OMAN POWER AND WATER PROCUREMENT CO. (SAOC)

ANNUAL REPORT 2012

His Majesty Sultan Qaboos Bin Said

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BOARD OF DIRECTORS & EXECUTIVE MANAGEMENT

Board Position	Name	Other Position
Chairman	**H.E. Saud Bin Nasser Al Shukaily**	Secretary General for Taxation, Ministry of Finance
Deputy Chairman	**Eng. Saleh Al-Rumhi**	General Manager for Policy & Strategic Studies, Public Authority for Electricity & Water (PAEW)
Member of the Board	**Mr. Hamdan Bin Ali Al Hinai**	Director of Contracts and Legal Affairs, Ministry of Defence
Member of the Board	**Mr. Abdullah Bin Salim Al Harthi**	Director of Business Strategy, State General Reserve Fund, Ministry of Finance
Member of the Board	**Mr. Saleh Bin Ali Harthi**	Director of Gas Revenue, Ministry of Finance
Chief Executive Officer	**Mr. Bob Whitelaw**	
Chief Operating Officer	**Eng. Ahmed Bin Saleh Al-Jahdhami**	

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

Eng. Saleh Al-Rumhi
Deputy Chairman of the Board

Mr. Hamdan Bin Ali Al Hinai
Member of the Board

Mr. Abdullah Bin Salim Al Harthi
Member of the Board

Mr. Saleh Bin Ali Harthi
Member of the Board

Mr. Bob Whitelaw
Chief Executive Officer

Eng. Ahmed Bin Saleh Al-Jahdhami
Chief Operating 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 2012.

Achievements

The year 2012 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 ACWA Power Barka Company to develop a 10 MIGD desalination plant at Barka I, with a targeted COD by October 2013
- Successful awarding of Al Ghubrah IWP with the capacity of 42 MIGD to be located adjacent to the existing Ghubrah Power and Desalination Plant to Muscat City Desalination Company. The COD is scheduled by October 2014
- Successful commissioning of Salalah IWPP with a production capacity of 445 MW and desalination capacity of 15 MIGD by SembCorp Salalah Power and Water Company
- Successful achievement of early power from the Barka III IPP by Al Sawadi Power Company and Sohar II IPP by Al Batinah Power Company. The said early power has significantly contributed in meeting the peak demand of the summer 2012
- Finalisation of contracts and deployment of temporary generation for the Main Interconnected System (MIS) in order to meet Loss of Load Hour obligations for the summer 2012
- Initiation of P(W)PA Extension Study. OPWP has appointed a renowned International economic consultant "NERA" to develop a strategy for PPAs due for expiry by 2017 and 2018
- Work in progress on a number of HR initiatives including putting in place Development Plans and Succession Plans for all Omani staff as well as the Graduate Development Program in order to build a sustainable Omani led organisation

Financial Highlights

OPWP's earnings before tax as per the Regulatory framework stood at RO 792K. 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 issued the Executive Regulations in January 2012 clarifying treatment of lease transactions and based on the Executive Regulations EHC group has accounted the tax impact retrospectively from 2007.

OPWP has booked a net loss before tax of RO 3,995K and hence dividend cannot be paid for this year.

Changes in the Board of Directors

I would like to take this opportunity to introduce some changes to the Board of Directors and that by welcoming Mr. Saleh Nassir Al Rumhi as the Deputy Chairman of the Board.

Further to the above, 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.

2013 Key Priorities

OPWP looks forward to 2013 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
- Achieving COD for Barka III and Sohar II IPPs before summer peak of 2013
- Achieving COD for ACWA 10 MIGD IWP by 1st October 2013.
- Development of Salalah II IPP is in progress and expected to achieve the COD by early 2017.
- Site selection and reservation study to identify and reserve the most suitable locations on the coastal area of Oman for the development of Independent Power and/or Water Projects (IPP/IWPP/IWPs).
- Development of the Musandam Independent Power Project in coordination with Oman Oil Company (OOC).
- Development of Quriyat IWP is in progress and expected to be commercially operational by May 2016.
- 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 2013. 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

LIST OF ACRONYMS

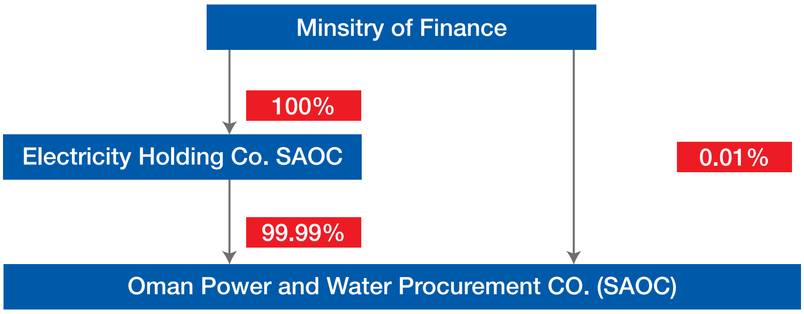
AER	Authority for Electricity Regulation
BSR	Bulk Supply Revenue
BST	Bulk Supply Tariff
COD	Commercial Operation Date
DPC	Dhofar Power Company
EHC	Electricity Holding Company
GWh	GigaWatt Hour (1000 MegaWatt Hours)
IAS	International Accounting Standard
IPP	Independent Power Project
IWP	Independent Water Project
IWPP	Independent Water and Power Project
M^3	Meters cubed
MIGD	Million Imperial Gallons per Day
MIS	Main Interconnected System
MW	MegaWatt (One Thousand Watts)
MWh	MegaWatt Hour
NGSA	Natural Gas Supply Agreement
NPS	DPC New Power Station
OPWP	Oman Power and Water Procurement Company (SAOC)
OOCEP	Oman Oil Company Exploration & Production
PAEW	Public Authority for Electricity and Water
PPA	Power Purchase Agreement
PSPA	Power Supply and Purchase Agreement
P(W)PA	Power and/or Water Purchase Agreement
RAECO	Rural Areas Electricity Company
RFP	Request for Proposal
RO	Rials Omani
SSPWC	Sembcorp Salalah Power and Water Co
WPA	Water Purchase Agreement

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.



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.

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.

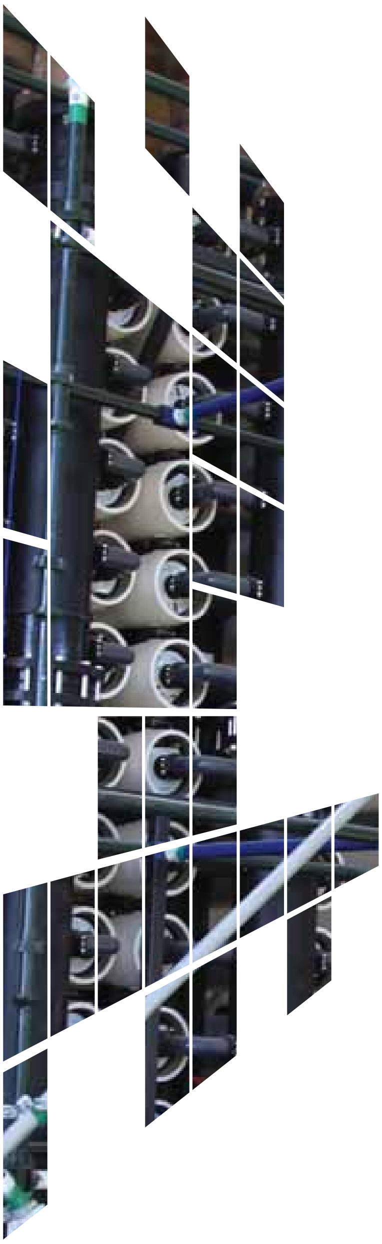
7 To import or export electricity in accordance with the provisions of Article (1140) of the Sector Law.

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.

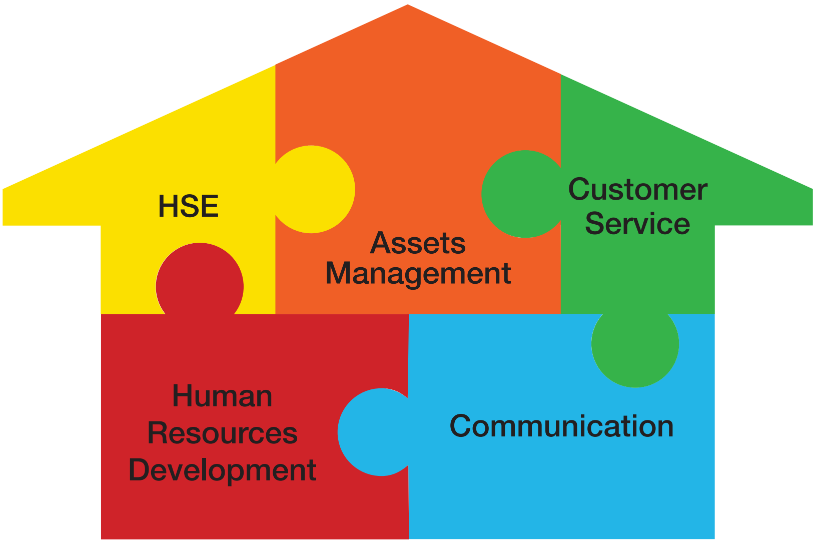


COMPANY PROFILE

Company Strategy

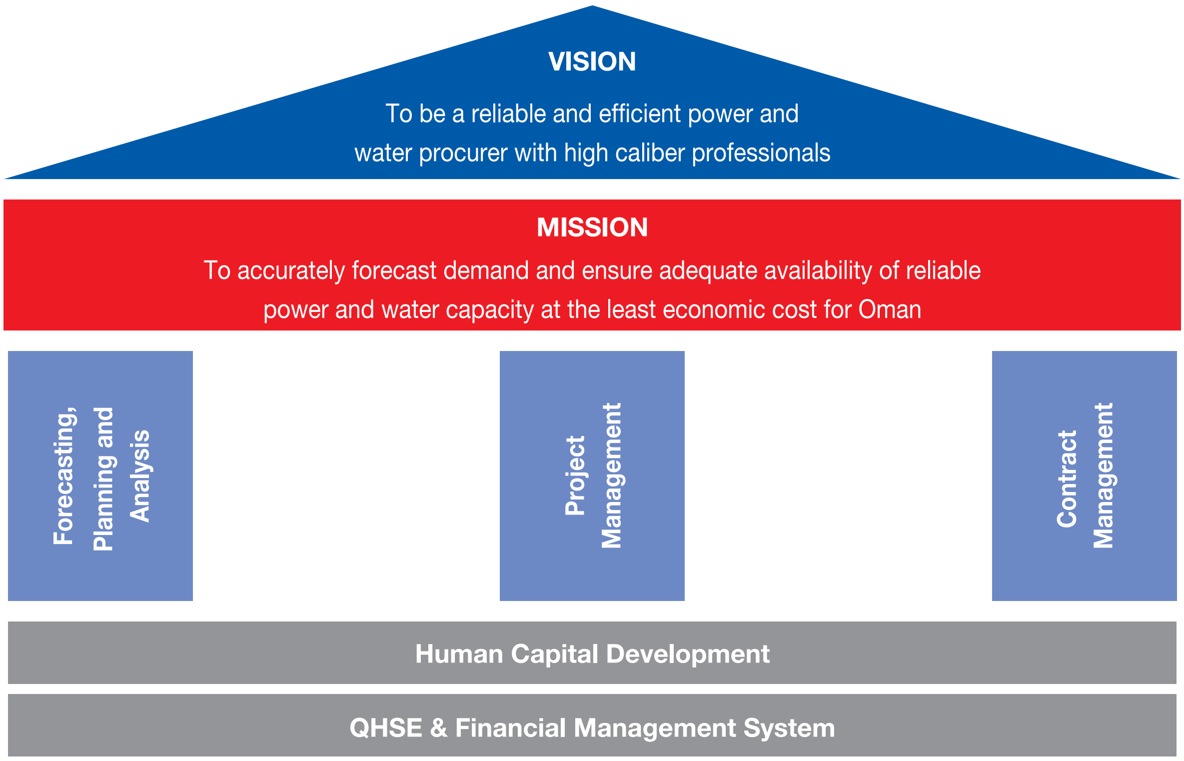
EHC Group Business Strategy and Shared Values

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.



Group Shared Values

Vision and Mission Statements



Business Objectives

- Planning for Electricity and Water Generation resources/ facilities.
- Efficient project development and project implementation of power and water facilities towards achieving the Commercial Operational Date.
- Efficient management of Power and Water Purchase Agreements (P(W)PA).
- Perform duties to the highest standards of quality and in accordance with the applicable statutory and regulatory requirements.
- Continuous improvement of the organizational capabilities, productivity, Quality Management System and its performance.

Company’s Structure

Executive Management

- The Board
  - Internal Audit Manager
  - CEO
    - Executive Secretary
    - COO
    - Strategic Studies
    - Planning & Economics
    - Project Development
    - Legal & Regulation
    - Project Implementation

Operations Management

- COO
  - Executive Secretary
  - QA & HSE
  - Finance Manager
  - CCI Manager
  - HR & Support Services Manager
  - Corporate Advisor
  - Salalah Office

BUSINESS FUNCTIONS

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, as well as determining and publishing the Bulk Supply Tariffs for Electricity and Water.

Project Development

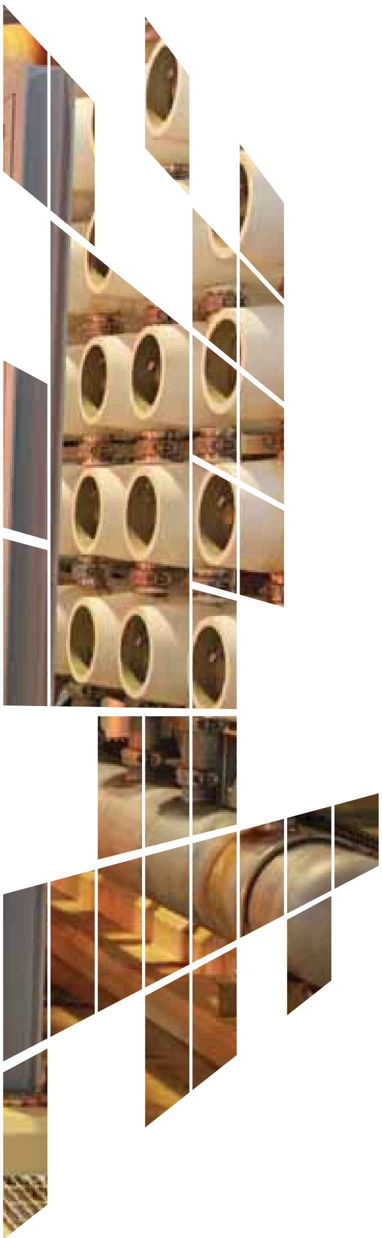
The Project Development department is responsible for developing the project requirements of power generation and desalination capacity, conducting "fair and transparent" competition open to local and foreign investors for the supply of such capacity and ensuring that all relevant contracts are in place.

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 Power (and Water) Purchase Agreements (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)PA and serves as the main contact point for all existing generators. It is responsible for maintaining business relationships with the key suppliers and clients. In addition, it has the responsibility for ensuring that



all 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. CCI was also involved in the preparation and execution of the WPA related to 10 MIGD Reverse Osmosis Desalination Plant adjacent to Barka I. The Plant is scheduled to be commissioned by 1st October 2013.

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 as well as 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 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 of staff, Omanisation policy and initiatives, payroll and employee performance. In addition, it overseas administration, document control and IT function.

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. Furthermore, the said role covers the process mapping and improvement of the processes within the Company for better efficiency and effectiveness.

In addition, to the above, the said department is responsible to make sure 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 with the Dhofar Power Company (DPC). The Concession Agreement outlines certain performance standards that need to be met, as well as providing the mechanism by which DPC is compensated. OPWP administers this process in accordance with its Licence, to ensure that proposed investments are appropriate and cost effective.

BUSINESS REVIEW

Significant Achievements of the Year 2012

During 2012, 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 is the summary of key projects:

10 MIGD Desalination Plant at Barka I

Execution of the Water Purchase Agreement (WPA) with ACWA Power Barka Company related to developing of a 10 MIGD Reverse Osmosis (RO) Desalination Plant adjacent to Barka I Plant site with a scheduled COD by October 2013.

Al Ghubrah IWP

The Project includes the design, construction, ownership, financing, operation and maintenance of an efficient desalination facility with capacity of 42 MIGD of potable water output, based on seawater reverse osmosis technology. The COD is scheduled in October 2014.

The Project Company has issued Limited Notice to Proceed (LNtP) during the month of December 2012.

Salalah IWPP

The COD of Salalah IWPP with respect to power was achieved in May 2012 and COD for water was achieved in March 2012. The project provides a production capacity of 445 MW and desalination capacity of 15 MIGD operated by SembCorp Salalah Power and Water Company.

Early Power from Barka III and Sohar II IPPs

The Early Power from Sohar II IPP by Al Batinah Power Company was achieved on 3rd June 2012 and Barka III IPP by Al Sawadi Power Company on 18th August 2012. The said Early Power of around 987MW has significantly contributed in meeting the peak demand of the summer 2012 in the MIS.

Temporary Generation

During 2012, OPWP successfully contracted a total capacity of 300 MW of temporary diesel generating units installed at seven locations throughout the MIS to meet Loss of Load Hour obligations for the summer 2012.

Initiation of P(W)PA Extension Study

OPWP has appointed international consulting firm NERA to advise on the development of a strategic plan relating to the future expiration of P(W)PAs.

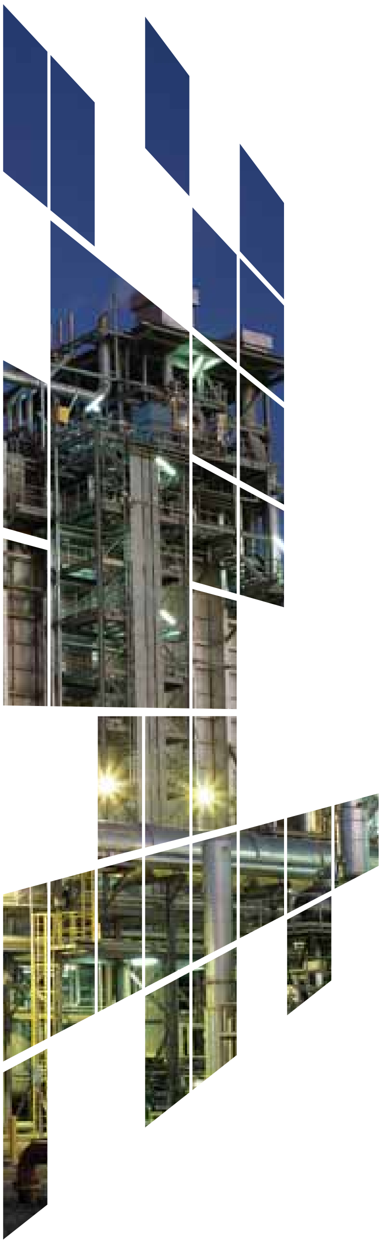
NERA has started the work in 4th Quarter of 2012 and expected to complete the study in 2013.

HR Initiatives

Work in progress on a number of HR initiatives including putting in place Development Plans and Succession Plans for all Omani staff as well as the Graduate Development Program in order to build a sustainable Omani led organisation.

Price Control

During 2012, the AER conducted a price control review and approved price control Notified Value which mainly includes OPWP's controllable costs for the period from 2013 to 2015.



2013 KEY PRIORITIES

Quality, Health & Safety and Environment

Continuous improvement of Quality Management System through business process mapping and implementation of key initiatives related to Health & Safety and Environment by complying with QHSE Policies and Standards.

Projects under Implementation

Barka III and Sohar II IPPs

The IPPs Barka III (Al Sawadi Power Company) and Sohar II (Al Batinah Power Company) construction is expected to continue as planned and a Commercial Operation Date is expected to be achieved before summer peak of 2013. The said projects will contribute with the total combined generation capacity of 1488 MW.

Sur IPP

Early Power of 433 MW is expected to be available from Sur IPP during the 3rd quarter of 2013.

10 MIGD ACWA IWP

ACWA Power Barka Company10 MIGD IWP is expected to be available by 1st October 2013.

MIS Temporary Generation (2013):

Due to possible delays in achieving COD capacities from Sohar II / Barka III projects, OPWP has initiated a procurement process of around 350 MW of Temporary Generation in a manner similar to that undertaken in 2012. This capacity may be required from 1 May 2013.

Projects under Development

Salalah II IPP

Late in 2012 a Request for Qualifications was issued for the Salalah II IPP. The generation capacity is expected to be available in early 2017. The Salalah II IPP will contribute up to 400 MW of new capacity to the Salalah Power System. As part of the Salalah II IPP, the Dhofar Generating Company which is currently part of Dhofar Power Company will be privatized and sold to the winning bidder. The Request for Proposals will be launched in 2013. Electricity will be purchased by OPWP under a 15-year Power Purchase Agreement.

Coastal Study

OPWP is planning to carry out a site selection and reservation study to identify and reserve the most suitable locations within the coastal area of Oman for the development of IPP/IWPP/IWPs.

Selection of an Advisor to carry out a full coastal study of Oman is completed and the study is expected be completed before end of 2013.

Musandam IPP

Musandam Independent Power Project COD is scheduled around 3rd Quarter 2015. The project will be contributing around 100 MW of power generation capacity.

Quriyat IWP
Quriyat IWP project is scheduled to be commercially available around May 2016. The said project will be contributing water capacity of around 40 MIGD.

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. OPWP has supported this study and stands ready to progress this project further once the go ahead from government is received.

The Meteorological Office Oman was contracted by the Public Authority of Electricity and Water to supervise, monitor and maintain 2 meteorological stations as part of a feasibility study and implementation of the solar power generating facility. OPWP has taken on board the maintenance of the meteorological stations and to manage solar data collection. OPWP is working with the appointed Advisory team to manage the solar stations and to publish the solar data on the OPWP website.

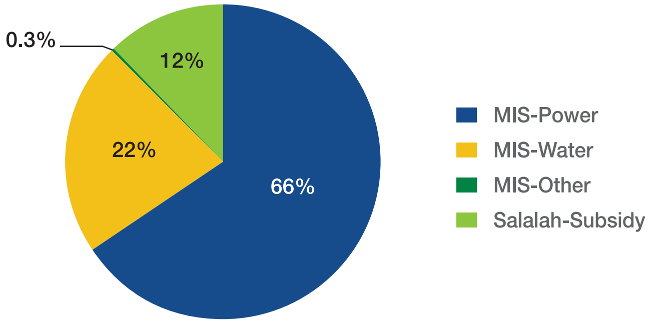
HR Initiatives
HR initiatives including putting in place Development Plans, Succession Plans and Competency Development Framework for all Omani staff as well as the Graduate Development Program, in order to build a sustainable Omani led organisation.

FINANCIAL HIGHLIGHTS

Regulatory framework

Where the money comes from – 2012

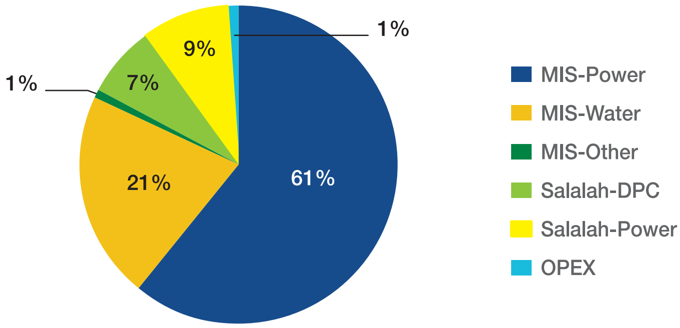
Figure 1: Sources of cash inflows



RO '000	2012	2011
Bulk Supply Revenue (Power)	266,412	224,866
Bulk Supply Revenue (Water)	86,443	81,111
Other Revenues (Other)	1,313	2,756
Subsidy from MOF (SII-Subsidy)	48,197	41,008
Total	402,365	349,741

Where the money goes - 2012

Figure 2: Application of cash



RO '000	2012	2011
Power purchase (Power)	246,649	217,389
Water purchase (Water)	85,441	80,119
Other Cost (Others)	2,283	9,372
Cost sharing to DPC (SII-DPC)	27,713	25,809
Power Purchase (SII-Power)	34,840	12,528
OPEX	4,648	3,517
Total	401,573	348,734
Net surplus before tax	792	1,007
Loss before tax (As per Financial Statements)	-3,995	-3,893

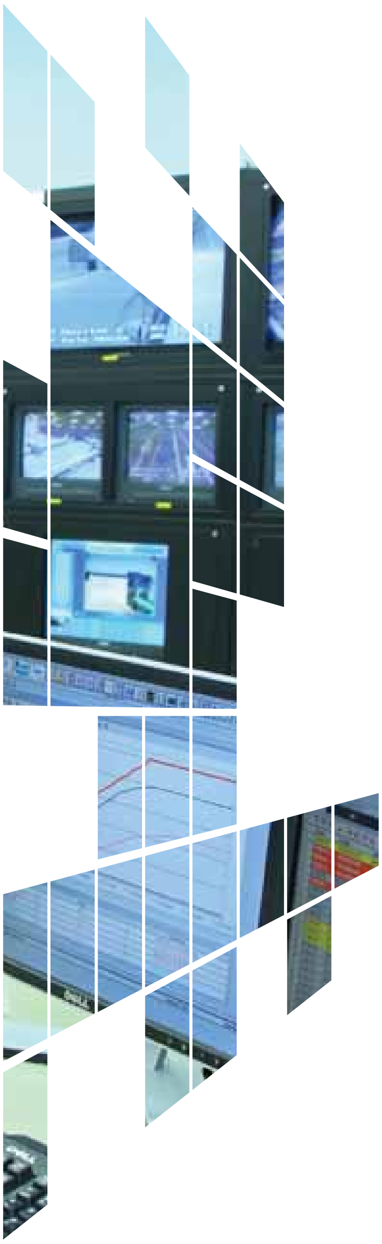
OPWP is making profit if the costs are measured as per the Regulatory accounting guidelines. As shown in the above table, OPWP made a net profit before tax of RO 792K when accounted under these guidelines. However, under the IFRS framework OPWP is required to recognise the PPA/PWPA's as leases and account the costs as per the International Accounting Standard 17 (IAS17). This led to recognising significantly higher costs in the statutory financial statements compared to the regulatory guidelines and results in a net loss before tax of RO 3,995K.

Credit ratings:

The current credit ratings of OPWP, as rated by the two leading rating agencies in 2012, 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 can be obtained from OPWP's website.



OPERATIONAL HIGHLIGHTS

(as per Regulatory Framework)

Procurement Business

Electricity

Main Interconnection system (MIS)	Units	2012	2011	Variance
Units Purchased	GWh	21,618	18,950	14%
Total Cost	RO’ 000	245,561	214,151	15%
Average Cost per MWh	RO	11.359	11.301	0%
Bulk Supply Revenue [1](Net)	RO’ 000	249,571	221,477	13%
BSR per MWh (Net)	RO	11.545	11.687	-1%

Higher consumer demand has led to 14% increase in the number of units purchased. This increase in demand was recorded across all the supply businesses Muscat (11%), Mazoon (15%) and Majan (19%). The higher demand led to increased utilisation of plant capacity leading to lower average cost per MWh. The revenue of OPWP is regulated and determined based on cost plus formula, the decrease in the average cost resulted in decrease in BSR per MWh.

Water

	Units	2012	2011	Variance
Water purchased	000 m^3	167,675	145,181	15%
Total Cost	RO’ 000	85,441	80,119	7%
Average Cost per m^3	RO	0.510	0.552	-8%
Bulk Supply Revenue (BSR)	RO’ 000	86,443	81,111	7%
BSR per m^3	RO	0.516	0.559	-8%

Higher consumer demand led to 15% increase in water purchased. The increased volume resulted in better utilisation of available water production capacity maintaining average costs and BSR per m^3 at the same level despite no despatch of water from Salalah IWPP due to delays in completion of water transmission facility.

Salalah Business

Electricity

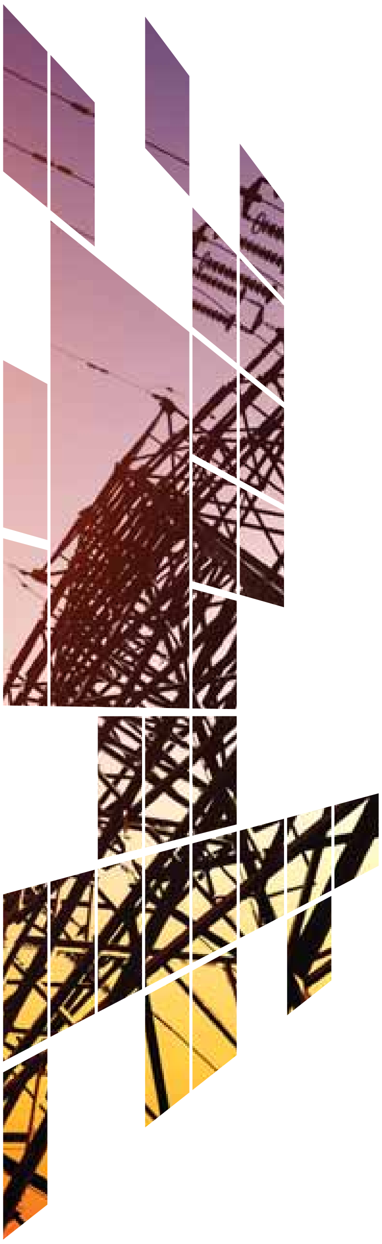
Salalah Power System	Units	2012	2011	Variance
Units Purchased	GWh	2,269	1,912	19%
Total Cost	RO’ 000	52,108	39,131	33%
Purchase Cost per MWh	RO	22.962	20.466	12%
Cost Sharing charge to DPC	RO’ 000	27,713	25,809	7%
Cost Sharing charge per MWh	RO	12.212	13.498	4%

[1] *Bulk supply revenue is net of over recovery of revenue (correction factor)*

The consumer demand for Salalah region is higher by 19% over 2011 and key driver for an increase in purchase cost is full year capacity charge for Salalah New IWPP. With respect to cost sharing charge, the key driver for the increase is Salalah IWPP connection charge allowance started in 2012.

MIS and Salalah	Units	2012	2011	Variance
Total Staff Count	No.	63	56	13%

The company recruited six Omanis and one expatriate employee during 2012.



OPERATIONAL PERFORMANCE

Procurement and Bulk Supply arrangements:

OPWP purchases electricity and desalinated water in accordance with the P(W)PAs with various generators and desalination companies. These agreements are generally for a period of 15 years.

Long Term Power & Water Purchase Agreements

Plant Owner	Type	Status	Contract Start	Contract expiry	Power Capacity (netMW)	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	Under Construction	2013	2028	744	
Al Suwadi Power Co.	PPA	Under Construction	2013	2028	744	
Phoenix Power Co.	PPA	Under Construction	2014	2029	2000	

*Including 10 MIGD Under construction

Key operational parameters - 2012

Plant Owner	Power (GWh)	Power Utilisation (%)	Water (MCM)	Water Utilisation (%)	Gas Qty (MSCM)
Al Ghubrah Power and Desalination Co.	2559	65.1%	50	81%	1264
Rusail Power Co.	3940	68.7%			1377
Wadi Al-Jizzi Power Co.	596	21.3%			216
United Power Co.	1473	62.0%			496
Al Kamil Power Co.	1612	64.3%			545
ACWA Power Barka	2698	69.4%	30	90%	738
Sohar Power Co.	3806	72.6%	45	82%	987
SMN Barka Power Co.	2621	44.2%	43	97%	641
SembCorp Salalah Power and Water Company	1357	45.8%	_	_	389
Al Batinah Power Co.	1034	55.2%			302
Al Suwadi Power Co.	681	52.6%			180

OPERATIONAL PERFORMANCE

MIS- Procurement and Sale of Power and related water during 2012

	Purchase
Al Rusail	3,940 GWh
Wadijizzi	596 GWh
Manah	1,473 GWh
Al Kamil	1,612 GWh
Sohar II	1,034 GWh
Barka III	681 GWh
Others	596 GWh
Al Ghubrah	2,559 GWh 50 MCM
Barka I	2,698 GWh 30 MCM
Sohar I	3,806 GWh 45 MCM
Barka II	2,621 GWh 43 MCM

OPWP

Total Power – 21,618 GWh

Total Water – 168 MCM

	Bulk Supply
Muscat Electricity	8,850 GWh
Mazoon Electricity	6,349 GWh
Majan Electricity	6,418 GWh
PAEW	168 MCM

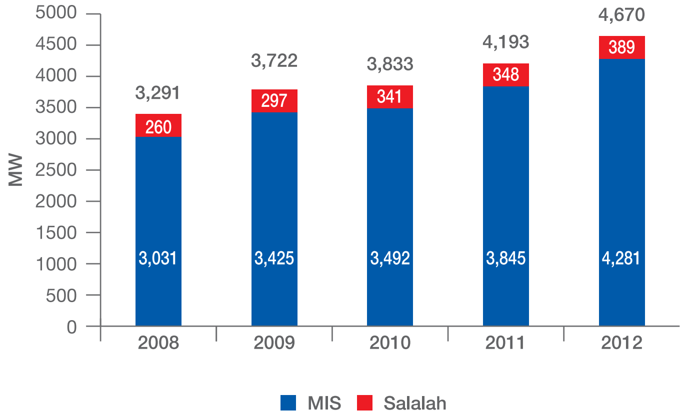
Salalah - Procurement and Sale of Power during 2012

NPS (DPC)	913 GWh	2,270 GWh	DPC (Supply)	2,270 GWh
Salalah IWPP	1,357 GWh			

GWh - GigaWatt Hour
MCM - Million Cubic Meter

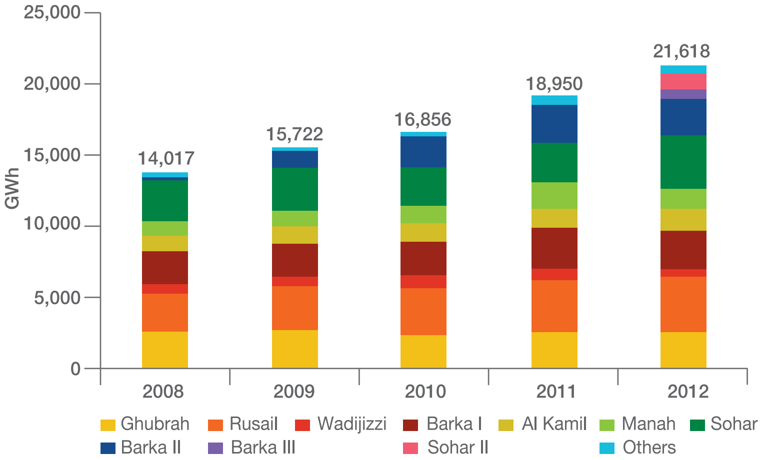
Electricity Demand and Generation Resources (2008 to 2012)

Figure 3: Power Peak Demand in MIS and Salalah (2008-2012)



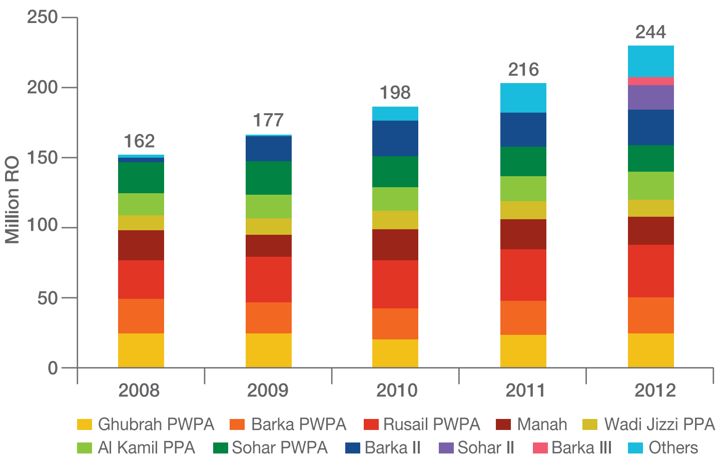
The peak demand in the MIS has increased from 3,031 MW in 2008 to 4,281 MW in 2012 with an average annual growth rate of about 7.1% and for Salalah increased at an annual average growth rate of 8.4%.

Figure 4: Electrical Energy Delivered to MIS (2008-2012)



The figure shows an increase in electrical energy at an average annual growth rate of 9% during 2008 -2012. In 2012, early power from Sohar II, Barka III and temporary diesel contributed to meet the increase in demand.

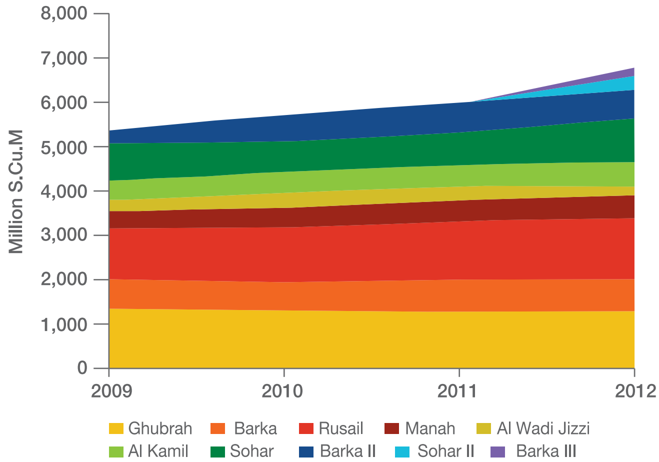
Figure 5: Power purchase cost (MIS)



The total energy purchased cost is increased at an average annual rate of 8.6%.

OPERATIONAL PERFORMANCE

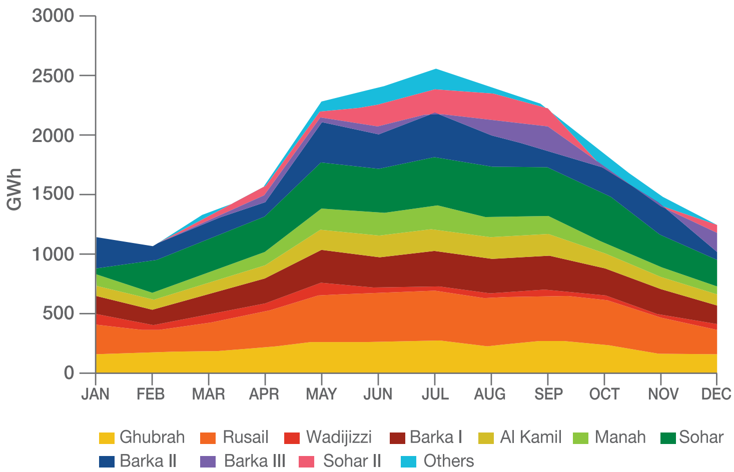
Figure 6: Yearly Gas Consumption (MIS)



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

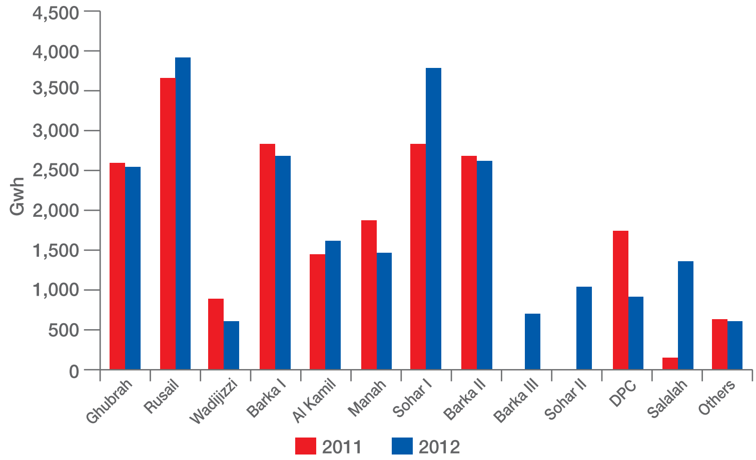
Year over Year Performance of Power Generation Resources

Figure 7: Energy demand profile - 2012 (MIS)



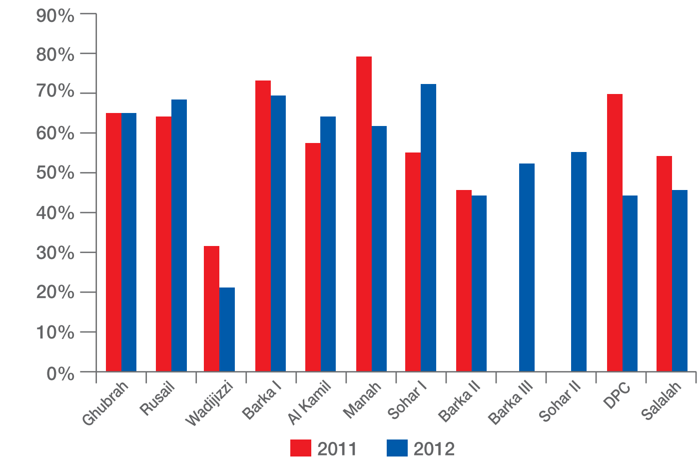
The electricity demand is seasonal in nature and peak requirement in July is more than twice the energy required in January. Temporary diesel generation contributed to meet peak energy demand.

Figure 8: Energy purchased



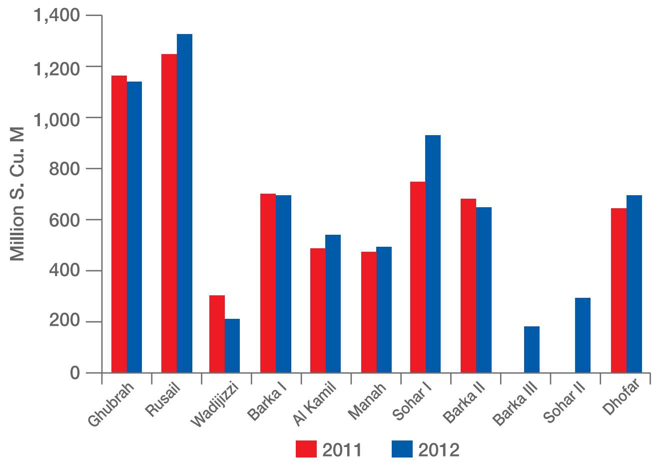
The figure shows the share of energy purchased in the MIS. Early power from the two new plants has reduced the energy purchase from relatively inefficient plants like AlKamil, Manah, Wadijizzi.

Figure 9: Plant utilization



The utilization of plant capacity is generally lower due to 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, Al Kamil.

Figure 10: Gas Consumption

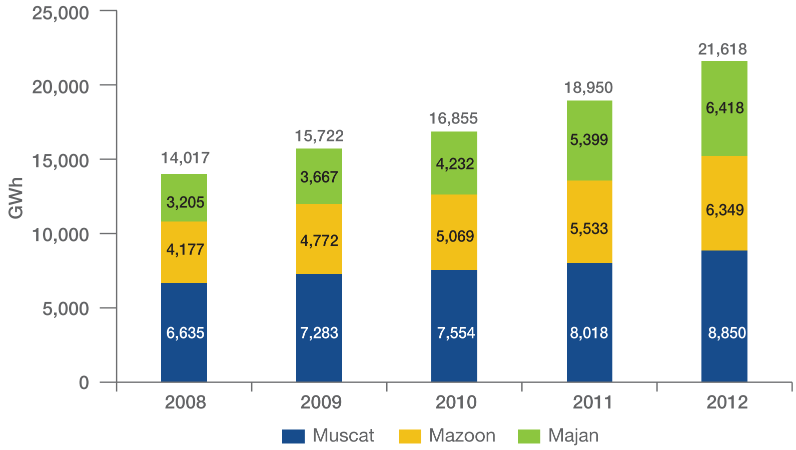


The increase in total gas consumption was 11.1% against increase in production of power by 11.8 % and water by 15.5%.

OPERATIONAL PERFORMANCE

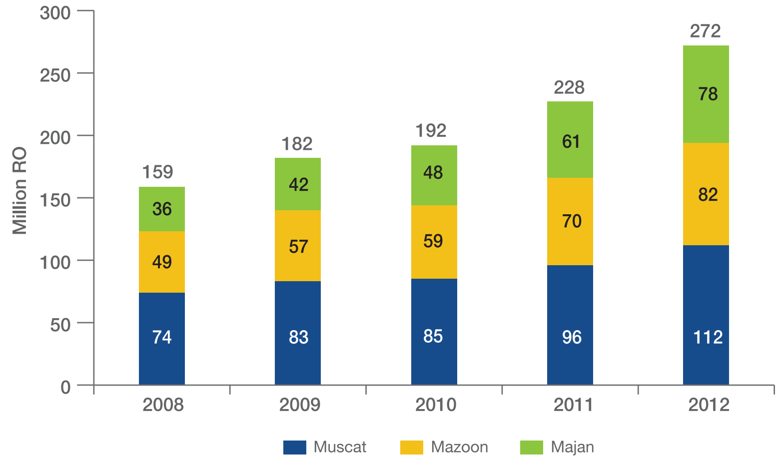
Electricity Bulk Supply Statistics

Figure 11: Yearly Bulk Supply Quantity



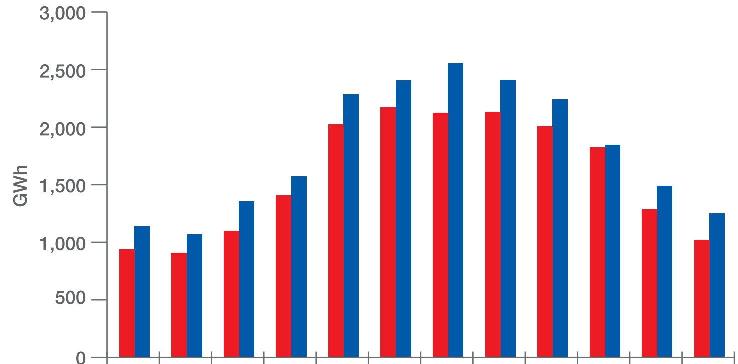
The average annual growth in bulk supply of power is 9% over last five years.

Figure 12: Yearly Electricity Bulk Supply Charges - MIS



The average annual growth in bulk supply charge is 11.4% over last five years as against 9% growth in quantity (please see above figure). The key driver for the increase is significant over recovery of bulk supply charges in 2012 which is carried forward to 2013 as deferred revenue. By adjusting the over recovery, average annual growth in quantity and Rial Omani charge is almost the same.

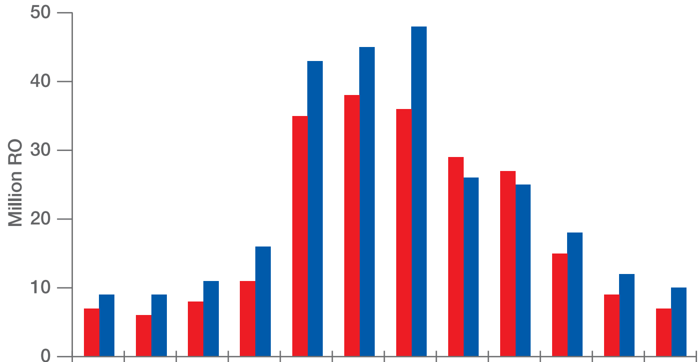
Figure 13: Monthly Electricity Bulk Supply Quantities - MIS



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	938	909	1099	1409	2024	2173	2125	2134	2007	1825	1287	1020
2012	1138	1067	1357	1574	2283	2405	2555	2410	2239	1848	1488	1253

The bulk supply quantity increased by about 14% over 2011. July observed a peak increase of 430GWh energy supply which is catered by early power from Sohar II and diesel temporary generation.

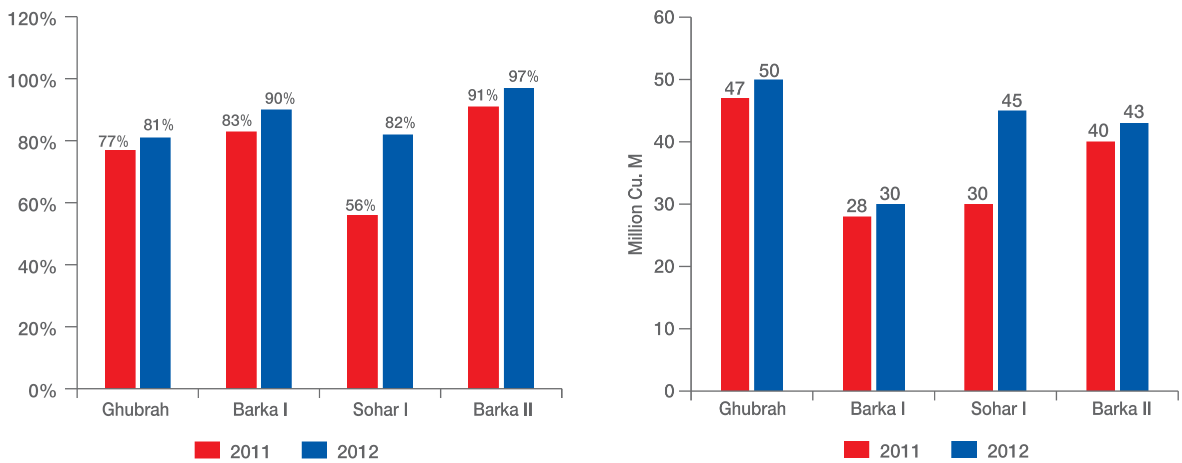
Figure 14: Monthly Electricity Bulk Supply revenue - MIS



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	7	6	8	11	35	38	36	29	27	15	9	7
2012	9	9	11	16	43	45	48	26	25	18	12	10

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

Figure 15: Plant utilization and share of water purchased

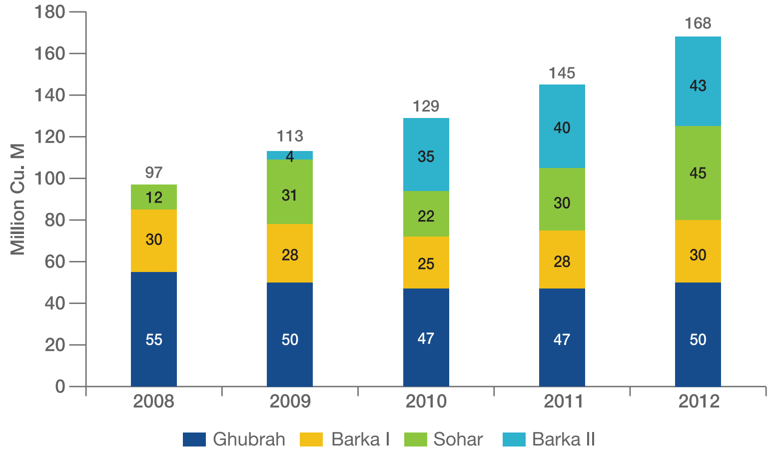


The increase in water demand has led to the increase in utilization of plants and in case of Sohar the utilization has increased by about 48%

The Sohar registered increase in water by 50% whereas other plants have shown marginal increase.

OPERATIONAL PERFORMANCE

Figure 16: Potable Water Exports (2008-2012)



The water delivered to the PAEW has increased an average annual growth rate of 11.6% during 2008 -2012. The significant increase over last three years is contributed by Sohar and Barka II.

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:

1) **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.

2) **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.

3) **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:

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
H.E. Saud Nassir Al Shukaily	5 (5)	8 (9)	0	0	3,200	2,800
Mr. Saleh Ali Humaid Al Harthy	4 (5)	0	2 (2)	4 (4)	2,000	2,000
Mr. Abdullah Salim Al Harthy	5 (5)	9 (9)	0	0	2,500	2,700
Mr. Hamdan Ali Nasser Al Hinai	5 (5)	0	0	4 (4)	2,500	1,600
Eng. Saleh Nassir Al Rumhi	1 (1)	0	0	0	500	0
Total					**10,700**	**9,100**

( ) numbers in brackets represent meetings the member was authorised to attend. The total sitting fees is RO 19,800.

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. Ernst & Young was appointed to support the internal audit for the year 2012.

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.

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 balance sheet as at 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Commercial Companies Law of 1974, as amended.

PricewaterhouseCoopers LLP

12 March 2013
Muscat, Sultanate of Oman

PricewaterhouseCoopers LLP, Hatat House A, Suites 204-211, Wadi Adai, P. O. Box 3075, Ruwi, Post Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/middle-east

Chartered Accountants Licence No. MH/26, Management Consultants Licence No. ME/161, Commercial Register No. 1307665

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 RO '000	2011 RO '000
Revenue	5	**403,258**	349,693
Operating costs	6	**(384,575)**	(330,106)
Gross profit		**18,683**	19,587
General and administrative expenses	7	**(4,258)**	(3,445)
Other income		**11**	7
Profit from operations		**14,436**	16,149
Finance income	8	**59**	52
Finance costs	9	**(18,490)**	(20,095)
Loss before tax		**(3,995)**	(3,894)
Taxation	10	**(4,054)**	471
Loss and total comprehensive loss for the year		**(8,049)**	(3,423)

The notes on pages 39 to 54 form an integral part of these financial statements.

Report of the Auditors - Page 34

BALANCE SHEET AS AT 31 DECEMBER 2012

	Note	2012 RO ’000	2011 RO ’000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**116,916**	136,837
Advance payments	12	**16,926**	17,843
Total non-current assets		**133,842**	154,680
Current assets			
Inventories		**567**	567
Trade and other receivables	13	**41,706**	31,627
Cash and cash equivalents	14	**23,546**	20,992
Total current assets		**65,819**	53,186
Total assets		**199,661**	207,866
EQUITY			
Share capital	15	**500**	500
Legal reserve	16	**167**	167
General reserve	17	**250**	250
Accumulated losses		**(24,690)**	(16,641)
Shareholder’s funds	18	**19,879**	19,879
Total equity		**(3,894)**	4,155
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	19	**117,220**	133,898
Deferred revenue		**4,344**	5,305
Provisions	20	**515**	336
Deferred tax liability	21	**3,971**	18
Total non-current liabilities		**126,050**	139,557
Current liabilities			
Trade and other payables	22	**60,541**	48,799
Finance lease liabilities	19	**16,678**	15,085
Provision for current tax	10	**101**	117
Provisions	20	**185**	153
Total current liabilities		**77,505**	64,154
Total liabilities		**203,555**	203,711
Total equity and liabilities		**199,661**	207,866

The financial statements on pages 2 to 21 were approved by the Board of Directors on 20 February 2013 and were signed on their behalf by:

Saud Bin Nasser Al Shukaily
Chairman

Hamdan Bin Ali Al Hinai
Director

Ahmed Bin Saleh Al Jahdhami
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital RO ’000	Legal reserve RO ’000	General reserve RO ’000	Accumulated losses RO ’000	Shareholders’ funds RO ’000	Total equity RO ’000
At 1 January 2011	500	167	250	(13,218)	19,879	7,578
Comprehensive loss:						
Loss for the year	-	-	-	(3,423)	-	(3,423)
At 31 December 2011	500	167	250	(16,641)	19,879	4,155
At 1 January 2012	**500**	**167**	**250**	**(16,641)**	**19,879**	**4,155**
Comprehensive loss:						
Loss for the year	**-**	**-**	**-**	**(8,049)**	**-**	**(8,049)**
At 31 December 2012	**500**	**167**	**250**	**(24,690)**	**19,879**	**(3,894)**

The notes on pages 39 to 54 form an integral part of these financial statements.

Report of the Auditors - Page 34

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 RO '000	2011 RO '000
Cash flows from operating activities		
Loss before tax	**(3,995)**	(3,894)
Adjustments for:		
Depreciation on property, plant and equipment	**20,014**	19,998
Interest expense	**44**	21
Interest on finance leases	**18,100**	20,021
Advance payments amortised	**917**	565
Write off of property, plant and equipment	**-**	14
Deferred revenue recognised	**(961)**	(9)
Provision for employee benefits expense	**286**	286
Operating cash flows before payment of provision for employee benefits and working capital changes	**34,405**	37,002
Payment of employee benefits	**(75)**	(27)
Working capital changes:		
Trade and other receivables	**(10,079)**	16,758
Trade and other payables	**11,742**	6,435
Cash generated from operations	**35,993**	60,168
Income tax paid	**(117)**	(120)
Net cash generated from operating activities	**35,876**	60,048
Cash flows from investing activities		
Purchase of property, plant and equipment	**(93)**	(100)
Net cash used in investing activities	**(93)**	(100)
Cash flows from financing activities		
Interest paid	**(18,144)**	(20,042)
Repayment of short term loan from holding company	**-**	(6,000)
Repayment of lease liabilities	**(15,085)**	(15,573)
Net cash used in financing activities	**(33,229)**	(41,615)
Net change in cash and cash equivalents	**2,554**	18,333
Cash and cash equivalents at the beginning of the year	**20,992**	2,659
Cash and cash equivalents at the end of the year	**23,546**	20,992

The notes on pages 39 to 54 form an integral part of these financial statements.

Report of the Auditors - Page 34

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1 Legal status and principal activities

Oman Power and Water Procurement Company SAOC (the company) is a closed 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 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

c) As at 31 December 2012, the company's accumulated losses of RO 24.690 million (2011 - RO 16.641 million) resulted in erosion of its share capital and the current liabilities exceeded its current assets by RO 11.686 million (2011 - RO 10.968 million). The Parent company has confirmed that they 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.

d) Standards and amendments effective in 2012 and relevant for the company's operations:

For the year ended 31 December 2012, the company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2012.

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

2 Summary of significant accounting policies (continued)

2.2 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. Accordingly, the deficit is recognised in the current 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.

2.3 Foreign currency

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

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the reporting date. Gains and losses from foreign currency transactions are dealt with, in the statement of comprehensive income as they arise.

2.4 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 comprehensive income as an expense as and when incurred.

Depreciation

Depreciation is recognised in the statement of 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.

2 Summary of significant accounting policies (continued)

2.5 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.

2.6 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 comprehensive income.

Non-financial assets

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

2 Summary of significant accounting policies (continued)

2.6 Impairment (continued)

Non-financial assets (continued)

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

2.7 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.

2.8 Trade receivables

Trade and other receivables are stated at their fair value. Trade debtors are initially recognised at fair value and subsequently are stated at amortised cost using the effective interest rate method less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able 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 are 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 comprehensive income within 'General and administrative expenses'.

2.9 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.

2.10 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.

2.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as that the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the statement of comprehensive income in the year in which they are incurred.

2 Summary of significant accounting policies (continued)

2.12 Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using 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 comprehensive income except when they relate to items credited or debited directly to equity, in which case the tax is recognised directly in equity.

2.13 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 (the Transfer Date) 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 balance sheet.

2.14 Leases

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 (net of any incentives received from the lessor) are charged to the statement of 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.

2 Summary of significant accounting policies (continued)

2.14 Leases (continued)

Finance leases (continued)

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

3 Financial risk management

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

3.1 Financial risk factors

(a) Market risk

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.

(b) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Liquidity risk (continued)

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 maturity dates. 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 2012

	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	**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**	**-**	**-**
Total	**231,176**	**31,082**	**9,247**	**24,647**	**139,576**	**26,624**

31 December 2011

	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	232,198	2,765	5,531	24,889	154,807	44,206
Non-interest bearing						
Trade and other payables	42,959	-	42,959	-	-	-
Suppliers and contractors payables	1,699	1,685	13	1	-	-
Total	276,856	4,450	48,503	24,890	154,807	44,206

(c) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk of the company is primarily attributable to trade and other receivables, 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 amounts due from distribution companies and related parties. The company does not consider this as an undue exposure, since the obligation of distribution companies and water departments is considered fully recoverable.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Credit risk (continued)

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

	2012	2011
	RO '000	RO '000
Trade receivable from related parties	36,271	16,316
Trade receivable - water sales	318	15,085
	36,589	31,401

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

	31 December 2012			31 December 2011		
	Gross	Impaired	Past Due but not impaired	Gross	Impaired	Past Due but not impaired
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Not past due	36,586	-	-	31,342	-	-
1 month to 3 months	-	-	-	-	-	-
3 months to 1 year	3	-	3	59	-	59
	36,589	-	3	31,401	-	59

Trade receivables are due one month from date of invoicing.

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:

	2012	2011
Assets as per balance sheet	RO '000	RO '000
Trade receivables	36,589	31,401
Other receivables	5,071	179
Cash and cash equivalents	23,546	20,992
	65,206	52,572

3.2 Capital risk management

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

3 Financial risk management (continued)

3.3 Fair value estimation

The carrying amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values.

4 Critical accounting estimates

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 judgments 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 which will be legally transferred to the company at the end of the lease term are depreciated over the useful life for the company, which is the lease term, as management believes that at the end of the lease term the assets will not remain with the company. Assets held under finance leases which will not transfer to the company at the end of the lease term 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 from accelerated tax depreciation and accumulated tax losses.

Based on the executive regulations for the treatment of finance leases issued by the Oman Taxation Authorities on 28 January 2012, the management has considered adoption of IFRIC 4 and IAS 17 retrospectively from the year 2007 for tax purposes. The retrospective adoption of the above change in lease classification from operating lease to finance lease resulted in additional deferred tax charge in these financial statements amounting to RO 3.953 million, and the corresponding effect of liability in the balance sheet.

5 Revenue

	2012	2011
	RO '000	RO '000
Bulk supply revenue for electricity	**288,926**	231,269
Bulk supply revenue for water	**86,443**	81,111
Recharge of interconnection and transmission facilities	**2,051**	2,097
Net funding from MOF	**48,197**	41,008
Other revenue	**155**	611
	425,772	356,096
Add/(less): previous year revenue in excess of/(less than) maximum allowed as per price control formula, adjusted	**3,613**	(2,735)
Add/(less): previous year interest on revenue in excess of/(less than) maximum allowed as per price control formula, adjusted	**55**	(55)
Less: revenue in excess of the maximum allowed as per price control formula deferred to next year	**(26,182)**	(3,613)
	403,258	349,693

6 Operating costs

	2012 RO '000	2011 RO '000
Electricity capacity and output purchase costs - net	**249,220**	194,888
Desalinated water capacity and output purchase costs - net	**85,441**	80,119
Depreciation on finance leased assets	**19,918**	19,918
Cost sharing charge to Dhofar Power Company SAOC	**27,713**	25,809
Other direct costs	**2,283**	9,372
	384,575	330,106

7 General and administrative expenses

	2012 RO '000	2011 RO '000
Employee benefit expenses	**2,707**	2,065
License fee to the Authority for Electricity Regulation	**386**	362
Service expenses	**606**	540
Directors sitting fees	**20**	49
Depreciation	**96**	80
Other expenses	**443**	349
	4,258	3,445

Included within employee benefit expenses is an amount of RO 286,000 (2011 - RO 286,000) relating to post employment benefit expenses.

8 Finance income

	2012 RO '000	2011 RO '000
Interest on bank account	**59**	52

9 Finance costs

	2012 RO '000	2011 RO '000
Interest on obligations under finance leases	**18,100**	20,021
Interest on excess revenue billed over maximum allowed revenue under the price control formula	**346**	53
Interest on bank overdrafts	**44**	21
	18,490	20,095

10 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% (2011 - 12%). The deferred tax on all temporary differences has been calculated and dealt with in the statement of comprehensive income.

	2012 RO '000	2011 RO '000
Current tax - in respect of prior years	**101**	117
Deferred tax - in respect of current and prior years	**3,953**	(588)
	4,054	(471)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

10 Taxation (continued)

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 (2011 - RO 30,00).

The following is a reconciliation of income tax calculated on accounting profits in excess of their exemption limit of RO 30,000 at the applicable tax rate of 12% with the taxation amount in the statement of comprehensive income:

	2012 RO '000	2011 RO '000
Accounting loss as per statement of comprehensive income	(3,995)	(3,894)
Tax credit on accounting loss	(483)	(471)
Deferred tax asset on tax losses not recognised	1,165	-
Current tax in respect of prior years	101	-
Tax effect of expired tax losses	425	-
Adjustment to deferred tax liability for prior years	2,846	-
Tax expenses for the year	4,054	(471)

Taxation has been agreed with the Oman taxation authorities for all year up to 31 December 2006.

Movement in current tax provision is as under:

	2012 RO '000	2011 RO '000
Tax payable at beginning of the year	117	120
Current tax in respect of prior years	101	117
Tax paid during the year	(117)	(120)
Tax payable at end of the year	101	117

11 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/write off	-	(17)	-	-	**(17)**
31 December 2012	269,342	523	115	22	**270,002**
Depreciation					
1 January 2012	132,788	251	50	-	**133,089**
Charge for the year	19,918	83	13	-	**20,014**
Disposal/write off	-	(17)	-	-	**(17)**
31 December 2012	152,706	317	63	-	**153,086**
Net book value					
31 December 2012	116,636	206	52	22	**116,916**

11 Property, plant and equipment (continued)

	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 2011	269,342	408	76	14	269,840
Additions	-	74	14	12	100
Write off	-	-	-	(14)	(14)
31 December 2011	269,342	482	90	12	269,926
Depreciation					
1 January 2011	112,870	183	38	-	113,091
Charge for the year	19,918	68	12	-	19,998
31 December 2011	132,788	251	50	-	133,089
Net book value					
31 December 2011	136,554	231	40	12	136,837

12 Advance payments

Advance payments pertain to fixed capacity payments made in respect of power and water purchases and represent total cumulative payments made to date reduced by the total cumulative charges to date recognised in the statement of comprehensive income.

13 Trade and other receivables

	2012 RO '000	2011 RO '000
Trade receivable from related parties	**36,271**	31,219
Trade receivables - water sales	**318**	182
Prepayments	**46**	47
Other receivables	**5,071**	179
	41,706	31,627

As at 31 December 2012 no amounts are impaired (2011 - no amounts were impaired).

14 Cash and cash equivalents

	2012 RO '000	2011 RO '000
Cash at bank	**23,544**	20,989
Cash on hand	**2**	3
	23,546	20,992

15 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**	**2012 RO**	2011 RO
Electricity Holding Company SAOC	**99.99%**	**499,950**	**499,500**	499,950
Ministry of Finance	**0.01%**	**50**	**50**	50
		500,000	**500,000**	500,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

16 Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, as amended this reserve is equal to one third of the company's paid up share capital and is not available for distribution.

17 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.

18 Shareholder's Funds

Following the implementation of a decision of the Sector Law and in accordance with the transfer scheme, Electricity Holding Company SAOC 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.

19 Finance lease liabilities

Amounts payable under finance leases are as follows:

	2012 **RO '000**	2011 RO '000
Gross finance lease liabilities - minimum lease payments		
Not later than 1 year	**32,813**	33,185
Later than 1 year and not later than 5 years	**139,576**	154,807
Later than 5 years	**26,624**	44,206
	199,013	232,198
Less: future finance charges on lease liabilities	**(65,115)**	(83,215)
Present value of finance lease liabilities	**133,898**	148,983

At the commencement of each lease, the company has recognised assets and liabilities to an amount equal to the lower of the present value of minimum lease payments and estimated fair value of the finance leased assets. The finance expense on the lease liability was determined based on the net investment method.

The present values of finance lease liabilities are as follows:

	2012 **RO '000**	2011 RO '000
Not later than 1 year	**16,678**	15,085
Later than 1 year and not later than 5 years	**94,801**	97,621
Later than 5 years	**22,419**	36,277
	133,898	148,983

20 Provisions

Provisions relate to employee benefit expenses.

	2012 RO '000	2011 RO '000
Non-current	**515**	336
Current	**185**	153
	700	489

Movement in provisions

	2012 RO '000	2011 RO '000
At beginning of the year	**489**	230
Charge during the year	**286**	286
Payments during the year	**(75)**	(27)
At end of the year	**700**	489

21 Deferred tax liability

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12% (2011 - 12%). The net deferred tax liability in the balance sheet and the net deferred tax charge/(credit) in the statement of comprehensive income are attributable to the following items:

2012	**1 January 2012 RO '000**	**(Credit)/charge for the year RO '000**	**31 December 2012 RO '000**
Liability			
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**

2011	1 January 2011 RO '000	(Credit)/charge for the year RO '000	31 December 2011 RO '000
Liability			
Accelerated tax depreciation	6	1	7
Finance leases	(970)	(520)	(1,490)
Deferred revenue	(638)	(1)	(639)
Advance payments	2,208	(68)	2,140
	606	(588)	18

22 Trade and other payables

	2012 RO '000	2011 RO '000
Revenue in excess of maximum allowed as per price control formula, deferred to next year	**26,181**	3,613
Accruals and other expenses	**22,824**	25,467
Trade payables to related parties	**9,196**	17,492
Due to Ministry of Finance for excess funding received	**1,851**	475
Interest on revenue in excess of maximum allowed as per price control formula	**346**	53
Suppliers and contractors payables	**143**	1,699
	60,541	48,799

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

23 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. For the purpose of IAS 24, 'Related party disclosures', the Government of the Sultanate of Oman is not considered as a related party.

The company maintains balances with these related parties which arise in the normal course of business. Outstanding balances at year end are unsecured and settlement occurs in cash.

No expenses have been recognised in the year (2011 - 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:

	2012 RO '000	2011 RO '000
Revenue		
Bulk supply tariff for electricity to Muscat Electricity Distribution Company SAOC	**111,652**	96,322
Bulk supply tariff for electricity to Mazoon Electricity Company SAOC	**82,491**	70,144
Bulk supply tariff for electricity to Majan Electricity Company SAOC	**77,941**	61,414
Bulk supply tariff for water to Public Authority for Electricity and Water	**80,564**	80,705
Recharge of interconnection and transmission facilities to Oman Electricity Transmission Company SAOC	**2,051**	2,097
Bulk supply tariff for electricity to Dhofar Power Company SAOC	**16,841**	3,389
	371,540	314,071
Expenses		
Electricity capacity and output purchases from Al Ghubrah Power and Desalination Company SAOC	**24,255**	24,473
Electricity capacity and output purchases from Wadi Al Jizzi Power Company SAOC	**12,639**	14,150
Electricity capacity and output purchases from Rural Areas Electricity Company SAOC	**-**	9,139
Desalinated water capacity and output purchases from Al Ghubrah Power and Desalination Company SAOC	**27,386**	27,999
Cost sharing charges to Dhofar Power Company SAOC	**27,713**	25,809
Accounting service charges from Electricity Holding Company SAOC	**102**	102
	92,095	101,672

	2012 RO '000	2011 RO '000
Intercompany receivables		
Public Authority for Electricity and Water	**12,235**	14,903
Muscat Electricity Distribution Company SAOC	**9,726**	6,427
Majan Electricity Company SAOC	**8,643**	4,267
Mazoon Electricity Company SAOC	**3,888**	3,736
Dhofar Power Company SAOC	**1,737**	1,691
Oman Electricity Transmission Company SAOC	**42**	194
Electricity Holding Company SAOC	**-**	1
	36,271	31,219

Intercompany payables

	2012 RO '000	2011 RO '000
Dhofar Power Company SAOC	**4,361**	11,983
Al Ghubrah Power and Desalination Company SAOC	**4,044**	3,534
Rural Areas Electricity Company SAOC	**-**	1,123
Wadi Al Jizzi Power and Desalination Company SAOC	**698**	807
Electricity Holding Company SAOC	**93**	45
	9,196	17,492

23 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:

	2012	2011
	RO '000	RO '000
Short-term employee benefits	**1,068**	945
Post employment benefits	**46**	140
Directors remuneration and sitting fees	**20**	49
	1,134	1,134

24 Contingencies and operational commitments

	2012	2011
	RO '000	RO '000
Operating lease commitments		
Not more than 1 year	**153,628**	102,438
More than 1 year but not more than 5 years	**1,090,976**	1,037,494
More than 5 years	**1,612,720**	1,819,839
	2,857,324	2,959,771