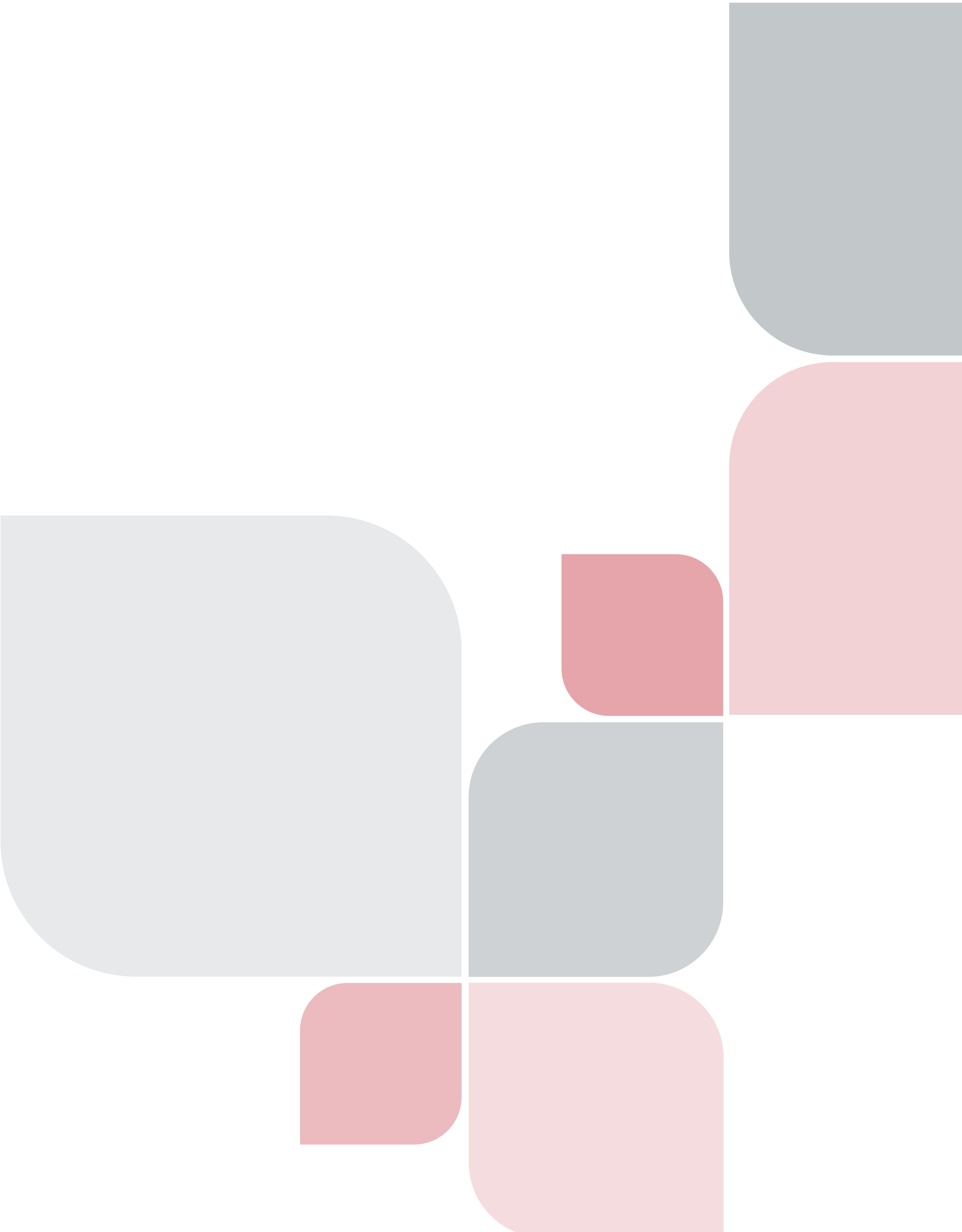
ANNUAL REPORT **2018**

ENERGIZING
OMAN'S FUTURE

الباطنة للطاقة

AL BATINAH POWER

His Majesty
Sultan Qaboos
bin Said



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BOARD OF DIRECTORS AND KEY EXECUTIVE OFFICERS

Board of Directors	Position	Representing
Mr. Saif Abdullah Hamood Al-Harthy	Chairperson	Kahrabel FZE
Mr. Debasish Majumder	Deputy Chairperson	
Mr. Clifford John Sanders	Director	Kahrabel FZE
Mr. Guillaume Baudet	Director	
Mr. Ryuji Kikuchi	Director	Blue Horizon Sohar Power B.V.
Mr. Hadi Said Humaid Al-Harthy	Director	Public Authority for Social Insurance
Mr. Khalifa Mubarak Al Hinai	Director	
Mr. Mohamed Amur Mohamed Al-Mamari	Director	Civil Service Employees Pension Fund
Mr. Mohammad Ribhi Izzat AlHusseini	Director	Ministry of Defence Pension Fund
Mr. Masahiro Komatsubara	Director	SEP International Netherlands B.V.
Mr. Yasser Ramadan Mahamad Kheir	Director	

Key Executive Officers	Position
Mr. Ya'qoub Harbi Salim Al Harthi	Chief Executive Officer
Mr. Mitsuo Nakamoto	Chief Financial Officer

الباطنة للطاقة
AL BATINAH POWER

BOARD OF DIRECTORS' REPORT

Dear Shareholders,
On behalf of the Board of Directors of Al Batinah Power Company SAOG (the "Company"), I have the pleasure to present the Directors' Report of the Company for the year ended 31 December 2018.

Operational Highlights

The plant's operation was excellent during the year achieving a reliability of 99.74% and delivered 4,778 GWh to the MIS network. The plant load for the period was 74.02% against 66.98% in corresponding period of 2017. Also the Company maintained its excellent record of zero lost time accidents and zero environmental incidents, thereby clocking 2,735 lost time accident free days (717,554 man hours) at site since inception, which is reflective of our continued focus on health, safety and environment ("HSE").

Financial Results

	2018 RO'000s	2017 RO'000s	Percentage change
Revenues	**75,138**	70,643	6.36%
Direct costs	**(53,957)**	(50,297)	
Gross profit	**21,181**	20,346	4.10%
General and administrative expenses	**(778)**	(783)	
Profit before interest and tax	**20,518**	19,588	4.75%
Finance costs (net)	**(9,871)**	(10,562)	
Profit before tax	**10,647**	9,026	18.0%
Tax	**(1,575)**	(4,470)	
Net profit for the period	**9,072**	4,556	99.12%

Higher revenue as compared to the previous year is attributed mainly to higher plant load factor. High load factor leads to more consumption of the fuel gas and energy variable fee which is the reason for the increase in direct costs as compared to the last year. Less Gas turbine maintenance expenses and better plant reliability during the period as compared to previous year contributes to better operating profit.

Lower operation expenses and the steady reduction in finance costs positively contributed to the better profit before tax.

The net profit is almost doubled as compared previous year. The main reason was the impact on the deferred tax, due the income tax rate increase from 12% to 15% pursuant to the Royal Decree 9/2017 which was issued on 19 February 2017, considered in the previous year's accounts.

Pursuant to the Power Purchase Agreement (PPA) clauses, Oman Power and Water procurement Company (OPWP) agrees to compensate the company, on a monthly basis, for any impact on the company's cost or

company's revenue that is caused or will be caused by the amendment of the tax law.
The Company distributed a cash dividend of 2.80% (Baizas 2.80 per share) in June 2018 and 5.68% (Baizas 5.68 per share) in December 2018

The share price was 101 Baizas at the end of December 2018.

Corporate Social Responsibility

Driven by its CSR Policy to support the local community in education and health sectors, The company has entered into sponsorship agreement with three other power companies to install 80 KW solar PV system in one of the school in Barak area. The work has been completed and the inauguration was done in December 2018. The total project cost is around 60,000 OMR which is sponsored by four power companies. The Company has donated to Liwa Health Centre specialized equipment for skin clinic and a dental chair for the same Centre. The delivery of this equipment is expected in Jan 2019.

Medium Term Outlook

There is no major inspection planned during this winter period (October 2018 – March 2019). Minor inspections for gas turbine no. 11 and Heat Recovery Steam Generator no. 11 are planned in January 2019.Lessons learnt from the previous inspections are being considered and management will endeavor to achieve smooth and timely completion of this inspection. The major inspections of other Steam Turbine and Steam Turbine Generator are planned in Q4 2019.

Authority of Electricity Regulation (AER) has modified the company Generation License to reflect the introduction

of the Electricity spot market in 2021. As the company entered into PPA with OPWP valid until 2028, all of its invoices will be settled under the PPA, However the company should participate in this Market pursuant to modified Generation License. The Company is participating in Working Group committee meeting and preparing the implementation plan as per the guidance from AER. The company is protected by PPA for any cost it may incur as a result of the spot Market. Beyond that date, this Market constitutes one of the options the company may participate in.

All reasonable measures are taken by the management to maintain the high availability levels in 2019. Any change in the power supply and demand landscape in the Sultanate has substantially no impact on the financial performance of the Company since its net profit is mainly derived from its plant availability.

Finally, on behalf of the Board of Directors, I would like to extend our deep appreciation and gratitude to His Majesty Sultan Qaboos Bin Said and His Government for their continued support and encouragement to the private sector by creating an environment that allows us to participate effectively in the growth of the Sultanate's economy and to dedicate our achievements to the building of a strong nation.

Saif Al Harthy
Chairperson of the Board

PROFILE OF MAJOR SHAREHOLDERS

Kahrabel FZE

Kahrabel FZE oversees and manages the development, construction and operation of the electricity and water production business of ENGIE group in MENA region. It is an entity 100% owned directly by International Power S.A., which is ultimately owned indirectly by ENGIE group. Engie is a global energy and services group, focused on three core activities: low-carbon power generation, mainly based on natural gas and renewable energy; global networks and customer solutions.
ENGIE has 150,000 employees in 70 countries, with sales of EUR65 billion in 2017. Listed in Paris and Brussels (ENGIE), the Group is represented in the main financial (CAC 40, BEL 20, Euro STOXX 50, STOXX Europe 600, MSCI Europe, Euronext 100, FTSE Eurotop 100, Euro STOXX Utilities, STOXX Europe 600 Utilities) and extra-financial indices (DJSI World, DJSI Europe and Euronext Vigeo Eiris - World 120, Eurozone 120, Europe 120, France 20, CAC 40 Governance).

Middle East Investment LLC

Middle East Investment LLC is a subsidiary of Suhail Bahwan Group, which is one of the foremost & most reputed business house in the Sultanate of Oman.

Middle East Investment LLC is mainly engaged in investment & trading in quoted & un-quoted equity and debt securities.

MEI has grown to become a reputed Omani Investment Company. An achievement resulting from unwavering commitment to Sultanate of Oman, the professionalism of the Group's employees, a keen sense of social responsibility with a strong awareness of its operating environment and the exceptional vision and close adherence to basic values. Our portfolios focus on investing in banking, power, telecom, consumer & pharmaceutical sectors that provide the opportunity to create and capture value in a risk averse manner. The Company professionally managed investment stakes consist of local and international diversified portfolios of securities, debts and direct investment.

Blue Horizon Sohar Power B.V. (BHSP)

Blue Horizon Sohar Power B.V. (BHSP) is a wholly owned subsidiary of Sojitz for investing in the Sohar-2 IPP. Sojitz is an investment and trading corporation based in Tokyo, Japan, and listed on the Tokyo Stock Exchange.

Sojitz employs more than 18,500 people worldwide (as of September 2018) and achieved revenues of JPY 4.2 trillion in the fiscal year ended in March 2018.

Sojitz was established through the merger of Nichimen Corporation (established in 1892) and Nissho Iwai Corporation (established in 1896) in 2004. Sojitz conducts its operations in around 50 countries through over 400 consolidated subsidiaries and affiliated companies in Japan and overseas. Sojitz's business activities are wide-ranging, covering machinery, energy and metal, chemicals and consumer lifestyle. Sojitz's strength lies not only in developing financial schemes, but also in conducting accurate analysis of markets through its overseas networks and determining the commercial viability of businesses using accumulated expertise in various fields. Sojitz has used these skills to pursue opportunities in IPP businesses as a developer, investor, finance arranger and/or project coordinator. Sojitz has been involved in IPP projects worldwide including Oman, Saudi Arabia, USA, Indonesia, Vietnam, Mexico, Sri Lanka and Japan.

Sojitz, a direct shareholder of BHSP, is a global investment and trading company actively involved in project developments for power and energy sector around the world. Specifically in the Gulf region, Sojitz has long been involved in power and water projects including EPC desalination projects such as Ghubra Phase 1, 2, 3/4 and 5, Muhut and IPP projects such as PP11 IPP (1,729 MW) in Saudi Arabia and Barka-3 (744 MW, CCGT) / Sohar-2 (744MW, CCGT) in Oman.

Further information about Sojitz is available at: http://www.sojitz.com/en/

SEP International Netherlands B.V. (SEPI)

SEPI is a wholly owned subsidiary of Shikoku Electric Power Co. Inc. (YONDEN) for investing to and managing IPP/IWPP projects outside Japan, which holds shares in Barka-3 IPP (744MW, CCGT) & Sohar-2 (744MW, CCGT) in Oman and Ras Laffan C IWPP (2,730MW, CCGT & 63MIGD) in Qatar.

Ras Laffan C IWPP, one of the world's largest independent water and power projects, achieved COD as scheduled in 2011 and is continuing efficient & stable operation since then.

In 2017, Yonden committed new investment of 98MW photovoltaic project in Chile, which is now being constructed, targeting COD in mid 2019.

Yonden, listed on the Tokyo Stock Exchange, is an electric power utility and carries out the integrated process of generating, transmitting, distributing, and selling electricity to approx. 4 million people in Shikoku region, Japan. Yonden employs approx.. 4,500 people and has achieved consolidated operating revenues of USD 6.9 billion from the electricity sales of 30.0 billion kWh in the fiscal year ended March 31, 2018. Since its establishment in 1951, Yonden has contributed to regional development through the stable supply of low-cost, high-quality electricity by establishing a balanced energy mix that combines nuclear, coal, oil, gas, hydro, and solar power, totaling approx. 6,340MW (net and gross) in generating capacity at 63 power stations.
Especially in the thermal power field, over 400 engineers engage in engineering, construction, operation and maintenance of thermal power plants whose generating capacity is approximately 3,700MW with their comprehensive experiences, skills and know-how obtained for more than 60 years. Yonden owns two CCGT units (296MW and 289MW at its Sakaide Power Station).

Further information about Yonden is available at: http://www.yonden.co.jp/english/index.html

Public Authority for Social Insurance (PASI)

PASI is a public authority established in Oman enjoying administrative and financial independence pursuant to Royal Decree 72/91 issued on 2nd July 1991. PASI manages a defined benefit pension scheme for Omani nationals employed in the private sector through prudent, wise and long-term investment strategies. Currently, the scheme members exceed 203,000 active participants.

PASI invests actively in the local and international capital markets. Locally, PASI has been a pioneer in participating in power, utility companies and major real estate projects. Internationally, PASI's investments cover both traditional (such as bonds and equities) and alternative assets (such as private equity, infrastructure & real estate).

Further information about PASI is available at: www.pasi.gov.om

Civil Service Employees Pension Fund (CSEPF)

The Civil Service Employees Pension Fund (CSEPF) was established simultaneously with the introduction of the Law of Pensions and End of Service Benefits for Omani Nationals employed in the Government sector in the beginning of 1986.

The Fund is an independent government unit which has a juristic personality, an administrative and financial independence.

Further information about CSEPF is available at: www.civilpension.gov.om

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.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Al Batinah Power Company SAOG (the "Company") takes its role as a responsible corporate citizen seriously. Guided by its CSR policy focusing on local initiatives in the areas of education, sports, health, safety and environment, the Company has spent 25,250 OMR in two projects in 2018 as summarized in the table below:

	Project Description	Amount (RO)
1	80 KW Solar PV project at Hind Bint Usaid School in Barka area.	15,250
2	Special equipment for the skin clinic in Liwa health center.	4,985
3	Dental chair for Liwa Health Center.	5,008
	Total	**25,243**

The first project was installation of 80 KWp Solar PV systems at Hind Bint Usaid School in Barak area. The work has been completed and inaugurated in December 2018. The total project cost was around 60,000 OMR which was sponsored by four power companies including AL Batinah Power Company. The Project has a capacity of 80 KWp and expected to produce around 120 MWh/year. By completing the projects the objectives have been achieved which are

- Economical value: After the school hours the production can be sold the distribution network at CRT tariff and expected to net-off the annual electricity bill of the school.
- Increase green energy awareness amid the students and society.
- Support to the local SME: the project has been installed by local SME who has learnt and gained experience during the installation processes.

The company has donated 10,000 OMR worth of medical equipment to Liwa health center. These equipment are dental chair and special devises for the skin clinic in the centre. The delivery of these equipment to the center is early 2019. Liwa health centre supports large segment of population in Liwa area which is close to the port of Sohar where the plant is located.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The management of Al Batinah Power Company SAOG (the "Company") is pleased to present its report on the Company's business structure, opportunities and threats, operational and financial performance, risks and concerns, outlook and other matters of importance to the shareholders.

Industry structure and development

In 2004, the 'Sector Law' came into force which provides the framework for the industry structure of electricity and related water in Oman. It led to the installation an independent regulatory authority, the Authority for Electricity Regulation (AER), a single procurement company, Oman Power and Water Procurement Company SAOC (OPWP) and a holding company, Electricity Holding Company SAOC (EHC).
OPWP is responsible for ensuring that there is sufficient electricity and water production capacity available at the lowest cost to meet growing demands in Oman. OPWP undertakes long-term generation planning and identifies new projects to be developed by private sector entities, in order to meet the future power generation and water desalination requirements of Oman.

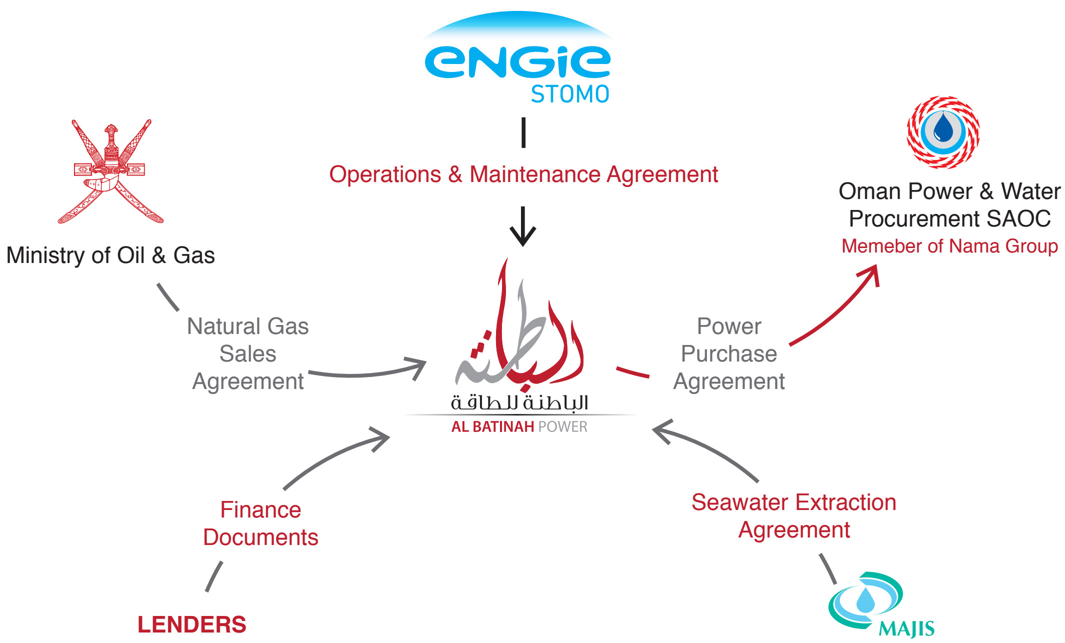
Oman's electricity sector is partly government-owned and partly privatized. OPWP's portfolio of contracted power capacity comprises of long-term contracts with fifteen power and/or deslination plants in operation.

The Authority of Electricity regulation (AER) has modified the Company's Generation License to reflect the introduction of the Electricity spot market from the month of December 2020. The Company is closely following OPWP's "spot market" arrangements for the future procurement of power from independent power producers. Although the Company has a Power Purchase Agreement (PPA) with OPWP which expires in April 2028, the proposed spot market rules will require the Company to participate, on a daily basis, in the 'spot market' process albeit with no risk to its revenue arrangements agreed within the existing PPA. With the proposed arrangement, OPWP aims to enhance dispatch efficiency by increasing transparency, achieving fuel efficiency, efficient asset utilization and clarity in respect of post PPA term revenue opportunities for generators, thereby enhancing transparency of the treatment of expiring PPAs. OPWP would continue to retain its role as the single buyer of all wholesale electricity in the country.

Opportunities and Threats

The Company has a well-established contractual framework ensuring stable and predictable cash flows.

Contractual Framework



The Power Purchase Agreement (PPA) with OPWP is resilient to potential shocks in gas prices and power demand until 2028. OPWP is the sole purchaser of all electricity output from the power plant (the "Plant") and the Company is fully dependent on timely payments by OPWP. OPWP is an entity with a high credit rating and a good track record of timely payments.

The Natural Gas Sales Agreement (NGSA) executed with the Ministry of Oil and Gas (MOG) secures the availability of fuel (natural gas) back to back with the PPA term. In January 2015, the gas price was revised with annual escalation of minimum 3% as per the NGSA. However, as the gas cost is a pass-through element under the PPA, the Company has no impact from the increase in the gas price.

The Seawater Extraction Agreement executed with Majis Industrial Services SAOC (Majis) secures the availability of chlorinated seawater, which the Company uses mainly for cooling purpose for different equipment of the Plant.

The Company has entered into financing agreements with a consortium of international banks and export credit agencies. The interest rates volatility is adequately hedged through entering into interest rate swap agreements thus improving the predictability of cash flows available to shareholders.

The technological risk is considered low as the Plant uses proven technology from renowned international suppliers (mainly Siemens).

Suez-Tractebel Operation and Maintenance Oman LLC (ENGIE STOMO) is contracted to operate and maintain the Plant for the term of the PPA. STOMO is an experienced and skilled operator with largest O&M expertise in Oman. The operations and maintenance standards of the Plant are based on international best practices, in accordance with ENGIE's policies and principles which in turn are derived from its experience in operating numerous power generation plants worldwide.

Finally, the Company continues to benefit from the extensive experience of its main shareholders in ownership and operation of power projects in the country and worldwide.

Discussion on operational performance

Health and Safety

Health and safety performance is given utmost importance within the Company and also encompasses STOMO, various contractors and sub-contractors, in order to achieve the goal set by the top management: zero harm and zero environmental incidents.

The overall HSE performance in 2018 was excellent with no lost time accident (LTA) reported. The Company takes pride to inform that the Plant has completed 2,735 days without LTA (717,554 man hours)by the end of 2018.

The Plant holds major certifications like ISO 14001 and ISO 45001 as a testimony for safe and high quality Plant operations. The Plant was also awarded, for two consecutive years, the 'RoSPA Gold Award for Health and Safety' for 2016 and 2017 by The Royal Society for the Prevention of Accidents (RoSPA). Many other proactive actions undertaken by the Company and STOMO have led to such excellent accomplishment of HSE objectives:

- Frequent management reviews and safety walks
- Proactive key performance indicators (KPI)
- Behavioral based program called "fresh eyes"

- Implementation of INTELEX – a safety incidents management system
- Behavioral Attitude Recommendation Standards (BARS) is a corporate initiative introduced by Engie as part of wider loss control and risk management approach.
- All the O&M managers and HSE staff are NEBOSH certified

Every small incident or near miss is taken very seriously, analyzed and actions are proactively implemented and shared internally and with board members so as to benefit from their experience and network to ensure best practice.

Human Resources – training and career development

Training values at the plant are established by STOMO. These are primarily aimed to ensure that all of their employees perform their tasks in the most efficient and safe manner. The Company and STOMO are committed to empower qualified Omani Nationals to acquire better-quality engineering and related skills and take up higher responsibilities in operating and maintaining the Plant. To this end, since inception, the strategy of the Company and STOMO has been to train and develop qualified Omani staff to take up additional responsibilities in the due course. Annual performance review of each employee includes assessment of their career growth. STOMO has been successful in identifying candidates, especially young Omani graduates, with high potentials to take them through a higher level of specialized training and peer guidance to scale the echelons of senior management, reaching the highest position in a power company.

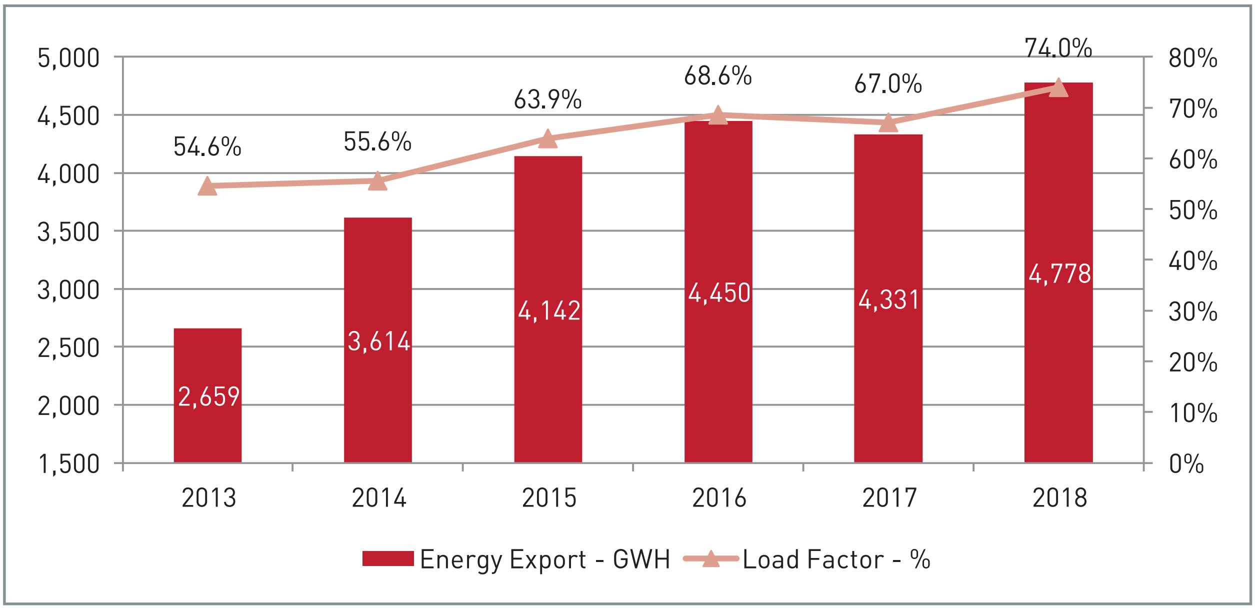
The Company too has established processes and has implemented its human resource policy that maps career graph for young Omani Nationals to achieve their potentials and grow professionally and take up senior positions.

Net energy export and load factor

The net energy export and load factor during 2018 was the highest in plant history. The overall MIS network energy has seen an increase which explains the increase in the plant production as the plant is one of the most efficient plants in the MIS network.

Capacity

The capacity of a plant is defined as the total electrical power (MW), which can be delivered by the plant at reference

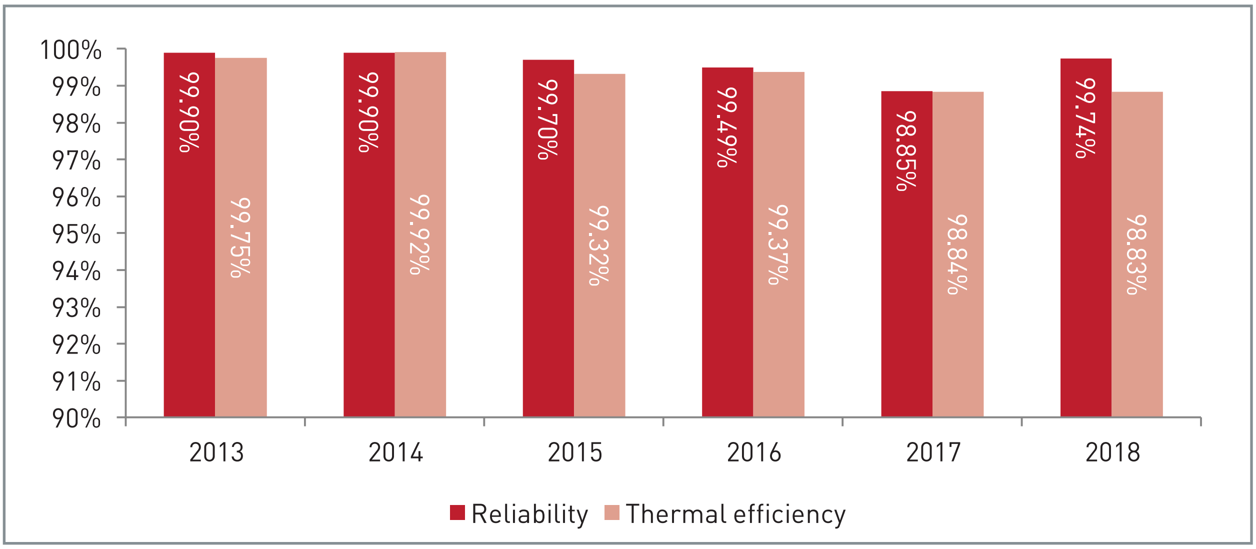


site conditions. As defined in the PPA, the guaranteed contracted capacity slightly and gradually decreases over the first 5 years of the project and then reaches a plateau at 736.53 MW from Contract Year 6 until the end of the PPA. This guaranteed contracted capacity has been successfully demonstrated by performance test in April 2018.

Reliability and Thermal Efficiency

The reliability of a plant is its ability to deliver the declared capacity, as per the PPA. The Plant's operational reliability over the last five years has been excellent by industry standards and materially contributes to the Company's financial performance. The plant has achieved a reliability of 99.74% in 2018 which is the best during the last 4 years.

The efficiency of a power plant is measured in terms of the amount of heat required to produce one unit of electrical energy. There was a small drop in efficiency of the Plant especially during summer months where the fuel demand model shows negative deviation from actual gas consumption at higher load factor. Various efficiency improvement solutions have already been implemented and others are being developed. The gas compressors which were switched off towards the end of 2017, helped to maintain the gas fuel margin despite higher plant load factor. An efficiency audit study of the plant was awarded to a professional company in this field. The aim of the study is to identify the area of improvement which can shrink the negative fuel margin of the plant.
Note: 2017 and 2016 efficiency data has been revised after reconciling claimed disputes for testing fuel and adjusting for December month invoice disputes.



Maintenance

Maintenance of the Plant was undertaken in accordance with the standard operations and maintenance processes recommended by the Original Equipment Manufacturer (OEM), Siemens, and also condition based monitoring. The first major maintenance overhaul or extended hot gas path inspection for gas turbine no.1 and gas turbine no.2 have been successfully completed in 2016 and 2017 respectively. During 2018, routine minor inspections have been conducted in both of the gas turbines. The medium inspection of steam turbine is expected in the winter of 2019 in Q4.

Warranty

Warranty on the main equipment and the balance of plant under the EPC Contract expired in June 2014 and April

2015 respectively, however the EPC Contractor has extended the tenor of the Warranty Bond to a level reflecting the value of remaining warranty claims, as agreed by the Board of Directors. The management entered into a separate supplemental agreement for cooling water pumps 11 and 12 with two years of extended warranty. The management is closely monitoring the resolution of the warranty claims against the EPC Contractors and shall revisit the value of remaining works and seek further extension of warranty bond until all warranty claims are duly resolved / implemented.

Discussion on financial performance

Analysis of Profit & Loss

Figures in RO millions		2018	2017	change %
Revenues	1	75.14	70.64	6.4%
Net Profit	2	9.07	4.56	99.1%
Net Profit before Finance costs	3	18.94	15.12	25.3%
Total Assets	4	264.89	272.86	-2.9%
Capital (Paid-up)	5	67.49	67.49	0.0%
Shareholders' Fund (Net Assets)	6	83.92	80.57	4.2%
Term Loans ^	7	157.41	171.59	-8.3%
Weighted average number of shares	8	674.89	674.89	0.0%
Actual number of shares outstanding	9	674.89	674.89	0.0%
Ordinary Dividends	10	5.72	4.92	16.3%
Key Financial Indicators				
Net Profit Margin	2/1	12.1%	6.4%	n/a
Return on Capital (Paid-up)	2/5	13.4%	6.8%	n/a
Return on Capital Employed	3/(6+7)	7.8%	6.0%	n/a
Debt Equity ratio	7:6	65.2:34.8	68.0:32.0	n/a
Net assets per share (Baizas)	6/8	124.34	119.38	4.2%
Basic earnings per share (Baizas)	2/8	13.44	6.75	99.1%
Dividends per share (Baizas)	10/9	8.48	7.29	16.3%

^ Excluding unamortised transaction cost

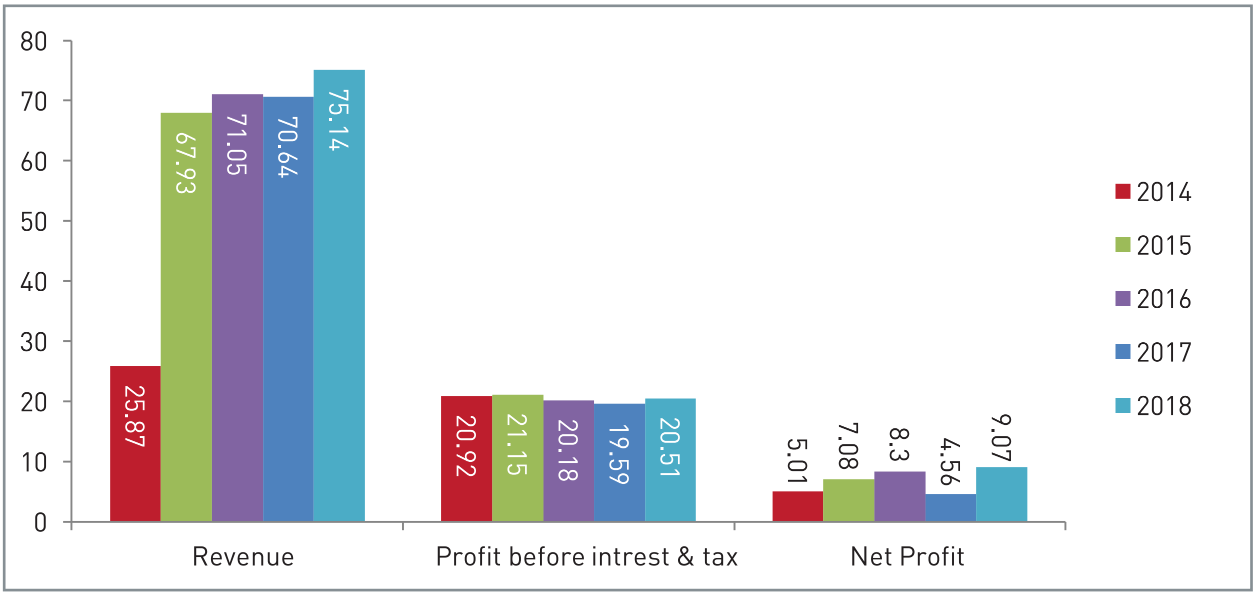
Higher plant load increased the fuel gas cost. However, as the gas cost is virtually a pass through element in the PPA, the Company's revenues have correspondingly increased on a back to back basis. The excellent plant operations continued to contribute to the financial performance of the Company.

The Net Profit for the year 2018 increased by 99% compared to last year. The main and large contributor, around 60%, to this reduction is the amendment of Income Tax Law that impacted the deferred tax in the last year financial. Other contributors are better reliability, less gas turbine maintenance expenses and steady reduction in finance cost because of scheduled debt repayments.

As a result, the basic earnings per share increased to 13.44 Baizas for the year 2018 compared to 6.75 Baizas in year 2017.

The Company revenue and profit in the last five years are graphically displayed below:

Key profitability indicators



** Major reason of the increase in revenue from 2014 to 2015 is that the gas unit price escalated double effective 1 January 2015 as per the NGSA. As the gas price is a pass through element in the PPA, the Company's revenues have correspondingly increased on a back to back basis.*

Analysis of Balance Sheet

Total Assets of the Company stood at RO 264.89 million as on 31 December 2018 as compared to RO 272.85 million last year mainly due to depreciation charge for the year.

Trade Receivables include one month of OPWP's invoice which is expected to be settled by OPWP in the due course as provided in the PPA.

Cash and cash equivalents and short term deposit net of short term borrowing stood at RO 1.63 million as at 31 December 2018, as compared to RO 0.15 million last year.

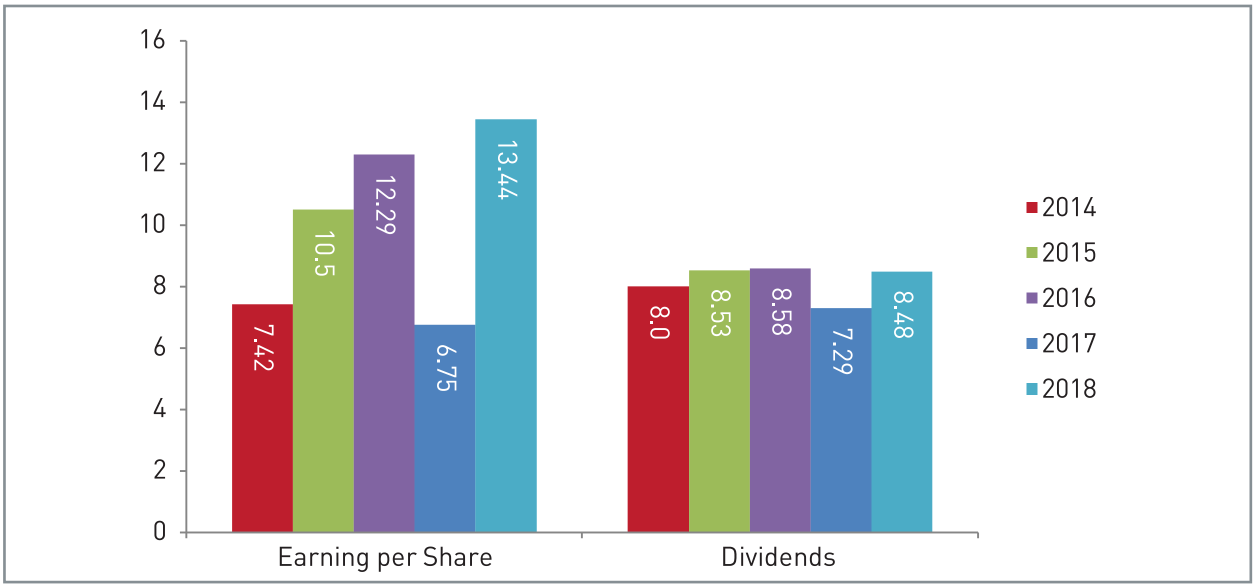
The Shareholders Funds (Net Assets) slightly increased to RO 83.92 million as of 31 December 2018 mainly due to higher net profit earned during year 2018 as reduced by the dividends distributed to the shareholders during the year.

Term Loans (including non-current and current balances) have reduced to RO 152.38 million as a result of scheduled loan repayments in accordance with the terms agreed within the Finance Documents.

Dividend Distribution

The Company's dividend policy of distributing available cash is conditional upon fulfilling of covenants agreed within the Finance Documents which include making adequate provisions for forecasted loan repayments and operating expenses. Consistent with the Company's policy and in accordance with Capital Market Authority regulations, the Company declared and distributed dividend of RO 5.72million (translating to 8.48 Baizas per share) in year 2018 (paid out of the audited retained earnings for the year ended 31 December 2017). The dividend payout for year 2018 was 16% higher than year 2017.

Shareholders value



Risks and Concerns

Loss of Availability due to Mechanical Breakdown

The principal risk to the Company is the Plant being unavailable due to mechanical breakdown. In order to mitigate this risk, the Company ensures and monitors that STOMO operates and maintains the Plant in line with the Company's directives, best industry practices maintenance schedules prescribed by the OEMs.

Loss of Availability due to Accidental Damage

In accordance with industry best practices, the Company ensures that adequate insurance policies are in place to protect the business against property damage and loss of income arising from accidental damage.

OPWP Payments

Since COD, barring one incidence, OPWP has settled all invoices within the agreed credit period.

Outlook

Royal Decree 9/2017 was issued on 19 February 2017 and published in the Official Gazette on 26 February 2017, amending certain provisions of the Income Tax Law. The major changes are:

- Increase in corporate income tax rate from 12% to 15% effective 1 January 2017, and
- Withholding tax (WHT) at 10% on payments to any foreign person for interest, fee for service (performed in Oman), and dividends.

As the Company is protected against any change of law under PPA as Buyer Risk Event (BRE), Oman Power and Water procurement Company (OPWP) agrees to compensate the company, on a monthly basis, for any impact on the company's cost or company's revenue that is caused or will be caused by the amendment of the tax law. The Company continues to consistently perform its obligation under PPA in order to ensure compensation by OPWP. Likewise, the Company will analyze the impact, if any, of expected VAT implementation in 2019.

During 2016, the Company carried out an exercise to refinance the Company's long term debt. The response from the present and prospective lenders was found to be dismal due to the unfavorable financial market conditions. Consequently, the Board decided to suspend the exercise. The Company is closely monitoring the developments in financial markets and should these show significant improvement, the Company will revive the refinancing exercise.

As per the Finance Documents, a cash sweep prepayment of the loan (commercial tranche only) will apply on 100% of the available cash flow starting from the twentieth repayment date until the loan is fully repaid (the "Cash Sweep Period"). In case the Company is able to refinance the loan before the commencement of the cash sweep, dividend distributions during the Cash Sweep Period may be possible to the shareholders subject to free cash availability. The Company continues to monitor the prevailing global financial markets conditions and will revive the refinancing exercise once there is an appreciable improvement in the market conditions.

The management is optimistic about the future of the Company. Recognizing that the long-term sustainability of the Company's financial results depends upon its efficient operational base, the management will continue to focus on ensuring high levels of Plant availability whilst closely controlling overhead costs.

Internal control systems and their adequacy

The management is fully aware of the importance of a strong internal control system. Since conversion of the Company's status to SAOG in 2014, the Company has appointed a full time in-house internal auditor and after she proved her capability to handle the internal auditing requirements, the company discontinued the external support from and a reputable audit firm . In addition, adequate training opportunities were provided to the internal auditor in the year 2017 to build upon her professional skills.

The management continues to evaluate all business processes along with related policies and procedures and also implements the recommendations of the internal auditor to further augment the overall internal controls environment of the Company.

Gratitude and Conclusion

The management acknowledges and appreciates the commitment and diligence of all employees of the Company while assuring them of their career advancement and continued welfare.

CORPORATE GOVERNANCE REPORT

Building a better working world

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PR No. HMH/15/2015; HMA/9/2015

REPORT OF FACTUAL FINDING

TO THE SHAREHOLDERS OF AL BATINAH POWER COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of AL BATINAH POWER COMPANY SAOG (the "Company") as at and for the year ended 31 December 2018 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarised as follows:

1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2) We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2018. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

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

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

Had we performed additional procedures or had we performed an audit or review of the corporate governance 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 accompanying corporate governance report of the Company to be included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of AL BATINAH POWER COMPANY SAOG, taken as a whole.

Ernst & Young LLC

Muscat
21 February 2019

CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") of Al Batinah Power Company SAOG (the "Company") hereby present their Corporate Governance Report for the year ended 31 December 2018 in accordance with the Code of Corporate Governance of Public Listed Companies (the "Code") issued in July 2015 and as updated in December 2016.

Company's philosophy

The Company follows the principles of good Corporate Governance and has implemented the guidelines issued by the Capital Market Authority (the "CMA"). Effective Corporate Governance assures the shareholders that there is a well performing management in place which supports the highest standards towards transparency, accountability, continuous improvement of business processes, disclosure, displaying the highest ethical standards, observing compliance with laws, permits and regulations and business propriety with the aim of enhancing long term shareholders value and the interest of all stakeholders. Towards this, the Company has put in place effective policies, procedures and systems to ensure fair and timely release of material information about the Company to the stakeholders.

An audit committee and a nomination & remuneration committee are operational in line with the provisions of the Code. During 2018, an independent consultant appointed at the Annual General Meeting ("AGM") held in March 2018 carried out appraisal of performance of the Board as required by the Code as per the criteria approved by the AGM as well. The Company is being managed with due diligence and care, and in the best interest of all shareholders.

In accordance with the CMA rules and guidelines on disclosure, the Company's Statutory Auditors, Ernst and Young, have issued a separate Report on the Company's Governance Report for the year ended 31 December 2018.

Board of Directors

In compliance with the Company's Articles of Association, the Board is constituted of 11 directors. The shareholders of the Company at the AGM in March 2016 elected the existing board members for a term of 3 years. In 2018, few directors have resigned from the board as disclosed to the Market by the company in a timely manner and their replacements were nominated and appointed according to the CMA rules. The term will expire at the conclusion of the AGM scheduled to be held on 20 March 2019.

a) Composition, category and attendance of Directors in 2018

All Directors are non-executive in accordance with the requirement of the Code.

	Name of Directors	Category of Directors ^	Attendance					
			Board Meetings					AGM
			21 Feb	23 Apr	25 Jul	24 Oct	Total	20 Mar
Incumbent as of Dec 31, 2018	Mr. Saif Abdullah Hamood Al-Harthy (Chairperson)	Non-independent	n/a	n/a	Proxy	√	2	n/a
	Mr. Debasish Majumder (Deputy Chairperson)	Independent	n/a	n/a	Proxy	x	1	n/a
	Mr. Clifford John Sanders	Non-independent & Nominee Director	n/a	n/a	n/a	√	1	n/a
	Mr. Guillaume Baudet	Independent	√	Proxy	√	√	4	x
	Mr. Ryuji Kikuchi	Non-independent & Nominee Director	√	√	√	Proxy	4	x
	Mr. Hadi Said Humaid Al-Harthy	Non-independent & Nominee Director	√	√	√	√	4	x
	Mr. Khalifa Mubarak Al Hinai	Independent	√	√	x	√	3	x
	Mr. Mohamed Amur Mohamed Al-Mamari	Non-independent & Nominee Director	√	√	√	√	4	√
	Mr. Mohammad Ribhi Izzat Alhusseini	Independent & Nominee Director	√	√	√	√	4	√
	Mr. Masahiro Komatsubara	Non-independent & Nominee Director	n/a	n/a	Proxy	Proxy	2	x
	Mr. Yasser Ramadan Mahamad Kheir	Independent	n/a	n/a	√	√	2	n/a
Resigned	Mrs. Catherine Lorgere Chouteau	Non-independent & Nominee Director	√	√	n/a	n/a	2	√
	Mr. Padmanabhan Ananthan	Independent	√	√	n/a	n/a	2	√
	Mr. David Joseph Orford	Non-independent	√	x	Proxy	n/a	2	x
	Mr. Takahito Iima	Non-independent & Nominee Director	Proxy	Proxy	n/a	n/a	2	x
	Mr. Vinayendra Prasad	Non-independent & Nominee Director	√	√	n/a	n/a	2	√

^ The category of the incumbent directors is based on new elections held on 14 March 2016.

√ : attend, x : absent, n/a : not in seat

b) Directors holding directorship/chairmanship in other joint stock companies in Oman as of 31 December 2018

Name of Director	Name of Companies and	Position Held
Mr. Debasish Majumder	- Oman Ceramics Company SAOG - Al-Jazeera Steel Products Company SAOG	- Director and Audit Committee member. - Director
Mr. Hadi Said Humaid Al-Harthy	Iskan Oman Investment Company SAOC	Director
Mr. Mohammad Ribhi Izzat Alhusseini	National Aluminum Products Company SAOG	Director and Audit Committee member

The brief profile of Directors and key executive officers is included as an Annexure to the Corporate Governance Report.

Audit Committee

a) Brief description of terms of reference

The primary function of Audit Committee is to provide independent assistance to the Board in fulfilling their oversight responsibility to the shareholders, potential shareholders, the investment community and other stakeholders relating to:

(i) The integrity of the Company's financial statements and accounting and financial reporting processes,
(ii) The effectiveness of the Company's risk management and internal control systems,
(iii) The performance of the Company's internal audit function,
(iv) The qualifications and independence of the external auditors, and
(v) The Company's compliance with ethical, legal and regulatory requirements.

Consistent with this function, the Audit Committee encourages continuous improvement of, and promote adherence to the Company's policies, procedures, and practices for corporate accountability, transparency and integrity.

In fulfilling its role, it is the responsibility of the Audit Committee to maintain free and open communication with the external auditors, the internal auditor and the management of the Company and to determine that all parties are aware of their responsibilities.

On a yearly basis, the Audit Committee defines its working plan for the coming year and places it before the Board for approval. The 2018 Audit Committee working plan was approved by the Board on 25 October 2017. Similarly, the Board approved the 2019 working plan on 24 October 2018.

b) Composition, position and attendance in 2018

The majority of Audit Committee members and Chairperson are independent directors and at least one member has finance and accounting expertise, as required by the Code.

Name of Committee Members	Position	Attendance				
		22 Feb	22 Apr	24 Jul	23 Oct	Total
Mr. Guillaume Baudet	Chairperson	√	Proxy	√	√	4
Mr. Debasish Majumder	Member	n/a	n/a	√	√-vid	2
Mr. Padmanabhan Ananthan	Member	√	√	n/a	n/a	2
Mr. Ryuji Kikuchi	Member	√	√	√	x	3

√ : attend, x : absent

Nomination & Remuneration Committee

a) Brief description of terms of reference

The primary function of Nomination & Remuneration Committee (the "NRC") is to:
(i) Assist the general meeting in the nomination of proficient and high caliber directors,
(ii) Prepare job descriptions of the directors including the Chairperson of the Board,
(iii) Develop succession plan for the Board or at least the Chairperson and executive management, and
(iv) Propose proper remuneration and incentives policy to attract competent executive management.

On a yearly basis, the NRC defines its working plan for the coming year and places it before the Board for approval. The 2018 NRC working plan was approved by the Board on 25 October 2017. Similarly, the Board approved the 2019 working plan on 24 October 2018.

b) Composition, position and attendance in 2018

Name of Committee Members	Position	Attendance			
		20 Feb	22 Apr	24 Oct	Total
Mr. Yasser Mohammed Kheir	Chairperson	n/a	n/a	√	1
Mr. Vinayendra Prasad	Chairperson	√	√	n/a	2
Mr. Clifford John Sanders	Member	n/a	n/a	√	1
Mr. David Joseph Orford	Member	√	x	n/a	1
Mr. Ryuji Kikuchi	Member	√	√	x	2

√ : attend, x : absent

Appraisal for the performance of the Board

In accordance with the Code and the approval by the shareholders at the AGM held in 20 March 2018 the Company appointed an independent consultant, Keynote Services LLC, to carry out annual appraisal for the performance of the Board of Directors.

The primary objective of the appraisal was to consider the composition, structure, dynamics, relationships and performance of the Board and its Committees in accordance with the appraisal criteria approved by the shareholders.

The appraisal was conducted directly between the consultant and all directors via a comprehensive questionnaire, and one-on-one interviews held with a selection of directors (including Chairpersons of the Board and its Committees) to explore and enhance the questionnaire feedback.

The aggregated results from the questionnaires and the interview, and recommendations were reported to and reviewed by the NRC and thereafter the Board.

Overall, the Board and its Committees were considered to be performing well across the range of performance measures. Also, the Board noted the recommendations proposed by the independent consultant and agreed to implement the recommendations that are considered important and practical, considering the nature of business and size of the Company.

Process of nomination of the directors

The election of the Board is governed by the Company's Articles of Association. The Company ensures that the elections of the Board are held in accordance with the Commercial Companies Law and rules issued by the Capital Market Authority.

In accordance with the requirement of the Code and the Articles of Association of the Company, the following shall be observed on the formation of the Board:

(i) Eleven directors to be elected by the shareholders in general meeting for a term of 3 years,
(ii) All directors shall be non-executive directors,

(iii) At least one third of the directors shall be independent,
(iv) The members of the Board are elected from amongst the shareholders or non-shareholders. A candidate, if a shareholder, for election to the Board is required to hold at least 5% of the Company's issued share capital,
(v) The juristic person shall not be represented by more than one representative on the Board,
(vi) A director shall not be allowed to combine the positions of chief executive officer and chairperson, and
(vii) No director shall be a member of the Board in more than four joint stock companies or chairperson of more than two joint stock companies. Although Article (2) of Clause (8) of the Ministerial Decision 137/2002 as amended by Ministerial Decision 201/2016 requires director not to be a director or an employee of a company carrying out same business whose principle place of business is in Oman, the Company has received a waiver in the implementation of this Article from CMA allowing it to continue with the member of the Board appointed in the Annual General Meeting on 14 March 2016 provided the said Article is implemented in the next Board election or whenever a vacancy arises with the current Board.

Remuneration

a) Sitting fees to members of Board and its sub-committees

As approved by the shareholders, the sitting fee of RO 400 for the members of the Board and RO 200 for the members of the Audit Committee and NRC is paid. The sitting fee is payable to the Board, the Audit Committee and NRC members who attend the meeting either in person or over video conference in line with the Code. The sitting fee is also paid in case a juristic person, in the absence of its nominated Board member, delegates another representative to attend the Board meeting.

The sitting fees for the year 2018 paid to the directors for attending Board, Audit Committee and NRC meetings amounted to RO 15,200, RO 2,000 and RO 1,400, respectively.

b) Remuneration to Board members

The Board proposes to pay remuneration for the year 2018 to the Board members, equal to actual sitting fees paid during year, for their contribution in achieving excellent operational and financial results. The proposed remuneration of RO 15,200 has been accrued in the financial statements for year ended 31 December 2018, however, the same shall be paid provided it is approved by the shareholders in the forthcoming general meeting.

c) Other payments to directors

There was no other payment to the directors besides their sitting fees.

d) Top 5 officers

The Company paid to its top 5 officers an aggregate amount of RO 374,022 which includes secondment fee, salaries, allowances, performance based bonuses and other benefits. The remuneration paid is commensurate with their qualification, role, responsibility and performance. The criteria of the performance based bonus are the degree of achievement of the objectives set by officers at beginning of year in line with the Company's goal and overall strategy. The employment contracts stipulate a notice period of one month.

Details of non-compliance by the Company

There were no penalties imposed on the Company by the Capital Market Authority, Muscat Securities Market ("MSM") or any other statutory authority on any matter related to capital markets during the past three years.

Means of communication with the shareholders and investors

The Company communicates with the shareholders and investors mainly through the MSM website and the Company's website (www.albatinahpower.com) in both English and Arabic. Material information is disclosed immediately, and financial information such as initial quarterly and annual un-audited financial results, un-audited interim financial statements, and annual report including audited financial statements and Management Discussion & Analysis Report are disclosed within the regulatory deadlines. The Company's executive management is also available to meet its shareholders and analysts as and when required.

Market price data

a) High/Low/Closing share price and performance comparison during each month in 2018

Month	Price (Baizas)				MSM Index (Service sector)	
	High	Low	Closing	Change from 1 January 2018	Closing	Change from 1 January 2018
January	140	134	135	-2.88%	2,619.63	-0.90%
February	140	130	138	-0.72%	2,631.57	-0.45%
March	139	130	139	0.00%	2,605.70	-1.43%
April	139	130	131	-5.76%	2,525.35	-4.47%
May	130	106	120	-13.67%	2,475.72	-6.34%
June	120	112	116	-16.55%	2,474.99	-6.37%
July	122	112	117	-15.83%	2,377.80	-10.05%
August	119	112	113	-18.71%	2,375.71	-10.13%
September	124	112	116	-16.55%	2,465.71	-6.72%
October	120	112	115	-17.27%	2,390.21	-9.58%
November	115	113	114	-17.99%	2,353.80	-10.96%
December	114	100	101	-27.34%	2,290.34	-13.36%

During 2018, the Company has distributed cash dividend of 2.80% (Baizas 2.80 per share) in June and 5.68% (Baizas 5.68 per share) in December, to the shareholders of the Company who are registered in the Company's shareholders' register with the Muscat Clearing & Depository Company SAOC respectively as on 05 June 2018 and 05 December 2018, out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2017.

Since the listing of the Company in June 2014, a total amount of Baizas 41.18 per share (nominal value of Baizas 100 per share) has been distributed to the shareholders who subscribed the share during the Initial Public Offer (IPO) and still held those shares by 31 December 2018.

b) Distribution of shareholding as of 31 December 2018

Category	Number of shareholders	Number of shares held	Share capital %
5% and above	7	566,306,835	83.91%
1% to 5%	2	20,045,088	2.97%
Less than 1 %	2,602	88,535,507	13.12%
Total	2,611	674,887,430	100.00%

Professional profile of the statutory auditor

The shareholders of the company appointed Ernst and Young (EY) as its auditors for 2018. EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 7,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,600 partners and approximately 106,775 professionals. Globally, EY operates in more than 150 countries and employs 261,559 professionals in 700 offices. Please visit ey.com for more information about EY. During the year 2018, EY rendered professional services to the Company equivalent to RO 10,150 (RO 9,400 for audit and RO 750 for other services).

Acknowledgement by the Board of Directors

- The Board of Directors accepts the responsibility for accurately preparing accounts and financial statements and confirms the financial statements for 2018 have been prepared in accordance with the applicable International Financial Reporting Standards and rules.
- The Board of Directors, through the Audit Committee, has reviewed the Company's system of internal controls, and assures efficiency and adequacy of the internal control systems including financial management and its related operations, obligation management and risk management.
- The Company has robust business model as explained in detail in the financial report and, as such, the Board of Directors confirms that they believe there are no material matters which may affect the continuation of the Company and its ability to continue its operations during the next financial year.

Chairperson

Director

Brief Profiles of Directors

Name	**:**	**Mr. Saif Abdullah Hamood Al-Harthy**
Year of Joining	:	2018
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	**:**	**Mr. Debasish Majumder**
Year of Joining	:	2018
Education	:	Chartered Accountant, Masters of Accountancy and Masters of Business Administration from USA
Experience	:	Mr. Majumder has over 30 years of work experience in the field of finance. He is currently working as Chief Financial Officer at Suhail Bahwan Group of Companies, Muscat, Oman. Prior to this position, he was employees as Chief of Internal Audit. He also has comprehensive background in all aspects on accounting functions..

Name	**:**	**Mr. Clifford John Sanders**
Year of Joining	:	2018
Education	:	Chartered Manager, Qualified Mechanical Engineer
Experience	:	43 years spent in industry in the chemical, petro-chemical, power and desalination sectors. 50% of this time working in the Mechanical Engineering field and 50% at a Senior Management level. Fellow Member of the Chartered Management Institute. Currently Plant General Manager at Qatar Power Company. Previous Board Member of the ITM Company based in Abu Dhabi. Previously Power Station Manager at Fellside Power Plant U.K. Previously Engineering and Maintenance Manager at Teesside Power Plant U.K. Previously Technical Services Manager at Teesside Power Plant U.K. Previously Outage Manager at Teesside Power Plant U.K. Previously Senior Mechanical Engineer at Teesside Power Plant U.K. Previously Mechanical Engineer at Tioxide U.K. Previously Mechanical Engineer at SASOL PLC in South Africa. Previously Trainee Mechanical Engineer at I.C.I. Wilton Complex U.K.

Name	**:**	**Mr. Guillaume Baudet**
Year of Joining	:	2016
Education	:	Master's Degree in Business Administration and Finance
Experience	:	Mr. Baudet has 21 years of professional 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 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 since 2013.

Name	:	Mr. Ryuji Kikuchi
Year of Joining	:	2017
Education	:	MBA at Dartmouth College, School of Business (Tuck School), USA BA Architecture, Waseda University, Japan
Experience	:	Mr. Kikuchi as over 15year experience of project financed IPP development and contracting of power projects in various countries including, Oman, KSA, UAE, Sri Lanka, Mexico, Vietnam, India, Mongolia. He also has hands on experience of managing IPP project in Sri Lanka as CEO. Prior to above, he had been engaged in trade and structured finance for variety of Sojitz's overseas businesses.

Name	:	Mr. Hadi Said Humaid Al-Harthy
Year of Joining	:	2016
Education	:	Master's Degree in Business Administration from the University of Strathclyde Business School Glasgow, Scotland UK and Bachelor's Degree in Business Administration/Finance from the University of Toledo, Ohio USA
Experience	:	Mr. Al-Harthy has a total of 37 years of experience in the investment and finance industry out of which he has spent more than 24 years with the CBO. He has been involved in managing traditional and alternative asset investment portfolios both on shore and offshore investments with CBO and in his current role with PASI.

Name	:	Mr. Khalifa Mubarak Al Hinai
Year of Joining	:	2016
Education	:	B.Sc. in Geology and Chemistry from Kuwait University (1972) M.A. in Petroleum Geology from the University of Texas at Austin U.S.A. (1977)
Experience	:	Mr. Khalifa has 40 years of professional experience in the fields of Geology and Technical Affairs. In 1976 Mr. Khalifa became Director of Technical Affairs in the Ministry of Petroleum, Minerals, Agriculture and Fisheries. His next role was Director General of Oil & Gas at the Ministry of Petroleum & Minerals. In 1990, Mr. Khalifa was awarded the Order of Merit (1st Class) by H.M. The Sultan. Mr. Khalifa was in charge of the Oman LNG Project from inception until completion in year 2000. Later he was appointed as Advisor to H.E. the Minister, for Technical Affairs and served as Director in various Boards & Joint Management Committees of PDO, Oman Refinery Company, Oman LNG, ELF Oman, Occidental Oman, Nimir Petroleum and Arco Oman. He was finally promoted to be Ministry Advisor at undersecretary level in 2012. He retired from government services in 2014.

Name	:	Mr. Mohamed Amur Mohamed Al-Mamari
Year of Joining	:	2016
Education	:	Master Degree in Accounting and Finance from Cardiff University-UK in 2008 and Bachelor Degree in Economics and Accounting from Kuwait University in 1997.
Experience	:	Mr. Al-Mamari has more than 21 years' experience in investment, admin, finance and pension in Civil Service Employee Pension Fund, Mr. Al-Mamari held below mentioned positions: - Director of Civil Service Employees Pension Fund - Al Batinah North Governorate Department (from 2010 till today). - Director of Admin Department (from 2007 to 2009). - Head of Finance Section (from 2004 to 2006). - Accountant in Investment Department (from 1997 to 2003).

Name	:	Mr. Mohammad Ribhi Izzat AlHusseini
Year of Joining	:	2016
Education	:	MBA - Corporate Finance from University of Texas-USA and Bachelor's Degree in Money and Banking from Yarmouk University- Jordan
Experience	:	Mr. Al Husseini has over 23 years of work experience. He is currently working as Deputy Investment Director in Ministry of Defence Pension Fund Muscat, Oman. He is a member in the Audit Committee of the National Aluminum Products Company SAOG. He also has extensive experience in local and regional markets.

Name	:	Mr. Masahiro Komatsubara
Year of Joining	:	2018
Education	:	Master Mechanical Engineering Graduate School of Science and Engineering of Waseda University
Experience	:	Mr. Komatsubara is the General Manager of Project Development Unit of International Business and Cooperation Dept. of Shikoku Electric Power Co., Inc. (YONDEN), supervising mainly the development and management of its thermal IPPs, IWPPs, and other new business areas. Mr. Komatsubara started his career at Yonden in 1997 as an operator of its thermal power plant and has been involved in the O&M, planning and management of its thermal power plants approximately for 10 years. Subsequently, he has been engaged in the company's international business for more than 12 years. In addition to Al Batinah Power, Mr. Komatsubara is also a member of the Board of Representatives of South Field Energy Partners LLC in USA.

Name	:	Mr. Yasser Mohammed Kheir
Year of Joining	:	2018
Education	:	B. SC Electrical – Electronic Engineering, Aleppo University
Experience	:	Having 23 years' experience in the ICT domain & had worked for Syrian Telecom Company as Operation Director & deputy GM, then worked with many telecommunication Operators within GCC region, also worked as international Business Development General manager with Azian Group Holding , worked as Vice president with Transtelecoms - SA and have joined Suhail Bahwan group as General Manager of Bahwan projects & telecom company in 2013 .

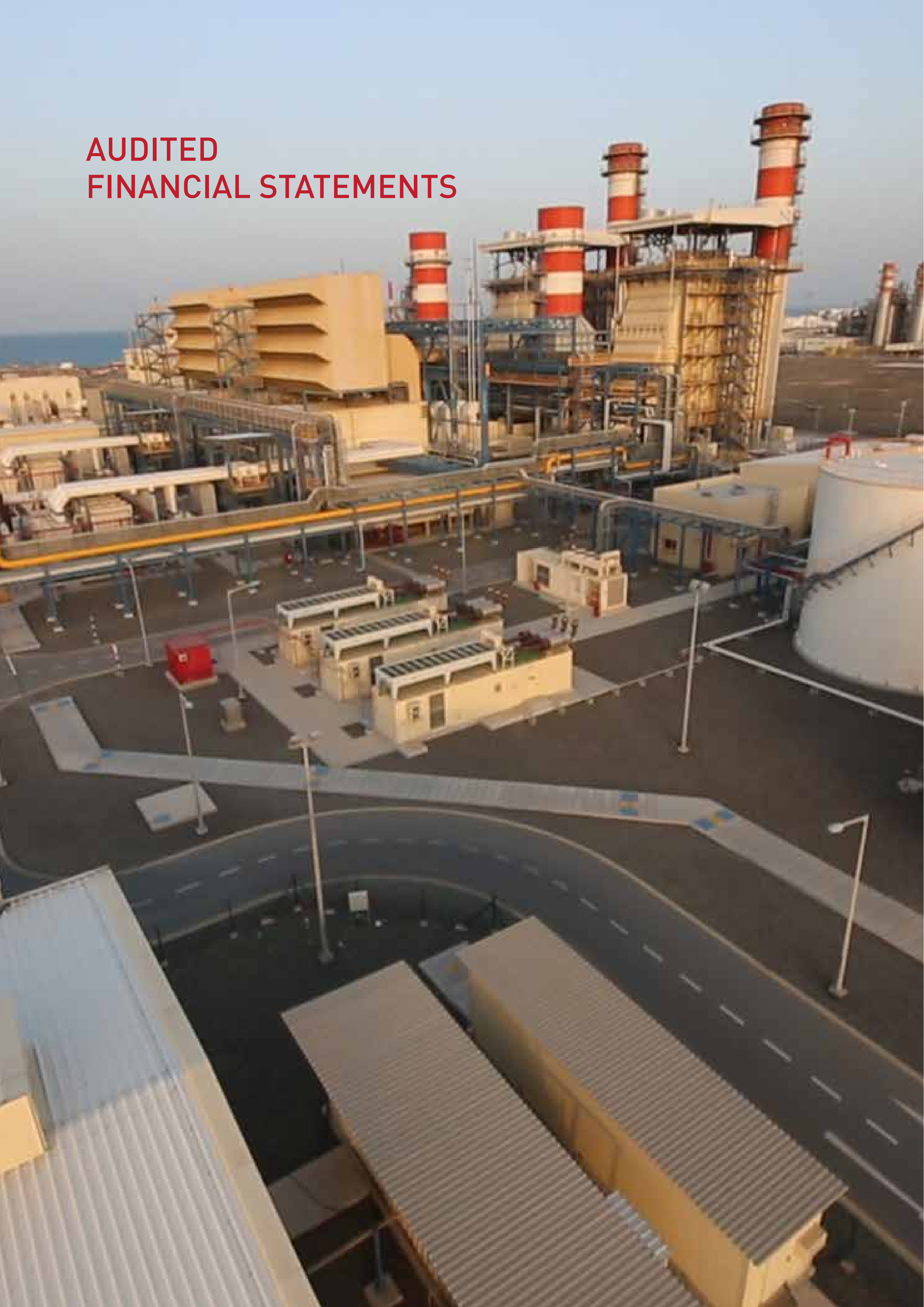
Brief Profiles of Key Executive Officers

The senior management team has been empowered by the Board of Directors for the day-to-day operations of the Company.

Name	:	Mr. Ya'qoub Harbi Salim Al Harthi
Position	:	Chief Executive Officer
Year of Joining	:	2017
Education	:	Bachelor's degree in Mechanical Engineering from the Sultan Qaboos University
Experience	:	Mr. Al Harthi has been associated with power plant operations and management in various power plants of ENGIE for over 16 years. He was appointed as CEO of Al Kamil Power Company SAOG in 2015. Prior to that he was the General Manager of Al Kamil Construction and Services LLC from early 2014. He has also worked in Rusail Power Station and Sohar 1 Power and Water Plant as Operations Manager for several years.

Name	:	Mr. Mitsuo Nakamoto
Position	:	Chief Financial Officer
Year of Joining	:	2018
Education	:	Bachelor's Degree in Business Administration from Yokohama National University
Experience	:	Mr. Nakamoto has more than 21 years of experience in the energy infrastructure industry. Since joining Sojitz in 1994, he has been involved in development of various infrastructure projects in Japan and overseas. From 2006 till 2010, he was the Chief Financial Officer in Phu My 3 IPP project (715 MW, gas fired) which has been operating since 2004 in southern part of Vietnam and from 2010 till 2014 he was the Chief Financial Officer in Al Batinah Power Company (Sohar-2 project 744MW, gas fired).

AUDITED FINANCIAL STATEMENTS



Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Al Batinah Power Company SAOG (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and 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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with 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 and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Company for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 21 February 2018.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL BATINAH POWER COMPANY SAOG (CONTINUED)

Key audit matters (continued)

Key audit matters	***How our audit addressed the key audit matters***
Implementation of IFRS 9 "Financial Instruments" Effective from 1 January 2018, the Company has applied the simplified approach in IFRS 9 'Financial Instruments' to measure Expected Credit Loss (ECL) for trade receivables, short term deposits and cash and cash equivalents, which allows for lifetime expected credit losses to be recognised from initial recognition. The Company determines the on trade receivables, short term deposits and cash and cash equivalents by using a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the economic environment. IFRS 9 which the Company implemented on 1 January 2018: • requires complex accounting treatments, including use of significant estimates and judgements for the determination of adjustments on transition; and • resulted in significant changes to processes, data and controls that needed to be tested for the first time. Due to the complex accounting treatments, including use of significant estimates, implementation of IFRS 9 "Financial Instruments" was considered as a key audit matter. Refer note 3 (e) in the financial statements for further details.	Our audit procedures in the area included the following: - Evaluated the appropriateness of the Company's policy for classification and measurement and impairment of financial instruments and compared it with the requirements of IFRS 9; - Evaluated the appropriateness of the selection of the accounting policies; - Considered the appropriateness of the transition approach and evaluated the management's processes for selection of expected credit loss model; - Obtained an understanding of the process relating to the allowance for credit losses; - Evaluated the reasonableness of the key judgments and estimates relating to calculation of probability of default and forward-looking factor made in the expected credit loss model; - Involved specialists to assist in evaluating the judgments and estimates; - Evaluated the completeness, accuracy and relevance of data used in the expected credit loss model and checked the mathematical accuracy of the calculations; We also considered assessed the adequacy of disclosures in relation to first time application of IFRS 9 by reference to the requirements of the relevant accounting standards.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL BATINAH POWER COMPANY SAOG (CONTINUED)

Key audit matters (continued)

Hedge accounting The Company uses derivative financial instruments to hedge interest rate and foreign currency exposure on term loans and future cash flows in accordance with parameters approved by the Board. Rules on accounting for derivative instruments are complex and hedge accounting requirements, including documentation, can be complicated. Lack of compliance with documentation rules, hedge effectiveness rules, and probability criteria could lead to income statement volatility. The accounting policy relating to revenue recognition is set out in note 13 to the financial statements.	Our audit procedures in this area included the following: - We examined the nature of the hedge relationships that were entered into and whether these were in line with the Company's strategy. For the derivatives outstanding at the year-end, we assessed their completeness and existence through obtaining external confirmations and their fair value through performing our own independent re-calculations; - We involved our specialists for assessing the Company's hedge accounting and for testing hedge effectiveness; - We assessed adequacy of disclosure relating to hedge accounting.

Other information included in the Company's 2018 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Company's 2018 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2018 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL BATINAH POWER COMPANY SAOG (CONTINUED)

Responsibilities of management and those charged with governance for the financial statements

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance 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, those charged with governance are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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 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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL BATINAH POWER COMPANY SAOG (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of those charged with governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement 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 those charged with governance, 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL BATINAH POWER COMPANY SAOG (CONTINUED)

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Philip Stanton
Muscat
21 February 2019

INCOME STATEMENT

for the year ended 31 December 2018

	Notes	2018 RO'000s	2018 USD'000s	2017 RO'000s	2017 USD'000s
Revenues		**75,138**	**195,418**	70,643	183,728
Direct costs	4	**(53,957)**	**(140,328)**	(50,297)	(130,812)
Gross profit		**21,181**	**55,090**	20,346	52,916
Other income		**115**	**300**	25	64
		21,296	**55,390**	20,371	52,980
General and administrative expenses	5	**(778)**	**(2,025)**	(783)	(2,037)
Profit before interest and tax		**20,518**	**53,365**	19,588	50,943
Finance costs (net)	6	**(9,871)**	**(25,673)**	(10,562)	(27,467)
Profit before tax		**10,647**	**27,692**	9,026	23,476
Income tax expense	7(c)	**(1,575)**	**(4,097)**	(4,470)	(11,626)
Net profit		**9,072**	**23,595**	4,556	11,850
Earnings per share					
Basic earnings per share (Baizas)	23	**13.44**	**-**	6.75	-

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	2018 RO'000s	2018 USD'000s	2017 RO'000s	2017 USD'000s
Net profit		**9,072**	**23,595**	4,556	11,850
Other comprehensive income for the year, net of tax:					
Item that will be reclassified to profit or loss					
Cash flow hedges - effective portion of changes in fair value	13	**1,844**	**4,799**	4,505	11,716
Total comprehensive income for the year		**10,916**	**28,394**	9,061	23,566

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

`	Notes	2018 RO'000s	2018 USD'000s	2017 RO'000s	2017 USD'000s
Assets					
Non-current assets					
Property, plant and equipment	8	**253,649**	**659,683**	261,025	678,867
Capital spares		**305**	**794**	293	762
Total non-current assets		**253,954**	**660,477**	261,318	679,629
Current assets					
Trade and other receivables	9	**5,905**	**15,356**	4,776	12,422
Inventory		**1,878**	**4,883**	1,769	4,601
Short term deposit	10	**1,807**	**4,700**	2,001	5,203
Cash and cash equivalents	11	**2,021**	**5,256**	2,991	7,779
Total current assets		**11,611**	**30,195**	11,537	30,005
Total assets		**265,565**	**690,672**	272,855	709,634
Equity and liabilities					
Equity					
Share capital	12(a)	**67,489**	**175,523**	67,489	175,523
Legal reserve	12(b)	**4,493**	**11,686**	3,586	9,326
Retained earnings		**11,935**	**31,041**	9,493	24,690
Total equity		**83,917**	**218,250**	80,568	209,539
Hedging reserve	12 (c) & 13	**(3,249)**	**(8,447)**	(5,093)	(13,246)
Net equity		**80,668**	**209,803**	75,475	196,293
Liabilities					
Non-current liabilities					
Term loans	14	**137,490**	**357,582**	151,294	393,484
Derivative instruments	13	**3,822**	**9,937**	5,991	15,583
End of service benefits		**34**	**90**	28	73
Asset retirement obligation	15	**256**	**665**	238	618
Deferred tax liability	7 (c)	**16,867**	**43,866**	14,966	38,922
Total non-current liabilities		**158,469**	**412,140**	172,517	448,680
Current liabilities					
Term loans	14	**14,887**	**38,718**	14,178	36,873
Trade and other payables	16	**9,341**	**24,289**	5,841	15,190
Short term borrowing	2(xi)	**2,200**	**5,722**	4,844	12,598
Total current liabilities		**26,428**	**68,729**	24,863	64,661
Total liabilities		**184,897**	**480,869**	197,380	513,341
Total equity and liabilities		**265,565**	**690,672**	272,855	709,634
Net assets per share (Baizas)	22	**124.34**	**-**	119.38	-

The financial statements were approved and authorised for issue in accordance with a resolution of the Board of Directors on 21 February 2019.

Chairperson

Director

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Notes	2018 RO'000s	2018 USD'000s	2017 RO'000s	2017 USD'000s
Cash flows from operating activities:					
Profit before tax		**10,647**	**27,692**	9,026	23,476
Adjustments for:					
Finance costs (net)		**9,871**	**25,673**	10,562	27,467
Depreciation		**7,427**	**19,317**	7,459	19,401
End of service benefits		**6**	**17**	6	16
		27,951	**72,699**	27,053	70,360
Changes in:					
Trade and other receivables		**(1,129)**	**(2,934)**	351	913
Inventory		**(109)**	**(282)**	24	62
Trade and other payables		**3,548**	**9,220**	(1,558)	(4,049)
Cash generated from operating activities		**30,261**	**78,703**	25,870	67,286
Finance costs paid (net)		**(8,893)**	**(23,129)**	(9,501)	(24,711)
Net cash flows generated from operating activities		**21,368**	**55,574**	16,369	42,575
Cash flows from investing activities:					
Acquisition of property, plant and equipment		**(51)**	**(133)**	(94)	(245)
Disposal of property, plant and equipment		**2**	**6**	-	-
Net cash flows used in investing activities		**(49)**	**(127)**	(94)	(245)
Cash flows from financing activities:					
Repayment of term loans		**(14,178)**	**(36,873)**	(13,785)	(35,853)
(Repayment)/proceeds of short term borrowing - net		**(2,644)**	**(6,876)**	1,244	3,235
Maturity of short term deposit		**194**	**503**	191	497
Dividend paid		**(5,723)**	**(14,884)**	(4,920)	(12,796)
Interest received		**62**	**160**	47	121
Net cash flows used in financing activities		**(22,289)**	**(57,970)**	(17,223)	(44,796)
Net decrease in cash and cash equivalents		**(970)**	**(2,523)**	(948)	(2,466)
Cash and cash equivalents at beginning of the year	11	**2,991**	**7,779**	3,939	10,245
Cash and cash equivalents at end of the year	11	**2,021**	**5,256**	2,991	7,779

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Share capital RO'000s	Legal reserve RO'000s	Retained earnings RO'000s	Hedging Reserve RO'000s	Total RO'000s
Balance at 1 January 2018	**67,489**	**3,586**	**9,493**	**(5,093)**	**75,475**
Net Profit	-	-	9,072	-	9,072
Other comprehensive income net of income tax					
Cash flow Hedge - effective portion of changes in fair value	-	-	-	1,844	1,844
Total comprehensive income for the period	-	-	9,072	1,844	10,916
Transfer to Legal Reserve	-	907	(907)	-	-
Transactions with owners of the Company					
Contribution and distribution					
Dividend	-	-	(5,723)	-	(5,723)
Balance at 31 December 2018	**67,489**	**4,493**	**11,935**	**(3,249)**	**80,668**

	USD'000s	USD'000s	USD'000s	USD'000s	USD'000s
Balance at 1 January 2018	**175,523**	**9,326**	**24,690**	**(13,246)**	**196,293**
Net Profit	-	-	23,595	-	23,595
Other comprehensive income net of income tax					
Cash flow Hedge - effective portion of changes in fair value	-	-	-	4,799	4,799
Total comprehensive income for the period	-	-	23,595	4,799	28,394
Transfer to Legal Reserve	-	2,360	(2,360)	-	-
Transactions with owners of the Company					
Contribution and distribution					
Dividend	-	-	(14,884)	-	(14,884)
Balance at 31 December 2018	**175,523**	**11,686**	**31,041**	**(8,447)**	**209,803**

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the year ended 31 December 2018

	Share capital RO'000s	Legal reserve RO'000s	Retained earnings RO'000s	Hedging Reserve RO'000s	Total RO'000s
Balance at 1 January 2017	67,489	3,130	10,313	(9,598)	71,334
Net Profit	-	-	4,556	-	4,556
Other comprehensive income net of income tax					
Cash flow Hedge - effective portion of changes in fair value	-	-	-	4,505	4,505
Total comprehensive income for the period	-	-	4,556	4,505	9,061
Transfer to Legal Reserve	-	456	(456)	-	-
Transactions with owners of the Company					
Contribution and distribution					
Dividend	-	-	(4,920)	-	(4,920)
Balance at 31 December 2017	67,489	3,586	9,493	(5,093)	75,475

	USD'000s	USD'000s	USD'000s	USD'000s	USD'000s
Balance at 1 January 2017	175,523	8,141	26,821	(24,962)	185,523
Net Profit	-	-	11,850	-	11,850
Other comprehensive income net of income tax					
Cash flow Hedge - effective portion of changes in fair value	-	-	-	11,716	11,716
Total comprehensive income for the period	-	-	11,850	11,716	23,566
Transfer to Legal Reserve	-	1,185	(1,185)	-	-
Transactions with owners of the Company					
Contribution and distribution					
Dividend	-	-	(12,796)	-	(12,796)
Balance at 31 December 2017	175,523	9,326	24,690	(13,246)	196,293

The attached notes 1 to 25 form part of these financial statements.

NOTES

(forming part of the financial statements)

1 Legal status and principal activities

Al Batinah Power Company ("Company") was registered as a closed Omani Joint Stock company ("SAOC") on 2 August 2010 under the Commercial Companies Law of Oman. Subsequently the Company was converted to a public joint stock company ("SAOG") and was listed on the Muscat Securities Market on 23 June 2014.

The Company's objectives are to develop, finance, design, construct, operate, maintain, insure and own a power generating facility (the Sohar 2 Power Plant with a capacity of about 750MW), and associated gas interconnection facilities and other relevant infrastructure; making available the demonstrated power capacity; and selling the electrical energy generated to Oman Power and Water Procurement Company SAOC ("OPWP"). Accordingly, the Plant is considered and managed as one reportable segment. Commercial Operation of the Plant was achieved by the Company on 3 April 2013.

2 Significant agreements

Project documents

i. Power Purchase Agreement ("PPA") dated 10 August 2010 with OPWP for a period of 15 years from the scheduled Commercial Operation Date ("COD").

ii. Natural Gas Sales Agreement ("NGSA") dated 31 August 2010 with the Ministry of Oil and Gas ("MOG") for the purchase of natural gas for a period of 15 years from the scheduled COD.

iii. Turnkey Engineering, Procurement and Construction Contract ("EPC Contract") dated 15 September 2010 with Siemens AG and GS Engineering & Construction Corp. to perform the engineering, procurement and construction of the Plant.

iv. Sub-Usufruct Agreement ("SUA") relating to the plant site dated 10 August 2010 with Sohar Industrial Port Co. SAOC ("SIPC") for grant of exclusive right to use and benefit from the land upto 20 October 2028.

v. Electrical Connection Agreement dated 28 December 2011 with Oman Electricity Transmission Company SAOC for connection of the Company's equipment to the transmission system for a period of 30 years from its execution date.

vi. Operation & Maintenance Agreement ("O&M Agreement") dated 24 September 2010 with Suez-Tractebel Operation and Maintenance Oman LLC ("STOMO") for a period of 15 years from the scheduled COD.

vii. Seawater Extraction Agreement ("SEA") dated 10 August 2010 with Majis Industrial Services SAOC for a period ending on the last day of the PPA term.

NOTES

(forming part of the financial statements)

2 Significant agreements *(continued)*

Finance Documents

viii. Common Terms Agreement, Facility Agreements and First Amendment Agreement related to these Agreements dated 16 September 2010 for long term loans with international and local banks.

ix. Hedging Agreements for interest rate swap made with Credit Agricole Corporate & Investment Bank (dated 5 October 2010), KfW IPEX Bank GmbH (dated 6 October 2010), HSBC Bank Middle East Limited (dated 6 October 2010) and Standard Chartered Bank (dated 7 October 2010 and reprofiled on 19 December 2011).

x. Hedging Agreements for currency swap with Standard Chartered Bank and Credit Agricole Corporate & Investment Bank dated 12 October 2010 and 4 August 2015 respectively.

xi. Revolving Working Capital Facility Agreement dated 5 June 2012 with Bank Muscat SAOG for purpose of availing short term loans upto Omani Rial 8.459 million.

Security Documents

xii. Intercreditor Deed dated 16 September 2010 with The Export-Import Bank of Korea, Credit Agricole Corporate & Investment Bank and Others.

xiii. Commercial Mortgage over Company's Assets dated 21 September 2010 with Bank Muscat SAOG as "Mortgagee".

xiv. Legal Mortgage dated 21 September 2010 with Bank Muscat SAOG.

xv. Agreement for Security over Omani Shares dated 16 September 2010 with the Founder Shareholders, Bank Muscat SAOG and Credit Agricole Corporate & Investment Bank.

xvi. Offshore Deed of Charge and Assignment dated 16 September 2010 with Credit Agricole Corporate & Investment Bank.

xvii. Deed of Assignment of Reinsurances dated 16 September 2010 with Credit Agricole Corporate & Investment Bank and Oman United Insurance Company SAOG.

xviii. Sale and Purchase Agreement dated 16 September 2010 with Bank Muscat SAOG.

xix. Direct Agreements entered into by Lenders Agent in respect of PPA, NGSA, EPC Contract and O&M Agreement.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies

Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

These financial statements are prepared on historical cost basis except for provision for asset retirement obligation and deferred finance cost which are measured at amortised cost and certain financial instruments which are measured at fair value.

(c) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in impairment of property, plant and equipment, financial valuation of derivative financial instruments, asset retirement obligation, impairment of financial assets, operating leases and post reporting date events.

Measurement of fair value

The Company measures fair values using the following fair value hierarchy based on the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in the active market for similar instruments, quoted market prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments that are valued based on quoted prices of similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies *(continued)*

Significant accounting policies

(d) Currency

(i) Presentation and functional currency

These financial statements are presented in United States Dollars ("USD"), which is the Company's functional currency and also in Rial Omani ("RO") for local regulatory requirements. The Omani Rial amounts, which are presented in these financial statements have been translated from the USD amounts at an exchange rate of USD 1 = RO 0.3845. All values are rounded to the nearest thousand (USD '000 and RO '000) except where otherwise indicated.

(ii) Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing at the reporting date.

Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rates at the date of the transaction. Translation gains and losses related to monetary items are recognized in the income statement in the period in which they arise, with the exception of those related to monetary items that qualify as hedging instruments in a cash flow hedge that are recognized initially in profit or loss and other comprehensive income to the extent that the hedge is effective.

(e) Changes in accounting policies

(i) IFRS 15 — Revenue from Contracts with Customers

IFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations and it applies to all revenue arising from contracts with customer, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Company's contract with its sole customer contains a lease, which is scoped out of IFRS 15. The Company's adoption of IFRS 15 under modified retrospective method had no material impact on the financial statements of the Company.

(ii) IFRS 9 — Financial Instruments

Financial instruments recognition, measurement and subsequent measurement

The Company has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The Company's adoption of IFRS 9 under modified retrospective method had no material impact on the financial statements of the Company. The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below:

Initial measurement of financial instruments

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. On this date, financial assets are classified at amortised cost or fair value.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies *(continued)*

Significant accounting policies *(continued)*

(ii) IFRS 9 — Financial Instruments *(continued)*

Subsequent measurement of financial assets

IFRS 9 divides all financial assets that were in the scope of IAS 39 into two classifications - those measured at amortised cost and those measured at fair value. Where the Company measures financial assets at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, "FVTPL"), or recognised in other comprehensive income (fair value through other comprehensive income, "FVTOCI").

Classification of financial assets
To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost have been replaced by:

(i) Financial assets carried at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

(a) The asset is held within a "business model" whose objective is to hold assets to collect contractual cash flows;
(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPI) on the principal amount outstanding.

(ii) Financial assets carried at fair value through other comprehensive income (FVOCI)

Debt instruments at FVOCI

The Company applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

(a) The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
(b) The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Financing income and foreign exchange gains and losses and impairment losses are recognised in income statement. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from equity to profit or loss.

This category only includes debt instruments, which the Company intends to hold for the foreseeable future and which the Company has irrevocably elected to so classify upon initial recognition or transition. The Company classified its debt instruments at FVOCI. Debt instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Company's debt instruments were classified as AFS financial assets.

Equity instruments at FVOCI

Upon initial recognition, the Company may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

The Company have no equity instruments at FVOCI.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies *(continued)*

Significant accounting policies *(continued)*

(ii) IFRS 9 — Financial Instruments *(continued)*

(iii) Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. The Company does not have financial assets at fair value through profit or loss.

All other debt instruments are measured at FVTPL.

The Company's financial assets include trade receivables, due from related parties, other receivables, short term deposit and bank balances. These financial assets qualify for and are classified as debt instruments measured at amortised cost.

Fair value option

The Company measures a financial asset at FVTPL at initial recognition even if it meets the two requirements to be measured at amortised cost or FVTOCI if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Company does not have any financial assets measured at FVTPL as of period end.

Subsequent measurement of financial liabilities

The Company categorises its financial liabilities into two measurement categories: FVTPL and amortised cost.

The Company designates a financial liability as measured at FVTPL when it meets the definition of held for trading or when they are designated as such on initial recognition using the fair value option.

Gains and losses on financial liabilities designated as at FVTPL are split into the amount of change in fair value attributable to changes in credit risk of the liability, presented in other comprehensive income, and the remaining amount in profit or loss.

The Company recognises the full amount of change in the fair value in profit or loss only if the presentation of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. That determination is made at initial recognition and is not reassessed.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies *(continued)*

Significant accounting policies *(continued)*

(ii) IFRS 9 — Financial Instruments *(continued)*

Cumulative gains or losses presented in other comprehensive income is subsequently transferred within equity.

Financial liabilities not held at FVTPL are subsequently measured at amortised cost using the effective interest method.

The Company's financial liabilities include accounts payable, due to related parties, fair value of derivatives, short term borrowing and term loans.

Except for fair value of derivatives which is measured at fair value, all other financial liabilities of the Company are measured at amortised cost.

Derecognition of financial assets

The Company determines if the asset under consideration for derecognition is:
- an asset in its entirety, or
- specifically identified cash flows from an asset (or a Company of similar financial assets), or
- a fully proportionate (pro rata) share of the cash flows from an asset (or a Company of similar financial assets), or
- a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a Company of similar financial assets)

Once the asset under consideration for derecognition has been determined, the Company performs an assessment as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition. An asset is transferred if either the Company has transferred the contractual rights to receive the cash flows, or the Company has retained the contractual rights to receive the cash flows from the asset, but has assumed a contractual obligation to pass those cash flows on under an arrangement that meets the following three conditions:

(a) the Company has no obligation to pay amounts to the eventual recipient unless it collects equivalent amounts on the original asset;
(b) the Company is prohibited from selling or pledging the original asset; and
(c) the Company has an obligation to remit those cash flows without material delay.

Once the Company has determined that the asset has been transferred, it then determines whether or not it has transferred substantially all of the risks and rewards of ownership of the asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been retained, derecognition of the asset is precluded.

Impairment of financial assets

The Company assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the issuer, default or delinquency by an issuer, indications that an issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Company of assets such as adverse changes in the payment status of issuers, or economic conditions that correlate with defaults in the Company.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies *(continued)*

Significant accounting policies *(continued)*

(ii) IFRS 9 — Financial Instruments *(continued)*

IFRS 9 defines expected credit losses as the weighted average of credit losses with the respective risks of a default occurring as the weightings.

At each reporting date the Company provides for expected losses on all of the following using reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring expected credit losses:
- Financial assets measured at amortised cost,
- Financial assets mandatorily measured at FVTOCI, and
- Loan commitments when there is a present obligation to extend credit.

The Company measures expected credit losses through a loss allowance at an amount equal to:
- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

The Company provides for a loss allowance for full lifetime expected credit losses for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses.

The Company determines the amount of expected credit losses by evaluating the range of possible outcomes as well as incorporating the time value of money. These expected losses are discounted to the reporting date using the effective interest rate of the asset (or an approximation thereof) that was determined at initial recognition.

Derivative financial instruments and hedge accounting

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk.

A hedging relationship qualifies for hedge accounting only if all of the following criteria are met:

(a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
(b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge; and
(c) the hedging relationship meets all of the hedge effectiveness requirements.

As part of risk management strategies, the Company uses derivative financial instruments, such as interest rate swaps, to hedge interest rate sensitivities. These derivative financial instruments qualify for hedge accounting and are designated as cash flow hedges. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies *(continued)*

Significant accounting policies *(continued)*

(ii) IFRS 9 — Financial Instruments *(continued)*

The Company adjusts the cash flow hedge reserve in equity to the lower of the following:
(a) the cumulative gain or loss on the hedging instrument from inception of the hedge; and
(b) the cumulative change in fair value of the hedged item from inception of the hedge.

Effectiveness testing, rebalancing and discontinuation

The Company performs prospective assessment of effectiveness of its cash flow hedges at each reporting date. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and any remaining gain or loss is hedge ineffectiveness which is recognised in profit or loss.

When the Company discontinues hedge accounting for a cash flow hedge, the amount that has been accumulated in the cash flow hedge reserve remains in equity if the hedged future cash flows are still expected to occur, until such cash flows occur. If the hedged future cash flows are no longer expected to occur, that amount is immediately reclassified to profit or loss.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Company discontinues hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after any rebalancing). This includes instances when the hedging instrument expires or is sold, terminated or exercised.

Current versus non-current classification

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:
- there is a currently enforceable legal right to offset the recognised amounts; and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located,and capitalised borrowing costs. Cost also may include transfers from profit or loss and other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies *(continued)*

Significant accounting policies *(continued)*

(f) Property, plant and equipment (continued)

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and the difference is recognised in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the asset less its residual value.

The Management assigns useful lives and residual values to the items of property, plant and equipment based on intended use of the assets and the expected economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual lives or residual values differing from the initial estimates. The Management has reviewed the residual values and useful lives of the major items of property, plant and equipment and have determined that no adjustment is necessary.

The estimated useful lives for current and comparative periods are as follows:

	Years
Property, plant and equipment	40
De-commissioning asset	40
Technical spares	25
Other assets	3

(iv) Capital work in progress

Capital work in progress is measured at cost and is not depreciated until it is transferred into one of the fixed asset categories, which occurs when the asset is ready for intended use.

(v) Asset retirement obligation

A liability for future asset retirement obligation is recognized as the activities giving rise to the obligation of future site restoration take place. The liability is measured at the present value of the estimated future cash outflows to be incurred on the basis of current technology. The liability includes all costs associated with site restoration, including plant closure and monitoring costs.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies *(continued)*

Significant accounting policies *(continued)*

(g) Capital spares

Cost includes all expenditure directly attributable to the acquisition of capital spares.

Capital spares shall be recognised in the carrying amount of the affected item of property, plant and equipment when it is put in use. The carrying amount of the replaced item is derecognised. When it is not practical to determine the carrying amount of the replaced part, the cost of the capital spare may be used as an indication of what the cost of the replaced part was at the time it was acquired.

(h) Inventories

Inventory comprises of fuel oil are stated at lower of cost or net realizable value. The cost of inventories is determined on the weighted average cost basis and includes expenditure incurred in acquiring and bringing them to their existing location and condition. Obsolete inventory items are written down to their estimated net realizable value.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances and short term deposits with an original maturity of three months or less.

(j) Impairment

(i) Non-derivative 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 amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the income statement. An impairment loss is reversed if reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the income statement.

(ii) Non – financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity.

The recoverable amount of the cash generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the plant.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies *(continued)*

Significant accounting policies *(continued)*

(j) Impairment (continued)

The management determines whether there are any indications of impairment to carrying value of property, plant and equipment on an annual basis because of the difference between the duration of the contracted cash flows and accounting deprecation of assets. This requires an estimation of the value in use of the cash generating unit. Estimating the value in use requires the Company to make an estimate of the residual value of the cash generating unit at the end of the term of the PPA considering the expected future cash flows for the period beyond the term of the PPA and also a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Financial liabilities

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Interest-bearing liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(l) Employee terminal benefits

Obligations for contributions to a defined contribution retirement plan for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as an expense in the income statement as incurred.

The Company's obligation in respect of the terminal benefits of non-Omani employees, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods.

(m) Provisions

A provision is recognised 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. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(n) Finance charges

Interest expense and similar charges are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of a qualifying asset which necessarily takes a substantial period of time to prepare for its intended use or sale. Finance income is recognised as it accrues in the income statement.

(o) Deferred financing cost

The cost of obtaining long-term financing is deferred and amortised over the period of the long term loan using the effective interest rate method. Deferred financing costs less accumulated amortisation are offset against the drawn amount of the term loans. The amortization of the deferred financing costs was capitalized during construction period of the plant except during the early power period during which an amount proportionate to the period was charged to the income statement. Subsequent to the COD, the amortization of the deferred financing costs is charged to the income statement.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies *(continued)*

Significant accounting policies *(continued)*

(p) Operating lease

The Company has entered into a long term PPA. In accounting of this arrangement, the Company has determined the PPA to be a lease as the purchaser (OPWP) has the right to direct how the Company operates the Plant and obtains from the Company electricity generated by the Plant during the contract term. In accordance with the PPA, OPWP has the right to control the use of the Plant during the contract term. Further, the Management has concluded that this arrangement is in the nature of an operating lease since it does not transfer substantially all the risks and rewards incidental to the ownership of the Plant.

(q) Revenues

The tariff structure under the PPA is comprised of power capacity (includes investment charge and fixed operation and maintenance charge), electrical energy and fuel charges components. The investment charge of the power capacity component is treated as operating lease and recognised on a straight line basis over the lease term whereas the other components of tariff under the PPA are recognised as revenue over time as OPWP simultaneously receives and consumes the benefits provided by the Company. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Deferred tax is calculated on 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 reporting date.

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.

(s) Dividend

The Board of Directors take into account appropriate parameters including the requirements of the Commercial Companies Law while recommending the dividend.

Dividends on ordinary shares are recognised when they are approved for payment.

(t) Directors' sitting fees and remuneration

Directors' sitting fees and remuneration are approved by the Shareholders in the ordinary annual general meeting of the Company and are recognised as an expense in the income statement.

(u) Earnings per share

The Company presents basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

NOTES

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies *(continued)*

Significant accounting policies *(continued)*

(v) New standards and interpretation not yet effective

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018. The ones which may be relevant to the Company and have not been applied in preparing the financial statements are set out below:

IFRS 16: Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Company has decided not to adopt early and plans to adopt the modified retrospective approach. The Company has performed a detailed assessment of the standard and concluded that there is no material impact on the financial statements.

(w) Determination of fair value

(i) Derivative financial instruments

Fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using yield curves of the respective currencies.

The fair value of interest rate swaps is based on estimated future cash flows based on the terms and maturity of each contract and using market interest rates.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and counterparty when appropriate.

(ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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NOTES

(forming part of the financial statements)

4 Direct costs

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Fuel gas	**37,417**	**97,313**	33,235	86,438
Depreciation (note 8)	**7,420**	**19,298**	7,444	19,362
Operation and maintenance ("O&M") fees (note 17)	**6,732**	**17,509**	6,720	17,478
Seawater extraction	**998**	**2,596**	983	2,557
Insurance	**509**	**1,324**	512	1,332
Fuel oil	**196**	**509**	113	293
Grid connection fee	**186**	**483**	192	499
Plant site rent	**170**	**442**	169	439
Other O&M expenses (note 17)	**139**	**361**	416	1,082
Custom duty (note 17)	**100**	**259**	342	889
Other direct costs	**90**	**234**	171	443
	53,957	**140,328**	50,297	130,812

5 General and administrative expenses

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Secondment fees (note 17)	**236**	**615**	243	633
Employment costs	**169**	**440**	149	387
Public company related costs	**99**	**258**	99	258
Agency fees	**51**	**133**	50	131
Directors' sitting fee and remuneration (note 17)	**34**	**88**	37	95
Corporate social responsibility	**26**	**67**	20	51
Office rent	**20**	**53**	23	60
Depreciation (note 8)	**7**	**19**	15	39
Other general and administrative expenses	**136**	**352**	147	383
	778	**2,025**	783	2,037

6 Finance costs (net)

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Interest on term loans	7,413	19,282	6,432	16,728
Swap interest	1,121	2,917	2,685	6,983
Amortisation of deferred finance costs	1,083	2,816	1,171	3,048
Debt Service Reserve Account ("DSRA") LC cost (note 17)	174	453	176	456
Interest on short term borrowing	80	206	61	156
Exchange loss	46	119	43	111
Asset retirement obligation - unwinding of discount (note 15)	18	47	41	106
Finance income	(64)	(167)	(47)	(121)
	9,871	25,673	10,562	27,467

NOTES

(forming part of the financial statements)

7 Tax expense

The Royal Decree 9/2017 was issued on 19 February 2017 and published in the official gazette on 26 February 2017 amending certain provisions of the Income Tax Law 28/2009, including increase in corporate income tax rate from 12% to 15%. The effect of increase in tax rate has been recognized in these financial statements.

(a) Tax expense recognised in the income statement.

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Deferred tax expense relating to temporary differences	**1,575**	**4,097**	4,470	11,626

For the purpose of determining the taxable results for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing tax laws, regulations and practices. The adjustments to accounting profit for the year has resulted in a taxable loss.

(b) Reconciliation

The following is a reconciliation of income tax with the tax expense at the applicable tax rate of 15% (2017: 15%):

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Profit before tax	**10,647**	**27,692**	9,026	23,476
Income tax as per rates mentioned above	**1,597**	**4,154**	1,354	3,521
Deferred tax impact for prior period due to increase in tax rate	**(22)**	**(57)**	2,843	7,394
Change in recognised temporary difference			273	711
Deferred tax expense for the year	**1,575**	**4,097**	4,470	11,626

No deferred tax has been recognised on tax losses of RO 35.2 million which are expected to expire in the years between 2019 - 2023, as it is probable that future taxable profits will not be available against which the Company can use the benefits therefrom.

The Company's effective tax rate for the year ended 31 December 2018 was 14.8% (31 December 2017: 49.5%).

NOTES

(forming part of the financial statements)

7 Tax expense (continued)

(c) Deferred tax liability

	At 1 January 2018 RO'000s	Recognised during the year RO'000s	At 31 December 2018 RO'000s
Deferred tax (liability)/asset recognised in income statement			
Depreciation for property, plant and equipment	**(19,022)**	**(1,907)**	**(20,929)**
Provision for site restoration	**35**	**3**	**38**
Losses carried forward	**3,123**	**329**	**3,452**
Net deferred tax liability	**(15,864)**	**(1,575)**	**(17,439)**
Deferred tax asset directly recognised in equity			
Fair value adjustment of interest rate and forex swap	**898**	**(326)**	**572**
Deferred tax liability	**(14,966)**	**(1,901)**	**(16,867)**
In equivalent USD	**(38,922)**	**(4,944)**	**(43,866)**

	At 1 January 2017 RO'000s	Recognised during the year RO'000s	At 31 December 2017 RO'000s
Deferred tax (liability)/asset recognised in income statement			
Depreciation for property, plant and equipment	(13,268)	(5,754)	(19,022)
Provision for site restoration	22	13	35
Losses carried forward	1,852	1,271	3,123
Net deferred tax liability	(11,394)	(4,470)	(15,864)
Deferred tax asset directly recognised in equity			
Fair value adjustment of interest rate and forex swap			
	1,309	(411)	898
Deferred tax liability	(10,085)	(4,881)	(14,966)
In equivalent USD	(26,228)	(12,694)	(38,922)

(d) Status of tax returns

The tax returns for the years 2013 to 2017 have not yet been assessed by the Secretariat General of Taxation at the Ministry of Finance. The Management is of the opinion that the final tax liability once assessed for the open tax years would not be material to the Company's financial position as at 31 December 2018.

NOTES

(forming part of the financial statements)

8 Property, plant and equipment

	Property,plant and equipment USD'000s	Decommissioning asset USD'000s	Technical spares USD'000s	"Other assets" USD'000s	Total USD'000s
Cost					
1 January 2017	770,640	1,037	4,331	317	776,325
Additions during the year	110	-	116	19	245
Disposals during the year	-	(1,037)	-	(6)	(1,043)
1 January 2018	**770,750**	**-**	**4,447**	**330**	**775,527**
Additions during the year	16	-	36	81	133
Disposals during the year	-	-	-	(41)	(41)
31 December 2018	**770,766**	**-**	**4,483**	**370**	**775,619**
Depreciation					
1 January 2017	76,494	98	520	273	77,385
Charge for the year	19,148	22	192	39	19,401
Disposals during the year	-	(120)	-	(6)	(126)
1 January 2018	**95,642**	**-**	**712**	**306**	**96,660**
Charge during the year	19,113	-	185	19	19,317
Disposals during the year	-	-	-	(41)	(41)
	114,755	**-**	**897**	**284**	**115,936**
Carrying amount					
31 December 2018	**656,011**	**-**	**3,586**	**86**	**659,683**
31 December 2017	675,108	-	3,735	24	678,867

	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
Cost					
1 January 2017	296,311	399	1,665	122	298,497
Additions during the year	42	-	45	7	94
Disposals during the year	-	(399)	-	(2)	(401)
1 January 2018	**296,353**	**-**	**1,710**	**127**	**298,190**
Additions during the year	6	-	14	31	51
Disposals during the year	-	-	-	(16)	(16)
31 December 2018	**296,359**	**-**	**1,724**	**142**	**298,225**
Depreciation					
1 January 2017	29,412	38	200	104	29,754
Charge during the year	7,362	8	74	15	7,459
Disposals during the year	-	(46)	-	(2)	(48)
1 January 2018	**36,774**	**-**	**274**	**117**	**37,165**
Charge during the year	7,349	-	71	7	7,427
Disposals during the year	-	-	-	(16)	(16)
	44,123	**-**	**345**	**108**	**44,576**
Carrying amount					
31 December 2018	**252,236**	**-**	**1,379**	**34**	**253,649**
31 December 2017	259,579	-	1,436	10	261,025

The term loan facilities are secured by a comprehensive legal and commercial mortgage on all assets of the Company

NOTES

(forming part of the financial statements)

9 Trade and other receivables

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Trade receivables	**4,814**	**12,520**	3,654	9,502
Prepayments	**231**	**600**	270	701
Other receivables and accrued income	**860**	**2,236**	852	2,219
	5,905	**15,356**	4,776	12,422

None of the Company's trade receivable balances were past due or impaired (31 December 2017: Nil). The impairment provision is assessed based on the "Expected Credit Loss" model under IFRS 9, the impairment impact is considered to be immaterial. The impairment provision for comparative figures was assessed under IAS 39.

10 Short term deposit

As per the CTA, the Company is required to maintain a debt service provisioning account ("DSPA") to ensure funds are available to service the loan instalments and interest on due date. At each repayment date at the end of October the Company is required to put the scheduled amount towards the next six monthly payment. The amount in the DSPA cannot be utilized for any purpose other than servicing the loan instalment and interest and is as such, restricted cash. The amount in the DSPA has been put into a short term deposit maturing on 26 April 2019.

11 Cash and cash equivalents

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Cash in hand and at bank	**2,021**	**5,256**	2,991	7,779

NOTES

(forming part of the financial statements)

12 Equity

(a) Share capital

The details of the shareholders are as follows:

31 December 2018	**Nationality**	**No. of shares held of nominal value 100 Bzs. each**	**% of total**	**Aggregate nominal value of shares held RO'000s**
Kahrabel FZE	UAE	**201,791,343**	**29.90%**	**20,179**
Middle East Investment LLC	Omani	**96,508,899**	**14.30%**	**9,651**
Civil Service Employees Pension Fund	Omani	**87,922,172**	**13.03%**	**8,792**
SEP International Netherlands B.V.	Netherlands	**48,254,453**	**7.15%**	**4,825**
Blue Horizon Sohar Power B.V.	Netherlands	**48,254,453**	**7.15%**	**4,825**
Public Authority for Social Insurance	Omani	**45,152,563**	**6.69%**	**4,515**
Ministry of Defence Pension Fund	Omani	**40,890,737**	**6.06%**	**4,089**
Shareholders with less than 5% shareholding		**106,112,810**	**15.72%**	**10,613**
		674,887,430	**100.00%**	**67,489**
Nominal value in USD				**175,523**
31 December 2017				
Kahrabel FZE	UAE	201,791,343	29.90%	20,179
Multitech LLC	Omani	96,508,899	14.30%	9,651
Civil Service Employees Pension Fund	Omani	87,922,172	13.03%	8,792
SEP International Netherlands B.V.	Netherlands	48,254,453	7.15%	4,825
Blue Horizon Sohar Power B.V.	Netherlands	48,254,453	7.15%	4,825
Public Authority for Social Insurance	Omani	45,152,563	6.69%	4,515
Ministry of Defence Pension Fund	Omani	41,287,407	6.12%	4,129
Shareholders with less than 5% shareholding		105,716,140	15.66%	10,573
		674,887,430	100.00%	67,489
Nominal value in USD				175,523

The Company has authorized, issued and paid-up share capital of RO 67,488,743 consisting of 674,887,430 shares of RO 0.1 each (2017: RO 67,488,743 consisting of 674,887,430 shares of RO 0.1 each).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All shares rank equally with regard to the Company's residual assets.

NOTES

(forming part of the financial statements)

12 Equity *(continued)*

(b) Legal reserve

Article 106 of the Commercial Companies Law of 1974 requires that 10% of Company's net profit is transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to at least one-third of the Company's issued share capital.

(c) Hedging reserve

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (note 13).

(d) Dividend

Pursuant to shareholders resolution of 20 March 2018, the Board of Directors, in the meetings held on 24 April 2018 and 24 October 2018, approved cash dividends of 2.80 Baizas and 5.68 Baizas per share, respectively from the retained earnings of the Company as at 31 December 2017, to the shareholders of the Company who are registered in the Company shareholders' register with Muscat Clearing and Depository Company SAOC. The cut off dates for entitlement to receive dividends were 5 June 2018 and 5 December 2018 respectively.

Unclaimed dividend relating to cut off date of 5 June 2018 in the amount of RO 2,491.363 has been deposited by Muscat Clearing & Depository Company SAOC with the Investors Trust Fund.

NOTES

(forming part of the financial statements)

13 Hedging reserve

Derivative instruments assets (liabilities) are as follows:

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Interest rate swaps:				
Term loans (note 14)				
Standard Chartered Bank	**(893)**	**(2,322)**	(2,106)	(5,478)
KfW IPEX - Bank GmbH	**(464)**	**(1,206)**	(1,052)	(2,737)
Credit Agricole Corporate & Investment Bank	**(355)**	**(924)**	(929)	(2,416)
HSBC Bank Middle East Limited	**(333)**	**(865)**	(782)	(2,034)
Total fair value of interest rate swaps	**(2,045)**	**(5,317)**	(4,869)	(12,665)
Deferred tax asset	**307**	**797**	730	1,899
Fair value of interest rate swaps net of tax	**(1,738)**	**(4,520)**	(4,139)	(10,766)
Currency swaps:				
Standard Chartered Bank	**(1,818)**	**(4,727)**	(1,340)	(3,485)
Credit Agricole Corporate & Investment Bank	**41**	**107**	218	567
Total fair value of currency swaps	**(1,777)**	**(4,620)**	(1,122)	(2,918)
Deferred tax asset	**266**	**693**	168	438
Fair value of currency swaps net of tax	**(1,511)**	**(3,927)**	(954)	(2,480)
Total fair value of derivative instruments	**(3,822)**	**(9,937)**	(5,991)	(15,583)
Less: Deferred tax asset [note 7 (c)]	**573**	**1,490**	898	2,337
Total fair value of derivative instruments net of tax	**(3,249)**	**(8,447)**	(5,093)	(13,246)
Hedging reserve net of tax at the end of the year	**(3,249)**	**(8,447)**	(5,093)	(13,246)
Less: Hedging reserve net of tax at the beginning of the year	**(5,093)**	**(13,246)**	(9,598)	(24,962)
Effective portion of change in fair value of cash flow hedge for the year	**1,844**	**4,799**	4,505	11,716

(a) The long term facilities (note 14) (total drawdown of USD 490.50 million (RO 188.60 million) excluding Hermes Covered Fixed Facility of USD 120 million (RO 46.14 million)) of the Company bear interest at US LIBOR plus applicable margins.

The Company has fixed the rate of interest through Interest Rate Swap Agreements ("IRS") entered into with, Standard Chartered Bank, dated 19 December 2011; KfW IPEX - Bank GmbH, dated 6 October 2010; Credit Agricole Corporate & Investment Bank, dated 5 October 2010 and HSBC Bank Middle East Limited, dated 6 October 2010 respectively, for the facilities (excluding Hermes Covered Fixed Facility).

The hedged notional amounts stand at approximately USD 133.14 million (RO 51.19 million), USD 69.74 million (RO 26.82 million), USD 63.40 million (RO 24.38 million) and USD 50.72 million (RO 19.50 million) at fixed interest rates of 2.9708%, 2.9750%, 2.9530% and 2.9788% per annum respectively, excluding margins.

NOTES

(forming part of the financial statements)

13 Hedging reserve *(continued)*

(b) The O&M Agreement includes an outflow of approximately Euro 68 million, payable in Euro. The Company has entered into a Forward Rate Agreements ("FRA") with Standard Chartered Bank and Credit Agricole Corporate & Investment Bank on 12 October 2010 and 4 August 2015 respectively to hedge against fluctuations in Euro/USD exchange rate. As per the FRAs', the Company shall pay a fixed USD amount at an exchange rate of 1.4318 and 1.17471 respectively and receive contractual Euro amount at each maturity date.

14 Term loans

	2018 RO '000s	**2018 USD '000s**	2017 RO '000s	2017 USD '000s
Term loans	**157,407**	**409,382**	171,585	446,255
Less: current portion	**(14,887)**	**(38,718)**	(14,178)	(36,873)
Non-current portion	**142,520**	**370,664**	157,407	409,382
Less: Unamortised transaction cost	**(5,030)**	**(13,082)**	(6,113)	(15,898)
	137,490	**357,582**	151,294	393,484

On 16 September 2010, the Company entered into a Common Terms Agreement ("CTA"), for credit facilities with a consortium of international banks, export credit agencies and a local bank, with Credit Agricole Corporate & Investment Bank as the Global Facility Agent, Offshore Security Trustee, Offshore Account Bank, KEXIM Facility Agent and Commercial Facility Agent; with Bank Muscat SAOG as Onshore Security Agent and Onshore Account Bank; and with KfW IPEX - Bank GmbH as the Hermes Facility Agent.

At 31 December the outstanding amounts were as follows:

	2018 RO '000s	**2018 USD '000s**	2017 RO '000s	2017 USD '000s
Hermes Covered Variable Facility	**43,762**	**113,815**	49,111	127,727
Commercial Facility	**45,785**	**119,076**	46,318	120,464
Hermes Covered Fixed Facility	**27,933**	**72,648**	31,348	81,528
KEXIM Direct Facility	**27,196**	**70,732**	30,521	79,378
KEXIM Covered Facility	**12,731**	**33,111**	14,287	37,158
	157,407	**409,382**	171,585	446,255

Repayments

The aggregate amount of drawdown under the above facilities is repayable in half yearly instalments commencing from 31 October 2013, with the final instalment being due on 31 March 2027 except for Commercial Facility which has a final maturity date of 31 March 2028.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Term loans		**Short term borrowings**	
Particulars	**RO'000s**	**USD'000s**	**RO'000s**	**USD'000s**
Balance at 1 January 2018	171,585	446,255	4,844	12,598
Proceeds from borrowing	-	-	56,050	145,774
Repayments of borrowing	(14,178)	(36,873)	(58,694)	(152,650)
Balance at 31 December 2018	**157,407**	**409,382**	**2,200**	**5,722**

NOTES

(forming part of the financial statements)

14 Term loans *(continued)*

Interest

(i) Interest on Hermes Covered Fixed Facility is charged at a fixed rate of 3.60% per annum, including margin.

(ii) Interest on the remaining facilities is charged at a floating rate of US LIBOR plus applicable margin. The Company has entered into interest rate swap contracts to fix its obligations against US LIBOR rate changes.

During the year the margins ranged between 1.70% and 2.80% per annum (2017: ranged between 1.70% and 2.80%) depending on the type of facility and the interest payment period.

Other fees

Under the terms of the above facilities, the Company is required to pay agency and other fees.

Securities

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

Covenants

The term loan facilities contain certain covenants pertaining to, amongst other things, liquidation and merger, entering into material new agreements, negative pledge, disposal of asset, granting of loan and guarantee, acquisition of capital assets, debt service coverage ratio, change of business, hedging agreement, etc, which the Company is required to comply. The Company is in compliance with the covenants.

15 Asset retirement obligation

Under the Sub-Usufruct agreement, the Company has a legal obligation to remove the Plant at the end of its useful life and restore the land. The Company shall at its sole cost and expense dismantle, demobilise, safeguard and transport the assets, eliminate soil and ground water contamination, fill all excavation and return the surface to grade of the designated areas.

The fair value of ARO provision has been calculated using an expected present value technique. This technique reflects assumptions such as costs, plant useful life, inflation and discount rate that third parties would consider to assume for the settlement of the obligation.

The movement in ARO provision is as follows:

	2018	2018	2017	2017
	RO '000s	USD '000s	RO '000s	USD '000s
Balance at beginning of the year	**238**	**618**	549	1,429
Unwinding of discount during the year	**18**	**47**	41	106
Reversal due to revaluation (note 15.1)	**-**	**-**	(352)	(917)
Balance at the end of the year	**256**	**665**	238	618

15.1 During 2017, an exercise was carried out through an expert to re-evaluate the asset retirement obligation provision. Based on the valuation report, the ARO provision was reduced by USD 915,964 and a corresponding adjustment was made in the de-commissioning asset resulting in a nil value of the de-commissioning asset as at 31 December 2017, which was in accordance with the guidelines of International Financial Reporting Interpretation Committee – IFRIC 1. The management reviewed the assessment in 2018 and concluded that there is no significant change from previous year.

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NOTES

(forming part of the financial statements)

16 Trade and other payables

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Fuel gas payable and accrual	5,987	15,570	3,083	8,017
Accrued interest cost	1,363	3,544	1,504	3,911
Due to related parties (note 17)	397	1,032	523	1,361
Other payable and accruals	1,594	4,143	731	1,901
	9,341	24,289	5,841	15,190

17 Related party transactions

Related parties comprise the shareholders, directors, key management personnel, business entities that have the ability to control or exercise significant influence over financial and operating decisions of the Company and entities over which certain shareholders are able to exercise significant influence. Prices and terms of these transactions, which are entered in the normal course of business, are on mutually agreed terms and conditions.

Key Management benefits

Key management personnel are those having authority for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise).

Total compensation paid to the top five employees including key management personnel for the year ended 31 December are as follows:

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Key Management benefits	**374**	**973**	372	967

NOTES

(forming part of the financial statements)

17 Related party transactions *(continued)*

The Company had the following transactions with related parties during the year:

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Suez-Tractebel Operation & Maintenance Oman LLC	**6,967**	**18,118**	7,626	19,834
Al Suwadi Power Company SAOG	**230**	**598**	275	715
Kahrabel Operation & Maintenance (Oman) LLC	**129**	**335**	133	346
Sojitz Corporation	**118**	**307**	19	50
ENGIE SA	**80**	**209**	81	210
International Power SA Dubai Branch	**38**	**98**	40	104
Middle East Investment LLC	**34**	**88**	-	-
Directors	**34**	**88**	37	95
Shikoku Electric Power Co., Inc.	**28**	**72**	130	338
Kahrabel FZE	**28**	**72**	6	15
Public Authority for Social Insurance	**17**	**46**	17	45
Multitech LLC	**4**	**11**	39	101
Laborelec Middle East	**1**	**3**	1	4
Tractebel Engineering S.A.	**-**	**-**	5	13
	7,708	**20,045**	8,409	21,870

The nature of the above transactions is as follows:

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
O&M fixed fee (note 4)	**4,903**	**12,752**	5,015	13,042
O&M variable fee (note 4)	**1,829**	**4,757**	1,705	4,436
Secondment fees (note 5)	**236**	**615**	243	633
Sharing of costs	**230**	**598**	275	715
DSRA LC cost (note 6)	**174**	**453**	176	456
Other O&M cost (note 4)	**139**	**361**	538	1,399
Custom duty (note 4)	**100**	**259**	342	889
Professional fees	**39**	**101**	45	120
Directors' sitting fees (note 5)	**19**	**48**	20	51
Directors' remuneration (note 5)	**15**	**40**	17	44
Spares	**8**	**21**	6	15
Others	**16**	**40**	26	70
	7,708	**20,045**	8,408	21,870

Balances due to related parties at the year end comprised (note 16)

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Suez-Tractebel Operation & Maintenance Oman LLC	**238**	**618**	433	1,127
ENGIE SA	**87**	**226**	6	17
Kahrabel Operation & Maintenance (Oman) LLC	**32**	**84**	11	28
Directors'	**15**	**40**	17	44
Sojitz Corporation	**11**	**27**	2	4
International Power SA Dubai Branch	**5**	**14**	6	15
Middle East Investment LLC	**5**	**13**	-	-
Shikoku Electric Power Co., Inc.	**2**	**4**	11	28
Public Authority for Social Insurance	**1**	**3**	1	4
Kahrabel FZE	**1**	**3**	-	-
Al Suwadi Power Company SAOG	**-**	**-**	33	86
Multitech LLC	**-**	**-**	3	8
	397	**1,032**	523	1,361

NOTES

(forming part of the financial statements)

18 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Board of Directors has overall responsibility for establishing and overseeing the Company's risk management framework. The Board has entrusted the Management with the responsibility of developing and monitoring the Company's risk management policies and procedures and its compliance with them.

(a) ***Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Company has borrowings which are interest bearing and exposed to changes in US LIBOR rates. The Company has entered into interest rate swaps to hedge its US LIBOR risk exposure on 100% of its total loan facilities, excluding Hermes Covered Fixed Facility.

The Company does not account for any fixed rate financial liabilities at fair value through profit or loss and the Company does not designate hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect the income statement.

At the reporting date, the interest rate profile of the Company's interest-bearing financial liabilities was:

	Interest rate %	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Financial liabilities					
Term loans					
- USD variable rate loans	Libor + margins	**129,474**	**336,734**	140,237	364,727
- USD fixed rate loan	3.60%	**27,933**	**72,648**	31,348	81,528
		157,407	**409,382**	171,585	446,255

NOTES

(forming part of the financial statements)

18 Financial risk management *(continued)*

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in US LIBOR rates at the reporting date would have increased/ (decreased) equity and statement of profit or loss and other comprehensive income by the amounts of USD 203,397 (RO 78,206) [2017 : USD 103,847 (RO 39,929)]. This analysis assumes that all other variables, in particular foreign currency rates remain constant.

Currency risk

The price under the O&M Agreement includes an expected amount of approximately Euro 68 million, payable in Euro. The Company has entered into FRAs' to hedge against fluctuations in Euro/USD exchange rate (note 13(b)). The Euro amounts hedged cover 89% of expected outflows for the period from January 2019 to August 2021, 61% for the period from September 2021 to March 2023 and 36% for the period from April 2023 to March 2028. The Management considers that the Company is not exposed to significant foreign exchange risk because most other transactions and balances are either in RO or USD and RO is effectively pegged to the USD.

Sensitivity analysis

A strengthening/ (weakening) of the Euro against all other currencies at the reporting date would have affected the measurement of financial instruments denominated in a foreign currency and increased/ (decreased) equity and the statement of profit or loss and other comprehensive income by the amounts of USD 460,030 (RO 176,882) [2017 : 1,702,273 (RO 654,524)]. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

(b) ***Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and cash balances held with banks. OPWP is the Company's sole customer and the Company analyses its credit risk with OPWP by monitoring its credit rating. The Company limits its credit risk with regard to bank deposits by only dealing with reputable banks and financial institutions. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2018	**2018**	2017	2017
	RO '000s	**USD '000s**	RO '000s	USD '000s
Trade receivables	**4,814**	**12,520**	3,654	9,502
Short term deposit	**1,807**	**4,700**	2,001	5,203
Cash at bank	**2,021**	**5,256**	2,990	7,776
Other receivables and accrued income	**860**	**2,236**	852	2,219
	9,502	**24,712**	9,497	24,700

NOTES

(forming part of the financial statements)

18 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Age analysis of trade receivables as at 31 December was:

	2018	Allowance for impairment	2017	Allowance for impairment
	RO'000s	RO'000s	RO'000s	RO'000s
Not past due	**4,814**	**-**	3,654	-
Past due 0 to 3 months	**-**	**-**	-	-
Past due > 3 months	**-**	**-**	-	-
	4,814	**-**	3,654	-
Nominal value in USD	**12,520**	**-**	9,502	-

None of the Company's trade receivable balances were past due or impaired (31 December 2017: Nil). The impairment provision is assessed based on the "Expected Credit Loss" model under IFRS 9, the impairment impact is considered to be immaterial. The impairment provision for comparative figures was assessed under IAS 39, measurement basis which applied an "Incurred loss" model.

The table below shows the balances with banks categorized by short-term credit ratings as published by Moody' Service at the reporting date:

	Rating	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Bank					
Bank balances					
Bank Muscat SAOG	**P-2**	**1,468**	**3,819**	2,654	6,902
Credit Agricole Corporate & Investment Bank	**P-1**	**553**	**1,437**	336	874
		2,021	**5,256**	2,990	7,776
Short term deposit					
Credit Agricole Corporate & Investment Bank	**P-1**	**1,807**	**4,700**	2,001	5,203

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company limits its liquidity risk by ensuring that a working capital facility is available, when required.

Liquidity requirements are monitored on a monthly basis and the Management ensures that sufficient liquid funds are available to meet any commitments as they arise.

NOTES

(forming part of the financial statements)

18 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flow	Less than 1 year	Between 2 and 5 years	More than 5 years
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
31 December 2018					
Derivatives					
Derivative instruments	**3,822**	**(3,808)**	**-**	**(3,433)**	**(375)**
Non-derivatives Financial liabilities					
Term loans	**152,377**	**(197,956)**	**(22,201)**	**(92,674)**	**(83,081)**
Short term borrowing	**2,200**	**(2,200)**	**(2,200)**	**-**	**-**
Trade and other payables	**9,341**	**(9,341)**	**(9,341)**	**-**	**-**
	167,740	**(213,305)**	**(33,742)**	**(96,107)**	**(83,456)**
31 December 2018	**USD'000s**	**USD'000s**	**USD'000s**	**USD'000s**	**USD'000s**
Derivatives					
Derivative instruments	**9,937**	**(9,904)**	**-**	**(8,928)**	**(976)**
Non-derivatives Financial liabilities					
Term loans	**396,300**	**(514,838)**	**(57,739)**	**(241,024)**	**(216,075)**
Short term borrowing	**5,722**	**(5,722)**	**(5,722)**	**-**	**-**
Trade and other payables	**24,289**	**(24,289)**	**(24,289)**	**-**	**-**
	436,248	**(554,753)**	**(87,750)**	**(249,952)**	**(217,051)**
31 December 2017	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
Derivatives					
Derivative instruments	5,991	(6,708)	-	(5,411)	(1,297)
Non-derivatives Financial liabilities					
Term loans	165,472	(221,983)	(21,751)	(91,811)	(108,421)
Short term borrowing	4,844	(4,844)	(4,844)	-	-
Trade and other payables	5,841	(5,841)	(5,841)	-	-
	182,148	(239,376)	(32,436)	(97,222)	(109,718)
31 December 2017	USD'000s	USD'000s	USD'000s	USD'000s	USD'000s
Derivatives					
Derivative instruments	15,583	(17,446)	-	(14,072)	(3,374)
Non-derivatives Financial liabilities		-			
Term loans	430,357	(577,328)	(56,569)	(238,781)	(281,978)
Short term borrowing	12,598	(12,598)	(12,598)	-	-
Trade and other payables	15,190	(15,190)	(15,190)	-	-
	473,728	(622,562)	(84,357)	(252,853)	(285,352)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amount.

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(forming part of the financial statements)

18 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Fair value hierarchy

The management believes that the fair value of the financial assets and liabilities are not significantly different from their carrying amounts as shown in the financial statements at the reporting date.

There were no transfers between level 1 and level 2 during the year.

Measurement of fair values

Type	Valuation technique	Significant unobservable inputs
Derivative instruments (level 2)	Market comparison technique: fair value is calculated by the respective financial institutions	Not applicable
Other financial liabilities (level 2)	Discounted cash flows	Not applicable

Embedded derivatives

The following agreements contain embedded derivatives:

(i) The PPA between the Company and OPWP contains embedded derivatives in the pricing formulae that adjusts the charge rates to reflect changes in USD / RO currency exchange rates and changes in US price index and the Oman price index.

(ii) The O&M Agreement contains embedded derivatives in the pricing formulae that adjust the payments to reflect changes in relevant inflation indices.

(iii) The SUA between the Company and SIPC contains embedded derivatives in the pricing formulae that adjust the rent for the land to reflect changes in US consumer price index and the Omani consumer price index.

These embedded derivatives are not separated from the host contract, the PPA, the O&M agreement, and SUA and is not accounted for as a standalone derivative under IAS 39, as the Management believes that the economic characteristics and risks associated with the embedded derivatives are closely related to those of the host contracts.

Capital management

The Company aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development and growth of its businesses, while at the same time maintaining an appropriate dividend policy to reward shareholders.

19 Contingent liabilities

No material contingent liabilities exist as at 31 December 2018.

20 Commitments

(a) Operation and maintenance commitments

As per the O&M Agreement, STOMO is scheduled to operate and maintain the Plant until 31 March 2028. Under the O&M Agreement the Company has to pay the following operating fees:

- a fixed monthly fee; and
- a variable fee

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(forming part of the financial statements)

20 Commitments *(continued)*

All fees are subject to indexation based on Omani, Euro Material and Labour & US Producer Price indices.

At 31 December the expected future payments under the O&M Agreement (excluding indexation) are as follows:

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Within one year	5,951	15,478	6,367	16,560
Between 2 to 5 years	25,176	65,477	25,194	65,523
After 5 years	29,029	75,497	34,656	90,133
	60,156	156,452	66,217	172,216

Euro/USD rate for converting Euro denominated O&M payments as at 31 December 2018 was 1.14 (2017: 1.21)

(b) Land lease commitments

At 31 December, the future lease payments under the Sub-Usufruct Agreement (excluding indexation) are as follows:

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Within one year	**140**	**363**	140	363
Between two and five years	**559**	**1,453**	559	1,453
After five years	**672**	**1,746**	811	2,109

(c) As at 31 December 2018 the Company has outstanding purchase orders for USD 712,451 (RO 213,937).

21 Operating lease agreement for which the Company acts as a lessor

The Company has entered into a PPA with OPWP for a substantial element of the production of power with 100% "take-or-pay" clauses in favour of the Company.

The Management has determined that the take-or-pay arrangement with OPWP under the PPA is subject to IFRIC 4 – Determining whether an arrangement conveys the right to use the asset. The Management further determined that such an arrangement in substance represents an operating lease. The lease commenced on 3 April 2013. The following is the total of minimum lease receipts expected to be received under the PPA, excluding indexation:

	2018 RO '000s	2018 USD '000s	2017 RO '000s	2017 USD '000s
Within one year	**28,246**	**73,462**	28,253	73,479
Between 2 to 5 years	**113,020**	**293,940**	113,020	293,940
After 5 years	**116,261**	**302,368**	144,507	375,830
	257,527	**669,770**	285,780	743,249

NOTES

(forming part of the financial statements)

22 Net assets per share

Net assets per share is calculated by dividing the net assets attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2018	2017
Net assets - shareholder funds (RO'000s)	**83,917**	80,568
Weighted average number of shares outstanding during the year ('000s)	**674,887**	674,887
Net assets per share (Baizas)	**124.34**	119.38

The Management believes that the hedging deficit of RO 3.25 million (USD 8.45 million) as at 31 December 2018 (RO 5.09 million [USD 13.25 million] as at 31 December 2017) represents the loss which the Company would incur, if it opts to terminate its swap agreements on this date. However, under the terms of its Financing Documents, the Company is not permitted to terminate the swap agreements. Accordingly the hedging deficit has been excluded from the Shareholder Funds.

23 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2018	2017
Net profit for the period (RO'000s)	**9,072**	4,556
Weighted average number of shares outstanding during the year ('000s)	**674,887**	674,887
Basic earnings per share (Baizas)	**13.44**	6.75

24 Post reporting date event

Amendments to the Executives Regulation of the Income Tax Law (MD 30/2012) have been issued and published in the official gazette on 10 February 2019. Based on these amendments the Company has recorded withholding tax liability amounting to RO 620,655 on interest paid on term loans from foreign banks.

Receivable from OPWP has also been recognized for the same amount based on the fact that the Company has entered into a PPA with OPWP, which includes a clause for Buyer Risk Event (BRE) which protects the Company from occurrence of any change in law. The management has exercised its judgment in view of the correspondence with OPWP in respect of this matter and has decided to recognise a receivable from OPWP. Further, OPWP, through its letter dated 12 June 2018, has acknowledged the BRE and prescribed a procedure for reimbursement of any additional costs incurred by the project Company as a result of this BRE. Based on this, the Company believes that the letter from OPWP provides sufficient evidence as to certainty of the reimbursement.

25 Comparative figures

Certain comparative figures have been reclassified where necessary to conform to the current year presentation.