صحار للطاقة
SOHAR POWER

ANNUAL REPORT 2017

POWERING THE FUTURE OF OMAN

HIS MAJESTY SULTAN QABOOS BIN SAID

ANNUAL REPORT – 2017

Contents

BOARD OF DIRECTORS AND MANAGEMENT

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

KEY EXECUTIVE OFFICERS

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

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

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors of Sohar Power Company SAOG ("Sohar Power" or the "Company"), I am glad to present you with the thirteenth Annual Report of the Company for the year ended 31 December 2017, corresponding to the eleventh 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 is listed on the Muscat Securities Market since 2008.

The year 2017 has seen excellent Health and Safety performance for Sohar Power. There was no Loss Time Injury (LTI), accumulating at the end of the year 1797 days without LTI. 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 plant was operated reliably during the period. An aggregate net power quantity of 3,320 GWh and a total volume of desalinated water of 46,539,164 m3 were delivered, as a consequence of the lower demand for power and higher demand for water and of the improved performance of the plant, when compared to 2016.

The plant achieved 98.8% reliability for power and 98.9% for water in 2017. Forced outages amounted to 1.2% for the power plant and 1.1% for the water plant, reflecting the excellent operational performance during the year.

The Contract Year number 11 started on 01 April 2017. The annual performance test was successfully undertaken demonstrating to OPWP the guaranteed capacity of the plant on both fuel gas and fuel oil.

In terms of maintenance, the Company was able to undertake the required annual maintenance activities of its key equipment during the 2016-2017 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.

The demand for power has decreased in 2017 when compared with 2016 as a result of dispatch priority given to more efficient plants but remained high for water during the year. Accordingly, the load factors of the plant reached 64.8% for power (72.0% in 2016) and 85.0% for water (80.8% in 2016).

During the year 2017 Sohar Power started implementing the recommendations of the energy audit undertaken in 2016, the outcome of which, in the future, is expected to enhance the thermal efficiency and reduce the internal power consumption of the plant.

The focus on energy efficiency and monitoring of operations with a view to minimise input natural gas is an ongoing effort. During the year, an online software was developed that should enable operators to determine, in real time, whether the operations of the Plant are in line with optimum design efficiency at any given configuration.

In addition, and following the outcome of the assessment of efficacy of technical operations and maintenance processes at site, actions are being implemented to improve the 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 is proud to announce that the Company has ended the year with a net profit of RO 2.030 million.

In comparison, the profit for the year 2016 amounted to RO 4.543 million. The decrease in net profit in 2017 is explained by the increase in income tax expense due to the increase in tax rate from 12% to 15%.

The revenues for the year 2017 amount to RO 64.5 million as against RO 66.3 million for the year 2016, decreased mainly by the reduction in revenue from gas which is a pass-through income (financially neutral to the company) together with the contractual decrease in tariff rate.

The direct costs have also decreased over the period from RO 53.7 million in 2016 to RO 52.2 million in 2017, mainly reflecting the decrease in gas consumption.

Long-term loans were repaid and swaps were settled on their due dates. The hedging deficit on Company's swap agreements, at the close of business at 31 December 2017 was RO 8.2 million, in comparison with valuations as of 31 December 2016 of RO 11.6 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 0.8 million in 2017 in comparison to 2016 is associated with debt repayments during the year and compensates for the decrease in tariff rate while contributing to the net profit of the Company.

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 long-term loans. This mechanism prevents distribution of dividend to shareholders since all the available cash is deployed to the repayment of the loans. As previously disclosed, the pay out of dividends ended in 2016 and there will be no more dividend distributions to shareholders until the debt of the Company is restructured and the cash sweep is successfully dealt with.

As a consequence of the cash sweep and the inability of the Company to distribute dividends, the share price dropped from RO 0.230 to RO 0.150 during the year.

Following the decision issued by the Executive President of the Capital Market Authority (Decision No. 6/2017) dated 22 August 2017 ("Decision") warning the Company that it is in violation of Article 5 of the Capital Market Law, the Company filed an appeal against this decision with CMA Appeal Committee. In its decision announced on 27 November 2017, the Appeal Committee of CMA accepted the appeal in form and cancelled the CMA's Decision in substance. The underlying issue with CMA had arisen from divergences of views amongst auditing firms about the accounting treatment adopted by the Company in recognizing its revenues. However the Company has consistently applied the same accounting treatment since the beginning of the project and adequately disclosed such accounting treatment information to its shareholders and the investors' community.

Subsequent to year-end, the Company was notified that CMA has referred this matter de novo to its Disciplinary Committee. Thereafter, the company attended a hearing before the Disciplinary Committee. The outcome of the proceedings remains unknown at the time of preparation of this report.

There are no legal proceedings against the company as of 31 December 2017.

Corporate Governance

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

The appraisal of the Board was conducted during the year 2017 by an independent consultant, appointed at the AGM held on 29th March 2017. Based on the criteria approved at the AGM, an appraisal was done of the Board and its committees. The report of the consultant was received by the Chairman of the Board. The appraisal concluded that the Board performance was satisfactory during the year and has been effective in meeting Board's objectives. Certain improvements were recommended and action on these is being considered by the Board.

Employment

Pursuing their continued efforts to develop, train and employ Omanis, the Company and its operator have improved the employment of Omanis in the project from 74% in 2016 to 77% at the end of 2017.

Corporate Social Responsibility

In 2017, the Company further extended its support to local community and municipality projects mainly in North Batinah Governorate, while focusing on education, health and safety, social development and environment protection. Sohar Power was able to contribute to local projects intended for the local communities and the people of the Sultanate of Oman, through financial contributions to local initiatives amounting to RO 17,784 in 2017.

Outlook for 2018

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

OPWP clarified in 2017 their new procurement process for contracting power capacity with effect from 2022, together with the new spot market rules that will apply in 2022 for generators, in a merchant market condition, i.e., without Power and Water Purchase Agreement. During the year 2018, the Company will engage in this '2022 Power Procurement process' with the objective of successfully bidding and securing a new PWPA with OPWP with effect from 2022.

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

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

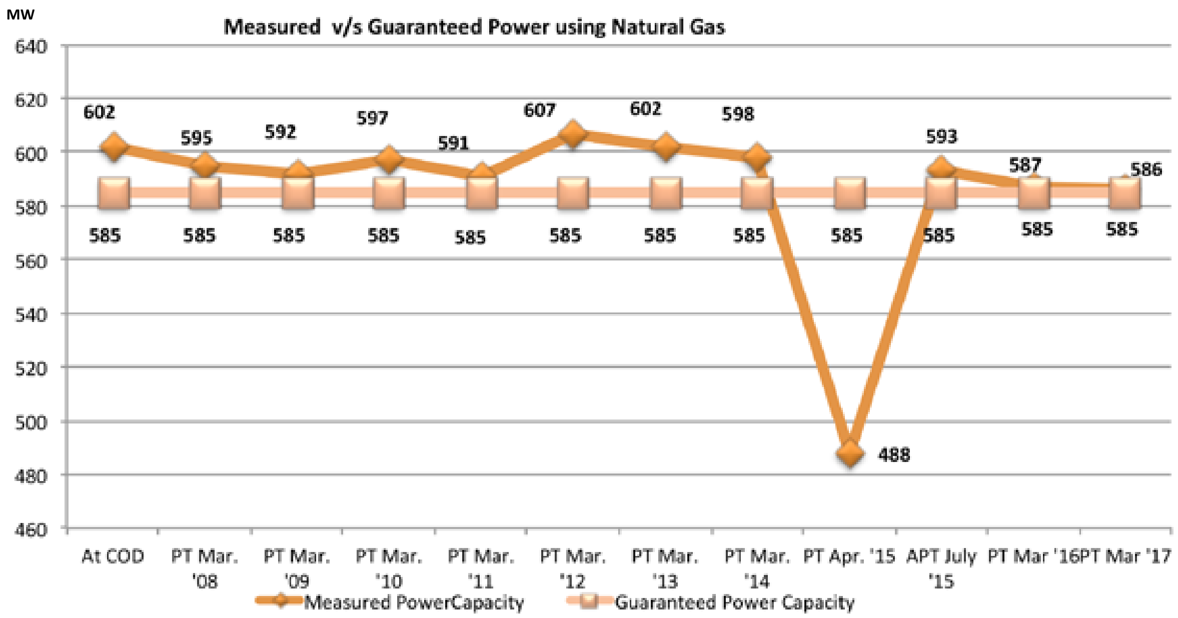
May Allah protect them all.

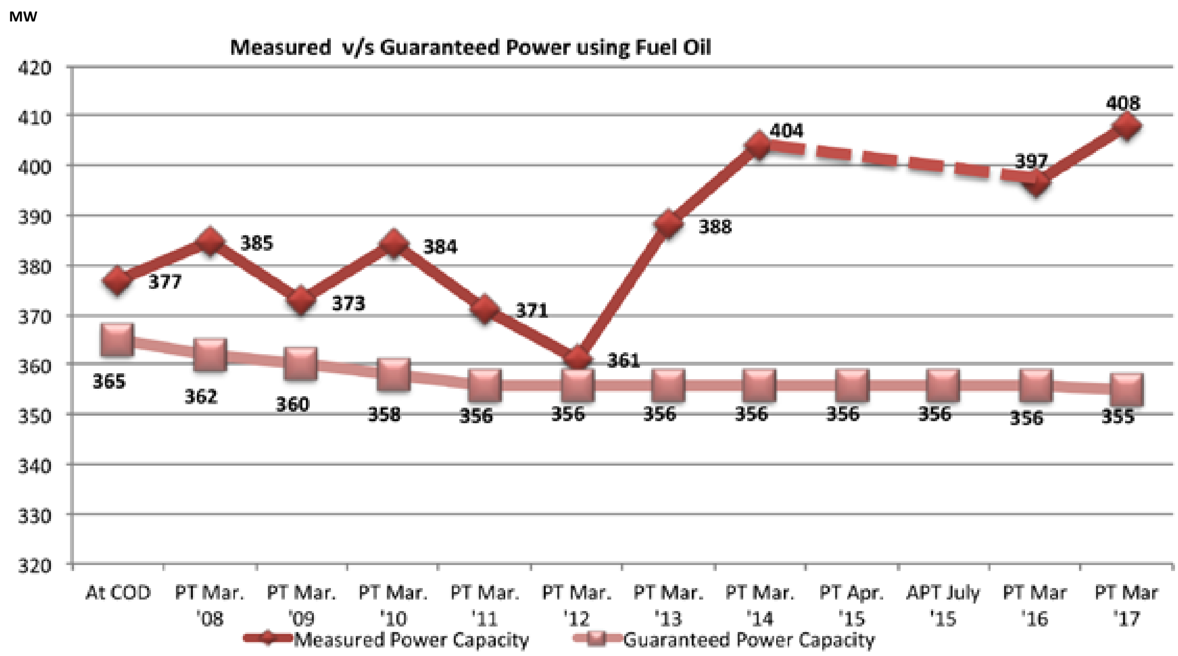
Saif Abdullah Al Harthy
Chairman of the Board

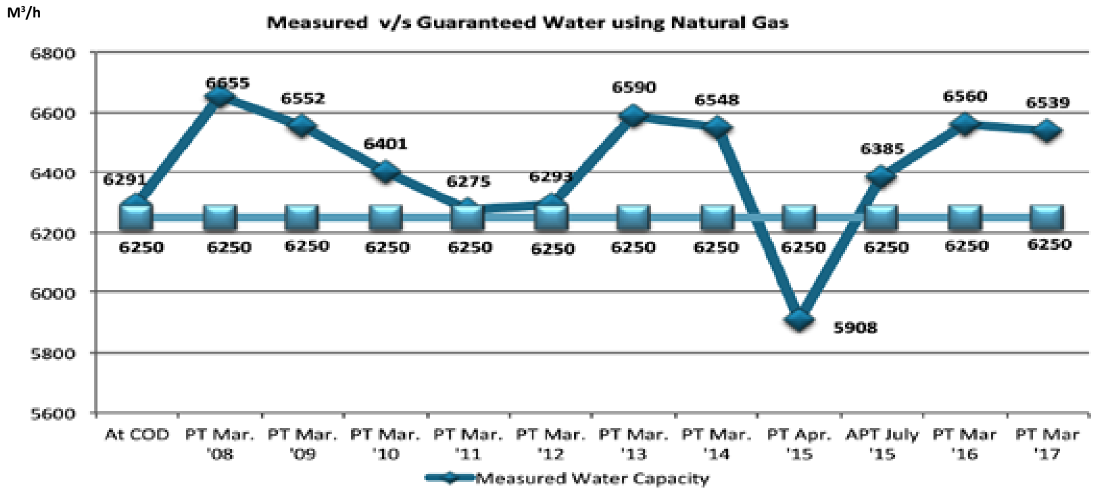
OPERATIONAL HIGHLIGHTS

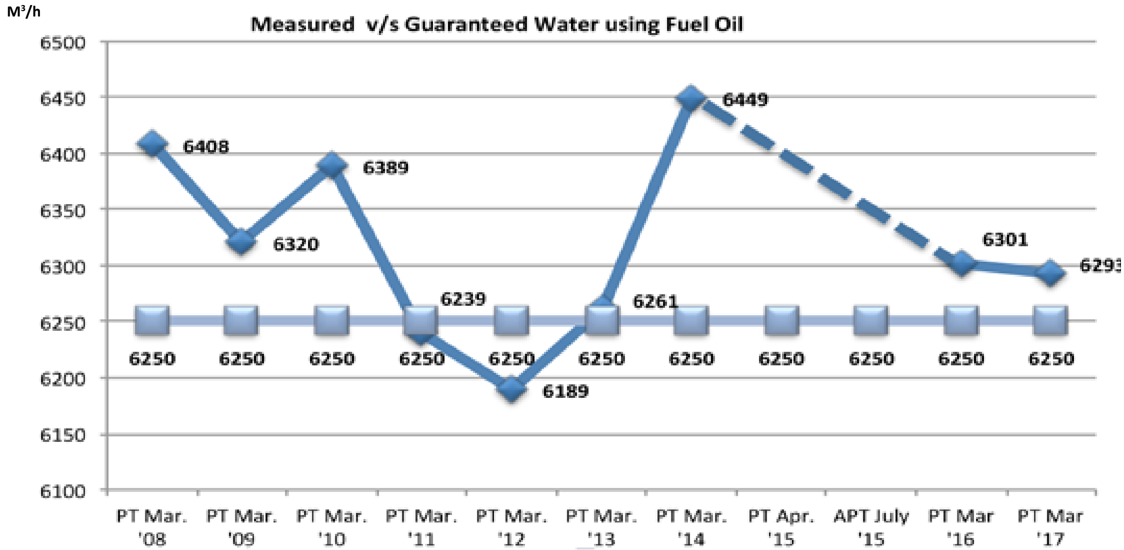
Capacity

The capacity of a plant is defined as the total electrical power (in MW) and water (in m^3/day), which can be delivered by the plant under specific environmental conditions (Reference Site Conditions). The contractual capacity of Sohar plant is 585 MW and 6,250 m^3/hr, constant over the 15 years period of the PWPA.









Note : In 2015, the Performance Test on Natural Gas could not achive the guaranteed capibilities because of HRSG#2 contamination issue, as a consequence of which the plant was derated. 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 2017 was 4,682.4 GWh which works to an availability of 91.4%. The total water made available during 2017 was 51,900,295 m^3 which works to an availability of 94.8%.

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 2017 the plant achieved reliability of 98.8% for power and 98.9% for water.

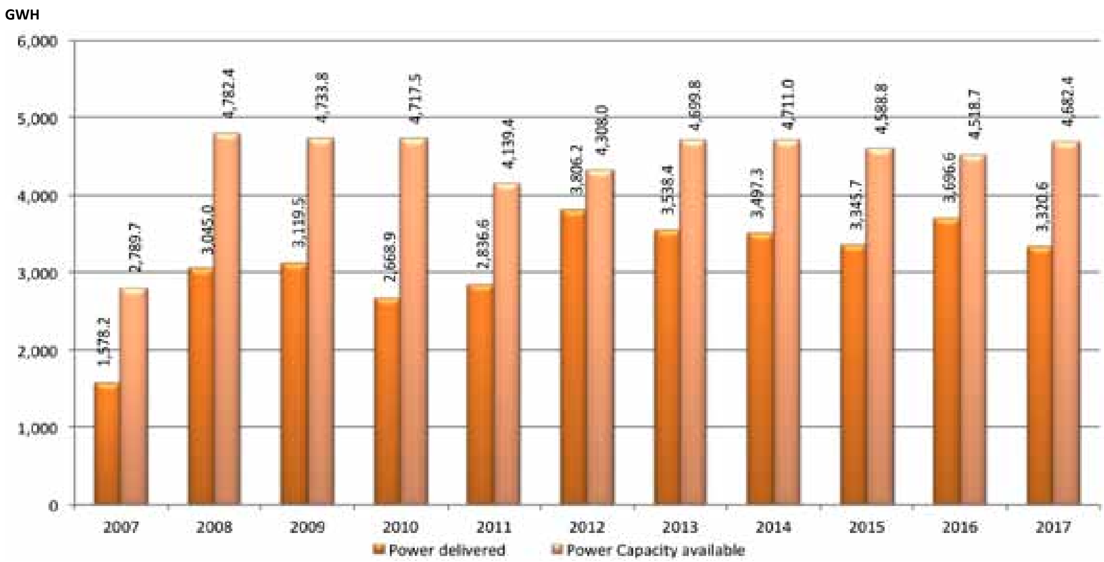
Plant Efficiency (Heat Rate)

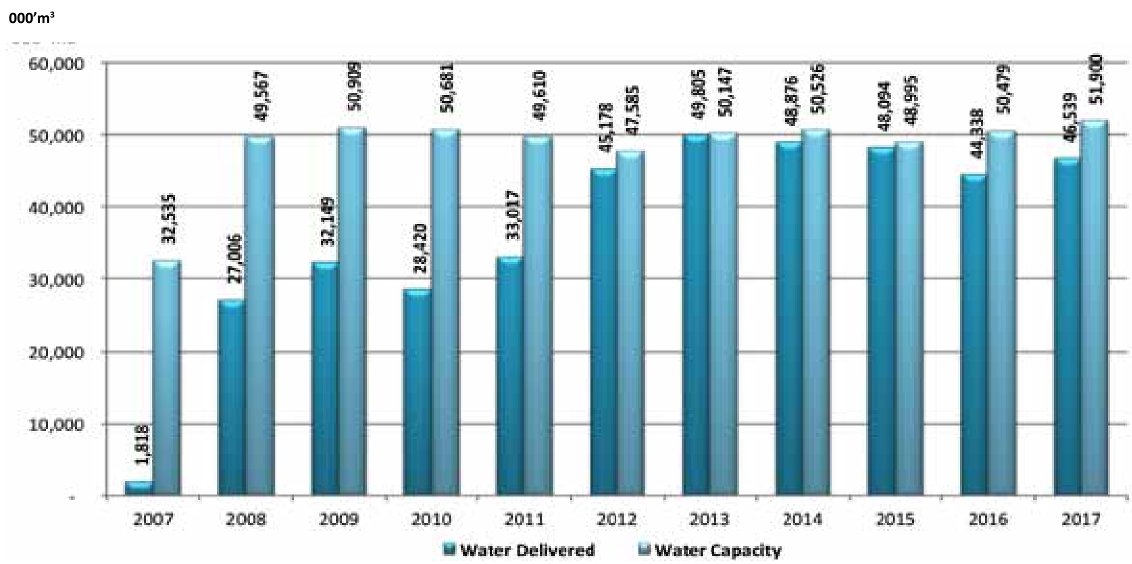
The efficiency of the power plant is measured in terms of the amount of heat required to produce one unit of power. The Contracted Heat Rate of the plant is 8,997 MJ/MWh for natural gas.

Utilization; Energy and Water Delivered

During the year 2017 the energy was delivered at a utilization factor of the power plant of 70.9%. The total water was delivered by the water plant at a utilization factor of almost 89.7%.

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





Maintenance

Annual maintenance of all equipment was undertaken during the year.
Based on their fleet experience across the world, the Original Equipment Manufacturers ("OEM") of major equipment notify their users on various improvements or issues to be addressed in order to improve efficiency, safety or mitigate risks identified in their equipment. SPC along with its Operator is working on a few such recommendations.
SPC and its Operator have diligently studied and rectified during the year various causes for fuel inefficiency, which led to unnecessary drain on profitability. This is an ongoing exercise and due attention is being given to this aspect.

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

Force Majeure

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

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

ENVIRONMENT

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

Maximizing Efficiency

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

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

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

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

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

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

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

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

Low Emissions

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

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

Potable Water

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

CORPORATE & SOCIAL RESPONSIBILITY

Acting as a corporate and responsible citizen in 2017, Sohar Power Company engaged with the local community by contributing with resources and actions; going beyond its responsibilities related to power generation and water desalination.

The projects carried out in 2017 primarily focused on education, health & safety, social development and protection of the environment, in line with the objectives set by the Company under its Corporate and Social Responsibility ("CSR") policy.

In the field of education, Sohar Power decided to support the Educational Program of Oman Charity Organization through the sponsorship of tuition fees for 6 students to pursue their studies at university level.

The 6 students come from very low-income families registered with OCO and have been identified as having the potential to obtain a University Degree but they cannot afford it. The financial contribution of the company will cover one year of tuition fees for each of the students at different colleges in Oman in the fields of accounting, translation, law, English language, IT and Business administration. Sohar Power strongly believes that with this support in gaining better education and University degree, the students will develop an interesting career and in return will be able to support their families and make useful contributions to society. Sohar Power is the first private entity supporting OCO Educational Program in Sohar.

Sohar Power Company, together with Directorate of Education in North Batinah Governorate 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.

The Company also supported The Association for the Welfare of Handicapped Children in Saham, North Batinah Governorate. With this collaboration, Sohar Power financed the equipment for Association. The funds were used for maintenance and supplying equipment for handicapped center as identified by the Association. The Association serves handicapped children from the age of 6 to 14 through comprehensive program of education, health, physical and academic services. It offers disabled children an opportunity to enjoy life fully and to integrate them into the community. It aims at reaching every handicapped Omani child with any form of disability and providing them with learning, education, training in order to help them to live better and socialize normally, despite their handicap. The Association plays an advocacy role and aims at establishing as many 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 2017. The gathering aimed at instilling cultural and intellectual awareness and deepening the Omani identity amongst the Omani population. The gathering included many activities such as: Omani manuscripts, pictures of archaeological sites in North Batinah Governorate, cultural activities such as fine arts, poetry and cultural lectures, plays, setting up temporary libraries, traditional crafts, archaeology, calligraphy and more as outlined in its program.

Sohar Power also supported fund raising events for non-profit organizations.

DESCRIPTION OF THE PROJECT

History of the Project

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

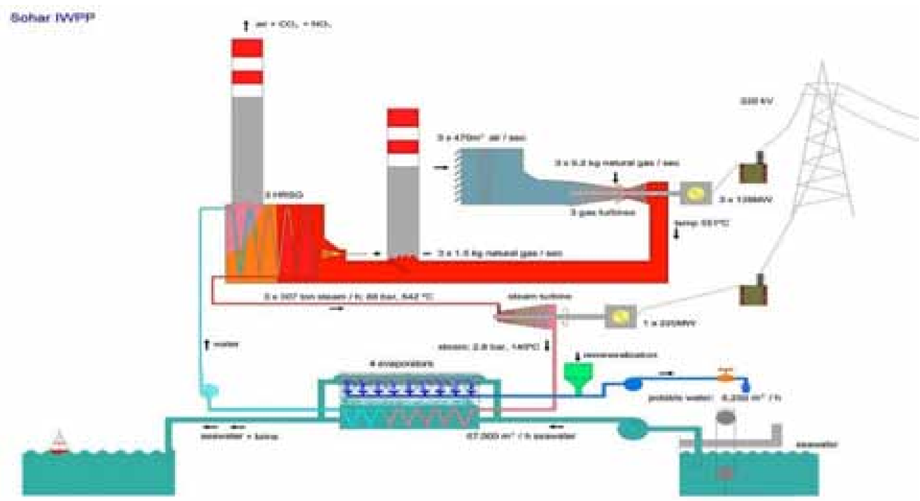
Sohar Power has been established under a Build-Own-Operate scheme. The BOO concept enables the Company to operate as a going concern beyond the project horizon of 15 years by either extending the PWPA (if agreed to by OPWP) or selling into a liberalized electricity market which may exist at that time.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

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

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

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

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



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

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

Contractual arrangements

Off-taker

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

Fuel Supply

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

Sea Water

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

Electrical connection

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

Water supply connection

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

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

EPC Contractor

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

Operation and Maintenance

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

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

The Operation and Maintenance Agreement 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 OMR-USD exchange rate, US Producer Price and Omani Consumer Price indices.

Capacity Charges:

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

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

Energy and Water Output Charges:

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

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

Fuel Costs

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

Force Majeure events:

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

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

PROFILE OF MAJOR SHAREHOLDERS

Kahrabel FZE (ENGIE, ex GDF SUEZ)

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

International Power Ltd. is owned indirectly by ENGIE group, one of the world's leading energy companies and a global benchmark in the fields of power, gas, and energy services.

The group is active throughout the entire energy value chain, in electricity and natural gas, upstream to downstream. It employs close to 155,000 people worldwide and achieved revenues of €69 billion in 2015. ENGIE is listed on the Brussels, Luxembourg and Paris stock exchanges and is represented in the main international indices: CAC 40, BEL 20, DJ Euro Stoxx 50, Euronext 100, FTSE Eurotop 100, MSCI Europe, and Euronext Vigeo (World 120, Eurozone 120, Europe 120 and France 120).

MENA Sohar 1 SPV Limited

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

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

Ministry of Defence Pension Fund ("MODPF")

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

SOGEX

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

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

On November 15, 1984 Bahwan Group of Companies, Oman, acquired the whole of SOGEX in Oman and renamed as SOGEX Oman Co. LLC. Consequently, all legal relations with SOGEX International were discontinued.

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

SOGEX Oman undertakes the following activities:

Management, Commissioning, Operation & Maintenance of:

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

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

Currently it is operating in Oman, Algeria and India.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT

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

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

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

OPPORTUNITIES AND THREATS

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

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

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

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

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

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

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

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

FINANCIAL HIGHLIGHTS

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

All figures in RO million		2017	2016	2015	2014	2013
NP (Net Profit) for the year	1	**2.030**	4.543	3.756	4.414	5.137
Revenue	2	**64.485**	66.307	62.657	47.033	47.539
Total Assets	3	**146.455**	150.439	160.431	164.384	171.823
Capital	4	**22.101**	22.101	22.101	22.101	22.101
Debt (Long-term)	5	**89.037**	100.436	112.387	120.340	127.973
Debt & Capital	6	**111,138**	122.537	134.488	142.441	150.074
Ordinary Shares (in millions)	7	**221.01**	221.01	221.01	221.01	221.01
Net assets (before hedging deficit)	8	**31.036**	29.006	27.188	27.078	26.995

		2017	2016	2015	2014	2013
NP (Net Profit) Margin	1÷2	**3.1%**	6.9%	6.0%	9.4%	10.8%
ROTA (Return on Total Assets)	1÷3	**1.4%**	3.0%	2.3%	2.7%	3.0%
ROC (Return on Capital)	1÷4	**9.2%**	20.6%	17.0%	20.0%	23.2%
Capital ratio (over Debt + Capital)	4÷6	**19.9%**	18.0%	16.4%	15.5%	14.7%
Ordinary Dividend (interim-current year)		**-**	4.1%	7.1%	8.6%	10.0%
Ordinary dividend (Final-previous year)		**-**	8.2%	9.4%	11.0%	-
BEPS (Basic Earnings per share) Ratio	1÷7	**0.009**	0.021	0.017	0.020	0.022
Net Assets per share	8÷7	**0.140**	0.131	0.123	0.123	0.122

Analysis of Results

Sohar Power registered a net profit of RO 2.030 million for the year 2017. The same was RO 4.543 million in 2016. The negative variance of RO 2.513 million between the profits of 2017 and 2016 is the net effect of the following elements:

- Increase in income tax rate from 12% to 15% resulted in an increase in income tax expense for the year, the increase in mainly due to the reassessment of deferred tax liability as a result of the rate increase, negative impact of RO 2.862 million.
- Power & Water capacity charges were reduced in 2017 as compared to previous year due to reduced tariff (as per PWPA), negative impact of RO 0.473 million.
- No sales of processed water to MISC as a result of MISC's plant commissioning, negative impact of RO 0.221 million.
- Higher incentive paid to the operator as a result of lower forced outages in 2017 and positive fuel margin, in addition to settlement agreement reached with the operator in 2016, negative impact of RO 0.449 million.
- Lower forced outages during the year compared to last year mainly due to GT1 burner incident following a failed fuel oil changeover test suffered in April 2016, favourable impact of RO 0.778.
- 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 2017 favourably by RO 0.818 million.

Analysis of Balance Sheet

- Property, Plant & Equipment (PP&E) are depreciated consistently using the straight line method of depreciation. During 2017, the Company invested in improvements to the plant to improve reliability and efficiency. In line with previous years, the Company continued capitalizing the cost of decommissioning its PP&E, to be incurred in 2037 - at the end of the useful life of the plant.
- Trade debtors correspond to one month's invoice at the end of current year and one month at the end of previous year (as per PWPA).
- Cash in hand and at Banks at the end of 2017 were higher than the same at the end of previous year, on account of insurance compensation received during the year.
- 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 6.163 million; the same was RO 9.356 million in 2016.
- Hedging Deficit is calculated on each Balance Sheet date as per IAS 39 and represents the loss, which Company would haveincurred, 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 2.657 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 2018

In view of nature of the Company and its business model and, following the operational and technical incidents faced in previous years and the corrective actions initiated by the Company, the Board of Directors and the Management of the Company remain confident in achieving health and safety, operational and financial objectives for the year 2018. Sohar Power is committed to serve the Sultanate of Oman in a reliable manner while meeting the challenges arising from increasing demand for both power and water. However and, as commented earlier above and in the Board of Directors' report, there will be no distribution of dividend to shareholders, as a result of the mandatory cash sweep mechanism whereby all available cash is dedicated to debt repayment, as per the Facilities Agreement entered into by the Company.

Internal control system and their adequacy

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

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

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

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

Transfers to Investors Trust Fund

On behalf of the Company, Muscat Clearing & Depository Company SAOC (MCDC) transferred an amount of RO 3,160.718 being the unclaimed amount for the interim dividend for the period from 1 January 2016 to 30 June 2016 to Investors' Trust Fund Account (ITFA) in 2017.

BAKER TILLY
MKM (OMAN) LLC
Chartered Accountants

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

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

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

REPORT OF FACTUAL FINDINGS IN CONNECTION WITH THE CORPORATE GOVERNANCE REPORT OF THE COMPANY AND ITS APPLICATION OF THE CORPORATE GOVERNANCE PRACTICES IN ACCORDANCE WITH THE CAPITAL MARKET AUTHORITY CODE OF CORPORATE GOVERNANCE

TO THE SHAREHOLDERS OF SOHAR POWER COMPANY SAOG

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. E/4/2015 dated 22 July 2015 with respect to the Board of Directors' Report on Corporate Governance of **SOHAR POWER COMPANY SAOG** ("the Company") and its application of the Corporate Governance practices in accordance with the CMA's Code of Corporate Governance and amendments issued under Circular No. E/10/2016 dated 1 December 2016 and the Executive Regulations of the Capital Market Law issued under Decision Number 1/2009 dated 18 March 2009 (collectively "the Code") and additional regulations and disclosures.

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 Company's compliance with the Code as issued by the CMA.

We report our findings below:

We found that the Board of Directors' Corporate Governance Report fairly reflects the Company's application of the provisions of the Code and additional regulations and disclosures and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review 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 its annual report for the year ended **31 December 2017** and does not extend to any financial statements of the Company, taken as a whole.

Baker Tilly

Peter D. Brooks FCA
Baker Tilly MKM (Oman) LLC
Muscat
22 February 2018

بيكر تلي أم كي أم (عمان) ش.م.م محاسبون قانونيون
C.R. No. : 1/09490/7
P.O. Box 994, Postal Code 100 Muscat
CHARTERED ACCOUNTANT
BAKER TILLY MKM (OMAN) L.L.C.

CORPORATE GOVERNANCE REPORT

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

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

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

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

In compliance with the Annex 3 of the above Code, Sohar Power is including this separate chapter on Corporate Governance in its annual financial statements for the year ended December 31, 2017.

Board of Directors

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

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

Name of Directors	Category of Directors	Board Meeting held and attended during 2017						2017	
		27/02	24/04	24/07	20/08	23/10	Total	AGM	OGM
Mr. Saif Abdullah Al Harthy (Chairman)	Non-Independent & Nominee	✓	✓	✓	✓	✓	5	✓	✓
Ms. Anne Stephanie Nguyen Qui (Vice Chairman)	Non-Independent	✓	✓	-	-	✓	3	✓	-
Mr. Sami Abdullah Khamis Al Zadjali	Non-Independent & Nominee	✓	✓	✓	✓	✓	5	✓	✓
Mr. Jeronimo Roura	Non-Independent & Nominee	✓	✓	✓	-	✓	4	-	-
Mr. Ahmed Sultan Al Yaqoobi	Non-Independent & Nominee	✓	✓	✓	✓	✓	5	✓	✓
Mr. Navneet Kasbekar	Independent	✓	✓	✓	✓	✓	5	✓	✓
Mr. Tashfen Yasin	Independent	✓	✓	✓	✓	✓	5	✓	-
Mr. T.N. Sundararaju	Non-Independent & Nominee	✓	✓	✓	✓	✓	5	-	-
Mr. Rodak Ali Iqbal	Independent	✓	✓	✓	-	✓	4	-	-
Ms. Isabelle Gunay Demir	Independent	✓	✓	✓	-	✓	4	✓	-
Mr. Ravindranath Venna*	Independent	-	-	-	-	-	-	-	-
Mr. Ian Philip Lawrence**	Independent	✓	-	-	-	-	1	-	-
Mr. Khamis Khalifa Al Hashimi**	Independent	✓	✓	-	-	-	2	✓	-

* Appointed during the year.

** Resigned during the year.

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 Al Zadjali	Member	Muscat Gases Company SAOG

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

Audit Committee

a. Brief description of terms of reference.

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

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

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

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

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

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

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

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

Name of Committee Members	Position	Meetings held and attended during 2017						
		31/01	26/02	23/04	23/07	17/08	22/10	Total
Mr. Navneet Kasbekar	Chairman	✓	✓	✓	✓	✓	✓	6
Ms. Isabelle Gunay Demir	Member	✓	✓	✓	✓	-	✓	5
Tashfen Yasin*	Member	-	-	-	✓	✓	✓	3
Mr. Ian Philip Lawrence**	Member	✓	✓	-	-	-	-	2

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

c. Sitting fee

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

NOMINATION OF REMMUNERATION COMMITTEE

a. Brief description of terms of reference.

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

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

The above is summarized as follows:

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

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

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

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

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

Name of Committee Members	Position	Meetings held and attended during 2017				
		26/02	23/04	15/06	22/10	Total
Rodak Iqbal*	Member	-	-	-	✓	**1**
Mr. Jeronimo Roura	Member	✓	✓	✓	✓	**4**
Ms. Anne Stephanie Nguyen Qui	Chairman	✓	✓	✓	✓	**4**
Mr. Khamis Khalifa Al Hashmi**	Member	✓	✓	-	-	**2**

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

d. Sitting fee

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

PROCESS OF NOMINATION OF DIRECTORS

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

REMUNERATION

a. Directors Remuneration and Attendance Fee.

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

The total remuneration to the Directors was as follows:

	2017 RO	2016 RO
Total sitting fee and remuneration	37,600	156,000
Directors' Sitting fee	(24,600)	(19,000)
Directors' remuneration	**13,000**	**137,000**

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

Directors' remuneration for 2016 has not yet been paid to the Directors as it could not be discussed or formally approved in the AOGM held in March 2017, following the CMA's instructions.

For the year 2016

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

* Appointed during 2016

** Resigned during 2016

For the year 2017

#	Name of Director	Total no. of meetings	Total Sitting fees in RO	Total Remuneration in RO
1	Mr. Saif Abdullah Al Harthy (Chairman)	5	2,000	855
2	Ms. Anne Stephanie Nguyen Qui (Vice Chairman)	3+4	2,000	1,197
3	Mr. Sami Abdullah Khamis Al Zadjali	5	2,000	855
4	Mr. Jeronimo Roura	4+4	2,400	1,369
5	Mr. Ahmed Sultan Al Yaqoobi	5	2,000	855
6	Mr. Navneet Kasbekar	5+6	3,200	1,882
7	Mr. Tashfen Yasin	5+3	2,600	1,369
8	Mr. T.N. Sundararaju	5	2,000	855
9	Mr. Rodak Ali Iqbal	4+1	1,800	1,369
10	Mr. Isabelle Gunay Demir	4+5	2,600	1,539
11	Mr. Ravindranath Venna*	0	-	-
12	Mr. Ian Philip Lawrence **	1+2	1,200	513
13	Mr. Khamis Khalifa Al Hashmi **	2	800	342
		TOTAL	**24,600**	**13,000**

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

The Company will continue to pay sitting fee per Director per Board meeting amounting to RO 400 and per Audit Committee member per meeting of the Audit Committee amounting to RO 200, and per NRC member per meeting of NRC amounting to RO 200 in the year 2018, 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 184,231/-.

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 2017, it reviewed on behalf of the Board the effectiveness of internal control, met the internal auditor of the company, reviewed internal audit reports and the recommendations, met external auditors, and reviewed the audit findings.

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

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

Furthermore, during the year Board evaluation and appraisal was performed by Capital Advantage.

Non-Compliance Penalties

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

MEANS OF COMMUNICATION WITH THE SHAREHOLDER AND INVESTORS

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

The Chairman gives press releases in case of important news and development that arises. Such press releases are posted to the web site of MSM in accordance with the guidelines issued by the market regulators.

Disclosures to investors and company events are disclosed on the website regularly. Information on the project, Company's management and financial information is also available. The website is www.soharpower.com

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

Market Price Data

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

Month	Low Price (RO)	High Price (RO)	Average Price (RO)	MSM Index (Service Sector)
Jan	0.226	0.228	0.227	3,023.020
Feb	0.224	0.225	0.224	3,007.750
Mar	0.208	0.211	0.209	2,885.540
Apr	0.177	0.178	0.178	2,821.100
May	0.156	0.159	0.157	2,771.420
Jun	0.158	0.157	0.158	2,600.270
Jul	0.158	0.158	0.158	2,502.340
Aug	0.154	0.158	0.156	2,470.170
Sep	0.154	0.155	0.155	2,550.560
Oct	0.156	0.157	0.156	2,545.380
Nov	0.155	0.155	0.155	2,580.420
Dec	0.152	0.152	0.152	2,643.430

Distribution of Shareholding

The Shareholder pattern as on 31 December 2017:

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%	8,312	27,900,179	12.624
TOTAL	**8,319**	**221,010,000**	**100.000**

Professional Profile of the Statutory Auditors

Our external auditors for the 2017 financial year are Baker Tilly MKM (Oman) LLC (“Baker Tilly Oman”). Baker Tilly Oman are members of a group, headquartered in Dubai, which operates 20 offices with over 250 staff throughout the MENA region. The group and all its member firms are in turn part of Baker Tilly International, whose global office is in London, UK. Baker Tilly International is one of the top 10 largest firms of accountants in the world, with over 33,000 staff in 769 offices worldwide.

The audit fee paid to Baker Tilly Oman for the 2017 financial year was RO. 12,000.

Acknowledgement by the Board of Directors

The Board of Directors confirms the following:

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

ANNEXURE

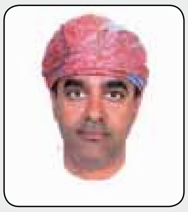
BRIEF PROFILES OF CURRENT DIRECTORS

Name **Saif Abdullah AL HARTHY – Chairman**

Year of Joining 2011

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

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



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

Year of Joining 2014

Education Master Degree in Business & Tax Law.

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

Name **Sami Abdullah Khamis AL-ZADJALI**

Year of Joining 2012

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

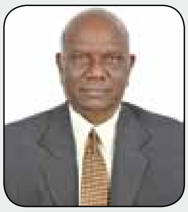
Experience Mr. Zadjali is working with Civil Services Employee Pension Fund for the last 19 years. He is presently Contribution Manager and a member of GCC committee for pension issues.

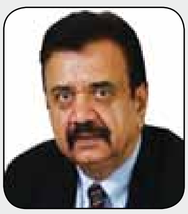
Name	**Jeronimo ROURA**
Year of Joining	2013
Education	MBA from IESE Business School, and a Bachelor in Business Administration from ESADE Business School.
Experience 	Jeronimo Roura joined MENA Infrastructure in June 2010 as Investment Director, was promoted to Managing Director in January 2013, and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

Name	**Ahmed Sultan AL YAQOOBI**
Year of Joining	2013
Education	Bachelor Degree in Commerce and Economics from Sultan Qaboos University.
Experience 	Mr. Alyaqoubi is working with Ministry of Defence Pension Fund. He is real estate, finance and investment industry veteran with more than 18 years› experience in various asset classes. He is currently the head of the real estate portfolio and he developed from concept stage several iconic developments in Oman.

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

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

Name	**T. N. SUNDARARAJU**
Year of Joining	2014
Education	Bachelor Degree in Engineering.
Experience 	Mr. Sundararaju has more than 44 years extensive experience in large Power and Desalination plants in India, Middle East and Africa. At present he is working in Algeria as Chief Executive Officer in Sogex-Oman Co. LLC, O&M Operations. He has substantially handled O&M projects in Sogex Oman Co. LLC at Ghubrah, Manah and Fujairah from Construction to Commissioning and Commercial Operations. He has also worked as Vice President in ENRON International Company. Prior to that he has worked as O&M Manager for all Power &Desalination Plants in Libya.

Name	**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	**Isabelle Gunay DEMIR**
Year of Joining	2016
Education	Bachelor of Law (Hons.), Bachelor of Commerce (Hons.), University of Sydney.
Experience 	Ms. Demir has over 16 years combined experience leading and executing infrastructure investments and corporate finance transactions. Ms. Demir's employment history includes MENA Infrastructure Fund (Dubai) where she was responsible for managing the fund's power investments in Oman and Saudi Arabia, HSBC (London) where she was a Director in the Power, Utilities & Renewables team covering Africa, Turkey and Europe. She has worked with numerous FTSE100 and S&P500 companies, Middle Eastern sovereign wealth funds and financial investors. Prior to HSBC, Ms. Demir was an Investment Manager at Babcock and Brown in London and Sydney. She is a qualified legal practitioner, admitted in the NSW Supreme Court

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

BRIEF PROFILE OF MANAGEMENT TEAM

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

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

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

Brief profile of the current managerial team is as follows:

Name	**Guillaume BAUDET**
Year of Joining	2013
Education	Master's Degree in Management and Finance, ISC Paris Business School; Management Program CEDEP/INSEAD, France and University Degree in Business and Administration, Université de Toulon
Experience 	Mr. Baudet has more than 20 years of experience in the fields of finance and general management, acquired in the automotive industry and subsequently in the power and water generation industry. After 11 years spent in the automotive industry in Europe and North America, Mr. Baudet joined GDF SUEZ (now ENGIE) Energy International in 2007 as Head of Business Control for the MENA region and subsequently took up the position of CFO at Hidd Power Company in Bahrain. Guillaume Baudet is the CEO of Sohar Power Company SAOG since 2013.

Name	**Zoher KARACHIWALA**
Year of Joining	Since inception of the Company in 2004
Education	Chartered Accountant
Experience 	Currently Company Secretary of the Company and CEO of United Power Company SAOG Mr. Karachiwala was a Chief Financial Officer until June 2009. He also acts as Company Secretary for some of the GDF Suez (now ENGIE) group of companies in Oman. He has 40 years of experience in field of Statutory Audit & Accounting and Finance. He was KPMG Audit Partner in Pakistan before joining United Power Company in 1995. Acted as Honorary Chairman of Audit Committee and the Board of Directors for a public company in Oman.

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

Name	**Mirdas AL RAWAHI**
Year of Joining	2016
Education	Bachelor of Commerce and Economics from Sultan Qaboos University and has cleared CPA exams from the American Institute of Certified Public Accountants
Experience 	Mr. Mirdas Al Rawahi has 13 years of experience in Finance and accounts. Prior to joining Sohar Power Company, he was the Financial Controller for Takamul Investment Company SAOC. He has also worked in Ernst & Young Muscat office in the fields of External and Internal Audit.

Name	**Salah Al Farsi**
Year of Joining	1995
Education	General Education Diploma
Experience 	Salah Al Farsi has accumulated 23 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.

CAPITAL ADVANTAGE

Office 1102, Al Saqr Business Tower
Sheikh Zayed Road
PO Box 72401, Dubai
United Arab Emirates
T +9714 321 9781
F +9714 321 9783
E info@capitaladvantage.ae
www.capitaladvantage.ae

To the Shareholders
SOHAR POWER COMPANY SAOG

14 February 2018

We present the summary of the Board Appraisal conducted during 2017 for the Board of Directors and its Board Committees.

The primary objective of the Board Appraisal was to consider the composition, structure, dynamics, relationships and performance of the Company's Board and its Committees, plus the key individuals. The Board Appraisal was conducted by an independent Facilitator according to the criteria which was considered and approved by the Shareholders of the Company during the AGM held on 29 March 2017. The Board Appraisal was conducted in accordance with the Capital Markets Authority (**"CMA"**) Code of Corporate Governance and Explanations (together the **"CG Code"**), supplemented by relevant International Practice Guidelines and International Corporate Governance Principles.

All Directors participated in the 2017 Board Appraisal process, which was delivered via a comprehensive Questionnaire returned to the Facilitator directly during September and October 2017. The results from the Questionnaires were aggregated to ensure confidentiality. The final Report containing the overall conclusions and recommendations was presented to, and reviewed by, the Nomination and Remuneration Committee prior to a presentation of the Report to the Board in 23 October 2017.

The Directors were relatively harmonious across a broad range of topics, with a sufficient level of enquiry and challenge on key issues. The role of the Board, its Committees and key individuals was considered to be generally well documented and understandable, with a strong commitment to compliance and controls. The conduct of Board and Committee meetings appeared to be satisfactory, with improvement during the year, and appropriate resources and support were available within the company secretary function. Reporting to the stakeholders was focused on the shareholders' needs and compliance standards.

Having regard to the nature, size and complexity of the Company, and the requirements of the Oman CG Code, the Directors and the Facilitator identified areas for enhancing performance as follows:

- Review the role description and protocols to support the Independent Directors.
- Continuing to develop the Board nomination, induction, rotation and succession procedures in line with the CG Code, including developing the Board skills matrix and liaising proactively with the market and Shareholders for suitable nominees.
- Extend the strategy/risk horizon and Key Performance Indicators for management reporting to the Board.
- Various meeting preparation and procedural improvements.
- Formalizing the Director Development Programme, including additional site visits, technical awareness sessions, and broader industry sessions conducted with related or sister companies (given the nature of the power company ownership in Oman).
- Encouraging minority shareholder and stakeholder feedback at the AGM and through enhancing other channels such as the investor relations role.

Overall, the Board and Committees was considered to be performing well across the range of performance measures, and achieved a Good rating compared to the Facilitator's international benchmarks.

CAPITAL ADVANTAGE CONSULTANTS

Office: 1102, Al Saqr Business Tower, Sheikh Zayed Road, P.O Box 72401, Dubai, UAE
Telephone No: +9714 321 9781, Fax No: +9714 321 9783
Website: www.capitaladvantage.ae

BAKER TILLY
MKM (OMAN) LLC
Chartered Accountants

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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

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, of the Sultanate of Oman, which comprise the statement of financial position as at **31 December 2017,** and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **SOHAR POWER COMPANY SAOG** as at **31 December 2017,** 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 (ISAs). Our responsibilities under those standards are further described in the *Auditors Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

Revenue recognition

As at the reporting date, the Company had only one customer. Invoices to the customer are raised on a monthly basis. Occasionally differences arise with the customer on the quantity of electricity or water supplied, resulting in revision of the invoice issued. Keeping in view the total amount of revenue of the Company which was RO. 64,485,000 (USD. 167,494,000) as at end of the year, it is evident that invoices issued on a monthly basis are substantial. Therefore, it is very important that only the invoices duly approved from the customer and relating to the current financial year are recorded. We focused on this area because of the materiality of the amounts involved.

BAKER TILLY
MKM (OMAN) LLC
Chartered Accountants

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محاسبون قانونيون

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

Key Audit Matters - Continued

Revenue recognition - Continued

Our audit procedures included comparing the current year's revenue figures with the preious year to check the reasonableness of the recorded amounts and verification of revenue transactions, on a sample basis, to confirm that revenue transactions have been recorded at the correct amounts. We also checked the cut-off in order to ensure that only the income relating to the current year has been included in the financial statements as revenue.

Hedge accounting

The Company entered into swap agreements to manage its exposure to interest rate risk. These swap agreements (hedging instruments) have given rise to derivative financial assets of RO. 6,163,000 (USD. 16,008,000) and derivative financial liabilities of RO. 7,423,000 (USD. 19,281,000) as at 31 December 2017. These swap agreements have been treated as cash flow hedges and recorded at their fair values at the time of initial recognition. Any gain/loss arising on changes in fair values of hedging instruments will be recognized in the statement of other comprehensive income until the maturity date, at which time it will be transferred to the statement of profit or loss. The hedge accounting necessitates a sophisticated system to record these swap agreements and keep track of the changes after the initial recognition. The valuation of hedging instruments and determination of hedge effectiveness involve a significant degree of complexity and judgement. Consequently, we have determined hedge accounting to be a key audit matter.

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

Emphasis of Matter

We draw attention to note 4 to the financial statements, which sets out the basis on which the management has determined the most appropriate method of recognizing income over the period of the Power and Water Purchase Agreement (PWPA). The management is of the view that recognition of revenue as per the requirements of the PWPA, and the Regulatory Accounting Guidelines 1/2010 issued by the Authority for Electricity Regulation, is a fair presentation of the economic reality and reflects a fair value of amounts earned in any one reporting period. PWPA has been structured in such a way that tariff rates (income) are reducing at a constant rate each year over the term of the agreement. This view is supported by the fact that the major costs of the Company are significantly higher in the earlier years and lower in the later years. Our audit opinion is not modified in respect of this matter.

Other Matter

The financial statements of the Company for the year ended 31 December 2016 were audited by another firm of accountants who issued a modified opinion on those financial statements in their report dated 27 February 2017.

The modification was in respect of what the auditors believed was a departure from IAS 17 in that the revenue was disclosed in accordance with the Regulators requirements (as per Note 4) and therefore, in their opinion, was not in accordance with IFRSs.

BAKER TILLY
MKM (OMAN) LLC
Chartered Accountants

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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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Guidelines, the requirements of the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

BAKER TILLY
MKM (OMAN) LLC
Chartered Accountants

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

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

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

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements of **SOHAR POWER COMPANY SAOG** as at **31 December 2017**, in all material respects, comply with the requirements of the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Peter D. Brooks.

Baker Tilly

Peter D. Brooks FCA
Baker Tilly MKM (Oman) LLC
Muscat
22 February 2018

SOHAR POWER

Statement of financial position

as at 31 December 2017

	Notes	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
ASSETS					
Non-current assets:					
Property, plant and equipment	5	**130,584**	137,171	**339,179**	356,288
Current assets:					
Inventories		**727**	691	**1,888**	1,795
Trade and other receivables	6	**5,846**	5,200	**15,185**	13,506
Cash at bank and on hand	7	**9,298**	7,150	**24,151**	18,571
Total current assets		**15,871**	13,041	**41,224**	33,872
Total assets		**146,455**	150,212	**380,403**	390,160
EQUITY AND LIABILITIES					
Shareholders' equity:					
Share capital	8a	**22,101**	22,101	**57,405**	57,405
Legal reserve	8b	**3,911**	3,708	**10,160**	9,633
Retained earnings		**5,024**	3,197	**13,054**	8,309
Total shareholders' equity		**31,036**	29,006	**80,619**	75,347
Hedging reserve - net of tax	9	**(6,163)**	(9,356)	**(16,008)**	(24,301)
Total capital and reserves		**24,873**	19,650	**64,611**	51,046
Non-current liabilities:					
Hedging deficit	9	**7,423**	10,632	**19,281**	27,615
Non-current portion of long term loans	10	**78,125**	91,429	**202,923**	237,478
Provision for decommissioning costs	11	**1,483**	1,395	**3,853**	3,624
Deferred tax liability	19b	**12,736**	9,648	**33,081**	25,060
Total non-current liabilities		**99,767**	113,104	**259,138**	293,777
Current liabilities:					
Current portion of long term loans	10	**10,912**	9,007	**28,343**	23,395
Trade and other payables	12	**9,206**	8,165	**23,904**	21,199
Amount due to a related party	13a	**1,040**	286	**2,701**	743
Provision for taxation	19c	**657**	-	**1,706**	-
Total current liabilities		**21,815**	17,458	**56,654**	45,337
Total equity and liabilities		**146,455**	150,212	**380,403**	390,160
Net assets per share	20	**0.140**	0.131	**0.364**	0.341

These financial statements set out on pages 6 to 37 were approved and authorised for issue by the Board of Directors on 22nd February 2018 and were signed on their behalf by:

Chairman

Director

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

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2017

	Notes	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Revenue	14	**64,485**	66,307	**167,494**	172,226
Cost of revenue	15	**(52,169)**	(53,661)	**(135,503)**	(139,378)
Gross profit		**12,316**	12,646	**31,991**	32,848
Other income	16	**330**	403	**857**	1,047
		12,646	13,049	**32,848**	33,895
EXPENSES:					
General and administrative expenses	17	**(777)**	(858)	**(2,020)**	(2,230)
Finance costs	18	**(6,257)**	(7,075)	**(16,252)**	(18,376)
Total expenses		**(7,034)**	(7,933)	**(18,272)**	(20,606)
Profit before taxation		**5,612**	5,116	**14,576**	13,289
Income tax expense	19a	**(3,582)**	(573)	**(9,304)**	(1,488)
Net profit for the year		**2,030**	4,543	**5,272**	11,801
Other comprehensive income:					
Fair value gain on interest rate swaps	9	**3,209**	4,032	**8,334**	10,466
Related taxation	19a	**(163)**	(484)	**(423)**	(1,254)
Total other comprehensive income for the year		**3,046**	3,548	**7,911**	9,212
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,076**	8,091	**13,183**	21,013
Earnings per share - Basic and diluted	21	**0.009**	0.021	**0.024**	0.053

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

SOHAR POWER صحار للطاقة

Statement of changes in equity

for the year ended 31 December 2017

	Share Capital RO (000)	Legal reserve RO (000)	Retained earnings RO (000)	Hedging deficit RO (000)	Total RO (000)	Total USD (000)
For the year ended 31 December 2017:						
Balance at beginning of the year	**22,101**	**3,708**	**3,197**	**(9,356)**	**19,650**	**51,046**
Net profit for the year	**-**	**-**	**2,030**	**-**	**2,030**	**5,272**
Other comprehensive income for the year	**-**	**-**	**-**	**3,046**	**3,046**	**7,911**
Transfer to legal reserve	**-**	**203**	**(203)**	**-**	**-**	**-**
Ineffective portion of cash flow hedge (note 9)	**-**	**-**	**-**	**147**	**147**	**382**
Balance at end of the year	**22,101**	**3,911**	**5,024**	**(6,163)**	**24,873**	**64,611**
	======	======	======	======	======	======
For the year ended 31 December 2016:						
Balance at beginning of the year	22,101	3,254	1,833	(12,904)	14,284	37,106
Net profit for the year	-	-	4,543	-	4,543	11,801
Other comprehensive income for the year	-	-	-	3,548	3,548	9,216
Transfer to legal reserve	-	454	(454)	-	-	-
Final dividend for the year 2015	-	-	(1,812)	-	(1,812)	(4,706)
Interim dividend for the year 2016	-	-	(913)	-	(913)	(2,371)
Balance at end of the year	22,101	3,708	3,197	(9,356)	19,650	51,046
	======	======	======	======	======	======

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

Statement of cash flows

for the year ended 31 December 2017

	Notes	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Operating activities:					
Net profit before taxation		**5,612**	5,116	**14,576**	13,289
Adjustments to net profit to arrive at net **cash flow from operating activities:**					
Depreciation	5	**6,744**	6,742	**17,517**	17,512
Finance costs	18	**6,257**	7,075	**16,252**	18,376
Operating profit before changes in working capital		**18,613**	18,933	**48,345**	49,177
Movements in working capital:					
(Decrease)/increase in inventories		**(36)**	58	**(94)**	151
(Decrease)/increase in trade and other		**(646)**	1,260	**(1,678)**	3,273
Increase/(decrease) in trade and other payables		**1,042**	(373)	**2,707**	(969)
Increase/(decrease) in amount due to a related party		**754**	(215)	**1,958**	(558)
Cash generated from operations		**19,727**	19,663	**51,238**	51,074
Payment of finance costs		**(5,749)**	(6,992)	**(14,932)**	(18,162)
Net cash generated from operating activities		**13,978**	12,671	**36,306**	32,912
Investing activities:					
Purchase of property, plant and equipment	5	**(157)**	(72)	**(408)**	(187)
Transfers from capital work in progress	5	**-**	45	**-**	117
Net cash (used in) investing activities		**(157)**	(27)	**(408)**	(70)
Financing activities:					
Net movement in long term loans		**(11,673)**	(11,951)	**(30,318)**	(31,042)
Dividend paid		**-**	(2,725)	**-**	(7,078)
Net cash (used in) financing activities		**(11,673)**	(14,676)	**(30,318)**	(38,120)
Net increase/(decrease) in cash and cash equivalents		**2,148**	(2,032)	**5,580**	(5,278)
Cash and cash equivalents at beginning of the year		**7,150**	9,182	**18,571**	23,849
Cash and cash equivalents at end of the year	7	**9,298**	7,150	**24,151**	18,571

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

Notes to the financial statements

for the year ended 31 December 2017

1 Legal status and principal activities:

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

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

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

2 Significant agreements:

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

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

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

b. Natural Gas Sales Agreement:

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

c. Sub-usufruct Agreement:

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

Notes to the financial statements

for the year ended 31 December 2017

2 Significant agreements - Continued:

d. Sea-water Extraction Agreement:

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

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

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

f. Financing Agreements:

Financing agreements with lenders for long-term loan facilities.

g. Management Services Agreement:

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

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

a. Statement of compliance:

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

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.

Notes to the financial statements

for the year ended 31 December 2017

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

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

For the year ended 31 December 2017, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2017.
The adoption of these standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current year.

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

New and revised IFRSs in issue and effective:

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

- Annual improvements — 2014-2016 Cycle
- Amendments to IFRS 12 — Disclosures of interests in other entities
- Amendments to IAS 7 — Statement of cash flows
- Amendments to IAS 12 — Income taxes

New and revised IFRSs in issue but not yet effective:

The following new and revised IFRSs are not mandatorily effective for the year ended 31 December 2017. However, they are available for early application. Paragraph 30 of IAS 8 requires the Company to consider and disclose the potential impact of new and revised IFRSs that have been issued but are not yet effective.

- Amendments to IFRS 2 — Share-based payments (1 January 2018)
- Amendments to IFRS 3 — Business combinations (1 January 2019)
- Amendments to IFRS 7 — Financial instruments – Disclosures (1 January 2018)
- IFRS 9 — Financial instruments (1 January 2018)
- IFRS 11 — Joint arrangements (1 January 2018)
- IFRS 15 — Revenue from contracts with customers (1 January 2018)

Notes to the financial statements

for the year ended 31 December 2017

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

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

• IFRS 16	Leases (1 January 2019)
• Amendments to IAS 23	Borrowing costs (1 January 2019)
• Amendments to IAS 28	Investments in associates and joint ventures (1 January 2018)
• Amendments to IAS 39	Financial instruments: Recognition and measurement (1 January 2018)
• Amendments to IAS 40	Investment property (1 January 2018)
• IFRIC 22	Foreign currency transactions and advance consideration (1 January 2018)
• IFRIC 23	Uncertainty over income tax treatments (1 January 2019)

Management anticipates that all of the above standards will be adopted by the Company to the extent applicable, from their effective dates. Management is currently assessing the impact that IFRS 9, IFRS 15 and IFRS 16 could have on the Company. Otherwise, the adoption of these standards and amendments is not expected to have any material impact on the financial statements of the Company in the period of their initial application.

4 Summary of significant accounting policies:

Power and Water Purchase Agreement ("PWPA")

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

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

The management has reviewed the applicability of IFRIC 4 and concluded that, although the PWPA conveys a right of use of the Company's plant consistent with an operating lease arrangement, the income from that right is only one component of the billing arrangements. Therefore, the management's view is that the application of IFRIC 4 and IAS 17 on the overall contractual revenues will result in unfair presentation of the economic reality and would not reflect a fair value of amounts earned in any one reporting period. This view is supported in that:

Notes to the financial statements

for the year ended 31 December 2017

4 Summary of significant accounting policies - continued :

- Any change in the recognition of revenue from the billing pattern will not be consistent with the intention of the PWPA and other project arrangements. The Regulatory Accounting Guidelines 1/2010 issued by the Authority for Electricity Regulation requires the Company to recognize the revenue as per the payment profile of the PWPA, in which tariff rates are reducing at a constant rate each year over the term of the agreement;
- Recognising income on a straight-line basis without considering the pattern of related costs (such as finance costs which are significantly higher in earlier years and lower in later years) would result in uneven distribution of results of operations over the term of the contract, so that there would be lower profits in earlier years; and
- The recognition of deferred revenue as a liability that arises from the application of IFRIC 4 would not be consistent with the principle that liabilities should only be recognised if any event has occurred with a "present obligation".

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2017

4 Summary of significant accounting policies - continued :

a. Property, plant and equipment:

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

Depreciation

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

Buildings	30 years
Plant and machinery	30 years
Technical parts	30 years
Other assets	4 years
Decommissioning costs (asset)	30 years

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

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

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

b. Capital work in progress:

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

c. Impairment of assets:

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the recoverable amount. The recoverable amount represents the present value of expected future cash flows discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted.

Notes to the financial statements

for the year ended 31 December 2017

4 Summary of significant accounting policies - Continued:

c. Impairment of assets - Continued:

Financial assets - Continued

At the end of each reporting period, the management assesses if there is any objective evidence indicating impairment of financial assets carried at cost or non-collectability of receivables. An impairment loss, if any, arrived at as a difference between the carrying amount and the recoverable amount, is recognised in the statement of profit or loss and other comprehensive income.

Non-financial assets

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

d. Dividends:

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

e. Inventories:

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

f. Trade and other receivables:

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

Notes to the financial statements

for the year ended 31 December 2017

4 Summary of significant accounting policies - Continued:

g. Cash and cash equivalents:

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

h. Legal reserve:

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

i. Trade payables:

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

j. Provisions:

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

Provision for decommissioning costs

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

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

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.

Notes to the financial statements

for the year ended 31 December 2017

4 Summary of significant accounting policies - Continued:

k. Employees' terminal benefits:

Defined contribution plan

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

Defined benefit plan

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

l. Revenue:

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

m. Other income:

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

n. Operating leases:

An operating lease is an agreement whereby the lessor retains substantially all the risks and rewards incidental to ownership of an asset. Lease payments are recognised as an expense in the statement of profit or loss and other comprehensive income on a basis that is representative of the time pattern of the benefit over the lease term.

o. Foreign currency transactions:

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

Notes to the financial statements

for the year ended 31 December 2017

4 Summary of significant accounting policies - Continued:

p. Bank borrowings:

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

q. Borrowing costs:

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

r. Taxation:

Taxation for the year comprises current and deferred tax.

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

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax-rates enacted or substantially enacted at the end of the reporting period.

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

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

Notes to the financial statements

for the year ended 31 December 2017

4 Summary of significant accounting policies - Continued:

s. Deferred financing costs:

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

t. Financial liabilities:

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

u. Derivative financial instruments:

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

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

Hedge accounting

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

Notes to the financial statements

for the year ended 31 December 2017

4 Summary of significant accounting policies - Continued:

u. Derivative financial instruments - Continued:

Cash flow hedges

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

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

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

v. Directors' remuneration:

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

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

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

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

Economic useful lives of property, plant and equipment

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

Notes to the financial statements

for the year ended 31 December 2017

4 Summary of significant accounting policies - Continued:

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

Provisions

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

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

Going concern

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

Contingencies

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

Notes to the financial statements
for the year ended 31 December 2017

5 Property, plant and equipment:

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

	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 2017	7,027	189,236	4,945	24	777	307	202,316	525,496
Additions during the year	-	49	32	1	-	75	157	408
At 31 December 2017	7,027	189,285	4,977	25	777	382	202,473	525,904
Depreciation								
At 1 January 2017	2,294	61,064	1,517	22	248	-	65,145	169,208
Charge for the year	235	6,311	170	1	27	-	6,744	17,517
At 31 December 2017	2,529	67,375	1,687	23	275	-	71,889	186,725
Net book value								
At 31 December 2017	4,498	121,910	3,290	2	502	382	130,584	339,179
	======	=======	======	======	======	======	========	========

5.1 Land on which the power station, building and auxiliaries are constructed has been sub-leased from the Sohar Industrial Port Company SAOC for a period of 15 years from the COD. The sub-lease is further extendable for another 15 years. Currently the lease rent is paid at the rate of approximately RO 64,000 (USD 165,000) per annum.

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

Notes to the financial statements

for the year ended 31 December 2017

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 2016	7,027	189,234	4,901	24	777	326	202,289	525,426
Additions during the year	-	2	44	-	-	26	72	187
Transferred from capital work in progress	-	-	-	-	-	(45)	(45)	(117)
At 31 December 2016	7,027	189,236	4,945	24	777	307	202,316	525,496
Depreciation								
At 1 January 2016	2,059	54,753	1,348	21	222	-	58,403	151,696
Charge for the year	235	6,311	169	1	26	-	6,742	17,512
At 31 December 2016	2,294	61,064	1,517	22	248	-	65,145	169,208
Net book value								
At 31 December 2016	4,733	128,172	3,428	2	529	307	137,171	356,288

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

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
Cost of revenue (note 15)	**6,743**	6,741	**17,514**	17,509
General and administrative expenses (note 17)	**1**	1	**3**	3
	6,744	6,742	**17,517**	17,512
	=======	=======	=======	=======

Notes to the financial statements

for the year ended 31 December 2017

6 Trade and other receivables:

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
Trade receivables	**5,473**	6,460	**14,216**	16,779
LESS: Allowance for credit losses	**-**	(1,392)	**-**	(3,616)
	5,473	5,068	**14,216**	13,163
Advances and prepayments	**160**	132	**416**	343
Other advances	**213**	-	**553**	-
	5,846	5,200	**15,185**	13,506

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

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
Up to 3 months	**5,473**	5,068	**14,216**	13,163

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

6.3 The maximum exposure to credit risk at the reporting date is the fair value of receivables mentioned above. During the current year, long overdue trade receivables amounting to RO1,392,000 (USD 3,616,000) have been written off against the equal amount of allowance for credit losses created earlier.

7 Cash and cash equivalents:

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
Bank balances - Current accounts	**9,298**	7,150	**24,151**	18,571
	9,298	7,150	**24,151**	18,571

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

8 Share capital and reserves:

8a Share capital

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

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 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

Notes to the financial statements

for the year ended 31 December 2017

8 Share capital and reserves - Continued:

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

Name of the shareholder	Percentage shareholding 2017	Number of shares held 2017	Percentage shareholding 2016	Number of shares held 2016
Kahrabel FZE	**35%**	**77,353,500**	35%	77,353,500
MENA Sohar 1 SPV LTD	**20%**	**44,202,000**	20%	44,202,000
Civil Service Employees' Pension Fund	**15%**	**33,151,500**	15%	33,151,500
	========	==========	========	==========

8b Legal reserve

The legal reserve has been established in accordance with Article 106 of the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman which requires 10% of a company's net profit to be transferred to a non-distributable legal reserve until the amount of the legal reserve is equal to one-third of the Company's fully-paid up share capital. During the current year the Company has transferred an amount of RO 203,000 to the legal reserve (2016: RO 454,000).

8c Dividend

In accordance with the terms of the loan facilities agreement, there will be no further proposed, approved or distributed dividends until the loan amount is fully repaid or restructured. Therefore, no dividend has been proposed or approved during the current year. However, during the previous year the Company paid a final dividend for year 2015 and an interim dividend for year 2016, as follows:

The Board of Directors proposed a final cash dividend of RO 1.812 million (8% of the existing share capital) for the year ended 31 December 2015, which was approved and distributed to the shareholders after their approval in the Annual General Meeting held on 29 March 2016.

The Board of Directors of the Company proposed an interim dividend of RO 0.913 million (4.132% of the existing share capital) for the year ended 31 December 2016, which was approved and distributed to the shareholders after their approval in the Annual General Meeting held on 29 March 2016.

9 Hedging deficit and reserve:

Interest rate swaps

The long-term loan facilities of the Company bear interest at USD LIBOR - 6 months plus applicable margins (refer note 10). In accordance with the term loan agreement, the Company has fixed the rate of interest through Interest Rate Swap Agreements ("IRS") to hedge the risk of variation in USD LIBOR - 6 months for at least 95% of its loan facility until 31 March 2022. The corresponding hedged notional amount of the swaps at 31 December 2017 is approximately RO 92 million (USD 238 million) [31 December 2016: RO 100 million (USD 260 million)], bearing fixed interest rates of 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum [31 December 2016: 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 2017

9 Hedging deficit and reserve - Continued:

At 31 December 2017, the interest rate for USD LIBOR - 6 months was 1.50389% per annum, (31 December 2016: 1.2336% per annum) whereas the Company has fixed interest on its borrowings as described above.

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
HSBC Bank Plc	**(1,224)**	(1,935)	**(3,179)**	(5,026)
Standard Chartered Bank	**(755)**	(1,233)	**(1,961)**	(3,203)
HSBC Bank Plc	**(875)**	(1,102)	**(2,273)**	(2,862)
Standard Chartered Bank	**(2,298)**	(3,181)	**(5,969)**	(8,262)
Credit Agricole Corporate and Investment Bank	**(2,271)**	(3,181)	**(5,899)**	(8,262)
Hedging deficit at end of the year	**(7,423)**	(10,632)	**(19,281)**	(27,615)
Deferred tax (note 19)	**1,113**	1,276	**2,891**	3,314
Hedging reserve at end of the year (net of tax) - Before deducting ineffective portion of cash flow hedge	**(6,310)**	(9,356)	**(16,390)**	(24,301)
LESS: Hedging reserve at beginning of the year (net of tax)	**(9,356)**	(12,904)	**(24,301)**	(33,513)
Effective portion of change in the fair value of cash flow hedge for the year	**(3,046)**	(3,548)	**(7,911)**	(9,212)

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

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
Hedging deficit at beginning of the year	**(10,632)**	(14,664)	**(27,615)**	(38,081)
Change during the year	**3,209**	4,032	**8,334**	10,466
Hedging deficit at end of the year	**(7,423)**	(10,632)	**(19,281)**	(27,615)
Ineffective portion of cash flow hedge (note 18)	**147**	-	**382**	-
Deferred tax (note 19)	**1,113**	1,276	**2,891**	3,314
Hedging reserve at end of the year	**(6,163)**	(9,356)	**(16,008)**	(24,301)

9.2 If the Company had terminated the IRS at 31 December 2017, it would have incurred losses of approximately RO 8.21 million (USD 21.34 million) [31 December 2016: RO 11.64 million (USD 30.23 million)]. However, under the terms of the loan agreements, the Company is not permitted to terminate the interest rate swap agreements.

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

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for the year ended 31 December 2017

10 Long-term loans:

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
Base facility	**75,625**	85,414	**196,429**	221,855
Repayment facility	**14,546**	16,429	**37,782**	42,673
LESS: Current portion of long-term loans	**(10,912)**	(9,007)	**(28,343)**	(23,395)
	79,259	92,836	**205,868**	241,133
LESS: Deferred financing costs	**(1,134)**	(1,407)	**(2,945)**	(3,655)
Non-current portion of long-term loans	**78,125**	91,429	**202,923**	237,478

Syndicated facilities

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

Base facility

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

Repayment facility

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

Interest

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

Commitment and other fees

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

Security

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

Notes to the financial statements

for the year ended 31 December 2017

10 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, aside from the interim dividend of RO 0.913 million already paid in August 2016, no further amount will be available for distribution as dividends to the shareholders until the full repayment of the loan.

11 Provision for decommissioning costs:

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

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
At the beginning of the year	**1,395**	1,312	**3,624**	3,408
Un-winding of discount on decommissioning costs (note 18)	**88**	83	**229**	216
At the end of the year	**1,483**	1,395	**3,853**	3,624

12 Trade and other payables:

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
Trade payables	**3,532**	3,030	**9,171**	7,870
Accruals and other payables	**5,674**	5,135	**14,733**	13,329
	9,206	8,165	**23,904**	21,199

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

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

13 Related party transactions and balances:

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

Notes to the financial statements

for the year ended 31 December 2017

13 Related party transactions - Continued:

	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Key management remuneration	**184**	183	**478**	475
Directors' remuneration (note 17)	**13**	137	**34**	356
Directors' meeting attendance fees (note 17)	**25**	19	**65**	49
Services provided by Sohar Operations and Maintenance Co. LLC (SOMC)	**6,646**	6,446	**17,261**	16,742
Services provided by Power Management Co. LLC				
- Management fees	**154**	154	**400**	400
- Other administrative expenses	**307**	314	**797**	816
Services provided by Suez Tractebel S.A.	**47**	34	**122**	88
Services provided by Laborelec Middle East	**14**	14	**36**	36
Electrabel S.A. - Guarantee fee	**65**	65	**169**	169
MENA Sohar 1SPV Limited - LC fee	**37**	37	**96**	96
SOGEX Oman LLC - LC fee	**9**	9	**23**	23
MOD Pension Fund - LC fee	**9**	8	**23**	21
	======	======	======	======

A summary of the related party balances as at 31 December 2017 is as follows:

13a Amount due to a related party

	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Sohar Operations and Maintenance Company LLC	**1,040**	286	**2,701**	743
	1,040	286	**2,701**	743
	======	======	======	======

14 Revenue:

	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Power and water revenue	**64,485**	66,307	**167,494**	172,226
	64,485	66,307	**167,494**	172,226
	=======	=======	========	========

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

15 Cost of revenue:

	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Fuel gas	**37,030**	38,961	**96,182**	101,197
Operating and maintenance costs	**6,646**	6,446	**17,261**	16,742
Depreciation (note 4)	**6,743**	6,741	**17,514**	17,509
Sea water extraction costs	**740**	725	**1,922**	1,883
Other operating expenses	**1,010**	788	**2,624**	2,047
	52,169	53,661	**135,503**	139,378
	=======	=======	========	========

Notes to the financial statements

for the year ended 31 December 2017

16 Other income:

	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Insurance claim	**204**	387	**530**	1,005
Claim received against forced outage	**-**	16	**-**	42
Reimbursement of extra tax payable (note 19c)	**126**	-	**327**	-
	330	403	**857**	1,047

17 General and administrative expenses:

	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Management fees	**154**	154	**400**	400
Directors' meeting attendance fees and remuneration (note 13)	**38**	156	**99**	405
Legal and professional fees	**98**	98	**255**	255
Staff costs	**30**	29	**78**	75
Depreciation (note 5)	**1**	1	**3**	3
Other administrative expenses	**456**	420	**1,185**	1,092
	777	858	**2,020**	2,230

18 Finance costs:

	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Interest on net settlement of swaps	**3,422**	4,475	**8,888**	11,623
Interest on base facility	**1,893**	1,649	**4,917**	4,283
Interest on repayment facility	**364**	317	**945**	823
Ineffective portion of cash flow hedge	**147**	-	**382**	-
Other financial charges	**70**	297	**182**	771
Amortisation of deferred financing costs	**273**	254	**709**	660
Unwinding of discount on decommissioning costs (note 11)	**88**	83	**229**	216
	6,257	7,075	**16,252**	18,376

19 Taxation:

19a Current tax

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

The Royal Decree 9/2017 amending the Income Tax Law was issued on 19 February 2017 and published in the Official Gazette on 26 February 2017. This Royal Decree has increased the tax rates from 12% to 15%. Accordingly the provision for taxation for the current year has been created at 15% of taxable profits.

Notes to the financial statements

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19 Taxation - Continued:

	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Recognized in the statement of profit or loss				
Current tax charge				
- Current year	**657**	-	**1,706**	-
Deferred tax charge (net)				
- Current year				
Origination and reversal of temporary differences	**194**	573	**504**	1,488
Effect of change in tax rates (From 12% to 15%)	**2,731**	-	**7,094**	-
	2,925	573	**7,598**	1,488
	3,582	573	**9,304**	1,488
Recognized in the statement of other comprehensive income				
Deferred tax charge relating to interest rate swap	**163**	484	**423**	1,254

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

	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Profit before taxation	**5,612**	5,116	**14,576**	13,289
Income tax as per rates mentioned above	**842**	614	**2,187**	1,595
Non-deductible expenses	**9**	5	**23**	13
Deductible expenses	**-**	(46)		(120)
Effect of change in tax rates	**2,731**	-	**7,094**	-
Income tax expense	**3,582**	573	**9,304**	1,488

19b Deferred tax

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

Recognized in the statement of financial position

	2017 RO (000)	2016 RO (000)	2017 USD (000)	2016 USD (000)
Deferred tax liability	**12,736**	9,648	**33,081**	25,060

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19 Taxation - Continued:

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

	At 31 December 2016 RO (000)	Recognised in statement of profit or loss RO (000)	Recognised in statement of other comprehensive income RO (000)	**At 31 December 2017 RO (000)**
Provisions	247	68	-	**315**
Tax losses	266	(266)	-	**-**
Fair value of hedging instruments	1,276	-	(163)	**1,113**
Depreciation	(11,437)	(2,727)	-	**(14,164)**
	(9,648)	(2,925)	(163)	**(12,736)**

	USD (000)	USD (000)	USD (000)	**USD (000)**
Provisions	639	177	-	**816**
Tax losses	689	(689)	-	**-**
Fair value of hedging instruments	3,318	-	(423)	**2,895**
Depreciation	(29,706)	(7,086)	-	**(36,792)**
	(25,060)	(7,598)	(423)	**(33,081)**

19c Provision for taxation

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
Charge for the year	**657**	-	**1,706**	-
	657	-	**1,706**	-

The taxation charge for the year includes RO 126 (USD 327) which will subsequently be reimbursed by Oman Power and Water Procurement Co. SAOC (OPWP) according to an agreement between the Company and OPWP. As per a letter from OPWP captioned “Material adverse change claim due to changes in the Income Tax Law”, dated 21 December 2016, OPWP agreed to reimburse the Company, throughout the term of the PWPA, for extra tax payable due to increase in tax rates from 12% to 15%, applicable from the current financial year.

19d Status of tax assessments

The Company has filed annual tax returns up to the year ended 31 December 2016. The Company’s tax assessments for the year ended 31 December 2012 to the year ended 31 December 2016 have not been finalized by the Secretariat General for Taxation of the Sultanate of Oman. The management believe that the amount of additional taxes, if any, that may become payable in relation to the tax years for which assessments are pending would not be material to the Company’s financial position as at 31 December 2017.

Notes to the financial statements

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20 Net assets per share:

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

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
Shareholders' equity	**31,036**	29,006	**80,619**	75,347
Number of issued and fully paid-up shares at end of the year	**221,010**	221,010	**221,010**	221,010
Net assets per share	**0.140**	0.131	**0.364**	0.341

21 Basic and diluted earnings per share:

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

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
Net profit for the year	**2,030**	4,543	**5,272**	11,801
Weighted number of shares outstanding during the year	**221,010**	221,010	**221,010**	221,010
Basic and diluted earnings per share	**0.009**	0.021	**0.024**	0.053

22 Lease commitments:

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

	2017 RO (000)	2016 RO (000)	**2017 USD (000)**	2016 USD (000)
Within 1 year	**64**	63	**165**	162
Between 1 and 5 years	**206**	250	**537**	649
After 5 years	**-**	15	**-**	41
	270	328	**702**	852

Notes to the financial statements

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23 Contingent liabilities:

There were no contingent liabilities outstanding as at 31 December 2017 (31 December 2016: Nil).

24 Capital risk management:

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

The capital structure of the Company consists of share capital, reserves and retained earnings. The Company manages its capital by making adjustments to dividend payments and bringing in additional capital in the light of changes in business conditions. No changes were made in the objectives, policies and processes during the years ended 31 December 2017 and 2016.

25 Financial risk management:

Financial assets and liabilities

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

Risk management

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

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

Market risk:

(i) Foreign exchange risk

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

The Company is exposed to currency risk on bank borrowings that are denominated in a currency other than the functional currency of the Company. These transactions are denominated in the United States Dollar (USD). In respect of the Company's transactions denominated in USD, the management believe that the Company is not exposed to currency risk as the RO is effectively pegged to the USD and as the revenues of the Company are protected against foreign exchange fluctuation, by a provision under the PWPA. At the end of the reporting period, the Company had bank balances denominated in USD amounting to RO 0.484 million (31 December 2016: RO 0.0116 million).

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25 Financial risk management (Continued) :

(ii) Interest rate risk

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

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

(iii) Price risk

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

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

Credit risk:

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

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

	31 December 2017		31 December 2016	
	Receivables RO (000)	**Provision RO (000)**	Receivables RO (000)	Provision RO (000)
Not past due	**5,473**	**-**	5,068	-
More than one year	**-**	**-**	1,392	1,392
	5,473	**-**	6,460	1,392

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25 Financial risk management - Continued:

	31 December 2017		31 December 2016	
	Receivables USD (000)	**Provision USD (000)**	Receivables USD (000)	Provision USD (000)
Not past due	**14,216**	**-**	13,163	-
More than one year	**-**	**-**	3,616	3,616
	14,216	**-**	16,779	3,616

Liquidity risk:

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

31 December 2017	Carrying value RO (000)	Contractual cash flows RO (000)	Less than 6 months RO (000)	6 to 12 months RO (000)	1 to 2 years RO (000)	3 to 5 years RO (000)	More than 5 years RO (000)
Non-derivative financial Liabilities (A)							
Secured bank loans	89,037	90,164	3,924	5,413	9,618	71,209	-
Trade and related party payables	10,246	10,246	10,246	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	7,423	8,217	1,390	1,390	2,136	3,301	-
Total (A+B)	**106,706**	**108,627**	**15,560**	**6,803**	**11,754**	**74,510**	**-**

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

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25 Financial risk management - Continued:

31 December 2016	Carrying value RO (000)	Contractual cash flows RO (000)	Less than 6 months RO (000)	6 to 12 months RO (000)	1 to 2 years RO (000)	3 to 5 years RO (000)	More than 5 years RO (000)
Non-derivative financial Liabilities (A)							
Secured bank loans	100,436	101,843	3,658	5,350	9,337	27,695	55,803
Trade and related party payables	8,451	8,451	8,451	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	10,632	12,496	1,726	1,726	3,025	5,517	502
Total (A+B)	**119,519**	**122,790**	**13,835**	**7,076**	**12,362**	**33,212**	**56,305**

	Carrying value USD (000)	Contractual cash flows USD (000)	Less than 6 months USD (000)	6 to 12 months USD (000)	1 to 2 years USD (000)	3 to 5 years USD (000)	More than 5 years USD (000)
Non-derivative financial Liabilities (A)							
Secured bank loans	260,873	264,528	9,500	13,896	24,253	71,935	144,944
Trade and related party payables	21,942	21,942	21,942	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	27,615	32,459	4,482	4,482	7,857	14,331	1,307
Total (A+B)	**310,430**	**318,929**	**35,924**	**18,378**	**32,110**	**86,266**	**146,251**

Capital management

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

Capital commitments

There were no capital commitments as at 31 December 2017 (31 December 2016: Nil)

Notes to the financial statements

for the year ended 31 December 2017

26 Fair value measurement:

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

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

The fair value of derivative financial liabilities (interest rate swaps) with a carrying value of RO 7.42 million (USD 19.28 million) [31 December 2016: RO 10.63 million (USD 27.62 million)] is calculated as the present value of the estimated future cash flows based on observable yield curves. Accordingly, they have been fair valued under Level 2 hierarchy. There were no transfers between the Level 1 and Level 2 hierarchies in the current year.

27 Prior year comparatives:

Certain balances from the previous year have been reclassified to conform to the current year's presentation. Such reclassifications, however, do not affect previously repoted net profits or shareholders' equity.

28 Subsequent events:

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

29 Approval of the financial statements:

These financial statements were approved and authorised for issue by the Board of Directors on 22 February 2018.