صحار للطاقة
SOHAR POWER

ANNUAL REPORT 2013

Bringing more to life

His Majesty Sultan Qaboos Bin Said

Contents

Board Of Directors and Management

Board of Directors		Representing
Chairman	Mr. Murtadha Ahmed Sultan	Kahrabel FZE (GDF Suez)
Vice Chairman	Mr. Mark Lemmon	-
Director	Mr. Jeronimo Roura	-
Director	Mr. Ahmed Sultan Al-Yaqoubi	Ministry of Defence Pension Fund
Director	Mr. Przemyslaw Lupa	-
Director	Mr. Andrew Smithson	-
Director	Mr. Karel Breda	-
Director	Mr. Malcolm Wrigley	-
Director	Mr. Abdulraouf Abudayyeh	-
Director	Mr. Kemal Taragay	-
Director	Mr. Saif Abdullah Al Harthy	Oman LNG
Director	Mr. Sami Abdullah Khamis Al-Zadjali	-

Key Executive Officers	
Chief Executive Officer	Mr. Guillaume Baudet
Company Secretary	Mr. Zoher Karachiwala
Chief Financial Officer	Mr. S. M. Tariq
Technical Manager	Mr. Sreenath Hebbar
Administration Manager	Mr. Jamal Al Bloushi

Board Of Directors’ Report

Dear Shareholders,

On behalf of the Board of Directors of Sohar Power Company SAOG ("Sohar Power" or the "Company"), I am glad to present you with the ninth Annual Report of the Company for the year ended 31 December 2013.

Sohar Power was incorporated in 2004 after award of the Sohar IWPP project. The Company owns and operates the 585MW electricity generation and 33MIGD seawater desalination plant in Sohar industrial estate. It is selling electricity and water to Oman Power and Water Procurement Company SAOC ("OPWP") under a 15-year Power and Water Purchase Agreement ("PWPA"). The Company is listed on the Muscat Securities Market since 2008.

2013 corresponds to the seventh year of operations of the Company, during which one safety incident was recorded. On 29th January 2013, an employee was exposed to an electric arc flashover, resulting in burns in one hand and nose. Confronted to this accident and already working on the action plan issued after the health and safety audit conducted by the Authority for Electricity Regulation ("AER") in December 2012, Sohar Power and its operator Sohar Operation & Maintenance LLC ("SOMC") have undertaken many actions and implemented significant measures to address all AER's recommendations and to improve the health and safety culture and standards at site. In November 2013, AER performed a follow-up audit and later issued a report commending the noticeable improvements on site and the work undertaken by the teams. Health and Safety of our employees and contractors remains a very high priority for Sohar Power. The Company has reached 336 days without Loss Time Incident at the end of 2013.

While 2012 operations were affected by unplanned maintenance and extended downtime for the replacement of generators retaining rings (for which Sohar Power was able to reach an agreement and obtained compensation from insurers in 2013), 2013 has been an excellent operational year for Sohar Power.

The plant was operated in a very reliable way (99.2% reliability for power and 98.2% for water). High availability was maintained throughout the year (91.7% and 91.6% for power and water respectively) and low forced outages were recorded (0.8% and 1.8% for power and water respectively).

The plant was also maintained by SOMC as per the agreed outage schedule, in accordance with Original

Equipment Manufacturers recommendations, while applying the best standards and practices of maintenance in the industry.

This performance was achieved in a context of sustained demand for power in the Sultanate (+10% roughly in comparison to 2012) and of very high demand for water in the North Batinah region where the Company operates. The increasing demand of the market is reflected in the high load factors of the Company for both power and water (69% and 90.8% respectively in 2013).

All the above have favorably contributed to the financial performance of the Company, and the Board is proud to announce that the Company has concluded the year with a profit of RO 5.137 million.

As a comparison the profit for the year 2012 amounted to RO 2.940 million.

A final cash dividend of RO 2.779 million for the year 2012 was distributed to Sohar Power shareholders during the second quarter and an interim dividend for the year 2013 amounting to RO 2.210 million was distributed in December 2013.

The capital reduction approved at the Extraordinary Shareholders Meeting of 25 November 2012 for an amount of RO 5.699 million was completed in March.

2013 has seen some important changes in the shareholding structure of the Company. Two historical shareholders – WJ Towell and Zubair – who had supported the project since the beginning have fully divested their remaining 5% while GDF SUEZ reduced its stake from 45% to 35%. MENA Infrastructure Fund purchased in May the shares held for sale, acquiring 20% stake in Sohar Power. With this investment, MENA Infrastructure Fund reinforces its presence in Oman.

The Company put additional effort in 2013 to keep on improving its standards of corporate governance to ensure full compliance with the Code of Corporate Governance promulgated by the Capital Market Authority ("CMA"). This was recognized in December by CMA, awarding a Corporate Governance Excellence Award to Sohar Power.

Pursuing their continued efforts to develop and employ young Omanis, the Company and its operator have absorbed in the Operations and Maintenance teams a group of 7 trainees, after successful completion of their 12-month class room and in the field training program. In parallel, a new batch of 6 trainees has been selected and started the same 12-month program. Since the beginning of the project 38 young graduated Omanis were trained, out of which 28 were hired by Sohar Power operator and 10 resigned to join for the most part the Oil & Gas industry, offering more attractive conditions. This highlights the difficulties encountered to employ and retain young Omanis in our industry.

As a corporate citizen, the Company extended in 2013 its support primarily to local community and municipality projects, while focusing more on education, health and safety and environment protection. We strongly believe Sohar Power has a role to play towards the local communities and towards the people of the Sultanate of Oman.

On behalf of the Board of Directors, we wish to thank our valued shareholders for their continued support, for their trust and confidence in us. We would also like to thank all the personnel associated with the operation and maintenance of the Sohar plant and the staff of the Company for their dedication and commitment in ensuring that it achieves its goals and objectives.

We would also like to take this opportunity to wish His Majesty Sultan Qaboos Bin Said long life, good health and prosperity. The Board wishes to express its gratitude to the Government of Oman for their continued support and encouragement to the private sector in creating an environment that allows us to participate effectively in the growth of the economy and dedicate our humble achievements towards the building of strong Oman.

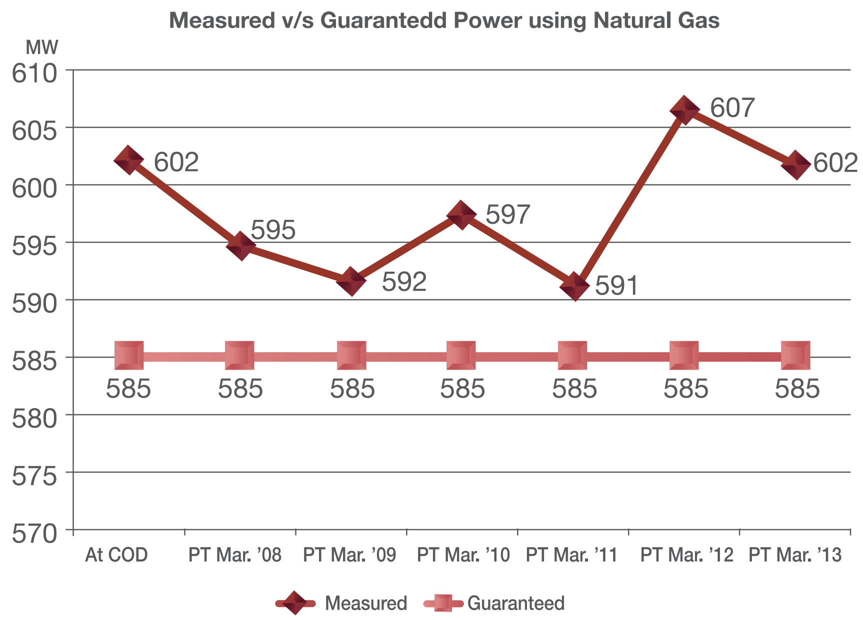
May Allah protect them for all of us.

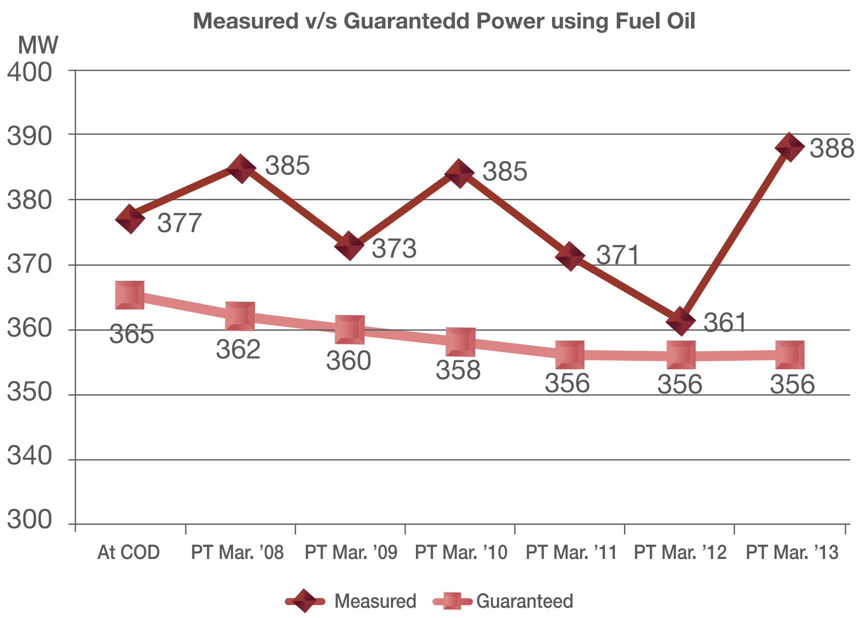
Murtadha Ahmed Sultan
Chairman of the Board

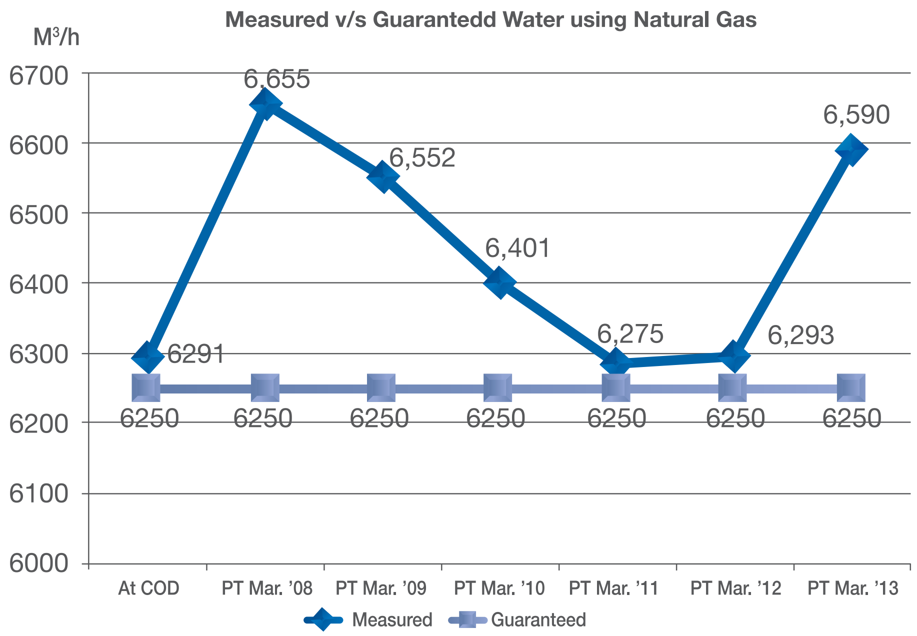
Operation Highlights

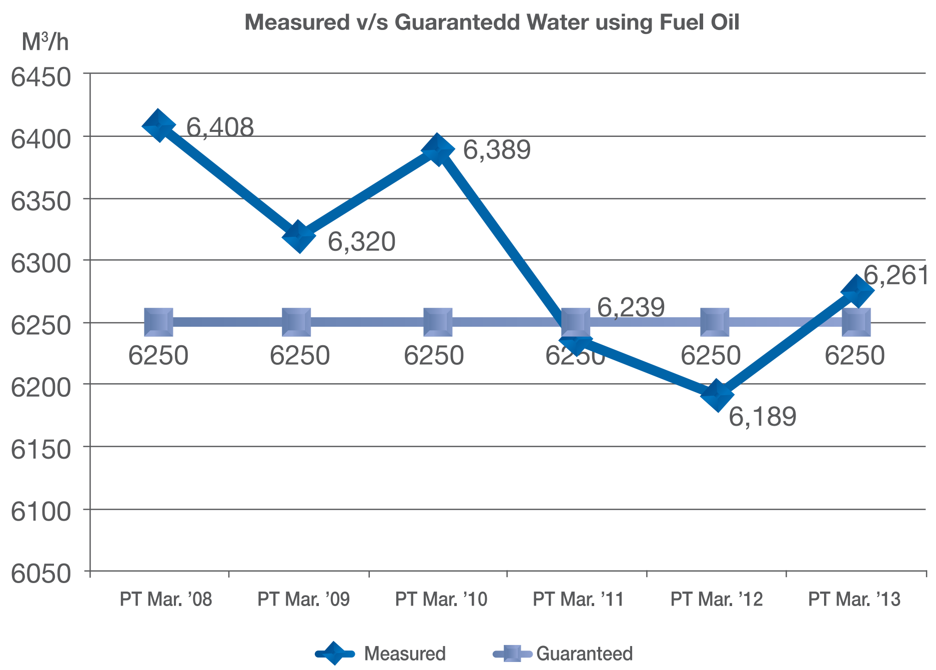
Capacity

The capacity of a plant is defined as the total electrical power (in MW) and water (in m^3/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 m^3/hr, constant over the 15 years period of the PWPA. The performance tests conducted to date shows performance better than the guarantees (see the graph below). This capacity is expected to decline over the period of PWPA due to normal degradation of plant but is expected to remain above 585 MW and 6,250m^3/hr and meet contractual requirements under the PWPA.









(Note: Measured water capacity using Fuel Oil is within 1% tolerance on guaranteed values allowed during the Performance Tests)

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. Forced Outages of 1.5% and 2% for power plant and the water plant respectively have been assumed in the Company budget.

The total power made available during 2013 was 4,700.8 GWh which works to an availability of 91.7%. The total water made available during 2013 was 50,168,863 m^3 which works to an availability of 91.6%.

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 2013 the plant showed reliability of 99.2% for power and 98.2% for water.

Plant Efficiency (Heat Rate)

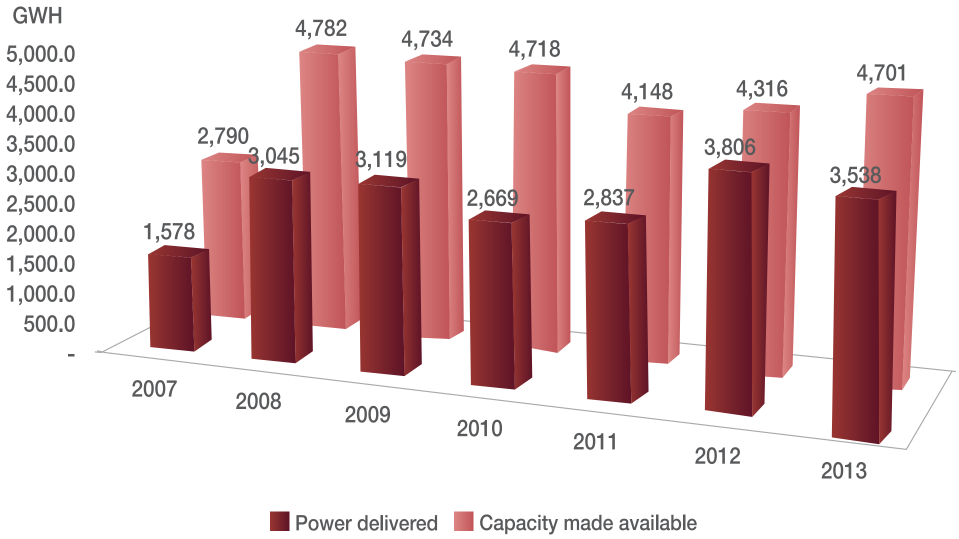
The efficiency of the power plant is measured in terms of the amount of heat required to produce one unit of power. Demonstrated efficiency in the original performance test was better than contractual requirements under the PWPA, thus bringing an upside to the Company.

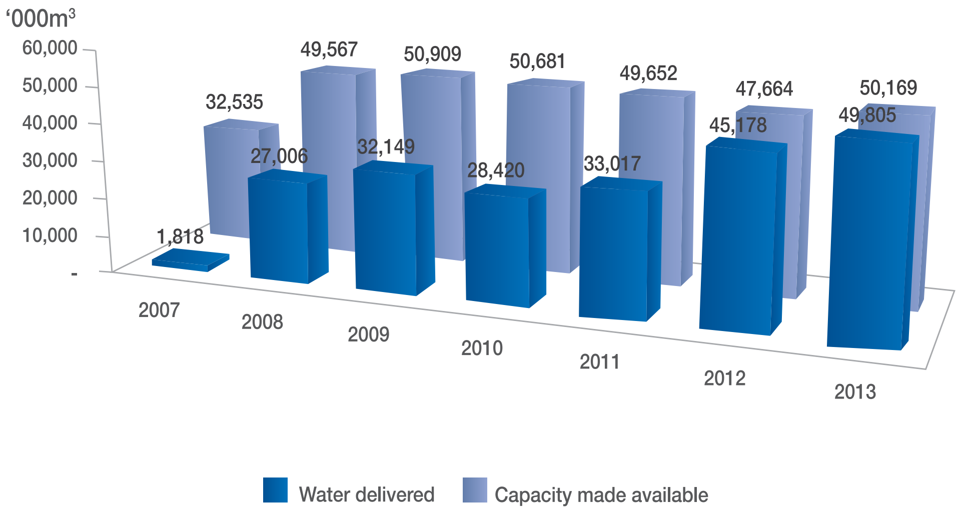
The Contracted Heat Rate is 8,997 MJ/MWh for natural gas; the initial performance tests demonstrated a heat rate of 8,512 MJ/MWh.

Utilization; Energy and Water Delivered

During the year 2013 the energy delivered was 3,538.4 GWh with a utilization factor of the power plant of 75.27%. The total water delivered by the water plant was 49,805,215 m^3 with a utilization factor of 99.27%.

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.

In addition to normal maintenance of the Desalination Units, acid cleaning of demisters of stages 9 – 20 was undertaken due to high conductivity observed. This has not only reduced conductivity, but has improved performance of the unit as well.

Description of the Project

History of the Project

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

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

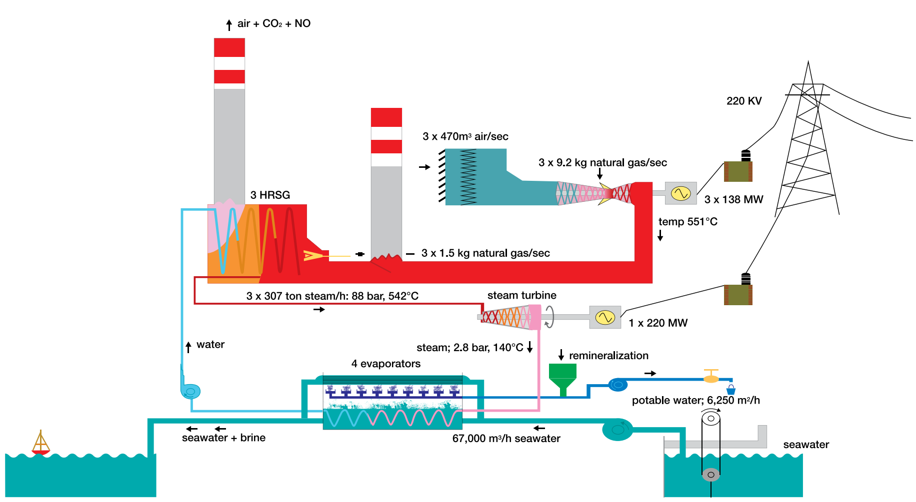
The 585 MW combined cycle gas fired power plant and 150,000 m^3/d desalination plant is located in the Sohar Industrial Port area in the North Al Batinah Governorate of the Sultanate of Oman. The site is strategically located near the main gas transmission system and electricity grid network.

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

Four conventional Multi Stage Flash ("MSF") desalination units are installed in the Plant. Each unit has an installed gross capacity of 32,750m^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, and has a performance ratio of 8.2 kg distillate per kg of steam at a Top Brine Temperature of 108°C and at reference conditions.

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

Sohar IWPP



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

Natural Gas is supplied by the Ministry of Oil and Gas to a pressure reduction station supplying the consumer of the Sohar Industrial Port area. The power output of the gas turbine generator feeds the auxiliary of the plant and is exported to the grid through a 220 kV substation owned by OETC.

Contractual arrangements

Off-taker

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

Fuel Supply

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

Sea Water

The raw seawater is made available by MNE 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 is making 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 passed through are under the PWPA to OPWP, keeping the Company neutral.

Water supply connection

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

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

EPC Contractor

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

Operation and Maintenance

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

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

The Operation and Maintenance Agreement is expiring at the same time as the PWPA. The performance and payment obligations of SOMC under the O&M Agreement are guaranteed by several corporate indemnities from each of GDF SUEZ 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 Purchasing Power indices, 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.

Force Majeure events

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

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

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.

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

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

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

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

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

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

Low Emissions

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

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

PROFILE OF THE CURRENT SHAREHOLDERS

Kahrabel FZE (GDF SUEZ)

Kahrabel FZE is a wholly owned subsidiary of GDF SUEZ which operates under the commercial brand name of GDF SUEZ Energy International, responsible for GDF SUEZ's energy activities in 31 countries across five regions worldwide. GDF SUEZ Energy International is a world leading independent power generator with a strong competitive position. Together with power generation, GDF SUEZ Energy International is also active in closely linked businesses including downstream LNG, gas distribution, desalination and retail. GDF SUEZ Energy International has a strong presence in its markets with a 78GW gross (41.9 GW net) in operation and a significant program of 5.5 GW gross (3.5 GW net) of projects under construction as at 30 June 2013.

In the South Asia, Middle East & Africa region ("SAMEA"), GDF SUEZ has a direct equity interest with a total power generation capacity (including capacity in operation and under construction) of 27,000 MW and almost 5.3 million m^3/day of desalination capacity in operation and under construction. In the Gulf Cooperation Council countries, it is the leading operating independent power and desalinated water producer, with over 15 years of experience and a track record of excellent operational performance and successful project delivery. Its technical, financial and design teams constantly work towards their mission of delivering solutions for the energy and water needs in the South Asia, Middle East and Africa in a competitive, reliable and responsible matter.

In Africa, GDF SUEZ is actively pursuing a number of projects, specifically in Morocco and South Africa.

MENA Sohar 1SPV Limited

Mena Sohar 1SPV 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 (Oman) LLC

SOGEX INTERNATIONAL started in Oman in 1971 as a small company and contributed remarkably in the development of the Sultanate of Oman to meet the challenge of rapid growth.

SOGEX grown into multinational group of companies within a short time and serve national governments interests throughout the region with locations in Middle East, Africa, Europe and in United States.

On November 15, 1984 Bahwan Group of Companies, Oman, acquired the whole of SOGEX in Oman and renamed as SOGEX Oman Co. LLC. With this 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 projects covering different fields on turnkey basis such as EPC (Engineering, Procurement, Construction) for Power & Desalination Plants, Electrical Transmission Lines and Associated Sub-stations of Voltage level up to and including 132 kV.

SOGEX Oman undertakes the following activities:

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

Currently it is operating in Oman, Algeria and India.

CORPORATE & SOCIAL RESPONSIBILITY

Driven by its duty towards its stakeholders, Sohar Power is actively involved in the community it lives in.

The Company's Corporate and Social Responsibility activities are primarily focused on education, health and safety and environment protection in the North Batinah region, close to its operations in Sohar. These initiatives and projects supported by Sohar Power are intended for students, teachers, municipalities, societies and the people of Oman in general.

During the year, Sohar Power supported Dar Al Atta, a well-established charity fund involved in addressing poverty in the Sultanate of Oman, in the organization of a fund raising event.

Sohar Power sponsored the 2013 Forum of Regional English Supervisors and Teachers ("FOREST"), an annual forum for education professionals where they exchange ideas, experiences, best practices, research findings and innovations in teaching and learning English as well as related issues. This forum was well attended by ELT professionals, regional supervisor, senior teachers and teachers of English of the Governorate of North Al Batinah.

Still in the education field, financial support was provided to the Women Association in Wilayat of Liwa intended for the purchase of stationary and other learning materials for the Kindergarten Corner at the Association.

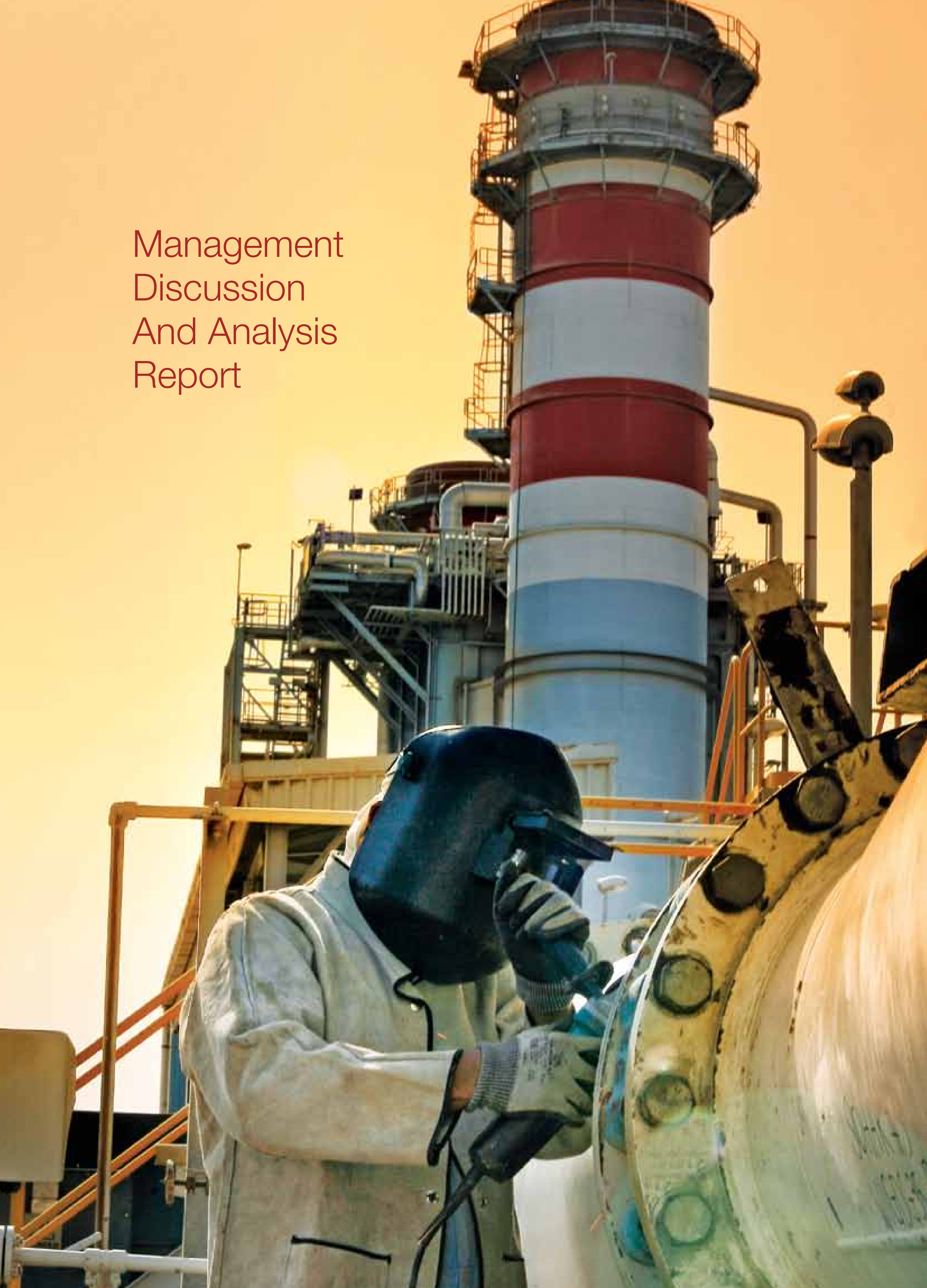
Sohar Power also supported a local sport club in the Wilayat of Shinas to improve their existing facilities.

With the aim of protecting environment and helping municipalities, the Company provided 50 dustbin containers to Liwa Municipality in order to facilitate waste collection in new residential areas.

Committed to health and safety, Sohar Power participated to the Traffic Safety Expo 2013. The decision of the Company to join this event was primarily driven by developing people awareness on road safety risks and issues. In addition to understanding how the latest technologies advancement and best practices can assist in reduction of casualties and injuries on the roads, this event promotes more responsible driving behaviours that will lead to a safer driving environment for everyone on Oman.

The Company intends to do more in 2014 for the people of the Sultanate in terms of Corporate Social Responsibility.

Management Discussion And Analysis Report



Industry structure and development

The Company is one of the largest privately owned Independent Water and Power projects in the Sultanate of Oman.

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.

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.

Financial Highlights

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

All figures in USD million		2013	2012	2011	2010	2009
NP (Net Profit) for the year	1	**13.343**	7.636	6.542	11.849	8.454
Revenue	2	**123.477**	121.096	109.231	110.743	117.405
Total Assets	3	**446.290**	474.780	486.813	511.463	522.099
Capital (Original-Paid up)	4	**-**	72.300	72.300	72.300	72.300
Capital (Reduced-Paid up)	5	**57.405**	-	-	-	-
Debt (Long Term)	6	**332.396**	351.592	370.265	387.844	406.402
Debt & Capital	7	**389.893**	423.892	442.565	460.144	478.702
Ordinary Shares (numbers '000)	8	**22.101**	27.800	27.800	27..800	27.800
Net assets (before hedging deficit)	9	**70.115**	84.535	76.899	81.909	75.837

		2013	2012	2011	2010	2009
NP (Net Profit) Margin	1÷2	**10.81%**	6.30%	6.00%	10.70%	7.20%
ROTA (Return on Total Assets)	1÷3	**2.99%**	1.61%	1.34%	2.32%	1.62%
ROC (Return on Capital)	1÷4/5	**23.24%**	10.56%	9.05%	16.39%	11.69%
Capital ratio (over Debt + Capital)	5÷7	**15**	17	16	16	15
Ordinary Dividend (interim)*		**10%**	-	8.0%	8.0%	-
Ordinary dividend (Final)		**-**	12.57%	-	8.0%	-
BEPS (Basic Earnings per share) Ratio	1÷8	**0.60**	0.27	0.24	0.43	0.30
Net Assets per share	9÷8	**3.17**	3.04	2.77	2.95	2.73

* Paid in 2013 on reduced capital

Analysis of Results

Sohar Power registered a net profit of RO 5.137 million [USD 13.343 million] for the year 2013. The same was RO 2.940 million [USD 7.636 million] in 2012. The positive variance of RO 2.197 million [USD 5.707 million] between the profits of 2013 and 2012 is the net effect of the following adverse and favourable factors:

- Power & Water capacity charges were reduced in 2013 as compared to previous year due to reduced tariff (as per PWPA). In addition, an extra capacity of 12 MWh was made available to OPWP during the summer 2012, resulting in higher revenues during that period.
- However, the Company enjoyed additional revenues in 2013 resulting from high availability and low forced outages for both power and water (1% and 1.8% respectively), more than compensating the above adverse impacts. 2012 revenues were severely hit by the unavailability of gas turbines that could not be operated after the detection of cracks on the retaining rings of the generators.
- A settlement agreement has been reached in 2013 in favor of the Company with the insurers for the same generators retaining ring issue.
- The financial debt was repaid as per the repayment schedule and accordingly, lower financial interest expenses were incurred.
- The ineffective portion of hedging cost reduced in 2013 and resulted in a positive impact at year-end.
- Additional income tax expense is due as a result of the increase in profit before tax.

Analysis of Balance Sheet

- PP&E (Property, Plant & Equipment) were depreciated consistently on straight line method. During 2013, the 'Torsion monitoring equipment' required to detect abnormal sub-harmonics and potential impact on generator retaining ring amounting to RO 0.244 million [USD 0.635 million] was capitalized.

  The Company continued capitalizing cost of decommissioning of its Property, Plant and Equipment, to be incurred in 2037 (end of the life of the Sohar plant).
- Trade debtors correspond to one month of invoices at the end of current year and at the end of previous year (as per PWPA).
- Cash in hand and at Banks were lower at the close of business in 2013 as compared to the same at the end of previous year mainly on account of Capital reduction in March 2013 (as explained below, under 'capital reduction').
- The Hedging Deficit booked in equity on account of variation in Fair values of five IRSs - interest rate swaps (3 IRSs in 2012) of the Company, which does not affect the profitability of the Company, was RO 15.536 million[USD 40.352 million]; the same was RO 26.204 million [USD 68.062 million] in 2012.

- 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 installments of its long term loans and settled its Swaps in accordance with the agreed loan repayment schedule and IRSs.

Dividend distribution

RO 2.779 million [12.57% of Reduced Share Capital] were distributed in April 2013, as final cash dividend for the year 2012.

Further, RO 2.210 million, [10% of Share Capital] were also distributed in December 2013 as Interim Cash Dividend for the year 2013.

Capital Reduction

Following a change in tax law, the Company restated its provision for deferred tax in 2009. This restatement had an accounting effect only, which impaired Sohar Power's ability to distribute dividend in that year, however, it did not affect its revenues or cash flows. Sohar Power has since then maintained a cash position in excess of its requirement.

As decided in 2012, the Company completed the capital reduction process in 2013, by reducing its Share Capital by 20.5% [RO 5.699 million (USD 14.803 million)] in March 2013.

The above capital reduction did not affect the distribution of dividends to shareholders in 2013 and shall not affect its ability to serve the projected dividends to be paid in future years.

Outlook for 2014

In view of nature of the Company and its business model, the Board of Directors and the Management of the Company remain confident for 2014. Sohar Power will continue to serve reliably the Sultanate of Oman in a context of increasing demand for both power and water, while delivering high returns to its shareholders.

The Company expects to distribute a final dividend for 2013 in April 2014 and an Interim dividend for 2014 in November 2014.

Internal control system and their adequacy

The Company believes in strong internal control systems as a tool to contribute to high performance in operation and management of the Company.

Sohar Power has implemented since 2009 an Internal Control methodology, which entails critical review of all business processes of the Company. For these, appropriate controls and segregation of duties are applied. Further implementation of this process has been continued in 2013.

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

Transfers to Investors Trust Fund

On behalf of the Company, Muscat Clearing & Depository Company SAOC (MCDC) transferred an amount of RO 5,974 being the unclaimed amount for the Final dividend of 2012 to the Investors' Trust Fund Account (ITFA) in 2013. Further, MCDC also transferred RO 12,068 being unclaimed Capital reduction to ITFA during the year.

Corporate Governance Report

MOORE STEPHENS

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REPORT OF FACTUAL FINDINGS ON THE CORPORATE GOVERNANCE REPORTING TO THE SHAREHOLDERS OF SOHAR POWER COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying Corporate Governance report of the Company and its application of the Corporate Governance practices in accordance with the CMA's code of corporate governance issued under circular no. 11/2002 dated 3 June 2002 and its amendments as detailed under Rules and Guidelines on Disclosure by Issuer of Securities and Insider Trading approved by Administrative Decision No. 5/2007 dated 27 June 2007. Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. These procedures were performed solely to assist you in evaluating the Company's compliance with the Code as issued by the CMA.

We report our findings below:

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

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

Had we performed additional procedures or had we performed an audit or review 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 2013 and does not extend to any financial statements of Sohar Power Company SAOG, taken as a whole.

19 February 2014

Moore Stephens

مور ستيفنز وشركاه
ص.ب : ٩٣٣ ، الرمز ١١٢
روي ، سلطنة عمان
P.O. Box : 933, P.Code 112
Ruwi, Sultanate of Oman
MOORE STEPHENS

CORPORATE GOVERNANCE REPORT

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

Sohar Power believes that Code of Governance is an effective tool to improve operational and financial performance of listed companies. Code of 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.

This was recognized by CMA in December 2013 when awarding one of their Corporate Governance Excellence Award to Sohar Power Company SAOG.

In compliance with the Article 26 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, 2013.

Board of Directors

CMA vide its circular K/14/2012 dated 24th October 2012 amended the definition of Independent Director and Related Parties. However, during the year CMA vide its circular K/9/2013 dated 20th November 2013 postponed application of the circular issued in 2012. Therefore, until the circular becomes applicable, Sohar Power will continue to classify the Directors under the rule prevailing before the issue of the 2012 circular.

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 2013					2013
		20 FEB	23 APR	24 JUL	7 NOV	Total	AGM
Mr. 'Murtadha Ahmed Sultan (Chairman)	Non-Executive & Independent Nominee	✓	✓	✓	✓	4	✓
Mr. Mark Lemmon [2] (New Vice Chairman)	Non-Executive & Independent	-	-	✓	✓	2	x
Mr. Jeronimo Roura [2]	Non-Executive & Independent	-	-	✓	✓	2	x
Mr. Ahmed Sultan Al-Yaqoubi [1]	Non-Executive & Independent Nominee	-	✓	✓	✓	3	x
Mr. Przemyslaw Lupa [2]	Non-Executive & Independent	-	-	-	✓	1	x
Mr. Andrew Smithson [2]	Non-Executive & Independent	-	-	✓	✓	2	x
Mr. Karel Breda	Non-Executive & Independent	Proxy	✓	Proxy	Proxy	1	x
Mr. Malcolm Wrigley	Non-Executive & Independent	✓	✓	✓	✓	4	x
Mr. Abdulraouf Abudayyeh [2]	Non-Executive & Independent	-	-	✓	✓	2	x
Mr. Kemal Taragay	Non-Executive & Independent	✓	x	Proxy	x	1	x
Mr. Saif Abdullah Al Harthy	Non-Executive & Independent Nominee	x	✓	✓	✓	3	x

Name of Directors	Category of Directors	Board Meeting held and attended during 2013					2013
		20 FEB	23 APR	24 JUL	7 NOV	Total	AGM
Mr. Sami Abdullah Khamis Al Zadjali	Non-Executive & Independent	✓	✓	✓	✓	4	✓
Mr. Frederic Henning [1] (Vice Chairman)	Non-Executive & Independent	✓	✓	-	-	2	x
Mr. C. S. Badrinath [1]	Non-Executive & Independent Nominee	✓	Proxy	-	-	1	✓
Mr. Atif Abdul Hameed Ahmed Al Raisi [1]	Non-Executive & Independent Nominee	✓	-	-	-	1	✓
Mr. Bernard Esselinckx [1]	Non-Executive & Independent Nominee	✓	✓	✓	-	3	x
Mr. Navneet Kasbekar [1]	Non-Executive & Independent	✓	✓	-	-	2	✓
Mr. Marc Van Haver [1]	Non-Executive & Independent	Proxy	Proxy	-	-	0	x

1. Resigned / Replaced during the year
2. Temporarily appointed during the year

Directors of Sohar Power Company holding directorship and chairmanship in other SAOG companies in Oman at 31 December 2013:

Name of Directors	Position held	Name of the Company
Mr. Murtadha A. Sultan	Director Director Chairman	Gulf International Chemicals Oman Flour Mills Company United Power Company
Mr. Mark Lemmon	Vice Chairman	United Power Company

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

Audit Committee

a. Brief description of terms of reference.

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

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

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

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

- Serve as an independent and objective party to monitor the Company's financial reporting process and internal control system;

- Review and appraise the audit efforts of the Company's statutory and internal auditors;
- Provide an open avenue of communication among the statutory and internal auditors, financial and senior management and the Board of Directors.
- The Audit Committee has the authority to consider meeting with internal and external auditors without management's present. 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 2013				
		20 FEB	23 APR	24 JUL	4 NOV	Total
Mr. C.S. Badrinath [1]	Chairman	✓	✓	-	-	2
Mr. Karel Breda	Member / New Chairman	x	x	x	✓	1
Mr. Bernard Esselinckx [1]	Member	✓	✓	✓	-	3
Mr. Andrew Smithson [2]	Member	-	-	✓	✓	2

1. Resigned during the year
2. Temporary appointed during the year

Mr. Karel Breda has been appointed Chairman of the Audit Committee after the resignation of Mr. C.S. Badrinath.

Mr. Przemek Lupa has been appointed as a member of the Audit Committee during the Board of Directors meeting held on 07th November 2013.

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 22). The Board of Directors was elected on 27 March 2012 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 Articles of Association, the Company was entitled to pay directors' remuneration equivalent to 10% of calculated net profit. However, due to administrative decision 11/2005 issued by CMA, the Directors' remuneration including sitting fees are restricted to 5% of the Net Profit after statutory reserve and provision of 5% dividend and is also subject to limits prescribed.

The total remuneration to the Directors was as follows:

	RO'000
Total sitting fee and remuneration	184
Directors' Sitting fee	(17)
Directors' remuneration	**167**

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

#	Name of Director	No. of meetings for sitting fee Paid	Total Sitting fees paid in RO	Total Remuneration in RO
1	Mr. Murtadha Ahmed Sultan (Chairman)	4	1,600	17,579
2	Mr. Mark Lemmon (Vice Chairman) [2]	2	800	8,789
3	Mr. Jeronimo Roura [2]	2	800	8,789
4	Mr. Ahmed Sultan Al-Yaqoubi [2]	3	1,200	13,184
5	Mr. Przemek Lupa [2]	1	400	4,395
6	Mr. Andrew Smithson [2]	2	1,200	8,789
7	Mr. Karel Breda	1	600	4,395
8	Mr. Malcolm Wrigley	4	1,600	17,580
9	Mr. Abdulraouf Abudayyeh [2]	2	800	8,789
10	Mr. Kemal Taragay	1	400	4,395
11	Mr. Saif Abdullah Al Harthy	3	1,200	13,184
12	Mr. Sami Abdullah Khamis Al Zadjali	4	1,600	17,580
13	Mr. Frederic Henning [1]	2	800	8,789
14	Mr. C.S. Badrinath [1]	1	800	4,395
15	Mr. Atif Abdul Hameed Ahmed Al Raisi [1]	1	400	4,395
16	Mr. Bernard Esselinckx [1]	3	1,800	13,184
17	Mr. Navneet Kasbekar [1]	2	800	8,789
18	Mr. Marc Van Haver [1]	0	-	-
		TOTAL	16,800	167,000

1. Resigned during the year
2. Temporarily appointed during the year

The Company will continue to pay sitting fee per Director per Board meeting amounting to RO 400 and per Audit Committee member per meeting of the Audit Committee amounting to RO 200, in the year 2014, up to a maximum of RO 10,000 to any individual Director.

b. Top Five Officers

The aggregate remuneration paid to the top five officers of the Company was RO 380,656. Pursuant to Management Sharing Agreement only 40% of the amount is chargeable to the Company, namely RO 152,264.

ACTIVITIES DURING THE YEAR

The Audit Committee reviews, on behalf of the Board, the effectiveness of internal controls by meeting the Company's internal auditor and external auditor, and also reviews the audit findings and the management letter.

The audit committee, in coordination with the internal auditor carries out systematic review of the Company's main Internal Control processes and ensures the effectiveness of adequate control.

In 2013, the Audit Committee, reviewed and assessed the following processes of Company's system of internal controls based on the audit report submitted by the Internal Auditor.

1. Communication with investors and shareholders
2. Board of Directors

The Board of Directors also reviewed the operational reports generated by the Management of the Company, 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 system of internal controls is in place.

NON-COMPLIANCE PENALTIES

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

MEANS OF COMMUNICATION WITH THE SHAREHOLDER AND INVESTORS

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

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

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

MARKET PRICE DATA

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

Month	Low Price (RO)	High Price (RO)	Average Price (RO)	MSM Index (Service Sector)
Jan	1.625	1.632	1.629	2,963.090
Feb	1.770	1.806	1.788	3,116.090
Mar	2.367	2.445	2.406	3,150.720
Apr	2.199	2.211	2.205	3,144.960
May	2.123	2.145	2.134	3,322.580
Jun	2.401	2.403	2.402	3,307.460
Jul	2.288	2.309	2.299	3,419.570
Aug	2.301	2.309	2.305	3,445.250
Sep	2.290	2.295	2.293	3,457.680
Oct	2.313	2.318	2.316	3,500.740
Nov	2.681	2.725	2.703	3,623.310
Dec	2.728	2.746	2.737	3,669.100

DISTRIBUTION OF SHAREHOLDING

The Shareholder pattern as on 31 December 2013:

Category of shareholders	Number of Shareholders	Total Shareholders	Share capital %
Major Shareholders	6	17,636,865	79.80
Shareholders less than 5% more than 1%	3	1,120,665	5.07
Shareholders below 1%	9,300	3,343,470	15.13
TOTAL	**9,309**	**22,101,000**	**100.00**

PROFESSIONAL PROFILE OF THE STATUTORY AUDITORS

The Oman branch of Moore Stephens commenced practice in 1988. Over the years, the practice has developed considerably and now services a number of clients, including major listed companies, Groups, government organizations and Ministries providing either audit, tax or management consultancy services. The local staff strength is around 40, most of whom are qualified Chartered Accountants, internal auditors and information systems auditors.

Since Moore Stephens London was founded 100 years ago, the Moore Stephens International Limited network has grown to be one of the largest international accounting and consulting groups worldwide. Moore Stephens International is regarded as one of the world's major accounting and consulting networks consisting of 299 independent firms with 624 offices and 21,224 people across 101 countries.

During the year RO 10,000 was charged by statutory auditors against services rendered by them to the Company (RO 9,500 for audit, RO 500 for Corporate Governance report)

ACKNOWLEDGEMENT BY THE BOARD OF DIRECTORS

The Board of Directors confirms the following:

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

BRIEF PROFILES OF CURRENT DIRECTORS

Name	:	**Murtadha Ahmed Sultan – Chairman**
Year of Joining	:	2004
Education	:	Graduate - Sales and Marketing Management
Experience	:	Director of W. J. Towell Group of Companies Well known in the business community, Mr. Sultan has more than 32 years' experience in different commercial fields, holding various positions in public, private and government organizations. Mr. Murtadha Sultan is the Chairman of United Power Company SAOG. He is also a Director of Oman Flour Mills and Gulf International Chemicals.

Name	:	**Mark Lemmon – Vice Chairman**
Year of Joining	:	2013
Education	:	Chartered Accountant and Masters in Finance from the London School of Economics
Experience	:	Mr. Lemmon, the Chief Executive Officer of MENA Infrastructure, was previously the deputy chief executive of HSBC's global Project and Export Finance business, responsible for growing that business over recent years to its current pre-eminent position in infrastructure and energy finance. An investment banker and investor of 30 years, he has substantial experience leading business development and winning and executing financing mandates across transportation, social infrastructure, power, water and energy sectors throughout the Middle East and elsewhere.

Name	:	**Jeronimo Roura**
Year of Joining	:	2013
Education	:	MBA from IESE Business School, and a Bachelor in Business Administration from ESADE Business School.
Experience	:	Mr. Roura joined MENA Infrastructure in June 2010 as Investment Director, and was promoted to Managing Director in January 2013. He has over 16 years of experience in infrastructure. Mr. Roura joined MENA Infrastructure from the GMR Group, where he was Head of Structured Finance for the international businesses, having previously worked for Abertis, the Spanish toll road operator, as Head of Structured Finance, and previously for Citigroup in London as Vice President in the Infrastructure Team of the investment bank, and as Associate in the Structured Corporate Finance group with a focus on project finance. Mr. Roura has led a number of brownfield and greenfield transactions and financings in the infrastructure space, including roads, airports, and power generation, and has substantial experience in structuring, due diligence, financing and valuation.

Name	:	**Ahmed Sultan Alyaqoubi**
Year of Joining	:	2013
Education	:	Bachelor Degree of Commerce and Economics from Sultan Qaboos University
Experience	:	Mr. Alyaqoubi is working with Ministry of Defence Pension Fund. He is real estate, finance and investment industry veteran with more than 15 years' experience in various asset classes. He is currently the head of the real estate portfolio and he developed from concept stage several iconic developments in Oman

Name	:	**Przemek Lupa**
Year of Joining	:	2013
Education	:	Master's Degree in Management, Solvay Business School, Belgium
Experience	:	Mr. Lupa is the Chief Executive Officer of Al Suwadi Power Company SAOC. Prior to that, Mr. Lupa held various positions in finance and business development of large power projects in Europe, Middle East, Africa and Asia. He has over 13 years of experience in the energy sector, in particular in power and gas with GDF SUEZ, both in liberalized and in contracted/regulated markets, where he developed, acquired and sold assets worth several EUR billions in aggregate. He was also part of the GDF SUEZ bidding team at the time of the development of the Sohar 1 power and water project.

Name	:	**Andrew Smithson**
Year of Joining	:	2013
Education	:	Bachelor of Business (Banking & Finance) from Monash University. Graduate Diploma in Applied Finance and Investment
Experience	:	Mr. Smithson is an Associate Director at the MENA Infrastructure Fund. He has over ten years' experience in infrastructure investment and corporate finance across the Middle East, North Africa and Australia. He has substantial experience in the financing of infrastructure projects, with a particular focus on power generation assets in the Middle East.

Name	:	**Karel Breda**
Year of Joining	:	2011
Education	:	Master Degree in Applied Economics, KU Leuven, Belgium Master in Business Administration, University of Chicago
Experience	:	Mr. Breda is since 2011 the Chief Financial Officer of GDF SUEZ Energy South-Asia, Middle East & Africa. Prior to that, he was the Head of the Acquisitions, Investments & Financial Advisory department for GDF SUEZ Energy International in the Middle East and North Africa. Prior to joining GDF SUEZ in 2002, he worked as a Strategy Consultant in a start-up strategy consulting firm specializing in e-business.

Name	:	**Malcolm Wrigley**
Year of Joining	:	2012
Education	:	Honor's Degree in Electrical Power Engineering
Experience	:	Mr. Wrigley is since October 2010 the Chief Executive Officer of Al Ezzel Power Company and Al Dur Power & Water Company in Bahrain. He has some 18 years' experience in the international IPP business working in IPP Project Companies variously as CEO, General Manager, Chairman, Finance Director and Commercial Manager as well as headquarter roles in Asset Management and Business Development.

Name	:	**Abdulraouf Abudayyeh**
Year of Joining	:	2013
Education	:	B.S. Engineering
Experience	:	Mr. Abudayyeh has more than forty years of experience in Power and Desalination plants project management and Operations and Maintenance of Power and Water facilities. He is the CEO of Sogex Oman Co. LLC since 1977.

Name	:	**Kemal Taragay**
Year of Joining	:	2012
Education	:	B.S. in Mechanical Engineering, Middle East Technical University, Turkey.
Experience	:	Mr. Taragay has a long experience in the Turkish energy sector. He primarily worked for the governmental company EUAS as Head of Department for electricity generation before joining the GDF SUEZ Group. Presently serving as the CEO and Board Member of Baymina Enerji, a joint stock electrical power company located in Ankara. Mr. Taragay serves as board member in several GDF SUEZ companies.

Name	:	**Saif Abdullah Al Harthy**
Year of Joining	:	2011
Education	:	Masters in Chemical Engineering, University of Nottingham, UK
Experience	:	Mr. Al Harthy started his carrier as a field Engineer in Petroleum Development Oman (PDO), where he was involved in the design and upgrade of the major gas exporting facilities in central Oman. He later worked as a senior Business Planner for the PDO gas directorate before joining Qalhat LNG in 2006 as a Technical Coordinator. Mr. Al Harthy is currently working for Oman LNG as Vice President for IT and Investments.

Name	:	**Sami Abdullah Khamis Al-Zadjali**
Year of Joining	:	2012
Education	:	Bachelor Degree in Accounting Diploma in Information and Systems Management Diploma in Social Insurance
Experience	:	Mr. Zadjali is working with Civil Services Employee Pension Fund for the last 14 years. He is presently Contribution Manager and a member of GCC committee for pension issues.

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	1	4	5
Other staff	8	5	13

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

Brief profile of the current managerial team is as follows:

Name	**Guillaume Baudet**
Year of Joining	2013
Education	Master's Degree in Accounting and Finance, ISC Paris Business School Management Program, CEDEP/INSEAD, France University Degree in Business and Administration, Universite de Toulon
Experience	Mr. Guillaume Baudet has 17 years of experience in Controlling and Finance. After 11 years in the automotive industry, he joined GDF SUEZ Energy International in 2007 as Head of Business Control for the MENA region, before being appointed in 2011 CFO of Hidd Power Company in Bahrain. He is now the CEO of Sohar Power Company SAOG, in Oman.

Name	**Zoher Karachiwala**
Year of Joining	Since inception of the Company in 2004
Education	Chartered Accountant
Experience	Currently Company Secretary, he was Chief Financial Officer until June 2009. He also acts as Company Secretary for other GDF SUEZ companies in Oman. Mr. Karachiwala has been for 35 years in field of Statutory Audit & Accounting and Finance. He was KPMG Audit Partner in Pakistan before joining United Power Company SAOG in 1995. He acted as Honorary Chairman of Audit Committee and the Board of Directors for a public company in Oman.

Name	**S.M. Tariq**
Year of Joining	Since inception of the Company in 2004
Education	Master degree in Business administration and ACA (Intermediate), Institute of Chartered Accountants of Pakistan.
Experience	Overall 37 years of experience of external audit, internal audit and accounting & finance. Currently working as Chief Financial Officer of the Company. Prior to this, he was Financial Controller of United Power Company SAOG. He had also worked as Internal Auditor for National Trading Company LLC, Muscat and as an External Auditor for KPMG, Muscat (Oman) and Karachi (Pakistan) Offices.

Name	**Sreenath Hebbar**
Year of Joining	2009
Education	Bachelor of Engineering (Mechanical), VJTI, Mumbai University, India
Experience	28 years of work experience, primarily in Business Development of Engineer Procure Construct (EPC) Contracts in Gas Turbine based Cogeneration & Combined Cycle Power Plants. In his current position as Technical Manager, and Safety Officer, he is responsible for monitoring Contractors' compliance to safety norms, technical liaison with the client, statutory authorities, and contractors and provides technical support to the CEO. He has been a member of the Grid Code Review Panel of Oman.

Name	**Jamal Al Bloushi**
Year of Joining	Since inception of the Company in 2004
Education	Diploma in Computer
Experience	19 years of experience in administration activity. In his role as an Administration Manager, his duties include, managing spare parts logistics, liaisons with government organizations, licenses, translation function and supervising local insurance programs and assisting Chief Executive Officer for statutory meetings.

Audited Financial Statements

MOORE STEPHENS

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

Report on the financial statements

We have audited the accompanying financial statements of Sohar Power Company SAOG set out on pages 45 to 74, which comprise the statement of financial position as at 31 December 2013, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended). The Board of Directors is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our report, we draw your attention to note 4 to the financial statements which sets out the basis on which the Management has determined the most appropriate method of recognizing income over the period of the Power and Water Purchase Agreement (PWPA).

Report on regulatory requirements

The Company's financial statements also comply in all material respects with the relevant requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) and the relevant disclosure requirement for public joint stock companies issued by the Capital Market Authority.

19 February 2014

مور ستيفنز وشركاه
ص.ب : ٩٣٣ ، الرمز ١١٢
روي ، سلطنة عمان
P.O. Box : 933, P.Code 112
Ruwi, Sultanate of Oman
MOORE STEPHENS

Moore Stephens

STATEMENT OF FINANCIAL POSITION
at 31 December 2013

	Note	2013 RO'000	2012 RO'000	2013 USD'000	2012 USD'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	**156,844**	163,269	**407,386**	424,076
Current assets					
Inventories	4 c)	**658**	744	**1,708**	1,933
Accounts and other receivables	6	**4,061**	3,946	**10,547**	10,250
Bank balances and cash	7	**10,260**	14,831	**26,649**	38,521
Total current assets		**14,979**	19,521	**38,904**	50,704
Total assets		**171,823**	182,790	**446,290**	474,780
EQUITY AND LIABILITIES					
Equity					
Share capital	8	**22,101**	27,800	**57,405**	72,300
Legal reserve	9	**2,437**	1,923	**6,330**	4,996
Retained earnings		**2,457**	2,823	**6,380**	7,239
Shareholders' funds		**26,995**	32,546	**70,115**	84,535
Hedging deficit	11	**(15,536)**	(26,204)	**(40,352)**	(68,062)
Total equity		**11,459**	6,342	**29,763**	16,473
Liabilities					
Non-current liabilities					
Hedging deficit	11	**19,188**	31,685	**49,839**	82,299
Non-current portion of long-term loans	12	**120,000**	127,608	**311,686**	331,449
Provision for decommissioning costs	13	**1,162**	1,093	**3,018**	2,839
Deferred tax liability	16	**7,306**	5,146	**18,978**	13,367
Total non-current liabilities		**147,656**	165,532	**383,521**	429,954
Current liabilities					
Current portion of long-term loans	12	**7,973**	7,755	**20,710**	20,143
Accounts and other payables	14	**4,173**	2,707	**10,837**	7,032
Due to a related party	15 c)	**562**	454	**1,459**	1,178
Total current liabilities		**12,708**	10,916	**33,006**	28,353
Total liabilities		**160,364**	176,448	**416,527**	458,307
Total equity and liabilities		**171,823**	182,790	**446,290**	474,780
Net assets per share	21	**1.221**	1.171	**3.17**	3.04

These financial statements were authorised for issue and approved by the Board of Directors on 19/2/2014 and were signed on their behalf by:

Director　　　　　　　　　　Director

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

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Note	2013 RO'000	2012 RO'000	2013 USD'000	2012 USD'000
Income					
Revenue	4 k	**47,539**	46,622	**123,477**	121,096
Direct costs	17	**(33,344)**	(34,488)	**(86,607)**	(89,579)
Gross profit		**14,195**	12,134	**36,870**	31,517
Other income	18	**845**	1,248	**2,196**	3,243
Administrative and general expenses	19	**(913)**	(707)	**(2,371)**	(1,837)
Result from operations		**14,127**	12,675	**36,695**	32,923
Finance costs	20	**(8,285)**	(9,335)	**(21,519)**	(24,247)
Profit before taxation		**5,842**	3,340	**15,176**	8,676
Taxation	16	**(705)**	(400)	**(1,833)**	(1,040)
Profit for the year		**5,137**	2,940	**13,343**	7,636
Other comprehensive income					
Potentially reclassifiable to income statement:					
Fair value gain on interest rate swap		**12,123**	787	**31,488**	2,044
Related taxation	16	**(1,455)**	(114)	**(3,778)**	(295)
Other comprehensive income for the year		**10,668**	673	**27,710**	1,749
Total comprehensive income for the year		**15,805**	3,613	**41,053**	9,385
Basic earnings per share	22	**0.222**	0.106	**0.58**	0.27

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Share capital	Legal reserve	Retained earnings	Total Shareholders' funds	Hedging deficit	Total equity	Total equity
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	USD'000
	(note 8)	(note 9)			(note 11)		
At 31 December 2011	27,800	1,629	177	29,606	(26,877)	2,729	7,088
Total comprehensive income for the year:							
Profit for the year	--	--	2,940	2,940	--	2,940	7,636
Other comprehensive income for the year	--	--	--	--	673	673	1,749
	--	--	2,940	2,940	673	3,613	9,385
Transfer to legal reserve	--	294	(294)	--	--	--	--
At 31 December 2012	27,800	1,923	2,823	32,546	(26,204)	6,342	16,473
At 31 December 2012	**27,800**	**1,923**	**2,823**	**32,546**	**(26,204)**	**6,342**	**16,473**
Total comprehensive income for the year:							
Profit for the year	**--**	**--**	**5,137**	**5,137**	**--**	**5,137**	**13,343**
Other comprehensive income for the year	**--**	**--**	**--**	**--**	**10,668**	**10,668**	**27,710**
	--	**--**	**5,137**	**5,137**	**10,668**	**15,805**	**41,053**
Reduction of share capital [note 8 b)]	**(5,699)**	**--**	**--**	**(5,699)**	**--**	**(5,699)**	**(14,803)**
Final dividend for the year 2012	**--**	**--**	**(2,779)**	**(2,779)**	**--**	**(2,779)**	**(7,219)**
Interim dividend for the year 2013	**--**	**--**	**(2,210)**	**(2,210)**	**--**	**(2,210)**	**(5,741)**
Transfer to legal reserve	**--**	**514**	**(514)**	**--**	**--**	**--**	**--**
At 31 December 2013	**22,101**	**2,437**	**2,457**	**26,995**	**(15,536)**	**11,459**	**29,763**

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

STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	2013 RO'000	2012 RO'000	2013 USD'000	2012 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	**47,837**	46,605	**124,254**	121,051
Cash paid to suppliers and employees	**(25,441)**	(29,679)	**(66,081)**	(77,085)
Cash generated from operations	**22,396**	16,926	**58,173**	43,966
Interest paid	**(8,228)**	(8,128)	**(21,369)**	(21,114)
Net cash from operating activities	**14,168**	8,798	**36,804**	22,852
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	**--**	3	**--**	5
Additions to property, plant and equipment	**(298)**	(126)	**(773)**	(327)
Net cash used in investing activities	**(298)**	(123)	**(773)**	(322)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of dividends	**(4,989)**	--	**(12,960)**	--
Repayment of long-term loans	**(7,753)**	(7,573)	**(20,140)**	(19,670)
Reduction of share capital	**(5,699)**	--	**(14,803)**	--
Net cash used in financing activities	**(18,441)**	(7,573)	**(47,903)**	(19,670)
Net (decrease) / increase in cash and cash equivalents during the year	**(4,571)**	1,102	**(11,872)**	2,860
Cash and cash equivalents at the beginning of the year	**14,831**	13,729	**38,521**	35,661
Cash and cash equivalents [notes 4 e) & 7] at the end of the year	**10,260**	14,831	**26,649**	38,521

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

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Sohar Power Company SAOG ('the Company') was registered as a closed joint stock company in the Sultanate of Oman on 17 July 2004. The Company was incorporated on 22 June 2004. The Company has been established to build and operate a 585 MW electricity generating station and 33 Million Imperial Gallon per Day of water desalination plant at Sohar. The commercial operation date ("COD") has been determined to be 28 May 2007.

The Shareholders in their Extraordinary General Meeting held on 23 March 2008 resolved to convert the Company from a closed joint stock Company into a public joint stock Company.

2 SIGNIFICANT AGREEMENTS

The Company has entered into the following significant agreements:

a) Power and Water Purchase Agreement ("PWPA") with the Government of 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 (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 Commercial Operation Date ("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 of Oman. All the financial commitments of OPWP are guaranteed by the Government of Oman (also refer note 4).

b) 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 PWPA.

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

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

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

f) Financing Agreements with lenders for long-term loan facilities (also refer note 12).

3 BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS

3.1 Basis of preparation

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

The financial statements are presented in Omani Rials and United States Dollars (USD) on a historical cost basis except for certain financial assets and financial liabilities which are carried at their fair values, rounded off to the nearest thousand.

3.2 New and amended IFRS adopted by the Company

The Company has adopted the following new and revised Standards and Interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee, which were effective for the current accounting period:

- Amendments to IAS 1 'Presentation of Financial Statements' issued in June 2011 improves the consistency and clarity of the presentation of items of other comprehensive income (OCI). The amendments require an entity to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently.
- The revised IAS 19 'Employee benefits' issued in June 2011 has resulted, amongst other amendments, in the removal of 'corridor approach' to defer some gains and losses arising from defined benefit plans. The amendment also introduces a different basis of recognizing the impact of changes in the obligation within the performance statements i.e. net interest cost.
- IFRS 10 'Consolidated Financial Statements' was issued in May 2011 primarily to deal with divergence in practice in applying the existing IAS 27 'Consolidated and Separate Financial Statements' and SIC 12 'Consolidation – Special Purpose Entities'. IFRS 10 and revised IAS 27 'Separate Financial Statements' together supersede the current IAS 27 'Consolidated and Separate Financial Statements'. IFRS 10 also applies a substance approach to control and that control will need to be reviewed on application.
- IFRS 11 'Joint arrangements' was issued in May 2011 and improves on IAS 31 'Joint ventures' by establishing principles to the accounting for all joint arrangements. IFRS 11 also eliminates the option available for accounting of joint ventures by the proportionate consolidation method.
- IFRS 12 'Disclosure of interest in other entities' was issued in May 2011 and requires an entity to disclose information to evaluate the nature of, and risks associated with, its interests in other entities and effects of those interests on its financial position, performance and cash flows. The standard introduces new disclosures for off-balance sheet vehicles.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 issued in June 2012 provide additional transition relief by limiting the requirement to present adjusted comparative information to the period immediately preceding the date of initial application.

3 BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS *(Continued)*

- IFRS 13 'Fair value Measurements' was issued in May 2011 and sets out in a single IFRS a framework for measuring and disclosing fair values. The standard also introduces more disclosures on fair value for non-financial assets.
- Amendments to IFRS 7 'Financial Instruments: Disclosures' issued in December 2011 amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.
- Annual improvements to IFRS issued in May 2012 (effective for annual periods beginning on or after 1 January 2013) has resulted, amongst other amendments, changes to the following standards:
  - IAS 1 'Presentation of Financial Statements clarifies the requirements for comparative information.
  - IAS 16 'Property, plant and equipment' clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment. If they do not meet this definition they shall be classified as inventory.
  - IAS 32 'Financial Instruments: Presentation' addresses the perceived inconsistencies between IAS 12 'Income Taxes' and IAS 32 with regards to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

The Management believes that the adoption of the amendments have not had any material impact on the presentation and disclosure of items in the financial statements for the current period.

3.3 New and amended IFRS which are in issue but not yet effective

At the end of the reporting period, the following new and revised standards were in issue but not yet effective:

- IFRS 9, 'Financial Instruments', was effective for accounting periods beginning on or after 1 January 2015. The November 2013 amendment removed the effective date, which will be added once the standard has been finalised. Currently, IFRS 9 outlines the recognition and measurement of financial assets, financial liabilities and derecognition criteria for financial assets. The hedge accounting requirements were also issued in November 2013. Financial assets in accordance with IFRS 9 are to be measured either at amortised cost or fair value through profit and loss, with an irrevocable option on initial recognition to recognise some equity financial assets at fair value through other comprehensive income. A financial asset can only be measured at amortised cost if the entity has a business model to hold the asset to collect contractual cash flows and the cash flows arise on specific dates and are solely for payment of principal and interest on the principal outstanding.

3 BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS *(Continued)*

3.3 New and amended IFRS which are in issue but not yet effective *(Continued)*

- Amendments to IFRS 10, IFRS 12 and IAS 27 issued in October 2012 define an investment entity and introduce an exception to consolidating particular subsidiaries of an investment entity. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27. The amendments are effective for annual periods beginning on or after 1 January 2014.
- Amendments to IAS 36 'Impairment of assets' issued in May 2013 corrects certain consequential amendments to IAS 36 disclosures when IFRS 13 was issued. The amendments also clarify other disclosure requirements relating to recoverable amount for non-financial assets. The amendments are effective for annual periods beginning on or after 1 January 2014.
- IFRIC 21 'Levies' issued in May 2013 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 'Provisions, Contingent liabilities and Contingent assets'. It clarifies the accounting for a liability to pay a levy whose timing and amount is certain. The amendments are effective for annual periods beginning on or after 1 January 2014.
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' issued in June 2013 relates to the novation of a derivative and the impact on hedge accounting. The amendments are effective for annual periods beginning on or after 1 January 2014. The amendment provides relief from discontinuing hedge accounting when certain criteria are met.

The Management believes the adoption of the above amendments is not likely to have any material impact on the presentation and disclosure of items in the financial statements for future periods.

4 SIGNIFICANT ACCOUNTING POLICIES

Power and Water Purchase Agreement

The Power Capacity Investment charge rate and Water Capacity Investment charge rate in 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 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 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. Therefore the Management's view is that application of IFRIC 4 and IAS 17 on the overall contractual revenues will result in unfair presentation of the economic reality and would not reflect a fair value of amounts earned in any one reporting period. That view is supported in that:

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

- 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;
- 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;
- 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 recognized if an 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 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;
- 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.

The following accounting policies have been consistently applied in dealing with items considered material to the Company's financial statements:

a) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the measurement at fair value of certain financial instruments.

b) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Following initial recognition at cost, expenditure incurred to replace a component of an item of property, plant and equipment which increases the future economic benefits embodied in the item of property, plant and equipment is capitalised. All other expenditures are recognised in the statement of comprehensive income as an expense as incurred.

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

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of items of property, plant and equipment. The estimated useful economic lives are as follows:

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

c) Inventories

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

d) Accounts and other receivables

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

e) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents consist of bank balances and cash and short term deposits with maturity of three months or less from the date of placement.

f) Impairment

Financial assets

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

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Impairment *(continued)*

Non-financial assets

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

g) Dividends

Dividends are recognised as a liability in the period in which they are declared.

The Board of Directors recommends to the shareholders the dividend to be paid out of Company's profits. The Directors take into account appropriate parameters including the requirements of the Commercial Companies Law, 1974 (as amended), while recommending dividend.

h) Employees' end of service benefits

Payment is made to Omani Government's Social Security Scheme under Royal Decree number 72 / 91 (as amended) for Omani employees. Provision is made for amounts payable under the Sultanate of Oman's labour law under Royal Decree number 35 / 2003 applicable to non-Omani employees' accumulated periods of service at the end of the reporting period.

i) Provisions

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

Provision for decommissioning costs

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

The provision for future decommissioning cost 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 as per the sub-usufruct agreement. Future decommissioning cost is reviewed annually and any changes in the estimate are reflected in the present value of the decommissioning provision at each reporting date.

The initial estimate of the decommissioning provision is capitalized 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 is treated in the same manner, except that the unwinding of the discount is recognised as a finance cost rather than being capitalised into the cost of the related asset.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Accounts and other payables

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

k) Revenue

Revenue comprises tariffs for power capacity, electrical energy, water capacity and water output charges. Tariffs are calculated in accordance with the Power and Water Purchase Agreement (PWPA). The operating revenue is recognized by the Company on an accrual basis of accounting. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due and associated costs.

l) Operating lease payments

The operating lease payments are charged to the statement of comprehensive income on a straight line basis, unless another systematic basis is representative of the time pattern of the benefit.

m) Borrowing costs

Borrowing costs comprise interest payable on 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 recognized as expenses in the period in which they are incurred.

n) Foreign currency transactions

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

o) Taxation

Taxation for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, 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.

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Taxation *(continued)*

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

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

p) Deferred financing costs

The cost of obtaining long-term financing is deferred and amortized over the term of the long-term loan using the effective interest rate method. Deferred financing costs less accumulated amortization are offset against the drawn amount of long-term loans. The amortization of deferred financing costs is capitalized as part of the cost of the plant during construction. Subsequent to plant completion, the element of amortization of deferred financing costs is charged to the statement of comprehensive income.

q) Financial liabilities

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

r) 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 gain or loss is recognised in the statement of comprehensive income immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the statement of comprehensive income depends on the nature of the hedge relationship.

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

Hedge accounting

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

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) 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 gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

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

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.

s) Directors' remuneration

The Company follows the Commercial Companies Law 1974 (as amended), and other latest relevant directives issued by CMA, in regard to determination of the amount to be paid as Directors' remuneration. Directors' remuneration is charged to the statement of comprehensive income in the year to which they relate.

t) Estimates and judgements

In preparing the financial statements, the Management is required to make estimates and assumptions which affect reported income and expenses, assets, liabilities and related disclosures. The use of available information and application of judgements based on historical experience and other factors are inherent in the formation of estimates. Actual results in future could differ from such estimates.

The estimates and assumption considered by the Management to have a significant risk of material adjustment in subsequent years primarily comprise:

- Estimation of future taxable income against which available carry forward losses will be utilized for set off;
- Estimation of useful lives of the assets which is based on Management's assessment of various factors such as the operating cycles, the maintenance programs and normal wear and tear using its best estimates;
- Decommissioning costs which are based on the Management's technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant facilities;
- Estimation is involved in the determination of the fair value of the interest rate swaps and accordingly the amount of hedging deficit at the end of the reporting period; and
- Allowance for credit losses which is based on the Management's estimates of recoverability of the amounts based on historical experiences.

5 PROPERTY, PLANT AND EQUIPMENT

a) The movement schedule of property, plant and equipment for the years 2013 and 2012 are set out on pages 73 and 74 respectively.

b) Land on which the power station, building and auxiliaries are constructed has been sub-leased from Sohar Industrial Port Company SAOC for a period of 15 years from the Commercial Operation Date. The sub-lease is further extendable for another 15 years (refer note 23). Lease rent is paid at the rate of approximately USD 155,000 per annum.

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

6 ACCOUNTS AND OTHER RECEIVABLES

	2013	2012	**2013**	2012
	RO'000	RO'000	**USD'000**	USD'000
Accounts receivable	**5,275**	4,973	**13,701**	12,917
Less: Allowance for credit losses [note 6 c)]	**(1,392)**	(1,392)	**(3,616)**	(3,616)
	3,883	3,581	**10,085**	9,301
Advances and prepayments	**159**	174	**414**	452
Other receivables	**19**	191	**48**	497
	4,061	3,946	**10,547**	10,250

The following further notes apply:

a) Accounts receivable is from a single domestic customer (2012 – single domestic customer).

b) The ageing analysis of accounts receivables is as follows:

	2013	**2013**	2012	2012
	Receivables	**Allowance for credit losses**	Receivables	Allowance for credit losses
	RO'000	**RO'000**	RO'000	RO'000
Not past due				
0 – 26 days	**3,867**	**--**	3,581	--
27 days to 1 year	**16**	**--**	--	--
Past due (More than one year)	**1,392**	**1,392**	1,392	1,392
	5,275	**1,392**	4,973	1,392

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

6 ACCOUNTS AND OTHER RECEIVABLES *(Continued)*

	2013 Receivables USD'000	2013 Allowance for credit losses USD'000	2012 Receivables USD'000	2012 Allowance for credit losses USD'000
Not past due				
0 – 26 days	**10,043**	**--**	9,301	--
27 days to 1 year	**42**	**--**	--	--
Past due (More than one year)	**3,616**	**3,616**	3,616	3,616
	13,701	**3,616**	12,917	3,616

The movement in allowance for credit losses during the year is as follows:

	2013 RO'000	2012 RO'000	2013 USD'000	2012 USD'000
At the beginning of the year	**1,392**	1,593	**3,616**	4,137
Less: Written back during the year	**--**	(201)	**--**	(521)
At the end of the year	**1,392**	1,392	**3,616**	3,616

7 BANK BALANCES AND CASH

	2013 RO'000	2012 RO'000	2013 USD'000	2012 USD'000
Bank balances and cash	**6,927**	2,831	**18,082**	7,352
Short term deposits (see note below)	**3,333**	12,000	**8,567**	31,169
	10,260	14,831	**26,649**	38,521

The following further note applies:

Short term deposits are placed with a local commercial bank at commercial interest rates and have an original maturity period of 3 months from the date of placement (2012 – same terms).

8 SHARE CAPITAL

At the end of the reporting period, the Company's authorised and issued / paid up share capital is as follows:

	2013 RO'000	2012 RO'000	2013 USD'000	2012 USD'000
Authorised share capital of shares of RO 1 each	**60,000**	60,000	**156,000**	156,000
Issued and fully paid up share capital of shares of RO 1 each	**22,101**	27,800	**57,405**	72,300

8 SHARE CAPITAL *(Continued)*

At the Extraordinary General Meeting held on 25 November 2012, the shareholders resolved to reduce the Company's issued and fully paid up share capital from RO 27.80 million (USD 72.3 million) to RO 22.101 million (USD 57.40 million). The Company effected the capital reduction on 5 March 2013 after completion of necessary statutory formalities relating to the reduction of the capital.

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

	2013		2012	
	No of shares held	**%**	No of shares held	%
Kahrabel FZE	**7,735,350**	**35**	12,510,000	45
MENA Sohar 1SPV LTD	**4,420,200**	**20**	--	--

9 LEGAL RESERVE

In accordance with Article 106 of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended), 10% of the Company's net profit for the year has been transferred to a non-distributable legal reserve until the amount of the legal reserve becomes equal to one-third of the Company's issued share capital.

10 DIVIDEND

a) The Board of Directors proposed a final cash dividend of 12.57% of the share capital after capital reduction for the year 2012 (RO 0.1257 per share) amounting to RO 2.78 million. It was approved by the shareholders in the Annual General Meeting held on 27 March 2013 and paid in April 2013.

b) At the Annual General Meeting held on 27 March 2013, the Shareholders authorized the Board of Directors to distribute interim dividend for the period 1 January 2013 to 30 June 2013, subject to a ceiling of RO 0.100 per share. Accordingly, an interim cash dividend of RO 0.100 per share amounting to RO 2.21 million was declared and paid during the year after approval of the audited financial statements for the period ended 30 June 2013.

c) Subsequent to the end of the reporting period, the Board of Directors have proposed a final cash dividend of 11% (RO 0.110 per share) for the year 2013, which is subject to shareholders' approval in the forthcoming Annual General Meeting.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

11 HEDGING DEFICIT

Interest rate swap

The long-term loan facilities of the Company bear interest at US LIBOR plus applicable margins (refer note 12). In accordance with the term loan agreement, the Company has fixed the rate of interest through Interest Rate Swap Agreements ("IRS") to hedge the risk of variation in US LIBOR for 95% of its loan facility for the entire tenure of the agreement. The corresponding maximum hedged notional amount of the swaps at 31 December 2013 is approximately RO 124 million (USD 322 million) [2012 - approximately RO 131 million (USD 341 million)] bearing fixed interest rates of 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum – 2 swap arrangements commenced from April 2013 (2012 – 7.89%, 4.50% and 5.70% per annum) excluding applicable margin.

At 31 December 2013, the USD LIBOR was approximately 0.37% per annum, (2012 - 0.65% per annum) whereas the Company has fixed interest on its borrowing as described above.

	2013	2012	**2013**	2012
Cash flow hedge	**RO'000**	RO'000	**USD'000**	USD'000
Hedging deficit (equity)	**15,536**	26,204	**40,352**	68,062
Related taxation	**2,118**	3,573	**5,503**	9,281
Ineffective portion of hedging cost	**--**	339	**--**	880
Fair value of derivative financial liabilities	**17,654**	30,116	**45,855**	78,223
Interest accrual on hedging instrument	**1,534**	1,569	**3,984**	4,076
Hedging deficit (liability)	**19,188**	31,685	**49,839**	82,299

In case, the Company terminates the IRS at 31 December 2013, it may incur losses to the extent of approximately RO 19.19 million (USD 49.84 million) [2012 - RO 31.69 million (USD 82.30 million)]. However, under the term of Loan Agreements, the Company is not permitted to terminate the interest rate swap agreements.

In accordance with 'IAS 39 Financial Instruments: Recognition and Measurement', the hedge is being tested at least annually for its effectiveness and consequently effective and ineffective portions are being recognized in equity and statement of comprehensive income respectively.

The process of testing effectiveness has been changed during the year. The new process was adopted as management considers that it more accurately reflects the existing swap arrangements. Accordingly, the new process of testing effectiveness of the swaps has resulted in a recognition in the income statement of a gain that is RO 0.22 million more (USD – 0.56 million) than had the previous process been adopted. Similarly, the carrying value of hedging deficit under statement of changes in equity would have decreased by the equivalent amount had the previous process been adopted.

12 LONG TERM LOANS

	2013	2012	2013	2012
	RO'000	RO'000	USD'000	USD'000
Base facility	109,313	115,816	283,930	300,821
Repayment facility	21,025	22,276	54,610	57,859
Less: current portion of loans	(7,973)	(7,755)	(20,710)	(20,143)
	122,365	130,337	317,830	338,537
Less: deferred financing cost	(2,365)	(2,729)	(6,144)	(7,088)
	120,000	127,608	311,686	331,449

The following further notes apply:

a) Syndicated facilities

The Company has syndicated long-term loan facilities ("syndicated facilities") in the aggregate maximum amount of USD 550 million. HSBC Bank PLC is the facility agent ("Facility Agent") for administration and monitoring of the overall loan facilities. HSBC Bank USA – National Association and Bank Muscat have respectively been appointed as the offshore security trustee and on-shore security agent for the secured finance parties.

b) Base facility

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

c) Repayment facility

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

d) Interest

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

e) Commitment and other fees

Under the terms of the loan facilities, the Company is required to pay Commitment Fees, Performance Bond Fee, Front End Fee for the facilities, Agency Fee and all Bank Fees.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

12 LONG TERM LOANS *(Continued)*

f) Security

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

g) Covenants

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

13 PROVISION FOR DECOMMISSIONING COSTS

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

	2013	2012	**2013**	2012
	RO'000	RO'000	**USD'000**	USD'000
At the beginning of the year	**1,093**	1,028	**2,839**	2,671
Unwinding of discount on decommissioning cost (note 20)	**69**	65	**179**	168
At the end of the year	**1,162**	1,093	**3,018**	2,839

14 ACCOUNTS AND OTHER PAYABLES

	2013	2012	**2013**	2012
	RO'000	RO'000	**USD'000**	USD'000
Accounts payable	**1,502**	--	**3,900**	--
Accruals and other payables	**2,671**	2,707	**6,937**	7,032
	4,173	2,707	**10,837**	7,032

15 RELATED PARTY TRANSACTIONS

The Company has entered into transactions with entities and shareholders who have significant influence over the Company. The Company also entered into transactions with entities related to these significant shareholders or directors ("other related parties"). These transactions are entered into on terms and conditions approved by the Management.

a) The following is a summary of significant transactions with related parties during the year:

	2013	2012	**2013**	2012
	RO'000	RO'000	**USD'000**	USD'000
Services provided by Sohar Operations and Maintenance Co. LLC (SOMC)	**6,255**	6,513	**16,246**	16,918
Other income from SOMC	**--**	437	**--**	1,135
Services provided by Power Management Co. LLC				
- Management fee	**154**	154	**400**	400
- Other administrative expenses	**279**	275	**725**	714
Services provided by Suez –Tractebel S.A.	**35**	42	**92**	110
Directors' remuneration	**167**	51	**434**	132
Directors' meeting attendance fees	**17**	15	**44**	38

b) Amounts due to related parties are interest free and repayable on demand.

c) The following are the details of amounts due to a related party:

	2013	2012	**2013**	2012
	RO'000	RO'000	**USD'000**	USD'000
Due to a related party				
Sohar Operations and Maintenance Co LLC	**562**	454	**1,459**	1,178

16 TAXATION

	2013	2012	**2013**	2012
	RO'000	RO'000	**USD'000**	USD'000
Statement of comprehensive income				
Deferred tax charge (net)				
- Current year	**(705)**	(400)	**(1,833)**	(1,040)
Statement of other comprehensive income				
Taxation charge relating to interest rate swap	**(1,455)**	(114)	**(3,778)**	(295)
Statement of financial position				
Deferred tax liability	**7,306**	5,146	**18,978**	13,367

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

16 TAXATION *(Continued)*

The following further notes apply:

a) The Company is subject to income tax in accordance with the income tax law of the Sultanate of Oman at the tax rate of 12% on taxable profits in excess of RO 30,000.

b) The Company's taxation assessments for the years 2009 to 2012 have not been finalised by the Secretariat General for Taxation. The Management believes that any additional tax assessed for the unassessed tax years would not be material to the Company's financial position at the end of the reporting period.

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

	At 31 December 2012	Recognised in the statement of comprehensive income	Recognised in the statement of other comprehensive income	At 31 December 2013
	RO'000	RO'000	RO'000	RO'000
Interest accrual on hedging instruments	187	(187)	--	--
Provisions	206	8	--	214
Tax losses	1,364	(34)	--	1,330
Fair value of hedging Instrument	3,573	--	(1,455)	2,118
Depreciation	(10,476)	(492)	--	(10,968)
	(5,146)	(705)	(1,455)	(7,306)
	USD'000	USD'000	USD'000	USD'000
Interest accrual on hedging instruments	489	(489)	--	--
Provisions	533	21	--	554
Tax losses	3,542	(88)	--	3,454
Fair value of hedging Instrument	9,281	--	(3,778)	5,503
Depreciation	(27,212)	(1,277)	--	(28,489)
	(13,367)	(1,833)	(3,778)	(18,978)

17 DIRECT COSTS

	2013	2012	2013	2012
	RO'000	RO'000	USD'000	USD'000
Fuel gas	18,845	19,233	48,947	49,956
O & M costs	6,291	6,222	16,341	16,161
Depreciation (note 5)	6,722	6,717	17,460	17,446
Seawater extraction	683	698	1,775	1,813
Other operating expenses	803	1,618	2,084	4,203
	33,344	34,488	86,607	89,579

18 OTHER INCOME

	2013 RO'000	2012 RO'000	2013 USD'000	2012 USD'000
Insurance claim settlement (refer note below)	578	--	1,500	--
Reversal of excess provisions	244	1,025	635	2,662
Profit on disposal of property, plant and equipment	--	3	--	5
Others	23	220	61	576
	845	1,248	2,196	3,243

The following further note applies:

During the years 2011 and 2012, the Company had encountered unexpected technical faults with its gas turbine generators and as a result the Company had incurred and charged certain repair costs and also lost revenue. The Company had insurance arrangements in place to cover both the repairs and loss of revenues and during the current year, the insurers and the Company agreed for an amount of USD 1.5 million towards full and final settlement of the insurance claim.

19 ADMINISTRATIVE AND GENERAL EXPENSES

	2013 RO'000	2012 RO'000	2013 USD'000	2012 USD'000
Management fee	154	154	400	400
Directors' meeting attendance fees and remuneration	184	66	478	170
Legal and professional fees	129	66	335	172
Staff costs	20	16	52	42
Depreciation (note 5)	1	3	3	7
Other administrative expenses	425	402	1,103	1,046
	913	707	2,371	1,837

20 FINANCE COSTS

	2013 RO'000	2012 RO'000	2013 USD'000	2012 USD'000
Interest on net settlement of swaps	6,162	6,355	16,004	16,506
Interest on base facility	1,548	1,787	4,021	4,644
Amortisation of deferred financing costs	364	384	944	997
Interest on repayment facility	298	344	773	893
Other financial charges	183	221	478	573
Unwinding of discount on decommissioning cost (note 13)	69	65	179	168
Ineffective portion of hedging cost	(339)	179	(880)	466
	8,285	9,335	21,519	24,247

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

21 NET ASSETS PER SHARE

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

	2013 RO	2012 RO	2013 USD	2012 USD
Shareholders' funds (in '000)	**26,995**	32,546	**70,115**	84,535
Number of shares at the end of the reporting year (in '000)	**22,101**	27,800	**22,101**	27,800
Net assets per share	**1.221**	1.171	**3.17**	3.04

The Management believes that the hedging deficit of RO 15.54 million (USD 40.35 million) [2012 – RO 26.20 million (USD 68.06 million)] at the end of the reporting period represents the loss which the Company would incur, if it opts to terminate its swap agreement on this date. However, under the terms of its financing agreements, the Company is not permitted to terminate the swap agreements. Accordingly the hedging deficit has been excluded from the Shareholders' funds.

22 BASIC EARNINGS PER SHARE

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

	2013 RO	2012 RO	2013 USD	2012 USD
Profit for the year (in '000)	**5,137**	2,940	**13,343**	7,636
Weighted average number of shares at the end of the reporting year (in '000)	**23,085**	27,800	**23,085**	27,800
Basic earnings per share	**0.222**	0.106	**0.58**	0.27

As the Company does not have any dilutive potential shares, the diluted earnings per share is the same as the basic earnings per share.

23 LEASE COMMITMENTS

Land on which the Sohar Power and Water Plant is constructed, has been leased from Sohar Industrial Port Company SAOC for a 15 year period [note 5 b)]. At the end of the reporting period, future minimum lease commitments under non-cancellable operating leases are as follows:

	2013 RO'000	2012 RO'000	2013 USD'000	2012 USD'000
Within 1 year	**60**	60	**155**	155
Between 2 and 5 years	**239**	239	**620**	620
After 5 years	**193**	253	**503**	658
	492	552	**1,278**	1,433

24 FINANCIAL RISK AND CAPITAL MANAGEMENT

The Company's activities expose it to various financial risks, primarily being, market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. 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 changes in market conditions and the Company's activities.

a) Market risk

Foreign currency risk

The Company is exposed to currency risk on borrowings that are denominated in a currency other than the functional currency of Company. The currency in which these transactions are denominated is USD. In respect of Company's transactions denominated in USD, the Management believes the Company is not exposed to the currency risk as the RO is effectively pegged to the USD. At the end of the reporting period, the Company had bank balances denominated in USD amounting to RO 0.5 million (2012 – RO 1.5 million).

Interest rate risk

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 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 borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously.

b) 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 receivables. At the end of the reporting period, the entire accounts receivable was from a government owned company (OPWP). The Management considers the credit risk associated with the receivables to be very low because the receivables are from the Government. Furthermore, the cash and short term deposits are also placed in reputable banks, which minimize the credit risk.

c) Liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

24 FINANCIAL RISK AND CAPITAL MANAGEMENT *(Continued)*

c) Liquidity risk *(Continued)*

The table below analyses the expected contractual maturities of the financial liabilities at the end of the reporting year.

31 December 2013

	Carrying value	Contractual cash flow	6 months or less	6 to12 months	1 to 2 years	2 to 5 years	More than 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Non-derivative financial liabilities (A)							
Secured bank loans	127,973	130,338	3,168	4,805	8,270	26,959	87,136
Accounts and related party payable	4,735	4,735	4,735	--	--	--	--
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	15,536	19,188	3,000	2,711	5,223	7,507	747
Total (A + B)	148,244	154,261	10,903	7,516	13,493	34,466	87,883
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Non-derivative financial liabilities (A)							
Secured bank loans	332,396	338,540	8,230	12,480	21,480	70,020	226,330
Accounts and related party payable	12,296	12,296	12,296	--	--	--	--
Derivative financial liabilities (B)							
*Interest rate swaps used for hedg*ing	40,352	49,839	7,792	7,042	13,565	19,499	1,941
Total (A + B)	385,044	400,675	28,318	19,522	35,045	89,519	228,271

24 FINANCIAL RISK AND CAPITAL MANAGEMENT *(Continued)*

c) Liquidity risk *(Continued)*

31 December 2012

	Carrying value	Contractual cash flow	6 months or less	6 to12 months	1 to 2 years	2 to 5 years	More than 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Non-derivative financial liabilities (A)							
Secured bank loans	135,363	138,092	3,086	4,669	7,975	25,898	96,464
Accounts and related party payable	3,161	3,161	3,161	--	--	--	--
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	26,204	31,685	3,058	2,805	5,831	13,360	6,631
Total (A + B)	164,728	172,938	9,305	7,474	13,806	39,258	103,095
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Non-derivative financial liabilities (A)							
Secured bank loans	351,592	358,680	8,014	12,129	20,712	67,265	250,560
Accounts and related party payable	8,210	8,210	8,210	--	--	--	--
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	68,062	82,299	7,941	7,284	15,145	34,699	17,230
Total (A + B)	427,864	449,189	24,165	19,413	35,857	101,964	267,790

d) Capital management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders and sustain future development of the business.
- The Company has complied with externally imposed capital requirements as stipulated in the Commercial Companies Law, 1974 (as amended) and by the Capital Market Authority [see also note 8 b) relating to capital reduction].

25 FAIR VALUE MEASUREMENT

The Management believes that the fair values of financial assets and liabilities are not significantly different from their carrying amounts at the end of the reporting period. 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 17.7 million (USD 45.9 million) [2012 – RO 30.1 million (USD 78.2 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.

5 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

31 December 2013	Buildings	Plant and machinery	Technical parts	Other assets	Decommissioning assets	Capital work in progress	Total	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	USD'000
Cost								
At 31 December 2012	7,009	189,031	4,644	21	777	--	201,482	523,328
Additions during the year	--	--	244	--	--	54	298	773
At 31 December 2013	7,009	189,031	4,888	21	777	54	201,780	524,101
Depreciation								
At 31 December 2012	1,354	35,842	854	17	146	--	38,213	99,252
Charge for the year	234	6,302	160	1	26	--	6,723	17,463
At 31 December 2013	1,588	42,144	1,014	18	172	--	44,936	116,715
Net book value								
At 31 December 2013	5,421	146,887	3,874	3	605	54	156,844	407,386
At 31 December 2012	5,655	153,189	3,790	4	631	--	163,269	424,076

5 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

31 December 2012	Buildings	Plant and machinery	Technical parts	Other assets	Decommissioning assets	Total	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	USD'000
Cost							
At 31 December 2011	7,009	189,031	4,522	27	777	201,366	523,027
Additions during the year	--	--	122	4	--	126	327
Disposals during the year	--	--	--	(10)	--	(10)	(26)
At 31 December 2012	7,009	189,031	4,644	21	777	201,482	523,328
Depreciation							
At 31 December 2011	1,120	29,540	699	24	120	31,503	81,825
Charge for the year	234	6,302	155	3	26	6,720	17,453
Relating to disposals	--	--	--	(10)	--	(10)	(26)
At 31 December 2012	1,354	35,842	854	17	146	38,213	99,252
Net book value							
At 31 December 2012	**5,655**	**153,189**	**3,790**	**4**	**631**	**163,269**	**424,076**
At 31 December 2011	**5,889**	**159,491**	**3,823**	**3**	**657**	**169,863**	**441,202**