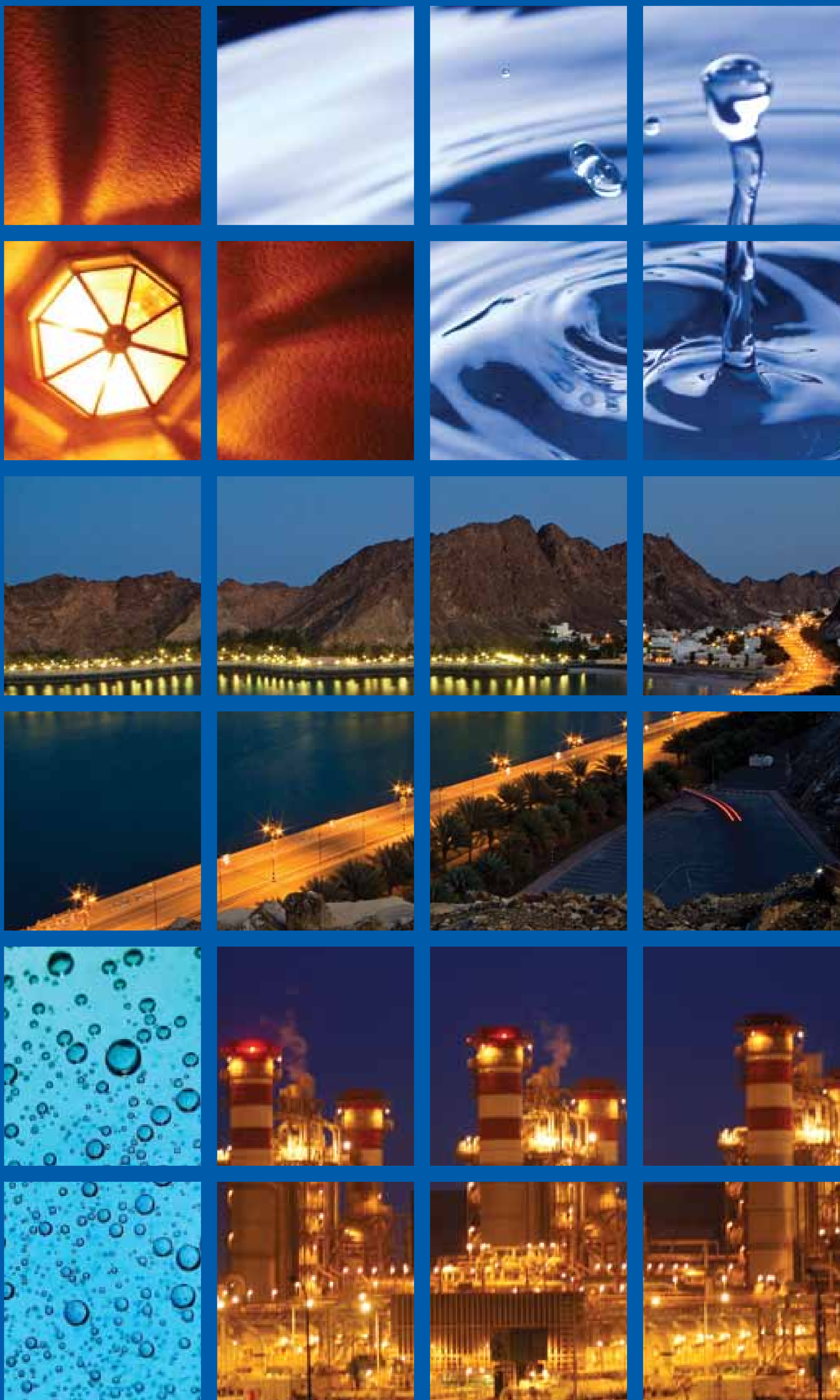
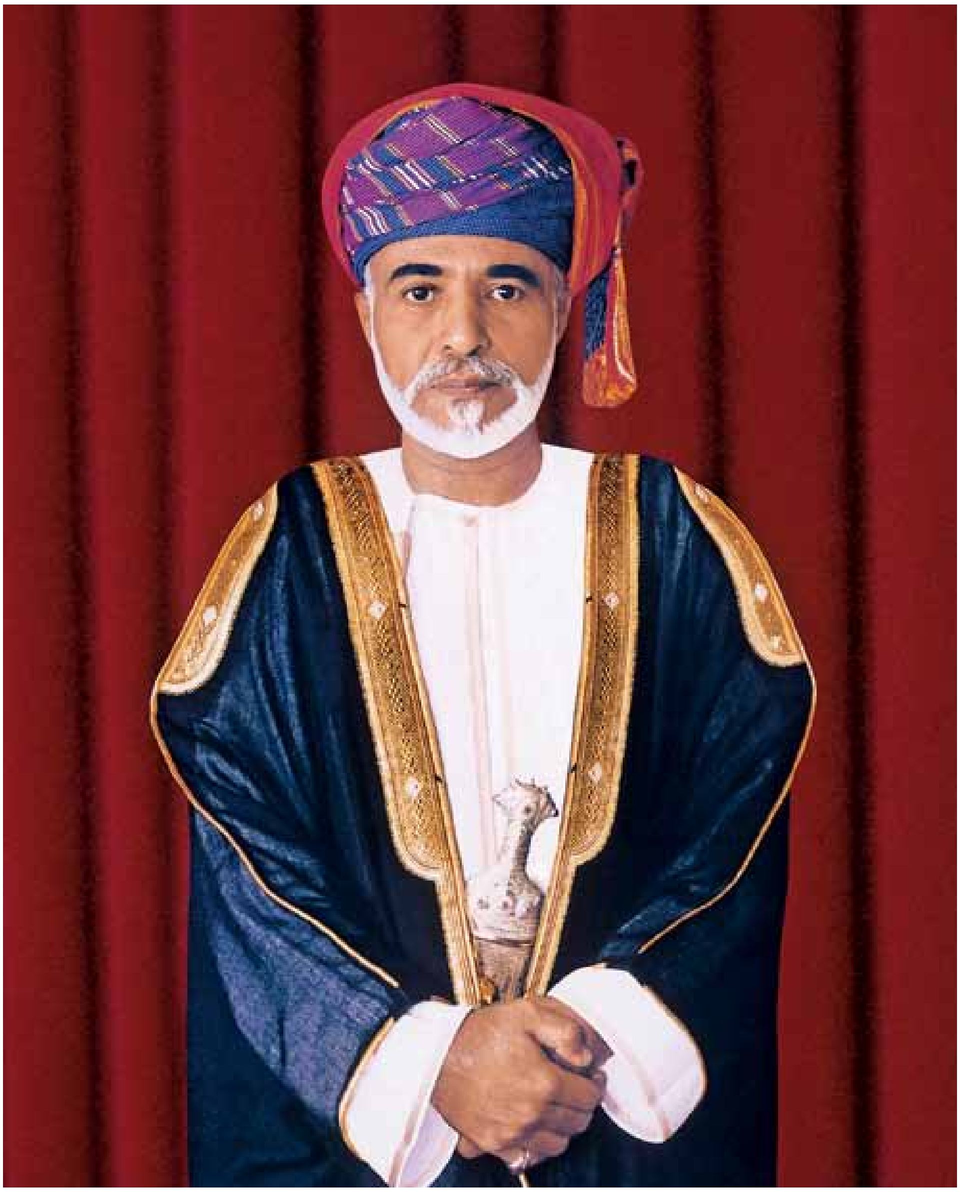
ANNUAL REPORT 2011



OMAN POWER AND WATER PROCUREMENT CO. (SAOC)



His Majesty Sultan Qaboos Bin Said

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BOARD OF DIRECTORS & EXECUTIVE MANAGEMENT

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

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

Eng. Ahmed Bin Saleh Al-Jahdhami
Deputy Chairman

Mr. Hamdan Bin Ali Al Hinai
Member of the Board

Mr. Abdullah Bin Salim Al Harthi
Member of the Board

Mr. Saleh Bin Ali Harthi
Member of the Board

Mr. Bob Whitelaw
Chief Executive Officer

Mr. Clive Dalton
Chief Operating Officer



CHAIRMAN'S FOREWORD

Dear Shareholders,

It is my pleasure on behalf of the members of the Board to present the Annual Report of Oman Power and Water Procurement Company (SAOC) for the year 2011.

2011 has been another successful year for OPWP with the company completing a number of major initiatives, as well as taking further steps to build a sustainable, Omani led organisation.

Some of the major achievements for 2011 include:

- Implementation of Oman's first interconnection agreement with a neighbouring country, following the signing of an agreement to share power with the Abu Dhabi Water & Electricity Company
- Signing of contracts with Phoenix Power Company to develop the largest power plant in Oman, which will deliver 2000MW to the Main Interconnected System by April 2014
- Successful delivery of early power from the Salalah Independent Power and Water Project which added a capacity of 61MW to the Salalah system from July 2011.
- Finalisation of contracts and deployment of temporary generation for the Main Interconnected System (MIS) and Salalah Power System in order to meet all our Loss of Load Hour obligations for summer of 2011.
- Initiating the competition process for OPWP's first water only project on behalf of the Public Authority for Electricity and Water (PAEW)
- Working on a number of HR initiatives including putting in place Development Plans and Succession Plans for all Omani staff as well as the introduction of a Graduate Development Program in order to build a sustainable, Omani led organisation.

OPWP's earnings before tax as per the Regulatory framework stood at RO 1,007K. However, financial accounts continue to be materially affected by changes in the accounting treatment of its Power (and Water) Purchase Agreements in line with recommendations by its auditors to comply with International Accounting Standards. OPWP has booked a net loss before tax of RO 3,894K and hence dividend cannot be paid for this year.

During early 2011, Standard and Poor's (S&P) placed OPWP's rating on CreditWatch with negative implications due to the possible economic and social issues in the region. However by mid-2011, S&P removed the rating from CreditWatch negative and affirmed A/Stable rating. Moodys credit rating remained at A1/Stable.

During the year two longstanding board members, Abdulrahman bin Barham Ba Omar and Qais Mohammed Al Yousef, resigned their positions. I express my thanks and the thanks of the other Members of the Board for their contribution to the Company.

I would also like to welcome Ahmed Saleh Al Jahdhami who joined the Board in early 2011.

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.

OPWP looks forward to 2012 with a number of key projects being undertaken. Amongst these are:

- Site selection for new IWP's at Quriyat and Suwayq and working with Ministry of Housing and key stake holders to reserve sites for future IPP/IWPP's.
- Mobilising 300MW of Temporary Generation to ensure adequate power for the MIS for summer 2012.
- Finalising the bidding process for the Al Ghubra Independent Water Project.
- Developing an Independent Power Project for the Mussandam region in coordination with the Oman Oil Company.
- Commissioning of Early power from Barka III and Sohar II.
- Full Commissioning of power and water for Salalah IWPP.
- In addition, OPWP will be continuing its strategic intent to build a sustainable Omani led organisation by implementing Succession Plans, Personal Development Plans and Graduate Development Program.

I would like to express my sincere gratitude to the Members of the Board of Directors, Executive Management and Company employees whose commitment and dedication have enabled us to have yet another successful year and I am confident that their continued hard work will deliver a successful 2012. 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 ongoing support. I would especially like to thank our generators and customers for their contribution to our success this year.

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

Saud Bin Nasser Al Shukaily
Chairman

LIST OF ACRONYMS

AER	Authority for Electricity Regulation
BSR	Bulk Supply Revenue
BST	Bulk Supply Tariff
COD	Commercial Operation Date
DPC	Dhofar Power Company
EHC	Electricity Holding Company
GWh	GigaWatt Hour (1000 MegaWatt Hours)
IAS	International Accounting Standard
IPP	Independent Power Project
IWP	Independent Water Project
IWPP	Independent Water and Power Project
M3	Meters cubed
MIGD	Million Imperial Gallons per Day
MIS	Main Interconnected System
MW	MegaWatt (One Thousand Watts)
MWh	MegaWatt Hour
NPS	DPC New Power Station
OPWP	Oman Power and Water Procurement Company (SAOC)
OOCEP	Oman Oil Company Exploration & Production
PAEW	Public Authority for Electricity and Water
PPA	Power Purchase Agreement
PWPA	Power and Water Purchase Agreement
RAECO	Rural Areas Electricity Company
RFP	Request for Proposal
RO	Rials Omani
SSPWC	Sembcorp Salalah Power and Water Co
WPA	Water Purchase Agreement

ABOUT THE COMPANY

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

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

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

1. To secure Production Capacity and Output to meet all reasonable demands for electricity in the Sultanate of Oman in coordination with the Rural Areas Electricity Company.
2. To secure the production of Desalinated Water according to the maximum limit consistent with the Economic Purchase of Production Capacity and Output of Electricity and Desalinated Water.
3. To cooperate with the Rural Areas Electricity Company in respect of forward planning for reasonable demand for electricity and New Capacity required thereof.
4. To secure the procurement of Ancillary Services, when and in the manner required, in coordination with the Oman Electricity Transmission Company.
5. To make Bulk Supply of Desalinated water to the Water Department of Public Authority for Electricity and Water (PAEW) in accordance with an agreement concluded for this purpose in which the consideration, conditions, and terms for such Bulk Supply are specified, and to secure the sale of de-mineralized water to other Persons.
6. To make Bulk Supply of electricity to licensed Suppliers in consideration of a Bulk Supply Tariff and to secure adequate supplies of electricity is available to Licensees to enable them to meet all reasonable demand for electricity.
7. To import or export electricity in accordance with the provisions of Article (114) of the Sector Law.
8. To meet the requirement for new capacity which the company strives to be designed, constructed, financed, owned and operated by local and foreign investors.
9. The company shall in all cases abstain from discrimination or partiality, without due legal justification, between Persons, and comply with the general policy of the state when undertaking the functions assigned to it pursuant to the Sector Law

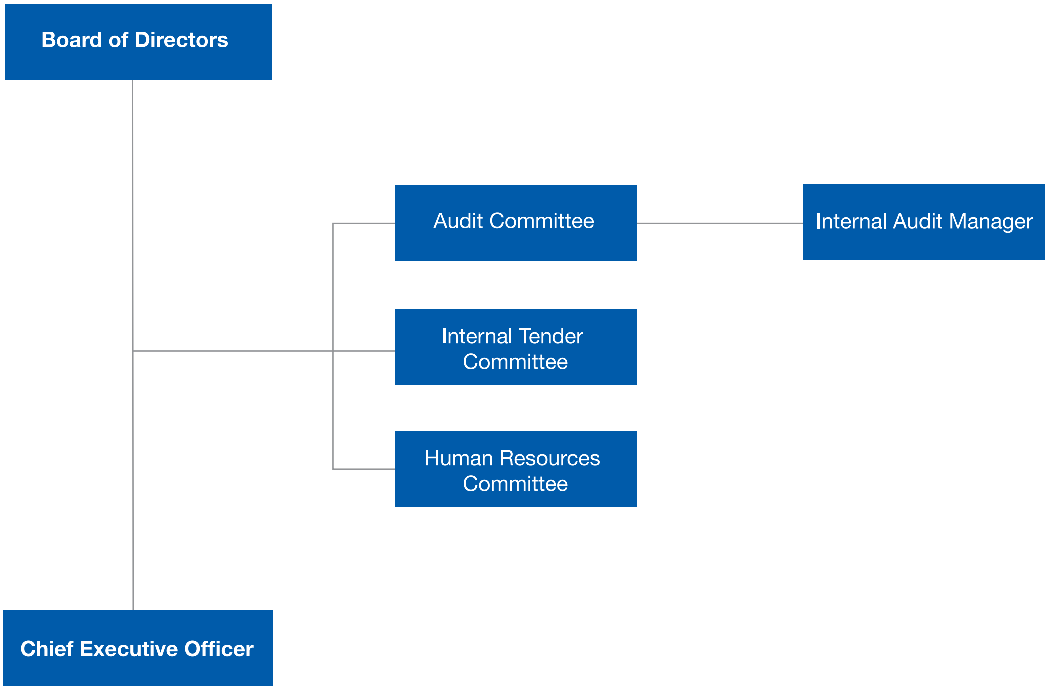
particularly those relating to the price and use of fuel.

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

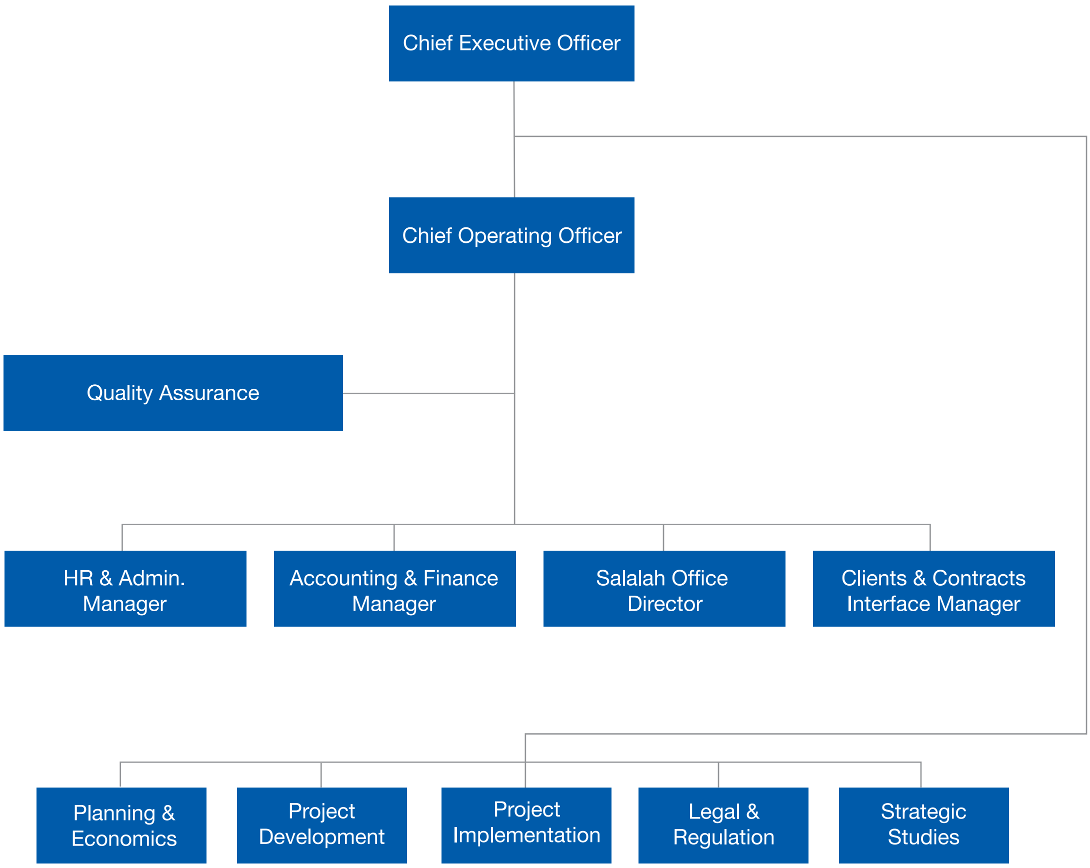
11. To issue instructions to the Salalah Project Company for the transfer of its System assets to the Electricity Holding Company on the termination or expiry of the Concession Agreement.

The company is based in two offices; Muscat and Salalah. It employs 56 members of staff.

COMPANY STRUCTURE



Executive Management



KEY COMPANY DEPARTMENTS

Strategic Studies:

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

Planning & Economics:

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

Project Development:

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

Project Implementation:

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

Clients Contracts & Interface department:

The CCI department manages all P(W)PA contracts for OPWP 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 all monthly invoices submitted to the company are in accordance with the P(W)PAs.

Support Services/Processes:

Finance department:

The finance department oversees the accounting, finance and IT functions of the company. It is responsible for ensuring that the company maintains adequate cash-flow as well as production of statutory and regulatory accounts to meet its legal and licence conditions.

Legal and Regulatory department:

Legal and Regulatory department ensures that the company is fully compliant with licensing conditions and all legal requirements of the business. In addition, the department also manages any disputes arising out of the P(W)PAs.

Human Resources department:

The HR Department was established in mid-2010 to give a greater focus on HR issues in the company. These include Training & Development of staff, Omanisation policy and initiatives, payroll and employee performance.

Quality assurance:

The role of the department is to ensure that the quality management system is effectively implemented in the company complying with the requirement of ISO 9001:2008. The department monitors the internal business processes by conducting quality audit, identify non-conformance and improvement opportunities.

Salalah Branch :

The Salalah Branch of OPWP was established to manage the Concession Agreement between the Dhofar Power Company (DPC) and the company. The Concession Agreement outlines certain performance standards that need to be met, as well as providing the mechanism by which DPC is rewarded. OPWP administers this process in accordance with its licence, to ensure that proposed investments are appropriate and cost effective.

H.E. Saud Bin Nasser Al Shukaily, Chairman of Oman Power and Water Procurement Co (SAOC) signing Power Sales and Purchase Agreement with ADWEC

Eng. Ahmed Bin Saleh Al Jahdhami, Deputy Chairman of Oman Power and Water Procurement Co (SAOC) signing agreement for Sur IPP project

2011 HIGHLIGHTS OF ACCOMPLISHMENTS

International Interconnection

OPWP and the Abu Dhabi Water and Electricity Company (ADWEC) signed a Power Sales and Purchase Agreement (PSPA), whilst Oman Electricity and Transmission Company (OETC) signed a Connection Agreement with the Abu Dhabi Transmission and Despatch Company (TRANSCO).

This is a historic arrangement that now allows for load sharing and emergency support between the two countries. These Agreements outline the arrangements for trading and operations over the 220kv interconnection between the respective electricity substations at Mahda (Al Wasit) in the Sultanate of Oman and Al Oha in the UAE.

Sur IPP

On 13 July 2011, OPWP signed the PPA and related Project Agreements with Phoenix Power Company who will build, own and operate the Sur Independent Power Project (IPP). The Sur IPP will be the largest power project undertaken by OPWP and will provide 2,000 MW of capacity by 2014 to meet the growing demand for electricity on the MIS.

Phoenix Power Company is a consortium led by the Marubeni Corporation. The power plant will be located at the Sur Industrial Estate and will utilise natural gas supplied by the Ministry of Oil and Gas for power generation.

The project will come on stream in two phases, with early power of 433 MW available from April 2013 and the remaining 1,567MW from April 2014. The Power Purchase Agreement between OPWP and Phoenix Power Company covers a period of 15 years from Commercial Operation Date.

Salalah IWPP (Phase I)

The Sembcorp Salalah Power and Water Company (SSPWC) was awarded a BOO contract to construct and operate a combined power and seawater desalination project at Ashoor near Salalah in the Dhofar Governorate.

The project has delivered its first phase of electrical power capacity of 61MW in July 2011 and is expected to deliver its second phase of electrical power capacity of 173MW and 15MIGD of desalinated water by January 2012. The plant is scheduled for full commercial operation during April 2012 providing 445MW of electrical power capacity and 15MIGD of potable water.

MIS Temporary Generation (2011)

During the summer months of 2011, OPWP successfully contracted a total capacity of 300MW of temporary diesel generating units installed at six locations throughout the MIS to meet the peak demand.

In addition, some of the generating units were quickly moved to Jalan Bani Bu Ali and the surrounding areas which suffered power disruptions caused by the failure of transformers at the Jalan Bani Bu Ali grid substation.

PDO Interconnection

In order to provide additional stability and to optimize the spinning reserve available to the two grid systems, a 132kV interconnection between the Dhofar Power Company (DPC) and PDO grid systems is being established. This interconnect is expected to be operational from 2012 onwards.

2012 INITIATIVES

Quriyat/Suwayq IWP:

OPWP is conducting a site selection study for two IWP projects. The study will also include identification of sites with the potential for power to either co-locate a power plant or to consider as an IWPP project. It is anticipated that one of these projects will commence during 2012.

Suwayq is to be around 50 MIGD capacity programmed for around 2016 and Quriyat around 40 MIGD for 2018.

MIS Temporary Generation (2012):

Due to likely delays in addition of Early Power capacities from Sohar II / Barka III projects, OPWP has initiated a procurement process of around 300 MW of Temporary Generation in a manner similar to that undertaken in 2011. This capacity is expected to be available from 1 May 2012.

Musandam IPP:

OPWP is developing an IPP at Musandam with COD targeted for end of 2014. The project will serve the electricity needs of the Governorate. The current plan is to establish the IPP close to the Musandam Gas Plant being constructed by Oman Oil Company Exploration & Production (OOCEP) at Tibat, Wilayat Bukha.

The project is likely to be sized at around 120 MW of power generation capacity which is intended to replace existing diesel-based generation as the primary source of electricity for the Governorate of Musandam.

Natural gas as feedstock for the IPP will be supplied from an integrated oil and gas processing plant currently being developed by OOCEP. The Project will be connected to a new 132kV grid infrastructure to be constructed by Rural Areas Electricity Company (RAECO).

Al Ghubrah IWP:

This project is being developed at the request of the PAEW and will be a dedicated Independent Water Project (IWP). The scope of the Project includes the design, construction, ownership, financing, operation and maintenance of a high efficiency desalination facility with 42 MIGD of potable water output, based on seawater reverse osmosis technology to be developed in a fast track basis to achieve water for early 2014. The bidding process will be finalised in 2012

Potable water will be purchased by OPWP under a 20 year long-term Water Purchase Agreement (WPA). The Commercial Operation Date is scheduled to be 1 April 2014.

Solar Power Project:

The PAEW undertook a study for assessing the feasibility of Solar power generation in Oman. This study is currently under discussion by government entities. The OPWP has supported this study and stands ready to progress this project further once the go ahead from government is received.

Salalah I (W)PP - Phase II:

It is planned to develop a new IPP/IWPP project in Salalah for completion around 2015. An initial site location study is underway and OPWP will be working to issue the RFP for the project in quarter four of 2012.

The plant is expected to be around 250-300 MW gas fired plant with a possibility to include approx. 25 MIGD of desalinated water.

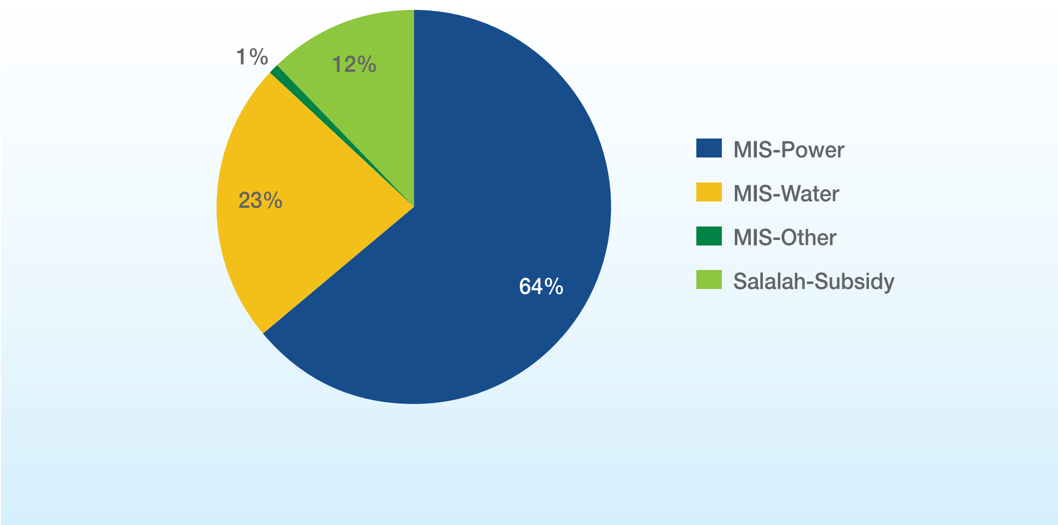
Barka III Sohar II IPP:

A consortium led by GDF Suez was awarded both contracts through a competitive tendering process and they formed two project companies to manage each IPP on a BOO basis; Al-Suwadi for Barka III and Al-Batinah for Sohar II.

The projects are identical in terms of generating capacity. Each is contracted to deliver 744MW in two stages; 494MW by 1 May 2012 (Early Power) and a further 250MW by 1 April 2013 (Scheduled Commercial Operation) once fully commissioned the two projects will provide a combined output of 1488 MW.

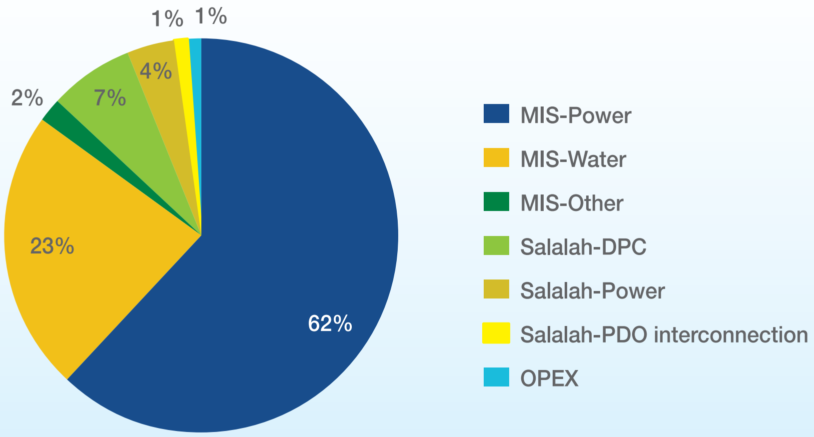
FINANCIAL HIGHLIGHTS

Where the money comes from - 2011



	2011	2010
	RO '000	
Bulk Supply Revenue from Power (MIS –Power)	224,866	198,029
Bulk Supply Revenue from Water (MIS –Water)	81,111	77,862
Other Revenues (MIS-Other)	2,756	2,442
Subsidy from MOF (Salalah-Subsidy)	41,008	33,780
Total	349,741	312,113

Where the money goes - 2011



	2011	2010
	RO '000	
Power purchase (MIS-Power)	217,390	198,000
Water purchase (MIS-Water)	80,119	76,851
Other Cost (MIS-Other)[1]	6,712	-
Cost sharing charges to DPC (Salalah-DPC)	25,809	21,796
Power Purchase (Salalah-Power)	12,527	9,582
Other cost (Salalah-PDO interconnection)	2,660	1509
OPWP OPEX (OPEX)	3,517	3,326
Total	348,734	311,064
Net profit before tax (Regulatory Accounts)	1,007	1,049
Loss before tax (As per Financial Statements)	(3,893)	(3,223)

[1]*Other costs (MIS-Other) include Project Development Costs (PDC) for 2011 and deferred PDC's for earlier periods.*

OPWP is a profit making entity if the costs are measured as per the Regulatory accounting guidelines. As shown in the above table, OPWP made a net profit before tax of RO 1,007K when accounted under these guidelines. However, under the IFRS framework OPWP is required to recognise the PPA/PWPA's as leases and account the costs as per the International Accounting Standard 17 (IAS17). This led to recognising significantly higher costs in the statutory financial statements compared to the regulatory guidelines and results in a net loss of RO 3,893K.

Credit ratings:

The current credit ratings of OPWP, as rated by the two leading rating agencies in 2011, are:

Standard and Poor's Ratings Services -

'A/Stable'
Moody's Investor Services - 'A1/Stable'

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

OPERATIONS HIGHLIGHTS

Regulatory framework

MIS

Electricity

Main Interconnection System(MIS):	Units	2011	2010	Variance
Units purchased	GWh	18,950	16,855	12%
Total Cost	RO’ 000	217,390	195,687	11%
Average Cost per MWh	RO	11.472	11.610	-1%
Bulk Supply Revenue (BSR)	RO’ 000	221,477	198,029	12%
BSR per MWh	RO	11.687	11.749	-1%

Higher consumer demand has led to an increase in the number of units purchased. This increase in demand was recorded across the supply businesses Muscat (6%), Mazoon (9%) and Majan (27%). The increase in demand led to a higher utilisation of plant capacity leading to lower average cost per MWh. The revenue of OPWP is regulated and determined based on cost plus formula, the decrease in the average cost resulted in decrease in BSR per MWh.

Water

Main Interconnection System(MIS):	Units	2011	2010	Variance
Water purchased	‘000 m3	145,181	129,377	12%
Total Cost	RO’ 000	80,119	76,851	4%
Average cost per m3	RO	0.551	0.594	-7%
Bulk Supply Revenue (BSR)	RO’ 000	81,111	77,862	4%
BSR per m3	RO	0.559	0.602	-7%

Like power, higher consumer demand led to increase in number of units of water purchased. The increased volume resulted in higher utilisation of available water production capacity driving the average costs and BSR per m^3 lower by 7%.

Salalah Power System

Electricity

Salalah Power System:	Units	2011	2010	Variance
Units purchased	GWh	1,912	1,891	1%
Total Cost	RO' 000	39,131	41,898	-7%
Purchase Cost per MWH	RO	20.466	22.156	-8%
Cost sharing charge to DPC (Net)[2]	RO' 000	22,420	21,465	4%
Cost sharing charge per MWh	RO	11.689	11.351	3%

[2]Cost sharing charge is net of RO 3.38M bulk supply revenue invoiced by OPWP to DPC.

The lower purchase cost of power is driven by efficient gas based temporary generation which is partially offset by Early power fixed capacity charges from the Salalah New IWPP. Despite lower generation costs, the increase in cost sharing charge to DPC is largely due to transmission and distribution cost allowances of earlier periods recognised in 2011.

MIS and Salalah	Units	2011	2010	Variance
Total Staff Count	No.	56	49	14%

OVERVIEW OF OPERATIONS

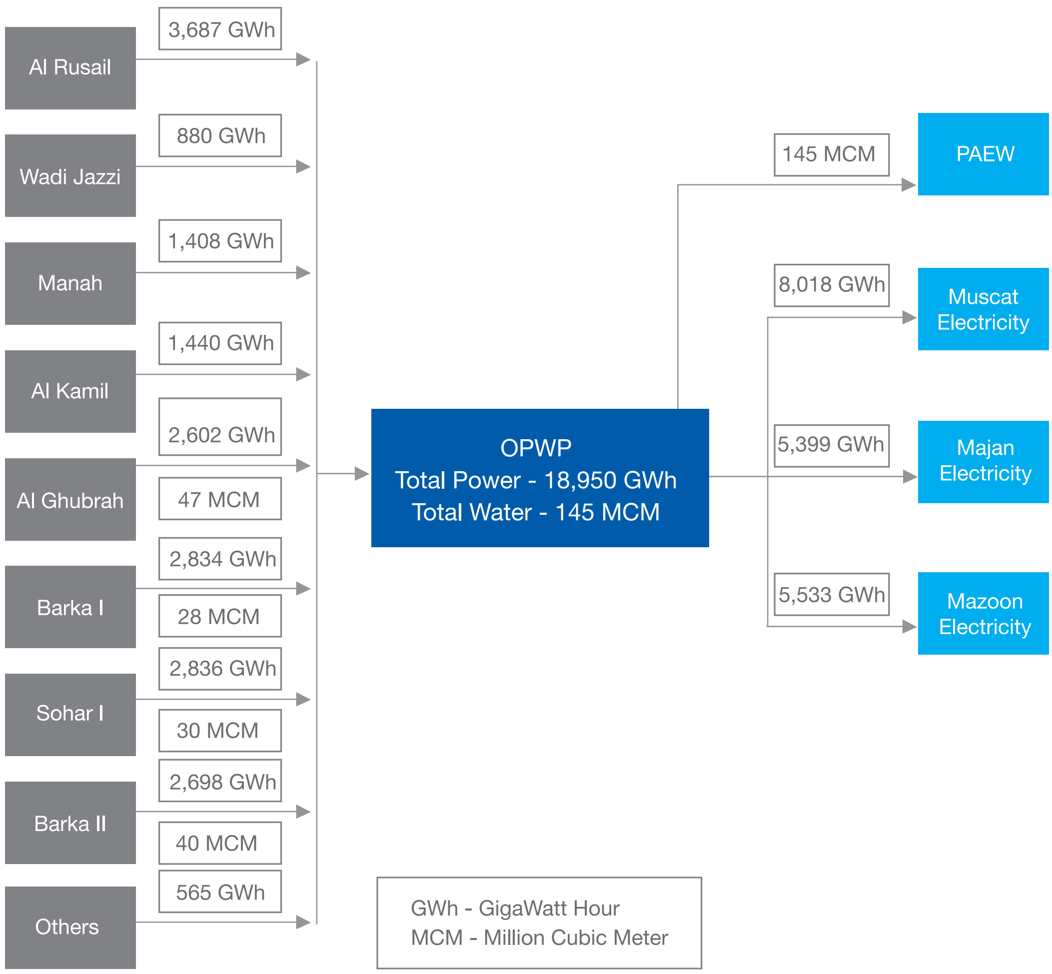
Procurement and Bulk Supply arrangements:

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

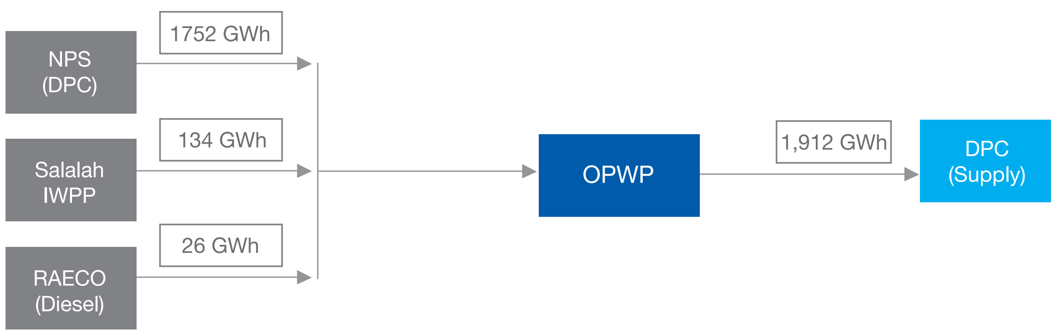
Long Term Power & Water Purchase Agreements

Power Plant	Contract Type	Plant Status	Contract Start	Contract Expiry	Power Capacity (MW)	Water Capacity '000 m^3/d
Al Ghubrah Power and Desalination Co.	PWPA	Operational	2005	2018	455	182
Rusail Power Co.	PPA	Operational	2005	2022	653	
Wadi Al-Jizzi Power Co.	PPA	Operational	2005	2020	321	
United Power Co. (Manah)	PPA	Operational	1996	2020	271	
Al Kamil Power Co.	PPA	Operational	2002	2017	285	
ACWA Power Barka (Barka I)	PWPA	Operational	2003	2018	442	91
Sohar Power Co. (Sohar I)	PWPA	Operational	2007	2022	585	150
SMN Barka Power Co. (Barka II)	PWPA	Operational	2009	2024	676	120
SembCorp Salalah Power and Water Company (Salalah IWPP)	PWPA	Under Costruction	2012	2027	445	68
Al Batinah Power Co. (Sohar II)	PPA	Under Costruction	2013	2028	744	
Al Suwadi Power Co. (Barka III)	PPA	Under Costruction	2013	2028	744	
Phoenix Power Co. (Sur IPP)	PPA	Under Costruction	2014	2029	2000	

MIS – Procurement and Sale of Power and related Water during the year 2011



Salalah - Procurement and Sale of Power during the year 2011



FIGURES REFLECTING OPERATIONAL STATISTICS

Highlights

Electricity

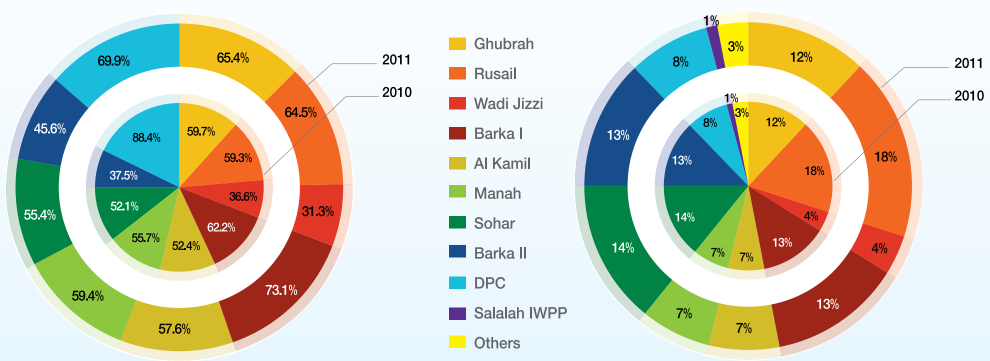
- There was adequate capacity on the MIS and Salalah systems to meet all demand and no outages were recorded on account of shortage in capacity.
- Demand from Distribution companies increased by 12.43%. The Majan distribution represents the highest growth of 27.5% largely due to demand from Industrial customers.
- Peak demand increased by about 9% in MIS compared to 2010. The temporary diesel generation was used during the periods of peak demand both in MIS and Salalah.
- The delivery of early power of 61 MW from Salalah New IWPP resulted in lower utilisation of DPC generation units

Water

- Water exports to customers have increased by 12.40% from 2010. The utilisation of Sohar desalination was increased by 35% due to higher off take of water by PAEW.

Plant Utilisation

Energy Purchased (GWh)



	Year	Ghubrah	Rusail	Wadi Jizzi	Barka I	Al Kamil	Manah	Sohar	Barka II	DPC	Salalah IWPP	Others	Total
Plant Utilisation	2010	59.7%	59.3%	36.6%	62.2%	52.4%	55.7%	52.1%	37.5%	88.4%	NA	NA	NA
	2011	65.4%	64.5%	31.3%	73.1%	57.6%	59.4%	55.4%	45.6%	69.9%	NA	NA	NA
Energy Purchased	2010	2,388	3,394	910	2,328	1,310	1,321	2,669	2,232	1,819	0	375	18,746
	2011	2,602	3,687	880	2,834	1,440	1,408	2,836	2,698	1,752	134	591	20,862

Figure 1: *Shows the electrical energy purchased in the MIS and Salalah Power System. The increase in energy purchased in 2011 over 2010 is 12.63% for MIS and 1.09% for Salalah Power System.*

Monthly Energy Purchased - 2011 (MIS)

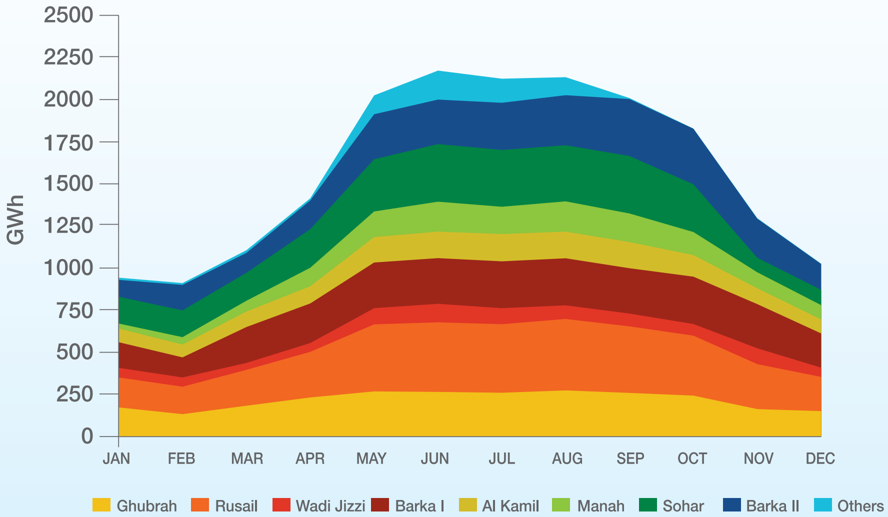
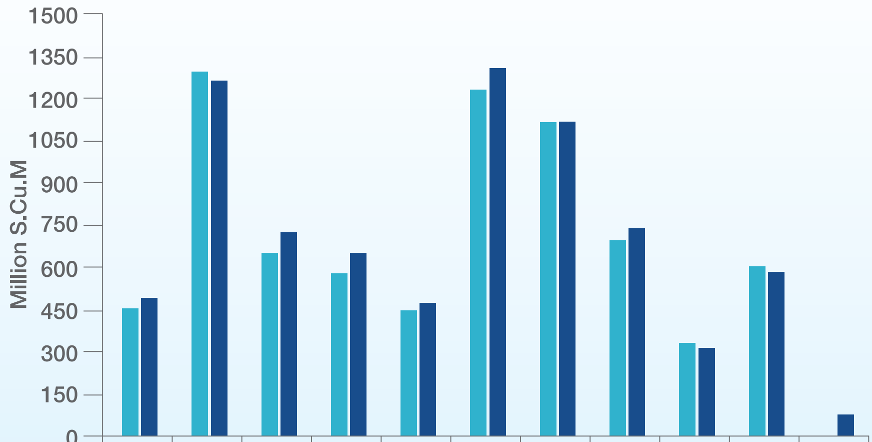


Figure 2: Shows the monthly electrical energy purchased in 2011 in the MIS. Others represent energy from temporary generation and autogenerators.

Fuel Gas Consumption



	Al Kamil	Al Ghubrah	Barka I	Barka II	Manah	Rusail	SAC	Sohar I	Wadi Jizzi	DPC (NPS)	Salalah IWPP
2010	453	1,294	651	578	446	1,231	1,114	696	331	603	-
2011	491	1,262	724	650	473	1,306	1,116	738	313	583	76

Figure 3: Shows the power plant wise fuel gas consumption. The increase in total gas consumption was 6% compared to 2010 against increase in production of power 11.3% and water by 12.2%

Electrical Energy Delivered to MIS (2004-2011)

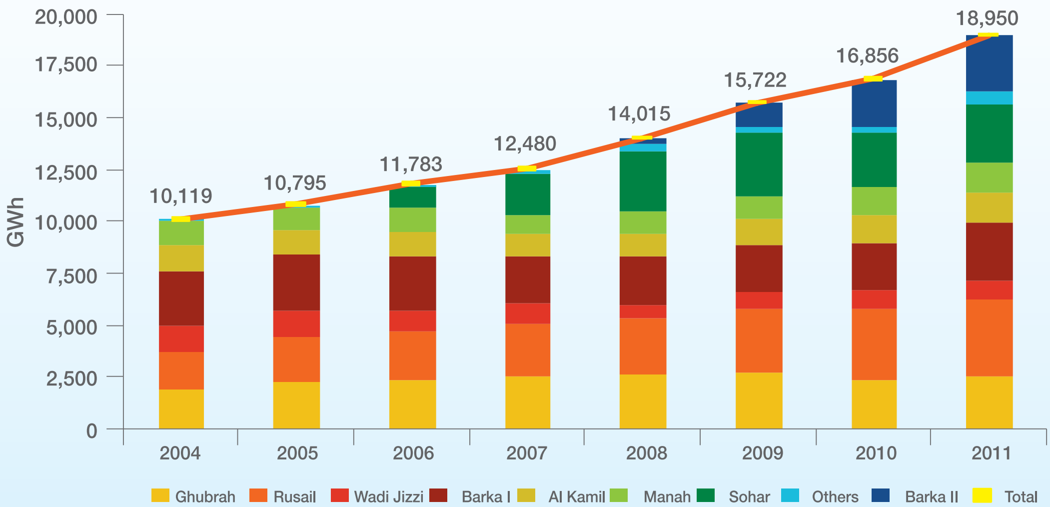
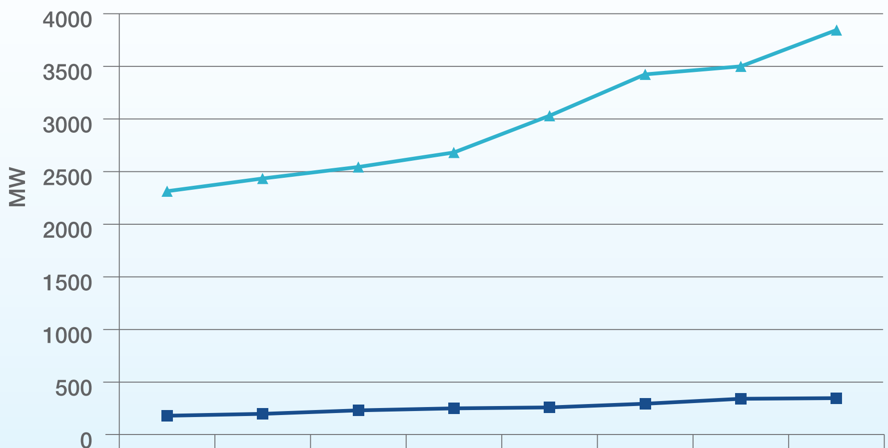


***Figure 4**: Shows the electrical energy delivered to the MIS in years 2004-2011 and provides an indication of the yearly power demand growth. The average annual growth over this period was 9%.*

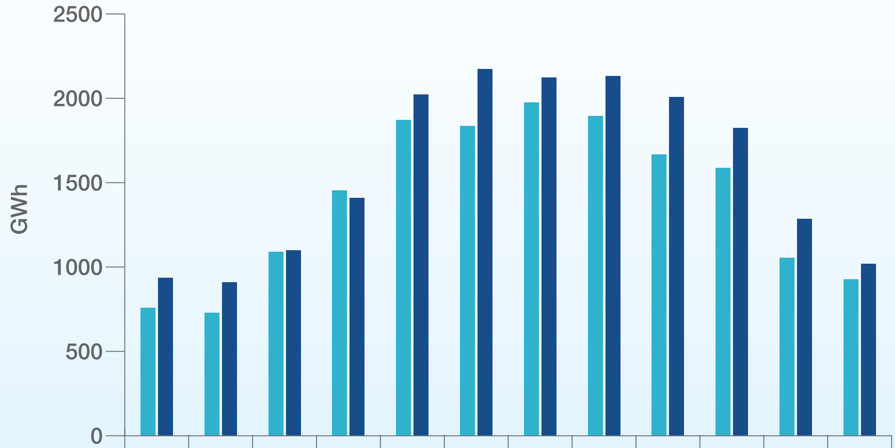
Power Peak Demand in MIS and Salalah (2004-2011)



	2004	2005	2006	2007	2008	2009	2010	2011
MIS	2314	2435	2544	2682	3031	3424	3500	3845
Salalah	181	199	232	251	260	295	342	348

***Figure 5**: Shows power peak demand in the MIS for the years 2004-2011. The power peak demand in the MIS has increased from 2,314 MW in 2004 to 3,845 MW in 2011 with an average annual growth rate of about 7.5% and for Salalah at about 9.8%*

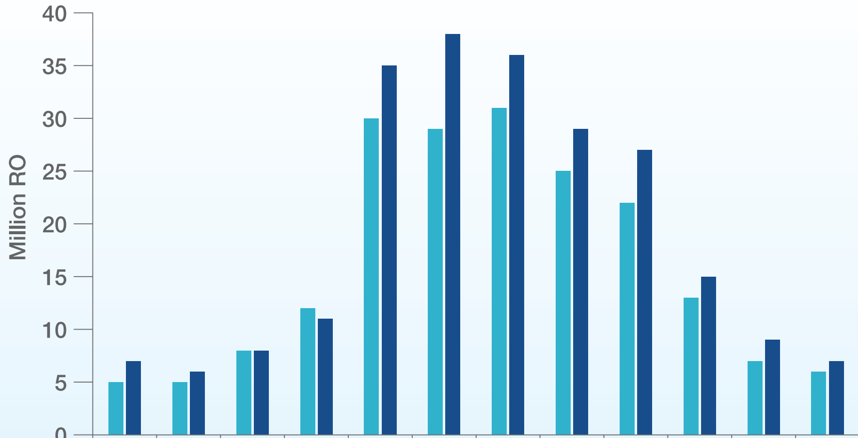
Monthly Electricity Bulk Supply Quantities - MIS



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010 Quantities GWh	758	730	1091	1454	1873	1837	1977	1896	1668	1588	1056	928
2011 Quantities GWh	938	909	1099	1409	2024	2173	2125	2134	2007	1825	1287	1020

***Figure 6**: Shows the monthly electricity bulk supply quantities. The maximum monthly quantity of electricity supplied to the licenced suppliers was in June.*

Monthly Electricity Bulk Supply Charge - MIS

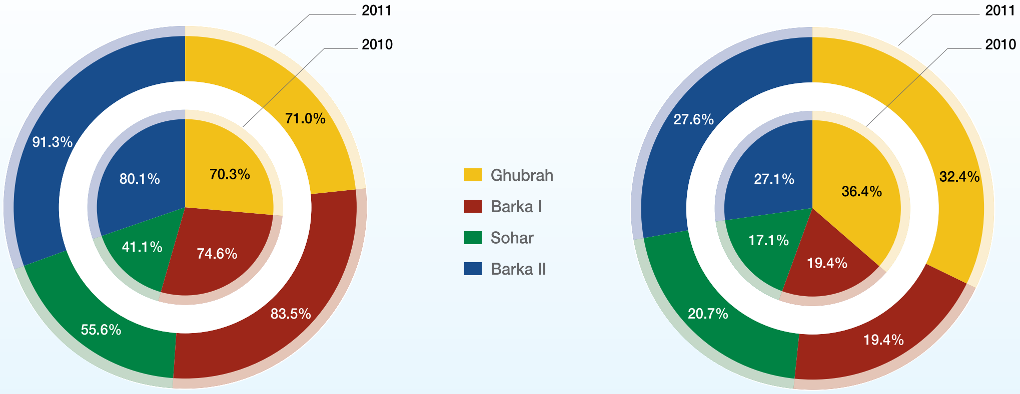


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010 Charges Mn. R.O.	5	5	8	12	30	29	31	25	22	13	7	6
2011 Charges Mn. R.O.	7	6	8	11	35	38	36	29	27	15	9	7

***Figure 7**: Shows the monthly electricity bulk supply charges to distribution companies. The maximum monthly charge of electricity supplied to licenced suppliers was in June.*

Desalination Plant Utilisation

Water Purchased (MCM)



	Year	Ghubrah	Barka I	Sohar	Barka II	Total
Plant Utilisation	2010	70.3%	74.6%	41.1%	80.1%	NA
	2011	71.0%	83.5%	55.6%	91.3%	NA
Water Purchased	2010	47	25	22	35	129
	2011	47	28	30	40	145

***Figure 8**: Shows utilisation of desalination plant and water purchased in 2011. The growth in demand is largely met from Sohar and Barka II.*

Potable Water Exports (2004-2011) Million Cubic Meters

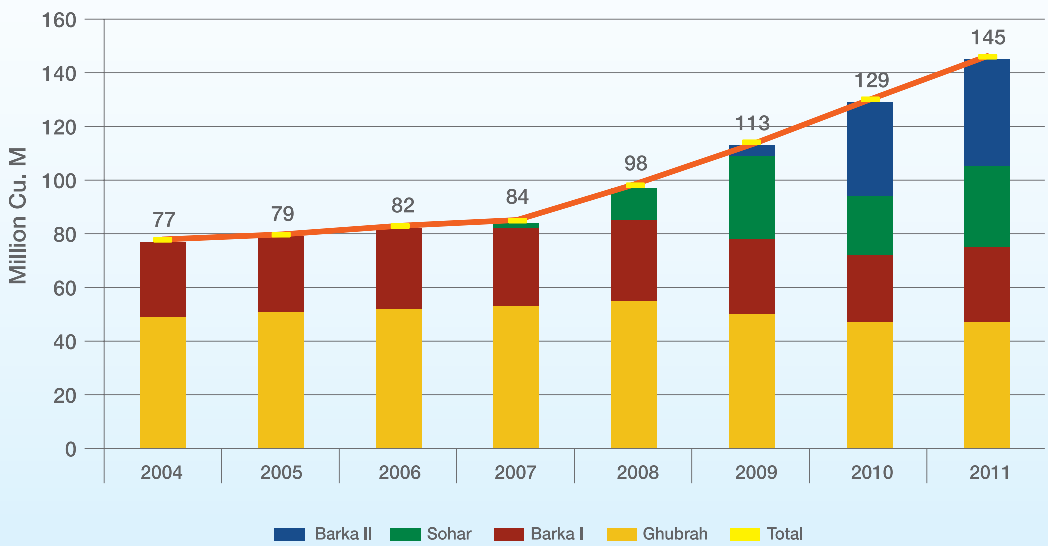


***Figure 9** : Shows water output exported to PAEW for the years 2004-2011 and indication of yearly water demand*

CORPORATE GOVERNANCE

The Board of Directors

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

1. The Audit Committee: The committee observe and study all aspects related to appointment of External and Internal Auditors, review Audit plan and results of the audit, monitoring financial fraud particularly fictitious and fraudulent portions of the financial statement, oversight of aspects related to preparation of financial statement with particular reference to review of annual and quarterly financial statements before issue, review of reservations of external auditors on the financial statements.
2. The Human Resources Committee: The Committee's main responsibility is to assist the Board in establishing and developing the Company's human resources policies, including the human resources manual and recruitment of top executive management positions.
3. The Internal Tender Committee: The Committee's main task is to assist the Board in approving contracts in accordance with the Financial Delegation of Authority and Tender Board Law.

Board Remuneration

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

	Board Members	Board Meeting	Internal Tender Committee	Human Resources Committee	Audit Committee	Board sitting fees	Committee meeting fees	Remuneration
		Number of Member's Meeting				RO	RO	RO
		4	4	3	4			
1	HE. Saud Bin Nassir Al-Shukaily	4 (4)	3 (4)	0	0	2,600	1,200	8,000
2	Mr. Saleh Bin Ali Al Harthy	4 (4)	1	2 (3)	4 (4)	2,000	2,100	5,500
3	Mr. Abdullah Bin Salim Al Harthy	3 (4)	4 (4)	0	0	1,500	1,200	5,500
4	Mr. Hamdan Ali Nasser Al Hinai	4 (4)	0	0	4 (4)	2,000	1,600	5,500
5	Eng. Ahmed Saleh Al- Jahdhami	3 (3)	0	2 (3)	3 (4)	1,500	1,700	4,125
6	Mr. Abdullrahman Bin Barhama Ba Omar (Former member)	1 (1)	0	1 (1)	0	500	400	688
7	Mr. Qais Mohammed Al Yousuf (Former member)	1 (1)	0	0	1 (1)	500	300	688
	Total					10,600	8,500	30,000

( ) numbers in brackets represent meetings the member was authorised to attend. The total remuneration including the sitting fees is RO 49,100.

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. Ernst & Young was appointed to carry out the internal audit function for the year 2011. An Internal Audit Manager was appointed by OPWP in late 2011 to take over the overall management of Internal Audit function and to oversee the provision of audit services.

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

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Facsimile +(968) 2456 4408

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

We have audited the accompanying financial statements of **Oman Power and Water Procurement Company SAOC** (the company) which comprise the balance sheet as at 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Commercial Companies Law of 1974, as amended.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

5 March 2012
Muscat, Sultanate of Oman

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 RO '000	2010 RO '000
Revenue	5	**349,693**	311,474
Operating costs	6	**(330,106)**	(289,441)
Gross profit		**19,587**	22,033
General and administrative expenses	7	**(3,445)**	(3,277)
Other income		**7**	1
Profit from operations		**16,149**	18,757
Finance income	8	**52**	128
Finance costs	9	**(20,095)**	(22,108)
Loss before tax		**(3,894)**	(3,223)
Taxation	10	**471**	393
Loss and total comprehensive income for the year		**(3,423)**	(2,830)

The notes on pages 42 to 57 form an integral part of these financial statements.

Report of the Auditors - page 37.

BALANCE SHEET AS AT 31 DECEMBER 2011

	Notes	2011 RO '000	2010 RO '000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**136,837**	156,749
Advance payments	12	**17,843**	18,408
Total non-current assets		**154,680**	175,157
Current assets			
Inventories		**567**	567
Trade and other receivables	13	**31,627**	48,385
Cash and cash equivalents	14	**20,992**	2,659
Total current assets		**53,186**	51,611
Total assets		**207,866**	226,768
EQUITY			
Share capital	15	**500**	500
Legal reserve	16	**167**	167
General reserve	17	**250**	250
Accumulated losses		**(16,641)**	(13,218)
Shareholder's funds	18	**19,879**	19,879
Total equity		**4,155**	7,578
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	19	**133,898**	148,983
Deferred revenue		**5,305**	5,314
Provisions	20	**336**	119
Deferred tax liability	21	**18**	606
Total non-current liabilities		**139,557**	155,022
Current liabilities			
Trade and other payables	22	**48,799**	42,364
Finance lease liabilities	19	**15,085**	15,573
Loan from holding company		**-**	6,000
Provision for current tax	10	**117**	120
Provisions	20	**153**	111
Total current liabilities		**64,154**	64,168
Total liabilities		**203,711**	219,190
Total equity and liabilities		**207,866**	226,768

The financial statements on pages 38 to 57 were approved by the Board of Directors on 19 February 2012 and were signed on their behalf by:



Saud Bin Nasser Al Shukaily
Chairman

Hamdan Bin Ali Al Hinai
Member

Bob Whitelaw
Chief Executive Officer

Report of the Auditors - page 37.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital RO '000	Legal reserve RO '000	General reserve RO '000	Accumulated losses RO '000	Shareholders' funds RO '000	Total Equity RO '000
At 1 January 2010	500	167	250	(10,388)	19,879	10,408
Comprehensive income:						
Loss for the year	-	-	-	(2,830)	-	(2,830)
At 31 December 2010	500	167	250	(13,218)	19,879	7,578
At 1 January 2011	**500**	**167**	**250**	**(13,218)**	**19,879**	**7,578**
Comprehensive income:						
Loss for the year	**-**	**-**	**-**	**(3,423)**	**-**	**(3,423)**
At 31 December 2011	**500**	**167**	**250**	**(16,641)**	**19,879**	**4,155**

The notes on pages 42 to 57 form an integral part of these financial statements.

Report of the Auditors - page 37.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 RO '000	2010 RO '000
Cash flows from operating activities		
Loss before tax	**(3,894)**	(3,223)
Adjustments for:		
Depreciation on property, plant and equipment	**19,998**	20,002
Interest expense	**21**	49
Interest on finance leases	**20,021**	22,059
Advance payments amortised	**565**	325
Write off of property, plant and equipment	**14**	11
Deferred revenue recognised	**(9)**	509
Provision for employee benefits expense	**286**	60
Operating cash flows before payment of provision for employee benefits and working capital changes	**37,002**	39,792
Payment of employee benefits	**(27)**	(31)
Working capital changes:		
Trade and other receivables	**16,758**	(17,213)
Trade and other payables	**6,435**	(12,265)
Cash generated from operations	**60,168**	10,283
Income tax paid	**(120)**	(219)
Net cash generated from operating activities	**60,048**	10,064
Cash flows from investing activities		
Purchase of property, plant and equipment	**(100)**	(45)
Proceeds on disposal of property, plant and equipment	**-**	12
Bank deposits	**-**	7,000
Net cash (used in)/generated from investing activities	**(100)**	6,967
Cash flows from financing activities		
Interest paid	**(20,042)**	(22,108)
Short term loan from holding company (repaid) / received	**(6,000)**	6,000
Repayment of finance lease liabilities	**(15,573)**	(16,481)
Net cash used in financing activities	**(41,615)**	(32,589)
Net change in cash and cash equivalents	**18,333**	(15,558)
Cash and cash equivalents at the beginning of the year	**2,659**	18,217
Cash and cash equivalents at the end of the year	**20,992**	2,659

The notes on pages 42 to 57 form an integral part of these financial statements.

Report of the Auditors - page 37.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

1 Legal status and principal activities

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

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

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

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

c) As at 31 December 2011, the company's current liabilities exceeded its current assets by RO '000 10,967 (2010 – RO '000 12,557). The Parent company have confirmed that they will provide the necessary financial support to enable the company to continue to operate as a going concern for the foreseeable future and to discharge its liabilities to other parties, as they fall due. Accordingly, these financial statements are prepared on a going concern basis.

d) Standards and amendments effective in 2011 and relevant for the company's operations:

For the year ended 31 December 2011, the company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2011.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

2 Summary of significant accounting policies (continued)

2.2 Revenue

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

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

2.3 Foreign currency

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

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

2.4 Property, plant and equipment

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

Subsequent expenditure

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

Depreciation

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

The principal estimated useful lives used for this purpose are:

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

Work-in-progress

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

2 Summary of significant accounting policies (continued)

2.5 Financial instruments

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

Non-derivative financial instruments

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

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

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

2.6 Impairment

Financial assets

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

For financial assets, objective evidence of impairment could include:
- significant financial difficulty of the counterparty;
- default or delinquency in payments; or
- it becomes probable that the borrower will enter bankruptcy or financial reorganisation.

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

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

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

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

Non-financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

2 Summary of significant accounting policies (continued)

2.6 Impairment (continued)

Non-financial assets (continued)

An impairmen tloss is reversed only to th eexten tth atth easset's carrying amoun tdo esno texceed th ecarrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.7 Inventories

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

2.8 Trade receivables

Trade and other receivables are stated at their fair value. Trade debtors are initially recognised at fair value and subsequently are stated at amortised cost using the effective interest rate method less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of th eprovision is th edifference between th easset's carrying amoun tand th epresen tvalu eof estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensiv eincom ewithin 'General and administrative expenses'.

2.9 Cash and cash equivalents

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

2.10 Trade payables

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

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

2.11 Borrowing costs

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

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

2 Summary of significant accounting policies (continued)

2.12 Taxation

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

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

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

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

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

2.13 Employee benefits

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

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

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

End of service benefit for Omani employees are contributed in accordance with the terms of the Social Securities Law 1991 and Civil Service Employees Pension Fund Law. Gratuity for Omani employees who transferred from the Ministry of Housing, Electricity and Water on 1 May 2005 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.

2.14 Leases

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Finance leases

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

2 Summary of significant accounting policies (continued)

2.14 Leases (continued)

Finance leases (continued)

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

3 Financial risk management

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

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

3.1 Financial risk factors

(a) Market risk

Price risk

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

Foreign currency risk

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

Interest rate risk

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

(b) Liquidity risk

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

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Liquidity risk (continued)

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

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

31 December 2011

	Total RO '000	**Less than 1 month RO '000**	**1 month to 3 months RO '000**	**3 months to 1 year RO '000**	**1 year to 5 years RO' 000**	**More than 5 years RO '000**
Interest bearing						
Finance lease liabilities	**232,198**	**2,765**	**5,531**	**24,889**	**154,807**	**44,206**
Non-interest bearing						
Trade and other payables	**42,959**	**-**	**42,959**	**-**	**-**	**-**
Suppliers and contractors payables	**1,699**	**1,685**	**13**	**1**	**-**	**-**
Total	**276,856**	**4,450**	**48,503**	**24,890**	**154,807**	**44,206**

31 December 2010

	Total RO '000	Less than 1 month RO '000	1 month to 3 months RO '000	3 months to 1 year RO '000	1 year to 5 years RO' 000	More than 5 years RO '000
Interest bearing						
Finance lease liabilities	267,792	2,966	5,932	26,696	158,769	73,429
Non-interest bearing						
Trade and other payables	31,571	-	31,571	-	-	-
Suppliers and contractors payables	18	18	-	-	-	-
Total	299,381	2,984	37,503	26,696	158,769	73,429

(c) Credit risk

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

Trade and other receivables

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Credit risk (continued)

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

	2011 RO '000	2010 RO '000
Trade receivable from related parties	16,316	14,209
Trade receivable - water sales	15,085	23,305
	31,401	37,514

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

	31 December 2011			31 December 2010		
	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	31,342	-	-	32,589	-	-
1 month to 3 months	-	-	-	4,898	-	4,898
3 months to 1 year	59	-	59	27	-	27
	31,401	-	59	37,514	-	4,925

Trade receivables are due one month from date of invoicing.

Investment in bank deposits and bank balances

The company's banks accounts are placed with financial institutions with a minimum credit rating of P-1 (Moody's Investors Service).

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

Assets as per balance sheet	2011 RO '000	2010 RO '000
Trade receivables	31,401	37,514
Other receivables	179	8,024
Cash and cash equivalents	20,992	2,659
	52,572	48,197

3.2 Capital risk management

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

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

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

3.3 Fair value estimation

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

4 Critical accounting estimates

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

Estimates and judgements 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 judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are set out below:

Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The assets held under finance leases which will be legally transferred to the company at the end of the lease term are depreciated over the useful life for the company, which is the lease term, as management believes that at the end of the lease term the assets will not remain with the company. Assets held under finance leases which will not transfer to the company at the end of the lease term are depreciated over the term of the lease.

Deferred Taxation

The company makes provision for deferred tax liability during the term of the power purchase agreement, arising primarily from accelerated tax depreciation.

The official executive regulations for the treatment of finance leases were announced by the Oman taxation authorities on 28 January 2012. The provisions of the executive regulations take effect from 1 January 2012. As at 31 December 2011 management is still continuing the tax treatment previously used for property, plant and equipment after the adoption of IFRIC 4 and IAS 17. Management have not yet assessed the financial impact that the new executive regulations could have on the current and deferred tax liability carried out in the books and consequently on the profit from 1 January 2012.

5 Revenue

	2011	2010
	RO '000	RO '000
Bulk supply revenue for electricity	**231,269**	191,834
Bulk supply revenue for water	**81,111**	77,862
Recharge of interconnection and transmission facilities	**2,097**	1,803
Net funding from MOF	**41,008**	33,780
Other revenue	**611**	-
	356,096	305,279
Add/(less): previous year revenue in (less than) /excess of maximum allowed as per price control formula, reversed	**(2,735)**	3,379
Add/(less): previous year interest on revenue in (less than) /excess of maximum allowed as per price control formula, reversed	**(55)**	81
Add/(less): revenue (in excess of)/ less than the maximum allowed as per price control formula added/(deferred to next year)	**(3,613)**	2,735
	349,693	311,474

6 Operating costs

	2011	2010
	RO '000	RO '000
Electricity capacity and output purchase costs	**194,888**	169,367
Desalinated water capacity and output purchase costs	**80,119**	76,851
Depreciation on finance lease assets	**19,918**	19,918
Cost sharing charge to Dhofar Power Company SAOC	**25,809**	21,796
Other direct cost	**9,372**	1,509
	330,106	289,441

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

7 General and administrative expenses

	2011 RO '000	2010 R O'000
Employee benefit expenses	2,065	1,808
Licence fee to the Authority for Electricity Regulation	362	329
Service expenses	540	716
Directors remuneration and sitting fees	49	44
Depreciation	80	84
Other expenses	349	296
	3,445	3,277

Included within employee benefit expenses is an amount of RO 286,000 (2010 - RO 60,000) relating to post employment benefit expenses.

8 Finance income

	2011 RO '000	2010 R O'000
Interest on the revenue recovered less than the maximum allowed as per price control formula	-	55
Interest on bank account	52	73
	52	128

9 Finance costs

	2011 RO '000	2010 R O'000
Interest on bank overdraft	21	49
Interest on obligations under finance leases	20,021	22,059
Interest on excess revenue billed over maximum allowed revenue under the price control formula	53	-
	20,095	22,108

10 Taxation

Incom etax is provided as per th eprovisions of the "Law of Incom eTax on Companies" in Oman after adjusting for items which are not taxable or disallowed. The tax rate applicable to the company is 12% (2010 - 12%). The deferred tax on all temporary differences have been calculated and dealt with in the statement of comprehensive income.

	2011 RO '000	2010 R O'000
Current tax	117	120
Deferred tax	(588)	(513)
	(471)	(393)

10 Taxation (continued)

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

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

	2011 RO '000	2010 RO '000
Accounting loss as per statement of comprehensive income	**(3,894)**	(3,223)
Tax credit on accounting loss	**(471)**	(390)
Less tax effect of:		
Other items	-	(3)
Tax credit for the year	**(471)**	(393)

Taxation has been agreed with the Oman taxation authorities for all year up to 31 December 2005.

Movement in current tax provision is as under:

	2011 RO '000	2010 RO '000
Tax payable at beginning of the year	**120**	219
Current tax charge for the year	**117**	120
Tax paid during the year	**(120)**	(219)
Tax payable at end of the year	**117**	120

11 Property, plant and equipment

	Finance lease assets RO '000	**Furniture and equipment RO '000**	**Motor vehicles RO '000**	**Work-in-progress RO '000**	**Total RO '000**
Cost					
1 January 2011	269,342	408	76	14	**269,840**
Additions	-	74	14	12	**100**
Write off	-	-	-	(14)	**(14)**
31 December 2011	269,342	482	90	12	**269,926**
Depreciation					
1 January 2011	112,870	183	38	-	**113,091**
Charge for the year	19,918	68	12	-	**19,998**
31 December 2011	132,788	251	50	-	**133,089**
Net book value					
31 December 2011	**136,554**	**231**	**40**	**12**	**136,837**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

11 Property, plant and equipment (continued)

	Finance lease assets RO '000	Furniture and equipment RO '000	Motor vehicles RO '000	Work-in-progress RO '000	Total RO '000
Cost					
1 January 2010	269,342	380	89	14	269,825
Additions	-	29	16	-	45
Disposals	-	(1)	(29)	-	(30)
31 December 2010	269,342	408	76	14	269,840
Depreciation					
1 January 2010	92,952	112	32	-	93,096
Charge for the year	19,918	72	12	-	20,002
Disposals	-	(1)	(6)	-	(7)
31 December 2010	112,870	183	38	-	113,091
Net book value					
31 December 2010	156,472	225	38	14	156,749

12 Advance payments

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

13 Trade and other receivables

	2011 RO '000	2010 RO '000
Trade receivable from related parties	**16,316**	14,209
Trade receivables - water sales	**15,085**	23,305
Prepayments	**47**	57
Other receivables	**179**	8,024
Revenue recovered less than the maximum allowed as per price control formula	**-**	2,735
Interest on the revenue recovered less than the maximum allowed as per price control formula	**-**	55
	31,627	48,385

As at 31 December 2011 no amounts are impaired (2010 - no amounts were impaired).

14 Cash and cash equivalents

	2011 RO '000	2010 RO '000
Cash at bank	**20,989**	2,656
Cash on hand	**3**	3
	20,992	2,659

15 Share capital

The company's authorised, issued and paid-up 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	2011 RO	2010 RO
Electricity Holding Company SAOC	99.99%	499,950	499,950	499,950
Ministry of Finance	0.01%	50	50	50
		500,000	500,000	500,000

16 Legal reserve

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

17 General reserve

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

18 Shareholder's Funds

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

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

19 Finance lease liabilities

Amounts payable under finance leases are as follows:

	2011 RO '000	2010 RO '000
Gross finance lease liabilities - minimum lease payments		
Not later than 1 year	33,185	35,594
Later than 1 year and not later than 5 years	154,807	158,769
Later than 5 years	44,206	73,429
	232,198	267,792
Less: future finance charges on lease liabilities	(83,215)	(103,236)
Present value of finance lease liabilities	148,983	164,556

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 asset. The finance expense on the lease liability is determined based on the net investment method.

The present value of finance lease liabilities is as follows:

	2011 RO '000	2010 RO '000
Not later than 1 year	15,085	15,573
Later than 1 year and not later than 5 years	97,621	89,831
Later than 5 years	36,277	59,152
	148,983	164,556

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

20 Provisions

Balance relates to provision for employee benefits.

	2011 RO '000	2010 R O'000
Non-current	336	119
Current	153	111
	489	230

Movement in provisions

	2011 RO '000	2010 R O'000
At beginning of the year	230	201
Charge during the year	286	60
Payments during the year	(27)	(31)
At end of the year	489	230

21 Deferred tax liability

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12% (2010 - 12%). The net deferred tax liability/(asset) in the balance sheet and the net deferred tax (credit)/charge in the statement of comprehensive income are attributable to the following items:

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

2010	1 January 2010 RO '000	(Credit)/charge for the year RO '000	31 December 2010 RO '000
Liability			
Accelerated tax depreciation	5	1	6
Finance leases	(557)	(413)	(970)
Deferred revenue	(576)	(62)	(638)
Advance payments	2,247	(39)	2,208
	1,119	(513)	606

22 Trade and other payables

	2011 RO '000	2010 R O'000
Trade payables to related parties	17,492	9,306
Accruals and other expenses	25,467	22,265
Suppliers and contractors payables	1,699	18
Due to Ministry of Finance for excess funding received	475	10,775
Revenue in excess of maximum allowed as per price control formula, deferred to next year	3,613	-
Interest on revenue in excess of maximum allowed as per price control formula	53	-
	48,799	42,364

23 Related parties

Related parties comprise shareholders, directors, key management personnel and business entities which have the ability to control or exercise significant influence in financial and operating decisions. For the purpose of IAS 24, 'Related party disclosures', the Government of the Sultanate of Oman is not considered as a related party.

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

No expenses have been recognised in the year (2010 - 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:

	2011 RO '000	2010 R O'000
Revenue		
Bulk supply tariff for electricity to Muscat Electricity Distribution Company SAOC	**96,322**	84,991
Bulk supply tariff for electricity to Mazoon Electricity Company SAOC	**70,144**	59,194
Bulk supply tariff for electricity to Majan Electricity Company SAOC	**61,414**	47,649
Recharge of interconnection and transmission facilities to Oman Electricity Transmission Company SAOC	**2,097**	1,803
Bulk supply tariff for electricity to Dhofar Power Company SAOC	**3,389**	-
	233,366	193,637
Expenses		
Electricity capacity and output purchases from Al Ghubrah Power and Desalination Company SAOC	**24,473**	22,012
Electricity capacity and output purchases from Wadi Al Jizzi Power Company SAOC	**14,150**	14,413
Electricity capacity and output purchases from Rural Areas Electricity Company SAOC	**9,139**	9,582
Desalinated water capacity and output purchases from Al Ghubrah Power and Desalination Company SAOC	**27,999**	28,755
Cost sharing charges to Dhofar Power Company SAOC	**25,809**	21,796
Accounting service charges from Electricity Holding Company SAOC	**102**	250
	101,672	96,808

	2011 RO '000	2010 R O'000
Intercompany receivables		
Muscat Electricity Distribution Company SAOC	**6,427**	6,102
Mazoon Electricity Company SAOC	**3,736**	3,683
Majan Electricity Company SAOC	**4,267**	4,424
Dhofar Power Company SAOC	**1,691**	-
Oman Electricity Transmission Company SAOC	**194**	-
Electricity Holding Company SAOC	**1**	-
	16,316	14,209

Intercompany payables

	2011 RO '000	2010 R O'000
Dhofar Power Company SAOC	**11,983**	3,213
Al Ghubrah Power and Desalination Company SAOC	**3,534**	3,780
Rural Areas Electricity Company SAOC	**1,123**	1,272
Wadi Al Jizzi Power and Desalination Company SAOC	**807**	887
Electricity Holding Company SAOC	**45**	67
Oman Electricity Transmission Company SAOC	**-**	87
	17,492	9,306

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

23 Related parties (continued)

Key management personnel compensation

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

	2011 RO '000	2010 RO '000
Short-term employee benefits	945	879
Post employment benefits	140	82
Directors remuneration and sitting fees	49	44
	1,134	1,005

24 Contingencies and operational commitments

	2011 RO '000	2010 RO '000
Commitments		
Operating lease commitments		
Not more than 1 year	102,438	70,490
More than 1 year but not more than 5 years	1,037,494	347,157
More than 5 years	1,819,839	306,934
	2,959,771	724,581

25 Comparative information

Certain corresponding figures for the previous year have been reclassified in order to confirm to the presentation for the current year, such reclassification do not affect the previously reported profit or shareholders equity.

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