

Annual Report 2017

Energising
Oman's
Future



السوادي للطاقة

AL SUWADI POWER





HIS MAJESTY SULTAN QABOOS BIN SAID

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Board of Directors and Key Executive Officers

Board of Directors	Position	Representing
Mr. Charles Paul Dexter	Chairperson	Kahrabel FZE
Mr. Rahul Kar	Deputy Chairperson	
Mr. Ali Taqi Ibrahim Al-Lawati	Director	Public Authority for Social Insurance
Mr. Abdul Hakeem Amur Salim Al-Musalhi	Director	Ministry of Defence Pension Fund
Mr. Gillian Alexandre Huart	Director	
Mr. Kazuichi Ikeda	Director	SEP International Netherlands B.V.
Mr. Mitsuo Nakamoto	Director	Blue Horizon Barka Power B.V.
Mr. Nair Santosh Unni	Director	Multitech LLC
Mr. Shawn Madore	Director	
Mr. Yaqoub Harbi Salim Al-Harhi	Director	

Key Executive Officers	Position
Mr. Navneet Kasbekar	Chief Executive Officer
Mr. Muhammad Fawad Akhtar	Chief Financial Officer

Board of Directors' Report



Dear Shareholders,

On behalf of the Board of Directors of Al Suwadi Power Company SAOG (the "Company"), I have the pleasure to present the Annual Report of the Company for the year ended 31 December 2017.

Corporate Governance

The new Code of Corporate Governance (the "Code") promulgated by Capital Market Authority (the "CMA") came into force in July 2016. In December 2016, the CMA notified some minor amendments to the Code along with issuance of clarifications on various queries on the Code received by the CMA. The Company has reviewed and updated its relevant policies and procedures to ensure compliance with the same. The Company continues to remain compliant with its internal regulations and control systems.

Operational Results

The operational performance of the plant during the year was admirable with 99.4% plant reliability. The fuel efficiency of the plant places it in the higher merit order list for dispatch among the power plants in Oman and, as such, the plant witnessed

an all-time high plant load of 69.2%. The plant delivered 4,471 GWh to the Omani grid, an increase of 11.2% as compared to year 2016.

The Company achieved a key milestone of successful completion of extended hot gas path inspection of the second gas turbine.

The Company continued to ensure highest standards of Health, Safety, Environment and Quality Management during the plant operations. The Company successfully clocked 2,374 Lost Time Accident free days at the plant since inception. The plant was awarded for a second successive year, the prestigious "RoSPA Gold Award for Health and Safety" by the Royal Society for the Prevention of Accidents (RoSPA).

The Company has met with most of the new stringent environment permit conditions promulgated by Ministry of Environment and Climate. The Company has duly complied with the new regulations introduced in respect of cyber security for the plant by the Authority for Electricity Regulation. Along with its Operations & Maintenance Contractor (STOMO), the Company has ensured a robust cyber security at the plant.

Financial Results

Excellent plant availability and higher power generation resulted in a consistent growth in revenues earned by the Company. The gross profit margin saw a reduction of 3% as compared to year 2016 primarily due to plant's thermal inefficiency at high plant load (the plant was not able to recover the full gas cost incurred at the high plant load operations) and negative impact arising from indexation mechanism agreed under the Power Purchase Agreement (inflation factor of US Producer Price Index applied on invoices under the Power Purchase Agreement slid down by 3.1% compared to year 2016).

Profit before tax was marginally lower when compared with the previous year. However, the increase in the income tax rate from 12% to 15% during the year 2017 necessitated recording of substantial deferred tax provision (non-cash impact) and as such, the net profit steeply reduced by 37.7% to RO 5.65 million as compared to year 2016.

Audited results	2017	2016	Percentage change
	RO'000	RO'000	
Revenues	73,220	69,357	5.6%
Direct costs	(50,668)	(46,108)	-9.9%
Gross profit	22,552	23,249	-3.0%
Profit before tax	10,480	10,678	-1.9%
Tax expense	(4,828)	(1,610)	199.9%
Net profit	5,652	9,068	-37.7%

Finally, the Company was able to declare and pay dividend of 8.56 Baizas per share, marginally lower than a dividend of 9.20 Baizas per share paid in 2016.

The share price stood at 142 Baizas per share at the close of year 2017.

Corporate Social Responsibility

The Company takes its role as a responsible corporate citizen seriously. Most of the Company's social responsibility programmes are focused at the Wilayat of Barka. During the year, the Company funded, with the active support of Municipality of Barka, the re-building and refurbishing of a disused children's play park at Muraisi in Barka Wilayat. The support included civil work at the park and procuring and installing various children's play activities. The total amount spent on this project was RO 14,825.

The proposed CSR activity for the year 2018 will be the provision of solar power facility to a school in Barka, in active participation with the Ministry of Education.

Medium term Outlook

The Royal Decree 9/2017 issued on 19 February 2017 amended certain provisions of the Income Tax Law including increase in corporate income tax rate from 12% to 15% effective 1 January 2017. As the PPA provides protection to the Company for the Change of Law, the Company notified Oman Power and Water Procurement Company SAOC (OPWP) about impact of such changes on its business and sought confirmation for a due compensation. OPWP has agreed to compensate the Company for actual cost incurred with respect to 3% increase in corporate income tax rate and impact of withholding tax on interest payments to lenders and service providers, based on fulfillment of certain conditions.

The value added tax is expected to be introduced in the country in year 2019 and consequently the Company shall assess the potential impact it may have on its business and shall seek compensation of any adverse impact under the Change of Law protection available in the PPA.

The Company continuously endeavours to identify and implement areas of improvement in plant operations.

All reasonable measures are being taken by the management to maintain excellent operational performance during 2018. Any change in the power supply and demand landscape in the Sultanate has no substantial impact on the financial performance of the Company since its profitability is mainly derived from plant's operational reliability.

The Company is constantly monitoring the international financial markets to relaunch the suspended refinancing



exercise of the Company's long term loans. This project will be taken up once the financial markets improve to an acceptable level that could make the refinancing exercise financially feasible.

The Company and its Operations & Maintenance Contractor are making serious efforts to steadily increase the Omanisation, while ensuring smooth and reliable operations of the plant. Presently, the Company is on track to meet Omanisation commitment made to the Authority for Electricity Regulation.

On behalf of the Board of Directors, I wish to express gratitude to Oman Power and Water Procurement Company SAOC, the Authority for Electricity Regulation, the Capital Market Authority and other governmental and non-governmental bodies for their guidance and support. I would also like to thank all personnel associated with the operation of Al Suwadi Power plant and the staff of the Company for their hard work and dedication, as also to those others such as our contractors, whose expertise has assisted us in achieving these excellent results.

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.



Charles Paul Dexter
Chairperson

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 player and an expert operator in the three businesses of electricity, natural gas and energy services. ENGIE places responsible growth at the heart of its activities (electricity, natural gas, energy services) to meet the major challenges of the energy transition towards a low-carbon economy: access to sustainable energy, mitigation and adaptation to climate change and responsible use of resources. The group develops high-performing and innovative energy solutions to individuals, cities and businesses by particularly relying on its expertise in four key sectors: renewable energy, energy efficiency, liquefied natural gas and digital technology. ENGIE has 154,950 employees worldwide, with sales of EUR 66.6 billion in 2016. Quoted in Brussels and Paris, the group is represented on the leading international indices: CAC 40, BEL 20, DJ Euro Stoxx 50, Euronext 100, FTSE Eurotop 100, MSCI Europe, DJSI World, DJSI Europe and Euronext Vigeo (Eurozone 120, Europe 120 and France 20).

Multitech LLC

Multitech LLC belongs to Bahwan Holding (BH), which is one of the foremost business houses in the Sultanate of Oman, and is under the management and control of Bahwan Engineering Company LLC (BEC).

Multitech's activities include trading in electrical products, welding products, water treatment, oilfield chemicals and cranes.

In addition, Multitech acts as the investment arm for BH's participation in the power and water privatization projects in Oman and is the founding shareholder in the following companies:

1. Al Suwadi Power Company SAOG (Barka 3 IPP - 745 MW Power Project).
2. Al Batinah Power Company SAOG (Sohar 2 IPP - 745 MW Power Project).
3. Phoenix Power Company SAOG (Sur IPP - 2000 MW Power Project).

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

SEP International Netherlands B.V. (SEPI)

SEPI is a wholly owned subsidiary of Shikoku Electric Power Co., Inc. (Yonden) for investing 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 & 63 MIGD) in Qatar.

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

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 4 million people in the Shikoku region, Japan. Yonden employs more than 4,600 people and has achieved consolidated operating revenues of USD 6.1 billion from the electricity sales of 30.4 billion kWh in the fiscal year ended March 31, 2017. 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 approximately 6,340MW (net and gross) in generating capacity at 64 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: www.yonden.co.jp/english/index.html

Blue Horizon Barka Power B.V. (BHSP)

Blue Horizon Barka Power B.V. (BHSP) is a wholly owned subsidiary of Sojitz for investing in the Barka-3 IPP. Sojitz is an investment and trading corporation based in Tokyo, Japan, and listed on the Tokyo Stock Exchange.

Sojitz employs more than 17,000 people worldwide (as of September 2017) and achieved revenues of JPY 3.7 trillion in the fiscal year ended in March 2017.

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, Vietnam, Mexico, China, Trinidad & Tobago, Sri Lanka and Japan.

Sojitz, a direct shareholder of BHBP, 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/>



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

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

Among the various social responsibility related initiatives pursued by the Company, it has a major focus in respect of community development in the Wilayat of Barka, the Wilayat in which the Company's Plant is located. The Company takes its role as a responsible corporate citizen seriously. Health, education, environment, sports and assisting other socially important initiatives are major spheres of our social responsibility programme.

Donations during 2017

With the active participation of the Barka Municipality, the contract was awarded to a reputed Company to re-build and refurbish a disused children's play park at Muraisi in Barka vilayat. The contract included civil work in respect of rebuilding the park and procuring and installing various children's play activities. The total amount spent on this project was RO 14,825, an amount within the budget approved by the Shareholders in the last ordinary Annual General Meeting.

The project was completed in November 2017.

The local community and the government department have greatly appreciated the social initiatives undertaken by the Company. The Company continues to explore similar socially beneficial initiatives in furtherance to its commitment to be a responsible corporate citizen.



Refurbished children's play park

Management Discussion and Analysis Report



The management of Al Suwadi Power Company SAOG (the “Company”) is pleased to present its report on the Company’s business structure, opportunities and challenges, 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 setting up of an independent regulatory agency, 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.

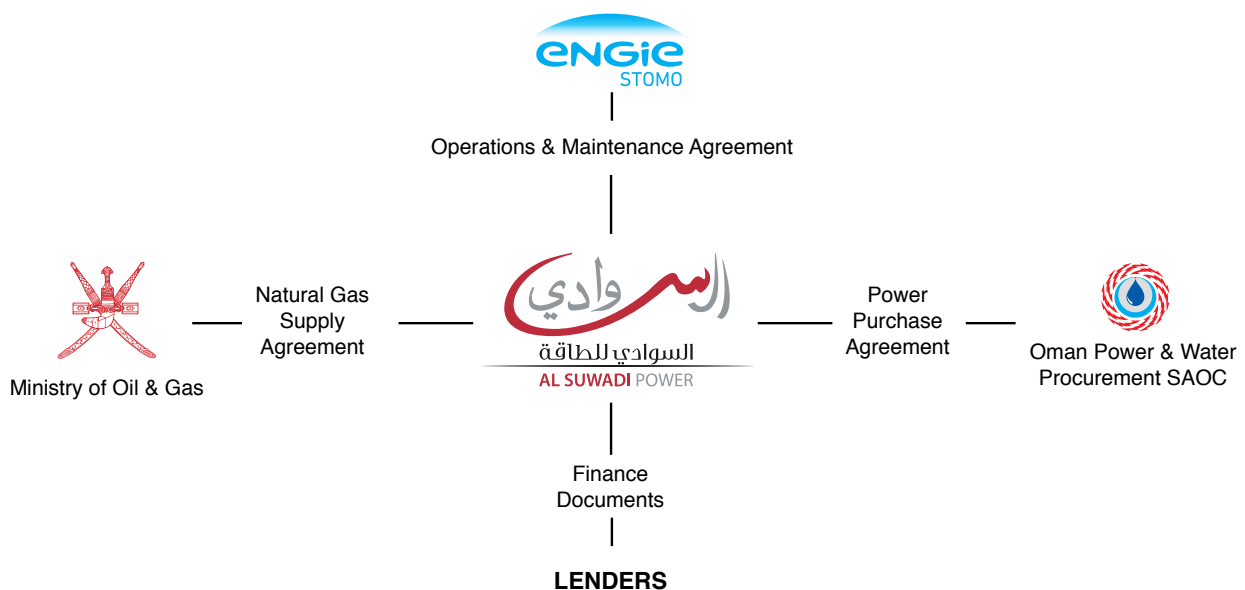
The Oman’s electricity and water sector is partly government-owned and partly privatized. OPWP’s portfolio of contracted power capacity comprises of long-term contracts with thirteen power plants out of which eleven are in operation.

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 2028, the proposal in this respect, presently discussed by OPWP, 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 is aiming 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 Challenges

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 variation 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 settlement of invoices.

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. Effective January 2015, gas price of US\$3/MMBtu with an annual escalation clause of 3% was notified by MOG. However, as the gas cost is pass-through element under the PPA, the Company has no adverse financial impact from the increase in the gas price.

The Company has entered into financing agreements with a consortium of international banks and export credit agencies. The future interest rates volatility is adequately hedged by 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 (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 thus largely mitigating the operational risk. 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 2017 was excellent with no lost time accident (LTA) reported. The Company takes pride to inform that the Plant has completed more than 2,374 days without an LTA.

The Plant holds major certifications like ISO 14001 and OHSAS 18001 as a testimony for safe and high quality Plant operations. The Plant was also awarded, for a second successive year, the prestigious “RoSPA Gold Award for Health and Safety’ by The Royal Society for the Prevention of Accidents (RoSPA). Many other proactive actions, as detailed below, undertaken by the Company and STOMO have led to such excellent accomplishment of HSE objectives:

- Frequent management reviews and safety walks
- Introduction of proactive key performance indicators (KPI)
- Introduction of the 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, a worldwide leader in the power sector, as part of wider loss control and risk management approach.

Every small incident or a 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

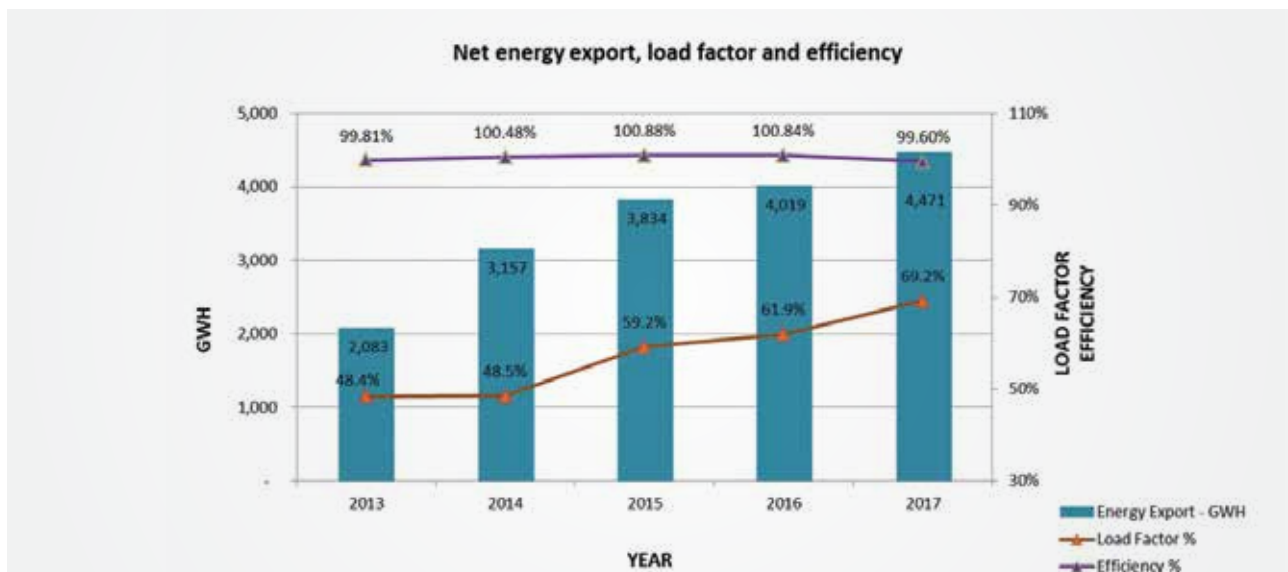
Training values at the Plant are established by the STOMO. These are primarily aimed to ensure that all of their employees perform their tasks in the most efficient and safe manner. The Company and STOMO are committed to empower qualified Omani Nationals to acquire better-quality engineering and related 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 have witnessed an increasing trend since commissioning of Plant in 2013. This is a commendable testament of the Plant's higher merit order listing for dispatch among the power plants in Oman. The graph given below explains the following aspect of the Plant performance:

- Over the last 5 years, the Plant has witnessed phenomenal rise in its generation with a splendid increase of 11.2% clocked this year over the last year.
- Higher generation has also been accompanied by higher Plant load, which has reached a creditable 69.2% during 2017.
- The efficiency of the power plant is measured in terms of the amount of heat required to produce one unit of power. The inherent limitations within the Plant's operational parameters have unfortunately seen a lower thermal efficiency at higher Plant load / generation. While the previous three years saw heat rate gain, the year 2017 has not been efficacious.



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 (RSC). The tariff structure agreed within the PPA and the Operation and Maintenance Agreement (OMA) with STOMO focuses on a fundamental feature that the profitability of the Company is mainly derived from Plant's reliability. The reliability of the plant is its ability to deliver the declared capacity, as per the PPA. Increase in power generation has no impact on the Company's profits except for the impact from thermal efficiency.

There are three elements that are crucial for invoice to OPWP for the Capacity Revenue:

- a. Contracted Capacity
- b. Reliability
- c. Indexation (The PPA protects the Company from inflation and references the inflation factor to US Producer Price Index (USPPI)).

Regrettably, on all these three factors the Company faced the following headwinds during 2017:

- a. Contracted Capacity reduced during the year as agreed within the PPA.
- b. Lower capacity revenue as compared to year 2016 was due to a marginal fall in the reliability of the plant from 99.6% to 99.4%.
- c. The USPPI slid down by 3.1% from year 2016.

Maintenance

Maintenance of the Plant was undertaken in accordance with the standard operations and maintenance processes recommended by the Original Equipment Manufacturers (OEM). While one gas turbine and the steam turbine underwent scheduled minor inspections, the second gas turbine successfully completed its first extended hot gas path inspection in accordance with the long term service agreement between STOMO with the OEM, Siemens.

Warranty

The current warranty bond covering remaining warranty claims on the main equipment and the balance of plant under the EPC Contract is due for expiry at end of April 2018. 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 the warranty claims are duly resolved / implemented.

Discussion on financial performance

Financial Highlights

Figures in RO millions		2017	2016	% change
Revenues	1	73.22	69.36	5.6%
Net Profit	2	5.65	9.07	-37.7%
Net Profit before Finance costs	3	16.98	20.90	-18.7%
Total Assets	4	291.26	300.89	-3.2%
Capital (Paid-up)	5	71.44	71.44	0.0%
Shareholders' Fund (Net Assets)	6	87.80	88.27	-0.5%
Term Loans ^	7	183.92	198.64	-7.4%
Weighted average number of shares	8	714.41	714.41	0.0%
Ordinary Dividends	9	6.12	6.57	-7.0%

Key Financial Indicators:		2017	2016	% change
Net Profit Margin	2/1	7.7%	13.1%	n/a
Return on Capital (Paid-up)	2/5	7.9%	12.7%	n/a
Return on Capital Employed	3/(6+7)	6.2%	7.3%	n/a
Debt Equity ratio	7:6	67.7 : 32.3	69.2 : 30.8	n/a
Net assets per share (Baizas)	6/8	122.90	123.55	-0.5%
Basic earnings per share (Baizas)	2/8	7.91	12.69	-37.7%
Dividends per share (Baizas)	9/8	8.56	9.20	-7.0%

^ Excluding unamortised transaction cost

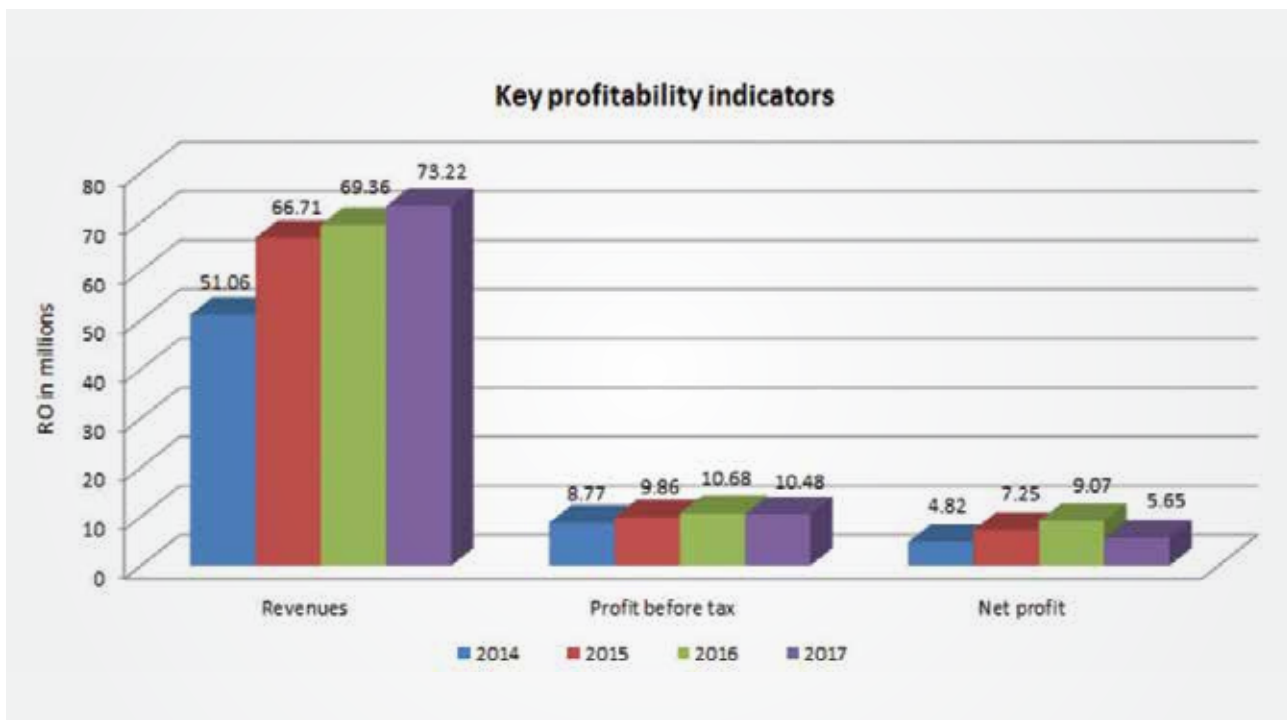
Analysis of Profit & Loss

The Company's revenues substantially increased due to higher power generation coupled with 3% increase in gas price (as gas price is a pass through element in the PPA).

The gross profit witnessed a reduction of 3% as compared to year 2016 primarily due to plant's thermal inefficiency at high plant load (the plant was not able to recover the full gas cost incurred in the operations) and negative impact arising from indexation mechanism agreed under the PPA (inflation factor of US Producer Price Index applied on invoices under the PPA slid down by 3.1% compared to year 2016).

The management continued to keep a good control on overall general and administrative expenses. The steady reduction in finance costs stemmed from scheduled loan repayments.

Increase in income tax rate from 12% to 15% required the Company to provide for deferred tax relating to the previous years and also for the year 2017 at a higher rate. Resultantly, the net profit for the year 2017 reduced by 37.7% compared to last year and the earnings per share fell to 7.91 Baizas for the year 2017 compared to 9.20 Baizas in year 2016.



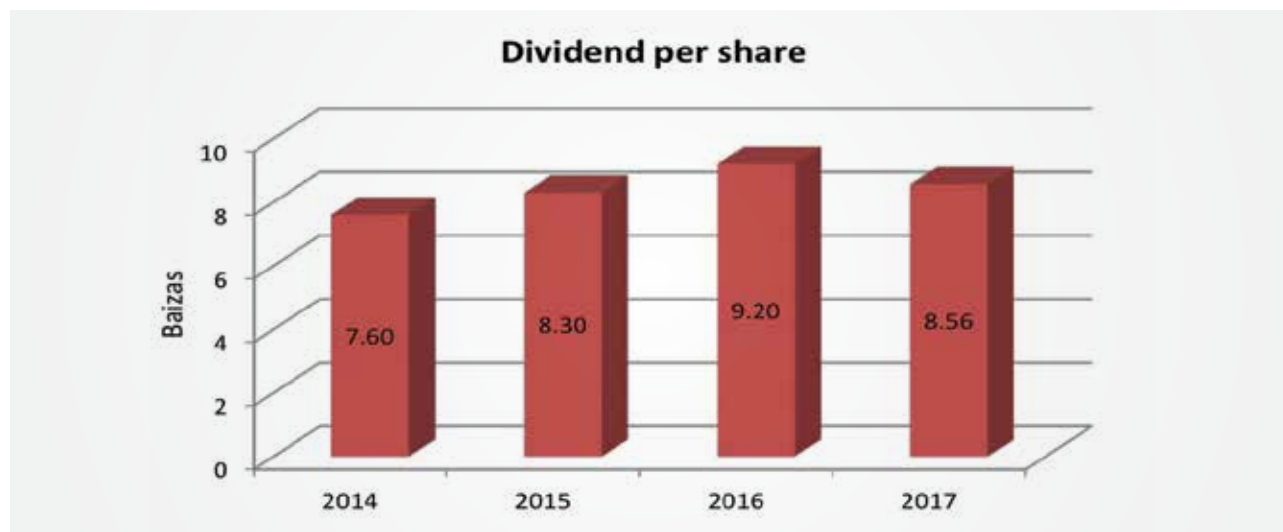
Analysis of Balance Sheet

Total Assets of the Company stood at RO 291.26 million as at December 2017 as compared to RO 300.89 million last year mainly due to depreciation charge for the year. Trade Receivables include one month of OPWP's invoice which has been subsequently settled by OPWP. Cash and cash equivalents and short term deposit net of short term borrowing stood at RO 2.38 million as at December 2017, as compared to RO 3.53 million last year.

The Shareholders Funds (Net Assets) stood at RO 87.80 million as at December 2017, marginally lower to RO 88.27 million as at December 2016. Term Loans (including non-current and current balances) have reduced to RO 183.92 million as a result of scheduled loan repayments in accordance with the terms agreed within the Finance Documents. The Company maintains adequate provision for asset retirement obligation to enable it to fulfill its legal obligation in this respect at the end of Plant's useful life. During the year, the Company engaged an expert to re-evaluate the provision for asset retirement obligation. The balance sheet as at December 2017 has been prepared by reversing the excess provision provided by the Company in the previous years.

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 6.12 million (translating to 8.56 Baizas per share) during the year 2017 (paid out of the audited retained earnings for the year ended December 2016).



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 policies, principles, directives and best practices in the industry and as per maintenance schedule 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 any property damage and loss of income arising from accidental damage.

OPWP Payments

During the year, OPWP has settled in full all invoices within the agreed credit period.

Outlook

The Royal Decree 9/2017 issued on 19 February 2017 amended certain provisions of the income tax law including increase in corporate income tax rate from 12% to 15% effective 1 January 2017, and applicability of withholding tax (WHT) at 10% on payments to any foreign person for interest on loans, fee for service (performed in Oman) and dividends.

In accordance with the protection available to the Company in the PPA for the Change of Law, the Company notified OPWP about impact of such changes on its business and sought confirmation for compensation. In December 2017, OPWP agreed to compensate the Company for the increase in corporate income tax rate from 12% to 15% and WHT on interest payments to lenders and service providers, based on fulfillment of certain conditions and as per the relevant provisions of the PPA. The Company awaits issuance of the Executive Regulations by the tax department which will further clarify the amendments made in income tax law.

The value added tax is expected to be introduced in the country in year 2019. The Company shall assess the potential impact it may have on its business and shall seek compensation for any adverse impact under the Change of Law protection available in the PPA.

During the year 2016, the Board suspended the refinancing exercise as the then prevailing global financial markets condition and the final responses received from the prospective lenders were seen not to present material financial value to the Company and further, numerous funding, pricing and legal challenges were also encountered. Since then, the Company has been monitoring the developments in international financial market but has not seen any improvement. The Company proposes to revive the refinancing exercise once there is appreciable improvement in global financial market conditions.

Considering the Company's robust contractual framework, 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.

The Company conducts no other business in the Sultanate of Oman or outside and has no subsidiaries.

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 also engaged reputable audit firm to support the Company's internal auditor. In addition, adequate training opportunities have been provided to the internal auditor to build upon the 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 the employees of the Company while assuring them of their career advancement and continued welfare.

Corporate Governance Report





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P.O. Box 641
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Report to the Shareholders of Al Suwadi Power Company SAOG (“the Company”) of Factual Findings in connection with the Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority (“CMA”) Circular No. 16/2003 dated 29 December 2003 (“the Procedures”) with respect to the Corporate Governance Report of the Company (“the Report”) and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance issued under Circular No. 11/2002 dated 3 June 2002 and the revised CMA Code of Corporate Governance issued under CMA Circular 4/2015 dated 22 July 2015 (together the “Governance Code”). The Report is set out on pages 23 to 33.

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 the Shareholders in evaluating the Company’s compliance with the Governance Code. The Procedures we performed were as follows:

1. Corroborated, as required, the matters disclosed in the Report by reference to: internal audit reports issued during the year ended 31 December 2017; Audit Committee and Board minutes of meetings held during the year ended 31 December 2017; and relevant supporting Company records .
2. Confirmed that the Report discloses matters discussed in the Board of Director’s report on review of the effectiveness of the Company’s system of internal controls and that these matters were reported by Company’s internal auditor to the Audit Committee during the year ended 31 December 2017.
3. Checked that the Report includes disclosures set out in Annexure 3 of the Governance Code.
4. Checked whether matters, if any, reported in the Auditors’ report on the financial statements for the year ended 31 December 2017 relating to: Adequacy and efficacy of the internal control systems in place; going concern considerations; and the adequacy of policies and procedures set up by the Company were also included in the Auditor’s presentation to the Audit Committee.
5. Read the Minutes of Board and Audit Committee meetings during the year ended 31 December 2017 to confirm that any matters of non-compliance with the Governance Code mentioned therein are also included in the Report.

As a result of performing the Procedures, we have no exceptions to report.

Because the 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 Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of the Report in accordance with International Standards on Auditing or International Standards on Review Engagement, other matters might have come to our attention that would have been reported to you. This report is solely for the purpose set forth in the second paragraph of this report, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Company's Corporate Governance Report included in the Company's annual report for the year ended 31 December 2017 and does not extend to any financial statements or any other reports of the Company, taken as a whole.

21 February 2018


Mobeen Chaudhri

Corporate Governance Report

The Board of Directors (the “Board”) of Al Suwadi Power Company SAOG (the “Company”) hereby present their Corporate Governance Report for the year ended 31 December 2017 in accordance with the Code of Corporate Governance of Public Listed Companies (the “Code”) issued in July 2015 and as amended and updated in December 2016.

Company's philosophy

The Company follows the principles of good Corporate Governance and has implemented all 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 fully operational in line with the provisions of the Code. 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, KPMG, have issued a separate Report on the Company's Governance Report for the year ended 31 December 2017.

Board of Directors

In compliance with the Company's Articles of Association, the Board is presently constituted of 10 directors. The 3 years term of the existing Board shall be completed at the conclusion of the ordinary Annual General Meeting (the “AGM”) of the shareholders of the Company in March 2019.

a) Composition, category and attendance of Directors in 2017:

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

During the year, the composition of the Board changed as follows:

- (i) Ms. Asiya Yarub Majid Al Saifi representing the Ministry of Defence Pension Fund (MODPF), a juristic person, was replaced by Mr. Abdul Hakeem Amur Salim Al-Musalhi as nominee director of MODPF.
- (ii) Mr. Ali Abdullah Hamdan Al Khaburi, representing Civil Service Employees Pension Fund resigned. The position vacated by Mr. Al Khaburi remains vacant as at December 2017. It is proposed to elect a new director in the forthcoming AGM to fill the vacant position.

	Name of Directors	Category of Directors ^	Attendance					
			Board Meetings					AGM
			23 Feb	26 Apr	26 Jul	25 Oct	Total	23 Mar
Incumbent as of Dec 31, 2017	Mr. Charles Paul Dexter (Chairperson)	Non-independent & Nominee Director	✓	✓	✓	✓	4	✓
	Mr. Rahul Kar (Deputy Chairperson)	Independent	✓	✓	✓	Proxy	4	x
	Mr. Abdul Hakeem Amur Salim Al-Musalhi	Independent & Nominee Director	n/a	n/a	✓	✓	2	n/a
	Mr. Ali Taqi Ibrahim Al-Lawati	Non-independent & Nominee Director	✓	✓	✓	✓	4	x
	Mr. Gillian Alexandre Huart	Independent	Proxy	Proxy	✓	✓	4	x
	Mr. Shawn Madore	Non-independent	Proxy	✓	✓	✓	4	x
	Mr. Kazuichi Ikeda	Non-independent & Nominee Director	✓	✓	✓	✓	4	x
	Mr. Mitsuo Nakamoto #	Non-independent & Nominee Director	Proxy	✓	✓	✓	4	x
	Mr. Nair Santosh Unni	Non-independent & Nominee Director	✓	✓	✓	✓	4	✓
Resigned	Mr. Ali Abdullah Hamdan Al Khaburi	Independent & Nominee Director	✓	✓	n/a	n/a	2	x
	Ms. Asiya Yarub Majid Al Saifi	Independent & Nominee Director	x	Proxy	n/a	n/a	1	x
	Mr. Yaqub Harbi Salim Al-Harhi	Non-independent	✓	✓	✓	✓	4	✓

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

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

Resigned as director on 24 January 2018.

All nominee directors are representative of equity investors.

b) Directors holding directorship/chairmanship in other joint stock companies in Oman as of December 31, 2017:

Name of Director	Name of Companies and Position Held
Mr. Ali Taqi Ibrahim Al-Lawati	<ul style="list-style-type: none"> The First Mazoon Fund - Director National Mass Housing SAOC – Director and member of Executive Committee Mazoon Development SAOC – Vice Chairperson
Mr. Rahul Kar	<ul style="list-style-type: none"> National Bank of Oman SAOG – Director, Chairman of the Audit Committee National Pharmaceutical Industries SAOG – Director and member of the Audit Committee Oman United Insurance Company SAOG – Director and member of the Nomination & Remuneration Committee

The 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.

b) Composition, position and attendance in 2017

The Audit Committee is comprised of majority of independent directors as required by the Code.

Name of Committee Members	Position	Attendance				Total
		22 Feb	25 Apr	25 Jul	24 Oct	
Mr. Gillian Alexandre Huart	Chairperson	Proxy	Proxy	✓	✓	4
Mr. Kazuichi Ikeda	Member	✓	✓	✓	✓	4
Mr. Rahul Kar	Member	✓	✓	✓	✓	4

✓ : attend, x : absent

Nomination & Remuneration Committee

a) Brief description of terms of reference

The primary function of Nomination & Remuneration Committee of the Board 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.

b) Composition, position and attendance in 2017

The Committee shall meet at least twice a year.

Name of Committee Members	Position	Attendance			Total
		22 Feb	11 April	24 Oct	
Mr. Yaqoub Harbi Salim Al-Harhi	Chairperson	✓	✓	✓	3
Mr. Kazuichi Ikeda	Member	✓	✓	✓	3
Mr. Nair Santosh Unni	Member	✓	✓	✓	3

✓ : 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 March 2017, the Company appointed an independent consultant, Capital Advantage, 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 by 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 of Directors 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 of Directors are elected from amongst the shareholders or non-shareholders. A candidate, if a shareholder, for election to the Board of Directors 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 of 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 that director cannot be an employee or member of the Board of the company carrying out similar activities and 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 members of the Board appointed in the AGM of the shareholders of the Company 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 matters

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

As approved by the shareholders, the sitting fees of RO 400 for the members of the Board and RO 200 for the members of the Audit Committee and Nomination & Remuneration Committee is paid. The sitting fee is

payable to the Board, the Audit Committee members and the Nomination & Remuneration Committee who attend the meeting either in person or over video conference. 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 2017 paid to the directors for attending Board, Audit Committee and Nomination & Remuneration Committee meetings amounted to RO 14,800 and RO 2,000 and RO 1,800 respectively.

b) Remuneration to Board members

The Board proposes to pay remuneration for the year 2017 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 14,800 has been accrued in the financial statements for year ended 31 December 2017, however, the same shall be paid provided it is approved by the shareholders in the forthcoming AGM.

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 306,062 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 performance based bonus for staff members is based on the following criteria:

- At the beginning of the year, benchmark objectives, which include among other parameters, financial performance of the Company, Health, Safety and Environment targets, for each staff member are set.
- At the end of the year, the performance and actual results against each of these objectives are evaluated and most importantly, any extraordinary contribution by the staff member leading to Company's improved performance is duly noted and acknowledged.
- Based on the final score and a transparent process of evaluation, a bonus is worked out and disbursed.

Employees' notice period and severance fees are specified in the standard employment contract entered into by the Company with the staff. Generally, the employment contract carries one month notice period. Severance fee is payable to an employee if the employee is terminated with less than agreed notice period.

Details of non-compliance by the Company

There were no penalties imposed on the Company by the Capital Market Authority ("CMA"), Muscat Securities Market ("MSM") or any other statutory authority on any matter related to capital markets in 2017.

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.alsuwadipower.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 share price and performance comparison during each month in 2017:

Month	Price (Baizas)				MSM Index (Service sector)	
	High	Low	Closing	Change from 1 January 2017	Closing	Change from 1 January 2017
January	190	180	189	5.00%	3,023.02	-1.17%
February	195	189	195	8.33%	3,007.75	-1.67%
March	195	182	185	2.78%	2,885.54	-5.66%
April	190	180	184	2.22%	2,821.10	-7.77%
May	196	179	186	3.33%	2,771.42	-9.39%
June	186	180	180	0.00%	2,600.27	-14.99%
July	170	150	160	-11.11%	2,502.34	-18.19%
August	160	135	145	-19.44%	2,470.17	-19.24%
September	145	136	138	-23.33%	2,550.56	-16.61%
October	148	138	144	-20.00%	2,545.38	-16.78%
November	148	141	141	-21.67%	2,580.42	-15.64%
December	148	140	142	-21.11%	2,643.43	-13.58%

b) Distribution of shareholding as of December 31, 2017:

Category	Number of shareholders	Number of shares held	Share capital %
5% and above	7	588,495,064	82.38%
1% to 5%	2	25,071,321	3.51%
Less than 1 %	2,717	100,839,955	14.11%
Total	2,726	714,406,340	100.00%

There are no outstanding securities or any convertible instruments issued by the Company.

Professional profile of the statutory auditor

The shareholders of the Company appointed KPMG as its auditors for 2017. KPMG is a leading audit, tax and advisory firm in Oman and is part of KPMG Lower Gulf, established in 1973. KPMG in Oman employs more than 180 people, amongst whom are 4 partners, 5 directors and 30 managers, including Omani nationals. KPMG is a global network of professional firms providing audit, tax and advisory services. KPMG operates in 154 countries and has around 197,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG billed an amount of RO 10,622 towards professional services rendered to the Company for the year 2017 (RO 8,750 for audit and RO 1,872 for tax and other services)

Acknowledgement by the Board of Directors

- The Board of Directors accepts the responsibility for accurately preparing accounts and financial statements and confirms that the financial statements for 2017 have been prepared in accordance with the applicable International Financial Reporting Standards.
- 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 and contractual framework as explained in detail in the financial statements 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. Charles Paul Dexter
Year of Joining	: 2016
Education	: BSc (Hons) Architecture, Construction, Planning and Environmental Studies from University College London and a Chartered Management Accountant (ACMA CGMA)
Experience	<p>: Mr. Dexter has experience in the power and steel industries in accountancy and financial management, risk control and risk management. He joined International Power plc in 1997, which became part of the ENGIE Group in 2011.</p> <p>Mr. Dexter has experience of coal, gas, and hydro generation, and district heating, and has worked in merchant, emerging merchant, and contracted electricity markets in the UK, Central Europe, and the Middle East. Mr. Dexter is currently Chief Finance and Administration Officer for Engie Power and Water Middle East.</p>

Name	: Mr. Rahul Kar
Year of Joining	: 2016
Education	: Degree in commerce and is a Chartered Accountant
Experience	<p>: Mr. Kar has over 25 years of work experience. He is currently working as Financial Advisor in Suhail Bahwan Group Holding LLC in Muscat, Oman. He is a Director and Chairman of the Audit Committee in National Bank of Oman SAOG, Director and member of the Audit Committee in National Pharmaceutical Industries SAOG and Director and member of the Nomination & Remuneration Committee in Oman United Insurance Company SAOG.</p>

Name	: Mr. Abdul Hakeem Amur Salim Al-Musalhi
Year of Joining	: 2017
Education	: MBA in Information Technology
Experience	<p>: Mr. Abdul Hakeem Amur has more than 17 year experience in information technology and project management. He joined Ministry of Manpower as IT specialist in 2003 and moved to Ministry of Defence Pension Fund in 2005 as Head of Information Technology department. He was a board member in National Aluminium Products Company from 2014 until 2017.</p>

Name	: Mr. Ali Taqi Ibrahim Al-Lawati
Year of Joining	: 2016
Education	: Bachelor degree in real estate and insurance and a diploma in capital markets with specialised focus on financial analysis.
Experience	<p>: Mr. Al Lawati has a total of 20 years of experience in the Investment Department with PASI.</p> <p>He possesses experience in the management of international and local investments for traditional and alternative asset classes, and currently is head of real estate Investment at PASI.</p>

Name	: Mr. Shawn Madore
Year of Joining	: 2016
Education	: Degree in Power Engineering - Canada
Experience	: Mr. Madore has over 21 years of experience in the power industry, specifically in Combined Cycle Power Stations. He has served as Field and Control Engineer, and Operations Manager across various Power Stations in Canada and as a Commissioning Manager in Latin America. Mr. Madore has also served 5 years as Maintenance Manager in Abu Dhabi, and 6 years as General Manager in the Middle East. In addition, Mr. Madore has also been on the Board of directors of Al Kamil Construction & Services LLC for 4 years.

Name	: Mr. Kazuichi Ikeda
Year of Joining	: 2016
Education	: Master's degree in Electrical Engineering from Osaka University (Japan)
Experience	: Mr. Ikeda is the Senior Manager and Head of IPP Development Group of Yonden, a parent company of SEPI. In this position, he is responsible for IPP/IWPPs development and management of its overseas portfolio. Mr. Ikeda started his career in Yonden in 1995 as an Electrical Engineer and has been involved in construction, maintenance and performance management of various thermal power plants in Japan for more than 9 years. He has been engaged in overseas IPP/IWPPs development over the last 11 years out of which he worked for Ras Laffan C IWPP project in Qatar for more than two and a half years as one of the management personnel in charge of the maintenance of the whole plant (2,730 MW - power & 63 MIGD - water).

Name	: Mr. Gillian Alexandre Huart
Year of Joining	: 2016
Education	: Master Degree in Business Engineering (Solvay Brussels School of Economics and Management), Master Degree in Political Sciences (University of Brussels) and Management Degree from INSEAD in Singapore
Experience	: Gillian-Alexandre Huart joined the ENGIE Group in 2002 and developed over this period various experiences in energy business in Europe and Asia Countries. He previously worked a few years as consultant for Accenture before taking over in 2002 a Senior Internal Auditor position within Electrabel, subsidiary of ENGIE, he then took manager responsibilities in 2005 for both Market Research & Competitive Intelligence department within Electrabel Marketing and Sales Business Unit, covering Belgium, Netherlands, Germany, Luxemburg, France and Italy. In 2008, he moved to the ENGIE's office in Bangkok as a Senior Vice-President Business Development in Asia. He worked on several projects in the region and successfully closed various transactions in Singapore, Thailand, Laos and India. In 2013, he started as Chief Executive Officer of SMN Power, a quoted holding company (30% owned by ENGIE) that manages two facilities in the Sultanate of Oman and which is currently the country's largest power company and also represents 20% of the water desalination capacity in the North of the country. Since January 2017, he joined the Energy Transition Department as Chief Officer within Tractebel and is also the Director of the Center of Expertise in Modelization and Economical Studies.

Name	: Mr. Mitsuo Nakamoto
Year of Joining	: 2016
Education	: Bachelor's Degree in Business Administration from Yokohama National University
Experience	: Mr. Nakamoto has more than 20 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). Currently, Mr. Nakamoto is Deputy Manager, Section 1, Power Project Department of Sojitz Corporation.

Name	: Mr. Nair Santosh Unni
Year of Joining	: 2016
Education	: Degree in commerce and is a member of the Institute of Chartered Accountants of India
Experience	: Mr. Unni has over 18 years of professional experience and has extensively worked on various investment proposals for Bahwan Engineering Group especially in the power and water sector in Sultanate of Oman. He was deputed as Chief Financial Officer of Sharqiyah Desalination Co. SAOG for 5 years and is presently heading the Commercial Division of Bahwan Engineering Group. His areas of expertise include project finance, accounting and commercial. He played an active role in the successful close of the IPO of Sharqiyah Desalination Co. SAOG.

Name	: Mr. Yaqoub Harbi Salim Al-Harhi
Year of Joining	: 2016
Education	: Bachelor's degree in Mechanical Engineering from the Sultan Qaboos University
Experience	: Mr. Al Harhi has been associated with power plant operations and management in various power plants of ENGIE for over 15 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 Power and Water Plant as operations manager for several years.

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. Navneet Kasbekar
Position	: Chief Executive Officer
Year of Joining	: 2015
Education	: Commerce Graduate and Member Institute of Chartered Accountants of India
Experience	: Mr. Kasbekar has been in the power industry for over 17 years having earlier worked in Al Kamil Power company SAOG since January 2001. He joined Al Kamil Power Company SAOG as Finance Director and was actively associated in the setting up of the power project and installing systems and procedures in the organisation. He was promoted to the position of CEO in the year 2006. He has over 41 years of work experience out of which over 28 years has been in general managerial position in varied fields like trading, real estate, hospitality and printing.

Name	: Mr. Muhammad Fawad Akhtar
Position	: Chief Financial Officer
Year of Joining	: 2014
Education	: Fellow member of Association of Chartered Certified Accountants, UK and Institute of Chartered Accountants of Pakistan and holds a Bachelor degree in Economics
Experience	: Mr. Akhtar has 20 years of professional working experience; including 15 years in power sector. He started his career with Ernst & Young where he spent 5 years. He joined the ENGIE group in 2003 and remained extensively involved in dealing with project and finance documents, led the corporate finance and accounting functions and successful development of a greenfield project. Before joining Al Suwadi Power Company, he was working in the capacity of General Manager Corporate Finance & Planning for two fully owned subsidiaries of ENGIE operating power plants in Pakistan.

Audited
Financial
Statements





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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SUWADI POWER COMPANY SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Al Suwadi Power Company SAOG ("the Company") set out on pages 38 to 73, which comprise the statement of financial position as at 31 December 2017, the income statement, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with 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.

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 year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter - Valuation of derivatives

Refer to note 3(e) and 17 of the financial statements

The Company uses derivative financial instruments to hedge interest rate exposure on term loans and future cash flows in accordance with parameters approved by the Board.

Our response

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.

continued on 1 (b)



- We examined the nature of the hedge relationships that were entered into and whether these were in line with the Company's treasury 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 reviewed whether the hedge accounting documentation and effectiveness rules were met and whether hedge accounting could be achieved. Our work examined the accounting treatment applied for derivatives, in particular when reclassifying gains and losses from reserves to the income statement and adjustments to the carrying value of the hedged item;
- We also reviewed the appropriateness of the disclosure of financial instruments and the related hedge accounting by agreeing the financial statements to the underlying workings prepared by management and ensuring classification is consistent with the accounting principles.

Other Information

Management is responsible for the other information. The other information comprises the director's report, the corporate governance report and the management discussion and analysis report.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' 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 auditors' 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.

continued on 1 (c)



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

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

Report on Other Legal and Regulatory requirements

We report that the financial statements of the Company as at and for the year ended 31 December 2017, in all material respects, comply with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 1974, as amended.

21 February 2018

KPMG

Mobeen Chaudhri

Income statement

for the year ended 31 December

		2017	2017	2016	2016
	Notes	RO '000	USD '000	RO '000	USD '000
Revenues		73,220	190,428	69,357	180,382
Direct costs	13	(50,668)	(131,777)	(46,108)	(119,916)
Gross profit		22,552	58,651	23,249	60,466
Other income		20	52	60	156
		22,572	58,703	23,309	60,622
General and administrative expenses	14	(763)	(1,985)	(801)	(2,084)
Profit before interest and tax		21,809	56,718	22,508	58,538
Finance costs (net)	15	(11,329)	(29,464)	(11,830)	(30,767)
Profit before tax		10,480	27,254	10,678	27,771
Tax expense	10	(4,828)	(12,556)	(1,610)	(4,188)
Net profit		5,652	14,698	9,068	23,583
Earnings per share					
Basic earnings per share (Baizas)	22	7.91	-	12.69	-

The notes on pages 44 to 73 form an integral part of these financial statements.

The Independent Auditors' report is set forth on pages 35 to 37.

Statement of profit or loss and other comprehensive income

for the year ended 31 December

Note	2017	2017	2016	2016
	RO '000	USD '000	RO '000	USD '000
Net profit	5,652	14,698	9,068	23,583
Other comprehensive income, net of income tax:				
<i>Item that will be reclassified to profit and loss</i>				
Cash flow hedges - effective portion of changes in fair value	4,608	11,983	2,833	7,370
Total comprehensive income for the year	10,260	26,681	11,901	30,953

The notes on pages 44 to 73 form an integral part of these financial statements.

The Independent Auditors' report is set forth on pages 35 to 37.

Statement of financial position

as at 31 December

	Notes	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Assets					
Non-current assets					
Property, plant and equipment	4	280,988	730,788	289,349	752,533
Capital spares		413	1,074	289	752
Total non-current assets		281,401	731,862	289,638	753,285
Current assets					
Trade and other receivables	6	3,734	9,710	3,800	9,885
Inventory		1,745	4,538	1,845	4,799
Short term deposit	12	1,770	4,604	1,923	5,000
Cash and cash equivalents	7	2,609	6,787	3,682	9,578
Total current assets		9,858	25,639	11,250	29,262
Total assets		291,259	757,501	300,888	782,547
Equity and liabilities					
Equity					
Share capital	8(a)	71,441	185,801	71,441	185,801
Legal reserve	8(b)	4,476	11,641	3,911	10,171
Retained earnings		11,886	30,912	12,914	33,589
Shareholders' fund		87,803	228,354	88,266	229,561
Hedging reserve	17	(5,331)	(13,864)	(9,939)	(25,847)
Total equity		82,472	214,490	78,327	203,714
Liabilities					
Non-current liabilities					
Term loans	5	162,566	422,796	176,339	458,620
Derivative instruments	17	6,307	16,402	11,401	29,651
Deferred tax liability	10(c)	15,933	41,437	10,683	27,785
Asset retirement obligation	11	249	648	637	1,657
End of service benefits		6	16	5	12
Total non-current liabilities		185,061	481,299	199,065	517,725
Current liabilities					
Term loans	5	15,046	39,132	14,720	38,283
Trade and other payables	9	6,680	17,378	6,696	17,415
Short term borrowing	2(xi)	2,000	5,202	2,080	5,410
Total current liabilities		23,726	61,712	23,496	61,108
Total liabilities		208,787	543,011	222,561	578,833
Total equity and liabilities		291,259	757,501	300,888	782,547
Net assets per share (Baizas)	21	122.90	-	123.55	-

The financial statements were approved and authorised for issue in accordance with a resolution of the Board of Directors on 21 February 2018.



Chairperson



Director

The notes on pages 44 to 73 form an integral part of these financial statements.

The Independent Auditors' report is set forth on pages 35 to 37.

Statement of cash flows

for the year ended 31 December

	Notes	2017	2017	2016	2016
		RO '000	USD '000	RO '000	USD '000
Cash flows from operating activities:					
Net profit		5,652	14,698	9,068	23,583
<i>Adjustments for:</i>					
Depreciation		8,016	20,847	8,023	20,866
Finance costs - net		11,329	29,464	11,830	30,767
Tax expense		4,828	12,556	1,610	4,188
Loss on disposal		41	106	-	-
Other income		(20)	(52)	-	-
End of service benefits		2	4	2	5
		29,848	77,623	30,533	79,409
<i>Changes in:</i>					
Inventories		100	261	(22)	(57)
Trade and other receivables		67	175	(364)	(947)
Trade and other payables		46	119	2,636	6,856
Cash generated from operating activities		30,061	78,178	32,783	85,261
Finance costs paid		(10,235)	(26,619)	(10,597)	(27,561)
End of service benefits paid		-	-	(5)	(13)
Net cash generated from operating activities		19,826	51,559	22,181	57,687
Cash flows from investing activities:					
Acquisition of property, plant and equipment		(183)	(475)	(32)	(82)
Net cash used in investing activities		(183)	(475)	(32)	(82)
Cash flows from financing activities:					
Repayment of term loans		(14,720)	(38,284)	(14,658)	(38,122)
(Repayment of) / proceeds from short term borrowing - net		(80)	(208)	1,800	4,682
Maturity of short term deposit		151	396	580	1,510
Interest received		48	126	30	77
Dividends paid		(6,115)	(15,905)	(6,573)	(17,094)
Net cash used in financing activities		(20,716)	(53,875)	(18,821)	(48,947)
Net change in cash and cash equivalents		(1,073)	(2,791)	3,328	8,658
Cash and cash equivalents at beginning of the year	7	3,682	9,578	354	920
Cash and cash equivalents at end of the year	7	2,609	6,787	3,682	9,578

The notes on pages 44 to 73 form an integral part of these financial statements.

The Independent Auditors' report is set forth on pages 35 to 37.

Statement of changes in equity

for the year ended 31 December

	Share capital RO '000	Legal reserve RO '000	Retained earnings RO '000	Hedging reserve RO '000	Total RO '000
Balance at 1 January 2017	71,441	3,911	12,914	(9,939)	78,327
<i>Total comprehensive income</i>					
Net profit for the year	-	-	5,652	-	5,652
<i>Other comprehensive income, net of income tax</i>					
Cash flow hedges - effective portion of changes in fair value	-	-	-	4,608	4,608
<i>Total comprehensive income</i>	-	-	5,652	4,608	10,260
Transfer to legal reserve	-	565	(565)	-	-
<i>Transaction with owners of the Company</i>					
<i>Contribution and distribution</i>					
Dividend	-	-	(6,115)	-	(6,115)
<i>Total transactions with owners of the Company</i>	-	-	(6,115)	-	(6,115)
Balance at 31 December 2017	71,441	4,476	11,886	(5,331)	82,472
	USD '000	USD '000	USD '000	USD '000	USD '000
Balance at 1 January 2017	185,801	10,171	33,589	(25,847)	203,714
<i>Total comprehensive income</i>					
Net profit for the year	-	-	14,698	-	14,698
<i>Other comprehensive income, net of income tax</i>					
Cash flow hedges - effective portion of changes in fair value	-	-	-	11,983	11,983
<i>Total comprehensive income</i>	-	-	14,698	11,983	26,681
Transfer to legal reserve	-	1,470	(1,470)	-	-
<i>Transaction with owners of the Company</i>					
<i>Contribution and distribution</i>					
Dividend	-	-	(15,905)	-	(15,905)
<i>Total transactions with owners of the Company</i>	-	-	(15,905)	-	(15,905)
Balance at 31 December 2017	185,801	11,641	30,912	(13,864)	214,490

The notes on pages 44 to 73 form an integral part of these financial statements.

The Independent Auditors' report is set forth on pages 35 to 37.

Statement of changes in equity (Continued)

for the year ended 31 December

	Share capital RO '000	Legal reserve RO '000	Retained earnings RO '000	Hedging reserve RO '000	Total RO '000
Balance at 1 January 2016	71,441	3,004	11,326	(12,772)	72,999
<i>Total comprehensive income</i>					
Net profit for the year	-	-	9,068	-	9,068
<i>Other comprehensive income, net of income tax</i>					
Cash flow hedges - effective portion of changes in fair value	-	-	-	2,833	2,833
<i>Total comprehensive income</i>	-	-	9,068	2,833	11,901
Transfer to legal reserve	-	907	(907)	-	-
<i>Transaction with owners of the Company</i>					
<i>Contribution and distribution</i>					
Dividend	-	-	(6,573)	-	(6,573)
<i>Total transactions with owners of the Company</i>	-	-	(6,573)	-	(6,573)
Balance at 31 December 2016	71,441	3,911	12,914	(9,939)	78,327
	USD '000	USD '000	USD '000	USD '000	USD '000
Balance at 1 January 2016	185,801	7,813	29,458	(33,217)	189,855
<i>Total comprehensive income</i>					
Net profit for the year	-	-	23,583	-	23,583
<i>Other comprehensive income, net of income tax</i>					
Cash flow hedges - effective portion of changes in fair value	-	-	-	7,370	7,370
<i>Total comprehensive income</i>	-	-	23,583	7,370	30,953
Transfer to legal reserve	-	2,358	(2,358)	-	-
<i>Transaction with owners of the Company</i>					
<i>Contribution and distribution</i>					
Dividend	-	-	(17,094)	-	(17,094)
<i>Total transactions with owners of the Company</i>	-	-	(17,094)	-	(17,094)
Balance at 31 December 2016	185,801	10,171	33,589	(25,847)	203,714

The notes on pages 44 to 73 form an integral part of these financial statements.

The Independent Auditors' report is set forth on pages 35 to 37.

Notes

(forming part of the financial statements)

1 Legal status and principal activities

Al Suwadi Power Company (the “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 Barka 3 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. Accordingly, the Plant is considered and managed as one reportable segment. Commercial Operation of the Plant was achieved by the Company on 4 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. Usufruct Agreement relating to the Barka site dated 15 August 2010 with the Government of the Sultanate of Oman represented by the Ministry of Housing for grant of Usufruct rights over the plant site for 25 years from its effective date.
- iv. Turnkey Engineering, Procurement and Construction Contract (“EPC Contract”) dated 15 September 2010 with Siemens AG and GS Engineering and Construction Corp. to perform the engineering, procurement and construction of the Plant.
- v. Operation & Maintenance Agreement (“O&M Agreement”) with Suez Tractebel Operation and Maintenance Oman LLC (“STOMO”) dated 24 September 2010 for a period of 15 years from scheduled COD.
- vi. Electrical Connection Agreement dated December 2011 with Oman Electricity Transmission Company SAOC for connection of the Company’s equipment to the transmission system.

Finance Documents

- vii. Common Terms Agreement (“CTA”) and Facility Agreements dated 16 September 2010 for long term loans with international and local banks.
- viii. First Amendment Agreement to the Common Terms Agreement and Facility Agreements dated 29 September 2010.
- ix. Hedging Agreements for interest rate swap with Credit Agricole Corporate & Investment Bank (dated 5 October 2010), KfW IPEX Bank GMBH (dated 6 October 2010), HSBC Bank Middle East Limited (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 8.84 million.

2 Significant agreements *(continued)*

Security Documents

- xii. Intercreditor Deed dated 16 September 2010 with The Export-Import Bank of Korea, Credit Agricole Corporate & Investment Bank (as the “Global Facility Agent” and “Offshore Security Trustee”), Bank Muscat SAOG (as the “Onshore Account Bank”) and Others.
- xiii. Offshore Deed of Charge and Assignment dated 16 September 2010 with Credit Agricole Corporate & Investment Bank as “Offshore Security Trustee”.
- xiv. Deed of Assignment of Re-insurance dated 16 September 2010 with Credit Agricole Corporate and Investment Bank as “Offshore Security Trustee”; and Oman United Insurance Company SAOG as “Insurer”.
- xv. Sale and Purchase Agreement dated 16 September 2010 with Bank Muscat SAOG as the “Onshore Security Agent”.
- xvi. Agreement for Security over Omani Shares dated 16 September 2010 between the Company as “the Company”, the Founder Shareholders as the “Chargors”, Bank Muscat SAOG as the “Onshore Security Agent”; and Credit Agricole Corporate & Investment Bank as the “Global Facility Agent”.
- xvii. Commercial Mortgage over Company’s Assets (including receipt) dated 21 September 2010 between the Company as “Mortgagor” and Bank Muscat SAOG as “Mortgagee”.
- xviii. Legal Mortgage dated 21 September 2010 between the Company as “Mortgagor” and Bank Muscat SAOG as “Mortgagee”.
- xix. Direct Agreements entered into by Lenders Agent in respect of PPA, NGSA, EPC Contract and O&M Agreement.

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 (“IFRSs”) 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 the 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.

Notes

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies (continued)

(c) Use of estimates and judgements (continued)

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 and operating leases.

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.

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 amounts have been rounded to the nearest thousand (RO '000 and USD '000) except where otherwise stated.

(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 based on 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.

Notes

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

(e) Financial instruments

(i) Non derivative financial instrument

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Cash and cash equivalents comprise cash balances, demand deposits, fixed deposits and term deposits with original maturity not greater than three months. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

The Company initially recognizes receivables, loans and borrowings on the date when they are originated. All other financial assets and liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

(ii) Derivative financial instruments, including hedge accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% to 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Notes

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies (continued)

(e) Financial instruments (continued)

(iii) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect the income statement, the effective portion of changes in the fair value of the derivative is recognised in profit or loss and other comprehensive income and presented in the hedging reserve in equity. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

The cumulative gain or loss previously recognised in profit or loss and other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the income statement. When the hedged item is a non-financial asset, the amount recognised in profit or loss and other comprehensive income is transferred to the carrying amount of the asset when the asset is derecognised. If the forecast transaction is no longer expected to occur, then the balance in profit or loss and other comprehensive income is recognised immediately in the income statement.

(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.

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.

Notes

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies (continued)

(f) Property, plant and equipment (continued)

(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.

(g) Capital spares

Cost of capital spares 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) Inventory

Inventory comprises of fuel oil. 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.

Notes

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies (continued)

(i) 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.

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 depreciation 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.

Notes

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies (continued)

(j) 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.

(k) 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 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.

(l) 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.

(m) Borrowing costs

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.

(n) 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 that period was charged to the income statement. Subsequent to the COD, the amortization of the deferred financing costs is charged to the income statement.

(o) 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 during the term of the contract and obtains from the Company electricity generated by the Plant during the term of the contract. In accordance with the PPA, OPWP has the right to control the use of the Plant. 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.

Notes

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies (continued)

(p) Revenue

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 on an accrual basis of accounting. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

(q) 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.

(r) Dividend

The Board of Directors takes 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.

(s) 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.

(t) New standards and interpretation not yet effective

For the year ended 31 December 2017, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and 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 2017. The ones which may be relevant to the Company and have not been applied in preparing the financial statements are set out below:

Notes

(forming part of the financial statements)

3 Basis of preparation and significant accounting policies (continued)

(t) New standards and interpretation not yet effective (continued)

IFRS 9: Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 introduces new requirements for recognition of fair value changes of liabilities designated as fair value through profit or loss and hedge accounting requirements and disclosures. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company has assessed and concluded that there is no material impact and does not plan to adopt early. However, additional disclosures with regard to the Company's risk management activities may be required.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company has assessed and concluded that there is no material impact as the contract has a single performance obligation and the Company continues to recognise revenue over time as the customer simultaneously receives and consumes all the benefits provided by the Company. The Company does not plan to adopt early.

IFRS 16: Leases

IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases. It replaces existing lease recognition guidance, including 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 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Company is currently assessing the potential impact of this standard and does not plan to adopt early.

(u) 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.

Notes

(forming part of the financial statements)

4 Property, plant and equipment

	Property, plant and equipment RO '000	Decommi ssioning asset RO '000	Technical spares RO '000	Other assets RO '000	Total RO '000
Cost					
1 January 2016	317,851	467	1,691	88	320,097
Additions during the year	-	-	26	6	32
Disposal during the year	-	-	-	-	-
1 January 2017	317,851	467	1,717	94	320,129
Additions during the year	221	-	-	4	225
Disposal/transfer during the year *	(175)	(467)	-	(5)	(647)
31 December 2017	317,897	-	1,717	93	319,707
Depreciation					
1 January 2016	22,520	33	136	68	22,757
Charge for the year	7,927	12	71	13	8,023
Disposal during the year	-	-	-	0	0
1 January 2017	30,447	45	207	81	30,780
Charge for the year	7,928	9	69	10	8,016
Disposal/transfer during the year *	(18)	(54)	-	(5)	(77)
31 December 2017	38,357	-	276	86	38,719
Carrying amount					
31 December 2017	279,540	-	1,441	7	280,988
31 December 2016	287,404	422	1,510	13	289,349
Cost					
1 January 2016	826,661	1,214	4,399	228	832,502
Additions during the year	-	-	67	15	82
Disposal during the year	-	-	-	(1)	(1)
1 January 2017	826,661	1,214	4,466	242	832,583
Additions during the year	575	-	-	9	584
Disposal/transfer during the year *	(455)	(1,214)	-	(13)	(1,682)
31 December 2017	826,781	-	4,466	238	831,485
Depreciation					
1 January 2016	58,572	85	352	176	59,185
Charge for the year	20,617	31	184	34	20,866
Disposal during the year	-	-	-	(1)	(1)
1 January 2017	79,189	116	536	209	80,050
Charge for the year	20,619	23	179	26	20,847
Disposal/transfer during the year *	(48)	(139)	-	(13)	(200)
31 December 2017	99,760	-	715	222	100,697
Carrying amount					
31 December 2017	727,021	-	3,751	16	730,788
31 December 2016	747,472	1,098	3,930	33	752,533

* During 2017, property, plant and equipment amounting to USD 300,589 (RO 115,576) were de-capitalised and transferred to capital spares.

Notes

(forming part of the financial statements)

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
5 Term loans				
Term loans	183,915	478,322	198,635	516,606
Less: current portion	(15,046)	(39,132)	(14,720)	(38,283)
Non-current portion	168,869	439,190	183,915	478,323
Less: Unamortised transaction cost	(6,303)	(16,394)	(7,576)	(19,703)
	162,566	422,796	176,339	458,620

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:

Hermes Covered Variable Facility	51,794	134,706	56,916	148,025
Commercial Facility	43,995	114,422	44,881	116,726
KEXIM Direct Facility	36,913	96,002	40,562	105,494
Hermes Covered Fixed Facility	31,874	82,896	35,025	91,092
KEXIM Covered Facility	19,339	50,296	21,251	55,269
	183,915	478,322	198,635	516,606

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:

Particulars	Term loans		Short term borrowing	
	RO'000s	USD'000s	RO'000s	USD'000s
Balance at 1 January 2017	198,635	516,606	2,080	5,410
Proceeds from borrowing	-	-	31,250	81,274
Repayments of borrowing	(14,720)	(38,284)	(31,330)	(81,482)
Balance at 31 December 2017	183,915	478,322	2,000	5,202

Notes

(forming part of the financial statements)

5 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 unfavorable US LIBOR rate changes.

During the year, the margins ranged between 1.45% and 2.80% per annum (2016: ranged between 1.45% and 2.58% per annum) 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, loan and guarantee, hedging agreement, etc, which the Company is required to comply. The Company is in compliance with the covenants.

6 Trade and other receivables

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Trade receivables	2,737	7,119	3,043	7,913
Due from a related party (Note 16)	33	86	-	-
Prepayments	237	616	243	634
Other receivables and accrued income	727	1,889	514	1,338
	3,734	9,710	3,800	9,885

7 Cash and cash equivalents

Cash in hand	1	3	0	1
Cash at bank	2,608	6,784	3,682	9,577
	2,609	6,787	3,682	9,578

Cash at bank includes RO 4,000 (USD 10,403); [2016: RO 4,000 (aUSD 10,403)], as margin money towards a bank guarantee.

Notes

(forming part of the financial statements)

8 Equity

(a) Share capital

The details of the shareholders are as follows:

	Nationality	No. of shares held of nominal value 100 Bzs. each	% of total	Aggregate nominal value of shares held RO '000
31 December 2017				
Kahrabel FZE	UAE	213,607,492	29.90%	21,361
Multitech LLC	Omani	102,160,110	14.30%	10,216
Civil Service Employees Pension Fund	Omani	76,858,091	10.76%	7,686
SEP International Netherlands B.V.	Netherlands	51,080,055	7.15%	5,108
Blue Horizon Barka Power B.V.	Netherlands	51,080,055	7.15%	5,108
Public Authority for Social Insurance	Omani	47,560,197	6.66%	4,756
Ministry of Defence Pension Fund	Omani	46,149,064	6.46%	4,615
Shareholders with less than 5% shareholding		<u>125,911,276</u>	<u>17.62%</u>	<u>12,591</u>
		<u>714,406,340</u>	<u>100.00%</u>	<u>71,441</u>
Nominal value in USD '000				<u>185,801</u>
31 December 2016				
Kahrabel FZE	UAE	213,607,492	29.90%	21,361
Multitech LLC	Omani	102,160,110	14.30%	10,216
Civil Service Employees Pension Fund	Omani	67,868,714	9.50%	6,787
SEP International Netherlands B.V.	Netherlands	51,080,055	7.15%	5,108
Blue Horizon Barka Power B.V.	Netherlands	51,080,055	7.15%	5,108
Public Authority for Social Insurance	Omani	46,506,409	6.51%	4,651
Ministry of Defence Pension Fund	Omani	45,218,671	6.33%	4,522
Shareholders with less than 5% shareholding		<u>136,884,834</u>	<u>19.16%</u>	<u>13,688</u>
		<u>714,406,340</u>	<u>100.00%</u>	<u>71,441</u>
Nominal value in USD '000				<u>185,801</u>

The Company has authorized, issued and paid-up share capital of RO 71,440,634 consisting of 714,406,340 shares of RO 0.1 each (2016: RO 71,440,634 consisting of 714,406,340 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)

8 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 17).

(d) Dividend

Pursuant to shareholders resolution of 25 March 2017, the Board of Directors, in the meetings held on 26 April 2017 and 25 October 2017, approved cash dividends of 3.80 Baizas and 4.76 Baizas per share, respectively from the retained earnings of the Company as at 31 December 2016, 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 11 June 2017 and 11 December 2017 respectively.

Unclaimed dividend relating to cut off date of 11 June 2017 in the amount of RO 4,327,585 has been deposited by Muscat Clearing & Depository Company SAOC with the Investors Trust Fund.

9 Trade and other payables

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Fuel gas payable and accrual	3,882	10,099	3,467	9,017
Accrued finance cost	1,622	4,219	1,718	4,468
Due to related parties (note 16)	769	1,998	1,067	2,777
Trade payables	2	6	99	257
Other payables and accruals	405	1,056	345	896
	6,680	17,378	6,696	17,415

10 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.

Deferred tax asset has been recognised directly in equity in respect of the changes in fair values of interest rate swaps and forward rate contracts (note 17).

Notes

(forming part of the financial statements)

10 Tax expense (continued)

a) Income tax recognised in the income statement:

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Deferred tax expense relating to temporary differences	4,828	12,556	1,610	4,188

b) Reconciliation

The following is a reconciliation of income tax with the tax expense at the applicable tax rate of 15% (2016: 12%).

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Profit before tax	10,480	27,254	10,678	27,771
Income tax as per rates mentioned above	1,572	4,088	1,281	3,333
Deferred tax impact for prior period due to increase in tax rate	3,013	7,835	-	-
Change in recognised temporary difference	243	633	329	855
Deferred tax expense for the year	4,828	12,556	1,610	4,188

No deferred tax has been recognised on tax losses of RO 49.5 million which are expected to expire in the years between 2018 – 2022, 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 2017 was 46.1% (31 December 2016: 15.1%).

c) Deferred tax liability

	At 1 January 2017 RO '000	Recognised during the year RO '000	At 31 December 2017 RO '000
Deferred tax (liability)/asset recognised in income statement			
Depreciation for property, plant and equipment	(13,987)	(6,156)	(20,143)
Provision for site restoration	25	12	37
Losses carried forward	1,912	1,316	3,228
	(12,050)	(4,828)	(16,878)
Deferred tax asset directly recognised in equity			
Fair value adjustment of interest rate and forex swap	1,367	(422)	945
Deferred tax liability	(10,683)	(5,250)	(15,933)
Nominal value in USD '000	(27,785)	(13,652)	(41,437)

Notes

(forming part of the financial statements)

10 Tax expense (continued)

c) Deferred tax liability (continued)

	At 1 January 2016 RO '000	Recognised during the year RO '000	At 31 December 2016 RO '000
<i>Deferred tax (liability)/asset recognised in income statement</i>			
Depreciation for property, plant and equipment	(11,298)	(2,689)	(13,987)
Provision for site restoration	18	7	25
Losses carried forward	840	1,072	1,912
	<u>(10,440)</u>	<u>(1,610)</u>	<u>(12,050)</u>
<i>Deferred tax asset directly recognised in equity</i>			
Fair value adjustment of interest rate and forex swap	1,763	(396)	1,367
	<u>(8,677)</u>	<u>(2,006)</u>	<u>(10,683)</u>
Deferred tax liability			
Nominal value in USD '000	<u>(22,567)</u>	<u>(5,216)</u>	<u>(27,785)</u>

d) Status of tax returns

In 2017, the Secretariat General of Taxation ("SGT") has carried out an assessment for the years 2012 and 2013. The SGT in the assessment orders has computed the tax depreciation for the full year each for 2012 and 2013 ignoring the fact that in 2012 the Plant was active generating electricity only for 44 days (Early Power Period) and in 2013 the Plant commenced operations from 4 April 2013. This treatment by SGT resulted in an incremental tax depreciation of RO 33.24 million. The Company has filed an objection against the assessment orders for 2012 and 2013. While the decision is still pending from SGT, the management believes that the treatment adapted by the Company is in accordance with the tax law and as such no adverse impact will arise.

The tax returns for 2014 to 2016 have not yet been assessed by the SGT. 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 2017.

11 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 Asset Retirement Obligation ("ARO") provision has been calculated using an expected present value technique. The technique reflects assumptions such as costs, plant useful life, inflation and discount rates that third parties would consider to assume for the settlement of the obligation.

The movement in ARO provision is as follows:

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
At 1 January	637	1,657	586	1,525
Unwinding of discount during the year (note 15)	45	118	51	132
Reversal due to revaluation (note 11.1)	(433)	(1,127)	-	-
At 31 December	<u>249</u>	<u>648</u>	637	1,657

Notes

(forming part of the financial statements)

11.1 Asset retirement obligation (continued)

During 2017, an exercise was carried out through an expert to re-evaluate the asset retirement obligation provision. Based on valuation report, the asset retirement obligation provision was reduced by USD 1,127,469 and corresponding adjustment was made in the de-commissioning asset resulting in nil value of de-commissioning asset as at 31 December 2017 and the excess reduction was recorded as other income, which was in accordance with the guidelines of the International Reporting Interpretation Committee – IFRIC 1.

12 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 instalments and interest and is as such restricted cash. The amount in the DSPA has been put into a short term deposit maturing on 27 April 2018.

13 Direct costs

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Fuel gas	34,247	89,069	29,638	77,081
Depreciation (note 4)	8,006	20,822	8,010	20,832
Operation and maintenance ("O&M") fees (note 16)	6,976	18,143	6,837	17,782
Insurance	500	1,300	521	1,356
Custom duties (note 16)	339	881	286	745
Grid connection fee	211	550	214	557
Fuel oil	100	261	359	933
Other O&M expenses	289	751	243	630
	50,668	131,777	46,108	119,916

14 General and administrative expenses

Secondment fees (note 16)	243	633	245	637
Employment costs	153	397	149	387
Public company related costs	102	264	116	302
Agency fees	50	131	50	130
Directors' remuneration and sitting fees (note 16)	33	87	36	93
Office rent	23	60	24	63
Corporate social responsibility	15	39	15	39
Depreciation (note 4)	10	25	13	34
Other general and administrative expenses	134	349	153	399
	763	1,985	801	2,084

Notes

(forming part of the financial statements)

15 Finance costs (net)

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Interest on term loans	6,894	17,930	6,199	16,123
Swap interest	2,949	7,670	4,050	10,532
Amortisation of deferred finance costs	1,272	3,309	1,368	3,559
Debt Service Reserve Account ("DSRA") LC cost (note 16)	188	489	190	494
Exchange loss	47	122	48	124
Interest on working capital	47	121	20	51
Asset retirement obligation - unwinding of discount (note 11)	45	118	51	132
Ineffective portion of interest rate hedge (note 17)	(65)	(169)	(66)	(171)
Interest income	(48)	(126)	(30)	(77)
	11,329	29,464	11,830	30,767

16 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 into 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:

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Key management benefits	306	796	304	790

Notes

(forming part of the financial statements)

16 Related party transactions (continued)

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

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Suez-Tractebel Operations & Maintenance Oman LLC	7,664	19,932	7,494	19,492
Kahrabel Operation & Maintenance (Oman) LLC	281	730	281	732
Al Batinah Power Company SAOG	275	715	230	599
ENGIE S.A. (Electrabel S.A.) *	87	225	88	228
Multitech LLC	41	107	42	109
International Power S.A. Dubai Branch	36	93	43	113
Directors'	33	87	38	97
Shikoku Electric Power Co., Inc.	21	54	23	61
Sojitz Corporation	21	54	21	54
Public Authority for Social Insurance	19	49	19	49
Laborelec Middle East	9	23	16	41
Tractebel Engineering SA	4	11	7	19
Sohar Power Company SAOG	1	2	-	-
SMN Barka Power SAOC	1	2	-	-
Al Kamil Power Company SAOG	1	2	-	-
ENGIE - European Maintenance Support	-	-	7	19
	8,494	22,086	8,309	21,613

The nature of the above transactions is as follows:

Operation and maintenance ("O&M") fees (note 13)	6,976	18,143	6,837	17,782
Custom duties (note 13)	339	881	286	745
Sharing of costs	275	715	230	599
Secondment fees (note 14)	243	633	245	637
DSRA LC fee (note 15)	188	489	190	494
Property, plant and equipment	175	455	-	-
Other O&M expenses	144	372	71	185
Backcharge of expenses	64	165	39	104
Professional fees	36	91	43	111
Directors' sitting fees (note 14)	19	49	19	50
Directors' remuneration (note 14)	14	38	17	43
Spare parts	12	32	300	780
Technical services	9	23	30	79
Re-imbursment of Directors' expenses	-	-	2	4
	8,494	22,086	8,309	21,613

Balances due to related parties at the year end comprised:

Suez-Tractebel Operations & Maintenance Oman LLC	728	1,894	896	2,331
Directors'	15	38	17	44
Laborelec Middle East	7	19	-	-
ENGIE S.A.	7	18	7	19
Multitech LLC	3	9	3	9
International Power S.A. Dubai Branch	3	7	-	-
Public Authority for Social Insurance	2	4	15	40
Shikoku Electric Power Co., Inc.	2	4	2	5
Sojitz Corporation	2	4	2	5
Kahrabel Operation & Maintenance (Oman) LLC	0	1	60	156
Al Batinah Power Company SAOG	-	-	65	168
	769	1,998	1,067	2,777

Balance due from a related party at the year end comprised:

Al Batinah Power Company SAOG	33	86	-	-
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* Effective 29 July 2016, the Electrabel S.A. LC has been replaced by ENGIE S.A.

Notes

(forming part of the financial statements)

17 Hedging reserve

At 31 December, derivative instruments assets (liabilities) were as follows:

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
<u>Interest rate swaps:</u>				
<i>Term loans (note 17(a))</i>				
KfW IPEX - Bank GmbH	(1,134)	(2,948)	(1,615)	(4,201)
Standard Chartered Bank	(2,208)	(5,744)	(3,408)	(8,863)
Credit Agricole Corporate & Investment Bank	(986)	(2,564)	(1,419)	(3,692)
HSBC Bank	(826)	(2,148)	(1,154)	(3,000)
Total fair value of interest rate swaps	(5,154)	(13,404)	(7,596)	(19,756)
Deferred tax asset	772	2,011	911	2,371
Fair value of interest rate swaps net of tax	(4,382)	(11,393)	(6,685)	(17,385)
<u>Currency swaps:</u>				
Standard Chartered Bank	(1,340)	(3,485)	(3,694)	(9,607)
Credit Agricole Corporate & Investment Bank	187	487	(111)	(288)
Total fair value of currency swaps	(1,153)	(2,998)	(3,805)	(9,895)
Deferred tax asset	173	450	456	1,187
Fair value of currency swaps net of tax	(980)	(2,548)	(3,349)	(8,708)
Total fair value of derivative instruments	(6,307)	(16,402)	(11,401)	(29,651)
Less: Ineffective portion of hedge	31	77	95	246
Less: Deferred tax asset [note 10(c)]	945	2,461	1,367	3,558
Total fair value of derivative instruments net of tax	(5,331)	(13,864)	(9,939)	(25,847)
Hedging reserve net of tax at the end of the year	(5,331)	(13,864)	(9,939)	(25,847)
Less: Hedging reserve net of tax at the beginning of the year	(9,939)	(25,847)	(12,772)	(33,217)
Effective portion of change in fair value of cash flow hedge for the year	4,608	11,983	2,833	7,370

Notes

(forming part of the financial statements)

17 Hedging reserve (continued)

- (a) The long term facilities (referred in note 5) [total drawdown of USD 534.09 million (RO 205.36 million excluding Hermes Covered Fixed Facility of USD 120.00 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 HSBC Bank Middle East Limited, dated 6 October 2010, Standard Chartered Bank, dated 19 December 2011, KfW IPEX Bank GmbH, dated 6 October 2010 and Credit Agricole Corporate and Investment Bank dated 5 October 2010 respectively, for these facilities (excluding Hermes Covered Fixed Facility).

The facility hedged notional amounts stood at approximately USD 59.58 million (RO 22.91 million), USD 192.32 million (RO 73.95 million), USD 81.93 million (RO 31.50 million) and USD 74.48 million (RO 28.64 million) at fixed interest rates of 2.9613%, 2.9350%, 2.9700% and 2.9380% per annum respectively, excluding margins.

- (b) The O&M Agreement includes an outflow of approximately Euro 77 million, payable in Euro.

The Company has entered into Forward Rate Agreements (“FRA”) with Standard Chartered Bank and Credit Agricole Corporate and 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 1.1797 respectively and receive contractual Euro amounts at each maturity date.

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.

The 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.

Notes

(forming part of the financial statements)

18 Financial risk management (continued)

(a) Market risk (continued)

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 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	2017	2017	2016	2016
	%	RO '000	USD '000	RO '000	USD '000
Financial liabilities					
<i>Term loans</i>					
- USD variable rate loans	Libor + margins	152,041	395,426	163,610	425,514
- USD fixed rate loan	3.60%	31,874	82,896	35,025	91,092
		183,915	478,322	198,635	516,606

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 shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	100 bps Increase RO '000	100 bps Decrease RO '000	100 bps Increase USD '000	100 bps Decrease USD '000
31 December 2017				
US LIBOR (100 basis points)	7,012	(7,546)	18,237	(19,625)
31 December 2016				
US LIBOR (100 basis points)	8,556	(9,267)	22,252	(24,101)

Notes

(forming part of the financial statements)

18 Financial risk management (continued)

(a) Market risk (continued)

Currency risk

The price under the O&M Agreement includes an expected amount of approximately Euro 77 million, payable in Euro. The Company has entered into FRAs' to hedge against fluctuations in Euro/USD exchange rate (note 17(b)). The Euro amounts hedged cover 85% of the expected outflows for the period from January 2018 to August 2021, 60% for the period from September 2021 to March 2023 and 35% for the period from April 2023 to March 2028. Apart from above, 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 31 December 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 shown below. 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.

	Equity		Profit or loss	
	Strengthening	Weakening	Strengthening	Weakening
31 December 2017				
	RO '000	RO '000	RO '000	RO '000
EUR (10% movement)	2,225	(2,225)	-	-
	USD '000	USD '000	USD '000	USD '000
EUR (10% movement)	5,786	(5,786)	-	-
31 December 2016				
	RO '000	RO '000	RO '000	RO '000
EUR (10% movement)	2,190	(2,190)	-	-
	USD '000	USD '000	USD '000	USD '000
EUR (10% movement)	5,695	(5,695)	-	-

Notes

(forming part of the financial statements)

18 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables 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:

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Cash at bank	2,608	6,784	3,682	9,577
Trade receivables	2,737	7,119	3,043	7,913
Short term deposit	1,770	4,604	1,923	5,000
Due from a related party	33	86	-	-
Other receivables and accrued income	727	1,889	514	1,338
	7,875	20,482	9,162	23,828

At 31 December, the age analysis of trade receivables is as follows:

	2017 RO '000	2017 RO '000 Allowance for impairment	2016 RO '000	2016 RO '000 Allowance for impairment
Not past due	2,683	-	3,043	-
Past due 0 < 3 months	-	-	-	-
Past due > 3 months	54	-	-	-
	2,737	-	3,043	-
Nominal value in USD '000	7,119	-	7,913	-

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

		2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Bank	Rating				
<i>Bank balances</i>					
Bank Muscat SAOG	P-2	1,948	5,068	3,398	8,839
Credit Agricole Corporate & Investment Bank	P-1	660	1,716	284	738
		2,608	6,784	3,682	9,577
<i>Short term deposit</i>					
Credit Agricole Corporate & Investment Bank	P-1	1,770	4,604	1,923	5,000

Notes

(forming part of the financial statements)

18 Financial risk management (continued)

(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 management ensures that sufficient liquid funds are available to meet any commitments as they arise.

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

	Carrying amount RO '000	Contractual cash flow RO '000	Less than 1 year RO '000	Between 2 and 5 years RO '000	More than 5 years RO '000
31 December 2017					
Derivatives					
Derivative instruments	6,307	(7,081)	-	(5,728)	(1,353)
Non-derivatives Financial liabilities					
Term loan	177,612	(183,915)	(23,204)	(97,127)	(117,865)
Short term borrowing	2,000	(2,000)	(2,000)	-	-
Trade and other payables	6,680	(6,680)	(6,680)	-	-
	192,599	(199,676)	(31,884)	(102,855)	(119,218)
31 December 2017					
	USD '000	USD '000	USD '000	USD '000	USD '000
Derivatives					
Derivative instruments	16,402	(18,417)	-	(14,898)	(3,519)
Non-derivatives Financial liabilities					
Term loan	461,928	(478,322)	(60,349)	(252,605)	(306,540)
Short term borrowing	5,202	(5,202)	(5,202)	-	-
Trade and other payables	17,378	(17,378)	(17,378)	-	-
	500,910	(519,319)	(82,929)	(267,503)	(310,059)
31 December 2016					
	RO '000	RO '000	RO '000	RO '000	RO '000
Derivatives					
Derivative instruments	11,401	(12,354)	-	(9,489)	(2,865)
Non-derivatives Financial liabilities					
Term loan	191,059	(255,468)	(21,419)	(92,641)	(141,408)
Short term borrowing	2,080	(2,080)	(2,080)	-	-
Trade and other payables	6,696	(6,696)	(6,696)	-	-
	211,236	(276,598)	(30,195)	(102,130)	(144,273)
31 December 2016					
	USD '000	USD '000	USD '000	USD '000	USD '000
Derivatives					
Derivative instruments	29,651	(32,132)	-	(24,680)	(7,452)
Non-derivatives Financial liabilities					
Term loan	496,903	(664,416)	(55,706)	(240,938)	(367,772)
Short term borrowing	5,410	(5,410)	(5,410)	-	-
Trade and other payables	17,415	(17,415)	(17,415)	-	-
	549,379	(719,373)	(78,531)	(265,618)	(375,224)

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

Notes

(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 instrument	Market comparison technique: fair value is calculated by the respective financial institutions	Not applicable
Other financial liabilities	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 the relevant inflation indices.

These embedded derivatives are not separated from the host contract, the PPA and the O&M Agreement, 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.

Notes

(forming part of the financial statements)

19 Commitments

(a) Operation and maintenance commitments

As per the O&M Agreement, STOMO is scheduled to operate and maintains 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

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

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

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Within one year	5,753	14,962	5,200	13,524
Between two and five years	22,509	58,542	20,794	54,082
After five years	29,765	77,411	30,323	78,864
	58,027	150,915	56,317	146,470

Euro/USD rate for converting Euro denominated O&M payments as at 31 December 2017 was 1.21 (31 December 2016: 1.06)

(b) Land lease commitments

At 31 December, future minimum lease commitments under the Usufruct Agreement are as follows:

Within one year	17	45	17	45
Between two and five years	70	181	70	181
After five years	220	571	237	616

- (c) As at 31 December 2017, the Company has outstanding purchase orders for USD 37,839 (RO 14,549) [2016: USD 214,106 (RO 82,324)].

Notes

(forming part of the financial statements)

20 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.

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. Management further determined that such an arrangement in substance represents an operating lease. The lease commenced on 4 April 2013. The following is the total of minimum lease receipts expected to be received under the PPA, excluding indexation:

	2017 RO '000	2017 USD '000	2016 RO '000	2016 USD '000
Within one year	30,211	78,571	30,248	78,669
Between two and five years	120,852	314,309	120,859	314,328
After five years	154,444	401,676	184,648	480,228
	305,507	794,556	335,755	873,225

21 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

	2017	2016
Net assets – shareholder funds (RO '000)	87,803	88,266
Weighted average number of shares outstanding during the year ('000s)	714,406	714,406
Net assets per share (Baizas)	122.90	123.55

The management believes that the hedging deficit of RO 5.33 million (USD 13.86 million) [2016: RO 9.94 million (USD 25.85 million)] at the end of the reporting period 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 agreements, the Company is not permitted to terminate the swap agreements. Accordingly the hedging deficit has been excluded from the Shareholder Funds.

Notes

(forming part of the financial statements)

22 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.

	2017	2016
Net profit for the year (RO '000)	5,652	9,068
Weighted average number of shares outstanding during the year ('000s)	714,406	714,406
Basic earnings per share (Baizas)	<u>7.91</u>	<u>12.69</u>

23 Contingent liabilities

No material contingent liabilities exist as at 31 December 2017.

24 Comparative figures

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



