

# ENERGIZING 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. Ravinder Soin	Deputy Chairperson	
Mr. Abdul Hakeem Amur Salim Al-Musalhi	Director	Ministry of Defence Pension Fund
Mr. Ali Taqi Ibrahim Al-Lawati	Director	Public Authority for Social Insurance
Mr. Ashok Kumar Saproo	Director	
Mr. Bipin Dharamsey Nensey	Director	
Mr. Gillian-Alexandre Huart	Director	
Mr. Kazuichi Ikeda	Director	SEP International Netherlands B.V.
Mr. Shawn Madore	Director	
Mr. Yaqoub Harbi Salim Al-Harhi	Director	
Mr. Yasushi Asano	Director	Blue Horizon Barka Power B.V.
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 2018.

## Corporate Governance

The Company has complied with the Code of Corporate Governance and applicable circulars issued from time to time by the Capital Market Authority (CMA).

## Operational Results

The operational performance of the plant during the year was excellent, with 99.7% plant reliability. The fuel efficiency of the plant currently places it at the higher end of the merit order list for dispatch among the power plants in Oman and, as such, the

plant witnessed an all-time high plant load of 74.7%. The total power generated and delivered was 4,821 GW, an increase of 7.8% over the previous year. The Company continued to experience thermal inefficiency at high generation levels and consequently was unable to recover its entire fuel gas cost expended to generate power. Continuous efforts are being made with the assistance of the equipment manufacturer and consultants to address this important factor in the plant's operation.

The splendid plant reliability and high plant load operation was achieved with a continued focus on excellence in Health, Safety, Environment and Quality Management, with the plant reaching 2,738 days since inception without any lost time accidents. We acknowledge the excellent performance of our dedicated and diligent Operation and Maintenance Contractor's (STOMO) team.

The Company duly met all the stringent environment permit conditions promulgated by Ministry of Environment and Climate. As part of energy conservation efforts the plant has replaced tube lights with LED tube lights and installed solar panel lighting at many locations including the plant's car park. The cyber security for the plant has also been strengthened in association with our Operations & Maintenance Contractor and is presently consistent with the regulations issued by the Authority for Electricity Regulation.



## Financial Results

Excellent plant availability and higher power generation has led to a 4.6% growth in the total revenues earned by the Company. Despite plant's thermal inefficiency, the gross profit witnessed an increase of 2.1% due to reduction in operation and maintenance expenses. The steady reduction in the finance costs due to scheduled loan repayments and a lower deferred tax expense has contributed to a significant improvement in net profit compared to year 2017.

The Company has duly met all its commitments under the term loan agreements. Oman Power and Water Procurement Company SAOC (OPWP) continues to settle all invoices raised by the Company as per the payment provisions provided within the Power Purchase Agreement.

Finally, the Company's better operational performance during 2018 enabled it to declare and pay dividend of 9 Baizas per share, higher than a dividend of 8.56 Baizas per share paid in 2017.

The share price stood at 101 Baizas per share at the close of year 2018.

## Corporate Social Responsibility

The Company takes its role as a responsible corporate citizen seriously. Most of the Company's social responsibility programs are focused at the Wilayat of Barka. During the year, the Company worked with three other power sector companies to install a solar power facility at the Government school. This initiative has been highly appreciated by the Ministry of Education. Further, the Company also donated medical equipment and wheel chairs to the primary health clinic of the Ministry of Health in the Wilayat of Barka. The total amount spent on CSR activities during the year 2018 was RO 20,000.

As a CSR initiative during 2019, it is proposed to install a solar power facility at another school in Shinas in the Wilayat of Sohar, in active participation with three other power sector companies.

## Medium term Outlook

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 the year 2019 and improve the thermal efficiency of the plant. Any change in the power supply and demand landscape in the Sultanate has limited impact on the financial performance of the Company since its profitability is mainly derived from plant's availability and 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 a level that could make the refinancing exercise financially feasible.

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

OPWP launched their Spot Market project in 2015. OPWP intends to further liberalize the Oman's power sector and encourage private sector participation in a broader way. According to OPWP, this will open up access to available capacity that may not be readily accessible through the existing PPA procurement model. The spot market will go live by the end of 2020 and will be fully operational in 2022. The Company's Power Purchase Agreement with OPWP expires in 2028. Accordingly, the spot market will have no impact on the revenue stream of our Company until the expiry of the Power Purchase Agreement.

On behalf of the Board of Directors, I wish to express gratitude to OPWP, 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, and 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 and services group, focused on three core activities: low-carbon power generation, mainly based on natural gas and renewable energy; global networks and customer solutions.

ENGIE has 150,000 employees in 70 countries, with sales of EUR65 billion in 2017. Listed in Paris and Brussels (ENGIE), the Group is represented in the main financial (CAC 40, BEL 20, Euro STOXX 50, STOXX Europe 600, MSCI Europe, Euronext 100, FTSE Eurotop 100, Euro STOXX Utilities, STOXX Europe 600 Utilities) and extra-financial indices (DJSI World, DJSI Europe and Euronext Vigeo Eiris - World 120, Eurozone 120, Europe 120, France 20, CAC 40 Governance).

## **Middle East Investment LLC**

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

MEI is mainly engaged in investment & trading in quoted & un-quoted equity and debt securities.

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

## **Blue Horizon Barka Power B.V. (BHBP)**

Blue Horizon Barka Power B.V. (BHBP) 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 18,500 people worldwide (as of September 2018) and achieved revenues of JPY 4.2 trillion in the fiscal year ended in March 2018.

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

Sojitz, a direct shareholder of BHSP, is a global investment and trading company actively involved in project

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

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

### **SEP International Netherlands B.V. (SEPI)**

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

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

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

Yonden, listed on the Tokyo Stock Exchange, is an electric power utility and carries out the integrated process of generating, transmitting, distributing, and selling electricity to approx. 4 million people in Shikoku region, Japan.

Yonden employs approx.. 4,500 people and has achieved consolidated operating revenues of USD 6.9 billion from the electricity sales of 30.0 billion kWh in the fiscal year ended March 31, 2018. Since its establishment in 1951, Yonden has contributed to regional development through the stable supply of low-cost, high-quality electricity by establishing a balanced energy mix that combines nuclear, coal, oil, gas, hydro, and solar power, totaling approx. 6,340MW (net and gross) in generating capacity at 63 power stations.

Especially in the thermal power field, over 400 engineers engage in engineering, construction, operation and maintenance of thermal power plants whose generating capacity is approximately 3,700MW with their comprehensive experiences, skills and know-how obtained for more than 60 years. Yonden owns two CCGT units (296MW and 289MW at its Sakaide Power Station).

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

### **Public Authority for Social Insurance (PASI)**

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

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

Further information about PASI is available at: [www.pasi.gov.om](http://www.pasi.gov.om)



### **Civil Service Employees Pension Fund (CSEPF)**

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

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

Further information about CSEPF is available at: [www.civilpension.gov.om](http://www.civilpension.gov.om)

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

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

# CORPORATE SOCIAL RESPONSIBILITY REPORT

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 2018

### Solar power initiative



Picture of roof-top PV solar project installed at the school in Barka.

Al Suwadi Power Company SAOG in joint and active cooperation with SMN Power Holding Company SAOG, Al Batinah Power Company SAOG and Al Kamil Power Company SAOG successfully installed and commissioned PV solar system at Hind Bint Usaid Al Ansariya School of Ministry of Education at Barka.

This solar PV project was realized in the framework of our corporate social responsibility programs and had 3 main objectives:

1. To provide clean, renewable energy, free of charge to this school;
  2. To create awareness for clean, renewable energy under the students and to teach them how solar energy works; &
  3. To develop young, Omani SME's in the important sector of renewable energy production for the Sultanate.
- We can proudly feel that these 3 objectives have been achieved. The solar PV system will generate more than 129 MWh per year, powering the school with a total installed capacity of 82 kWp, covering nearly 500m<sup>2</sup> of roof, making it a sustainable and green solution for power requirement of the school. The school has received solar training kits to educate all students about solar PV energy.

The share of the total project cost contributed by us amounted to RO 15,000.

### Medical Equipment and Wheel chairs to Barka Primary Health Care Centre

The Company has donated major ancillary equipment to the existing X-Ray Unit at the Barka primary health care centre. The Company has also provided wheel chairs for disabled patients who visit the health centre. Total amount of RO 5,000 was incurred in this regard

The picture shows the Company's CEO, Mr. Navneet Kasbekar and Mr. Fawad Akhtar, CFO handing over the equipment to Mr. Mohamed Khalifa Al Abri, Director General of Ministry of Health.



# 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.

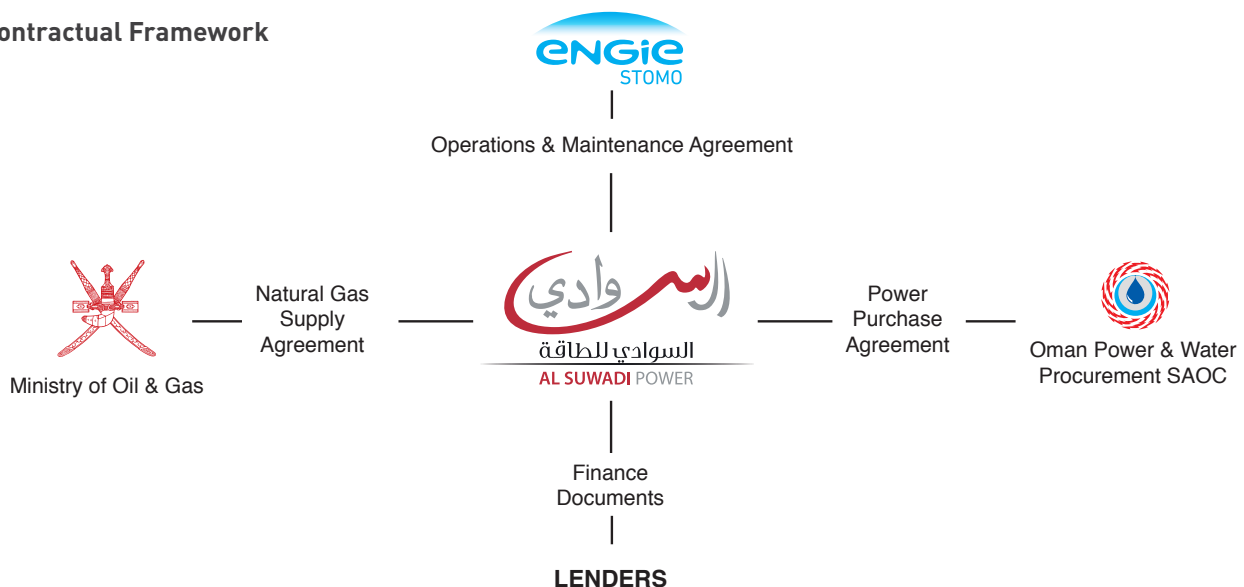
The Company is closely following OPWP’s “spot market” arrangements for the future procurement of power from independent power producers. AER has commenced the process of generation license modification relating to the introduction of the spot market. These modifications include new license conditions concerning preparation for spot market implementation by the virtue of any Spot Market Implementation Plan that may be issued by AER from time to time. Presently, AER has issued a Plan to be completed by the Company which is being responded.

Although the Company has a Power Purchase Agreement (PPA) with OPWP which expires in 2028, the spot market regulations 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



## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Power Purchase Agreement (PPA) with OPWP is resilient to potential increase 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 good 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, the gas price of US\$3/MMBtu with an annual escalation clause of 3% was notified by the MOG and for the year 2018 it was fixed at US\$3.28/MMBtu. However, as the gas cost is pass-through element under the PPA, the Company has no adverse financial impact from annual 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 2018 was excellent with no lost time accident (LTA) reported. The Company takes pride to inform that the Plant has completed 2,738 days without an LTA.

The plant operation and maintenance is managed by STOMO. The Plant holds major certifications like ISO 14001 and OHSAS 18001 as a testimony for safe and high quality Plant operations. The external auditor awarded two new certificates during the year to the plant, namely, ISO 14001:2015 (Environment Management System) and ISO 45001:2018 (Occupational Health & Safety). As part of HSE improvements, new site safety warning signs were posted, internal and external audits were successfully conducted with no major finding identified by the auditors. More importantly, NEBOSH and IOSH training was imparted to the staff.

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 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 the Board members so as to benefit from their experience and network to ensure best practice.

### Human Resources – training and career development

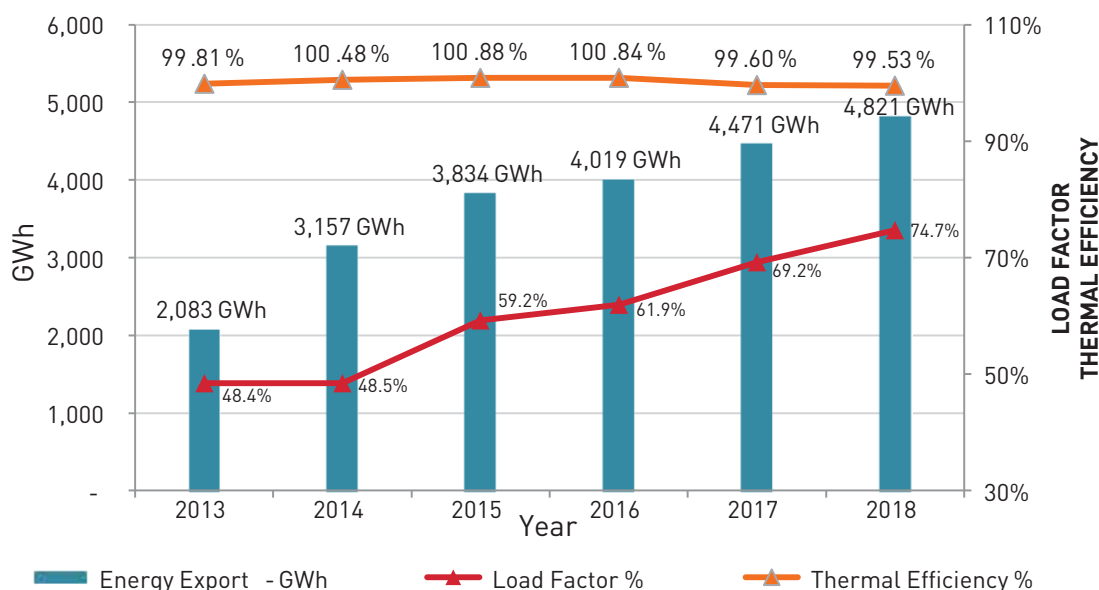
Training values at the plant are established by the STOMO. These are primarily aimed to ensure that all of their employees perform their tasks in the most efficient and safe manner. The Company and STOMO are committed to empower qualified Omani Nationals to acquire better-quality engineering and related 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, with all time high of 74.7% plant load and 4,821 GWh power export during the year. This is a commendable testament of the Plant’s higher merit order listing for dispatch among the power plants in Oman. 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 higher heat rate loss (lower thermal efficiency) at higher Plant load/generation. Continuous efforts are being made with the assistance of the equipment manufacturer and consultants to address this important factor in the Plant’s operation. The deterioration in the thermal efficiency seen over the last two years is mainly due to high Plant load. The graph given below highlights key Plant performance statistics:

### Plant Operational Statistics



## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### 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.

The Capacity revenue is closely associated with Plant's reliability, among other parameters like contracted capacity and indexation mechanism provided within the PPA.

During the summer period of 2018, when the demand for power is highest and the capacity charge rate and penalty for any outage is also highest, the plant continuously operated without a single hour of outage, a momentous achievement that deserves kudos to the Plant's operating staff. A commemorative ceremony was organized for the staff in appreciation of their dedication and effort.



Team meets at the Plant

### Maintenance

Maintenance of the Plant was undertaken in accordance with the standard operations and maintenance processes recommended by the Original Equipment Manufacturers (OEM). Minor inspection work of GT 11 was completed in November 2018.

### Warranty

During the year, substantial progress was seen in the EPC contractors attending to the outstanding work covered under the warranty bond. After a due assessment of all outstanding work and after negotiating cash

compensation for an action that the EPC contractor could not perform to our satisfaction, EPC contractors' warranty bond, with a reduced value was renewed with validity until end December 2019.

## Discussion on financial performance

### Financial Highlights

Figures in RO millions		2018	2017	% change
Revenues	1	<b>76.62</b>	73.22	4.6%
Gross Profit		<b>23.03</b>	22.55	2.1%
Finance Costs (net)		<b>(10.57)</b>	(11.33)	6.7%
Net Profit	2	<b>9.01</b>	5.65	59.4%
Net Profit before Finance costs	3	<b>19.58</b>	16.98	15.3%
Total Assets	4	<b>283.61</b>	291.26	-2.6%
Capital (Paid-up)	5	<b>71.44</b>	71.44	0.0%
Shareholders' Fund (Net Assets)	6	<b>90.38</b>	87.80	2.9%
Term Loans <sup>^</sup>	7	<b>168.63</b>	183.92	-8.3%
Weighted average number of shares	8	<b>714.41</b>	714.41	0.0%
Ordinary Dividends	9	<b>6.43</b>	6.12	5.2%
<b>Key Financial Indicators</b>				
Net Profit Margin	2/1	<b>11.8%</b>	7.7%	n/a
Return on Capital (Paid-up)	2/5	<b>12.6%</b>	7.9%	n/a
Return on Capital Employed	3/(6+7)	<b>7.6%</b>	6.2%	n/a
Debt Equity ratio	7:6	<b>65.1 : 34.9</b>	67.7 : 32.3	n/a
Net assets per share (Baizas)	6/8	<b>126.51</b>	122.90	2.9%
Basic earnings per share (Baizas)	2/8	<b>12.61</b>	7.91	59.4%
Dividends per share (Baizas)	9/8	<b>9.00</b>	8.56	5.2%
<sup>^</sup> Excluding unamortised transaction cost				

### Analysis of Profit & Loss

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

Despite plant's thermal inefficiency at higher generation, the gross profit witnessed an increase of 2.1% due to reduction in operation and maintenance expenses.

Steady reduction in the finance cost due to scheduled loan repayments and lower deferred tax expense has contributed to significant improvement in the net profit compared to year 2017. Consequently, the return on capital employed and basic earnings per share have seen decent improvement as compared to last year.

Finally, the Company's better operational and financial performance during 2018 year enabled it to declare and pay dividend of 9 Baizas per share, higher than a dividend of 8.56 Baizas per share paid in 2017.

The share price stood at 101 Baizas per share at the close of year 2018.

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### Analysis of Balance Sheet

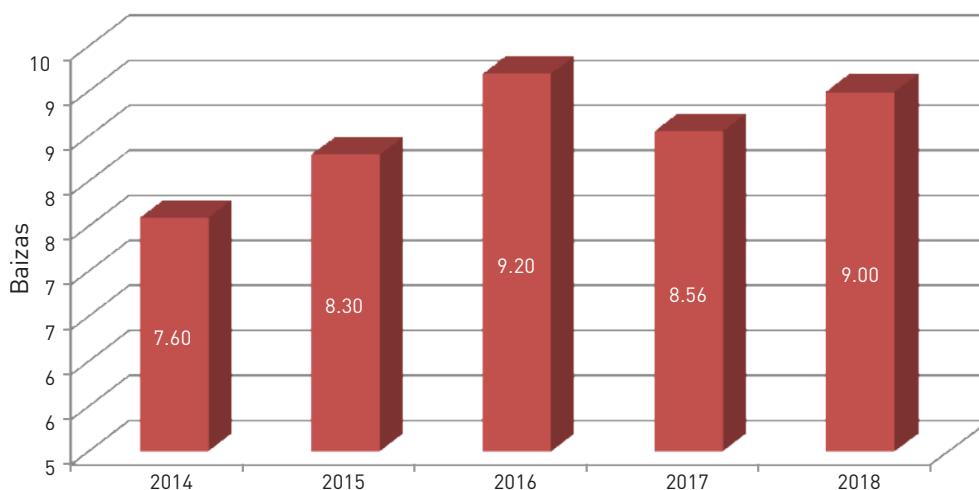
Total Assets of the Company stood at RO 283.61 million as at December 2018 as compared to RO 291.26 million last year mainly due to depreciation charge for the year. Trade Receivables include one month of OPWP's invoice which has been subsequently settled by OPWP. Cash and cash equivalents and short term deposit net of short term borrowing stood at RO 1.73 million as at December 2018, as compared to RO 2.38 million last year.

The Shareholders Funds (Net Assets) stood at RO 90.38 million as at December 2018 as compared to RO 87.80 million as at December 2017. Term Loans (including non-current and current balances) have reduced to RO 168.63 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 associated contractual obligation at the end of Plant's useful life.

### Dividend Distribution

The Company's dividend policy of distributing available cash is conditional upon fulfillment 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 6.43 million (translating to 9 Baizas per share) during the year 2018 (paid out of the audited retained earnings for the year ended 31 December 2017).

Dividend per share



### 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**

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

The management is optimistic about the future of the Company. Recognizing that the long-term sustainability of the Company's financial results depends upon its efficient operational base, the management will continue to focus on ensuring high levels of Plant availability and improving fuel efficiency whilst closely controlling operational and 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. The Company has a full time in-house internal auditor whose assignment includes analysis of the business risks and review of the internal controls under the supervision of the Audit Committee of the Board. 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.

The internal auditor executes all the functions as prescribed under the Code of Corporate Governance in a professional manner and submits regular reports to the Audit Committee as per the approved annual internal audit plan.

### **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





Ernst & Young LLC  
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C.R. No. 1224013  
PR No. HMH/15/2015; HMA/9/2015

## REPORT OF FACTUAL FINDING

### TO THE SHAREHOLDERS OF AL SUWADI POWER COMPANY SAOG

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


- 1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and
- 2) We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2018. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

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

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

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of the Company to be included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of AL SUWADI POWER COMPANY SAOG, taken as a whole.



Muscat  
21 February 2019

# CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Board”) of Al Suwadi Power Company SAOG (the “Company”) hereby presents its Corporate Governance Report for the year ended 31 December 2018 in accordance with the Code of Corporate Governance of Public Listed Companies (the “Code”), clarifications and notifications issued by Capital Market Authority (the “CMA”) from time to time.

## Company’s philosophy

The Company follows the principles of good Corporate Governance and has implemented all guidelines issued by 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, Ernst and Young, have issued a separate Report on the Company’s Governance Report for the year ended 31 December 2018.

## Board of Directors

In compliance with the Company’s Articles of Association, the Board is constituted of 11 directors. The term of the existing Board shall be completed at the Annual General Meeting (the “AGM”) of the shareholders of the Company scheduled on 20 March 2019 and during the meeting, a new Board will be elected for a period of 3 years.

a) Composition, category and attendance of Directors in the year 2018:

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) Mr. Mitsuo Nakamoto representing Blue Horizon Barka Power B.V. resigned on 24 January 2018. Subsequently, Blue Horizon Barka Power B.V. nominated Mr. Yasushi Asano as his replacement. Mr. Yasushi Asano was appointed as director on 4 February 2018.
- (ii) A vacancy existing on the Board of Directors at the start of the year was duly filled during the AGM held on 20 March 2018. Mr. Bipin Dharamsey Nensey was elected as an independent director.
- (iii) Mr. Nair Santosh Unni, nominee director of Multitech LLC and member of the Nomination & Remuneration Committee, resigned on 14 May 2018.
- (iv) Mr. Rahul Kar, an independent director and member of the Audit Committee, resigned on 31 May 2018.
- (v) Mr. Ashok Kumar Sapru and Mr. Ravinder Sooin were appointed as temporary and independent directors on 15 July 2018 to hold the post until the conclusion of the next AGM of the Company. Mr. Ravinder Sooin was also appointed as Deputy Chairperson of the Board.



	Name of Directors	Category of Directors ^	Attendance					
			Board Meetings					AGM
			21 Feb	23 Apr	25 Jul	24 Oct	Total	20 Mar
Incumbent as of Dec 31, 2018	Mr. Charles Paul Dexter (Chairperson)	Non-independent & Nominee Director	√	√	√	Proxy	4	√
	Mr. Ravinder Soin (Deputy Chairperson)	Independent	n/a	n/a	√	√	2	n/a
	Mr. Abdul Hakeem Amur Salim Al-Musalhi	Independent & Nominee Director	√	√	√	√	4	x
	Mr. Ali Taqi Ibrahim Al-Lawati	Non-independent & Nominee Director	√	√	√	√	4	√
	Mr. Ashok Kumar Sapru	Independent	n/a	n/a	x	√	1	n/a
	Mr. Bipin Dharamsey Nensey	Independent	n/a	√	√	√	3	n/a
	Mr. Gillian Alexandre Huart	Independent	√	√	Proxy	√	4	x
	Mr. Kazuichi Ikeda	Non-independent & Nominee Director	√	√	√	√	4	x
	Mr. Shawn Madore	Non-independent	√	√	√	√	4	x
	Mr. Yaqoub Harbi Salim Al-Harhi	Non-independent	√	√	√	√	4	√
	Mr. Yasushi Asano	Non-independent & Nominee Director	Proxy	√	√	√	4	x
Resigned	Mr. Mitsuo Nakamoto	Non-independent & Nominee Director	n/a	n/a	n/a	n/a	n/a	n/a
	Mr. Nair Santosh Unni	Non-independent & Nominee Director	√	x	n/a	n/a	1	√
	Mr. Rahul Kar	Independent	Proxy	√	n/a	n/a	2	x

^ The category of incumbent directors is based on elections held during the AGMs of March 2016 and March 2018 and declarations made by two temporary directors appointed during the year.

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

All nominee directors are representatives of equity investors.

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

Name of Director	Name of Companies and Position Held
Mr. Ali Taqi Ibrahim Al-Lawati	<ul style="list-style-type: none"> <li>The First Mazoon Fund - Director</li> <li>National Mass Housing SAOC – Director of the Board / Chairperson of Audit Committee</li> <li>Mazoon Development SAOC – Director of the Board / Member of Executive Committee</li> </ul>
Mr. Abdul Hakeem Amur Al-Musalhi	<ul style="list-style-type: none"> <li>Jebel Akdar Data Centre Company SAOC - Deputy Chairman and Chairman of Technical Committee</li> </ul>
Mr. Bipin Dharamsey Nensey	<ul style="list-style-type: none"> <li>Muscat Insurance Company SAOG – Deputy Chairman</li> <li>Bank Sohar SAOG - Director</li> </ul>

## CORPORATE GOVERNANCE REPORT

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 the year 2018

The Audit Committee is comprised of majority of independent directors as required by the Code. Mr. Rahul Kar resigned from the Audit Committee on 31 May 2018. On 15 July 2018, the Board elected Mr. Ravinder Soin as the member of the Audit Committee to fill-in the vacancy.

Name of Committee Members	Position	Attendance				
		20 Feb	22 Apr	24 Jul	23 Oct	Total
Mr. Gillian Alexandre Huart	Chairperson	√	√	Proxy	√	4
Mr. Kazuichi Ikeda	Member	√	√	√	√	4
Mr. Rahul Kar	Member	√	√	n/a	n/a	2
Mr. Ravinder Soin	Member	n/a	n/a	√	√	2

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

### 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 2018

Mr. Nair Santosh Unni tendered his resignation from the Committee on 14 May 2018. Mr. Ashok Kumar Saproo was appointed by the Board to fill-in the vacancy.

The Committee meets at least twice a year.

Name of Committee Members	Position	Attendance			
		20 Feb	22 April	23 Oct	Total
Mr. Yaqoub Harbi Salim Al-Harhi	Chairperson	√	√	√	3
Mr. Kazuichi Ikeda	Member	√	√	√	3
Mr. Nair Santosh Unni	Member	√	x	n/a	1
Mr. Ashok Kumar Saproo	Member	n/a	n/a	x	0

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

### Appraisal for the performance of the Board

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

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 process was conducted directly between the consultant and the directors via a comprehensive questionnaire and further, interviews were held with some of the directors to explore and enhance the questionnaires' feedback. Subsequently, the consultant presented its report on the performance appraisal and recommendations to the Chairperson of the Board. Overall, the Board and its Committees were considered to be performing 'very satisfactory' across the range of approved performance criteria.

The recommendations proposed by the independent consultant were considered by the Board and it was 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 election of the Board is 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, who is a shareholder, must 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;

## CORPORATE GOVERNANCE REPORT

- (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 the CMA allowing it to continue with the members of the Board appointed in the Annual General Meeting 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 the 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 members of the Board, the Audit Committee and the Nomination & Remuneration Committee who attend the meeting either in person or by 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 2018 paid to the directors for attending Board, Audit Committee and Nomination & Remuneration Committee meetings amounted to RO 15,200 and RO 2,200 and RO 1,400 respectively.

- b) Remuneration to Board members

Following approval by the shareholders in the AGM held on 20 March 2018, the Company paid total remuneration of RO 14,800 to the Board members in respect of the year 2017.

For the year 2018, the Board proposes to similarly pay remuneration to the Board members, equal to actual sitting fees paid during the year 2018, for their contribution in achieving excellent operational and financial results. The proposed remuneration of RO 15,200 has been accrued in the financial statements for year ended 31 December 2018, however, the same shall be paid provided it is approved by the shareholders in the AGM scheduled to be held on 20 March 2019.

- c) Other payments to directors

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

- d) Top 5 officers

The Company paid to its top 5 officers an aggregate amount of RO 303,562 which includes secondment fee, salaries, allowances, performance based bonuses and other benefits. The remuneration paid commensurate with their qualification, role, responsibility and performance.

The performance based bonus for staff members is based on the following criteria:

- a. 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.
- b. 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.

c. 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 the year 2018.

### 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 year 2018:

Month	Price (Baizas)				MSM Index (Service sector)	
	High	Low	Closing	Change from 1 January 2018	Closing	Change from 1 January 2018
January	146	138	138	0.0%	2,619.63	-0.90%
February	145	138	140	1.4%	2,631.57	-0.45%
March	142	139	140	1.4%	2,605.70	-1.43%
April	139	128	129	-6.5%	2,525.35	-4.47%
May	128	118	120	-13.0%	2,475.72	-6.34%
June	120	114	118	-14.5%	2,474.99	-6.37%
July	122	115	116	-15.9%	2,377.80	-10.05%
August	117	113	114	-17.4%	2,375.71	-10.13%
September	125	112	115	-16.7%	2,465.71	-6.72%
October	122	110	114	-17.4%	2,390.21	-9.58%
November	116	113	114	-17.4%	2,353.80	-10.96%
December	114	100	101	-26.8%	2,290.34	-13.36%

b) Distribution of the shareholding as of December 31, 2018:

Category	Number of shareholders	Number of shares held	Share capital %
5% and above	7	588,099,564	82.3%
1% to 5%	3	36,879,271	5.2%
Less than 1 %	2,687	89,427,505	12.5%
Total	2,697	714,406,340	100.0%

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

## CORPORATE GOVERNANCE REPORT

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### Professional profile of the statutory auditor

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

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

### Acknowledgement by the Board of Directors

- The Board of Directors accepts the responsibility for accurately preparing accounts and financial statements and confirms that the financial statements for the year 2018 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

<b>Name</b>	<b>: Mr. Charles Paul Dexter</b>
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	: 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.  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.
<b>Name</b>	<b>: Mr. Ravinder Soin</b>
Year of Joining	: 2018
Education	: Fellow Member of the Institute of Chartered Accountants of India & Associate Member of the Institute of Cost Accountants of India
Experience	: Mr. Ravinder has more than 26 years of professional experience in manufacturing, trading, fabrication, real estate & other service industries. He is presently the Deputy General Manager-Finance & Accounts of Suhail Bahwan Group. During his 20 years with Suhail Bahwan Group, he has worked closely on various policy matters, establishing & strengthening internal controls, facilitating investment & business decisions. His areas of specialization are finance, costing, taxation, auditing, budgeting, management reporting & investment analysis.
<b>Name</b>	<b>: Mr. Abdul Hakeem Amur Salim Al-Musalhi</b>
Year of Joining	: 2017
Education	: MBA in Information Technology
Experience	: 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. He a deputy chairman and chairman of Technical committee in Jebel Akdar Data Centre Company SAOC.

## CORPORATE GOVERNANCE REPORT

<b>Name</b>	<b>: Mr. Ali Taqi Ibrahim Al-Lawati</b>
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	: Mr. Al Lawati has a total of 21 years of experience in the Investment Department with PASI.  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.

<b>Name</b>	<b>Mr. Ashok Kumar Saproo</b>
Year of Joining	: 2018
Education	: Bachelor's Degree ( Honours ) in Civil Engineering from Birla Institute of Technology & Science, Pilani ( India )
Experience	: Mr. Saproo has more than 38 years of experience in Construction Industry and Real Estate Development. He is very senior level professional and has successfully handled large size township real estate development projects; state of art Commercial building, Hotels and Mall projects; specialized projects like IT parks/ Warehouses/ Automated car parks; Interiors for Offices/ High end offices/ Villas etc from concept to completion.  He has joined Suhail Bahwan Group in the year 2012 and is currently heading Projects & Interior Design Department. Prior to joining Suhail Bahwan Group, he has worked with reputed companies like Hyundai Engg and Construction company, Xansa India Limited, Reliance Industries Ltd, Unitech Ltd, Prestige estates Projects Ltd at senior level for design, development and project execution.

<b>Name</b>	<b>Mr. Bipin Dharamsey Nensey</b>
Year of Joining	: 2018
Education	: Bachelor's Degree in Commerce from Mumbai University (India) 1977.  Management Executive Certification from Indian School of Business (ISB) Hyderabad (India) in the Year 2003
Experience	: Mr. Nensey is a Director of Bank Sohar SAOG, since July 1, 2018. Mr. Nensey served as Chairman of Oman International Bank. Mr. Nensey serves as Deputy Chairman of Muscat Insurance Company SAOG. He served as Deputy Chairman at HSBC Bank Oman SAOG from 2002 to May 31, 2012. He has been Independent Non-Executive Director of Muscat Insurance Company SAOG since July 14, 2007 and Dharamsey Nensey Company since 1977. He served as a Director of Oman International Bank "OIB" from 1999 to 2002 and as a Deputy Chairman from 2002 till 2012.



<b>Name</b>	<b>: Mr. Gillian-Alexandre Huart</b>
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.

<b>Name</b>	<b>: Mr. Kazuichi Ikeda</b>
Year of Joining	: 2016
Education	: Master's degree in Electrical Engineering from Osaka University (Japan)
Experience	: Mr. Ikeda is General Manager of Strategy & Management Group, International Business and Cooperation Department of YONDEN, a parent company of SEPI. In this position, he is responsible for strategic planning of international investments as well as asset management of IPP/IWPP projects.  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 international IPP/IWPP development over 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 (2,730MW – Power & 63MIGD – Water).

## CORPORATE GOVERNANCE REPORT

<b>Name</b>	<b>: Mr. Shawn Madore</b>
Year of Joining	: 2016
Education	: Degree in Power Engineering – Canada
Experience	: Mr. Madore has over 22 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.

<b>Name</b>	<b>: Mr. Yaqoub Harbi Salim Al-Harhi</b>
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 16 years. He was appointed as CEO of Al-Kamil Power Company SAOG in 2015. Prior to that he was the General Manager of Al Kamil Construction and Services LLC from early 2014. He has also worked in Rusail Power Station and Sohar Power and Water Plant as operations manager for several years.

<b>Name</b>	<b>: Mr. Yasushi Asano</b>
Year of Joining	: 2018
Education	: Bachelor's Degree in Economics from Keio University, Japan
Experience	: Mr. Asano has over 15 years of experience in the plant and infrastructure industry. He is currently Manager, Section 1, Power Project Department of Sojitz Corporation and responsible for IPP/IWP/IWPPs development and management of its overseas portfolios.

## 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.

<b>Name</b>	<b>: Mr. Navneet Kasbekar</b>
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.

<b>Name</b>	<b>: Mr. Muhammad Fawad Akhtar</b>
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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C.R. No. 1224013  
PR No. HMH/15/2015; HMA/9/2015

## INDEPENDENT AUDITOR'S 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"), which comprise the statement of financial position as at 31 December 2018, and the statement of income, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other matter*

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

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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

**Key audit matters (continued)**

<b>Key audit matters</b>	<b>How our audit addressed the key audit matters</b>
<p><b>Implementation of IFRS 9 "Financial Instruments"</b></p> <p>Effective from 1 January 2018, the Company has applied the simplified approach in IFRS 9 'Financial Instruments' to measure Expected Credit Loss (ECL) for trade receivables, short term deposits and cash and cash equivalents, which allows for lifetime expected credit losses to be recognised from initial recognition. The Company determines the on trade receivables, short term deposits and cash and cash equivalents by using a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the economic environment.</p> <p>IFRS 9 which the Company implemented on 1 January 2018:</p> <ul style="list-style-type: none"> <li>• requires complex accounting treatments, including use of significant estimates and judgements for the determination of adjustments on transition; and</li> <li>• resulted in significant changes to processes, data and controls that needed to be tested for the first time.</li> </ul> <p>Due to the complex accounting treatments, including use of significant estimates, implementation of IFRS 9 "Financial Instruments" was considered as a key audit matter.</p> <p>Refer note 3 (e) in the financial statements for further details.</p>	<p>Our audit procedures in the area included the following:</p> <ul style="list-style-type: none"> <li>- Evaluated the appropriateness of the Company's policy for classification and measurement and impairment of financial instruments and compared it with the requirements of IFRS 9;</li> <li>- Evaluated the appropriateness of the selection of the accounting policies;</li> <li>- Considered the appropriateness of the transition approach and evaluated the management's processes for selection of expected credit loss model;</li> <li>- Obtained an understanding of the process relating to the allowance for credit losses;</li> <li>- Evaluated the reasonableness of the key judgments and estimates relating to calculation of probability of default and forward-looking factor made in the expected credit loss model;</li> <li>- Involved specialists to assist in evaluating the judgments and estimates;</li> <li>- Evaluated the completeness, accuracy and relevance of data used in the expected credit loss model and checked the mathematical accuracy of the calculations;</li> </ul> <p>We also considered assessed the adequacy of disclosures in relation to first time application of IFRS 9 by reference to the requirements of the relevant accounting standards.</p>

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

***Key audit matters (continued)***

<p><b><i>Hedge accounting</i></b> The Company uses derivative financial instruments to hedge interest rate and foreign currency exposure on term loans and future cash flows in accordance with parameters approved by the Board. Rules on accounting for derivative instruments are complex and hedge accounting requirements, including documentation, can be complicated. Lack of compliance with documentation rules, hedge effectiveness rules, and probability criteria could lead to income statement volatility.</p> <p>The accounting policy relating to revenue recognition is set out in note 14 to the financial statements.</p>	<p>Our audit procedures in this area included the following:</p> <ul style="list-style-type: none"> <li>- We examined the nature of the hedge relationships that were entered into and whether these were in line with the Company's strategy. For the derivatives outstanding at the year-end, we assessed their completeness and existence through obtaining external confirmations and their fair value through performing our own independent re-calculations;</li> <li>- We involved our specialists for assessing the Company's hedge accounting and for testing hedge effectiveness;</li> <li>- We assessed adequacy of disclosure relating to hedge accounting.</li> </ul>
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***Other information included in the Company's 2018 Annual Report***

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

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

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

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

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

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

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

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### *Auditor's responsibilities for the audit of the financial statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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

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

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

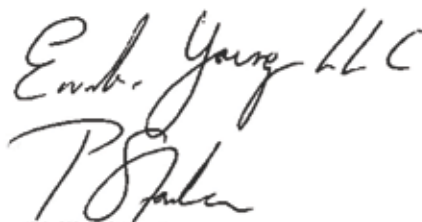
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

### **Report on other legal and regulatory requirements**

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



Philip Stanton  
Muscat  
21 February 2019

# INCOME STATEMENT

For the year ended 31 December 2018

	Notes	2018 RO'000	2018 USD'000	2017 RO'000	2017 USD'000
Revenues		<b>76,623</b>	<b>199,279</b>	73,220	190,428
Direct costs	4	<b>(53,597)</b>	<b>(139,394)</b>	(50,668)	(131,777)
<b>Gross profit</b>		<b>23,026</b>	<b>59,885</b>	22,552	58,651
Other income		<b>19</b>	<b>50</b>	20	52
		<b>23,045</b>	<b>59,935</b>	22,572	58,703
General and administrative expenses	5	<b>(779)</b>	<b>(2,024)</b>	(763)	(1,985)
<b>Profit before interest and tax</b>		<b>22,266</b>	<b>57,911</b>	21,809	56,718
Finance costs (net)	6	<b>(10,574)</b>	<b>(27,501)</b>	(11,329)	(29,464)
<b>Profit before tax</b>		<b>11,692</b>	<b>30,410</b>	10,480	27,254
Tax expense	7	<b>(2,683)</b>	<b>(6,979)</b>	(4,828)	(12,556)
<b>Net profit</b>		<b>9,009</b>	<b>23,431</b>	5,652	14,698
<b>Earnings per share</b>					
Basic earnings per share (Baizas)	22	<b>12.61</b>	-	7.91	-

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

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018		2017	
		RO'000	USD'000	RO'000	USD'000
<b>Net profit</b>		<b>9,009</b>	<b>23,431</b>	5,652	14,698
<b>Other comprehensive income, net of income tax:</b>					
<b><i>Items that will be reclassified to profit or loss:</i></b>					
Cash flow hedges - effective portion of changes in fair value	14	<u>2,041</u>	<u>5,308</u>	4,608	11,983
<b>Total comprehensive income for the year</b>		<b><u>11,050</u></b>	<b><u>28,739</u></b>	10,260	26,681

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

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RO'000	2018 USD'000	2017 RO'000	2017 USD'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	8	273,016	710,056	280,988	730,788
Capital spares		413	1,074	413	1,074
<b>Total non-current assets</b>		<b>273,429</b>	<b>711,130</b>	<b>281,401</b>	<b>731,862</b>
<b>Current assets</b>					
Inventory		1,812	4,714	1,745	4,538
Trade and other receivables	9	5,635	14,658	3,734	9,710
Short term deposit	10	1,461	3,800	1,770	4,604
Cash and cash equivalents	11	1,274	3,313	2,609	6,787
<b>Total current assets</b>		<b>10,182</b>	<b>26,485</b>	<b>9,858</b>	<b>25,639</b>
<b>Total assets</b>		<b>283,611</b>	<b>737,615</b>	<b>291,259</b>	<b>757,501</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
Share capital	13(a)	71,441	185,801	71,441	185,801
Legal reserve	13(b)	5,377	13,984	4,476	11,641
Retained earnings		13,564	35,278	11,886	30,912
<b>Total equity</b>		<b>90,382</b>	<b>235,063</b>	<b>87,803</b>	<b>228,354</b>
<b>Hedging reserve</b>	14	<b>(3,290)</b>	<b>(8,556)</b>	<b>(5,331)</b>	<b>(13,864)</b>
<b>Net equity</b>		<b>87,092</b>	<b>226,507</b>	<b>82,472</b>	<b>214,490</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Term loans	15	147,529	383,691	162,324	422,167
Derivative instruments	14	3,871	10,066	6,307	16,402
Deferred tax liability	7	18,980	49,367	15,933	41,437
Asset retirement obligation	12	268	697	249	648
End of service benefits		7	19	6	16
<b>Total non-current liabilities</b>		<b>170,655</b>	<b>443,840</b>	<b>184,819</b>	<b>480,670</b>
<b>Current liabilities</b>					
Term loans	15	15,969	41,532	15,288	39,761
Trade and other payables	16	8,895	23,135	6,680	17,378
Short term borrowing		1,000	2,601	2,000	5,202
<b>Total current liabilities</b>		<b>25,864</b>	<b>67,268</b>	<b>23,968</b>	<b>62,341</b>
<b>Total liabilities</b>		<b>196,519</b>	<b>511,108</b>	<b>208,787</b>	<b>543,011</b>
<b>Total equity and liabilities</b>		<b>283,611</b>	<b>737,615</b>	<b>291,259</b>	<b>757,501</b>
<b>Net assets per share (Baizas)</b>	21	<b>126.51</b>	<b>-</b>	122.90	-

The financial statements were approved and authorised for issue by the Board of Directors on 21 February 2019 and were signed on their behalf by:



Chairperson



Director

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

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018	2018	2017	2017
		RO'000	USD'000	RO'000	USD'000
<b>Cash flows from operating activities:</b>					
Profit before tax		11,692	30,410	10,480	27,254
<i>Adjustments for:</i>					
Depreciation		8,007	20,824	8,016	20,847
Finance costs (net)		10,574	27,501	11,329	29,464
(Gain)/loss on disposals		(2)	(5)	41	106
Other income		-	-	(20)	(52)
End of service benefits		1	3	2	4
Cash from operations before working capital changes		<u>30,272</u>	<u>78,733</u>	<u>29,848</u>	<u>77,623</u>
<b>Changes in:</b>					
Inventory		(67)	(176)	100	261
Trade and other receivables		(1,900)	(4,943)	67	175
Trade and other payables		2,339	6,081	46	119
<b>Cash generated from operating activities</b>		<u>30,644</u>	<u>79,695</u>	<u>30,061</u>	<u>78,178</u>
Finance costs paid		(9,554)	(24,848)	(10,235)	(26,619)
<b>Net cash flows generated from operating activities</b>		<u>21,090</u>	<u>54,847</u>	<u>19,826</u>	<u>51,559</u>
<b>Cash flows from investing activities:</b>					
Acquisition of property, plant and equipment		(80)	(208)	(183)	(475)
Sale proceeds from property, plant and equipment		2	5	-	-
<b>Net cash flows used in investing activities</b>		<u>(78)</u>	<u>(203)</u>	<u>(183)</u>	<u>(475)</u>
<b>Cash flows from financing activities:</b>					
Repayment of term loans		(15,289)	(39,762)	(14,720)	(38,284)
Repayment of short term borrowing - net		(1,000)	(2,601)	(80)	(208)
Maturity of short term deposit		309	804	151	396
Interest received		63	163	48	126
Dividends paid		(6,430)	(16,722)	(6,115)	(15,905)
<b>Net cash flows used in financing activities</b>		<u>(22,347)</u>	<u>(58,118)</u>	<u>(20,716)</u>	<u>(53,875)</u>
<b>Net change in cash and cash equivalents</b>		<u>(1,335)</u>	<u>(3,474)</u>	<u>(1,073)</u>	<u>(2,791)</u>
<b>Cash and cash equivalents at beginning of the year</b>	11	<u>2,609</u>	<u>6,787</u>	<u>3,682</u>	<u>9,578</u>
<b>Cash and cash equivalents at end of the year</b>	11	<u>1,274</u>	<u>3,313</u>	<u>2,609</u>	<u>6,787</u>

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

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital R0'000	Legal reserve R0'000	Retained earnings R0'000	Hedging reserve R0'000	Total R0'000
Balance at 1 January 2017	71,441	3,911	12,914	(9,939)	78,327
<i>Total comprehensive income</i>					
Net profit	-	-	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)
Total transaction with owners of the Company	-	-	(6,115)	-	(6,115)
Balance at 31 December 2017	<b>71,441</b>	<b>4,476</b>	<b>11,886</b>	<b>(5,331)</b>	<b>82,472</b>
<i>Total comprehensive income</i>					
Net profit	-	-	9,009	-	9,009
<i>Other comprehensive income, net of income tax</i>					
Cash flow hedges - effective portion of changes in fair value	-	-	-	2,041	2,041
<i>Total comprehensive income</i>	-	-	9,009	2,041	11,050
Transfer to legal reserve	-	901	(901)	-	-
<i>Transaction with owners of the Company</i>					
<i>Contribution and distribution</i>					
Dividend	-	-	(6,430)	-	(6,430)
Total transaction with owners of the Company	-	-	(6,430)	-	(6,430)
<b>Balance at 31 December 2018</b>	<b>71,441</b>	<b>5,377</b>	<b>13,564</b>	<b>(3,290)</b>	<b>87,092</b>

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

## STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2018

	Share capital USD'000	Legal reserve USD'000	Retained earnings USD'000	Hedging reserve USD'000	Total USD'000
Balance at 1 January 2017	185,801	10,171	33,589	(25,847)	203,714
<i>Total comprehensive income</i>					
Net profit	-	-	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>					
Contribution and distribution					
Dividend	-	-	(15,905)	-	(15,905)
Total transaction with owners of the Company	-	-	(15,905)	-	(15,905)
<b>Balance at 31 December 2017</b>	<b>185,801</b>	<b>11,641</b>	<b>30,912</b>	<b>(13,864)</b>	<b>214,490</b>
<i>Total comprehensive income</i>					
Net profit	-	-	23,431	-	23,431
<i>Other comprehensive income, net of income tax</i>					
Cash flow hedges - effective portion of changes in fair value	-	-	-	5,308	5,308
<i>Total comprehensive income</i>	-	-	23,431	5,308	28,739
Transfer to legal reserve	-	2,343	(2,343)	-	-
<i>Transaction with owners of the Company</i>					
Contribution and distribution					
Dividend	-	-	(16,722)	-	(16,722)
Total transaction with owners of the Company	-	-	(16,722)	-	(16,722)
<b>Balance at 31 December 2018</b>	<b>185,801</b>	<b>13,984</b>	<b>35,278</b>	<b>(8,556)</b>	<b>226,507</b>

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

# NOTES

(forming part of the financial statements)

## 1 Legal status and principal activities

Al 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; to make available the demonstrated power capacity; and to sell 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.



## NOTES

(forming part of the financial statements)

### 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.

# NOTES

(forming part of the financial statements)

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

### (c) Use of estimates and judgements

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

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

#### Measurement of fair value

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

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

#### 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.

## NOTES

(forming part of the financial statements)

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

#### Significant accounting policies (continued)

#### (d) Currency (continued)

##### (ii) Foreign currency transactions (continued)

Translation gains and losses related to monetary items are recognized in the income statement in the period in which they arise, with the exception of those related to monetary items that qualify as hedging instruments in a cash flow hedge that are recognized initially in profit or loss and other comprehensive income to the extent that the hedge is effective.

#### (e) Changes in accounting policies

##### (i) IFRS 15 — Revenue from Contracts with Customers

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

##### (ii) IFRS 9 — Financial Instruments

#### Financial instruments recognition, measurement and subsequent measurement

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

#### Initial measurement of financial instruments

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

#### Subsequent measurement of financial assets

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

#### Classification of financial assets

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

# NOTES

(forming part of the financial statements)

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

### Significant accounting policies (continued)

#### (e) Changes in accounting policies (continued)

##### (ii) IFRS 9 – Financial Instruments (continued)

Financial instruments recognition, measurement and subsequent measurement (continued)

##### Classification of financial assets (continued)

###### (i) Financial assets carried at amortised cost

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

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

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

###### Debt instruments at FVOCI

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

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

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

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

###### Equity instruments at FVOCI

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

The Company have no equity instruments at FVOCI.

## NOTES

(forming part of the financial statements)

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

Significant accounting policies (continued)

#### (e) Changes in accounting policies (continued)

(ii) IFRS 9 – Financial Instruments (continued)

Financial instruments recognition, measurement and subsequent measurement (continued)

*Classification of financial assets (continued)*

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

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

All other debt instruments are measured at FVTPL.

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

Fair value option

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

Subsequent measurement of financial liabilities

The Company categorises its financial liabilities into two measurement categories: FVTPL and amortised cost. The Company designates a financial liability as measured at FVTPL when it meets the definition of held for trading or when they are designated as such on initial recognition using the fair value option. Gains and losses on financial liabilities designated as at FVTPL are split into the amount of change in fair value attributable to changes in credit risk of the liability, presented in other comprehensive income, and the remaining amount in profit or loss.

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

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

# NOTES

(forming part of the financial statements)

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

### Significant accounting policies (continued)

#### (e) Changes in accounting policies (continued)

##### (ii) IFRS 9 – Financial Instruments (continued)

Financial instruments recognition, measurement and subsequent measurement (continued)

##### *Subsequent measurement of financial liabilities (continued)*

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

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

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

##### Derecognition of financial assets

The Company determines if the asset under consideration for derecognition is:

- an asset in its entirety, or
- specifically identified cash flows from an asset (or a Company of similar financial assets), or
- a fully proportionate (pro rata) share of the cash flows from an asset (or a Company of similar financial assets), or
- a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a Company of similar financial assets)

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

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

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

##### *Impairment of financial assets*

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

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

## NOTES

(forming part of the financial statements)

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

Significant accounting policies (continued)

#### (e) Changes in accounting policies (continued)

(ii) IFRS 9 – Financial Instruments (continued)

Financial instruments recognition, measurement and subsequent measurement (continued)

*Impairment of financial assets (continued)*

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

At each reporting date the Company provides for expected losses on all of the following using reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring expected credit losses:

- Financial assets measured at amortised cost,
- Financial assets mandatorily measured at FVTOCI, and
- Loan commitments when there is a present obligation to extend credit.

The Company measures expected credit losses through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

# NOTES

(forming part of the financial statements)

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

### Significant accounting policies (continued)

#### (e) Changes in accounting policies (continued)

##### (ii) IFRS 9 – Financial Instruments (continued)

Financial instruments recognition, measurement and subsequent measurement (continued)

##### *Derivative financial instruments and hedge accounting (continued)*

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

The Company adjusts the cash flow hedge reserve in equity to the lower of the following:

- (a) the cumulative gain or loss on the hedging instrument from inception of the hedge; and
- (b) the cumulative change in fair value of the hedged item from inception of the hedge.

##### *Effectiveness testing, rebalancing and discontinuation*

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

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

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

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

##### *Current versus non-current classification*

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

##### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts; and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.



## NOTES

(forming part of the financial statements)

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

#### Significant accounting policies (continued)

#### (f) Property, plant and equipment

##### (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.

##### (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.

# NOTES

(forming part of the financial statements)

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

### Significant accounting policies (continued)

#### (f) Property, plant and equipment (continued)

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

#### (i) Cash and cash equivalents

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

#### (j) Impairment

##### (i) Non-derivative financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

##### (ii) Non-financial assets

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

## NOTES

(forming part of the financial statements)

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

#### Significant accounting policies (continued)

#### (j) Impairment (continued)

##### (ii) Non-financial assets (continued)

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.

#### (k) Financial liabilities

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

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

#### (l) Employee terminal benefits

Obligations for contributions to a defined contribution retirement plan for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as an expense in the income statement as incurred. The Company's obligation in respect of terminal benefits of non-Omani employees, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods.

#### (m) Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

#### (n) Finance charges

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

# NOTES

(forming part of the financial statements)

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

### Significant accounting policies (continued)

#### (o) *Deferred financing cost*

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

#### (p) *Operating lease*

The Company has entered into a long term PPA. In accounting of this arrangement, the Company has determined the PPA to be a lease as the purchaser (OPWP) has the right to direct how the Company operates the Plant 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.

#### (q) *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. The other components of tariff under the PPA are recognised as revenue. The fixed operation and maintenance charge is recognised overtime as OPWP benefits from the service as the Company performs over the PPA term. The electrical energy and fuel charges components are linked to the actual energy delivered and will be recognised at a point in time for each KWh delivered. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

#### (r) *Income tax*

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

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

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

#### (s) *Dividend*

The Board of Directors 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.

## NOTES

(forming part of the financial statements)

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

#### Significant accounting policies (continued)

#### (t) Directors' sitting fees and remuneration

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

#### (u) Earnings per share

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

#### (v) New standards and interpretation not yet effective

For the year ended 31 December 2018, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and are effective for period beginning on or after 1 January 2018. The adoption of these standards and interpretations has not resulted in major changes to the Company's accounting policies and has not affected the amounts reported for the current year.

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

#### **IFRS 16: Leases**

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

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

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

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

# NOTES

(forming part of the financial statements)

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

### Significant accounting policies (continued)

#### (w) Determination of fair value

##### (i) Derivative financial instruments

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

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

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

##### (ii) Non-derivative financial liabilities

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

## 4 Direct costs

	2018	2018	2017	2017
	RO'000	USD'000	RO'000	USD'000
Fuel gas	37,699	98,047	34,247	89,069
Depreciation (note 8)	8,000	20,807	8,006	20,822
Operation and maintenance ("O&M") fees (note 17)	6,905	17,957	6,976	18,143
Insurance	496	1,290	500	1,300
Grid connection fee	204	531	211	550
Custom duties (note 17)	62	162	339	881
Fuel oil	52	135	100	261
Other O&M expenses	179	465	289	751
	<b>53,597</b>	<b>139,394</b>	<b>50,668</b>	<b>131,777</b>

## 5 General and administrative expenses

Secondment fees (note 17)	236	615	243	633
Employment costs	170	441	153	397
Public company related costs	101	264	102	264
Agency fees	51	133	50	131
Directors' remuneration and sitting fees (note 17)	34	88	33	87
Office rent	20	53	23	60
Corporate social responsibility	20	52	15	39
Depreciation (note 8)	7	17	10	25
Other general and administrative expenses	140	361	134	349
	<b>779</b>	<b>2,024</b>	<b>763</b>	<b>1,985</b>

## NOTES

(forming part of the financial statements)

### 6 Finance costs (net)

	2018	2018	2017	2017
	RO'000	USD'000	RO'000	USD'000
Interest on term loans	7,956	20,691	6,894	17,930
Swap interest	1,210	3,148	2,949	7,670
Amortisation of deferred finance costs	1,175	3,057	1,272	3,309
Debt Service Reserve Account ("DSRA") LC cost (note 17)	188	488	188	489
Interest on short term borrowing	72	188	47	121
Exchange loss	49	125	47	122
Asset retirement obligation - unwinding of discount (note 12)	19	49	45	118
Ineffective portion of interest rate hedge (note 14)	(31)	(77)	(65)	(169)
Interest income	(64)	(168)	(48)	(126)
	<b>10,574</b>	<b>27,501</b>	11,329	29,464

### 7 Tax expense

(a) Tax expense recognised in the income statement:

	2018	2018	2017	2017
	RO'000	USD'000	RO'000	USD'000
Deferred tax expense relating to temporary differences	2,683	6,979	4,828	12,556

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

(b) Reconciliation

The following is a reconciliation of income tax on the accounting profit with the tax expenses at the applicable tax of 15% (2017:15%):

Profit before tax	11,692	30,410	10,480	27,254
Income tax as per applicable tax rate	1,754	4,562	1,572	4,088
Deferred tax impact for prior period [note 7(e)]	801	2,084	3,013	7,835
Change in recognised temporary difference	127	329	243	633
Not allowable expense	1	4	-	-
<b>Deferred tax expense for the year</b>	<b>2,683</b>	<b>6,979</b>	4,828	12,556

No deferred tax has been recognised on tax losses of RO 34.8 million (2017: RO 49.5 million) which are expected to expire in the years between 2019 - 2023 (2017: 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 2018 was 22.9% (31 December 2017: 46.1%).

# NOTES

(forming part of the financial statements)

## 7 Tax expense (continued)

(c) Deferred tax liability

	As at 1 Jan 2018 RO'000	Recognised during the year RO'000	As at 31 Dec 2018 RO'000
<b>Deferred tax (liability)/asset recognised in income statement</b>			
Depreciation for property, plant and equipment	(20,143)	(2,904)	(23,047)
Provision for site restoration	37	3	40
Losses carried forward	3,228	218	3,446
	<u>(16,878)</u>	<u>(2,683)</u>	<u>(19,561)</u>
<b>Deferred tax asset directly recognised in equity</b>			
Fair value adjustment of interest rate and forex swap	945	(364)	581
<b>Net deferred tax liability</b>	<u>(15,933)</u>	<u>(3,047)</u>	<u>(18,980)</u>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
<b>Deferred tax (liability)/asset recognised in income statement</b>			
Depreciation for property, plant and equipment	(52,387)	(7,554)	(59,941)
Provision for site restoration	97	7	104
Losses carried forward	8,392	568	8,960
	<u>(43,898)</u>	<u>(6,979)</u>	<u>(50,877)</u>
<b>Deferred tax asset directly recognised in equity</b>			
Fair value adjustment of interest rate and forex swap	2,461	(951)	1,510
<b>Net deferred tax liability</b>	<u>(41,437)</u>	<u>(7,930)</u>	<u>(49,367)</u>
	As at 1 Jan 2017 RO'000	Recognised during the year RO'000	As at 31 Dec 2017 RO'000
<b>Deferred tax (liability)/asset recognised in income statement</b>			
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
	<u>(12,050)</u>	<u>(4,828)</u>	<u>(16,878)</u>
<b>Deferred tax asset directly recognised in equity</b>			
Fair value adjustment of interest rate and forex swap	1,367	(422)	945
<b>Net deferred tax liability</b>	<u>(10,683)</u>	<u>(5,250)</u>	<u>(15,933)</u>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
<b>Deferred tax (liability)/asset recognised in income statement</b>			
Depreciation for property, plant and equipment	(36,377)	(16,010)	(52,387)
Provision for site restoration	66	31	97
Losses carried forward	4,969	3,423	8,392
	<u>(31,342)</u>	<u>(12,556)</u>	<u>(43,898)</u>
<b>Deferred tax asset directly recognised in equity</b>			
Fair value adjustment of interest rate and forex swap	3,558	(1,097)	2,461
<b>Net deferred tax liability</b>	<u>(27,784)</u>	<u>(13,653)</u>	<u>(41,437)</u>



## NOTES

(forming part of the financial statements)

### 7 Tax expense (continued)

- (d) 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 14).
- (e) In May 2018, the Secretariat General of Taxation ("SGT") has issued decision in respect of the objection filed by the Company in respect of the assessment orders for years 2012 and 2013. The SGT accepted the Company's tax return for year 2012. However, the SGT maintained original assessment order for year 2013 thereby allowing full year tax depreciation. Accordingly, the deferred tax provision based on the final decision by the SGT has been recorded in these financial statements.
- In 2017, 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%. Accordingly, the effect of increase in tax rate on prior years was incorporated in comparative financial statements.
- (f) The tax returns for 2014 to 2017 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 2018.

### 8 Property, plant and equipment

	Property plant & equipment RO'000	Decommi- ssioning asset RO'000	Technical spares RO'000	Other assets RO'000	Capital Work-in- progress RO'000	Total RO'000
<b>Cost</b>						
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)
1 January 2018	<b>317,897</b>	-	<b>1,717</b>	<b>93</b>	-	<b>319,707</b>
Additions during the year	6	-	-	25	4	35
Disposal during the year	-	-	-	(13)	-	(13)
31 December 2018	<b>317,903</b>	-	<b>1,717</b>	<b>105</b>	<b>4</b>	<b>319,729</b>
<b>Depreciation</b>						
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)
1 January 2018	<b>38,357</b>	-	<b>276</b>	<b>86</b>	-	<b>38,719</b>
Charge for the year	7,931	-	69	7	-	8,007
Disposal during the year	-	-	-	(13)	-	(13)
31 December 2018	<b>46,288</b>	-	<b>345</b>	<b>80</b>	-	<b>46,713</b>
<b>Carrying amount</b>						
<b>31 December 2018</b>	<b>271,615</b>	-	<b>1,372</b>	<b>25</b>	<b>4</b>	<b>273,016</b>
31 December 2017	279,540	-	1,441	7	-	280,988

# NOTES

(forming part of the financial statements)

## 8 Property, plant and equipment (continued)

	Property plant & equipment USD'000	Decommissioning asset USD'000	Technical spares USD'000	Other assets USD'000	Capital Work-in-progress USD'000	Total USD'000
<b>Cost</b>						
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)
1 January 2018	<b>826,781</b>	-	<b>4,466</b>	<b>238</b>	-	<b>831,485</b>
Additions during the year	<b>16</b>	-	-	<b>65</b>	<b>11</b>	<b>92</b>
Disposal during the year	-	-	-	<b>(29)</b>	-	<b>(29)</b>
31 December 2018	<b>826,797</b>	-	<b>4,466</b>	<b>274</b>	<b>11</b>	<b>831,548</b>
<b>Depreciation</b>						
1 January 2017	79,189	116	536	209	-	80,050
Charge for the year	20,619	23	180	25	-	20,847
Disposal/transfer during the year *	(48)	(139)	-	(13)	-	(200)
1 January 2018	<b>99,760</b>	-	<b>716</b>	<b>221</b>	-	<b>100,697</b>
Charge for the year	<b>20,626</b>	-	<b>181</b>	<b>17</b>	-	<b>20,824</b>
Disposal during the year	-	-	-	<b>(29)</b>	-	<b>(29)</b>
31 December 2018	<b>120,386</b>	-	<b>897</b>	<b>209</b>	-	<b>121,492</b>
<b>Net book value</b>						
<b>31 December 2018</b>	<b>706,411</b>	-	<b>3,569</b>	<b>65</b>	<b>11</b>	<b>710,056</b>
31 December 2017	727,021	-	3,750	17	-	730,788

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

^ The term loan facilities are secured by comprehensive legal and commercial mortgages on all the assets of the Company (note 15).

## 9 Trade and other receivables

	2018 RO'000	2018 USD'000	2017 RO'000	2017 USD'000
Trade receivables	4,533	11,789	2,737	7,119
Due from a related party (note 17)	-	-	33	86
Prepayments	237	616	237	616
Other receivables and accrued income	865	2,253	727	1,889
	<b>5,635</b>	<b>14,658</b>	<b>3,734</b>	<b>9,710</b>

## NOTES

(forming part of the financial statements)

### 10 Short term deposit

As per the Common Terms Agreement ("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 lying in the DSPA account has been placed into a short term deposit maturing on 26 April 2019.

### 11 Cash and cash equivalents

	2018 RO'000	2018 USD'000	2017 RO'000	2017 USD'000
Cash in hand	1	3	1	3
Cash at bank	1,273	3,310	2,608	6,784
	<u>1,274</u>	<u>3,313</u>	<u>2,609</u>	<u>6,787</u>

### 12 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:

	2018 RO'000	2018 USD'000	2017 RO'000	2017 USD'000
At 1 January	249	648	637	1,657
Unwinding of discount during the year (note 6)	19	49	45	118
Reversal due to revaluation	-	-	(433)	(1,127)
At 31 December	<u>268</u>	<u>697</u>	<u>249</u>	<u>648</u>

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. The management reviewed the assessment in 2018 and concluded that there is no significant change from previous year.

# NOTES

(forming part of the financial statements)

## 13 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
<b>31 December 2018</b>				
Kahrabel FZE	UAE	213,607,492	29.90%	21,361
Middle East Investment 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	45,753,564	6.40%	4,575
Shareholders with less than 5% shareholding		<u>126,306,776</u>	<u>17.68%</u>	<u>12,631</u>
		<u>714,406,340</u>	<u>100.00%</u>	<u>71,441</u>
<b>Nominal value in USD '000</b>				<u>185,801</u>

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>
<b>Nominal value in USD '000</b>				<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 (2017: 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.

### (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.

## NOTES

(forming part of the financial statements)

### 13 EQUITY (continued)

#### (c) Dividend

Pursuant to shareholders resolution of 20 March 2018, the Board of Directors, in the meetings held on 23 April 2018 and 24 October 2018, approved cash dividends of 3.50 Baizas and 5.50 Baizas per share, respectively from the retained earnings of the Company as at 31 December 2017, to the shareholders of the Company who are registered in the Company shareholders' register with Muscat Clearing and Depository Company SAOC. The cut off dates for entitlement to receive dividends were 5 June 2018 and 5 December 2018 respectively.

Unclaimed dividend relating to cut off date of 5 June 2018 in the amount of RO 3,427.573 has been deposited by Muscat Clearing & Depository Company SAOC with the Investors Trust Fund.

### 14 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.

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

	2018 RO'000	2018 USD'000	2017 RO'000	2017 USD'000
Interest rate swaps:				
Term loans (note 15(a))				
KfW IPEX - Bank GmbH	(496)	(1,290)	(1,134)	(2,948)
Standard Chartered Bank	(877)	(2,282)	(2,208)	(5,744)
Credit Agricole Corporate & Investment Bank	(367)	(954)	(986)	(2,564)
HSBC Bank	(344)	(894)	(826)	(2,148)
Total fair value of interest rate swaps	(2,084)	(5,420)	(5,154)	(13,404)
Deferred tax asset	313	813	772	2,011
Fair value of interest rate swaps (net of tax)	(1,771)	(4,607)	(4,382)	(11,393)
Currency swaps:				
Standard Chartered Bank	(1,818)	(4,727)	(1,340)	(3,485)
Credit Agricole Corporate & Investment Bank	31	81	187	487
Total fair value of currency swaps	(1,787)	(4,646)	(1,153)	(2,998)
Deferred tax asset	268	697	173	450
Fair value of currency swaps (net of tax)	(1,519)	(3,949)	(980)	(2,548)
Total fair value of derivative instruments	(3,871)	(10,066)	(6,307)	(16,402)
Less: Ineffective portion of hedge	-	-	31	77
Less: Deferred tax asset [note 7(c)]	581	1,510	945	2,461
Total fair value of derivative instruments (net of tax)	(3,290)	(8,556)	(5,331)	(13,864)
Hedging reserve net of tax at the end of the year	(3,290)	(8,556)	(5,331)	(13,864)
Less: Hedging reserve net of tax at the beginning of the year	(5,331)	(13,864)	(9,939)	(25,847)
Effective portion of change in fair value of cash flow hedge for the year	2,041	5,308	4,608	11,983

# NOTES

(forming part of the financial statements)

## 14 Hedging reserve (continued)

(a) The long term facilities (referred in note 15) [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 54.88 million (RO 21.10 million), USD 144.07 million (RO 55.39 million), USD 75.47 million (RO 29.02 million) and USD 68.61 million (RO 26.38 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 68 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.

## 15 Term loans

	2018	2018	2017	2017
	RO'000	USD'000	RO'000	USD'000
Term loans	168,626	438,560	183,915	478,322
Less: current portion	(15,969)	(41,532)	(15,288)	(39,761)
Non-current portion	152,657	397,028	168,627	438,561
Less: Unamortised transaction cost	(5,128)	(13,337)	(6,303)	(16,394)
	147,529	383,691	162,324	422,167

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

At 31 December, the outstanding amounts were as follows:

	2018	2018	2017	2017
	RO'000	USD'000	RO'000	USD'000
Hermes Covered Variable Facility	46,449	120,803	51,794	134,706
Commercial Facility	43,148	112,219	43,995	114,422
KEXIM Direct Facility	33,103	86,093	36,913	96,002
Hermes Covered Fixed Facility	28,583	74,340	31,874	82,896
KEXIM Covered Facility	17,343	45,105	19,339	50,296
	168,626	438,560	183,915	478,322

## NOTES

(forming part of the financial statements)

### 15 Term loans (continued)

#### 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'000	USD'000	RO'000	USD'000
Balance at 1 January 2018	183,915	478,322	2,000	5,202
Proceeds from borrowing	-	-	46,585	121,157
Repayments of borrowing	(15,289)	(39,762)	(47,585)	(123,758)
<b>Balance at 31 December 2018</b>	<b>168,626</b>	<b>438,560</b>	<b>1,000</b>	<b>2,601</b>

#### 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 1.70% and 2.80% per annum (2017: 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.

### 16 Trade and other payables

	2018	2018	2017	2017
	RO'000	USD'000	RO'000	USD'000
Fuel gas payable and accrual	5,547	14,425	3,882	10,099
Accrued finance cost	1,454	3,782	1,622	4,219
Due to related parties (note 17)	536	1,394	769	1,998
Other payables and accruals	1,358	3,534	407	1,062
	<b>8,895</b>	<b>23,135</b>	<b>6,680</b>	<b>17,378</b>

# NOTES

(forming part of the financial statements)

## 17 Related party transactions

Related parties comprise the shareholders, directors, key management personnel, business entities that have the ability to control or exercise significant influence over financial and operating decisions of the Company and entities over which certain shareholders are able to exercise significant influence.

Prices and terms of these transactions, which are entered 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:

	2018 RO'000	2018 USD'000	2017 RO'000	2017 USD'000
Key management benefits	303	789	304	790

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

	2018 RO'000	2018 USD'000	2017 RO'000	2017 USD'000
Suez-Tractebel Operation & Maintenance Oman LLC	7,026	18,275	7,664	19,932
Kahrabel Operations & Maintenance (Oman) LLC	279	726	281	730
Al Batinah Power Company SAOG	230	598	275	715
ENGIE SA	86	224	87	225
International Power SA Dubai Branch	38	98	36	93
Middle East Investment LLC	37	96	-	-
Directors'	34	88	33	87
Sojitz Corporation	21	54	21	54
Shikoku Electric Power Co., Inc.	21	54	21	54
Public Authority for Social Insurance	19	49	19	49
Laborelec Middle East	15	38	9	23
Multitech LLC	4	11	41	107
Tractebel Engineering S.A.	-	-	4	11
Sohar Power Company SAOG	-	-	1	2
SMN Barka Power SAOC	-	-	1	2
Al Kamil Power Company SAOG	-	-	1	2
	7,810	20,311	8,494	22,086



## NOTES

(forming part of the financial statements)

### 17 Related party transactions (continued)

The nature of the above transactions is as follows:

	2018	2018	2017	2017
	RO'000	USD'000	RO'000	USD'000
Operation and maintenance ("O&M") fees (note 4)	6,905	17,957	6,976	18,143
Secondment fees (note 5)	236	615	243	633
Sharing of costs	230	598	275	715
DSRA LC cost (note 6)	188	488	188	489
Custom duties (note 4)	62	162	339	881
Other O&M expenses	53	139	144	372
Backcharge of expenses	49	128	64	165
Professional fees	38	98	36	91
Directors' remuneration and sitting fees (note 5)	34	88	33	87
Technical services	15	38	9	23
Property, plant and equipment	-	-	175	455
Spare parts	-	-	12	32
	<b>7,810</b>	<b>20,311</b>	<b>8,494</b>	<b>22,086</b>

Balances due to related parties comprised:

Suez-Tractebel Operation & Maintenance Oman LLC	395	1,027	728	1,894
ENGIE SA	93	243	7	18
Kahrabel Operations & Maintenance (Oman) LLC	16	42	0	1
Directors'	15	39	15	38
Middle East Investment LLC	5	14	-	-
Laborelec Middle East	4	10	7	19
Tractebel Engineering S.A.	3	7	3	7
Shikoku Electric Power Co., Inc.	2	4	2	4
Sojitz Corporation	2	4	2	4
Public Authority for Social Insurance	1	4	2	4
Multitech LLC	-	-	3	9
	<b>536</b>	<b>1,394</b>	<b>769</b>	<b>1,998</b>

Balance due from a related party comprised:

Al Batinah Power Company SAOG	-	-	33	86
	-	-	33	86

# NOTES

(forming part of the financial statements)

## 18 Financial risk management

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

- Market risk
- Credit risk
- Liquidity risk

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

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.

### 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:

	<b>Interest rate</b>	<b>2018</b>	<b>2018</b>	2017	2017
	<b>%</b>	<b>RO'000</b>	<b>USD'000</b>	RO'000	USD'000
<b>Financial liabilities</b>					
<b>Term loans</b>					
- USD variable rate loans	Libor + margins	<b>140,042</b>	<b>364,220</b>	152,041	395,426
- USD fixed rate loan	3.60%	<b>28,584</b>	<b>74,340</b>	31,874	82,896
		<b>168,626</b>	<b>438,560</b>	183,915	478,322

### *Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in US LIBOR rates at the reporting date would have increased/(decreased) equity and statement of profit or loss and other comprehensive income by the amounts of USD 220,091 (RO 84,625) [2017: USD 47,027 (RO 18,082)]. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

## 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 68 million, payable in Euro. The Company has entered into FRAs' to hedge against fluctuations in Euro/USD exchange rate (note 14(b)). The Euro amounts hedged cover 85% of the expected outflows for the period from January 2019 to August 2021, 61% for the period from September 2021 to March 2023 and 37% 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 of USD 464,567 (RO 178,626) [2017: USD 299,800 (RO 115,273)]. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

(b) **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and cash balances held with banks. OPWP is the Company's sole customer and the Company analyses its credit risk with OPWP by monitoring its credit rating.

The Company limits its credit risk with regard to bank deposits by only dealing with reputable banks and financial institutions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2018 RO'000	2018 USD'000	2017 RO'000	2017 USD'000
Cash at bank	1,273	3,310	2,608	6,784
Trade receivables	4,533	11,789	2,737	7,119
Short term deposit	1,461	3,800	1,770	4,604
Due from a related party (note 17)	-	-	33	86
Other receivables and accrued income	865	2,253	727	1,889
	<b>8,132</b>	<b>21,152</b>	<b>7,875</b>	<b>20,482</b>

# NOTES

(forming part of the financial statements)

## 18 Financial risk management (continued)

### (b) Credit risk (continued)

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

	2018 RO'000	2018 RO'000 Allowance for impairment	2017 RO'000	2017 RO'000 Allowance for impairment
Not past due	4,533	-	2,683	-
Past due 0 < 3 months	-	-	-	-
Past due > 3 months	-	-	54	-
	<u>4,533</u>	<u>-</u>	<u>2,737</u>	<u>-</u>
Nominal value in USD '000	<u>11,789</u>	<u>-</u>	<u>7,119</u>	<u>-</u>

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

		2018 RO'000	2018 USD'000	2017 RO'000	2017 USD'000
Bank	Rating				
<i>Bank balances</i>					
Bank Muscat SAOG	P-2	974	2,531	1,948	5,068
Credit Agricole Corporate & Investment Bank	P-1	299	779	660	1,716
		<u>1,273</u>	<u>3,310</u>	<u>2,608</u>	<u>6,784</u>
<i>Short term deposit</i>					
Credit Agricole Corporate & Investment Bank	P-1	1,461	3,800	1,770	4,604

### (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.

## NOTES

(forming part of the financial statements)

### 18 Financial risk management (continued)

#### (c) Liquidity risk (continued)

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

	Carrying amount	Contractual cash flow	Less than 1 year	Between 2 to 5 years	More than 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000
<b>31 December 2018</b>					
<i>Derivatives</i>					
Derivative instruments	3,871	(4,196)	-	(3,523)	(673)
<i>Non-derivatives financial liabilities</i>					
Term loan	163,498	(214,514)	(24,114)	(99,185)	(91,215)
Short term borrowing	1,000	(1,000)	(1,000)	-	-
Trade and other payables	8,895	(8,895)	(8,895)	-	-
	<u>177,264</u>	<u>(228,605)</u>	<u>(34,009)</u>	<u>(102,708)</u>	<u>(91,888)</u>
<b>31 December 2018</b>					
<i>Derivatives</i>					
Derivative instruments	10,066	(10,913)	-	(9,162)	(1,751)
<i>Non-derivatives financial liabilities</i>					
Term loan	425,223	(557,902)	(62,714)	(257,958)	(237,230)
Short term borrowing	2,601	(2,601)	(2,601)	-	-
Trade and other payables	23,135	(23,135)	(23,135)	-	-
	<u>461,025</u>	<u>(594,551)</u>	<u>(88,450)</u>	<u>(267,120)</u>	<u>(238,981)</u>
<b>31 December 2017</b>					
<i>Derivatives</i>					
Derivative instruments	6,307	(7,081)	-	(5,728)	(1,353)
<i>Non-derivatives financial liabilities</i>					
Term loan	177,612	(238,196)	(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)	-	-
	<u>192,599</u>	<u>(253,957)</u>	<u>(31,884)</u>	<u>(102,855)</u>	<u>(119,218)</u>
<b>31 December 2017</b>					
<i>Derivatives</i>					
Derivative instruments	16,402	(18,417)	-	(14,898)	(3,519)
<i>Non-derivatives financial liabilities</i>					
Term loan	461,928	(619,494)	(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)	-	-
	<u>500,910</u>	<u>(660,491)</u>	<u>(82,929)</u>	<u>(267,503)</u>	<u>(310,059)</u>

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 (level 2)	Market comparison technique: fair value is calculated by the respective financial institutions	Not applicable
Other financial liabilities (level 2)	Discounted cash flows	Not applicable

### Embedded derivatives

The following agreements contain embedded derivatives:

- (i) The PPA between the Company and OPWP contains embedded derivatives in the pricing formulae that adjust 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 formula 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:

	2018	2018	2017	2017
	RO'000	USD'000	RO'000	USD'000
Within one year	5,534	14,393	5,753	14,962
Between two and five years	22,140	57,580	22,509	58,542
After five years	23,444	60,973	29,765	77,411
	<b>51,118</b>	<b>132,946</b>	58,027	150,915

Euro/USD rate for converting Euro denominated O&M payments as at 31 December 2018 was 1.16 (31 December 2017: 1.21)

#### (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	202	525	220	571

(c) As at 31 December 2018, the Company has outstanding purchase orders for USD 188,577 (RO 72,508) [2017: USD 37,839 (RO 14,549)].

# 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:

	2018	2018	2017	2017
	RO'000	USD'000	RO'000	USD'000
Within one year	30,204	78,553	30,211	78,571
Between two and five years	120,852	314,309	120,852	314,309
After five years	124,241	323,124	154,444	401,676
	<b>275,297</b>	<b>715,986</b>	305,507	794,556

## 21 Net asset per share

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

	2018	2017
Net assets - shareholder funds (RO'000)	90,382	87,803
Weighted average number of shares outstanding during the year ('000s)	714,406	714,406
Net assets per share (Baizas)	126.51	122.90

The management believes that the hedging deficit of RO 3.29 million (USD 8.56 million) [2017: RO 5.33 million (USD 13.86 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.

## 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.

	2018	2017
Net profit for the year (RO '000)	9,009	5,652
Weighted average number of shares outstanding during the year ('000s)	714,406	714,406
Basic earnings per share (Baizas)	12.61	7.91



## NOTES

(forming part of the financial statements)

### 23 Contingent liabilities

No material contingent liabilities exist as at 31 December 2018.

### 24 Post reporting date event

Amendments to the Executives Regulation of the Income Tax Law (MD 30/2012) have been issued and published in the official gazette on 10 February 2019. Based on these amendments the Company has recorded withholding tax liability amounting to RO 699,764 on interest paid on term loans from foreign banks.

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

### 25 Comparative figures

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



