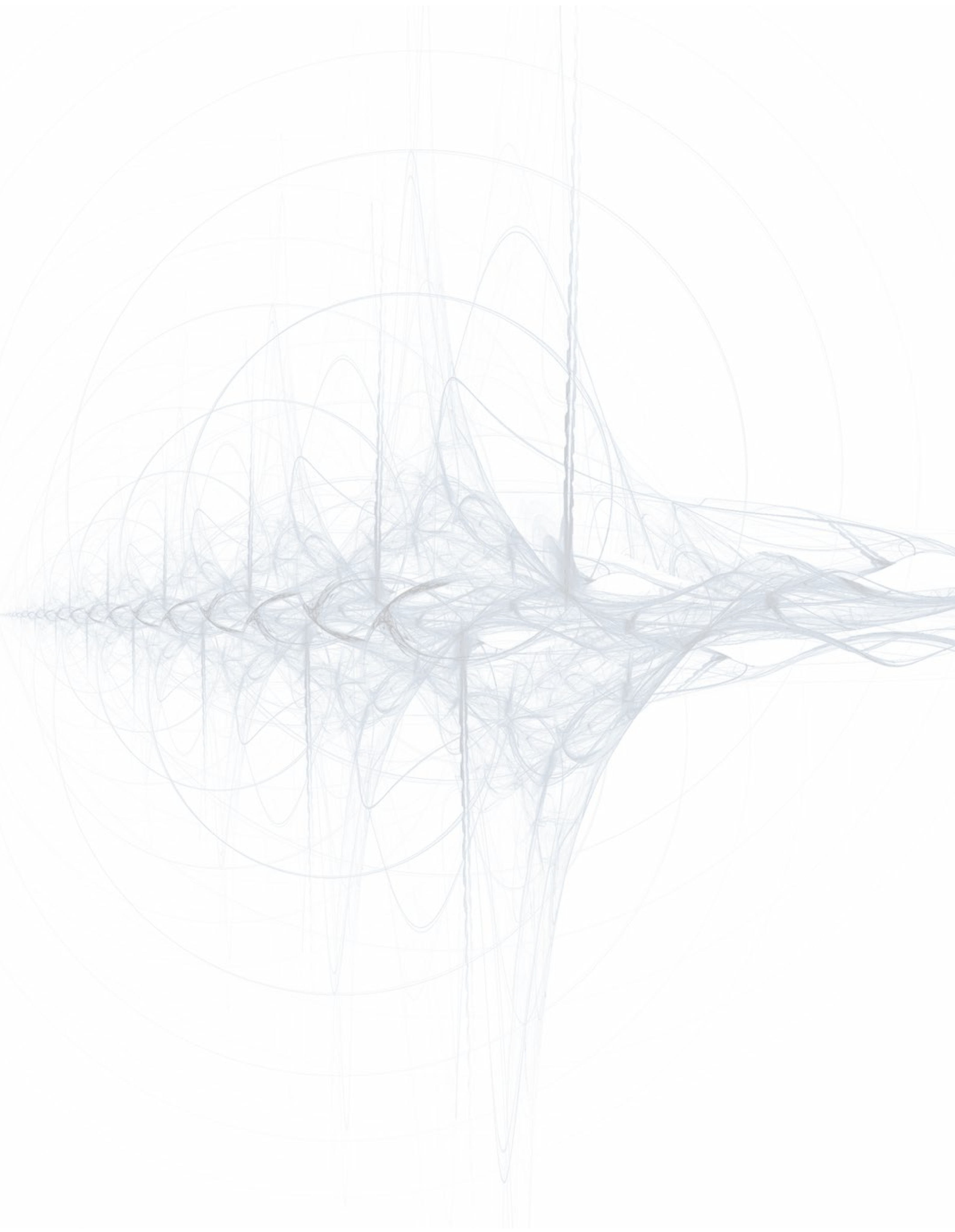
Bringing more to life

ANNUAL REPORT 2014

HIS MAJESTY SULTAN QABOOS BIN SAID



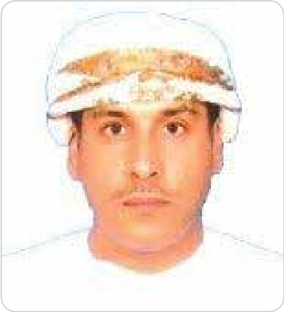
CONTENTS

BOARD OF DIRECTORS

Mr. Murtadha Ahmed Sultan
Chairman
Kahrabel FZE (GDF Suez)

Mr. Saif Abdullah Al Harthy
Vice Chairman
Qalhat LNG

Mr. Malcolm Wrigley
Director



Mr. Sami Abdullah Khamis Al-Zadjali
Director

Mr. Jeronimo Roura
Director

Mr. Ahmed Sultan Al-Yaqoubi
Ministry of Defence Pension Fund

Mr. Przemyslaw Lupa
Director

Mr. Navneet Kasbekar
Director

Mr. Tashfen Yasin
Director

BOARD OF DIRECTORS

Ms. Anne-Stephanie Nguyen Qui
Director

Mr. T. N. Sundararaju
Director
SOGEX Oman LLC

Mr. Nizar Saleh Qallab
Director

MANAGEMENT

Mr. Guillaume Baudet
Chief Executive Officer

Mr. Sreenath Hebbar
Chief Technical Officer

Mr. S. M. Tariq
Chief Financial Officer

Mr. Jamal Al Bloushi
Administration Manager

Mr. Zoher Karachiwala
Company Secretary

BOARD OF DIRECTORS' REPORT


MAERSK
MAERSK

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 tenth Annual Report of the Company for the year ended 31 December 2014, corresponding to the eighth year of operations of the Company.

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

In July, one of the eminent Directors of the Board of Directors, Mr. Abudayyeh, Chief Executive Officer of SOGEX Oman, who was highly esteemed and respected for his personality, professional skills and achievements, suddenly passed away.

Operations

In the continuity of 2013, Sohar Power achieved excellent operational and health and safety performance throughout the year.

Health and Safety of our employees and contractors remains a very high priority for Sohar Power and its operator Sohar Operations & Maintenance Company LLC ("SOMC"). The performance of the plant has been excellent, with no Lost Time Injuries (LTI) in 2014 and 701 days accumulated without LTI.

The plant delivered in 2014 an aggregate net power quantity of 3,497 GWh and a total volume of desalinated water of 48,875,592 m3.

SOMC operated the plant in a very reliable way, achieving 99.5% reliability for power and 98.9% for water. High availability was also maintained throughout the year, reaching 90.3% for power and 91.5% for water, and low forced outages were recorded, amounting to 0.5% and 1.1% for power and water respectively.

Maintenance activities took place in 2014 and were performed by SOMC and its contractors, in accordance with Original Equipment Manufacturers recommendations, while applying the best standards and practices of health & safety and maintenance in the industry.

This performance was achieved in a context of sustained demand for power in the Sultanate 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 (68.3% and 89.3% respectively in 2014), and despite the load absorbed by new power plants on the Main Interconnected System.

The difficulties encountered in 2014 to obtain the required windows to maintain the water desalination units highlight the lack of water production capacities and storage capacities in the North Batinah. The Company expects to face similar difficulties in the future, until new capacities are added to the existing network.

Financial Performance

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 4,414 million.

As a comparison, the profit for the year 2013 amounted to RO 5,137 million.

The contractual yearly decrease in tariff and the non-recurring sources of profit in 2013 explain the decrease in net profit between 2013 and 2014.

The reduction in finance costs in 2014 driven by debt repayment during the year has contributed to attenuate the impact of reduced revenues in 2014.

Consistent with its dividend distribution policy, whereby available cash is distributed after having met bank covenants and requirements of the Commercial Companies Law, Sohar Power distributed to its shareholders a final cash dividend of RO 2,431 million for the year 2013 corresponding to 110 Baisa per share or 11.0% of the share capital during the second quarter. Another distribution took place during the last quarter as interim dividend for the year 2014, amounting to RO 1,901 million corresponding to 8.6 Baisa per share or 8.6% of the share capital. The Directors of the Company have recommended the payment of a final cash dividend for the year 2014 amounting to RO 2.078 million corresponding to 9.4 Baisa per share or 9.4% of the share capital of the Company.

Corporate Governance

During the year and, following the Capital Market Authority ("CMA") invitation, Sohar Power proceeded with the share split in the ratio of 10 new shares for 1 existing share, contributing to CMA efforts to improve uniformity and consistency between the listed companies. This operation had no impact on the share capital of the Company, only increasing the number of shares by 10 and reducing their nominal value in the same proportion.

In line with efforts deployed in previous years, the Company ensured that its organization, systems, policies and procedures follow the highest standards of governance in order to comply at any time with the Code of Corporate Governance promulgated by CMA.

Employment

Pursuing their continued efforts to develop and employ young Omanis, the Company and its operator have trained 45 young graduated Omanis since the beginning of the project, out of which 34 were hired by SOMC, and 11 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.

The Ministry of Manpower issued in September 2014 a Decision setting new targets of localization of workforce for the Power and Water sector in Oman. Sohar Power and its operator are taking actions to comply with these new requirements over a reasonable period.

There has been no change to the management team of the Company during the financial year.

Corporate Social Responsibility

As a corporate citizen, the Company extended further in 2014 its support to local community and municipality projects in North and South Batinah region, while focusing on education, health and safety and environment protection. Sohar Power was able to contribute more to local projects intended for the local communities and the people of the Sultanate of Oman, increasing its financial contribution to RO 29,600 in 2014. The Ministry of Regional Municipalities and Water Resources recognized the efforts and contributions of the Company towards the municipalities of the North Batinah Governorate during an Award Ceremony held in January 2015.

Outlook for 2015

Looking ahead, the company will continue to maintain high standards of availability and reliability in its operations and supply of power and water to its customer, and shall continue performing its maintenance activities in a safe working environment for its employees, contractors and visitors.

The Ministry of Oil and Gas notified Sohar Power in November 2014 of an increase gas price to 3.00 USD/Mmbtu, effective as from January 2015, which is expected to be financially neutral for the Company.

Under its Financing Agreements entered into with its lenders, Sohar Power will be subject to a cash sweep mechanism as from September 2015 and until full repayment of the outstanding debt, whereby all amounts standing to the credit of the Operating Revenues Account will be dedicated to the reimbursement of the debt facilities. The Board of Directors and the management of Sohar Power are exploring options to restructure the outstanding debt of the Company in order to deal with this cash sweep, while creating value for its shareholders. Upon successful completion of this debt restructuring exercise, the Company would then be able to distribute an interim dividend for the year 2015.

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

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

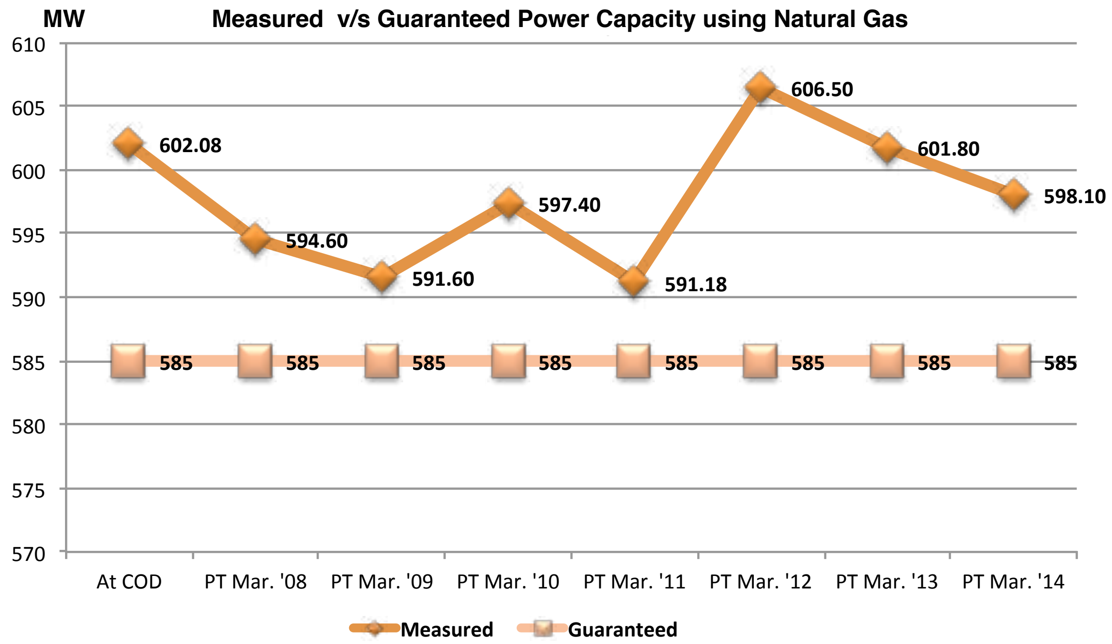
May Allah protect them for all of us.

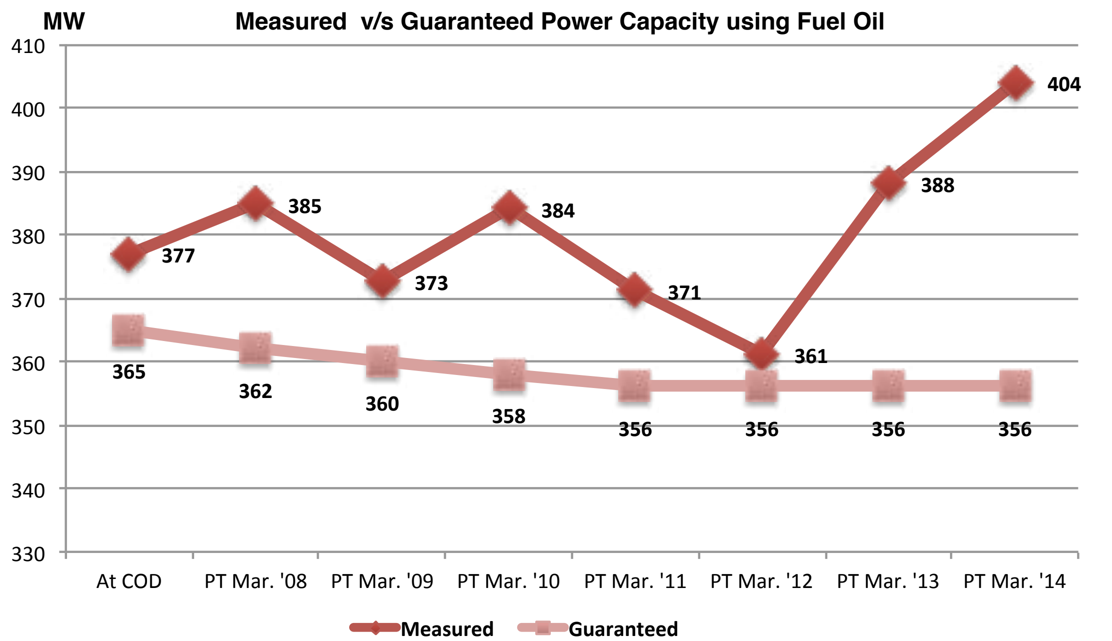
Murtadha Ahmed Sultan
Chairman of the Board

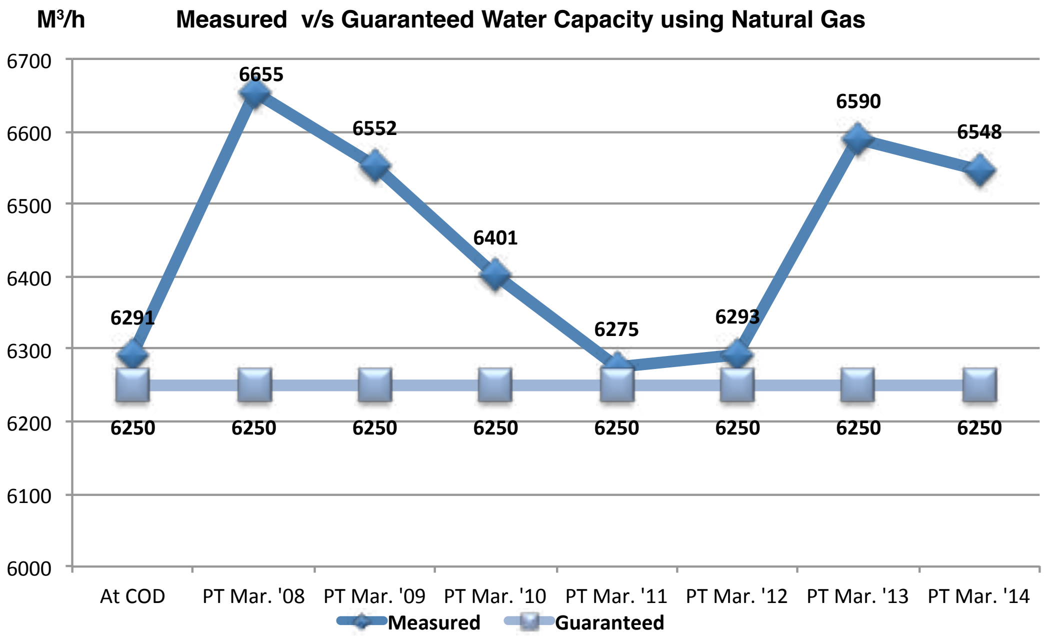
Operational Highlights

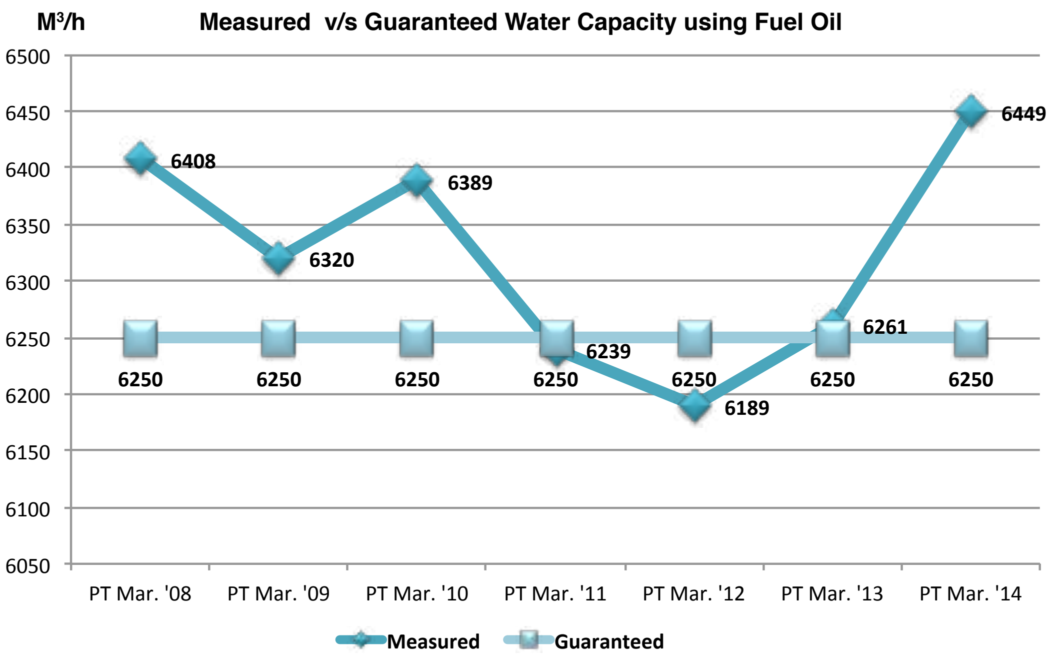
Capacity

The capacity of a plant is defined as the total electrical power (in MW) and water (in m³/day), which can be delivered by the plant under specific environmental conditions (Reference Site Conditions). The contractual capacity of Sohar plant is 585 MW and 6,250 m³/hr, constant over the 15 years period of the PWPA. The performance tests conducted to date show 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 6,250m³/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 1.4% and 1.9% for power plant and the water plant respectively have been assumed in the Company budget.

The total power made available during 2014 was 4,628.4 GWh which works to an availability of 90.3%. The total water made available during 2014 was 50,096,856 m^3 which works to an availability of 91.5%.

Reliability

The reliability of the plant is the ability of the plant to deliver the declared availability, as per PWPA. Any failure to deliver the declared capacity will be treated as forced outage. The objective of Sohar Power is to minimize these forced outages, in order to maximize its revenues. During 2014 the plant showed reliability of 99.5% for power and 98.9% for water.

Plant Efficiency (Heat Rate)

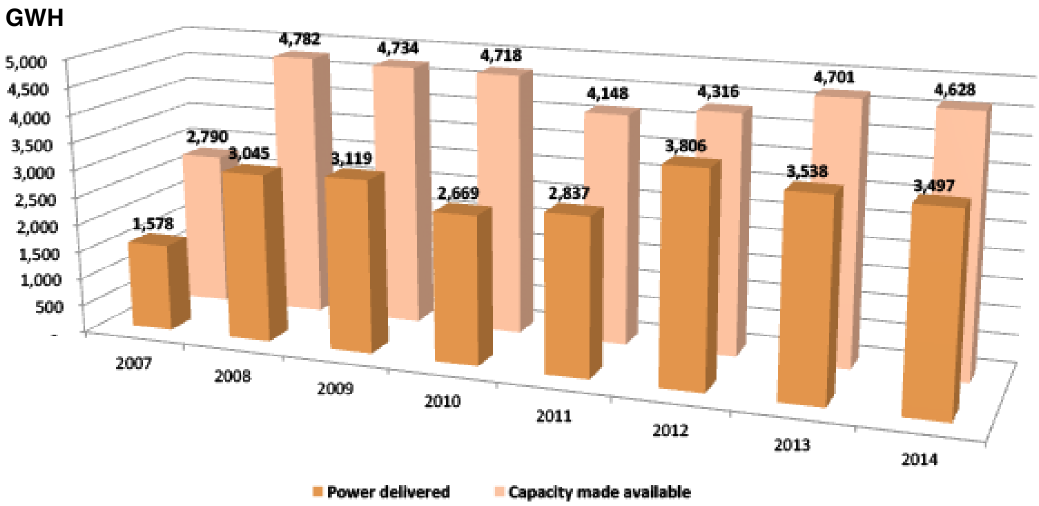
The efficiency of the power plant is measured in terms of the amount of heat required to produce one unit of power. Demonstrated efficiency in the original performance test was better than contractual requirements under the PWPA, thus bringing an upside to the Company.

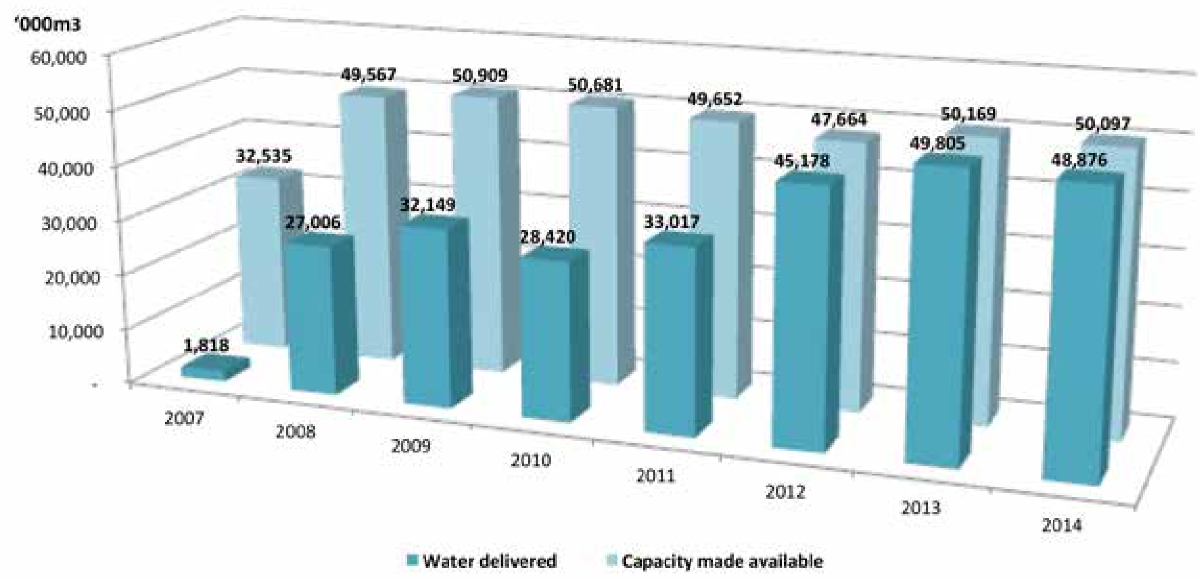
The Contracted Heat Rate is 8,997 MJ/MWh for natural gas; the initial performance tests demonstrated a heat rate of 8,512 MJ/MWh.

Utilization; Energy and Water Delivered

During the year 2014 the energy delivered was 3,497.3 GWh with a utilization factor of the power plant of 75.6%. The total water delivered by the water plant was 48,875,592 m^3 with a utilization factor of 97.6%.

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





Maintenance

Annual maintenance of all equipment was undertaken during the year.

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

SPC and its Operator have diligently studied and rectified during the year various causes for fuel inefficiency, which led to unnecessary drain on profitability. This is an ongoing exercise and due attention is being given to this aspect.

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

ENVIRONMENT

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

Maximizing Efficiency

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

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

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

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

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

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

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

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

Low Emissions

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

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

Potable Water

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

CORPORATE & SOCIAL RESPONSIBILITY

Acting as a corporate and responsible citizen, Sohar Power Company has engaged in 2014 resources and actions in favour of local communities, beyond its power generation and water desalination responsibilities.

The projects carried out in 2014 primarily focused on education, health & safety and protection of the environment, in line with the objectives set by the Company and its shareholders.

Below is a highlight of the Company's Corporate Social Responsibility activities launched in 2014.

"Let's Read, Let's Succeed"

Sohar Power Company was proud to collaborate with the Directorate General of Education in North Batinah to launch a program to develop levels of understanding and speaking of the English language at school. This program supervised and implemented by the English Language Unit aims at developing students' skills in reading, writing and oral expression. 100 schools of the North Batinah Governorate and 20,000 students in Cycle 1 & 2 will benefit from this program. The program will start in the selected schools in February 2015 and students will take exams in December 2015 to validate the acquired skills and improvements.

Still in the field of education, Sohar Power supported Al Aajal Basic School in Nakhal to convert one of their classrooms into a more adapted learning environment for children facing learning difficulties. The Ministry of Education has launched a program whereby children having difficulty in learning are identified and enrolled into a specific learning program, requiring different educational methods and more adapted equipment and materials. Sohar Power provided financial support for the design and decoration of the classroom as well as for the purchase of the necessary equipment, in order to transform the classroom into a more pleasant and motivating place to learn.

The Company also provided its support to Sultan Qaboos University for a project carried out by students in the field of Engineering to equip special needs wheelchairs with an electronic umbrella having the ability and flexibility to move in all directions following the movement of the person and protect from sunbeams. Whilst the students conducted the engineering work required to design and assemble the engineered solution, Sohar Power funded the cost of the parts to be purchased for manufacturing 7 special needs wheelchair umbrellas.

Supporting the protection of the environment, the Company organized in collaboration with Shinas Municipality a beach cleaning campaign in Shinas. Almost 200 volunteers from the Municipality, students from local schools, employees of STOMO (the operation and maintenance contractor of the Company) and Sohar Power participated to this event. This activity was a success in terms of mobilization and attendance, and contributed to develop awareness for protection of the environment and the sea coast of Shinas in particular. On the same occasion, Sohar Power also donated 100 dustbin containers to Shinas Municipality to collect waste in the Wilayat.

In collaboration with the Social Development Department of Shinas Municipality, Sohar Power contributed to a project intended to improve the living conditions of the elderly population, as identified by the Social Development Department. The project consisted in funding interior fitting works in some houses in order to make them fitter for living in for people under an in-house-care program.

Sohar Power also supported in 2014 other schools and non-profit making organizations in the organization of a few fund-raising events.

DESCRIPTION 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.

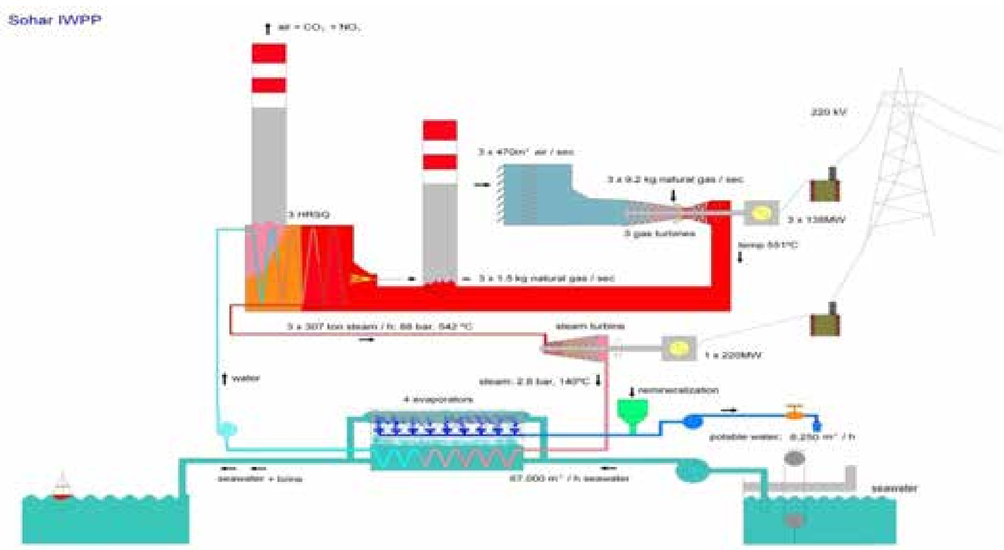
Sohar Power has been established under a Build-Own-Operate scheme. The BOO concept enables the Company to operate as a going concern beyond the project horizon of 15 years by either extending the PWPA (if agreed to by OPWP) or selling into a liberalized electricity market which may exist at that time. 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 is designed to generate a net output of 37,500m^3/d at design conditions. The manufacturer is DHI, which is one of the most experienced suppliers of MSF type desalination units. Each unit has 17 heat recovery stages and 3 heat rejection stages.

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



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 the Government for 15 years (commences and ends with the PWPA). In accordance with the Sea Water Extraction Agreement ("SWEA"), MISC shall operate, maintain, and avail Seawater Intake/Outfall facility and provide chlorinated seawater to the Company. In return, Sohar Power 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 are passed through under the PWPA to OPWP, keeping the Company financially neutral.

Water supply connection

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

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

EPC Contractor

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

Operation and Maintenance

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

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

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

PROFILE OF THE MAJOR SHAREHOLDERS

Kahrabel FZE (GDF SUEZ)

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

International Power Ltd. is owned indirectly by GDF SUEZ through minority stakes held by the GDF SUEZ group, one of the world's leading energy companies and a global benchmark in the fields of power, gas, and energy services. The group is active throughout the entire energy value chain, in electricity and natural gas, upstream to downstream. It employs close to 150,000 people worldwide and achieved revenues of €81.3 billion in 2013. GDF SUEZ is listed on the Brussels, Luxembourg and Paris stock exchanges and is represented in the main international indices: CAC 40, BEL 20, DJ Euro Stoxx 50, Euronext 100, FTSE Eurotop 100, MSCI Europe, and Euronext Vigeo (World 120, Eurozone 120, Europe 120 and France 120).

MENA Sohar 1 SPV Limited

MENA Sohar 1 SPV Limited is a wholly owned subsidiary of MENA Infrastructure. Founded in 2007 and owned by HSBC, Fajr Capital and Waha Capital, MENA Infrastructure currently manages a US$300 million infrastructure fund from its headquarters in the Dubai International Financial Centre.

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

Ministry of Defence Pension Fund ("MODPF")

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

Sogex (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.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry structure and development

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

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

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

Opportunities and threats

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

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

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

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

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

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

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

Financial Highlights

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

All figures in USD million		2014	2013	2012	2011	2010
NP (Net Profit) for the year	1	**11.47**	13.34	7.64	6.54	11.85
Revenue	2	**122.16**	123.48	121.10	109.23	110.74
Total Assets	3	**426.97**	446.29	474.78	486.81	511.46
Capital (Original-Paid up)	4	**-**	-	72.30	72.30	72.30
Capital (Reduced-Paid up)	5	**57.41**	57.41	-	-	-
Debt (Long Term)	6	**312.57**	332.40	351.59	370.27	387.84
Debt & Capital	7	**369.98**	389.81	423.89	442.57	460.14
Ordinary Shares (in millions)	8	**221.01**	221.01	27.80	27.80	27.80
Net assets (before hedging deficit)	9	**70.33**	70.12	84.54	76.90	81.91

		2014	2013	2012	2011	2010
NP (Net Profit) Margin	1÷2	**9.39%**	10.80%	6.30%	6.00%	10.70%
ROTA (Return on Total Assets)	1÷3	**2.69%**	2.99%	1.61%	1.34%	2.32%
ROC (Return on Capital)	1÷4/5	**19.98%**	23.24%	10.56%	9.05%	16.39%
Capital ratio (over Debt + Capital)	5÷7	**15.52%**	14.72%	17.06%	16.34%	15.71%
Ordinary Dividend (interim-current year)		**8.6%**	10%	-	8.0%	8.0%
Ordinary dividend (Final-previous year)		**11.0%**	-	12.57%	-	8.0%
BEPS (Basic Earnings per share) Ratio	1÷8	**0.05**	0.06	0.27	0.24	0.43
Net Assets per share	9÷8	**0.32**	0.32	3.04	2.77	2.95

Analysis of Results

Sohar Power registered a net profit of RO 4.414 million [USD 11.47 million] for the year 2014. The same was RO 5.137 million [USD 13.34 million] in 2013. The negative variance of RO 0.723 million [USD 1.87 million] between the profits of 2014 and 2013 is the net effect of the following adverse and favourable factors:

- Power & Water capacity charges were reduced in 2014 as compared to previous year due to reduced tariff (as per PWPA).
- The above loss was partially mitigated by additional revenues in 2014 resulting from high availability and low forced outages for both power and water.
- In 2013 company had additional revenue of U$ 1.5 million against settlement agreement, reached in favor of the Company with the insurers for the generators retaining ring issue. Moreover, revenue against processed water in 2014 is lower by U$ 1.2 million as compared to 2013. The sole buyer (MISC) of processed water had commissioned its own water plant in 2013 and processed water sale since then has been discontinued.
- The financial debt (loans and swaps) was repaid and settled as per the agreements and accordingly, lower net financial interest was incurred in the current year, impacting net profit of 2014 favourably.
- Income tax expenses, in current year, were comparable with that of previous year.

Analysis of Balance Sheet

- Property, Plant & Equipment (PP&E) was depreciated consistently using the straight line method of depreciation. During 2014, Company invested in some monitoring equipment as well as in some redundant/spare equipment to facilitate preventive maintenance activities, to the extent of RO 0.249 million [USD 0.65 million]. In line with previous years, the Company continued capitalizing the cost of decommissioning its PP&E, to be incurred in 2037 at the end of the useful life of the plant.
- Trade debtors correspond to 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 at the end of 2014 were slightly lower than the same at the end of previous year, on account of lower revenue during current year.
- The Hedging Deficit booked in equity on account of variation in Fair values of five Interest Rate Swap (“IRS”), which does not affect the profitability of the Company, was RO 15.416 million [USD 40.04 million]; the same was RO 15.536 million [USD 40.35 million] in 2013.

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 swap agreements.

Dividend distribution

RO 2.431 million [11.0% of Reduced Share Capital] were distributed in April 2014, as final cash dividend for the year 2013.

Further, RO 1.9 million, [8.6% of Share Capital] was also distributed in November 2014 as Interim Cash Dividend for the year 2014.

Outlook for 2015

In view of nature of the Company and its business model, the Board of Directors and the Management of the Company remain confident for 2015. Sohar Power will continue to serve reliably the Sultanate of Oman in a context of increasing demand for both power and water, while delivering foreseeable returns to its shareholders.

Internal control system and their adequacy

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

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

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

It is also the responsibility of the Internal Auditor to review the level of compliance of the company with applicable laws and CMA regulations.

Transfers to Investors Trust Fund

On behalf of the Company, Muscat Clearing & Depository Company SAOC (MCDC) transferred an amount of RO 5,757 being the unclaimed amount for the Interim dividend for 2013 to Investors' Trust Fund Account (ITFA) in 2014. Further, MCDC also transferred RO 6,593 to ITFA being unclaimed amount for the final dividend of 2013 during the year.

CORPORATE GOVERNANCE REPORT

MOORE STEPHENS

Moore Stephens
2nd floor, Bank Melli Iran Building, CBD
P.O. Box 933, Ruwi, Postal Code 112
Sultanate of Oman

T +968 24812041
F +968 24812043
E stephens@omantel.net.om

www.moorestephens.com

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 2014 and does not extend to any financial statements of Sohar Power Company SAOG, taken as a whole.

23 February 2015

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.

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, 2014.

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 2013 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 2014					2014
		19/02	23/04	21/07	30/10	Total	AGM/ EGM
Mr. Murtadha Ahmed Sultan (Chairman)	Non-Executive & Independent Nominee	Proxy	✓	✓	✓	3	✓
Mr. Mark Lemmon ***	Non-Executive & Independent	✓	-	-	-	1	-
Mr. Jeronimo Roura	Non-Executive & Independent	✓	✓	✓	✓	4	-
Mr. Ahmed Sultan Al-Yaqoubi	Non-Executive & Independent Nominee	✓	✓	✓	✓	4	✓
Mr. Przemyslaw Lupa	Non-Executive & Independent	✓	✓	-	✓	3	✓
Mr. Andrew Smithson *	Non-Executive & Independent	✓	✓	✓	-	3	✓
Mr. Karel Breda *	Non-Executive & Independent	✓	-	-	-	1	-
Mr. Malcolm Wrigley	Non-Executive & Independent	✓	✓	✓	✓	4	-
Mr. Abdulraouf Abudayyeh *	Non-Executive & Independent Nominee	✓	✓	-	-	2	-
Mr. Kemal Taragay *	Non-Executive & Independent	✓	-	-	-	1	-
Mr. Saif Abdullah Al Harthy (new vice chairman)	Non-Executive & Independent Nominee	✓	✓	✓	✓	4	-

Name of Directors	Category of Directors	Board Meeting held and attended during 2014					2014
		19/02	23/04	21/07	30/10	Total	AGM/ EGM
Mr. Sami Abdullah Khamis Al Zadjali	Non-Executive & Independent	✓	✓	✓	✓	4	✓
Mr. Navneet Kasbekar **	Non-Executive & Independent	-	✓	✓	✓	3	✓
Mr. Tashfen Yasin **	Non-Executive & Independent	-	✓	✓	✓	3	-
Ms. Anne Stephanie Nguyen Qui **	Non-Executive & Independent	-	✓	Proxy	✓	2	-
Mr. T.N. Sundararaju	Non-Executive & Independent Nominee	-	-	-	✓	1	-
Mr. Nizar Qallab **	Non-Executive & Independent	-	-	-	-	0	-

* Resigned / Replaced during the year

** Temporarily appointed during the year

*** Temporary Director did not stand for 2014 AGM election

➢ Mr. Saif Al Harthy was appointed in October 2014 as Vice Chairman of the Board of Directors.

Directors of Sohar Power Company holding directorship and chairmanship in other SAOG companies in Oman at 31 December 2014:

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

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.

Detailed duties and responsibilities of the Audit Committee are described in the Audit Committee Charter approved by the Board of Directors, setting the scope and detailed delegation of authority.
The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing:

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

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

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

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

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

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

Name of Committee Members	Position	Meetings held and attended during 2014				
		19/02	23/04	10/07	30/10	Total
Mr. Karel Breda *	Member / Chairman	✓	-	-	-	1
Mr. Andrew Smithson *	Member	✓	✓	✓	-	3
Mr. Przemyslaw Lupa	Member / New Chairman	✓	✓	✓	✓	4
Mr. Navneet Kasbekar **	Member	-	-	✓	✓	2
Mr. Nizar Qallab **	Member	-	-	-	-	0

* Resigned during the year
** Temporarily appointed during the year

Mr. Przemyslaw Lupa has been appointed as Chairman of the Audit Committee after the resignation of Mr. Karel Breda.

Mr. Nizar Qallab has been appointed as a member of the Audit Committee during the Board of Directors' meeting held on 30 October 2014, after the resignation of Mr. Andrew Smithson.

Mr. Navneet Kasbekar has been appointed as a member of Audit Committee during the Board of Directors' meeting on 23 April 2014.

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	150
Directors' Sitting fee	(19)
Directors' remuneration	**131**

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	Total no. of meetings (Board + Audit committee)	Total Sitting fees paid in RO	Total Remuneration in RO
1	Mr. Murtadha Ahmed Sultan (Chairman)	3	1,200	9,140
2	Mr. Mark Lemmon (Vice Chairman) ***	1	400	3,047
3	Mr. Jeronimo Roura	4	1,600	12,186
4	Mr. Ahmed Sultan Al-Yaqoubi	4	1,600	12,186
5	Mr. Przemek Lupa	3+4	2,000	9,140
6	Mr. Andrew Smithson *	3+3	1,800	9,140
7	Mr. Karel Breda *	1+1	600	3,047
8	Mr. Malcolm Wrigley	4	1,600	12,186
9	Mr. Abdulraouf Abudayyeh *	2	800	6,093
10	Mr. Kemal Taragay *	1	400	3,047
11	Mr. Saif Abdullah Al Harthy (new Vice Chairman)	4	1,600	12,186
12	Mr. Sami Abdullah Khamis Al Zadjali	4	1,600	12,186
13	Mr. Navneet Kasbekar **	3+2	1,600	9,140
14	Mr. Tashfen Yasin **	3	1,200	9,140
15	Ms. Anne Stephanie Nguyen Qui **	2	800	6,093
16	Mr. T.N. Sundararaju	1	400	3,047
17	Mr. Nizar Qallab **	0	0	0
		TOTAL	**19,200**	**131,000**

* Resigned /Replaced during the year

** Temporarily appointed during the year

*** Temporary Director did not stand for 2014 AGM election

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 2015, up to a maximum of RO 10,000 to any individual Director.

b) Top Five Officers

The aggregate remuneration charged by Power Management Company under the management agreement for the top five officers of the Company was RO 156,116.

Activities during the Year

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

In 2014, it reviewed on behalf of the Board the effectiveness of internal control, met the internal auditor of the company, reviewed internal audit reports and the recommendations, met external auditors, and reviewed the audit findings and the management letter.

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

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

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 shareholders 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	2.757	2.774	2.766	3,761.380
Feb	3.277	3.325	3.301	3,810.540
Mar	3.661	3.686	3.674	3,705.820
Apr	0.373	0.376	0.375	3,623.340
May	0.378	0.382	0.380	3,666.730
Jun	0.365	0.367	0.366	3,605.010
Jul	0.366	0.370	0.368	3,681.940
Aug	0.377	0.378	0.378	3,765.910
Sep	0.382	0.384	0.383	3,809.090
Oct	0.370	0.371	0.371	3,660.300
Nov	0.368	0.369	0.369	3,541.030
Dec	0.360	0.362	0.361	3,475.210

Distribution of Shareholding

The Shareholder pattern as on 31 December 2014:

Category of shareholders	Number of Shareholders	Total Shareholders	Share capital %
Major Shareholders	6	176,514,280	79.86
Shareholders less than 5% more than 1%	3	13,142,119	5.95
Shareholders below 1%	8,849	31,353,601	14.19
TOTAL	**8,858**	**221,010,000**	**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 307 independent firms with 667 offices and 27,081 people across 105 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	:	**Saif Abdullah Al Harthy – Vice Chairman**
Year of Joining	:	2011
Education	:	Masters in Chemical Engineering, University of Nottingham, UK.
Experience	:	Mr. Al Harthy started his carrier as a field Engineer in Petroleum Development Oman (PDO), where he was involved in the design and upgrade of the major gas exporting facilities in central Oman. He later worked as a senior Business Planner for the PDO gas directorate before joining Qalhat LNG in 2006 as a Technical Coordinator. Mr. Al Harthy is currently working for Oman LNG as Chief Information Officer.

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 19 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 : **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 16 years. He is presently Contribution Manager and a member of GCC committee for pension issues.

Name : **Jeronimo Roura**

Year of Joining : 2013

Education : MBA from IESE Business School, and a Bachelor in Business Administration from ESADE Business School.

Experience : Jeronimo Roura joined MENA Infrastructure in June 2010 as Investment Director, was promoted to Managing Director in January 2013, and became CEO of MENA Infrastructure on 1 August 2014. Mr. Roura has over 17 years of experience in infrastructure acquisitions and financing. Mr. Roura joined MENA Infrastructure from the GMR Group, where Mr. Roura was Head of Structured Finance for the international businesses, having previously worked for Abertis, the Spanish toll road operator as Head of Structured Finance, and previously for Citigroup in London as Vice President in the Infrastructure Team of the investment bank, and as Associate in the Structured Corporate Finance group with a focus on project finance. Mr. Roura has led a number of brownfield and greenfield transactions and financings in the infrastructure space, including roads, airports, and power generation, and has substantial experience in structuring, due diligence, financing and valuation.

Name : **Ahmed Sultan Alyaqoubi**

Year of Joining : 2013

Education : Bachelor Degree in Bachelor 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 16 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 SAOG. 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 14 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	:	**Navneet Kasbekar**
Year of Joining	:	2014
Education	:	Graduate in Commerce: Bombay University, Member of Institute of Chartered Accountants of India
Experience	:	Totally 39 years of work experience in finance and managing businesses in India and the Sultanate of Oman. Of which 34 years of experience in Oman and is currently Chief Executive Officer of Al Kamil Power Company SAOG ans Associated with the company since 2001. From 1995 to 2000 worked as General Manager and Director of Muscat Real Estate Development Company SAOC. From 1989 to 1995 he was a General Manager of Computer Stationary Industry SAOG and from 1981 to 1988 worked as a Finance Manager for Al Yousef International Enterprises.

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

Name : **Anne Stephanie Nguyen Qui**
Year of Joining : 2014
Education : Master Degree in Business & Tax Law
Experience : Anne Stephanie Nguyen Qui started her career in the GDF SUEZ Group in 1998 and has held a variety of HR positions since then. This includes Industrial Relations Manager in France, HR Director positions in Belgium for Latin America and India and in London for UK-Europe region. She is Head of Human Resources and Administration for GDF Suez Energy South Asia, Middle-East, Africa since April 214.

Name : **T. N. Sundararaju**
Year of Joining : 2014
Education : Bachelor Degree in Engineering.
Experience : Mr.Sundararju has more than 41 years extensive experience in large Power and Desalination plants in India, Middle East and Africa. At present he is working in Algeria as Chief Executive Officer in Sogex-Oman Co. LLC, O&M Operations. He has substantially handled O&M projects in Sogex Oman Co. LLC at Ghubrah, Manah and Fujairah from Construction to Commissioning and Commercial Operations. He has also worked as Vice President in ENRON International Company. Prior to that he has worked as O&M Manager for all Power &Desalination Plants in Libya.

Name : **Nizar Saleh Qallab**
Year of Joining : 2014
Education : MA in international Trade & Investment Policy from The George Washington University and B.Sc. In Business Management from King's College.
Experience : Nizar Qallab is an infrastructure investment professional with over 13 years of experience. Mr. Qallab joined MENA Infrastructure from Exotix Partners, a frontier and emerging market investment firm where Mr. Qallab helped raise the MENA region's first subordinated debt infrastructure fund. Prior to Exotix, Mr. Qallab headed infrastructure at JD Capital, one of the most active and successful infrastructure investors in the MENA region. In this position, Mr. Qallab was responsible for the divestment of a USD300m infrastructure portfolio which generated above industry average returns. Mr. Qallab has also worked on several greenfield transactions.

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	9	5	14

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, FranceUniversity Degree in Business and Administration, Universite de Toulon
Experience	17 years of experience in the field of Controlling and Finance. He joined GDF SUEZ Energy International in 2007 as Head of Business Control for the MENA region, before being appointed CFO of Hidd Power Company in Bahrain in 2011. Guillaume is the CEO of Sohar Power Company SAOG, since 2013 and acts as Company Secretary for United Power Company SAOG.

Name	**Sreenath Hebbar**
Year of Joining	2009
Education	Bachelor of Engineering (Mechanical), VJTI, Mumbai University, India
Experience	30 years of work experience, primarily in Business Development of Engineer Procure Construct (EPC) Contracts in Gas Turbine based Cogeneration and Combined Cycle Power Plants. In his current position as Chief Technical Officer, he is responsible for technical liaison with the client, statutory authorities and contractors, and provides technical support to the Chief Executive Officer.

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 38 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 an Internal Auditor for National Trading Company LLC, Muscat and as an External Auditor for KPMG, Muscat (Oman) and Karachi (Pakistan) Offices.

Name	**Jamal Al Bloushi**
Year of Joining	1995
Education	Diploma in Computer Science. Certified Manager from the Institute of Certified Professional Managers, James Madison University, USA.
	20 years' experience in administration activity including managing spare parts logistics, liaisons with government organizations, licenses, translation function and supervising local insurance programs and assisting CEO for statutory meetings

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 38 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.

FINANCIAL STATEMENTS

MOORE STEPHENS

Moore Stephens
2nd floor, Bank Melli Iran Building, CBD
P.O. Box 933, Ruwi, Postal Code 112
Sultanate of Oman

T +968 24812041
F +968 24812043
E stephens@omantel.net.om

www.moorestephens.com

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 2 to 28, which comprise the statement of financial position as at 31 December 2014, statement of income, 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 2014 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 5 to the financial statements which sets out the basis on which the Management has determined the most appropriate method of recognizing income over the year of the Power and Water Purchase Agreement (PWPA).

Report on regulatory requirements
The 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 requirements for public joint stock companies issued by the Capital Market Authority.

23 February 2015

موور 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

	Note	2014 RO'000	2013 RO'000	2014 USD'000	2013 USD'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	**150,363**	156,844	**390,553**	407,386
Current assets					
Inventories	5 c)	**611**	658	**1,587**	1,708
Accounts and other receivables	7	**3,694**	4,061	**9,593**	10,547
Bank balances and cash	8	**9,716**	10,260	**25,237**	26,649
Total current assets		**14,021**	14,979	**36,417**	38,904
Total assets		**164,384**	171,823	**426,970**	446,290
EQUITY AND LIABILITIES					
Equity					
Share capital	9	**22,101**	22,101	**57,405**	57,405
Legal reserve	10	**2,878**	2,437	**7,477**	6,330
Retained earnings		**2,099**	2,457	**5,450**	6,380
Shareholders' funds		**27,078**	26,995	**70,332**	70,115
Hedging deficit	12	**(15,416)**	(15,536)	**(40,042)**	(40,352)
Total equity		**11,662**	11,459	**30,290**	29,763
Liabilities					
Non-current liabilities					
Hedging deficit	12	**18,945**	19,188	**49,209**	49,839
Non-current portion of long-term loans	13	**112,070**	120,000	**291,090**	311,686
Provision for decommissioning costs	14	**1,235**	1,162	**3,208**	3,018
Deferred tax liability	17	**7,763**	7,306	**20,166**	18,978
Total non-current liabilities		**140,013**	147,656	**363,673**	383,521
Current liabilities					
Current portion of long-term loans	13	**8,270**	7,973	**21,480**	20,710
Accounts and other payables	15	**3,876**	4,173	**10,065**	10,837
Due to related parties	16 c)	**563**	562	**1,462**	1,459
Total current liabilities		**12,709**	12,708	**33,007**	33,006
Total liabilities		**152,722**	160,364	**396,680**	416,527
Total equity and liabilities		**164,384**	171,823	**426,970**	446,290
Net assets per share	22	**0.123**	0.122	**0.318**	0.317

These financial statements were authorised for issue and approved by the Board of Directors on 23 February 2015 and were signed on their behalf by:

Director Director

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

STATEMENT OF INCOME

	Note	**2014**	2013	**2014**	2013
		RO'000	RO'000	**USD'000**	USD'000
Income					
Revenue	5 k)	**47,033**	47,539	**122,164**	123,477
Direct costs	18	**(33,334)**	(33,344)	**(86,581)**	(86,607)
Gross profit		**13,699**	14,195	**35,583**	36,870
Other income	19	**52**	845	**136**	2,196
Administrative and general expenses	20	**(851)**	(913)	**(2,211)**	(2,371)
Result from operations		**12,900**	14,127	**33,508**	36,695
Finance costs	21	**(8,045)**	(8,285)	**(20,896)**	(21,519)
Profit before taxation		**4,855**	5,842	**12,612**	15,176
Taxation	17	**(441)**	(705)	**(1,146)**	(1,833)
Profit for the year		**4,414**	5,137	**11,466**	13,343
Basic earnings per share	23	**0.020**	0.022	**0.052**	0.060

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

STATEMENT OF COMPREHENSIVE INCOME

	Note	**2014 RO'000**	2013 RO'000	**2014 USD'000**	2013 USD'000
Profit for the year		**4,414**	5,137	**11,466**	13,343
Other comprehensive income					
Potentially reclassifiable to the income statement:					
Fair value gain on interest rate swap		**136**	12,123	**352**	31,488
Related taxation	17	**(16)**	(1,455)	**(42)**	(3,778)
Other comprehensive income for the year		**120**	10,668	**310**	27,710
Total comprehensive income for the year		**4,534**	15,805	**11,776**	41,053

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

STATEMENT OF CHANGES IN EQUITY

	Share Capital RO'000 (note 9)	Legal reserve RO'000 (note 10)	Retained earnings RO'000	Total Shareholders' funds RO'000	Hedging deficit RO'000 (note 12)	Total equity RO'000	Total Equity USD'000
Year 2013							
At 31 December 2012	27,800	1,923	2,823	32,546	(26,204)	6,342	16,473
Profit for the year	--	--	5,137	5,137	--	5,137	13,343
Other comprehensive income for the year	--	--	--	--	10,668	10,668	27,710
Total comprehensive income for the year	--	--	5,137	5,137	10,668	15,805	41,053
Reduction of share capital	(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
Year 2014							
At 31 December 2013	**22,101**	**2,437**	**2,457**	**26,995**	**(15,536)**	**11,459**	**29,763**
Profit for the year	**--**	**--**	**4,414**	**4,414**	**--**	**4,414**	**11,466**
Other comprehensive income for the year	**--**	**--**	**--**	**--**	**120**	**120**	**310**
Total comprehensive income for the year	**--**	**--**	**4,414**	**4,414**	**120**	**4,534**	**11,776**
Final dividend for the year 2013	**--**	**--**	**(2,431)**	**(2,431)**	**--**	**(2,431)**	**(6,314)**
Interim dividend for the year 2014	**--**	**--**	**(1,900)**	**(1,900)**	**--**	**(1,900)**	**(4,935)**
Transfer to legal reserve	**--**	**441**	**(441)**	**--**	**--**	**--**	**--**
At 31 December 2014	**22,101**	**2,878**	**2,099**	**27,078**	**(15,416)**	**11,662**	**30,290**

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

STATEMENT OF CASH FLOWS

	2014 RO'000	2013 RO'000	2014 USD'000	2013 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	**47,460**	47,837	**123,274**	124,254
Cash paid to suppliers and employees	**(27,712)**	(25,441)	**(71,979)**	(66,081)
Cash generated from operations	**19,748**	22,396	**51,295**	58,173
Interest paid	**(7,737)**	(8,228)	**(20,096)**	(21,369)
Net cash generated from operating activities	**12,011**	14,168	**31,199**	36,804
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	**(249)**	(298)	**(648)**	(773)
Net cash used in investing activities	**(249)**	(298)	**(648)**	(773)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of dividends	**(4,331)**	(4,989)	**(11,249)**	(12,960)
Repayment of long-term loans	**(7,975)**	(7,753)	**(20,714)**	(20,140)
Reduction of share capital	**--**	(5,699)	**--**	(14,803)
Net cash used in financing activities	**(12,306)**	(18,441)	**(31,963)**	(47,903)
Net decrease in cash and cash equivalents during the year	**(544)**	(4,571)	**(1,412)**	(11,872)
Cash and cash equivalents at the beginning of the year	**10,260**	14,831	**26,649**	38,521
Cash and cash equivalents [notes 5 e) and 8] at the end of the year	**9,716**	10,260	**25,237**	26,649

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

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 5).

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 13).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

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 (IASB), interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), the disclosure requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) and the relevant disclosure requirements for licensed companies issued by the Capital Market Authority.

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

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 32 'Financial Instruments: Presentation' issued in December 2011 clarifies the existing offsetting requirements for a financial asset and a financial liability.

- 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.

- 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.

- 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.

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' issued in June 2013 clarifies that there is no expiration or termination of hedging instrument if as a consequence of change in laws or regulations, there is a change in the clearing counter-parties.

The Management believes the adoption of the above amendments has not had any material impact on the presentation and disclosure of items in the financial statements for the current accounting 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:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

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)

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

- IFRS 14 Regulatory Deferral Accounts issued in January 2014 permits first time adopters of IFRS to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. IFRS 14 is applicable for annual periods beginning on or after 1 January 2016.

- IFRS 15 'Revenue from Contracts with Customers' issued in May 2014 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 supercedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related IFRICs 13, 15 and 18. IFRS 15 is applicable for annual periods beginning on or after 1 January 2017. The standard is based on a 5 step approach to recognise revenue and also provides specific principles to apply, when there is a contract modification, accounting for contract costs and accounting for refunds and warranties. On application of the standard, the disclosures are likely to increase. The standard includes principles on disclosing the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, by providing qualitative and quantitative information.

- Annual amendments to IFRSs (2010 - 2012 cycle and 2011 - 2013 cycle) issued in December 2013 covers the following IFRSs and the related subject amendments in those standards:

  - □ IFRS 2 – Definition of vesting condition;
  - □ IFRS 3 – Accounting for contingent consideration in a business combination;
  - □ IFRS 8 – Aggregation of operating segments and reconciliation of the total of the reporting segments' assets to the total assets;
  - □ IFRS 13 – Short term receivables and payables;
  - □ IAS 24 – Inclusion of 'management entity' within key management personnel;
  - □ IAS 16 and IAS 38 – Proportional restatement of accumulated depreciation or amortization under revaluation method;
  - □ IFRS 3 – Exclusion of joint arrangements (previously worded as joint ventures) from the scope of business combination;
  - □ IFRS 13 – Clarification on portfolio exception rule and its applicability to all contracts under IAS 39 and □ IFRS 9;
  - □ IAS 40 – Judgement required on whether an acquisition of investment property is an acquisition of asset / group of assets / business combination under IFRS 3.

The amendments are applicable for annual periods commencing on or after 1 July 2014.

SOHAR POWER

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

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 11 'Joint Arrangements' issued In May 2014 provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments are applicable for annual periods beginning on or after 1 January 2016. The amendments clarify that a joint operator that acquires an asset or group of assets in a joint operation that represents a business in accordance with IFRS 3, applies the principles in IFRS 3 in accounting for business combinations to the acquisition. This will result in separate recognition of goodwill if any arises on the acquisition. If the asset or group of assets acquired does not constitute a business the principles of IFRS 3 are not applied.

- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' were issued in May 2014 clarifying the acceptable methods of depreciation and amortization. The amendments are applicable for annual periods beginning on or after 1 January 2016.

- Amendments to IAS 16 'Property, plant and equipment' and IAS 41 'Biological assets' were issued in June 2014. The amendments define a bearer plant and include bearer plants within the scope of IAS 16. Previously, bearer plants were not defined and bearer plants related to agricultural activity were included within the scope of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendments are applicable for annual periods beginning on or after 1 January 2016.

- Amendments to IAS 27 'Separate Financial Statements' issued in August 2014 permits the use of equity method for investments in subsidiaries, associates and joint ventures when an entity prepares its separate financial statements. The amendments are applicable for annual periods beginning on or after 1 January 2016.

- Annual amendments to IFRSs (2012-2014 cycle) issued in September 2014 covers the following IFRSs and the related subject amendments in those standards:

  - IFRS 5 – Change in the method of disposal from 'held for sale' to 'held for distribution' to be treated as continuation of the original plan;
  - IFRS 7 - Clarifies 'servicing contracts' create continuing involvement of the transferred financial asset if the service fee is contingent upon the timing and amount of cash flows;
  - IAS 19 - Discount rate under actuarial assumptions for employee benefits to be based at currency level and not at country level;
  - IAS 34 – A reference to 'elsewhere in the interim financial report disclosure includes cross-referencing to information in any statement which is available at the same time the interim financial report is made available

- Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' issued in September 2014 specifies the accounting treatment for gain or loss arising on sale or contribution of assets between investor and joint ventures based on whether or not the sale or contribution results in a business. The amendments are applicable for annual periods beginning on or after 1 January 2016.

  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.

The amendments are applicable for annual periods commencing on or after 1 January 2016.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

4 SIGNIFICANT 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 assumptions 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 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:

- 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'.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Power and Water Purchase Agreement (Continued)

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.

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 as follows:

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Dividends

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

The Board of Directors recommend 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 as a result of activities undertaken, there is a present obligation and 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 period to which they relate.

6 PROPERTY, PLANT AND EQUIPMENT

a) The movement schedule of property, plant and equipment for the years ended 31 December 2014 and 2013 are set out on pages 78 and 79 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 24). 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 13).

7 ACCOUNTS AND OTHER RECEIVABLES

	2014	2013	**2014**	2013
	RO'000	RO'000	**USD'000**	USD'000
Accounts receivable	**4,900**	5,275	**12,727**	13,701
Less: Allowance for credit losses [note 7 b)]	**(1,392)**	(1,392)	**(3,616)**	(3,616)
	3,508	3,883	**9,111**	10,085
Advances and prepayments	**186**	159	**482**	414
Other receivables	**--**	19	**--**	48
	3,694	4,061	**9,593**	10,547

The following further notes apply:

a) Accounts receivable is from a single domestic customer (31 December 2013 – single domestic customer).

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

	2014		2013	
	Receivables	**Allowance for credit losses**	Receivables	Allowance for credit losses
	RO'000	**RO'000**	RO'000	RO'000
Not past due:				
0 – 26 days	**3,495**	**--**	3,867	--
27 days to 1 year	**13**	**--**	16	--
Past due:				
More than one year	**1,392**	**1,392**	1,392	1,392
	4,900	**1,392**	5,275	1,392

7 ACCOUNTS AND OTHER RECEIVABLES (Continued)

	2014		2013	
	Receivables USD'000	**Allowance for credit losses USD'000**	Receivables USD'000	Allowance for credit losses USD'000
Not past due:				
0 – 26 days	**9,078**	**--**	10,043	--
27 days to 1 year	**33**	**--**	42	--
Past due:				
More than one year	**3,616**	**3,616**	3,616	3,616
	12,727	**3,616**	13,701	3,616

8 BANK BALANCES AND CASH

	2014 RO'000	2013 RO'000	**2014 USD'000**	2013 USD'000
Bank balances and cash	**9,716**	6,927	**25,237**	17,992
Short term deposits	**--**	3,333	**--**	8,657
	9,716	10,260	**25,237**	26,649

9 SHARE CAPITAL

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

	2014 RO'000	2013 RO'000	**2014 USD'000**	2013 USD'000
Authorised share capital of shares of RO 0.100 each [note 9 b)]	**60,000**	60,000	**156,000**	156,000
Issued and fully paid up share capital of shares of RO 0.100 each [note 9 b)]	**22,101**	22,101	**57,405**	57,405

b) At the Extraordinary General Meeting held on 30 March 2014, the shareholders resolved to split the par value of the Company's shares from RO 1 to 100 baisas (RO 0.100). The change in the total number and par value of the shares of the Company were approved by Capital Market Authority with effect from 2 April 2014.

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:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

9 SHARE CAPITAL (Continued)

	2014		2013	
	No of shares held (RO 0.100 each)	**%**	No of shares held (RO 1 each)	%
Kahrabel FZE	**77,353,500**	**35**	7,735,350	35
MENA Sohar 1SPV LTD	**44,202,000**	**20**	4,420,200	20

10 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.

11 DIVIDEND

a) The Board of Directors proposed a final cash dividend of 11% of the share capital for the year 2013 (RO 0.110 per share of RO 1 each) amounting to RO 2.431 million. It was approved by the shareholders in the Annual General Meeting (AGM) held on 30 March 2014.

b) At the AGM held on 30 March 2014, the Shareholders authorized the Board of Directors to distribute interim cash dividends upto a ceiling of 15% based on retained earnings at 30 June 2014. Accordingly, an interim cash dividend of 8.6% (RO 0.0086 per share of 100 baisas each) for the period 1 January 2014 to 30 June 2014 amounting to RO 1.9 million was declared and paid after approval of the audited financial statements for the period ended 30 June 2014.

c) During the year, an amount of RO 12,710 pertaining to the year 2013 unclaimed dividend has been transferred to the Investors' Trust Fund of the Capital Market Authority.

d) Subsequent to the end of the reporting period, the Board of Directors have proposed a final cash dividend of 9.4% (RO 0.0094 per share) for the year 2014, which is subject to shareholders' approval in the forthcoming Annual General Meeting.

12 HEDGING DEFICIT

Interest rate swap

The long-term loan facilities of the Company bear interest at US LIBOR plus applicable margins (refer note 13). 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 2014 is approximately RO 116 million (USD 302 million) [31 December 2013 - RO 124 million (USD 322 million)] bearing fixed interest rates of 7.89%, 4.50%, 5.70%, 4.36% and 4.36% (31 December 2013 – 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum – 2 swap arrangements commenced from April 2013) excluding applicable margin.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

12 HEDGING DEFICIT (Continued)

At 31 December 2014, the USD LIBOR was approximately 0.33% per annum, (31 December 2013 – 0.37% per annum) whereas the Company has fixed interest on its borrowing as described above.

	2014	2013	2014	2013
Cash flow hedge	**RO'000**	RO'000	**USD'000**	USD'000
Hedging deficit (equity)	**15,416**	15,536	**40,042**	40,352
Related taxation	**2,102**	2,118	**5,461**	5,503
Fair value of derivative financial liabilities	**17,518**	17,654	**45,503**	45,855
Interest accrual on hedging instrument	**1,427**	1,534	**3,706**	3,984
Hedging deficit (liability)	**18,945**	19,188	**49,209**	49,839

In case, the Company terminates the IRS at 31 December 2014, it may incur losses to the extent of approximately RO 18.95 million (USD 49.21 million) [31 December 2013 – RO 19.19 million (USD 49.84 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.

13 LONG TERM LOANS

	2014	2013	2014	2013
Cash flow hedge	**RO'000**	RO'000	**USD'000**	USD'000
Base facility	**102,624**	109,313	**266,557**	283,930
Repayment facility	**19,739**	21,025	**51,269**	54,610
Less: current portion of loans	**(8,270)**	(7,973)	**(21,480)**	(20,710)
	114,093	122,365	**296,346**	317,830
Less: deferred financing cost	**(2,023)**	(2,365)	**(5,256)**	(6,144)
	112,070	120,000	**291,090**	311,686

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

13 LONG TERM LOANS (Continued)

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.

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.

14 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:

	2014	2013	**2014**	2013
	RO'000	RO'000	**USD'000**	USD'000
At the beginning of the year	**1,162**	1,093	**3,018**	2,839
Unwinding of discount on decommissioning cost (note 21) during the year	**73**	69	**190**	179
At the end of the year	**1,235**	1,162	**3,208**	3,018

15 ACCOUNTS AND OTHER PAYABLES

	2014	2013	**2014**	2013
	RO'000	RO'000	**USD'000**	USD'000
Accounts payable	**1,583**	1,502	**4,112**	3,900
Accruals and other payables	**2,293**	2,671	**5,953**	6,937
	3,876	4,173	**10,065**	10,837

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

16 RELATED PARTY TRANSACTIONS

The Company has entered into transactions with entities and shareholders who have control or 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 Board of Directors.

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

	2014 RO'000	2013 RO'000	**2014 USD'000**	2013 USD'000
Services provided by Sohar Operations and Maintenance Co. LLC (SOMC)	**6,575**	6,255	**17,079**	16,246
Services provided by Power Management Co. LLC (PMC)				
- Management fee	**154**	154	**400**	400
- Other administrative expenses	**281**	279	**729**	725
Services provided by Suez –Tractebel S.A.	**45**	35	**116**	92
Directors' remuneration	**131**	167	**342**	434
Directors' meeting attendance fees	**19**	17	**49**	44

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

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

	2014 RO'000	2013 RO'000	**2014 USD'000**	2013 USD'000
Due to related parties				
SOMC	**563**	562	**1,462**	1,459

17 TAXATION

	2014 RO'000	2013 RO'000	**2014 USD'000**	2013 USD'000
Statement of comprehensive income				
Deferred tax charge (net)				
- Current year	**441**	705	**1,146**	1,833
Statement of other comprehensive income				
Taxation charge relating to interest rate swap	**16**	1,455	**42**	3,778
Statement of financial position				
Deferred tax liability	**7,763**	7,306	**20,166**	18,978

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

17 TAXATION (Continued)

The Company's taxation assessments for the years 2009 to 2013 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.

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

31 December 2014	Interest accrual on hedging instruments	Provisions	Tax losses	Fair value of hedging instrument	Depreciation	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2013	--	214	1,330	2,118	(10,968)	(7,306)
Recognised in the statement of comprehensive income	**--**	**9**	**(139)**	**--**	**(311)**	**(441)**
Recognised in the statement of other comprehensive income	**--**	**--**	**--**	**(16)**	**--**	**(16)**
At 31 December 2014	**--**	**223**	**1,191**	**2,102**	**(11,279)**	**(7,763)**

31 December 2014	Interest accrual on hedging instruments	Provisions	Tax losses	Fair value of hedging instrument	Depreciation	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
At 31 December 2013	--	554	3,454	5,503	(28,489)	(18,978)
Recognised in the statement of comprehensive income	**--**	**23**	**(360)**	**--**	**(809)**	**(1,146)**
Recognised in the statement of other comprehensive income	**--**	**--**	**--**	**(42)**	**--**	**(42)**
At 31 December 2014	**--**	**577**	**3,094**	**5,461**	**(29,298)**	**(20,166)**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

17 TAXATION (Continued)

31 December 2013	Interest accrual on hedging instruments	Provisions	Tax losses	Fair value of hedging instrument	Depreciation	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2012	187	206	1,364	3,573	(10,476)	(5,146)
Recognised in the statement of comprehensive income	(187)	8	(34)	--	(492)	(705)
Recognised in the statement of other comprehensive income	--	--	--	(1,455)	--	(1,455)
At 31 December 2013	--	214	1,330	2,118	(10,968)	(7,306)

31 December 2013	Interest accrual on hedging instruments	Provisions	Tax losses	Fair value of hedging instrument	Depreciation	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
At 31 December 2012	489	533	3,542	9,281	(27,212)	(13,367)
Recognised in the statement of comprehensive income	(489)	21	(88)	--	(1,277)	(1,833)
Recognised in the statement of other comprehensive income	--	--	--	(3,778)	--	(3,778)
At 31 December 2013	--	554	3,454	5,503	(28,489)	(18,978)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

18 DIRECT COSTS

	2014 RO'000	2013 RO'000	2014 USD'000	2013 USD'000
Fuel gas	**18,504**	18,845	**48,062**	48,947
Depreciation (note 6)	**6,729**	6,722	**17,478**	17,460
O & M costs	**6,417**	6,291	**16,668**	16,341
Seawater extraction	**755**	683	**1,961**	1,775
Other operating expenses	**929**	803	**2,412**	2,084
	33,334	33,344	**86,581**	86,607

19 OTHER INCOME

	2014 RO'000	2013 RO'000	2014 USD'000	2013 USD'000
Insurance claim settlement	**--**	578	**--**	1,500
Reversal of excess provisions	**--**	244	**--**	635
Others	**52**	23	**136**	61
	52	845	**136**	2,196

20 ADMINISTRATIVE AND GENERAL EXPENSES

	2014 RO'000	2013 RO'000	2014 USD'000	2013 USD'000
Management fee	**154**	154	**400**	400
Directors' meeting attendance fees and remuneration	**150**	184	**391**	478
Legal and professional fees	**75**	129	**194**	335
Staff costs	**20**	20	**53**	52
Depreciation (note 6)	**1**	1	**3**	3
Other administrative expenses	**451**	425	**1,170**	1,103
	851	913	**2,211**	2,371

21 FINANCE COSTS

	2014 RO'000	2013 RO'000	2014 USD'000	2013 USD'000
Interest on net settlement of swaps	**5,860**	6,162	**15,220**	16,004
Interest on base facility	**1,332**	1,548	**3,459**	4,021
Amortisation of deferred financing costs	**342**	364	**888**	944
Interest on repayment facility	**256**	298	**665**	773
Unwinding of discount on decommissioning cost (note 14)	**73**	69	**190**	179
Ineffective portion of hedging cost	**--**	(339)	**--**	(880)
Other financial charges	**182**	183	**474**	478
	8,045	8,285	**20,896**	21,519

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

22 NET ASSETS PER SHARE

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

	2014	2013	2014	2013
	RO	RO	USD	USD
Shareholders' funds (in '000)	**27,078**	26,995	**70,332**	70,115
Number of shares at the end of the reporting year (in '000) [see notes 23 b) and c)]	**221,010**	221,010	**221,010**	221,010
Net assets per share	**0.123**	0.122	**0.318**	0.317

The Management believes that the hedging deficit of RO 15.42 million (USD 40.04 million) [31 December 2013 – RO 15.54 million (USD 40.35 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.

23 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.

	2014	2013	2014	2013
	RO	RO	USD	USD
Profit for the year (in '000)	**4,414**	5,137	**11,466**	13,343
Weighted average number of shares at the end of the reporting period (in '000)	**221,010**	230,850	**221,010**	230,850
Basic earnings per share	**0.020**	0.022	**0.052**	0.058

The following further notes apply:

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

b) At the Extraordinary General Meeting held on 30 March 2014, the shareholders resolved to approve to split the par value of the Company's shares from RO 1 to 100 baisas, which was effected in April 2014. In accordance with IAS 33 'Earnings per share', the weighted average number of shares outstanding is adjusted at the beginning of the earliest period presented and the revised earnings per share is calculated for the year ended 31 December 2013.

c) A similar adjustment has also been carried out for number of shares outstanding at 31 December 2013 while calculating the net assets per share as detailed in note 22.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

24 LEASE COMMITMENTS

Land on which the Sohar Power and Water Plant is constructed, has been leased from Sohar Industrial Port Company SAOC for a 15 year period [note 6 b)]. At the end of the reporting period, future minimum lease commitments under non-cancellable operating leases are as follows:

	2014	2013	**2014**	2013
	RO'000	RO'000	**USD'000**	USD'000
Within 1 year	**60**	60	**155**	155
Between 2 and 5 years	**239**	239	**620**	620
After 5 years	**131**	193	**343**	503
	430	492	**1,118**	1,278

25 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 0.3 million (31 December 2013 – RO 0.5 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

25 FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

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.

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

31 December 2014	Carrying value RO'000	Contractual cash flow RO'000	6 months or less RO'000	6 to12 months RO'000	1 to 2 years RO'000	2 to 5 years RO'000	More than 5 years RO'000
Non-derivative financial liabilities (A)							
Secured bank loans	**120,340**	**122,363**	**3,319**	**4,951**	**8,616**	**27,959**	**77,518**
Accounts and related party payable	**4,439**	**4,439**	**4,439**	**--**	**--**	**--**	**--**
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	**15,416**	**18,945**	**2,819**	**2,509**	**4,196**	**6,676**	**2,745**
Total (A + B)	**140,195**	**145,747**	**10,577**	**7,460**	**12,812**	**34,635**	**80,263**
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Non-derivative financial liabilities (A)							
Secured bank loans	**312,570**	**317,826**	**8,620**	**12,860**	**22,380**	**72,620**	**201,346**
Accounts and related party payable	**11,527**	**11,527**	**11,527**	**--**	**--**	**--**	**--**
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	**40,042**	**49,209**	**7,323**	**6,518**	**10,899**	**17,341**	**7,128**
Total (A + B)	**364,139**	**378,562**	**27,470**	**19,378**	**33,279**	**89,961**	**208,474**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

25 FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

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 hedging	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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

26 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 17.5 million (USD 45.5 million) [31 December 2013 – RO 17.7 million (USD 45.9 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

31 December 2014	Buildings	Plant and machinery	Technical parts	Other assets	Decom-mission-ing 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 2013	**7,009**	**189,031**	**4,888**	**21**	**777**	**54**	**201,780**	**524,101**
Additions during the year	**--**	**--**	**--**	**1**	**--**	**248**	**249**	**648**
At 31 December 2014	**7,009**	**189,031**	**4,888**	**22**	**777**	**302**	**202,029**	**524,749**
Depreciation								
At 31 December 2013	**1,588**	**42,144**	**1,014**	**18**	**172**	**--**	**44,936**	**116,715**
Charge for the year	**236**	**6,303**	**166**	**1**	**24**	**--**	**6,730**	**17,481**
At 31 December 2014	**1,824**	**48,447**	**1,180**	**19**	**196**	**--**	**51,666**	**134,196**
Net book value								
At 31 December 2014	**5,185**	**140,584**	**3,708**	**3**	**581**	**302**	**150,363**	**390,553**
At 31 December 2013	**5,421**	**146,887**	**3,874**	**3**	**605**	**54**	**156,844**	**407,386**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

31 December 2013	Buildings RO'000	Plant and machinery RO'000	Technical parts RO'000	Other assets RO'000	Decom-missioning assets RO'000	Capital work in progress RO'000	Total RO'000	Total 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