صُحار للطـــاقة
SOHAR POWER

ANNUAL REPORT 2018

POWERING THE

FUTURE OF OMAN

HIS MAJESTY SULTAN QABOOS BIN SAID

Contents

BOARD OF DIRECTORS AND MANAGEMENT

TITLE	NAME	REPRESENTING
Chairman	Mr. Wim Alen *	Kahrabel FZE (ENGIE)
Vice Chairman	Mr. Sami Abdullah Al-Zadjali	Civil Service Employees' Pension Fund
Director	Mr. Jeronimo Roura	MENA Sohar 1 SPV Limited
Director	Mr. Salim Ali Hamed Al Hasni *	Ministry of Defence Pension Fund
Director	Kumail Majid Al Moosawi *	
Director	Mr. Damien Sage *	-
Director	Mr. Tashfen Yasin	-
Director	Mr. Hisham Salem Al Hadhrami *	
Director	Mr. Ravindranath Venna	-
Director	Mr. Rodak Ali Iqbal	-
Director	Mr. Zahran Salim Al Rashdi *	
Director	Ms. Miriam Youssef Khalaf *	
Director	Ms. Isabelle Gunay Demir **	-

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. Salah Al Farsi

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

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 pleased to present you with the fourteenth Annual Report of the Company for the year ended 31 December 2018, corresponding to the twelfth 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 sells 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 has been listed on the Muscat Securities Market since 2008.

Health & Safety

The year 2018 has seen excellent Health and Safety performance for Sohar Power. There were no Lost Time Accidents (LTA), accumulating to 2163 days without LTA at the end of the year. 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").

Operations

The demand for power has increased in 2018 compared with 2017. The demand for water remained high throughout both years. Accordingly, the load factors of the plant reached 69.1% for power (64.8% in 2017) and 82.3% for water (85.0% in 2017).

The plant was operated reliably during the period. An aggregate net power quantity of 3,543 GWh and a total volume of desalinated water of 45,032,236 m^3 were delivered.

The plant achieved 98.3% reliability for power and 98.0% for water in 2018. Forced outages amounted to 1.7% for the power plant and 2.0% for the water plant.

The Contract Year number 12 started on 01 April 2018. The annual performance test was successfully undertaken demonstrating to OPWP 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 2017-2018 winter period.

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. GT#1 and GT#2 underwent Major Inspections during the Winter Period.

Following the outcome of the assessment of the efficiency of technical operations and maintenance processes at site last year, the Company continues to implement actions to improve its business processes and manage in a better manner all the risks that could potentially be faced by the project.

Financial Performance

The Board of Directors would like to announce that the Company has ended the year with a net loss of RO 10.939 million.

In comparison, the profit for the year 2017 amounted to RO 2.030 million. The decrease in net profit in 2018 is explained by the impairment of the Desalination Plant of RO 18.554 million recorded by the Company at the end of 2018, following the non-prequalification of the power and water offer by Sohar Power to OPWP during OPWP's Power 2022 Tender process. As a consequence, the water production activities of the Company will have to be discontinued at the term of the Company's current PWPA in 2022.

The revenues for the year 2018 amount to RO 66.5 million against RO 64.5 million for the year 2017, increased mainly by the increase in gas revenues (driven by the higher load factor), which is a pass-through item under the PWPA (and financially neutral to the Company).

The direct costs, besides the impairment matter, have also increased from RO 52.2 million in 2017 to RO 54.4 million in 2018, due to the increase in gas consumption.

Long term loans were repaid, and swaps were settled on their due dates. The hedging deficit on the Company's swap agreements, at the close of business at 31 December 2018 was RO 4.9 million, in comparison with valuations as of 31 December 2017 of RO 8.2 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 Financing 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 2018 in comparison to 2017 is associated with debt repayments during the year.

Under its Financing Agreements entered into with its lenders, Sohar Power is subject to a cash sweep mechanism which started on 30 September 2015 and will last until the full repayment of the long-term loans. The cash sweep mechanism prevents distribution of dividend to shareholders since all the available cash is devoted to the repayment of the loans. This mechanism is common in financing agreements throughout the region and helps providing a competitive tariff for an off-taker such as OPWP at the time of bid. As previously disclosed, the pay out of dividends ended in 2016 and there will be no more dividend distributions to shareholders unless the debt of the Company is refinanced and the cash sweep is successfully removed. The Company has explored and continues to explore opportunities to refinance its project finance debt, but the deteriorating credit rating of the Sultanate of Oman leads to substantially higher margins requested by the lending banks and renders a refinancing impossible.

As a consequence of the cash sweep the inability of the Company to distribute dividends, and the decrease of the worldwide and Omani Capital Market indices in 2018, the share price dropped from RO 0.150 to RO 0.120 during the year.

Revenue recognition issue and qualification of financial statements

Following the decision issued by the Appeal Committee of CMA (Decision 2/2018) dated 3 October 2018 ("Decision") confirming the Decision 10/2018 of the Disciplinary Committee of the CMA issued on 16 May 2018, warning the Company that it is in violation of Article 5 of the Capital Market Law and instructing it to restate its financial statements, and after consulting with its legal advisor, the Company appealed against the Decision before the Administrative Court of Oman. The Company has consistently applied the same accounting treatment allowed under IFRS since the beginning of the project and adequately disclosed such accounting treatment information to its shareholders and the investors' community.

It is important to note that the differing views on the accounting treatment between the Company, AER and CMA are not linked to the cash sweep agreed under the Company's Financing Agreements. The former discussion relates to the timing of revenue recognition (Sector Law versus CMA regulation), whereas the latter refers to an agreement between the Company and its lenders to assure the Company's outstanding debt repayment would be accelerated from a certain point in time, as is customary for the development of Independent Power (and Water) Projects in the Omani market. Cash sweeps are a common denominator across the power and water sector in Oman.

Subsequent to year-end, on 3 March 2019, the Administrative Court issued its judgment, allowing the appeal in form and rejecting it in substance. Once the detailed judgment becomes available to the Company and, after consulting its Board of Directors, the Company will seek legal advice with regard to its right to appeal against the Judgment and will continue to engage with relevant regulatory authorities.

Please refer to the audited financial statements of the Company and to the Notes 3a and 4 in particular for more detailed information on this matter.

There are no other legal proceedings against the Company as of 31 December 2018.

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.

The appraisal of the Board was conducted during the year 2018 by an independent consultant, appointed at the AGM held on 27th March 2018. Based on the criteria approved at the AGM, the Board and its Committees were appraised. The report of the consultant was received by the Chairman of the Board. The appraisal concluded that the Board performance was Very Satisfactory during the year and has been effective in meeting Board's objectives. Certain improvements were recommended, and the Board has committed to prepare an appropriate action plan.

Employment

Pursuing their continued efforts to develop, train and employ Omanis, the Company and its operator have maintained the Omanisation level at 76% at the end of 2018.

Corporate Social Responsibility

In 2018, 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 10,669 in 2018.

Outlook for 2019

Looking ahead, the Company expects to operate reliably and to deliver uninterrupted supply of power and water to its customer, while undertaking periodic maintenance activities, in a safe working environment for its employees, contractors and visitors.

During the year 2018, the Company engaged in the '2022 Power Procurement process' launched by OPWP. As part of the process, OPWP has notified the Company on 7 February 2019 that it has pre-qualified its Power only offer but did not pre-qualify its Power and Water offer. The Company has submitted a Binding Bid for its Power only offer on February 28, 2019 after seeking approval during the Ordinary General Meeting held on February 26, 2019.

As a consequence, the Company will not be able to extend the operations of its water desalination plant beyond the term of the current PWPA ending in March 2022. This situation triggered an impairment review of the Desalination plant which resulted in an impairment loss of RO 18.554 million that is recorded in the financial year 2018. The Useful life of the Desalination plant has also been revised to 15 years from the earlier estimate of 30 years. The Desalination plant will have a remaining useful life of three years starting January 2019 and the remaining book value will be amortized over the coming 3 years.

The Company's main objective for 2019 is to secure a new PPA with effect from 2022. In case SPC is unsuccessful in the Power 2022 Procurement process, the Company may operate in the Spot Market currently being developed in Oman, for which the rules are not yet finalised. Revenues will not be contracted in the Omani Spot Market. In view of the uncertainties surrounding the Spot Market, it is very difficult to predict the future of the Company in its current technical configuration, should it operate in the Spot Market, but it will be very challenging.

The Company is also subject to the changes in regulations prevailing in Oman (Commercial Companies Law, Value Added Tax, Withholding Taxes…) and other uncertainties that might adversely impact its financial position and its shareholders.

The energy transition is accelerating in Oman, caused by the continuous drop in prices for renewable energy such as photovoltaics and wind. This is likely to impact the competitiveness of existing conventional thermal plants and might substantially reduce their value beyond the term of their current P(W)PA.

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 guidance, support and encouragement to the private sector.

May Allah protect them all.

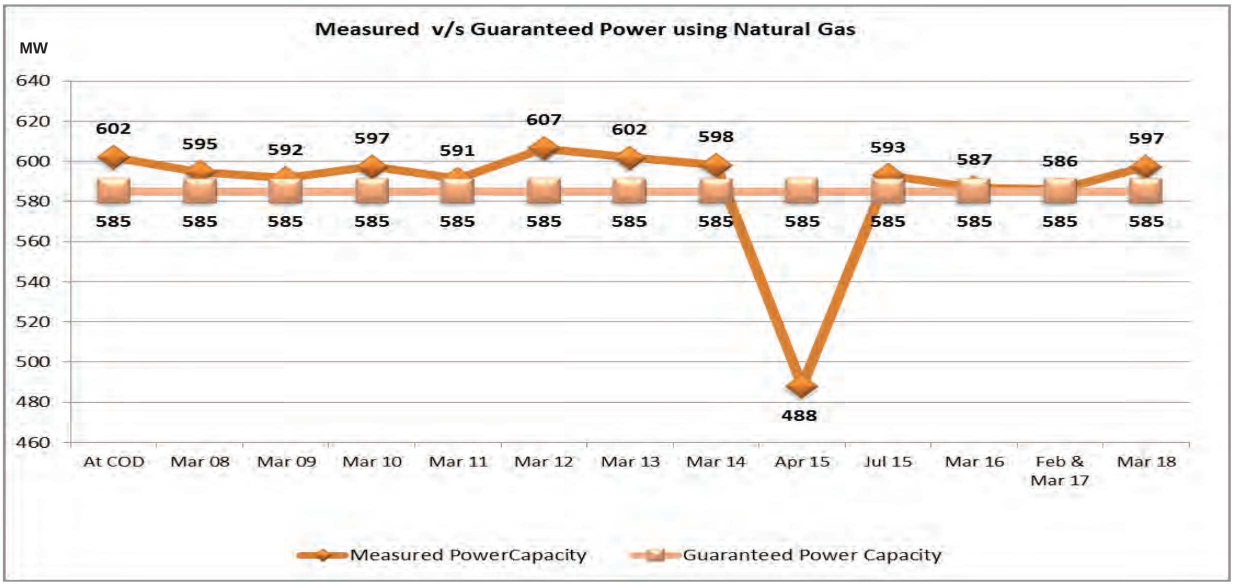
Wim Alen

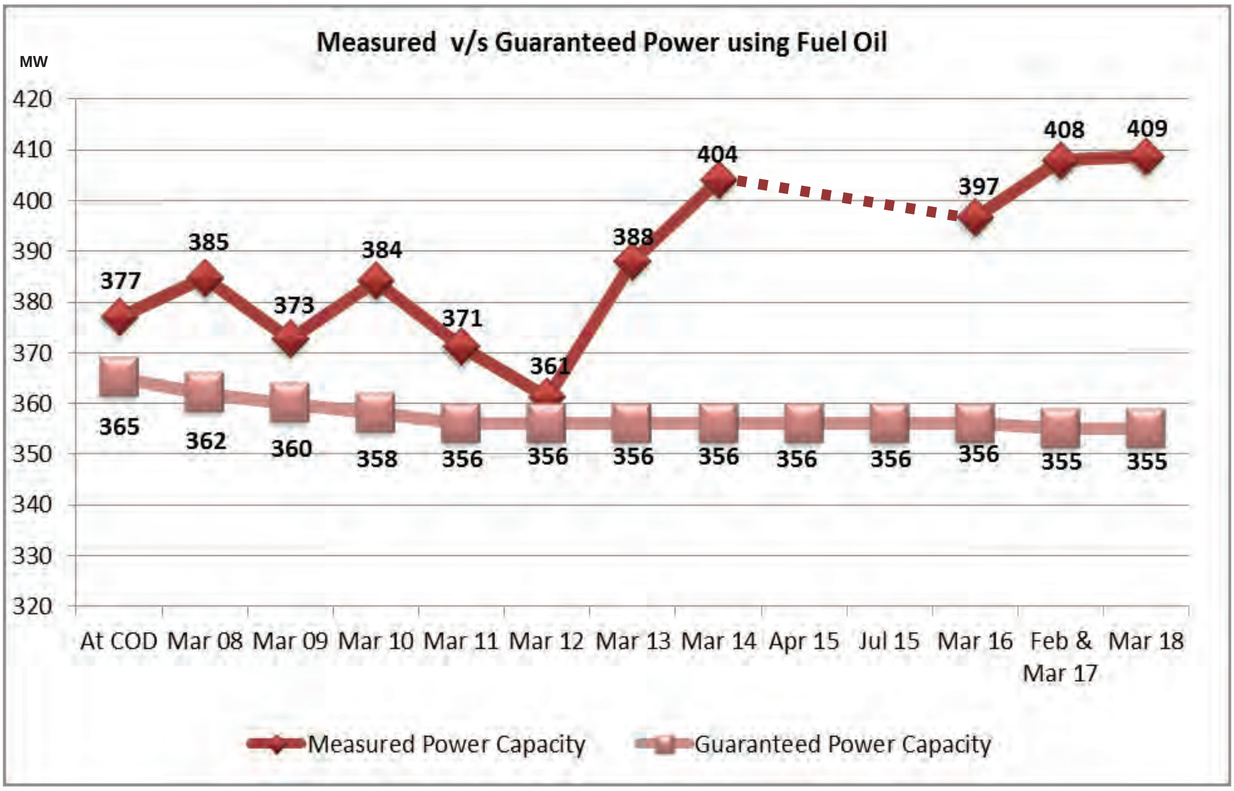
Chairman of the Board

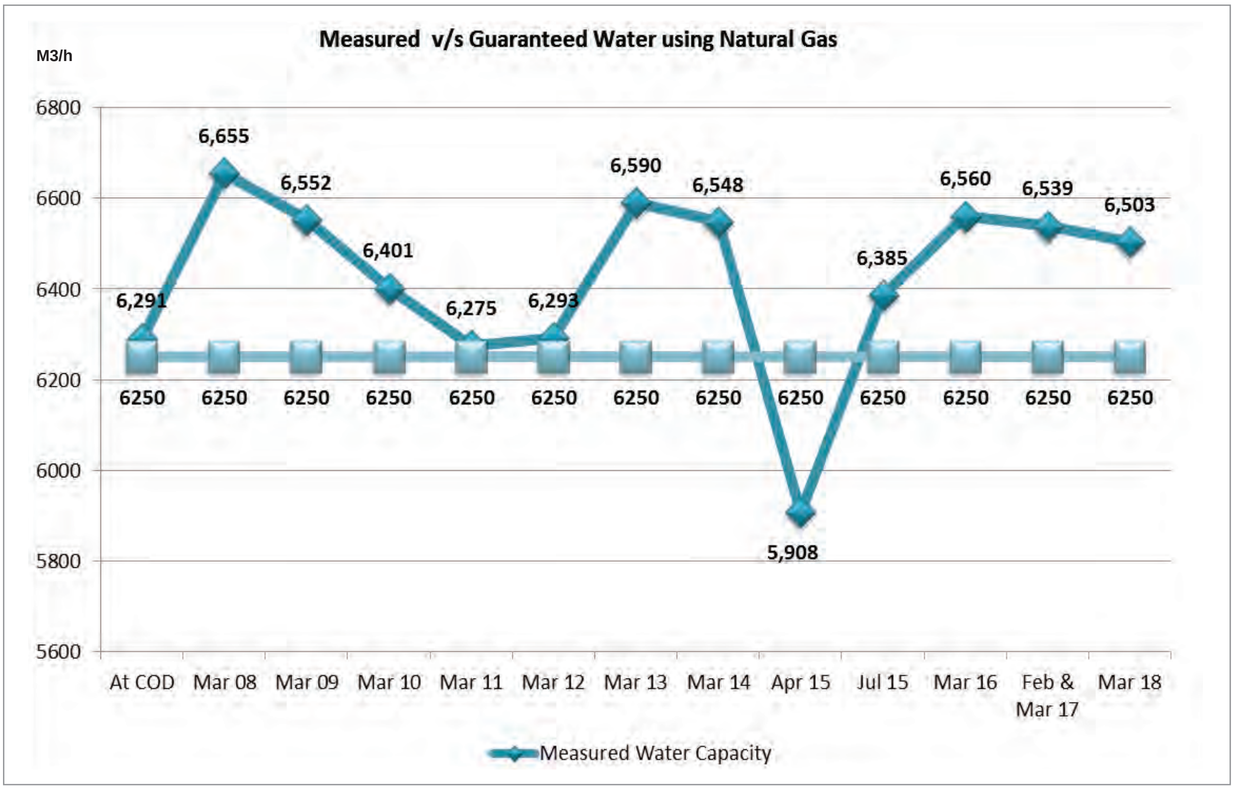
OPERATIONAL HIGHLIGHTS

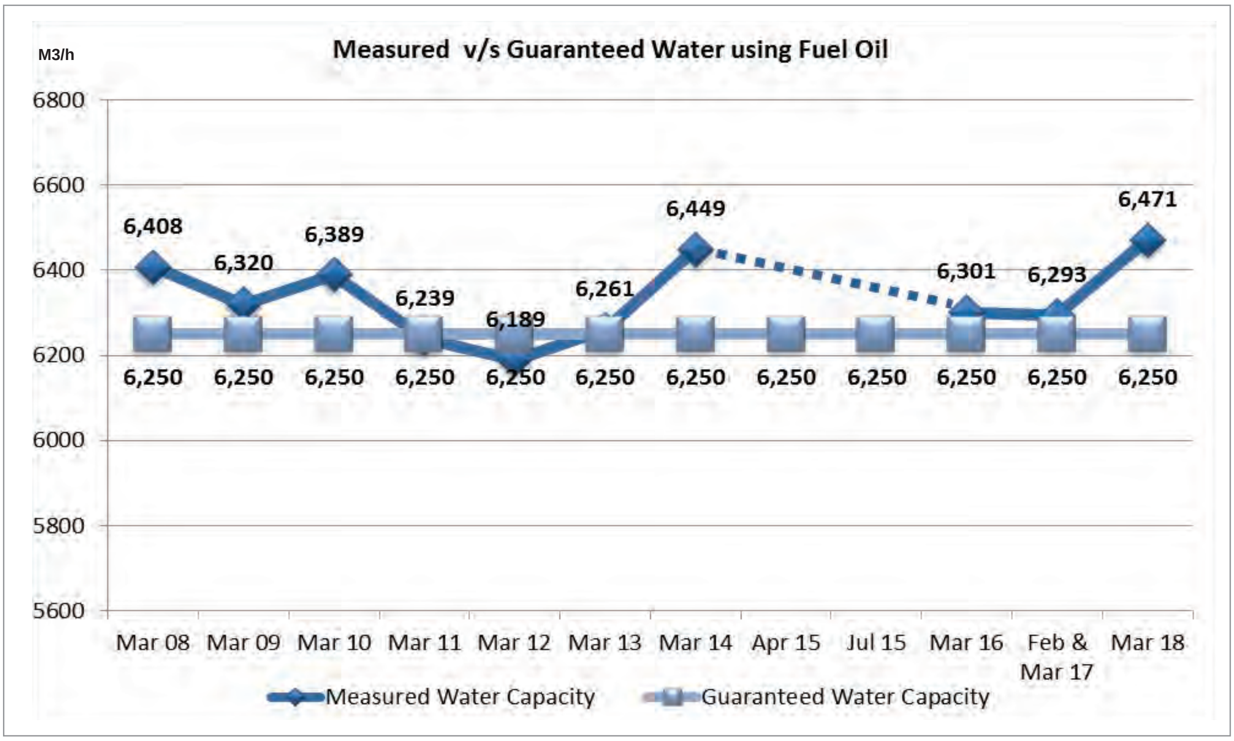
Capacity

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.









Note: In 2015, Performance Test results on Natural Gas were derated due to HRSG#2 contamination issues. After repairs, an Additional Performance Test in July achieved guaranteed levels. Performance Test on Fuel Oil was not conducted

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 2018 was 4,595 GWh which works to an availability of 89.6%. The total water made available during 2018 was 49,567,154 m^3 which works to an availability of 90.5%.

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 2018 the plant achieved reliability of 98.3% for power and 98.0% for water.

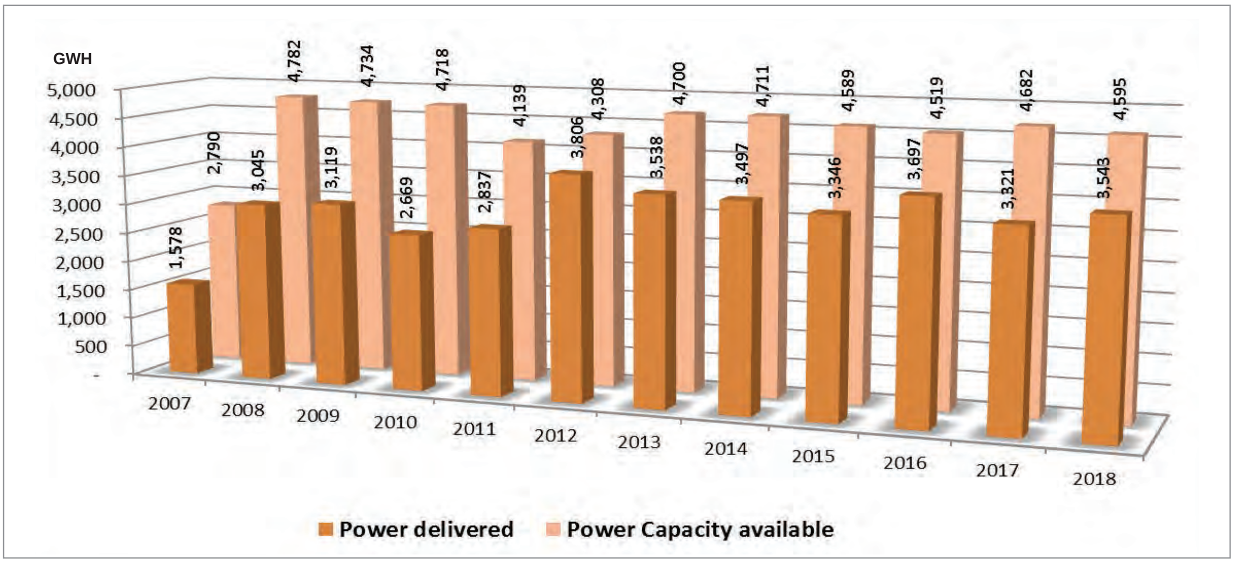
Plant Efficiency (Heat Rate)

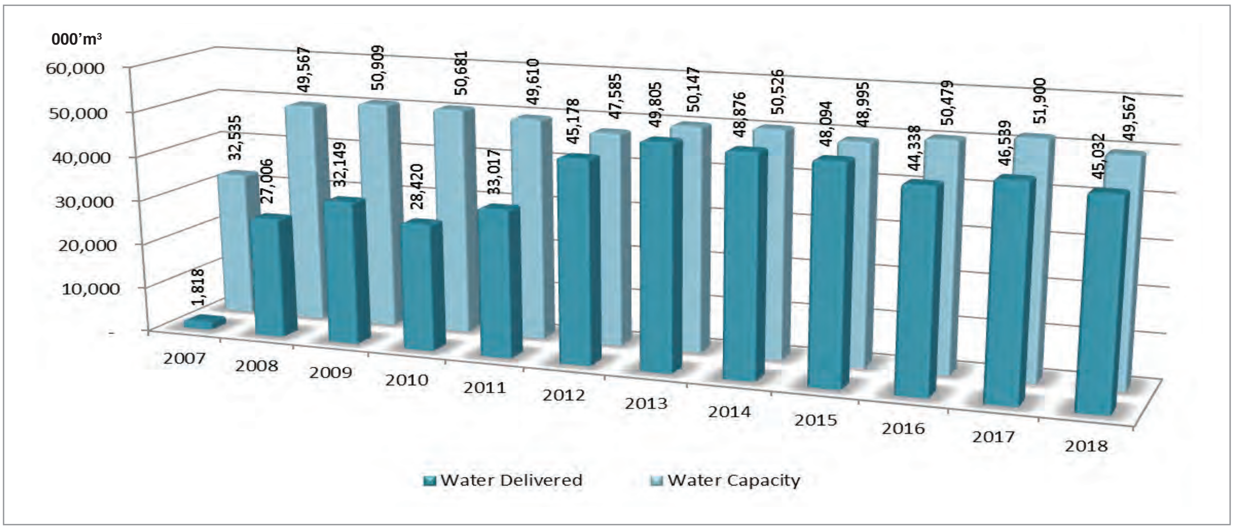
The efficiency of the power plant is measured in terms of the amount of heat required to produce one unit of power. The Contracted Heat Rate of the plant is 8,997 MJ/MWh for natural gas.

Utilization; Energy and Water Delivered

During the year 2018 the energy was delivered at a utilization factor of the power plant of 77.1%. The total water was delivered by the water plant at a utilization factor of almost 90.8%.

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 on-going exercise and due attention is being given to this aspect.

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

Force Majeure

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 06, 16:00 – June 07, 20:00	Entire Plant	28
3.	Red Tide	2009	a) Jan 03, 19:00 – Jan 05, 10:00 b) Jan 09, 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

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) generates 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 2018, 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 2018 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.

In the field of education, Sohar Power decided to support the Educational Program of Oman Charity Organization through the sponsorship of tuition fees for 4 students to pursue their studies at university level.

The 4 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, English language, Arabic Language, and Business administration. 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.

Sohar Power Company together with Directorate of Education in North Batinah Governorate, Haneen School Basic Education – Girl collectively supported purchase 6 Smart LEDTV for the First Grade students. The project aims to provide a technical learning environment that helps the students to learn and provide opportunities for creativity and excellence. Around 830 students in each school will benefit from this. The Company will continue to support the project to include all educational schools in North Batinah Governorate. The project has been successful in supporting education and raising students' achievement levels.

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 for Association. The funds were used for maintenance and supplying equipment for handicapped center 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.

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 2018. 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 (ENGIE), 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.

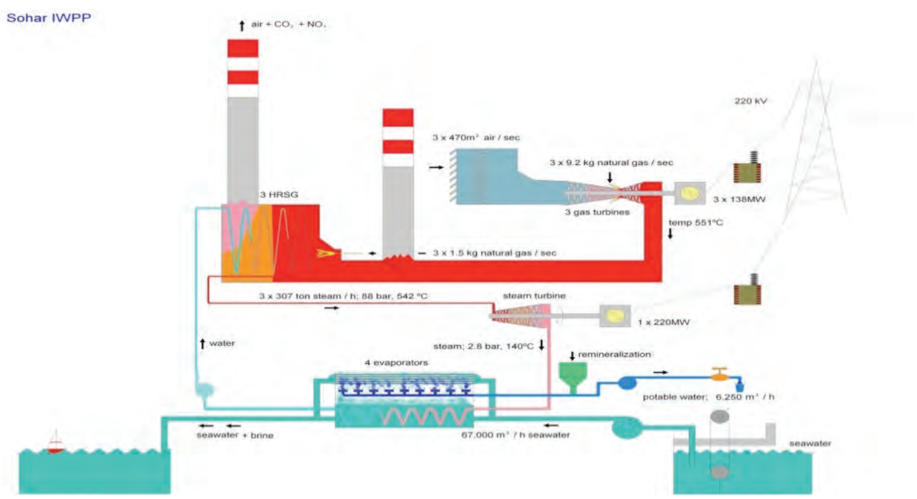
Sohar Power has been established under a Build-Own-Operate scheme. The BOO concept enables the Company to operate as a going concern beyond the project horizon of 15 years by either extending the PWPA (if agreed to by OPWP) or selling into a liberalized electricity market which may exist at that time.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

The 585 MW combined cycle gas fired power plant and 150,000 m^3/d desalination plant is located in the Sohar 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 (now taken over by GE), 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 37,500m^3/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 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:



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 enter into a new PPA with OPWP or sell its output in the Spot Market being developed in Oman.

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 the Public Authority for Water ("PAW").

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.

Construction

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 Operation & 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 expires 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 RO-USD exchange rate, US Producer Price and Omani Consumer Price indices.

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 any 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 MAJOR SHAREHOLDERS

Kahrabel FZE (ENGIE, previously known as GDF SUEZ)

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

ENGIE is committed to take on the major challenges of the energy revolution, towards a more decarbonised, decentralised and digitized world. The Group aims to becoming the leader of this new energy world by focusing on three key activities for the future: low carbon generation in particular from natural gas and renewable energies, energy infrastructures and efficient solutions adapted to all its clients' needs (individuals, businesses, territories, etc.). The customers' satisfaction, innovation and digital are at the heart of ENGIE's development. ENGIE is active in around 70 countries, employs 150,000 people worldwide and achieved revenues of €61 billion in 2018. The Group is listed on the Paris and Brussels stock exchanges (ENGI) and is represented in the main financial indices (CAC 40, BEL 20, DJ Euro Stoxx 50, Euronext 100, FTSE Eurotop 100, MSCI Europe) and non-financial indices (DJSI World, DJSI Europe and Euronext Vigeo Eiris - World 120, Eurozone 120, Europe 120, France 20, and CAC 40 Governance).

MENA Sohar 1 SPV Limited

Mena Sohar 1 SPV Limited is a wholly owned subsidiary of MENA Infrastructure. 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

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 power and water 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 is an ISO 9001:2015 certified company and 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. It includes a cash sweep mechanism intended to accelerate the repayment of the debt from September 2015, under which all cash available is fully devoted to the reimbursement of the debt until its full repayment. During this period, no cash is available to the shareholders for distribution of dividends.

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 few of the previous years. This dependence is expected to reduce once the new IWP in Sohar is in continuous operations.

Financial Highlights

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

All figures in RO million		2018	2017	2016	2015	2014
NP (Net Profit/loss) for the year	1	-10.939	2.030	4.543	3.756	4.414
Revenue	2	66.505	64.485	66.307	62.657	47.033
Total Assets	3	119.893	146.455	150.439	160.431	164.384
Capital	4	22.101	22.101	22.101	22.101	22.101
Debt (Long Term)	5	76.708	89.037	100.436	112.387	120.340
Debt & Capital	6	98.809	111,138	122.537	134.488	142.441
Ordinary Shares (in millions)	7	221.01	221.01	221.01	221.01	221.01
Net assets (before hedging deficit)	8	20.097	31.036	29.006	27.188	27.078

		2018	2017	2016	2015	2014
NP (Net Profit) Margin	1÷2	-16.4%	3.1%	6.9%	6.0%	9.4%
ROTA (Return on Total Assets)	1÷3	-9.1%	1.4%	3.0%	2.3%	2.7%
ROC (Return on Capital)	1÷4	-49.5%	9.2%	20.6%	17.0%	20.0%
Capital ratio (over Debt + Capital)	4÷6	22.4%	19.9%	18.0%	16.4%	15.5%
Ordinary Dividend (interim-current year)		-	-	4.1%	7.1%	8.6%
Ordinary dividend (Final-previous year)		-	-	8.2%	9.4%	11.0%
BEPS (Basic Earnings per share) Ratio	1÷7	-0.049	0.009	0.021	0.017	0.020
Net Assets per share	8÷7	0.091	0.140	0.131	0.123	0.123

Analysis of Results

Sohar Power registered a net loss of RO 10.939 million for the year 2018. A net profit of RO 2.030 million was registered in 2017. The negative variance of RO 12.963 million between the loss of 2018 and profit of 2017 is the net effect of the following elements:

- Impairment of the Desalination plant as a result of not qualifying the Water plant in the 2022 Power tender process, negative impact of RO 18.554 million.
- Power & Water capacity charges were reduced in 2018 as compared to previous year due to reduced tariff (as per PWPA), negative impact of RO 0.384 million.
- Lower incentive paid to the operator as a result of higher forced outages in 2018 and lower fuel margin, favourable impact of RO 0.128 million.
- 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 2018 favourably by RO 0.544 million.
- Lower tax expense as a result of reversal of deferred tax related to the impairment of the Desalination plant, favourable impact of RO 2.783 million.
- Higher deferred tax expense in 2017 due to the change in tax rate from 12% to 15%, favourable impact of RO 2.731 million.

Analysis of Balance Sheet

- Property, Plant & Equipment (PP&E) are depreciated consistently using the straight line method of depreciation. During 2018, the Company impaired its Desalination plant as it has not been prequalified by OPWP to submit a bid to extend its Desalination plant beyond the current PWPA term, the Company continued capitalizing the cost of decommissioning its PP&E, to be incurred at the end of the useful life of the plant.
- Trade debtors correspond to one month's invoice at the end of current year and one month at the end of previous year (as per PWPA).
- Cash in hand and at Banks at the end of 2018 were lower than the same at the end of previous year, on account of insurance compensation received in 2017.
- 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 3.515 million; the same was RO 6.163 million in 2017.

  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. An additional amount of RO 3.240 million was repaid during the year under the cash sweep mechanism.

Dividend Distribution

Under its Financing Agreements entered into with its lenders, Sohar Power is subject 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.

Outlook For 2019

Looking ahead, the Company expects to operate reliably and to deliver uninterrupted supply of power and water to its customer, while undertaking periodic maintenance activities, in a safe working environment for its employees, contractors and visitors.

During the year 2018, the Company engaged in the '2022 Power Procurement process' launched by OPWP. As part of the process, OPWP has notified the Company on 7 February 2019 that it has pre-qualified its Power only offer but did not pre-qualify its Power and Water offer. The Company has submitted a Binding Bid for its Power only offer on February 28, 2019 after seeking approval during the Ordinary General Meeting held on February 26, 2019.

As a consequence, the Company will not be able to extend the operations of its water desalination plant beyond the term of the current PWPA ending in March 2022. This situation triggered an impairment review of the Desalination plant which resulted in an impairment loss of RO 18.554 million that is recorded in the financial year 2018. The Useful life of the Desalination plant has also been revised to 15 years from the earlier estimate of 30 years. The Desalination plant will have a remaining useful life of three years starting January 2019 and the remaining book value will be amortized over the coming 3 years.

The Company's main objective for 2019 is to secure a new PPA with effect from 2022. In case SPC is unsuccessful in the Power 2022 Procurement process, the Company may operate in the Spot Market currently being developed in Oman, for which the rules are not yet finalised. Revenues will not be contracted in the Omani Spot Market. In view of the uncertainties surrounding the Spot Market, it is very difficult to predict the future of the Company in its current technical configuration, should it operate in the Spot Market, but it will be very challenging.

The Company is also subject to the changes in regulations prevailing in Oman (Commercial Companies Law, Value Added Tax, Withholding Taxes…) and other uncertainties that might adversely impact its financial position and its shareholders.

The energy transition is accelerating in Oman, caused by the continuous drop in prices for renewable energy such as photovoltaics and wind. This is likely to impact the competitiveness of existing conventional thermal plants and might substantially reduce their value beyond the term of their current P(W)PA.

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 while 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 maintains 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 following 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

Due to non-distribution of Dividend in 2018, transfer to the investors' trust fund in 2018, was not required.

BAKER TILLY
MKM (OMAN) LLC
Chartered Accountants

Office No. 201, 2nd Floor, Musandam Building, 'B' Wing, Ruwi
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بيكر تلي
أم كي أم (عمان) ش.م.م
محاسبون قانونيون

مكتب رقم : ٢٠١، الطابق ٢، بناية مسندم، جناح (ب)، روي
ص.ب : ٩٩٤، مسقط، الرمز البريدي ١٠٠، سلطنة عمان

REPORT ON FACTUAL FINDING IN CONNECTION WITH CORPORATE GOVERNANCE IN ACCORDANCE WITH CAPITAL MARKET AUTHORITY CODE OF CORPORATE GOVERANCE

TO THE SHAREHOLDERS OF SOHAR POWER COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) revised Code of Corporate Governance issued under Circular Number E/ 4/2015 dated 22 July 2015, Circular no. E/4/2016 dated 18 April 2018, and Circular E/10/2016 dated 1 December 2016, (Collectively referred to as the Code), with respect to the Board of Directors' Report on Corporate Governance of **SOHAR POWER COMPANY SAOG** ("the Company") and application of the corporate governance practices in accordance with CMA Code of Corporate Governance and its amendments, for the year ended 31 December 2018, and as supplemented by the Rules and Guidelines and Executive Regulation of the Capital Market Authority.

Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. The 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

- The Capital Market Authority (CMA) issued a Disciplinary Decision No. 10/2018, which stated that the Company was in violation of the Article 5 of the Capital Market Law and required the Company to restate its financial statements by recognizing the revenue on a straight-line basis.
- Except for the above, the Board of Directors' Corporate Governance Report 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 of the report in accordance with International Standards on Auditing, 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 Board of Directors'Corporate Governance Report included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of the Company taken as whole.

Baker Tilly MKM (Oman) LLC
(Chartered Accountants)
11 March 2019

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an independent member of
BAKER TILLY
INTERNATIONAL

تليفون : ٢٤٧٩٧٤٤١ / ٢٤٧٨٧١٤٤ / ٢٤٧٨٧١٤٨، فاكس : ٢٤٧٩٦٦٦٠
بريد الإلكتروني: www.bakertillyoman.com, info@bakertillyoman.com

CORPORATE GOVERNANCE REPORT

A new Code of Corporate Governance ("the Code") circular E/4/2015 dated 22 July 2015 for Public Listed companies was issued which was applicable from 22nd July 2016.

Sohar Power believes that the Code of Corporate Governance is an effective tool to improve operational and financial performance of listed companies. The 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 Fourteenth Principle 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, 2018.

Board of Directors

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 2018							2018
		22 FEB	12 APR	23 APR	19 JUL	03 SEP	30 OCT	Total	AGM
Mr. Wim Alen* (Chairman)	Non-Independent & Nominee	–	✓	✓	✓	✓	✓	5	✓
Mr. Sami Abdullah Khamis Al Zadjali (Vice Chairman)	Non-Independent & Nominee	✓	✓	✓	✓	✓	✓	6	✓
Mr. Damien Sage*	Non-Independent	–	▼	✓	✓	Proxy	✓	4	–
Mr. Hisham Salem Al Hadhrami*	Non-Independent	–	▼	✓	✓	Proxy	✓	4	–
Mr. Salim Ali Hamed Al Hasni*	Independent & Nominee	–	✓	✓	▼	✓	✓	5	
Mr. Zahran Salim Al Rashdi*	Independent	–	✓	✓	✓	✓	✓	5	–
Mr. Jeronimo Roura	Non-Independent & Nominee	▼	▼	▼	▼	X	▼	5	–
Mr. Ravindranath Venna	Independent	✓	▼	✓	✓	Proxy	▼	5	–
Mr. Kumail Majid Al Moosawi*	Non-Independent	–	✓	X	✓	✓	✓	4	–
Mr. Tashfen Yasin	Independent	✓	▼	✓	✓	✓	▼	6	–
Mr. Rodak Ali Iqbal	Independent	▼	▼	✓	✓	✓	✓	6	–
Ms. Miriam Youssef Khalaf*	Independent	–	–	–	–	✓	✓	2	–
Mr. Saif Abdullah Al Harthy (Chairman)**	Non-Independent & Nominee	✓	–	–	–	–	–	1	✓
Ms. Anne Stephanie Nguyen Qui (Vice Chairman)**	Non-Independent	–	–	–	–	–	–	0	–
Mr. Navneet Kasbekar**	Independent	✓	–	–	–	–	–	1	✓
Mr. T.N. Sunderaraju**	Non-Independent & Nominee	✓	–	–	–	–	–	1	–
Mr. Ahmed Sultan Al Yaqoobi**	Non-Independent & Nominee	✓	–	–	–	–	–	1	✓
Ms. Isabelle Gunay Demir***	Independent	▼	▼	X	▼	–	–	3	–

* Appointed during the year.
** Term Completed on March 2018
*** Resigned during the year
▼ Attended by Video

b. Directorship / membership of the Company's directors in other SAOG companies in Oman held during the year.

Name of Directors	Position held	Name of the Company
Mr. Sami Abdullah Khamis Al Zadjali	Member	Muscat Gases Company SAOG
Mr. Kumail Majid Al Moosawi	Member Vice Chairman	Oman Flour Mills SAOG Oman Cement Company SAOG

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, risk management, 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 2018				
		19 FEB	22 APR	18 JUL	29 OCT	Total
Mr. Zahran Salim Al Rashdi*	Chairman	–	✓	✓	✓	3
Mr. Rodak Iqbal *	Member	✓	✓	✓	✓	4
Mr. Tashfen Yasin	Member	✓	✓	✓	▼	4
Mr. Navneet Kasbekar**	Chairman	✓	–	–	–	1
Ms. Isabelle Gunay Demir***	Member	✓	–	–	–	1

* Appointed during the year.
** Term Completed on March 2018
*** Resigned during the year
▼ Attended by Video

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.

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

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.
- Carrying out evaluation of the Board and sub-Committees.

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 2018		
		22 Feb	18 Jul	Total
Mr. Salim Ali Hamed Al Hasni*	Chairman	–	✓	1
Mr. Damien Sage*	Member	–	✓	1
Mr. Tashfen Yasin*	Member	–	✓	1
Ms. Anne Stephanie Nguyen Qui **	Chairman	x	–	0
Mr. Jeronimo Roura**	Member	▼	–	1
Mr. Rodak Iqbal**	Member	✓	–	1

* Appointed during the year.
** Term Completed on March 2018
▼ Attended by Video

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 27 March 2018 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 Nil.

The Company does not pay sitting fees for participation in Board sub-committees meetings, except for the Audit Committee meetings and the Nomination of Remmuneration Committee 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.

Total sitting fees paid to Directors as appended in table below also include fees for attendees in Audit Committee and NRC meeting where applicable.

#	Name of Director	Total no. of meetings	Total Sitting fees paid in RO	Total Remuneration in RO
1	Mr. Wim Alen*	5	2,000	0.000
2	Mr. Sami Abdullah Khamis Al Zadjali	6	2,400	0.000
3	Mr. Damien Sage*	1+4	1,800	0.000
4	Mr. Hisham Salem Al Hadhrami*	4	1,600	0.000
5	Mr. Salim Ali Hamed Al Hasni*	1+5	2,200	0.000
6	Mr. Zahran Salim Al Rashdi*	3+5	2,600	0.000
7	Mr. Jeronimo Roura ▼	1+2	1,000	0.000
8	Mr. Ravindranath Venna	5	2,000	0.000
9	Mr. Kumail Majid Al Moosawi*	4	1,600	0.000
10	Mr. Tashfen Yasin	1+4+6	3,400	0.000
11	Mr. Rodak Ali Iqbal	1+3+6	3,200	0.000
12	Ms. Miriam Youssef Khalaf*	2	800	0.000
13	Mr. Saif Abdullah Al Harthy (Chairman)**	1	400	0.000
14	Ms. Anne Stephanie Nguyen Qui (Vice Chairman)**	0	-	0.000
15	Mr. Navneet Kasbekar **	1+1	600	0.000
16	Mr. T.N. Sunderaraju**	1	400	0.000
17	Mr. Ahmed Sultan Al Yaqoobi **	1	400	0.000
18	Ms. Isabelle Gunay Demir***▼	1+2	1,000	0.000
		TOTAL	**27,400**	**0,000**

* Appointed during 2018

** Term Completed on March 2018

*** Resigned during 2018

▼ Attended by Video (Restricted to two for remuneration purpose)

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 2019, 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 190,630/-.

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 2018, 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.

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 year Board evaluation and appraisal was performed by Key Note Services.

Non-Compliance Penalties

As mentioned in the Board of Directors report the Appeal Committee of CMA issued a decision (Decision 2/2018) dated 3 October 2018 (“Decision”) confirming Decision 10/2018 of the Disciplinary Committee of the CMA issued on 16 May 2018, warning the Company that it is in violation of Article 5 of the Capital Market Law and instructing it to restate its financial statements. After consulting with its legal advisor, the Company appealed against the Decision before the Administrative Court of Oman.

No other 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	0.144	0.145	0.145	2619.630
Feb	0.123	0.132	0.127	2631.570
Mar	0.116	0.117	0.117	2605.700
Apr	0.115	0.117	0.116	2525.350
May	0.114	0.115	0.115	2475.720
Jun	0.113	0.113	0.113	2474.990
Jul	0.114	0.115	0.115	2377.800
Aug	0.116	0.117	0.117	2375.710
Sep	0.114	0.114	0.114	2465.710
Oct	0.120	0.121	0.121	2390.210
Nov	0.122	0.123	0.123	2353.800
Dec	0.119	0.120	0.120	2302.370

Distribution of Shareholding

The Shareholder pattern as on 31 December 2018:

Category of shareholders	Number of Shareholders	Total Shares	Share capital %
Major Shareholders	6	190,221,521	86.069
Shareholders less than 5% more than 1%	1	2,888,300	1.307
Shareholders below 1%	8,122	27,900,179	12.624
TOTAL	**8,129**	**221,010,000**	**100.000**

Professional Profile of the Statutory Auditors

Our external auditors for the 2018 financial year are Baker Tilly MKM (Oman) LLC (“Baker Tilly Oman”). Baker Tilly Oman is members of a group, headquartered in Dubai, which operates 20 offices with over 250 staff throughout the MENA region. The group and all its member firms are in turn part of Baker Tilly International, whose global office is in London, UK. Baker Tilly International is one of the top 10 largest firms of accountants in the world, with over 33,000 staff in 769 offices worldwide.

The audit fee paid to Baker Tilly Oman for the 2018 financial year was RO. 12,250.

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.

ANNEXURE

BRIEF PROFILES OF CURRENT DIRECTORS

Name	**Wim ALEN – Chairman**
Year of Joining	2018
Education	Master's in Finance, Master in Business Administration, Master in Economics.
Experience	Head of Asset Management 2018 to present, SVP Business Development – 2013 to 2017, SVP Acquisition, Investment & Financial Advisory 2006 to 2013.

Name	**Sami Abdullah Khamis AL-ZADJALI - Vice Chairman**
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 20 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, became Managing Director in January 2013, and was CEO of MENA Infrastructure from 1 August 2014 until 19 June 2018. 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	Damien Michel SAGE
Year of Joining	2018
Education	MSc in fluid mechanic, Engineer
Experience	Engie Senior Asset Manager in GCC region 2016 to present- ENGIE France, New business and stakeholder relation manager, Head of offshore wind farm development, Head of onshore wind farm development - Entrepreneur in Poland – CEGOS Project management, innovation and KM consultant.
	

Name	Salim Ali AL HASNI
Year of Joining	2018
Education	Bachelor in Marketing SQU, Master of Project Management - University of Manchester UK
Experience	Assistant Director of Projects - Deputy Director of Royal Air Force of Oman contracts, Deputy Director of Ministry of Defence, Royal Army of Oman, Chairman of Reem Batteries Company
	

Name	Zahran Salim AL RASHDI
Year of Joining	2018
Education	Master of Civil Engineering (Engineering Development) Bachelor of Mechanical Engineering
Experience	Customer service Manager – PAEW , Senior Operation Manager , Assistant Manager of Water Muscat , Manager of Water Distribution
	

Name	**Hisham Salem AL HADHRAMI**
Year of Joining	2018
Education	Bachelor's in Industrial Engineering
Experience	Jr. Business Developer at ENGIE Middle East, South Central Asia and Turkey (MESCAT) (October 2017 to present). Beforehand Mr. Hisham was a Business Analyst for the Asset Management team of ENGIE MESCAT (September 2015 to October 2017)

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	**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	**Ravindranath VENNA**
Year of Joining	2017
Education	Bachelor's degree in Mechanical Engineering and Master's degree in Business Management.
Experience 	Over 25 years of experience and knowledge about Commissioning, Establishment, Maintenance and Engineering aspects. He is proficient in Managing CSA›s with corporates like GE and has an expertise in handling Major maintenances and Asset Management. Previously headed Engineering department at Tihama Power Gen (ENGIE)-group of four power plants in Saudi. He also has a prior experience working with several power plants in India–Rolls Royce/GMR/PSEG/NFCL. Currently Leading Maintenance department for AZN O&M (combined cycle power plant 1500MW and 108MIGD of water desalination plant) in Kuwait.

Name	**Kumail Majid Al MOOSAWI**
Year of Joining	2018
Education	Bachelor in Economics, Accounting diploma
Experience 	Mr. Al Moosawi is working with Ministry of Finance for the last 38 years. He is presently Director General of Financial Planning in Ministry of Finance

Name	**Miriam Youssef KHALAF**
Year of Joining	2018
Education	MBA from INSEAD and BA in Economics from American University of Beirut
Experience 	Ms. Khalaf is an Executive Director within Waha Capital's Private Investments vertical. Waha Capital is an Abu Dhabi-based, ADX-listed investment holding company and operates through two divisions, Asset Management and Private Investments, managing proprietary and third party capital invested across a number of sectors and geographies. Ms. Khalaf is responsible for managing strategic proprietary investments, deploying capital in new investments, and delivering successful exits. Prior to joining Waha Capital, Ms. Khalaf held various positions at The National Investor (Abu Dhabi-based boutique investment bank) and Moody's (credit rating agency).

ANNEXURE

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 Management and Finance, ISC Paris Business School; Management Program CEDEP/INSEAD, France and University Degree in Business and Administration, Université de Toulon
Experience 	Mr. Baudet has more than 21 years of experience in the fields of finance and general management, acquired in the automotive industry and subsequently in the power and water generation industry. After 11 years spent in the automotive industry in Europe and North America, Mr. Baudet joined GDF SUEZ (now ENGIE) Energy International in 2007 as Head of Business Control for the MENA region and subsequently took up the position of CFO at Hidd Power Company in Bahrain. Guillaume Baudet is the CEO of Sohar Power Company SAOG since 2013.

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 41 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 14 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	**Salah AL FARSI**
Year of Joining	1995
Education	General Education Diploma
Experience 	Mr. Al Farsi was promoted in 2017 to the Administration Manager position, replacing Mr. Jamal Al Balushi who retired. Salah Al Farsi has accumulated 24 years of experience in administration activities, including management of spare parts logistics, liaisons with government organizations, licensing and permitting, translation activities and supervision of local insurance programs.

الشركة الرئيسية للخدمات ش م م
Keynote Services LLC
P.O. Box 117, Mina Al Fahal, Postal Code 116, Sultanate of Oman
Mobile No. (968) 99366328, Email: yhmi95i@omantel.net.om, C.R. No. 1172224

Report of the Independent Consultant on the Performance Appraisal of the Board of Directors for 2018

21 February, 2019

The Shareholders
Sohar Power Co. SAOG
P. O. Box 147,Jawharat A'Shatti P. C.134,
Sultanate of Oman

Sohar Power Co. SAOG at its Annual General Meeting held on 27th March 2018 appointed Keynote Services L.L.C. to carry out the Performance Appraisal of the Board of Directors and its members for 2018. Our appointment entailed a review of the Company's corporate and statutory documents, the minutes of the Board and Committee meetings, policies currently in place and other ancillary documents made available to us. It also included analyzing questionnaire administered as well as information derived from our interactions with few Board members and Senior Management of the Company. We benchmarked the Company's corporate governance structures, policies and processes against the provisions of Code of Corporate Governance issued by the Capital Market Authority (CMA) of Sultanate of Oman.

In undertaking the performance Appraisal, we considered the following performance criteria approved and adopted by the Company;

1. Board Composition, Quality and Diversity
2. Planning and Conduct of meetings
3. Attendance and preparation of meetings
4. Leadership & Board dynamics
5. Relationship with Senior Management
6. Relationship with the stakeholders
7. Independence and conflicts of interest
8. Contribution of professional skills
9. Strategy, Risk Governance and Internal Controls
10. Reserved powers and key issues
11. Contribution to Stakeholder value
12. Governance Structure & Processes

The Board of the Directors of the Company is responsible to put in place the structure, policies and processes that will ensure that the Company is governed effectively in meeting its objectives.

As a Consultant, our responsibility is to draw conclusion on the effectiveness of these structures, policies and processes based on our review of the Board's activities and performance for 2018; and as outlined in our proposal. Following our review, we have provided the details of our findings; highlighted areas of improvements and made recommendations aimed at further improving the performance of the Board as a whole and its directors.

Based on the approved criteria, information available with us and on the inputs from the filled in questionnaires, it can be concluded that the Board's performance for 2018 was **Very Satisfactory** and it is effective in meeting its objectives.

However, we recommended that:

I. The annual internal audit planning should be in line with the risk assessments. Also, to improve the quality of internal audit, a quality assessment of the Internal Audit function by the external agency should be conducted and the internal audit charter may be reviewed and updated.

II. To assess the speed and completeness of management's performance of instructions and closure of action items, an exercise should be conducted to assess the implementation by the management.

III. The Board should continue to spend further effort and time on educating Directors on new matters, risks and challenges.

IV. The Board should focus more on long term strategy mainly in relation to spot market and post PPA strategy.

V. The Board should undertake a formalized Stakeholder Review on an annual basis to align with any Enterprise Risk Matrix.

Detail of our findings on Performance Appraisal of the Board of Directors and Self-Appraisal of the Board Directors is given in our detailed report.

Keynote Services L.L.C.

Yashpal Mehta
Managing Director

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KEYNOTE SERVICES L.L.C.

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أم كي أم (عمان) ش.م.م
محاسبون قانونيون

مكتب رقم : ٢٠١، الطابق ٢، بناية مسندم، جناح (ب)، روي
ص.ب : ٩٩٤، مسقط، الرمز البريدي ١٠٠، سلطنة عمان

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SOHAR POWER COMPANY SAOG

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Qualified Opinion

We have audited the financial statements of **SOHAR POWER COMPANY SAOG** ("the Company"), a public listed company registered under the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman, which comprise the statement of financial position as at **31 December 2018,** and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, except for the effects 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 **SOHAR POWER COMPANY SAOG** as at **31 December 2018,** 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 was established to undertake a project to Build, Own and Operate ("BOO") a power station and water desalination plant at Sohar. The Company has entered into a long-term Power and Water Purchase Agreement (PWPA) with Oman Power and Water Procurement Co. SAOC (OPWP) for a period of fifteen years commencing from the scheduled Commercial Operation Date of 28 May 2007. Such a project/arrangement falls within the scope of IFRIC 4 "Determining whether an arrangement contains a lease" which requires the Company to recognise revenue in accordance with IAS 17, i.e. to recognize operating lease revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the use benefit derived from the leased asset. As mentioned in note 4 to the financial statements, the Company is recognising revenue as per payment profile of the PWPA, considering it to be an alternative basis for revenue recognition under IAS 17. The management is of the view that recognising revenue on a straight-line basis will result in unfair presentation of the economic reality. However, as mentioned in note 3a to the financial statements, the CMA ("the Regulator") has required the Company to recognise the operating lease revenue on a straight-line basis. As per the Regulator, the Company has breached the requirements of the IFRSs by not recognising the operating lease revenue on a straight-line basis. As a result, the financial statements of the Company should recognise the revenue on a straight-line basis. However, the Company has not restated its financial statements and has reported revenue for the current year on the basis of payment profile of the PWPA, rather than on a straight-line basis. The Company's records indicate that, had the revenue been recognised on a straight-line basis, the accumulated losses as at 31 December 2018 would have been increased by an estimated amount of RO 4.8 million and the same amount would have been recorded as deferred revenue as a liability in the statement of financial position.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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تليفون : ٢٤٧٩٧٤٤١ / ٢٤٧٨٧١٤٤ / ٢٤٧٨٧١٤٨، فاكس : ٢٤٧٩٦٦٦٠
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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SOHAR POWER COMPANY SAOG - *Continued*

Basis for Qualified Opinion - *Continued*

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

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. 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 described in the *Basis for Qualified Opinion section* we have determined the matters described below to be the key audit matters.

Hedge accounting

The Company entered into swap agreements to manage its exposure to interest rate risk. As at 31 December 2018, these swap agreements (hedging instruments) have given rise to derivative financial assets of RO 3,514,000 (USD 9,127,000) [2017: RO. 6,163,000 (USD. 16,008,000)] and derivative financial liabilities of RO 4,365,000 (USD 11,338,000) [2017: RO. 7,423,000 (USD. 19,281,000)]. These swap agreements have been treated as cash flow hedges and recorded at their fair values at the time of initial recognition. Any gain/loss arising on changes in fair values of hedging instruments will be recognized in the statement of other comprehensive income until the maturity date, at which time it will be transferred to the statement of profit or loss. The Company is required to test on an ongoing basis whether the hedging instruments are highly effective in off-setting changes in fair values or cash flows of the hedged item. Accordingly effective and ineffective portions, if any, will be recognised in the statement of other comprehensive income and the statement of profit or loss, respectively. The hedge accounting necessitates a sophisticated system to record these swap agreements and keep track of the changes after the initial recognition. The valuation of hedging instruments and determination of hedge effectiveness involve a significant degree of complexity and judgement. Consequently, we have determined hedge accounting to be a key audit matter.

Our audit procedures included checking the hedge effectiveness computations for reasonableness, reviewing swap agreements and related workings, on a sample basis, and checking that the hedging instruments have been appropriately recorded at their fair values. We have checked that effective and in-effective portions of the hedge have been appropriately recognised in the financial statements. We also requested confirmations from third parties regarding fair values of the hedging instruments as at the reporting date.

Impairment of water desalination plant

As mentioned in note 5.3, the Company's existing long-term agreement for generation of electricity and production of water at Sohar ("PWPA") is expected to end by April 2022. Therefore, the Company decided to participate in the "2022 Power procurement process" launched by the OPWP ("the Tender"). However, the Company only pre-qualified for supply of power, as per the notification from the OPWP dated 7 February 2019. As a consequence, the Company will not be able to extend the operations of its water desalination plant beyond the term of the current PWPA. The impairment review carried out at the end of the year revealed a "value in use" of the plant of RO 21.649 million against its estimated "net book value" of RO 40.203 million. This resulted in recognition of an impairment loss of OMR 18.554 million in the financial statements of the Company for the year ended 31 December 2018. Moreover, this also resulted in revision of the useful life of the water desalination plant to 15 years from the earlier estimate of 30 years. We focused on this area because of the materiality of the amounts involved.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SOHAR POWER COMPANY SAOG - *Continued*

Key Audit Matters - *Continued*

Impairment of water desalination plant - Continued

Our audit procedures included checking the calculations made by the Company for "value in use" of the water desalination plant. We have checked the valuation report of the independent expert used to estimate "net book value" of the property, plant and equipment of the Company as at end of the year. We have also checked reasonableness of disclosures and presentation of the impairment relating to water desalination plant in the financial statements of the Company.

Other Information included in the Annual Report for the year ended 31 December 2018

The Management of the Company along-with those charged with Governance are responsible for the Other Information included in the Annual report of the Company for the year ended 31 December 2018. The Other Information includes any thing included in the Annual Report in addition to the financial statements and audit report on those financial statements and the Company's compliance with the Code of Corporate Governance for the year ended 31 December 2018.

Our opinion on the financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

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 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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards, the requirements of the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman 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, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SOHAR POWER COMPANY SAOG - *Continued*

Auditor's Responsibilities for the Audit of the Financial Statements - *Continued*

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.
- 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 management, 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 management 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 management, 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.

Report on Other Legal and Regulatory Requirements

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the financial statements of **SOHAR POWER COMPANY SAOG** as at **31 December 2018**, in all material respects, comply with the requirements of the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Awad Bamukhalef.

Baker Tilly MKM (Oman) LLC
Muscat
11 March 2019

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Statement of Financial Position

as at 31 December 2018

	Notes	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
ASSETS					
Non-current assets:					
Property, plant and equipment	5	**105,373**	130,584	**273,697**	339,179
Current assets:					
Inventories		**766**	727	**1,989**	1,888
Trade and other receivables	6	**5,843**	5,846	**15,176**	15,185
Cash at bank and on hand	7	**7,911**	9,298	**20,548**	24,151
Total current assets		**14,520**	15,871	**37,713**	41,224
Total assets		**119,893**	146,455	**311,410**	380,403
EQUITY AND LIABILITIES					
Shareholders' equity:					
Share capital	8a	**22,101**	22,101	**57,405**	57,405
Legal reserve	8b	**3,911**	3,911	**10,160**	10,160
Accumulated losses/retained earnings		**(5,915)**	5,024	**(15,364)**	13,054
Total shareholders' equity		**20,097**	31,036	**52,201**	80,619
Hedging reserve - net of tax	9	**(3,514)**	(6,163)	**(9,127)**	(16,008)
Total capital and reserves		**16,583**	24,873	**43,074**	64,611
Non-current liabilities:					
Hedging deficit	9	**4,365**	7,423	**11,338**	19,281
Non-current portion of long term loans	10	**67,091**	78,125	**174,262**	202,923
Provision for decommissioning costs	11	**1,577**	1,483	**4,096**	3,853
Deferred tax liability	19b	**10,149**	12,736	**26,362**	33,081
Total non-current liabilities		**83,182**	99,767	**216,058**	259,138
Current liabilities:					
Current portion of long term loans	10	**9,617**	10,912	**24,979**	28,343
Trade and other payables	12	**8,703**	9,206	**22,604**	23,904
Amount due to a related party	13a	**474**	1,040	**1,231**	2,701
Provision for taxation	19c	**1,334**	657	**3,464**	1,706
Total current liabilities		**20,128**	21,815	**52,278**	56,654
Total equity and liabilities		**119,893**	146,455	**311,410**	380,403
Net assets per share	20	**0.091**	0.140	**0.236**	0.364

These financial statements set out on pages 46 to 79 were approved and authorised for issue by the Board of Directors on 11 March 2019 and were signed on their behalf by:

....

Chairman Director

The accompanying notes form an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2018

	Notes	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Revenue	14	**66,505**	64,485	**172,740**	167,494
Cost of revenue	15	**(72,945)**	(52,169)	**(189,467)**	(135,503)
Gross (loss)/profit		**(6,440)**	12,316	**(16,277)**	31,991
Other income	16	**220**	330	**571**	857
		(6,220)	12,646	**(16,156)**	32,848
EXPENSES:					
General and administrative expenses	17	**(932)**	(777)	**(2,423)**	(2,020)
Finance costs	18	**(5,713)**	(6,257)	**(14,840)**	(16,252)
Total expenses		**(6,645)**	(7,034)	**(17,263)**	(18,272)
(Loss)/profit before taxation		**(12,865)**	5,612	**(33,419)**	14,576
Income tax (reversal)/expense	19a	**1,926**	(3,582)	**5,002**	(9,304)
Net (loss)/profit for the year		**(10,939)**	2,030	**(28,417)**	5,272
Other comprehensive income:					
Fair value gain on interest rate swaps	9	**3,058**	3,209	**7,943**	8,334
Related taxation	19a	**(460)**	(163)	**(1,195)**	(423)
Total other comprehensive income for the year		**2,598**	3,046	**6,748**	7,911
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(8,341)**	5,076	**(21,669)**	13,183
Earnings per share - Basic and diluted	21	**(0.049)**	0.009	**(0.129)**	0.024

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2018

	Share Capital	Legal reserve	(Accumulated losses) / retained earnings	Hedging deficit	Total	Total
	RO (000)	RO (000)	RO (000)	RO (000)	RO (000)	USD (000)
For the year ended 31 December 2018:						
Balance at beginning of the year	**22,101**	**3,911**	**5,024**	**(6,163)**	**24,873**	**64,611**
Net (loss) for the year	**-**	**-**	**(10,939)**	**-**	**(10,939)**	**(28,417)**
Other comprehensive income for the year	**-**	**-**	**-**	**2,598**	**2,598**	**6,748**
Transfer to legal reserve	**-**	**-**	**-**	**-**	**-**	**-**
Ineffective portion of cash flow hedge (note 9)	**-**	**-**	**-**	**51**	**51**	**132**
Balance at end of the year	**22,101**	**3,911**	**(5,915)**	**(3,514)**	**16,583**	**43,074**
For the year ended 31 December 2017:						
Balance at beginning of the year	22,101	3,708	3,197	(9,356)	19,650	51,046
Net profit for the year	-	-	2,030	-	2,030	5,272
Other comprehensive income for the year	-	-	-	3,046	3,046	7,911
Transfer to legal reserve	-	203	(203)	-	-	-
Ineffective portion of cash flow hedge (note 9)	-	-	-	147	147	382
Balance at end of the year	22,101	3,911	5,024	(6,163)	24,873	64,611

The accompanying notes form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2018

	Notes	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Operating activities:					
Net (loss)/profit before taxation		**(12,865)**	5,612	**(33,419)**	14,576
Adjustments to net profit to arrive at net cash flow from operating activities:					
Depreciation	5	**6,750**	6,744	**17,532**	17,517
Finance costs	18	**5,713**	6,257	**14,839**	16,252
Impairment relating to water desalination plant	5	**18,554**	-	**48,192**	-
Operating profit before changes in working capital		**18,152**	18,613	**47,144**	48,345
Movements in working capital:					
(Decrease) in inventories		**(39)**	(36)	**(100)**	(94)
Decrease/(increase) in trade and other receivables		**3**	(646)	**8**	(1,678)
(Decrease)/increase in trade and other payables		**(504)**	1,042	**(1,309)**	2,707
(Decrease)/increase in amount due to a related party		**(566)**	754	**(1,469)**	1,958
Cash generated from operations		**17,046**	19,727	**44,274**	51,238
Payment of finance costs		**(5,320)**	(5,749)	**(13,816)**	(14,932)
Payment of income tax	19c	**(444)**	-	**(1,154)**	-
Net cash generated from operating activities		**11,282**	13,978	**29,304**	36,306
Investing activities:					
Purchase of property, plant and equipment	5	**(93)**	(157)	**(242)**	(408)
Net cash (used in) investing activities		**(93)**	(157)	**(242)**	(408)
Financing activities:					
Net movement in long term loans		**(12,576)**	(11,673)	**(32,665)**	(30,318)
Net cash (used in) financing activities		**(12,576)**	(11,673)	**(32,665)**	(30,318)
Net (decrease)/increase in cash and cash equivalents		**(1,387)**	2,148	**(3,603)**	5,580
Cash and cash equivalents at beginning of the year		**9,298**	7,150	**24,151**	18,571
Cash and cash equivalents at end of the year	7	**7,911**	9,298	**20,548**	24,151

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2018

1 Legal status and principal activities:

SOHAR POWER COMPANY SAOG ("the Company") was initially registered as a Closed Joint Stock Company under the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman on 17 July 2004 and was incorporated on the 22 June 2004. The shareholders in their extra-ordinary General Meeting held on 23 March 2008 resolved to convert the Company from a Closed Joint Stock Company into a Public Listed Joint Stock Company. The commercial operation date (COD) of the Company was determined to be 28 May 2007.

The Company was established to Build, Own and Operate ("BOO") a 585 Mega Watt (MW) electricity generation station and a 33 Million Imperial Gallon (IG) per day of water desalination plant at Sohar.

The Company's principal place of business is located at Sohar and the registered office address of the Company is Post Box 147, Postal Code 134, Jawharat Al Shatti, Sultanate of Oman.

2 Significant agreements:

The Company has entered into the following significant agreements with various parties:

a. Power and Water Purchase Agreement ("PWPA"):

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.

b. Natural Gas Sales Agreement:

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.

c. Sub-usufruct Agreement:

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

2 Significant agreements - Continued:

d. Sea-water Extraction Agreement:

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. This agreement was later novated to Majis Industrial Services SAOC ("Majis Oman").

e. Operation and Maintenance Agreement (O&M):

Operation and Maintenance Agreement ("O&M" Agreement) with Sohar Operation and Maintenance Company LLC, a related party, for the operation 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.

f. Financing Agreements:

Financing agreements with lenders for long-term loan facilities.

g. Management Company Agreement:

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

3 Basis of preparation and adoption of new and revised IFRSs:

a. Statement of compliance:

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

There is a difference of opinion between the Company and the CMA ("the Regulator") regarding the revenue recognition policy of the Company. As per the requirements of the Regulator (Authority for Electricity Regulation, Oman), the Company is required to recognise the operating lease revenue in line with the payment profile of the PWPA, i.e. other than on a straight-line basis (which is a recommended method of recognising lease revenue as per IAS 17 and IFRIC 4). The management believe that recognizing lease revenue in line with the payment profile gives more true and fair picture of the Company's performance, as it matches revenue with expenses which have a decreasing trend over the period of the contract. The management believe that the financial statements prepared as per the requirement of the regulatory framework give a true and fair view as they are complying with paragraph 50 of IAS 17, which allows operating lease revenue to be recognized on a systematic basis other than straight-line, if that basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. The Regulator, however, is of the opinion that the Company should recognize revenue on a straight-line basis.

Notes to the financial statements

for the year ended 31 December 2018

3 Basis of preparation and adoption of new and revised IFRSs - Continued:

a. Statement of compliance: - Continued:

According to the Regulator, by not recognising the operating lease revenue on a straight-line basis, the Company has breached the requirements of IFRSs. Therefore, in the Regulator's opinion, the financial statements of the Company need to be restated in order for them to comply with IFRS. Consequently, the Disciplinary Committee of the CMA required the Company to restate its financial statements in accordance with the straight-line basis of revenue recognition through its decision no. 10/2018, dated 17 May 2018. The decision highlighted the Company's violation of Article 5 of the Capital Market Law, which requires regulated companies to prepare their balance sheets and financial statements in accordance with recognised accounting principles. The Company filed an appeal in the Appellate Committee of the CMA against the decision of the Disciplinary Committee of the CMA. The Appellate Committee gave its decision in favor of the Disciplinary Committee, through its decision no. 2/2018, dated 3 October 2018. Subsequently, the Company filed a case before the Administrative Court against the decision of the Appellate Committee. The Administrative Court has issued its judgement on 3 March 2019, rejecting the case. The Company still has the right to appeal the judgment.

b. Basis of preparation:

These financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value.

c. Functional currency:

These financial statements are presented in Rial Omani (RO) since this is the functional currency of the Company and United States Dollars (USD), rounded off to the nearest thousand.

d. Adoption of new and revised International Financial Reporting Standards (IFRSs):

For the year ended 31 December 2018, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2018.

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

The new and revised Standards and Interpretations in issue but not yet effective at the date of these financial statements have not been adopted in these financial statements. Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements in the period of initial application.

New and revised IFRSs in issue and effective

The following new and revised standards, improvements, amendments and interpretations issued are effective for the first time for periods beginning on or after 1 January 2018 and have been adopted in the preparation of these financial statements.

3 Basis of preparation and adoption of new and revised IFRSs - Continued:

d. Adoption of new and revised International Financial Reporting Standards (IFRSs): - Continued:

- IAS 28 Investments in Associates and Joint Ventures
- IAS 40 Investment Property
- IFRS 2 Share-based Payment
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

The adoption of these new standards, improvements, amendments and interpretations did not have a material impact on the Company for the year ended 31 December 2018, except for the adoption of IFRS 9 and IFRS 15 which are further discussed below:

IFRS 9 (FINANCIAL INSTRUMENTS):

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 did not have any significant impact on the Company's financial position and the results of its operations for the year ended 31 December 2018 nor on the opening retained earnings.

From 1 January 2018, the Company assesses on a forward-looking basis, the expected credit losses associated with its trade receivables (Contract assets within the scope of IFRS 15 as well as lease receivables) and other financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the trade receivables.

There have been no changes to the classification or measurement of financial assets or liabilities as a result of the application of IFRS 9.

IFRS 15 (REVENUE FROM CONTRACTS WITH CUSTOMERS):

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Notes to the financial statements

for the year ended 31 December 2018

3 Basis of preparation and adoption of new and revised IFRSs - Continued:

d. Adoption of new and revised International Financial Reporting Standards (IFRSs): - Continued:

The standard requires the Company to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The adoption of IFRS 15 did not have any significant impact on the Company's financial position and results of operations for the year ended 31 December 2018 nor on the opening retained earnings, because the Company is required to recognize operating lease revenue as per requirements of IAS 17 and IFRIC 4.

New and revised IFRSs in issue but not yet effective

The following new accounting standards, improvements, interpretations and amendments have been issued, but are not mandatory and hence have not been early adopted by the Company in preparing the financial statements for the year ended 31 December 2018. The Company intends to apply these standards from the application date as indicated below.

- IAS 1 Presentation of Financial Statements (1 January 2020)
- IAS 12 Income taxes (1 January 2019)
- IAS 19 Employee benefits (1 January 2019)
- IAS 23 Borrowing costs (1 January 2019)
- IAS 28 Investments in Associates and Joint Ventures (1 January 2019)
- IFRIC 23 Uncertainty over Income Tax Treatments (1 January 2019)
- IFRS 11 Joint Arrangements (1 January 2019)
- IFRS 16 Leases (1 January 2019)
- IFRS 3 Business Combinations (1 January 2019)
- IFRS 9 Financial Instruments (1 January 2019)
- IFRS 17 Insurance Contracts (1 January 2019)

Management anticipates that all of the above standards will be adopted by the Company to the extent applicable, from their effective dates. Management is currently assessing the impact that IFRS 16 could have on the Company. Otherwise, the adoption of these standards and amendments is not expected to have any material impact on the financial statements of the Company in the period of their initial application.

4 Summary of significant accounting policies:

Power and Water Purchase Agreement ("PWPA")

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 recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the use benefit of the asset.

The management has reviewed the applicability of IAS 17 and IFRIC 4 and concluded that, although the PWPA conveys a right of use of the Company's plant consistent with an operating lease arrangement, the income from that right is only one component of the billing arrangements. Costs are other component of the billing arrangements. Tariff rates as per the PWPA as well as costs have a decreasing trend over the period. Therefore, revenue should be recognised as per payment profile of the PWPA as it is a systematic basis and gives true and fair presentation as compared to the straight-line basis (i.e. recommended method of revenue recognition under IAS 17) by allowing revenues to be recognized on the same basis as costs (i.e. decreasing over the period), to ensure stable profits before tax over time. The management's view is that recognising revenue on a straight line basis will result in unfair presentation of the economic reality and would not reflect a fair value of amounts earned in any one reporting period. This view is supported in that:

- Any change in the recognition of revenue from the billing pattern will not be consistent with the intention of the PWPA and other project arrangements. The Regulatory Accounting Guidelines 1/2010 issued by the Authority for Electricity Regulation requires the Company to recognize the revenue as per the payment profile of the PWPA, in which tariff rates are reducing at a constant rate each year over the term of the agreement;

- Recognising income on a straight-line basis without considering the pattern of related costs (such as finance costs which are significantly higher in earlier years and lower in later years) would result in uneven distribution of results of operations over the term of the contract, so that there would be lower profits in earlier years; and

- The recognition of deferred revenue as a liability that arises from the application of IFRIC 4 would not be consistent with the principle that liabilities should only be recognised if any event has occurred with a "present obligation".

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, evidenced by:

- The off-taker's, i.e. Oman Power and Water Procurement Co. SAOC, acceptance of the decreasing tariff, recognizing 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;

Notes to the financial statements

for the year ended 31 December 2018

4 Summary of significant accounting policies - Continued:

Power and Water Purchase Agreement ("PWPA") - Continued:

- 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.

Therefore, the management concluded that recognition of revenue as per the requirements of the PWPA, and the Regulatory Accounting Guidelines 1/2010, is a fair presentation of the economic reality and as such, is allowed by IFRSs in order to obtain a true and fair view.

A summary of significant accounting policies adopted in the preparation of these financial statements is set out below:

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

Depreciation is charged to the statement of profit or loss and other comprehensive income on a straight-line method using estimated rates of depreciation. The estimated usefule economic lives for the current and comparative periods are as follows:

	General	Water desalination plant
Buildings	30 years	15 years
Plant and machinery	30 years	15 years
Technical parts	30 years	15 years
Other assets	4 years	-
Decommissioning costs (asset)	30 years	-

If there is an indication that there has been a significant change in the useful economic life of a particular asset, the depreciation of that asset is revised prospectively to reflect the new expectations. In 2018, the Company revised useful life of fixed assets relating to the water desalination plant to 15 years from the initial estimate of 30 years, resulting in remaining useful life of 3 years of the water desalination plant. There was no change in depreciation for the current year due to impairment of the water desalination plant. Assuming assets relating to the water desalination plant are held until the end of their estimated useful life, depreciation in future years in relation to these assets will be increased by an estimated amount of RO 5,024,000 per year, as follows:

4 Summary of significant accounting policies - Continued:

a. Property, plant and equipment:

Description	Estimated cost / NBV	Useful life	Yearly depreciation
Existing (Cost)	65,768,000	30 years	2,192,000
Future years (NBV)	21,649,000	3 years	7,216,000

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss and other comprehensive income.

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

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the expected credit loss (ECL) model. Instruments within the scope of the new requirements included financial assets measured at amortised cost, such as trade receivables measured under IFRS 15 and lease receivables measured under IAS 17. Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event, instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Notes to the financial statements

for the year ended 31 December 2018

4 Summary of significant accounting policies - Continued:

c. Impairment of assets: - Continued:

In the prior year, the impairment of trade receivables was based on the incurred loss model. Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivables that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

Non-financial assets

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the cash-generating unit to which the asset belongs is used. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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 of 1974, as amended, of the Sultanate of Oman while recommending dividends.

e. Inventories:

Inventories comprise of fuel oil and 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 selling expenses. The cost of inventories is accounted for on the first-in first-out basis and includes all costs incurred in acquiring the inventory.

f. Trade and other receivables:

Trade and other receivables originated by the Company are measured at cost. Trade receivables (including lease receivables) are stated at original invoice amount less provision for any uncollectible amounts as per the expected credit loss model as required under IFRS 9. An estimate for doubtful debts is made when collection of the amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

4 Summary of significant accounting policies - Continued:

f. Trade and other receivables: - Continued:

The Company makes use of a simplified approach in accounting for trade receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the provision, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The carrying value of trade and other receivables approximate to their fair values due to the short-term nature of those receivables.

g. Cash and cash equivalents:

For the purposes of the 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. Legal reserve:

In accordance with requirement of the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman, the Company transfers 10% of its net profit for the year to the legal reserve until such time as the reserve amount equals one third of the issued share capital of the Company. This reserve is not available for distribution.

i. 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.

j. 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 are reviewed annually and any changes in the estimate are reflected in the present value of the decommissioning provision at each reporting date.

Notes to the financial statements

for the year ended 31 December 2018

4 Summary of significant accounting policies - Continued:

j. Provisions: - Continued:

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 are 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.

k. Employees' terminal benefits:

Defined contribution plan

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 and other comprehensive income as incurred.

Defined benefit plan

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.

l. Revenue:

Operating lease revenue is recognized as per the requirements of IAS 17 and IFRIC 4. The Company considers the payment profile of the PWPA to be a reasonable basis for recognition of operating lease revenue.

Revenue comprises of 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.

m. Other income:

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

n. Operating leases:

An 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 and other comprehensive income on a basis that is representative of the time pattern of the benefit over the lease term.

Notes to the financial statements

for the year ended 31 December 2018

4 Summary of significant accounting policies - Continued:

o. 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 and other comprehensive income.

p. 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 and other comprehensive income over the period of the bank borrowings using the effective interest rate method.

q. Borrowing 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.

r. Taxation:

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.

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.

Notes to the financial statements

for the year ended 31 December 2018

4 Summary of significant accounting policies - Continued:

r. Taxation - Continued:

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 the statement of other comprehensive income, in which case the tax is also recognised in the statement of other comprehensive income.

s. 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 and other comprehensive income.

t. Financial liabilities:

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

u. 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 instruments 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.

4 Summary of significant accounting policies - Continued:

u. Derivative financial instruments - Continued:

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 and other comprehensive income.

Amounts previously recognised in and accumulated in the statement of other comprehensive income are reclassified to the statement of profit or loss and other comprehensive income 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.

v. Directors' remuneration:

The Company follows the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman and other 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 and other comprehensive income in the year to which it relates.

w. Critical accounting judgments and key sources of estimation uncertainty:

Preparation of financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the 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.

Notes to the financial statements

for the year ended 31 December 2018

4 Summary of significant accounting policies - Continued:

w. Critical accounting judgments and key sources of estimation uncertainty - Continued:

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 and other comprehensive income.

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 for 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 for funding the requirements of 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:

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

	Buildings	Plant & machinery	Technical parts	Other assets	Decommissioning costs (asset)	Capital work in progress	Total	Total
	RO (000)	RO (000)	RO (000)	RO (000)	RO (000)	RO (000)	RO (000)	USD (000)
Cost								
At 1 January 2018	7,027	189,285	4,977	25	777	382	202,473	525,904
Additions during the year	-	35	55	1	-	2	93	242
Transferred from CWIP	-	115	-	-	-	(115)	-	-
Impairment (note 5.3)	(647)	(17,444)	(463)	-	-	-	(18,554)	(48,192)
At 31 December 2018	6,380	171,991	4,569	26	777	269	184,012	477,954
Depreciation								
At 1 January 2018	2,529	67,375	1,687	23	275	-	71,889	186,725
Charge for the year	235	6,318	170	1	26	-	6,750	17,532
At 31 December 2018	2,764	73,693	1,857	24	301	-	78,639	204,257
Net book value								
At 31 December 2018	3,616	98,298	2,712	2	476	269	105,373	273,697

5.1 Land on which the power station, buildings 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. Currently the lease rent is paid at the rate of approximately RO 65,000 (USD 168,000) per annum [2017: RO 64,000 (USD 165,000) per annum].

5.2 Property, plant and equipment are mortgaged against long-term loan facilities (note 10) utilised by the Company.

5 Property, plant and equipment - Continued:

5.3 As mentioned in note 2a, the Company's existing long-term agreement for generation of electricity and production of water at Sohar ("PWPA") is expected to end by April 2022. Therefore, the Company decided to participate in the "2022 Power procurement process" launched by the OPWP ("the Tender"). The Company submitted its intent and fulfilled the requirements relating to the supply of power and water. However, it only pre-qualified for supply of power, as per the notification from the OPWP dated 7 February 2019. As a consequence, the Company will not be able to extend the operations of its Water Desalination Plant beyond the term of the current PWPA. This situation triggered an impairment review of the water desalination plant, which revealed that "value in use" of the plant was RO 21.649 million against its estimated "net book value" of RO 40.203 million as at 31 December 2018. The estimated "net book value" was calculated on the basis of a fixed asset valuation by an independent expert. This has resulted in an impairment loss of RO 18.554 million being required to be recorded in the financial statements of the Company for the year ended 31 December 2018. Consequently, the useful life of the water desalination plant has been revised to 15 years from the earlier estimate of 30 years. The water desalination plant is expected to have a remaining useful life of approximately 3 years from the 31 December 2018.

	Buildings	Plant & machinery	Technical parts	Other assets	Decommissioning costs (asset)	Capital work in progress	Total	Total
	RO (000)	RO (000)	RO (000)	RO (000)	RO (000)	RO (000)	RO (000)	USD (000)
Cost								
At 1 January 2017	7,027	189,236	4,945	24	777	307	202,316	525,496
Additions during the year	-	49	32	1	-	75	157	408
Transferred from capital work in progress	-	-	-	-	-	-	-	-
At 31 December 2017	7,027	189,285	4,977	25	777	382	202,473	525,904
Depreciation								
At 1 January 2017	2,294	61,064	1,517	22	248	-	65,145	169,208
Charge for the year	235	6,311	170	1	27	-	6,744	17,517
At 31 December 2017	2,529	67,375	1,687	23	275	-	71,889	186,725
Net book value								
At 31 December 2017	4,498	121,910	3,290	2	502	382	130,584	339,179

5 Property, plant and equipment - Continued:

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

	2018	2017	**2018**	2017
	RO (000)	RO (000)	**USD (000)**	USD (000)
Cost of revenue (note 15)	**6,749**	6,743	**17,529**	17,514
General and administrative expenses (note 17)	**1**	1	**3**	3
	6,750	6,744	**17,532**	17,517

6 Trade and other receivables:

	2018	2017	**2018**	2017
	RO (000)	RO (000)	**USD (000)**	USD (000)
Trade receivables	**5,115**	5,473	**13,286**	14,216
Less: Allowance for credit losses (note 6.3)	**-**	-	**-**	-
	5,115	5,473	**13,286**	14,216
Advances and prepayments	**185**	160	**480**	416
Other receivables	**543**	213	**1,410**	553
	5,843	5,846	**15,176**	15,185

6.1 Trade receivables are generally on 25 days credit terms. The ageing analysis of trade receivables is as follows:

	2018	2017	**2018**	2017
	RO (000)	RO (000)	**USD (000)**	USD (000)
Up to 3 months	**5,115**	5,473	**13,286**	14,216

6.2 All of the trade receivables relate to Oman Power and Water Procurement Company SAOC, the only customer of the Company.

6.3 The maximum exposure to credit risk at the reporting date is the fair value of receivables mentioned above. During the previous year, undue trade receivables amounting to RO 1,392,000 (USD 3,616,000) were written off against the equal amount of allowance for credit losses created earlier.

Notes to the financial statements

for the year ended 31 December 2018

7 Cash and cash equivalents:

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Bank balances - Current accounts	**7,911**	9,298	**20,548**	24,151
	7,911	9,298	**20,548**	24,151

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

8 Share capital and reserves

8a Share capital

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

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Authorized share capital of 600,000,000 shares of RO 0.100 each	**60,000**	60,000	**156,000**	156,000
Issued and fully paid-up share capital of 221,010,000 shares of RO 0.100 each	**22,101**	22,101	**57,405**	57,405

Details of shareholders who own 10% or more of the Company's share capital at the end of the year are as follows:

Name of the shareholder	Percentage shareholding 2018	Number of shares held 2018	Percentage shareholding 2017	Number of shares held 2017
Kahrabel FZE	**35%**	**77,353,500**	35%	77,353,500
MENA Sohar 1 SPV LTD	**20%**	**44,202,000**	20%	44,202,000
Civil Service Employees' Pension Fund	**15%**	**33,151,500**	15%	33,151,500

8b Legal reserve

The legal reserve has been established in accordance with Article 106 of the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman which requires 10% of a company's net profit to be transferred to a non-distributable legal reserve until the amount of the legal reserve is equal to one-third of the Company's fully-paid up share capital. During the current year, nothing was transferred to legal reserve due to the losses incurred (2017: RO 203,000 transferred).

8c Dividend

In accordance with the terms of the loan facilities agreement, there will be no further proposed, approved or distributed dividends until the loan amount is fully repaid or restructured. Therefore, no dividend has been proposed or approved during the current year.

Notes to the financial statements

for the year ended 31 December 2018

9 Hedging deficit and reserve:

Interest rate swaps

The long-term loan facilities of the Company bear interest at USD LIBOR - 6 months plus applicable margins (refer note 10). 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 USD LIBOR - 6 months for at least 95% of its loan facility until 31 March 2022. The corresponding hedged notional amount of the swaps at 31 December 2018 was approximately RO 82 million (USD 214 million) [31 December 2017: RO 92 million (USD 238 million)], bearing fixed interest rates of 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum [31 December 2017: 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum] excluding applicable margins.

At 31 December 2018, the interest rate for USD LIBOR - 6 months was 2.595380% per annum, (31 December 2017: 1.50389% per annum) whereas the Company has fixed interest on its borrowings as described above.

	2018	2017	**2018**	2017
	RO (000)	RO (000)	**USD (000)**	USD (000)
HSBC Bank Plc	**(677)**	(1,224)	**(1,758)**	(3,179)
Standard Chartered Bank	**(393)**	(755)	**(1,021)**	(1,961)
HSBC Bank Plc	**(572)**	(875)	**(1,485)**	(2,273)
Standard Chartered Bank	**(1,376)**	(2,298)	**(3,573)**	(5,969)
Credit Agricole Corporate and Investment Bank	**(1,348)**	(2,271)	**(3,501)**	(5,899)
Hedging deficit at end of the year	**(4,365)**	(7,423)	**(11,338)**	(19,281)
Deferred tax (note 19)	**653**	1,113	**1,696**	2,891
Hedging reserve at end of the year (net of tax) -	**(3,712)**	(6,310)	**(9,642)**	(16,390)
Before deducting ineffective portion of cash flow hedge				
Less: Hedging reserve at beginning of the year (net of tax)	**(6,310)**	(9,356)	**(16,390)**	(24,301)
Effective portion of change in the fair value of cash flow hedge for the year	**(2,598)**	(3,046)	**(6,748)**	(7,911)

Notes to the financial statements

for the year ended 31 December 2018

9 Hedging deficit and reserve - Continued:

9.1 The following is the movement in hedging deficit and reserve:

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Hedging deficit at beginning of the year	**(7,423)**	(10,632)	**(19,280)**	(27,615)
Change during the year	**3,058**	3,209	**7,943**	8,334
Hedging deficit at end of the year	**(4,365)**	(7,423)	**(11,337)**	(19,281)
Ineffective portion of cash flow hedge (note 18)	**198**	147	**514**	382
Deferred tax (note 19)	**653**	1,113	**1,696**	2,891
Hedging reserve at end of the year	**(3,514)**	(6,163)	**(9,127)**	(16,008)

9.2 If the Company had terminated the IRS at 31 December 2018, it would have incurred losses of approximately RO 4.85 million (USD 12.59 million) [31 December 2017: RO 8.21 million (USD 21.34 million)]. However, under the terms of the loan agreements, the Company is not permitted to terminate the interest rate swap agreements.

9.3 In accordance with requirements of IFRS 9, the hedge is tested on an ongoing basis (i.e. quarterly basis) 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 other comprehensive income and the statement of profit or loss, respectively.

10 Long term loans:

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Base facility	**65,077**	75,625	**169,031**	196,429
Repayment facility	**12,517**	14,546	**32,511**	37,782
Less: Current portion of long term loans	**(9,617)**	(10,912)	**(24,979)**	(28,343)
	67,977	79,259	**176,563**	205,868
Less: Deferred financing costs	**(886)**	(1,134)	**(2,301)**	(2,945)
Non-current portion of long term loans	**67,091**	78,125	**174,262**	202,923

Syndicated facilities

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

10 Long term loans - Continued:

Base facility

The Company has obtained the term loan under a Base facility in an aggregate amount of USD 382.50 million. The aggregate amount of the 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.

Repayment facility

The Company has obtained the term loan under a Repayment facility in an aggregate amount of USD 72 million. The aggregate amount of the 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.

Interest

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

Commitment and other fees

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

Security

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

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.

Cash sweep

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

Notes to the financial statements

for the year ended 31 December 2018

11 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 as follows:

	2018 RO (000)	2017 RO (000)	**2018 USD (000)**	2017 USD (000)
At the beginning of the year	**1,483**	1,395	**3,853**	3,624
Un-winding of discount on decommissioning costs (note 18)	**94**	88	**243**	229
At the end of the year	**1,577**	1,483	**4,096**	3,853

12 Trade and other payables:

	2018 RO (000)	2017 RO (000)	**2018 USD (000)**	2017 USD (000)
Trade payables	**3,412**	3,532	**8,861**	9,171
Accruals and other payables	**5,291**	5,674	**13,743**	14,733
	8,703	9,206	**22,604**	23,904

12.1 Trade payables are generally settled within 30 to 120 days of the suppliers' invoice date.

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

13 Related party transactions and balances:

The Company entered into transactions with related parties in the ordinary course of business. These transactions are entered into on terms which the Members consider correspond to terms of normal arm's length transactions with third parties. 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.

13 Related party transactions and balances - Continued:

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Key management remuneration	**191**	184	**496**	478
Directors' remuneration (note 17)	**-**	13	**-**	34
Directors' meeting attendance fees (note 17)	**27**	25	**71**	65
Services provided by Sohar Operations and Maintenance Co. LLC (SOMC)	**6,351**	6,646	**16,496**	17,261
Services provided by Power Management Co. LLC				
- Management fees	**154**	154	**400**	400
- Other administrative expenses	**313**	307	**813**	797
Services provided by Suez Tractebel S.A.	**148**	47	**384**	122
Services provided by Laborelec Middle East	**-**	14	**-**	36
Electrabel S.A. - Guarantee fee	**60**	65	**156**	169
MENA Sohar 1SPV Limited - LC fee	**34**	37	**88**	96
SOGEX Oman LLC - LC fee	**8**	9	**21**	23
MOD Pension Fund - LC fee	**8**	9	**21**	23

A summary of the related party balances as at 31 December 2018 is as follows:

13a Amount due to a related party

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Sohar Operations and Maintenance Company LLC	**474**	1,040	**1,231**	2,701
	474	1,040	**1,231**	2,701

14 Revenue:

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Power and water revenue	**66,505**	64,485	**172,740**	167,494
	66,505	64,485	**172,740**	167,494

14.1 Power and water revenue consists of fixed capacity charge, variable charge as well as fuel costs recovery.

Notes to the financial statements

for the year ended 31 December 2018

15 Cost of revenue:

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Fuel gas	**39,705**	37,030	**103,130**	96,182
Operating and maintenance costs	**6,351**	6,646	**16,496**	17,261
Depreciation (note 5)	**6,749**	6,743	**17,529**	17,514
Impairment relating to water desalination plant (note 5)	**18,554**	-	**48,192**	-
Sea water extraction costs	**786**	740	**2,042**	1,922
Other operating expenses	**800**	1,010	**2,078**	2,624
	72,945	52,169	**189,467**	135,503

16 Other income:

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Insurance claim	**-**	204	**-**	530
Reimbursement of extra tax payable (note 19c)	**220**	126	**571**	327
	220	330	**571**	857

17 General and administrative expenses:

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Management fees	**154**	154	**400**	400
Directors' meeting attendance fees and remuneration (note 13)	**27**	38	**71**	99
Legal and professional fees	**92**	98	**240**	255
Staff costs	**30**	30	**78**	78
Depreciation (note 5)	**1**	1	**3**	3
Other administrative expenses	**628**	456	**1,631**	1,185
	932	777	**2,423**	2,020

18 Finance costs:

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Interest on net settlement of swaps	**2,326**	3,422	**6,042**	8,888
Interest on base facility	**2,379**	1,893	**6,180**	4,917
Interest on repayment facility	**458**	364	**1,190**	945
Ineffective portion of cash flow hedge (note 9.1)	**51**	147	**132**	382
Other financial charges	**157**	70	**409**	182
Amortisation of deferred financing costs (note 10)	**248**	273	**644**	709
Unwinding of discount on decommissioning costs (note 11)	**94**	88	**243**	229
	5,713	6,257	**14,840**	16,252

19 Taxation:

19a Current tax

The Company is liable to income tax at the rate of 15% on taxable profits, in accordance with the Income Tax Law of the Sultanate of Oman. For the purpose of determining the tax provision, the net profit for the year has been adjusted for tax purposes. The adjustments are made to certain items relating to expenses and are based on the current understanding of tax provisons and regulations.

The Royal Decree 9/2017 amending the Income Tax Law was issued on 19 February 2017 and published in the Official Gazette on 26 February 2017. This Royal Decree has increased the tax rates from 12% to 15% and removed tax exemption of RO 30,000 for the tax year 2017 and onwards.

	2018	2017	**2018**	2017
	RO (000)	RO (000)	**USD (000)**	USD (000)
Recognized in the statement of profit or loss				
Current tax charge				
- Current year	**1,120**	657	**2,909**	1,706
- Prior year	**1**	-	**3**	**-**
	1,121	657	**2,912**	1,706
Deferred tax charge (net)				
- Current year				
Origination and reversal of temporary differences	**(3,047)**	194	**(7,914)**	504
Effect of change in tax rates (From 12% to 15%)	**-**	2,731	**-**	7,094
	(3,047)	2,925	**(7,914)**	7,598
	(1,926)	3,582	**(5,002)**	9,304
Recognized in the statement of other comprehensive income				
Deferred tax charge relating to interest rate swap	**460**	163	**1,195**	423

The following is a reconciliation of income taxes calculated at the applicable tax rate with income tax expense for the year:

	2018	2017	**2018**	2017
	RO (000)	RO (000)	**USD (000)**	USD (000)
(Loss)/profit before taxation	**(12,865)**	5,612	**(33,419)**	14,576
Income tax as per rates mentioned above	**(1,929)**	842	**(5,010)**	2,187
Non-deductible expenses	**2**	9	**5**	23
Prior year tax	**1**	-	**3**	-
Effect of change in tax rates	**-**	2,731	**-**	7,094
Income tax expense	**(1,926)**	3,582	**(5,002)**	9,304

Notes to the financial statements

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19 Taxation - Continued:

19b Deferred tax

Deferred tax liability balance as at end of the year was as follows:

Recognized in the statement of financial position

Deferred tax liability	**10,149**	12,736	**26,361**	33,081

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

	At 31 December 2017	Recognised in statement of profit or loss	Recognised in statement of other comprehensive income	**At 31 December 2018**
	RO (000)	RO (000)	RO (000)	**RO (000)**
Provisions	315	14	-	**329**
Tax losses	-	-	-	**-**
Fair value of hedging instruments	1,113	-	(460)	**653**
Depreciation	(14,164)	3,033	-	**(11,131)**
	(12,736)	3,047	(460)	**(10,149)**

	At 31 December 2017	Recognised in statement of profit or loss	Recognised in statement of other comprehensive income	**At 31 December 2018**
	USD (000)	USD (000)	USD (000)	**USD (000)**
Provisions	816	36	-	**852**
Tax losses	-	-	-	**-**
Fair value of hedging instruments	2,895	-	(1,195)	**1,700**
Depreciation	(36,792)	7,878	-	**(28,914)**
	(33,081)	7,914	(1,195)	**(26,362)**

19 Taxation - Continued:

19c Provision for taxation

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Balance at beginning of the year	657	-	1,706	-
Charge for the year	1,120	657	2,909	1,706
Prior year tax	1	-	3	-
Payments during the year	(444)	-	(1,154)	-
	1,334	657	3,464	1,706

The taxation charge for the year includes an estimated amount of RO 0.224 million (USD 0.582 million) [2017: RO 0.126 million (USD 0.327 million)] which will subsequently be reimbursed by Oman Power and Water Procurement Co. SAOC (OPWP) according to an agreement between the Company and OPWP. As per a letter from OPWP captioned “Material adverse change claim due to changes in the Income Tax Law”, dated 21 December 2016, OPWP agreed to reimburse the Company, throughout the term of the PWPA, for extra tax payable due to increase in tax rates from 12% to 15%, applicable from year 2017 and onwards.

19d Status of tax assessments

The Company has filed annual tax returns up to the year ended 31 December 2017. The Company’s tax assessments for the year ended 31 December 2015 to the year ended 31 December 2017 have not been finalized by the Secretariat General for Taxation of the Sultanate of Oman. The management believe 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 2018.

20 Net assets per share:

Net assets value per share is calculated by dividing the shareholders’ equity by the number of shares outstanding at the end of the year.

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Shareholders’ equity	20,097	31,036	52,201	80,619
Number of issued and fully paid-up shares at end of the year	221,010	221,010	221,010	221,010
Net assets per share	0.091	0.140	0.236	0.364

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21 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 outstanding during the year.

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Net (loss)/profit for the year	**(10,939)**	2,030	**(28,417)**	5,272
Weighted number of shares outstanding during the year	**221,010**	221,010	**221,010**	221,010
Basic and diluted earnings per share	**(0.049)**	0.009	**(0.129)**	0.024

22 Lease commitments:

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

	2018 RO (000)	2017 RO (000)	2018 USD (000)	2017 USD (000)
Within 1 year	**65**	64	**168**	165
Between 1 and 5 years	**145**	206	**378**	537
After 5 years	**-**	-	**-**	-
	210	270	**546**	702

23 Contingent liabilities:

There were no contingent liabilities outstanding as at 31 December 2018 (31 December 2017: Nil).

24 Capital risk management:

Capital is managed by the Company so that it is able to continue to operate as a going concern while maximising the profitability of the company.

The capital structure of the Company consists of share capital, reserves and retained earnings. The Company manages its capital by making adjustments to dividend payments and bringing in additional capital in the light of changes in business conditions. No changes were made in the objectives, policies and processes during the years ended 31 December 2018 and 2017.

25 Financial risk management:

Financial assets and liabilities

Financial assets of the Company carried on the statement of financial position include cash and bank balances and trade and other receivables. Financial liabilities include long term loans, trade and other payables and amount due to a related party.

25 Financial risk management - Continued:

Risk management

The Company's activities expose it to various financial risks, primarily being, market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Exposure to market, credit and liquidity risks arise in the normal course of the Company's business.

The Company's risk management is carried out internally in accordance with the policies approved by the Board of Directors. Risk management policies and systems are reviewed regularly to ensure that they reflect any change in market conditions and activities of the Company.

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.

The Company is exposed to currency risk on bank borrowings that are denominated in a currency other than the functional currency of the Company. These transactions are denominated in the United States Dollar (USD). In respect of the Company's transactions denominated in USD, the management believe 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 foreign 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 0.013 million (31 December 2017: RO 0.484 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.

Notes to the financial statements

for the year ended 31 December 2018

25 Financial risk management - Continued:

(iii) Price risk - Continued:

As the Company has no significant exposure to investments, it does not have the risk of fluctuation in prices. The management consider that sensitivity analysis is not necessary due to the Company's limited exposure to price risk.

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 trade receivables were from a government owned company (OPWP). The management therefore considers the credit risk associated with trade receivables to be very low. Furthermore, cash is placed with reputable banks, with good credit ratings, which further minimizes the credit risk.

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

	31 December 2018		31 December 2017	
	Receivables	**Provision**	Receivables	Provision
	RO (000)	**RO (000)**	RO (000)	RO (000)
Not past due (Up to 3 months)	**5,115**	**-**	5,473	-
More than one year	**-**	**-**	-	-
	5,115	**-**	5,473	-

	31 December 2018		31 December 2017	
	Receivables	**Provision**	Receivables	Provision
	USD (000)	**USD (000)**	USD (000)	USD (000)
Not past due (Up to 3 months)	**13,286**	**-**	14,216	-
More than one year	**-**	**-**	-	-
	13,286	**-**	14,216	-

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 and cash balances to meet the Company's obligations as they fall due for payment.

Notes to the financial statements

for the year ended 31 December 2018

25 Financial risk management - Continued:

31 December 2018

	Carrying value RO (000)	Contractual cash flows RO (000)	Less than 6 months RO (000)	6 to 12 months RO (000)	1 to 2 years RO (000)	3 to 5 years RO (000)	More than 5 years RO (000)
Non-derivative financial liabilities (A)							
Secured bank loans	76,708	77,594	4,007	5,612	8,844	59,131	-
Trade and related party payables	9,176	9,176	9,176	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	4,365	4,845	1,286	644	2,666	249	-
Total (A+B)	**90,249**	**91,615**	**14,469**	**6,256**	**11,510**	**59,380**	**-**

	Carrying value USD (000)	Contractual cash flows USD (000)	Less than 6 months USD (000)	6 to 12 months USD (000)	1 to 2 years USD (000)	3 to 5 years USD (000)	More than 5 years USD (000)
Non-derivative financial liabilities (A)							
Secured bank loans	199,242	201,543	10,408	14,576	22,972	153,587	-
Trade and related party payables	23,833	23,833	23,833	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	11,338	12,587	3,344	1,672	6,924	647	-
Total (A+B)	**234,413**	**237,963**	**37,585**	**16,248**	**29,896**	**154,234**	**-**

31 December 2017

	Carrying value RO (000)	Contractual cash flows RO (000)	Less than 6 months RO (000)	6 to 12 months RO (000)	1 to 2 years RO (000)	3 to 5 years RO (000)	More than 5 years RO (000)
Non-derivative financial liabilities (A)							
Secured bank loans	89,037	90,164	3,924	5,413	9,618	71,209	-
Trade and related party payables	10,246	10,246	10,246	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	7,423	8,217	1,390	1,390	2,136	3,301	-
Total (A+B)	**106,706**	**108,627**	**15,560**	**6,803**	**11,754**	**74,510**	**-**

Notes to the financial statements

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25 Financial risk management - Continued:

	Carrying value USD (000)	Contractual cash flows USD (000)	Less than 6 months USD (000)	6 to 12 months USD (000)	1 to 2 years USD (000)	3 to 5 years USD (000)	More than 5 years USD (000)
Non-derivative financial liabilities (A)							
Secured bank loans	231,266	234,193	10,193	14,060	24,983	184,957	-
Trade and related party payables	26,605	26,605	26,605	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	19,281	21,342	3,610	3,610	5,549	8,573	-
Total (A+B)	**277,152**	**282,140**	**40,408**	**17,670**	**30,532**	**193,530**	**-**

Capital management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders and benefits to other stakeholders. The Management's policy is to maintain a strong capital base so as to retain market confidence and sustain the future development of the business.

Capital commitments

There were no capital commitments as at 31 December 2018 (31 December 2017: Nil)

26 Fair value measurement:

The management believe 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 4.36 million (USD 11.33 million) [31 December 2017: RO 7.42 million (USD 19.28 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.

27 Subsequent events:

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

28 Approval of the financial statements:

These financial statements were approved and authorised for issue by the Board of Directors on 11 March 2019.