صحار للطاقة
SOHAR POWER

Bringing more to life

ANNUAL REPORT 2016

HIS MAJESTY SULTAN QABOOS BIN SAID

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MAERSK
MAERSK

BOARD OF DIRECTORS AND MANAGEMENT

Board Of Directors		Representing
Chairman	Mr. Saif Abdullah Al Harthy	Kahrabel FZE (ENGIE)
Vice Chairman	Ms. Anne-Stephanie Nguyen Qui	-
Director	Mr. Sami Abdullah Al-Zadjali	Civil Service Employees' Pension Fund
Director	Mr. Jeronimo Roura	MENA Sohar 1 SPV Limited
Director	Mr. Ahmed Sultan Al Yaqoobi	Ministry of Defence Pension Fund
Director	Mr. Navneet Kasbekar	-
Director	Mr. Tashfen Yasin	-
Director	Mr. T. N. Sundararaju	SOGEX Oman LLC
Director	Mr. Ian Philip Lawrence	-
Director	Mr. Rodak Ali Iqbal	-
Director	Mr. Khamis Al Hashmi	Qalhat LNG SAOC
Director	Ms. Isabelle Gunay Demir *	-
Director	Mr. Nizar Saleh Qallab **	-

Key Executive Officers

Chief Executive Officer	Mr. Guillaume Baudet
Company Secretary	Mr. Zoher Karachiwala
Chief Technical Officer	Mr. Sreenath Hebbar
Chief Financial Officer	Mr. Mirdas Al Rawahi
Administration Manager	Mr. Jamal Al Bloushi

* Appointed during the year.
** Resigned during the year.

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Cheif Financial Officer

Mr. Jamal Al Bloushi
Administration Manager

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors of Sohar Power Company SAOG ("Sohar Power" or the "Company"), I am glad to present you with the twelfth Annual Report of the Company for the year ended 31 December 2016, corresponding to the tenth year of operations of the Company.

Sohar Power was incorporated in 2004 after the award of the Sohar IWPP project resulting from a competitive bidding process and started its operations in 2007. The Company owns and operates the 585MW electricity generation and 33MIGD seawater desalination plant in Sohar Port and Freezone industrial area. It is selling electricity and water to Oman Power and Water Procurement Company SAOC ("OPWP") under a 15-year Power and Water Purchase Agreement ("PWPA"), in a regulated but not competitive environment. The Company is listed on the Muscat Securities Market since 2008.

The year 2016 has been another year of excellent Health and Safety performance. There was no Loss Time Injury (LTI) in 2016, accumulating at the end of the year 1432 days without LTI since the last incident in January 2013. Health and Safety of our employees, contractors and visitors remains the utmost priority for the Company and its operator Sohar Operations & Maintenance Company LLC ("SOMC").

During the year Sohar Power was able, with the support of its operator, to overcome situations which led to partial unavailability of the plant. Despite such events and the corresponding impacts on its revenues, the Company was able to meet its financial commitments and debt repayment obligations.

Operations

In 2016 an aggregate net power quantity of 3,697 GWh and a total volume of desalinated water of 44,337,575 m3 was delivered, an operational improvement on the performance of the plant when compared to 2015. However, two major incidents affected the plant.

The full plant tripped on 23rd February 2016 due to uninterrupted power supply failure and it took approximately 2 days to return to its full operations.

On 25th April 2016, one gas turbine tripped on humming alarm. The inspection of the combustion chamber revealed physical damages to one of the burners and to the blades and vanes of the turbine. The critical spare parts were available on site and the required repair activities could be quickly organised. The unit was returned back to service on 31st May 2016.

Despite above events, the plant achieved 95.0% reliability for power and 98.1% for water during the year. Forced outages amounted to 5.0% for the power plant and 1.9% for the water plant, mainly due to above described events.

The Contract Year number 10 started on 01 April 2016. Annual performance test was successfully undertaken demonstrating the guaranteed capacity of the plant on both fuel gas and fuel oil.

In terms of maintenance, the Company was able to undertake the required annual maintenance activities of its key equipment during the 2015-2016 winter period. The shortage of water production capacity and lack of storage capacity in the region supplied by Sohar Power still represent an issue for the Company. However some additional water production capacity commissioned in Barka and Muscat during 2016 reduced the need for Sohar Power to supply water to Barka area. This is observed in the lower load factor of the water plant in 2016 as against 2015.

Maintenance activities were performed by SOMC and its sub-contractors, in accordance with Original Equipment Manufacturers recommendations, while applying the best standards and practices for health & safety and maintenance of the industry.

The demand from the market for power and water remained high in 2016 and is reflected in the load factors of the Company, reaching 72.0% for power (65.6% in 2015) and 80.8% for water (88.3% in 2015).

With a view to enhancing the thermal efficiency of the plant and reducing the internal power consumption, Sohar Power undertook an energy audit during the year, which resulted in some recommendations that are expected to be implemented in 2017.

Similarly, the Board of Directors decided to conduct a maturity assessment of technical operations and maintenance processes at site. The outcome of this exercise is expected in 2017.

Financial Performance

The Board of Directors is proud to announce that the Company has ended the year with a net profit of RO 4.543 million.

In comparison, the profit for the year 2015 amounted to RO 3.756 million. The increase in net profit in 2016 is explained by the reduction in unavailability period during the year and no derating as compared to last year.

The revenues for the year 2016 amount to RO 66.3 million as against RO 62.7 million for the year 2015, increased mainly by higher availability, in addition to the increase in revenue from gas which is a pass-through income (financially neutral to the company) and despite the contractual decrease in tariff.

The direct costs have also increased over the period from RO 50.8 million in 2015 to RO 53.7 million in 2016, mainly reflecting the increase in gas price and consumption.

During the year, Sohar Power received full compensation for the loss of revenues and property damages in relation to the flooding event caused by the neighbouring refinery during the month of May 2015. This contributed to improve financial performance in 2016.

Long term loans were repaid and swaps were settled on their due dates. The hedging deficit on Company's swap agreements, at the close of business at 31 December 2016 was RO 11.6 million, in comparison with valuations as of 31 December 2015 of RO 15.9 million. As per IAS 39, hedging deficit is calculated on each balance sheet date and it represents a notional loss, which the company may incur, if it opts to terminate the swap agreements on this date. However, under the terms of loan agreements the company is not permitted to terminate its swap agreements and, as such, the loss is notional.

The reduction in finance costs by RO 0.5 million in 2016 in comparison to 2015 is associated to debt repayments during the year and compensates for the decrease in tariff while contributing to the net profit of the Company.

Consistent with its dividend distribution policy, whereby available cash is distributed after having met bank covenants and requirements of the Commercial Companies Law, Sohar Power distributed to its shareholders a final cash dividend of RO 1.812 million for the year 2015 corresponding to 8.2 Baisa per share or 8.2% of the share capital during the second quarter. Another distribution took place during the third quarter as interim dividend for the year 2016, amounting to RO 0.913 million corresponding to 4.132 Baisa per share or 4.132% of the share capital.

Under its Financing Agreements entered into with its lenders, Sohar Power is subjected to a cash sweep mechanism starting from 30 September 2015 until the full repayment of the outstanding debt. This mechanism prevents distributions to shareholders since all the available cash is dedicated to the repayment of the debt. As previously disclosed, the pay out of dividends ended in 2016 and there will be no more dividend distributions to shareholders until the debt of the Company is restructured and the cash sweep is successfully dealt with.

As a consequence of the cash sweep and the inability of the Company to distribute dividends leading to a reduced attractiveness of Sohar Power share to the investors, a drop in share price from RO 0.352 to RO 0.230 was seen during the year.

There are no legal proceedings against the company as of 31 December 2016.

Corporate Governance

In line with efforts deployed in previous years, the Company ensured that its organization, systems, policies and procedures follow the highest standards of governance in order to comply at all times with the Code of Corporate Governance promulgated by CMA, including the new Code requirements effective since July 2016.

Employment

Pursuing their continued efforts to develop and employ Omanis, the Company and its operator have improved the employment of Omanis in the project from 68% in 2015 to 74% at the end of 2016.

Corporate Social Responsibility

In line with the new requirements of the Code of Corporate Governance, Sohar Power issued during the year its Corporate Social Responsibility policy, thus formalising its objectives and commitments towards Corporate Social Responsibility. In 2016, the Company further extended its support to local community and municipality projects mainly in North Batinah Governorate, while focusing on education, health and safety, social development and environment protection. Sohar Power was able to contribute to local projects intended for the local communities and the people of the Sultanate of Oman, through financial contributions to local initiatives amounting to RO 21,082 in 2016.

Outlook for 2017

Looking ahead, it is expected that the company will operate reliably and deliver continuous supply of power and water to its customer, while undertaking periodic maintenance activities in a safe working environment for its employees, contractors and visitors.

The new market rules prevailing at the end of the PWPA in 2022 will be announced by OPWP in 2017 and will allow the Company and its shareholders to envisage and plan the role Sohar Power plant can play in this new market environment.

On behalf of the Board of Directors, I wish to thank our valued shareholders for their continued support, trust and confidence. I would also like to thank all the personnel associated with the operation and maintenance of the plant in Sohar and the staff of the Company for their loyalty, dedication and commitment.

I would also like to express our gratitude to His Majesty Sultan Qaboos Bin Said and His Government for their continued support and encouragement to the private sector.

May Allah protect them all.

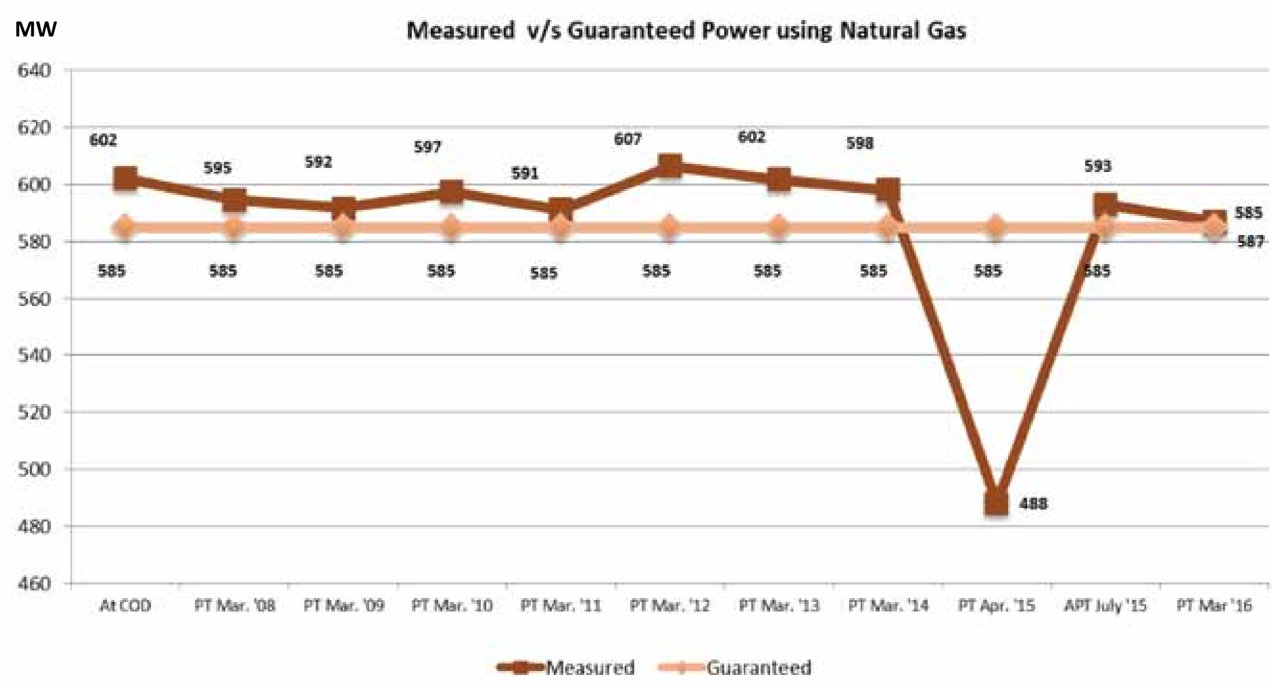
Saif Abdullah Al Harthy

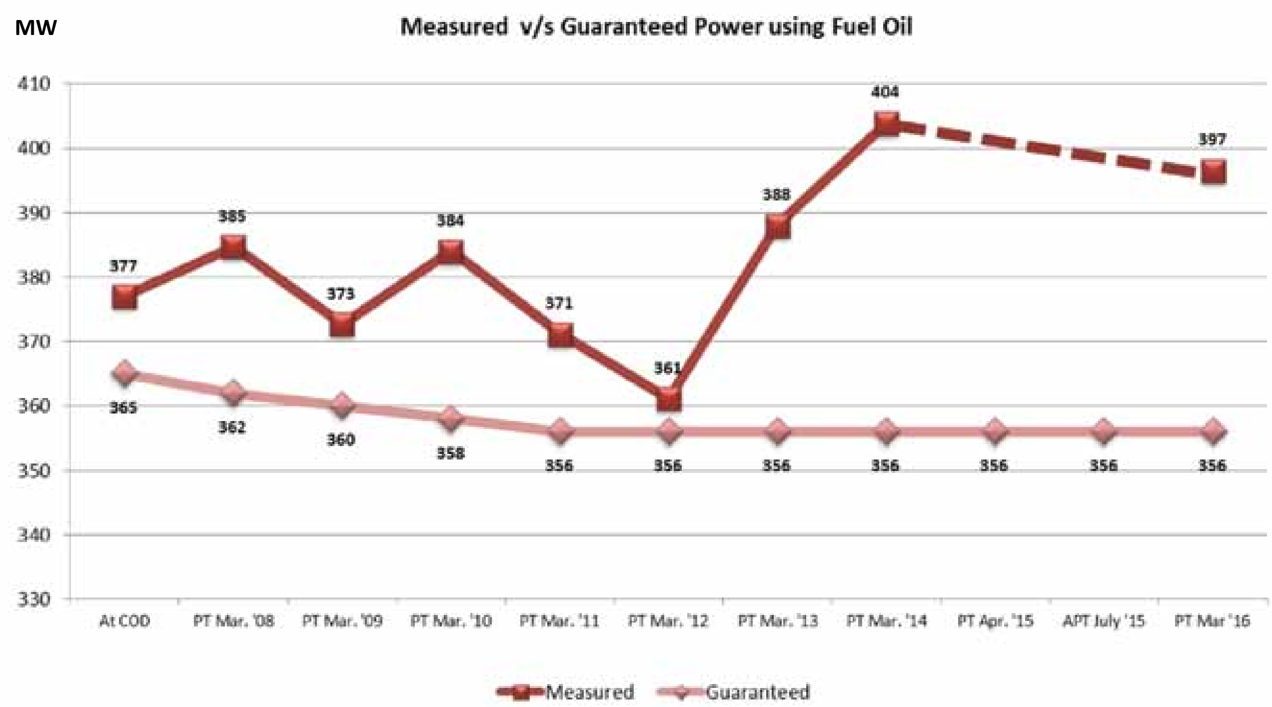
Chairman of the Board

OPERATIONAL HIGHLIGHTS

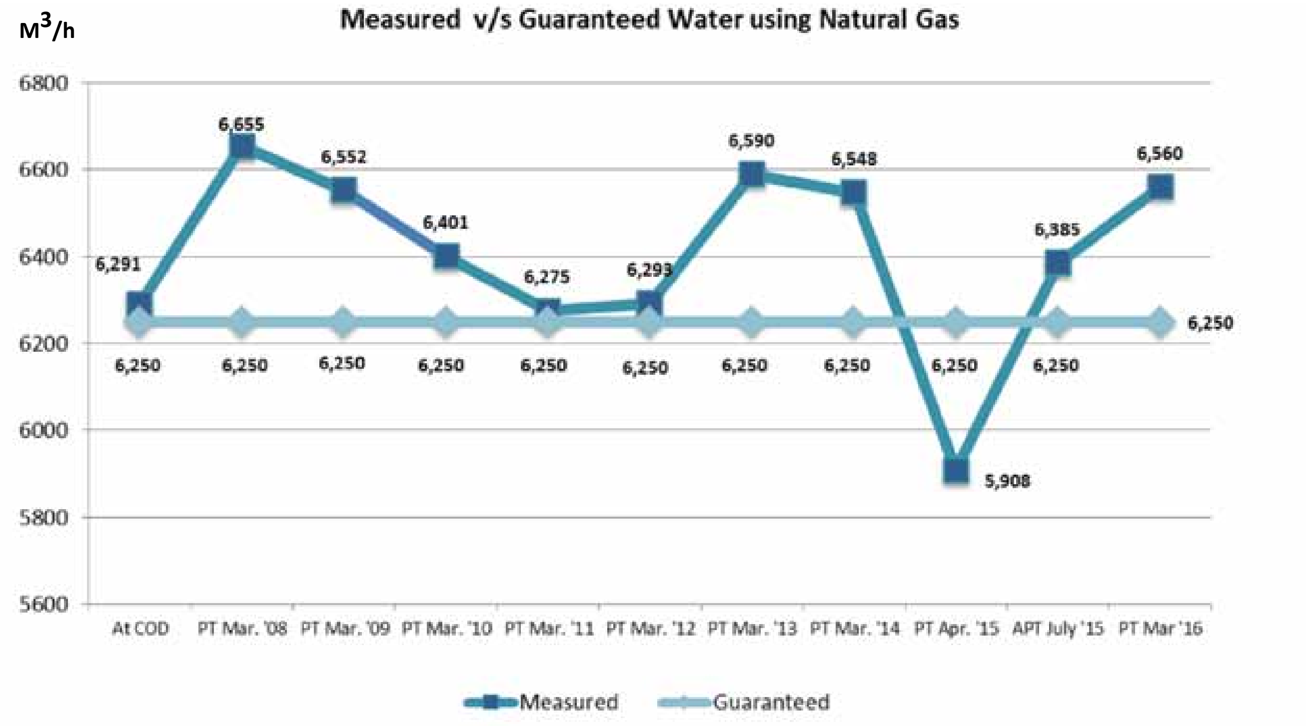
Capacity

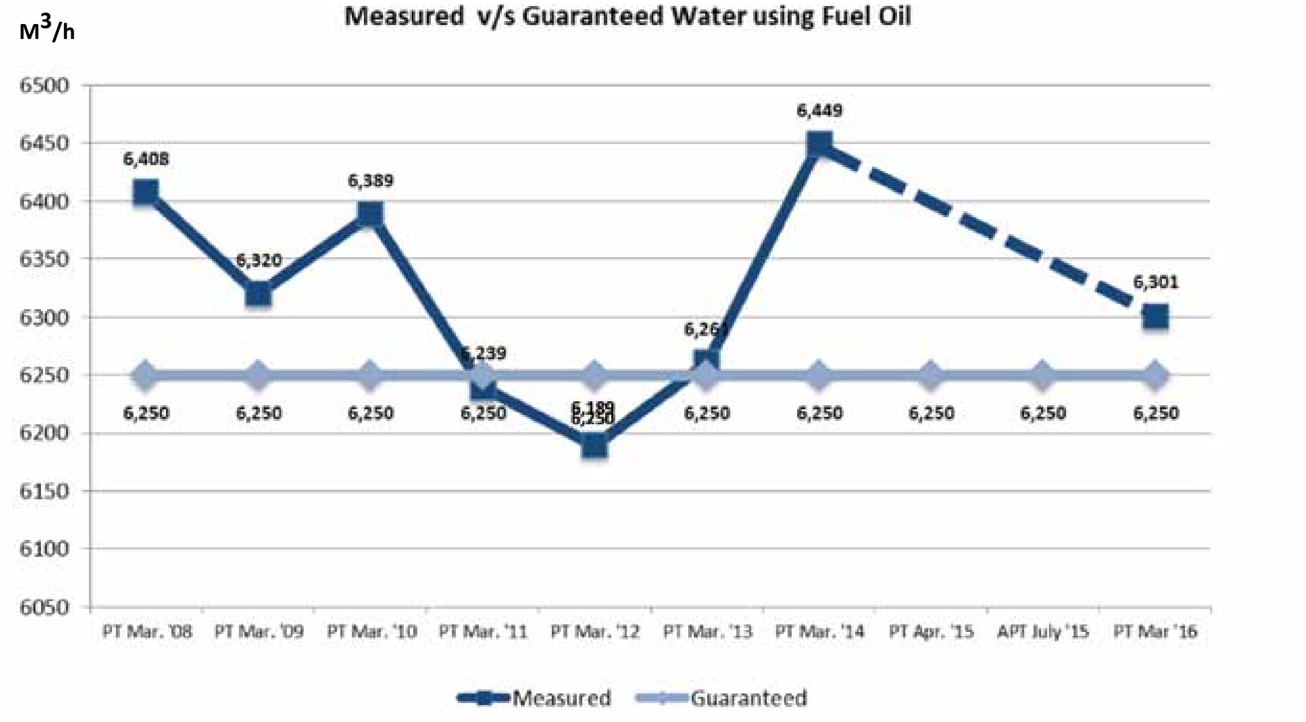
The capacity of a plant is defined as the total electrical power (in MW) and water (in m3/day), which can be delivered by the plant under specific environmental conditions (Reference Site Conditions). The contractual capacity of Sohar plant is 585 MW and 6,250 m3/hr, constant over the 15 years period of the PWPA.





Performance Test on Fuel Oil was not conducted in 2015





Performance Test on Fuel Oil was not conducted in 2015

Availability

Availability is the amount of time the plant is technically capable of generating power and water as per specifications. Under the PWPA, Sohar plant shall be available for 100% of time in summer period; and 85% of the time for power and 87% of the time for water in the winter period.

The total power made available during 2016 was 3,696.6 GWh which works to an availability of 88%. The total water made available during 2016 was 44,337,575 m3 which works to an availability of 91.9%.

Reliability

The reliability of the plant is the ability of the plant to deliver the declared availability, as per PWPA. Any failure to deliver the declared capacity will be treated as forced outage. The objective of Sohar Power is to minimize these forced outages, in order to maximize its revenues. During 2016 the plant achieved reliability of 95% for power and 98% for water.

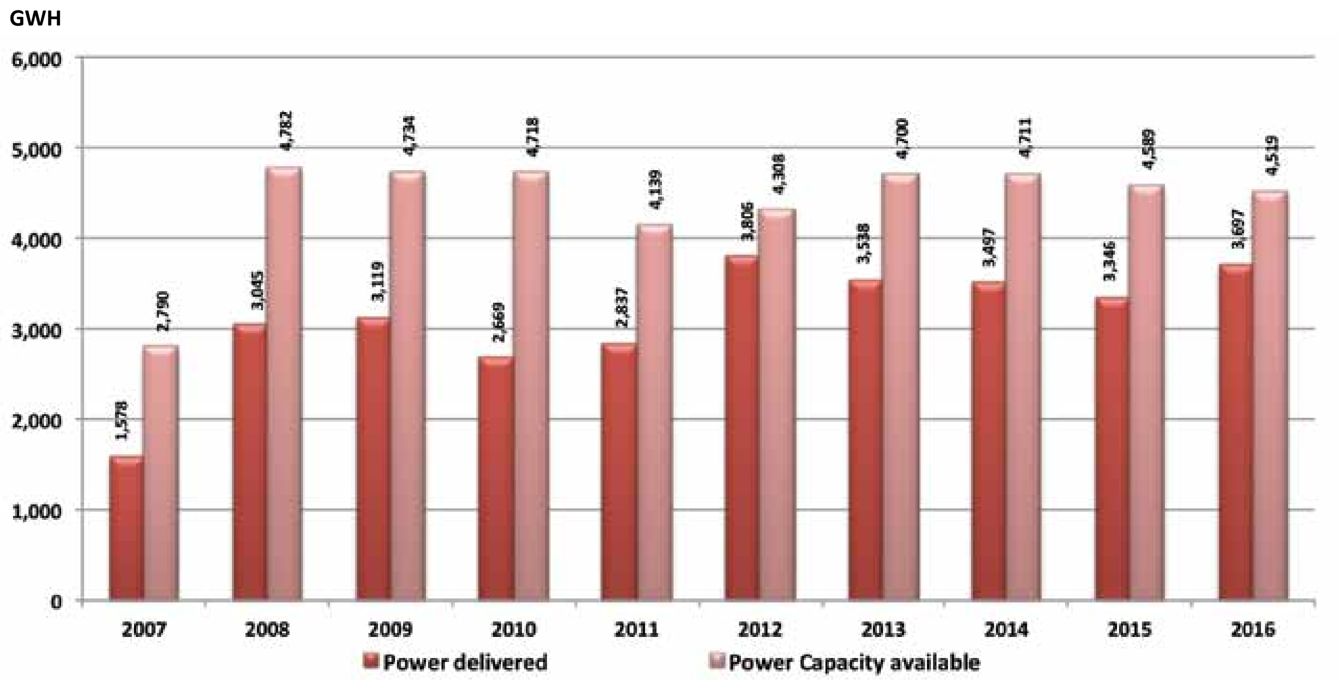
Plant Efficiency (Heat Rate)

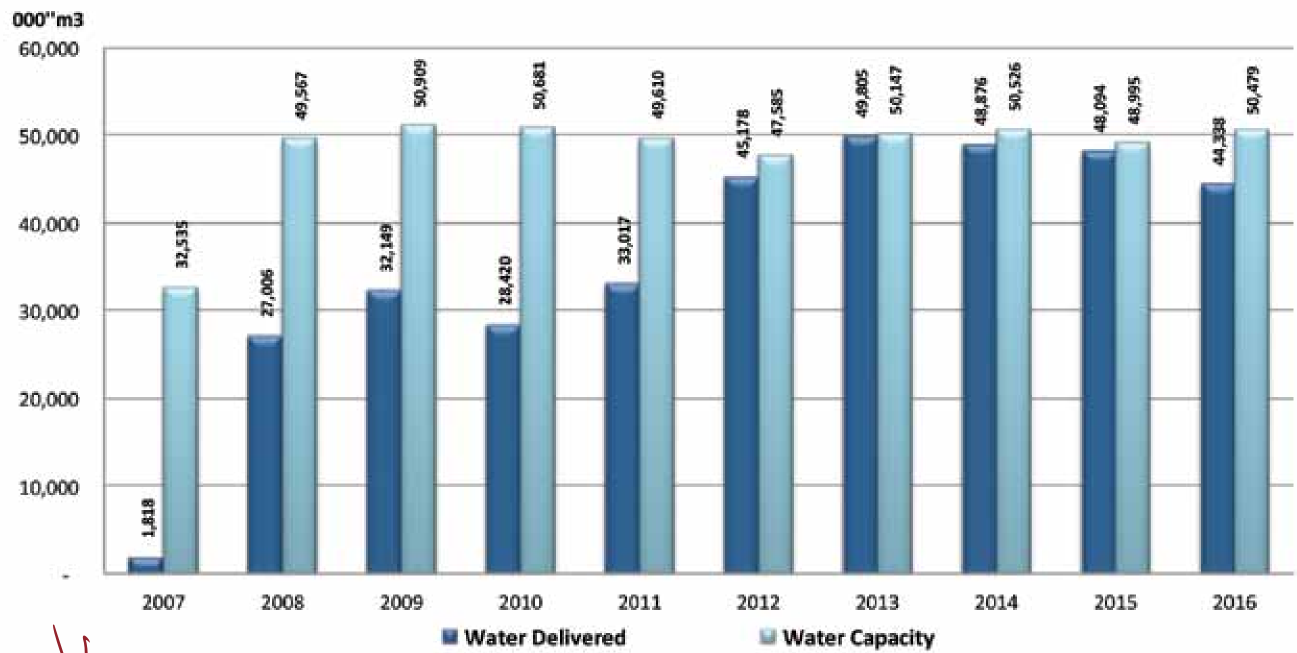
The efficiency of the power plant is measured in terms of the amount of heat required to produce one unit of power. The Contracted Heat Rate of the plant is 8,997 MJ/MWh for natural gas.

Utilization; Energy and Water Delivered

During the year 2016 the energy was delivered at a utilization factor of the power plant of 81.8%. The total water was delivered by the water plant at a utilization factor of almost 87.8%.

Evolution of statistics for power and water capacity made available by Sohar Power and amount delivered to the grid, since Commercial Operation Date of the Plant is depicted in the following charts.





Maintenance

Annual maintenance of all equipment was undertaken during the year.

Based on their fleet experience across the world, the Original Equipment Manufacturers ("OEM") of major equipment notify their users on various improvements or issues to be addressed in order to improve efficiency, safety or mitigate risks identified in their equipment. SPC along with its Operator is working on a few such recommendations.

SPC and its Operator have diligently studied and rectified during the year various causes for fuel inefficiency, which led to unnecessary drain on profitability. This is an ongoing exercise and due attention is being given to this aspect. An Energy Audit was also conducted at the Plant to identify energy leakages. Various recommendations are under review and shall be implemented.

Other productivity and efficiency improvements to existing equipment, systems and processes have been implemented during the year and some others are being analyzed, jointly with SOMC.

Force Majeure

1. Over the years, due to extraneous factors affecting its performance, SPC has raised Force Majeure claims on OPWP. The following have been agreed between OPWP and SPC to constitute Force Majeure events:

Sl.No.	Event	Year	Period	Affected facility	Equivalent hours
1.	Unavailability of Fuel	2006	12 days delay Oil in Stage-I & Stage-II Early Power Milestones	Entire Plant	288
2.	Cyclone Gonu	2007	June 6, 16:00 – June 7, 20:00	Entire Plant	28
3.	Red Tide	2009	a) Jan 3, 19:00 – Jan 5, 10:00 b) Jan 9, 00:00 – Jan 12, 19:00	Desalination Facility	99
4.	Red Tide	2009	a) Apr 11, 06:30 – Apr 16, 06:30	Desalination Facility	107

2. During the year Force Majeure claims relating to Flood event in May 2015 were discussed with OPWP. This has been disallowed by OPWP due on contractual grounds. However, the Company received full compensation for its losses from the concerned party's Insurers.

ENVIRONMENT

The Sohar Power and Desalination Plant utilizes Gas Turbine technology for power generation and Multi-Stage Flash Desalination technology for Seawater Desalination. Natural gas is the primary fuel.

Maximizing Efficiency

The essence of a combined cycle unit like Sohar Power plant is an attempt to extract the maximum possible output from a scarce resource, natural gas.

The technology consists of utilizing the high grade heat from the exhaust of the Gas Turbine to generate high pressure steam, which in turn powers the steam turbine. Through that heat recovery, approximately 50% additional power can be generated from the steam turbine without using any additional fuel.

The Heat Recovery Steam Generators (HRSG) generate steam at two pressure levels and are equipped with supplementary firing burners. Supplementary firing in the HRSG utilizes the excess oxygen available in the gas turbine exhaust, thereby adding heat capacity. Reduction of excess oxygen in the exhaust from the HRSG has the effect of improving the efficiency of the HRSG unit.

In addition to increase in efficiency of the HRSG unit, additional heating added by supplementary firing enables the HRSG to generate high pressure/high temperature steam and low pressure steam. Generation of steam at two pressure levels at Sohar Power plant helps reduce the temperature of the exhaust from the HRSG thereby further enhancing the efficiency of the unit:

- The high pressure steam allows the steam turbine to operate at high efficiency levels; and
- The low pressure steam is utilized for the generation of distillate water from seawater.

The Sohar Power plant is therefore a Cogeneration – Combined Cycle plant.

The low pressure steam generated by the HRSG, utilizing the exhaust gases of the Gas Turbines acts as the motive force for the generation of water. Further, the steam turbine is an extraction condensing type unit, meaning that residual steam is extracted from the steam turbine to be used in the desalination units, which further enhances the efficiency of the system multi-fold. Condensing this extracted steam (and the steam generated in the low pressure section of the HRSG) in the MSF Units utilizes heat to the fullest extent to evaporate seawater in the MSF Units.

This is a combination of efficiency and environmental friendliness that reinforces one another.

Low Emissions

The gas turbines are equipped with low NOx combustors to ensure that Omani and international environmental norms are strictly adhered to.

During the process of distillate production, potable water production and steam production in the HRSG, chemicals are utilized for various purposes. Some of these chemicals are also drained out periodically. Such effluents are all collected and treated so that all discharges from the plant are harmless to the environment.

Potable Water

The potable water supplied by Sohar Power strictly meets the Omani Water Standards specified in the PWPA.

CORPORATE & SOCIAL RESPONSIBILITY

Acting as a corporate and responsible citizen in 2016, Sohar Power Company engaged with the local community by contributing its resources and actions; going beyond its responsibilities related to power generation and water desalination.

The projects carried out in 2016 primarily focused on education, health & safety, social development and protection of the environment, in line with the objectives set by the Company under its Corporate and Social Responsibility ("CSR") policy.

Capitalizing on the success of "Let's read to succeed" campaign that was rolled out during 2014-2015 by the Ministry of Education with the support of Sohar Power, both organisations have decided to extend their partnership this year in the organisation of a students' competition in English language.

The competition aims at increasing the students' knowledge of English language skills in the areas of spelling, speaking and writing, and developing their presentations skills, self-esteem and confidence.

This is a wide scale program in which 145 out of 187 schools from North Batinah Governorate have confirmed their participation by the end of November 2016. In every school, 600 to 700 students from Grade 1 to 12; i.e. from 7 to 18 years old, will take part to this contest. Overall, more than 100,000 students will participate to the competition.

It will be organized in several stages at classroom level, school level, Wilayat (municipality) level and finally at Governorate (region) level. At every stage, the candidates' skills will be tested and candidates selected to participate in the next selection round, with increasing difficulty through each stage.

The competition will last until April 2017 and the winners will be rewarded during a celebration ceremony to be held during the second quarter of 2017.

Sohar Power again joined hands with Directorate General of Education in North Batinah Governorate by sponsoring 50% of the cost for holding the Forum of Regional English Language Supervisors and Teachers (FOREST 2016). This event consist at organising an annual forum for education professionals (ELT professionals, Regional Supervisors, Senior Teachers and Teachers) to exchange ideas, experiences, best practices, research findings and innovations in Teaching and Learning English as well as related issues. The forum provides a platform that brings English language professionals to share initiatives, update current trends and enhance future development of English language teaching and learning. This year, a one-day forum, with the theme "Creating Better Opportunities", consisted of 21 papers with participation of more than 200 teachers from 148 schools in North Batinah Governorate.

Sohar Power takes pride in reporting that one of its projects in the academic year 2008/2009 (using jolly-phonics to develop students' reading abilities) targeting grades 1-4 of Cycle 1 was generalized in all schools of Oman in 2013. This demonstrates the focus of the Company to select and contribute to sustainable projects for the benefit of people of Oman.

Still in the field of education, Sohar Power decided to support the Educational Program of Oman Charity Organization through the sponsorship of tuition fees for 5 students to pursue their studies at university level.

The 5 students come from very low income families registered with OCO and have been identified as having the potential to obtain a University Degree but they cannot afford it. The financial contribution of the company will cover one year of tuition fees for each of the students at different colleges in Oman in the fields of accounting, translation, law, English language and one student in the foundation level. Sohar Power strongly believes that with this support in gaining better education and University degree, the students will develop an interesting career and in return will be able to support their families and make useful contributions to society. Sohar Power is the first private entity supporting OCO Educational Program in Sohar.

The Company also supported The Association for the Welfare of Handicapped Children in Saham, North Batinah Governorate. With this collaboration, Sohar Power financed the equipment of a classroom for children with communication and dysarthria problems. The funds were used to do the fittings of the room and buy learning equipment as identified by the Association. The Association serves handicapped children from the age of 6 to 14 through comprehensive program of education, health, physical and academic services. It offers disabled children an opportunity to enjoy life fully and to integrate them into the community. It aims at reaching every handicapped Omani child with any form of disability and providing them with learning, education, training in order to help them to live better and socialize normally, despite their handicap. The Association plays an advocacy role and aims at establishing as many centers as possible in the country. It also supports scientific studies and research into causes of disability.

The inauguration of the classroom was an opportunity to meet the children as well as the team of volunteers and employees working relentlessly and selflessly with the children and to realize that this Association could achieve much more, with more public and private support.

Participating in the celebrations of the National Day of Oman, the Company supported the Ministry of Heritage and Culture in organising and holding its second Heritage Gathering 2016. The gathering aimed at instilling cultural and intellectual awareness and deepening the Omani identity amongst the Omani population. The gathering included many activities such as: Omani manuscripts, pictures of archaeological sites in North Batinah Governorate, cultural activities such as fine arts, poetry and cultural lectures, plays, setting up temporary libraries, traditional crafts, archaeology, calligraphy and more as outlined in its program.

The Company is a corporate member in Environment Society of Oman. ESO is involved in promoting conservation of the environment and awareness campaigns in all sectors of the society.

Sohar Power also supported a fund raising event for a non-profit organization.

DESCRIPTION OF THE PROJECT

History of the Project

The Project was awarded to the promoters, comprising GDF SUEZ, National Trading Company, SOGEX Oman, Ministry of Defense Pension Fund, W.J. Towell & Co and The Zubair Corporation, by the Government following a competitive bidding process. The promoters formed Sohar Power Company SAOC for the purposes of entering into the project agreements and undertaking the Project.

Sohar Power has been established under a Build-Own-Operate scheme. The BOO concept enables the Company to operate as a going concern beyond the project horizon of 15 years by either extending the PWPA (if agreed to by OPWP) or selling into a liberalized electricity market which may exist at that time. The anticipated useful life of the Plant is 30 years.

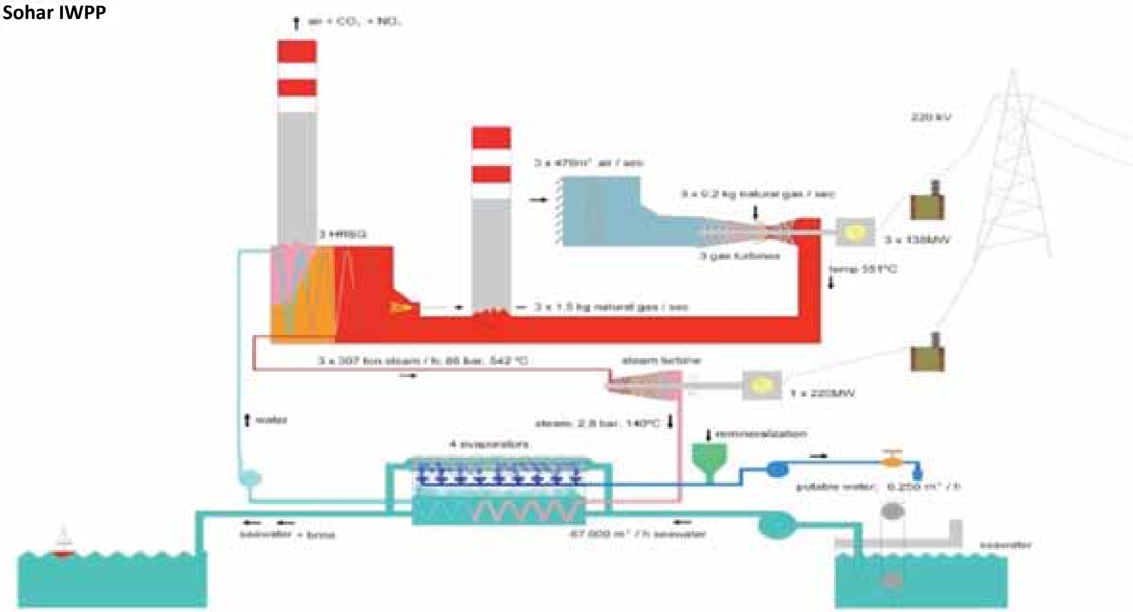
The 585 MW combined cycle gas fired power plant and 150,000 m3/d desalination plant is located in the Sohar Industrial Port area in the North Al Batinah Governorate of the Sultanate of Oman. The site is strategically located near the main gas transmission system and electricity grid network.

The power section of the plant uses three Siemens SGT5-2000E gas turbines (formerly known as V94.2) driving three electrical generators, each fitted with Heat Recovery Steam Generators ("HRSG"), which utilize the exhaust heat of the gas turbines. The steam and this exhaust gas are supplied to one condensing steam turbine to complete the combined cycle. The steam turbine manufacturer is Alstom, one of the world leading suppliers of steam turbine technology. The balance of the steam produced from the HRSGs is supplied to the desalination plant. The HRSGs are dual pressure natural circulation with a horizontal gas flow. The manufacturer of HRSGs is Doosan Heavy Industries ("DHI").

Four conventional Multi Stage Flash ("MSF") desalination units are installed in the Plant. Each unit is designed to generate a net output of 37,500m3/d at design conditions. The manufacturer is DHI, which is one of the most experienced suppliers of MSF type desalination units. Each unit has 17 heat recovery stages and 3 heat rejection stages.

The seawater intake and outfall are part of the Sohar Industrial Port area common facilities and are owned by the Government of Oman and operated by Majis Industrial Supply Co. ("MISC"). The potable water is exported through a connection at the site boundary to OPWP potable water network. The process is outlined in the following sketch:

Sohar IWPP



The land for the power plant is owned by the Government which (through the Ministry of Transport and Communication) has entered into an Usufruct Agreement with Sohar Industrial Port Company SAOC ("SIPC"). SIPC entered into a Sub-Usufruct agreement with Sohar Power to grant the Company usufruct rights for 15 years on the land (renewable). Additionally, Ministry of Transport and Communication committed towards Sohar Power to extend the lease up to 30 years under a Sub-Usufruct Direct Agreement.

Natural Gas is supplied by the Ministry of Oil and Gas to a pressure reduction terminal supplying consumers of the Sohar Industrial Port area. The power output from the Plant is exported to the grid through a 220 kV substation owned by OETC.

Contractual arrangements

Off-taker

The entire output from the Plant's installed Capacity is contracted for through a single long term PWPA with the Oman Power and Water Procurement Company SAOC ("OPWP") until 31 March 2022. Beyond this date, Sohar Power will either extend its PWPA with OPWP or sell its output in a liberalized market in a pool or to eligible customers, depending on the evolution of the market regulation set by the regulatory authority.

Fuel Supply

The natural gas is supplied by Ministry of Oil & Gas ("MOG") for 15 years (commences and ends with the PWPA). In accordance with the Natural Gas Sales Agreement ("NGSA"), natural gas will be supplied up to the gas delivery point of the plant. In case of non-availability of gas conforming to specifications, Sohar Power shall run the plant on fuel oil for up to a continuous period of 3 days as per the provisions of the PWPA and the NGSA. Sohar Power would be reimbursed all the additional costs of running the plant on fuel oil by MOG and any capacity shortfall, which arises there from.

Sea Water

Treated and filtered seawater is made available by the Government for 15 years (commences and ends with the PWPA). In accordance with the Sea Water Extraction Agreement ("SWEA"), MISC shall operate, maintain, and avail Seawater Intake/Outfall facility and provide chlorinated seawater to the Company. In return, Sohar Power makes monthly payments to MISC.

Electrical connection

The power produced is supplied to the OETC owned Grid at the connection point in the 220 kV sub-station under an Electrical Connection Agreement ("ECA"). The ECA was executed in June 2011 and is valid for the term of the PWPA. Charges payable to OETC under the ECA are passed through under the PWPA to OPWP, keeping the Company neutral.

Water supply connection

As per PWPA the potable water is supplied under a Water Connection Agreement ("WCA") valid for 15 years (commences and ends with the PWPA) to the storage facility and its downstream transmission network owned by PAEW.

During the commissioning of the water plant, OPWP and MISC approached Sohar Power to provide distillate water (the output of the evaporators prior to potabilization) in order to meet the industrial requirements of the Sohar industrial complex. A long term agreement has been entered into with OPWP in July 2009. The long term supply was studied and found to be of no risk to the originally designed process, while providing additional revenues to the original PWPA revenues.

EPC Contractor

The Company entered into an EPC Contract with Sohar Global Contracting and Construction Company LLC ("SGCCC"), with Doosan Heavy Industries as subcontractor. The construction was completed in 2007, and outstanding issues were settled in March 2008 through a Settlement Agreement. The period of warranty under the EPC contract expired on 28th May 2008, and the few items outstanding under a renewed warranty period were settled in 2009.

Operation and Maintenance

The operation and maintenance services are provided by Sohar Operations & Maintenance Company LLC ("SOMC"), a part of Suez Tractebel Operation and Maintenance Oman LLC ("STOMO"), an experienced power plant operator in the region. The contract broadly covers the following scope:

- Day-to-day operation of the plant, procurement of spare parts and maintenance services necessary to perform scheduled maintenance;
- Training of human resources, including in order to meet Omanization requirements;
- Health and security policies and procedures;
- Maintain and generate invoices based on fuel demand model and settlement system;
- Performance testing, periodic reporting;
- Management of inventory and wastes.

The Operation and Maintenance Agreement is expiring at the same time as the PWPA. The performance and payment obligations of SOMC under the O&M Agreement are guaranteed by several corporate indemnities from each of ENGIE and Suhail Bahwan Holding Group.

Revenue Details

Operating Revenues comprise Capacity Charge and Energy Charge and Water Output Charge. Revenues are indexed to the OMR-USD exchange rate, US Producer Price and Omani Consumer Price indices.Capacity Charges

Capacity Charges

Capacity Charges are payable for each hour during which the plant is available for generation and is paid by OPWP. The Capacity Charge is the total of:

- Investment charge: covers capital and all related costs of the Project like tax payments, debt service and return on capital,
- Fixed operation and maintenance charge: covers fixed operation and maintenance and all related costs of the plant and
- New Industry charge: covers period licensing costs under the Sector Law, and charges due to OETC under the ECA and others.

Energy and Water Output Charges

The energy and water output charge is the short term marginal cost of power and water delivered and is paid by OPWP. It is the total of:

- Variable operating costs;
- Start-up Costs: payable to Sohar Power for the costs of the starts.

Fuel Costs

Fuel Charge is based on the theoretical natural gas consumption to produce the electrical energy and water output delivered, which will be calculated on the basis of the contractual heat rate with the help of a fuel demand model.

Force Majeure events

If Sohar Power is prevented or hindered in performing of its obligations for reasons outside of its control, it will constitute a Force Majeure event.

In accordance with the PWPA, declaration of Force Majeure results in extension of the Term by an amount of time equal to the period of the Force Majeure. Revenues during the Force Majeure is delayed and paid during the Term extension.

PROFILE OF THE MAJOR SHAREHOLDERS

Kahrabel FZE (ENGIE, ex GDF SUEZ)

Kahrabel oversees and manages the development, construction and operation of the electricity and water production business of ENGIE, ex GDF SUEZ Group in the MENA region. It is an entity 100% owned directly by International Power, which is itself indirectly wholly owned by International Power Ltd.

International Power Ltd. is owned indirectly by ENGIE group, one of the world's leading energy companies and a global benchmark in the fields of power, gas, and energy services. The group is active throughout the entire energy value chain, in electricity and natural gas, upstream to downstream. It employs close to 155,000 people worldwide and achieved revenues of €69 billion in 2015. ENGIE is listed on the Brussels, Luxembourg and Paris stock exchanges and is represented in the main international indices: CAC 40, BEL 20, DJ Euro Stoxx 50, Euronext 100, FTSE Eurotop 100, MSCI Europe, and Euronext Vigeo (World 120, Eurozone 120, Europe 120 and France 120).

MENA Infrastructure Investments Limited

Mena Infrastructure was founded in 2007 and owned by HSBC, Fajr Capital and Waha Capital, MENA Infrastructure currently manages a US$300 million infrastructure fund from its headquarters in the Dubai International Financial Centre.

MENA Infrastructure has established an important position in private equity infrastructure investment, and has one of the most experienced specialist infrastructure investment teams operating across the region. The team is supported by a network of sponsors, investors, intermediaries and strategic partners that command significant influence in the region's business communities. With these resources and networks at its disposal, the firm offers a unique combination of unrivalled origination capability with proven investment and execution expertise. MENA Infrastructure has executed some of the region's landmark transactions and holds a collection of well-regarded awards which bear testament to its superior performance. Further information can be found at www.menainfrastructure.com

Ministry of Defence Pension Fund ("MODPF")

The Ministry of Defence Pension Fund is a public legal entity in the Sultanate of Oman duly organized under, and registered pursuant to, Sultani Decree 87/93 issued on 29th December 1993. The Ministry of Defence Pension Fund is one of the largest pension funds in Oman and is a major investor in the local capital markets, both in equities and bonds. It is also a major participant in project investments and real estate investments. The fund is represented on the boards of several prominent corporates in Oman.

SOGEX Oman LLC

SOGEX INTERNATIONAL started in Oman in 1971 as a small company and contributed remarkably in the development of the Sultanate of Oman to meet the challenge of rapid growth.
SOGEX grown into multinational group of companies within a short time and serve national governments interests throughout the region with locations in Middle East, Africa, Europe and in United States.
On November 15, 1984 Bahwan Group of Companies, Oman, acquired the whole of SOGEX in Oman and renamed as SOGEX Oman Co. LLC. Consequently, all legal relations with SOGEX International were discontinued.
SOGEX Oman as a subsidiary company of Suhail Bahwan Group has been continuing its operations in Oman and abroad by participating in supply, construction and O&M services of remarkable number of large IWPP/IWP/IPP projects covering different fields on turnkey basis such as EPC (Engineering, Procurement, Construction) for Power & Desalination Plants, Electrical Transmission Lines and associated Sub-stations of Voltage level up to and including 132 kV.

SOGEX Oman undertakes the following activities:

- Management, Commissioning, Operation & Maintenance of:
- Power Generation Plants: Combined Cycle Power Plants of large capacities.
- Water generation plants: Sea Water Desalination Plants, Multi Stage Flash (MSF) and Reverse Osmosis (RO) of large capacities.
- Water Treatment & Sewage Treatment Plants
- Engineering and Consultation related to Power & Water plants

Sogex Oman also explores opportunities and invests in Power & Water sectors.
Currently it is operating in Oman, Algeria and India.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry Structure and Development

The Sector Law for the electricity sector has been promulgated in 2004 and an independent regulatory agency, the Authority for Electricity Regulation (AER) was implemented. It regulates the development of the electricity sector under a well-defined framework that encourages private participation in the sector on long-term basis.

The Sohar IWPP project was awarded to the consortium formed by the founders of Sohar Power upon completion of a competitive bidding process, resulting in awarding the project to the lowest bid.

The plant is located in Sohar Industrial Port area and approximately 80 employees are involved in the operations and maintenance activities on site. Sohar Power offices and employees are located in Muscat.

Opportunities and Threats

The Company was formed specifically to build, own and operate the plant located at Sohar and its Generation License, issued by AER does not allow it to undertake new ventures.

Sohar Power benefits from a guaranteed long term payment stream and a very low risk profile.

Under a long term Power and Water Purchase Agreement (PWPA) with guaranteed off-take with Government, the Company is protected from the risk of demand, commodity prices and market fluctuations.

Payments under the PWPA are based on available capacity (capacity charge), as well as a variable payment stream based on the actual electricity generated (energy charge). Payments are assured, as they are receivable from OPWP and guaranteed through the Government Guarantee.

The fuel supply risk is mitigated by a long term gas supply contract with the Sultanate's Ministry of Oil and Gas (MOG) that matches the term of the PWPA.

The technology risk is very low given the proven technology and demonstrated operating history, as is the Operations and Maintenance ("O&M") risk given Sohar Power contractor (SOMC) experience and track record in operation of IWPPs. Through the O&M Agreement, Sohar Power is not supporting any risk in regular operating and maintenance costs.

The debt financing for Sohar Power follows a typical non-recourse project financing structure.

Authorities are heavily dependent on Sohar Power for the supply of water in the North of the Sultanate. This exposes the plant to reliability and availability risks in case the contractual commitments for periodic maintenance cannot be fulfilled, as experienced in previous years.

Financial Highlights

The Company's performance during the Current and past four years is given as follows:

All figures in RO million		**2016**	**2015**	**2014**	**2013**	**2012**
NP (Net Profit) for the year	1	**4.543**	3.756	4.414	5.137	2.9410
Revenue	2	**66.307**	62.657	47.033	47.539	46.622
Total Assets	3	**150.439**	160.431	164.384	171.823	182.790
Capital (Original-Paid up)	4	**-**	-	-	-	27.800
Capital (Reduced-Paid up)	5	**22.101**	22.101	22.101	22.101	-
Debt (Long Term)	6	**100.436**	112.387	120.340	127.973	135.363
Debt & Capital	7	**122.537**	134.488	142.441	150.074	163.163
Ordinary Shares (in millions)	8	**221.01**	221.01	221.01	221.01	27.8
Net assets (before hedging deficit)	9	**29.006**	27.188	27.078	26.995	32.546

		2016	2015	2014	2013	2012
NP (Net Profit) Margin	1÷2	**6.9%**	6.0%	9.4%	10.8%	6.3%
ROTA (Return on Total Assets)	1÷3	**3.0%**	2.3%	2.7%	3.0%	1.6%
ROC (Return on Capital)	1÷4/5	**20.6%**	17.0%	20.0%	23.2%	10.6%
Capital ratio (over Debt + Capital)	5÷7	**18.0%**	16.4%	15.5%	14.7%	17.1%
Ordinary Dividend (interim-current year)		**4.1%**	7.1%	8.6%	10.0%	-
Ordinary dividend (Final-previous year)		**8.2%**	9.4%	11.0%	-	12.6%
BEPS (Basic Earnings per share) Ratio	1÷8	**0.021**	0.017	0.020	0.022	0.106
Net Assets per share	9÷8	**0.131**	0.123	0.123	0.122	1.171

Analysis of Results

Sohar Power registered a net profit of RO 4.543 million for the year 2016. The same was RO 3.756 million in 2015. The positive variance of RO 0.787 million between the profits of 2016 and 2015 is the net effect of the following elements:

- Power & Water capacity charges were reduced in 2016 as compared to previous year due to reduced tariff (as per PWPA).
- Lower forced outages during the year compared to last year mainly due to Heat Recovery Steam Generator (HRSG) contamination issue and plant flooding suffered in 2015.
- In addition to the above insurance compensation amounting to RO 0.403 million against settlement agreement, reached in favor of the Company with the neighbouring refinery insurers for the flooding incident.
- The financial debt (loans and swaps) was repaid and settled as per the agreements and accordingly, lower net financial interest was incurred in the current year, impacting net profit of 2016 favourably by RO 0.499 million.

Analysis of Balance Sheet

- Property, Plant & Equipment (PP&E) are depreciated consistently using the straight line method of depreciation. During 2016, The Company invested in improvements to the plant to allow our operator to rotate equipment and perform required maintenance activities. In line with previous years, the Company continued capitalizing the cost of decommissioning its PP&E, to be incurred in 2037 at the end of the useful life of the plant.
- Trade debtors correspond to two months of invoices at the end of current year and two month at the end of previous year (as per PWPA).
- Cash in hand and at Banks at the end of 2016 were slightly lower than the same at the end of previous year, on account of cash sweep prepayment of the Debt.
- The Hedging Deficit booked in equity on account of variation in Fair values of five IRSs - interest rate swaps, which does not affect the profitability of the Company, was RO 9.356 million; the same was RO 12.904 million in 2015.

  Hedging Deficit is calculated on each Balance Sheet date as per IAS 39 and represents the loss, which Company would have incurred, if it had opted to terminate its IRS agreements on this date. However, under the terms of its Financing Agreements, Sohar Power is not permitted to terminate its swap agreements and the above deficit is therefore merely notional.
- The Company repaid instalments of its long term loans and settled its Swaps in accordance with the agreed loan repayment schedule and swap agreements.

Dividend Distribution

RO 1.812 million [8.2% of Share Capital] were distributed in April 2016, as final cash dividend for the year 2015.

Further, RO 0.913 million, [4.132% of Share Capital] was also distributed in July 2016 as Interim Cash Dividend for the year 2016.

Outlook for 2017

In view of nature of the Company and its business model and, following the operational and technical incidents faced in previous years, the Board of Directors and the Management of the Company remain confident for achieving 2017 health and safety, operational and financial objectives. Sohar Power will continue to serve reliably the Sultanate of Oman in a context of increasing demand for both power and water. However and, as commented in the Board of Directors' report, there will be no more distributions to shareholders as a result of the mandatory cash sweep mechanism whereby all available cash is dedicated to debt repayment, as per the Facilities Agreement entered into by the Company.

Internal control system and their adequacy

The Company believes in strong internal control systems as a mean to contribute efficiently to high standards of governance, operation & management of the Company.

Sohar Power has implemented since 2009 an Internal Control framework, which entails critical review of all business processes of the Company. For these, appropriate risks are identified; control activities and segregation of duties are implemented.

In addition to the internal review process, the main Shareholders of the Company and the Audit Committee periodically oversee and review that the Company continues to improve its internal control environment and maintain highly efficient internal controls and business processes.

It is also the responsibility of the Internal Auditor to review the level of compliance of the company with applicable laws and CMA regulations. Since 2015 and upon decision of the Audit Committee, the Internal Auditor receives support from an external audit firm to monitor the level of compliance and improve the business processes of the Company.

Transfers to Investors Trust Fund

On behalf of the Company, Muscat Clearing & Depository Company SAOC (MCDC) transferred an amount of RO 6,839.629 being the unclaimed amount for the final dividend for 2015 to Investors' Trust Fund Account (ITFA) in 2016.

CORPORATE GOVERNANCE REPORT

BDO

Tel: +968 2495 5100
Fax: +968 2464 9030
www.bdo.com.om

Suite No. 601 & 602
Pent House, Beach One Bldg
Way No. 2601, Shatti Al Qurum
PO Box 1176, Ruwi, PC 112
Sultanate of Oman

Report of factual findings in connection with the Corporate Governance Report of the Company and application of the corporate governance practices in accordance with the Capital Market Authority Code of Corporate Governance

TO THE SHAREHOLDERS OF SOHAR POWER COMPANY SAOG

We have performed the procedures prescribed in the Capital Market Authority ("CMA") circular no. E/4/2015 dated 22 July 2015, with respect to the accompanying Corporate Governance Report of Sohar Power Company SAOG ("the Company") and its application of the Corporate Governance practices in accordance with the CMA's Code of Corporate Governance ("the Code") issued under circular no. E/4/2015 dated 22 July 2015 and under Rules and Guidelines on Disclosure by Issuer of Securities and Insider Trading approved by the CMA's Administrative Decision dated 18 March 2009. Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. These procedures were performed solely to assist you in evaluating the Company's compliance with the Code as issued by the CMA.

We report our findings below:
We found that the Company's Corporate Governance report fairly reflects the Company's application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the Corporate Governance Report.

Had we performed additional procedures or had we performed an audit or a review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Corporate Governance Report of the Company included in its annual report for the year ended 31 December 2016 and does not extend to any financial statements of the Company, taken as a whole.

BDO
Muscat
Date: 27 February 2017

B. Kapur
Bipin Kapur
Partner

CORPORATE GOVERNANCE REPORT

In the Sultanate of Oman, Capital Market Authority ("CMA") implemented the Code of Governance by issuing "Code of Corporate Governance" for "Muscat Securities Market listed Companies" vide its Circular No. 11/2002 on June 3, 2002.

In July 2015 a new Code of Corporate Governance for Public Listed companies was issued which was applicable from 1st July 2016.

Sohar Power believes that Code of Corporate Governance is an effective tool to improve operational and financial performance of listed companies. Code of Corporate Governance ensures accountability, which leads to transparency and ensuring impartial treatment to all investors. This ultimately increases the confidence of shareholders and prospective investors in the results.

We confirm that we are complying with the Code and that we are aiming at the highest standards of governance and at enhancing our image as a good corporate citizen.

In compliance with the Annex 3 of the above Code, Sohar Power is including this separate chapter on Corporate Governance in its annual financial statements for the year ended December 31, 2016.

Board of Directors

On 22 July 2015, the CMA issued the new Code of Corporate Governance for Public Listed Companies which is applicable from 1 July 2016, except for the guidelines with respect to the definition of the Independent Director, which will not apply till the end of term of the current Board. Till such time new corporate governance rules are enforced, the Company has decided to continue to classify directors as per the existing Corporate Governance Rules.

a. Composition of the Board of Directors, category of Directors, attendance record and number of Board of Directors meetings held during the year are given as follows:

Name of Directors	Category of Directors	Board Meeting held and attended during 2016					2016
		23/02	20/04	18/07	19/10	Total	AGM
Mr. Saif Abdullah Al Harthy (Chairman)	Non-Independent & Nominee	✓	✓	✓	✓	4	✓
Ms. Anne Stephanie Nguyen Qui (Vice Chairman)	Non-Independent	✓	✓	-	✓	3	-
Mr. Sami Abdullah Khamis Al Zadjali	Non-Independent & Nominee	-	✓	✓	✓	3	-
Mr. Jeronimo Roura	Non-Independent & Nominee	Proxy	✓	✓	✓	3	-
Mr. Ahmed Sultan Al Yaqoobi	Non-Independent & Nominee	✓	✓	✓	✓	4	-
Mr. Navneet Kasbekar	Independent	✓	✓	✓	✓	4	✓
Mr. Tashfen Yasin	Independent	-	✓	✓	✓	3	✓
Mr. T.N. Sunderaraju	Non-Independent & Nominee	✓	✓	✓	✓	4	-
Mr. Ian Philip Lawrence	Independent	Proxy	-	✓	✓	2	-
Mr. Rodak Ali Iqbal	Independent	✓	-	✓	✓	3	-
Mr. Khamis Khalifa Al Hashmi	Independent	✓	✓	✓	✓	4	-
Ms. Isabelle Gunay Demir *	Independent	-	-	-	✓	1	-
Mr. Nizar Qallab**	Independent	✓	✓	✓	-	3	-

* Appointed during the year.
** Resigned during the year

b. None of the Directors of Sohar Power Company holds directorship and chairmanship in other SAOG companies in Oman at 31 December 2016.

   The profile of directors and management team is included as an annexure to the Code of Corporate Governance Report.

Audit Committee

a. Brief description of terms of reference.

Detailed duties and responsibilities of the Audit Committee are described in the Audit Committee Charter approved by the Board of Directors, setting the scope and detailed delegation of authority.

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing:

- the financial reports and other financial information provided by the Company to any governmental body or the public;
- the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; and
- the Company's auditing, accounting and financial reporting processes generally.

Consistent with this function, the Audit Committee encourages continuous improvement of, and fosters adherence to, the Company's policies, procedures and practices at all levels.

The Audit Committee's primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor the Company's financial reporting process and internal control system;
- Review and appraise the audit efforts of the Company's statutory and internal auditors;
- Provide an open avenue of communication among the statutory and internal auditors, financial and senior management and the Board of Directors.

The Audit Committee has the authority to consider meeting with internal and external auditors without management's presence. Each year, the Audit Committee considers the performance of the external auditors prior to a resolution on their reappointment and remuneration at the AGM.

b. Composition of Audit Committee and attendance record of Committee Members.

Name of Committee Members	Position	Meetings held and attended during 2016				
		22/02	19/04	17/07	18/10	Total
Mr. Navneet Kasbekar	Chairman	✓	✓	✓	✓	4
Mr. Ian Philip Lawrence	Member	-	-	✓	✓	2
Ms. Isabelle Gunay Demir*	Member	-	-	-	✓	1
Mr. Nizar Qallab **	Member	✓	✓	✓	-	3

* Appointed during the year.
** Resigned during the year

c. Sitting fee

A sitting fee of RO 200 per meeting is paid to the attendee member.

NOMINATION OF REMMUNERATION COMMITTEE

a. Brief description of terms of reference.

During the year, the Company set up a 'Nomination and Remuneration Committee' (NRC) and approved its Policy in the Board meeting held on 18th July 2016.

The primary function of the NRC is to assist the Board of Directors in fulfilling its responsibilities set out in the Code of Corporate Governance Circular E/4/2015 issued in July 2015.

The above is summarized as follows:

a. Enhance performance and efficiency in accomplishing the various tasks related to the NRC.

b. Establish a framework to assist Board in:
   - developing a succession policy;
   - identifying and nominating qualified persons to act as temporary Directors and senior executives; and
   - preparing compensation and remuneration policies.

c. Define the responsibilities, duties, and powers of the NRC.

d. Determine the administrative and functional structure of the NRC.

b. Composition of NRC and attendance record of Committee Members.

Name of Committee Members	Position	Meetings held and attended during 2016	
		18/10	Total
Ms. Anne Stephanie Nguyen Qui	Chairman	✓	✓
Mr. Jeronimo Roura	Member	✓	✓
Mr. Khamis Khalifa Al Hashmi	Member	✓	✓

c. Sitting fee

A sitting fee of RO 200 per meeting is paid to the attendee member.

Process of Nomination of Directors

The election of the Board is governed by the Company's Articles of Association (Articles 19 to 24). The Board of Directors was elected on 29 March 2015 for the term of three years and the election process was done in accordance with the amended Articles of Association of the Company. Further, as required by CMA circulars, the Company obtained the nomination forms from all directors and the forms were verified to its compliance and authenticity by the Company's Secretary and its legal counsel, before being sent to the Capital Market Authority.

Remuneration

a. Directors Remuneration and Attendance Fee.

As per administrative decision 11/2005 issued by CMA and Company's Articles of Association, the Directors' remuneration including sitting fees are restricted to 5% of the Net Profit after statutory reserve and provision of 5% dividend and is also subject to limits prescribed.

The total remuneration to the Directors was as follows:

	RO'000
Total sitting fee and remuneration	156,000
Directors' Sitting fee	(19,000)
Directors' remuneration	**137,000**

The sitting fees paid to Directors for meetings of the Board attended during the year are given below. The Company does not pay sitting fees for participation in Board sub-committees meetings, except for the Audit Committee meetings and the NRC meetings. The Directors' remuneration is paid pro-rata each Directors' participation in the Board meetings. Attendance at Board meetings, Audit Committee meetings and NRC meetings by video conference is deemed to be attendance in person; attendance by proxy is not considered for remuneration purposes.

#	Name of Director	Total no. of meetings (Board + Audit committee)	Total Sitting fees paid in RO	Total Remuneration in RO
1	Mr. Saif Abdullah Al Harthy (Chairman)	4	1,600	13,366
2	Ms. Anne Stephanie Nguyen Qui (Vice Chairman)	3	1,400	10,024
3	Mr. Sami Abdullah Khamis Al Zadjali	3	1,200	10,024
4	Mr. Jeronimo Roura	3	1,400	10,024
5	Mr. Ahmed Sultan Al Yaqoobi	4	1,600	13,366
6	Mr. Navneet Kasbekar	4	2,400	13,366
7	Mr. Tashfen Yasin	3	1,200	10,024
8	Mr. T.N. Sunderaraju	4	1,600	13,366
9	Mr. Ian Philip Lawrence	2	1,200	6,684
10	Mr. Rodak Ali Iqbal	3	1,200	10,024
11	Mr. Khamis Khalifa Al Hashmi	4	1,800	13,366
12	Mr. Isabelle Gunay Demir*	1	600	3,342
13	Mr. Nizar Qallab **	3	1,800	10,024
		TOTAL	**19,000**	**137,000**

* Appointed during the year.

** Resigned during the year

The Company will continue to pay sitting fee per Director per Board meeting amounting to RO 400 and per Audit Committee member per meeting of the Audit Committee amounting to RO 200, and per NRC member per meeting of NRC amounting to RO 200 in the year 2017, up to a maximum of RO 10,000 to any individual Director.

b. Top Five Officers

The aggregate remuneration charged by Power Management Company under the management agreement for the top five officers of the Company was RO 183,756/-.

Activities during the year

The Audit Committee performed its duties as described in the Audit Committee Charter approved by the Board of directors and in line with the approved working plan.

In 2016, it reviewed on behalf of the Board the effectiveness of internal control, met the internal auditor of the company, reviewed internal audit reports and the recommendations, met external auditors, and reviewed the audit findings and the management letter.

The Board of Directors also reviewed the operational reports generated by the Management, which presents the performance of the Company and compares actuals with approved budget.

The Audit Committee and the Board of Directors are pleased to inform the shareholders that, in their opinion, an adequate and effective internal control system is in place.

Furthermore, during the Board meeting of July 2016, a training session was held, with the assistance of the Company's legal consultants M/s Al Busaidy Mansoor Jamal & Company, to comply with the requirements of the new Code and to apprise the Board and its directors and management of the Company to their roles and responsibilities and liabilities embedded in the new Code and various commercial laws in Oman.

Non-Compliance Penalties

No penalties or strictures were imposed on the Company by Muscat Securities Market ("MSM") or the Capital Market Authority or any other statutory authority on any matter related to Capital Market during the last three years.

Means of Communication with the Shareholder and Investors

Annual accounts and quarterly accounts are published on official website of MSM as per the guidelines by the market regulators. Notice to the annual general meetings is sent by post to the registered shareholders.

The Chairman gives press releases in case of important news and development that arises. Such press releases are posted to the web site of MSM in accordance with the guidelines issued by the market regulators. Disclosures to investors and company events are disclosed on the website regularly. Information on the project, Company's management and financial information is also available. The website is www.soharpower.com

The Company is available to meet its shareholders and their analysts on as and when need basis.

Market Price Data

High/Low during each month in the last financial year and performance in comparison to broad based index of MSM (service sector).

Month	Low Price (RO)	High Price (RO)	Average Price (RO)	MSM Index (Service Sector)
Jan	0.350	0.350	0.350	2,902.21
Feb	0.336	0.341	0.338	3,056.41
Mar	0.331	0.331	0.331	3,101.77
Apr	0.329	0.329	0.329	3,224.82
May	0.313	0.313	0.313	3,254.75
Jun	0.296	0.297	0.297	3,235.72
Jul	0.293	0.295	0.294	3,196.06
Aug	0.275	0.275	0.275	3,135.75
Sep	0.258	0.258	0.258	3,108.57
Oct	0.257	0.258	0.258	3,027.53
Nov	0.256	0.256	0.256	2,991.38
Dec	0.233	0.234	0.234	3,058.76

Distribution of Shareholding

The Shareholder pattern as on 31 December 2016:

Category of shareholders	Number of Shareholders	Total Shares	Share capital %
Major Shareholders	6	190,673,720	86.27
Shareholders less than 5% more than 1%	1	2,888,300	1.31
Shareholders below 1%	8,451	27,447,980	12.42
TOTAL	**8,458**	**221,010,000**	**100.00**

Professional Profile Of The Statutory Auditors

BDO Jawad Habib LLC, the statutory auditors of the Company, has been operating in the Sultanate of Oman for the past 38 years and is one of the leading professional services organizations in the region providing industry focused Assurance, Tax and Advisory Services to enhance value for their clients. The firm is a member firm of BDO International, the fifth largest international accounting organization with over 67,000 employees working in a global network of over 1,400 offices situated in 154 countries.

The services of the external auditors were not utilized during the year for any non-audit services listed by the Capital Market Authority that requires the approval of the Audit Committee and needs to be disclosed in this report. The total audit fees for the year ended 31 December 2016 was RO 6,750.

Acknowledgement By The Board Of Directors

The Board of Directors confirms the following:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.
- Review of the efficiency and adequacy of internal control systems of Sohar Power and that it complies with internal rules and regulations.
- That there is no material matters that affect the continuation of the Company and its ability to continue its operations during the next financial year.

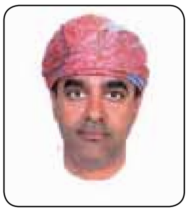
BRIEF PROFILES OF CURRENT DIRECTORS

Name : **Saif Abdullah AL HARTHY – Chairman**

Year of Joining : 2011

Education : Masters in Chemical Engineering, University of Nottingham, UK.

Experience : Mr. Al Harthy started his carrier as a field Engineer in Petroleum Development Oman (PDO), where he was involved in the design and upgrade of the major gas exporting facilities in central Oman. He later worked as a senior Business Planner for the PDO gas directorate before joining Qalhat LNG in 2006 as a Technical Coordinator. Mr. Al Harthy is currently working for Oman LNG as Chief Corporate Services & Investment Officer.



Name : **Anne Stephanie NGUYEN QUI (Vice Chairman)**

Year of Joining : 2014

Education : Master Degree in Business & Tax Law.

Experience : Anne Stephanie Nguyen Qui started her career in the GDF SUEZ Group in 1998 and has held a variety of HR positions since then. This includes Industrial Relations Manager in France, HR Director positions in Belgium for Latin America and India and in London for UK-Europe region. She is Head of Human Resources and Administration for ENGIE Middle East, South & Central Asia and Turkey since April 2014.

Name : **Sami Abdullah Khamis AL-ZADJALI**

Year of Joining : 2012

Education : Bachelor Degree in Accounting / Diploma in Information and Systems Management / Diploma in Social Insurance.

Experience : Mr. Zadjali is working with Civil Services Employee Pension Fund for the last 18 years. He is presently Contribution Manager and a member of GCC committee for pension issues.

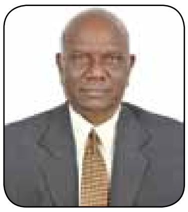
Name	:	**Jeronimo ROURA**
Year of Joining	:	2013
Education	:	MBA from IESE Business School, and a Bachelor in Business Administration from ESADE Business School.
Experience	:	Jeronimo Roura joined MENA Infrastructure in June 2010 as Investment Director, was promoted to Managing Director in January 2013, and became CEO of MENA Infrastructure on 1 August 2014. Mr. Roura has over 18 years of experience in infrastructure acquisitions and financing. Mr. Roura joined MENA Infrastructure from the GMR Group, where Mr. Roura was Head of Structured Finance for the international businesses, having previously worked for Abertis, the Spanish toll road operator as Head of Structured Finance, and previously for Citigroup in London as Vice President in the Infrastructure Team of the investment bank, and as Associate in the Structured Corporate Finance group with a focus on project finance. Mr. Roura has led a number of brownfield and greenfield transactions and financings in the infrastructure space, including roads, airports, and power generation, and has substantial experience in structuring, due diligence, financing and valuation.

Name	:	**Ahmed Sultan ALYAQOUBI**
Year of Joining	:	2013
Education	:	Bachelor Degree in Commerce and Economics from Sultan Qaboos University.
Experience	:	Mr. Alyaqoubi is working with Ministry of Defence Pension Fund. He is real estate, finance and investment industry veteran with more than 17 years' experience in various asset classes. He is currently the head of the real estate portfolio and he developed from concept stage several iconic developments in Oman.

Name	:	**Navneet KASBEKAR**
Year of Joining	:	2014
Education	:	Graduate in Commerce: Bombay University, Member of Institute of Chartered Accountants of India.
Experience	:	Totally 42 years of work experience in finance and managing businesses in India and the Sultanate of Oman. Of which over 36 years of experience in Oman and is currently Chief Executive Officer of Al Suwadi Power Company SAOG, having worked earlier for 15 years with Al Kamil Power Company SAOG, initially as Finance Director and later as Chief Executive Officer. He started his career as practicing chartered accountant and thereafter took up assignment as finance manager of a large investment company in Oman. He has over 25 years varied experience in successfully heading printing, hospitality and real estate businesses.

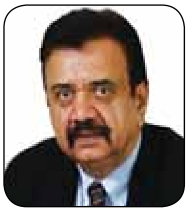
Name	:	**Tashfen YASIN**
Year of Joining	:	2014
Education	:	Chartered Accountant and Bachelors of Commerce.
Experience	:	Tashfen Yasin joined MENA Infrastructure as Financial Controller and was promoted to Associate Director, Finance in February 2015. Mr. Yasin joined MENA Infrastructure from PricewaterhouseCoopers in Dubai and Karachi, where he worked for 9 years. Mr. Yasin has significant experience in finance, investor reporting, assurance and accounting for private equities, banks and financial services companies in the Middle East and Pakistan. Mr. Yasin is also responsible for valuation, portfolio management, financial analysis and due diligence of investments at MENA Infrastructure.

Name	:	**T. N. SUNDARARAJU**
Year of Joining	:	2014
Education	:	Bachelor Degree in Engineering.
Experience	:	Mr. Sundara Raju has more than 43 years extensive experience in large Power and Desalination plants in India, Middle East and Africa. At present he is working in Algeria as Chief Executive Officer in Sogex-Oman Co. LLC, O&M Operations. He has substantially handled O&M projects in Sogex Oman Co. LLC at Ghubrah, Manah and Fujairah from Construction to Commissioning and Commercial Operations. He has also worked as Vice President in ENRON International Company. Prior to that he has worked as O&M Manager for all Power &Desalination Plants in Libya.



Name	:	**Ian LAWRENCE**
Year of Joining	:	2015
Education	:	HND
Experience	:	Ian Lawrence has more than 40 years of heavy industry experience in many varying roles including Engineering, Maintenance, Operations and Management. Specific power generation experience covers a period of 30 years with ESKOM (South Africa), Botswana Power Corporation (Botswana), AES (UK, Brazil and Qatar), Mitsubishi Heavy Industries (UK), EON (UK) and more recently International Power and ENGIE, all covering nuclear, coal, CCGT and oil fired technologies. Earlier experience includes paper, cement and steel and coal industries.

Name	:	**Rodak Ali IQBAL**
Year of Joining	:	2016
Education	:	BSME, MS Engineering Management, Business Management
Experience	:	Over 25 years in the power industry with extensive hands on experience of Power Plant construction, commissioning, O&M and asset management and has successfully operated and constructed power plants in North America, Asia and the Middle East.



Name	:	**Khamis AL HASHMI**
Year of Joining	:	2016
Education	:	1997 - Graduate from SQU (Sultan Qaboos University) from the College of Commerce & Economics, with a Bachelor Degree in Accounting. 2011- Acquired ACCA (Association of Certified Chartered Accountant) qualification.
Experience	:	Joined PDO in 1997 as a finance support to the business (Oil Assets) and focused mainly in developing, reporting & monitoring Opex and Capex budgets of the assigned Oil Assets. In 2003, joined Oman LNG and worked in different roles; i.e. Hydrocarbon Accounting, Financial Accounting, Management Accounting and Corporate Strategy & Business Planning. In 2011, worked in Qatar Shell Service Company (QSSC) for 3 years as senior business analyst supporting the financial reporting of Shell investment in Qatar Gas 4 (QG4), Qatar Shell Service Company (QSSC), QSGTL and Qatar Shell Research & Technology Center (QSRTC). Then back to Oman LNG in 2014 as Financial Accounting Manager

Name	:	**Isabelle Demir GUNAY**
Year of Joining	:	2016
Education	:	Bachelor of Law (Hons.), Bachelor of Commerce (Hons.), University of Sydney.
Experience	:	Ms. Demir is an Investment Director at the MENA Infrastructure Fund. She has over 15 years combined experience leading and executing infrastructure investments and corporate finance transactions. Ms. Demir joined MENA Infrastructure from HSBC London where she was a Director in the Power, Utilities & Renewables team covering Africa, Turkey and Europe. She has worked with numerous FTSE100 and S&P500 companies, Middle Eastern sovereign wealth funds and financial investors. Prior to HSBC, Ms. Demir was an Investment Manager at Babcock and Brown in London and Sydney. She is a qualified legal practitioner, admitted in the NSW Supreme Court.

BRIEF PROFILE OF MANAGEMENT TEAM

Management is provided under a management agreement entered with Power Management Company LLC ("PMC") in 2009. PMC provides day to day management of Sohar Power and gives all supports by providing manpower and other infrastructure. For this PMC is paid an annual fee and its expenses. It provides the following staff to Sohar Power:

Particulars	Omani	Non-Omani	Total
Managers	2	3	5
Other staff	9	4	13

The management team has been empowered by the Board of Directors and jointly operates within well-defined authorization limits.

Brief profile of the current managerial team is as follows:

Name : **Guillaume BAUDET**

Year of Joining : 2013

Education : Master's Degree in Accounting and Finance, ISC Paris Business School; Management Program CEDEP/INSEAD, France and University Degree in Business and Administration, Université de Toulon

Experience : 20 years of experience in the fields of Finance and General Management. Mr. Baudet joined GDF SUEZ (now ENGIE) Energy International in 2007 as Head of Business Control for the MENA region, before becoming CFO of Hidd Power Company in Bahrain in 2011 and, ultimately CEO of Sohar Power Company SAOG.

Name : **Zoher KARACHIWALA**

Year of Joining : Since inception of the Company in 2004

Education : Chartered Accountant

Experience : Currently Company Secretary of the Company and CEO of United Power Company SAOG Mr. Karachiwala was a Chief Financial Officer until June 2009. He also acts as Company Secretary for some of the GDF Suez (now ENGIE) group of companies in Oman. He has 40 years of experience in field of Statutory Audit & Accounting and Finance. He was KPMG Audit Partner in Pakistan before joining United Power Company in 1995. Acted as Honorary Chairman of Audit Committee and the Board of Directors for a public company in Oman.

Name	:	**Sreenath HEBBAR**
Year of Joining	:	2009
Education	:	Bachelor of Engineering (Mechanical), VJTI, Mumbai University
Experience	:	Mr. Hebbar has been in his current role as Chief Technical Officer since 2009 and is responsible for managing the Contracts of the Company for technical and commercial compliance. He oversees the Safety function and is responsible for technical liaison with client, statutory authorities contractors and other agencies. Prior to this role, Mr. Hebbar has had wide ranging experience in the Energy Sector, primarily in Marketing and Business Development of Cogeneration & Combined Cycle Power Plants. He has been an active member of the Grid Code Review Panel of Oman.

Name	:	**Mirdas AL RAWAHI**
Year of Joining	:	2016
Education	:	Bachelor of Commerce and Economics from Sultan Qaboos University and has cleared CPA exams from the American Institute of Certified Public Accountants
Experience	:	Mr. Mirdas Al Rawahi has 12 years of experience in Finance and accounts. Prior to joining Sohar Power Company, he was the Financial Controller for Takamul Investment Company SAOC. He has also worked in Ernst & Young Muscat office in the fields of External and Internal Audit.

Name	:	**Jamal AL BLOUSHI**
Year of Joining	:	Since inception of the Company in 2004
Education	:	Diploma in Computer Science. Certified Manager from the Institute of Certified Professional Managers, James Madison University, USA.
Experience	:	22 years' experience in administration activity including managing spare parts logistics, liaisons with government organizations, licenses, translation function and supervising local insurance programs and assisting CEO for statutory meetings.

FINANCIAL STATEMENTS

BDO

Tel: +968 2495 5100
Fax: +968 2464 9030
www.bdo.com.om

Suite No. 601 & 602
Pent House, Beach One Bldg
Way No. 2601, Shatti Al Qurum
PO Box 1176, Ruwi, PC 112
Sultanate of Oman

Independent auditor's report to the shareholders of Sohar Power Company SAOG

Qualified Opinion

We have audited the financial statements of Sohar Power Company SAOG ("the Company"), which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss, the statement of other comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Qualified Opinion

The Company has been established to undertake a project primarily to Build, Own and Operate ("BOO") a power station in the Sultanate of Oman. Therefore, such a project falls within the scope of IFRIC 4 "Determining whether an arrangement contains a lease" which requires the Company to recognise revenue on a straight-line basis in accordance with IAS 17. The Company has reported revenue in the financial statements in accordance with the Power Purchase Agreement (PPA) entered into with Oman Power and Water Procurement Co. SAOC (OPWPC), which is not on a straight-line basis. It constitutes a departure from International Financial Reporting Standards. The Company's records indicate that, had the management stated the revenue in accordance with IFRIC 4 "Determining whether an arrangement contains a lease", the retained earnings of the Company would have decreased by RO 7.30 million and the same would have been recorded as advance received from OPWPC.

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 ethical requirements that are relevant to our audit of the financial statements in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters. In addition to the matter addressed in the Basis for Qualified Opinion section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report.

Independent auditor's report to the shareholders of
Sohar Power Company SAOG (continued)
Key audit matters (continued)

Hedge accounting

The Company has entered into derivative financial instrument contracts to manage its exposure to interest rate risk. These contracts have given rise to derivative financial assets of RO 10,632 thousand and liabilities of RO 9,356 thousand as at 31 December 2016. These contracts re treated as cash flow hedges and are recorded at their fair values and hedge accounting applied, such that gains and losses arising from fair value changes are deferred in the statement of changes in shareholders' equity and recognised in the statement of profit or loss when hedges mature. The hedging contracts necessitates a sophisticated system to record and track each contract and calculate the related valuations at each financial reporting date. The valuation of hedging instruments and consideration of hedge effectiveness can involve a significant degree of both complexity and management judgement and are subject to an inherent risk of error. Consequently, we have determined hedge accounting to be a key audit matter.

Our procedures included testing the management's controls over derivative financial instruments and hedge accounting, inspecting, on a sample basis, the Company's hedge documentation and contracts, re-performing the year end valuations of derivative financial instruments and calculations of hedge effectiveness and obtaining confirmation of year end derivative financial instruments from counterparties.

Management override of controls

The management in the organisation is in a unique position to perpetrate fraud because of its ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. When considering management's philosophy and operating style, we considered the risk of management override of controls and how those charged with governance consider the potential for management override of controls or other inappropriate influence over the financial reporting process.

Our procedures included testing of segregation of duties, testing of controls over the authorisation and processing of journal entries, other adjustments to the financial statements, testing of significant transactions that are outside the normal course of business or that otherwise appear to be unusual and reviewed management judgments in making significant accounting estimates in the current year's financial statements.

Other matters

The financial statements of the Company for the year ended 31 December 2015 were audited by another auditor, who expressed an unqualified opinion on those financial statements dated 23 February 2016. However, they had added an emphasis of matter paragraph over the revenue recognition for the non-adoption of IFRIC 4 "Determining whether an arrangement contains a lease", and which continues to have relevance in the audit of financial statements for the year ended 31 December 2016 as mentioned in the Basis for Qualified Opinion section of our report.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Independent auditor's report to the shareholders of
Sohar Power Company SAOG (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Those Charged with Governance for the financial statements

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

In preparing the financial statements, the management 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 management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those Charged With Governance are responsible for overseeing the Company's financial reporting process.

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 ISAs, we exercise professional judgment 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 management.

Independent auditor's report to the shareholders of
Sohar Power Company SAOG (continued)

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

- Conclude on the appropriateness of management'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 disclosures 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.

We communicate with Those Charged With Governance 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.

We also provide Those Charged With Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those Charged With Governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Further, as required by the Commercial Companies Law 1974, as amended, of the Sultanate of Oman and the Rules and Guidelines on Disclosure issued by the Capital Market Authority, we report that:

(1) we have obtained all the information we considered necessary for the purpose of our audit; and
(2) the Company has maintained proper books of account and the financial statements are in agreement therewith.

In addition, we report that, nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the Commercial Companies Law 1974, as amended, of the Sultanate of Oman and the Rules and Guidelines on Disclosure issued by the Capital Market Authority, which would materially affect its activities, or its financial position as at 31 December 2016.

BDO
Muscat
Date: 27 February 2017

BDO Jawad Habib LLC
Public Accountants & Management Consultants

Bipin Kapur
Partner

STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	Notes	**31 December 2016 RO'000**	31 December 2015 RO'000	**31 December 2016 USD'000**	31 December 2015 USD'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	137,171	143,886	356,288	373,730
Total non-current assets		**137,171**	143,886	**356,288**	373,730
Current assets					
Inventories		691	749	1,795	1,945
Trade and other receivables	6	5,200	6,460	13,506	16,781
Bank balances	7	7,150	9,182	18,571	23,849
Total current assets		**13,041**	16,391	**33,872**	42,575
Total assets		**150,212**	160,277	**390,160**	416,305
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	8	22,101	22,101	57,405	57,405
Legal reserve	9	3,708	3,254	9,633	8,453
Retained earnings		3,197	1,833	8,309	4,761
Shareholders' equity		**29,006**	27,188	**75,347**	70,619
Hedging deficit - net of tax	11	(9,356)	(12,904)	(24,301)	(33,513)
Total capital and reserves		**19,650**	14,284	**51,046**	37,106
Non-current liabilities					
Hedging deficit	11	10,632	14,664	27,615	38,085
Non-current portion of long-term loans	12	91,429	103,770	237,478	269,531
Provision for decommissioning costs	13	1,395	1,312	3,624	3,409
Deferred tax liability	14	9,648	8,591	25,060	22,318
Total non-current liabilities		**113,104**	128,337	**293,777**	333,343
Current liabilities					
Trade and other payables	15	8,165	8,538	21,199	22,175
Amount due to a related party	16	286	501	743	1,298
Current portion of long-term loans	12	9,007	8,617	23,395	22,383
Total current liabilities		**17,458**	17,656	**45,337**	45,856
Total equity and liabilities		**150,212**	160,277	**390,160**	416,305
Net assets per share	22	**0.131**	0.123	**0.341**	0.320

The attached notes form an integral part of the financial statements.

STATEMENT OF PROFIT AND LOSS

for the year ended 31 December 2016

	Notes	**31 December 2016 RO'000**	31 December 2015 RO'000	**31 December 2016 USD'000**	31 December 2015 USD'000
Revenue	17	66,307	62,657	172,226	162,746
Cost of revenue	18	(53,661)	(50,822)	(139,378)	(132,004)
Gross profit		**12,646**	11,835	**32,848**	30,742
Other income	19	**403**	788	**1,047**	2,048
		13,049	12,623	**33,895**	32,790
Expenses					
General and administrative expenses	20	(858)	(807)	(2,230)	(2,097)
Finance costs	21	**(7,075)**	(7,574)	**(18,376)**	(19,673)
		(7,933)	(8,381)	**(20,606)**	(21,770)
Profit before tax for the year		5,116	4,242	13,289	11,020
Income tax expense	14	**(573)**	(486)	**(1,488)**	(1,263)
Net profit after tax for the year		**4,543**	3,756	**11,801**	9,757
Basic and diluted earnings per share	23	**0.021**	0.017	**0.053**	0.044

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Notes	**31 December 2016 RO'000**	31 December 2015 RO'000	**31 December 2016 USD'000**	31 December 2015 USD'000
Net profit after tax for the year		**4,543**	3,756	**11,801**	9,757
Other comprehensive income:					
Items that may be reclassified into profit and loss					
Fair value gains on interest rate swaps		4,032	2,854	10,466	7,418
Related taxation	14	(484)	(342)	(1,254)	(889)
Total other comprehensive income for the year		3,548	2,512	9,212	6,529
Total comprehensive income for the year		**8,091**	6,268	**21,013**	16,286

The attached notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Notes	Share capital RO'000	Legal reserve RO'000	Retained earnings RO'000	Hedging deficit RO'000	Total RO'000	Total USD'000
At 31 December 2014		22,101	2,878	2,099	(15,416)	11,662	30,290
Net profit after tax for the year		-	-	3,756	-	3,756	9,757
Other comprehensive income for the year		-	-	-	2,512	2,512	6,529
Transferred to legal reserve	9	-	376	(376)	-	-	-
Final dividend for the year 2014	10	-	-	(2,077)	-	(2,077)	(5,394)
Interim dividend for the year 2015	10	-	-	(1,569)	-	(1,569)	(4,076)
At 31 December 2015		**22,101**	**3,254**	**1,833**	**(12,904)**	**14,284**	**37,106**
Net profit after tax for the year		-	-	4,543	-	4,543	11,801
Other comprehensive income for the year		-	-	-	3,548	3,548	9,216
Transferred to legal reserve	9	-	454	(454)	-	-	-
Final dividend for the year 2015	10	-	-	(1,812)	-	(1,812)	(4,706)
Interim dividend for the year 2016	10	-	-	(913)	-	(913)	(2,371)
At 31 December 2016		**22,101**	**3,708**	**3,197**	**(9,356)**	**19,650**	**51,046**

The attached notes form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Notes	**31 December 2016 RO'000**	31 December 2015 RO'000	**31 December 2016 USD'000**	31 December 2015 USD'000
Operating activities					
Cash receipts from customers		66,737	59,737	173,343	155,161
Cash paid to suppliers and employees		(46,874)	(40,708)	(121,750)	(105,736)
Operating profit		**19,863**	19,029	**51,593**	49,425
Interest paid		(7,075)	(7,384)	(18,377)	(19,180)
Net cash provided by operating activities		**12,788**	11,645	**33,216**	30,245
Investing activities					
Purchase of property, plant and equipment	5	(144)	(260)	(374)	(677)
Net cash used in investing activities		**(144)**	(260)	**(374)**	(677)
Financing activities					
Net movement in long-term loans		(11,951)	(8,273)	(31,042)	(21,486)
Dividends paid	10	(2,725)	(3,646)	(7,078)	(9,470)
Net cash used in financing activities		**(14,676)**	(11,919)	**(38,120)**	(30,956)
Net decrease in cash and cash equivalents		(2,032)	(534)	(5,278)	(1,388)
Cash and cash equivalents at the beginning of the year		9,182	9,716	23,849	25,237
Cash and cash equivalents at the end of the year	7	**7,150**	9,182	**18,571**	23,849

The attached notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1 Legal status and activities

Sohar Power Company SAOG ("the Company") was initially registered as a closed joint stock company in the Sultanate of Oman on 17 July 2004. The Company was incorporated on 22 June 2004. The Company has been established to build and operate a 585 megawatt (MW) electricity generating station and 33 Million Imperial Gallon per day of water desalination plant at Sohar. The commercial operation date ("COD") has been determined to be 28 May 2007. The shareholders in the Extra-ordinary General Meeting held on 23 March 2008 resolved to convert the company from a closed joint stock company into a public joint stock company.

The Company's principal place of business is located at Sohar, Sultanate of Oman.

The financial statements were approved for issue by the Board of Directors on 27 February 2017.

2 Significant agreements:

The Company has entered into the following significant agreements:

i Power and Water Purchase Agreement ("PWPA") with the Government of the Sultanate of Oman ("the Government") granting the Company the right to generate electricity and produce water at Sohar and; (i) to make available to the Government the Guaranteed Contracted Power Capacity and the Guaranteed Contracted Water Capacity and (ii) to sell to the Government the Electrical Energy and Potable Water associated with the Guaranteed Contracted Power Capacity and the Guaranteed Contracted Water Capacity. The Company has entered into a long-term power and water supply agreement with the Ministry of Housing, Electricity and Water ("MHEW") of the Government for a period of fifteen years commencing from the scheduled COD of 28 May 2007. On 1 May 2005, the PWPA was novated to Oman Power and Water Procurement Co. SAOC ("OPWP"), a closed joint stock company owned by the Government. All the financial commitments of OPWP are guaranteed by the Government.

ii Natural Gas Sales Agreement with the Ministry of Oil and Gas ("MOG") for the purchase of natural gas from MOG. The Natural Gas Sale Agreement is co-terminus with the PWPA.

iii Sub-usufruct agreement with Sohar Industrial Port Company SAOC for grant of usufruct rights over the project site for 15 years, with the option possibility of extension of 15 years.

iv Seawater Extraction Agreement with the Ministry of National Economy of the Government, to provide seawater inlet and reject facilities for the plant. The Seawater Extraction Agreement is co-terminus with the PWPA.

v Operation and Maintenance Agreement ("O&M" Agreement) with Sohar Operation and Maintenance Company LLC, a related party, for operations and maintenance of the plant for a period of 15 years from the COD or the date of termination of the PWPA, whichever is earlier.

vi Financing agreements with lenders for long-term loan facilities.

vii Management Company Agreement with Power Management Company LLC, a related party, for providing management services.

3 Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), the requirements of the Commercial Companies Law 1974, as amended, of the Sultanate of Oman and the relevant disclosure requirements for licensed companies issued by the Capital Market Authority.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

3 Basis of preparation (continued)

Basis of presentation

The financial statements are prepared under the historical cost convention and going concern assumption, except for certain financial assets and financial liabilities which are carried at their fair values. The preparation of financial statements is in conformity with IFRS that requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies.

Functional currency

The financial statements are presented in Omani Rials and United States Dollars (rounded off to the nearest thousand).

Improvements/amendments to IFRS/IAS 2012/2014 cycle

TImprovements/amendments to IFRS/IAS issued in 2012/2014 cycle contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Company's annual audited financial statements beginning on or after 1 January 2016 and subsequent periods with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

Standards, amendments and interpretations effective and adopted in the year 2016

The following new standards, amendment to existing standards or interpretations to published standards are mandatory for the first time for the financial year beginning 1 January 2016 and have been adopted in the preparation of the financial statements:

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IAS 1	Presentation of Financial Statements	1 January 2016
IAS 16	Property, Plant and Equipment	1 January 2016

Standards, amendments and interpretations issued and effective in the year 2016 but not relevant

The following new standards, amendments to existing standards and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2016 or subsequent periods, but are not relevant to the Company's operations:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

3 Basis of preparation (continued)

Standards, amendments and interpretations issued but not yet effective in the year 2016 (continued)

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IAS 19	Employee Benefits	1 January 2016
IAS 27	Separate Financial Statements	1 January 2016
IAS 28	Investments in Associates and Joint Ventures	1 January 2016
IAS 34	Interim Financial Reporting	1 January 2016
IAS 38	Intangible Assets	1 January 2016
IAS 41	Agriculture	1 January 2016
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2016
IFRS 7	Financial Instruments – Disclosures	1 January 2016
IFRS 10	Consolidated Financial Statements	1 January 2016
IFRS 11	Joint Arrangements	1 January 2016
IFRS 12	Disclosure of Interests in Other Entities	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016

Standards, amendments and interpretations issued but not yet effective in the year 2016

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for the year ended 31 December 2016. They have not been adopted in preparing the financial statements for the year ended 31 December 2016. In all cases, the Company intends to apply these standards from the application date as indicated in the table below.

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

IFRS 9, 'Financial Instruments' has an effective date for accounting periods beginning on or after 1 January 2018 now that it has been finalised. IFRS 9 outlines the recognition, measurement and derecognition of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. Financial assets are to be measured at amortised cost, fair value through profit and loss or fair value through other comprehensive income, with an irrevocable option on initial recognition to recognise some equity financial assets at fair value through other comprehensive income. The impairment model in IFRS 9 moves to one that is based on expected credit losses rather than the IAS 39 incurred loss model. The derecognition principles of IAS 39, 'Financial Instruments: Recognition and Measurement' have been transferred to IFRS 9. The hedge accounting requirements have been liberalised from that allowed previously. The requirements are based on whether an economic hedge is in existence, with less restriction about proving whether a relationship will be effective than current requirements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

3 Basis of preparation (continued)

Standards, amendments and interpretations issued but not yet effective in the year 2016 (continued)

IFRS 15, 'Revenue from Contracts with Customers' issued in May 2014 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related IFRICs 13, 15 and 18, and SIC-31. IFRS 15 is applicable for annual periods beginning on or after 1 January 2018. The standard is based on a 5 step approach to recognise revenue and also provides specific principles to apply, when there is a contract modification, accounting for contract costs and accounting for refunds and warranties. On application of the standard, the disclosures are likely to increase.

IFRS 16 issued in January 2016 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 lessor accounting substantially unchanged from IAS 17. IFRS 16 is effective from 1 January 2019.

The Company is assessing the impact on the operational results of the Company for the year ended 31 December 2016 had the Company early adopted any of the above standards applicable to the Company.

Early adoption of amendments or standards in the year 2016

The Company did not early-adopt any new or amended standards in the year ended 31 December 2016.

4 Summary of significant accounting policies

Power and Water Purchase Agreement

The Power Capacity Investment charge rate and Water Capacity Investment charge rate in the PWPA has been structured in such a way that the investment tariff rates are reducing at a constant rate each year over the term of the agreement.

In 2005, IFRIC 4 ("Determining whether an arrangement contains a lease") was issued and it became effective from 1 January 2006. The Company at that time considered the applicability of IFRIC 4, which provides guidance for determining whether an arrangement is, or contains, a lease that should be accounted for in accordance with IAS 17. If such an assessment results in an operating lease; then lease income from such an operating lease would be recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit.

The management has reviewed the applicability of IFRIC 4 and concluded that the PWPA conveys a right of use of the Company's plant consistent with an operating lease arrangement.

The management believes that the gradually decreasing lease payments reflect the fair value of the consideration for the Company's availability with respect to Electrical Energy Generating Capacity and Water Output Desalination Capacity in the respective years and represents a more systematic basis of benefit derived, evidenced by:

- The off-taker's acceptance of the decreasing tariff, recognising that the expense incurred by the Company to make available capacity to generate the energy and the desalinated water also follows a decreasing pattern. This pattern is driven by the importance of the debt service costs;
- The PWPA explicitly mentioning that the (frontloaded) lease payments compensate for the Company's debt service costs that are significantly higher in the earlier years and lower in the later years; and
- The absence of any explicit claw-back provisions for the off-taker with respect to the initially higher amounts of Investment Charge paid, in case of a breach of contract by the Company.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

Power and Water Purchase Agreement (continued)

A summary of the significant accounting policies adopted in the preparation of these financial statements is set out below. These policies have been adopted for all the years presented, unless stated otherwise.

a) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Cost includes all costs directly attributable to bringing the asset to working condition for their intended use.

Depreciation is calculated by the straight-line method to write-off the cost of each asset to its estimated residual value over its expected useful economic life.

The estimated useful economic lives are as follows:

Description	Years
Buildings	30
Plant and machinery	30
Technical parts	30
Other assets	4
Decommissioning assets	30

Items of property, plant and equipment are derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the asset. Anygain or loss arising on de-recognition of asset is included in the statement of profit or loss in the year the item is derecognised.

Repairs are charged to the statement of profit or loss and other comprehensive income when the expenditure is incurred.

b) Capital work-in-progress

Capital work-in-progress is stated at cost including capital advances incurred upto the date of the statement of financial position and is not depreciated. Depreciation on capital work-in-progress commences when the assets are ready for their intended use.

c) Impairment of assets

Financial assets

At the end of each reporting period, the management assesses if there is any objective evidence indicating impairment of financial assets carried at cost or non-collectability of receivables. An impairment loss, if any, arrived at as a difference between the carrying amount and the recoverable amount, is recognised in the statement of profit or loss. The recoverable amount represents the present value of expected future cash flows discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted.

Non-financial assets

At the end of each reporting period, the management assesses if there is any indication of impairment of non-financial assets. If an indication exists, the management estimates the recoverable amount of the asset and recognises an impairment loss in the statement of profit or loss. The management also assesses if there is any indication that an impairment loss recognised in prior years no longer exists or has reduced. The resultant impairment loss or reversals are recognised immediately in the statement of profit and loss.

4 Summary of significant accounting policies (continued)

d) Dividends

Dividends are recognised as a liability in the period in which they are approved by the shareholders. The Board of Directors recommends to the shareholders the dividend to be paid out of the Company's net profits. The Directors take into account appropriate parameters including the requirements of the Commercial Companies Law 1974, as amended, while recommending dividend.

e) Inventories

Inventories comprise of fuel oil and gas are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is accounted on the first-in first-out basis and includes expenditure incurred in acquiring the inventories and includes an appropriate share of fixed and variable overheads.

f) Trade and other receivables

Trade and other receivables originated by the Company are measured at cost. An allowance for credit losses of trade and other receivables is established when there is objective evidence that the Company will not be able to collect the amounts due. When a trade or other receivable is uncollectible, it is written-off against the allowance account for credit losses. The carrying value of trade and other receivables approximate their fair values due to the short-term nature of those receivables.

g) Cash and cash equivalents

For the purposes of statement of cash flows, cash and cash equivalents consist of bank balances and cash and short-term fixed deposits with original maturities of three months or less from the date of placement.

h) Trade payables

Trade payables are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

i) Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provision for decommissioning costs

A provision for future decommissioning costs is recognised, when there is a present obligation as a result of activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of provision can be measured reliably. The estimated future obligations include the costs of removing the facilities and restoring the affected areas.

The provision for future decommissioning costs is the best estimate of the present value of the expenditure required to settle the decommissioning obligation at the reporting date based on the current requirements in accordance with the sub-usufruct agreement. Future decommissioning costs is reviewed annually and any changes in the estimate are reflected in the present value of the decommissioning provision at each reporting date.

The initial estimate of the decommissioning provision is capitalised into the cost of the asset and depreciated on the same basis as the related asset. Changes in the estimate of the provision for decommissioning costs is treated in the same manner, except that the unwinding of the discount is recognised as a finance cost rather than being capitalised into the cost of the related asset.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

j) Employees' terminal benefits

In respect of Omani employees, contributions are made in accordance with the Oman Social Insurance Law issued under Royal Decree number 72/91 (as amended) and recognised as an expense in the statement of profit or loss as incurred.

For non-Omani employees, provision is made for amounts payable under the Oman Labour Law issued under Royal Decree number 35/2003 based on the employees' accumulated periods of service at the statement of financial position date. This provision is classified as a non-current liability.

k) Revenue

Revenue comprises tariffs for power capacity, electrical energy, water capacity and water output charges. Tariffs are calculated in accordance with the PWPA. The operating revenue is recognised by the Company on the accruals basis of accounting. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

l) Other income

Other income is accounted for on accruals basis, unless collectibility is in doubt.

m) Operating leases

Operating lease is an agreement whereby the lessor retains substantially all the risks and rewards incidental to ownership of an asset. Lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the benefit.

n) Foreign currency transactions

Transactions denominated in foreign currencies are translated to Omani Rial at the foreign exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to Omani Rial at the foreign exchange rates prevailing at that date. Foreign exchange differences arising on translation are recognised in the statement of profit and loss.

o) Bank borrowings

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the bank borrowings using the effective interest rate method.

p) Borrowings costs

Borrowing costs comprise interest payable on bank borrowings. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets that necessarily take a substantial period of time to get ready for their intended use or sale) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets. All other borrowing costs are recognised as expenses in the period in which they are incurred.

q) Income tax

Taxation for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the period, using tax-rates enacted or substantially enacted at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

Deferred tax is calculated 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 taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax-rates enacted or substantially enacted at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax are recognised as an expense or income in the statement of profit or loss, except when they relate to items that are recognised in statement of other comprehensive income, in which case the tax is also recognised in the statement of profit or loss.

r) Deferred financing costs

The cost of obtaining long-term financing is deferred and amortised over the term of the long-term loan using the effective interest rate method. Deferred financing costs less accumulated amortisation are offset against the drawn amount of long-term loans. The amortisation of deferred financing costs is capitalised as part of the cost of the plant during construction. Subsequent to plant completion, the element of amortisation of deferred financing costs is charged to the statement of profit or loss.

s) Financial liabilities

All the financial liabilities are initially measured at fair value and are subsequently measured at amortised cost.

t) Derivative financial instruments

The Company holds derivative financial instruments to hedge its interest rate risk exposures. Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period on a recurring basis. The resulting gains or losses are recognised in the statement of profit and loss immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the statement of profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Company designates the hedging instrument as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Company documents whether the hedging instrument is highly effective in off-setting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the statement of other comprehensive income. The gains or losses relating to the ineffective portion is recognised immediately in the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

Amounts previously recognised in and accumulated in statement of other comprehensive income are reclassified to statement of profit of loss in the periods when the hedged item is recognised.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

u) Directors' remuneration

The Company follows the Commercial Companies Law 1974, as amended, and other latest relevant directives issued by the Capital Markets Authority, in regard to determination of the amount to be paid as directors' remuneration. Directors' remuneration is charged to the statement of profit or loss in the year to which they relate.

v) Critical accounting judgments and key source of estimation uncertainity

Preparation of financial statements in accordance with IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilitie reported amounts of revenue and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions in the financial statements relate to:

Economic useful lives of property, plant and equipment

The Company's property, plant and equipment are depreciated on a straight-line basis over their economic useful lives. Economic useful lives of property, plant and equipment are reviewed by management periodically. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Company.

Provisions

An assessment is made at each statement of financial position date to determine whether there is objective evidence that specific financial assets may be impaired. An estimate of the collectible amount of trade receivables is made when the collection of the full amount is no longer probable. For individually significant amounts, this estimate is performed on an individual basis. Amounts which are not significant, but which are past due, are individually assessed collectively and a provision is applied according to the length of time the receivable is past due, based on historical recovery rates. Any difference between the amount actually collected in future periods and the amounts expected will be recognised in the statement of profit or loss.

The Company also creates a provision for obsolete and slow-moving inventories. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the statement of financial position date to the extent that such events confirm conditions existing at the end of the reporting period.

Going concern

The management of the Company reviews the financial position of the Company on a periodical basis and assesses the requirement of any additional funding to meet the working capital requirements and estimated funds required to meet the liabilities as and when they become due. In addition, the shareholders of the Company ensure that they provide adequate financial support to funding the requirements to the Company to ensure the going concern status of the Company.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

5 Property, plant and equipment

a) The movement in property, plant and equipment is as set out below:

31 December 2016	Buildings	Plant and machinery	Technical parts	Other assets	Decommissioning assets	Capital work in progress	Total	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	USD'000
Cost								
At 31 December 2015	7,027	189,234	4,901	24	777	326	202,289	525,426
Additions during the year	-	38	44	-	-	62	144	374
Disposals during the year	-	(36)	-	-	-	-	(36)	(94)
Transferred from capital work-in-progress during the year	-	-	-	-	-	(81)	(81)	(210)
At 31 December 2016	7,027	189,236	4,945	24	777	307	202,316	525,496
Accumulated depreciation								
At 31 December 2015	2,059	54,753	1,348	21	222	-	58,403	151,696
Charge for the year	235	6,311	169	1	26	-	6,742	17,512
At 31 December 2016	2,294	61,064	1,517	22	248	-	65,145	169,208
Net book amount								
At 31 December 2016	**4,733**	**128,172**	**3,428**	**2**	**529**	**307**	**137,171**	**356,288**

b) Land on which the power station, building and auxiliaries are constructed has been sub-leased from the Sohar Industrial Port Company SAOC for a period of 15 years from the COD. The sub-lease is further extendable for another 15 years. Lease rent is paid at the rate of approximately RO 61,600 (USD 160,000) per annum.

c) Property, plant and equipment are mortgaged against long-term loan facilities (Note 12) availed by the Company.

5 Property, plant and equipment (continued)

2015	Buildings	Plant and machinery	Technical parts	Other assets	Decommissioning assets	Capital work in progress	Total	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	USD'000
Cost								
At 31 December 2014	7,009	189,031	4,888	22	777	302	202,029	524,749
Additions during the year	18	203	13	2	-	24	260	677
At 31 December 2015	7,027	189,234	4,901	24	777	326	202,289	525,426
Accumulated depreciation								
At 31 December 2015	1,824	48,447	1,180	19	196	-	51,666	134,196
Charge for the year	235	6,306	168	2	26	-	6,737	17,500
At 31 December 2015	2,059	54,753	1,348	21	222	-	58,403	151,696
Net book amount								
At 31 December 2015	**4,968**	**134,481**	**3,553**	**3**	**555**	**326**	**143,886**	**373,730**

d) The depreciation charge for the year has been dealt with in the statement of profit or loss and other comprehensive income as follows:

	2016	2015
Cost of revenue	**6,741**	6,735
Expenses	**1**	2
	6,742	6,737

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

6 Trade and other receivables

	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RO'000	RO'000	USD'000	USD'000
Trade receivables	**6,460**	6,890	**16,779**	17,898
Less: allowance for credit losses	**(1,392)**	(1,392)	**(3,616)**	(3,616)
	5,068	5,498	**13,163**	14,282
Advances and prepayments	**132**	168	**343**	436
Other advances	**-**	794	**-**	2,063
	5,200	6,460	**13,506**	16,781

Trade receivables are generally on 25 days credit terms.

The ageing analysis of unimpaired trade receivables is as follows:	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RO'000	RO'000	USD'000	USD'000
Up to 3 months	**5,068**	5,498	**13,163**	14,282

Trade receivables are from Oman Power and Water Procurement Co. SAOC, the only customer of the Company (2015: OPWP).

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

The carrying amounts of the Company's trade receivables are denominated in Omani Rial.

7 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RO'000	RO'000	USD'000	USD'000
Current account balances with banks	**7,150**	9,182	**18,571**	23,849
	7,150	9,182	**18,571**	23,849

The current account balances with banks are non-interest bearing.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

8 Share capital

The authorised, issued and fully paid-up share capital of the Company as registered with the Ministry of Commerce and Industry is as follows:

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:	**31 December 2016**	31 December 2015	**31 December 2016**	31 December 2015
	RO'000	RO'000	USD'000	USD'000
Authorised share capital of 600,000,000 shares of RO 0.100	**60,000**	60,000	**156,000**	156,000
Issued and fully paid-up share capital of 221,010,000 shares of RO 0.100	**22,101**	22,101	**57,405**	57,405

At the end of the year, shareholders who own 10% or more of the Company's share capital and the number of shares they hold are as follows:

Name of the shareholders	**Percentage share holding**	**Number of shares held**	Percentage share holding	No of shares held
	2016	**2016**	2015	2015
Kahrabel FZE	**35%**	**77,353,500**	35%	77,353,500
MENA Sohar 1SPV LTD	**20%**	**44,202,000**	20%	44,202,000
Civil Service Employees Pension Fund	**15%**	**33,151,500**	15%	33,151,500

9 Legal reserve

In accordance with the provisions of the Commercial Companies Law 1974, as amended, of the Sultanate of Oman, an amount equivalent to 10% of the Company's net profit before appropriations is required to be transferred to a non-distributable reserve until such time as a minimum of one-third of the issued and fully paid-up share capital is set aside. During the year ended 31 December 2016, the Company has transferred an amount of Rial 454 thousand to the legal reserve (2015: Rial 376 thousand).

10 Dividends paid and proposed

a) The Board of Directors proposed a final cash dividend of RO 1.812 million (8.2% of the existing share capital) for the year ended 31 December 2015, which was approved and distributed to the shareholders after their approval in the Annual General Meeting held on 29 March 2016.

b) The Board of Directors of the Company proposed an interim dividend of RO 0.913 million (4.132% of the existing share capital) for the period from 1 January 2016 to 30 June 2016, which was approved and distributed to the shareholders after their approval in the Annual General Meeting held on 29 March 2016.

c) As previously discussed and, in line with the facilities agreement entered into with its lenders, there will be no more proposal of dividend distribution to shareholders until the debt is fully repaid or restructured.

11 Hedging deficit

Interest rate swap

The long-term loan facilities of the Company bear interest at US LIBOR plus applicable margins (refer note 12). In accordance with the term loan agreement, the Company has fixed the rate of interest through Interest Rate Swap Agreements ("IRS") to hedge the risk of variation in US LIBOR for 95% of its loan facility till 31 March 2022. The corresponding maximum hedged notional amount of the swaps at 31 December 2016 is approximately RO 100 million (USD 260 million) [31 December 2015: RO 108 million (USD 282 million)] bearing fixed interest rates of 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum (31 December 2015: 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum) excluding applicable margin.

11 Hedging deficit (continued)

At 31 December 2016, the USD LIBOR was 1.2336% per annum, (31 December 2015 - 0.5331% per annum) whereas the Company has fixed interest on its borrowings as described above.

	31 December 2016 RO'000	31 December 2015 RO'000	**31 December 2016 USD'000**	31 December 2015 USD'000
HSBC bank plc	**(1,935)**	(2,922)	**(5,026)**	(7,588)
Standard chartered bank	**(1,233)**	(1,919)	**(3,203)**	(4,983)
HSBC bank plc	**(1,102)**	(1,473)	**(2,862)**	(3,824)
Standard chartered bank	**(3,181)**	(4,240)	**(8,262)**	(11,014)
Credit agricole corporate & investment bank	**(3,181)**	(4,110)	**(8,262)**	(10,676)
Hedging instrument at the end of the year	**(10,632)**	(14,664)	**(27,615)**	(38,085)
Deferred tax (note 14)	**1,276**	1,760	**3,314**	4,572
Hedging reserve at the end of the year (net of tax)	**(9,356)**	(12,904)	**(24,301)**	(33,513)
Less: Hedging reserve at the beginning of the year	**(12,904)**	(15,416)	**(33,513)**	(40,042)
Effective portion of change in the fair value of cash flow hedge for the year	**(3,548)**	(2,512)	**(9,212)**	(6,529)

In case, the Company terminates the IRS at 31 December 2016, it may incur losses to the extent of approximately RO 11.64 million (USD 30.23 million) [31 December 2015: RO 15.92 million (USD 41.36 million)]. However, under the terms of the loan agreements, the Company is not permitted to terminate the interest rate swap agreements.

In accordance with 'IAS 39 Financial Instruments: Recognition and Measurement', the hedge is tested quarterly for its effectiveness on the basis of clean fair values from the swap banks, and consequently effective and ineffective portions, if any, are recognised in the statement of changes in shareholders' equity and statement of profit or loss, respectively.

12 Long-term loans

	31 December 2016 RO'000	31 December 2015 RO'000	**31 December 2016 USD'000**	31 December 2015 USD'000
Base facility	**85,414**	95,686	**221,855**	248,537
Repayment facility	**16,429**	18,404	**42,673**	47,803

Less: Current portion of long-term loans	**(9,007)**	(8,617)	**(23,395)**	(22,383)
	92,836	105,473	**241,133**	273,957
Less: deferred financing cost	**(1,407)**	(1,703)	**(3,655)**	(4,426)
Non-current portion of long-term loans	**91,429**	103,770	237,478	269,531

12 Long-term loans (continued)

a) Syndicated facilities

The Company has syndicated long-term loan facilities ("syndicated facilities") in the aggregate maximum amount of apparently USD 455 million. HSBC Bank plc is the facility agent ("Facility Agent") for administration and monitoring of the overall loan facilities. HSBC Bank USA – National Association and Bank Muscat has respectively been appointed as the off-shore security trustee and on-shore security agent for the secured finance parties.

b) Base facility

The Company has obtained the term loan under base facility in an aggregate amount of USD 382.50 million. The aggregate amount of base facility is repayable in 34 (thirty four) semi-annual installments, of which 28 installments are ranging between USD 6.5 million and USD 13.2 million. The last 6, post concession, installments shall be of USD 20.35 million each. Repayments under the revised Base facility commenced from 30 September 2007.

c) Repayment facility

The Company has obtained the term loan under repayment facility in an aggregate amount of USD 72 million. The aggregate amount of repayment facility is repayable in 34 (thirty four) semi-annual installments, of which 28 installments are ranging between USD 1.2 million and USD 2.5 million. The last 6, post concession, installments shall be of USD 3.91 million each. Repayments under the repayment facility commenced from 30 September 2008.

d) Interest

The facilities bear interest at USD LIBOR rates plus applicable margins. The margins vary depending upon the outstanding facilities.

e) Commitment and other fees

Under the terms of the loan facilities, the Company is required to pay commitment fees, performance bond fee, front end fee for the facilities, agency fee and all other bank fees.

f) Security

The facilities are secured by comprehensive legal and commercial mortgages on all the assets of the Company.

g) Covenants

The facilities agreements contain certain covenants pertaining to, amongst other things, project finance ratios, entering into material new agreements, negative pledge, change of business, loan and guarantee, etc.

h) Cash Sweep

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for the year ended 31 December 2016

The long-term loan facilities agreement contain cash sweep prepayments which have started from the 17th repayment date i.e. 30 September 2015. The cash sweep prepayment amount equals to 100% of all amounts standing to the credit of the operating revenues account but limited to certain conditions. As a consequence, aside from the interim dividend of RO 0.913 million already paid in August 2016, no further amount will be available for distribution as dividends to the shareholders until the full repayment of the loan.

13 Provision for decommissioning costs

The provision for decommissioning costs represents the present value of management's best estimate of the future sacrifice of the economic benefits that will be required to remove the facilities and restore the affected area at the Company's sites. The movement in provision for decommissioning costs is a follows:

	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
	RO'000	RO'000	**USD'000**	USD'000
At the beginning of the year	**1,312**	1,235	**3,408**	3,208
Unwinding of discount on decommissioning costs (Note 21)	**83**	77	**216**	201
At the end of the year	**1,395**	1,312	**3,624**	3,409

14 Income tax

a) Current tax

Provision for income tax has been made after giving due consideration to adjustments for potential allowances and disallowances.

	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
	RO'000	RO'000	**USD'000**	USD'000
Statement of profit or loss				
Deferred tax charge (net)				
- Current period	**573**	486	**1,488**	1,263
Statement of other comprehensive income				
Taxation (credit)/charge relating to interest rate swap	**484**	342	**1,256**	889

	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
The following further notes apply:				

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	RO'000	RO'000	**USD'000**	USD'000
Statement of financial position				
Deferred tax liability	**9,648**	8,591	**25,060**	22,318

14 Income tax (continued)

b) ***Status of tax assessments***

The Company is subject to income tax in accordance with the income tax law of the Sultanate of Oman at the tax rate of 12% on taxable profits in excess of RO 30,000. The Company's assessments have been agreed with the Oman Tax Authorities upto the tax year 2011. The management considers that the amount of additional taxes, if any, that may become payable in relation to the tax years for which assessments are pending would not be material to the Company's financial position as at 31 December 2016.

c) The Royal Decree 9/2017 has been issued on 19 February 2017 amending the Income Tax law 28/2009 and was published in the Official Gazette on 26 February 2017. The Company is assessing the resultant impact on the Company's tax calculations, if any, which shall be accounted for in the financial statement for the year ending 31 December 2017.

d) *Deferred tax*

The deferred tax liability and the deferred tax charge (net) in the statement of comprehensive income and statement of other comprehensive income are attributable to the following items:

	At 31 December 2015	**Recognized in the statement of of profit or loss**	**Recognized in the statement of other comprehensive income**	**At 31 December 2016**
	RO'000	**RO'000**	**RO'000**	**RO'000**
Provisions	232	**15**	**-**	**247**
Tax losses	859	**(593)**	**-**	**266**
Fair value of hedging Instrument	1,760	**-**	**(484)**	**1,276**
Depreciation	(11,442)	**5**	**-**	**(11,437)**
	(8,591)	**(573)**	**(484)**	**(9,648)**

	At 31 December 2015	**Recognized in the statement of of profit or loss**	**Recognized in the statement of other comprehensive income**	**At 31 December 2016**
	USD'000	**USD'000**	**USD'000**	**USD'000**

Provisions	601	**38**	**-**	**639**
Tax losses	2,229	**(1,540)**	**-**	**689**
Fair value of hedging Instrument	4,572	**-**	**(1,254)**	**3,318**
Depreciation	(29,720)	**14**	**-**	**(29,706)**
	(22,318)	**(1,488)**	**(1,254)**	**(25,060)**

15 Trade and other payables

	31 December 2016 RO'000	31 December 2015 RO'000	**31 December 2016 USD'000**	31 December 2015 USD'000
Trade payables	**3,030**	3,152	**7,870**	8,187
Accruals and other payables	**5,135**	5,386	**13,329**	13,988
	8,165	8,538	**21,199**	22,175

Trade payables are generally settled within 30 to 60 days of the suppliers' invoice date.

The contractual maturity date for trade payables is due within 12 months from the statement of financial position date.

16 Related party transactions and balances

The Company, in the ordinary course of business, deals with parties, which fall within the definition of 'related parties' as contained in International Accounting Standard Number 24. The management believes that such transactions are not materially different from those that could be obtained from unrelated parties.

Significant transactions during the year with related parties are as follows:	**31 December 2016 RO'000**	31 December 2015 RO'000	**31 December 2016 USD'000**	31 December 2015 USD'000
Services provided by Sohar Operations and Maintenance Co. LLC (SOMC)	**6,446**	6,306	**16,742**	16,380
Services provided by Power Management Co. LLC				
- Management fee	**154**	154	**400**	400
- Other administrative expenses	**314**	309	**816**	803
Services provided by Suez –Tractebel S.A.	**34**	32	**88**	84
Services provided by Laborelec Middle East	**14**	5	**36**	13
Key management remuneration	**183**	157	**475**	408
Directors' remuneration (Note 20)	**137**	99	**356**	258
Directors' meeting attendance fees (Note 20)	**19**	19	**49**	50
Electrabel S.A. – guarantee fee	**65**	63	**169**	163

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MENA Sohar 1SPV LTD – LC fee	**37**	34	**96**	88
SOGEX Oman LLC – LC fee	**9**	9	**23**	23
MOD Pension Fund – LC fee	**8**	9	**21**	23

A summary of the related party balances as at 31 December 2016 is as follows:

16 Related party transactions and balances (continued)

Amounts due to a related party	**31 December 2016**	31 December 2015	**31 December 2016**	31 December 2015
	RO'000	RO'000	**USD'000**	USD'000
Sohar Operations and Maintenance Co. LLC	**286**	501	**743**	1,298
	286	501	**743**	1,298

The balances due from/to related parties are unsecured, bear no interest, have no fixed repayment terms and have been disclosed separately in the statement of financial position.

17 Revenue

	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
	RO'000	RO'000	**USD'000**	USD'000
Power and water revenue	**66,307**	62,657	**172,226**	162,746
	66,307	62,657	**172,226**	162,746

18 Cost of revenue

	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
	RO'000	RO'000	**USD'000**	USD'000
Fuel gas	**38,961**	36,429	**101,197**	94,622
Operations and maintenance costs	**6,446**	6,306	**16,742**	16,380
Depreciation (Note 5)	**6,741**	6,735	**17,509**	17,495
Seawater extraction	**725**	653	**1,883**	1,697
Other operating expenses	**788**	699	**2,047**	1,810
	53,661	50,822	**139,378**	132,004

19 Other income

	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015

	RO'000	RO'000	USD'000	USD'000
Insurance claim	**387**	774	**1,005**	2,012
Claim received against forced outage	**16**	14	**42**	36
	403	788	**1,047**	2,048

20 General and administrative expenses

	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
Management fee	**154**	154	**400**	400
Directors' meeting attendance fees and remuneration (note 16)	**156**	118	**405**	308
Legal and professional fees	**98**	81	**255**	210
Staff costs	**29**	21	**75**	54
Depreciation (note 5)	**1**	2	**3**	5
Other administrative expenses	**420**	431	**1,092**	1,120
	858	807	**2,230**	2,097

21 Finance costs

	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
Interest on net settlement of swaps	**4,475**	5,367	**11,623**	13,940
Interest on base facility	**1,649**	1,328	**4,283**	3,450
Interest on repayment facility	**317**	256	**823**	664
Amortization of deferred financing costs	**297**	320	**771**	830
Other financial charges	**254**	226	**660**	588
Unwinding of discount on decommissioning cost (note 13)	**83**	77	**216**	201
	7,075	7,574	**18,376**	19,673

22 Net assets per share

Net assets per share is calculated by dividing the shareholders' funds by the number of shares at the end of the year.

	31 December 2016	31 December 2015	31 December 2016	31 December 2015

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for the year ended 31 December 2016

Shareholders' funds (in '000)	**29,006**	27,188	**75,340**	70,619
Number of issued & paid-up shares at the end of the year (in '000)	**221,010**	221,010	**221,010**	221,010
Net assets per share (RO/USD)	**0.131**	0.123	**0.341**	0.320

23 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net profit for the year with the weighted average number of shares issued during the year.

	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
Profit for the year (in '000)	**4,543**	3,756	**11,801**	9,757
Weighted average number of shares at end of the year (in '000)	**221,010**	221,010	**221,010**	221,010
Basic earnings per share (RO/USD)	**0.021**	0.017	**0.053**	0.044

24 Lease commitments

Land on which the Sohar Power and Water Plant is constructed, has been leased from Sohar Industrial Port Company SAOC for a 15 year period. At the end of the year, future minimum lease commitments under non-cancellable operating leases are as follows:

	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
	RO'000	RO'000	**USD'000**	USD'000
Within 1 year	**63**	63	**164**	162
Between 1 and 5 years	**251**	250	**652**	649
After 5 years	**31**	78	**81**	203
	345	391	**897**	1,014

25 Contingent liabilities

There were no contingent liabilities outstanding as at 31 December 2016 (31 December 2015: Rial Nil).

26 Capital risk management

The capital is managed by the Company in a way that it is able to continue to operate as a going concern while maximising profitability of the company.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

The capital structure of the Company consists of share capital, reserves and retained earnings. The Company manages its capital by making adjustments in dividend payments and bringing in additional capital in light of changes in business conditions. No changes were made in the objectives, policies and processes during the year ended 31 December 2016 and 2015.

27 Financial assets and liabilities and risk management

a) Financial assets and liabilities

Financial assets and liabilities carried on the statement of financial position include cash and bank balances, trade and other receivables, due to related parties, long-term loans and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

27 Financial assets and liabilities and risk management (continued)

b) Risk management

Risk management is carried out by the Finance Department of the Company under the guidance of the senior management and Board of Directors. The senior management and Board of Directors provide significant guidance for overall risk management covering specific areas such as credit risk, interest rate risk, foreign exchange risk and investment of excess liquidity.

c) Capital management

The primary objective if the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders' value.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes within net debt, trade and other payables, due to related parties and long-term loans less cash and bank balances. Capital includes share capital, reserves and retained earnings.

The Company has complied with externally imposed capital requirements as stipulated in the Commercial Companies Law, 1974 (as amended) and by the Capital Market Authority.

Age analysis of current trade and other receivables is as follows:

	31 December 2016 RO'000	31 December 2015 RO'000	**31 December 2016 USD'000**	31 December 2015 USD'000
Trade and other payables	**8,165**	8,538	**21,199**	22,175
Amount due to a related party	**286**	501	**743**	1,298
Long-term loans	**100,436**	112,387	**260,873**	291,914
Less: cash and bank balances	**(7,150)**	(9,182)	**(18,571)**	(23,849)
Net debt	**101,737**	112,244	**264,244**	291,538
Share capital	**22,101**	22,101	**57,405**	57,405
Legal reserve	**3,708**	3,254	**9,633**	8,453
Retained earnings	**3,197**	1,833	**8,309**	4,761
Shareholders' equity	**29,006**	27,188	**75,347**	70,619

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

Total capital and net debt	**130,743**	139,432	**339,591**	362,157
Gearing ratio	**77.81%**	80.50%	**77.81%**	80.50%

In addition, the Company's activities expose it to a variety of financial risks: market risk (including currency rate risk, interest rate risk and price risk), credit risk and liquidity risk.

d) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

27 Financial assets and liabilities and risk management (continued)

The Company is exposed to currency risk on bank borrowings that are denominated in a currency other than the functional currency of the Company. The currency in which these transactions are denominated is USD. In respect of the Company's transactions denominated in USD, the management believes that the Company is not exposed to currency risk as the RO is effectively pegged to the USD and as the revenues of the Company are protected against foregin exchange fluctuation, by a provision under the PWPA. At the end of the reporting period, the Company had bank balances denominated in USD amounting to RO 0.06 million (31 December 2015: RO 0.20 million).

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Company's interest rate risk arises from long-term loans availed by the Company. The Company has entered into an interest rate swap to hedge its interest rate risk exposure. Under the interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Company's cash flow exposure resulting from variable interest rates on bank borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously.

(iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

As the Company has no exposure to investments, it does not have the risk of fluctuation in prices. Management considers that sensiti~~vity analysis is not necessary~~ due to the Company's limited exposure to price risk.

e) 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, and arises principally from the Company's trade receivables. At the end of the year, the entire accounts receivable was from a government owned company (OPWP). The management considers the credit risk associated with the trade receivables to be very low because the receivables are from the Government. Furthermore, the cash is placed in reputable banks, with good credit ratings, which minimize the credit risk.

Age analysis of current trade and other receivables is as follows:

	31 December 2016		31 December 2015	
	RO'000	**Provision RO'000**	RO'000	Provision RO'000
Not past due	**5,068**	**-**	5,498	-
More than one year	**1,392**	**1,392**	1,392	1,392
	6,460	**1,392**	6,890	1,392

27 Financial assets and liabilities and risk management (continued)

e) Credit risk (continued)

	31 December 2016		31 December 2015	
	USD'000	**Provision USD'000**	USD'000	Provision USD'000
Not past due	**13,163**	**-**	14,282	-
More than one year	**3,616**	**3,616**	3,616	3,616
	16,779	**3,616**	17,898	3,616

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains sufficient bank balances and cash to meet the Company's obligations as they fall due for payment.

31 December 2016	**Carrying value**	**Contractual cash flow**	**6 months or less**	**6 to12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Non-derivative financial liabilities (A)							
Secured bank loans	**100,436**	**101,843**	**3,658**	**5,350**	**9,337**	**27,695**	**55,803**
Accounts and related party payable	**8,676**	**8,676**	**8,676**	**-**	**-**	**-**	**-**
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	**11,639**	**12,496**	**3,451**	**3,025**	**2,524**	**1,634**	**1,862**
Total (A + B)	**120,751**	**123,015**	**15,785**	**8,375**	**11,861**	**29,329**	**57,665**

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31 December 2016	Carrying value	Contractual cash flow	6 months or less	6 to12 months	1 to 2 years	2 to 5 years	More than 5 years
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Non-derivative financial liabilities (A)							
Secured bank loans	**260,873**	**264,528**	**9,500**	**13,896**	**24,253**	**71,935**	**144,944**
Accounts and related party payable	**22,535**	**22,535**	**22,535**	**-**	**-**	**-**	**-**
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	**30,230**	**32,459**	**8,964**	**7,857**	**6,557**	**4,245**	**4,836**
Total (A + B)	**313,638**	**319,522**	**40,999**	**21,753**	**30,810**	**76,180**	**149,780**

27 Financial assets and liabilities and risk management (continued)

f) Liquidity risk (continued)

31 December 2015	Carrying value	Contractual cash flow	6 months or less	6 to12 months	1 to 2 years	2 to 5 years	More than 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Non-derivative financial liabilities (A)							
Secured bank loans	112,387	114,090	3,512	5,106	9,007	27,800	68,665
Accounts and related party payable	7,932	7,932	7,932	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	15,925	14,906	1,249	2,180	3,845	6,151	1,481
Total (A + B)	136,244	136,928	12,693	7,286	12,852	33,951	70,146

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31 December 2015	Carrying value	Contractual cash flow	6 months or less	6 to12 months	1 to 2 years	2 to 5 years	More than 5 years
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Non-derivative financial liabilities (A)							
Secured bank loans	291,914	296,338	9,122	13,262	23,395	72,208	178,351
Accounts and related party payable	20,603	20,603	20,603	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	41,364	38,717	3,244	5,662	9,987	15,977	3,847
Total (A + B)	353,881	355,657	32,969	18,925	33,382	88,184	182,197

28 Fair values of financial instruments

The management believes that the fair values of financial assets and liabilities are not significantly different from their carrying amounts at the end of the year. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The fair value of derivative financial liabilities (interest rate swaps) with a carrying value of RO 10.63 million (USD 27.62 million) [31 December 2015: RO 14.7 million (USD 38.1 million)] is calculated as the present value of the estimated future cash flows based on observable yield curves. Accordingly, they have been fair valued under Level 2 hierarchy. There were no transfers between the Level 1 and Level 2 hierarchies in the current year.

29 Capital commitments

Outstanding capital commitments as at 31 December 2016 amounted to RO Nil (31 December 2015: RO Nil).

30 Subsequent events

There were no events occurring subsequent to 31 December 2016 and before the date of the report that are expected to have a significant impact on these financial statements.

31 Comparative figures

Certain comparative figures for the previous year have been reclassified, wherever necessary, in order to conform with the presentation adopted in the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.