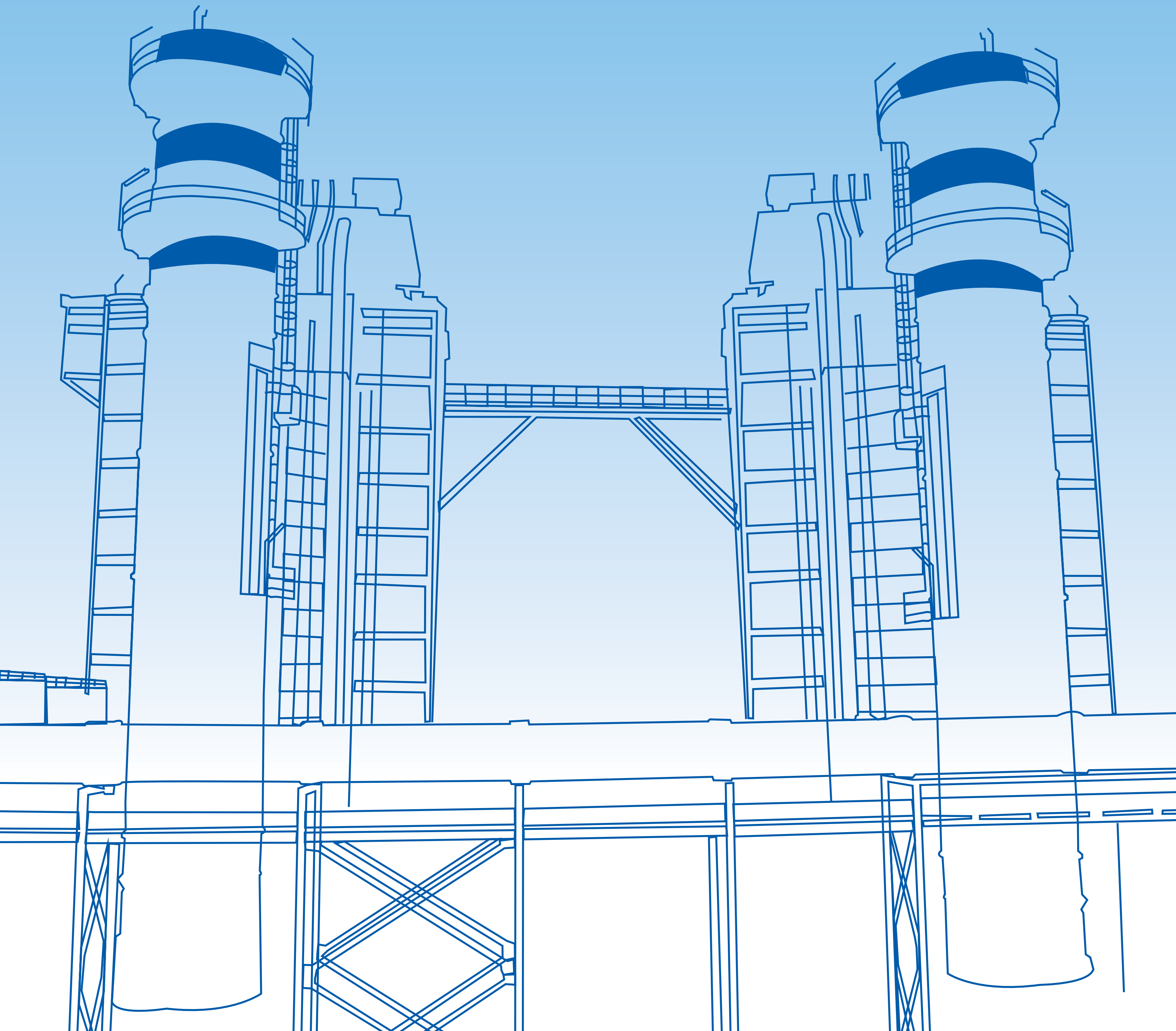
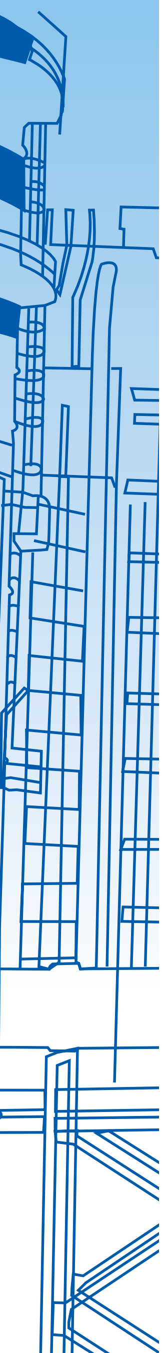
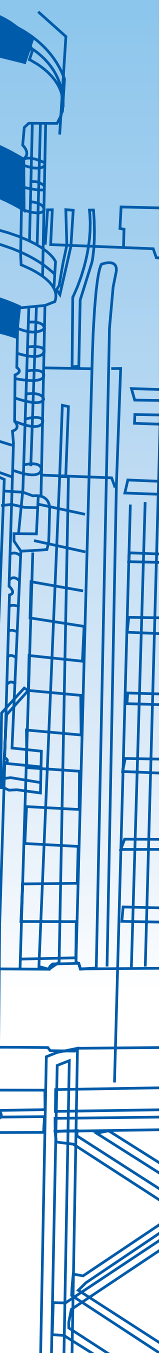
OMAN POWER AND WATER PROCUREMENT CO. (SAOC)

ANNUAL REPORT 2013





His Majesty Sultan Qaboos Bin Said



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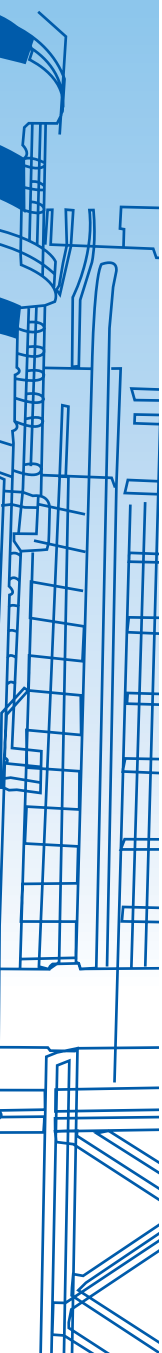

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GLOSSARY

AER	Authority for Electricity Regulation, Oman
BSR	Bulk Supply Revenue
BST	Bulk Supply Tariff
CCI	Clients Contracts & Interface
COD	Commercial Operation Date
DGC	Dhofar Generating Company
DGW	Directorate General of Water (in the Office of the Minister of State and Governor of Dhofar)
DPC	Dhofar Power Company (SAOC)
EHC	Electricity Holding Company
GWh	GigaWatt Hour (1,000 MegaWatt Hours)
GPDC	Al Ghubrah Power and Desalination Company (SAOC)
IAS	International Accounting Standard
IPP	Independent power project
IWP	Independent water project
IWPP	Independent water and power project
kWh	Kilowatt hour(s)
m3	Cubic metre(s)
MEDC	Muscat Electricity Distribution Company (SAOC)
MIGD	Million imperial gallons per day
MIS	Main Interconnected System
MISC	Majis Industrial Services Company (SAOC)
MJEC	Majan Electricity Company (SAOC)
MOG	Ministry of Oil and Gas
MSCM	Million Standard Cubic Meter
MWh	Megawatt hour
MZEC	Mazoon Electricity Company (SAOC)
NGSA	Natural Gas Supply Agreement
NPS	DPC New Power Station
OCGT	Open-cycle gas turbine
OETC	Oman Electricity Transmission Company (SAOC)
OOCEP	Oman Oil Company Exploration & Procedure
OPWP	Oman Power and Water Procurement Company (SAOC)
PAEW	Public Authority for Electricity and Water
PDO	Petroleum Development Oman (LLC)
PPA	Power purchase agreement
PWPA	Power and water purchase agreement
RAEC	Rural Areas Electricity Company (SAOC)
RFP	Request for Proposal
RO	Rial Omani
SSPWC	Sembcorp Salalah Power and Water Company
WPA	Water Purchase Agreement

BOARD OF DIRECTORES

H.E. Saud Bin Nasser Al Shukaily
Chairman of the Board

Other position:
Secretary General for Taxation,
Ministry of Finance

Eng. Saleh Bin Nasser Al-Rumhi
Deputy Chairman of the Board

Other position:
General Manager for Policy & Strategy,
Public Authority for Electricity & Water (PAEW).

Mr Hamdan Bin Ali Al Hinai
Member of the Board

Other position:
Director of Contracts and Legal Affairs
Ministry of Defence

Mr Abdullah Bin Salim Al Harthi
Member of the Board

Other position:
Director of Business Strategy,
State General Reserve Fund
Ministry of Finance

Mr Saleh Bin Ali Al Harthy
Member of the Board

Other position:
Director of Gas Revenue
Ministry of Finance

EXECUTIVE MANAGEMENT

Eng. Ahmed Bin Saleh Al-Jahdhami
Chief Executive Officer

CHAIRMAN'S FOREWORD

Dear Shareholders,

On behalf of the members of the Board, I would like to present the Annual Report of Oman Power and Water Procurement Company (SAOC) for the year 2013.

Achievements

The year 2013 is another challenging year for OPWP with the company accomplishing a number of major initiatives successfully, and the said achievements include:

- Signing of contracts with Muscat City Desalination Company to develop a 42 MIGD desalination plant to be located adjacent to the existing Ghubrah Power and Desalination Plant with a targeted COD by October 2014.
- Successful commissioning of Barka III IPP with a production capacity of 744 MW by Al Sawadi Power Company.
- Successful commissioning of Sohar II IPP with a production capacity of 744 MW by Al Batinah Power Company.
- Finalisation of contracts and deployment of temporary generation for the Main Interconnected System (MIS) to provide system support due to delays of the Sur IPP.
- OPWP has conducted a coastal study across the country to identify sites suitable for power and water production over the next 30 years.
- OPWP finalized a strategic plan relating to the future expiration of P(W)PAs which is expected to facilitate greater competition in the power generation (and related water) sector and providing a transparent framework for the continued operation of plants coming to the end of their original P(W)PAs.
- OPWP has completed various HR initiatives such as Career Progression Guideline, Succession Plan, Individual Development Plan for key positions, Performance Improvement Plan for Underperformers and Structured Graduate Development Program.

Financial Highlights

OPWP's earnings before tax as per the Regulatory framework stood at RO 1,493K. However, financial accounts continue to be materially affected by changes in the accounting treatment of its Power (and Water) Purchase Agreements in line with recommendations by its auditors to comply with International Accounting Standards. The Tax department finalised the assessments for 2007 and 2008 on an operating lease treatment and stated that the same treatment shall be adopted consistently for later years also unless there is substantial change in the terms of the agreements. Based on the tax department's position, deferred tax liability of RO 4.8M accounted on a conservative basis for 2012 on the presumption that the department may apply finance lease treatment for tax purposes, is reversed in 2013.

OPWP has booked a net profit after tax of RO 3,921K. Since the company continue to have negative equity, dividend is not proposed.

Corporate Governance

It is very important to highlight the fact that the Board is committed to the highest standards of corporate governance. In order to facilitate efficient and effective management, the Audit Committee oversees the internal controls and risk management with the help of independent internal auditors.

I can confirm that there are adequate internal control systems in place within the company to protect the interest of the shareholders and other stakeholders.

CHAIRMAN’S FOREWORD *(continued)*

2014 Key Priorities

OPWP looks forward to 2014 with a number of key priorities and projects being undertaken. Amongst these are:

- Continuous improvement of Quality, Health & Safety and Environment function within the Company.
- Commissioning of Sur IPP with a capacity of 2000 MW.
- Commissioning of 10 MIDG Desalination Plant at Barka I.
- Issuing RFP and signing of PPA for Salalah 2 IPP with a planned COD in early 2017.
- Issuing RFP and signing of PPA for Musandam IPP with a planned COD by end of 2016.
- Issuing RFP and signing of PPA for Qurayyat IWP with a planned COD by mid-2017.
- In addition, OPWP will be continuing its strategic intent to build a sustainable Omani led organisation by implementing Succession Plans, Personal Development Plans and Graduate Development Program.

I would like to express my sincere gratitude to the Members of the Board of Directors, Executive Management and Company employees whose commitment and dedication have enabled us to have yet another successful year. I am confident that their relentless hard work will continue driving the success for the year 2014. I would also like to thank the Electricity Holding Company, Public Authority for Electricity and Water, Authority for Electricity Regulation and other affiliated Government agencies and sector companies for their on-going support. I would like to extend my appreciation to our generators and customers for their contribution to our accomplishments this year.

Finally on behalf of the Board Members, the Executive Management and the Company Staff, I take this opportunity to confirm our utmost allegiance and devotion to His Majesty Sultan Qaboos Bin Said and His Majesty’s Government for their continuous guidance and relentless support in pursuance of the development and improvement of both the Electricity and Water Sectors in the Sultanate.

Saud Bin Nasser Al Shukaily
Chairman

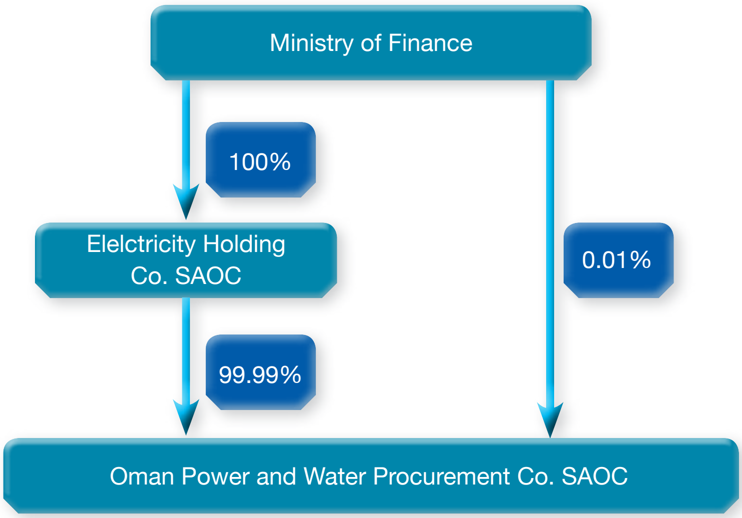
COMPANY PROFILE

Shareholders' Structure

Oman Power and Water Procurement Company (SAOC) (OPWP) was established as a closed joint stock company (SAOC) in 2003. The Law for the Regulation and Privatization of the Electricity and Related Water Sector (the Sector Law) issued by Royal Decree no. (78/2004) states the functions and duties of the Company. The Transfer Scheme issued pursuant to the Sector Law gave effect to the transfer of electricity and related water activities from the Ministry of Housing, Electricity & Water (MHEW) to the newly established companies in accordance with the functions set for each company. The Transfer Scheme came into effect from 1 May 2005.

The Company was formed with a capital of R.O. 500,000 (Five Hundred Thousand Omani Rials) divided into five hundred thousand shares, each with a nominal value of one Omani Rial. The company is wholly owned by the Government of the Sultanate of Oman with 99.99% of the Company's shares held by the Electricity Holding Company on behalf of the Government and 0.01% held directly by the Ministry of Finance.

Figure 1 Shareholder's structure



Licence

Article (74) of the Sector Law specifies the functions and duties of the Company as follows:

1. To secure Production Capacity and Output to meet all reasonable demands for electricity in the Sultanate of Oman in coordination with the Rural Areas Electricity Company.
2. To secure the production of Desalinated Water according to the maximum limit consistent with the Economic Purchase of Production Capacity and Output of Electricity and Desalinated Water.
3. To cooperate with the Rural Areas Electricity Company in respect of forward planning for reasonable demand for electricity and New Capacity required thereof.
4. To secure the procurement of Ancillary Services, when and in the manner required, in coordination with the Oman Electricity Transmission Company.
5. To make Bulk Supply of Desalinated water to the Water Department of Public Authority for Electricity and Water (PAEW) in accordance with an agreement concluded for this purpose in which the consideration, conditions, and terms for such Bulk Supply are specified, and to secure the sale of de-mineralized water to other Persons.

COMPANY PROFILE *(continued)*

6. To make Bulk Supply of electricity to licensed Suppliers in consideration of a Bulk Supply Tariff and to secure adequate supplies of electricity is available to Licensees to enable them to meet all reasonable demand for electricity.

7. To import or export electricity in accordance with the provisions of Article (114) of the Sector Law.

8. To meet the requirement for new capacity which the company strives to be designed, constructed, financed, owned and operated by local and foreign investors.

9. The company shall in all cases abstain from discrimination or partiality, without due legal justification, between Persons, and comply with the general policy of the state when undertaking the functions assigned to it pursuant to the Sector Law particularly those relating to the price and use of fuel.

10. The purchase, procurement, and management of Production Capacity and Output, Ancillary Services and all goods and other services shall be on the basis of Economic Purchase.

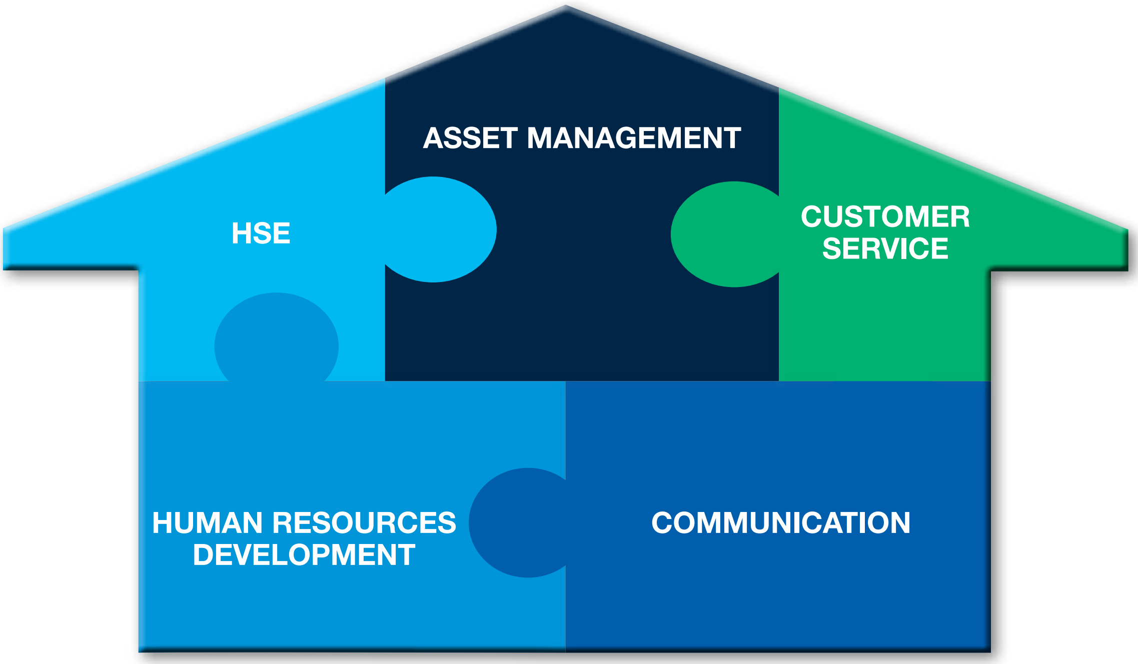
11. To issue instructions to the Salalah Project Company for the transfer of its System assets to the Electricity Holding Company on the termination or expiry of the Concession Agreement.

COMPANY STRATEGY

EHC Group Business Strategy and Shared Values

The Company Business strategy has been formulated and was aligned with the EHC Group Business Strategy, which focuses on five key elements as illustrated below. Similarly the Company embraces the shared values of EHC group.

Figure 2 EHC Group Business Strategy



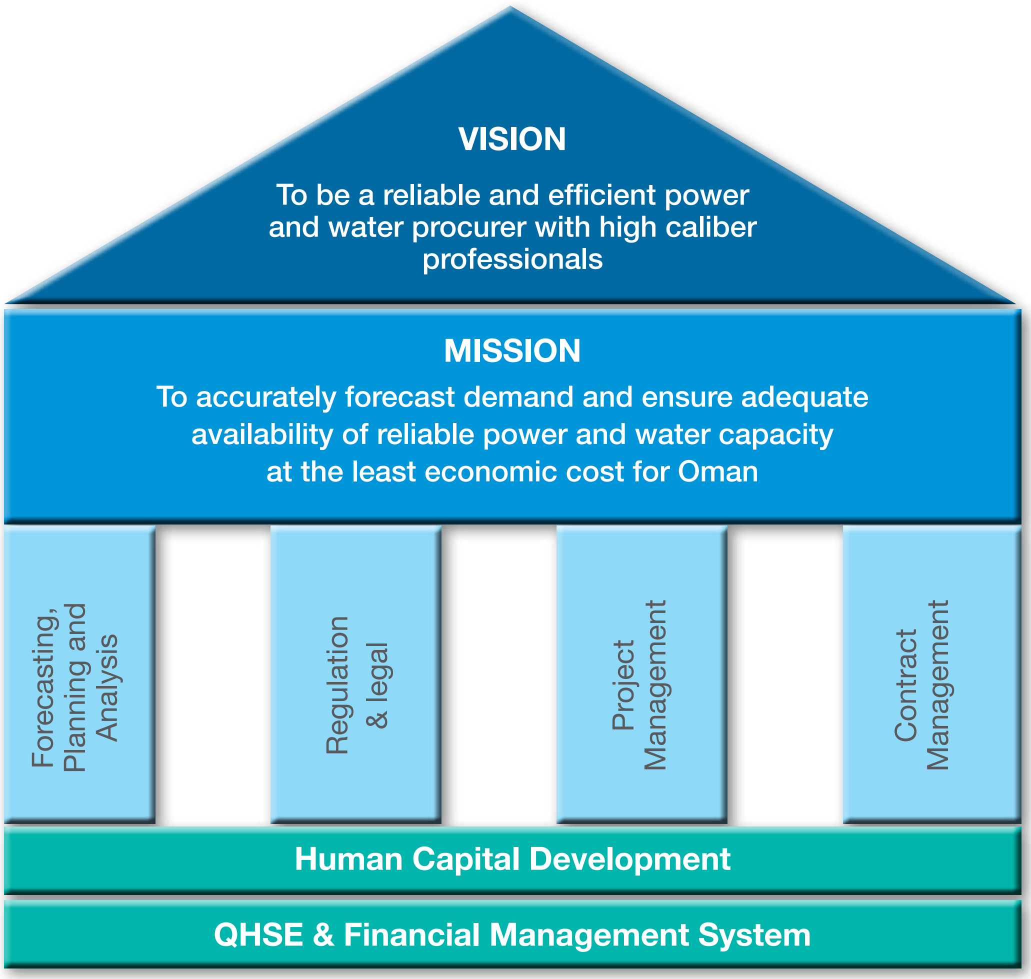
EHC Group Shared Values

Figure 3 EHC Group Shared values

COMPANY STRATEGY *(continued)*

Vision and Mission Statements

Figure 4 Vision and Mission statements



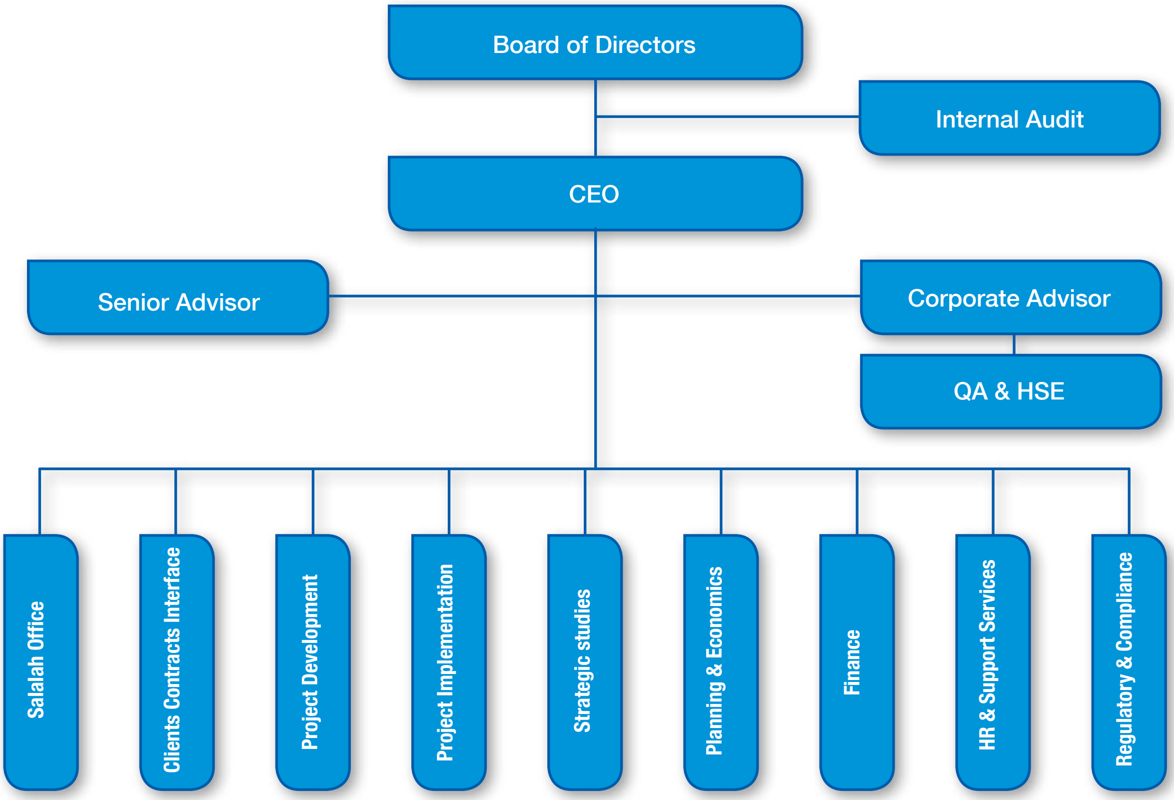
Business Objectives

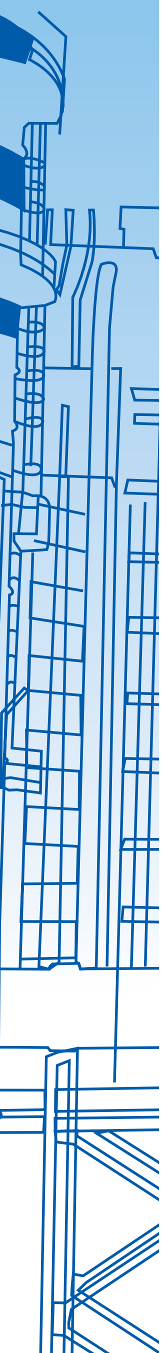
- Planning for Electricity and Water Generation resources/ facilities.
- Efficient project development and project implementation of power and water desalination plants towards achieving the Commercial Operational Date.
- Efficient management of Power and Water Purchase Agreements (P(W)PA).
- Development of wholesale electricity market
- Perform duties to the highest standards of quality and in accordance with the applicable statutory and regulatory requirements.
- To instil culture of Quality, Health, Safety and Environment.

BUSINESS FUNCTIONS

The Company structure

Figure 5 Company Structure





BUSINESS FUNCTIONS *(continued)*

Core Functions

Strategic Studies

The Strategic Studies department is responsible for conducting studies to determine the medium and long-term direction of OPWP's power and water procurement activities, consistent with the Government's economic strategy and policy objectives. The conclusions of these studies feed into the detailed planning maintained by the Planning & Economics department, and into new projects to be taken forward by the Project Development department.

Planning & Economics

The Planning and Economics department is responsible for forecasting demand for electricity, planning for new capacity and output to meet the generating security planning standard as set out in the OPWP licence, forecasting gas requirements, as well as determining and publishing the Bulk Supply Tariffs for Electricity and Water.

Project Development

The Project Development department is responsible for developing the project requirements of power generation and desalination capacity, conducting "fair and transparent" competition open to local and foreign investors for the supply of such capacity and ensuring that all relevant contracts are in place.

Project Implementation

The Project Implementation department is responsible for ensuring that all the company's projects are delivered on time to meet COD. This involves managing the P(W)PAs during their initial phase of project build and ensuring that key milestones are achieved.

Clients Contracts & Interface

The CCI department manages all P(W)PAs and serves as the main contact point for all existing generators. It is responsible for maintaining business relationships with all our key suppliers and clients. In addition, it has the responsibility for ensuring that monthly invoices submitted to the company are in accordance with the P(W)PAs and managing Oman-UAE 220 kv Interconnector commercial transactions in accordance with PSPA.

Support Functions

Finance

The finance department oversees the accounting and finance functions of the company. It is responsible for ensuring that the company maintains adequate cash-flows to meet contractual obligation and production of statutory and regulatory accounts to meet its legal and licence conditions.

Legal and Regulatory

Legal and Regulatory support ensures that the company is fully compliant with licensing conditions and all legal requirements of the business. In addition, the department also manages any legal matters related to P(W)PAs as well as resolving the pending disputes arising out of the P(W)PAs and/or NGSA with the counterparties.

Human Resources & Support Services

The HR Department's key responsibility is to focus on HR issues such as recruitment, training & development, omanisation policy and initiatives, payroll and employee performance. In addition, it overseas administration, document control and IT function.

BUSINESS FUNCTIONS *(continued)*

Quality & HSE

The role of the department is to ensure that the Quality Management System is effectively implemented in the company complying with the requirement of ISO 9001:2008. The department monitors the internal business processes by conducting quality audit, identify non-conformance and improvement opportunities. Further, it covers the process mapping and improvement of the processes within the Company for better efficiency and effectiveness.

In addition, it is responsible to ensure that the culture with respect to the HSE is embraced company wide.

Salalah Branch

The Salalah Branch of OPWP was established to manage the Concession Agreement between the Dhofar Power Company (DPC) and the company. The Concession Agreement outline certain performance standards that need to be met, as well as providing the mechanism by which DPC is compensated. OPWP administered this process in accordance with its Licence, to ensure that proposed investments are appropriate and cost effective. The Salalah branch was closed on 31st December 2013 due to the restructuring of Concession Agreement.

BUSINESS REVIEW

2013 Significant Achievements

During 2013 the Company was engaged in a number of key projects including the new water capacity, supervision of construction of new power capacity and working on key strategic initiatives. Below the summary of key projects:

Barka III and Sohar II IPPs

Barka III (Al Sawadi Power Company) and Sohar II (Al Batinah Power Company) IPPs achieved their Commercial Operation Dates within the first week of April 2013. This was a remarkable achievement and the projects contributed a total combined generation capacity of 1488 MW for summer 2013. These projects feature first Siemens F-class gas turbines. Each plant has two SGT5-4000F gas turbines, one SST5-5000 steam turbine, three SGen5-2000H generators and various other electrical equipment. These projects contributed significantly in overall gas utilization efficiency and will underpin sustained progress in the management of gas demand by the power system.

Restructuring of Concession Agreement

2013 has seen the successful re-structuring of Dhofar Power Company and the Salalah concession agreement and the unbundling of assets leading to the formation of separate Generation, Distribution and Transmission entities which will be effective from January 2014. Generation will be the responsibility of the Dhofar Generation Company.

BUSINESS REVIEW *(continued)*

Temporary Generation for the Year 2013

During the 2013 OPWP successfully contracted a total capacity of 101 MW of temporary diesel generating units installed at two locations in the Main Interconnected System (MIS) to provide system support. This was necessary due to construction delays of the Sur IPP early power units.

Land Bank - Coastal Study for Sites

OPWP has conducted an extensive coastal study across the country to identify potential suitable sites for power and water production over the next 30 years. A total of 56 sites have been short listed to now further be evaluated in accordance with relevant authoriy.

New power and water procurement arrangements

The company intends to implement new arrangements for the future procurement of power and water from independent power producers and independent power and water producers in Oman.

The principal features of the proposed new arrangements are:

- the introduction of a “spot market ” for power, to operate alongside and in conjunction with the existing system of power purchase agreements (PPAs) and power and water purchase agreements (PWPAs); and

- The implementation of a more flexible process for the awarding of new PPAs and PWPAs by OPWP, aimed at increasing competition, including between new- build and existing plants.

Al Ghubrah IWP (42 MIGD)

During 2013, OPWP executed Water Purchase Agreement (WPA) with Muscat City Disalination Company related to the development of 42 MIGD disalination facility adjacent to the existing Al Ghubra Power and Disalination Plant.

2014 Key Priorities

Projects under Implementation

Sur IPP

The Sur Power Plant currently under construction is expected to be fully commissioned by the third quarter of 2014, adding a total of 2000 MW to contracted capacity.

10 MIGD Desalination Plant at Barka I

OPWP has contracted with ACWA Power Barka for additional capacity of 45,000 m3/d (10MIGD) using RO technology. Construction was substantially completed by the end of 2013 and is expected to achieve the COD during the second quarter of 2014.

BUSINESS REVIEW *(continued)*

Al Ghubrah IWP (42 MIGD)

Al Ghubrah IWP is owned by Muscat City Desalination Company and currently under construction. The plant has contracted desalination capacity of 191,000 m3/d (42 MIGD) using RO technology. The COD is expected to be achieved by first quarter of 2015.

Under the changes to the Sector law (RD 47/2013) this project is the first to be classified as a project of "Special Nature" and will be fully regulated as a licensed entity by the Authority of Electricity Regulation (AER), Oman.

2014 Temporary Capacity:

Steps are being taken by OPWP to mitigate the impact of any delays to the completion of the Sur IPP project by examining options of securing capacity on a temporary basis for summer 2014. A final decision will be made during the first quarter of 2014.

Projects under Development

Salalah II IPP

OPWP completed Request for Qualifications evaluation for the Salalah 2 IPP in February 2013 and announcements of pre-qualified bidders is expected early 2014. As part of the Salalah II IPP competition process, the Dhofar Generating Company (DGC) will be privatized and sold to the winning bidder. The Request for Proposals will be launched early 2014. Electricity will be purchased by OPWP under a 15-year Power Purchase Agreement (PPA).

Musandam IPP

Musandam IPP has been held following a change to the direct procurement of the power stations by the Developer. An open competition for an EPC contract was launched and pre-qualification of EPC contractors completed in March 2013. The EPC contract was released by the Developer to the market in December 2013. The anticipated SCOD is now 4th Quarter 2016. The project will be contributing around 100 MW of power generation capacity under a 15-year PPA.

Qurayyat IWP

OPWP is planning to issue the RFP is Q1 2014 and sign an agreement with the shortlisted bidder leading to a planned SCOD in March 2017 under a 20-year WPA.

Suwaiq IPP and IWP

Following early recommendations of the coastal study, a short list of sites including Ibri, Sohar and Suwaiq are being investigated to establish a suitable location for up to 2850 MW of new power capacity and 50 MIGD of new water capacity. Power capacity is needed in two tranches of 740 MW for 2017 and a minimum addition of 1860 MW for 2018. The added capacity leading to the 2850 MW is required to complete through 2018. It is planned to use natural gas fuel and procure capacity and output under a 15-year PPA.

Water is planned to be located on the coast in Sohar provided land can be made available. The planned capacity of the 50 MIGD is to be available by July 2018 under a 20-year Water Purchase Agreement (WPA)

Duqm IWP

PAEW has requested OPWP to initiate procurement for a new IWP of capacity 30,000 m3/d (7 MIGD), to be completed in the fourth quarter of 2017. This request was made in anticipation of a requirement to meet the industrial water requirements of Ad Duqm as well as non-industrial requirements, prior to Royal Decree 79/2013. It is expected to be clarified in 2014 whether PAEW will be responsible for the industrial water demands, whether OPWP will proceed with the IWP procurement, and if so, the capacity requirement for the plant.

Solar Power Project

PAEW conducted a feasibility study on the preparation for the country’s first large scale renewable energy project with net power output ranging from 100 MW to 200 MW. Progress of the project remains on hold and stands ready to progress this project once the go ahead from government is received.

OPWP has completed the repairs to the solar meteorological stations and the dust monitoring stations and continues to manage solar data collection. OPWP is publishing the solar data on the OPWP website which shows good results slightly ahead of the predicted solar insolence from satellite imagery.


MicroStep-MIS

FINANCIAL HIGHLIGHTS

OPWP is counterparty to various long-term take-or-pay power and water purchase agreements. Under the IFRS, these long term contracts are treated as leases and require recognising the cost based on the lease classification – finance or operating –as per IAS17. The regulatory framework recognises the contractual payment obligations under PPA/PWPA's as cost and allows for its recovery under the price control.

In the financial statements, OPWP recognises the revenue as per the price control which is based on the payment obligations approach and the cost is recognised based on the lease accounting. The loss in the income statement and accumulated losses in the balance sheet is purely due to the mismatch in the basis of accounting revenues and costs. The below chart reflects the profitability and equity positions measured on the basis of the two framework. In 2013, the company made a net profit before tax of RO 1,493K when accounted under the regulation accounting. However, under the IFRS framework, the statutory financial statements reflect a net loss before tax of RO 1,090K.

Figure 6 Profit before Tax

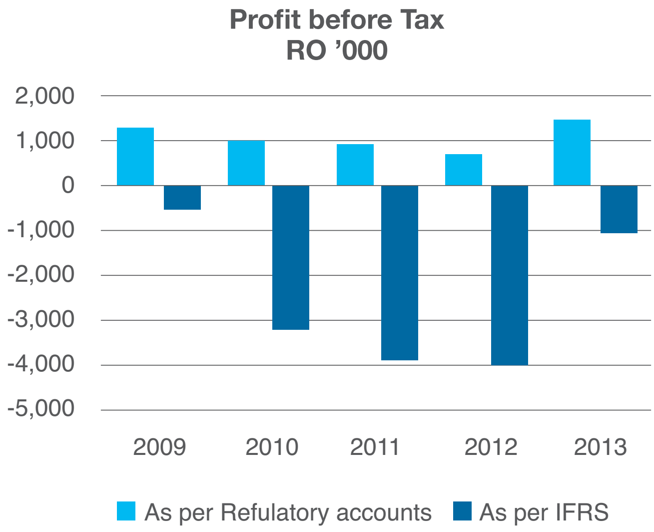
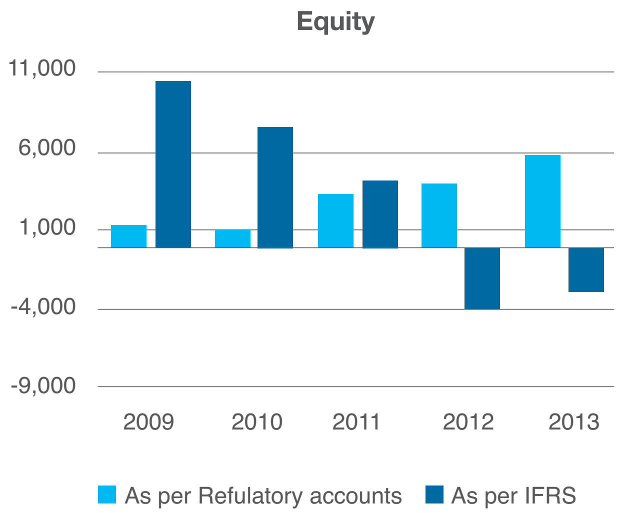


Figure 7 Equity



FINANCIAL HIGHLIGHTS *(continued)*

Regulatory framework:

Table 1 Where the money comes from

RO '000	2013	2012
Bulk Supply Revenue (Power)	342,805	266,412
Bulk Supply Revenue (Water)	93,989	86,443
Other Revenues (Other)	1,518	1,313
Subsidy from MOF (Salalah subsidy)	30,457	48,197
Total	**468,769**	**402,365**

Figure 8 Sources of cash inflow

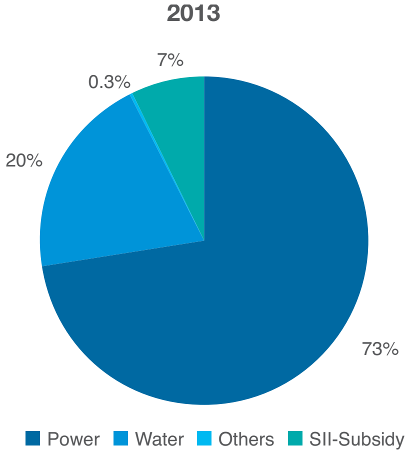
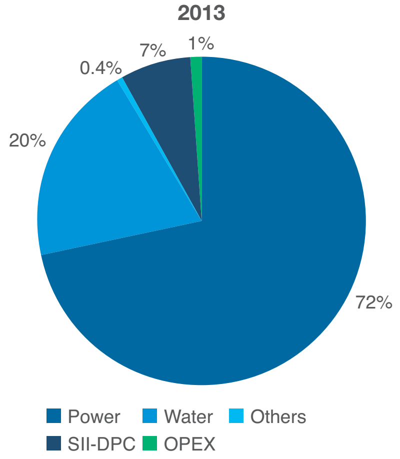


Table 2 Where the money goes

	2013 RO '000	2012 RO '000
Power purchase (Power)	338,252	281,489
Water purchase (Water)	92,904	85,441
Other Cost (Others)	1,938	2,283
Cost sharing to DPC (SII-DPC)	30,146	27,713
OPEX	4,036	4,648
Total	**467,276**	**401,573**

Profit before Tax	1,493	792
Loss before Tax (As per financial statement)	(1,090)	(3,995)

Figure 9 Application of cash



Credit ratings:

The current credit ratings of OPWP, as rated by the two leading rating agencies in 2013, are:

Standard and Poor's Ratings Services - 'A/Stable'
Moody's Investor Services - 'A1/Stable'

The credit rating agencies understand the issues regarding the IAS17 treatment of P(W)PAs in the accounts of OPWP and conclude that these do not have any effect on the company's ability to meet its obligations . A copy of the rating reports is available in OPWP's website.

OPERATIONAL HIGHLIGHTS (as per Regulatory framework)

Procurement Business – Electricity

Table 3 Procurement Business – Electricity

Main Interconnection system (MIS)	Units	2013	2012	Variance
Units Purchased	GWh	22,702	21,618	5%
Total Cost	RO' 000	290,493	245,561	18%
Average Cost per MWh	RO	12.796	11.359	13%
Bulk Supply Revenue (Net)	RO' 000	317,299	24,9571	27%
BSR per MWh	RO	13.976	11.545	21%

Higher consumer demand has led to 5% increase in the number of units purchased. This increase in demand was recorded across all the supply businesses Muscat (2.5%), Mazoon (8.4%) and Majan (5.2%). However, the new capacity of about 1,488 MW from Barka III and Sohar II in 2013 , resulted in increased capacity payments and increase in average cost per MWh by 13%. The revenue of OPWP is regulated and determined based on cost plus formula, the increase in the average cost resulted in increase in BSR per MWh.

Procurement Business – Water

Table 4 Procurement Business- Water

	Units	2013	2012	Variance
Water purchased	000 m3	193,562	167,675	15%
Total Cost	RO' 000	92,904	85,441	9%
Average Cost per m3	RO	0.480	0.510	-6%
Bulk Supply Revenue (BSR)	RO' 000	93,989	86,443	9%
BSR per m3	RO	0.486	0.516	-6%

Higher consumer demand led to 15% increase in water purchased. The increased volume resulted in better utilisation of available water production capacity and lower average costs and BSR per m3 compared to 2012.

Salalah Business - Electricity

Table 5 Salalah Business - Electricity

Salalah Power System	Units	2013	2012	Variance
Units Purchased	GWh	2,472	2,269	9%
Total Cost	RO' 000	61,840	52,108	18%
Purchase Cost per MWh	RO	18.906	22.962	-18%
Cost Sharing charge to DPC	RO' 000	30,146	27,713	9%
Cost Sharing charge per MWh	RO	12.196	12.212	0%

The consumer demand for Salalah region is higher by 9% over 2012 and key driver for an increase in purchase cost by 18% is largely due to full year capacity charge for Salalah New IWPP in 2013.

OPERATIONAL PERFORMANCE

Procurement and Bulk Supply arrangements:

OPWP purchases electricity and desalinated water in accordance with the Power Purchase Agreements (PPAs) and Power and Water Purchase Agreements (PWPAs) with various generators and desalination companies. These agreements are generally for a period of 15 years.

Table 6 Long Term Power & Water Purchase Agreements

Plant	Type	Status	Contract Start	Contract expiry	Power Capacity (net MW)	Water (MIGD)
Al Ghubrah Power and Desalination Co.	PWPA	Operational	2005	2018	475	40
Rusail Power Co.	PPA	Operational	2005	2022	687	
Wadi Al-Jizzi Power Co.	PPA	Operational	2005	2020	245	
United Power Co.	PPA	Operational	1996	2020	273	
Al Kamil Power Co.	PPA	Operational	2002	2017	297	
ACWA Power Barka	PWPA	Operational	2003	2018	450	30*
Sohar Power Co.	PWPA	Operational	2007	2022	590	26
SMN Barka Power Co.	PWPA	Operational	2009	2024	710	33
SembCorp Salalah Power and Water Company	PWPA	Operational	2012	2027	445	15
Al Batinah Power Co.	PPA	Operational	2013	2028	744	
Al Suwadi Power Co.	PPA	Operational	2013	2028	744	
Phoenix Power Co.	PPA	Under Construction	2014	2029	2,000	
Muscat City Desalination Plant	WPA	Under Construction	2014	2034		42
Dhofar Generation Company	PPA	Operational	2014	2029	273	

*10 MIGD Under construction

Table 7 Key operational parameters - 2013

Plant Owner	Power (GWh)	Power Utilisation (%)	Water (MCM)	Water Utilisation (%)	Gas Qty (MSCM)
Al Ghubrah Power and Desalination Co.	2,514	74.6%	50	81.9%	1108
Rusail Power Co.	3,459	60.3%			1168
Wadi Al-Jizzi Power Co.	471	21.6%			163
United Power Co.	1,194	53.7%			400
Al Kamil Power Co.	1,672	70.4%			545
ACWA Power Barka (Barka I)	2,372	63.4%	32	95.4%	673.4
Sohar Power Co. (Sohar I)	3,538	69.0%	50	91.0%	919.9
SMN Barka Power Co. (Barka II)	650	11.0%	44	99.4%	346.9
SembCorp Salalah Power and Water Company	1,860	47.7%	17	67.3%	482.5
Al Batinah Power Co. (Sohar II)	3,105	54.2%			589
Al Suwadi Power Co. (Barka III).	3,029	51.5%			586

Procurement and Sale of Power and related water during 2013

Figure 10 Procurement and Sale of Power and related water during 2013- MIS

Generation Companies	Purchase
Al Rusail	3,459 GWh
Wadijizzi	471 GWh
Manah	1,194 GWh
Al Kamil	1,672 GWh
Sohar II	3,105 GWh
Barka III	3,029 GWh
Sur	140 GWh
Others	558 GWh
Al Ghubrah	2,514 GWh 50 MCM
Barka I	2,372 GWh 32 MCM
Sohar I	3,538 GWh 49 MCM
Barka II	650 GWh 43 MCM

→

OPWP
Total Power 22,702 GWh
Total Water 174 MCM

→

Bulk supply	
Muscat Electricity	9,071 GWh
Mazoon Electricity	6,881 GWh
Majan Electricity	6,750 GWh
PAEW	174 MCM

Figure 11 Salalah- Procurement and Sale of Power and Water during 2013

Generation Companies	Purchase
NPS (DPC)	620 GWh
Salalah IWPP	1,860 GWh 17 MCM

→

OPWP
Total Power 2,480 GWh
Total Water 17 MCM

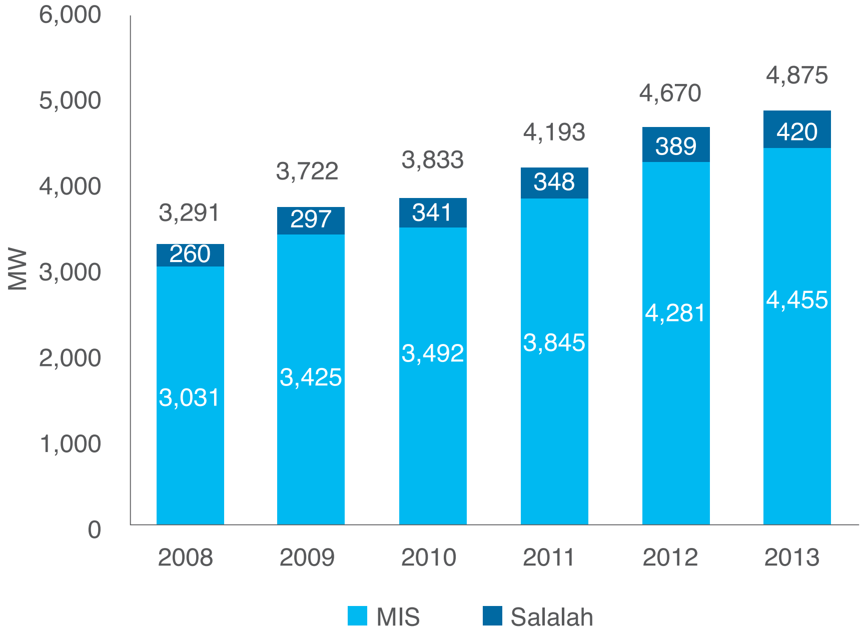
→

Bulk supply	
DPC (Supply)	2,480 GWh
DGW	17 MCM

OPERATIONAL PERFORMANCE *(continued)*

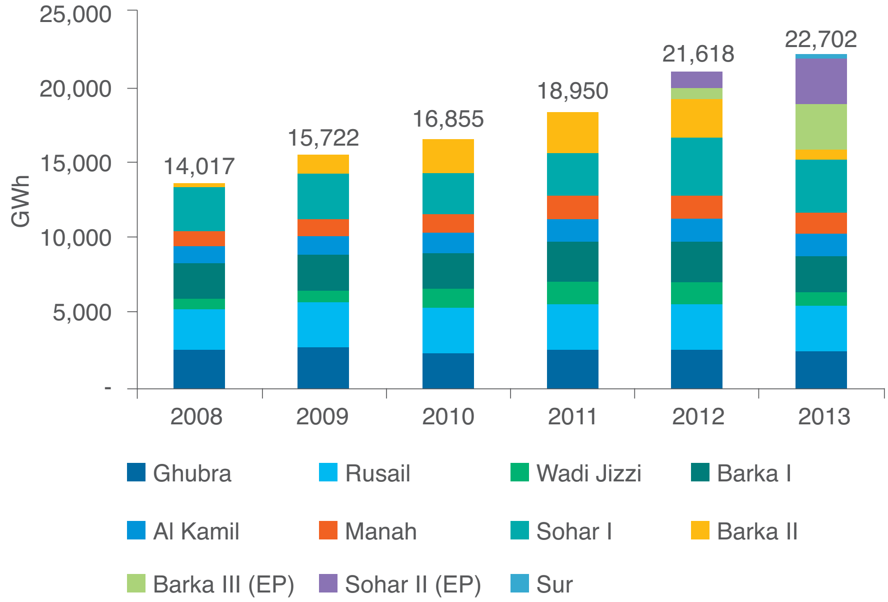
Electricity Demand and Generation Resources (2008 to 2013)

Figure 12 Power Peak Demand in MIS and Salalah (2008-2013)



The peak demand in the MIS has increased from 3,031 MW in 2008 to 4,455 MW in 2013 with an average annual growth rate of about 6.6%, and for Salalah increased at an annual average growth rate of 8.30%.

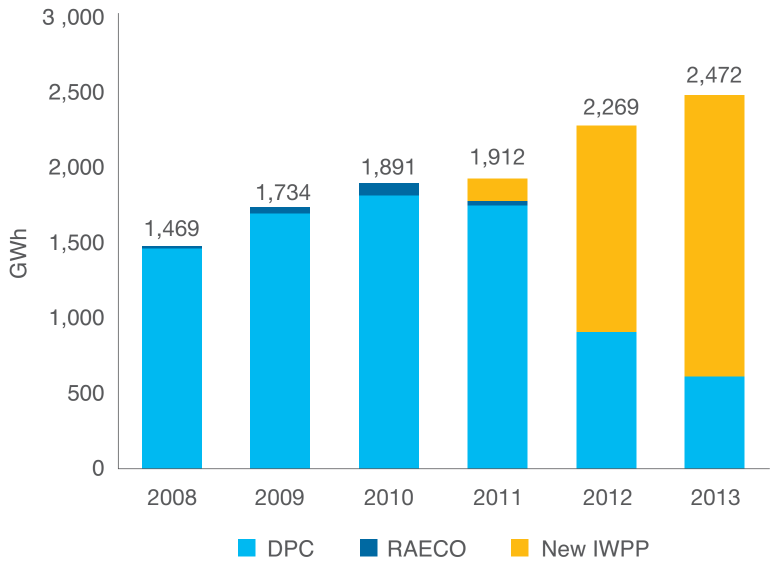
Figure 13 Electrical Energy Delivered to MIS (2008-2013)



The figure shows an increase in electrical energy at an average annual growth rate of 9% during 2008 -2013. In 2013, early power from Sohar II and Barka III contributed to meet the increase in demand.

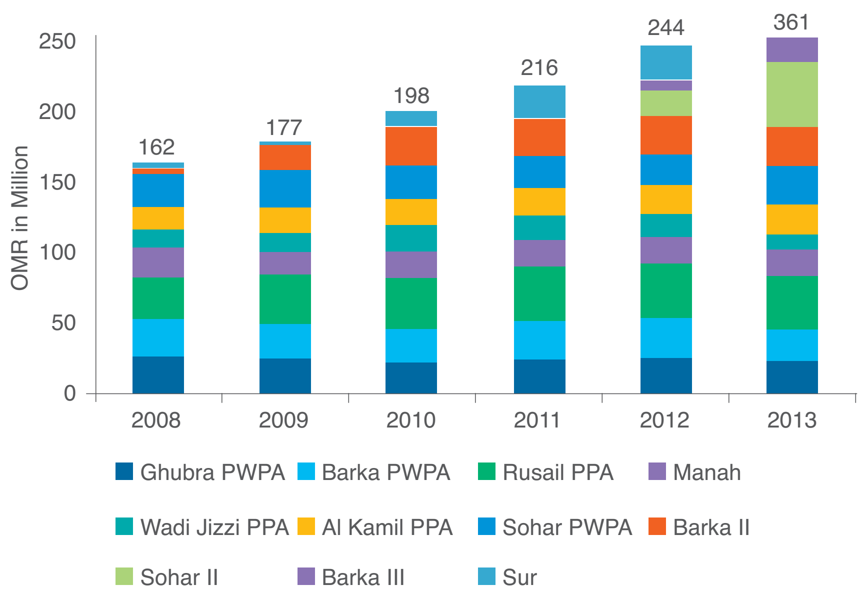
OPERATIONAL PERFORMANCE *(continued)*

Figure 14 Electrical Energy Delivered to Salalah System (2008-2013)



The figure shows an increase in electrical energy at an average annual growth rate of 11% during 2008 -2013.

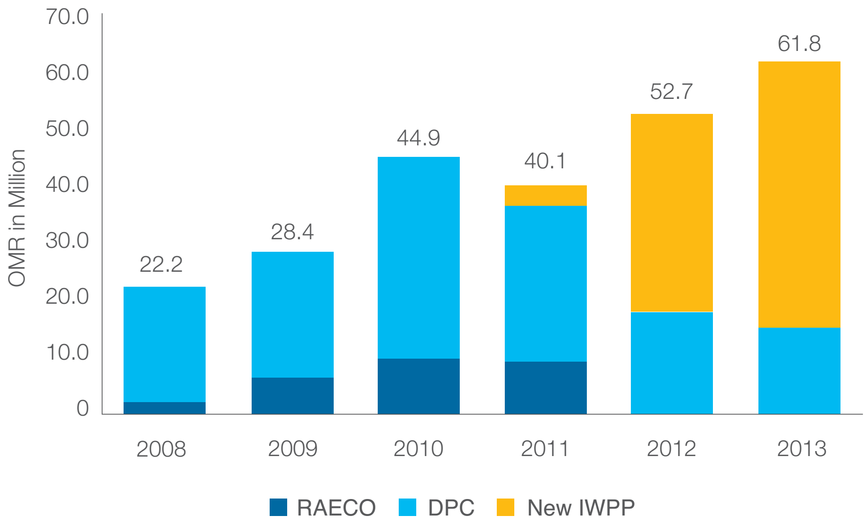
Figure 15 Power purchase cost (MIS)



The total energy purchased cost is increased at an average annual rate of 11.28%

OPERATIONAL PERFORMANCE *(continued)*

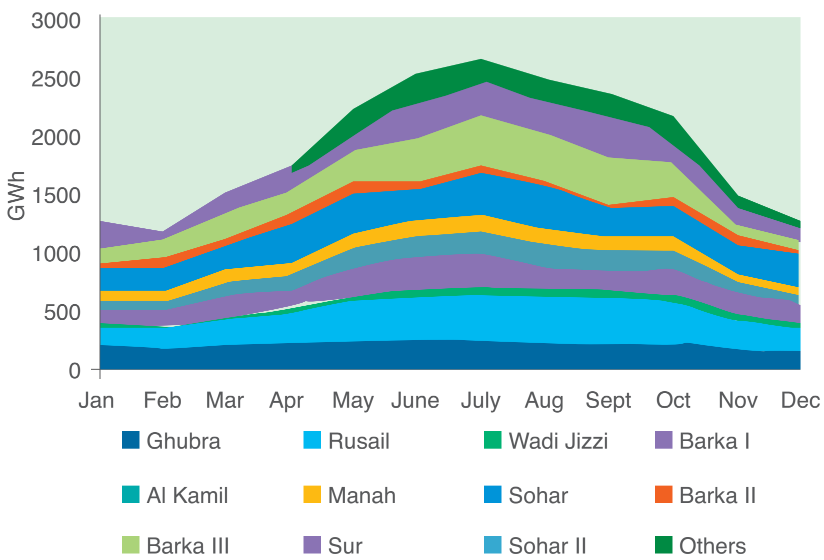
Figure 16 Power purchase cost (Salalah system)



The total energy purchased cost is increased at an average annual rate of 22.7%.

Year over Year Performance of Power Generation Resources

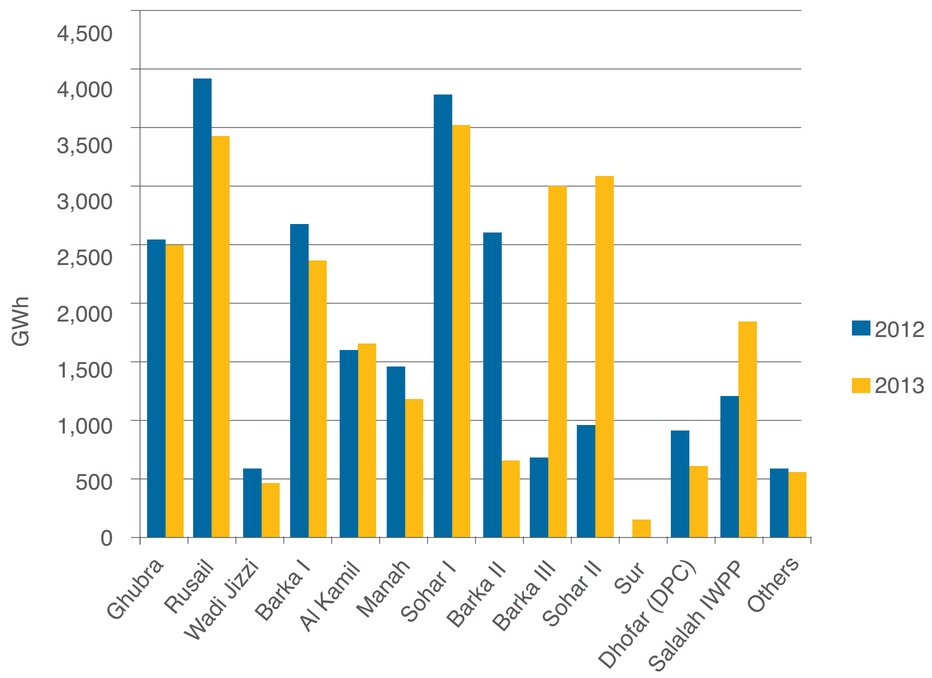
Figure 17 Energy demand profile - 2013 (MIS)



The electricity demand is seasonal in nature and peak requirement in July is more than twice the energy required in January.

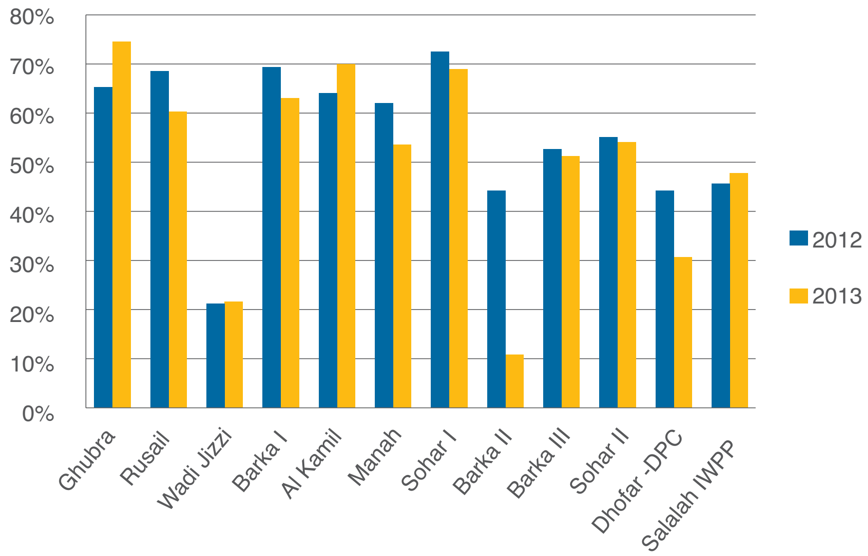
OPERATIONAL PERFORMANCE *(continued)*

Figure 18 Energy purchased



The figure shows the share of energy purchased in the MIS. The commercial operation of two new plants (Barka III and Sohar II) has reduced the energy purchase from relatively inefficient plants like Rusail, Barka I, Manah. Similiarly in Dhofar region, efficiend Salalah new IWPP is utilised more than DPC.

Figure 19 Plant utilization

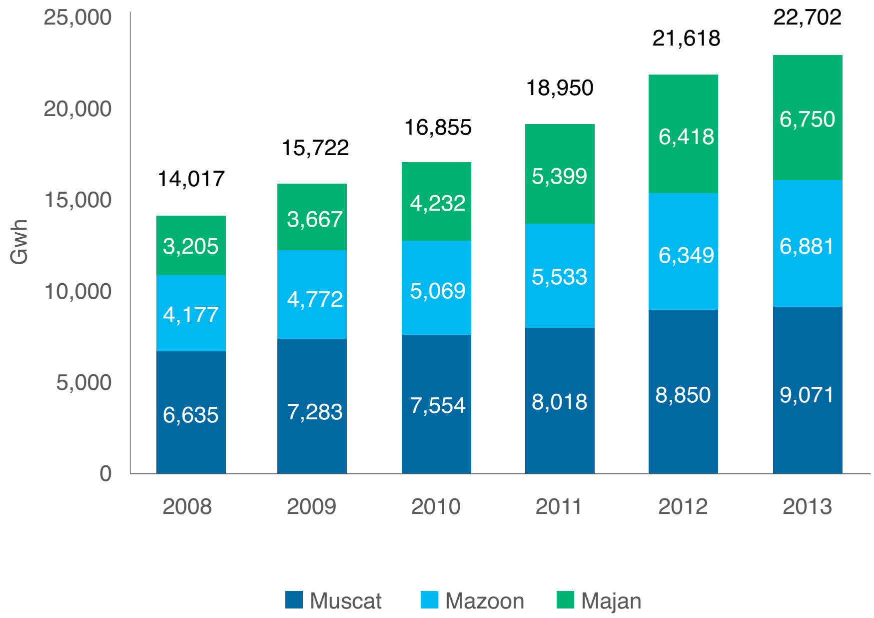


The utilization of plant capacity is generally lower due seasonal demand pattern which results in idle capacity during winter months. The early power from Barka III and Sohar II reduced utilisation of relatively inefficient old plants like Manah and Al Kamil.

OPERATIONAL PERFORMANCE *(continued)*

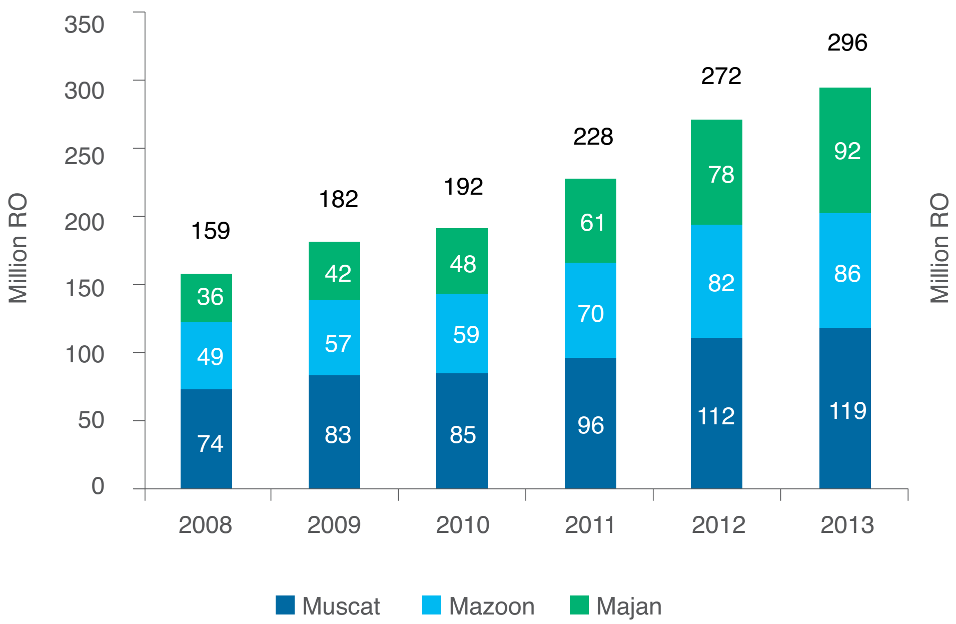
Electricity Bulk Supply Statistics

Figure 20 Yearly Bulk Supply Quantity



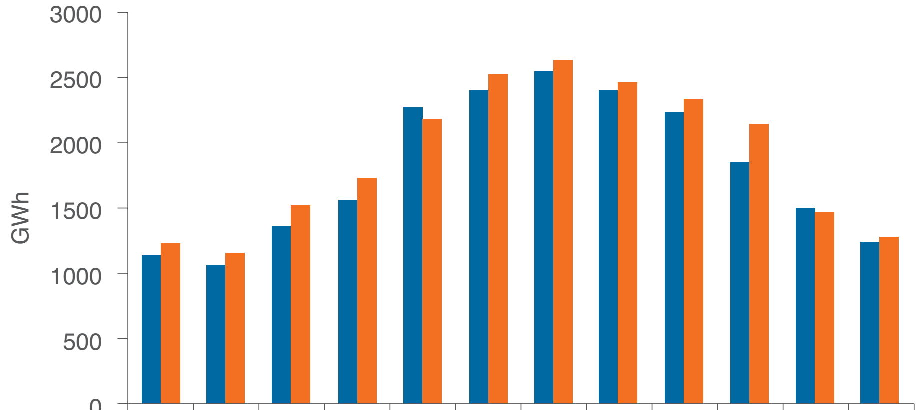
The average annual growth in bulk supply of power is 10% over last five years. Largely due to rapid growth of non-residential customers such as commercial, industrial, government and infrastructure facilities.

Figure 21 Yearly Electricity Bulk Supply Charges - MIS



The average annual growth in bulk supply charge is 13.3% over last five years as against 10% growth in quantity (please see above figure) and the key driver for increase is addition of new capacity to meet the growing demand.

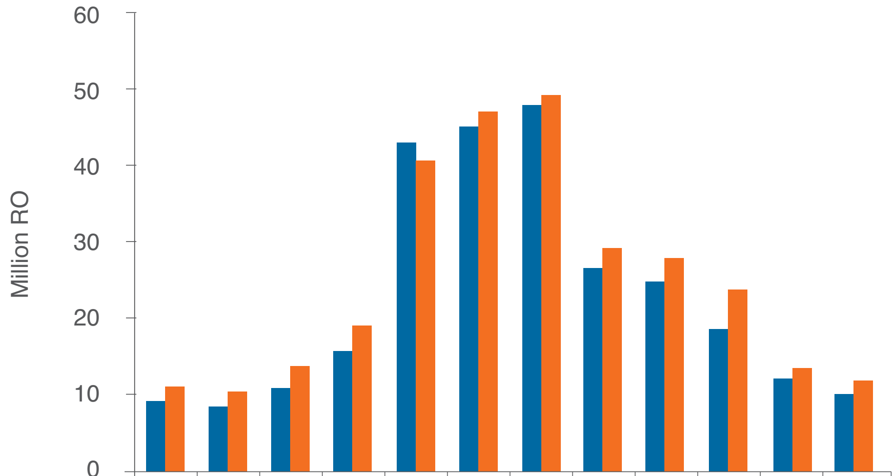
Figure 22 Monthly Electricity Bulk Supply Quantities - MIS



	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
2012	1,138	1,067	1,357	1,574	2,283	2,405	2,555	2,410	2,239	1,848	1,488	1,253
2013	1,235	1,157	1,514	1,731	2,190	2,523	2,642	2,465	2,345	2,148	1,470	1,284

The bulk supply quantity increased by about 5% over 2012.

Figure 23 Monthly Electricity Bulk Supply revenue - MIS

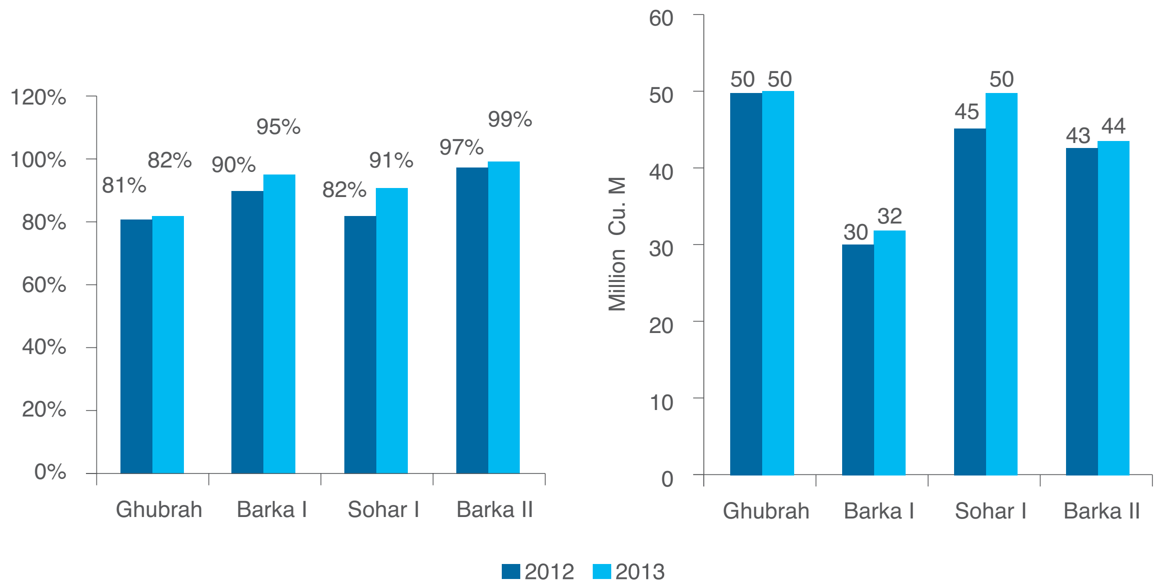


	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
2012	9	9	11	16	43	45	48	26	25	18	12	10
2013	11	10	14	19	41	47	49	29	28	24	13	12

The figure reflects the monthly bulk supply charges to the licensed suppliers. The maximum monthly charge of electricity supplied was in July this year.

OPERATIONAL PERFORMANCE *(continued)*

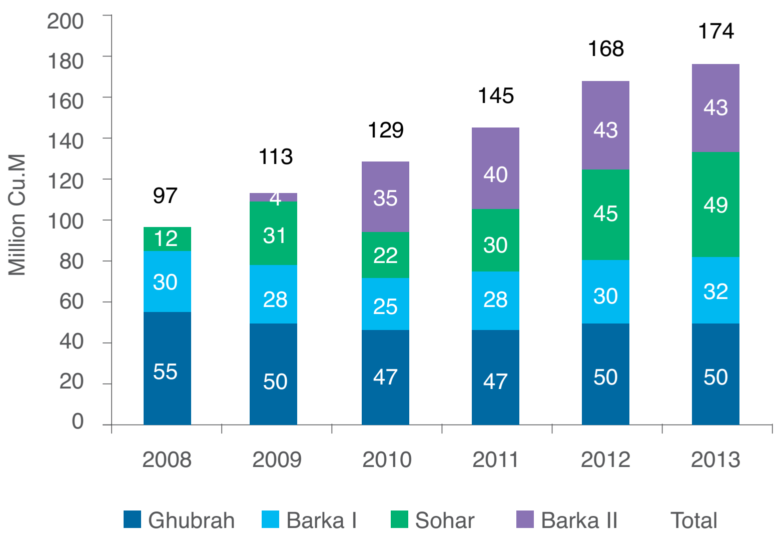
Figure 24 Plant utilization and share of water purchased



The increase in water demand has led to the increase in utilization of plants.

The Sohar registered increase in water by 10% whereas other plants have shown marginal increase.

Figure 25 Potable Water Exports (2008-2013)



The water delivered to the PAEW has increased an average annual growth rate of 12.8% during 2008 -2013. The significant increase over last three years is contributed by Sohar and Barka II.

OPERATIONAL PERFORMANCE *(continued)*

Fuel Efficiency:

The primary fuel resource for power generation and associated water production in the MIS is currently natural gas, supplied to power and desalination plants by the Ministry of Oil & Gas. Total gas consumption at the main power and desalination plants in 2013 was about 6.7 billion Sm³, and also as in 2012 the total gas consumption was about 6.7 billion Sm³ , in spite of 5% increase in energy delivered in 2013. The full commissioning of the Sohar II and Barka III plants in 2013 has contributed to achieve significant improvement in overall gas utilization efficiency, as these plants are using newer, more fuel-efficient technology than older plants.

The below figure shows that the Barka III and Sohar II has replaced relatively older inefficient plants like Rusail, Manah, Barka I to meet the energy demand, resulted in the efficient use of gas compared to 2012.

Figure 26 Gas Consumption from 2005-2013

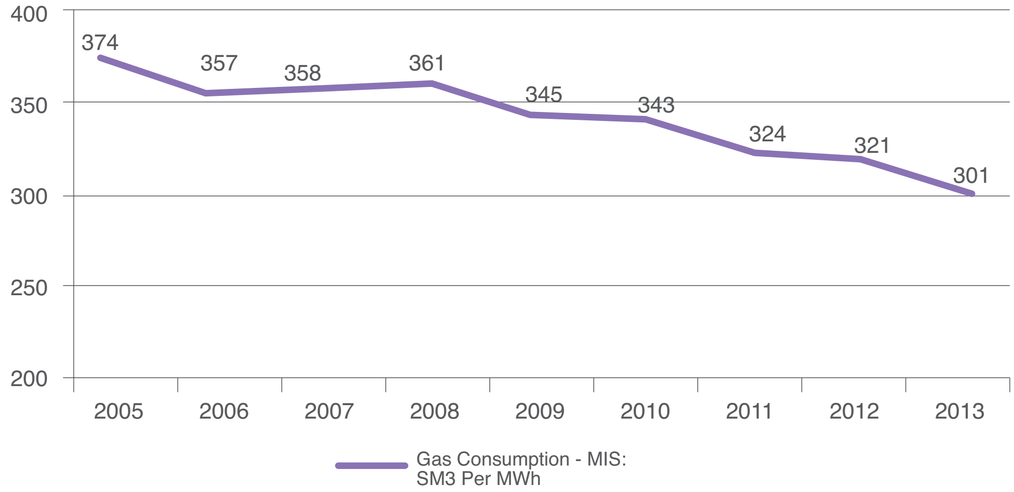
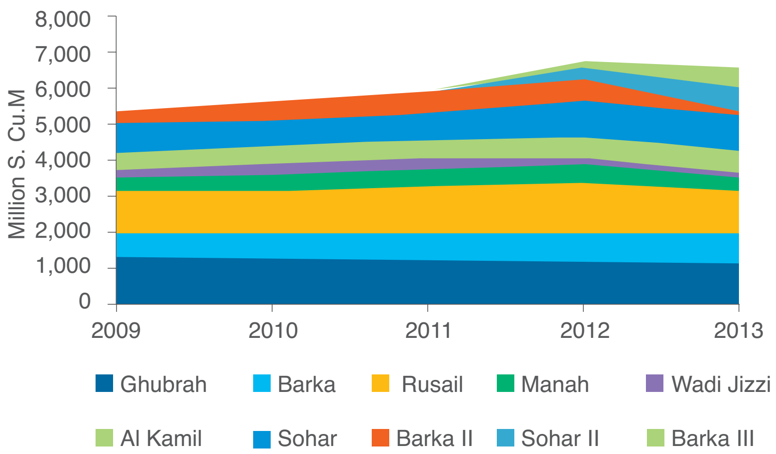


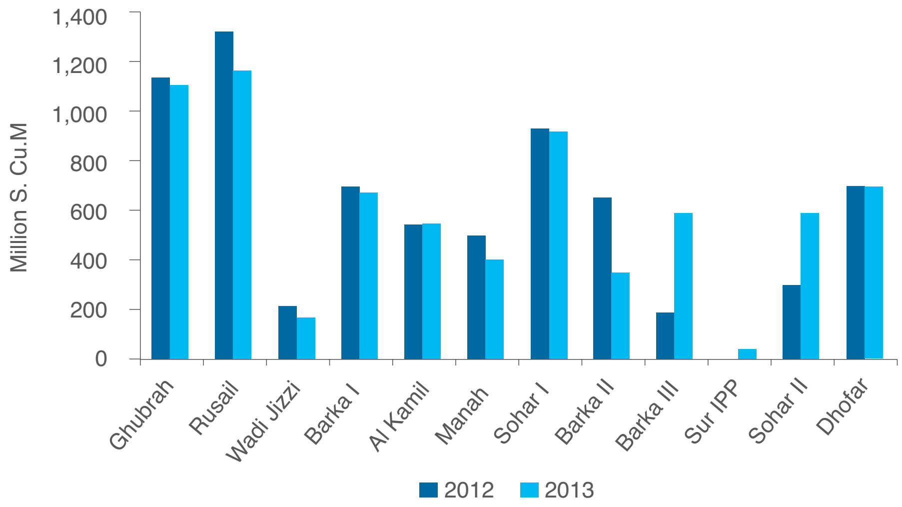
Figure 27 Yearly Gas Consumption (MIS)



The fuel consumption has increased at an average growth rate of 6% over four year period as against increase in average annual energy demand of about 9%. This shows that gas consumption per MWh has reduced over this period.

OPERATIONAL PERFORMANCE *(continued)*

Figure 28 Gas consumption per plant



The increase in total gas consumption was 11.1% against increase in production of power by 11.8 % and water by 15.5%.

QUALITY, HEALTH & SAFETY AND ENVIRONMENT

Continuous improvement of Quality Management System ("QMS") based on ISO 9001:2008 standards through business process mapping, QMS auditing and ensuring continuation of QMS certification by certification body.

On Health & Safety and Environment ("HSE"), OPWP is implementing the relevant key HSE initiatives and complying with QHSE Policies and Standards. OPWP continues to enhance its contractual framework to improve the HSE practices and compliances of Project Company through their construction phases to manage HSE at source.

OUR PEOPLE

Table 8 Number of employees

Number of employees (number)	
2011	56
2012	63
2013	63

The company recruited three Omanis and one expatriate employee during 2013.

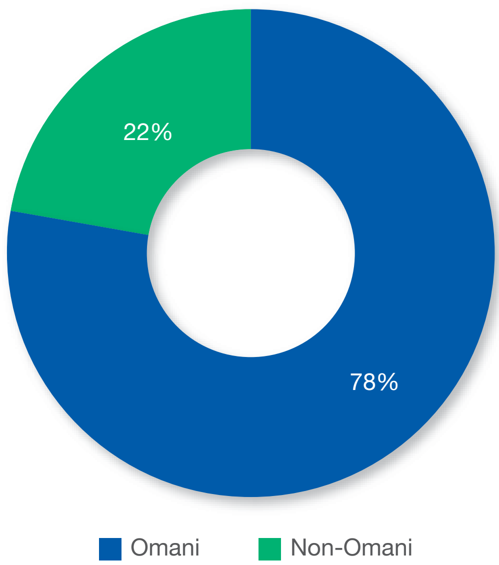
Key Human resources initiatives in 2013

OPWP has completed various HR initiatives such as Career Progression Guideline, Succession Plan and Individual Development Plan for key positions, Performance Improvement Plan for Underperformers and Structured Graduate Development Program. The development of competency framework is in progress.

Training and development

OPWP invests significant resources on training and development of human resources. In 2013, the Company invested about 7.5% of staff cost on the training and development.

Figure 29 Omanisation



CORPORATE GOVERNANCE

The Board of Directors:

The Board of Directors is comprised of five non-executive members appointed by the shareholders. The Chairman of the Board and three other members represent the Electricity Holding Company, and one member represents the Ministry of Finance. The Board has formed the following three committees:

The Audit Committee: The committee observe and study all aspects related to appointment of External and Internal Auditors, review Audit plan and results of the audit, monitoring financial fraud particularly fictitious and fraudulent portions of the financial statement, oversight of aspects related to preparation of financial statement with particular reference to review of annual and quarterly financial statements before issue, review of reservations of external auditors on the financial statements.

The Human Resources Committee: The Committee's main responsibility is to assist the Board in establishing and developing the Company's human resources policies, including the human resources manual and recruitment of top executive management positions.

The Internal Tender Committee: The Committee's main task is to assist the Board in approving contracts in accordance with the Financial Delegation of Authority and Tender Board Law.

Board Remuneration

The Board and its Committees are responsible for establishing the general policies of the Company, supervising the execution of its activities, approving its budget and the appointment of the top management positions. The following table shows the number of meetings held by the Board and its committees and attendance of members:

Table 9 Board Remuneration

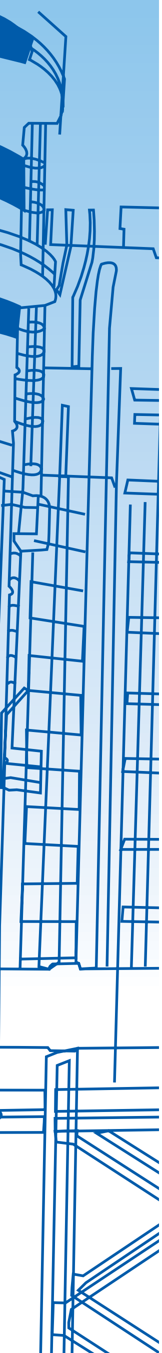
Board Members	Board Meeting	Internal Tender Committee	Human Resources Committee	Audit Committee	Board sitting fees	Committee meeting fees
	Number of Member's Meeting	RO	RO			
HE Saud Bin Nassir Al- Shukaily	6 (6)	8 (8)	0	0	3,600	2,400
Mr. Saleh Bin Ali Al Harthy	6(6)	1(8)	5(5)	6(6)	2,500	3,500
Mr. Abdullah Bin Salim Al Harthy	6(6)	5(8)	0	5(6)	3,000	3,000
Mr. Hamdan Bin Ali Al Hinai	6(6)	0	0	6(6)	3,000	2,400
Eng. Saleh Bin Nassir Al Rumhi	6(6)	8(8)	5(5)	0	3,000	3,000
Total					**15,100**	**14,300**

( ) numbers in brackets represent meetings held during the year. The total sitting fees is RO 29,400

Internal Audit:

The Internal Audit function provides an independent and objective opinion on the adequacy and effectiveness of the Company's systems for risk management, internal control, and governance together with recommendations to improve those systems. The company has an in house internal audit department reporting directly the Audit Committee.

The function operates independently of management, under a mandate approved by the Audit Committee. A risk based approach is used to identify, prioritize and focus on internal audit activities. The annual audit plan is presented to the Audit committee for approval. The Audit Committee meets the internal auditors to discuss the results of the quarterly internal audit.



AUDIT REPORT

AND

FINANCIAL STATEMENTS

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Report and financial statements
for the year ended 31 December 2013

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
Muscat International Centre
Location: MBD Area
P.O. Box 258, Ruwi
Postal Code 112
Sultanate of Oman

Tel: +968 2481 7775
Fax: +968 2481 5581
www.deloitte.com

Independent auditor's report to the shareholders of Oman Power and Water Procurement Company SAOC

Report on the financial statements

We have audited the accompanying financial statements of **Oman Power and Water Procurement Company SAOC** (the "Company") which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 3 to 34.

Board's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Deloitte.

Independent auditor's report to the shareholders of Oman Power and Water Procurement Company SAOC (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Oman Power and Water Procurement Company SAOC** as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, the financial statements comply, in all material aspects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended.

Other matters

As at 31 December 2013 the total liabilities of the Company exceeded the total assets by RO 2.911 million (2012: RO 3.894 million). As per Article 129 of the Commercial Company Law, if the company has lost three-quarters of its capital, then appropriate measures are required to be taken to comply with the requirements of the Commercial Company Law. Management believes that the negative net equity arises only from the accounting for leases and does not impact the net cash position of the Company. Management is undertaking necessary steps to appropriately address the matter

The financial statements of the Company for the year ended 31 December 2012 were audited by another auditor who expressed an unqualified opinion on those statements on 12 March 2013.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
20 February 2014

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Statement of financial position
at 31 December 2013

	Notes	2013 RO '000	2012 RO '000
ASSETS			
Non-current assets			
Property, plant and equipment	6	90,284	116,916
Finance lease receivables	7	941	-
Deferred tax assets	17	1,214	-
Advance payments	8	15,668	16,926
Total non-current assets		108,107	133,842
Current assets			
Inventories		567	567
Trade and other receivables	9	48,814	41,706
Finance lease receivables	7	565	-
Cash and cash equivalents	10	4,098	23,546
Total current assets		54,044	65,819
Total assets		162,151	199,661
EQUITY			
Share capital	11	500	500
Legal reserve	12	167	167
General reserve	13	250	250
Accumulated losses		(20,769)	(24,690)
Shareholder's funds	14	16,941	19,879
Total equity		(2,911)	(3,894)
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	15	99,372	117,220
Deferred revenue	7	-	4,344
Provisions	16	567	515
Deferred tax liability	17	-	3,971
Total non-current liabilities		99,939	126,050
Current liabilities			
Trade and other payables	18	46,973	60,541
Finance lease liabilities	15	17,848	16,678
Provisions	16	128	185
Provision for current tax	24	174	101
Total current liabilities		65,123	77,505
Total liabilities		165,062	203,555
Total equity and liabilities		162,151	199,661

Saud Bin Nasser Al Shukaily
Chairman

Hamdan Bin Ali Al Hinai
Member

Ahmed Bin Saleh Al Jahadhami
Chief Executive Officer

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

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Statement of profit or loss and other comprehensive income for the year ended 31 December 2013

	Notes	2013 RO'000	2012 RO'000
Income			
Revenue	**19**	**467,856**	403,258
Operating costs	**20**	**(449,104)**	(384,575)
Gross profit		**18,752**	18,683
General and administrative expenses	**21**	**(3,914)**	(4,258)
Other income		**12**	11
Profit from operations		**14,850**	14,436
Finance income	**22**	**313**	59
Finance costs	**23**	**(16,253)**	(18,490)
Loss before tax		**(1,090)**	(3,995)
Taxation	**24**	**5,011**	(4,054)
Profit / (loss) for the year and other comprehensive income		**3,921**	(8,049)

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

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Statement of changes in equity
for the year ended 31 December 2013

	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Accumulated losses RO'000	Share holder's funds RO'000	Total RO'000
At 1 January 2012	500	167	250	(16,641)	19,879	4,155
Loss for the year and other comprehensive income	-	-	-	(8,049)	-	(8,049)
At 1 January 2013	**500**	**167**	**250**	**(24,690)**	**19,879**	**(3,894)**
Profit for the year and other comprehensive income	**-**	**-**	**-**	**3,921**	**-**	**3,921**
Change in shareholders' fund on recognition of finance lease related to Manah ITF transmission assets (Note 7)	**-**	**-**	**-**	**-**	**(2,938)**	**(2,938)**
At 31 December 2013	**500**	**167**	**250**	**(20,769)**	**16,941**	**(2,911)**

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

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Statement of cash flows
for the year ended 31 December 2013

	2013 RO'000	2012 RO'000
Cash flows from operating activities		
Loss before tax	**(1,090)**	(3,995)
Adjustments for:		
Depreciation on property, plant and equipment	**17,539**	20,014
Interest expense	**118**	44
Interest on finance leases	**16,135**	18,100
Advance payments amortised	**1,258**	917
Write off of property, plant and equipment	**40**	-
Deferred revenue recognised	**-**	(961)
Provision for employee benefits expense	**143**	286
Operating cash flows before payment of employee benefits and working capital changes	**34,142**	34,405
Payment of employee benefits	**(148)**	(75)
Working capital changes:		
Trade and other receivables	**(7,108)**	(10,079)
Receipt of finance lease rental payment	**588**	-
Trade and other payables	**(13,568)**	11,742
Cash generated from operating activities	**13,906**	35,993
Income tax paid	**(101)**	(117)
Net cash from operating activities	**13,805**	35,876
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**2**	-
Purchase of property, plant and equipment	**(325)**	(93)
Net cash used in investing activities	**(323)**	(93)
Cash flows from financing activities		
Interest paid	**(16,252)**	(18,144)
Repayment of lease liabilities	**(16,678)**	(15,085)
Net cash used in financing activities	**(32,930)**	(33,229)
Net change in cash and cash equivalents	**(19,448)**	2,554
Cash and cash equivalents at the beginning of the year	**23,546**	20,992
Cash and cash equivalents at the end of the year (Note 10)	**4,098**	23,546

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

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2013

1. General

Oman Power and Water Procurement Company SAOC (the company) is a closely held Omani joint stock company registered under the Commercial Companies Law of Oman.

The establishment and operations of the company are governed by the provisions of the Law for the Regulation and Privatisation of the Electricity and Related Water Sector (the Sector Law) promulgated by Royal Decree 78/2004 and amended by Royal Decree 59/2009.

The Company is primarily undertaking procurement activities pertaining to electricity and related desalinated water and the supervision of the Salalah concession under a licence issued by the Authority for Electricity Regulation, Oman (AER).

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

Oman Power and Water Procurement Company SAOC is a 99.99% subsidiary of Electricity Holding Company SAOC (Holding company / Parent company).

2. Adoption of new and revised International Financial Reporting Standards (IFRS)

For the year ended 31 December 2013, the Company has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for the period beginning on 1 January 2013.

2.1 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

IFRS 11: Joint arrangements	IFRS 11, replaces IAS 31 Interest in Joint Ventures and guidance contained in a related interpretations. IFRS 11, deals with how a joint arrangement of which two or more parties have joint control should be classified and account for. Under IFRS 11, investments in joint arrangements are classified either as joint operations or joint ventures, based on rights and obligation of parties to the arrangements by considering the structure, the legal form of the arrangement, the contractual terms agreed by the parties to the arrangement, and when relevant, other facts and circumstances.
IFRS 12: Disclosure of Interests in Other Entities	IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and / or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 Standards and Interpretations adopted with no effect on the financial statements (continued)

IFRS 13: Fair Value Measurement	IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non- financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	The amendments introduce new terminology, whose use is not mandatory, for the statement of profit or loss and other comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of profit or loss and other comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' [and the 'income statement' is renamed as the 'statement of profit or loss']. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.
Annual Improvements 2009-2011 Cycle	Makes amendments to the following standards: IAS 1 - Clarification of the requirements for comparative information IAS 16 - Classification of servicing equipment IAS 32 - Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income axes IAS 34 - Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments

2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 Standards and Interpretations adopted with no effect on the financial statements (continued)

IFRIC 20: Stripping Costs In the Production Phase of a Surface Mine.	IFRIC 20 addresses the diversity in practice in accounting for benefits accruing to the entity from the surface mine stripping activity.
IAS 19 Employee Benefits (as revised in 2011)	IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on the amounts recognised in profit or loss and other comprehensive income in prior years (see the tables below for details). In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures

2.2 Standards and Interpretations in issue not yet effective

At the date of authorisation of these financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:

	Effective for annual periods beginning on or after
New IFRS and relevant amendments	
Financial Instruments	
IFRS 9: Financial Instruments (as revised in 2010 to include requirements for the classification and measurement of financial liabilities and incorporate existing derecognition requirements)	January 2015
Consolidation, joint arrangements, associates and disclosures	
Amendment to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements, to provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement.	*January 2014*

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 Standards and Interpretations in issue not yet effective

Amendments to IFRSs

IAS 32 : Financial instruments: presentation, Offsetting Financial Assets and Financial Liabilities: to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main area (a) the meaning of 'currently has a legally enforceable right of set-off'(b) the application of simultaneous realisation and settlement (c) the offsetting of collateral amounts (d) the unit of account for applying the offsetting requirements.	January 2014
IAS 36: impairment of assets, Recoverable Amount Disclosures for Non-Financial Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.	January 2014
IAS 39: Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting' makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.	January 2014

New Interpretations and amendments to Interpretations:

IFRIC 21 – Levies	January 2014

The Directors of the Company anticipate that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the Company in the period of initial application.

3. Summary of significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards, (IFRS) Oman and the requirements of the Commercial Companies Law of 1974 as amended.

Basis of preparation

These financial statements are prepared on the historical cost basis.

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

As at 31 December 2013 the total liabilities of the Company exceeded the total assets by RO 2.911 million (2012: RO 3.894 million). As per Article 129 of the Commercial Company Law, if the company has lost three-quarters of its capital, then appropriate measures are required to be taken to comply with the requirements of the Commercial Company Law. Management believes that the negative net equity arises only from the accounting for leases and does not impact the net cash position of the Company. Management is undertaking necessary steps to appropriately address the matter.

As at 31 December 2013, current liabilities of the Company exceeded its current assets by RO 11.079 million (2012: RO 11.686 million). The Parent company has confirmed that it will provide the necessary financial support to enable the Company to continue to operate as a going concern for the foreseeable future and to discharge its liabilities to other parties, as they fall due. Accordingly, these financial statements are prepared on a going concern basis.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2013 (continued)

3. Summary of significant accounting policies (continued)

Foreign currency translation

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

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

Property, plant and equipment

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

Subsequent expenditure
Expenditure incurred to replace a component of an item of property, plant and equipment is capitalised if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. All other maintenance expenditure is recognised in the statement of profit or loss and other comprehensive income as an expense as and when incurred.

Depreciation
Depreciation is recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The principal estimated useful lives used for this purpose are:

Assets	Years
Finance lease assets	13 - 20
Furniture and equipment	5
Motor vehicles	7

Work-in-progress
Work-in-progress is stated at cost. When the underlying asset is ready for use in its intended condition and location, work-in-progress is transferred to the appropriate property, plant and equipment category and depreciated in accordance with the depreciation policy of the Company.

3. Summary of significant accounting policies (continued)

Financial instruments

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

Non-derivative financial instruments
Non-derivative financial instruments comprise, trade and other receivables, receivables from related parties, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

Impairment

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

For financial assets, objective evidence of impairment could include:

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

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

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

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

When a trade receivable is considered uncollectible, it is directly written off after obtaining appropriate approvals. Subsequent recoveries of amounts previously written off are credited to the statement of profit or loss and other comprehensive income.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements for the year ended 31 December 2013 (continued)

3. Summary of significant accounting policies (continued)

Impairment (continued)

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

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise purchase cost and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated principally using the weighted average method.

Trade and other receivables

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

3. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amount of cash, which are subject to an insignificant risk of changes in value and have maturity of three months or less at the date of placement.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the year when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date. The tax effects on the temporary differences are disclosed under non-current liabilities as deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. The carrying amount of deferred tax assets is reviewed at reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off.

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

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2013 (continued)

3. Summary of significant accounting policies (continued)

Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages, salaries and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits are measured at their nominal value using the current remuneration.

Provision for employee benefits is accrued having regard to the requirements of the Oman Labour Law 2003, as amended, or in accordance with the terms and conditions of the employment contract with the employees, whichever is higher. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the balance sheet date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

End of service benefit for Omani employees are contributed in accordance with the terms of the Social Securities Law 1991 and Civil Service Employees Pension Fund Law. Gratuity for Omani employees who transferred from the Ministry of Housing, Electricity and Water on 1 May 2005 is calculated based on the terms expected to be agreed between the Holding Company and the Government. An accrual has been made and is classified as a non-current liability in the statement of financial position.

Leases

Company as a lessee

Operating leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

Finance leases
Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The related property, plant and equipment is capitalised and depreciated in accordance with the applicable accounting policies of the Company.

Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

3. Summary of significant accounting policies (continued)

Leases (continued)

Company as a lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Revenue

Revenue is recognised to the extent of maximum allowed revenue (MAR) by the regulatory formula in accordance with the Company's licensing requirements. Actual regulated revenue in excess of the maximum allowed by the regulatory formula in accordance with the licensing requirements is deferred to the subsequent year and is shown under trade and other payables. Conversely, any deficit is recognised in the year and is shown under trade and other receivables.

Revenue also includes the funding received from Ministry of Finance (MOF) in respect of cost relating to the Salalah business.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other finance costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the company incurs in connection with the borrowing of funds.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements for the year ended 31 December 2013 (continued)

4. Significant accounting estimates and judgment

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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

Depreciation
Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The assets held under finance leases are depreciated over the term of the lease.

Deferred Taxation
The Company makes provision for deferred tax liability during the term of the power purchase agreement, arising primarily due to timing difference between the cost as per regulatory framework based on which revenue is determined and the lease cost as per IAS 17.

In the tax assessment for years 2007 and 2008, the Tax Department has mentioned that, as per the tax law, depreciation shall be allowed as a deduction to the legal owner of the assets. The Tax Department, disregarded the finance lease treatment adopted by the company and concluded that the Company is entitled only to the output from the assets and the generator is the legal owner of the generating assets. The department finalized the tax assessment for 2007 and 2008 based on operating lease treatment considered by the company in the tax returns and stated that the same treatment will be adopted consistently for later years also unless there is substantial change in the terms of the agreement. Based on Tax Department's position, the Management decided to reverse the deferred tax liability of RO 4.867 million on account of accelerated tax depreciation on leased assets accounted in prior years on a conservative basis with the corresponding effect in the income statement.

Lease classification
The Company has entered into the power purchase agreements with the Power Generation Companies. In accordance with the criteria provided in IFRIC 4, "Determining Whether an Arrangement Contains a Lease" ("IFRIC 4"), the Company assesses whether PPA agreement conveys a right to use an asset meets the definition of a lease. The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. Based on the assessment the PPA is classified either as finance leases or operating leases. Leases are classified according to the arrangement and to the underlying risks and rewards specified therein in line with IAS 17.

5 Financial risk management

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

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

Financial risk factors

Market risk

Price risk

The Company sells electricity to licensed distributors, and water to water departments, according to bulk supply tariffs determined annually by the Company and approved by the Authority for Electricity Regulation, Oman (AER). The Company determines bulk supply tariffs according to the cost-plus method following the principles as per its licence. Hence, the Company is not subject to significant price risk.

Foreign currency risk

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

Interest rate risk

The Company has deposits which are interest bearing and are exposed to changes in market interest rates. The Company carries out periodic analysis and monitors the market interest rates fluctuations taking into consideration the Company's needs. The Company's borrowings are short term in nature and subject to current market rates of interest. The Company is not significantly exposed to interest rate fluctuations as the interest rate on the overdraft facility is at fixed rate and is renewed every year.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2013 (continued)

5 Financial risk management (continued)

Financial risk factors (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. The management maintains flexibility in funding by maintaining availability under committed credit lines. The management monitors the Company's liquidity by forecasting the expected cash flows.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturities date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

The following are contractual undiscounted cash flows associated with financial liabilities.

31 December 2013	**Total RO'000**	**Less than 1 month RO'000**	**1 month to 3 months RO'000**	**3 months to 1 year RO'000**	**1 year to 5 years RO'000**	**More than 5 years RO'000**
Interest bearing						
Finance lease liabilities	**166,200**	**2,651**	**5,302**	**23,858**	**119,384**	**15,005**
Non-interest bearing						
Trade and other payables	**37,496**	**36,587**	**-**	**909**	**-**	**-**
Suppliers and contractors payables	**893**	**885**	**5**	**3**	**-**	**-**
	204,589	**40,123**	**5,307**	**24,770**	**119,384**	**15,005**
31 December 2012						
Interest bearing						
Finance lease liabilities	199,013	2,734	5,469	24,610	139,576	26,624
Non-interest bearing						
Trade and other payables	32,020	28,314	3,706	-	-	-
Suppliers and contractors payables	143	34	72	37	-	-
	231,176	31,082	9,247	24,647	139,576	26,624

5 Financial risk management (continued)

Financial risk factors (continued)

Credit risk

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

Trade and other receivables

The Company's exposure to credit risk on trade and other receivables is influenced mainly by the individual characteristics of each customer. The Company has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables. Trade receivables primarily represent amount due from generation and distribution companies and related parties. The Company does not consider this as an undue exposure since obligation of generation and distribution companies is considered fully recoverable.

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

	2013 RO'000	2012 RO'000
Trade receivables from related parties	**32,791**	36,271
Trade receivables – water sales	**15,394**	318
Finance lease receivables from a related party	**1,506**	-
	49,691	36,589

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

	31 December 2013			31 December 2012		
	Gross RO '000	**Impaired RO '000**	**Past due but not impaired RO '000**	Gross RO '000	Impaired RO '000	Past due but not impaired RO '000
Not past due	**36,070**	**-**	**-**	36,586	-	-
1 month to 3 months	**3,634**	**-**	**3,634**	-	-	-
3 months to 1 year	**8,481**	**-**	**8,481**	3	-	3
	48,185	**-**	**12,115**	36,589		3

Trade receivables are due within one month from the date of invoicing.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements for the year ended 31 December 2013 (continued)

5 Financial risk management (continued)

Financial risk factors (continued)

Credit risk (continued)

Investment in bank deposits and bank balances
The Company's banks accounts are placed with financial institutions with a minimum credit rating of P-1 (Moody's Investors Service).

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

	2013	2012
	RO'000	RO'000
Assets as per statement of financial position		
Finance lease receivables	**1,506**	-
Trade receivables	**48,185**	36,589
Other receivables	**477**	5,071
Cash and cash equivalents	**4,095**	23,544
	54,263	65,204

Capital risk management

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

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

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

Fair value estimation

The fair values of the financial assets and liabilities are not materially different from their carrying values.

Notes to the financial statements
for the year ended 31 December 2013 (continued)

6 Property, plant and equipment

	Finance lease assets RO '000	Furniture and equipment RO '000	Motor vehicles RO '000	Work-in-progress RO '000	Total RO '000
Cost					
1 January 2012	269,342	482	90	12	269,926
Additions	-	58	25	10	93
Disposal	-	(17)	-	-	(17)
1 January 2013	**269,342**	**523**	**115**	**22**	**270,002**
Additions	**-**	**325**	**-**	**-**	**325**
Transfers (Note 7)	**(28,538)**	**22**	**-**	**(22)**	**(28,538)**
Disposal	**-**	**(244)**	**(16)**	**-**	**(260)**
31 December 2013	**240,804**	**626**	**99**	**-**	**241,529**
Depreciation					
1 January 2012	132,788	251	50	-	133,089
Charge for the year	19,918	83	13		20,014
Disposal	-	(17)	-	-	(17)
1 January 2013	**152,706**	**317**	**63**	**-**	**153,086**
Charge for the year	**17,420**	**107**	**12**	**-**	**17,539**
Transfer (Note 7)	**(19,164)**	**-**	**-**	**-**	**(19,164)**
Disposal	**-**	**(200)**	**(16)**	**-**	**(216)**
31 December 2013	150,962	224	59	-	151,245
Net book value					
31 December 2013	**89,842**	**402**	**40**	**-**	**90,284**
31 December 2012	116,636	206	52	22	116,916

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements for the year ended 31 December 2013 (continued)

7 Finance lease receivable

During the year the Company and Oman Electricity Transmission Company SAOC (OETC) have entered into an agreement in respect of transmission assets relating to Manah Interconnection Transmission Facilities (ITF) assets. As per the agreement the ownership of transmission assets will be transferred to OETC at the end of the term. Accordingly the lease has been classified as finance lease. The power purchase agreement is a part of a BOOT arrangement with United Power Company scheduled to expire in 2016. The effect of this arrangement has the following effect on the financial statements:

	2013 **RO'000**	2012 RO'000
De-recognition of property, plant and equipment	**(9,374)**	-
Recognition of finance lease receivable	**2,092**	-
De-recognition of deferred revenue	**4,344**	-
Change in the shareholder's fund	**(2,938)**	-

Finance lease receivable as at 31 December 2013

	2013	2012
Current finance lease receivables	**565**	-
Non-current finance lease receivables	**941**	-
	1,506	-
Represented by:		
Gross finance lease receivables	**1,748**	-
Less: unearned finance lease interest	**(242)**	-
Net investment in finance lease	**1,506**	-

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

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
At 31 December 2013				
Gross finance lease receivables	**708**	**620**	**420**	**1,748**
Less: unearned finance lease interest	**(143)**	**(79)**	**(20)**	**(242)**
	565	**541**	**400**	**1,506**

The finance lease receivables at the end of the year are neither past due nor impaired.

Notes to the financial statements for the year ended 31 December 2013 (continued)

8 Advance payments

Advance payments pertain to fixed capacity payments made in respect of power and water purchases under operating lease arrangement and represent total cumulative payments made to date reduced by the total cumulative charges to date recognised in the statement of profit or loss and other comprehensive income.

9 Trade and other receivables

	2013 RO'000	2012 RO'000
Trade receivable from related parties	**32,791**	36,271
Trade receivables - water sales	**15,394**	318
Prepayments	**152**	46
Other receivables	**477**	5,071
	48,814	41,706

As at 31 December 2013 no amounts are impaired (2012 - no amounts were impaired).

10 Cash and cash equivalents

	2013 RO '000	2012 RO '000
Cash at bank	**4,095**	23,544
Cash on hand	**3**	2
	4,098	23,546

During the year, the Company obtained a credit facility from Bank Muscat for an aggregate amount of RO 50 million which comprises of an overdraft facility of RO 10 million and balance in the form of short term loans. No amount was due to bank as at 31 December 2013.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2013 (continued)

11 Share capital

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

	Percentage of shareholding	**Number of shares issued**	**2013 RO**	2012 RO
Electricity Holding Company SAOC	**99.99%**	**499,950**	**499,950**	499,950
Ministry of Finance	**0.01%**	**50**	**50**	50
	100%	**500,000**	**500,000**	500,000

12 Legal reserve

The legal reserve, which is not available for distribution is accumulated in accordance with Article 154 of the Commercial Companies Law 1974, as amended. The annual appropriation must be 10% of the net profit for each year after taxes, until such time as the reserve amounts to at least one third of the share capital. No portion from the profit has been made during the year as the Company has already achieved this minimum amount required in the legal reserve. This reserve is not available for distribution.

13 General reserve

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

14 Shareholder's funds

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

Subsequently, part of the assets and liabilities were transferred to the Company. The value of the net assets transferred is represented in the books as shareholder's funds and there is no contractual obligation to repay this amount and there are no fixed repayment terms.

During the year, shareholder's fund was reduced by RO 2,938,000 as adjustments on de-recognition of Manah Interconnection and transmission assets. See note 7 for further details.

Notes to the financial statements for the year ended 31 December 2013 (continued)

15 Finance lease liabilities

Amounts payable under finance leases are as follows:

	2013 RO '000	2012 RO '000
Gross finance lease liabilities - minimum lease payments		
Not later than 1 year	**31,811**	32,813
Later than 1 year and not later than 5 years	**119,384**	139,576
Later than 5 years	**15,005**	26,624
	166,200	199,013
Less: future finance charges on lease liabilities	**(48,980)**	(65,115)
Present value of finance lease liabilities	**117,220**	133,898

At the commencement of each lease, the Company has recognised assets and liabilities to an amount equal to the estimated fair value of the finance leased assets. The finance expense on the lease liability is determined based on the effective interest method.

The present value of finance lease liabilities is as follows:

	2013 RO '000	2012 RO '000
Not later than 1 year	**17,848**	16,678
Later than 1 year and not later than 5 years	**86,186**	94,801
Later than 5 years	**13,186**	22,419
	117,220	133,898

16 Provisions

	2013	2012
Non-current	**567**	515
Current	**128**	185
	695	700

Movement in provision for employee benefits

	2013	2012
At 1 January	**700**	489
Charge for the year	**143**	286
Payments made during the year	**(148)**	(75)
At 31 December	**695**	700

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2013 (continued)

17 Deferred tax asset / (liability)

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

	At 1 January 2013 RO '000	**Charge / (credit) for the year RO '000**	**At 31 December 2013 RO '000**
Assets			
Accelerated tax depreciation	**8,052**	**(8,042)**	**10**
Finance lease	**-**	**(3,104)**	**(3,104)**
Advance payment	**-**	**1,880**	**1,880**
Tax losses	**(4,081)**	**4,081**	-
	3,971	**(5,185)**	**(1,214)**

	At 1 January 2012 RO '000	Charge / (credit) for the year RO '000	At 31 December 2012 RO '000
Liabilities			
Accelerated tax depreciation	7	8,045	8,052
Finance leases	(1,490)	1,490	-
Deferred revenue	(639)	639	-
Advance payments	2,140	(2,140)	-
Tax losses	-	(4,081)	(4,081)
Net deferred tax liability	18	3,953	3,971

18 Trade and other payables

	2013 RO '000	2012 RO '000
Revenue in excess of maximum allowed as per price control formula, deferred to next year	**5,025**	26,181
Accruals and other expenses	**30,596**	22,824
Trade payables to related parties	**6,900**	9,196
Due to Ministry of Finance for excess funding received	**3,496**	1,851
Interest on revenue in excess of maximum allowed as per price control formula	**63**	346
Suppliers and contractors payables	**893**	143
	46,973	60,541

Notes to the financial statements for the year ended 31 December 2013 (continued)

19 Revenue

	2013 RO'000	2012 RO'000
Bulk supply revenue for electricity	**321,304**	288,926
Bulk supply revenue for water	**93,989**	86,443
Recharge of interconnection and transmission facilities	**229**	2,051
Net funding from MOF	**30,457**	48,197
Other revenue	**376**	155
	446,355	425,772
Add: previous year revenue in excess of maximum allowed as per price control formula, reversed	**26,182**	3,613
Add : previous year interest on revenue in excess of maximum allowed as per price control formula, reversed	**345**	55
Less: revenue in excess of the maximum allowed as per price control formula deferred to next year	**(5,026)**	(26,182)
	467,856	403,258

20 Operating costs

	2013	2012
Electricity capacity and output purchase costs	**306,697**	249,220
Desalinated water capacity and output purchase costs	**92,904**	85,441
Depreciation on finance lease assets	**17,420**	19,918
Cost sharing charge to Dhofar Power Company SAOC	**30,146**	27,713
Other direct costs	**1,937**	2,283
	449,104	384,575

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2013 (continued)

21 General and administrative expenses

	2013 RO'000	2012 RO'000
Employee benefit expenses	**2,612**	2,707
Licence fee to the Authority for Electricity Regulation	**180**	386
Service expenses	**543**	606
Directors' sitting fees	**29**	20
Depreciation	**119**	96
Other expenses	**431**	443
	3,914	4,258

Included within employee benefit expenses is an amount of RO 143,000 (2012 - RO 286,000) relating to post employment benefit expenses.

22 Finance income

	2013 RO'000	2012 RO'000
Interest on finance lease	**209**	-
Interest on bank account	**57**	59
Other interest	**47**	-
	313	59

23 Finance costs

Interest on obligations under finance leases	**16,135**	18,100
Interest on excess revenue billed over maximum allowed revenue under the price control formula	**63**	346
Interest on bank overdrafts	**55**	44
	16,253	18,490

Notes to the financial statements
for the year ended 31 December 2013 (continued)

24 Taxation

Income tax is provided as per the provisions of the "Law of Income Tax on Companies" in Oman after adjusting for items which are not taxable or disallowed. The tax rate applicable to the Company is 12% (2010 - 12%). The deferred tax on all temporary differences have been calculated and dealt with in the statement of profit or loss and other comprehensive income.

	2013 RO'000	2012 RO'000
Current tax	**174**	101
Deferred tax	**(5,185)**	3,953
	(5,011)	4,054

The Company is liable to income tax in accordance with the income tax law of the Sultanate of Oman at the enacted tax rate of 12% (2011 - 12%) on taxable income in excess of RO 30,000.

The following is a reconciliation of income taxes calculated on accounting profits at the applicable tax rate with the income tax expense for the year:

	2013 RO'000	2012 RO'000
Accounting profit before tax	**(1,094)**	(3,995)
Tax credit on accounting loss	**(135)**	(483)
Deferred tax asset on tax loss not recognised	**(1)**	1,165
Short provision of prior year tax	**1**	101
Tax effect of expired tax losses	**-**	425
Adjustment on deferred tax liability for prior years	**(4,876)**	2,846
Other items	-	-
Tax expense for the year	**(5,011)**	4,054

Taxation has been agreed with the Oman taxation authorities for all year up to 31 December 2008.

Movement in current tax provision is as under:

	2013 RO'000	2012 RO'000
Tax payable at beginning of the year	**101**	117
Current tax charge for the year	**174**	101
Tax paid during the year	**(101)**	(117)
Tax payable at end of the year	**174**	101

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2013 (continued)

25 Related parties

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

The Company maintains balances with these related parties which arise in the normal course of business from the commercial transactions, and are entered into at terms and conditions which are approved by the management.

No expenses have been recognised in the year (2012 - RO nil) for bad or doubtful debts in respect of amounts owed by related parties.

Following is the summary of significant transactions with related parties during the year:

Revenue	**2013** **RO '000**	2012 RO '000
Bulk supply revenue for electricity to Muscat Electricity Distribution Company SAOC	**118,641**	111,652
Bulk supply revenue for electricity to Mazoon Electricity Company SAOC	**92,155**	82,491
Bulk supply revenue for electricity to Majan Electricity Company SAOC	**85,633**	77,941
Bulk supply revenue for water to Public Authority for Electricity and Water	**83,501**	80,564
Recharge of interconnection and transmission facilities to Oman Electricity Transmission Company SAOC	**229**	2,051
Bulk supply revenue for electricity to Dhofar Power Company SAOC	**24,876**	16,841
	405,035	371,540

Notes to the financial statements
for the year ended 31 December 2013 (continued)

25 Related parties (continued)

Expenses	**2013 RO ’000**	2012 RO ’000
Interest on finance lease to Al Ghubrah Power and Desalination Company SAOC	**7,554**	8,687
Electricity and water output purchases from Al Ghubrah Power and Desalination Company SAOC	**23,317**	23,947
Interest on finance lease to Wadi Al Jizzi Power Company SAOC	**1,279**	1,518
Electricity output purchases from Wadi Al Jizzi Power Company SAOC	**3,374**	4,347
Cost sharing charges to Dhofar Power Company SAOC	**30,146**	27,713
Accounting service charges from Electricity Holding Company SAOC	**32**	102
	65,702	66,314

Related party receivables

Muscat Electricity Distribution Company SAOC	**2,757**	9,726
Mazoon Electricity Company SAOC	**8,243**	3,888
Majan Electricity Company SAOC	**7,253**	8,643
Public Authority for Electricity and Water	**13,219**	12,235
Dhofar Power Company SAOC	**1,237**	1,737
Finance lease receivables	**1,506**	-
Oman Electricity Transmission Company SAOC	**82**	42
	34,297	36,271

Related party payables

Dhofar Power Company SAOC	**2,483**	4,361
Finance lease payable to Al Ghubrah Power and Desalination Company SAOC	**56,733**	66,685
Al Ghubrah Power and Desalination Company SAOC	**3,563**	4,044
Finance lease payable to Wadi Al Jizzi Power Company SAOC	**11,384**	13,852
Wadi Al Jizzi Power Company SAOC	**788**	698
Electricity Holding Company SAOC	**66**	93
	75,017	89,733

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2013 (continued)

25 Related parties (continued)

Key management personnel compensation

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

	2013	2012
	RO '000	RO '000
Short-term employee benefits	**1,146**	1,068
Post employment benefits	**46**	46
Directors sitting fees	**29**	20
	1,221	1,134

26 Contingencies and operational liabilities

Operating lease commitments		
Not more than 1 year	**209,221**	153,628
More than 1 year but not more than 5 years	**1,082,238**	1,090,976
More than 5 years	**1,412,243**	1,612,720
	2,703,702	2,857,324

27 Comparative information

Certain corresponding figures for the previous year have been reclassified in order to conform with the presentation for the current year. Such reclassifications did not affect previously reported profit or shareholders' equity.

28 Approval of financial statements

The financial statements were approved by the Board and authorised for issue on 20 February 2014.