His Majesty

# SULTAN HAITAM BIN TARIK

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

## KEY EXECUTIVE OFFICERS

| | |
|---|---|
| Chief Executive Officer | Mr. Yaqoub Harbi Al Harthi * |
| Company Secretary | Mr. Zoher Karachiwala |
| Chief Technical Officer | Mr. Sreenath Hebbar |
| Chief Financial Officer | Mr. Khalifa Al Kalbani * |
| Administration Manager | Mr. Salah Al Farsi |

* Appointed during the year.

## Dear Shareholders,

On behalf of the Board of Directors of Sohar Power Company SAOG ("Sohar Power" or the "Company"), I am pleased to present you with the fifteenth Annual Report of the Company for the year ended 31 December 2019, corresponding to the thirteenth year of operations of the Company.

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

## Health & Safety

The year 2019 has seen excellent Health and Safety performance for Sohar Power. There were no Lost Time Accidents (LTA), accumulating to 2528 days without LTA at the end of the year. The Health and Safety of our employees, contractors, and visitors remains the utmost priority for the Company and its operator Sohar Operations & Maintenance Company LLC ("SOMC").

## Operations

The demand for water decreased in 2019 compared to 2018 due to the commissioning of a new water plant in the port area. The plant was in standby mode most of the time from late August 2019; thus the demand for power has also decreased in 2019 compared with 2018. Accordingly, the load factors of the plant reached 39.14% for power (69.1% in 2018) and 47.6% for water (82.3% in 2018).

The plant was operated reliably during the period. An aggregate net power quantity of 2,006 GWh and a total volume of desalinated water of 26,058,739 m3 were delivered.

The plant achieved 98.18% reliability for power and 97.61% for water in 2019. Forced outages amounted to 1.82% for the power plant and 2.39% for the water plant.

The Contract Year number 13 started on 01 April 2019. The annual performance test was successfully undertaken, demonstrating to OPWP the guaranteed capacity of the plant on both fuel gas and fuel oil.

Following the plant being off dispatch since August 2019, SPC and its Operator, SOMC developed a preservation plan for the desalination units and undertook one cycle of preservation. Following this, we were requested to be operated for a few days due to shut down of the newly commissioned water plant. Experience gained in the preservation and re-start processes has been captured and submitted to OPWP as the basis for subsequent such activities.

In terms of maintenance, the Company was able to undertake the required annual maintenance activities of its key equipment during the 2018-2019 winter period.

Maintenance activities were performed by SOMC and its sub-contractors, in accordance with Original Equipment Manufacturers' recommendations, while applying the best standards and practices for health & safety and maintenance of the industry. All gas turbines underwent regular annual maintenance during the Winter Period; there were no Major Inspections undertaken during the Winter Period.

Following the outcome of the assessment of the efficiency of technical operations and maintenance processes at the site in 2017, the Company continues to implement actions to improve its business processes and manage in a better manner all the risks that could potentially be faced by the project.

## Financial Performance

The Board of Directors would like to announce that the Company has ended the year with a net profit of RO 1.155 million compared to a net loss of RO 10.092 million in 2018.

The increase in net profit in 2019 is due to the lower impact of impairment of desalination plant compared to 2018, which will continue to impact the company till the end of existing PWPA in 2022.

The revenues for the year 2019 amount to RO  50.6 million against RO 67.5 million for the year 2018. The restatement of the revenue, as explained below, had a slightly positive impact on revenue, which set-off by the decrease due to the low load factor of the plant ( low power and water demand). As per the PWPA agreement with the off-taker, the variation of the Load Factor has no impact on the company profitability as the mainstream of the profit is generated from the available capacity and reliability of the plant, (load factor is a pass-through item under the PWPA (and financially neutral to the Company).

The direct costs, besides the impairment matter, have also decreased from RO 47.6 million in 2018 to RO 31.1 million in 2019, due to the decrease in gas consumption as a result of low load factor.

Long term loans were repaid, and swaps were settled on their due dates. The hedging deficit on the Company's swap agreements at the close of business on 31 December 2019, was RO 4.9 million, in comparison with valuations as of 31 December 2018 of RO 4.7 million. As per IAS 39, hedging deficit is calculated on each balance sheet date, and it represents a notional loss, which the Company may incur if it opts to terminate the swap agreements on this date. However, under the terms of Financing Agreements, the Company is not permitted to terminate its swap agreements and, as such, the loss is notional.

The reduction in finance costs by RO 0.6 million in 2019 in comparison to 2018 is associated with debt repayments during the year.

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

As a consequence of the cash sweep, the inability of the Company to distribute dividends, and the decrease of the global and Omani Capital Market indices in 2019, the share price dropped from RO 0.120 to RO 0.061 during the year.

## Revenue recognition issue and qualification of financial statements

Following the decision issued by the Appeal Committee of CMA (Decision 2/2018) dated 3 October 2018 ("Decision") confirming the Decision 10/2018 of the Disciplinary Committee of the CMA issued on 16 May 2018, warning the Company that it is in violation of Article 5 of the Capital Market Law and instructing it to restate its financial statements, and after consulting with its legal advisor, the Company appealed against the Decision before the Administrative Court of Oman. On 3 March 2019, the Administrative Court issued its judgment, allowing the appeal in form and rejecting it in substance. After consulting its Board of Directors and legal advisor, The Company, appealed the judgment on 2 April 2019.

On 10 June 2019, the Administrative Appeals Court issued its judgment, confirming the Decision 10/2018 of the Disciplinary Committee of the CMA issued on 16 May 2018. Accordingly, the Company adopted the straight-line revenue recognition in the audited financial statement for the year ended 31 December 2019 and restated corresponding figures for the year ended on 31 December 2018. The impact of the adoption is disclosed in the statement of financial position and statement of profit and loss in the audited financial statement.

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

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

There are no legal proceedings against the Company as of 31 December 2019.

## Corporate Governance

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

After the issuance of the new Company Commercial laws in Feb 2019 pursuant to the Royal Decree 18/2019 , the company has amended its Article of Association ("AoA") to ensure full compliance. The new AoA has been approved by the board of directors and should be presentedfor the shareholder's approval in an EGM.

Pursuant to the CMA circular # 10/2018, the Board appointed a third-party consultant to review the internal audit system and process of the company. The review has been completed in 2019; the conclusion was Satisfactory. Audit Committee and the Board have reviewed the report; an action plan was set to address the recommended action for further improvements.

## Employment

Pursuing their continued efforts to develop, train, and employ Omanis, the Company and its operator have maintained the Omanisation level at 79.7% at the end of 2019.

## Corporate Social Responsibility

In 2019, the Company further extended its support to the local community and municipality projects, mainly in North Batinah Governorate, while focusing on education, health and safety, social development and environment protection. Sohar Power was able to contribute to local projects intended for the local communities and the people of the Sultanate of Oman. One of these projects is co-supporting the Ministry of Education with 3D education cinema, which has seen massive participation from the audience in the Oman Science festival in November 2019 that was organized by Ministry of Education. After the festival, the cinema was moved to the directorate of North-Albatinah Governorate so that all students in the governorate can benefit from it. The financial contributions to local initiatives amount to RO 13,553 in 2019.

## Outlook for 2020

Looking ahead, the Company expects to maintain high reliability even though the delivered power and water level is expected to be at a same level seen in the second half of 2019, while undertaking periodic maintenance activities, in a safe working environment for its employees, contractors and visitors.

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

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

The Company engaged as well in the second phase of '2022 Power Procurement process' launched by OPWP RfP on 16th October 2019. This is the last phase of the procurement process which is expected, as per the timeline provided by OPWP, to conclude by awarding the project in mid-2020.

The Company's main objective for 2020 is to secure a new PPA with effect from 2022. In case SPC is unsuccessful in the Power 2022 Procurement process, the Company may operate in the Spot Market currently being developed in Oman, for which the rules are not yet finalised. Revenues will not be contracted in the Omani Spot Market. In view of the uncertainties surrounding the Spot Market, it is very difficult to predict the future of the Company in its current technical configuration, should it operate in the Spot Market, but it will be very challenging.

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

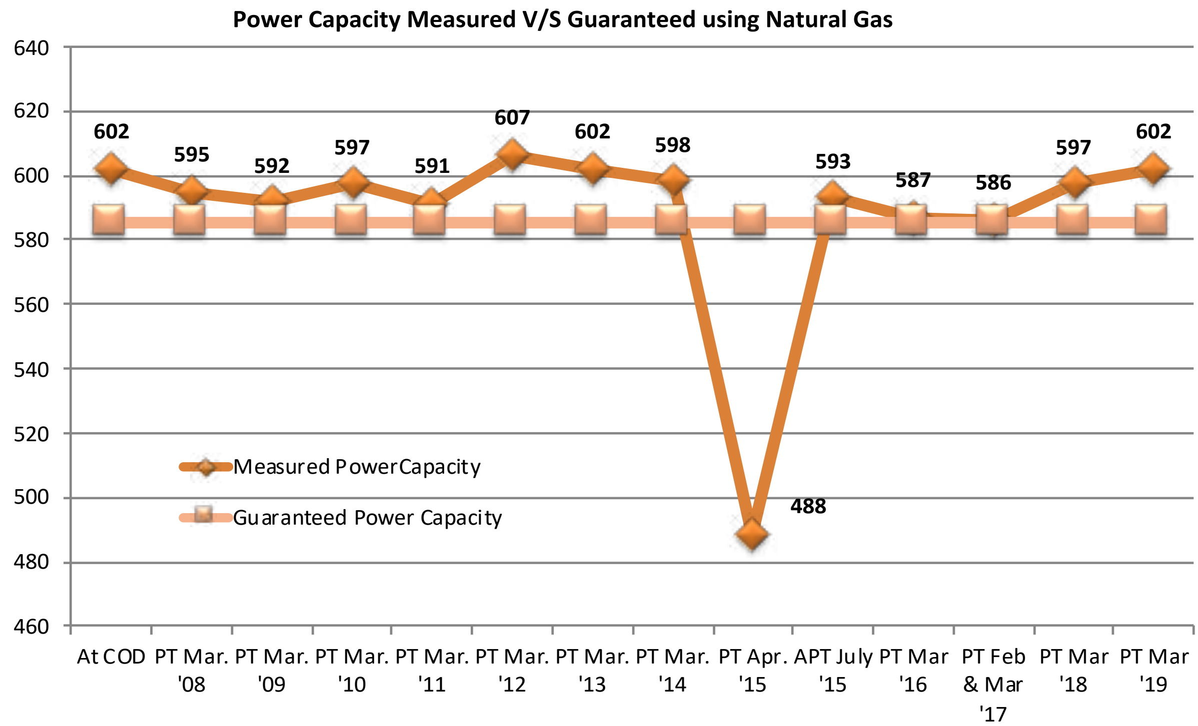
On behalf of the Board of Directors, I wish to thank our valued shareholders for their continued support, trust, and confidence. I would also like to thank all the personnel associated with the operation and maintenance of the plant in Sohar and the staff of the Company for their loyalty, dedication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

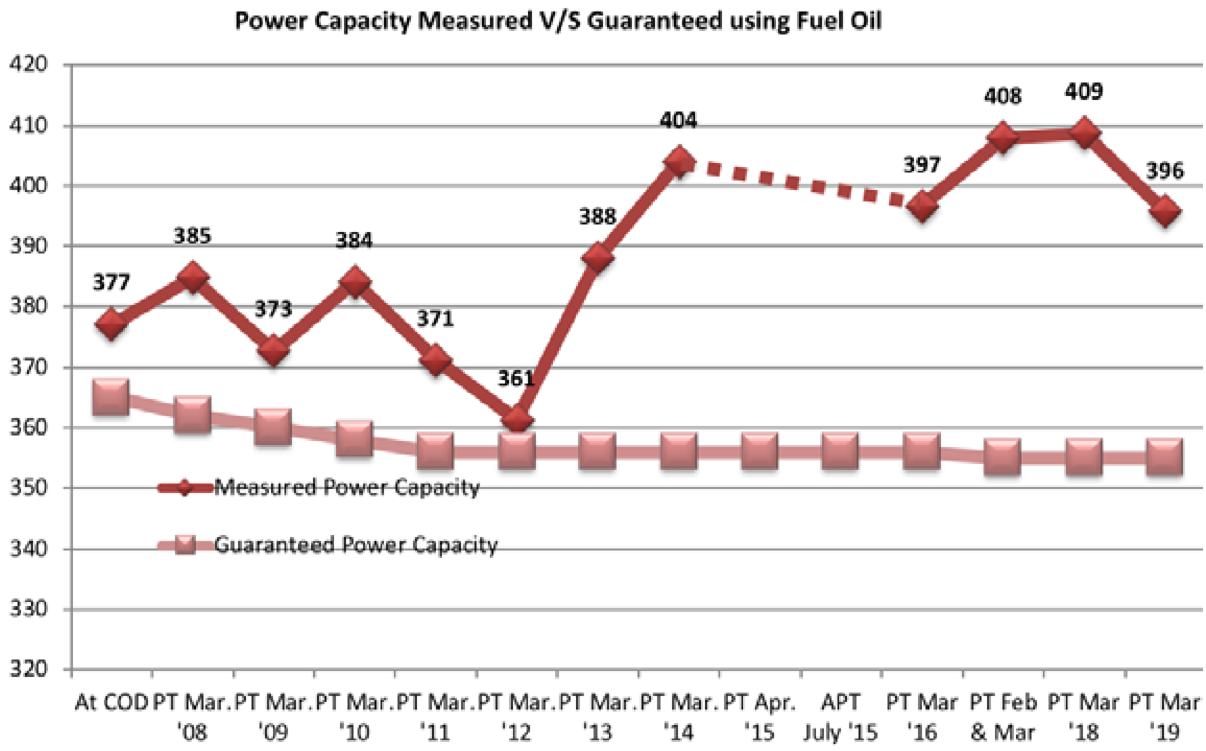
On behalf of the Board of Directors, we would like to express our sincere condolences for the demise of His Majesty Sultan Qaboos bin Said bin Taimoor - May Allah rest his soul in peace - and His Government for their continued support and encouragement to the private sector. I, together with the Board of Directors would also like to take this opportunity to express our best greetings and sincere wishes and pray to Allah the Almighty to grant success to His Majesty Sultan Haitham bin Tarik and His Government for his country and his people.

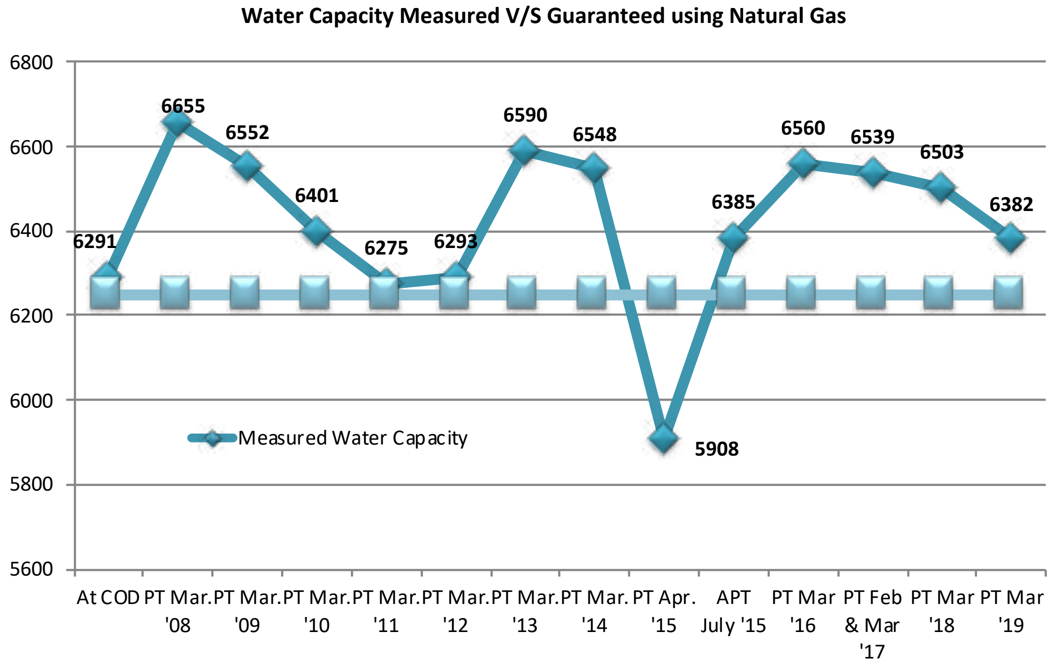
**Wim Alen**
Chairman of the Board

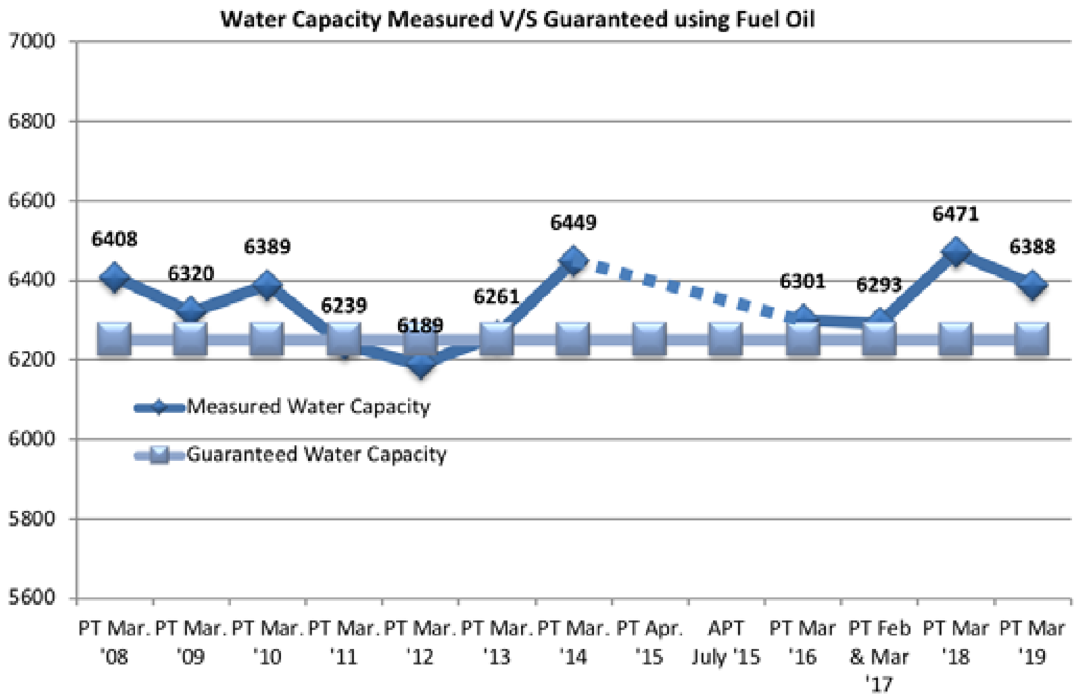
## Capacity

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






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

## Availability

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

The total power made available during 2019 was 4,703 GWh which works to an availability of 91.7%. The total water made available during 2019 was 50,999,755 m3 which works to an availability of 93.1%.

## 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 2019 the plant achieved reliability of 98.2% for power and 97.60% for water.

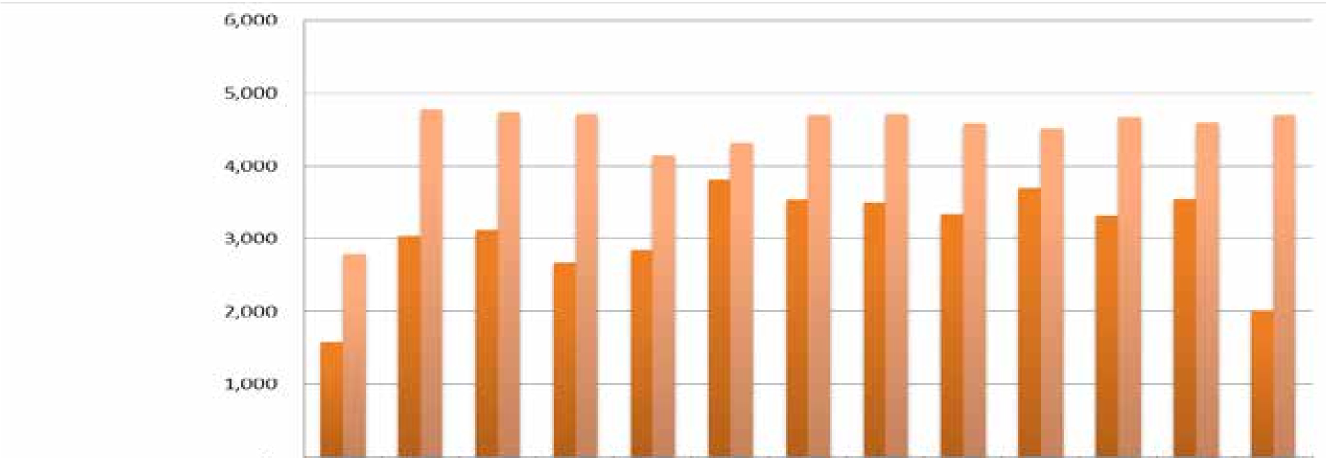
## Plant Efficiency (Heat Rate)

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

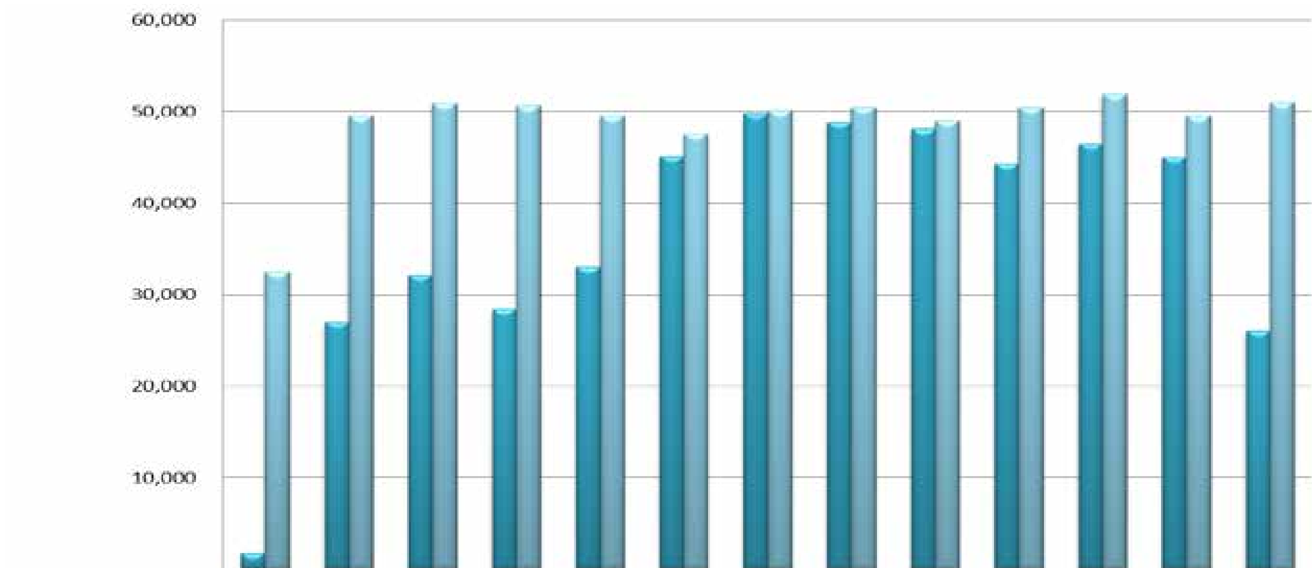
## Utilization; Energy and Water Delivered

During the year 2019 the energy was delivered at a utilization factor of the power plant of 42.6%. The total water was delivered by the water plant at a utilization factor of almost 51.1%.

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.




| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Power delivered | 1,578 | 3,045 | 3,119 | 2,669 | 2,837 | 3,806 | 3,538 | 3,497 | 3,346 | 3,697 | 3,321 | 3,543 | 2,006 |
| Power Capacity available | 2,790 | 4,782 | 4,734 | 4,718 | 4,139 | 4,308 | 4,700 | 4,711 | 4,589 | 4,519 | 4,682 | 4,595 | 4,703 |




| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Water Delivered | 1,818 | 27,006 | 32,149 | 28,420 | 33,017 | 45,178 | 49,805 | 48,876 | 48,094 | 44,338 | 46,539 | 45,032 | 26,059 |
| Water Capacity | 32,535 | 49,567 | 50,909 | 50,681 | 49,610 | 47,585 | 50,147 | 50,526 | 48,995 | 50,479 | 51,900 | 49,567 | 51,000 |

## Maintenance

Annual maintenance of all equipment was undertaken during the year.

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

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

## Force Majeure

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

| Sl. No. | Event | Year | Period | Affected Facility | Equivalent Hours |
|---|---|---|---|---|---|
| 1. | Unavailability of Fuel | 2006 | 12 days delay Oil in Stage-I & Stage-II Early Power Milestones | Entire Plant | 288 |
| 2. | Cyclone Gonu | 2007 | June 06, 16:00 – June 07, 20:00 | Entire Plant | 28 |
| 3. | Red Tide | 2009 | a) Jan 03, 19:00 – Jan 05, 10:00<br>b) Jan 09, 00:00 – Jan 12, 19:00 | Desalination Facility | 99 |
| 4. | Red Tide | 2009 | a) Apr 11, 06:30 – Apr 16, 06:30 | Desalination Facility | 107 |

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

## Maximizing Efficiency

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

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

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

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

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

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

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

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

## Low Emissions

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

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

## Potable Water

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

Acting as a corporate and responsible citizen in 2019, Sohar Power Company engaged with the local community by contributing its resources and actions; going beyond its responsibilities related to power generation and water desalination.

The projects carried out in 2019 primarily focused on education, health & safety, social development and protection of the environment, in line with the objectives set by the Company under its Corporate and Social Responsibility ("CSR") policy.

Sohar Power Company together with Directorate of Education in North Batinah Governorate collectively supported purchase 36 Smart LEDTV for distribution to 12 School in the Governorate for the First Grade students. The project aims to provide a technical learning environment that helps the students to learn and provide opportunities for creativity and excellence. Around 500 students in each school will benefit from this.


In the field of education, Sohar Power decided to contribute in supporting the Ministry of Education by purchase and installation of 3D education cinema, which resulted in massive participation from the audience in the Oman Science Festival held in November 2019 that was organized by the Ministry of Education. Post Festival, the education cinema was moved to the directorate of North-Al Batinah Governorate so that students in the governorate can benefit from it.

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

Participating in the celebrations of the National Day of Oman, the Company supported the Ministry of Heritage and Culture in organising and holding its second Heritage Gathering 2019. The gathering aimed at instilling cultural and intellectual awareness and deepening the Omani identity amongst the Omani population. The gathering included many activities such as: Omani manuscripts, pictures of archaeological sites in North Batinah Governorate, cultural activities such as fine arts, poetry and cultural lectures, plays, setting up temporary libraries, traditional crafts, archaeology, calligraphy and much more as outlined in its program.

## History of the Project

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

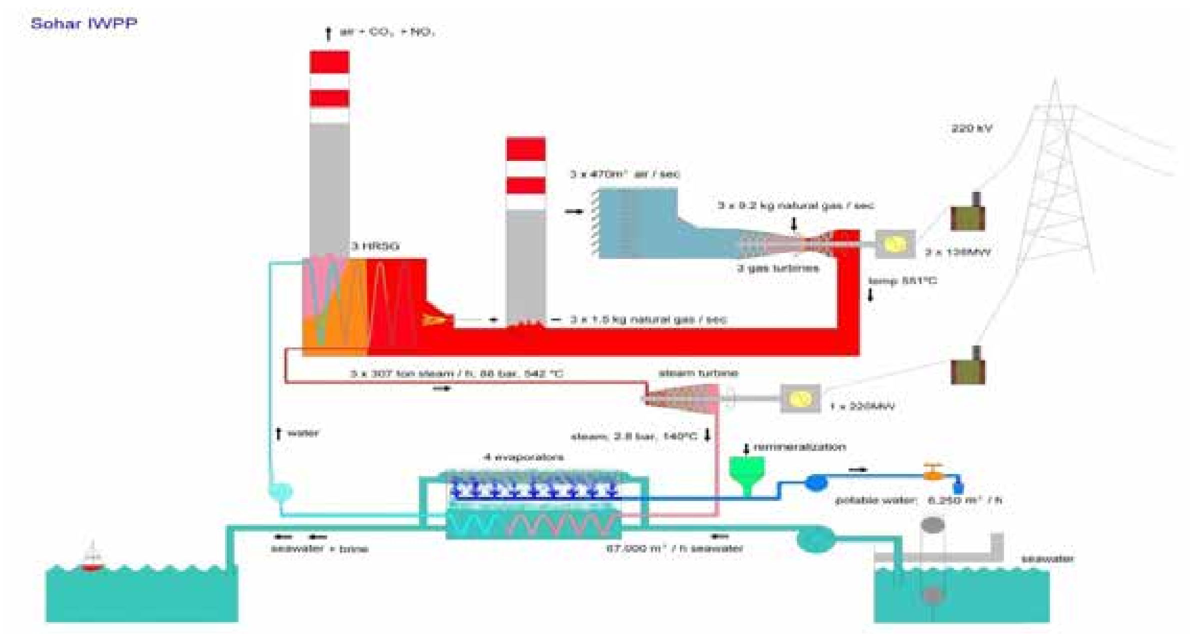
Sohar Power has been established under a Build-Own-Operate scheme. The BOO concept enables the Company to operate as a going concern beyond the project horizon of 15 years by either extending the PWPA (if agreed to by OPWP) or selling into a liberalized electricity market which may exist at that time.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

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

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

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

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



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

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

## Contractual Arrangements

### *Off-taker*

The entire output from the Plant's installed Capacity is contracted for through a single long term PWPA with the Oman Power and Water Procurement Company SAOC ("OPWP") until 31 March 2022. Beyond this date, Sohar Power will either enter into a new PPA with OPWP or sell its output in the Spot Market being developed in Oman.

### *Fuel Supply*

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

### *Sea Water*

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

### *Electrical connection*

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

### *Water supply connection*

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

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

### Construction

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

### Operation and Maintenance

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

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

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

## Revenue Details

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

### Capacity Charges:

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

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

## Energy and Water Output Charges:

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

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

## *Fuel Costs*

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

## *Force Majeure Events:*

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

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

## Kahrabel FZE (ENGIE, previously known as GDF SUEZ)

### About ENGIE Middle East, South & Central Asia and Turkey (MESCAT)

ENGIE has a regional presence of almost 30 years in the Middle East, South & Central Asia and Turkey region. We are the regional leading independent power & water producer with a gross capacity of 32 GW of power and 5.5 million m3/day of water production. ENGIE's portfolio includes 1 GW of solar PV and 480 MW wind in India, where we also provide decentralized solar power to 70,000 customers. In Turkey, ENGIE has 370,000 customers in gas distribution and is active in energy retail, trading and origination. The Group owns 40% of Tabreed, the regional leader in district cooling, which currently delivers over 1 million tons of cooling across 75 plants in the GCC, where ENGIE is also a leading provider of Customer Solutions.

### About ENGIE

Our group is a global reference in low-carbon energy and services. In response to the urgency of climate change, our ambition is to become the world leader in the zero-carbon transition of our customers, businesses and local authorities. We rely on our key businesses (renewable energy, gas, services) to offer competitive turnkey solutions "as a service".

With our 160,000 employees, our customers, partners and stakeholders, we are a community of Imaginative Builders, committed every day to more harmonious progress.

Turnover in 2018: 60.6 billion Euros. The Group is listed on the Paris and Brussels stock exchanges (ENGI) and is represented in the main financial indices (CAC 40, DJ Euro Stoxx 50, Euronext 100, FTSE Eurotop 100, MSCI Europe) and non-financial indices (DJSI World, DJSI Europe and Euronext Vigeo Eiris - World 120, Eurozone 120, Europe 120, France 20, CAC 40 Governance).

## MENA Sohar 1 SPV Limited

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

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

## Ministry of Defence Pension Fund ("MODPF")

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

## SOGEX

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

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

On November 15, 1984 Bahwan Group of Companies, Oman, acquired the whole of SOGEX in Oman and renamed as SOGEX Oman Co. LLC.

SOGEX Oman as a subsidiary company of Suhail Bahwan Group has been continuing its operations in Oman and abroad by participating in supply, construction and O&M services of remarkable number of large IWPP/ IWP/IPP power and water projects covering different fields on turnkey basis such as EPC (Engineering, Procurement, Construction) for Power & Desalination Plants, Electrical Transmission Lines and associated Sub-stations of Voltage level up to and including 132 kV.

SOGEX Oman is an ISO 9001:2015 certified company and undertakes the following activities:

Management, Commissioning, Operation & Maintenance of:

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

Sogex Oman also explores opportunities and invests in Power & Water sectors.

Currently it is operating in Middle East, North Africa and India.

## 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 70 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 that it is proven and has demonstrated a long operating history, as is the Operations and Maintenance ("O&M") risk given Sohar Power contractor (SOMC) experience and track record in operation of IWPPs. Through the O&M Agreement, Sohar Power is not supporting any risk in regular operating and maintenance costs.

The debt financing for Sohar Power follows a typical non-recourse project financing structure. It includes a cash sweep mechanism intended to accelerate the repayment of the debt from September 2015, under which all cash available is fully devoted to the reimbursement of the debt until its full repayment. During this period, no cash is available to the shareholders for distribution of dividends.

Until August 2019, the Authorities were heavily dependent on Sohar Power for the supply of water in the North of the Sultanate, which exposed the plant to reliability and availability risks since contractual commitments for periodic maintenance were not always fulfilled. Since the commissioning of a new water desalination plant in Sohar, this dependence has now reduced. Water being supplied from the new Plant is meeting the current water demand in the region.

On account of two other power plants in the Sohar area that can supply 2,250 MW, the need for coupled power-water from the Company has also reduced, resulting in the Plant being idle for prolonged period since August 2019.

Low dispatch of power and water is likely to be the case for the remaining Contract Years.

## Financial Highlights

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

| *All figures in RO million* | | *2019* | *2018* | *2017* | *2016* | *2015* |
|---|---|---|---|---|---|---|
| NP (Net Profit/loss) for the year | 1 | 1,155 | -10.939 | 2.030 | 4.543 | 3.756 |
| Revenue | 2 | 50.586 | 66.505 | 64.485 | 66.307 | 62.657 |
| Total Assets | 3 | 114,359 | 119.893 | 146.455 | 150.439 | 160.431 |
| Capital | 4 | 22.101 | 22.101 | 22.101 | 22.101 | 22.101 |
| Debt (Long Term) | 5 | 66.426 | 76.708 | 89.037 | 100.436 | 112.387 |
| Debt & Capital | 6 | 88.527 | 98.809 | 111,138 | 122.537 | 134.488 |
| Ordinary Shares (in millions) | 7 | 221.010 | 221.010 | 221.010 | 221.010 | 221.010 |
| Net assets (before hedging deficit) | 8 | 17,186 | 20.097 | 31.036 | 29.006 | 27.188 |

| | | *2019* | *2018* | *2017* | *2016* | *2015* |
|---|---|---|---|---|---|---|
| NP (Net Profit) Margin | 1÷2 | 2.3% | -15.0% | 3.1% | 6.9% | 6.0% |
| ROTA (Return on Total Assets) | 1÷3 | 1.0% | -8.4% | 1.4% | 3.0% | 2.3% |
| ROC (Return on Capital) | 1÷4 | 5.2% | -45.7% | 9.2% | 20.6% | 17.0% |
| Capital ratio (over Debt + Capital) | 4÷6 | 25.0% | 22.4% | 19.9% | 18.0% | 16.4% |
| Ordinary Dividend (interim-current year) | | - | - | - | 4.1% | 7.1% |
| Ordinary dividend (Final-previous year) | | - | - | - | 8.2% | 9.4% |
| BEPS (Basic Earnings per share) Ratio | 1÷7 | 0.005 | -0.046 | 0.009 | 0.021 | 0.017 |
| Net Assets per share | 8÷7 | 0.077 | 0.072 | 0.140 | 0.131 | 0.123 |

## Analysis of Results

Sohar Power registered a net profit of RO 1.155 million for the year 2019. A net loss of RO 10.092 million was registered in 2018. The favourable variance of RO 11,247 million between the loss of 2018 and profit of 2019 is the net effect of the following elements:

- Impairment of the Desalination plant as a result of not qualifying the Water plant in the 2022 Power tender process, positive impact of RO 18.554 million compared to 2018, higher depreciation due to water desalination plant accelerated depreciation as a result of revised useful life.
- Power & Water capacity charges were reduced in 2019 as compared to previous year due to reduced tariff (as per PWPA), negative impact of RO 0.392 million.
- Lower incentive paid to the operator as a result of higher forced outages in 2019 and lower fuel margin, favourable impact of RO 0.154 million.
- The financial debt (loans and swaps) was repaid and settled as per the agreements and accordingly, lower net financial interest was incurred in the current year, impacting net profit of 2019 favourably by RO 0.644 million.
- Higher tax expense as a result of higher profits for the year, impact of RO 0.254 million.
- Lower deferred tax expense in 2019 due to the change in deferred liability due to impairment in 2018 favourable impact of RO 1.975 million.

## Analysis of Balance Sheet

- Property, Plant & Equipment (PP&E) are depreciated consistently using the straight line method of depreciation. The impairment impact of the Desalination plant will continue through 2019 till the end of current PWPA term. The Company continued capitalizing the cost of decommissioning its PP&E, to be incurred at the end of the useful life of the plant.
- Trade debtors correspond to one month's invoice at the end of current year and one month at the end of previous year (as per PWPA). In addition the majority of trade is related to fuel gas invoices which have not been settled by OPWP since May 2019. However this amount is a pass-through to MOG.
- Cash in hand and at Banks at the end of 2019 were lower than the same at the end of previous year, on account of cost incurred on tender 2022.
- The Hedging Deficit booked in equity on account of variation in Fair values of five IRSs - interest rate swaps, which does not affect the profitability of the Company, was RO 1.820 million; the same was RO 2.326 million in 2018.
  Hedging Deficit is calculated on each Balance Sheet date as per IAS 39 and represents the loss, which Company would have incurred, if it had opted to terminate its IRS agreements on this date. However, under the terms of its Financing Agreements, Sohar Power is not permitted to terminate its swap agreements and the above deficit is therefore merely notional.
- The Company repaid instalments of its long term loans and settled its Swaps in accordance with the agreed loan repayment schedule and swap agreements. An additional amount of RO 0.885 million was repaid during the year under the cash sweep mechanism.

## Dividend Distribution

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

## Outlook for 2020

Looking ahead, the Company expects to operate as and when power and water from the Plant is called for. The load factors are expected to be low and the Plant is likely to be under preservation for long periods.

Since the year 2018, the Company engaged in the '2022 Power Procurement process' launched by OPWP. As part of the process, OPWP has notified the Company on 7 February 2019 that it has pre-qualified its Power only offer but did not pre-qualify its Power and Water offer. The Company has submitted a Binding Bid for its Power only offer on February 28, 2019 after seeking approval during the Ordinary General Meeting held on February 26, 2019. The Company is now engaged in the second phase of '2022 Power Procurement process' launched by OPWP RfP on 16th October 2019. This is the last phase of the procurement process which is expected, as per the timeline provided by OPWP, to conclude by awarding the project in May 2020.

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

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

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

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

## Internal Control System and their Adequacy

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

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

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

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

Pursuant to the CMA circular # 10/2018, the Board appointed a third party consultant to review the internal audit system and process of the company.  The review has been completed in 2019, the conclusion was Satisfactory. Audit Committee and the Board have reviewed the report, an action plan was set to address the recommend action for further improvements.

## Transfers to Investors Trust Fund

Due to non-distribution of Dividend in 2019, transfer to the investors' trust fund in 2019, was not required

BAKER TILLY
MKM (OMAN) LLC
Chartered Accountants

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

Office No. 201, 2nd Floor, Musandam Building, 'B' Wing, Ruwi
P.O. Box : 994, Muscat, Postal Code 100, Sultanate of Oman

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

**REPORT OF FACTUAL FINDING WITH RESPECT TO THE CORPORATE GOVERNANCE IN ACCORDANCE WITH CAPITAL MARKET AUTHORITY CODE OF CORPORATE GOVERANCE**

**TO THE SHAREHOLDERS OF SOHAR POWER COMPANY SAOG**

We have performed the procedures agreed with you pursuant to the Capital Market Authority (the CMA) Code of Corporate Governance for Public Listed Companies, issued through Circular Number E/4/2015, dated 22 July 2015, and subsequent amendments issued through Circular Number E/10/2016, dated 1 December 2016 (Collectively referred to as the Code), with respect to the Board of Directors' Report on the Corporate Governance of **Sohar Power Company SAOG** (the Company) and its application of the corporate governance practices in accordance with CMA's Code of Corporate Governance and its amendments, for the year ended 31 December 2019, and as supplemented by the Rules and Guidelines and Executive Regulation of the Capital Market Authority.

Our engagement was undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of Company's compliance with the Code as issued by the CMA and are summarized as follows:

i) We obtained corporate governance report (the report) issued by the Board of Directors of the Company and checked that it includes, as a minimum, all items suggested to be included as per annexure 3 of the Code, by comparing the report with contents of annexure 3; and

ii) We obtained details regarding areas of non-compliance with the Code, identified by the Board of Directors of the Company for the year ended 31 December 2019. The areas of non-compliance with the Code, as identified by the Board of Directors of the Company, are disclosed under the section "Non-Compliance Penalties" of the report. The said non-compliance was with respect to Article 5 of the Capital Market Law. The Company has restated its financial statements for the current year to resolve this issue.

We have no exceptions to report in respect of the procedures performed.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Corporate Governance Report (the Report). Had we performed additional procedures or had we performed an audit or a review of the Report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' Corporate Governance Report included in annual report of **Sohar Power Company SAOG** for the year ended 31 December 2019 and does not extend to any financial statements of the Company taken as whole.

Dariusz Solecki
**Baker Tilly MKM (Oman) LLC**
Muscat
26 February 2020

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C.R. No. 1094007

an independent member of bakertilly

تليفون : ٢٤٧٩٧٤٤١ / ٢٤٧٨٧١٤٤ / ٢٤٧٨٧١٤٨، فاكس : ٢٤٧٩٦٦٦٠
بريد الإلكتروني : www.bakertillyjfc.com, oman@bakertillyjfc.com
س.ت : ١٠٩٤٠٠٧

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

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

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

In compliance with the Fourteenth Principle 3 of the above Code, Sohar Power includes this separate chapter on Corporate Governance in its annual financial statements for the year ended 31 December 2019.

## Board of Directors

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

| Name of Directors | Category of Directors | Board Meeting held and attended during 2019 | | | | | | | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| | | 07 FEB | 26 FEB | 11 MAR | 25 APR | 24 JUL | 30 OCT | Total | AGM |
| Mr. Wim Alen (Chairman) | Non-Independent & Nominee | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 | ✓ |
| Mr. Sami Abdullah Khamis Al Zadjali (Vice Chairman) | Non-Independent & Nominee | ▶ | ▶ | ✓ | ✓ | ✓ | ✓ | 6 | ✓ |
| Mr. Jeronimo Roura | Non-Independent & Nominee | ▶ | ▶ | ▶ | ✓ | ✓ | ✓ | 5 | - |
| Mr. Salim Ali Hamed Al Hasni | Independent & Nominee | ✓ | ✓ | ✓ | A | ✓ | Proxy | 4 | - |
| Mr. Damien Sage | Non-Independent | ▶ | Proxy | ✓ | ✓ | ✓ | ✓ | 5 | - |
| Mr. Hisham Salem Al Hadhrami | Non-Independent | ✓ | ✓ | ✓ | ✓ | ✓ | Proxy | 5 | - |
| Mr. Kumail Majid Al Moosawi | Non-Independent | ✓ | ✓ | ✓ | A | Proxy | ✓ | 4 | - |
| Mr. Tashfen Yasin | Independent | ▶ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 | - |
| Mr. Ravindranath Venna | Independent | ▶ | Proxy | ✓ | ▶ | ✓ | Proxy | 4 | - |
| Mr. Rodak Ali Iqbal | Independent | Proxy | ✓ | ✓ | ✓ | ✓ | ✓ | 5 | - |
| Mr. Zahran Salim Al Rashdi | Independent | ✓ | ✓ | ✓ | ✓ | ▶ | ✓ | 6 | - |
| Ms. Miriam Youssef Khalaf | Independent | ✓ | Proxy | ✓ | ✓ | ✓ | ✓ | 5 | - |

▶ Attended by Video

A Absent

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

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

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

# Audit Committee

## A. Brief description of terms of reference.

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

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

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

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

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

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

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

## B. Composition of Audit Committee and attendance record of Committee Members:

| *Name of Committee Members* | *Position* | *Meetings held and attended during 2019* | | | | | |
|---|---|---|---|---|---|---|---|
| | | *06 FEB* | *11 MAR* | *24 APR* | *23 JUL* | *30 OCT* | *Total* |
| Mr. Zahran Salim Al Rashdi | Chairman | ✓ | ✓ | ✓ | ▶ | ✓ | 5 |
| Mr. Rodak Iqbal | Member | ▶ | ✓ | ✓ | ✓ | ✓ | 5 |
| Mr. Tashfen Yasin | Member | ▶ | ✓ | ✓ | ✓ | ✓ | 5 |

▶ Attended by Video

## C. Sitting fee

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

# Nomination of Remmuneration Committee

## A. Brief description of terms of reference.

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

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

The above is summarized as follows:

a. Enhance performance and efficiency in accomplishing the various tasks related to the NRC.
b. Establish a framework to assist the Board in:
    - developing a succession policy;
    - identifying and nominating qualified persons to act as temporary Directors and senior executives;
    - preparing compensation and remuneration policies; and
    - Carrying out the evaluation of the Board and sub-Committees.
c. Define the responsibilities, duties, and powers of the NRC.
d. Determine the administrative and functional structure of the NRC.

### B. Composition of NRC and attendance record of Committee Members.

| Name of Committee Members | Position | Meetings held and attended during 2019 | | | |
|---|---|---|---|---|---|
| | | 11 MAR | 23 APR | 20 OCT | Total |
| Mr. Salim Ali Hamed Al Hasni | Chairman | ✓ | ▶ | ✓ | 3 |
| Mr. Damien Sage | Member | ✓ | ✓ | ✓ | 3 |
| Mr. Tashfen Yasin | Member | ✓ | ✓ | ✓ | 3 |

▶ Attended by Video

### C. Sitting fee

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

## Process of Nomination of Directors

The election of the Board is governed by the Company's Articles of Association (Articles 19 to 24). The Board of Directors was elected on 27 March 2018 for the term of three years. 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 those forms were verified to its compliance and authenticity by the Company's Secretary and its legal counsel before being sent to the Capital Market Authority.

## Remuneration

### A. Directors Remuneration and Attendance Fee.

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

The total remuneration to the Directors was Nil.

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

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

| # | Name of Director | Total no. of meetings | Total Sitting fees paid in RO | Total Remuneration in RO |
|---|---|---|---|---|
| 1 | Mr. Wim Alen | 6 | 2,400 | 0.000 |
| 2 | Mr. Sami Abdullah Khamis Al Zadjali | 6 | 2,400 | 0.000 |
| 2 | Mr. Jeronimo Roura | 5 + ▶ | 2,000 | 0.000 |
| 4 | Mr. Salim Ali Hamed Al Hasni | 4+3 | 2,200 | 0.000 |
| 5 | Mr. Damien Sage | 5+3 | 2,600 | 0.000 |
| 6 | Mr. Hisham Salem Al Hadhrami | 5 | 2,000 | 0.000 |
| 7 | Mr. Kumail Majid Al Moosawi | 4 | 1,600 | 0.000 |
| 8 | Mr. Tashfen Yasin | 6+5+3 | 4,000 | 0.000 |
| 9 | Mr. Ravindranath Venna | 4 | 1,600 | 0.000 |
| 10 | Mr. Rodak Ali Iqbal | 5+5 | 3,000 | 0.000 |
| 11 | Mr. Zahran Salim Al Rashdi | 6+5 | 3,400 | 0.000 |
| 12 | Ms. Miriam Youssef Khalaf | 5 | 2,000 | 0.000 |
| | | TOTAL | 29,200 | 0,000 |

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

The Company will continue to pay sitting fee per Director per Board meeting amounting to RO 550 and per Audit Committee member per meeting of the Audit Committee amounting to RO 200, and per NRC member per meeting of NRC amounting to RO 200 in the year 2020, 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 177,810/-.

## 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 2019, it reviewed on behalf of the Board the effectiveness of internal control, met the internal auditor of the company, reviewed internal audit reports and the recommendations, met external auditors, and reviewed the audit findings.

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

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

On 3 March 2019, the Administrative Court issued its judgment, allowing the appeal in form and rejecting it in substance. After consulting with its legal advisor, the Company appealed against the judgment before the Administrative Court of Oman.

On 10 June 2019, the Administrative Appeals Court issued its judgment, allowing the appeal in form and rejecting it in substance. The company has restated its financial statements in accordance with Article 5 of the Capital Market Law

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

## Means of Communication with the Shareholder and Investors

Annual accounts and quarterly accounts are published on the 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 are also available. The website is www.soharpower.com

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

## Market Price Data

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

| *Month* | *Low Price (RO)* | *High Price (RO)* | *Average Price (RO)* | *MSM Index ( Service Sector )* |
|---|---|---|---|---|
| Jan | 0.111 | 0.112 | 0.112 | 2142.440 |
| Feb | 0.111 | 0.111 | 0.111 | 2083.120 |
| Mar | 0.109 | 0.110 | 0.110 | 1988.805 |
| Apr | 0.112 | 0.113 | 0.112 | 2034.375 |
| May | 0.108 | 0.108 | 0.108 | 1975.570 |
| Jun | 0.107 | 0.107 | 0.107 | 1915.505 |
| Jul | 0.099 | 0.099 | 0.099 | 1840.130 |
| Aug | 0.099 | 0.099 | 0.099 | 1876.550 |
| Sep | 0.091 | 0.091 | 0.091 | 1961.135 |
| Oct | 0.079 | 0.080 | 0.080 | 1910.140 |
| Nov | 0.064 | 0.065 | 0.064 | 1957.730 |
| Dec | 0.061 | 0.061 | 0.061 | 1889.710 |

## Distribution of Shareholding

The Shareholder pattern as on 31 December 2019:

| *Category of shareholders* | *Number of Shareholders* | *Total Shares* | *Share capital %* |
|---|---|---|---|
| Major Shareholders | 6 | 190,221,521 | 86.069 |
| Shareholders less than 5% more than 1% | 1 | 2,888,300 | 1.307 |
| Shareholders below 1% | 8,025 | 27,900,179 | 12.624 |
| **TOTAL** | **8,032** | **221,010,000** | **100.000** |

## Professional Profile of the Statutory Auditors

Our external auditors for the year ended 31 December 2019 were Baker Tilly MKM (Oman) LLC ("Baker Tilly Oman"). Baker Tilly Oman is a member of a group ("Baker Tilly JFC"), headquartered in Dubai, which operates 15 offices throughout the MENA region. The group and all its member firms are, in turn, part of Baker Tilly International, whose global office is in London, UK. Baker Tilly International is one of the top 10 largest firms of accountants in the world, with over 35,000 staff in 746 offices worldwide.

The audit fee paid to Baker Tilly Oman for the year ended 31 December 2019 was RO. 12,750.

## External Quality Assessment review ("EQA") of the Internal Audit Function (IAF)

Protiviti completed the External Quality Assessment review ("EQA") of the Internal Audit Function (IAF) at Sohar Power Company S.A.O.G. ("Sohar Power"). An EQA is required under the International Standards for the Professional Practice of Internal Auditing at least once every five years and four years as per CMA Circular 10/2018 issued in December 27, 2018. The review covered the following objectives:

- External Quality Assessment Review of IAF's conformity to the IIA Standards and Code of Ethics;
- Assessing IAF's efficiency and effectiveness in carrying out its responsibilities as per the Audit Charter.
- Benchmarking IAF with national and international standards of profession.
- Identifying opportunities to enhance IAF's work processes, resource management, as well as its value-add to Sohar Power.
- Evaluating the experience and skill sets of the IAF staff.

Overall, we found that Sohar Power Internal Audit Function Partially Conforms to the IIA Standards. Our report also describes areas where we believe that Sohar Power's Internal Audit activities are operating in an effective manner, opportunities that we see for continuous improvement and feedback from your key stakeholders. This information is consistent with our view that an EQA should provide beneficial insights for positive change in your function.

The Management along with Internal auditor have already put in place an implemention plan to close the audit observation starting from Q1 2020 and ensure the closure of audit points by 2021.

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

| Name | Sami Abdullah Khamis AL-ZADJALI – Vice Chairman |
|---|---|
| Year of Joining | 2012 |
| Education | Bachelor Degree in Accounting<br>Diploma in Information and Systems Management<br>Diploma in Social Insurance. |
| Experience  | Mr. Zadjali is working with Civil Services Employee Pension Fund for the last 21 years. He is presently Contribution Manager and a member of GCC committee for pension issues. |

| Name | Jeronimo ROURA |
|---|---|
| Year of Joining | 2013 |
| Education | MBA from IESE Business School, and a Bachelor in Business Administration from ESADE Business School. |
| Experience  | Jeronimo Roura joined MENA Infrastructure in June 2010 as Investment Director, became Managing Director in January 2013, and was CEO of MENA Infrastructure from 1 August 2014 until 19 June 2018. Mr. Roura has over 18 years of experience in infrastructure acquisitions and financing. Mr. Roura joined MENA Infrastructure from the GMR Group, where Mr. Roura was Head of Structured Finance for the international businesses, having previously worked for Abertis, the Spanish toll road operator as Head of Structured Finance, and previously for Citigroup in London as Vice President in the Infrastructure Team of the investment bank, and as Associate in the Structured Corporate Finance group with a focus on project finance. Mr. Roura has led a number of brownfield and greenfield transactions and financings in the infrastructure space, including roads, airports, and power generation, and has substantial experience in structuring, due diligence, financing and valuation. |

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

| Name | Damien Michel SAGE |
|---|---|
| Year of Joining | 2018 |
| Education | MSc in fluid mechanic, Engineer |
| Experience  | Engie Senior Asset Manager in GCC region 2016 to present- 2008 to 2016 ENGIE France, New business and stakeholder relation manager, Head of offshore wind farm development, Head of onshore wind farm development. |

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

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

| Name | Tashfen YASIN |
|---|---|
| Year of Joining | 2014 |
| Education | Chartered Accountant and Bachelors of Commerce. |
| Experience  | Tashfen Yasin is the Chief Executive Officer of Mena Infrastructure and serves on the Board of other portfolio companies. Prior to joining Mena Infrastructure, Tashfen worked at PwC in Dubai and Karachi. Tashfen has significant experience in infrastructure, financial planning and budgeting, investor, financial and regulatory reporting, valuations, financial due diligence, assurance and accounting for private equity companies, banks and financial services companies in the Middle East and Pakistan. |

| Name | Ravindranath VENNA |
|---|---|
| Year of Joining | 2017 |
| Education | Bachelor's degree in Mechanical Engineering and Master's degree in Business Management. |
| Experience  | 30 years of experience and knowledge about Commissioning, Establishment, Maintenance and Engineering aspects of power plants. He is proficient in Managing CSA's with corporates like GE and has an expertise in handling Major maintenances and Asset Management. Previously headed Engineering department at Tihama Power Gen group of four power plants in Saudi. He also has a prior experience working with several power plants in India–(Rolls Royce/GMR/PSEG/NFCL). Currently Leading Maintenance department for AZN O&M (combined cycle power plant 1500MW and 108MIGD of water desalination plant) in Kuwait. |

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

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

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

## BRIEF PROFILE OF MANAGEMENT TEAM

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

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

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

Brief profile of the current managerial team is as follows:

| Name | Mr. Ya'qoub Harbi Salim AL HARTHI |
|---|---|
| Year of Joining | 2019 |
| Education | Bachelor's degree in Mechanical Engineering from the Sultan Qaboos University |
| Experience  | Mr. Al Harthi has been associated with power plant operations and management in various power plants of ENGIE for over 17 years. He currently holds the position of Chief Executive Officer of Sohar Power Company SAOG, prior to this he was the CEO of Al Batinah Power Company SAOG. In 2015 he was appointed as CEO of Al Kamil Power Company SAOG. Prior to that he was the General Manager of Al Kamil Construction and Services LLC from early 2014. He has also worked in Rusail Power Station and Sohar 1 Power and Water Plant as Operations Manager for several years. |

| Name | Zoher KARACHIWALA |
|---|---|
| Year of Joining | Since inception of the Company in 2004 |
| Education | Chartered Accountant |
| Experience  | Currently Company Secretary of the Company and CEO of United Power Company SAOG Mr. Karachiwala was a Chief Financial Officer until June 2009. He also acts as Company Secretary for some of the GDF Suez (now ENGIE) group of companies in Oman. He has 43 years of experience in field of Statutory Audit & Accounting and Finance. He was KPMG Audit Partner in Pakistan before joining United Power Company in 1995. Acted as Honorary Chairman of Audit Committee and the Board of Directors for a public company in Oman. |

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

| Name | Khalifa AL KALBANI |
|---|---|
| Year of Joining | 2019 |
| Education | Bachelor's degree in Accounting and Finance from Manchester Metropolitan University, UK (1997). |
| Experience | Mr. Kalbani has an extensive career for more than 22 years in various sectors in which he held senior executive positions for more than 16 years in 6 sectors both the public sector and private sector in oil & gas, refineries, petrochemicals, metal and postal & logistics services.<br><br>Prior to this he held a CFO position in Oman Polypropylene, Oman Aluminum, Oman Post and worked in other organizations, including ORPIC, Oman Aromatics, Oman Gas Company and Ministry of Commerce & Industry. |

| Name | Salah Al Farsi |
|---|---|
| Year of Joining | Since inception of the Company in 2004 |
| Education | General Education Diploma |
| Experience  | Salah Al Farsi is the Administration Manager of the Company, he has accumulated 25 years of experience in administration activities, including management of spare parts logistics, liaisons with government organizations, licensing and permitting, translation activities and supervision of local insurance programs. |

BAKER TILLY
MKM (OMAN) LLC
Chartered Accountants

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Office No. 201, 2nd Floor, Musandam Building, 'B' Wing, Ruwi
P.O. Box : 994, Muscat, Postal Code 100, Sultanate of Oman

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

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

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of **SOHAR POWER COMPANY SAOG** (the Company), a public listed company registered under the Commercial Companies Law of 1974, as amended, (replaced by the Commercial Companies Law No. 18/2019) of the Sultanate of Oman, which comprise the statement of financial position as at **31 December 2019,** and the related statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **SOHAR POWER COMPANY SAOG** as at **31 December 2019,** and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

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

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

### Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters.

*Restatement due to recognizing operating lease revenue on a straight-line basis*

As mentioned in note 15a, the Company adopted the straight-line method for recognizing Capacity Investment Charge income under its operating lease arrangement during the year, which was previously recognized on an "as billed" basis. As a result, the billed revenue in excess of the straight-line revenue as at 1 January 2019 was deferred as a liability and will be transferred to revenue as the operating lease income is earned in accordance with the straight-line basis. This change in the policy has resulted in restatement in figures, relating to 31 December 2018 and 1 January 2018, presented as part of the current year's financial statements. We focused on this area because of materiality of the amounts involved and its technical nature.

Our audit procedures included checking the workings prepared by the Company relating to the restatement. We have checked calculations made by various independent consultants to determine the amount of revenue to be deferred in accordance with the straight-line basis of revenue recognition. We have also checked reasonableness of disclosures, presentation and classification of restated amounts in the financial statements of the Company for the current year.



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تليفون : ٢٤٧٩٧٤٤١ / ٢٤٧٨٧١٤٤ / ٢٤٧٨٧١٤٨، فاكس : ٢٤٧٩٦٦٦٠
بريد الإلكتروني: www.bakertillyjfc.com, oman@bakertillyjfc.com
س.ت: ١٠٩٤٠٠٧

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**INDEPENDENT AUDITOR'S REPORT**

**TO THE SHAREHOLDERS OF**
**SOHAR POWER COMPANY SAOG** *(continued)*

**Key Audit Matters** *(continued)*

*Expiry of Power and Water Purchase Agreement (PWPA)*

As mentioned in note 2a and note 5.3, the Company's existing long-term agreement for generation of electricity and production of water at Sohar (PWPA) is expected to expire by April 2022. The Company had submitted a binding bid for supply of electricity and water after end of the existing contract in early 2019. In the first phase of the process, the Company was pre-qualified for the supply of electricity. Therefore, the Company is participating in the second phase of the process, in which the off-taker has requested proposals from the selected companies. The final decision of the off-taker is expected in the middle of 2020.

As the Company did not pre-qualify for the supply of water, an impairment of RO 18.554 million was charged to the Water Desalination Plan as at 31 December 2018. However, as the final decision is still awaited, it is still uncertain whether the Company will be selected for supply of electricity after end of the existing contract. Therefore, there are chances that the Power Plant of the Company may also have been impaired. Nevertheless, even if the Company is not selected for the supply of electricity for a longer period, it still can sell electricity through Spot Market (i.e. a new initiative from the Governament to start purchasing certain quantity of electricty through daily/weekly/mothly bidding). However, it is uncertain that the Company will still be able to continue as a going concern without being selected for supply of electricity. The Company has appointed a market consultant for preparation of cash flow models, considering various scenarios under Spot Market for the remaining useful life of project assets after expiry of the PWPA in April 2022. The management has concluded that no impairment is required in value of the Power Plant as at 31 December 2019, as they expect the PPA contract to be extended beyond April 2022. We focused on this area because of materiality of the amounts involved and its technical nature.

Our audit procedures included discussions with the management relating to ability of the Company to continue as a going concern after April 2022. We also checked appropriateness of the management's assertion, including management's estimates and assumptions, relating to the Company's ability to continue as going concern after April 2022. We have also checked reasonableness of disclosures and presentation relating to the property, plant and equipment (particularly the Power Plant) and related impairment, if any, in the financial statements of the Company for the current year.

**Other Matter - Other Information included in the Annual Report for the year ended 31 December 2019**

The Management of the Company alongwith those charged with Governance are responsible for the *Other Information* included in the annual report or any other publication of the Company for the year ended 31 December 2019. *Other Information* includes anything included in the annual report or other publication in addition to the financial statements and audit report on those financial statements and the Company's compliance with the Code of Corporate Governance, for the year then ended.

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

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

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, the requirements of the Commercial Companies Law No. 18/2019 of the Sultanate of Oman, the guidelines issued by the Capital Market Authority and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



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**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF**
**SOHAR POWER COMPANY SAOG** *(continued)*

**Responsibilities of Management and Those Charged with Governance for the Financial Statements** *(continued)*

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



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**INDEPENDENT AUDITOR'S REPORT**

**TO THE SHAREHOLDERS OF**
**SOHAR POWER COMPANY SAOG** *(continued)*

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

**Report on Other Legal and Regulatory Requirements**

In our opinion, the financial statements of **SOHAR POWER COMPANY SAOG** as at **31 December 2019**, in all material respects, comply with the requirements of the Commercial Companies Law No. 18/2019 of the Sultanate of Oman and the relevant disclosure requirements for the public joint stock companies issued by the Capital Market Authority of the Sultanate of Oman.

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

Dariusz Solecki
**Baker Tilly MKM (Oman) LLC**
Muscat
26 February 2020



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# Statement of financial position

*as at 31 December 2019*

| | Notes | 31 Dec 2019 | 31 Dec 2018 (Restated) | 1 Jan 2018 (Restated) | 31 Dec 2019 | 31 Dec 2018 (Restated) | 1 Jan 2018 (Restated) |
|---|---|---|---|---|---|---|---|
| | | **RO (000)** | RO (000) | RO (000) | **USD (000)** | USD (000) | USD (000) |
| **ASSETS** | | | | | | | |
| **Non-current assets:** | | | | | | | |
| Property, plant and equipment | 5 | **93,630** | 105,373 | 130,584 | **243,196** | 273,697 | 339,179 |
| Right-of-use assets | 6 | **376** | - | - | **976** | - | - |
| **Total non-current assets** | | **94,006** | 105,373 | 130,584 | **244,172** | 273,697 | 339,179 |
| **Current assets** | | | | | | | |
| Inventories | | **705** | 766 | 727 | **1,831** | 1,989 | 1,888 |
| Trade and other receivables | 7 | **14,650** | 5,843 | 5,846 | **38,052** | 15,177 | 15,184 |
| Cash at bank and on hand | 8 | **4,998** | 7,911 | 9,298 | **12,982** | 20,548 | 24,151 |
| **Total current assets** | | **20,353** | 14,520 | 15,871 | **52,865** | 37,714 | 41,223 |
| **Total assets** | | **114,359** | 119,893 | 146,455 | **297,037** | 311,411 | 380,402 |
| **EQUITY AND LIABILITIES** | | | | | | | |
| **Shareholders' equity** | | | | | | | |
| Share capital | 9a | **22,101** | 22,101 | 22,101 | **57,405** | 57,405 | 57,405 |
| Legal reserve | 9b | **4,148** | 4,032 | 4,032 | **10,774** | 10,473 | 10,473 |
| Accumulated losses | | **(9,177)** | (10,216) | (124) | **(23,830)** | (26,529) | (316) |
| **Total shareholders' equity** | | **17,072** | 15,917 | 26,009 | **44,349** | 41,349 | 67,562 |
| Hedging reserve - net of tax | 10 | **(3,140)** | (3,514) | (6,163) | **(8,157)** | (9,127) | (16,008) |
| **Total capital and reserves** | | **13,932** | 12,403 | 19,846 | **36,192** | 32,222 | 51,554 |
| **current liabilities:** | | | | | | | |
| Hedging deficit | 10 | **4,152** | 4,365 | 7,423 | **10,785** | 11,337 | 19,281 |
| Non-current portion of long term loans | 11 | **57,777** | 67,091 | 78,124 | **150,070** | 174,262 | 202,919 |
| Non-current portion of lease liability | 6 | **236** | - | - | **613** | - | - |
| Provision for decommissioning costs | 12 | **1,676** | 1,577 | 1,483 | **4,353** | 4,096 | 3,852 |
| Non-current portion of deferred revenue | 15a | **1,881** | 3,414 | 4,687 | **4,886** | 8,868 | 12,174 |
| Deferred tax liability | 20b | **9,261** | 10,149 | 12,736 | **24,056** | 26,361 | 33,081 |
| **Total non-current liabilities** | | **74,983** | 86,596 | 104,453 | **194,763** | 224,924 | 271,307 |
| **Current liabilities:** | | | | | | | |
| Current portion of long term loans | 11 | **8,649** | 9,617 | 10,912 | **22,465** | 24,979 | 28,343 |
| Current portion of lease liability | 6 | **150** | - | - | **390** | - | - |
| Current portion of deferred revenue | 15a | **1,533** | 1,273 | 997 | **3,982** | 3,306 | 2,590 |
| Trade and other payables | 13 | **13,795** | 8,703 | 9,207 | **35,825** | 22,601 | 23,907 |
| Amount due to a related party | 14a | **235** | 474 | 1,040 | **610** | 1,231 | 2,701 |
| Provision for taxation | 20c | **1,082** | 827 | - | **2,810** | 2,148 | - |
| **Total current liabilities** | | **25,444** | 20,894 | 22,156 | **66,082** | 54,265 | 57,541 |
| **Total liabilities** | | **100,427** | 107,490 | 126,609 | **260,845** | 279,189 | 328,848 |
| **Total equity and liabilities** | | **114,359** | 119,893 | 146,455 | **297,037** | 311,411 | 380,402 |
| **Net assets per share** | 21 | **0.077** | 0.072 | 0.118 | **0.200** | 0.187 | 0.306 |

The financial statements set out on pages 42 to 78 were approved and authorized for issue by the Board of Directors on 26 February 2020 and were signed on its behalf by:

Chairman

Director

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

# Statement of profit or loss and other comprehensive income

*for the year ended 31 December 2019*

| | Notes | 31-Dec 2019 RO (000) | 31-Dec 2018 (Restated) RO (000) | 31-Dec 2019 USD (000) | 31-Dec 2018 (Restated) USD (000) |
|---|---|---|---|---|---|
| **Revenue** | 15b | **50,586** | 67,502 | **131,392** | 175,330 |
| Cost of revenue | 16 | **(43,069)** | (54,391) | **(111,868)** | (141,275) |
| **Gross profit** | | **7,517** | 13,111 | **19,524** | 34,055 |
| Other income | 17 | **287** | 220 | **745** | 571 |
| | | **7,804** | 13,331 | **20,269** | 34,626 |
| **EXPENSES** | | | | | |
| General and administrative expenses | 18 | **(828)** | (932) | **(2,151)** | (2,421) |
| Impairment relating to water desalination plant | | **-** | (18,554) | **-** | (48,192) |
| Finance costs | 16 | **(5,369)** | (5,713) | **(13,945)** | (14,840) |
| Total expenses | | **(6,197)** | (25,199) | **(16,096)** | (65,453) |
| Profit/(loss) before taxation | | **1,607** | (11,868) | **4,173** | (30,827) |
| Income tax (expense)/income | 20a | **(452)** | 1,776 | **(1,174)** | 4,613 |
| **Net profit/(loss) for the year** | | **1,155** | (10,092) | **2,999** | (26,214) |
| Other comprehensive income: | | | | | |
| Fair value gain on interest rate swaps | | **213** | 3,058 | **553** | 7,943 |
| Related taxation | | **(33)** | (460) | **(86)** | (1,195) |
| **Other comprehensive income for the year** | | **180** | 2,598 | **467** | 6,748 |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | | **1,335** | (7,494) | **3,446** | 19,446) |
| **Earnings/(losses) per share - basic and diluted** | 22 | **0.0052** | (0.0457) | **0.0136** | (0.1186) |

The financial statements set out on pages 42 to 78 were approved and authorized for issue by the Board of Directors on 26 February 2020 and were signed on its behalf by:

Chairman

Director

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

# Statement of changes in equity

*for the year ended 31 December 2019*

| | Share capital RO (000) | Legal reserve RO (000) | Accumulated losses RO (000) | Hedging reserve RO (000) | Total RO (000) | Total USD (000) |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2019:** | | | | | | |
| **Balance at 1 January 2019 (as restated)** | **22,101** | **4,032** | **(10,216)** | **(3,514)** | **12,403** | **32,222** |
| **Net profit for the year** | **-** | **-** | **1,155** | **-** | **1,155** | **2,999** |
| **Transfer to legal reserve** | **-** | **116** | **(116)** | **-** | **-** | **-** |
| **Other comprehensive income for the year** | **-** | **-** | **-** | **180** | **180** | **467** |
| **Ineffective portion of cash flow hedge (note 10)** | **-** | **-** | **-** | **194** | **194** | **504** |
| **Balance at the end of the year** | **22,101** | **4,148** | **(9,177)** | **(3,140)** | **13,932** | **36,192** |
| For the year ended 31 December 2018: | | | | | | |
| Balance at 31 December 2017 (as previously reported) | 22,101 | 3,911 | 5,024 | (6,163) | 24,873 | 64,611 |
| Restatement of previous years' revenue (note 15a) | - | 121 | (5,148) | - | (5,027) | (13,057) |
| Balance as at 1 January 2018 (as restated) | 22,101 | 4,032 | (124) | (6,163) | 19,846 | 51,554 |
| Net loss for the year (as restated) | - | - | (10,092) | - | (10,092) | (26,212) |
| Other comprehensive income for the year | - | - | - | 2,598 | 2,598 | 6,748 |
| Ineffective portion of cash flow hedge (note 10) | - | - | - | 51 | 51 | 132 |
| Balance at the end of the year (as restated) | 22,101 | 4,032 | (10,216) | (3,514) | 12,403 | 32,222 |

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

## Statement of cash flows

*for the year ended 31 December 2019*

| | Notes | 31 Dec 2019 RO (000) | 31 Dec 2018 (Restated) RO (000) | 31 Dec 2019 USD (000) | 31 Dec 2018 (Restated) USD (000) |
|---|---|---|---|---|---|
| **Operating activities:** | | | | | |
| Net profit/(loss) before taxation | | **1,607** | (11,868) | **4,173** | (30,827) |
| *Adjustments to net profit/(loss) before taxation to arrive at net cash flow from operating activities:* | | | | | |
| Depreciation | 5 | **11,779** | 6,750 | **30,595** | 17,532 |
| Impairment relating to desalination plant | 5 | **-** | 18,554 | **-** | 48,192 |
| Depreciation relating to right-of-use assets | 6 | **150** | - | **390** | - |
| Finance costs | 19 | **5,369** | 5,713 | **13,945** | 14,839 |
| Deferred revenue | 15b | **(1,273)** | (997) | **(3,306)** | (2,590) |
| Operating profit before changes in working capital | | **17,632** | 18,152 | **45,797** | 47,146 |
| **Movements in working capital:** | | | | | |
| Decrease/(increase) in inventories | | **61** | (39) | **158** | (101) |
| (Increase)/decrease in trade and other receivables | | **(8,807)** | 3 | **(22,875)** | 8 |
| Increase/(decrease) in trade and other payables | | **5,092** | (504) | **13,226** | (1,309) |
| (Decrease) in amount due to a related party | | **(239)** | (566) | **(621)** | (1,470) |
| Cash generated from operations | | **13,739** | 17,046 | **35,685** | 44,274 |
| Payment of finance costs | | **(4,994)** | (5,320) | **(12,970)** | (13,816) |
| Payment of income tax | 20c | **(1,118)** | (444) | **(2,904)** | (1,154) |
| **Net cash generated from operating activities** | | **7,627** | 11,282 | **19,811** | 29,304 |
| **Investing activities:** | | | | | |
| Purchase of property, plant and equipment | 5 | **(36)** | (93) | **(94)** | (242) |
| **Net cash (used in) investing activities** | | **(36)** | (93) | **(94)** | (242) |
| **Financing activities:** | | | | | |
| Net movement in long term loans | | **(10,504)** | (12,576) | **(27,283)** | (32,665) |
| **Net cash (used in) financing activities** | | **(10,504)** | (12,576) | **(27,283)** | (32,665) |
| **Net (decrease) in cash and cash equivalents** | | **(2,913)** | (1,387) | **(7,566)** | (3,603) |
| Cash and cash equivalents at the beginning of the year | | **7,911** | 9,298 | **20,548** | 24,151 |
| ***Cash and cash equivalents at the end of the year*** | 8 | **4,998** | 7,911 | **12,982** | 20,548 |

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

# Notes to the financial statements

*for the year ended 31 December 2019*

## 1 Legal status and principal activities:

**SOHAR POWER COMPANY SAOG** (the Company) was initially registered as a Closed Joint Stock Company under the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman (replaced by the Commercial Companies Law of 18/2019) on 17 July 2004, having been incorporated on 22 June 2004. The shareholders in their Extra-ordinary General Meeting held on 23 March 2008 resolved to convert the Company from a Closed Joint Stock Company into a Public Listed Joint Stock Company. The commercial operation date (COD) of the Company was determined to be 28 May 2007.

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

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

## 2 Significant agreements:

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

### *a. Power and Water Purchase Agreement (PWPA):*

Power and Water Purchase Agreement (PWPA) with the Government of the Sultanate of Oman (the Government) granting the Company the right to generate electricity and produce water at Sohar; and

(i) to make available to the Government the Guaranteed Contracted Power Capacity and the Guaranteed Contracted Water Capacity; and

(ii) to sell to the Government the Electrical Energy and Potable Water associated with the Guaranteed Contracted Power Capacity and the Guaranteed Contracted Water Capacity.

The Company has entered into a long-term power and water supply agreement with the Ministry of Housing, Electricity and Water (MHEW) of the Government for a period of fifteen years commencing from the scheduled COD of 28 May 2007 (i.e. the agreement will end by April 2022). On 1 May 2005, the PWPA was novated to Oman Power and Water Procurement Co. SAOC (OPWP), a closed joint stock company owned by the Government. All the financial commitments of OPWP are guaranteed by the Government.

### *b. Natural Gas Sales Agreement:*

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

### *c. Sub-usufruct Agreement:*

Sub-usufruct agreement with Sohar Industrial Port Company SAOC for the grant of usufruct rights over the project site for 15 years from 20 July 2004, with the option of a possible extension of 15 years.

### *d. Sea-water Extraction Agreement:*

Seawater Extraction Agreement with the Ministry of National Economy of the Government, to provide seawater inlet and reject facilities for the plant. The Seawater Extraction Agreement is co-terminus with the PWPA. This agreement was later novated to Majis Industrial Services SAOC (Majis Oman).

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

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

# Notes to the financial statements

*for the year ended 31 December 2019*

## *f. Financing Agreements:*

Financing agreements with lenders for long-term loan facilities.

## *g. Management Company Agreement:*

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

# 3 Basis of preparation:

## *a. Statement of compliance:*

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as promulgated by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Intrepretations Committee (the Committee), the requirements of the Commercial Companies Law of 18/2019 of the Sultanate of Oman and the Capital Market Law and relevant disclosures requirements for the public joint stock companies issued by the Capital Market Authority (CMA).

## *b. Basis of preparation:*

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

## *c. Functional currency:*

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

## *d. Adoption of new and revised International Financial Reporting Standards (IFRS):*

For the year ended 31 December 2019, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (the Committee) of the IASB that are relevant to its operations and effective for periods beginning on or after 1 January 2019.

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

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

# Notes to the financial statements
*for the year ended 31 December 2019*

## 3 Basis of preparation *(continued)*

### *d. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)*

*New and revised IFRS in issue and effective*

The following new and revised standards, improvements, amendments and interpretations issued are effective for the first time for periods beginning on or after 1 January 2019 and have been adopted in the preparation of these financial statements.

| | |
|---|---|
| • IFRS 16 | *Leases* |
| • Amendments to IFRS 9 | *Financial Instruments* |
| • Amendments to IAS 19 | *Employee Benefits* |
| • Amendments to IAS 28 | *Investments in Associates and Joint Ventures* |
| • IFRIC 23 | *Uncertainty Over Income Tax Treatments* |
| • Annual Improvements to IFRS Standards 2015-2017 Cycle: | |
| ▪ IAS 12 | *Income Taxes* |
| ▪ IAS 23 | *Borrowing Costs* |
| ▪ IFRS 3 | *Business Combinations* |
| ▪ IFRS 11 | *Joint Arrangements* |

The adoption of these new standards, improvements, amendments and interpretations did not have a material impact on the Company for the year ended 31 December 2019, except for the adoption of IFRS 16. The impact of the first time application of IFRS 16 is described in the notes below.

*New and revised IFRS in issue but not yet effective*

The following new accounting standards, improvements, interpretations and amendments have been issued, but are not mandatory until the dates shown, and hence have not been early adopted by the Company in preparing the financial statements for the year ended 31 December 2019. The Company intends to apply these standards from the application date as indicated below.

| | | |
|---|---|---|
| • IFRS 17 | *Insurance Contracts* | 1 January 2021 |
| • Amendments to IFRS 3 | *Business Combinations* | 1 January 2020 |
| • Amendments to IFRS 7 | *Financial Instruments: Disclosures* | 1 January 2020 |
| • Amendments to IAS 1 | *Presentation of Financial Statements* | 1 January 2020 |
| • Amendments to IAS 8 | *Accounting Policies, Changes in Accounting Estimates and Errors* | 1 January 2020 |
| • Amendment to IAS 39 | *Financial Instruments: Recognition and Measurement* | 1 January 2020 |
| • Amendments due to the Conceptual Framework: | | 1 January 2020 |

▪ Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.

Management anticipates that all of the above standards, improvements, interpretations and amendments will be adopted by the Company to the extent applicable from their effective dates. The adoption of these standards, improvements, interpretations and amendments is not expected to have a material impact on the financial statements of the Company in the year of their initial application.

# Notes to the financial statements
*for the year ended 31 December 2019*

IFRS 16 supersedes IAS 17 *Leases*; IFRIC 4 *Determining whether an Arrangement contains a Lease*; SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16, does not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application on 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Accordingly, the comparatives are not restated.

*Nature of effect of adoption of IFRS 16*

Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as operating lease.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The Company recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. For the leases previously classified as operating leases, the lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Practical expedients:

The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Impact on transition:

As at 1 January 2019, the Company recorded right-of-use assets of RO 526,000 and lease liabilities of RO 526,000 with an impact on retained earnings of RO Nil. Right-of-use assets are depreciated over their estimated useful life of three and half years, starting from 1 January 2019. When measuring lease liabilities, the Company discounted lease payments at implicit interest rate of 7.55% for OETC payments and 6% for land lease at 1 January 2019.

Reconciliation with operating lease commitments:

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

| | OETC<br>RO (000) | Land lease<br>RO (000) | **Total**<br>**RO (000)** |
|---|---|---|---|
| Operating lease commitments as at 31 December 2018 | 343 | 232 | 575 |
| Effect of discounting the above | (28) | (21) | (49) |
| | ------------- | ------------- | ------------- |
| Lease commitments as at 1 January 2019 | 315 | 211 | 526 |
| | ===== | ===== | ===== |

# Notes to the financial statements
*for the year ended 31 December 2019*

## 3 Basis of preparation *(continued)*

### e. *Restatement of financial statements due to change in revenue recognition policy:*

The Company was established to undertake a project to Build, Own and Operate ("BOO") a power station and water desalination plant at Sohar. The Company entered into a long-term Power and Water Purchase Agreement (PWPA) with Oman Power and Water Procurement Co. SAOC (OPWP) for a period of fifteen years commencing from the scheduled Commercial Operation Date of 28 May 2007. Such a project/arrangement falls within the scope of IFRIC 4 *Determining whether an arrangement contains a lease* which requires the Company to recognise revenue in accordance with IAS 17, i.e. to recognize operating lease revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the use benefit derived from the leased asset. However, since inception the Company has been recognising revenue as per the payment profile of the PWPA, i.e. on other than straight-line basis, considering it to be an alternative basis for revenue recognition under IAS 17.

The management has been of the view that recognising revenue on a straight-line basis will result in unfair presentation of the economic reality. However, the Capital Market Authority ("the CMA") had required the Company to recognise the operating lease revenue on a straight-line basis. As per the CMA, the Company had breached the requirements of IAS 17 by not recognising the operating lease revenue on a straight-line basis. The decision of the CMA highlighted the Company's violation of Article 5 of the Capital Market Law, "which requires regulated companies to prepare their balance sheets and financial statements in accordance with recognised accounting principles". The Company filed an appeal before the Administrative Court against the decision of the CMA. The Administrative Court has issued its final judgement in June 2019, rejecting the case and requiring the Company to fully comply with the decision. Subsequently, the management of the Company decided to change its revenue recognition policy and restate its financial statements in the current year in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* with retrospective effect, as summarized in note 15a.

## 4 Summary of significant accounting policies:

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

### a. *Property, plant and equipment:*

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

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

| | *General* | | *Water desalination plant* | | |
|---|---|---|---|---|---|
| | *31 Dec 19* | *31 Dec 18* | *31 Dec 19* | *31 Dec 18* | *Year 2018 and before* |
| Buildings | 30 years | 30 years | 15 years | 15 years | 30 years |
| Plant and machinery | 30 years | 30 years | 15 years | 15 years | 30 years |
| Technical parts | 30 years | 30 years | 15 years | 15 years | 30 years |
| Other assets | 4 years | 4 years | - | - | - |
| Decommissioning costs (asset) | 30 years | 30 years | - | - | - |

# Notes to the financial statements
*for the year ended 31 December 2019*

If there is any indication that there has been a significant change in the useful economic life of a particular asset, the depreciation of that asset is revised prospectively to reflect the new expectation.

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

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

## b. *Capital work in progress:*

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

## c. *Impairment of assets:*

*Financial assets*

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

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

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1");
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2"); and
- "Stage 3" which covers financial assets that have objective evidence of impairment at the reporting date.

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

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

In the prior years (i.e. before 2018), the impairment of trade receivables was based on the incurred loss model. Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivables that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

# Notes to the financial statements

*for the year ended 31 December 2019*

## 4 Summary of significant accounting policies *(continued)*

### c. *Impairment of assets: (continued)*

*Non-financial assets*

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

### d. *Dividends:*

Dividends are recognised as a liability in the period in which they are approved by the shareholders. The Board of Directors recommends to the shareholders the dividend to be paid out of the Company's retained earnings. The Directors take into account appropriate parameters including the requirements of the Commercial Companies Law No. 18/2019 of the Sultanate of Oman while recommending dividends. Dividends in earlier years were declared based on a different accounting basis for revenue recognition than the existing basis to recognize operating lease revenue on a straight-line basis.

### e. *Inventories:*

Inventories comprise fuel oils and are stated at the lower of cost and net realisable value. The cost of inventories is accounted for on the first-in first-out basis and includes all costs incurred in acquiring the inventory. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

### f. *Trade and other receivables:*

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

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

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

# Notes to the financial statements

*for the year ended 31 December 2019*

## g. *Cash and cash equivalents:*

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

## h. *Legal reserve:*

In accordance with the requirements of the Commercial Companies Law No. 18/2019 of the Sultanate of Oman, the Company transfers 10% of its net profit for the year to legal reserve until such time as the reserve amount equals one third of the fully paid-up share capital of the Company. This reserve is not available for distribution.

## i. *Trade payables:*

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

## j. *Provisions:*

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

*Provision for decommissioning costs*

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

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

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

## k. *Employees' termination benefits:*

*Defined contribution plan*

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

*Defined benefit plan*

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

# Notes to the financial statements

*for the year ended 31 December 2019*

## 4 Summary of significant accounting policies *(continued)*

### l. *Deferred revenue:*

The Power Capacity Investment Charge Rate and Water Capacity Investment Charge Rate in the PWPA has been structured in such a way that the investment tariff rates are reducing at a constant rate each year over the term of the agreement. The Company is recognizing Capacity Investment Charge income on a straight-line basis over the lease term. The billed revenue in excess of straight-line revenue is deferred as a liability. Deferred revenue is transferred to revenue as the operating lease income is earned in accordance with the straight-line basis. Deferred revenue is recorded as a non-current liability in the statement of financial position, except the amount expected to be transferred to revenue in the next twelve months, which is recorded as a current liability.

### m. *Revenue:*

Operating lease revenue is recognized on a straight-line basis over the lease term. In accordance with IFRS, revenue stemming from (substantial) services in connection with the leased asset is not considered as lease revenue and is accounted for separately.

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

### n. *Other income:*

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

### o. *Operating leases:*

*Lease policy before 1 January 2019*

An operating lease is an agreement whereby the lessor retains substantially all the risks and rewards incidental to ownership of an asset. Operating lease payments were recognised as an expense in the statement of profit or loss and other comprehensive income on straight-line basis over the lease term.

*Lease policy after 1 January 2019*

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

a) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

# Notes to the financial statements

*for the year ended 31 December 2019*

b) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. a change in future payments resulting from a change in index or rate used to determine such lease payments) or a change in the assessment to purchase the underlying asset.

c) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

### *p. Foreign currency transactions:*

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

### *q. Bank borrowings:*

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

### *r. Borrowing costs:*

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

# Notes to the financial statements

*for the year ended 31 December 2019*

## 4 Summary of significant accounting policies *(continued)*

### s. *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 profit or loss, except when they relate to items that are recognised in other comprehensive income, such as in which case the tax is also recognised in other comprehensive income.

### t. *Deferred financing costs:*

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

### u. *Financial liabilities:*

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

### v. *Derivative financial instruments:*

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

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument at the reporting date 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.

# Notes to the financial statements

*for the year ended 31 December 2019*

*Hedge accounting*

The Company designates the hedging instruments as fair value or cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Company documents whether the hedging instrument is highly effective in 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 other comprehensive income. The gains or losses relating to the ineffective portion is recognised immediately in profit or loss.

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

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

## *w. Directors' remuneration:*

The Company follows the Commercial Companies Law of 18/2019 of the Sultanate of Oman and other relevant directives issued by the Capital Markets Authority, in regard to determination of the amount to be paid as directors' remuneration. Directors' remuneration is charged to the statement of profit or loss and other comprehensive income in the year to which it relates.

## *x. Critical accounting judgments and key sources of estimation uncertainty:*

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

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

*Economic useful lives of property, plant and equipment*

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

*Credit losses relating to financial assets*

An assessment is made at each statement of financial position date to determine whether there is objective evidence that specific financial assets may be impaired. The Company uses the ECL model of IFRS 9 to determine/recognize credit losses relating to financial assets.

# Notes to the financial statements

*for the year ended 31 December 2019*

## 4 Summary of significant accounting policies *(continued)*

### *x. Critical accounting judgments and key sources of estimation uncertainty: (continued)*

The Company uses the simplified approach of IFRS 9 for impairment of trade receivables. Any provision required by application of this model will be recognised in profit or loss.

Trade receivables have been grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. At every reporting date, the default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between default rates, forecast economic conditions and ECLs require the use of estimates.

*Provisions for obsolete and slow moving inventories*

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

*Impairment of non-financial assets*

For non-financial assets, the Company assesses at each reporting date whether there is any indication that an asset may be impaired. If such indication exists, or when impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired.

*Going concern*

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

*Contingencies*

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

# Notes to the financial statements
*for the year ended 31 December 2019*

## 5 Property, plant and equipment:

| | Buildings RO (000) | Plant & machinery RO (000) | Technical parts RO (000) | Other assets RO (000) | Decommissioning costs (asset) RO (000) | Capital work in progress RO (000) | Total RO (000) | Total USD (000) |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **At 1 January 2019** | 7,027 | 189,435 | 5,032 | 26 | 777 | 269 | 202,566 | 526,146 |
| **Additions during the year** | - | 8 | 17 | - | - | 11 | 36 | 94 |
| **At 31 December 2019** | 7,027 | 189,443 | 5,049 | 26 | 777 | 280 | 202,602 | 526,240 |
| **Depreciation and impairment** | | | | | | | | |
| **At 1 January 2019** | 3,411 | 91,137 | 2,320 | 24 | 301 | - | 97,193 | 252,449 |
| **Depreciation for the year** | 409 | 11,045 | 298 | 1 | 26 | - | 11,779 | 30,595 |
| **At 31 December 2019** | 3,820 | 102,182 | 2,618 | 25 | 327 | - | 108,972 | 283,044 |
| **Net book value** | | | | | | | | |
| **At 31 December 2019** | 3,207 | 87,261 | 2,431 | 1 | 450 | 280 | 93,630 | 243,196 |

5.1 Land on which the power station, buildings and auxiliaries are constructed has been sub-leased from Sohar Industrial Port Company SAOC for a period of 15 years from the COD. The sub-lease is further extendable for another 15 years. Currently the lease rent is paid at the rate of approximately RO 65,000 (USD 168,000) per annum [31 December 2018: RO 65,000 (USD 168,000) per annum].

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

# Notes to the financial statements

*for the year ended 31 December 2019*

## 5 Property, plant and equipment: *(continued)*

| | Buildings RO (000) | Plant & machinery RO (000) | Technical parts RO (000) | Other assets RO (000) | Decommissioning costs (asset) RO (000) | Capital work in progress RO (000) | Total RO (000) | Total USD (000) |
|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | |
| At 1 January 2018 | 7,027 | 189,285 | 4,977 | 25 | 777 | 382 | 202,473 | 525,904 |
| Additions during the year | - | 35 | 55 | 1 | - | 2 | 93 | 242 |
| Transferred from CWIP | - | 115 | - | - | - | (115) | - | - |
| At 31 December 2018 | 7,027 | 189,435 | 5,032 | 26 | 777 | 269 | 202,566 | 526,146 |
| Depreciation and impairment | | | | | | | | |
| At 1 January 2018 | 2,529 | 67,375 | 1,687 | 23 | 275 | - | 71,889 | 186,725 |
| Depreciation for the year | 235 | 6,318 | 170 | 1 | 26 | - | 6,750 | 17,532 |
| Impairment (note 5.3) | 647 | 17,444 | 463 | - | - | - | 18,554 | |
| 48,192 | | | | | | | | |
| At 31 December 2018 | 3,411 | 91,137 | 2,320 | 24 | 301 | - | 97,193 | 252,449 |
| Net book value | | | | | | | | |
| At 31 December 2018 | 3,616 | 98,298 | 2,712 | 2 | 476 | 269 | 105,373 | 273,697 |

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

No impairment effect in the value of the Power Plant is considered as at the end of the year, as the management's main objective is to extend the PPA contract beyond April 2022.

## 5 Property, plant and equipment: *(continued)*

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

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| Cost of revenue (note 16) | **11,778** | 6,749 | **30,592** | 17,529 |
| General and administrative expenses (note 18) | **1** | 1 | **3** | 3 |
| | **11,779** | 6,750 | **30,595** | 17,532 |

## 6 Right-of-use assets and lease liability:

**Right-of-use assets**

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| At 1 January 2019 | **526** | - | **1,366** | - |
| Depreciation for the year (note 16) | **(150)** | - | **(390)** | - |
| | **376** | - | **976** | - |

**Lease liability**

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| At 1 January 2019 | **526** | - | **1,366** | - |
| Finance charges | **26** | - | **68** | - |
| Payments during the year | **(166)** | - | **(431)** | - |
| | **386** | - | **1,003** | - |
| **Current portion** | **(150)** | - | **(390)** | - |
| **Non-current portion** | **236** | **-** | **613** | **-** |

6.1 The right-of-use assets and the lease liability relate to two operating leases, i.e. lease of land and the electrical connection at Sohar Power Plant, 220 KV Grid Station. The Company has leased land from Sohar Industrial Port Company SAOC for a period of 15 years from 20 July 2004, with the option of a possible extension of 15 years. Moreover, the Company has also made an agreement with Oman Electricity Transmission Company SAOC for electrical connection of Sohar Power Plant with the Transmission System with effective date of 22 January 2006.

# Notes to the financial statements

*for the year ended 31 December 2019*

## 7 Trade and other receivables:

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| Trade receivables (note 7.1) | **13,418** | 5,115 | **34,852** | 13,286 |
| Advances and prepayments | **237** | 185 | **616** | 480 |
| Other receivables | **995** | 543 | **2,584** | 1,411 |
| | **14,650** | 5,843 | **38,052** | 15,177 |

7.1 Trade receivables are generally on 25 days credit terms. The ageing analysis of trade receivables as at end of the year was as follows:

| | | | | |
|---|---|---|---|---|
| Note past due | **2,137** | 5,115 | **5,551** | 13,286 |
| Past due by less than 90 days | **407** | - | **1,057** | - |
| Past due between 91-120 days | **1,334** | - | **3,465** | - |
| Past due between 121-150 days | **2,930** | - | **7,610** | - |
| Past due between 151-180 days | **3,230** | - | **8,390** | - |
| Past due between 181-210 days | **3,380** | - | **8,779** | - |
| | **13,418** | 5,115 | **34,852** | 13,286 |

7.2 All of the trade receivables relate to Oman Power and Water Procurement Company SAOC, the only customer of the Company. The management is confident that these outstanding balances will be settled shortly, therefore no allowance for credit losses has been accounted for. According to the management of the Company, the basis of their belief regarding complete recovery/settlement of the trade receivables is that the Company is not liable to pay trade payables amounting to RO 11,445,000 (note 13) until they receive money from the customer, pursuant to clause 8.6 of the Natural Gas Sales Agreement. Therefore, the management believe that there is no risk regarding recovery of past due receivables.

7.3 The maximum exposure to credit risk at the reporting date is the fair value of receivables mentioned above.

## 8 Cash and cash equivalents:

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| Bank balances - current accounts | **1,997** | 7,910 | **5,187** | 20,545 |
| Bank balances - short term deposits | **3,000** | - | **7,792** | - |
| Cash in hand | **1** | 1 | **3** | 3 |
| | **4,998** | 7,911 | **12,982** | 20,548 |

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

8.2 Short term deposits consist of RO 3 million placed with a commercial bank at an interest rate of 1.75% per annum, for a period of 3 months starting from 11 December 2019.

# Notes to the financial statements
*for the year ended 31 December 2019*

## 9 Share capital and reserves:

### 9a *Share capital*

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

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| Authorized share capital of 600,000,000 shares of RO 0.100 each | **60,000** | 60,000 | **156,000** | 156,000 |
| | ====== | ====== | ======= | ======= |
| Issued and fully paid-up share capital of 221,010,000 shares of RO 0.100 each | **22,101** | 22,101 | **57,405** | 57,405 |
| | ====== | ====== | ======= | ======= |

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

| **Name of the shareholder** | **Percentage shareholding 31 Dec 2019** | **Number of shares held 31 Dec 2019** | Percentage shareholding 31 Dec 2018 | Number of shares held 31 Dec 2018 |
|---|---|---|---|---|
| Kahrabel FZE, UAE | **35%** | **77,353,500** | 35% | 77,353,500 |
| MENA Sohar 1 SPV Ltd, UAE | **20%** | **44,202,000** | 20% | 44,202,000 |
| Civil Service Employees' Pension Fund, Oman | **15%** | **33,151,500** | 15% | 33,151,500 |
| | ====== | ========= | ====== | ========= |

### 9b *Legal reserve*

The legal reserve has been established in accordance with requirements of the Commercial Companies Law No. 18/2019 of the Sultanate of Oman, which requires 10% of a company's net profit to be transferred to a non-distributable legal reserve until the amount of the legal reserve is equal to one-third of the Company's fully-paid up share capital. During the current year, RO 116,000 was transferred to the legal reserve (31 December 2018: RO Nil).

### 9c *Dividend*

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

## 10 Hedging deficit and reserve:

### *Interest rate swaps*

The long-term loan facilities of the Company bear interest at USD LIBOR - 6 months plus applicable margins (refer note 11). In accordance with the term loan agreement, the Company has fixed the rate of interest through Interest Rate Swap Agreements (IRS) to hedge the risk of variation in USD LIBOR - 6 months for at least 95% of its loan facility until 31 March 2022. The corresponding hedged notional amount of the swaps at 31 December 2019 was approximately RO 74 million (USD 191 million) [31 December 2018: RO 82 million (USD 214 million)], bearing fixed interest rates of 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum [31 December 2018: 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum] excluding applicable margins.

# Notes to the financial statements

*for the year ended 31 December 2019*

## 10 Hedging deficit and reserve: *(continued)*

At 31 December 2019, the interest rate for USD LIBOR - 6 months was 2.60438% per annum (31 December 2018: 2.595380% per annum) whereas the Company has fixed interest on its borrowings as described above.

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| HSBC Bank Plc | **(415)** | (677) | **(1,078)** | (1,758) |
| Standard Chartered Bank | **(266)** | (393) | **(691)** | (1,021) |
| HSBC Bank Plc | **(618)** | (572) | **(1,605)** | (1,485) |
| Standard Chartered Bank | **(1,432)** | (1,376) | **(3,719)** | (3,573) |
| Credit Agricole Corporate and Investment Bank | **(1,421)** | (1,348) | **(3,691)** | (3,501) |
| Hedging deficit at the end of the year | **(4,152)** | (4,365) | **(10,784)** | (11,338) |
| Deferred tax (note 20) | **620** | 653 | **1,610** | 1,696 |
| Hedging reserve at the end of the year (net of tax) - before deducting the ineffective portion of cash flow hedge | **(3,532)** | (3,712) | **(9,174)** | (9,642) |
| Less: hedging reserve at the beginning of the year (net of tax) - before deducting the ineffective portion of cash flow hedge | **(3,712)** | (6,310) | **(9,642)** | (16,390) |
| Effective portion of change in the fair value of cash flow hedge for the year | **(180)** | (2,598) | **(468)** | (6,748) |

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

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| Hedging deficit at the beginning of the year | **(4,365)** | (7,423) | **(11,338)** | (19,280) |
| Change during the year | **213** | 3,058 | **553** | 7,943 |
| Hedging deficit at the end of the year | **(4,152)** | (4,365) | **(10,785)** | (11,337) |
| Ineffective portion of cash flow hedge (note 19) | **392** | 198 | **1,018** | 514 |
| Deferred tax (note 20) | **620** | 653 | **1,610** | 1,696 |
| Hedging reserve at the end of the year | **(3,140)** | (3,514) | **(8,157)** | (9,127) |

10.2 If the Company had terminated the IRS at 31 December 2019, it would have incurred losses of approximately RO 4.65 million (USD 12.09 million) [31 December 2018: RO 4.85 million (USD 12.59 million)]. However, under the terms of the loan agreements, the Company is not permitted to terminate the IRS.

10.3 In accordance with the requirements of IFRS 9, the hedge is tested on an ongoing basis (i.e. quarterly basis) for its effectiveness on the basis of clean fair values from the swap banks, and consequently effective and ineffective portions, if any, are recognised in other comprehensive income and profit or loss respectively.`

## Notes to the financial statements
*for the year ended 31 December 2019*

## 11 Long term loans:

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| Base facility | **56,267** | 65,077 | **146,148** | 169,031 |
| Repayment facility | **10,823** | 12,517 | **28,112** | 32,511 |
| Less: current portion of long term loans | **(8,649)** | (9,617) | **(22,465)** | (24,979) |
| | **58,441** | 67,977 | **151,795** | 176,563 |
| Less: deferred financing costs | **(664)** | (886) | **(1,725)** | (2,301) |
| Non-current portion of long term loans | **57,777** | 67,091 | **150,070** | 174,262 |

***Syndicated facilities***

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

***Base facility***

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

***Repayment facility***

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

***Interest***

The facilities bear interest at USD LIBOR - 6 months rates plus applicable margins. The margins vary depending upon the outstanding facilities.

***Commitment and other fees***

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

***Security***

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

## 11 Long term loans: *(continued)*

***Covenants***

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

***Cash sweep***

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

## 12 Provision for decommissioning costs:

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

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| At the beginning of the year | **1,577** | 1,483 | **4,096** | 3,853 |
| Un-winding of discount on decommissioning costs (note 19) | **99** | 94 | **257** | 243 |
| At the end of the year | **1,676** | 1,577 | **4,353** | 4,096 |

## 13 Trade and other payables:

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| Trade payables | **11,495** | 3,412 | **29,854** | 8,861 |
| Accruals and other payables | **2,300** | 5,291 | **5,971** | 13,740 |
| | **13,795** | 8,703 | **35,825** | 22,601 |

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

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

13.3 Accruals and other payables include RO 13,302 (USD 34,551) [31 December 2018: RO 12,168 (USD 31,605)] relating to end of service benefits (i.e. gratuity) of the expatriate staff.

# Notes to the financial statements
*for the year ended 31 December 2019*

## 14 Related party transactions and balances:

The Company enters into transactions with related parties in the ordinary course of business. These transactions are entered into on terms which the shareholders consider correspond to terms of normal arm's length transactions with third parties. The balances due from/to related parties are unsecured, bear no interest, have no fixed repayment terms and have been disclosed separately in the statement of financial position.

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| Key management remuneration | **178** | 191 | **462** | 496 |
| Directors' remuneration (note 18) | **-** | - | **-** | - |
| Directors' meeting attendance fees (note 18) | **29** | 27 | **76** | 71 |
| Services provided by Sohar Operations and Maintenance Co. LLC (SOMC) | **5,203** | 6,351 | **13,514** | 16,496 |
| Services provided by Power Management Co. LLC | | | | |
| -Management fees (note 18) | **154** | 154 | **400** | 400 |
| -Other administrative expenses | **283** | 313 | **735** | 813 |
| Services provided by Suez Tractebel S.A. | **148** | 148 | **384** | 384 |
| International Power S.A. - PS Guarantee fee | **319** | - | **829** | - |
| Electrabel S.A. - Guarantee fee | **57** | 60 | **148** | 156 |
| MENA Sohar 1 SPV Ltd - LC fee | **32** | 34 | **83** | 88 |
| SOGEX Oman LLC - LC fee | **9** | 8 | **23** | 21 |
| MOD Pension Fund - LC fee | **8** | 8 | **21** | 21 |
| | ====== | ====== | ====== | ====== |

A summary of the related party balances as at 31 December 2019 and 31 December 2018 was as follows:

### 14a Amount due to a related party

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| SOMC | **235** | 474 | **610** | 1,231 |
| | ====== | ====== | ====== | ====== |

## 15 Deferred revenue and revenue:

### 15a Deferred revenue

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 (Restated) RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 (Restated) USD (000) |
|---|---|---|---|---|
| At the beginning of the year | **4,687** | 5,684 | **12,174** | 14,764 |
| Transferred to revenue (note 15b) | **(1,273)** | (997) | **(3,306)** | (2,590) |
| At the end of the year | **3,414** | 4,687 | **8,868** | 12,174 |
| Less: Current portion of deferred revenue | **(1,533)** | (1,273) | **(3,982)** | (3,306) |
| Non-current portion of deferred revenue | **1,881** | 3,414 | **4,886** | 8,868 |
| | ======= | ======= | ======= | ======= |

# Notes to the financial statements

*for the year ended 31 December 2019*

## 15 Deferred revenue and revenue: *(continued)*

### *15a Deferred revenue (continued)*

***Restatement of financial statements due to change in revenue recognition policy***

During the year, the Company adopted the straight-line method for recognizing Capacity Investment Charge income under its operating lease arrangement, which was previously recognized on an "as billed" basis. The billed revenue in excess of straight-line revenue as at 1 January 2019 was deferred as a liability and will be transferred to revenue as the operating lease income is earned in accordance with the straight-line basis. Therefore, prior year figures in these financial statements have been restated as summarized below:

i) Due to recognizing revenue on a straight-line basis against the previous policy of recognizing revenue as per the payment profile of the PWPA (i.e. "as billed" basis), RO 5,683,450 has been recorded as deferred revenue (liability) in the financial statements of the Company as at 1 January 2018. Of the total liability of RO 5,683,450, RO 4,686,776 has been recorded as a non-current liability and RO 996,674 recorded as a current liability. RO 4,686,776 has been recorded as deferred revenue in the financial statements of the Company as at 31 December 2018. Of the total amount of RO 4,686,776, RO 3,413,298 has been recorded as a non-current liability and RO 1,273,478 recorded as a currently liability.

ii) Retained earnings of the Company as at 1 January 2018 have been reduced by RO 5,148,000 (including effect of decrease in tax of RO 657,000 and increase in legal reserve of RO 121,000 for year 2017) and accumulated losses of the Company as at 31 December 2018 have been increased by RO 4,301,000 (including effect of decrease in tax of RO 657,000 and increase in legal reserve of RO 121,000 for year 2017 and increase in tax of RO 150,000 for year 2018).

iii) Legal reserve of the Company as at 1 January 2018 and 31 December 2018 has been increased by RO 121,000 and retained earnings have been reduced by the same amount.

iv) The revenue reported in the financial statements of the Company for the year ended 31 December 2018 has been increased by RO 996,674 (due to change in the investment charge) and the same amount has been reduced from the deferred revenue.

v) The provision for taxation as at 1 January 2018 and 31 December 2018 has been decreased by RO 657,000 and RO 507,000 respectively, due to reduction in current tax charge for the year 2017 and increase in revenue of RO 996,674 for the year 2018 because of the change in revenue recognition policy.

vi) Current tax charge for the year ended 31 December 2018 has been increased by RO 150,000 and income tax reversal for the year ended 31 December 2018 has been decreased by the same amount.

# Notes to the financial statements

*for the year ended 31 December 2019*

The following is the summary of changes in the statement of financial position relating to the previous year:

| | 1 January 2018 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| Description | As published RO (000) | Restatement RO (000) | As restated RO (000) | As published RO (000) | Restatement RO (000) | As restated RO (000) |
| Retained earnings | 5,024 | (5,148) | (124) | (5,915) | (4,301) | (10,216) |
| Legal reserve | 3,911 | 121 | 4,032 | 3,911 | 121 | 4,032 |
| Deferred revenue-non-current portion | - | 4,687 | 4,687 | - | 3,414 | 3,414 |
| Deferred revenue-current portion | - | 997 | 997 | - | 1,273 | 1,273 |
| Provision for taxation | 657 | (657) | - | 1,334 | (507) | 827 |

The following is the summary of changes in the statement of profit or loss and other comprehensive income relating to the previous year:

| | 1 January 2018 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| Description | As published RO (000) | Restatement RO (000) | As restated RO (000) | As published RO (000) | Restatement RO (000) | As restated RO (000) |
| Revenue | 64,485 | 552 | 65,037 | 66,505 | 997 | 67,502 |
| Income tax expense/(reversal) | 3,582 | (657) | 2,925 | (1,926) | 150 | (1,776) |

## *15b Revenue*

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| Power and water revenue (as billed) | **49,313** | 66,505 | **128,086** | 172,740 |
| Transferred from deferred revenue (note 15a) | **1,273** | 997 | **3,306** | 2,590 |
| Total revenue (on a straight-line basis) | **50,586** | 67,502 | **131,392** | 175,330 |

15.1 Power and water revenue consists of fixed capacity charges and variable charges as well as fuel costs recovery.

# Notes to the financial statements

*for the year ended 31 December 2019*

## 16 Cost of revenue:

| | 31 Dec 2019 RO (000) | 31 Dec 2018 RO (000) | 31 Dec 2019 USD (000) | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| Fuel gas | **24,079** | 39,705 | **62,543** | 103,130 |
| Operating and maintenance costs | **5,203** | 6,351 | **13,514** | 16,496 |
| Depreciation (note 5) | **11,778** | 6,749 | **30,592** | 17,530 |
| Depreciation relating to right-of-use assets (note 6) | **150** | - | **390** | - |
| Sea water extraction costs | **770** | 786 | **2,000** | 2,042 |
| Other operating expenses | **1,089** | 800 | **2,829** | 2,078 |
| | **43,069** | 54,391 | **111,868** | 141,276 |

## 17 Other income:

| | | | | |
|---|---|---|---|---|
| Reimbursement of extra tax payable (note 20c) | **273** | 220 | **709** | 571 |
| Interest on short term deposits (note 8.2) | **14** | - | **36** | - |
| | **287** | 220 | **745** | 571 |

## 18 General and administrative expenses:

| | | | | |
|---|---|---|---|---|
| Management fees | **154** | 154 | **400** | 400 |
| Directors' meeting attendance fees and remuneration (note 14) | **29** | 27 | **76** | 71 |
| Legal and professional fees | **145** | 92 | **377** | 240 |
| Staff costs | **32** | 30 | **83** | 78 |
| Depreciation (note 5) | **1** | 1 | **3** | 3 |
| Other administrative expenses | **467** | 628 | **1,212** | 1,629 |
| | **828** | 932 | **2,151** | 2,421 |

## 19 Finance costs:

| | | | | |
|---|---|---|---|---|
| Interest on net settlement of swaps | **1,820** | 2,326 | **4,727** | 6,042 |
| Interest on Base facility | **2,264** | 2,379 | **5,880** | 6,180 |
| Interest on Repayment facility | **435** | 458 | **1,130** | 1,190 |
| Ineffective portion of cash flow hedge (note 10.1) | **194** | 51 | **504** | 132 |
| Other finance charges | **309** | 157 | **802** | 409 |
| Amortisation of deferred financing costs (note 11) | **222** | 248 | **577** | 644 |
| Unwinding of discount on decommissioning costs (note 12) | **99** | 94 | **257** | 243 |
| Finance charges relating to lease liability (note 6) | **26** | - | **68** | - |
| | **5,369** | 5,713 | **13,945** | 14,840 |

# Notes to the financial statements

*for the year ended 31 December 2019*

## 20 Taxation:

### *20a Current tax*

The Company is liable to income tax at the rate of 15% (2018: 15%) on its taxable profits, in accordance with the Income Tax Law of the Sultanate of Oman. For the purpose of determining the tax provision, the net profit for the year has been adjusted for tax purposes. The adjustments are made to certain items relating to expenses and are based on the current understanding of tax provisons and regulations.

| | **31 Dec 2019** | 31 Dec 2018 (Restated) | **31 Dec 2019** | 31 Dec 2018 (Restated) |
|---|---|---|---|---|
| | **RO (000)** | RO (000) | **USD (000)** | USD (000) |
| *Recognized in profit or loss* | | | | |
| Current tax charge | | | | |
| - Current year | **1,373** | 1,120 | **3,566** | 2,909 |
| - Restatemetn due to change in revenue recognition policy | - | 150 | - | 390 |
| - Prior year | - | 1 | - | 3 |
| | **1,373** | 1,271 | **3,566** | 3,302 |
| Deferred tax charge (net) | | | | |
| - Current year: | | | | |
| Origination and reversal of temporary differences | **(921)** | (3,047) | **(2,392)** | (7,915) |
| | **452** | (1,776) | **1,174** | (4,613) |
| *Recognized in other comprehensive income* | | | | |
| Deferred tax charge relating to interest rate swap | **33** | 460 | **86** | 1,195 |

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

| | **31 Dec 2019** | 31 Dec 2018 (Restated) | **31 Dec 2019** | 31 Dec 2018 (Restated) |
|---|---|---|---|---|
| | **RO (000)** | RO (000) | **USD (000)** | USD (000) |
| Profit/(loss) before taxation | **1,607** | (11,868) | **4,173** | (30,827) |
| Income tax as per rates mentioned above | **241** | (1,780) | **626** | (4,625) |
| Non-deductible expenses | **3** | 3 | **9** | 9 |
| Prior year - current tax | - | 1 | - | 3 |
| Prior year - deferred tax | **208** | - | **539** | - |
| Income tax expense/(income) | **452** | (1,776) | **1,174** | (4,613) |

# Notes to the financial statements

*for the year ended 31 December 2019*

## 20 Taxation: *(continued)*

### *20b Deferred tax*

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

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| *Recognized in the statement of financial position* | | | | |
| Deferred tax liability | **9,261** | 10,149 | **24,056** | 26,361 |
| | ======= | ======= | ======= | ======= |

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

| | At 31 December 2018 RO (000) | Recognised in profit or loss RO (000) | Recognised in other comprehensive income RO (000) | **At 31 December 2019 RO (000)** |
|---|---|---|---|---|
| Provisions | 329 | (194) | - | **135** |
| Fair value of hedging instruments | 653 | - | (33) | **620** |
| Depreciation / impairment | (11,131) | 1,113 | - | **(10,018)** |
| Right-of-use assets and lease liability | - | 2 | - | **2** |
| | (10,149) | 921 | (33) | **(9,261)** |
| | ======= | ====== | ====== | ======= |

| | At 31 December 2018 USD (000) | Recognised in profit or loss USD (000) | Recognised in other comprehensive income USD (000) | **At 31 December 2019 USD (000)** |
|---|---|---|---|---|
| Provisions | 852 | (504) | - | **348** |
| Fair value of hedging instruments | 1,700 | - | (86) | **1,614** |
| Depreciation / impairment | (28,914) | 2,891 | - | **(26,023)** |
| Right-of-use assets and lease liability | - | 5 | - | **5** |
| | (26,362) | 2,392 | (86) | **(24,056)** |
| | ======= | ====== | ====== | ======= |

### *20c Provision for taxation*

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 (Restated) RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 (Restated) USD (000) |
|---|---|---|---|---|
| Balance at the beginning of the year | **827** | 657 | **2,148** | 1,706 |
| Charge for the year | **1,373** | 1,120 | **3,566** | 2,909 |
| Additional tax for the year due to restatement | - | 150 | - | 390 |
| Prior year tax adjustment due to restatement | **-** | (656) | **-** | (1,704) |
| Payments during the year | **(1,118)** | (444) | **(2,904)** | (1,153) |
| Balance at the end of the year | **1,082** | 827 | **2,810** | 2,148 |
| | ====== | ====== | ====== | ===== |

# Notes to the financial statements
*for the year ended 31 December 2019*

## 20 Taxation: *(continued)*

### 20c Provision for taxation *(continued)*

As at 31 December 2018, provision for taxation (i.e. tax payable by the Company as at 31 December 2018) was reduced by RO 506,000 (USD 1,314,000) because of restatement of the financial statements due to change in revenue recognition policy of the Company. However, it is to be noted that final tax return of the Company for the financial year 2018 was filed declaring tax payable for the year of RO 1,120,000 (USD 2,909,000). The amount of tax payable by the Company as at 31 December 2018, without taking into account the restatement, would have been RO 1,333,000 (USD 3,462,000). The Company has not filed the revised tax return for the financial 2018 and this adjustment amount is yet to be agreed by the Secretariat General for Taxation of the Sultanate of Oman.

The taxation charge for the year includes an estimated amount of RO 0.273 million (USD 0.709 million) [2018: RO 0.220 million (USD 0.571 million)] which will subsequently be reimbursed by Oman Power and Water Procurement Co. SAOC (OPWP) according to an agreement between the Company and OPWP. As per a letter from OPWP captioned "Material adverse change claim due to changes in the Income Tax Law", dated 21 December 2016, OPWP agreed to reimburse the Company, throughout the term of the PWPA, for extra tax payable due to an increase in tax rates from 12% to 15%, applicable from year 2017 and onwards.

### 20d Status of tax assessments

The Company has filed annual tax returns up to the year ended 31 December 2018. The Company's tax assessments from the year ended 31 December 2014 to the year ended 31 December 2018 have not been finalized by the Secretariat General for Taxation of the Sultanate of Oman. The management believe that amount of additional taxes, if any, that may become payable in relation to the tax years for which assessments are pending would not be material to the Company's financial position as at 31 December 2019.

## 21 Net assets per share:

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

| | **31 Dec 2019** | 31 Dec 2018 (Restated) | **31 Dec 2019** | 31 Dec 2018 (Restated) |
|---|---|---|---|---|
| Shareholders' equity {RO (000)/USD (000)} | **17,072** | 15,917 | **44,350** | 41,349 |
| Number of issued and fully paid-up shares at the end of the year | **221,010** | 221,010 | **221,010** | 221,010 |
| Net assets per share {RO (000)/USD (000)} | **0.077** | 0.072 | **0.200** | 0.187 |

# Notes to the financial statements

*for the year ended 31 December 2019*

## 22 Basic and diluted earnings per share:

Basic earnings per share is calculated by dividing the net profit for the period with the weighted average number of shares outstanding during the period. There are no dilution effects.

| | **31 Dec 2019** | 31 Dec 2018 (Restated) | **31 Dec 2019** | 31 Dec 2018 (Restated) |
|---|---|---|---|---|
| Net profit/(loss) for the year {RO (000)/USD (000)} | **1,155** | (10,092) | **2,999** | (26,214) |
| Weighted number of shares outstanding during the year | **221,010** | 221,010 | **221,010** | 221,010 |
| Basic and diluted earnings/(losses) per share {RO (000)/USD (000)} | **0.0052** | (0.0457) | **0.0136** | (0.1186) |

## 23 Lease commitments:

The land on which the Sohar Power and Water Plant is constructed, has been leased from Sohar Industrial Port Company SAOC for a period of 15 years from 20 July 2004. At the end of the year, future minimum lease commitments under non-cancellable operating leases were as follows:

| | **31 Dec 2019 RO (000)** | 31 Dec 2018 RO (000) | **31 Dec 2019 USD (000)** | 31 Dec 2018 USD (000) |
|---|---|---|---|---|
| Within 1 year | **66** | 65 | **171** | 168 |
| Between 1 and 5 years | **102** | 145 | **264** | 378 |
| | **168** | 210 | **435** | 546 |

## 24 Contingent liabilities:

There were no contingent liabilities outstanding as at 31 December 2019 (31 December 2018: RO Nil).

## 25 Capital risk management:

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

The capital structure of the Company consists of share capital, reserves and retained earnings. The Company manages its capital by making adjustments to dividend payments and bringing in additional capital in the light of changes in business conditions. No changes were made in the objectives, policies and processes during the year ended 31 December 2019 and year ended 31 December 2018.

# Notes to the financial statements
*for the year ended 31 December 2019*

## 26 Financial risk management:

***Financial assets and liabilities***

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

***Risk management***

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

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

*Market risk:*

(i) Foreign exchange risk

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

The Company is exposed to currency risk on bank borrowings that are denominated in a currency other than the functional currency of the Company. These transactions are denominated in United States Dollar (USD). In respect of the Company's transactions denominated in USD, the management believe that the Company is not materially exposed to currency risk as the RO is effectively pegged to the USD and as the revenues of the Company are protected against foreign exchange fluctuation, by a provision under the PWPA. At the end of the reporting period, the Company had bank balances denominated in USD amounting to RO 0.00825 million (USD 0.0214 million) [31 December 2018: RO 0.01304 million (USD 0.0339 million)].

(ii) Interest rate risk

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

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

(iii) Price risk

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

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

# Notes to the financial statements
*for the year ended 31 December 2019*

## 26 Financial risk management: *(continued)*

*Credit risk:*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables. At the end of the year, the entire trade receivables were from a government owned company (OPWP). The management therefore considers the credit risk associated with trade receivables to be very low. Furthermore, cash is placed with reputable banks, with good credit ratings, which further minimizes the credit risk.

The age analysis of current trade and other receivables is as follows:

| | **31 December 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Receivables RO (000)** | **Provision RO (000)** | Receivables RO (000) | Provision RO (000) |
| Not past due (up to 30 days) | **2,137** | **-** | 5,115 | - |
| Past due up to 210 days | **11,281** | - | - | - |
| | **13,418** | - | 5,115 | - |
| Not past due (up to 3 months) | **5,551** | **-** | 13,286 | - |
| Past due up to 210 days | **29,301** | - | - | - |
| | **34,852** | - | 13,286 | - |

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

**31 December 2019**

| | Carrying value RO (000) | Contractual cash flows RO (000) | Less than 6 months RO (000) | 6 to 12 months RO (000) | 1 to 2 years RO (000) | 2 to 5 years RO (000) | More than 5 years RO (000) |
|---|---|---|---|---|---|---|---|
| ***Non-derivative financial liabilities (A)*** | | | | | | | |
| Secured bank loans | 66,503 | 67,090 | 3,038 | 5,807 | 9,232 | 49,013 | - |
| Trade, other and related party payables | 14,030 | 14,030 | 14,030 | - | - | - | - |
| ***Derivative financial liabilities (B)*** | | | | | | | |
| Interest rate swaps used for hedging | 4,152 | 4,653 | 1,091 | 1,879 | 1,683 | - | - |
| **Total (A+B)** | 84,685 | 85,773 | 18,159 | 7,686 | 10,915 | 49,013 | - |

# Notes to the financial statements
*for the year ended 31 December 2019*

| | Carrying value USD (000) | Contractual cash flows USD (000) | Less than 6 months USD (000) | 6 to 12 months USD (000) | 1 to 2 years USD (000) | 2 to 5 years USD (000) | More than 5 years USD (000) |
|---|---|---|---|---|---|---|---|
| ***Non-derivative financial liabilities (A)*** | | | | | | | |
| Secured bank loans | **172,735** | **174,260** | **7,890** | **15,082** | **23,980** | **127,308** | - |
| Trade, other and related party payables | **36,441** | **36,441** | **36,441** | - | - | - | - |
| ***Derivative financial liabilities (B)*** | | | | | | | |
| Interest rate swaps used for hedging | **10,784** | **12,088** | **2,837** | **4,881** | **4,370** | - | - |
| **Total (A+B)** | **219,960** | **222,789** | **47,168** | **19,963** | **28,350** | **127,308** | - |

## 31 December 2018

| | Carrying value RO (000) | Contractual cash flows RO (000) | Less than 6 months RO (000) | 6 to 12 months RO (000) | 1 to 2 years RO (000) | 2 to 5 years RO (000) | More than 5 years RO (000) |
|---|---|---|---|---|---|---|---|
| *Non-derivative financial liabilities (A)* | | | | | | | |
| Secured bank loans | 76,708 | 77,594 | 4,007 | 5,612 | 8,844 | 59,131 | - |
| Trade, other and related party payables | 9,177 | 9,177 | 9,177 | - | - | - | - |
| *Derivative financial liabilities (B)* | | | | | | | |
| Interest rate swaps used for hedging | 4,365 | 4,845 | 1,286 | 644 | 2,666 | 249 | - |
| Total (A+B) | 90,250 | 91,616 | 14,470 | 6,256 | 11,510 | 59,380 | - |

| | Carrying value USD (000) | Contractual cash flows USD (000) | Less than 6 months USD (000) | 6 to 12 months USD (000) | 1 to 2 years USD (000) | 2 to 5 years USD (000) | More than 5 years USD (000) |
|---|---|---|---|---|---|---|---|
| *Non-derivative financial liabilities (A)* | | | | | | | |
| Secured bank loans | 199,241 | 201,543 | 10,408 | 14,576 | 22,972 | 153,587 | - |
| Trade, other and related party payables | 23,832 | 23,832 | 23,832 | - | - | - | - |
| *Derivative financial liabilities (B)* | | | | | | | |
| Interest rate swaps used for hedging | 11,337 | 12,587 | 3,344 | 1,672 | 6,924 | 647 | - |
| Total (A+B) | 234,410 | 237,962 | 37,584 | 16,248 | 29,896 | 154,234 | - |

## 26 Financial risk management: *(continued)*

***Capital management***

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

***Capital commitments***

Total amount of capital commitments outstanding as at 31 December 2019 was RO 28,464 (USD 73,932) [31 December 2018: RO 17,749 (USD 46,101)].

## 27 Fair value measurement:

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

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

The fair value of derivative financial liabilities (interest rate swaps) with a carrying value of RO 4.15 million (USD 10.78 million) [31 December 2018: RO 4.36 million (USD 11.33 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 the Level 2 hierarchy. There were no transfers between the Level 1 and Level 2 hierarchies in the current year.

## 28 Comparative figures:

Certain balances from the previous year have been re-classified to conform to the current year presentation. Restatement of comparative figures due to change in revenue recognition policy of the Company has been presented in note 15a.

## 29 Subsequent events:

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

## 30 Approval of the financial statements:

These financial statements were approved and authorised for issue by the Board of Directors on 26 February 2020.