

ANNUAL  
REPORT  
2014



الشركة العمانية لشراء الطاقة والمياه (ش.م.ع.م.)  
OMAN POWER AND WATER PROCUREMENT CO. (SAOC)

إحدى شركات مجموعة نماء  
Member of Nama Group





His Majesty Sultan Qaboos Bin Said



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## GLOSSARY

AER	Authority for Electricity Regulation, Oman
BSR	Bulk Supply Revenue
BST	Bulk Supply Tariff
COD	Commercial Operation Date
DGC	Dhofar Generating Company (SAOC)
DGW	Directorate General of Water (in the Office of the Minister of State and Governor of Dhofar)
DPC	Dhofar Power Company (SAOC)
DPS	Dhofar Power System
EHC	Electricity Holding Company (SAOC)
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
MWh	Megawatt Hour
MZEC	Mazoon Electricity Company (SAOC)
NGSA	Natural Gas Supply Agreement
OCGT	Open-Cycle Gas Turbine
OETC	Oman Electricity Transmission Company (SAOC)
OOCEP	Oman Oil Company Exploration & Procedure
OMR	Omani Rial
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	Reverse Osmosis (Desalination Technology)
SSPWC	Sembcorp Salalah Power and Water Company (SAOC)

## 1 ABOUT US

### 1.1 BOARD OF DIRECTORS



**Mr. Hamdan Bin Ali Al Hinai**

Chairman of the Board

Other position: Director General of Purchasing & Contracts, Ministry of Defence



**Eng. Saleh Bin Nasser Al-Rumhi**

Deputy Chairman of the Board

Other position: General Manager for Policy & Strategy Studies, Public Authority for Electricity & Water



**Mr. Saleh Bin Ali Al Harthy**

Member of the Board

Other position: Director of Gas Revenue, Ministry of Finance



**Mr. Sean O'Hare**

Member of the Board

Other position: Founder of Boardroom Dialogue Ltd, focused on Board Effectiveness Reviews, Business Coaching, and Leadership and Personal Development.



**Mr. S. Vishwanath**

Member of the Board

Other position: Chief Financial Officer, Electricity Holding company

### EXECUTIVE MANAGEMENT



**Eng. Ahmed Bin Saleh Al Jahdhami**

Chief Executive Officer



**Eng. Yaqoob Bin Saif Al Kiyumi**

Chief Operating Officer





## 1.2 CHAIRMAN'S FOREWORD

### Dear Shareholders,

On behalf of the members of the Board, I have pleasure in presenting the Annual Report of Oman Power and Water Procurement Company SAOC for the year 2014.

### Achievements

The year 2014 was another challenging but successful year for OPWP with the company accomplishing a number of major initiatives, including:

- Commissioning of the Sur IPP project with a production capacity of 2,000 MW by Phoenix Power Company.
- Commissioning of 10 MIGD additional water capacity at the Barka I site.
- Finalising the award process for the Barka I Phase II expansion project to ACWA Power Barka with a water production capacity of 12.5 MIGD.
- Signing of contracts with Sharqiyah Desalination Company for Sur IWP Expansion with a production capacity of 10.6 MIGD.
- Finalising the award process for the Musandam IPP to Oman Oil Company with a capacity of 120 MW.
- Completion of various HR initiatives such as Competency Framework for all jobs along with Career Progression Guidelines, Structured Graduate Development Program, and performance management system (PMS).
- Recruitment of 15 new Omani employees which raised the Omanization level to 81%.

### Financial Highlights

OPWP's earnings before tax as per the Regulatory framework stood at RO 1.1M. 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. OPWP has booked a net loss before tax of RO 2.1M. Since the company continues to have a negative equity, a 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.

### 2015 Key Priorities

OPWP looks forward to 2015 with a number of key priorities and projects being undertaken. Amongst these are:

- Awarding and signing the contract for the Qurayyat IWP (44 MIGD) with a planned COD in 2017.
- Signing contract for the Barka I Phase II Expansion (12.5 MIGD) with a planned COD in 2016.
- Signing the contract for the Musandam IPP (120 MW) with a planned COD in late 2016.
- Awarding and signing the contract for the Salalah II IPP (445 MW) with a planned COD in early 2018.
- Awarding and signing the contract for the Ibri/ Sohar III IPP's (combined contracted capacity of between 2,850-3,150MW) with early power in 2018 and fully capacity in 2019.
- Awarding and signing the contract for the Sohar / Barka IWP's (55 MIGD and 61.8 MIGD respectively) with a planned COD in 2018.
- Signing a Power Purchase contract with RAECO for the Dhofar Wind Power project (50MW) with a planned COD in 2016.
- Continuous improvement of Quality, Health & Safety and Environment function within the Company.
- Pro-active adoption of the group rebranding initiative (the NAMA initiative).
- In addition, OPWP will be continuing its focus on building a sustainable Omani led organisation by implementing Succession Plans, Personal Development Plans and Graduate Development Program.

### General

During late 2014, Standard and Poor's (S&P) revised their outlook on OPWP to negative from stable due to the sharp drop in oil prices which has a negative impact on the assessment of Oman's fiscal and external positions. Such review followed in line with the review of the outlook for Oman nationally and does not represent any OPWP specific issue.

Previous Chairman H.E. Saud Bin Nasser Al Shukaily and board member Mr. Abdullah Bin Salim Al Harthi, resigned from their positions in early 2014 with the gratitude of the company for their service. I would like to welcome Mr. Sean O'Hare and Mr. S. Vishwanath who joined the Board in early 2014. I express my thanks to the outgoing members and to the continuing Members of the Board for their valuable contribution to the Company.





Mr. Yaqoob Al Kiyumi has been appointed as Chief Operating Officer, and I would welcome him to the management team in his new role.

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 2015. 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.

**Hamdan Bin Ali Al Hinai**  
Chairman





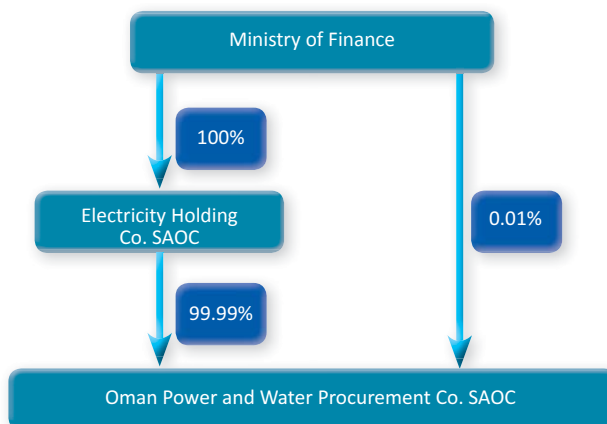
## 1.3 COMPANY PROFILE

### 1.3.1 Shareholders' Structure:

Oman Power and Water Procurement Company SAOC 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 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



### 1.3.2 Licenced Activities:

The Company is carrying out the following activities as stated in its licence and in accordance with the Sector Law promulgated by Royal Decree 78/2004 as amended by Royal Decree 59/2009 and Royal Decree 47/2013:

- to secure New Capacity and Output to enable it to comply with its duties under the Sector Law and its Licence;
- to contract for production Capacity and Output to enable it to comply with its obligations under the Sector Law and its Licence;
- to purchase and procure water Desalination Production Capacity and Output in accordance with Articles (74) to (81) of the Sector Law and its Licence;
- to forecast demand for electricity within the Sultanate of Oman in accordance with the Sector Law and its Licence;
- to the extent that it is permitted to do so by the Sector Law and its Licence, to Import electricity;
- to the extent that it is permitted to do so by the Sector Law and its Licence, to Export electricity;
- to Bulk Supply electricity to Licensed Suppliers and to charge a Bulk Supply Tariff for such Bulk Supply;
- to Bulk Supply Desalinated water from Production Facilities which are subject to a contract with it to Water Departments and to charge a Bulk Supply Tariff for such Bulk Supply;
- to sell demineralised water to Persons other than Water Departments;
- to procure Ancillary Services as required by the Sector Law and its Licence;
- to purchase and procure supplies of fuel for delivery to Licence Holders; and
- to carry out any other function assigned to it by the Sector Law.

## 1.4 COMPANY'S STRATEGY

### 1.4.1 Nama Group Business Strategy and Shared Values

The Company Business strategy is aligned with the Nama Group Business Strategy, which focuses on five key elements as illustrated below. Similarly the Company embraces the shared values of Nama Group.

Figure 2: Nama Group Business Strategy

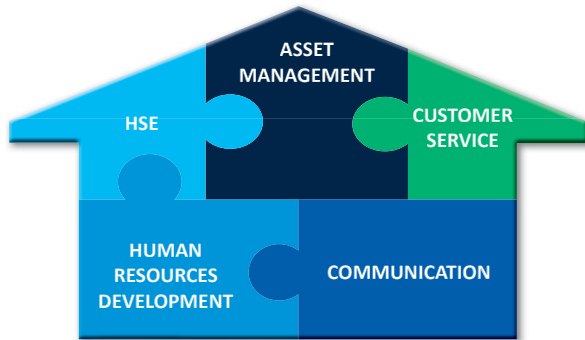
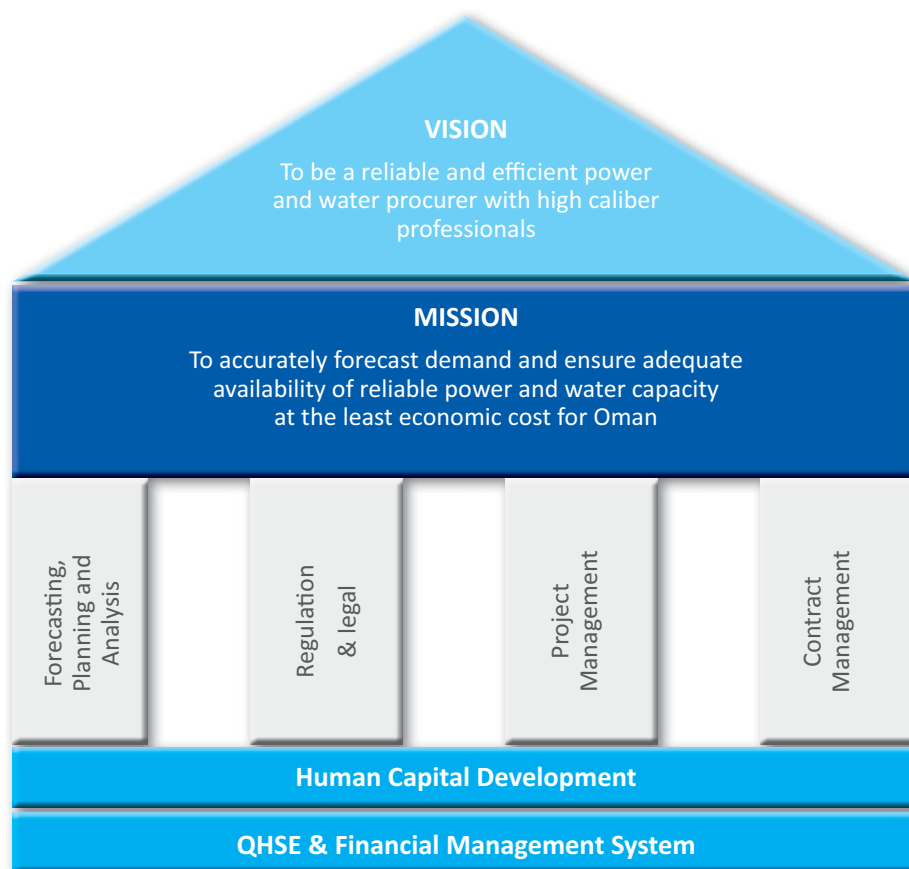


Figure 3: Nama Group Shared Values



### 1.4.2 Vision & Mission Statement

Figure 4: Vision & Mission Statement



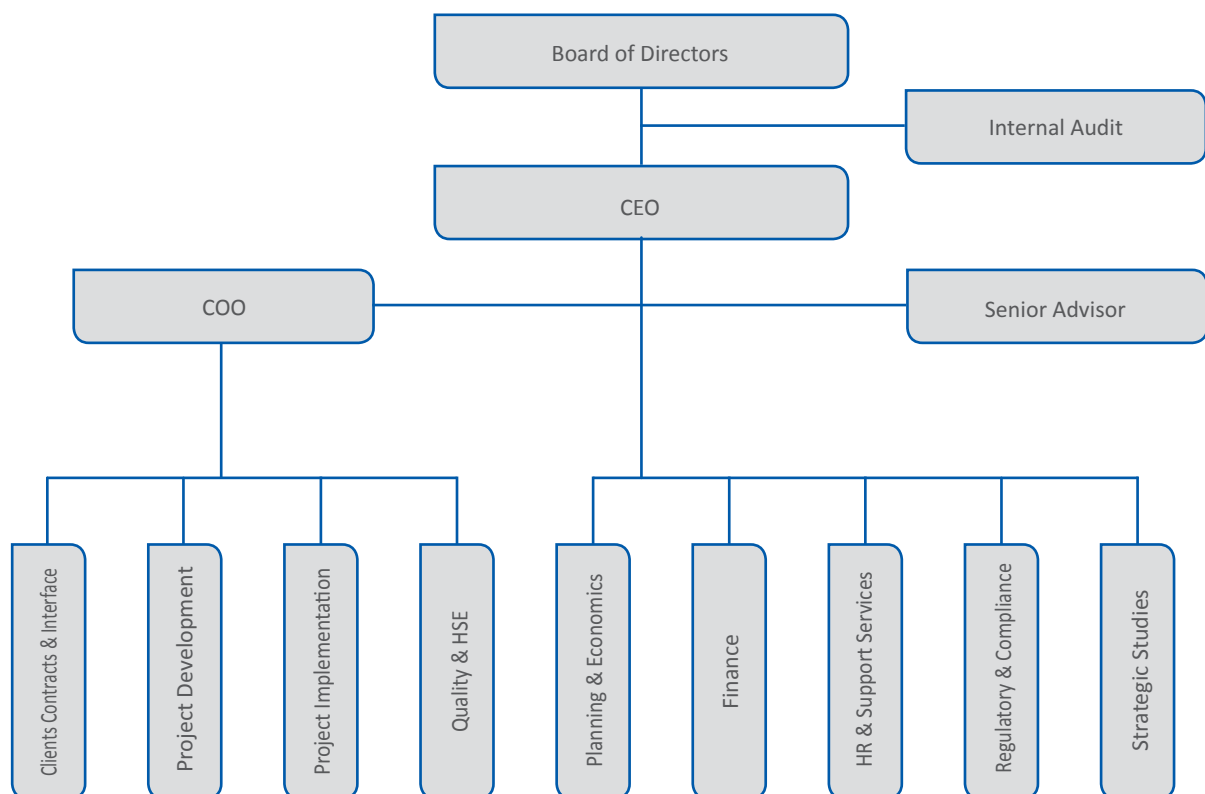
### 1.4.3 Business Objectives

- 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.
- To develop and empower our staff to achieve business objectives and realise their potential.

## 1.5 ORGANIZATION STRUCTURE & FUNCTION

### 1.5.1 Organization Structure

Figure 5: OPWP's Organisation Structure





## 1.5 ORGANIZATION STRUCTURE & FUNCTION (continued)

### 1.5.2 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.

### 1.5.3 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. Finance department is also responsible for implementing Enterprise Risk Management system.

#### Regulatory and Compliance

Regulatory and Compliance 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 oversees 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, identifies 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.



## 2 BUSINESS REVIEW



### 2.1 Significant Achievements of the Year 2014

During 2014, the Company was engaged in a number of key projects and strategic initiatives, of which the significant achievements are summarized below.

#### Sur IPP

The Sur IPP Project achieved Commercial Operation in December 2014, adding 2,000 MW of contracted capacity to the MIS. OPWP entered into a Power Purchase Agreement with Phoenix Power Company in July 2011 for the design, construction and operation of the power plant, which is located in the Sur Industrial Estate in Sharqiyah Governorate.

#### Barka I Expansion Project

OPWP entered into a water purchase agreement with ACWA Power Barka in August 2012 for the provision of around 45,000 m<sup>3</sup>/day, or 10 MIGD, of desalinated water capacity at a site adjacent to the existing Barka I IWPP facility. The project successfully achieved commercial operation in May 2014.

#### Contract Extensions Strategic Initiative

OPWP completed an economic evaluation and study of four existing power plants for which the power and water purchase agreements are scheduled to expire within the next few years. A process was developed, and approved by the AER, to evaluate proposals from the plant owners for contract extensions up to 2020.

#### Membership in GCC Interconnection Authority

Oman joined the GCCIA officially in December 2014, following several years of participation as a non-member. GCCIA membership provides Oman with a number of valued benefits including improved power system reliability, access to the planning and operating reserves of the interconnected system (comprising six countries), and opportunities to import or export electricity.

#### Novation of Water Purchase Agreement with Sharqiyah Desalination Company

The water purchase agreement for the Sur IWP (19 MIGD), between the Sharqiyah Desalination Company

and PAEW has been novated from PAEW to OPWP. The Novation Agreement was signed and ratified on December 25, 2014. The Novation Agreement is part of the project agreements that are related to the expansion of the Sur IWP, for additional capacity of 12.5 MIGD. The expansion project is scheduled to begin commercial operation in September 2016.

#### Temporary Generation

In order to meet the capacity requirements for summer 2014, OPWP procured through a competitive tendering process 101 MW of temporary diesel generation. This was necessary due to construction delays of the Sur IPP early power units. The capacity was located at a site near to the Sur 33kV grid substation and a second site within the Jahlan Bani Bu Ali grid substation. The generators were in place from mid-May until August 2014.

#### Dhofar Power System Synchronized with the PDO Network

OPWP entered into a Construction Agreement with PDO to build a 132kV single circuit of approximately 80 km in length between the Dhofar Power System at Thumrait and the PDO System at Harweel. Following successful completion of construction, the circuit was synchronized in July 2014. This circuit was handed over to OETC in December 2014.

### 2.2 2015 Key Priorities

#### 2.2.1 Strategic Initiatives

##### Contract Extensions

OPWP expects to complete negotiations with the owners of Barka I, Ghubrah, Al Kamil, and Wadi Jizzi plants in 2015, with respect to the proposed extension of power and water purchase contracts that would otherwise expire in the next few years.

##### Electricity Spot Market

Toward developing a wholesale electricity spot market for 2018 operation, OPWP plans in 2015 to develop the detailed market rules for operations and to define system requirements.



## 2 BUSINESS REVIEW - Strategic Initiatives (continued)

### Secure GCCIA Member Benefits

OPWP plans to participate in pilot electricity trading activities with another GCCIA member state in order to test and establish the necessary arrangements for firm capacity transactions. This would create an alternative option for short-term contingent capacity, for which OPWP has previously procured rental diesel generators when required. OPWP also plans to establish the contribution of the GCCIA interconnection benefits to requirements for both operating reserves and generation adequacy, in cooperation with OETC and the AER.

### Gas Utilization Improvement

Considering national priorities to manage the use of natural gas resources and the growing cost of energy subsidies, OPWP has launched a joint initiative with OETC to make further improvements in gas utilization by the power and water plants. In 2015, OPWP aims to achieve a 5% reduction in the average amount of gas required for each unit of electricity generated.

### 2.2.2 Projects under Implementation

#### Al Ghubrah IWP

Al Ghubrah IWP is owned by Muscat City Desalination Company and is currently under construction. The plant has contracted desalination capacity of 191,000 m<sup>3</sup>/d (42 MIGD) using RO technology. The COD is expected to be achieved in 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).

#### Barka I Phase II Expansion

A second capacity expansion project is in progress by ACWA Power Barka, with a total capacity of 56,826 m<sup>3</sup>/d (12.5 MIGD), at a site adjacent to the Barka I plant. The additional capacity is contracted with OPWP to be delivered in three phases from July 2015 to January 2016.

#### Sur IWP Expansion

The expansion project at the Sur Desalination plant by Sharqiyah Desalination Company is currently under construction. The project will add capacity of 57,000 m<sup>3</sup>/d (12.5 MIGD) to the existing capacity of 83,000 m<sup>3</sup>/d (19 MIGD), for delivery in September 2016.

#### Qurayyat IWP

The Qurayyat IWP was awarded to Hyflux Consortium in 2014, and will begin construction in 2015 for commercial operation in May 2017. The water desalination plant is designed to provide capacity of 200,000 m<sup>3</sup>/d (44 MIGD).

#### Musandam IPP

This project, a 120 MW power plant, is being developed by Oman Oil Company and LG for commercial operation in the fourth quarter of 2016. It is anticipated that the PPA between OPWP and the developer will be signed in late 2016.

#### Salalah 2 IPP

OPWP expects to award the Salalah 2 IPP within the first quarter of 2015. The plant is expected to have capacity of about 445 MW, to be in commercial service by January 2018, and located at a site in Raysut adjacent to the existing 273 MW plant which is operated by the Dhofar Generating Company (DGC). As part of the Salalah 2 IPP competition process, DGC will be privatized and sold to the winning bidder.





### 2.2.3 Projects under Development

#### Ibri-Sohar 3 IPP

OPWP has recently released a Request for Proposals (RFP) for two Independent Power Projects to be located at sites in Ibri and Sohar, respectively. The projects are planned to have aggregate capacity in the range 2650 MW to 3150 MW. Early power capacity is required at the Ibri site between 760 MW to 1160 MW from April to October 2018, to be followed by full power between 1100 MW and 1450 MW by Commercial Operation Date in April 2019. The IPP to be located at Sohar will not have an early power phase, and instead will be contracted for full power capacity in January 2019.

#### Barka IWP

A new IWP is planned at Barka, with capacity of 281,000 m<sup>3</sup>/d (62 MIGD), for commercial operation in May 2018. OPWP expects to release the RFP in May 2015.

#### Sohar IWP

A new IWP is also planned at Sohar, with capacity of 250,000 m<sup>3</sup>/d (55 MIGD), for commercial operation in May 2018. OPWP expects to release the RFP in May 2015.

#### Sharqiyah IWP

OPWP expects to start procurement of a new IWP in Sharqiyah in 2015, for which sites are currently under evaluation. The capacity is expected to be about 57,000 m<sup>3</sup>/d (12.5 MIGD), for commercial operation in the first quarter of 2019. The RFP release is planned for the first quarter of 2016.

#### Dhofar IWP

OPWP expects to start procurement of a new IWP in Dhofar in 2015, for which sites are being considered at Raysut and Taqa. The capacity is expected to be in the range of 80,000 to 100,000 m<sup>3</sup>/d (18 to 22 MIGD), for commercial operation in the first quarter of 2019. The RFP release is planned for the first quarter of 2016.

#### Duqm IWP

OPWP expects to start procurement of a new IWP in Ad Duqm in 2015. The capacity is expected to be in the range of 55,000 to 60,000 m<sup>3</sup>/d (12 to 13 MIGD), for commercial operation in 2019, subject to confirmation by PAEW.

#### Dhofar Wind Power Plant

OPWP expects to execute a power purchase agreement with RAECO for energy generated by a new 50 MW wind power plant. The project is being developed jointly by RAECO and Abu Dhabi Future Energy Company PJSC. It is expected to reach commercial operation in May 2017.



### 3 FINANCIAL HIGHLIGHTS

#### Regulatory framework:

Table 1: Where money comes from

RO'000	2014	2013
Bulk Supply Revenue (Power)	377,354	342,805
Bulk Supply Revenue (Water)	94,919	93,989
Other Revenues*	1,193	1,518
Subsidy from MOF	0	30,457
<b>Total</b>	<b>473,466</b>	<b>468,769</b>

\*Other Revenues include ITF revenue, and recovery of Ghubrah IWP cost.

Figure 6: Source of cash

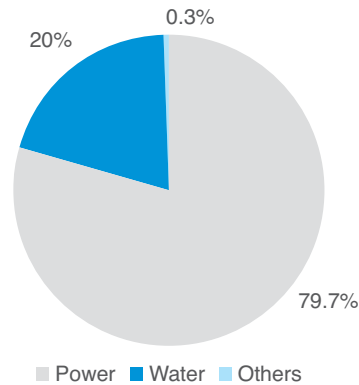
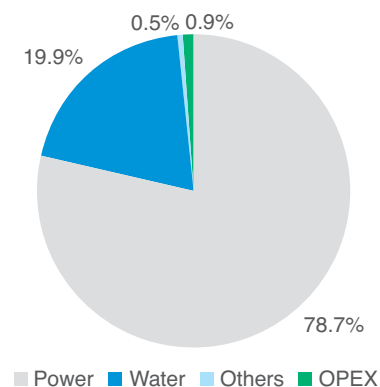


Table 2: Where money goes

RO'000	2014	2013
Power Purchase cost	371,650	338,252
Water Purchase cost	93,779	92,904
Other cost	2,304	1,938
Cost sharing to DPC	0	30,146
OPEX	4,615	4,036
<b>Total</b>	<b>472,348</b>	<b>467,276</b>
Profit/loss before Tax - Regulatory framework	1,127	1,493
Profit/loss before Tax - IFRS	(2,123)	(1,090)

Figure 7: Application of cash



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.

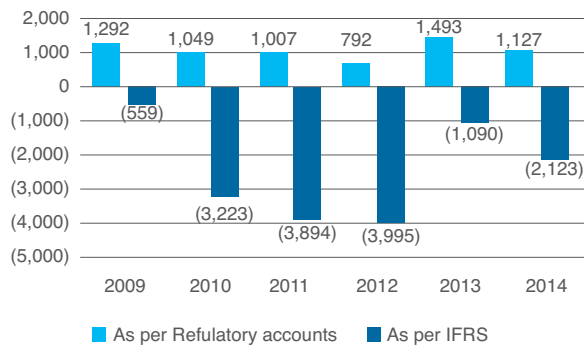
In the financial statements, OPWP recognises the revenue as per the price control which is based on the payment

obligations approach and recognises the cost based on 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 position measured on the basis of the two frameworks over last six years. In 2014, the company made a net profit before tax of RO 1.127M when accounted under the regulation accounting. However, under the IFRS framework, the statutory financial statements reflect a net loss before tax of RO 2.123 M.



### 3 FINANCIAL HIGHLIGHTS (continued)

Figure 8: Profit before Tax (RO '000)



#### Credit ratings:

Due to the sharp drop in oil prices which has a negative impact on the assessment of Oman's fiscal and external positions, Standard and Poor's (S&P) revised their outlook on OPWP to negative from stable. Such review followed in line with the review of the outlook for Oman nationally and does not represent any OPWP specific issue.

The current credit ratings of OPWP, as rated by the two leading rating agencies in 2014, are:

- Standard and Poor's Ratings Services  
'A/A-1 Negative'
- 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 on OPWP's website.





## 4 OPERATIONAL HIGHLIGHTS (AS PER REGULATORY FRAMEWORK)

### 4.1 MIS – Electricity

Table 3: MIS - Electricity

Particular	Units	2014	2013	Variance
Units Purchased	GWh	24,981	22,702	10%
Total Cost	RO' 000	306,659	290,493	6%
Average Cost per MWh	RO	12.276	12.796	-4%
Power Revenue (Net)	RO' 000	339,688	317,299	7%
Power Revenue per MWh	RO	13.598	13.976	-3%

Higher consumer demand has led to 10% increase in the number of units purchased. This increase in demand was recorded across all the supply businesses Muscat (7%), Mazoon (11%) and Majan (13%). The revenue of OPWP is regulated and determined based on cost plus formula, the decrease in the average cost per MWh resulted in decrease in power revenue per MWh.

### 4.2 Dhofar Power System - Electricity

Table 4: DPS - Electricity

Particular	Units	2014	2013	Variance
Units Purchased	GWh	2,651	2,472	7%
Total Cost	RO' 000	64,055	61,840	4%
Average Cost per MWh	RO	24.171	25.016	-3%
Cost Sharing charge to DPC	RO' 000	-	30,146	-
Power Revenue (Net)	RO' 000	37,665	24,876	51%
Power Revenue per MWh	RO	14.21	10.06	41%

The consumer demand for Dhofar region was higher by 7% over 2013. This has led to an increase in power purchase cost by 4% and reduction in average cost per MWh reflecting better utilization of capacity. The Salalah Concession agreement was restructured with effect from 1 January 2014 and hence there are no cost sharing charges in 2014.

Further, it is evident from the above that the electricity cost per MWh for DPS (2014 - RO 24.1/MWh) is significantly higher than the revenue per MWh for DPS (2014 - RO 14.21/MWh). Whereas electricity cost per unit for MIS (2014 – RO 12.2/MWh) is lower than revenue per MWh for MIS (2014 – RO 13.59/MWh). The reason for variation is that the bulk supply tariff is derived combining the cost of two systems (MIS & DPS) such that the estimated average bulk supply charges per MWh equal for both. This reflects higher cost of DPS is subsidised by passing it to MIS customers.

### 4.3 Water Purchase

Table 5 : Water - MIS & DPS

Particular	Units	2014	2013	Variance
Water purchased	000 m <sup>3</sup>	207,399	193,562	7%
Total Cost	RO' 000	93,779	92,904	1%
Average Cost per m <sup>3</sup>	RO	0.452	0.480	-6%
Water Revenue (Net)	RO' 000	94,919	93,989	1%
Water Revenue per m <sup>3</sup>	RO	0.457	0.486	-10%

Higher consumer demand led to 7% increase in water purchased. The increased volume resulted in better utilisation of available water production capacity and lower average costs and BSR per m<sup>3</sup> compared to 2013.



## 5 OPERATIONAL PERFORMANCE

### 5.1 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 to 20 years.

Table 6: Long Term Power & Water Purchase Agreements

Plant	Type	Status	Contract Start	Contract expiry	Power Capacity (net MW)	Water Capacity (MIGD)
Al Ghubrah Power and Desalination Co.	PWPA	Operational	2005	2018	415 to 247*	36.8 to 31*
Rusail Power Co.	PPA	Operational	2005	2022	665	
Wadi Al-Jizzi Power Co.	PPA	Operational	2005	2020	292 to 156*	
United Power Co. (Manah)	PPA	Operational	1996	2020	273	
Al Kamil Power Co.	PPA	Operational	2002	2017	272	
ACWA Power Barka (Barka I)	PWPA	Operational	2003	2018	427	30
Sohar Power Co.	PWPA	Operational	2007	2022	585	33
SMN Barka Power Co. (Barka II)	PWPA	Operational	2009	2024	674	26.4
Al Batinah Power Co. (Sohar II)	PPA	Operational	2013	2028	744	
Al Suwadi Power Co. (Barka III)	PPA	Operational	2013	2028	741	
Phoenix Power Co. (Sur IPP)	PPA	Operational	2014	2029	2,000	
Muscat City Desalination Plant (Ghubrah)	WPA	Under Construction	2014	2034		42
Al Sharqia Desalination (Sur IWP)**	WPA	Operational	2014	2036		17.64
SembCorp Salalah Power and Water Co.	PWPA	Operational	2012	2027	445	15
Dhofar Generation Company	PPA	Operational	2014	2029	273	

\*Due to retirement of units \*\* Novated to OPWP from 25 December 2014.

Table 7: Key operational parameters - 2014

Plant Owner	Power (GWh)	Power <sup>1</sup> Utilisation (%)	Water (MCM)	Water Utilisation (%)	Gas Qty (MSCM)
Al Ghubrah Power and Desalination Co.	2,094	64%	50.38	83.6%	1054.0
Rusail Power Co.	3,666	63%			1259.4
Wadi Al-Jizzi Power Co.	571	25%			204.2
United Power Co. (Manah Plant)	1,105	50%			365.8
Al Kamil Power Co.	1,239	52%			417.5
ACWA Power Barka (Barka I-MSF+RO)	2,716	73%	40.12	93.0%	756.8
Sohar Power Co. (Sohar I)	3,497	68%	48.91	89.3%	956.4
SMN Barka Power Co. (Barka II)	1,247	21%	42.50	97.0%	343.0
Al Batinah Power Co. (Sohar II)	3,614	55%			704.4
Al Suwadi Power Co. (Barka III)	3,157	49%			619.2
Phoenix Power Co. (Sur IPP)	1,543	17%			429.6
Al Sharqia Desalination (Sur IWP)			0.46	82.4%	
SembCorp Salalah	1,711	44%	23.7	100%	455.0
Dhofar Power Company	941	39%			331.0
<b>Total</b>	<b>27,102</b>		<b>206</b>		<b>7,896</b>

<sup>1</sup> The utilization of plant capacity is generally lower due to seasonal demand pattern which results in idle capacity during winter months. The utilization is managed by OETC based on economic merit order / efficiency subject to technical constraints such as transmission constraints, must run plants to meet water demand and security of the system.

## 5 OPERATIONAL PERFORMANCE (continued)

### 5.2 Purchase and Sale of Power and related water during 2014

Figure 9: MIS - Purchase and Sale of Electricity and water during 2014

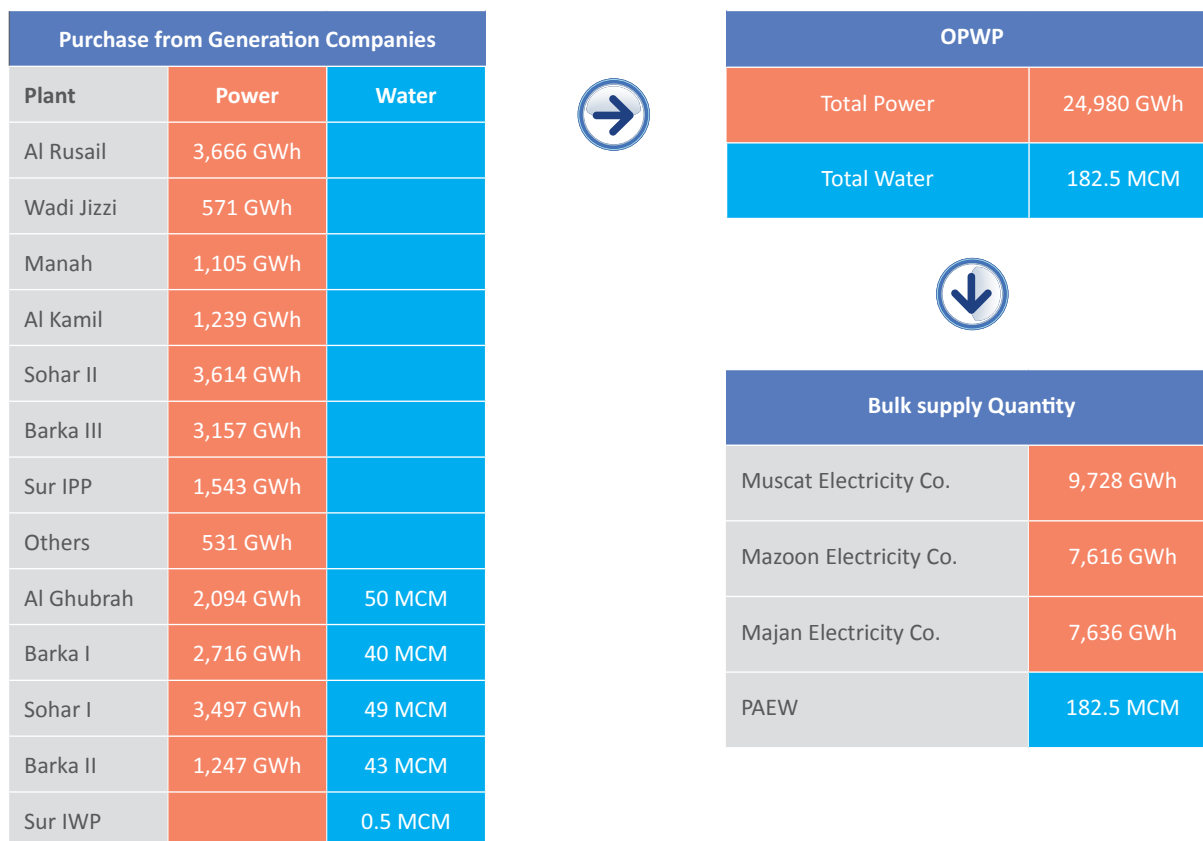
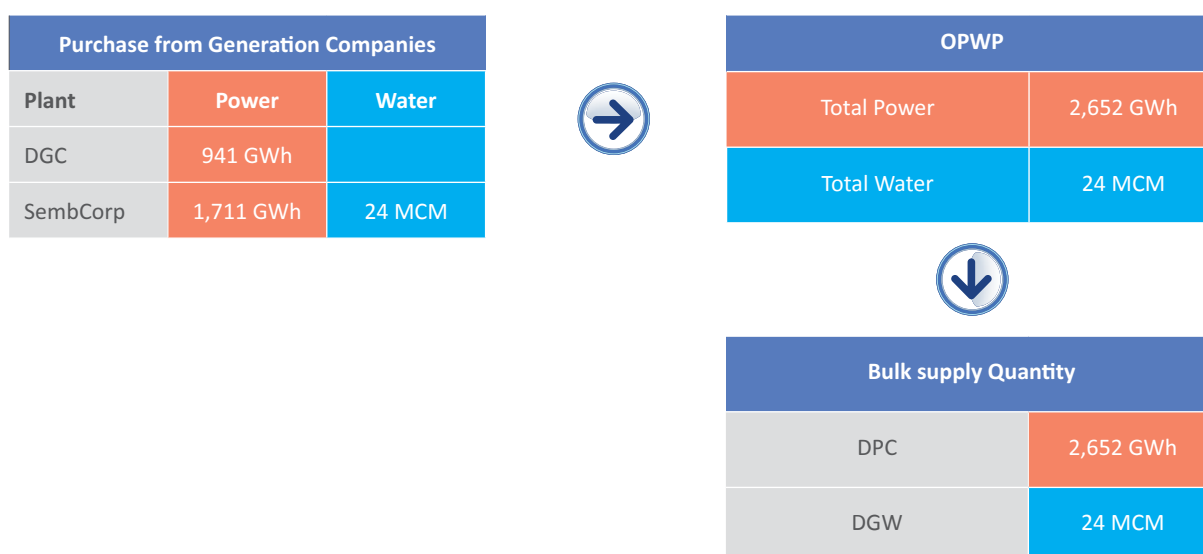


Figure 10: Dhofar Power System - Procurement and Sale of Electricity and related water during 2014

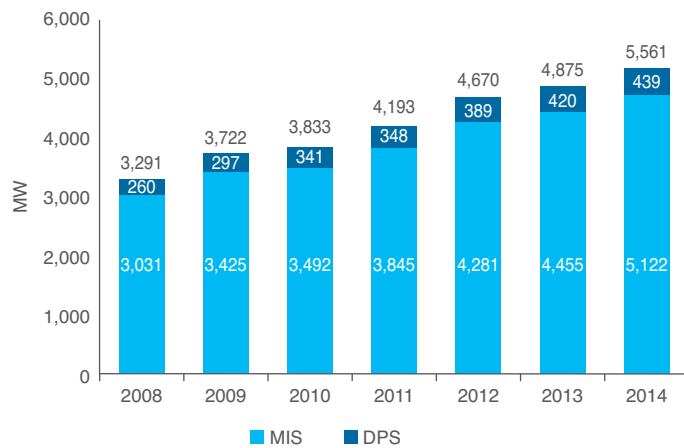




## 5 OPERATIONAL PERFORMANCE (continued)

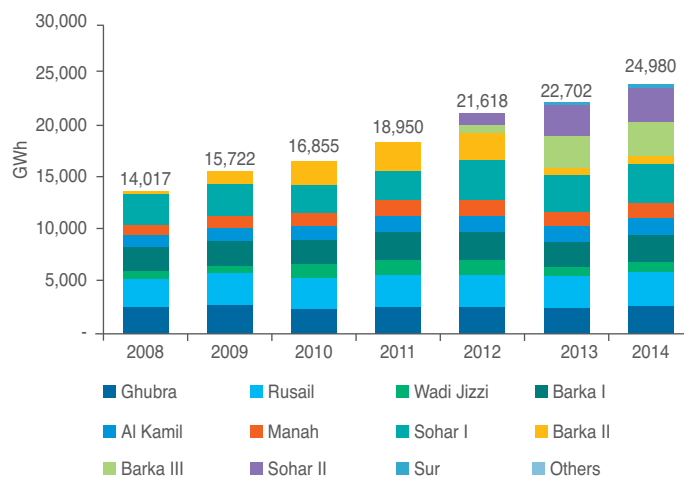
### 5.3 Electricity Demand and Generation Resources (2008-2014)

Figure 11: Power Peak Demand in MIS and DPS (2008-2014)



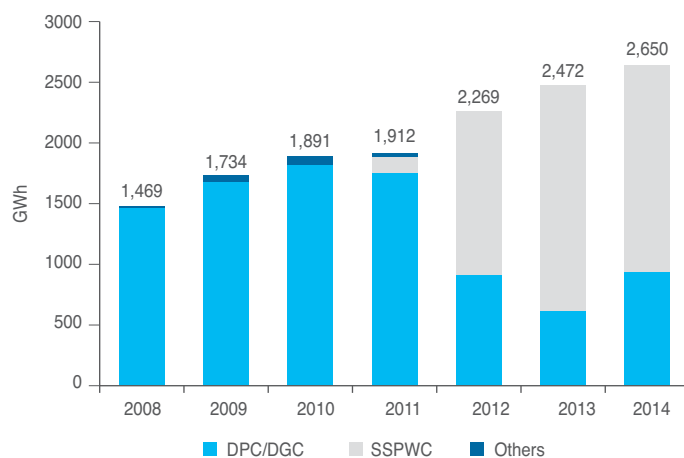
The Peak demand in the MIS has increased from 3,031 MW in 2008 to 5,122 MW in 2014 at an average annual growth rate of about 9.1%, for MIS (with an increase of 15% in 2014 compared to 2013). DPS also increased at an average annual growth rate of 9.1% (with an increase of 5% in 2014 compared to 2013).

Figure 12: Electrical Energy Delivered in MIS (2008-2014)



The figure shows an increase in electrical energy at an average annual growth rate of 10% during 2008 -2014 (with an increase of 10% in 2014 compared to 2013). The key growth drivers include population growth, household formation, general economic development and infrastructure expansion.

Figure 13: Electrical Energy Delivered to Dhofar Power System (2008-2014)



The figure shows an increase in electrical energy at an average annual growth rate of 10% during 2008 -2014 (with an increase of 7 % in 2014 compared to 2013).

## 5 OPERATIONAL PERFORMANCE (continued)

### 5.4 Fuel Efficiency

The primary fuel resource for power generation and associated water production in the MIS is natural gas, supplied by the Ministry of Oil & Gas. Through the introduction of new more efficient power plants, OPWP has steadily improved system efficiency and the utilization of gas.

Total gas consumption in the MIS in 2014 was about 7.1 billion Sm<sup>3</sup>, compared to 6.7 billion Sm<sup>3</sup> in 2013 with an increase of 6% compared to the 11% increase in energy delivered during this period. Over the past six years, when annual energy delivered has increased by 10 %, fuel efficiency improvement limited gas consumption increase to 4.8% per year.

Figure 14 : Yearly Gas Consumption (MIS & DPS)

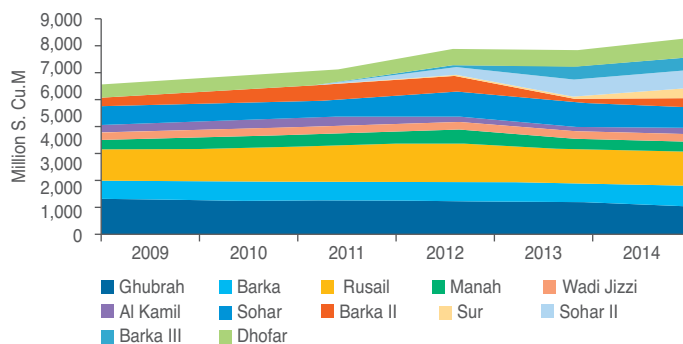
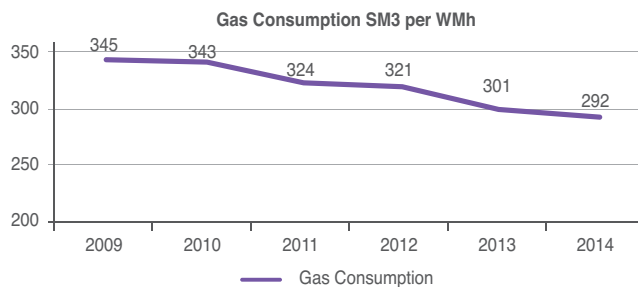


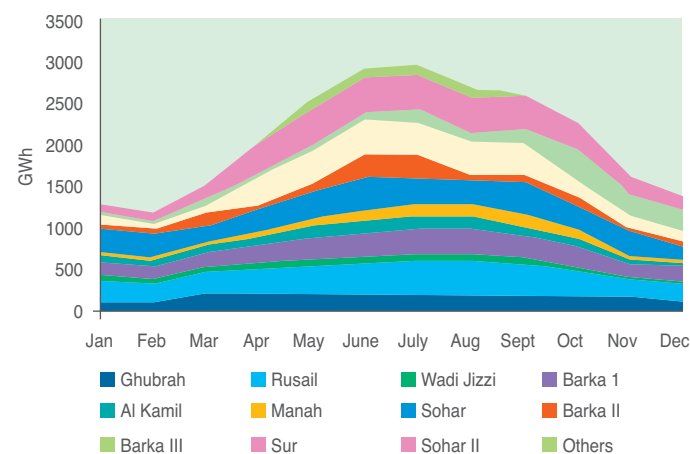
Figure 15: Gas Consumption from 2005-2014



The figure shows that gas consumption per unit of power generation has fallen by 15% since 2009, and by 3% from 2013 to 2014.

### 5.5 Year over Year Performance of Power Generation Resources

Figure 16: Energy Demand Profile – 2014 (MIS)



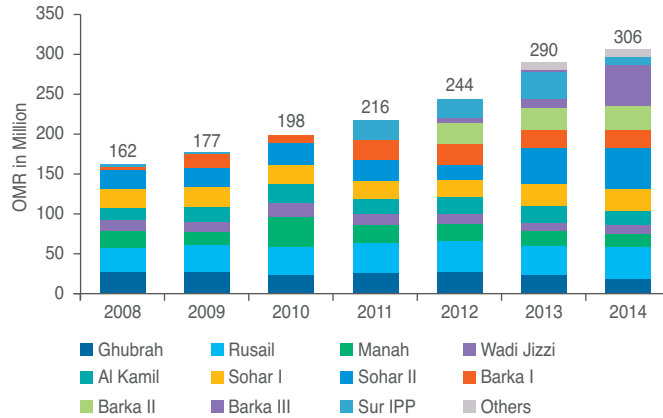
The electricity demand is seasonal in nature and peak requirement in July is more than twice the energy required in January.



## 5 OPERATIONAL PERFORMANCE (continued)

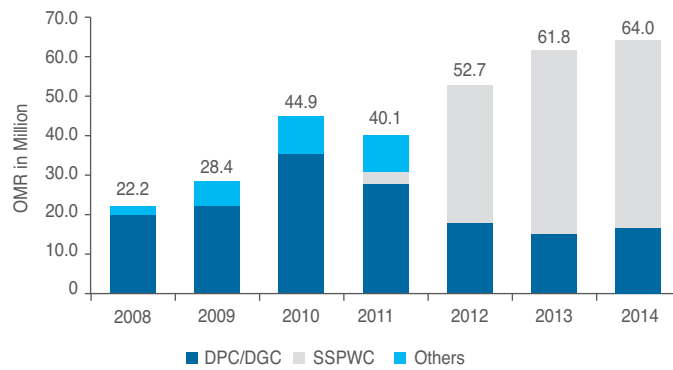
### 5.6 Power Purchase Cost

Figure 17: Power Purchase cost -MIS



The total energy purchased cost has increased at an average annual rate of 11 % (with an increase of 6% in 2014 compared to 2013). The key driver for an increase in cost (11%) compared to increase in energy delivered (10%) is due to lower system load factor i.e. new capacity added to service summer peak demand remain idle during winter.

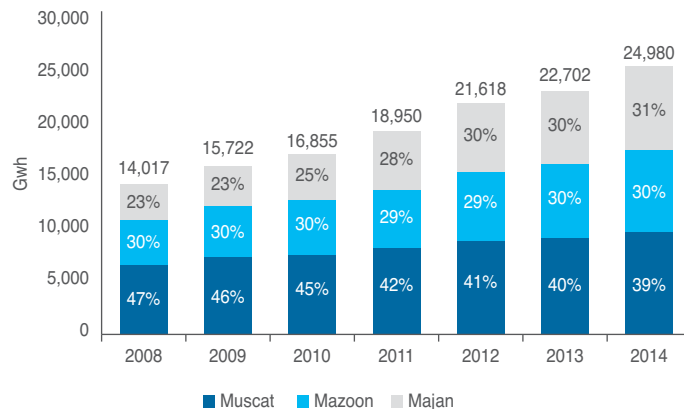
Figure 18: Power Purchase cost - DPS



The total energy purchased cost has increased at an average annual rate of 19% (with an increase of 4% in 2014 compared to 2013). The key driver for an increase in cost (19%) compared to increase in energy delivered (7%) is due to lower load factor i.e. new capacity added in 2012 to meet peak summer demand remain idle during winter.

### 5.7 Electricity Bulk Supply Statistics

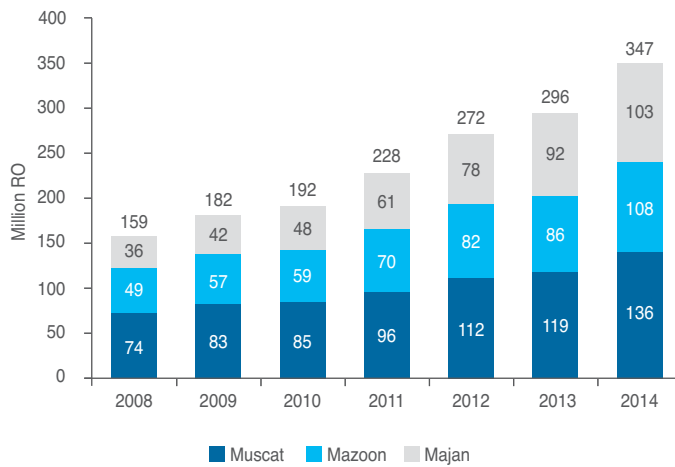
Figure 19: Yearly Electricity Bulk Supply Quantity- MIS



The Chart shows quantity increase in energy used by Majan, Mazoon and Muscat distribution companies over 7 years. The bulk supply quantity increased by 10% over seven years.

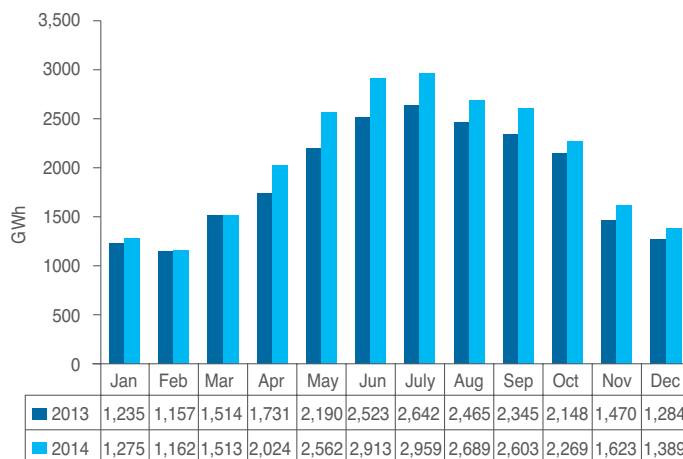
## 5 OPERATIONAL PERFORMANCE *(continued)*

Figure 20: Yearly Electricity Bulk Supply Charges - MIS



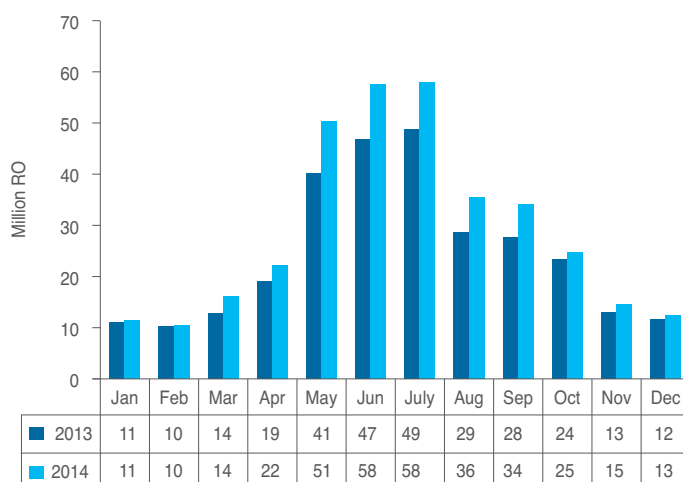
The average annual growth in bulk supply charge is 12% over last seven years as against 10% growth in quantity (please see above figure). The key reason for an increase in charge is lower load factor.

Figure 21: Monthly Electricity Bulk Supply Quantities - MIS



The chart reflects demand profile of the system with demand in winter significantly lower than summer.

Figure 22: Monthly Electricity Bulk Supply Revenue - MIS



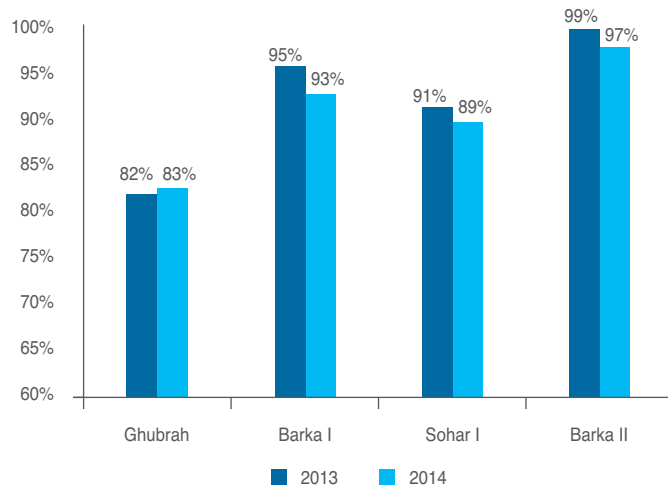
The maximum monthly charge of electricity supplied was in July this year. The bulk supply revenue profile follows demand pattern along with seasonal tariff which is higher in summer and lower in winter.





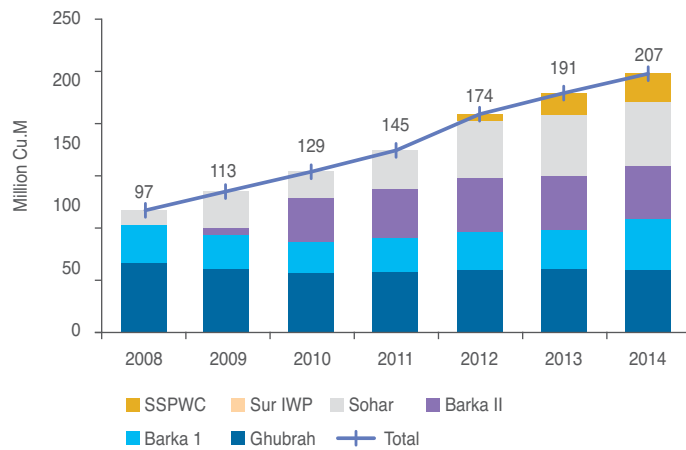
## 5 OPERATIONAL PERFORMANCE *(continued)*

Figure 23: Plant Utilization - Water



The utilization of water capacity in Barka I , Barka II and Sohar I plant is marginally lower due to the additional 10 MIGD capacity added to Barka I. Sur IWP is novated to OPWP in Dec 2014.

Figure 24: Potable Water Purchased (2008-2014)



The water delivered to the PAEW has increased on an average annual growth rate of 13.5% during 2008-2014 (with an increase of 9% in 2014 compared to 2013). The increase in 2014 is contributed by Barka I expansion.

## 6 HUMAN RESOURCES

### 6.1 Key human resources initiatives in 2014

OPWP has completed various HR initiatives such as Career Progression Plan for all the departments within the company. Additionally, a structured graduate plan was one of the key elements that OPWP was able to achieve from its related goals and objectives.

OPWP invests significant resources on the training and development of human resources. In 2014, the Company invested about 10% of staff cost on training and development.

The company recruited 15 employees during 2014, and the total number of employees at the end of the year reached 63 employees. During the year, the company achieved 81% Omanization.

### 6.2 Nama Group initiatives:

#### Integrated Talent Management Framework

Nama initiated the Integrated Talent Management Framework Project (ITMFW) and appointed a leading global consulting firm to execute the project. The objective is to streamline and standardize the HR processes amongst Nama group companies especially companies in similar businesses which will create internal equity and also help in career development, skill building and job rotation.

As part of the project, Nama developed the Performance Management System (PMS). The objectives of the PMS are to create a high-performance organization, establish a clear link between organizational, departmental & individual objectives, encourage an ongoing communication through coaching & meaningful feedback to employee, and encourage discussion and development of competencies and skills.

#### Communication

A major milestone in the year 2014 was the inauguration of the Communications Committee. The committee has commenced its roles in April 2014 with a vision that "OPWP is to be recognized by all stakeholders". The committee had set a mission to raise awareness of the company's business locally, enhance relations with government entities and keep employees updated on all key events.

Some of the committee initiatives in 2014 which are underway are:

- Upgrading the company website,
- Standardizing all the internal and external communications templates
- To develop a monthly internal newsletters.

Also, as a part of Nama group communication and sustainability, the committee participated to launch the second group conference of "Knowledge Sharing" which was conducted in November. The goal of the conference was to provide an opportunity for employees from a variety of disciplines to share their knowledge and experience.

#### Staff Volunteering

Throughout 2014 OPWP demonstrated its commitment to the community through various activities. As part of Nama Group's Sustainability Objective to promote the culture of volunteering amongst employees, Nama group collaborated with the Omani Volunteering Network 'Ta'awun' to carry out an induction programme.

## 7 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 committed to continuously improve its HSE practices through 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 and operational phases to manage HSE at source.



## 8 CORPORATE GOVERNANCE REPORT

### 8.1 Corporate Governance

Good governance is fundamental to OPWP being able to deliver water and electricity procurement for Oman that serves the short and long term interests of its shareholders, the nation and the ultimate consumers. OPWP strives to incorporate good governance in its decision making and business practices. It means OPWP is structured to make timely, evidence based, independent decisions under the auspices of its regulatory framework. It also serves to ensure that OPWP can manage risks appropriately, act with transparency and integrity and engage effectively with its stakeholders.

The role of the Board of OPWP is to approve the strategic direction of OPWP, to guide and monitor the management of OPWP and its businesses in achieving its strategic plans, and to oversee good governance practice. The Board aims to protect and enhance the interests of its shareholders, while taking into account the interests of other stakeholders, including employees, customers, suppliers, its regulator and the wider community. In performing its role, the Board is committed to a high standard of corporate governance practice and fostering a culture of compliance which values ethical behaviour, personal and corporate integrity, transparency, accountability and respect for others.

The OPWP Chief Executive Officer has responsibility for the day-to-day management of OPWP and its businesses, and is supported in this function by the OPWP senior management team. The Board maintains ultimate responsibility for strategy and control of OPWP and its businesses.

In pursuit of its aims in respect to good corporate governance the Board has adopted the Board Manual, the Operating Manual, the Conflict of Interest Policy, the Fraud Deterrence Policy and the Code of Ethics and Business Conduct Policy. The Board has also responded to the change in the jurisdiction of the Tender Board by commissioning, reviewing and adopting a Procurement Process Map which comprehensively establishes and governs, in conjunction with the applicable laws of Oman, the procurement process for the Company. The Company has created a Procurement Unit and appointed a senior Procurement Officer who acts as the point of contact for all procurement related matters.

The Board Manual and the Operating Manual govern the relation between EHC and the Subsidiaries and set forth the procedures of the Board clearly so as to avoid ambiguity in the governance of the Company.

The Code of Ethics and Business Conduct is an Nama Group initiative in the area of corporate governance which applies to all Directors of EHC and its Subsidiaries and which serves to emphasise the Company's commitment to ethics and compliance with the law, set forth standards of ethical and

legal behaviour, provide reporting mechanisms for known or suspected ethical or legal violations; and help prevent and detect wrongdoing.

The Conflict of Interest Policy serves to establish clear guidelines on the identification and management of conflicts of interest. A "conflict of interest" occurs when a member of the BoD's private interest interferes in any way with the interests of EHC or its Subsidiaries. In addition to avoiding conflicts of interest, member of the BoD should also avoid even the appearance of a conflict.

The Fraud Deterrence Policy introduced across the Nama Group which serves as the final component of the corporate governance framework to safeguard the financial viability of the Group and transactions within the Group.

In addition, the Company periodically reports its compliance with all statutory obligations to the Board and to its primary shareholder, EHC.

### 8.2 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 function operates independently of management, under a mandate approved by, and kept under review by, the Audit Committee. A risk based approach is used to identify, prioritise 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. Mr. Sean O'Hare, an independent Director with considerable experience in Board supervisory and enhancement roles, is now Chairman of the Board's Internal Audit Committee.



Table 8: Board and Board Committees

	Members - 2014	Number of Meetings in 2014
Board of Directors	Hamdan Al Hinai (Chairman) Saleh Al Rumhi (Deputy Chairman) Saleh Al Harthy Sean O'Hare S. Vishwanath	6 Meetings
Audit Committee	Sean O'Hare (Chairman) Saleh Al Rumhi S. Vishwanath	4 Meetings
Human Resource Committee	Saleh Al Rumhi (Chairman) Saleh Al Harthy Sean O'Hare	4 Meetings
Internal Tender Committee	Hamdan Al Hinai (Chairman) Saleh Al Rumhi (Deputy Chairman) S. Vishwanath Ahmed Al Jahdhami (CEO) Bob Whitelaw (Senior Advisor)	7 Meetings

### 8.3 Risk Management

To secure the Company's operations and achieve key objectives, OPWP has developed enterprise risk management framework to identify and manage the risks effectively. OPWP manages the risks associated with its operations by identifying; measuring and preventing key uncertainties. Risks are assessed in terms of likelihood as well as financial impact.

### 8.4 Board Meetings and Sitting Fees

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 Meetings and Sitting Fees

Board Members		Board Meeting	Internal Tender Committee	HR Committee	Audit Committee	Board sitting fees	Committee meeting fees
		Number of Members' Meeting				RO	RO
HE Saud bin Nassir Al- Shukaily	Former Chairman	2 (2)	1 (1)			1,300	400
Mr. Abdullah bin Salim Al Harthy	Former Member	1 (2)	0 (1)		1 (1)	500	300
Mr. Hamdan bin Ali Al Hinai	Chairman	4 (6)	5 (6)		1(1)	2,450	2,400
Mr. Saleh bin Nassir Al Rumhi	Vice Chairman	6 (6)	5(7)	4 (4)	3 (3)	2,500	3,500
Mr. Saleh Al Harthi	Member	6 (6)		4 (4)	1 (1)	3,000	1,600
Mr. S. Vishwanath	Member	4 (4)	4 (6)		3 (3)	2,000	2,100
Mr . Sean O'Hare	Member	4 (4)		3(3)	3 (3)	2,000	2,100
	<b>Total</b>					<b>13,750</b>	<b>12,400</b>





# AUDIT REPORT & FINANCIAL STATEMENTS



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Report and financial statements for the year ended 31 December 2014

### Pages

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Statement of financial position	35
Statement of profit or loss and other comprehensive income	36
Statement of changes in equity	37
Statement of cash flows	38
Notes to the financial statements	39 - 67



## **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 2014, 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 information, as set out on pages 35 to 67.

### **Board's responsibility for the financial statements**

The Board of Directors (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.



**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 2014 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**

Without modifying our opinion, we draw attention to Note 3 which explains that as at 31 December 2014 the total liabilities of the Company exceeded the total assets by RO 4,776 million (2013: RO 2,911 million). Management believes that the negative net equity arises only from the accounting for leases and the company is solvent under the regulatory framework in which it operates.


**Deloitte & Touche (M.E.) & Co. LLC**  
**Muscat, Sultanate of Oman**  
**16 February 2015**




# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Statement of financial position at 31 December 2014

	Notes	2014 RO '000	2013 RO '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	179,801	90,284
Finance lease receivables	7	401	941
Deferred tax assets	17	1,601	1,214
Advance payments	8	14,099	15,668
<b>Total non-current assets</b>		<b>195,902</b>	<b>108,107</b>
<b>Current assets</b>			
Inventories		567	567
Trade and other receivables	9	66,983	48,814
Finance lease receivables	7	540	565
Cash and cash equivalents	10	6,009	4,098
<b>Total current assets</b>		<b>74,099</b>	<b>54,044</b>
<b>Total assets</b>		<b>270,001</b>	<b>162,151</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	11	500	500
Legal reserve	12	167	167
General reserve	13	250	250
Accumulated losses		(22,634)	(20,769)
Shareholder's funds	14	16,941	16,941
<b>Total equity</b>		<b>(4,776)</b>	<b>(2,911)</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Finance lease liabilities	15	183,947	99,372
Provisions	16	569	567
<b>Total non-current liabilities</b>		<b>184,516</b>	<b>99,939</b>
<b>Current liabilities</b>			
Trade and other payables	18	52,070	46,973
Finance lease liabilities	15	23,944	17,848
Provisions	16	117	128
Provision for current tax	25	130	174
Short term loan	19	14,000	-
<b>Total current liabilities</b>		<b>90,261</b>	<b>65,123</b>
<b>Total liabilities</b>		<b>274,777</b>	<b>165,062</b>
<b>Total equity and liabilities</b>		<b>270,001</b>	<b>162,151</b>

  
Hamdan Bin Ali Al Hinai  
Chairman

  
Saleh Bin Nasser Al Rumhi  
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 2014

	Notes	2014 RO'000	2013 RO'000
<b>Income</b>			
Revenue	20	472,691	467,856
Operating costs	21	(452,385)	(449,104)
<b>Gross profit</b>		<b>20,306</b>	<b>18,752</b>
General and administrative expenses	22	(4,229)	(3,914)
Other income		-	12
<b>Profit from operations</b>		<b>16,077</b>	<b>14,850</b>
Finance income	23	210	313
Finance costs	24	(18,410)	(16,253)
<b>Loss before tax</b>		<b>(2,123)</b>	<b>(1,090)</b>
Taxation	25	258	5,011
<b>(Loss) / profit for the year and total comprehensive income</b>		<b>(1,865)</b>	<b>3,921</b>

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 2014

	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 2013	500	167	250	(24,690)	19,879	(3,894)
Profit for the year and total 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 1 January 2014	500	167	250	(20,769)	16,941	(2,911)
Profit for the year and total comprehensive income	-	-	-	(1,865)	-	(1,865)
At 31 December 2014	500	167	250	(22,634)	16,941	(4,776)

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 2014

	2014 RO'000	2013 RO'000
<b>Cash flows from operating activities</b>		
Loss before tax	(2,123)	(1,090)
<b>Adjustments for:</b>		
Depreciation on property, plant and equipment	20,715	17,539
Interest expense	382	118
Interest on finance leases	18,028	16,135
Advance payments amortised	1,569	1,257
Write off of property, plant and equipment	-	40
Provision for employee benefits expense	120	143
<b>Operating cash flows before working capital changes</b>	<b>38,691</b>	<b>34,142</b>
<b>Working capital changes:</b>		
Trade and other receivables	(18,170)	(7,108)
Receipt of finance lease rental	565	588
Trade and other payables	5,097	(13,568)
<b>Cash generated from operating activities</b>	<b>26,184</b>	<b>14,054</b>
Payment of employee benefits	(129)	(148)
Income tax paid	(174)	(101)
<b>Net cash from operating activities</b>	<b>25,881</b>	<b>13,805</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	-	2
Purchase of property, plant and equipment	(85)	(325)
<b>Net cash used in investing activities</b>	<b>(85)</b>	<b>(323)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(18,410)	(16,252)
Repayment of lease liabilities	(19,475)	(16,678)
Short term loan	14,000	-
<b>Net cash used in financing activities</b>	<b>(23,885)</b>	<b>(32,930)</b>
<b>Net change in cash and cash equivalents</b>	<b>1,911</b>	<b>(19,448)</b>
Cash and cash equivalents at the beginning of the year	4,098	23,546
<b>Cash and cash equivalents at the end of the year (Note 10)</b>	<b>6,009</b>	<b>4,098</b>

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 2014

### 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)

#### 2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2014, have been adopted in these financial statements. The application of these revised and new IFRSs have not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 32 Financial Instruments: Presentation relating to application guidance on the offsetting of financial assets and financial liabilities.
- Amendments to IAS 36 recoverable amount disclosures: The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to the period in which an impairment loss has been recognised or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU’s recoverable amount has been determined on the basis of fair value less costs of disposal.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting.  
The amendment allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Guidance on Investment Entities on 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs.



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

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

#### 2.2 New and revised IFRSs in issue but not yet effective and not early adopted

The Company has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 7 <i>Financial Instruments</i> : Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 <i>Financial Instruments</i> : Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 9 <i>Financial Instruments</i> (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 <i>Financial Instruments</i> (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 <i>Financial Instruments: Recognition and Measurement</i> .	1 January 2018
IFRS 9 <i>Financial Instruments</i> (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9.	
Finalised version of IFRS 9 (IFRS 9 <i>Financial Instruments</i> (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.	
IFRS 9 (2009) and IFRS 9 (2010) were superseded by IFRS 9 (2013) and IFRS 9 (2010) also superseded IFRS 9 (2009). IFRS 9 (2014) supersedes all previous versions of the standard. The various standards also permit various transitional options. Accordingly, entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (1) the classification and measurement requirements for financial assets; (2) the classification and measurement requirements for both financial assets and financial liabilities; (3) the classification and measurement requirements and the hedge accounting requirements provided that the relevant date of the initial application is before 1 February 2015.	



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

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

#### 2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

##### New and revised IFRSs

Effective for annual periods  
beginning on or after

IFRS 15 Revenue from Contracts with Customers

1 January 2017

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.

1 July 2016

Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortization.

1 January 2016

Amendments to IFRS 11 to clarify accounting for acquisitions of Interests in Joint Operations.

1 January 2016

Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16.

1 January 2016



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

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

#### 2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business.	1 January 2016
Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements.	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities.	1 January 2016
Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.	1 January 2016
Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24.	1 July 2014
Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.	1 July 2014
Amendments to IAS 19 Employee Benefits clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	1 July 2014

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements for the period beginning 1 January 2015 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 15, may have no material impact on the financial statements of the Company in the period of initial application.



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 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

The financial statements have been prepared on the historical cost basis except the finance lease payable and receivable which are valued at amortised cost and certain financial instruments initially measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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.





# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

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

#### Basis of preparation (continued)

As at 31 December 2014 the total liabilities of the Company exceeded the total assets by RO 4.776 million (2013: RO 2.911 million). Management believes that the negative net equity arises only from the accounting for leases and the company is solvent under the regulatory framework in which it operates. As at 31 December 2014, current liabilities of the Company exceeded its current assets by RO 16.162 million (2013: RO 11.079 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.

The principal accounting policies are set out below.

#### 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 profit or loss 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 profit or loss as an expense as and when incurred.



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

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

#### Property, plant and equipment (continued)

##### *Depreciation*

Depreciation is recognised in the profit or loss 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	2- 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.

#### 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.



## Notes to the financial statements for the year ended 31 December 2014 (continued)

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

#### Impairment (continued)

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 an allowance 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 profit or loss.

#### *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 specific 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.



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

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

#### **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 profit or loss within 'general and administration expenses'.

#### **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.



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

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

#### Taxation (continued)

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.

#### 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 reporting 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.





# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

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

#### 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 profit or loss 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 profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

##### Company as a lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company'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 2014 (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.

#### *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.



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 5 Financial risk management (continued)

#### 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 due for renewal in June 2016.

##### 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 reporting 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.



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 5 Financial risk management (continued)

#### Financial risk factors (continued)

#### Liquidity risk (continued)

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

31 December 2014	Total RO'000	Less than 1 month RO'000	1 - 3 months RO'000	3 months to 1 year RO'000	1 - 5 years RO'000	More than 5 years RO'000
<b>Interest bearing</b>						
Finance lease liabilities	322,359	3,685	7,371	33,168	158,915	119,220
Short term loan	14,000	-	14,000	-	-	-
<b>Non-interest bearing</b>						
Trade and other payables	36,529	36,044	-	485	-	-
Suppliers and contractors payables	87	55	32	-	-	-
	<u>372,976</u>	<u>39,784</u>	<u>21,403</u>	<u>33,653</u>	<u>158,915</u>	<u>119,220</u>

31 December 2013

<b>Interest bearing</b>						
Finance lease liabilities	166,200	2,651	5,302	23,858	119,384	15,005
<b>Non-interest bearing</b>						
Trade and other payables	37,496	36,587	-	909	-	-
Suppliers and contractors payables	893	885	5	3	-	-
	<u>204,589</u>	<u>40,123</u>	<u>5,307</u>	<u>24,770</u>	<u>119,384</u>	<u>15,005</u>

#### 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.



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 5 Financial risk management (continued)

#### Financial risk factors (continued)

#### Credit risk (continued)

#### Trade and other receivables (continued)

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

	<b>2014</b>	2013
	<b>RO'000</b>	RO'000
Trade receivables from related parties	<b>37,170</b>	32,791
Trade receivables – water sales	<b>25,603</b>	15,394
Finance lease receivables from a related party	<b>941</b>	1,506
	<b>63,714</b>	49,691

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

	<b>Gross</b>	<b>Impaired</b>	<b>Past due</b>	<b>Gross</b>	<b>Impaired</b>	<b>Past due</b>
	<b>RO '000</b>	<b>RO '000</b>	<b>but not</b>	<b>RO '000</b>	<b>RO '000</b>	<b>but not</b>
			<b>impaired</b>			<b>impaired</b>
			<b>RO '000</b>			<b>RO '000</b>
Not past due	<b>39,755</b>	-	-	36,070	-	-
1 - 3 months	<b>3,387</b>	-	<b>3,387</b>	3,634	-	3,634
3 months to 1 year	<b>4,241</b>	-	<b>4,241</b>	8,481	-	8,481
More than a year	<b>15,388</b>	-	<b>15,388</b>	-	-	-
	<b>62,773</b>	-	<b>23,016</b>	48,185	-	12,115

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 2014 (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 reporting date is on account of:

	2014 RO'000	2013 RO'000
<b>Loans and receivable</b>		
Assets as per statement of financial position		
Finance lease receivables	941	1,506
Trade receivables	62,773	48,185
Other receivables	54	477
Cash at bank	6,009	4,095
	<u>69,777</u>	<u>54,263</u>

#### Categories of financial instruments

##### Financial assets

##### Loans and receivable

Trade receivables	62,773	48,185
Cash at bank	6,009	4,095
Finance lease receivables from a related party	941	1,506
Other receivables	54	477
	<u>69,777</u>	<u>54,263</u>

##### Financial Liabilities

##### Financial liabilities held at amortised cost

Finance lease payable	207,891	117,220
Short term loan	14,000	-
Trade and other payables	36,529	37,496
	<u>258,420</u>	<u>154,716</u>



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 5 Financial risk management (continued)

#### 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.



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (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
<b>Cost</b>					
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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
1 January 2014	<b>240,804</b>	<b>626</b>	<b>99</b>	<b>-</b>	<b>241,529</b>
Additions	<b>110,147</b>	<b>85</b>	<b>-</b>	<b>-</b>	<b>110,232</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>31 December 2014</b>	<b>350,951</b>	<b>711</b>	<b>99</b>	<b>-</b>	<b>351,761</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>					
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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
1 January 2014	<b>150,962</b>	<b>224</b>	<b>59</b>	<b>-</b>	<b>151,245</b>
Charge for the year	<b>20,587</b>	<b>116</b>	<b>12</b>	<b>-</b>	<b>20,715</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>31 December 2014</b>	<b>171,549</b>	<b>340</b>	<b>71</b>	<b>-</b>	<b>171,960</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>					
<b>31 December 2014</b>	<b>179,402</b>	<b>371</b>	<b>28</b>	<b>-</b>	<b>179,801</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2013	89,842	402	40	-	90,284
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 7 Finance lease receivable

The finance lease receivable represents lease receivable from Oman Electricity Transmission Company SAOC (OETC) 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:

	2014 RO'000	2013 RO'000
De-recognition of property, plant and equipment (net book value)	-	(9,374)
Recognition of finance lease receivable	-	2,092
De-recognition of deferred revenue	-	4,344
	<hr/>	<hr/>
Change in the shareholder's fund	-	(2,938)
	<hr/>	<hr/>

#### Finance lease receivable as at 31 December 2014

Current finance lease receivables	540	565
Non-current finance lease receivables	401	941
	<hr/>	<hr/>
	941	1,506
<b>Represented by:</b>		
Gross finance lease receivables	1040	1,748
Less: unearned finance lease interest	(99)	(242)
	<hr/>	<hr/>
Net investment in finance lease	941	1,506
	<hr/>	<hr/>

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

	Less than 1 year RO'000	Between 1 and 2 years RO'000	Total RO'000
<b>At 31 December 2014</b>			
Gross finance lease receivables	620	420	1040
Less: unearned finance lease interest	(79)	(20)	(99)
	<hr/>	<hr/>	<hr/>
	541	400	941
	<hr/>	<hr/>	<hr/>

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

# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 7 Finance lease receivable (continued)

	Less than 1 year RO'000	Between 1 and 2 years RO'000	Between 2 and 5 years RO'000	Total RO'000
<b>At 31 December 2013</b>				
Gross finance lease receivables	708	620	420	1,748
Less: unearned finance lease interest	(143)	(79)	(20)	(242)
	<u>565</u>	<u>541</u>	<u>400</u>	<u>1,506</u>

### 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 profit or loss.

### 9 Trade and other receivables

	2014 RO'000	2013 RO'000
Trade receivable from related parties (Note 26)	37,170	32,791
Trade receivables - water sales	25,603	15,394
Prepayments	130	152
Other receivables	54	477
Revenue recovered less than the maximum allowed as per price control formula (Water)	3,984	-
Interest on the revenue recovered less than the maximum allowed as per price control formula (water)	42	-
	<u>66,983</u>	<u>48,814</u>

As at 31 December 2014 no amounts are impaired (2013 - no amounts were impaired).

### 10 Cash and cash equivalents

	2014 RO '000	2013 RO '000
Cash at bank	6,009	4,095
Cash on hand	-	3
	<u>6,009</u>	<u>4,098</u>





# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (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	2014 RO	2013 RO
Electricity Holding Company SAOC	99.99%	499,950	499,950	499,950
Ministry of Finance	0.01%	50	50	50
	<b>100%</b>	<b>500,000</b>	<b>500,000</b>	<b>500,000</b>

### 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).



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 14 Shareholder's funds (continued)

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.

In prior 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.

### 15 Finance lease liabilities

Amounts payable under finance leases are as follows:

	2014 RO '000	2013 RO '000
Gross finance lease liabilities - minimum lease payments		
Not later than 1 year	44,224	31,811
Later than 1 year and not later than 5 years	158,915	119,384
Later than 5 years	119,220	15,005
	<b>322,359</b>	166,200
Less: future finance charges on lease liabilities	<b>(114,468)</b>	(48,980)
	<b>207,891</b>	117,220

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:

	2014 RO '000	2013 RO '000
Not later than 1 year	23,944	17,848
Later than 1 year and not later than 5 years	99,402	86,186
Later than 5 years	84,545	13,186
	<b>207,891</b>	117,220



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 16 Provisions

	2014 RO '000	2013 RO '000
Non-current	569	567
Current	117	128
	<u>686</u>	<u>695</u>
<i>Movement in provision for employee benefits</i>		
At 1 January	695	700
Charge for the year	120	143
Payments made during the year	(129)	(148)
At 31 December	<u>686</u>	<u>695</u>

### 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 RO '000	Charge / (credit) for the year RO '000	At 31 December RO '000
<b>2014</b>			
<b>Assets</b>			
Accelerated tax depreciation	(10)	(2)	(12)
Finance lease	3,104	201	3,305
Advance payment	(1880)	188	(1,692)
Tax losses	-	-	-
	<u>1,214</u>	<u>387</u>	<u>1,601</u>
<b>2013</b>			
<b>Assets</b>			
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)	-
	<u>(3,971)</u>	<u>5,185</u>	<u>1,214</u>

# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 18 Trade and other payables

	2014 RO '000	2013 RO '000
Revenue in excess of maximum allowed as per price control formula, deferred to next year (electricity)	12,105	5,025
Accruals and other expenses	32,127	30,596
Trade payables to related parties (Note 26)	4,402	6,900
Due to Ministry of Finance for excess funding received	3,219	3,496
Interest on revenue in excess of maximum allowed as per price control formula (electricity)	129	63
Suppliers and contractors payables	88	893
	<b>52,070</b>	<b>46,973</b>

### 19 Short-term borrowings

Borrowings	14,000	-
------------	--------	---

The Company has a short term bridge loan facility of RO 40 million. The loan carries a rate of interest in the range of 1.75% to 2.6% per annum on commercial terms and is repayable in ninety days. The Company is not required to pay any arrangement or commitment fees.

Borrowings are secured by letter of comfort given by the holding company.

### 20 Revenue

	2014 RO'000	2013 RO'000
Bulk supply revenue for electricity	384,370	321,304
Bulk supply revenue for water	90,935	93,989
Recharge of interconnection and transmission facilities	229	229
Net funding from MOF	-	30,457
Other revenue	189	376
	<b>475,723</b>	<b>446,355</b>
Add: previous year revenue in excess of maximum allowed as per price control formula, reversed (electricity)	5,026	26,182
Add : previous year interest on revenue in excess of maximum allowed as per price control formula, reversed (electricity)	63	345
Less: revenue in excess of the maximum allowed as per price control formula deferred to next year (electricity)	(12,105)	(5,026)
Add: revenue less than the maximum allowed as per price control formula added (water)	3,984	-
	<b>472,691</b>	<b>467,856</b>



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 21 Operating costs

	2014 RO'000	2013 RO'000
Electricity capacity and output purchase costs	335,716	306,697
Desalinated water capacity and output purchase costs	93,779	92,904
Depreciation on finance lease assets	20,587	17,420
Cost sharing charge to Dhofar Power Company SAOC	-	30,146
Other direct costs	2,304	1,937
	<u>452,385</u>	<u>449,104</u>

### 22 General and administrative expenses

Employee benefit expenses	2,685	2,612
Licence fee to the Authority for Electricity Regulation	284	180
Service expenses	570	543
Directors' sitting fees	26	29
Depreciation	128	119
Other expenses	536	431
	<u>4,229</u>	<u>3,914</u>

Included within employee benefit expenses is an amount of RO 122,000 (2013 - RO 143,000) relating to post employment benefit expenses.

### 23 Finance income

	2014 RO'000	2013 RO'000
Interest on finance lease (Note 26)	143	209
Interest on bank account	25	57
Interest on the revenue recovered less than the maximum allowed as per price control formula (water)	42	-
Other interest	-	47
	<u>210</u>	<u>313</u>





# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 24 Finance costs

	2014 RO'000	2013 RO'000
Interest on obligations under finance leases	18,028	16,135
Interest on excess revenue billed over maximum allowed revenue under the price control formula (electricity)	129	63
Interest on bank overdrafts	253	55
	<u>18,410</u>	<u>16,253</u>

### 25 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% (2013 - 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.

	2014 RO'000	2013 RO'000
Current tax	(129)	174
Deferred tax (Note 17)	387	(5,185)
	<u>258</u>	<u>(5,011)</u>

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% (2013 - 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:

	2014 RO'000	2013 RO'000
Accounting loss before tax	(2,123)	(1,094)
Tax credit on accounting loss	(258)	(135)
Deferred tax asset on tax loss not recognised	-	(1)
Short provision of prior year tax	-	1
Tax effect of expired tax losses	-	-
Adjustment on deferred tax liability for prior years	-	(4,876)
Other items	-	-
<b>Tax expense for the year</b>	<u>(258)</u>	<u>(5,011)</u>



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 25 Taxation (continued)

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:

	2014 RO'000	2013 RO'000
Tax payable at beginning of the year	174	101
Current tax charge for the year	130	174
Tax paid during the year	(174)	(101)
	<hr/>	<hr/>
Tax payable at end of the year	130	174
	<hr/>	<hr/>

### 26 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 (2013 - 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	2014 RO '000	2013 RO '000
Bulk supply revenue for electricity to Muscat Electricity Distribution Company SAOC	135,529	118,641
Bulk supply revenue for electricity to Mazoon Electricity Company SAOC	108,081	92,155
Bulk supply revenue for electricity to Majan Electricity Company SAOC	103,094	85,633
Bulk supply revenue for electricity to Dhofar Power Company SAOC	37,666	24,876
	<hr/>	<hr/>
Bulk supply revenue for electricity	384,370	321,305
	<hr/>	<hr/>
Bulk supply revenue for water to Public Authority for Electricity and Water	80,710	83,501
	<hr/>	<hr/>
Recharge of interconnection and transmission facilities to Oman Electricity Transmission Company SAOC	229	229
	<hr/>	<hr/>

# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 26 Related parties (continued)

Expenses	2014 RO '000	2013 RO '000
Interest on finance lease to Al Ghubrah Power and Desalination Company SAOC	6,293	7,554
Electricity and water output purchases from Al Ghubrah Power and Desalination Company SAOC	20,365	23,317
Interest on finance lease to Wadi Al Jizzi Power Company SAOC	1,031	1,279
Electricity output purchases from Wadi Al Jizzi Power Company SAOC	4,255	3,374
Interest on finance lease to Dhofar Generating Company SAOC	3,988	-
Electricity output purchases from Dhofar Generating Company SAOC	7,656	-
Cost sharing charges to Dhofar Power Company SAOC	-	30,146
Accounting service charges from Electricity Holding Company SAOC	32	32
	<b>43,620</b>	<b>65,702</b>
<b>Related party receivables</b>		
Muscat Electricity Distribution Company SAOC	10,112	2,757
Mazoon Electricity Company SAOC	4,099	8,243
Majan Electricity Company SAOC	8,715	7,253
Public Authority for Electricity and Water	12,343	13,219
Dhofar Power Company SAOC	1,827	1,237
Oman Electricity Transmission Company SAOC	74	82
	<b>37,170</b>	<b>32,791</b>
Finance lease receivables	<b>941</b>	<b>1,506</b>
<b>Related party payables</b>		
Dhofar Power Company SAOC	-	2,483
Dhofar Generating Company SAOC	1,127	-
Al Ghubrah Power and Desalination Company SAOC	2,911	3,563
Wadi Al Jizzi Power Company SAOC	311	788
Electricity Holding Company SAOC	53	66
	<b>4,402</b>	<b>6,900</b>



# OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

## Notes to the financial statements for the year ended 31 December 2014 (continued)

### 26 Related parties (continued)

	2014 RO '000	2013 RO '000
<b>Related party payables</b>		
Finance lease payable to Dhofar Generating Company SAOC	54,373	-
Finance lease payable to Al Ghubrah Power and Desalination Company SAOC	45,973	56,733
Finance lease payable to Wadi Al Jizzi Power Company SAOC	9,048	11,384
	<u>109,394</u>	<u>68,117</u>

#### *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:

	2014 RO '000	2013 RO '000
Short-term employee benefits	1,184	1,146
Post employment benefits	63	46
Directors sitting fees	26	29
	<u>1,273</u>	<u>1,221</u>

### 27 Contingencies and operational liabilities

#### **Operating lease commitments**

Not more than 1 year	231,640	209,221
More than 1 year but not more than 5 years	892,987	1,082,238
More than 5 years	1,481,335	1,412,243
	<u>2,605,962</u>	<u>2,703,702</u>

### 28 Approval of financial statements

The financial statements were approved by the Board and authorised for issue on 16 February 2015.