



Sembcorp Salalah  
سيمبكورب صلالة



# ANNUAL REPORT 2016



VITAL<sub>TO</sub>  
LIFE



**Registered office:**  
P.O. Box 299  
Postal Code 134  
Jawharat Al Shatti  
Sultanate of Oman

**Principal place of business:**  
Salalah  
Sultanate of Oman



His Majesty Sultan Qaboos Bin Said







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# Board of Directors



**Tan Cheng Guan**  
Chairman



**Kalat Al Bulooshi**  
Deputy Chairman



**Abdul Amir Saied Mohammed**  
Non-Executive Director



**Hassan Al Nassay**  
Independent  
Non-Executive Director



**Ng Meng Poh**  
Non-Executive Director



**Ahmed Ali Sulaiman  
Al Bulushi**  
Independent  
Non-Executive Director



**Richard Quek Hong Liat**  
Non-Executive Director



**Tariq Ali Salim Al Amri**  
Independent  
Non-Executive Director



**Sheikh Khalid Mohammed  
Ali Al Hamoodah**  
Independent  
Non-Executive Director



# Executive Management



**Alex Miquel**

Chief Executive Officer



**Tariq Bashir**

Financial Controller  
and Company Secretary



**Leonilo Barre Caraos**

Plant Manager



**Salim Mohammed Al Mashikhi**

Human Resource & Information  
Technology Manager



# Chairman's Report

## Dear Shareholders,

On behalf of the Board of Directors (the Board) of Sembcorp Salalah Power & Water Company SAOG (Sembcorp Salalah or Company), I am pleased to present the audited financial statements for the year ended 31 December 2016.

## Financial Results

Despite a challenging 2016, Sembcorp Salalah delivered a net profit of RO 14.63 million for the year 2016, compared to RO 13.64 million in 2015, registering an increase of RO 1 million. Cash flows and profits were also better than targeted mainly because of improved plant efficiency, better reliability and effective cost management. The Company has a strong balance sheet, ending the year with net assets of RO 88.03 million.

I invite you to refer to the Management Discussion and Analysis Report section of the Annual Report for more information regarding the Company's financial results.

Following a strong performance this year, the Board is pleased to recommend a final dividend for 2016 of Baizas 3.6 per share (3.6% of issued share capital). Together with the interim dividend of Baizas 10.9 per share distributed in November 2016, the total dividend for the company for the year amounts to Baizas 13.9 per share.

## Operations

Sembcorp Salalah is a key power and water producer

in the Dhofar region. As the largest and most energy efficient power and water plant, the Company plays a major role in meeting the growing power and water demand in Dhofar region by supplying approximately 85% of the region's power and 100% of its desalinated water demand. The Company strives to achieve the highest level of plant availability and reliability, which is crucial to the ongoing success of the Company. I am pleased to report that the Company outperformed its operational performance targets in 2016, to the benefit of both our customers and our shareholders.

## Health, Safety & the Environment (HSE)

We aim to achieve world-class health and safety performance and our management team is committed to its continuous improvement. In addition, the Company undertakes its activities with the deepest respect to the environment. It recognizes its duty in managing the environmental risks and impacts relating to its business.

I am pleased to report that there was no Lost Time Incident (LTI) in 2016 and the Company is focusing its efforts on achieving another milestone of 3 million safe man-hours in 2017 without any LTI. Our HSE efforts were again recognized among our industry peers in the "HSE Project or Initiative of the Year" category of the Middle East Electricity Awards 2016. Among various HSE initiatives, the Company successfully completed a major crisis simulation exercise during the year. The exercise, codenamed "Marvel", based on the scenario of a fire and explosion of a natural



gas line, was supported by all key stakeholders of the area. We would like to take this opportunity to thank all key stakeholders who participated in the exercise.

### Going forward

We expect 2017 to continue to be challenging as the government continues to implement austerity measures in response to prolonged low oil prices. The Company's management remains committed to achieving targeted profits through a continued focus on improving operating performance and cost management.

### Corporate Governance

The Board believes that a business built on the principles of good governance is more likely to succeed over the long term. That is why we have shown uncompromising commitment to implement good governance basic principles in line with the new Code of Corporate Governance (New Code). We are in compliance with the requirements of New Code. More details can be found in the Corporate Governance Section of this report.

### Corporate Social Responsibility

Sembcorp Salalah recognizes the importance of being a good corporate citizen in the conduct of its business activities as well as in fulfilling its corporate and social responsibilities. The Company follows a consistent approach for charitable contributions and community investments. As part of its long-term Memorandum of Understanding ("MOU") signed with the Wali of Mirbat, during the year, the Company has spent RO 32,000 to improve the infrastructure in Mirbat Municipality.

### The Board and Executive Management

On behalf of the board, I would like to take this opportunity to record our thanks and deep appreciation to Mr. Tang Kin Fei who has resigned from the Chairmanship of the Company on 15 March 2016. As Chairman over the past six years, Mr. Tang has contributed invaluable towards the Company including the achievement of several important milestones, such as the commencement of full commercial operation of the plant in May 2012 and our successful IPO on the Muscat Securities Market in 2013.

In addition, I would like to welcome Sheikh Khalid Ali Al Hamoodah who has joined the Company as new independent director of the Company. Sheikh Khalid

is currently the assistant executive president of Diwan of Royal Court Pension Fund and has over 20 years' experience in variety of leadership and strategic positions.

As part of the Company's succession and transition plan for our senior executives, Mr. Lim Yeow Keong, Chief Executive Officer, has concluded his tenure at the Company and has returned to the head office in Singapore. As CEO of the Company, Mr. Lim has been instrumental in being the lead developer for the Project and oversaw its development from tender phase to completion. On behalf of the board, I would like to thank Mr. Lim for his sterling contributions in producing excellent performance results during the construction and operation phase of the Company.

Following the transition, Mr. Alex Miquel is appointed as new Chief Executive Officer of the Company. Mr. Miquel brings extensive international track record in technical and management experience in water and power related industries and has been part of Sembcorp since 2011 where he was in charge of business development for Latin America, playing a key role in a number of water and power projects.

### On Record

As the Chairman of the Board, I would like to thank my fellow directors, our shareholders, our client (OPWP), regulators (the Authority for Electricity Regulation, CMA), and our partners (the Ministry of Environment & Climate Affairs, the Oman Electricity Transmission Company, Directorate General of Water and other governmental and non-governmental bodies) for their guidance and support. I also thank all of our staff and the staff of our operator, Sembcorp Salalah O&M Services, for their efforts and commitment to the company and its continued success.

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, with the creation of an environment that allows us to participate in the growth of the Sultanate's economy. We look forward to continue playing our part in the growth of Oman and in particular, the Dhofar region.

**Tan Cheng Guan**  
Chairman of the Board

# Operational Highlights

## Health, Safety & the Environment (HSE)

Sembcorp Salalah recorded 540,696 man-hours without lost time incident and was in full environment compliance for the entire year of 2016. The company is now targeting to achieve its next safety milestone of 3 million safe man-hours without any lost time incident in 2017. Since the start of commercial operations, Sembcorp Salalah has been working tirelessly to cultivate a safe work culture. The strong HSE commitment of our staff has allowed us to achieve commendable milestones, such as our first one million safe man-hours in March 2014 and our second one million safe man-hours in 2015. We also achieved IMS accreditation in December 2014, and are now ISO 9001, ISO 14001, and OSHAS 18001 compliant. With successful surveillance audits in 2015 and 2016, our IMS management system continues to be in place. In view of the company's repeated excellence in HSE Sembcorp Salalah has been conferred awards for HSE excellence in the prestigious Middle East Electricity Conference at Dubai in both 2015 and 2016. This award is an independent and third-party recognition of the Company's successful focus and sustained commitment on HSE excellence. It affirms that the

Company's HSE initiatives are amongst the industry's best and set the benchmark for industry peers.

Sembcorp Salalah will continue to improve our work practices through collaboration with the Sembcorp Group and our stakeholders in Salalah and Oman. We also implemented the "12 Life-Saving Rules", which is a Sembcorp's Group global initiative.

Among various HSE initiatives, Sembcorp Salalah successfully completed a major crisis simulation exercise in 2016. The exercise, codenamed "Marvel", based on the scenario of a fire and explosion of a natural gas line was supported by all the key stakeholders of the region. The Company appreciates the participation and support of all stakeholders in making the exercise a success. The simulation exercise also served to improve emergency response and coordination among stakeholders which include the Sembcorp Salalah Emergency Response Team, the Sembcorp Group Crisis Management Team, Sembcorp Group Risk Team, Sembcorp Sakra Emergency Response Brigade (SERB), Oman Public Authority for Civil Defence (PACDA), Royal Army of







Oman, Taqah Hospital, Oman Gas Company (OGC), Oman Electricity Transmission Company SAOC (OETC), Directorate General of Water (DGW), Galfar Engineering and Contracting SAOG.

### World Environment Day

"Sembcorp Salalah embarked on a company-wide initiative to promote awareness in environmental protection through the slogan "Do Your Part, Every Bit Counts". The Company celebrated World Environment Day with the theme "Go Wild For Life" and raised awareness for the conservation of natural resources including the optimization of fuel and energy as well as the reduction of paper use.

### Capacity

With five gas turbines and two steam turbines, the contracted power capacity of the Sembcorp Salalah Independent Water and Power Plant (the Plant) is 445 Megawatts (MW), though performance tests confirm a higher capacity of 481 MW. The Plant's water production is based on a seawater reverse osmosis process and the contracted water production capacity is 15 Million Imperial Gallons per Day (MiGD).

### Availability

The availability of a plant is the amount of time it is technically capable of generating power and water according to its specifications. According to its Power and Water Purchase Agreement (PWWA), Sembcorp

Salalah is allowed to take 15% of power contracted capacity as planned outage in winter and none in summer for power, and 5% of contracted capacity for water throughout the year.

The annual availability for Sembcorp Salalah in 2016 was better than contracted at 89.9% for power and 95.8% for water.

### Reliability

The reliability of a plant is its ability to deliver its declared availability under the terms of its PWWA. In 2016, Sembcorp Salalah achieved combined plant annual reliability of about 99.4%.

### Plant Energy Efficiency (Heat Rate)

The energy efficiency of a power plant is measured in terms of the amount of energy required to produce one unit of power. Sembcorp Salalah's heat rate performance in 2016 was better than that contracted in the PWWA, which contributed to better profitability.

### Maintenance

The Company continues to diligently and proactively perform maintenance of the plant to improve plant operation, efficiency and its sustainability. Sembcorp Salalah successfully completed Hot Gas Path Inspections of two gas turbines and Combustion Inspection of one gas turbine with no major abnormalities observed.







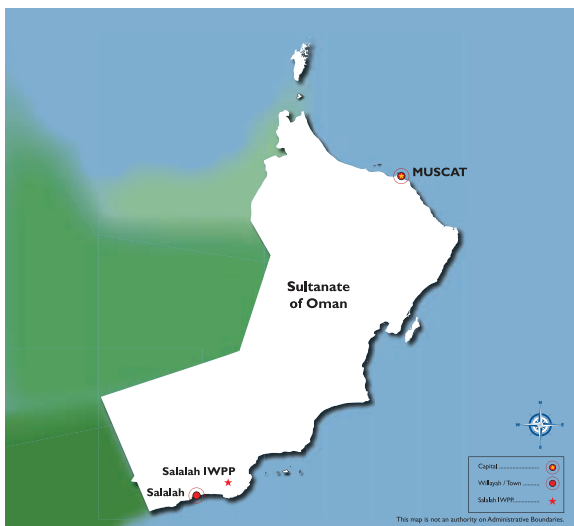
# Description of the Company

## Overview of Sembcorp Salalah

Sembcorp Salalah developed, owns and operates an electricity generation and seawater desalination plant located between the towns of Taqah and Mirbat, approximately 50 kilometres from the regional capital of Salalah, which is home to over 200,000 residents. The Plant has been in full commercial operation since 25 May 2012 and has a contracted power capacity of 445 MW and a contracted water capacity of 15 MiGD. As the largest and most energy-efficient power and water plant in the Dhofar Governorate, the Plant is expected to play a major role in meeting the growing power and water demand of the region over the short, medium and long term.

The Company generates its revenues pursuant to a 15-year term PWP with OPWP. The terms of the PWP provide that the Plant's contracted power and water capacity is sold exclusively to OPWP on a long-term take-or-pay basis.

The following diagram displays the approximate location of the Plant within Oman:



## History and Background of Sembcorp Salalah

In November 2007, the Oman Government implemented various privatisation policies designed to encourage private sector participation in the electricity and related water sector. In accordance with this implementation, OPWP, together with its financial, legal and technical advisers, invited bids for the Salalah Independent Water & Power Plant project (the Project), comprising the development, ownership, financing, design, construction and operation of the Plant.

A consortium comprising Sembcorp Utilities and Oman Investment Corporation (OIC) submitted its bid for the project on 16 June 2008, in competition with other consortia. On 8 December 2008, OPWP selected the Sembcorp Utilities/OIC consortium as the "preferred bidder" for the Project.

The first phase of the project (designated as the "Phase 1 Power Milestone") was completed in the third quarter of 2011, within the timeline of 19 months from the signing of the PWP, when the Plant began dispatching approximately 61 MW of power to the power grid. The second phase was subsequently completed in the first quarter of 2012. The construction of the Plant was successfully completed and the final acceptance tests were achieved in May 2012. The Project's total capital cost as of the commercial operation date (COD) in May 2012 was OMR 378 million, which included all construction, insurance and related costs (including financing costs).



The following table shows the main chronology of the project's implementation:

Date	Event
November 2007	Request for proposal issued by OPWP
16 June 2008	Bid submission by Sembcorp Utilities/OIC consortium
8 December 2008	Sembcorp Utilities/OIC consortium declared as "preferred bidder"
23 November 2009	Execution of PWPA and declaration of Effective Date
23 March 2010	Financial close
16 July 2011	Phase 1 Power Milestone achieved
2 January 2012	Phase 2 Power Milestone achieved
12 March 2012	Phase 2 Water Milestone achieved
4 April 2012	Scheduled COD and commencement of the term of the PWPA
25 May 2012	COD achieved
8 October 2013	Successful listing of SSPWC on MSM
3 April 2027	Expiry date of PWPA

The EPC contractor for the project was SEPCOIII while the EPC supervision and commissioning of the desalination plant was subcontracted to Hyflux. The Plant uses combined cycle gas turbine technology and has dual fuel capability with natural gas as the primary fuel and diesel as a back-up fuel. It also uses reverse osmosis technology for the production of potable water from seawater desalination. Sembcorp Salah uses General Electric 6FA gas turbines and reverse osmosis technology developed by Hyflux.

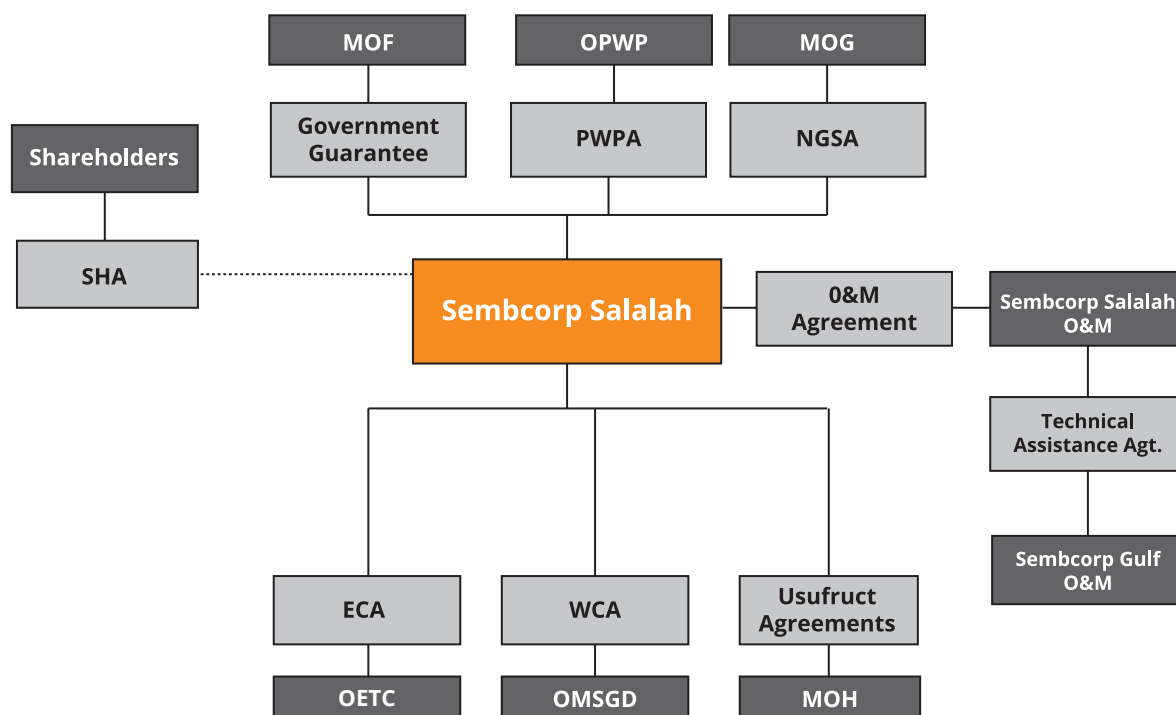
The Ministry of Finance guarantees the payment obligations due from OPWP to Sembcorp Salah. This guarantee will remain in force until the initial financing for the project has been refinanced or fully paid. OPWP pays a charge consisting of a capacity charge covering the Plant's fixed costs and a return on capital, and a variable charge to cover energy and other variable costs. Hence, as long as the power and water is available for dispatch, capacity charges will be paid, subject to agreed outages for maintenance.

## Summary of Contractual Framework

The following table and diagram illustrate the key contracts and the relevant counterparties relating to the project:

Project Document	Parties	Effective Date	Term	Expiration Date
Project Founders Agreement (PFA)	Electricity Holding Company, the Project Founders and their parent companies and BDCC Investment Company	23 November 2009	15 years from the Scheduled COD	3 April 2027
Power and Water Purchase Agreement (PWPA)	Sembcorp Salalah and OPWP	23 November 2009	15 years from the Scheduled COD	3 April 2027
Natural Gas Sales Agreement (NGSA)	Sembcorp Salalah and the Ministry of Oil & Gas	23 November 2009	15 years from the Scheduled COD	3 April 2027
Electricity Connection Agreement (ECA)	Sembcorp Salalah and Oman Electricity Transmission Company	23 November 2009	25 years from the Effective Date	22 November 2034
Water Connection Agreement (WCA)	Sembcorp Salalah and the Office of the Minister for State and the Governor of Dhofar	15 December 2014	25 years from the date of signing of the WCA	15 December 2039
Usufruct Agreement	Sembcorp Salalah and the Ministry of Housing	23 November 2009	25 years from the Effective Date, subject to a further extension of 25 years at the option of Sembcorp Salalah	22 November 2034, subject to extension
Usufruct Agreement relating to the Temporary Areas	Sembcorp Salalah and the Ministry of Housing	23 November 2009	4 years from the Effective Date	22 November 2013
Contractual Service Agreement (CSA)	Sembcorp Salalah and General Electric	15 December 2009	20 years from the date of the CSA	14 December 2029
Government Guarantee	Sembcorp Salalah and the Ministry of Finance	23 November 2009	15 years from the Scheduled COD	3 April 2027
O&M Agreement	Sembcorp Salalah and Sembcorp Salalah O&M Services Company LLC	8 February 2010	15 years from the Scheduled COD	3 April 2027
Technical Assistance Agreement	Sembcorp Salalah O&M Services LLC and Sembcorp Gulf O&M Co. Ltd	8 February 2010	15 years from the Scheduled COD	3 April 2027





## Competitive Strengths

Sembcorp Salalah's competitive strengths include:

### **Strong Predictability of Stable Cash Flows**

Under the PWPA, Sembcorp Salalah is entitled to receive capacity charges from OPWP for the contracted power and water capacities of the Plant, which are periodically tested and comprise approximately 90% of the total revenue of Sembcorp Salalah (excluding fuel revenue, which is a pass-through). These capacity charges are payable by OPWP regardless of whether the actual output of the Plant is dispatched, and regardless of whether Sembcorp Salalah is instructed by the Dhofar Power Company (DPC) and the Office of the Minister for State and the Governor of Dhofar (OMSGD) to generate and deliver power and/or produce and deliver potable water. This means that, subject to limited exceptions, OPWP is obliged to pay capacity charges to Sembcorp Salalah for 100% of the available power and water capacity of the Plant.

Sembcorp Salalah's capacity charges are calculated so that they cover its debt service and other fixed costs, including fixed operating and maintenance costs, insurance costs and capital returns. Fuel revenues and charges are calculated based on the consumption of natural gas calculated by the Plant model for electrical energy and water output delivered and is in effect a

virtual pass-through cost.

In addition, for the power and water that is made available, OPWP also pays Sembcorp Salalah a variable output charge to cover operating costs. Accordingly, Sembcorp Salalah has strong predictability of stable cash flows that are not affected by the amount of power and water actually required by OPWP as Sembcorp Salalah is paid on an availability basis.

### **Well-Established Contractual Framework**

The Salalah project represents one of 12 independent power and/or water production projects to be implemented by OPWP on a "build, own and operate" basis and benefits from a well-established contractual framework. OPWP has used a similar procurement and ownership template and a similar contractual framework with the other independent water and power plants in Oman prior to the Project.

### **The Government Guarantees Payment Obligations of OPWP under the PWPA due to the Strategic Importance of both the Industry and Project**

The power and water sectors are of high strategic importance to both the Dhofar Governorate and Oman as a whole. The Project is expected to remain critical to the continued supply of electricity and water in the Dhofar Governorate in the long term. According

to OPWP, peak demand for electricity in the Salalah System is expected to grow from 527 MW in 2016 to 884 MW by 2022, at an average growth rate of 9% per annum, and peak water demand in the Salalah/Taqah/Mirbat area is expected to increase at an average rate of nearly 7% per annum.<sup>1</sup>

Consequently, the Oman Government, both directly and indirectly participates in and supports the Project:

- i) as off-taker under the PWPA, as 100% indirect owner of OPWP;
- ii) as supplier, through the Ministry of Oil & Gas, which is responsible for procuring and delivering all natural gas to the Project;
- iii) as transmission system operator, as 100% indirect owner of Oman Electricity Transmission Company (OETC) and through the OMSGD, which respectively owns and operates all power and water transmission facilities in the Dhofar Governorate; and
- iv) as guarantor, pursuant to the government guarantee (Oman currently has a credit rating of "BBB+" by Standard & Poor's), which guarantees the payment obligations of OPWP under the PWPA.

In addition to the government guarantee, under the Sector Law, OPWP must remain wholly-owned by the Government and the Ministry of Finance is obliged to secure the availability of adequate finance for OPWP to enable it to undertake its activities.

#### **Fully Operational Project with Minimal Operating Risk**

As the Plant is completed and has been in full commercial operation for over 55 months, Sembcorp Salalah is not exposed to any construction risk. Sembcorp Salalah also benefits from minimal operating risk as its operator, Sembcorp Salalah O&M, is a joint venture indirectly owned by two of the Project Sponsors, Sembcorp Utilities and OIC, creating an alignment of interests, which ensures that the Plant is operated efficiently.

Sembcorp Salalah O&M is managed locally and benefits from the procedures and expertise of Sembcorp Utilities, which holds a long track record and expertise in the industry, with facilities of over 10,000 MW of gross power capacity and over 1,500

MiGD of water in operation or under development globally, is well established in the region, has a demonstrated track record of running similar plants and holds a significant equity interest in the project.

In addition, Sembcorp Salalah has entered into a long-term maintenance contract with General Electric, the manufacturer of the Plant's gas turbine units, for the scheduled maintenance of these units. This means that Sembcorp Salalah benefits from the synergies of its gas turbine manufacturer being responsible for the on-going maintenance of this machinery, and therefore also having aligned interests in the project.

#### **Excess Capacity and Outage Allowance to Ensure an Extended Plant Lifespan**


Power and water plants generally suffer degradation of their capacity to produce electricity and desalinated water over time. Management believes that the excess of actual capacity over the contracted capacity of the Plant will more than compensate the estimated degradation of the Plant over the term of the PWPA.

The PWPA also contemplates outages, allowing Sembcorp Salalah to perform maintenance on the power plant for 15% of the time (outside the peak months of April, May and June) and on the desalination plant for 5% of the time (throughout the year). Management expects that this contemplated maintenance is likely to extend the lifespan of the Plant and delay the degradation of its electricity and desalinated water capacity.

#### **Mitigation of Fuel Risks**

Under the NGSA, the Ministry of Oil & Gas is responsible for the procurement and delivery to the Plant of all of its natural gas requirements. All gas delivered to the Plant by the Ministry of Oil & Gas must meet minimum quality standards. In the event that natural gas is not available, and provided that Sembcorp Salalah is not in breach of its obligations regarding the operations of the Plant and the Plant is operational using backup diesel, Sembcorp Salalah is still entitled to receive capacity charges from OPWP, in addition to its incremental costs for the use of diesel from the Ministry of Oil & Gas. Any increase in the price of gas charged by the Ministry of Oil & Gas is directly passed through the PWPA. The Plant has therefore mitigated risks associated with gas quality, gas supply and gas price.

<sup>1</sup> OPWP's 7 Year Statement (2016-2022)



In the event, among others, of the non-availability of natural gas or a disruption in the natural gas supply system, Sembcorp Salalah has an obligation under the PWPA to maintain a backup fuel supply for three days of full load at the Site, which it complies with at all times.

#### ***Extensive Experience of the Project Founders***

Sembcorp Salalah benefits from the extensive power, water and energy experience of the Project Founders, including development, ownership and operation of large scale gas turbine based power and desalination projects. Sembcorp Utilities is a leading energy, water and on-site logistics group with a strong track record in identifying, securing, financing and executing energy and water projects and has a number of strategic relationships and long-term partnerships with multinational customers. OIC is a private equity investment company with strong experience of investing in the region and has a diversified portfolio of investments in the oil and gas, petrochemical, construction and manufacturing sectors in Oman.

Sembcorp Salalah O&M is also party to the Technical Assistance Agreement with Sembcorp Gulf O&M, a wholly-owned subsidiary of Sembcorp Utilities. This arrangement enables Sembcorp Salalah, where required, to draw upon the technical expertise of Sembcorp Utilities in its operation and maintenance of the Plant.

#### ***Experienced and Skilled Operational Personnel***

Sembcorp Salalah has the advantage of well-trained and experienced personnel employed by Sembcorp Salalah O&M, who bring extensive management expertise and knowledge sharing of know-how accumulated through decades of experience. In particular, Sembcorp Salalah personnel are able to attend training and off-site sessions with personnel of the Project Sponsors around the world in order to share and exchange knowledge and best practices.

#### ***Management is strongly supported by:***

- a highly-trained Plant staff of 88 employed by Sembcorp Salalah O&M;
- the O&M Contract entered into with Sembcorp Salalah O&M, a company formed by the Project Founders;
- the Technical Assistance Agreement entered into with Sembcorp Gulf O&M; and
- a long-term maintenance contract with General Electric, the original equipment manufacturer of the gas turbines of the Plant.

### **Technology and Processes**

#### ***Description of the Plant***

The Plant is an independent power and water plant located between the towns of Taqah and Mirbat, approximately 50 kilometres from Salalah, an administrative town in the Dhofar Governorate.

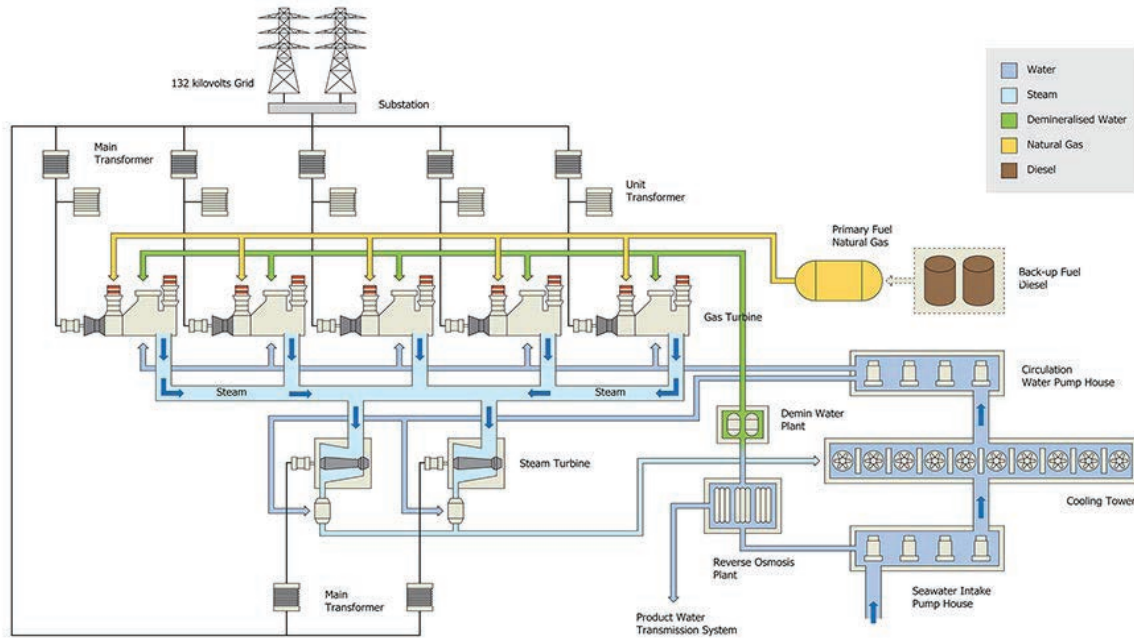
Prior to the Sembcorp Utilities/OIC consortium's bid for the project, extensive optimisation studies were performed by Sembcorp Utilities' modelling consultant, VTU Energy, to identify, short-list and select a plant configuration which would represent the most economically attractive and technically sound configuration in accordance with the power and water output requirements and operational constraints required by OPWP. After a detailed scenario analysis, Sembcorp Utilities chose the following configuration for the Plant:

- five GE 6FA gas turbines;
- two steam turbines; and
- five heat recovery steam generators.

The power facility integrates five units of gas turbines with five units of heat recovery steam generators and two steam turbines in a combined cycle configuration to achieve optimal energy production efficiency.



The following schematic displays the configuration of the Plant:

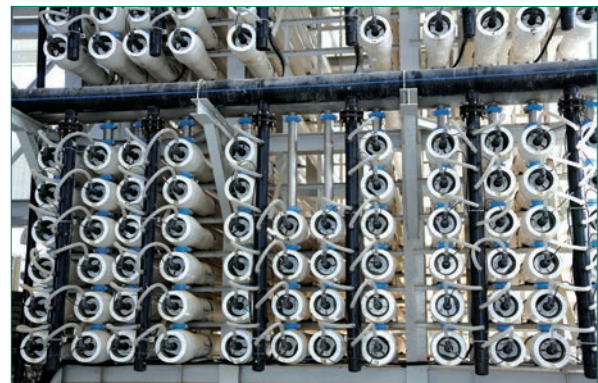


The following pictures display the Plant's power facility and the seawater reverse osmosis desalination facility:

### Power Facility



### Seawater Reverse Osmosis Desalination Facility



With five gas turbines and two steam turbines, the contracted power capacity of the Plant is 445 MW. The Plant's water production is based on a reverse osmosis process and the contracted water production capacity is 15 MiGD. The Plant entered into full commercial operation on 25 May 2012.

### Gas Turbines

The five 6FA gas turbines used in the Plant were supplied by General Electric and were selected due to their good record of reliable commercial operation. The 6FA gas turbine is configured with the robust Dry Low NOx system, which is a leading pollution prevention system for 50 hertz combined cycle applications, with greater than 54% efficiency and achieves a concentration of nitrous oxides of approximately 15 parts per million (15 ppm NOx).

The 6FA gas turbine can be configured to meet power requirements for mid-size combined cycle or cogeneration plants such as the Plant, where flexible operation and maximum performance are key considerations. The 6FA gas turbine can be arranged in a multi-shaft configuration where one or two gas turbines are combined with a single steam turbine. The 6FA gas turbine burns a variety of fossil fuels, which can be switched after start-up without sacrificing performance.



### Revenue Overview

The PWPA sets out the terms of generation and supply of power and desalinated water to OPWP until 2027. The PWPA imposes an obligation on Sembcorp Salalah to operate and maintain the Plant to an agreed level of availability in respect of the guaranteed contracted power capacity and the guaranteed contracted water capacity following the COD. The PWPA also imposes an obligation on Sembcorp Salalah to operate the Plant in a safe manner and within its design parameters.

Since the COD, the Plant has contracted net electricity generating capacity of 445 MW and a desalinated water production capacity of 15 MiGD, and sells the electrical energy and the water output to OPWP. In return, Sembcorp Salalah receives a tariff covering capacity charges, electrical energy charges, water output charges and fuel charges from OPWP, described as follows:

The power capacity charge is payable for each hour during which the Plant is available and is designed to cover fixed costs, including debt service, and return on capital.

The electrical energy charge is designed to cover variable operating costs of generation, excluding fuel costs, and is payable according to the electrical energy delivered under the PWPA.

The water output charge is designed to cover variable operating costs of desalination, excluding fuel costs, and is calculated based on the volume of water output delivered.

The fuel charge is calculated based on the consumption of natural gas calculated by the Plant model for electrical energy and water output delivered and is in effect a virtual pass-through cost.

Payments are denominated in Omani Rials. The investment charge element of the capacity charge is linked to the OMR-US\$ exchange rate. The fixed and variable operation and maintenance charges for power and water are linked to the OMR-US\$ exchange rate, a prescribed US inflation rate relating to turbines and generators, and the Omani inflation rate for a portion of the total charge. The PWPA defines the OMR-US\$ exchange rate as the mid-rate of the OMR-US\$ spot rate as published by the Central Bank of Oman on the last Omani business day of the relevant billing period.









# Profile of the Major Shareholders

***Sembcorp Oman First Investment Holding (SOFIH) and Sembcorp Oman IPO Holding (SOIHL) (wholly-owned subsidiaries of Sembcorp Utilities, a wholly-owned subsidiary of Sembcorp Industries)***

SOFIH and SOIHL are both British Virgin Islands-incorporated companies and wholly-owned subsidiaries of Sembcorp Utilities, a Singapore-based energy and water business serving both the industrial and municipal sectors. SOIHL sold its 20% shareholding in Sembcorp Salalah as part of the IPO in September 2013 and is no longer a shareholder of the Company.

Sembcorp Utilities provides a wide spectrum of third-party utilities and services including power, steam, natural gas, desalinated water, reclaimed water, industrial water, wastewater treatment, chemical waste incineration, chemical feedstock, on-site logistics and solid waste management. Sembcorp Utilities has a number of strategic relationships and long-term partnerships with multinational customers.

Sembcorp Utilities is, in turn, a wholly owned subsidiary of Sembcorp Industries, an energy, water and marine group with operations across 15 countries globally.

Sembcorp Industries was incorporated in 1998 following the merger of Singapore Technologies Industrial Corporation and Sembawang Corporation. Sembcorp Industries is listed on the main board of the Singapore Exchange and is a component stock of the Straits Times Index, several MSCI and FTSE indices. Its largest single shareholder is Temasek Holdings (which is in turn wholly owned by the Minister for Finance, a body constituted under the Singapore Minister for Finance (Incorporation) Act (Chapter 183). The market capitalisation of Sembcorp Industries was approximately S\$5.1 billion as at 31 December 2016.

For more information relating to Sembcorp Utilities and Sembcorp Industries, please visit [www.sembcorp.com](http://www.sembcorp.com).

***Inma Power & Water Company (IPWC) (a wholly-owned subsidiary of OIC)***

IPWC is an Oman-incorporated company and wholly-owned subsidiary of Oman Investment Corporation SAOC ('OIC'). OIC is a leading private equity investment company that combines an ambitious, entrepreneurial spirit with years of experience and a thorough knowledge of investing in the region. Since its establishment in 2005, OIC has been active in developing new projects and building successful businesses in partnership with local entrepreneurs and leading corporations from around the world. OIC invests in privately held companies with strong growth potential which can deliver superior risk-adjusted returns.

OIC has a diversified portfolio of investments in the oil and gas, petrochemical, utilities, construction and manufacturing sectors in Oman. OIC works closely with industrial partners to develop and invest in ventures which transfer technology, know-how and innovation to Oman and provides growth capital to support the development of Omani businesses. Other than the Project, its investment portfolio includes Takaful Insurance, Octal Holding, V2 Trenching, TMK Gulf International Pipe Industries and Al Bashayer Meat Company.

For more information relating to OIC, please visit [www.omaninvcorp.com](http://www.omaninvcorp.com)







# Industry Structure and Developments

The Oman power system is divided into three regional systems, partially connected via interconnectors:

- the Main Integrated System (MIS), which is the largest part of the system and covers the northern area of Oman
- the Salalah System, located in the Dhofar Governorate, of which the Plant's capacity constitutes approximately 70% of the power dispatch and 100% of the net installed water capacity as at the end of 2014.
- the Rural Areas Electricity System, operated by RAECO, which serves the rest of Oman

## Oman Power and Water Procurement Company

OPWP is the single buyer of power and water for all IPP/IWPP projects within Oman and is the sole customer of Sembcorp Salalah.

## The Salalah System

The Salalah System covers the city of Salalah and surrounding areas in the Governorate of Dhofar. The Salalah System serves approximately 77,000 electricity customers. The Salalah System comprises the generation, transmission and distribution capabilities of:

- Sembcorp Salalah, contracted for 445 MW electricity generation capacity and 15 MiGD desalinated water capacity;
- New Power Station located in Raysut, operated by DGC (previously owned by Dhofar Power Company (DPC)) comprising eight open cycle gas turbine units with a total net capacity of 273 MW;
- Transmission activities owned by Oman Electricity Transmission Company (OETC), previously owned by DPC; and
- Distribution and supply activities owned by DPC.

Salalah II IPP, owned by DGC, is currently under construction and is expected to complete in 2018. Total capacity of the plant will be 445 MW.

The Salalah System also has contingency reserves via the interconnection with the 132 kV link between Thumrait and Harweel, owned by PDO and completed in 2012.

The Director General of Water (DGW) is the principal entity responsible for potable water supply and distribution in the Governorate of Dhofar, apart from small, private networks. Sembcorp Salalah is currently the only desalinated water supplier to DGW transmission system.

## Salalah System Electricity Demand

According to OPWP, peak demand for electricity in the Salalah System is expected to grow from 527 MW in 2016 to 884 MW by 2022, at an average growth rate of 9% per annum.

## Salalah System Water Demand

According to OPWP, the water demand in the Salalah/ Taqah/Mirbat area is expected to increase at an average rate of nearly 7% per annum over seven years. The main growth drivers are increasing population and economic development.



# Management Discussion and Analysis

We are pleased to present the audited financial statements of Sembcorp Salalah for the year ended 31 December 2016. In 2016, the Company has recorded profit after tax (PAT) of RO 14.63 million compared to a profit after tax of RO 13.64 million in the corresponding year in 2015, while operating profit is RO 33.28 million in 2016 compared to RO 33.32 million in 2015.

## Business Overview

The Company's core business activity is to provide electricity and water in the region of Dhofar. Contracted capacity for the power plant is 445 MW

and for the water plant is 15 MiGD. The Company receives revenue based on the availability of its plant, which ensures that its business model is stable. As the largest and most energy-efficient power and water plant in Dhofar Governorate, the plant is playing a major role in meeting the growing power and water demand. Currently, the Company is contributing more than 85% of the total electricity demand and 100% of the desalinated water demand in the region.

## Performance Overview

The Company's operating and financial performances for the year 2016 are better than the target.

### Operating Performance

The Company has shown strong operating performance in the year 2016. The power plant load factor has increased significantly as compared to the corresponding period last year mainly because of higher grid demand allocation to Sembcorp

Salalah (increased from 70% to 85%) to capitalize on the higher energy efficiency of the combined cycle technology. Our power plant recorded its highest dispatch this year. Key operating parameters for the year are noted below:

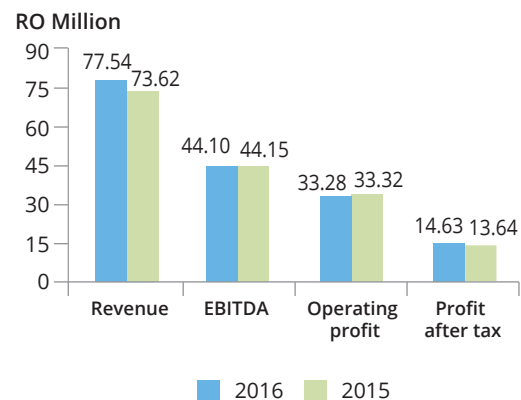
	Unit	2016	2015
<b>Water Reliability</b>	(%)	98.90	99.40
<b>Power Reliability</b>	(%)	99.64	99.95
<b>Quantity of Water Sold</b>	(Thousand m <sup>3</sup> )	23,331	21,951
<b>Quantity of Power Sold</b>	(MWh)	2,332,015	1,873,337
<b>Plant Load Factor (Power)</b>	(%)	59.66	48.06
<b>Plant Load Factor (Water)</b>	(%)	93.48	88.19

### Financial Performance

Key financial performance indicators are shown below:

	2016 RO million	2015 RO million
<b>Revenue</b>	77.54	73.62
<b>EBITDA</b>	44.10	44.15
<b>Operating profit</b>	33.28	33.32
<b>Profit after tax</b>	14.63	13.64

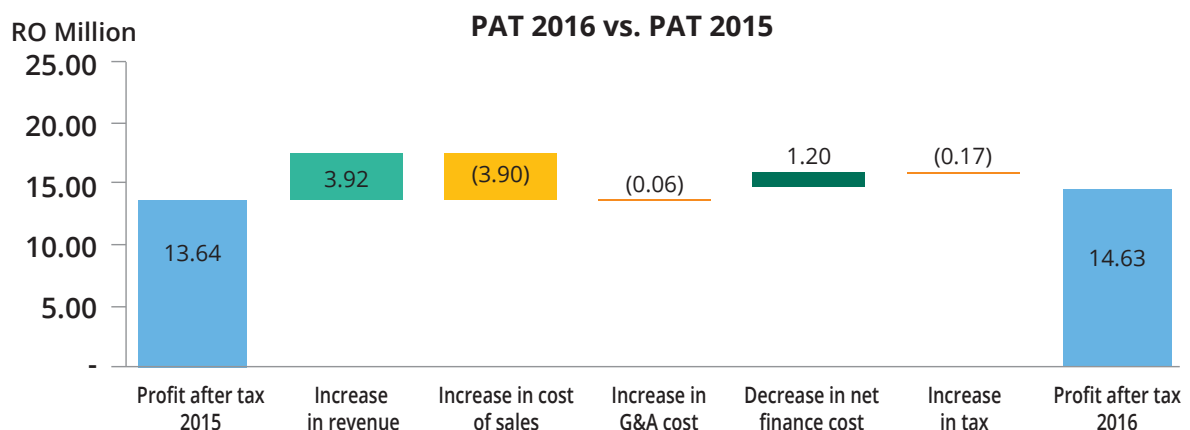
### Key financial performance



### Profit after Tax

Profit after tax (PAT) increased significantly from RO 13.64 million in 2015 to RO 14.63 million in 2016.

The significant variances are shown in the following waterfall chart.





A brief analysis and characteristics of the major components of the profit or loss is presented below:

### Revenue

Power contributes 48% (excluding fuel charge), water 21% and fuel charge 31% to total revenue. Revenue is higher as compared to last year mainly because of an increase in fuel charge revenue by RO 3.8 million and energy charge revenue by RO 0.2 million mainly due to higher plant load factor. Fuel charge revenue is a pass through and is calculated based on consumption of natural gas calculated by the plant model. Capacity charge revenue is slightly lower by RO 0.1 million mainly due to lower reliability as compared to the previous year.

### Cost of sales

Cost of sales mainly comprises depreciation of property, plant and equipment, operation & maintenance (O&M) cost and fuel cost which is pass-through in nature.

Analysis of the cost of sales shows an increase in fuel cost by RO 3.5 million as compared to the last year in line with the increase in revenue. O&M cost and CS maintenance cost increased mainly due to higher maintenance activities and the increase in factored fired hours respectively as compared to the previous year.

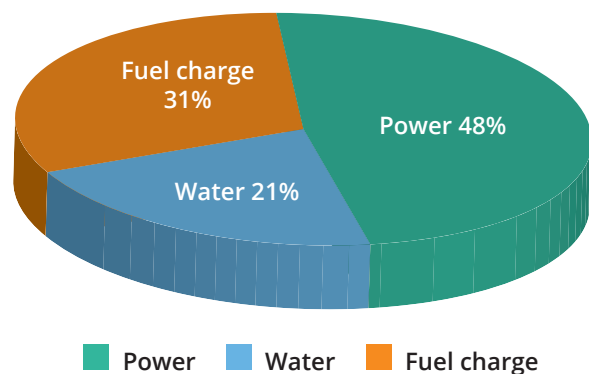
### Net Finance Cost

Net finance cost decreased in 2016 compared to 2015 due to the scheduled repayment of the term loan in line with its financing documents.

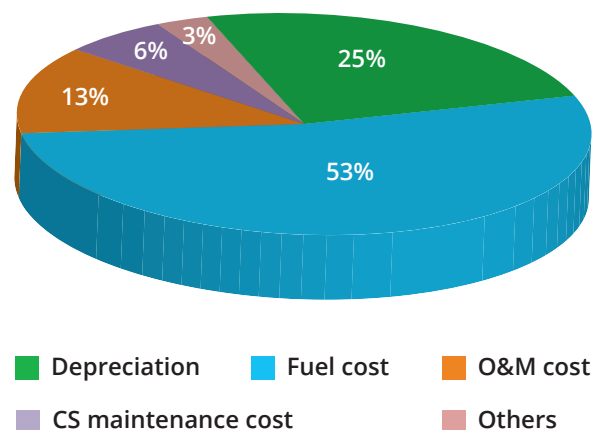
### Income Tax

Income tax increased in 2016 as compared to the last year mainly because of the increase in profitability.

**Revenue 2016**



**Cost of Sales 2016**



## Financial Position

		2016	2015
Total assets	RO million	349.24	359.09
Total liabilities	RO million	261.21	277.93
Shareholders' funds	RO million	104.26	102.80
Shareholders' equity	RO million	88.04	81.16
Current ratio		1.74:1	1.73:1
Gearing ratio		72:28	74:26
Net assets per share (2015 restated)	RO/share	0.11	0.11

## Dividend

On 20 February 2017, the Board of Directors proposed a final dividend in the amount of 3.6% of issued share capital equivalent to Baizas 3.6 per share giving a total dividend of Baizas 13.9 per share (13.9% of issued share capital) for the year 2016.

## Risks and Concerns

On 24 September 2014, OPWP informed the Company, along with all other members of the power and water industry, to comply with the Omanisation requirements as stipulated in the Ministerial Decision No 248/2014 (the Decision). Given the immediate nature of this implementation and the very limited pool of suitably skilled Omanis available in the utility sector in southern Oman, the Company is unable to practically comply with this change of law within the specified time horizon without compromising the performance of our contractual obligations and also the security of the Salalah System. The Company has already sought contractual relief from OPWP and has put in place an accelerated Omanisation plan to achieve the ultimate objectives of the decree over a longer time period.

In order to reduce budget deficit, the Oman Government will continue to adopt austerity measures which could lead to an increase in operating and other costs for the Company. The Company will seek contractual recourse from OPWP whenever the eligible cost increases due to Change of Law such as increase in income tax rates and implementation of value added tax.

Other business normal operational risks remain as detailed in our IPO prospectus.

## Business Outlook

2016 was a challenging year mainly due to government austerity measures, negative tariff indexation and other uncontrollable factors which impacted the profitability of the Company negatively. Nevertheless the Company was still able to outperform the approved targets by about 3.4% primarily due to good operating performance and cost management. 2017 is expected to be more challenging than 2016 due to continued pressures resulting from government austerity measures in response to continued low oil prices, the accelerated Omanisation requirement and greater requirement for plant maintenance. We will continue to focus on cost management and improving productivity in order to deliver the targeted shareholder returns.







# Sustainability - Caring for the Environment & Communities

The Company undertakes its activities with the deepest respect to the environment. It is fully committed to promoting and maintaining the highest standards of health and safety, and minimising its impact on the environment.

The Company's power and desalination plant utilises combined cycle gas turbine technology for power generation and reverse osmosis technology for the production of desalinated water. Natural gas is the Plant's primary fuel. The plant is designed and built in accordance to the recommendations and findings from the Environmental Impact Assessment Study to minimise its carbon footprint.

For its commitment to the environment, the Company was accredited to ISO 14001:2004 (environmental management system) as part of certifying its integrated management systems. Certification ensures that the Company has a framework in place for effective environment management.

## **Maximum Power Generation from Natural Gas**

The Company recognises that natural gas is a scarce resource and that it is crucial that power generation per unit of natural gas used is maximised.

The technology employed at the Plant utilises high grade heat from the gas turbine exhausts to generate high pressure steam which powers a steam turbine. As a result of this process, a further 46% of power can be generated without any additional usage of gas.

## **Low Emissions and Effluent Discharge**

The Company's gas turbines are equipped with a Dry Low NOx system which is a leading pollution prevention system. It ensures that international environmental standards are adhered to by achieving a concentration of nitrous oxides of approximately 15 parts per million (15 ppm NOx).

Chemicals are used in various parts of the generation and production processes. Effluents resulting from

chemical usage are collected and treated so that all discharges from the Plant are in compliance with the regulatory limits.

## **Bulk Chemical and Hazardous Waste Facility**

The Company has also completed the construction of this facility to more effectively and safely manage all the chemicals and wastes in the plant to minimise leaks and spillages.

## **Company's Philosophy**

As well as providing a catalyst for growth in the Dhofar Governorate, Sembcorp Salalah aims to contribute positively to, and build a mutually-beneficial relationship with the local community.

The key areas in which it makes these contributions are local recruitment, environmental management and mitigation and social and community welfare. Sembcorp Salalah is committed to internationally-recognised corporate governance practices and ethical business conduct. The Board of Directors and Management understand that their implementation of good governance practices and ethical business conduct results in sound business decisions. In addition to having a positive impact on public perceptions of Sembcorp Salalah, it also benefits the wider economic and social development of Oman.

Sembcorp Salalah's human resource strategy improves Omanisation by recruiting graduate engineers from local colleges and providing a structured training programme, including on-the-job exposure and apprenticeships. Sembcorp Salalah collaborates with technical institutions to promote programmes that build skillsets of local youths. The Company also supports regional social development activities that encourage and create awareness in relation to social issues. During the year, the Company recruited 10 more Omani staff through its internship programme.

The Company also implements responsible environmental practices and procedures. In 2010,

prior to the construction of its Plant, Sembcorp Salalah commissioned an environmental impact assessment which included a review of the environmental impact of the Plant on the local community, as well as a social impact management plan, which has been implemented. Sembcorp Salalah is committed to protecting the environment through its stipulated environment management programme and operates within the limits of all applicable environmental legislation. The Company has established green belts within the Plant for environmental rejuvenation and improved aesthetics.

### Corporate Social Responsibility (CSR) Initiatives

Sembcorp Salalah, since inception, has also been involved with various social and community welfare initiatives in collaboration with government

departments and non-governmental organisations. These initiatives include sponsorship of the road traffic safety campaign in Oman, assistance and support to handicapped children and the less privileged, and offering an internship programme to the top students in local schools and colleges.

In January 2014 the Company also entered into a five year Memorandum of Understanding with the Wali Mirbat to provide RO 32,000 per year for 5 years (total RO 160,000) in support of CSR-related projects in the Mirbat area. In 2016, the Company contributed RO 32,000 to improve the infrastructure in the Mirbat area.

The Company also donated RO 2,000 to Muttrah Charity Committee for the charitable assistance and support of the needy.











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**Report to the Shareholders of Sembcorp Salalah Power & Water Company SAOG ("the Company") of Factual Findings in connection with the Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance**

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Company ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance issued under Circular No. 11/2002 dated 3 June 2002 and the revised CMA Code of Corporate Governance issued under CMA Circular 4/2015 dated 22 July 2015 (together the "Governance Code"). The Report is set out on pages 1 to 13.

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist the Shareholders in evaluating the Company's compliance with the Governance Code. The Procedures we performed were as follows:

1. Corroborated, as required, the matters disclosed in the Report by reference to: internal audit reports issued during the year ended 31 December 2016; Audit Committee and Board minutes of meetings held during the year ended 31 December 2016; and relevant supporting Company records.
2. Confirmed that the Report discloses matters discussed in the Board of Director's report on review of the effectiveness of the Company's system of internal controls and that these matters were reported by Company's internal auditor to the Audit Committee during the year ended 31 December 2016.
3. Checked that the Report includes disclosures set out in Annexure 3 of the Governance Code.
4. Checked whether matters, if any, reported in the Auditors' report on the financial statements for the year ended 31 December 2016 relating to: Adequacy and efficacy of the internal control systems in place; going concern considerations; and the adequacy of policies and procedures set up by the Company were also included in the Auditor's presentation to the Audit Committee.
5. Read the Minutes of Board and Audit Committee meetings during the year ended 31 December 2016 to confirm that any matters of non-compliance with the Governance Code mentioned therein are also included in the Report.

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

Because the Procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of the Report in accordance with International Standards on Auditing or International Standards on Review Engagement, other matters might have come to our attention that would have been reported to you. This report is solely for the purpose set forth in the second paragraph of this report, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Company's Corporate Governance Report included in the Company's annual report for the year ended 31 December 2016 and does not extend to any financial statements or any other reports of the Company, taken as a whole.

20 February 2017

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Ahmed Tufail

C.R. No. 1309366





# Corporate Governance Report

Capital Market Authority issued new Code of Corporate Governance ("the New Code") which came into force on 21 July 2016 and replaced the old Code of Corporate Governance. The New Code brought about significant changes in the code and basic principles to establish the good governance in order to create efficient enterprises contributing to building strong, transparent and national economy.

This Corporate Governance Report for the year ended 31 December 2016 sets out the Company's corporate governance processes and activities with reference to the principles set out in the New Code.


## Company's Philosophy

The Company adheres to the New Code issued by the Capital Market Authority and takes all steps necessary to fulfil the objective of good corporate governance. The following is the company policy with reference to the corporate governance principles:

## **Corporate Governance and Code of Business Conduct**

Sembcorp Salalah firmly believes that good corporate governance is key to delivering long-term shareholder value. The company is committed to adhering to high standards of management, its Code of Business Conduct, and having robust systems of internal controls and accountability.

The Company has established detailed functional policies and procedures, Financial Authority Limits, clear roles and responsibilities for the Board and Management, Enterprise Risk Management Framework and a Code of Business Conduct, which establishes internal controls throughout the organisation and helps management to take decisions with regards to the company's affairs. The Board also sets financial and non-financial targets every year and evaluates the Company's performance progressively.



The Company is committed to ensuring that all shareholders have easy access to clear, reliable and meaningful information in order to make informed investment decisions and also encourages shareholders to attend the general meetings. For this purpose, the Company has an established Investors' Relation Policy to uphold high standards of corporate transparency and communication with shareholders and to provide a disciplined, professional approach to the flow of information from the Company at all times.

The Company's established Code of Business Conduct expresses high standard of behavior and integrity that the Company required from the directors and employees of the Company.

#### **Board of Directors**

Formation, Roles and Responsibilities and authority and competences

The membership of the Company's Board of Directors (the Board) ensures that at least one third of the Board is independent and all the directors are non-executives whilst it also brings the level of practical and professional expertise required by the Company.

The Board is comprised of 9 directors, all of which are non-executives and five of them are independent. The board members include professionals with strong experience relevant to the Company's business. Given that all of the directors are non-executive and majority of them are independent, objectivity of board decision making and issues deliberated is assured. The Board has also reviewed and approved clear job description of the Board and the Chairman in line with the new Code which encompasses roles and responsibility that is expected of them.

#### **Sub-Committees**

The Board established following sub-committees in line with the New Code, detailed terms of reference of which has been established:

- 1) Nomination and Remuneration Committee
- 2) Audit Committee

Brief roles and responsibilities of the above are included in this report.

#### **Chairman**

The Chairman is non-executive and brings with him vast experience in strategy, business and project

development for the utility business industry. He has sufficient experience and knowledge and leadership skills to lead the Board and the Company to ensure that the Board performs its role, responsibilities, functions and powers in directing the Company toward achieving the objectives of the Company.

#### **Independent directors**

Directors are considered independent if they meet the criteria as mentioned in the New Code. Independent directors give their statement annually indicating whether or not a change in circumstances has occurred which might impair their independence. Currently, the Company has five independent directors.

#### **Company Secretary**

The Board ensures that the Company Secretary has sufficient experience and knowledge to assist the board to discharge their roles and responsibilities effectively and efficiently.

#### **Executive Management**

Executive Management manages the operations of the Company in accordance with the established policies and procedures of the Company to achieve the established objective of the Company. Executive Management performs their duties in accordance with financial authority limits as approved by the Board. It is the responsibility of the Management to provide all the necessary information including key risks and challenges to the Board to perform their duties effectively and efficiently.

#### **Related party transactions**

The Company enters into related party transactions only if these are in the best interest of the Company. The Company believes in high level of transparency and clarity in identification and reporting of related party transactions. Related party transactions are highlighted to the Audit Committee and the Board for their review before final approval by the Shareholders in the Annual General Meeting.

#### **External auditors**

The Shareholders appoint an internationally renowned audit firm in accordance with Company's Financing Agreements and local regulations as recommended by the Board. The Board makes sure that external auditors are independent so that the auditors give their honest professional opinion on the financial statements presented to the Shareholders.



### Corporate Social Responsibility

Sembcorp Salalah recognizes the importance of being a good corporate citizen in the conduct of its business activities as well as in fulfilling its corporate and social responsibilities. The Company follows a consistent approach for its charitable contribution and community investment.

### The Board of Directors and Its Committees

On 15 March 2016, in Annual General Meeting (AGM), a new board was elected. All elected board members are non-executive as required by the New Code. The Board members and their attendance at the AGM, and the Board meetings are shown below.

Board of Directors			Board meetings					AGM
			15 Feb.	15 Mar.	25 Apr.	20 Jul.	25 Oct.	15 Mar.
Tang Kin Fei	Chairman (resigned on 15 March 2016)	Non-Executive	✓	NA	NA	NA	NA	✓
Tan Cheng Guan	Chairman (appointed on 15 March 2016)	Non-Executive	✓	✓	✓	✓	✓	✓
Kalat Al Bulooshi	Deputy Chairman	Non-Executive	✓	✓	✓	✓	✓	✓
Abdul Amir Said Mohammed	Director	Non-Executive and Independent	✓	✓	✓	✓	✓	✓
Hassan Al Nassay	Director	Non-Executive and Independent	-	✓	✓	✓	✓	✓
Richard Quek Hong Liat	Director	Non-Executive	✓	✓	✓	✓	-	✓
Ng Meng Poh	Director	Non-Executive	✓	✓	✓	-	✓	✓
Tariq Al Amri	Director	Non-Executive and Independent	✓	✓	✓	✓	✓	✓
Ahmed Al Bulushi	Director	Non-Executive and Independent	✓	✓	✓	✓	✓	✓
Khalid Ali Al Hamoodah	Director	Non-Executive and Independent	NA	✓	✓	✓	✓	✓

Legends: ✓ = Present, - = Apologies, NA = Not applicable

The following are the names of directors who hold directorships in Public Joint Stock Companies in Oman other than Sembcorp Salalah.

Name of directors	Number of directorships
Ahmed Al Bulushi	2
Abdul Amir Said Mohammed	2
Khalid Ali Al Hamoodah	2

The Board elected on 15 March 2016 decided to merge the Nomination Committee and Remuneration Committee to form the Nomination and Remuneration Committee in accordance with the new Code. The new Board Committees are as follows:-

Committee	Chairman	Members
Audit Committee	Tariq Al Amri	Richard Quek Hong Liat and Ahmed Al Bulushi
Nomination and Remuneration Committee	Kalat Al Bulooshi	Ng Meng Poh and Hassan Al Nassay

#### **Audit Committee Meetings**

The following is a list of audit committee members and their attendance in audit committee meetings:

Audit Committee Members		Category	Audit Committee meetings				
			15 Feb.	25 Apr.	20 Jul.	25 Oct.	19 Dec.
Tariq Al Amri	Chairman	Non-Executive and Independent	✓	✓	✓	✓	✓
Richard Quek Hong Liat	Director	Non-Executive	✓	✓	✓	-	✓
Ahmed Al Bulushi	Director	Non-Executive and Independent	✓	✓	✓	✓	✓

Legends: ✓ = Present, - = Apologies, NA = Not applicable

#### **Nomination and Remuneration Committee Meetings**

Nomination and Remuneration Committee Members			Category	Remuneration Committee Meeting	Nomination and Remuneration Committee Meeting
				15-Feb.	17-Oct.
Kalat Al Bulooshi	Chairman	Non-Executive		✓	✓
Ng Meng Poh	Director	Non-Executive		✓	✓
Hassan Al Nassay	Director	Non-Executive and Independent		-	✓

Legends: ✓ = Present, - = Apologies, NA = Not applicable

#### **Terms of Reference of the Board Committees**

##### **Audit Committee**

The Audit Committee (AC) comprises of non-executive directors of which majority are independent as highlighted above.

##### **Authority and Duties of the AC**

The AC assists the Board in fulfilling its fiduciary responsibilities relating to the internal controls, audit,

accounting and reporting practices of the Company. Its main responsibilities are to review the Company's policies and control procedures with the external auditors, internal auditors and management and act in the interest of the shareholders in respect of interested person transactions as well as any matters or issues that affect the financial performance of the Company. The AC reviews the quarterly, half-yearly and full year results announcements and accompanying press releases as well as the financial statements of the Company for adequacy and

accuracy of information disclosed prior to submission to the Board for approval.

The AC has explicit authority to investigate any matter within its terms of reference and enjoys full access to and co-operation from management to enable it to discharge its function properly.

Where relevant, the AC is guided by Appendix 3 - Role of the Audit Committee - detailed in the CMA's Code of Corporate Governance.

#### **External Auditors**

Each year, the AC reviews the independence of the company's external auditors and makes recommendations to the Board on the re-appointment of the company's external auditors.

The AC reviews and approves the external audit plan to ensure the adequacy of audit scope. It also reviews the external auditors' management letter and monitors the timely implementation of the required corrective or improvement measures. The AC meets the external and internal auditors at least once a year without the presence of management. The AC has reviewed the nature and extent of non-audit services provided by the external auditors to the Company and is satisfied that the independence of the external auditors has not been impaired by their provision of non-audit services. Details of non-audit fees payable to the external auditors are found later in this report.

#### **Whistle-Blowing Policy**

The AC also oversees the Company's whistle-blowing policy implemented by the Company to strengthen corporate governance and ethical business practices. Employees are provided with accessible channels to the Company's Internal Auditor and the Sembcorp Group Internal Audit department to report suspected fraud, corruption, dishonest practices or other misdemeanors. The aim of this policy is to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will, to the extent possible, be protected from reprisal.

#### **Nomination and Remuneration Committee (NRC)**

The NRC is charged with the following responsibilities:

- of ensuring that Sembcorp Salalah's Board is reviewed to ensure strong and sound leadership for the continuous success of the Company. It ensures that the Board has a balance of

skills, attributes, background, knowledge and experience in business, finance and related industries, as well as management skills critical to the Company; and

- for developing, reviewing and recommending to the Board the framework of remuneration for the Board and key management personnel. It assists the Board to ensure that competitive remuneration policies and practices are in place. The RC also reviews and recommends to the Board the specific remuneration packages for each director as well as for key management personnel. The RC's recommendations are submitted to the Board for endorsement.

The NRC reviews and makes recommendations to the Board on the independence of the directors, new appointments, re-appointments and re-elections to the Board and Board Committees to ensure the Board maintains an appropriate size. The NRC is also responsible for reviewing the succession plans for the Board, developing a process for performance evaluation of the Board and Board Committees, and reviewing training and professional development programmes for the Board.

#### **Appointment & Re-Appointment of Directors**

When the need for a new director is identified, the NC will prepare a shortlist of candidates with the appropriate profile and qualities for nomination. The Board reviews the recommendation of the NC and appoints the new director. In accordance with the company's Articles of Association, the new director will hold office until the next AGM, and if eligible, the director can stand for re-appointment.

The company's Articles of Association require all directors to apply for re-election at the AGM after three years.

The NC reviews succession planning for key management personnel in the Company. Potential internal and external candidates for succession are reviewed for different time horizons according to immediate, medium-term and long-term needs.

#### **Human resource matters**

The NRC has access to expert professional advice on human resource matters whenever there is a need for such external consultations. In engaging external consultants, the Company ensures that the



relationship, if any, between the Company and its external consultants will not affect the independence and objectivity of the external consultants.

## Remuneration Matters

The remuneration structure of the Board is approved by the Shareholders in Annual General Meeting:

### Directors' Remuneration Structure

In light of the CMA rules and in line with the approval of sitting fee and remuneration in Annual General Meeting 2016, the Company paid following sitting fees and remuneration to directors during the year.

	Amount RO
Remuneration for the year 2015 (approved in AGM 2016)	100,000
Sitting fees for the year 2016	25,750
	<u>125,750</u>

In addition, in view of better financial performance for the year 2016, Nomination and Remuneration Committee and Board of Directors recommended to Shareholders to pay RO 91,286 as a bonus for the board members.

### Executive Management Remuneration

The Company employs the CEO. All other executive posts are provided by Sembcorp Salalah O&M Services Co.

The aggregate remuneration paid to the Company's top five executives (including those paid through Sembcorp Salalah O&M Services) amounted to RO 357,790. The remuneration paid is commensurate with the qualification, role, responsibility and performance of the executive team in 2016. Break up of the remuneration is as follows:

	2016 Amount RO
Short-term employee benefits	338,726
Social security and gratuity	19,064
	<u>357,790</u>

Compensation of some of the Key Management personnel are paid through Sembcorp Salalah O&M Services Co. LLC.

## Details of Non-Compliance related to Code of Corporate Governance by the Company

There have been no instances of non-compliance on any matter relating to the CMA's code of corporate governance for MSM listed companies, CMA regulations or the MSM listing agreements. There were no penalties or strictures imposed on the Company by the CMA, MSM or any other statutory authority on any matter related to capital markets during the past three years.

## Means of Communication with Shareholders and Investors

The Company recognises:

- the importance of providing shareholders, investors and analysts with easy access to clear, reliable and meaningful information on its business and operations in order to make informed investment decisions;
- that accurate, coherent and balanced communications help to establish its reputation; and
- the disclosure rules required by the CMA according to Part VII of the CMA Executive Regulations issued in 2009.

As noted above, the Company has an Investor Relations Policy the objectives of which are to uphold high standards of corporate transparency and disclosure and promote clear and open communication with shareholders, investors and analysts by providing a disciplined, professional approach to the flow of information from the Company at all times.

The Company communicates with its shareholders and investors through the MSM website and its own website, [www.sembcorpsalalah.com.om](http://www.sembcorpsalalah.com.om). Quarterly financial, annual report and operating data and all material information are posted on both websites in a timely fashion as required by the CMA.

The Company's executive management is also available to meet shareholders and analysts as and when requested.

## Market Price Data

The Company was listed on the Muscat Securities Market (MSM) on 8 October 2013. In line with market trend, the Shareholders approved a 1 to 10 share split in March 2016.

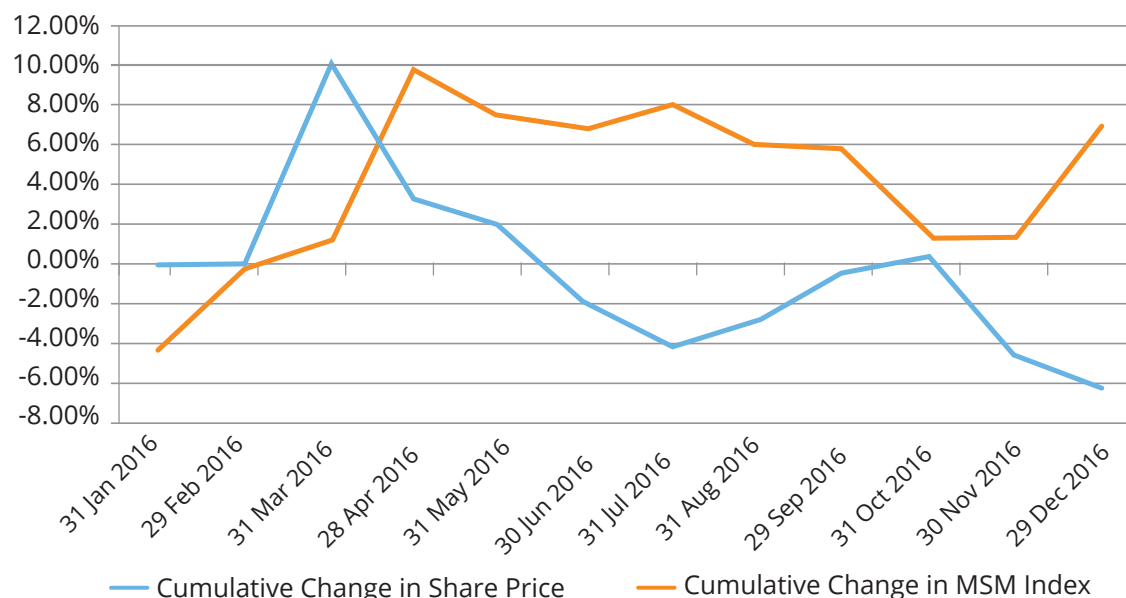
Period	Trade [1]		Share price High RO/share	Share price Low RO/share	Remarks
	Shares	Value RO			
January	1,263,803	3,084,933	2.450	2.320	
February	2,929,641	7,457,052	2.550	2.350	
March	1,648,830	2,496,923	0.272	0.245	Share split 1 share into 10 shares
April	3,020,370	806,608	0.276	0.243	
May	1,455,354	367,032	0.258	0.254	
June	4,697,943	1,152,031	0.250	0.240	
July	971,600	232,939	0.245	0.235	
August	2,241,033	532,766	0.242	0.235	
September	635,672	155,331	0.245	0.240	
October	1,833,760	444,760	0.250	0.224	
November	710,852	167,050	0.246	0.233	
December	415,686	96,596	0.238	0.226	

The table below shows a comparison of the Company's performance against the MSM in 2016.<sup>2</sup>

Date	Sembcorp Salalah share price RO/share	Cumulative change from 1 January 2016	MSM Index	Cumulative change from 1 January 2016	Remarks
31-Jan-16	2.450	0.00%	5,179.36	-4.20%	
29-Feb-16	2.450	0.00%	5,395.11	-0.21%	
31-Mar-16	0.270	10.20%	5,467.42	1.13%	%age change of Sembcorp Salalah share price does not include share split impact
28-Apr-16	0.253	3.27%	5,942.72	9.92%	
31-May-16	0.250	2.04%	5,810.96	7.49%	
30-Jun-16	0.240	-2.04%	5,777.31	6.86%	
31-Jul-16	0.235	-4.08%	5,843.78	8.09%	
31-Aug-16	0.238	-2.86%	5,735.00	6.08%	
29-Sep-16	0.244	-0.41%	5,726.20	5.92%	
31-Oct-16	0.246	0.41%	5,481.44	1.39%	
30-Nov-16	0.234	-4.49%	5,487.68	1.51%	
29-Dec-16	0.230	-6.12%	5,782.71	6.96%	

<sup>2</sup> Muscat Stock Market website

### Cumulative Change in Share Price vs. Cumulative Change in MSM Index



### Distribution of Shareholding as at 31 December 2016

The table below shows the shareholder distribution at the end of December 2016.

Percentage holding	Number of shareholders	Value of shares	Percentage of total shares
Less than 5%	1,721	20,872,721	21.87%
5% to 10%	3	18,264,729	19.13%
Above 10%	2	56,319,745	59.00%
Total	1,726	95,457,195	100.00%

### Professional Profile of Statutory Auditors

The shareholders of the Company appointed KPMG as the Company's auditors for the year 2016. KPMG is a leading Audit, Tax and Advisory firm in Oman and is a part of KPMG Lower Gulf that was established in 1973. KPMG in Oman employs more than 180 people, amongst whom are 3 Partners, 5 Directors and 24 Managers, including Omani nationals. KPMG is a global network of professional firms providing Audit, Tax and Advisory services. KPMG operates in 152 countries and has around 189,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOGs). Breakup of fee for the year 2016 is as follows:

	2016 Amount RO
Audit for the year 2016	9,270
Review of code of corporate governance 2016	500
Group reporting for the year 2016	1,000
Interim quarterly reviews and audit 2016	5,000
Tax services	3,650
Arabic translations	1,950
	<u>21,370</u>



## Acknowledgement of the Board of Directors

The Directors confirm their responsibility for the preparation of the financial statements in line with International Financial Reporting Standards to fairly reflect the financial position of the Company and its performance during the relevant financial period. The Board confirms that it has reviewed the efficiency

and adequacy of the internal control systems of the Company and is pleased to inform the shareholders that adequate and appropriate internal controls are in place, which are in compliance with the relevant rules and regulations.

The Board of Directors confirms that there are no material matters that would affect the continuity of the Company, and its ability to continue its operations during the next financial year.









# Brief Profiles of the Board of Directors and Executive Management

## Board of Directors

### **Tan Cheng Guan,** Chairman

Mr Tan is responsible for business development at Sembcorp Industries and drives the expansion of the Group's energy and water businesses globally.

He brings with him broad experience in engineering, strategy, business and project development for the utilities industry. Prior to joining Sembcorp, Mr Tan spent 12 years in engineering and project management for the oil and gas sector at Brown & Root Far East, where he was based in London, Kuala Lumpur and Miri. He also spent two years in Shanghai as Managing Director of Vopak China, overseeing the growth and operations of Vopak's businesses in the country. While at Sembcorp, Mr Tan pioneered the early development of the Group's Utilities business on Jurong Island and subsequently led the business' expansion into China, India, the UK, the Middle East, Myanmar and Bangladesh. In addition, he drove the acquisition of Sembcorp's renewable energy businesses in China and India, as well as the acquisition of Cascal's international municipal water business.

Mr Tan holds a Bachelor of Civil Engineering (Honours) from the University of Liverpool, UK and completed the Advanced Management Programme at Harvard Business School.

### **Kalat Al-Bulooshi,** Deputy Chairman

Mr Kalat Al Bulooshi is the Chief Executive Officer of Oman Investment Corporation SAOC (OIC), an Oman based private equity investment company established in 2005.

Mr Bulooshi is an engineer by profession and holds an honours degree from the United Kingdom. He has completed an Advanced Management Programme at Wharton Business School in the States. During his career, Mr Bulooshi has worked in Italy and Canada during 2001 through to 2003. He has experience in the oil and gas, utilities, ports, infrastructure, metal, and manufacturing industries, investments, M&A and asset management.

Mr Bulooshi serves on the boards of Sembcorp Salalah Power and Water Company (SAOG) and V2 Trenching. He is also on the board of government owned company, Mwasalat.

### **Abdul Amir Saied Mohammed,** Independent Non-Executive Director

Mr Saied is a director of Sembcorp Salalah


He was on the various boards in the past and is currently director at Muscat Finance and Oman Fisheries. Mr Saied was the Deputy Chief Executive Officer at the State General Reserve Fund. He was responsible for the functions of operation units and assists the Chief Executive Officer in the day-to-day operations.

Mr Mohammed holds a Masters degree in Business Administration from the Oxford Brookes University, UK. He has also been a Member of the Association of Accounting Technicians since 1979.

### **Tariq Al Amri,** Independent Non-Executive Director

Mr Al Amri is one of five independent directors of Sembcorp Salalah and is the Chairman of the Audit Committee.





He is also the Chief Executive Officer of Oman Environmental Services Holding Company (be'ah), a company with the objective of transforming the solid waste management sector in Oman. Prior to joining Oman Environmental Services, Mr Al Amri held a number of key positions in Oman Telecommunications Company, Oman LNG and the Royal Office Pension Fund.

Mr Al Amri has experience in the telecoms and oil and gas sectors and successfully negotiated a number of major commercial agreements while at Oman Telecommunications, in addition to taking a role in Omantel's IPO in 2005. At Oman LNG he was involved in the economic and financial feasibility studies of a project which has since evolved into Qalhat LNG.

Mr Al Amri holds an Electrical Engineering degree from Temple University, USA and an MBA from the University of Dayton, USA.

**Richard Quek Hong Liat,**

Non-Executive Director

Mr Quek is a director of Sembcorp Salalah.

He is also the Executive Vice President & Head of Commercial at Sembcorp Industries. Mr Quek is responsible for mergers and acquisitions, structuring and project financing activities at Sembcorp Industries. He was previously responsible for corporate finance and treasury activities in the Group. Mr Quek is also a director on the boards of various Sembcorp companies.

Mr Quek led the transaction teams for Sembcorp's acquisition of Green Infra Limited (now known as Sembcorp Green Infra Limited), AES' interests in wind and coal-fired power generation assets in China, Cascal's global municipal water business and project financing teams for the Fujairah and Salalah projects, amongst others. He also led the divestments of Sembcorp's interest in SembSITA Pacific, its logistics and engineering & construction businesses and other non-core assets.

Prior to joining Sembcorp, he held corporate and project finance positions at various entities, including Enron International, UBS AG and BP Asia Pacific.

Mr Quek holds a Masters in Business Administration from the University of Oregon, USA.

**Ahmed Al Bulushi,**

Independent Non-Executive Director

Mr Al Bulushi is one of five independent directors of Sembcorp Salalah and is a member of the Audit Committee.

He is also the Chief Executive Officer of Oman National Transport Company "Mwasalat". Prior to joining "Mwasalat", Mr. Al Bulushi held a number of key positions in the Royal Court Affairs the last was the Director of Internal Audit where he is responsible for the operation of the risk management, control and governance systems.

In addition to Sembcorp Salalah, Mr Al Bulushi is also a director and member of the Audit Committee of the following companies: Oman National Engineering and Investment Company SAOG and the Muscat Securities Market.

Mr Al Bulushi holds an Information Technology degree and a Master of IT Management from Bond University, Australia.

**Hassan Al Nassay,**

Independent Non-Executive Director

Engineer Hassan Al Nassay is one of five independent Directors of Sembcorp Salalah and is a member of the Remuneration Committee. Mr. Al Nassay has held a number of senior positions at the Abu Dhabi Water and Electricity Authority (ADWEA) including General Director of Power and Transmission, Deputy Managing Director of TRANSCO and has been attached to the ADWEA's chairman's office since 2006, he also was the Chairman of Emirates Sembcorp Company and Union Holding Company.

In addition, Mr Al Nassay was in the board of directors of the following companies: Emirates CMS Power Company, Abu Dhabi Distribution Company (ADDC), Sharjah Water and Electricity Authority (SEWA) and the GCC Power Interconnection Authority, Mr Al Nassay has 35 years of experience in the water and power sectors.

Mr Al Nassay holds a bachelor degree in Electrical and Electronics Technology from the University of Southern Colorado.

**Ng Meng Poh,**

Non-Executive Director

Mr Ng is a director of Sembcorp Salalah and is also the Chairman of Sembcorp Salalah O&M Services Company. He is also the Executive Vice President & Head of Group Asset Management, Utilities at Sembcorp Industries.

Mr Ng is responsible for managing Sembcorp's Utilities business in Singapore, ASEAN, the Middle East & Africa, and UK & the Americas. He also sits on the boards of various companies within the Group.

He has over 30 years of experience in the energy industry and has held both government and private sector appointments. Prior to joining Sembcorp, Mr Ng was a member of the executive management team of Senoko Power and also spent over a decade at Singapore's Public Utilities Board. In the course of his career, he was actively involved in the restructuring and liberalisation of Singapore's power and gas markets, as well as in negotiations for the importation of piped natural gas from Malaysia and Indonesia into Singapore.

Mr Ng holds a Bachelor of Mechanical Engineering from the National University of Singapore and a Masters of Science in Energy Resources from the University of Pittsburgh, USA. He also completed the Advanced Management Programme at the Wharton School of Business.

**Sheikh Khalid Mohammed Ali Al Hamoodah,**

Independent Non-Executive Director

Sheikh Khalid Mohammed Ali Al Hamoodah is currently the assistant executive president of Diwan of Royal Court Pension Fund and holds a business administration degree from Coventry University, UK. He has over 20 years' experience in variety of leadership and strategic positions. He has been serving Diwan of Royal Court for more than 19 years in different capacities and accumulated experience in operational management, administration, project execution, and investments in various asset classes especially in real estate. Included in his responsibility is spearheading the investment department of the Pension Fund. He also plays an integral part in the investment committee of the Pension Fund. Prior to Diwan of Royal Court he had a small stint in Ministry of Oil and Gas.

Currently he is serving as board member in Muscat Gas SAOG (OMAN), Taageer Finance Company SAOG (OMAN), Al Masah Capital Diamond Lifestyle Fund (UAE), NBO GCC Fund (OMAN) and Muscat Fund (OMAN) Managed by Bank Muscat. He is also the member of Executive Committee of Muscat Gas SAOG and Audit Committee of Taageer Finance Company SAOG.

**Executive Management**
**Alex Miquel,**

Chief Executive Officer

Mr. Miquel is the CEO of the Company.

He brings 30 years of international technical and management experience in water and power related industries. He began his career at ABB in 1985 working at the Corporate Research Center and the Environmental Technologies Sales Team in Switzerland, where he worked on the development of different membrane technologies for desalination and other applications and on a number of large scale water plant projects. Between 1990 and 1997 Mr. Miquel worked for the German Company OTTO KG, in different management positions related to water and sewage treatment projects. At OTTO Mr. Miquel also lead their expansion into Latin America, managing a number of large scale infrastructure projects in the water and sewage treatment sector. From 1997 to 2011 Mr. Miquel held a number of Senior Management positions at various global companies in Latin America. Mr. Miquel joined Sembcorp in 2011, where he has been in charge of business development for Latin America, playing a key role in a number of water and power projects.


Mr. Miquel holds a Master of Science Degree in Chemical Engineering from the Swiss Federal Institute of Technology in Zürich, Switzerland.

**Tariq Bashir,**

Financial Controller and Company Secretary

Mr Tariq is the Financial Controller and Company Secretary of Sembcorp Salalah.

Mr Tariq joined Sembcorp Salalah in September 2011. He has more than 10 years of experience in the financial and commercial aspects of the business. Before joining Sembcorp Salalah, he was with KPMG and was involved in many power company audits.



Mr Tariq holds a Bachelor of Commerce from the University of the Punjab, Pakistan, and is a member of the Association of Chartered Certified Accountants.

**Leonilo Barre Caraos,**

Plant Manager

Mr Caraos is the Plant Manager of Sembcorp Salalah.

Mr Caraos is a professional mechanical engineer with more than 25 years' experience in the power and energy industry, specifically in the field of commissioning, operation and health, safety and environment management. Prior to working at Sembcorp Salalah, Mr. Caraos was Operations Manager in the 746-MW Phu My 3 combined-cycle power plant in Vietnam.

Mr Caraos holds a Bachelor of Science in Mechanical Engineering from Batangas State University, Philippines. Mr. Caraos is a Professional Mechanical Engineer licensed by the Philippine Professional Regulation Commission.

**Salim Mohammed Al Mashikhi,**

Human Resource & Information Technology Manager

Mr Salim is the Manager for the Human Resources and Information Technology departments at Sembcorp Salalah O&M Services Company.

He is responsible for designing and developing the information technology network system for the company and overseeing its system requirements. Prior to joining Sembcorp Salalah O&M Services Company, Mr Al Mashiki worked in Raysut Cement Company in Oman as a Network and Hardware Administrator.

Mr Salim holds a diploma in Information Technology from the Salalah College of Technology, Oman.







# Financial statements 31 December 2016

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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SEMBCORP SALALAH POWER & WATER COMPANY SAOG**

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of Sembcorp Salalah Power & Water Company SAOG ("the Company") set out on pages 53 to 82, which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### **Basis for Opinion**

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

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### **Key audit matter - Impairment Assessment of Plant**

Refer to note 7 of the financial statements.





The impairment assessment of plant is considered to be a risk area due to the size of the balance as well as the fact that the assessment involves significant judgment exercised by management, in particular in relation to the following key assumptions:

- assessment of future profitability,
- revenue growth rate,
- forecasted cash flows for the period after the expiration of the power and water purchase agreement, and
- discount rate.

#### **Our response**

- We reviewed the management assessment of the plant for indicators of impairment. We evaluated management's impairment assessment, and performed sensitivity analysis on key assumptions used in the impairment assessment;
- We reviewed the Company's procedures used to develop the forecasts and the principles and integrity of the Company's discounted cash flow model and re-performed the calculations of the model results to test the accuracy. To challenge the reasonableness of those cash flows, we used our knowledge on the historical accuracy of the Company's forecasting and challenged the significant assumptions and critical areas of judgment;
- We held discussions with management on the status of operations of the plant, including future plans and utilization of plant after the end of the contract;
- We reviewed the adequacy of the Company's disclosures in note 7 about the degree of estimation by the management.

#### **Key audit matter - Valuation of derivatives**

Refer to note 9 of the financial statements

The Company uses derivative financial instruments to hedge interest rate exposures on liabilities 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.

#### **Our response**

- We examined the nature of the hedge relationships that were entered into and whether these were in line with the Company's treasury strategy. For the derivatives outstanding at the year-end we assessed their completeness and existence through obtaining external confirmations and their fair value through performing our own independent re-calculations.
- We reviewed whether the hedge accounting documentation and effectiveness rules were met and whether hedge accounting could be achieved. Our work examined the accounting treatment applied for derivatives, in particular when reclassifying gains and losses from reserves to the income statement and adjustments to the carrying value of the hedged item.
- We also reviewed the appropriateness of the disclosure of financial instruments and the related hedge accounting by agreeing the financial statements to the underlying workings prepared by management and ensuring classification is consistent with the accounting principles.



### **Other Information**

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

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

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

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

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

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

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

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





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

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

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

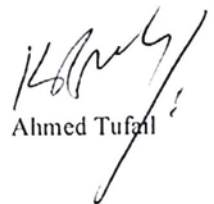
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation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

#### **Report on Other Legal and Regulatory requirements**

We report that the financial statements of the Company as at and for the year ended 31 December 2016, in all material respects, comply with the:

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

20 February 2017

  
Ahmed Tufail



## Statement of profit and loss and other comprehensive income for the year ended 31 December

	Notes	2016 RO	2015 RO
Revenue	3	77,544,985	73,620,776
Cost of sales	4	(43,613,597)	(39,704,971)
Gross profit		33,931,388	33,915,805
Administrative and general expenses	5	(651,687)	(593,616)
Other income		-	1,583
<b>Operating profit</b>		<b>33,279,701</b>	<b>33,323,772</b>
Finance income	12	135,124	90,182
Finance costs	6	(16,750,077)	(17,905,289)
<b>Profit before tax</b>		<b>16,664,748</b>	<b>15,508,665</b>
Income tax	15	(2,035,929)	(1,865,104)
<b>Profit after tax</b>		<b>14,628,819</b>	<b>13,643,561</b>
<b>Other comprehensive income, net of income tax:</b>			
<b>Item that are or may be classified to profit or loss</b>			
Effective portion of change in fair value of cash flow hedge	9	5,420,710	2,032,336
<b>Total comprehensive income for the year</b>		<b>20,049,529</b>	<b>15,675,897</b>
<b>Earnings per share:</b>			
Basic earnings per share (2015 restated)	21	0.015	0.014

The notes on pages 57 to 82 are an integral part of these financial statements.  
The report of the Independent Auditors' is set forth on page 49 to 52.

## Statement of financial position as at 31 December

	Notes	2016 RO	2015 RO
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	308,284,477	318,578,881
Intangible assets	8	2,199	3,526
<b>Total non-current assets</b>		<b>308,286,676</b>	<b>318,582,407</b>
<b>Current assets</b>			
Trade and other receivables	10	9,443,709	7,532,541
Inventory	11	4,256,144	4,557,612
Cash and bank balances	12	27,256,820	28,418,745
<b>Total current assets</b>		<b>40,956,673</b>	<b>40,508,898</b>
<b>Total assets</b>		<b>349,243,349</b>	<b>359,091,305</b>
<b>Equity and liabilities</b>			
Share capital	13 (a)	95,457,195	95,457,195
Retained earnings		3,491,047	3,498,203
Legal reserve	13 (b)	5,312,447	3,849,565
<b>Shareholders' funds</b>		<b>104,260,689</b>	<b>102,804,963</b>
Hedging reserve	9&13(c)	(16,223,237)	(21,643,947)
<b>Total equity</b>		<b>88,037,452</b>	<b>81,161,016</b>
<b>Non-current liabilities</b>			
Term loan	17	208,957,588	222,429,879
Asset retirement obligation	18	534,603	500,115
Deferred tax liability	15	9,726,316	6,951,199
Derivative instruments	9	18,435,497	24,595,394
<b>Total non-current liabilities</b>		<b>237,654,004</b>	<b>254,476,587</b>
<b>Current liabilities</b>			
Current portion of term loan	17	14,483,021	14,116,005
Trade and other payables	14	9,068,872	9,337,697
<b>Total current liabilities</b>		<b>23,551,893</b>	<b>23,453,702</b>
<b>Total liabilities</b>		<b>261,205,897</b>	<b>277,930,289</b>
<b>Total equity and liabilities</b>		<b>349,243,349</b>	<b>359,091,305</b>
Net assets per share (2015 restated)	22	0.11	0.11

The financial statements were approved and authorised for issue in accordance with a resolution of the Board of Directors on 20 February 2017.

_____ Director	_____ Financial Controller	_____ Director
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The notes on pages 57 to 82 are an integral part of these financial statements.  
The report of the Independent Auditors' is set forth on page 49 to 52.

## Statement of cash flows for the year ended 31 December

	Notes	2016 RO	2015 RO
<b>Cash flows from operating activities:</b>			
Profit before tax		16,664,748	15,508,665
Adjustment for:			
Depreciation and amortization		10,819,772	10,829,007
Amortisation of deferred financing cost		1,010,730	1,069,691
Finance costs		15,685,567	16,781,558
Finance income		(135,124)	(90,182)
Provision for asset retirement obligation		34,488	32,376
		<u>44,080,181</u>	<u>44,131,115</u>
<i>Changes in working capital:</i>			
Inventory		301,468	(937,541)
Trade and other receivables		(1,887,932)	(556,562)
Trade and other payables		(55,501)	1,113,922
		<u>42,438,216</u>	<u>43,750,934</u>
Finance cost paid		(15,865,380)	(17,312,202)
Net cash flow from operating activities		<u>26,572,836</u>	<u>26,438,732</u>
<b>Cash flows from investing activities:</b>			
Acquisition of property, plant and equipment		(559,884)	(703,506)
Disposal of property, plant and equipment		5,500	-
Acquisition of intangible assets		(3,168)	(2,489)
Investment in fixed term cash deposits (maturity 3 to 6 months)		(45,770,212)	(37,282,045)
Maturity of fixed term cash deposits		45,937,038	34,865,566
Finance income		111,888	100,738
Net cash used in investing activities		<u>(278,838)</u>	<u>(3,021,736)</u>
<b>Cash flows from financing activities:</b>			
Repayment of term loan		(14,116,005)	(13,212,579)
Dividend paid		(13,173,093)	(12,791,264)
Net cash used in financing activities		<u>(27,289,098)</u>	<u>(26,003,843)</u>
<b>Net change in cash and cash equivalents</b>		<b>(995,100)</b>	<b>(2,586,847)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>6,984,854</b>	<b>9,571,701</b>
<b>Cash and cash equivalents at 31 December</b>	12	<b>5,989,754</b>	<b>6,984,854</b>

The notes on pages 57 to 82 are an integral part of these financial statements.  
The report of the Independent Auditors' is set forth on page 49 to 52.



**Statement of changes in equity  
for the year ended 31 December**

	Share capital RO	Retained earnings RO	Legal reserve RO	Hedging reserve RO	Total RO
<b>At 1 January 2016</b>	<b>95,457,195</b>	<b>3,498,203</b>	<b>3,849,565</b>	<b>(21,643,947)</b>	<b>81,161,016</b>
<b>Total comprehensive Income</b>					
Profit for the year	-	14,628,819	-	-	14,628,819
Changes in fair value of cash flow hedge, net of income tax	-	-	-	5,420,710	5,420,710
Total comprehensive income for the year	-	14,628,819	-	5,420,710	20,049,529
<b>Transactions with owners of the Company, recognised directly in equity</b>					
Final dividend 2015		(3,341,002)			(3,341,002)
Interim dividend 2016	-	(9,832,091)	-	-	(9,832,091)
Transfer to legal reserve	-	(1,462,882)	1,462,882	-	-
Transactions with owners of the Company, recognised directly in equity	-	(14,635,975)	1,462,882	-	(13,173,093)
<b>At 31 December 2016</b>	<b>95,457,195</b>	<b>3,491,047</b>	<b>5,312,447</b>	<b>(16,223,237)</b>	<b>88,037,452</b>
<b>At 1 January 2015</b>	<b>95,457,195</b>	<b>4,010,262</b>	<b>2,485,209</b>	<b>(23,676,283)</b>	<b>78,276,383</b>
<b>Total comprehensive Income</b>					
Profit	-	13,643,561	-	-	13,643,561
Changes in fair value of cash flow hedge, net of income tax	-	-	-	2,032,336	2,032,336
Total comprehensive income for the year	-	13,643,561	-	2,032,336	15,675,897
Transactions with owners of the Company, recognised directly in equity					
Final dividend 2014	-	(4,009,202)	-	-	(4,009,202)
Interim dividend 2015	-	(8,782,062)	-	-	(8,782,062)
Transfer to legal reserve	-	(1,364,356)	1,364,356	-	-
Transactions with owners of the Company, recognised directly in equity	-	(14,155,620)	1,364,356	-	(12,791,264)
<b>At 31 December 2015</b>	<b>95,457,195</b>	<b>3,498,203</b>	<b>3,849,565</b>	<b>(21,643,947)</b>	<b>81,161,016</b>

The notes on pages 57 to 82 are an integral part of these financial statements.  
The report of the Independent Auditors' is set forth on page 49 to 52.

## Notes

### *(forming part of the financial statements)*

#### 1 Legal status and principal activities

Sembcorp Salalah Power & Water Company SAOC ("the Company") was registered as a closed Omani Joint Stock Company in the Sultanate of Oman on 29 September 2009.

The Company entered into a Shareholders Agreement ("the Shareholders Agreement") dated 17 November 2009 between Sembcorp Oman First Investment Holding Co Ltd ("SOFIH") 40% shareholder, Sembcorp Oman IPO Holding Co Ltd ("SOIHL") 20% shareholder and Inma Power & Water Company LLC ("IPWC") 40% shareholder. Sembcorp Industries Limited is an ultimate Parent Company of SOFIH.

The Company was awarded a tender by the Government of the Sultanate of Oman ("the Government") to build, own and operate an electricity generation and seawater desalination plant together with the associated facilities in the Salalah region ("the Plant").

On 8 October 2013, the Company was listed in Muscat Securities Market and became a listed public joint stock company ("SAOG").

#### **Significant agreements:**

The Company has entered into the following major agreements:

- i) Power and Water Purchase Agreement ("the PWPA") dated 23 November 2009 with Oman Power & Water Procurement Company SAOC ("OPWP") for a period of fifteen years commencing from the date of commercial operations ("Operation period") to procure the power and water produced by the Company;
- ii) Natural Gas Sales Agreement ("NGSA") dated 23 November 2009 with the Ministry of Oil and Gas ("MOG") of the Government for the supply of natural gas;
- iii) Usufruct Agreement ("Usufruct Agreement") dated 23 November 2009 with the Ministry of Housing for grant of Usufruct rights over the project site;
- iv) Long Term Service Agreement ("LTSA") with General Electric International LLC ("GEIL") for maintenance services on gas turbines and generators;
- v) EPC Turnkey Engineering, Procurement and Construction ("EPC") Contract dated 20 August 2009 with SEPCOIII Electric Power Construction Corporation ("SEPCOIII") for the construction of the Plant;
- vi) Government Guarantee Agreement ("Government Guarantee") dated 23 November 2009 with the Government represented by the Ministry of Finance ("MOF"), whereby the MOF is prepared to guarantee the payment by OPWP of its financial obligations to the Company's Senior Lenders under the PWPA; and
- vii) Operation and Maintenance ("O&M") agreement with Sembcorp Salalah O&M Services Company LLC ("SSOM") dated 8 February 2010 for a period of 15 years from the scheduled commercial operation date.

#### 2 Basis of preparation and significant accounting policies

##### **Basis of preparation**

##### **a) Statement of compliance**

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and applicable requirements of the Oman Commercial Companies Law of 1974 (as amended) and the disclosure requirement of Capital market Authority of the Sultanate of Oman.

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

### b) *Basis of measurement*

These financial statements are prepared on a historical cost basis except where otherwise described in the accounting policies below.

### c) *Use of estimates and judgements*

The preparation of the financial statements in conformity with IFRSs requires 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 significant areas of estimation uncertainty and critical judgments 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 derivatives financial instruments, asset retirement obligation and impairment of trade receivables.

### *Significant accounting policies*

The accounting policies set out below have been applied consistently by the Company and are consistent with those used in the previous year.

### a) *Foreign currency*

#### i) *Functional and presentation currency*

The financial statements have been presented in Rial Omani ("RO") which is the functional currency of the Company.

#### ii) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currency of the Company at foreign exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency at the exchange rate at the date of the transaction. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated into the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign currency differences arising on translation of monetary items are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, qualifying cash flow hedges or other non monetary items, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.



**Notes**  
*(forming part of the financial statements)*

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

**b) Financial instruments**

**i) Non derivative financial instruments**

Non-derivative financial instruments comprise trade and other receivables, amounts due to related parties, cash and cash equivalents, loans and borrowings, and trade and other payables. Cash and cash equivalents comprise cash balances, demand deposits and fixed deposits and term deposits with original maturity not greater than three months.

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

**ii) Derivative financial instruments, including hedge accounting**

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

The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% to 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported total comprehensive income for the period. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

**iii) Cash flow hedges**

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, then hedge accounting is discontinued prospectively. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

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

### b) *Financial instruments* (continued)

#### iv) *Separable embedded derivatives*

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

### c) *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. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and 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 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 are recognised net within other income in profit or loss. 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.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

#### (iii) *Depreciation*

Depreciation is calculated using the straight-line method to allocate the cost less its residual value so as to write off items of property, plant and equipment over their estimated useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of an item is depreciated separately. The estimated useful lives are as follows:

Land and Buildings	30 to 35 years
Plant and machinery	20 to 35 years
Tools and equipment	1 to 12 years
Roads and pipelines	10 to 35 years
Computer equipment	3 years
Furniture and Fixtures	3 to 10 years
Motor vehicles	10 years

**Notes**  
*(forming part of the financial statements)*

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

**c) Property, plant and equipment (continued)**

**(iii) Depreciation (continued)**

Certain items of property, plant and equipment are subject to overhauls at regular intervals. The inherent components of the initial overhaul are determined based on the estimated costs of the next overhaul and are separately depreciated in order to reflect the estimated intervals between two overhauls. The costs of the overhauls subsequently incurred are capitalised as additions and the carrying amounts of the replaced components are written off to the profit or loss.

**(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 above categories, which occurs when the asset is ready for its intended use.

**(v) Site restoration**

A liability for future site restoration is recognized as the activities giving rise to the obligation of future site restoration. 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.

**d) Impairment**

**i) 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.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed by grouping together assets that share similar credit risk characteristics. All impairment losses are recognised in profit or loss account.

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 profit or loss.

The recoverable amount of the Company's receivables is calculated as the present value of future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. Collectively provisions are maintained in respect of losses which are incurred but not yet specifically identified within the portfolio of receivables. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of a held to maturity security or receivable carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.



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

### d) *Impairment* (continued)

#### 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. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets. Impairment losses are recognised in the profit and loss statement unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units and then, to reduce the carrying amounts of the other assets in cash-generating units on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs 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 asset or cash-generating unit.

Management determines whether there are any indications of impairment to the carrying values of property, plant and equipment on an annual basis because of the difference between the duration of contracted cash flows and accounting depreciation of assets. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows for the period lying beyond the term of the initial PWPA and also choose a suitable discount rate in order to calculate the present value of those cash flows.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

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 asset's 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.

### e) *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 profit and loss statement over the period of the borrowings on an effective interest basis.

## Notes

*(forming part of the financial statements)*

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

#### **f) Provisions**

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **g) Revenue recognition**

Revenue from the sale of electricity and water is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when electricity and water are delivered which is taken to be the point of time when the customer has accepted the deliveries and the related risks and rewards of ownership have been transferred to the customer. Capacity charge is treated as revenue under operating lease and recognized on straight line basis over the lease term to the extent that capacity has been made available based on contractual terms stipulated in PWPA.

#### **h) Finance income**

Finance income comprises interest received on bank deposits and foreign exchange gains and losses that are recognised in the profit and loss statement. Interest income is recognised in the profit and loss statement, as it accrues, taking into account the effective yield on the asset.

#### **i) Borrowing costs**

Interest expense and similar charges are expensed in the profit and loss 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 an asset which necessarily takes a substantial period of time to prepare for its intended use or sale. The interest component of finance lease payments is recognised in the profit and loss statement using the effective interest rate method.

#### **j) Inventories**

Inventories 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. Slow moving and obsolete inventory items are written down to their estimated net realizable value, based on criteria determined by the Company.

#### **k) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of profit and loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

### k) *Income tax expense* (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. The measurement of deferred tax reflects the consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### l) *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.

### m) *Operating lease*

The Company has entered into a long term take-or-pay arrangement with OPWP under PWPA. The Company has determined the PWPA to be a lease as the purchaser has the right to direct how the Company operates the power and water plant and obtains from the Company electricity generated by the plant. Further, management has concluded that this arrangement is in the nature of operating lease since it does not transfer substantially all the risk and rewards incidental to ownership of the asset. The Company recognizes operating lease income on a straight line basis.

### n) *New standards and interpretation not yet effective*

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Company has not early applied the following new or amended standards in preparing these financial statements.



**Notes**  
*(forming part of the financial statements)*

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

**(n) New standards and interpretation not yet effective (continued)**

<b>New or amended standards</b>	<b>Summary of the requirements</b>	<b>Possible impact on financial statements</b>
IFRS 9 Financial Instruments	<p>IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.</p> <p>IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.</p>	The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.
IFRS 15 Revenue from Contracts with Customers	<p>IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.</p> <p>IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.</p>	The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.
IFRS 16 Leases	<p>IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.</p> <p>It replaces existing lease recognition guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.</p> <p>IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.</p>	The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

## Notes

(forming part of the financial statements)

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

#### (n) New standards and interpretation not yet effective (continued)

The following new or amended standards are not expected to have a significant impact on the Company's financial statements.

- IFRS 14 Regulatory Deferral Accounts.
- Bearer plant, defined as a living plant, to be accounted for as property, plant and equipment and included in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture (Amendments to IAS 16).
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 & IAS 38).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards.
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).
- Disclosure Initiative (Amendments to IAS 1).

### 3 Revenue

	2016 RO	2015 RO
Fixed capacity charge - Power	35,962,241	36,028,339
Fixed capacity charge - Water	15,614,480	15,651,076
Energy charge	1,344,817	1,092,191
Water output charge	871,054	929,222
Fuel charge	23,752,393	19,919,948
	<u>77,544,985</u>	<u>73,620,776</u>

### 4 Cost of sales

Fuel cost	23,275,542	19,767,891
Operation and maintenance cost (note 16)	5,607,298	5,474,356
Contractual services maintenance cost	2,825,360	2,565,594
Depreciation	10,787,585	10,783,309
Insurance cost	541,663	590,320
Incentive payment	354,760	291,563
Security charges	99,523	95,894
Electricity import cost	14,170	18,440
Unwinding of discount - asset retirement obligation	34,488	32,376
License and permits	73,208	84,018
Other overheads	-	1,210
	<u>43,613,597</u>	<u>39,704,971</u>

**Notes**
*(forming part of the financial statements)*
**5 Administrative and general expenses**

	2016 RO	2015 RO
Staff costs	147,189	168,551
Legal and professional charges	49,355	40,596
Depreciation and amortisation	32,187	45,698
Bad debts written off	74,276	-
Directors' remuneration and sitting fees (note 16)	117,036	119,500
Fee and subscription	110,863	107,967
Travelling expenses	38,113	29,621
Charity and donations	34,000	41,160
Loss on disposal of property, plant and equipment	4,576	-
Other administrative and general expenses	44,092	40,523
	<b>651,687</b>	<b>593,616</b>

**6 Finance costs**

Interest expense on project financing	9,371,469	9,155,393
Interest expense on interest rate swap	6,314,098	7,626,165
Deferred financing cost	1,010,730	1,069,691
Commission and bank charges	53,780	54,040
	<b>16,750,077</b>	<b>17,905,289</b>

Interest expense on project financing and deferred finance cost relates to the term loan. Interest expense on swaps relates to the derivatives.



## Notes

(forming part of the financial statements)

### 7 Property, plant and equipment

Cost	Land and buildings RO	Roads and pipelines RO	Plant and machinery RO	Furniture and Fixtures RO	Motor vehicles RO	Computer equipment RO	Capital work in progress RO	Total RO
At 1 January 2016	48,445,982	26,008,548	285,948,116	192,654	287,890	213,845	-	361,097,035
Additions during the year	15,694	272,554	243,415	994	7,150	28,983	-	568,790
Disposals during the year	-	-	(43,608)	-	(19,780)	-	-	(63,388)
At 31 December 2016	<u>48,461,676</u>	<u>26,281,102</u>	<u>286,147,923</u>	<u>193,648</u>	<u>275,260</u>	<u>242,828</u>	<u>-</u>	<u>361,602,437</u>
<b>Accumulated depreciation</b>								
At 1 January 2016	5,585,092	3,059,578	33,464,811	118,192	101,752	188,730	-	42,518,155
Charge for the year	1,459,845	796,380	8,476,064	36,811	31,465	14,712	-	10,815,277
Depreciation of disposals	-	-	(5,890)	-	(9,582)	-	-	(15,472)
At 31 December 2016	<u>7,044,937</u>	<u>3,855,958</u>	<u>41,934,985</u>	<u>155,003</u>	<u>123,635</u>	<u>203,442</u>	<u>-</u>	<u>53,317,960</u>
<b>Carrying amount At 31 December 2016</b>	<u><b>41,416,739</b></u>	<u><b>22,425,144</b></u>	<u><b>244,212,938</b></u>	<u><b>38,645</b></u>	<u><b>151,625</b></u>	<u><b>39,386</b></u>	<u><b>-</b></u>	<u><b>308,284,477</b></u>
<b>Cost</b>								
At 1 January 2015	48,024,534	25,998,788	285,731,911	183,925	286,289	195,645	380,000	360,801,092
Additions during the year	41,448	9,760	216,205	8,729	1,601	18,786	-	296,529
Transfer during the year	380,000	-	-	-	-	-	(380,000)	-
Disposals during the year	-	-	-	-	-	(586)	-	(586)
At 31 December 2015	<u>48,445,982</u>	<u>26,008,548</u>	<u>285,948,116</u>	<u>192,654</u>	<u>287,890</u>	<u>213,845</u>	<u>-</u>	<u>361,097,035</u>
<b>Accumulated depreciation</b>								
At 1 January 2015	4,129,319	2,270,606	24,988,753	74,967	70,006	164,964	-	31,698,615
Charge for the year	1,455,773	788,972	8,476,058	43,225	31,746	23,921	-	10,819,695
Depreciation of disposals	-	-	-	-	-	(156)	-	(156)
At 31 December 2015	<u>5,585,092</u>	<u>3,059,578</u>	<u>33,464,811</u>	<u>118,192</u>	<u>101,752</u>	<u>188,729</u>	<u>-</u>	<u>42,518,154</u>
<b>Carrying amount At 31 December 2015</b>	<u><b>42,860,890</b></u>	<u><b>22,948,970</b></u>	<u><b>252,483,305</b></u>	<u><b>74,462</b></u>	<u><b>186,138</b></u>	<u><b>25,116</b></u>	<u><b>-</b></u>	<u><b>318,578,881</b></u>

**Notes**
*(forming part of the financial statements)*
**8 Intangible assets**

	2016 RO	2015 RO
At 1 January 2016	108,438	105,949
Additions during the period	3,168	2,489
	<u>111,606</u>	<u>108,438</u>
<b>Accumulated amortization</b>		
At 1 January 2016	(104,912)	(95,600)
Charge for the period	(4,495)	(9,312)
	<u>(109,407)</u>	<u>(104,912)</u>
Carrying amount	<u>2,199</u>	<u>3,526</u>

Intangible assets mainly represent the purchase of ERP software.

**9 Hedging reserve**

Interest rate swaps:		
SMBC Capital Market Limited	(3,828,118)	(5,240,585)
Standard Chartered Bank	(11,267,077)	(14,926,258)
KfW-IPEX	(3,340,302)	(4,428,551)
Hedging instrument at the end of the year	(18,435,497)	(24,595,394)
Deferred tax asset (note 15)	2,212,260	2,951,447
Hedging reserve at the end of the year (net of tax)	(16,223,237)	(21,643,947)
Less: Hedging reserve at the beginning of the year	(21,643,947)	(23,676,283)
Effective portion of change in fair value of cash flow hedge for the year	<u>5,420,710</u>	<u>2,032,336</u>

On 19 November 2009, the Company entered into a Common Terms Agreement ("CTA"), for credit facilities with a consortium of international and local banks with Standard Chartered Bank as the Dollar Commercial Facility Agent, Bank Muscat SAOG as the Rial Commercial Facility Agent and Bank of China, Shan dong Branch as the Sinosure Facility Agent.

The Dollar Commercial Facility and the Sinosure Facility bear interest at USD LIBOR plus applicable margins.

In accordance with the CTA, the Company has fixed the rate of interest through an Interest Rate Swap Agreements ("IRS") entered into with SMBC Capital Market Limited, KfW IPEX Bank GmbH and Standard Chartered Bank dated 20 November 2009, 23 March 2010 and 8 April 2010 respectively, for 95.32% of its USD loan facility.

The corresponding hedged notional amount outstanding as of 31 December 2016 is approximately RO 143 million (USD 372 million) and approximately RO 37 million (USD 97 million) respectively, at a fixed interest rate of 4.345% and 3.8% per annum respectively.

## Notes

(forming part of the financial statements)

### 10 Trade and other receivables

	2016 RO	2015 RO
Trade receivables	6,292,328	5,817,351
Advances to vendors	2,794,542	1,378,919
Prepayments	201,421	242,305
Other receivables	155,418	93,966
	<u>9,443,709</u>	<u>7,532,541</u>

### 11 Inventory

Fuel inventory	1,028,993	1,075,933
Spare parts and consumables	3,227,151	3,481,679
	<u>4,256,144</u>	<u>4,557,612</u>

### 12 Cash and bank balances

Cash in hand	932	692
Cash at bank	5,988,822	6,984,162
Cash and cash equivalent	5,989,754	6,984,854
Fixed term cash deposits (3 to 6 months)	21,267,066	21,433,891
	<u>27,256,820</u>	<u>28,418,745</u>

Fixed deposit includes Debt Service Reserve Account in the amount of RO 14,219,007 (2015: RO 14,250,027).

The Company has also made a placement in the amount of RO 21,267,066 at a weighted average interest rate of 0.92% per annum. The fixed deposit will mature in March 2016. Maturity of the fixed deposits is from three months to six months from the date of placement.

### 13 Equity

#### (a) Share capital

The Company's registered capital (issued and fully paid) comprises 954,571,950 shares of 100 Baisas each.

In the EGM on 15 March 2016, Shareholders approved to amend the par value of each share from RO 1 to 100 Baisas per share and amended the issued share capital from 95,457,195 shares to 954,571,950 shares. All shares, earnings per share and net assets per share information have been retroactively adjusted to reflect the share split.

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 shareholders meetings of the Company. All shares rank equally with regard to the Company's residual assets.

#### (b) Legal reserve

In accordance with the Commercial Companies Law of 1974 (as amended), 10% of the Company's net profits after the deduction of taxes will be transferred to a non-distributable legal reserve each year until the amount of such legal reserve has reached a minimum one-third of the Company's issued share capital. This reserve is not available for distribution to shareholders as dividends.



**Notes**
*(forming part of the financial statements)*
**13 Equity (continued)**
**(c) Hedging reserve**

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (note 9).

**14 Trade and other payables**

	2016 RO	2015 RO
Payables to EPC Contractor	1,799,641	1,799,641
Trade payables	172,630	124,623
Due to related parties ( note 16)	572,706	1,008,257
Retentions and deductions	137,478	206,861
Interest payables	3,940,434	4,120,247
Accrued expenses and other payable	2,445,983	2,078,068
	<u>9,068,872</u>	<u>9,337,697</u>

**15 Income tax**

The Company is liable for income tax, in accordance with the income tax laws of Sultanate of Oman, at the rate of 12% of taxable income in excess of RO 30,000.

A deferred tax asset has been recognised directly in equity in respect of the changes in fair values of interest rate swaps (note 9).

**a) Recognised in profit or loss**

Deferred tax expense for the year	<u>2,035,929</u>	<u>1,865,104</u>
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**b) Reconciliation**

The following is the tax reconciliation of income taxes calculated at the applicable tax rate with the income tax expenses.

Profit before tax		<u>16,664,748</u>		<u>15,508,665</u>
	%		%	
Income tax as per rates mentioned above	12.00	(1,999,770)	12.00	(1,861,040)
Expenses not deductible for tax purposes	0.03	(4,318)	0.03	(4,064)
Change in recognised deductible temporary differences	0.19	(31,841)	-	-
Deferred tax expense for the year	<u>12.22</u>	<u>(2,035,929)</u>	<u>12.03</u>	<u>(1,865,104)</u>

## Notes

(forming part of the financial statements)

### 15 Income tax (continued)

#### c) Deferred tax asset (liability)

	At 1 January RO	Recognised during the year RO	At 31 December RO
<b>As at 31 December 2016</b>			
<b>Charged to profit or loss</b>			
Property, plant and equipment	(13,068,477)	(1,947,364)	(15,015,841)
Tax losses	<u>3,165,831</u>	<u>(88,565)</u>	<u>3,077,266</u>
	<u>(9,902,646)</u>	<u>(2,035,929)</u>	<u>(11,938,575)</u>
Deferred tax recognised in equity			
Derivative instrument	<u>2,951,447</u>	<u>(739,188)</u>	<u>2,212,259</u>
Deferred tax liability (net)	<u>(6,951,199)</u>	<u>(2,775,117)</u>	<u>(9,726,316)</u>
	At 1 January RO	Recognised during the year RO	At 31 December RO
<b>As at 31 December 2015</b>			
<b>Charged to profit or loss</b>			
Property, plant and equipment	(10,737,469)	(2,331,008)	(13,068,477)
Tax losses	<u>2,699,927</u>	<u>465,904</u>	<u>3,165,831</u>
	<u>(8,037,542)</u>	<u>(1,865,104)</u>	<u>(9,902,646)</u>
Deferred tax recognised in equity			
Derivative instrument	<u>3,228,584</u>	<u>(277,137)</u>	<u>2,951,447</u>
Deferred tax liability (net)	<u>(4,808,958)</u>	<u>(2,142,241)</u>	<u>(6,951,199)</u>

#### d) Status of prior year returns

The Company's assessment for the tax years 2011 to 2015 have not yet been finalised with the Secretariat General for Taxation at the Ministry of Finance. Management of the Company believes that additional taxes, if any, in respect of open tax years, would not be significant to the Company's financial position as at 31 December 2016.

## Notes

(forming part of the financial statements)

### 16 Related party transactions

The Company has a related party relationship with entities over which certain shareholders are able to exercise significant influence. In the ordinary course of business, such related parties provide goods and render services to the Company. Prices and terms for these transactions, which are entered into in the normal course of business, are on mutually agreed terms and conditions. The Company had the following significant transactions with related parties during the year:

	2016 RO	2015 RO
Sembcorp Industries Limited (Ultimate Parent Company)		
- Reimbursement of expenses	18,918	59,634
- Reimbursement to the Company	-	431
SSOM		
- Operation and maintenance cost	5,607,298	5,474,356
- Incentive payment	354,760	291,563
Oman Investment Corporation		
- Reimbursement of expenses	15,593	8,238
Sembcorp Oman First Investment Company		
- Reimbursement of expenses	509	-
Sembcorp Bournemouth Water Limited		
- Reimbursement to the company	-	625
Sembcorp Utilities (UK) Limited		
- Reimbursement to the company	-	943
	<u>5,997,078</u>	<u>5,835,790</u>
Balances due to related parties at the yearend comprised (note 14):		
SSOM	553,064	967,667
Sembcorp Industries Ltd	14,139	40,590
OIC	5,503	-
	<u>572,706</u>	<u>1,008,257</u>

### Key Management benefits

Key Management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise). Total compensation paid to key management personnel for the year ended is as follows:

Directors' remuneration	91,286	100,000
Directors' sitting fees	25,750	19,500
Short term employee benefits	338,726	353,719
Social security and gratuity	19,064	15,815
Other long term benefits	-	25,541
	<u>474,826</u>	<u>514,575</u>

Compensation of some of the Key Management personnel has been paid through Sembcorp Salalah O&M Services Co. LLC.



**Notes**  
(forming part of the financial statements)

**17 Term loan**

		2016 RO	2015 RO
Non-current	Maturity		
Project financing loan (USD)	2012-2026	189,383,397	201,069,402
Project financing loan (Rials)	2012-2026	39,380,580	41,810,580
		<u>228,763,977</u>	<u>242,879,982</u>
Less: Unamortised transaction cost		(5,323,368)	(6,334,098)
		<u>223,440,609</u>	<u>236,545,884</u>
Less: Current portion of term loan		(14,483,021)	(14,116,005)
		<u>208,957,588</u>	<u>222,429,879</u>

On 19 November 2009, the Company entered into a Common Terms Agreement ("CTA"), for credit facilities with a consortium of international and local banks with Standard Chartered Bank as the Dollar Commercial Facility Agent, Bank Muscat SAOG as the Rial Commercial Facility Agent and Bank of China, Shondong Branch as Sinosure Facility Agent, collectively "the Mandated Lead Arranger".

**Repayments**

The aggregate amount of drawdowns under the above facilities is repayable in full by 29 half yearly instalments commencing from 30 September 2012, with the final instalment being due on 30 September 2026.

**Interest**

Interest on Dollar Commercial facilities is charged at a floating rate of LIBOR plus margin. The Company has entered into an interest rate swap to cap its obligation against unfavourable interest rate changes.

The margins are indicated below:

	Margin (% per annum)
Prior to completion date (as defined in the CTA)	3.00%
Thereafter up to the sixth anniversary of completion date	2.85%
Thereafter up to the tenth anniversary of completion date	3.20%
Thereafter up to the thirteenth anniversary of completion date	3.55%
Thereafter	<u>3.95%</u>

Interest on Sinosure Covered facilities is charged at a floating rate of LIBOR plus margin (3% p.a.). The Company has entered into an interest rate swap to cap its obligation against unfavourable interest rate changes.

Interest under the Rial Commercial Facilities Agreement is charged at a fixed rate, as shown in the table below:

Period	Margin (% per annum)
From financial close to the third anniversary of financial close	8.00%
From the third anniversary of financial close to the fifth anniversary of financial close	7.00%
From the fifth anniversary of financial close to the eighth anniversary of financial close	<u>4.25%</u>

## Notes

(forming part of the financial statements)

### 17 Term loan (continued)

#### Other fees

The Company was required to pay front end fees to the Mandated Lead Arranger. In addition, the Company paid commitment fees at 1.3% of undrawn Dollar Commercial facilities and Sinasure Covered facilities and 0.4% of undrawn Rial Omani facilities. As at 31 December 2016, there were no undrawn loans.

#### Securities

The term loans are secured by a mortgage over the Company's property, plant and equipment and current assets of the Company, including a lien on the balances in the sales collection accounts 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 assets, granting of loans and guarantees, acquisition of capital assets, debt service coverage ratio, change of business, hedging agreements, etc, with which the Company is required to comply. The Company is in compliance with the covenants attached with the term loans.

### 18 Asset retirement obligation ("ARO")

Under the 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 the ARO provision has been calculated using an expected present value technique. This technique reflects assumptions such as costs, plant useful life, inflation 3%, discount rate 6.8% and profit margin that third parties would consider to assume the settlement of the obligation. The movement in ARO provision is as follows:

	2016 RO	2015 RO
At 1 January	500,115	467,739
Unwinding of discount	34,488	32,376
At 31 December	534,603	500,115

### 19 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.

## Notes

(forming part of the financial statements)

### 19 Financial risk management (continued)

The Board of Directors has overall responsibility for the establishment and oversight of 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 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

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

	Interest rate	2016 RO	2015 RO
Financial assets			
Bank balances		5,988,822	6,984,162
Fixed term cash deposit	0.92%	<u>21,267,066</u>	<u>21,433,891</u>
Financial liabilities			
Term loan			
- USD variable rate loans	Libor+3.00%	(105,186,988)	(111,677,608)
- USD variable rate loans	Libor+2.85%	(84,196,409)	(89,391,794)
- RO fixed rate loans	4.25%	<u>(39,380,580)</u>	<u>(41,810,580)</u>
		<u>(228,763,977)</u>	<u>(242,879,982)</u>

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 profit or loss.

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

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and income statement by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Equity			
	100 bps Increase	100 bps Decrease	100 bps Increase	100 bps Decrease
	31 December 2016	31 December 2016	31 December 2015 RO	31 December 2015 RO
Interest rate swap	<u>10,225,643</u>	<u>(10,225,643)</u>	<u>12,211,490</u>	<u>(12,211,490)</u>



**Notes**
*(forming part of the financial statements)*
**19 Financial risk management (continued)**
**Currency risk**

The majority of the transactions and balances are in either RO or USD. As the RO is pegged to the USD, balances in USD are not considered to represent significant currency risk. The Company is not exposed to significant currency risk as at 31 December 2016.

**(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. Under the terms of the PWPA, the Company's sales are billed wholly to OPWP. The Company manages its credit risk with OPWP by monitoring its credit rating and obtaining credit enhancements. The Company limits its credit risk with regard to bank deposits by only dealing with reputable banks and financial institutions with strong credit ratings. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2016 RO	2015 RO
Break down of financial assets (at carrying amount)		
Cash at bank	5,988,822	6,984,162
Fixed term cash deposits (3 to 6 months)	21,267,066	21,433,891
Trade receivable	6,292,328	5,817,351
Retention and other receivable	155,418	93,966
	<u>33,703,634</u>	<u>34,329,370</u>
Age analysis of current trade and other receivable is as follows:		
Not past dues	6,446,862	5,908,161
Past due 0 to 3 months	650	1,224
Past due 3 to 6 months	234	1,932
Past due 6 to 12 months	-	-
	<u>6,447,746</u>	<u>5,911,317</u>

**(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 bank facilities and shareholders' advances are available, where required. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

## Notes

(forming part of the financial statements)

### 19 Financial risk management (continued)

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

	Cash flows				
	Carrying amount	Contractual cash flow	Less than 1 year	More than 1 to 5 years	More than 5 years
	RO	RO	RO	RO	RO
<b>31 December 2016</b>					
<b>Derivatives</b>					
Interest rate swaps used for hedging	18,435,497	(19,527,914)	(3,860,507)	(11,685,599)	(3,981,808)
<b>Non-derivatives financial liabilities</b>					
Term loan	223,440,609	(295,662,555)	(21,752,923)	(124,316,710)	(149,592,922)
Trade and other payables	9,068,872	(9,068,872)	(9,068,872)	-	-
	<u>250,944,978</u>	<u>(324,259,341)</u>	<u>(34,682,302)</u>	<u>(136,002,309)</u>	<u>(153,574,730)</u>
<b>31 December 2015</b>					
<b>Derivatives</b>					
Interest rate swaps used for hedging	24,595,394	(25,507,803)	(4,852,405)	(14,684,136)	(5,971,262)
<b>Non-derivatives financial liabilities</b>					
Term loan	236,545,884	(318,663,152)	(21,130,969)	(114,797,188)	(182,734,995)
Trade and other payables	9,337,697	(9,337,697)	(9,337,697)	-	-
	<u>270,478,975</u>	<u>(353,508,652)</u>	<u>(35,321,071)</u>	<u>(129,481,324)</u>	<u>(188,706,257)</u>

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

#### Fair values

##### a) Accounting classification and fair values

The following table shows the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

**Notes**
*(forming part of the financial statements)*
**19 Financial risk management (continued)**
*(c) Liquidity risk (continued)*
*a) Accounting classification and fair values (continued)*

	Carrying amount			Fair value	
	Fair value - hedging instrument RO	Loans and receivables RO	Other financial liabilities RO	Total RO	Level 2 RO
<b>31 December 2016</b>					
<b>Financial assets not measured at fair value</b>					
Trade and other receivables	-	6,447,746	-	6,447,746	-
Cash and cash equivalents	-	27,256,820	-	27,256,820	-
	-	33,704,566	-	33,704,566	-
Financial liabilities measured at fair value					
Derivative instrument	(18,435,497)	-	-	(18,435,497)	(18,435,497)
<b>Financial liabilities not measured at fair value</b>					
Term loan	-	-	(223,440,609)	(223,440,609)	(235,866,541)
Trade and other payables	-	-	(9,068,872)	(9,068,872)	-
	-	-	(232,509,481)	(232,509,481)	(235,866,541)
<b>31 December 2015</b>					
<b>Financial assets not measured at fair value</b>					
Trade and other receivables	-	5,911,317	-	5,911,317	-
Cash and cash equivalents	-	28,418,745	-	28,418,745	-
	-	34,330,062	-	34,330,062	-
<b>Financial liabilities measured at fair value</b>					
Derivative instrument	(24,595,394)	-	-	(24,595,394)	(24,595,394)
<b>Financial liabilities not measured at fair value</b>					
Term loan	-	-	(236,545,884)	(236,545,884)	(258,965,628)
Trade and other payables	-	-	(9,337,697)	(9,337,697)	-
	-	-	(245,883,581)	(245,883,581)	(258,965,628)



**Notes**  
(forming part of the financial statements)

**19 Financial risk management (continued)**

**(c) Liquidity risk** (continued)

**a) Accounting classification and fair values** (continued)

The Company has not disclosed the fair values of short term trade and other receivables, cash and cash equivalents and trade and other payables because their carrying amount are a reasonable approximation of fair values.

**b) Measurement of fair values**

Type	Valuation technique	Significant unobservable inputs
Derivative instrument (Interest rate swaps)	Market comparison technique: fair value is calculated by the respective financial institutions.	Not applicable
Other long term financial liabilities	Discounted cash flows	Not applicable

**Embedded derivatives**

The following agreements contain embedded derivatives:

- i) The PWPA between the Company and OPWP contains embedded derivatives in pricing the investment charge rate and the fixed operation and maintenance charge rate for each of the power facility and the desalination facility. Percentages of the fixed operation and maintenance charge rate for each of power facility and the desalination facility will be adjusted to reflect changes in the US price index and the Omani Consumer price index.
- ii) The O & M agreement between the Company and SSOM contains embedded derivatives in pricing the fixed operator fee. Percentages of the fixed operator fee will be adjusted to reflect changes in fixed inflation rate.
- iii) The LTSA between the Company and GEIL contains embedded derivatives in pricing the fixed monthly fee and variable monthly fee for provision of long term maintenance services. Percentages of the fixed monthly fee and variable monthly fee will be adjusted to reflect changes in US price index.

These embedded derivatives are not separated from the host contract, and accounted for as a standalone derivative under IAS 39, as the management believes that the economic characteristics and risk associated with the embedded derivatives are closely related to those of the host contract.

**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)

### 20 Guarantees

	2016 RO	2015 RO
Performance guarantees	<u>1,540,800</u>	<u>1,540,800</u>

During the year, the Company has taken bank guarantees from Bank Muscat for the amount of USD 4,000,000 to Oman Electric Transmission Company SAOC under the electrical connection agreement.

### 21 Basic earnings per share

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2016	2015
Profit for the year (RO)	14,628,819	13,643,561
Weighted average number of shares outstanding during the year (a)	954,571,950	954,571,950
Earnings per share - Basic (RO)	<u>0.015</u>	<u>0.014</u>

Since the Company has no potentially dilutive instruments, the basic and dilutive earnings per share are the same. As described in note 13 (a), on March 2016, the shareholders approved the amendment of the par value of shares from RO 1 to 100 baiza per share and amended the issued share capital from 95,457,195 shares to 954,571,950 shares. This resulted in restatement of basic earnings per share.

### 22 Net assets per share

Net assets per share are calculated by dividing the shareholders' funds by the number of shares at the end of the reporting period.

Shareholders' funds	104,260,689	102,804,963
Number of shares at the end of the year (2015 restated)	954,571,950	954,571,950
Net assets per share (2015 restated)	<u>0.11</u>	<u>0.11</u>

As described in note 13 (a), on March 2016, the shareholders approved the amendment of the par value of shares from RO 1 to 100 baiza per share and amended the issued share capital from 95,457,195 shares to 954,571,950 shares. This resulted in restatement of net asset per share.

### 23 Dividend

On 20 February 2017, the Board of Directors proposed a final dividend of Baizas 3.6 per share (3.6% of the issued share capital).

On 25 October 2016, Board of Directors approved the interim dividend of Bazas 10.3 per share for the year 2016 which was paid in November 2016.

On 15 March 2016, in an Annual General Meeting, shareholders approved final cash dividend for the year 2015 which represents 3.5% of the share face value which was paid in April 2016.



## Notes

*(forming part of the financial statements)*

### **24 Contingent liabilities**

No material contingent liabilities exist as at 31 December 2016.

### **25 Investors' Trust Fund**

Unclaimed dividends in the amount of RO 9,724 has been deposited with the Investors' Trust Fund of the CMA during the year 2016 in accordance with the circular number 15/2003 dated 22 November 2003 issued by CMA. Record of Investors Trust Fund indicates that the amount of RO 43,662 have not been claimed from the Company by the Shareholders.

### **26 Comparative information**

Cash flow for last year had been reclassified to conform to the presentation adopted in these financial statements.

### **27 Subsequent event**

No adjusting or non-adjusting material subsequent event exist as at 20 February 2017.