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

إحدى شركات مجموعة نماء
Member of Nama Group

ANNUAL REPORT 2016

ISO 9001
BUREAU VERITAS
Certification

HIS MAJESTY SULTAN QABOOS BIN SAID

TABLE OF CONTENTS

GLOSSARY

AER	Authority for Electricity Regulation, Oman
BSR	Bulk Supply Revenue
BST	Bulk Supply Tariff
COD	Commercial Operation Date
DGC	Dhofar Generating Company
DGW	Directorate General of Water (in the Office of the Minister of State and Governor of Dhofar)
DPC	Dhofar Power Company (SAOC)
DPS	Dhofar Power System
EHC	Electricity Holding Company
GCCIA	Gulf Cooperation Council Interconnection Authority
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)
m^3	Cubic Metre(s)
MCM	Million Cubic Metre
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
TWh	Terawatt-hour
QHSE	Quality , Health , Safety , and Environment
PWPA	Power and Water Purchase Agreement
RAEC	Rural Areas Electricity Company (SAOC)
RFP	Request for Proposal
RO	Reverse osmosis (desalination technology)
RE	Renewable Energy
SSPWC	Sembcorp Salalah Power and Water Company
Sm^3	Standard cubic metre(s)

1. ABOUT US

1.1. Board of Directors and Executive Management

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

1.1. Board of Directors and Executive Management

Board of Directors

Ms. Hanan Askalan
Member of the Board

Other position: Managing director of AlDayeen Consulting, and serves as a member of the National Innovation Strategy Committee, an advisor on technology and innovation for the World Bank.

Mr. Hussain Al Balushi
Member of the Board

Other position: Chief Financial Officer, Electricity Holding Company.

Executive Management

Ahmed Bin Saleh Al Jahdhami
Chief Executive Officer

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 the pleasure in presenting the Annual Report of Oman Power and Water Procurement Company SAOC for the year 2016.

2016 Achievements

The year 2016 was another challenging but successful year for OPWP with the company accomplishing a number of major initiatives, including:

- Agreement was executed with Ad Dhahirah Generation Company for Ibri IPP with early power of 977 MW from April to October 2018 and full capacity of 1509 MW from April 2019.
- Agreement was executed with Shinas Power Company for Sohar IV IPP, the plant is under construction and scheduled to deliver full power capacity of 1710 MW from January 2019.
- Agreement was executed with Barka Desalination Company for Barka IV IWP (62 MIGD) with planned COD in May 2018.
- Agreement was executed with Myah Gulf Desalination Company for Sohar III IWP (55 MIGD) with planned COD in April 2018.
- Commissioning of Al Ghubrah II IWP project with a production capacity of (42 MIGD) by Muscat City Desalination Company in February 2016.
- Commissioning of Barka I Phase II expansion with a production capacity of (12.5 MIGD) by Acwa Power Barka IWPP Company in February 2016.
- Commissioning of temporary water project in Qurayyat by Muscat Water with a production capacity of (1.8 MIGD) in November 2016.
- Combined efforts of OPWP and OETC helped to achieved 7.7% reduction in the average amount of gas required for each unit of electricity generated compared to 2015.

Financial Highlights

OPWP's earnings before tax as per the Regulatory framework stood at OMR 0.225 million. 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 OMR 2.857 million. Since the company continues to have a negative equity, a dividend is not proposed.

Corporate Governance

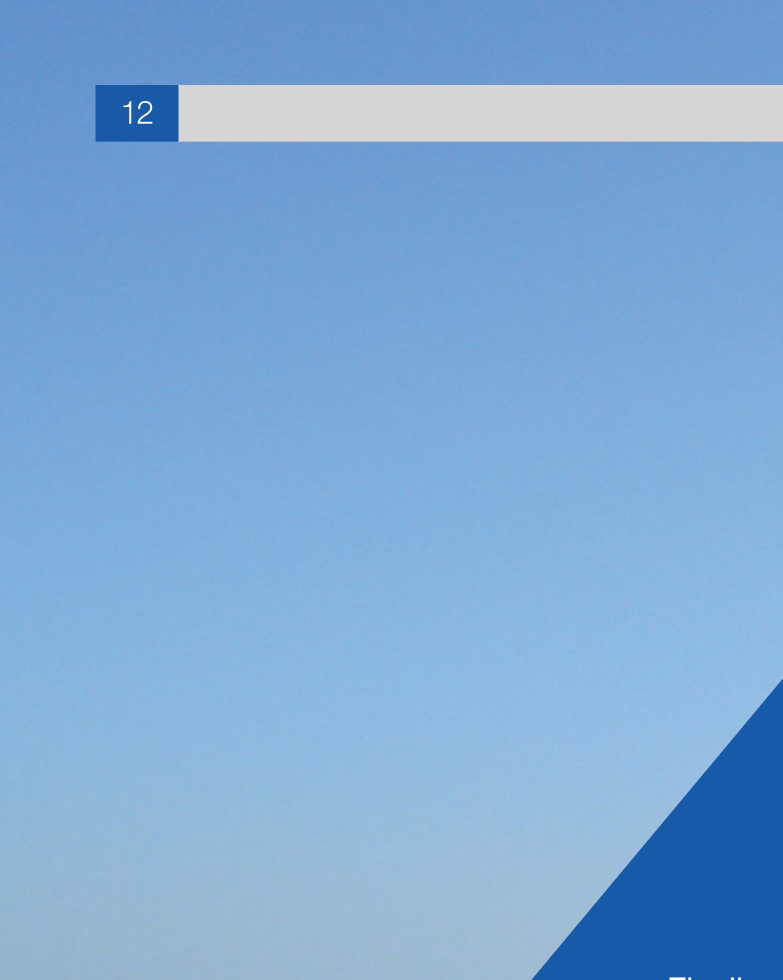
It is very important to highlight the fact that the Board is committed to the highest standards of corporate governance. In order to facilitate efficient and effective management, the Audit Committee oversees the internal controls and risk management with the help of independent internal auditors.

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.

2017 Key Priorities

OPWP looks forward to 2017 with a number of key priorities and projects which include the following:

- Ensure the successful implementation of new projects according to project timelines.
- Complete development of detailed market rules for the Electricity Spot Market.



- Completed power exchange with Abu-Dhabi Transco in 2016 and exploring opportunities of trading with other GCC Member States under GCCIA umbrella.
- Work with OETC and PDO to evaluate options, costs and benefits of the proposed 400 kV interconnection from Nizwa to Duqm, PDO, and the Dhofar Power System.
- Finalize new procurement process, which will be used for power projects commissioning in 2022.
- Award and sign WPAs for Salalah III IWP, Aseelah IWP and Khasab (22 MIGD, 17.6 MIGD and 3.5 MIGD respectively) with planned commercial operation in (March 2020, May 2020 and first quarter of 2021 respectively).
- Award and sign PPA for Misfah IPP (800 MW) with planned COD in first quarter of 2021.
- Complete feasibility study on renewables and implement the outcome of the study.
- Continue improvement of gas utilization in electricity generation, in coordination with OETC.
- Continuously promote high level standard and QHSE culture.
- Build a sustainable Omani led organisation by implementing Succession Plans, Personal Development Plans and Graduate Development Program.

General

During 2016, Standard and Poors (S&P) downgraded their rating from ‘BBB+’ to ‘BBB-‘ with negative outlook. Moody’s investors service has also downgraded their rating from A1/stable to Baa/stable. This was 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.

The Board members Mr. S.Vishwanath and Mr. Sean O'Hare, resigned from their positions in early 2016. I would like to welcome **Mr. Hussain Al Balushi** and **Ms. Hanan Askalan** who joined the Board in early 2016. I express my thanks to the outgoing members and to the continuing Members of the Board for their valuable contribution to the Company. I would also like to thank Mr. Ahmed Al Jahdhami, the CEO of OPWP who resigned in December 2016, for his significant contribution in the success of the company over past five years.

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 to drive success for the year 2017. 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

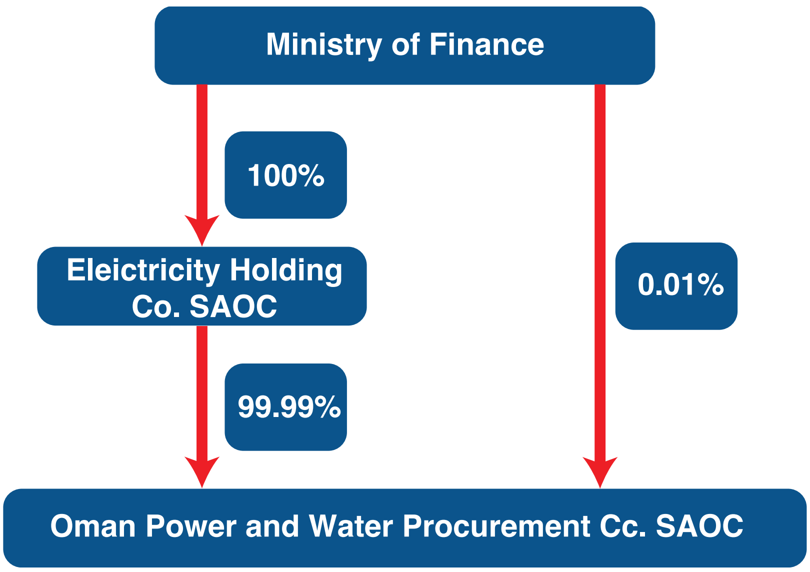
1.3 Company Profile

1.3.1 Shareholders' Structure:

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

The Company was formed with a capital of OMR 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.

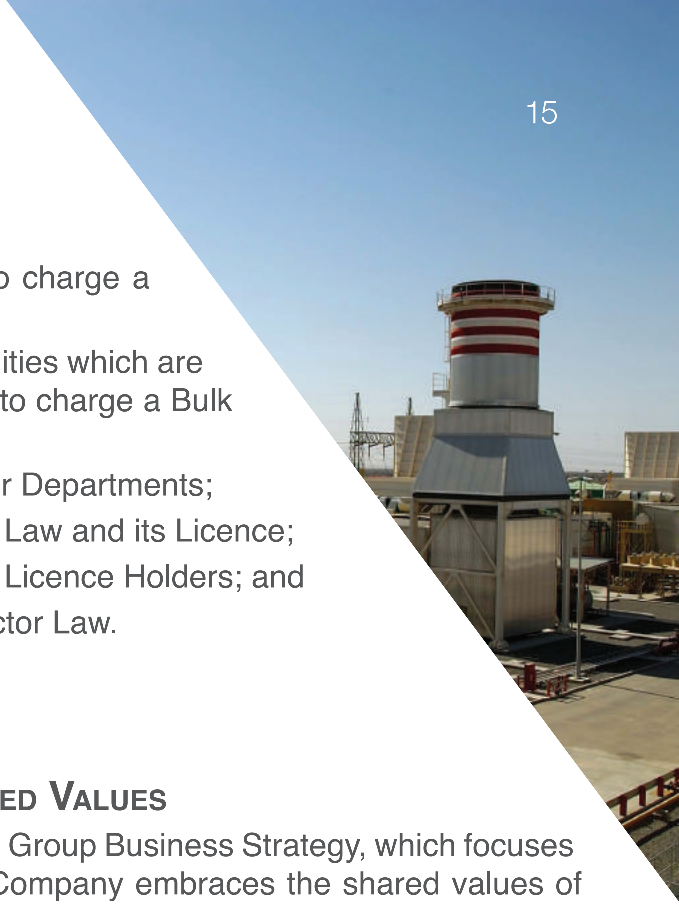
Figure 1 Shareholder's Structure



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

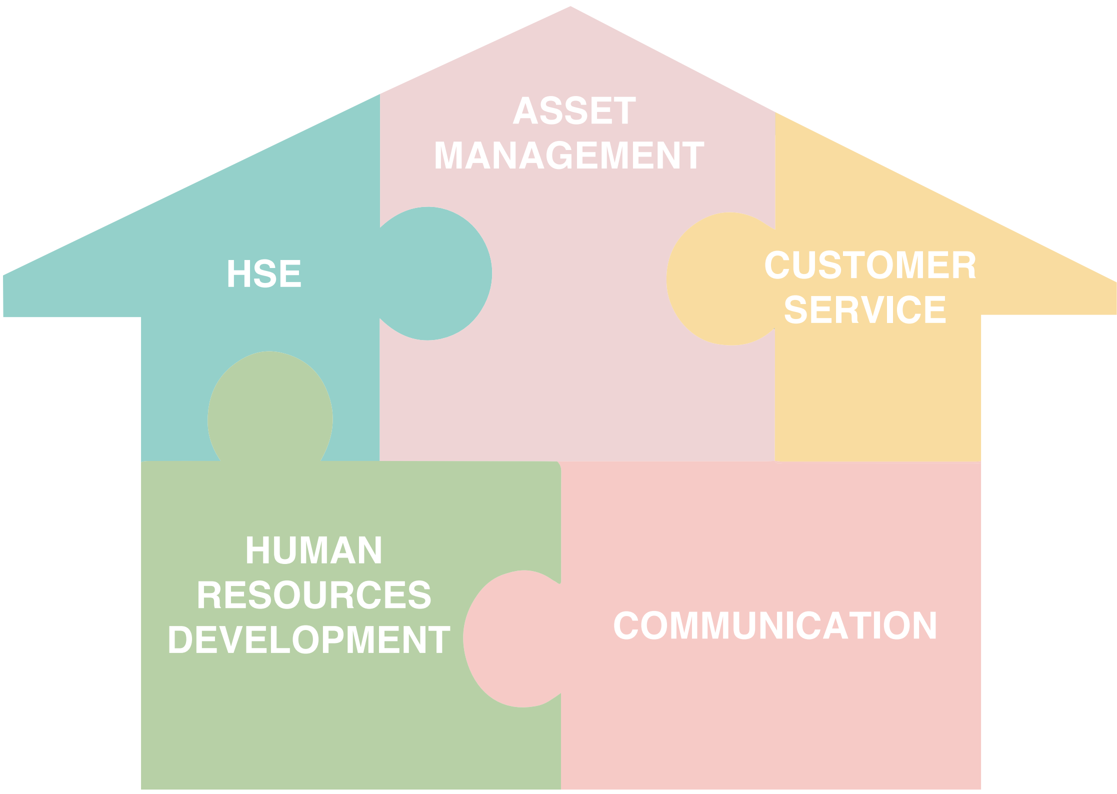
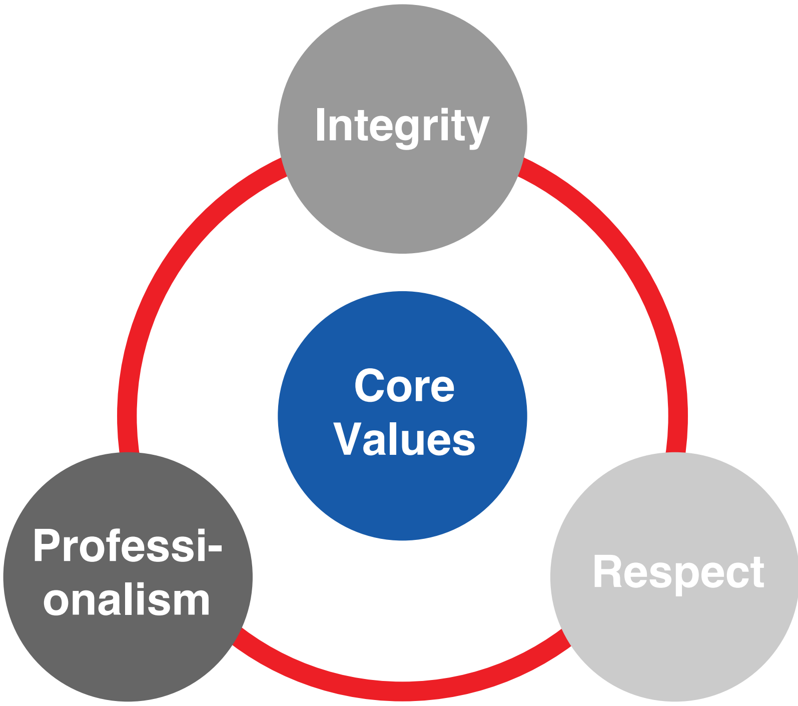
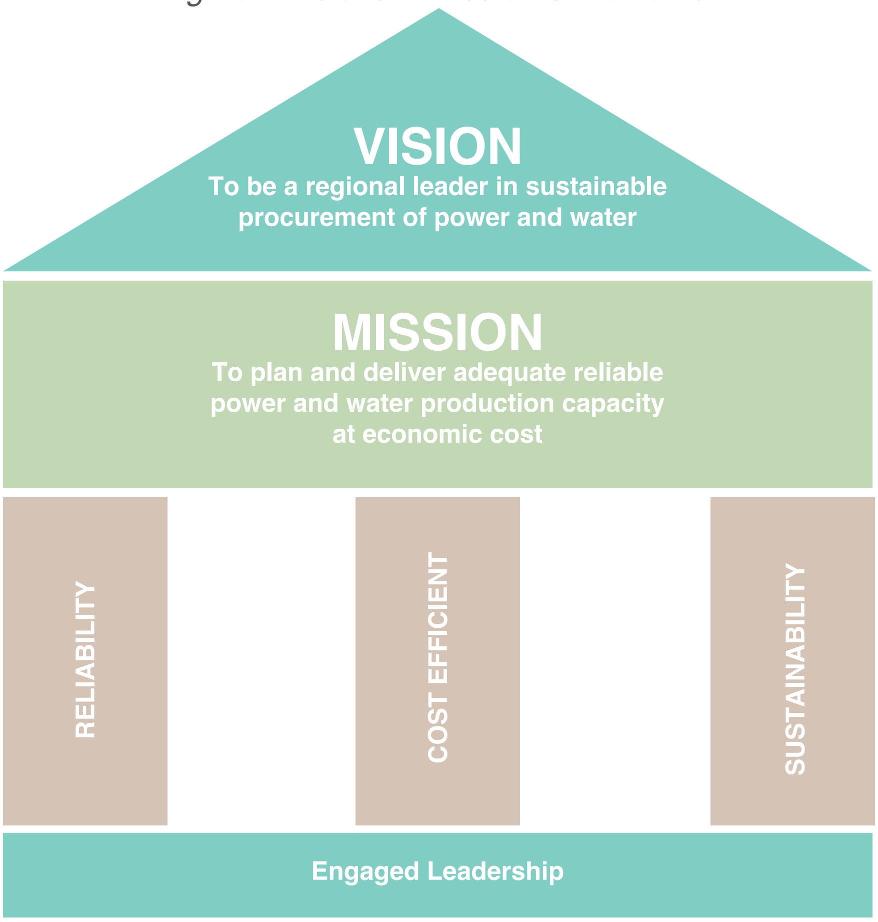


Figure 3 Nama Group Shared Values



1.4.2 Vision and Mission Statements

Figure 4 Visions & Mission Statements



1.4.3 Strategic Themes and Business Objectives

Reliability:

- Adequate and reliable Power Capacity
- Adequate and reliable Desalinated Water Capacity
- Diversity of Resources

Cost Efficient:

- Reduce cost of Power
- Reduce cost of water

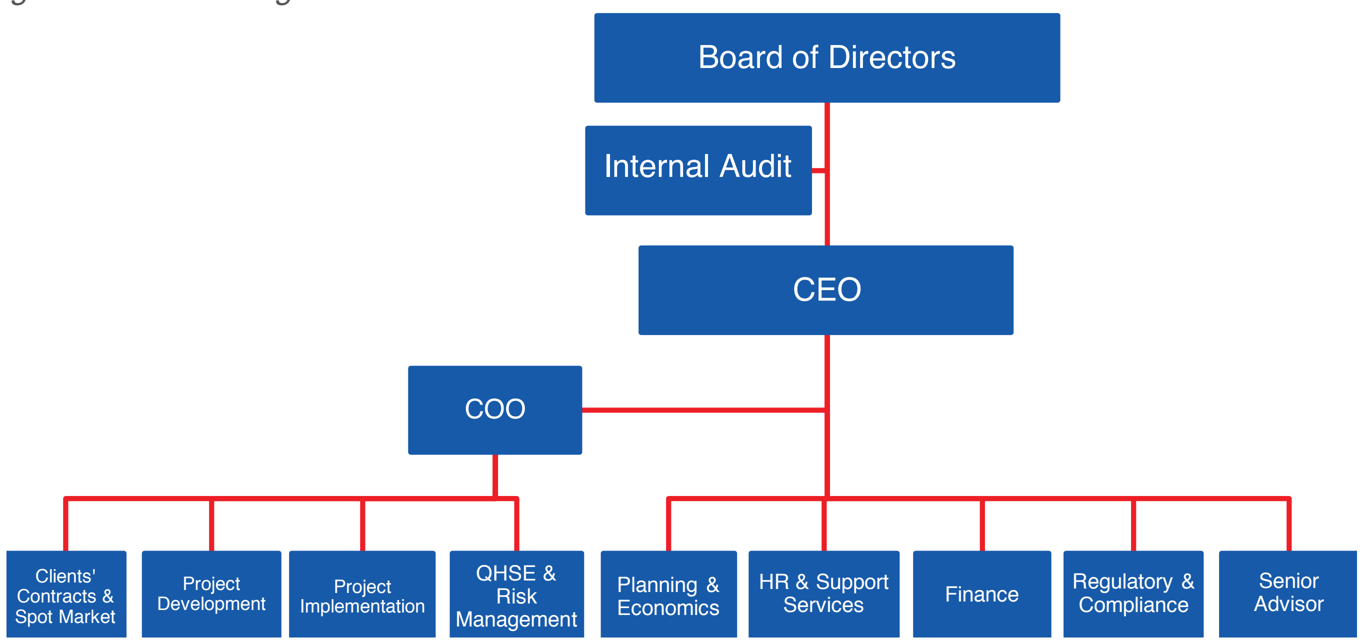
Sustainability:

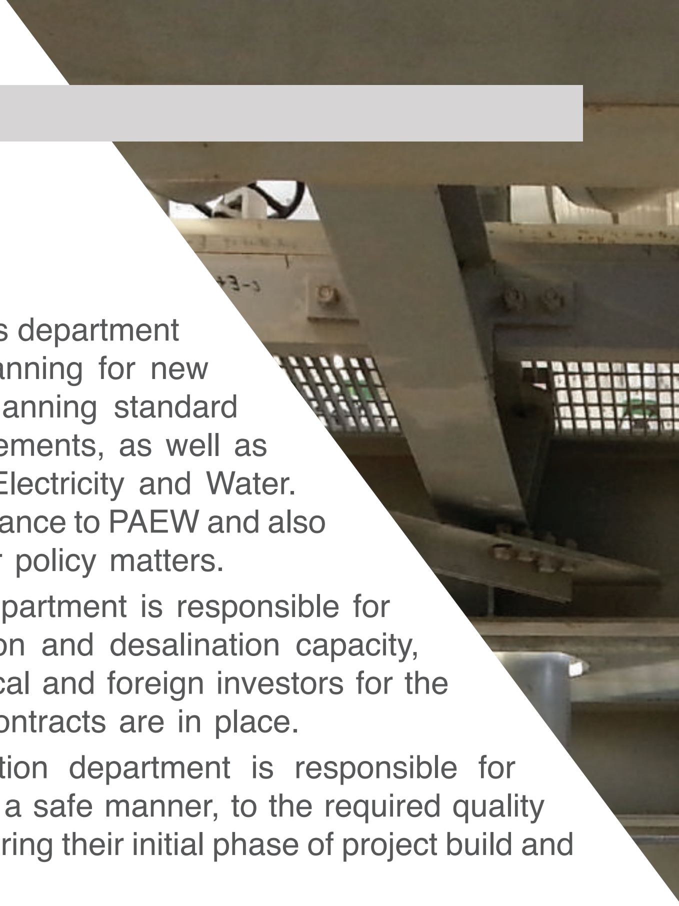
- Curtail growth in power demand
- Develop and maintain pool of competent Omanis
- Improve Quality, Health and Safety

1.5 Organization Structure & Functions

1.5.1 Organization Structure

Figure 5 OPWP's Organisation Structure





1.5.2 Core Functions:

- ***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. The department conducts strategic studies to provide guidance to PAEW and also provides support on National Energy Strategy and other policy matters.
- ***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 in a safe manner, to the required quality and on schedule. This involves managing the P(W)PAs during their initial phase of project build and ensuring that key milestones are achieved.
- ***Contracts & Spot Market:*** The Client Contracts & Interface 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 requirements. This is in addition to managing Oman-UAE 220 KV Interconnector commercial transactions in accordance with PSPA. The spot market section will be ring-fenced until the market is operational. The spot market section will be responsible for implementing an electricity spot market for MIS.

1.5.3 Support Functions:

- ***Finance & Accounting:*** The Finance department oversees the accounting and finance functions of the company. It is responsible for ensuring that the company maintains adequate cash-flows to meet its obligations under the contracts. It is responsible for business planning, price control, budgeting and management reporting. It produces statutory accounts, regulatory accounts to meet its legal and licence requirements.
- ***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, and other disputes.
- ***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, the department is also responsible for administration, document control and IT function.
- ***QHSE & Risk Management:*** The scope of QHSE function will extend to projects under construction and existing generators with respect to HSE. The department’s role, in coordination with relevant entities, is to review and update HSE policies and procedures, develop HSE audit plan, arrange/conduct audits, identify improvement opportunities and report to the Management. With respect to quality, ensure that the Quality Management System is effectively implemented in the company complying with ISO 9001:2008. The department would also be responsible for managing the Enterprise Risk Management process by reviewing it on a periodic basis and reporting it to the Audit Committee.

2. BUSINESS REVIEW

2.1 Significant Achievements of the Year 2016

During 2016, the Company was engaged in a number of key projects and strategic initiatives, of which the significant achievements are summarized below.

- **Ibri IPP:** project agreement executed with Ad Dhahirah Generation Company, the plant is currently under construction and is scheduled to deliver early power capacity of 977 MW from April to October 2018 and full power capacity of 1509 MW from 1st April 2019.
- **Sohar IV IPP:** project agreement executed with Shinas Power Company, the plant is currently under construction and is scheduled to deliver full power capacity of 1710 MW from 1st January 2019.
- **Barka IV IWP:** project agreement executed with Barka Desalination Company and will be operated under a WPA with OPWP with contracted capacity of 281,000 m^3/day (62 MIGD), using RO technology, with scheduled commercial operation to begin in May 2018.
- **Sohar III IWP:** project agreement executed with Myah Gulf Desalination Company and will be operated under a WPA with OPWP with contracted capacity of 250,000 m^3/day (55 MIGD), using RO technology, with scheduled commercial operation to begin in April 2018.
- **Al Ghubrah II IWP:** Al Ghubrah II IWP owned by Muscat City Desalination Company achieved the Commercial Operation Date in February 2016. The Plant has added a contracted desalination capacity of 191,000 m^3/day (42 MIGD) using RO technology to the interconnected zone.
- **Barka IWPP Phase II Expansion project:** The second capacity expansion project developed by ACWA Power Barka achieved the commercial operation date in February 2016. This expansion project added additional desalination capacity of 57,000 m^3/day (12.5 MIGD) to the interconnected zone.
- **Temporary Water project in Qurayyat**: Qurayyat temporary desalination plant with contracted capacity of 8,000 m^3/day (1.8 MIGD) achieved the commercial operation date in November 2016.

- **Power exchange via Oman-UAE Interconnector**: OPWP completed a power exchange transaction with Abu Dhabi Transco where OPWP imported 200 MW during the peak summer months of May and June, and exported 200 MW during July and August. The exchange was a successful demonstration of energy trading, with a net saving in cost and gas requirements to OPWP.
- **Gas Utilization Improvement:** Considering national priorities to manage the use of natural gas resources and the growing cost of energy subsidies, OPWP launched a joint initiative with OETC to make further improvements in gas utilization by the power and water plants. In 2016, OPWP and OETC achieved 7.7% reduction in the average amount of gas required for each unit of electricity generated.
- **Demand Response:** OPWP successfully completed a proof-of-concept trials in August, 2016 in coordination with the PAEW and Ghubrah II IWP. During the trial, Ghubrah II IWP was shut down for a two-hour period (14:00 to 16:00), leading to a reduction of approximately 25 MW in system demand over the period (50 MWh energy). OPWP expects that Demand Response (DR) can provide a significant and cost-effective resource toward reducing capacity requirements. In 2017, OPWP plans to evaluate tariff-induced demand impacts of the recently introduced Cost-Reflective Tariffs (CRTs). Expansion of the DR program would then begin in 2018.

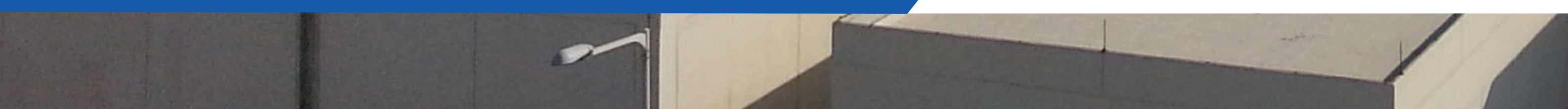
2.2 2017 Key Priorities

2.2.1 Strategic Initiatives

- **Contract Extensions***:* OPWP expects to complete negotiations with owners of Barka I and Al Kamil plants for the proposed extension of power and water purchase contracts in 2017, that would otherwise expire in the next few years.
- **Electricity Spot Market:** OPWP is currently developing the detailed market rules for a wholesale electricity spot market. The market is scheduled to begin operational trials in 2019 and commercial operation in 2020. The spot market for electricity will operate alongside the existing system of long-term PPAs and PWPAs. The market rules will be generally modelled on those that have been developed in other countries with certain modifications relevant to Oman.
- **Secure GCCIA Member Benefits**: OPWP will continue investigating the opportunities to participate in any visible pilot electricity trading activities with other GCCIA Member States 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. Recently OPWP received an approval from AER to consider the contribution of the GCCIA interconnection in calculating the requirements for both operating reserves and generation adequacy.
- **PDO Interconnection:** OPWP has entered on MoU with OETC and PDO to evaluate costs and benefits of the proposed 400 kV interconnection from Nizwa to Duqm, PDO, and the Dhofar Power System.The expected benefits include fuel savings due to improved dispatch coordination among the power systems, access to areas with renewable energy potential, sharing of spinning reserves (reducing operating costs), and improved grid security.
- **New Procurement Methodology:** OPWP plans to develop a new procurement methodology for long-term contracting for electricity generation. The new methodology will allow plants with expiring P(W)PA contracts to compete with bidders for new capacity for long-term agreement. In July 2016 OPWP appointed legal and economic advisors to carry out a strategic review of the contracting process, taking a medium-term view as to how best the future process can achieve OPWP objectives over the coming decade. The new procurement methodology will take into account the electricity spot market that is being developed since 2015. In December 2016, a technical advisor was appointed to supplement the legal and economic advisors from technical perspective. OPWP is finalising the strategy for the new procurement methodology and is planned to be implemented for the next procurement.

2.2.2 Projects under Implementation

- **Sur IWP Expansion:** The expansion project at the Sur Desalination plant by Sharqiyah Desalination Company has substantially completed all the construction activities during 2016 and started the production of pre-COD water in fourth quarter of 2016. The plant achieved commercial operation during February 2017 and has added an additional capacity of 57,000 m^3/day (12.5 MIGD) to the existing capacity of 86,000 m^3/day (19 MIGD).
- **Qurayyat IWP**: Qurayyat Desalination Plant will be operated under a WPA with OPWP with contracted capacity of 200,000 m^3/day (44 MIGD), using RO technology. Construction was ongoing during 2016 with the commercial operation expected during fourth quarter of 2017.
- **Barka IV IWP:** Project Agreements executed with Barka Desalination Company and the project will be operated under a WPA with OPWP with contracted capacity of 281,000 m^3/day (62 MIGD), using RO technology. Construction is ongoing with scheduled commercial operation to begin in second quarter of 2018.
- **Sohar III IWP:** Project Agreements executed with Myah Gulf Desalination Company and will be operated under a WPA with OPWP with contracted capacity of 250,000 m^3/day (55 MIGD), using RO technology. Construction is ongoing with scheduled commercial operation expected in third quarter of 2018.
- **Temporary Water Projects in Aseelah:** OPWP awarded the development of the temporary desalination capacity at Aseelah to Muscat Water LLC with contracted capacity of 10,000 m^3/day (2.2 MIGD). The commercial operation is expected during third quarter of 2017.



- **Salalah II IPP**: owned by Dhofar Generation Company (DGC), and construction is ongoing. The plant will operate under a PPA with OPWP and it is expected to be completed in the first quarter of 2018. It is located at Raysut, at a site adjacent to the Raysut existing plant (NPS), and is contracted to provide capacity of 445 MW.
- **Musandam IPP:** This project, a 120 MW power plant, is being developed by Musandam Power Company (MPC). The project is under construction and the commercial operation is expected to be achieved during third quarter of 2017.
- **Ibri IPP:** awarded in December 2015 to Ad Dhahirah Generation Company, the plant is under construction and is scheduled to deliver early power capacity of 940 MW from April to October 2018 and full power capacity of 1508 MW in second quarter of 2019.
- **Sohar IV IPP:** awarded in December 2015 to Shinas Power Company. The plant is under construction and scheduled to deliver full power capacity of 1708 MW in first quarter of 2019.

2.2.3 Projects under Development

- **Salalah III IWP:** OPWP initiated procurement of the Salalah III IWP in 2015 for capacity of 100,000 m^3/day (22 MIGD), and planned COD in March 2020. The Plant location will be adjacent to the existing Salalah III IWPP near Mirbat. The award of the project is anticipated during first quarter of 2017.
- **Aseelah IWP:** with capacity of 80,000 m^3/day (17.6 MIGD) at Ashkarah using RO technology, with COD planned for May 2020. The award of the project is expected during second quarter of 2017.
- **Khasab IWP:** with capacity of 16,000 m^3/day (3.5 MIGD) using RO technology and scheduled COD for first quarter of 2021. The request for qualification were received from 13 interested parties in December 2016. The project is being developed on the basis of the currently established procurement process and targeted to be awarded by end 2017.
- **2021 IPP (Misfah IPP):** proposed at Misfah near Muscat with a capacity between 800 MW and scheduled for COD in first quarter of 2021. The request for qualification were received from 11 interested parties in December 2016 and evaluation is under progress. The project is

being developed on the basis of the currently established procurement process and targeted to be awarded by around December 2017.

- **Al Ghubrah II IWP**: with capacity of 300,000 m^3/day (66 MIGD) at Al Ghubrah area using RO technology, with COD planned for first quarter of 2021.
- **Water 2022 IWP**: with capacity of 200,000 m^3/day (44 MIGD) using RO technology, with COD planned for first quarter of 2022. The project is expected to be implemented in North Al Batinah Region.
- **2022 IPP (Power 2022):** refers to the procurement of capacity of approximately 2700 MW for operation in early 2022 of which at least 800 MW is expected to be procured as new IPP and the remaining may be from plants that may be out of contract at that point of time. In order to make the comparison between the existing out of contract plants with the new I(W)PPs, a new procurement methodology is being currently developed.
- **Manah IPP**: a 264 MW plant developed on a BOOT basis with the assets being transferred back to the Government in April 2020. Currently options are being considered for continuous operations of the IPP after the proposed ownership of the asset in 2020.
- **Duqm IWP:** with capacity of 60,000 m^3/day (13.2 MIGD) using RO technology. The RFQ was released in December 2015 and the RFP preparation has been completed pending PAEW direction.
- **Renewable Energy Projects:** OPWP expects solar energy projects, wind farms, and potentially other renewable energy (RE) projects to complement gas-fired generation in the Sultanate in the near future as long as there is economic parity between the renewable and traditional energy projects. As a first step in this direction, a solar IPP (based on photovoltaic technology (PV)) is initiated by OPWP in late 2016 with the issuance of a tender for technical and economic advisors. OPWP will be assessing the economic parity of solar IPP and further course of action in relation to the procurement will be rolled out after the completion of the assessment. The solar IPP capacity is expected to be in excess of 200 MW (at one or multiple sites).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3. FINANCIAL HIGHLIGHTS

Regulatory framework:

Table 1 Where money comes from

OMR '000	2016	2015
Bulk Supply Revenue (Power)	585,479	581,738
Bulk Supply Revenue (Water)	137,126	131,117
Other Revenues	1,302	1,891
Total	723,907	714,746

Figure 6 Source of Cash

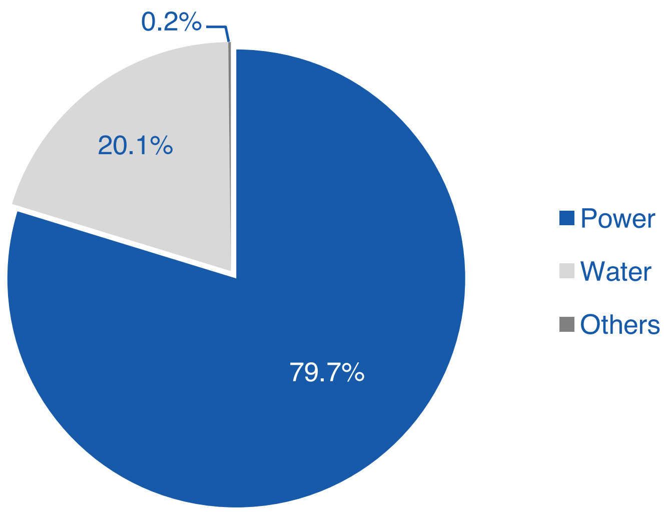
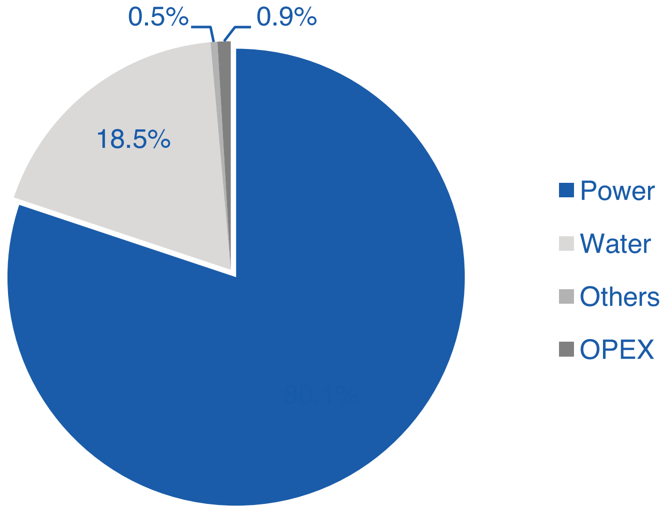


Table 2 Where money goes

RO'000	2016	2015
Power Purchase cost	579,862	576,804
Water Purchase cost	133,582	128,281
Other cost	3,514	2,915
OPEX	6,724	5,608
Total	723,682	713,608
Profit/loss before Tax - Regulatory framework	225	1,138
Profit/loss before Tax - IFRS	(2,856)	(1,628)

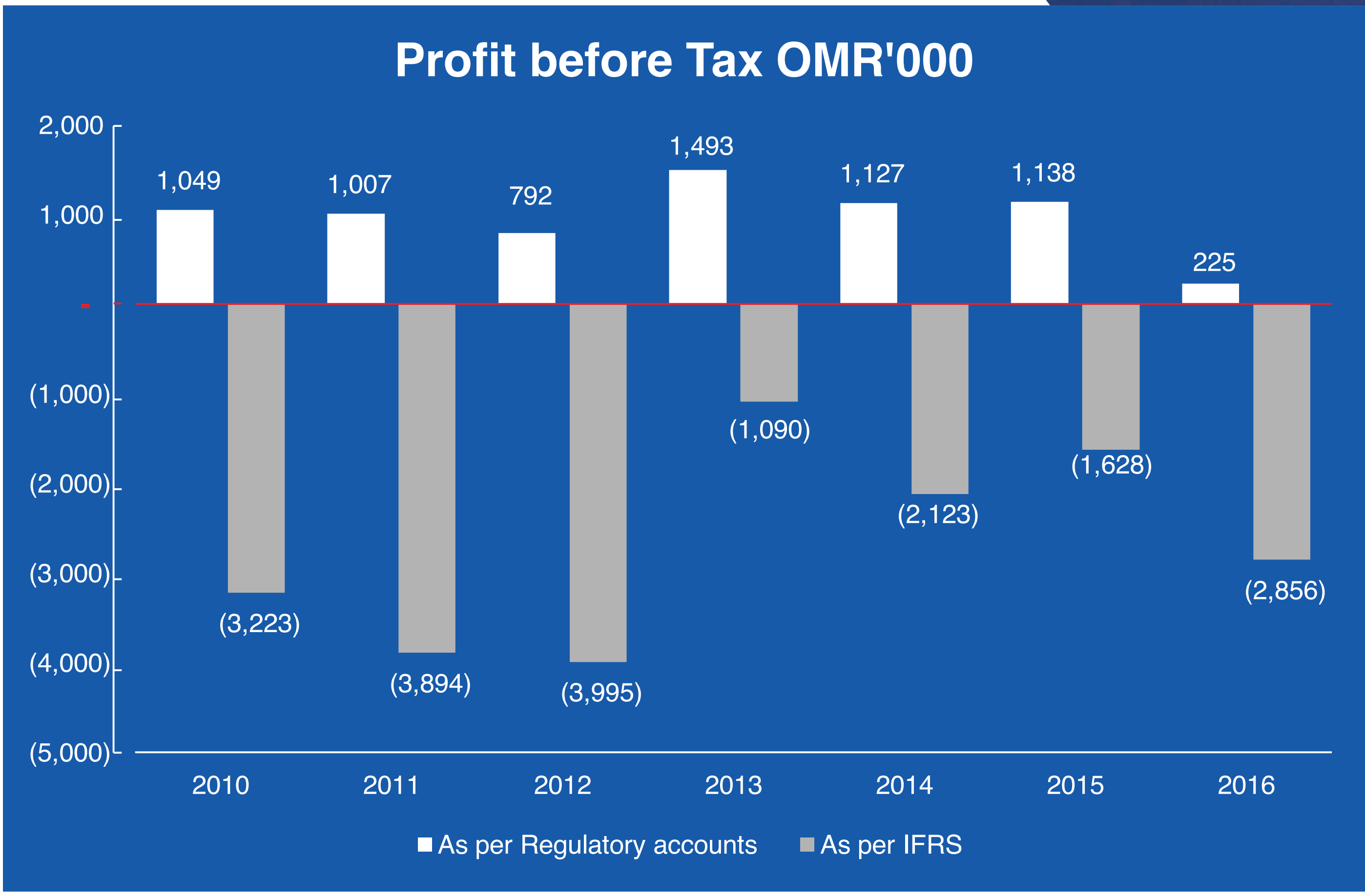
Figure 7 Application of cash



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. Figure 8 reflects the profitability position measured on the basis of the two frameworks over last seven years. In 2016, the company made a net profit before tax of OMR 0.225 Million when accounted under the regulation accounting. However, under the IFRS framework, the statutory financial statements reflect a net loss before tax of RO 2.856 Million.

Figure 8 Profit before Tax



Credit ratings:

During 2016, Standard and Poors (S&P) downgraded their rating from 'BBB+' to 'BBB-' with negative outlook. Moody's investors service has also downgraded their rating from A1/stable to Baa1/stable. This was 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.

The credit ratings of OPWP, as rated by the two leading rating agencies in 2016, are:

- Standard and Poor's Ratings Services 'BBB-/ Negative'
- Moody's Investor Services 'Baa1/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. The credit rating reports are available on OPWP's website.

4. OPERATIONAL HIGHLIGHTS
(AS PER REGULATORY FRAMEWORK)

4.1 Purchase

Purchase cost - MIS

Table 3 Main Interconnected System (MCS) - Electrecity

Particular	Units	2016	2015	Variance
Cost of Purchase	OMR' 000	497,771	492,889	1%
Units Purchased	GWh	29,549	28,354	4%
Average Cost per MWh	OMR	16.846	17.383	-3%

Purchase cost - DPS

Table 4 Dhofar Power System (DPS) - Electricity

Particular	Units	2016	2015	Variance
Cost of Purchase	OMR' 000	81,521	83,062	-2%
Units Purchased	GWh	3,057	2,942	4%
Average Cost per MWh	OMR	26.67	28.24	-6%

The reduction in average cost per MWh is due to the combined effect of spreading of fixed capacity charges over higher number of units in 2016 and savings in gas cost due to better utilization of efficient plants. The cost of MIS and DPS is combined to determine the bulk supply tariff for electricity.

Revenue – MIS and DPS

OPWP sells electricity to the distribution companies according to bulk supply tariffs determined annually by OPWP and approved by the Authority. The bulk supply tariff allows OPWP to recover its purchase and procurement costs in accordance with the price control formula in the licence. Any excess or shortfall in revenue over maximum allowed revenue is allowed to carry forward and adjust as correction factor in the following year. Thus, bulk supply tariff and average revenue per unit in any given year is driven by purchase costs of that year and carry forward over/under recovery from the previous year.

Table 5 Bulk supply revenue

Particular	Units	2016	2015	Variance
Main Interconnection System (MIS)				
Bulk Supply Revenue for MIS (Power)	OMR' 000	536,110	492,035	9%
Unit Sold	GWh	29,549	28,354	4%
Bulk Supply Revenue per MWh	OMR	18.14	17.35	5%
Dhofar Power System (DPS)				
Bulk Supply Revenue for DPS (Power)	OMR' 000	55,964	52,942	6%
Unit Sold	GWh	3,057	2,942	4%
Bulk Supply Revenue per MWh	OMR	18.31	18.00	2%

4.2 Water Purchase

Table 6 Water - MIS & DPS

Particular	Units	2016	2015	Variance
Cost of Purchase	OMR' 000	133,582	128,281	4%
Water purchased	000m^3	281,414	243,830	15%
Average Cost per m^3	OMR	0.475	0.526	-10%
Bulk Supply Revenue (Water)	OMR' 000	154,421	122,059	27%
Bulk Supply Revenue per m^3	OMR	0.549	0.501	10%

The reduction in average cost per m^3 is largely due to the effect of spreading of fixed capacity charges over higher number of units in 2016.

OPWP sells water to the PAEW and DGW, Salalah according to bulk supply tariffs determined annually by OPWP and approved by the Authority. The bulk supply tariff allows OPWP to recover its purchase and procurement costs in accordance with the price control formula in the licence. Any excess or shortfall in revenue over maximum allowed revenue is allowed to carry forward and adjust as correction factor in the following year. Thus, bulk supply tariff and average revenue per unit in any given year is driven by purchase costs of that year and carry forward over/under recovery from the previous year.

5. OPERATIONAL PERFORMANCE

5.1 Procurement and Bulk Supply arrangements

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

Table 7 Long Term Power and / or Water Purchase Agreements

Plant	Type	Status	Contract Start	Contract expiry	Power Capacity (net MW)	Water (MIGD)
Al Ghubrah Power and Desalination Co.	PWPA	Operational	2005	2018	335	31.0
Rusail Power Co.	PPA	Operational	2005	2022	655	
Wadi Al-Jizzi Power Co.	PPA	Operational	2005	2018	313	
United Power Co.	PPA	Operational	1996	2020	254	
Al Kamil Power Co.	PPA	Operational	2002	2021	271	
ACWA Power Barka	PWPA	Operational	2003	2021	427	42.7
Sohar Power Co.	PWPA	Operational	2007	2022	585	33.0
SMN Barka Power Co.	PWPA	Operational	2009	2024	674	26.4
SembCorp Salalah Power and Water Co.	PWPA	Operational	2012	2027	445	15.0
Al Batinah Power Co.	PPA	Operational	2013	2028	738	
Al Suwadi Power Co.	PPA	Operational	2013	2028	738	
Phoenix Power Co.	PPA	Operational	2014	2029	1988	
Muscat City Desalination Co.	WPA	Operational	2014	2034		42.0
Sharqiyah Desalination Co.	WPA	Existing Operational	2014	2036		18.4
Muscat Water Co. (Qurayyat temporary water)	WPA	Operational	2016	2018		1.8
Dhofar Generating Co.	PPA	Existing Operational	2014	2032	276	
Dhofar Generating Co.	PPA	New Plant under construction	2014	2032	445	
Al Sharqia Desalination Co.	WPA	Extension under construction	2014	2036		10.6
Musandam Power Co.	PPA	Under construction	2016	2031	121	
Qurayyat Desalination Co.	WPA	Under construction	2017	2037		44.0
Barka Desalination Co. (Barka IWP)	WPA	Under construction	2018	2038		61.8
Myah gulf Oman Desalination Co. (Sohar IWP)	WPA	Under construction	2018	2038		55.0
Shinas Generating Co. (Sohar)	PPA	Under construction	2019	2034	1710	
Al Dhahira Generating Co. (Ibri)	PPA	Under construction	2019	2034	1509	

Table 8.A   Key operational parameters – 2016

Capacity Utilisation – Power

OPWP procures capacity to meet the demand for summer peak as per its statutory obligations. The following table shows the capacity utilisation at the time of summer peak of 2016.

Plant Owner	Peak Capacity Utilisation (%)
Al Ghubrah Power and Desalination Co.	86%
Rusail Power Co.	72%
Wadi Al-Jizzi Power Co.	78%
United Power Co. (Manah Plant)	100%
Al Kamil Power Co.	69%
ACWA Power Barka	100%
Sohar Power Co. (Sohar I)	89%
SMN Barka Power Co. (Barka II)	60%
Al Batinah Power Co. (Sohar II)	99%
Al Suwadi Power Co. (Barka III).	94%
Phoenix Power Co. (Sur IPP)	67%
SembCorp Salalah Power and Water Co.	72%
Dhofar Generating Co.	74%

Table 8.B   Key operational parameters – 2016

Capacity utilisation - Water

The utilisation of water capacity during 2016 is as under:

Plant Owner	Capacity Utilisation (%)
Al Ghubrah Power and Desalination Co.	63.5%
ACWA Power Barka	89.3%
Sohar Power Co. (Sohar I)	82.5%
SMN Barka Power Co. (Barka II)	88.4%
Sharqiyah Desalination (Sur IWP)	95.1%
SembCorp Salalah Power and Water Co.	93.5%
Muscat City Desalination Co. (Ghubrah IWP)	69.0%

5.2 Purchase and Sale of Power and Water during 2016

Figure 9 MIS - Purchase and Sale of Electricity and Water during 2016

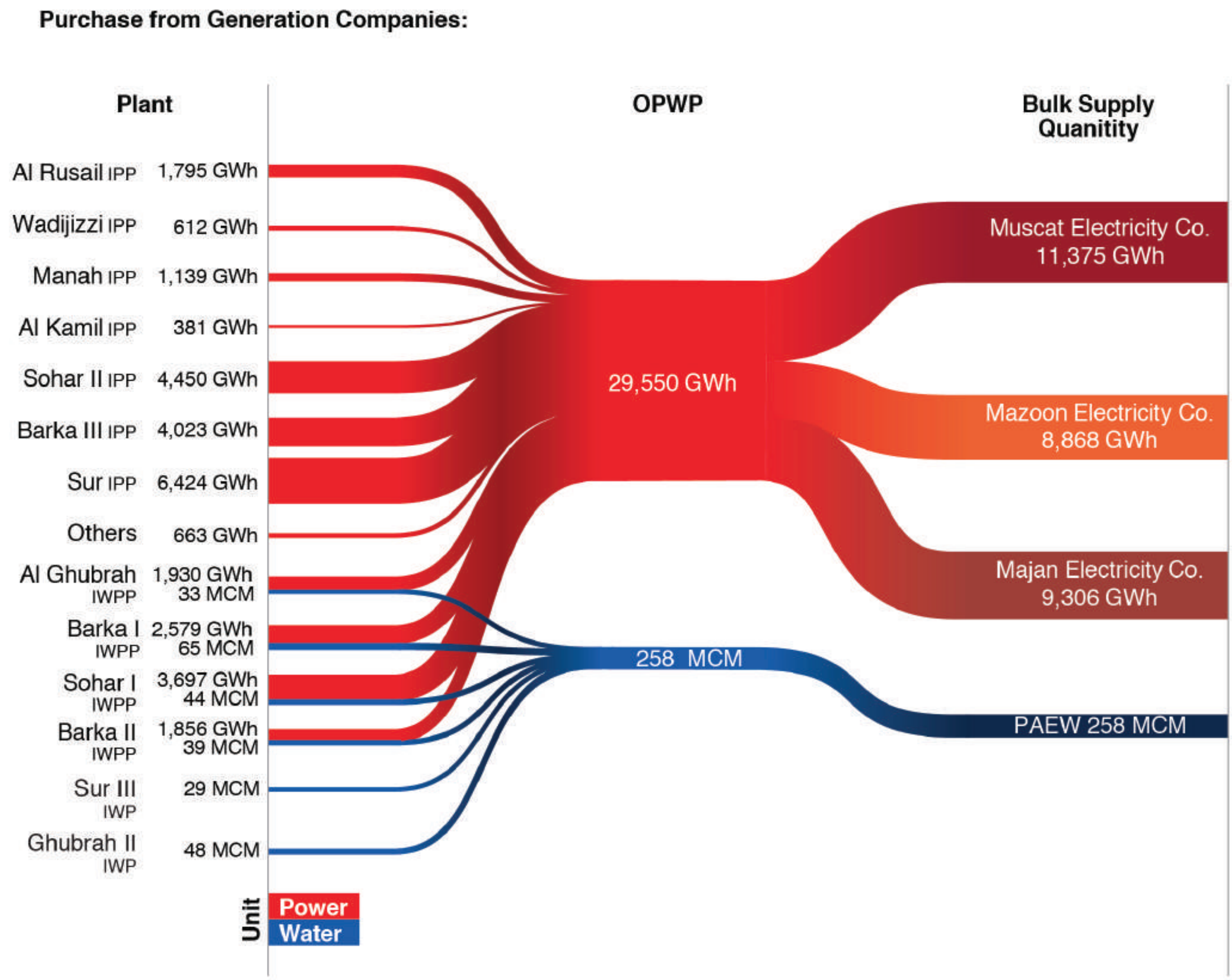
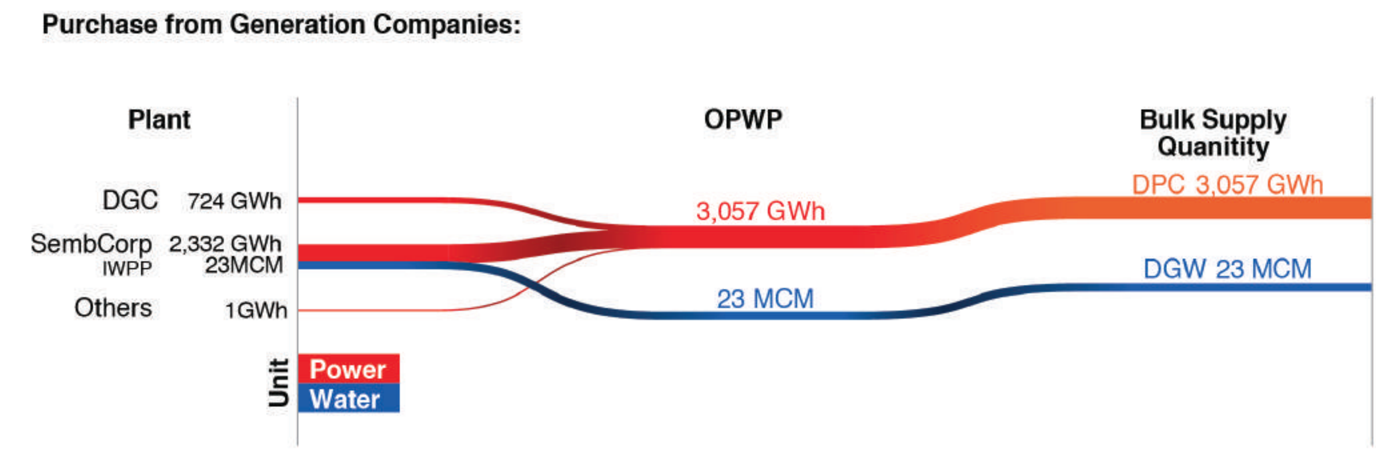
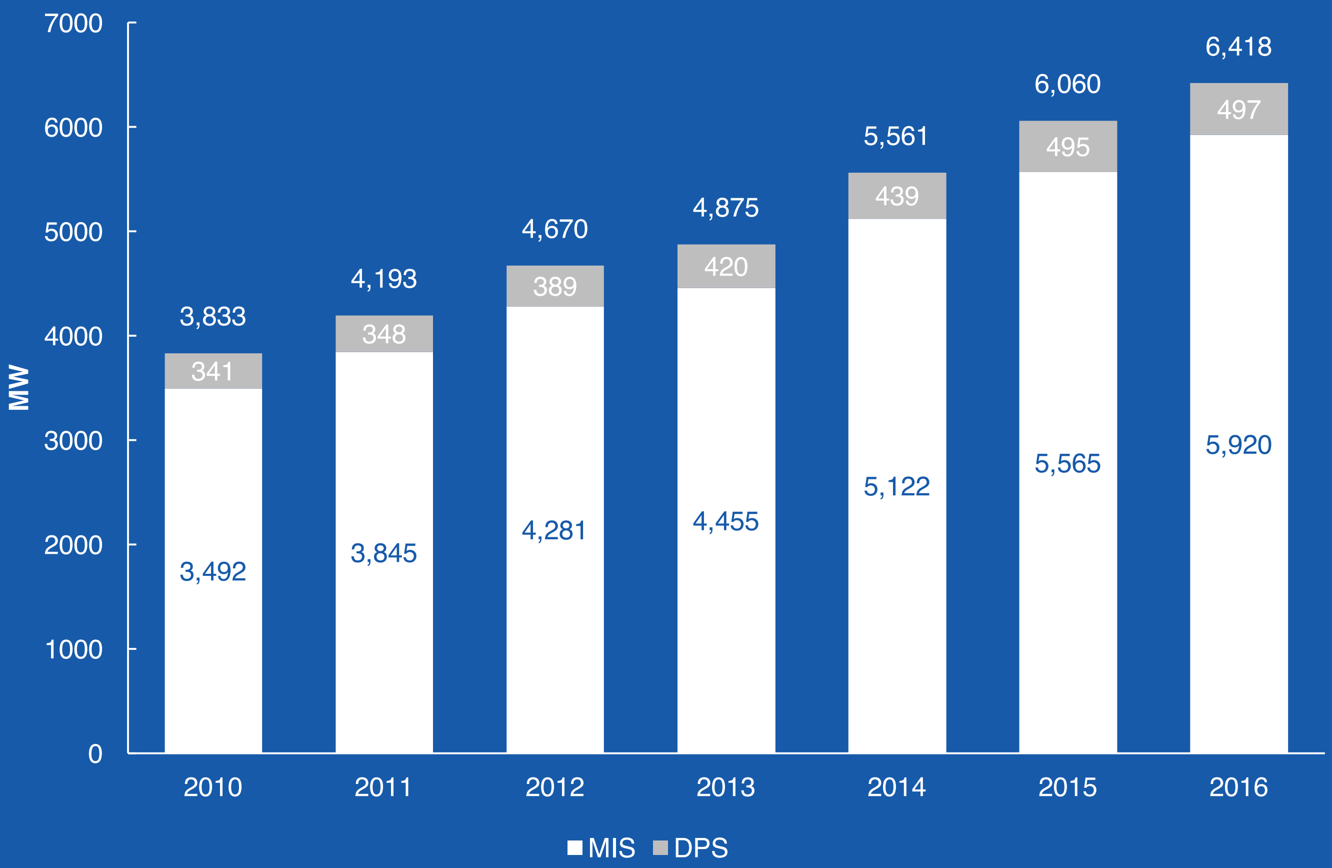


Figure 10 DPS - Procurement and Sale of Electricity and Water during 2016



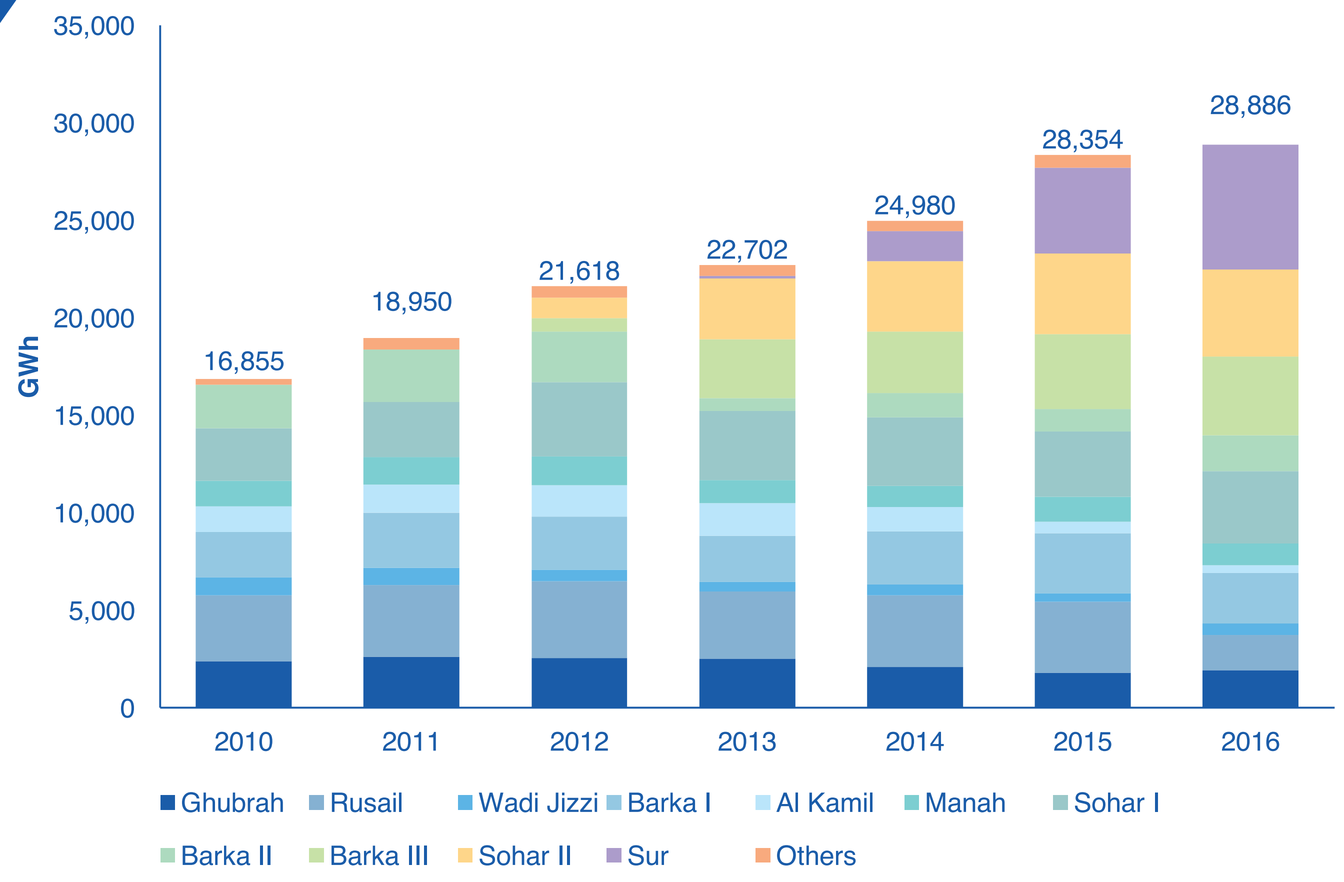
5.3 Electricity Demand and Generation Resources (2010-2016)

Figure 11 Power Peak Demand in MIS and DPS (2010-2016)



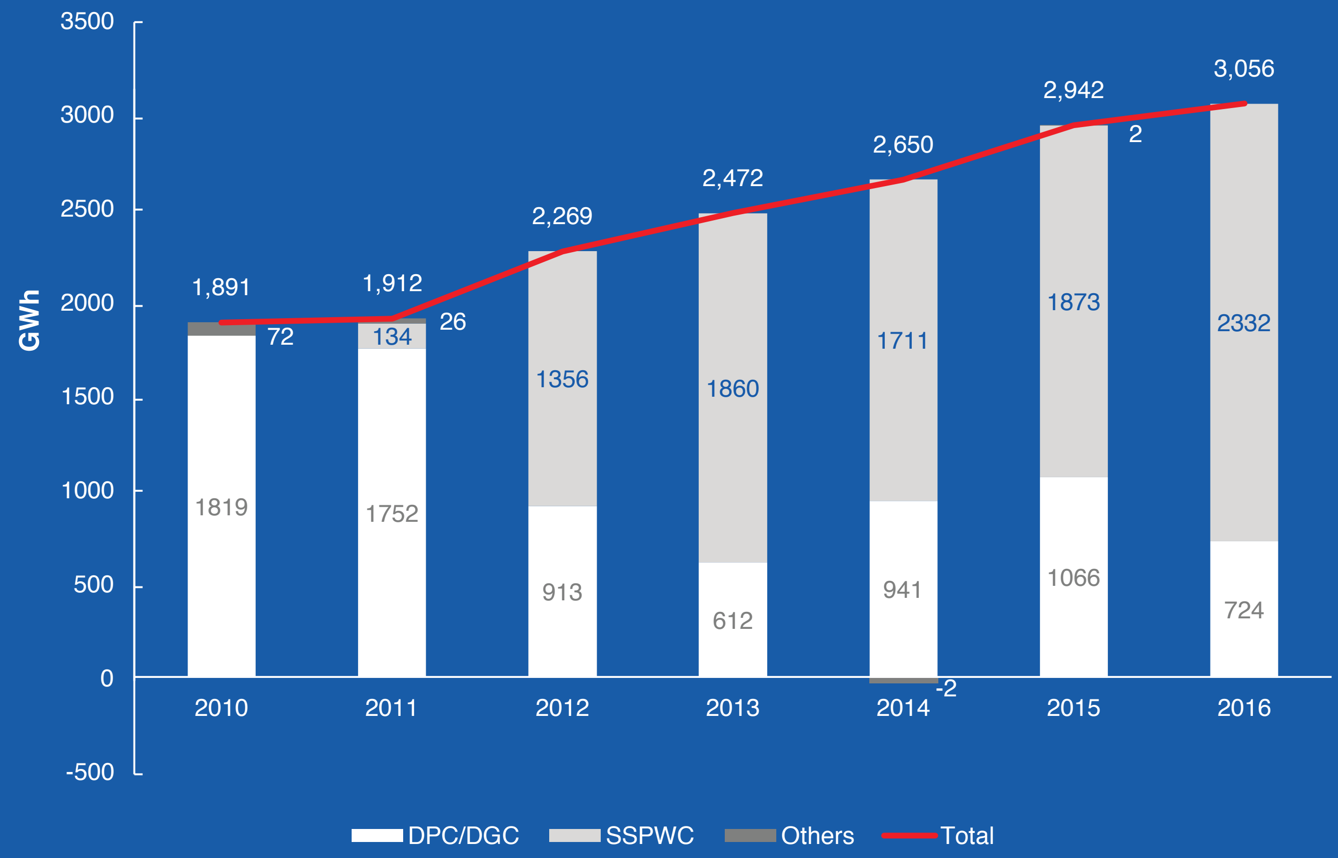
The Peak demand in the MIS has increased from 3,492 MW in 2010 to 5,920 MW in 2016 at an average annual growth rate of about 9.2% for MIS (with an increase of 6% in 2016 compared to 2015). DPS also increased at an average annual growth rate of 6.5% (with an increase of 0.5% in 2016 compared to 2015).

Figure 12 Electrical Energy Delivered in MIS (2010-2016)

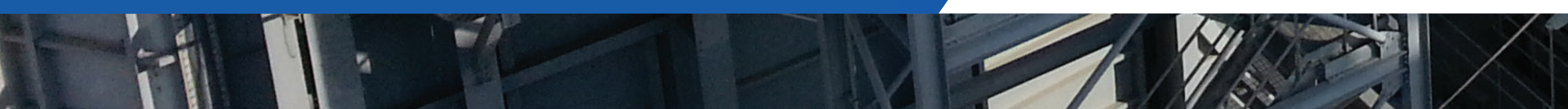


The figure shows an increase in electrical energy at an average annual growth rate of 9.4% during 2010 -2016 (with an increase of 2% in 2016 compared to 2015). and drop in 2016 is mainly driven by down turn in economic activities.

Figure 13 Electrical Energy Delivered to Dhofar Power System (2010-2016)



The figure shows an increase in electrical energy at an average annual growth rate of 8.3% during 2010 -2016 (with an increase of 4% in 2016 compared to 2015).



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 2016 was about 7.1 billion Sm³, compared to about 7.4 billion Sm³ in 2015, a decrease of 4.0% gas consumption despite an increase in energy delivered by 4.3% during this period.

Over the past seven years (2009 – 2016), while annual energy delivered of the power plants in the MIS has increased at an average annual rate 9.3%, the gas consumption has increase at the rate of 4.1% during the same period. Thus fuel utilization has improved at an annual average rate of 4.8% over last eight years.

Figure 14 Yearly Gas Consumption (MIS & DPS)

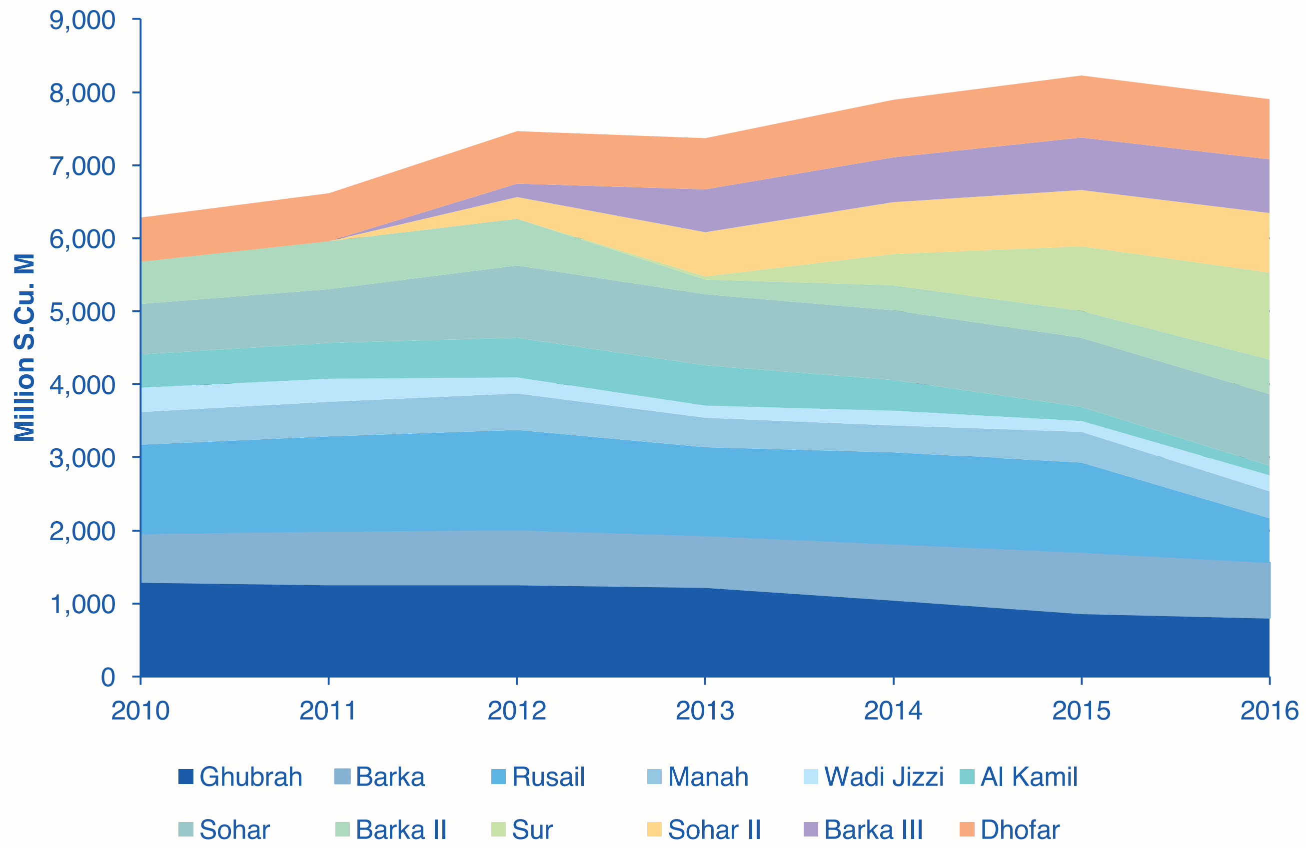
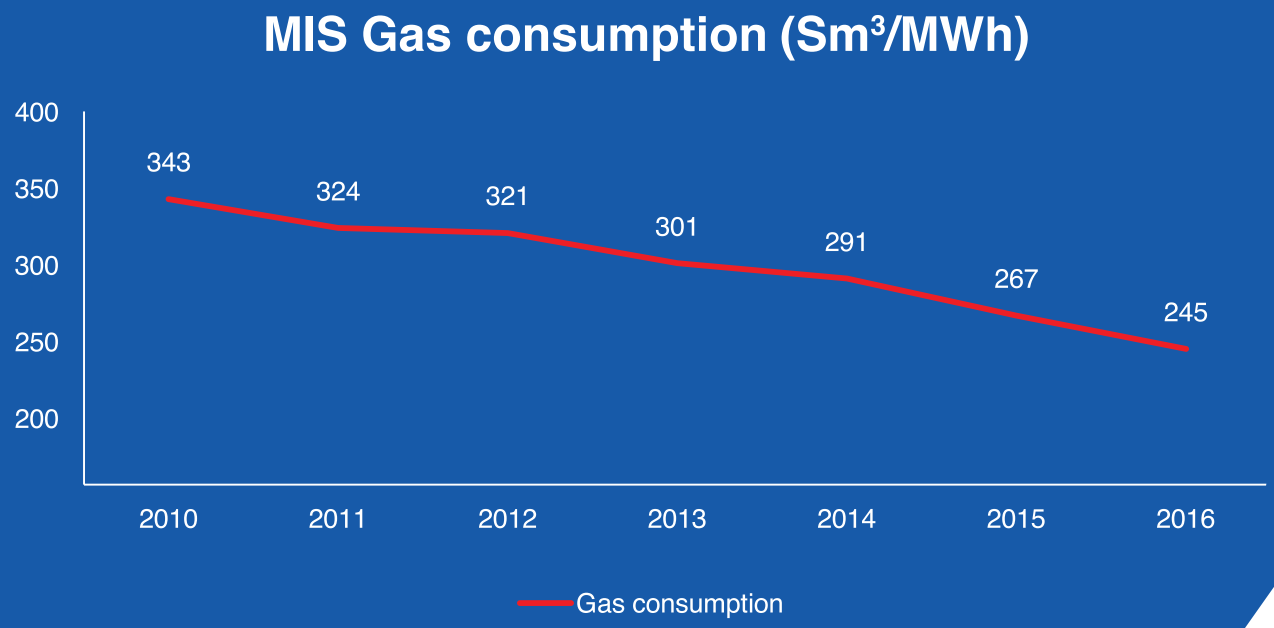


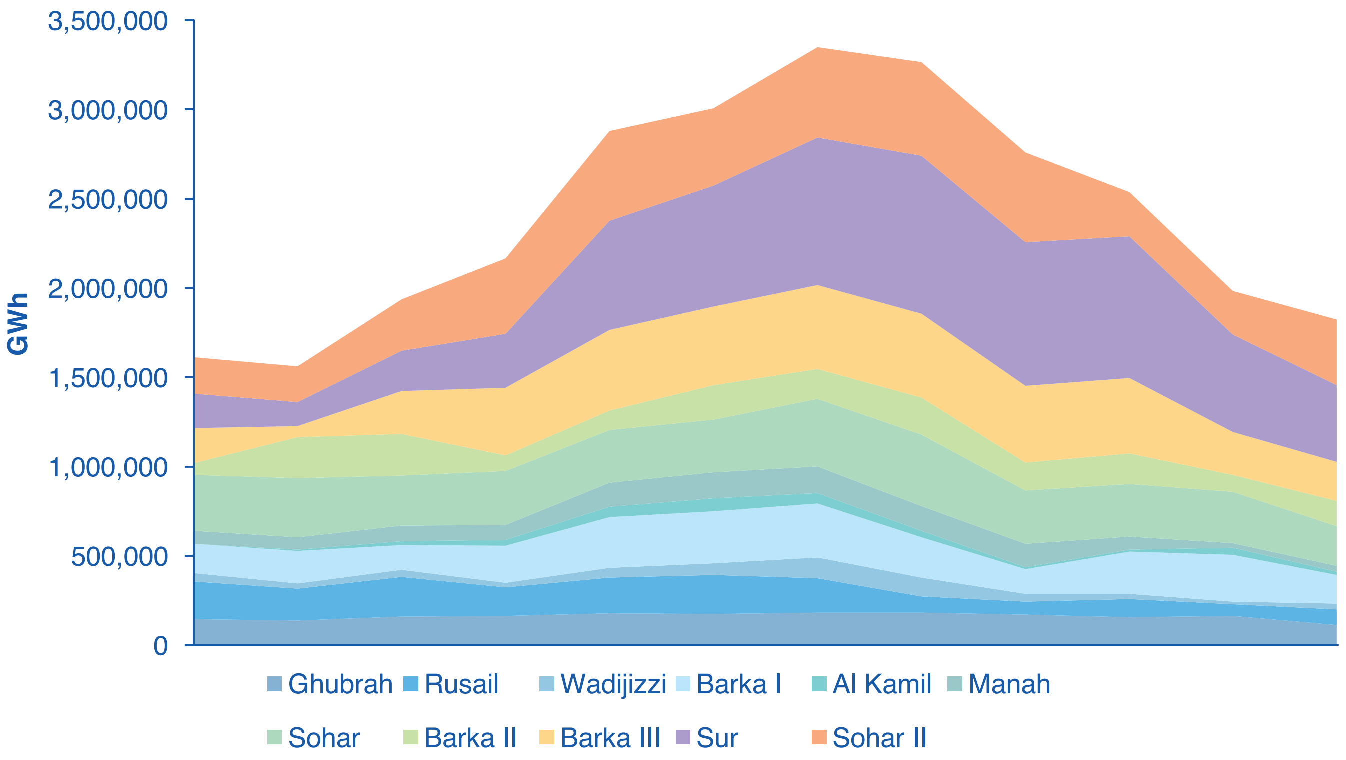
Figure 15 Gas Consumption from 2010-2016



The figure above shows that gas consumptions per unit of power generation has fallen by 29% since 2010, and by 8% in 2016 compared to 2015.

5.5 Performance of Power Generation Resources in 2016

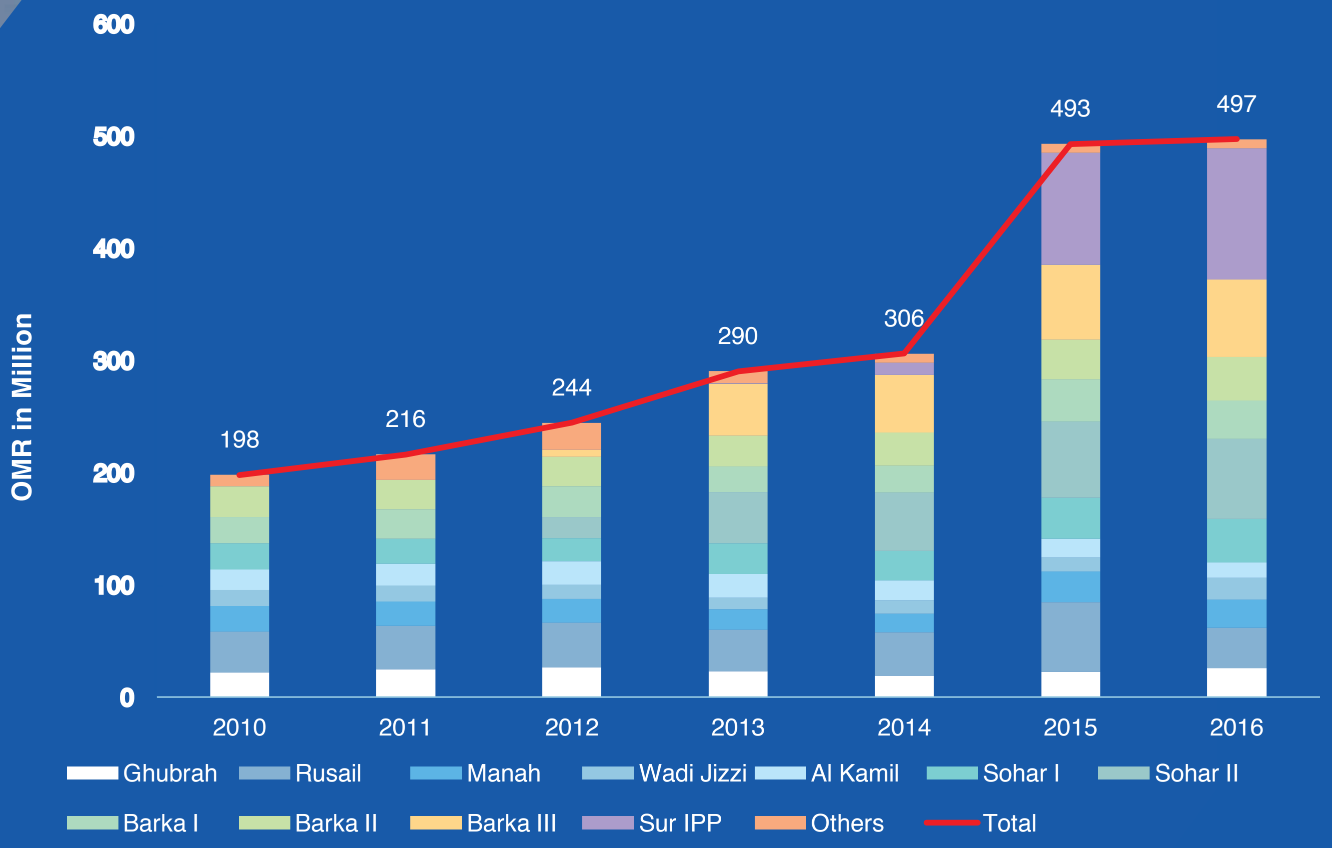
Figure 16 Energy Demand Profile – 2016 (MIS)



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

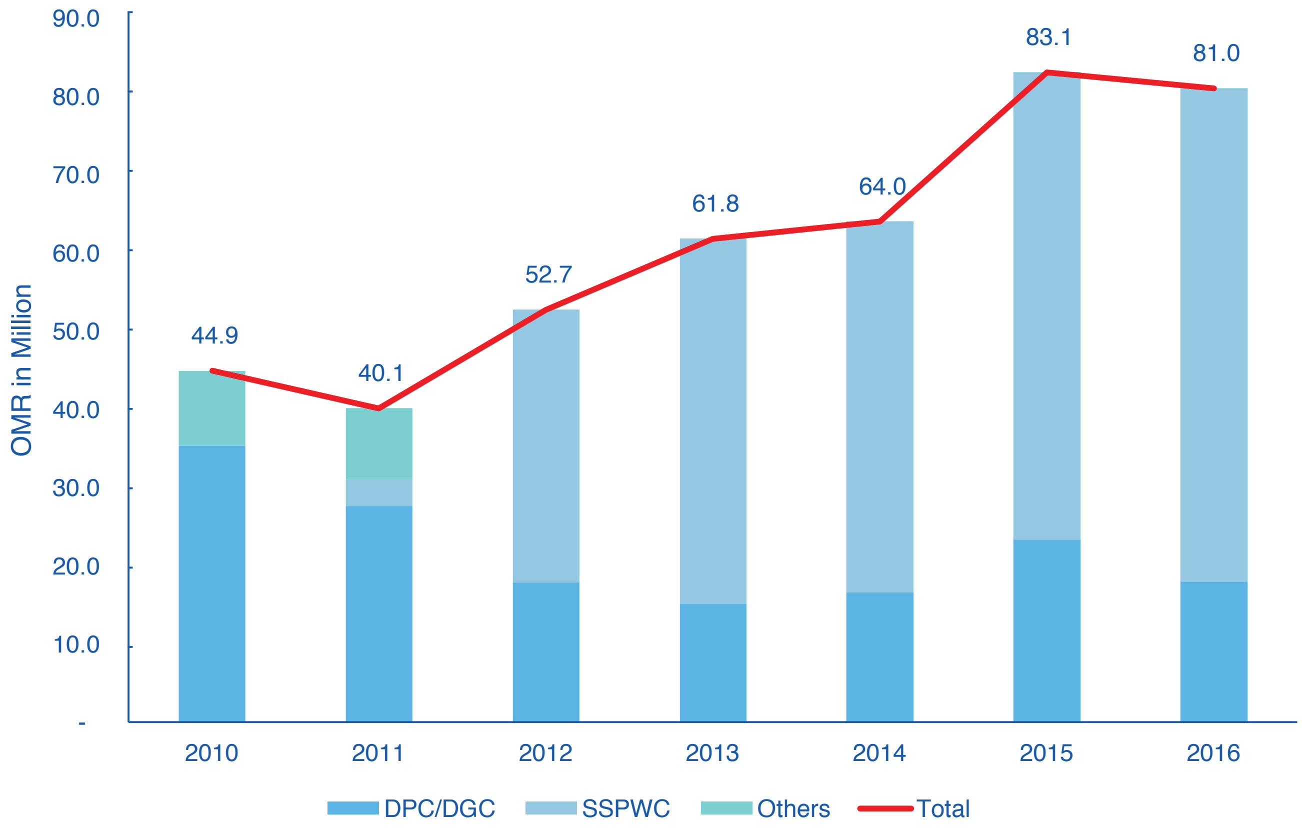
5.6 Power Purchase Cost

Figure 17 Power Purchase Cost -MIS



The cost of total energy purchased has increased at an average annual rate of about 16.6% from 2010 to 2016. In 2016, the cost of energy purchased increased by 1 % compared to 2015.

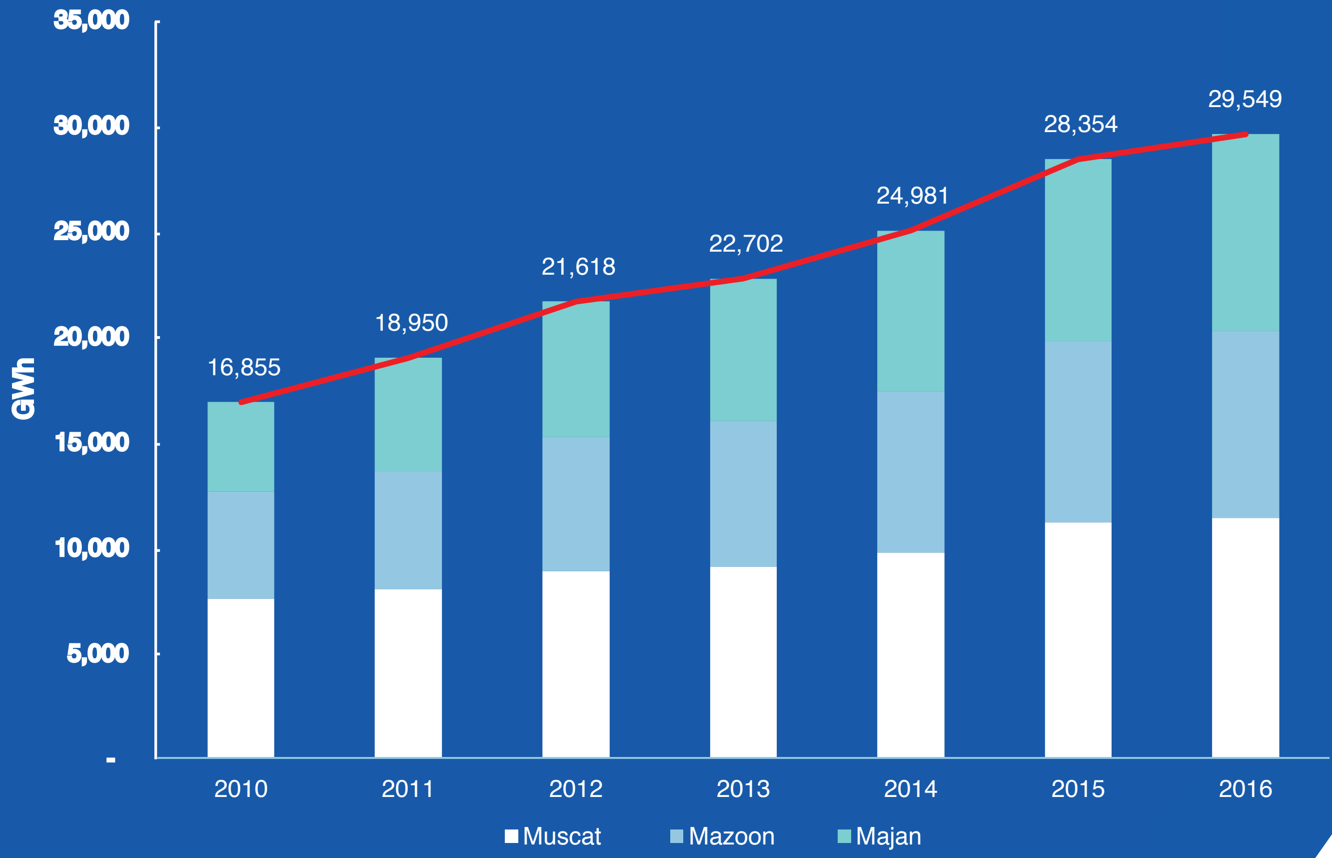
Figure 18 Power Purchase Cost – DPS



The cost of total energy purchased has increased at an average annual rate of 10% from 2010 to 2016. In 2016, the cost of energy purchased decreased by 2% compared to 2015.

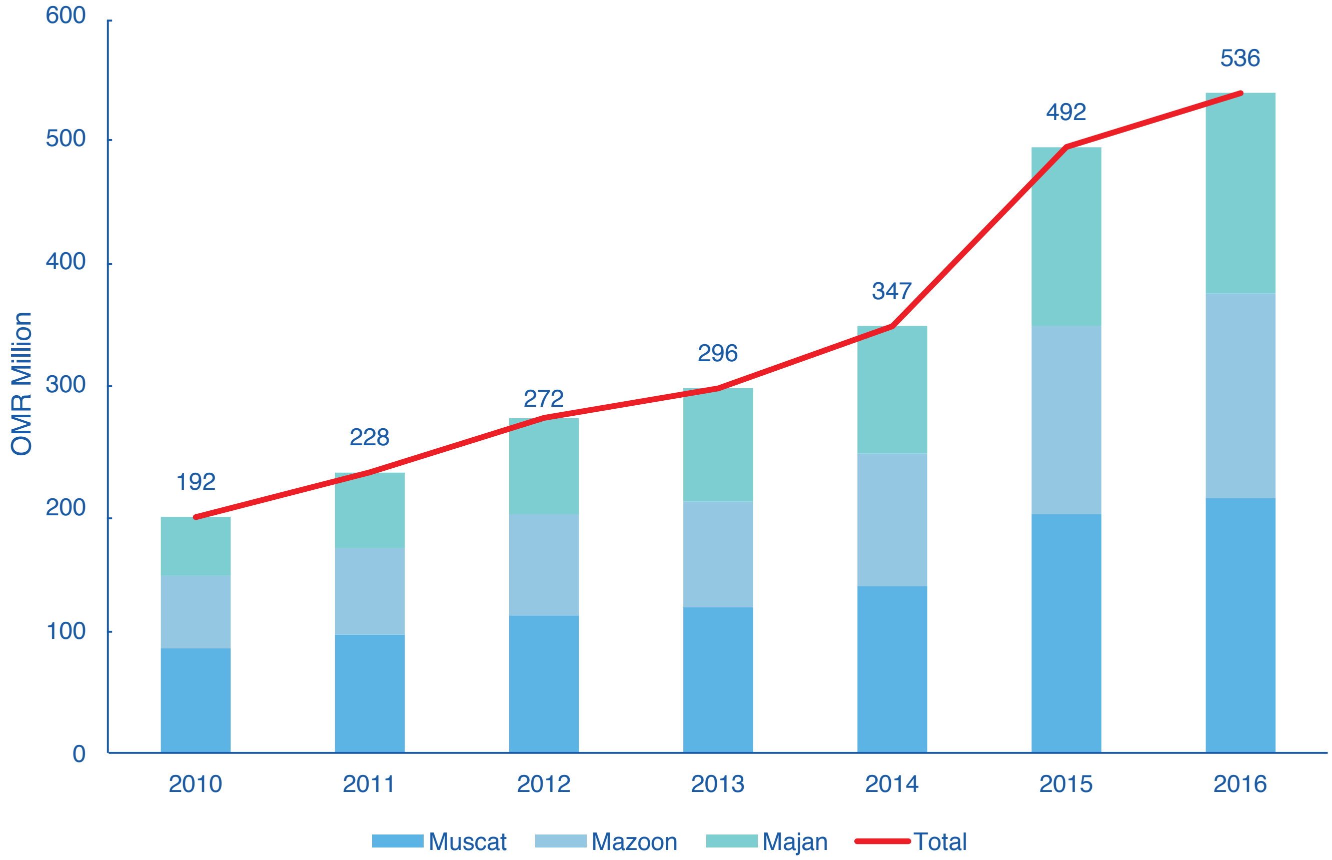
5.7 Electricity Bulk Supply Statistics

Figure 19 Yearly Electricity Bulk Supply Quantity- MIS



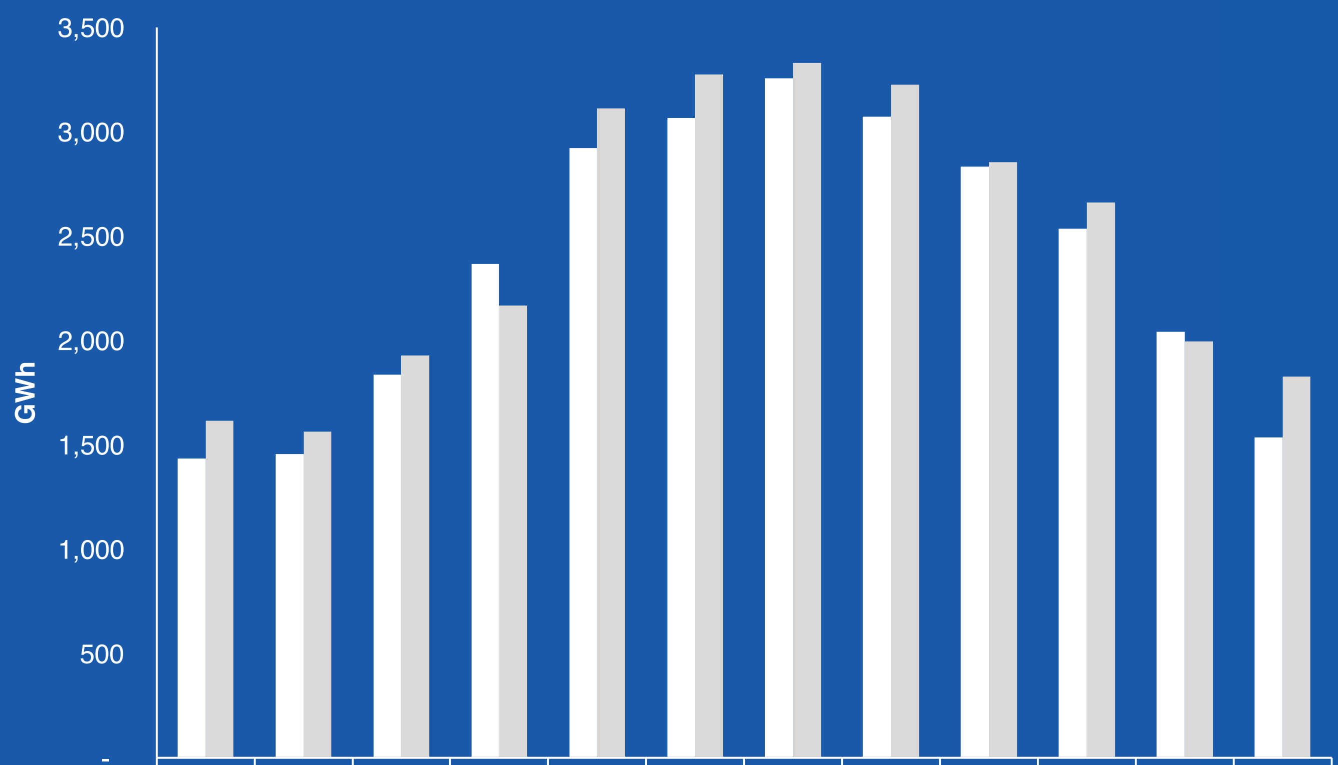
The chart shows quantity increase in energy used by Muscat, Mazoon and Majan distribution companies over seven years. The bulk supply quantity increased by 10% annually over last seven years and increased by 4% in 2016.

Figure 20 Yearly Electricity Bulk Supply Charges- MIS



The average annual growth in bulk supply charge is 18.7% over last seven years (with an increase of 9% in 2016 compared to 2015).

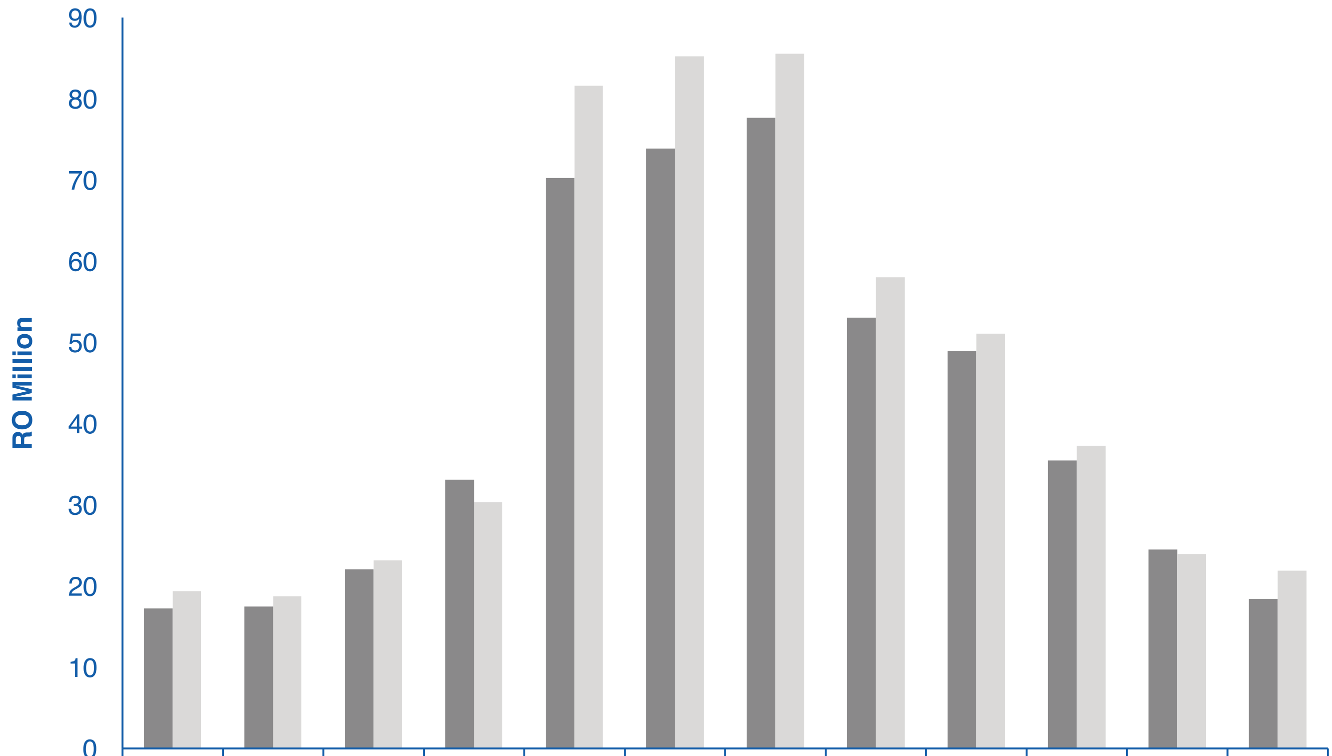
Figure 21 Monthly Electricity Bulk Supply Quantities - MIS



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2015	1,435	1,456	1,837	2,366	2,921	3,066	3,256	3,073	2,834	2,534	2,040	1,536
2016	1,614	1,562	1,927	2,167	3,113	3,275	3,328	3,225	2,855	2,662	1,995	1,826

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

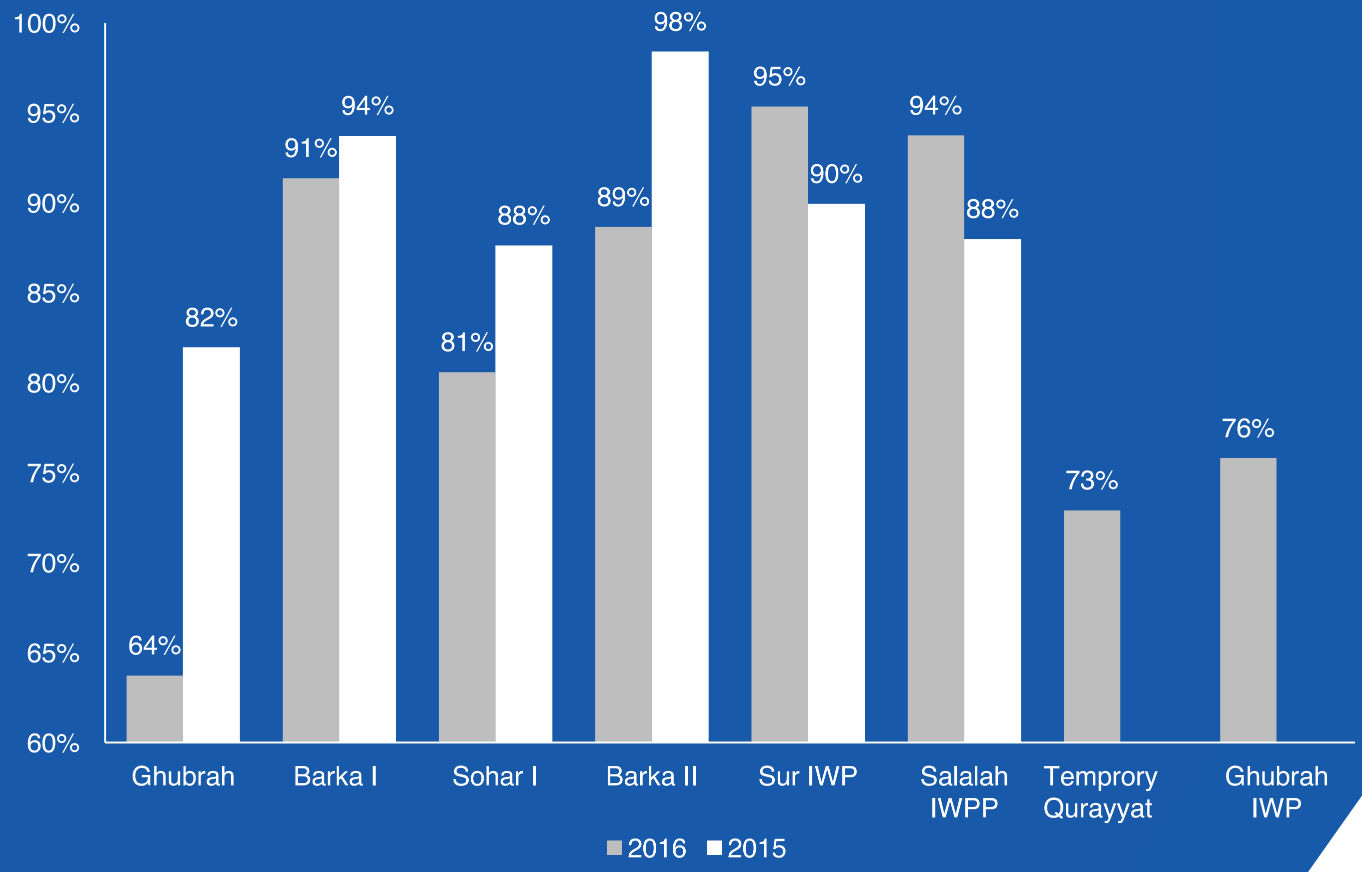
Figure 22 Monthly Electricity Bulk Supply Revenue - MIS



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2015	17	17	22	33	70	74	78	53	49	35	24	18
2016	19	19	23	30	82	85	86	58	51	37	24	22

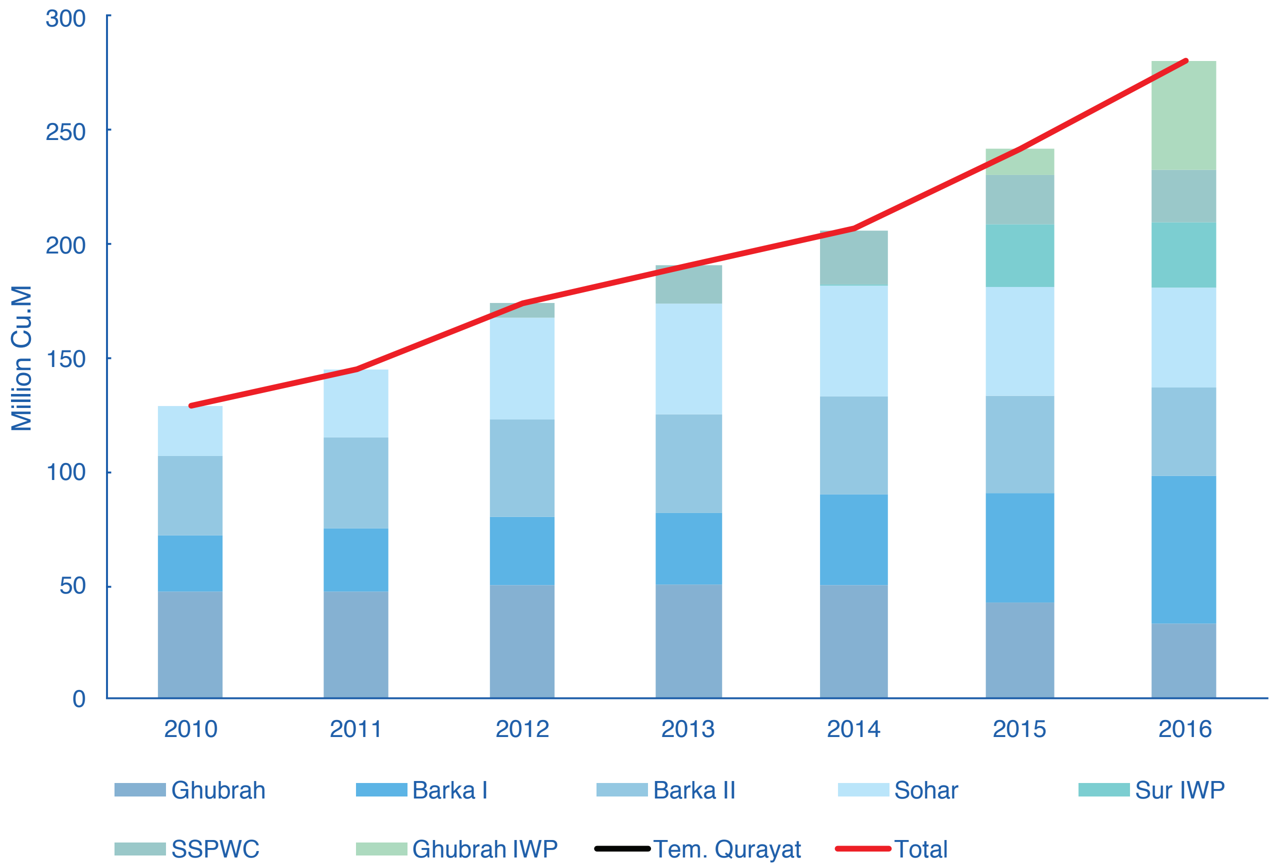
The maximum monthly charge of electricity supplied was in July this year. The bulk supply revenue profile follows demand pattern along with seasonal tariff which is higher in summer and lower in winter.

Figure 23 Plant Utilization- Water



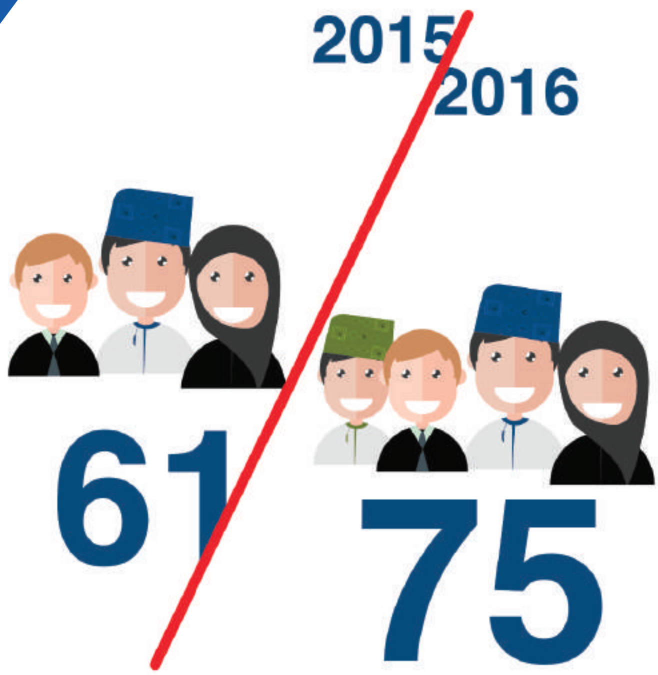
The utilization of water capacity of Ghubrah, Barka I, Barka II and Sohar I is lower due to the new capacity added in 2016 by way of Ghubrah IWP and Temporary Qurayyat IWP.

Figure 24 Potable Water Purchased (2010-2016)- MIS & DPS



The water delivered to the PAEW has increased on an average annual growth rate of 13.9% during 2010 -2016 (with an increase of 16% in 2016 compared to 2015).

6. HUMAN RESOURCES



6.1. Key Human Resources Initiatives in 2016

OPWP has completed various HR initiatives such as implementing Group Integrated Competency Framework model for all the grades, and development of Succession plan by identifying a Talent Pool for critical roles.

OPWP invests significant resources on training and development of human resources. In 2016, the Company invested about 4% of staff cost on the training and development.

The company recruited 14 employees during 2016, and the total number of employees at the end of the year reached 75 employees. During the year, the company achieved 85.3% Omanization level.


MCDC

7. QUALITY, HEALTH & SAFETY & ENVIRONMENT

In 2016 OPWP team engaged the employees and the contractors in a series of events promoting QHSE awareness including training and knowledge sharing to positively influence the QHSE culture.

The single LTI in 2016 at Musandam project was a reminder on how unsafe behaviours can have consequences on the safety of individuals and that working at heights remains among the top hazards at project sites.

OPWP successfully upgraded its earlier QMS ISO certification to the latest ISO requirement as it was recertified in the Quality Management system ISO 9001: 2015. OPWP will continue its journey of continual improvement through complying with the laws and regulations, applying the right levels of intervention where necessary, and respecting the environment and the public as a whole by being a responsible partner in the development of the sector and the country as a whole. OPWP will strive to achieve this important goal through implementing an HSE management system in compliance with OHSAS 18001: 2007 and working closely with all interested parties to collectively demonstrate the aspired improvement in QHSE performance.

8. CORPORATE GOVERNANCE REPORT

8.1 Corporate Governance

Good governance is fundamental to OPWP being able to deliver water and electricity 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, counter-parties, 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, fairness, 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 number of manuals and policies approved by Nama Group - the Group Operating Manual, the Group HR Manual, the Group Compliance Manual, the Group Treasury Policy, the CEO Remuneration and Benefits Policy, the Company Secretary Procedures Manual, the Sector's Policy Statement on Fraud Deterrence, the Sector's Policy Statement on Conflict of Interest, and the Code of Ethics and Business Conduct. 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 Group Manuals and Policies govern the relation between EHC and the Subsidiaries, as well as setting 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 a 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 Sector's Policy Statement on Conflict of Interest serves to establish clear guidelines on the identification and management of conflicts of interest. At Board level a "conflict of interest" occurs when the private interests of a member of the Board of Directors interferes in any way with the interests of EHC or its Subsidiaries. In addition to avoiding conflicts of interest, member of the Board should also avoid the appearance of a conflict of interest.

The Sector's Policy Statement on Fraud Deterrence introduced across the Nama Group 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 Saleh Al Rumhi, Deputy Chairman with considerable experience in Board supervisory and enhancement roles, was the 2016 Chairman of the Board's Internal Audit Committee.

Table 9 Board and Board Committees

	Members - 2016	Number of Meetings in 2016
Board of Directors	Hamdan Al Hinai (Chairman) Saleh Al Rumhi (Deputy Chairman) Saleh Al Harthy (MOF representative) Hussain Al Balushi (EHC representative) Hanan Askalan	5 Meetings
Audit Committee	Saleh Al Rumhi (Chairman) Saleh Al Harthi Hussain Al Balushi Hanan Askalan	4 Meetings
Human Resource Committee	Saleh Al Rumhi (Chairman) Saleh Al Harthy Hanan Askalan	4 Meetings
Internal Tender Committee	Hamdan Al Hinai (Chairman) Saleh Al Rumhi (Deputy Chairman) Hussain Al Balushi Ahmed Al Jahdhami (CEO) Bob Whitelaw (Senior Advisor)	4 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 business and 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 10 Board Meeting and Sitting Fees

Board Members		Board Meeting	Internal Tender Committee	HR Committee	Audit Committee	Board sitting fees	Committee meeting fees
Mr. Hamdan Bin Ali Al Hinai	Chairman	5(5)	4(4)			3,250	1,600
Eng. Saleh Bin Nasser Al-Rumhi	Deputy Chairman	5(5)	4(4)	4(4)	4(4)	2,000	4,000
Mr. Saleh Bin Ali Al Harthy	Board Member	5(5)		4(4)	2(4)	2,500	1,800
Mr. Hussain Al Balushi	Board Member	5(5)	2(4)		2(4)	2,500	1,200
Ms. Hanan Askalan	Board Member	2(5)		2(4)	2(4)	1,000	1,200
Total						11,250	9,800
( ) numbers in bracket represent meetings held during the year. The total sitting fees is RO 21,050							

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REPORT AND FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Report and financial statements
for the year ended 31 December 2016

Deloitte.

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Oman Power and Water Procurement Company SAOC** (the "Company"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 4 to 37.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

Without modifying our opinion, we draw attention to note 3 which explains that as at 31 December 2016 the total liabilities of the Company exceeded the total assets by RO 8.716 million (2015: RO 6.205 million) and current liabilities of the Company exceeded its current assets by RO 29.497 million (2015: RO 16.810 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.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors ("the Board") is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and for such internal control as the Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Deloitte.

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

Responsibilities of the Board of Directors for the financial statements

In preparing the financial statements, the Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- Conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

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

Auditor's responsibilities for the audit of the financial statements (continued)

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

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

Deloitte · Touche

P.O.Box 253, P.C. 112
Sultanate of Oman
Deloitte & Touche (M.E.)& Co. LLC.

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
22 February 2017

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Statement of financial position
at 31 December 2016

	Notes	2016 RO '000	2015 RO '000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**135,920**	155,470
Deferred tax assets	17	**2,300**	1,936
Advance payments	8	**10,127**	12,289
Other receivables	9	**5,817**	-
Total non-current assets		**154,164**	169,695
Current assets			
Inventories		**567**	567
Trade and other receivables	9	**131,018**	154,729
Finance lease receivables	7	**-**	401
Cash and cash equivalents	10	**25,265**	11,838
Total current assets		**156,850**	167,535
Total assets		**311,014**	337,230
EQUITY			
Capital and reserves			
Share capital	11	**500**	500
Legal reserve	12	**167**	167
General reserve	13	**250**	250
Accumulated losses		**(26,574)**	(24,063)
Shareholder's funds	14	**16,941**	16,941
Total equity		**(8,716)**	(6,205)
Non-current liabilities			
Finance lease liabilities	15	**132,773**	158,572
Provisions	16	610	518
Total non-current liabilities		**133,383**	159,090
Current liabilities			
Trade and other payables	18	**63,228**	67,640
Finance lease liabilities	15	**32,051**	25,498
Provisions	16	**49**	73
Provision for current tax	25	19	134
Short term loan	19	91,000	91,000
Total current liabilities		**186,347**	184,345
Total liabilities		**319,730**	343,435
Total equity and liabilities		311,014	337,230

Hamdan Bin Ali Al Hinai
Chairman

Saleh Bin Nasser Al Rumhi
Member

Yaqoob Bin Saif Al Kiyumi
Acting 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 2016

	Notes	2016 RO'000	2015 RO'000
Income			
Revenue	20	722,890	713,555
Operating costs	21	(697,568)	(688,976)
Gross profit		25,322	24,579
General and administrative expenses	22	(6,495)	(4,770)
Other income		40	13
Profit from operations		18,867	19,822
Finance income	23	576	638
Finance costs	24	(22,300)	(22,087)
Loss before tax		(2,857)	(1,627)
Taxation	25	346	198
Loss for the year and total comprehensive loss		(2,511)	(1,429)

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 2016

	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Accumulated losses RO'000	Shareholder's funds RO'000	Total RO'000
At 1 January 2015	500	167	250	(22,634)	16,941	(4,776)
Loss for the year and total comprehensive loss	-	-	-	(1,429)	-	(1,429)
At 1 January 2016	**500**	**167**	**250**	**(24,063)**	**16,941**	**(6,205)**
Loss for the year and total comprehensive loss	-	-	-	**(2,511)**	-	**(2,511)**
At 31 December 2016	**500**	**167**	**250**	**(26,574)**	**16,941**	**(8,716)**

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 2016

	2016 RO'000	2015 RO'000
Cash flows from operating activities		
Loss before tax	(2,857)	(1,627)
Adjustments for:		
Depreciation on property, plant and equipment	28,180	24,368
Interest expense	2,098	838
Interest on finance leases	20,202	21,249
Advance payments amortised	2,162	1,810
Gain on disposal of property, plant and equipment	(7)	-
Loss on termination of lease	1,878	-
Provision for employee benefits expense	74	102
Operating cash flows before working capital changes	51,730	46,741
Working capital changes:		
Trade and other receivables	17,894	(87,746)
Receipt of finance lease rental	401	541
Trade and other payables	(4,412)	15,570
Cash generated from / (used in) operating activities	65,613	(24,894)
Payment of employee benefits	(6)	(197)
Income tax paid	(134)	(132)
Net cash from / (used in) operating activities	65,473	(25,224)
Cash flows from investing activities		
Purchase of property, plant and equipment	(376)	(38)
Proceeds on disposal of property, plant and equipment	7	-
Net cash used in investing activities	(369)	(38)
Cash flows from financing activities		
Interest paid	(22,300)	(22,088)
Repayment of lease liabilities	(29,377)	(23,822)
Short term loan	-	77,000
Net cash (used in) / from financing activities	(51,677)	31,091
Net increase in cash and cash equivalents	13,427	5,829
Cash and cash equivalents at the beginning of the year	11,838	6,009
Cash and cash equivalents at the end of the year (Note 10)	25,265	11,838

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 2016

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 desalinated water.

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 Application 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 2016, have been adopted in these financial statements. The application of these revised IFRSs has 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.

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IAS 1 Presentation of Financial Statements relating to Disclosure initiative
- Amendments to IFRS 11 Joint arrangements relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets relating to clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 27 Separate Financial Statements relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures relating to applying the consolidation exception for investment entities
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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

2.2 New and revised IFRS in issue but not yet effective

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017
Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities	1 January 2017
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary	1 January 2018
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive	1 January 2018
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9	When IFRS 9 is first applied

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 7 *Financial Instruments: Disclosures* relating to the 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 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement**: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk
- **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- **Derecognition**: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 15 *Revenue from Contracts with Customers* 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.	1 January 2018
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts	1 January 2018
IFRS 16 *Leases* IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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

Board anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the financial statements of the Company in the period of initial application.

Board anticipates that IFRS 15 and IFRS 9 will be adopted in the Company's financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the Company's financial statements for the annual period beginning 1 January 2019. The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of revenue from contracts with customers and the Company's financial assets and financial liabilities and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of its leases.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Company performs a detailed review.

3 Summary of significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 for certain financial instruments initially measured at fair value as explained in the Company's accounting policies given below.

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

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.

As at 31 December 2016 the total liabilities of the Company exceeded the total assets by RO 8.716 million (2015: RO 6.205 million) and current liabilities of the Company exceeded its current assets by RO 29.497 million (2015: RO 16.810 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. 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 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.

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.

3 Summary of significant accounting policies (continued)

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 profit or loss as an expense as and when incurred.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. In accordance with its policy, the Company reviews the estimated useful lives of its property and equipment on an ongoing basis.

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

Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. For leased assets if the lease term is lower than useful lives, depreciation is recognised over the lease term 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:

	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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments

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

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

Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

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 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.

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

3 Summary of significant accounting policies (continued)

Financial assets (continued)

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset/financial liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset/financial liability, or, where appropriate, a shorter period.

Derecognition of financial assets
The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity
Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Trade payables
Trade payables are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognized in profit or loss on an effective yield basis. 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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3 Summary of significant accounting policies (continued)

Impairment

Financial assets

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

For financial assets, objective evidence of impairment could include:

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

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

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

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

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.

Taxation

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

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

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

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

Current and deferred tax is recognised as an expense or benefit in the statement of profit or loss 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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3 Summary of significant accounting policies (continued)

Employee benefits (continued)

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.

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 unless another systematic basis is more representative of the time pattern of the user's benefit.

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 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.

3 Summary of significant accounting policies (continued)

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.

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.

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

4 Significant accounting estimates and judgment (continued)

Lease classification

The Company has entered into the agreements with the Power Generation and Water Desalination Companies. In accordance with the criteria provided in IFRIC 4, "Determining Whether an Arrangement Contains a Lease" ("IFRIC 4"), the Company assesses whether an 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 or when there is a change in the arrangement. 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 agreement 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 principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Financial risk factors

Market risk

Price risk

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

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements for the year ended 31 December 2016 (continued)

5 Financial risk management (continued)

- **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 Company'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 bank 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 November 2017.

Further, the Company does not account for any fixed rate financial instrument at fair value, therefore a change in interest rate at the reporting date will not affect profit or loss.

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 2016 (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 2016	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
Interest bearing						
Finance lease liabilities	267,462	4,062	8,122	36,555	112,144	106,579
Short term loan	91,683	228	91,455	-	-	-
Non-interest bearing						
Trade and other payables	59,876	59,610	20	116	130	-
Due to Ministry of Finance	2,913	2,913	-	-	-	-
Suppliers and contractor's payables	76	42	26	8	-	-
	422,010	66,855	99,623	36,679	112,274	106,579
31 December 2015						
Interest bearing						
Finance lease liabilities	305,314	3,732	7,463	33,585	139,144	121,390
Short term loan	91,399	133	91,266	-	-	-
Non-interest bearing						
Trade and other payables	63,404	63,090	-	314	-	-
Due to Ministry of Finance	2,913	2,913	-	-	-	-
Suppliers and contractors payables	1,323	-	1,321	2	-	-
	464,353	69,868	100,050	33,901	139,144	121,390

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, finance lease receivable, 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 licensed suppliers and water departments which are related parties and other water departments. The Company does not consider this as an undue exposure since obligation of licensed suppliers, water departments and distribution companies water department is considered fully recoverable.

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:

	2016 RO'000	2015 RO'000
Trade receivables from related parties	109,135	105,349
Trade receivables – water sales	5,997	11,102
Finance lease receivables from a related party	-	401
	115,132	116,852

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

	31 December 2016			31 December 2015		
	Gross RO '000	Impaired RO '000	Past due but not impaired RO '000	Gross RO '000	Impaired RO'000	Past due but not impaired RO '000
Not past due	70,252	-		92,074	-	-
1 - 3 months	40,616	-	40,616	16,625	-	16,625
3 months to 1 year	4,226	-	4,226	450	-	450
More than a year	38	-	38	7,302	-	7,302
	115,132	-	44,880	116,451	-	24,377

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

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

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

5 Financial risk management (continued)

Financial risk factors (continued)

Credit risk (continued)

Trade and other receivables (continued)

Investment in bank deposits and bank balances (continued)

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

	2016 RO'000	2015 RO'000
Assets as per statement of financial position		
Finance lease receivables	-	401
Trade receivables	115,132	116,451
Other receivables	7,359	204
Cash at bank	25,263	11,836
	147,754	128,892

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:

	2016 RO'000	2015 RO'000
Assets as per statement of financial position		
Finance lease receivables	-	401
Trade receivables	115,132	116,451
Other receivables	7,359	204
Cash at bank	25,263	11,836
	147,754	128,892

5 Financial risk management (continued)

Financial risk factors (continued)

Credit risk (continued)

Trade and other receivables (continued)

Categories of financial instruments Financial assets	2016 RO'000	2015 RO'000
Loans and receivable		
Trade receivables	115,132	116,451
Cash at bank and in hand	25,265	11,838
Finance lease receivables from a related party	-	401
Other receivables	7,359	204
	147,756	128,894
Financial Liabilities		
Financial liabilities held at amortised cost		
Finance lease payable	164,824	184,070
Short term loan	91,000	91,000
Trade and other payables	60,239	63,404
	316,063	338,474

Fair value estimation

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

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, accumulated losses and shareholders' funds. The Company is not subject to external imposed capital requirements other than the requirements of the Commercial Companies Law of 1974, as amended.

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. There were no changes in the Company's approach to capital management during the year. As disclosed in note 3, the Company has support from the Parent company.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements for the year ended 31 December 2016 (continued)

6 Property, plant and equipment

	Finance lease assets RO '000	Furniture and equipment RO '000	Motor vehicles RO '000	Work-in-progress RO '000	Total RO '000
Cost					
1 January 2015	350,951	711	99	-	351,761
Additions	51,285	38	-	-	51,323
Disposals	(55,947)	(10)	-	-	(55,957)
1 January 2016	**346,289**	**739**	**99**	**-**	**347,127**
Additions	**17,291**	**159**	**-**	**217**	**17,667**
Disposals	**(46,104)**	**(7)**	**(25)**	**-**	**(46,136)**
31 December 2016	**317,476**	**891**	**74**	**217**	**318,658**
Depreciation					
1 January 2015	171,549	340	71	-	171,960
Charge for the year	24,237	120	11	-	24,368
Disposals	(4,662)	(10)	-	-	(4,672)
1 January 2016	**191,124**	**450**	**82**	**-**	**191,656**
Charge for the year	**28,027**	**144**	**9**	**-**	**28,180**
Disposals	**(37,074)**	**(7)**	**(17)**	**-**	**(37,098)**
31 December 2016	**182,077**	**588**	**74**	**-**	**182,738**
Net book value					
31 December 2016	**135,399**	**304**	**-**	**217**	**135,920**
31 December 2015	155,164	289	17		155,470

7 Finance lease receivable

The finance lease receivable was the lease receivable from Oman Electricity Transmission Company SAOC (OETC) in respect of transmission assets relating to Manah Interconnection Transmission Facilities (ITF) assets. The power purchase agreement is a part of a BOOT arrangement with United Power Company and expired in 2016. As per the agreement the ownership of transmission assets has been transferred to OETC.

Notes to the financial statements
for the year ended 31 December 2016 (continued)

7 Finance lease receivable (continued)

Finance lease receivable as at 31 December 2016

	2016 RO '000	2015 RO '000
Current finance lease receivables	-	401
Represented by:		
Gross finance lease receivables	-	420
Less: unearned finance lease interest	-	(19)
Net investment in finance lease	-	401

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

	2016 RO'000	2015 RO'000
Amount due with in one year		
Gross finance lease receivables	-	420
Less: unearned finance income	-	(19)
	-	401

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

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

9 Trade and other receivables

	2016 RO'000	2015 RO'000
Trade receivable from related parties (Note 26)	109,135	105,349
Trade receivables - water sales	5,997	11,102
Prepayments and others	198	325
Other receivables	1,454	-
Revenue recovered less than the maximum allowed as per price control formula (Power and water)	14,064	37,610
Interest on the revenue recovered less than the maximum allowed as per price control formula (power and water)	170	343
	131,018	154,729

As at 31 December 2016 no amounts are impaired (2015 - Nil).

Other receivables include following amount, which are recoverable in more than one year and carries commercial rate of interest. The maturity schedule is as follows:

	2016 RO '000	2015 RO '000
Within one year	1,454	-
More than one year	5,817	-
	7,271	-

10 Cash and cash equivalents

	2016	2015
Cash at bank	25,263	11,836
Cash on hand	2	2
	25,265	11,838

Cash at bank comprise of followings:

	2016	2015
- Bank deposits	25,245	11,836
- Current account	18	-
	25,263	11,836

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (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	2016 RO	2015 RO
Electricity Holding Company SAOC	99.99%	499,950	499,950	499,950
Ministry of Finance	0.01%	50	50	50
	100%	500,000	500,000	500,000

12 Legal reserve

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

13 General reserve

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

14 Shareholder's funds

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

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

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

15 Finance lease liabilities

Amounts payable under finance leases are as follows:

	2016 RO '000	2015 RO '000
Gross finance lease liabilities - minimum lease payments		
Not later than 1 year	**48,739**	44,780
Later than 1 year and not later than 5 years	**112,144**	139,144
Later than 5 years	**106,579**	121,390
	267,462	305,314
Less: future finance charges on lease liabilities	**(102,638)**	(121,244)
Present value of finance lease liabilities	**164,824**	184,070

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:

	2016 RO '000	2015 RO '000
Not later than 1 year	**32,051**	25,498
Later than 1 year and not later than 5 years	**62,130**	80,622
Later than 5 years	**70,643**	77,950
	164,824	184,070

16 Provisions

Non-current	**610**	518
Current	**49**	73
	659	591

Movement in provision for employee benefits

At 1 January	**591**	686
Charge for the year	**74**	102
Payments made during the year	**(6)**	(197)
At 31 December	**659**	591

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

17 Deferred tax asset / (liability)

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

2016	At 1 January RO '000	Charge / (credit) for the year RO '000	At 31 December RO '000
Assets			
Accelerated tax depreciation	(10)	(5)	(15)
Finance lease	3,421	110	3,531
Advance payment	(1,475)	260	(1,216)
	1,936	365	2,300
2015			
Assets			
Accelerated tax depreciation	(12)	2	(10)
Finance lease	3,305	115	3,421
Advance payment	(1,692)	217	(1,475)
	1,601	334	1,936

18 Trade and other payables

	2016 RO '000	2015 RO '000
Accruals and other expenses	54,492	55,950
Trade payables to related parties (note 26)	5,747	5,784
Due to Ministry of Finance for excess funding received	2,913	2,913
Suppliers and contractors payables	76	2,993
	63,228	67,640

19 Short-term borrowings

Borrowings	91,000	91,000

The Company has a short term bridge loan facility of RO 150 million. The loan carries a rate of interest in the range of 1.75% to 3% (2015: 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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

20 Revenue

	2016 RO'000	2015 RO'000
Bulk supply revenue for electricity (note 26)	592,074	544,977
Bulk supply revenue for water	154,421	122,059
Recharge of interconnection and transmission facilities (note 26)	150	232
Other revenue	135	468
	746,780	667,736
Add / less following as per price control formula:		
Previous year revenue less than / (in excess of) maximum allowed as per price control formula, reversed (electricity)	(24,569)	12,105
Previous year revenue less than maximum allowed as per price control formula, reversed (water)	(13,042)	(3,984)
Previous year interest on revenue (less than) / in excess of maximum allowed as per price control formula, reversed	(343)	87
Revenue less than the maximum allowed as per price control formula added (electricity)	17,381	24,569
Revenue (in excess of) / less than the maximum allowed as per price control formula deferred to next year (water)	(3,317)	13,042
	722,890	713,555

21 Operating costs

	2016 RO'000	2015 RO'000
Electricity capacity and output purchase costs	532,445	533,543
Desalinated water capacity and output purchase costs	133,582	128,281
Depreciation on finance lease assets	28,027	24,237
Other direct costs	3,514	2,915
	697,568	688,976

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

22 General and administrative expenses

	2016 RO'000	2015 RO'000
Employee benefit expenses	3,164	2,976
License fee to the Authority for Electricity Regulation	297	357
Service expenses	617	755
Directors' sitting fees	21	26
Depreciation	153	131
Gain on disposal of property, plant and equipment	(7)	-
Loss on termination of lease	1,878	-
Other expenses	372	525
	6,495	4,770

Included within employee benefit expenses is an amount of RO 267,000 (2015 - RO 205,000) relating to post employment benefit expenses. The Other expenses include an impact of RO 1,870,000 (2015 – RO NIL) for de-recognition of Wadi Jizzi lease asset and liabilities due to significant changes in the lease terms

23 Finance income

	2016 RO'000	2015 RO'000
Interest on finance lease (note 26)	19	79
Interest on bank account	52	74
Interest on the revenue recovered less than the maximum allowed as per price control formula (power and water)	170	344
Other interest	335	141
	576	638

24 Finance costs

Interest on obligations under finance leases	20,202	21,249
Interest on bank overdrafts	2,098	838
	22,300	22,087

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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% (2015 - 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.

	2016 RO'000	2015 RO'000
Current tax	19	136
Deferred tax (Note 17)	(365)	(334)
	(346)	(198)

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% (2015 - 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:

	2016 RO'000	2015 RO'000
Accounting loss before tax	(2,857)	(1,627)
Tax credit on accounting loss	(343)	(193)
Other items	(3)	(3)
Tax expense for the year	(346)	(198)

Taxation has been agreed with the Oman taxation authorities for all year up to 31 December 2008. The Company's income tax assessment for year 2009 to 2014 has not yet been finalised. The management considers that the amount of additional taxes, if any, that may become payable on finalisation of the open tax years would not be material to the Company's financial position as at 31 December 2016.

Subsequent to year-end, the Government of Oman has issued a Royal Decree (the Decree) for the amendment in the Income Tax Law of Oman. These changes are applicable for the financial year beginning on or after 1 January 2017 and therefore, has no impact on the financial position of the Company as at 31 December 2016.

Movement in current tax provision is as under:

	2016 RO'000	2015 RO'000
Tax payable at beginning of the year	134	130
Current tax charge for the year	19	136
Tax paid during the year	(134)	(132)
Tax payable at end of the year	19	134

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.

The Government is not considered as a related party in view of the exemption from disclosure requirements set out in IFRS in relation to related party transactions and outstanding balances with a government that has control or joint control of, or significant influence over the Company and an entity that is a related party of the same government.

The Company has applied the exemptions in IAS 24:25 related to government entities and only disclosed certain information to meet the disclosure requirements of IAS 24.

No expenses have been recognised in the year (2015 - 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	**2016** **RO '000**	2015 RO '000
Transactions with related parties under common ownership		
Bulk supply revenue for electricity to Muscat Electricity Distribution Company SAOC	**207,159**	194,030
Bulk supply revenue for electricity to Mazoon Electricity Company SAOC	**166,469**	152,902
Bulk supply revenue for electricity to Majan Electricity Company SAOC	**162,482**	145,103
Bulk supply revenue for electricity to Dhofar Power Company SAOC	**55,964**	52,942
	592,074	544,977
Bulk supply revenue for water to Public Authority for Electricity and Water	**142,554**	110,377
Recharge of interconnection and transmission facilities to Oman Electricity Transmission Company SAOC	150	232

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Notes to the financial statements
for the year ended 31 December 2016 (continued)

26 Related parties (continued)

Expenses	2016 RO '000	2015 RO '000
Transactions with related parties under common ownership		
Interest on finance lease to Al Ghubrah Power and Desalination Company SAOC	3,402	4,933
Electricity and water output purchases from Al Ghubrah Power and Desalination Company SAOC	39,534	37,006
Interest on finance lease to Wadi Al Jizzi Power Company SAOC	1,556	815
Electricity output purchases from Wadi Al Jizzi Power Company SAOC	12,233	9,862
Interest on finance lease to Dhofar Generating Company SAOC	-	1,935
Electricity output purchases from Dhofar Generating Company SAOC	-	9,209
Accounting service charges from Electricity Holding Company SAOC	43	41
	56,768	63,801

Balances with related parties under common ownership are as follows:

	2016 RO '000	2015 RO '000
Related party receivables		
Muscat Electricity Distribution Company SAOC	12,616	13,398
Mazoon Electricity Company SAOC	12,853	37,799
Majan Electricity Company SAOC	16,298	24,818
Public Authority for Electricity and Water	64,610	23,768
Dhofar Power Company SAOC	2,759	5,499
Oman Electricity Transmission Company SAOC	-	67
	109,135	105,349
Finance lease receivables	-	401
Related party payables		
Al Ghubrah Power and Desalination Company SAOC	4,147	4,675
Wadi Al Jizzi Power Company SAOC	1,320	1,048
Electricity Holding Company SAOC	280	61
	5,747	5,784

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Notes to the financial statements
for the year ended 31 December 2016 (continued)

26 Related parties (continued)

	2016 RO '000	2015 RO '000
Related party payables		
Balances with related parties under common ownership		
Finance lease payable to		
Al Ghubrah Power and Desalination Company SAOC	20,616	34,053
Finance lease payable to Wadi Al Jizzi Power Company SAOC	11,585	7,159
	32,202	41,212

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:

	2016 RO '000	2015 RO '000
Short-term employee benefits	951	964
Post-employment benefits	31	43
Directors sitting fees	21	26
	1,003	1,033

27 Contingencies and operational liabilities

	2016	2015
Operating lease commitments		
Not more than 1 year	240,887	240,528
More than 1 year but not more than 5 years	1,431,727	1,196,450
More than 5 years	1,915,486	1,425,417
	3,588,100	2,862,395

28 Approval of financial statements

The financial statements were approved by the Board and authorised for issue on 14 February 2017.

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