, net of accumulated depreciation 2005	2,275,323	232,130	14,498,550	18,891	33,366	17,058,260
Additions	2,753,923	—	5,035,181	2,860	231,665	8,023,629
Disposals	—	—	—	(17)	(50)	(67)
Reclassification	—	—	5,383	(5,383)	—	—
Transfers	(3,733)	—	3,733	—	—	—
Transfer to a related party	—	—	(736,383)	—	—	(736,383)
Adjustment	—	—	(385)	—	—	(385)
Depreciation charge for the year	—	(7,517)	(725,220)	(4,324)	(5,508)	(742,569)
Balance at 31 December, net of accumulated depreciation	<u>5,025,513</u>	<u>224,613</u>	<u>18,080,859</u>	<u>12,027</u>	<u>259,473</u>	<u>23,602,485</u>
Property, plant and equipment At cost	5,025,513	252,505	19,839,275	20,184	268,476	25,405,953
Accumulated depreciation	—	(27,892)	(1,758,416)	(8,157)	(9,003)	(1,803,468)
Net carrying amount at 31 December 2005	<u>5,025,513</u>	<u>224,613</u>	<u>18,080,859</u>	<u>12,027</u>	<u>259,473</u>	<u>23,602,485</u>

The activities of the Company's controlled subsidiaries are carried out from premises and equipment constructed on land leased from ADWEA. The initial term of the leases is 25 years and no rental is payable by them. Leasehold land is carried in the books at nil value.

During the year 2005 plant and machinery with a net book value of AED 478,153,000 was transferred to a related party in accordance with the terms of an agreement and represents the acquisition cost of right of connection to the transmission system at the connection sites owned by the related party (see note 9).

Capital work in progress additions include capitalised borrowing costs of AED 150 million (2004: AED183 million, 2003: AED 248 million).

At 31 December 2005 the net book value of property, plant and equipment financed by Islamic debt under financing arrangements amounted to AED 3,180 million (2004: AED 3,091 million, 2003: AED 2,184 million).

Capital work in progress mainly represents the rehabilitation, upgrade and extension of existing power generation and water desalination plants.

6 INITIAL SPARES FEE

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED 000</u>	<u>AED 000</u>	<u>AED 000</u>
<i>Cost:</i>			
Balance at 1 January and 31 December	146,623	146,623	—
<i>Amortisation:</i>			
At 1 January	3,443	—	—
Charge for the year	9,083	3,443	—
At 31 December	12,526	3,443	—
Net carrying amount at 31 December	134,097	143,180	—

7 ADVANCES TO RELATED PARTIES

These represents advances made to Taweelah Shared Facilities Company (“TSFC”) and Shuweihat Shared Facilities Company (“SSFC”) by the controlled subsidiaries against future use of the facilities. Amounts receivable within one year have been included under current assets.

8 INVESTMENTS—AVAILABLE FOR SALE

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED 000</u>	<u>AED 000</u>	<u>AED 000</u>
Unquoted investments	1,032	356	356

Shared facilities companies are closely held private companies which maintain shared utility facilities for the supply and discharge of sea water and provides other related services to the controlled subsidiaries. The Company’s controlled subsidiaries do not exercise control over SSFC and TSFC.

The carrying amount of these investments is stated at amortised cost of AED 1,032,000. There is no practical means of estimating the fair value of these investments.

9 INTANGIBLE ASSETS

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED 000</u>	<u>AED 000</u>	<u>AED 000</u>
<i>Cost</i>			
Balance at 1 January	112,623	112,623	112,623
Additions during the year	478,153	—	—
At 31 December	590,776	112,623	112,623
<i>Amortisation</i>			
Balance at 1 January	(8,866)	(5,903)	(2,940)
Provided during the year	(17,466)	(2,963)	(2,963)
At 31 December	(26,332)	(8,866)	(5,903)
Net carrying amount at 31 December	564,444	103,757	106,720

The intangible assets arose from the transfer, made by the Company’s controlled subsidiaries Emirates CMS Power Company and Shuweihat CMS International Power Company, of certain assets to a related party in accordance with the terms of individual agreements and represent the

acquisition cost of the right of connection to the transmission systems at the connection sites for a period of 38 and 33 years respectively. The connection rights cost is being amortised on a straight line basis over 38 and 33 years respectively, being the expected period of benefit.

10 INVENTORIES

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
Fuel	220,952	148,027	121,124
Spare parts and consumables	473,962	397,894	298,295
Prepaid spare parts	—	—	2,085
Provision for slow moving and obsolete items	(14,000)	(12,000)	(10,000)
	<u>680,914</u>	<u>533,921</u>	<u>411,504</u>

11 AMOUNTS DUE FROM RELATED PARTIES

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
Abu Dhabi Water and Electricity Company (ADWEC)	504,804	425,703	271,145
Abu Dhabi Water and Electricity Authority (ADWEA)	—	6,482	488
Abu Dhabi Distribution Company (ADDC)	—	—	10
Al Taweelah Shared Facilities Company (TSFC)	435	—	145
Abu Dhabi Transmission and Despatch Company	—	—	182
Shuweihat Shared Facilities Company	1,984	5,449	35
	<u>507,223</u>	<u>437,634</u>	<u>272,005</u>

The amounts due from ADWEC in respect of available capacity and supply of water and electricity are repayable within 30-90 working days.

12 PREPAYMENTS AND OTHER ASSETS

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
Positive fair value of derivatives	104,019	39,772	95,540
Prepaid insurance	28,748	25,673	19,584
Prepaid expenses	30,459	24,050	15,162
Advances to suppliers	16,044	18,906	—
Interest receivable	37,095	—	—
Prepaid spare parts	963	150,770	1,176
Due from ITM O & M Company	—	7,540	7,921
Other receivables	38,178	24,586	25,662
	<u>255,506</u>	<u>291,297</u>	<u>165,045</u>

13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of cash flows consist of the following balance sheet amounts:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED 000</u>	<u>AED 000</u>	<u>AED 000</u>
Bank balances and cash	3,066,840	827,644	702,750
Bank overdraft	<u>(126,763)</u>	<u>(104,957)</u>	<u>(14,953)</u>
	<u>2,940,077</u>	<u>722,687</u>	<u>687,797</u>

Included in bank balances and cash are bank deposits of AED 2,797,157,000 with commercial banks in U.A.E. These are denominated in UAE Dirhams, short term in nature, with an average effective interest rate of 4.5%

14 SHARE CAPITAL

	<i>Authorised</i>			<i>Issued and fully paid</i>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED '000</u>	<u>AED '000</u>	<u>AED '000</u>	<u>AED '000</u>	<u>AED '000</u>	<u>AED '000</u>
Ordinary Shares of AED 1 each (2004 and 2003: AED 10 each)	<u>4,150,000</u>	<u>3,318,000</u>	<u>3,318,000</u>	<u>4,150,000</u>	<u>1,835,280</u>	<u>1,261,530</u>

The share capital as of 31 December 2004 and 2003 represents the total combined share capitals of the five subsidiaries before the establishment of TAQA (note 2.1). The share capital as of 31 December 2005 represents the share capital of TAQA.

At 31 December 2005 an amount of AED 1 billion was due from ADWEA relating to part of the share capital that was offered through a private offering. The amount was subsequently settled in 2006.

15 RESERVES

Statutory reserve

As required by the U.A.E. Commercial Companies Law of 1984 (as amended) and the articles of association of the Company and its controlled subsidiaries, 10% of the profit for the year is transferred to the statutory reserve. The transfer for the year represents 10% of the profit of the Company before accounting for the Company's share in the results of its subsidiaries, and the Company's share in the controlled subsidiaries' statutory reserves transferred for the year. The Company and its controlled subsidiaries may resolve to discontinue such transfers when the reserve equals 50% of the share capital. The reserve is not available for distribution.

Legal reserve

In accordance with Article 35 of the Articles of Association of the controlled subsidiaries companies, 10% of the profit for the year is transferred to a legal reserve. The controlled subsidiaries may resolve to discontinue such annual transfers when the reserve totals 50% of the share capital or in accordance with a resolution taken to this effect by the shareholders at the Annual General Meeting upon the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

16 TERM LOANS

The term loans are with respect to the following subsidiaries:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED 000</u>	<u>AED 000</u>	<u>AED 000</u>
Emirates Power Company PJSC	1,323,318	1,383,607	1,828,170
Gulf Power Company PJSC	3,377,125	3,510,379	3,633,327
Al Shuweihat Power Company PJSC	3,511,177	3,605,242	4,069,669
Arabian United Power Company PJSC	3,829,993	3,363,524	2,810,455
Taweelah United Power Company PJSC	6,849,606	—	—
	<u>18,891,219</u>	<u>11,862,752</u>	<u>12,341,621</u>
Disclosed in the balance sheet as follows:			
Non-current liabilities	18,594,718	11,575,212	10,856,350
Current liabilities	<u>296,501</u>	<u>287,540</u>	<u>1,485,271</u>
	<u>18,891,219</u>	<u>11,862,752</u>	<u>12,341,621</u>

(i) Emirates Power Company PJSC (EPC)

During 1999, EPC's controlled subsidiary obtained loan facilities (the "old facilities") from a syndicate of banks led by Barclays Capital Bank amounting to US \$596,000,000 (AED 2,188,810,000) out of which US \$556,000,000 (AED 2,041,910,000) was fully drawn by 31 December 2001 to finance the construction of the Plant. The loan carried interest at a variable rate of LIBOR plus a premium of between 0.8% and 1.5% per annum for the original remainder period of the term loan. The loan also carried a commitment fee of 0.35% per annum on the undrawn amount.

On 15 March 2004, EPC's controlled subsidiary obtained a US \$388 million (AED 1,425 million) conventional loan facility and US \$150 million (AED 551 million) Islamic Ijara loan facility (note 17) (the "new facilities") from a syndicate of international and UAE based banks to refinance the term loan and repay up to US \$35 million (AED 129 million) of the loan from shareholders (note 19). Both loans were fully drawn during 2004.

The conventional loan carries interest at a variable rate of LIBOR plus a premium of between 0.95% and 1.3% per annum for the remaining period of the conventional loan.

The conventional loan is repayable in half yearly instalments until 2020 in accordance with an agreed upon instalment schedule. The conventional loan is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of the controlled subsidiary, a pledge of the shares in the controlled subsidiary by both shareholders and a pledge of the equity interest in TSFC. The conventional loan is also subject to various covenants as stipulated in the loan facility agreement. The arrangement fees incurred in connection with the debt refinancing arrangements are recognised in the income statement over the repayment period of the new facilities. The non-current portion of AED 34.7 million has been included under non-current assets and the current portion of AED 2.6 million has been included within prepayments and other assets.

Under the terms of its loan facility agreement, EPC's controlled subsidiary is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 29).

The portion of the conventional loan due in less than one year of the balance sheet date amounting to AED 60 million is included under current liabilities.

Amounts repayable over the next five years from 31 December 2005 are as follows:

	<u>AED '000</u>
2006	59,989
2007	63,253
2008	68,696
2009	74,581
2010	75,977

(ii) Gulf Power Company PJSC (GPC)

During 2000, GPC's controlled subsidiary obtained a loan facility from a syndicate of banks led by BNP Paribas and Citibank, NA amounting to US \$1,000,000,000 (AED 3,673,000,000) which was fully drawn by 31 December 2002 to finance the acquisition, refurbishment and extension of the Taweelah A1 Power and desalination plant. During 2003 the controlled subsidiary drew down US \$5 million (AED 18,355,000) of the US \$15 million stand by facility. The total term loan carries interest at a variable rate of LIBOR plus 1.10% per annum for the year of the term loan. The loan also carries a commitment fee of 0.375% per annum on the updrawn amounts.

The loan is repayable in 27 half yearly instalments starting from October 2005 until October 2019 in accordance with an agreed upon instalment schedule. The term loan is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of the controlled subsidiary, a pledge of the shares in the controlled subsidiary by both shareholders and a pledge of the equity interest in TSFC. The term loan is also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, GPC's controlled subsidiary is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 29).

The portion of the conventional loan due in less than one year of the balance sheet date amounting to AED 144.3 million is included under current liabilities.

Amounts repayable over the next five years from 31 December 2005 are as follows:

	<u>AED '000</u>
2006	144,254
2007	156,429
2008	169,341
2009	183,730
2010	198,856

(iii) Al Shuweihat Power Company PJSC (SPC)

During 2001, SPC's controlled subsidiary obtained loan facilities from a syndicate of banks led by Barclays Bank (conventional loan facility and equity bridge loan facility) and Abu Dhabi Islamic Bank (Islamic loan facility) to finance the construction of the power generation and desalination plant.

The Equity Bridge loan amounting to US \$252 million (AED 924 million) and Islamic loan facility amounting to US \$100 million (AED 367 million) were paid in August 2004. The amount of the conventional term loan facility is US \$1,035 million (AED 3,802 million), including a US \$50 million standby facility, of which US \$985 million (AED 3,618 million) was drawn.

The conventional loan is repayable in 32 half yearly instalments until 2021 in accordance with an agreed upon instalment schedule. The term loan carries interest at a variable rate of LIBOR plus

1.15% to 1.75% per annum for the year of the loan. A fluctuating profit charge is paid under the Islamic loan agreement. Interest and profit charges are paid as and when they fall due, or are accrued for and included in accruals and other liabilities.

The term loan is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of the controlled subsidiary. The term loan is also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, the controlled subsidiary is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 29).

The arrangement fees incurred in connection with the term loans and Islamic Ijara loan (note 17) are recognised in the income statement over the repayment year of the facilities. The non-current portion of AED 69 million has been included under non-current assets and the current portion of AED 1.8 million has been included within prepayments and other assets.

The portion of the conventional loan due in less than one year of the balance sheet date amounting to AED 92.3 million is included under current liabilities.

Amounts repayable over the next five years from 31 December 2005 are as follows:

	<u>AED '000</u>
2006	92,258
2007	120,838
2008	135,310
2009	145,440
2010	158,102

(iv) Arabian United Power Company PJSC (AUPC)

During 2003, AUPC's controlled subsidiary obtained loan facilities from a syndicate of banks led by the Bank of Tokyo-Mitsubishi (term loan facilities (1) and (2) and equity bridge facility) to finance the acquisition, refurbishment and extension of the UAN power and desalination plant. The equity bridge loan and conventional term loans carry interest at a rate of LIBOR plus 0.5% to 1.65% per annum for the whole year of the loans. The loans also carry a commitment fee of 0.375% per annum on undrawn balances.

The equity bridge loan is US \$150 million (AED 551 million) and was fully drawn at 31 December 2003 and is repayable on 21 July 2008.

The term loan facility (1) is US \$232 million (AED 852 million) and was fully drawn at 31 December 2003. The term loan is repayable from January 2007 in accordance with an agreed upon repayment schedule with the last repayment on 21 July 2008.

The amount of the term loan facility (2) is US \$855 million (AED 3,140 million), of which US \$660 million (AED 2,426 million) was drawn at 31 December 2005. The term loan is repayable from January 2009 in accordance with an agreed upon repayment schedule with the last repayment on 21 January 2023.

The loans are secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of the Company and a pledge of the shares in the Company by both shareholders. The loans are also subject to various covenants as stipulated in the loan facility agreement.

Amounts repayable in respect of term loan facility (1) and (2) over the next five years from 31 December 2005 are as follows:

	<u>AED '000</u>
2006	—
2007	302,673
2008	549,927
2009	157,735
2010	145,794

Under the terms of its loan facility agreement, the company is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 29).

The arrangement fees incurred in connection with the term loans and Islamic financing arrangements are recognised in the income statement or capital work in progress over the repayment year of the facilities. The non current portion of AED 51 million has been included under non-current assets and the current portion of AED 9.7 million has been included within prepayments and other assets.

(v) Taweelah United Power Company PJSC (TUPC)

During the year, TUPC's controlled subsidiary obtained loan facilities from a syndicate of banks to finance the acquisition, refurbishment and extension of the Taweelah B power and water desalination plant. The equity bridge loan and term loans carry interest at a rate of LIBOR plus 0.45% to 1.4% per annum for the whole year of the loans. The loans also carry a commitment fee of 0.375% per annum on undrawn balances.

The equity bridge loan is US \$527 million (AED 1,936 billion) and was fully drawn at 31 December 2005 and is repayable on 30 June 2008.

The term loan facility (1) is US \$940 million (AED 3,453 million), of which US \$577 million (AED 2,120 million) was drawn at 31 December 2005. The term loan is repayable from December 2008 in accordance with an agreed upon repayment schedule with the last repayment on 15 June 2025.

The amount of the term loan facility (2) is US \$1,243 million (AED 4,565 million), of which US \$760.4 million (AED 2,793 million) was drawn at 31 December 2005. The term loan is repayable from December 2008 in accordance with an agreed upon repayment schedule with the last repayment on 15 June 2025.

Amounts repayable in respect of term loan facility (1) and (2) over the next five years from 31 December 2005 are as follows:

	<u>AED '000</u>
2006	—
2007	—
2008	136,395
2009	281,250
2010	294,400

The loans are secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of the controlled subsidiary and a pledge of the shares in the controlled subsidiary by both shareholders. The loans are also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, the controlled subsidiary is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 29).

The arrangement fees incurred in connection with the term loans are recognised in the income statement or capital work in progress over the repayment year of the facilities. The non-current portion of AED 90.3 million has been included under non-current assets and the current portion of AED 7.8 million has been included within prepayments and other assets.

Amounts payable by TAQA and its subsidiaries over the next five years from 31 December 2005 are as follows:

	<u>AED '000</u>
2006	296,501
2007	643,193
2008	1,059,669
2009	842,736
2010	873,129

17 ISLAMIC IJARA LOANS

Islamic loans are with respect to the following subsidiaries:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED 000</u>	<u>AED 000</u>	<u>AED 000</u>
Al Shuweihat Power Company PJSC	891,161	915,036	705,231
Emirates Power Company PJSC	511,592	534,900	—
Arabian United Power Company PJSC	1,067,588	1,067,588	1,067,588
	<u>2,470,341</u>	<u>2,517,524</u>	<u>1,772,819</u>
Disclosed in the balance sheet as follows:			
Non-current liabilities	2,423,734	2,470,341	1,769,605
Current liabilities	46,607	47,183	3,214
	<u>2,470,341</u>	<u>2,517,524</u>	<u>1,772,819</u>

(i) Al Shuweihat Power Company PJSC

The Islamic Ijara loan is secured by an assignment of identified parts of the plant and equipment purchased under the Islamic financing arrangement, and is repayable in thirty five semi-annual instalments commencing from 31 December 2004. A fluctuating profit charge is paid under the Islamic financing agreement, which is based on LIBOR plus a margin. The portion of the Islamic Ijara loan due in less than one year of the balance sheet date amounting to AED 23.4 million is included under current liabilities.

Amounts repayable over the next five years are as follows:

	<u>AED '000</u>
2006	23,415
2007	30,670
2008	34,343
2009	36,914
2010	40,128

(ii) Emirates Power Company PJSC

The Islamic Ijara loan is secured by an assignment of identified parts of the plant and equipment purchased under the Islamic financing arrangement, and is repayable in thirty three semi annual instalments commencing from 30 June 2004. A fluctuating profit charge is paid under the Islamic financing agreement, which is based on LIBOR plus a margin. The portion of the Islamic Ijara loan due in less than one year of the balance sheet date amounting to AED 23.2 million is included under current liabilities.

Amounts repayable over the next five years are as follows:

	<u>AED '000</u>
2006	23,192
2007	24,453
2008	26,558
2009	28,833
2010	29,373

(iii) Arabian United Power Company PJSC

The Islamic Ijara loan is secured by an assignment of identified parts of the plant and equipment purchased under the Islamic financing arrangement. The facility of US \$291 million (AED 1,068 million) is repayable on 21 July 2008. A fluctuating profit charge is paid under the Islamic financing agreement, which is based on LIBOR plus a margin.

Summary of the amounts payable by TAQA and its subsidiaries over the next five years from 31 December 2005 are as follows:

	<u>AED '000</u>
2006	46,607
2007	55,123
2008	1,128,489
2009	65,747
2010	69,501

18 ISLAMIC MUQAWALA LOAN

The Muqawala loan relates to Arabian United Power Company PJSC and is in respect of the procurement and manufacturing of certain generation assets under an Islamic loan facility agreement dated 2 July 2003. The facility of US \$250,000,000 (AED 918 million) is repayable in thirty semi annual instalments commencing from January 2009.

The Islamic Muqawala loan carries a profit charge of LIBOR + 1.1%.

19 LOANS FROM MINORITY INTEREST SHAREHOLDERS IN CONTROLLED SUBSIDIARIES

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED 000</u>	<u>AED 000</u>	<u>AED 000</u>
Total Tractebel Emirates Power Company	212,667	236,297	252,050
CMS Generation Taweelah Limited	19,770	79,320	104,000
Shuweihat Limited Partnership	216,213	252,942	—
	<u>448,650</u>	<u>568,559</u>	<u>356,050</u>

The loans are from the minority interest shareholders in the controlled subsidiaries of the Company's subsidiaries (note 27) and are free of interest and unsecured. Though the terms of

repayment have not been specified for these loans, they are subject to terms of repayment as resolved by the board of directors of the controlled subsidiaries.

The above loans are disclosed in the balance sheet as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED 000</u>	<u>AED 000</u>	<u>AED 000</u>
Non-current liabilities	366,743	468,323	280,820
Current liabilities	81,907	100,236	75,230
	<u>448,650</u>	<u>568,559</u>	<u>356,050</u>

20 EMPLOYEES' END OF SERVICE BENEFITS

The Company's subsidiaries provide for employees' end of service benefits in accordance with the employees' contracts of employment.

The movement on the provision for employees' end of service benefits is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED 000</u>	<u>AED 000</u>	<u>AED 000</u>
Balance at 1 January	116	234	1,627
Net movement during the year	(9)	(118)	(1,393)
Balance at 31 December	<u>107</u>	<u>116</u>	<u>234</u>

21 ASSETS RETIREMENT OBLIGATIONS (ARO)

As part of the land lease agreements between ADWEA and the Company's controlled subsidiaries, the subsidiaries have a legal obligation to remove the power and water desalination plants at the end of the plants' useful lives or before if the controlled subsidiaries became unable to continue their operations to that date and to restore the land. The controlled subsidiaries shall at their sole cost and expense dismantle, demobilize, safeguard and transport the assets, eliminate soil and ground water contamination, fill all excavation and return the surface to grade of the designated areas.

The fair value of ARO liability has been calculated using an expected present value technique. This technique reflects assumptions such as costs, controlled subsidiaries' useful lives, inflation and profit margins that third parties would consider to assume the settlement of the obligations.

22 LOAN FROM MINORITY INTEREST SHAREHOLDER

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>AED 000</u>	<u>AED 000</u>	<u>AED 000</u>
Abu Dhabi Water and Electricity Authority (ADWEA)	<u>92,640</u>	<u>—</u>	<u>—</u>

The above loan is free of interest and is unsecured and is not due for payment within one year of the balance sheet date.

23 MINORITY INTERESTS

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
Relating to Abu Dhabi Water and Electricity Authority	199,526	196,324	107,714
Relating to minority interest shareholdings in controlled subsidiaries	<u>744,806</u>	<u>470,844</u>	<u>85,756</u>
	<u>944,332</u>	<u>667,168</u>	<u>193,470</u>

The payable to minority interest shareholders in respect of their 40% shareholding in the controlled subsidiaries is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
CMS Generation Taweelah Limited LLC	203,099	148,586	117,974
Total Tractebel Emirates Power Company	185,147	119,767	98,224
Shuweihat Limited Partnership	131,597	107,581	(196,164)
ASIA Gulf Power Holding Company Limited	201,137	—	—
ITM investment company	<u>23,826</u>	<u>94,910</u>	<u>65,722</u>
	<u>744,806</u>	<u>470,844</u>	<u>85,756</u>

24 AMOUNTS DUE TO RELATED PARTIES

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
Abu Dhabi Water and Electricity Authority (ADWEA)	133,154	4,058	2,568
Abu Dhabi Power Corporation	70,000	—	—
Al Taweelah Power Company	2,362	—	—
Al Taweelah Shared Facilities Company	—	414	230
Abu Dhabi Water and Electricity Company (ADWEC)	—	—	683
Shuweihat Limited Partnership	<u>—</u>	<u>—</u>	<u>525</u>
	<u>205,516</u>	<u>4,472</u>	<u>4,006</u>

25 ACCRUALS AND OTHER LIABILITIES

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
Accrual for spare parts	22,760	68,799	34,659
Accrued interest expense	88,957	72,879	102,375
Negative fair value of derivatives (note 29)	821,183	1,110,090	1,195,248
Accrual for unbilled construction work	—	—	141,948
Others	<u>122,205</u>	<u>35,306</u>	<u>24,491</u>
	<u>1,055,105</u>	<u>1,287,074</u>	<u>1,498,721</u>

26 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions with related parties included in the income statement are as follows:

	2005		2004		2003	
	<i>Sale of water and electricity</i>	<i>Shared facilities service charges</i>	<i>Sale of water and electricity</i>	<i>Shared facilities service charges</i>	<i>Sale of water and electricity</i>	<i>Shared facilities service charges</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
ADWEC	2,911,056	—	2,029,146	—	1,330,059	—
SSFC and TSFC.....	—	9,810	—	8,443	—	5,565

Amounts due from and to related parties and other transactions are disclosed in notes 5, 11, 19, 22 and 24 to the consolidated financial statements.

During 2003 and 2005 TAQA subsidiaries acquired property, plant and equipment from related parties with a carrying cost of AED 4.1 billion and AED 4.8 billion respectively.

Key management personnel are provided by the operation and maintenance companies under contractual agreements with the controlled subsidiaries.

27 SUBSIDIARIES

The consolidated financial statements include the financial statements of TAQA and the subsidiaries listed in the following table

	<i>Country of incorporation</i>	<i>% holding</i>
Emirates Power Company PJSC	U.A.E.	90%
Emirates CMS Power Company PJSC.....	U.A.E.	54%
Gulf Power Company PJSC	U.A.E.	90%
Gulf Total Tractebel Power Company PJSC.....	U.A.E.	54%
Arabian United Power Company PJSC	U.A.E.	90%
Arabian Power Company PJSC	U.A.E.	54%
Al Shuweihat Power Company PJSC	U.A.E.	90%
Shuweihat CMS International Power Company PJSC	U.A.E.	54%
Taweelah United Power Company	U.A.E.	90%
Taweelah Asia Power Company PJSC	U.A.E.	54%

Emirates CMS Power Company PJSC, Gulf Total Tractebel Power Company PJSC, Arabian Power Company PJSC, Shuweihat CMS International Power Company PJSC and Taweelah Asia Power Company PJSC are referred to as controlled subsidiaries. Further details on the subsidiaries are as follows:

Emirates Power Company PJSC

Emirates Power Company PJSC is a public stock company registered and incorporated in the United Arab Emirates. Its principal activity is to own and invest in companies engaged in power generation and water desalination. It has one controlled subsidiary, Emirates CMS Power Company PJSC with a 60% interest. The controlled subsidiary company is engaged in generation of electricity and production of desalinated water for supply into the Abu Dhabi grid.

The controlled subsidiary company has a management, operation and maintenance agreement with Al Taweelah A2 Operating Company, a related party to the controlled subsidiary, whereby the latter has undertaken to manage the day to day operations and maintenance of the plant. The controlled subsidiary has entered into a power and water purchase agreement with Abu Dhabi Water and Electricity Company ("ADWEC"), a related party, (a wholly-owned subsidiary of

ADWEA). Under the agreement, the controlled subsidiary company undertakes to make available, and ADWEC undertakes to purchase, the entire net capacity of the plant until October 2021 in accordance with various terms and conditions.

Gulf Power Company PJSC

Gulf Power Company PJSC is a public joint stock company registered and incorporated in the United Arab Emirates. Its principal activity is to own and invest in companies engaged in power generation and water desalination. It has one controlled subsidiary, Gulf Total Tractebel Power Company PJSC with a 60% interest. The controlled subsidiary company is engaged in generation of electricity and production of desalinated water for supply into the Abu Dhabi grid.

The controlled subsidiary company has a management, operation and maintenance agreement with Total Tractebel Emirates O & M Company, a related party to the controlled subsidiary, whereby the latter has undertaken to manage the day to day operations and maintain the plant. Further, the controlled subsidiary has entered into a power and water purchase agreement with ADWEC, a related party (a wholly owned subsidiary of ADWEA). Under the agreement, the controlled subsidiary company undertakes to make available, and ADWEC undertakes to purchase, the entire net capacity of the plant until June 2023 in accordance with various agreed terms and conditions.

Arabian United Power Company PJSC

Arabian United Power Company PJSC is a public joint stock company registered and incorporated in the United Arab Emirates. Its principal activity is to own and invest in companies engaged in power generation and water desalination. It has one controlled subsidiary, Arabian Power Company PJSC with a 60% interest. The controlled subsidiary is engaged in generation of electricity and production of desalinated water for supply into the Abu Dhabi grid.

The controlled subsidiary has a management, operation and maintenance agreement with ITM O & M Company Limited, a related party to the controlled subsidiary, whereby the latter has undertaken to manage the day to day operations and maintain the plant. Further, the controlled subsidiary has entered into a power and water purchase agreement with ADWEC. Under the agreement, the company undertakes to make available, and ADWEC undertakes to purchase, the entire net capacity of the plant until March 2026 in accordance with various agreed terms and conditions.

Al Shuweihat Power Company PJSC

Al Shuweihat Power Company PJSC is a public joint stock company registered and incorporated in the United Arab Emirates. Its principal activity is to own and invest in companies engaged in power generation and water desalination. It has one controlled subsidiary, Shuweihat CMS International Power Company PJSC with a 60% interest. The controlled subsidiary is engaged in generation of electricity and production of desalinated water for supply into the Abu Dhabi grid.

The controlled subsidiary has a management operation and maintenance agreement with Shuweihat O & M Limited Partnership, a related party, whereby the latter has undertaken to manage the day-to-day operations and maintain the plant. Further the controlled subsidiary has entered into a power and water purchase agreement with Abu Dhabi Water and Electricity Company (ADWEC). Under the agreement, the Company undertakes to make available, and ADWEC undertakes to purchase, the entire net capacity of the plant until 2025 in accordance with various agreed terms and conditions.

Taweelah United Power Company PJSC

Taweelah United Power Company is a public joint stock company registered and incorporated in the United Arab Emirates in 2005. Its principal activity is to own and invest in companies engaged

in power generation and water desalination. It has one controlled subsidiary Taweelah Asia Power Company PJSC with a 60% interest. The controlled subsidiary is engaged in generation of electricity and production of desalinated water for supply into the Abu Dhabi grid.

The controlled subsidiary has a management operation and maintenance agreement with Asia Gulf Power Service Company, a related party, whereby the latter has undertaken to manage the day-to-day operations and maintain the plant. Further, the controlled subsidiary has entered into a turnkey agreement with third party contractors for the engineering, procurement, construction and extension of a power and desalination plant in Taweelah. Further, the Company's controlled subsidiary has entered into a power and water purchase agreement with Abu Dhabi Water and Electricity Company (ADWEC). Under the agreement, the Company undertakes to make available, and ADWEC undertakes to purchase, the entire net capacity of the plant until 2028 in accordance with various agreed terms and conditions.

28 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

With the exception of the loans from the minority interests and ADWEA, the fair values of financial instruments are not materially different from their carrying values at the balance sheet date. It is not practicable to determine the fair value of the loans from minority interests with sufficient

accuracy. Information on the principal characteristics of the loans is presented in notes 19 and 22 to the consolidated financial statements.

29 COMMITMENTS AND CONTINGENCIES

- (i) The authorised capital expenditure contracted for at 31 December 2005 but not provided for amounted to AED 3,157 million.
- (ii) In order to reduce its exposure to interest rates fluctuations on the term loan and Islamic Ijara loan, the controlled subsidiary Emirates CMS Power Company PJSC has entered into an interest rate arrangement with counter-party banks for a notional amount that matches the outstanding term loan and Islamic Ijara loan. The notional amount outstanding at 31 December 2005 was AED 1,835 million. In addition, the company uses forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations relating to scheduled maintenance cost payments to an overseas supplier. The outstanding forward foreign exchange commitment at the year end was nil.

The derivative instruments had a negative fair value of AED 157 million which is included within accruals and other liabilities (note 25). As a result of the debt refinancing arrangements concluded by the Company in March 2004 as explained in note 16, derivatives existing prior to the refinancing date have been extinguished and new interest rate swap contracts have been entered into as part of the debt refinancing arrangements. Consequently, the cumulative changes in fair values recognised in equity shall be reclassified to the income statement over the year during which the previous hedged forecast transaction affects the income statement. Further, the new interest swap contracts do not qualify for hedge accounting and, accordingly, changes in fair value are recorded in the income statement.

- (iii) In order to reduce its exposure to interest rates fluctuations on the term loan, the controlled subsidiary Gulf Total Tractebel Power Company PJSC has entered into an interest rate arrangement with counter-party banks for a notional amount that mirrors the draw down and repayment schedule of the term loan, covering at least 85% of the outstanding term loan. The notional amount outstanding at 31 December 2005 was AED 2,856 million. The derivative instruments which are entered into for the purpose of cash flow hedge had a negative fair value (unrealised losses) of AED 285 million at 31 December 2005 which is recognised as a separate component in equity and included within other liabilities (note 25).
- (iv) In order to reduce its exposure to interest rates fluctuations on the loans, the controlled subsidiary Shuweihat CMS International Power Company PJSC has entered into an interest rate arrangement with counter-party banks for a notional amount that mirrors the draw down and repayment schedule of the loans, covering not less than 75% of the outstanding loans. The notional amount outstanding at 31 December 2005 was AED 4,402 million. In addition the company uses forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations relating to scheduled maintenance cost payments to an overseas supplier. The outstanding forward foreign exchange commitment at the year end amounted to AED 327 million. The derivative instruments which are entered into for the purpose of cash flow hedges had a negative fair value (unrealised losses) of AED 377 million at 31 December 2005 and are included within current liabilities (note 25).
- (v) In order to reduce its exposure to interest rates fluctuations on the loans, the controlled subsidiary Arabian Power Company PJSC has entered into an interest rate arrangement with counter-party banks for a notional amount that mirrors the draw down and repayment schedule of the loans, covering not less than 85% of the outstanding term loan. The notional amount outstanding at 31 December 2005 was US \$1,515 million (AED

5,564 million). The derivative instruments which are entered into for the purpose of cash flow hedge had a positive fair value (unrealised profits) of AED 104 million at 31 December 2005 and included within prepayments and other assets (note 12)

- (vi) In order to reduce its exposure to interest rates fluctuations on the loans, the controlled subsidiary Taweelah Asian Power Company has entered into an interest rate arrangement with counter-party banks for a notional amount that mirrors the draw down and repayment schedule of the loans, covering not less than 75% of the outstanding loans. The notional amount outstanding at 31 December 2005 was US \$1,805 million (AED 6,630 million). The derivative instruments which are entered into for the purpose of cash flow hedge had a negative fair value (unrealised losses) of AED 2.86 million at 31 December 2005 and are included within accruals and other liabilities (note 25).

30 RISK MANAGEMENT

Interest rate risk

The controlled subsidiaries are exposed to interest rate risk on their interest bearing assets (fixed deposits) and liabilities (term loans and bank overdrafts). Management has sought to limit the exposure of the controlled subsidiaries to any adverse future movements in interest rates by entering into various interest rate swap and cap deals (see note 29). Management is therefore of the opinion that the exposure to interest rate risk is limited.

Credit risk

The controlled subsidiaries sell their products to one related party. They seek to limit their credit risk with respect to this customer by monitoring outstanding receivables.

Liquidity risk

The controlled subsidiaries limit their liquidity risk by monitoring their current financial position in conjunction with its cash flow forecasts on a regular basis to ensure funds are available to meet their commitments for liabilities as they fall due. The controlled subsidiaries terms of sale require amounts to be paid within 30 - 90 days of the date of sale. Trade payables are normally settled within 30 - 90 days of the date of purchase.

Currency risk

The management consider that the controlled subsidiaries are exposed to currency risk on their transactions and balances in US Dollars and Euros. However, as the UAE Dirham is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk. The controlled subsidiaries use forward currency contracts to hedge the risk associated in the Euro currency fluctuations.

31 INCOME TAX

The Company is not subject to income or other similar taxes in the United Arab Emirates and, accordingly, no income tax has been reflected in these financial statements.

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