Sembcorp Salalah
سيمبكورب صلاله

ANNUAL REPORT 2017

VITAL TO LIFE

Registered office:
P.O. Box 1466
Postal Code 211
Salalah
Sultanate of Oman

Principal place of business:
Salalah
Sultanate of Oman

His Majesty Sultan Qaboos Bin Said

Gas turbine and heat recovery steam generator

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Board of Directors

Tan Cheng Guan
Chairman

Kalat Al Bulooshi
Deputy Chairman

Abdul Amir Saied Mohammed
Independent
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

Pratush Sinha
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 2017.

Financial Results

2017 was very challenging for businesses in Oman due to increased costs resulting from changes in the regulatory and economic environment. Despite the challenges, Sembcorp Salalah recorded a modest net profit of RO 10.97 million for the year 2017, compared to RO 14.63 million in 2016. The lower net profit compared to last year was due to a one-off increase in deferred tax expense of RO 3 million resulting from a change in tax law. The Company has taken all possible mitigation measures to minimise the impact of the change in tax law. In addition, in August we suffered a rotor failure in Gas Turbine #5, which required the replacement of the unit rotor and a complete rebuild of the unit. The Company has maintained insurance coverage for such events, which allowed us to mitigate the largest portion of the property damage and revenue loss that this unforeseen event caused. Nevertheless, this event produced an impact on the net profit amounting to RO 1.5 million, which included the impact of the deductibles of both property damage and business interruption. The Company has a strong balance sheet, ending the year with net assets of RO 92.67 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 solid performance this year, the Board is pleased to recommend a final dividend for 2017 of Baizas 3.1 per share (3.1% of issued share capital). Together with the interim dividend of Baizas 7.2 per share distributed in November 2017, the total dividend for the company for the year amounts to Baizas 10.3 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. During the year 2017, the reliability of the power and water plant was 94.1% and 99.8% respectively. Power plant reliability was lower as compared to 99.6% in 2016 mainly due to gas turbine rotor failure. Other than the gas turbine rotor failure event, I am pleased to report that the Company outperformed its operational performance targets in 2017.

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 2017 and no environmental violations. The Company also achieved the milestone of 3 million safe man-hours without any LTI in October 2017, representing 6 years of operations without any such incidents. This is a result of the strong HSE commitment of Sembcorp Salalah staff and contractors to maintain, implement and follow HSE rules and standards.

I am also pleased to inform our shareholders that the Company has recently been accredited with the latest integrated management system standards ISO 9001:2015 (Quality Management System), ISO 14001:2015 (Environmental Management System) and OHSAS 18001:2007 (Occupational Health and Safety Management System).

Going forward

Besides economic and regulatory environment challenges, we expect 2018 to be better in terms of the operating and financial performance of the Company. 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. We are in full compliance with the Code of Corporate Governance from the Oman Capital Market Authority. More details can be found in the Corporate Governance Section of this report.

Corporate Social Responsibility (CSR)

Sembcorp Salalah recognises 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. During the year, the Company spent RO 40,119 for CSR activities in the region. As part of its long-term Memorandum of Understanding ("MOU") signed with the Wali of Mirbat, the Company spent RO 32,000 to improve the infrastructure in Mirbat Municipality. Other CSR projects and contributions made during the year 2017 were focused on education and environmental awareness of our surrounding communities.

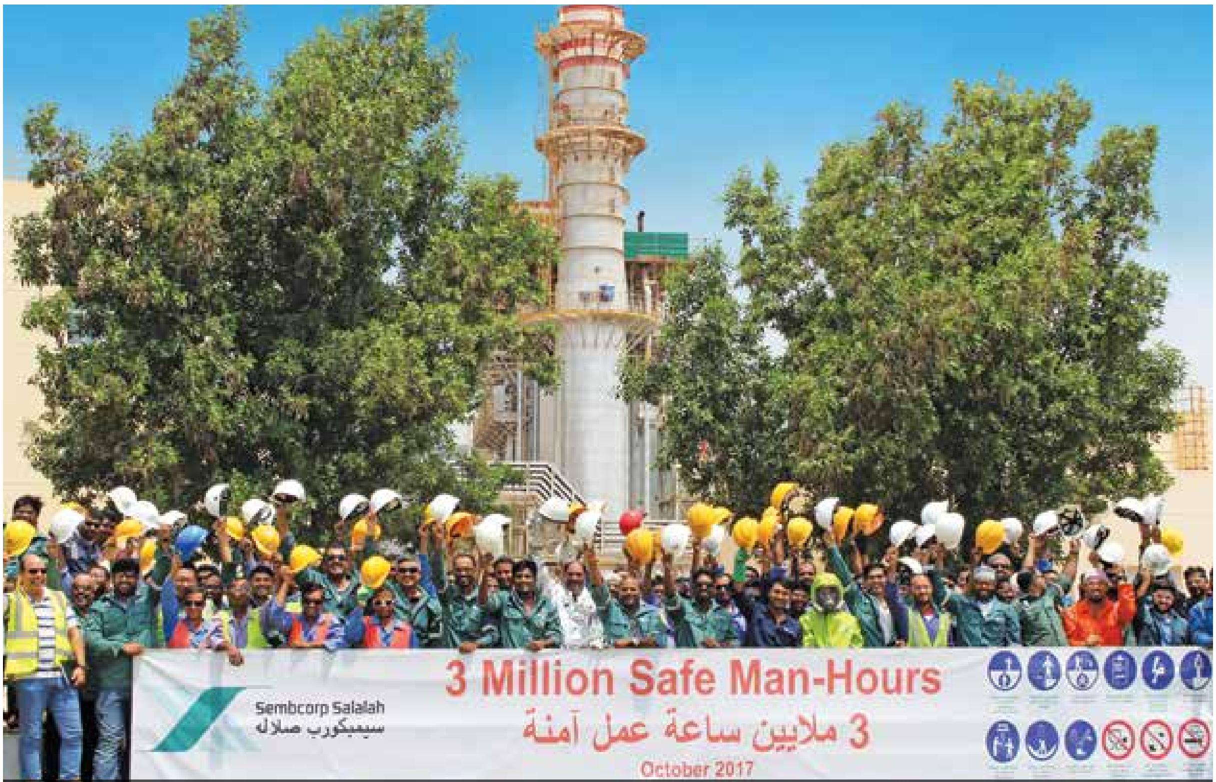
On Record

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 and Climate Affairs, the Oman Electricity Transmission Company, Dhofar Directorate General of Water and other governmental and non-governmental bodies) for their guidance and support. I also thank our employees 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



Employees and contractor staff celebrating 3 million man hours free of accidents

Health, Safety & the Environment (HSE)

Sembcorp Salalah recorded 503,089 man hours without lost time incident and was in full environmental compliance for the entire year of 2017. Since the start of commercial operations, Sembcorp Salalah has been working to continuously cultivate a safe work culture. The strong commitment of our staff to upholding HSE best practices has enabled us to achieve commendable milestones, such as one million safe man hours in 2014, two million safe man hours in 2015 and most recently, three million safe man hours in 2017. We also renewed accreditation to the latest Integrated Management System Standard ISO 9001: 2015, ISO 14001:2015, and OSHAS 18001:2007. Sembcorp Salalah will continue to improve its work practices through collaboration with the Sembcorp Group and our stakeholders in Salalah and Oman.

The company provides a sound framework to cultivate a safety culture for its employees and contractors, where safety is upheld as first priority in the workplace at all times. To ensure that our staff is capable and adheres to the company safety standards, the company provides its employees with relevant HSE and technical capability development training. For example, during the year, the company provided firefighting training, IOSH leading and working safely courses to most of the staff.

Three Million Safe Man-Hours

The Company achieved yet another safety milestone of a cumulative three million safe man hours without any lost time incident in October 2017. The Company and its staff celebrated its achievement along with our regulator, partners and contractors on October 1, 2017 and reaffirmed their commitment to safety standards.

World Environment Day 2017: General Manager Ministry of Environment and Climate Affairs and other dignitaries planting a palm

World Environment Day

Sembcorp Salalah celebrated World Environment Day 2017 utilising the United Nations theme,"Connecting people to nature", with a campaign aimed at raising awareness for the conservation of natural resources, including the optimisation of fuel, energy and water as well as the reduction of paper usage. The celebrations culminated with a tree-planting ceremony with officials from the Ministry of Environment and Climate affairs. Trees were planted along the boundary fence of the plant.

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, though performance tests confirm a higher capacity of 486 megawatts. 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 (PWPA), Sembcorp Salalah is allowed to take 15% of power contracted capacity as planned outage in winter and none in summer, and 5% of contracted capacity for water throughout the year.

The annual availability for Sembcorp Salalah in 2017 was 83.7% for power and 98.4% for water. Power availability was impacted by gas turbine 5's rotor failure.

Reliability

The reliability of a plant is its ability to deliver its declared availability under the terms of its PWPA. In 2017, Sembcorp Salalah achieved power and water plant annual reliability of 94.1% and 99.8% respectively. Power reliability was impacted by gas turbine 5's rotor failure.

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 2017 was better than what was contracted in the PWPA, which contributed to better profitability, and showed a slight improvement compared to previous years.

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 combustion inspection of three gas turbines, the major maintenance of a number of critical pumps, overhaul of the ERS system and also started major inspection of our steam turbine in 2017.

Unfortunately, the Company suffered the unforeseeable failure of the unit rotor of gas turbine 5 in August 2017. Management decided to replace the complete rotor as it was the most cost effective solution for the company and insurers. The unit was brought back into operation on December 4, 2017.

Joint firefighting drill with participation from ROP and Civil Defense

View of the Control Room

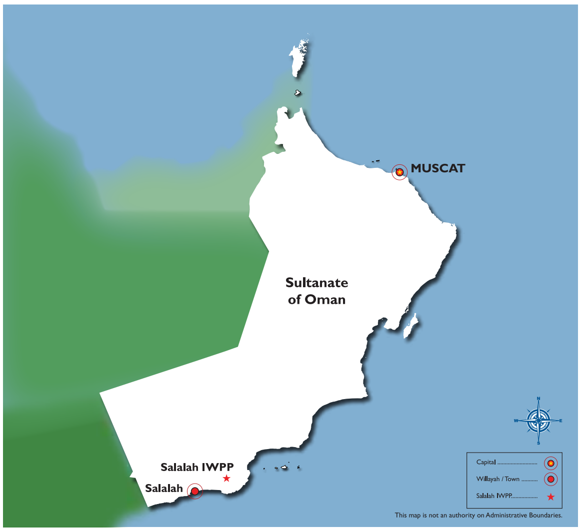
Description of the Company

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 May 25, 2012 and has a contracted power capacity of 445 megawatts and a contracted water capacity of 15 MiGD. The Plant is playing 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 PWPA with OPWP. The terms of the PWPA 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 June 16, 2008, in competition with other consortia. On December 8, 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 PWPA, when the Plant began dispatching approximately 61 megawatts 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
June 16, 2008	Bid submission by Sembcorp Utilities/OIC consortium
December 8, 2008	Sembcorp Utilities/OIC consortium declared as "preferred bidder"
November 23, 2009	Execution of PWPA and declaration of Effective Date
March 2010	Financial close
July 2011	Phase 1 Power Milestone achieved
January 2, 2012	Phase 2 Power Milestone achieved
March 12, 2012	Phase 2 Water Milestone achieved
April 5, 2012	Scheduled COD and commencement of the term of the PWPA
May 25, 2012	COD achieved
April 3, 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 uses reverse osmosis technology for the production of potable water from seawater desalination. Sembcorp Salalah uses General Electric's 6FA gas turbines and Hyflux's reverse osmosis technology.

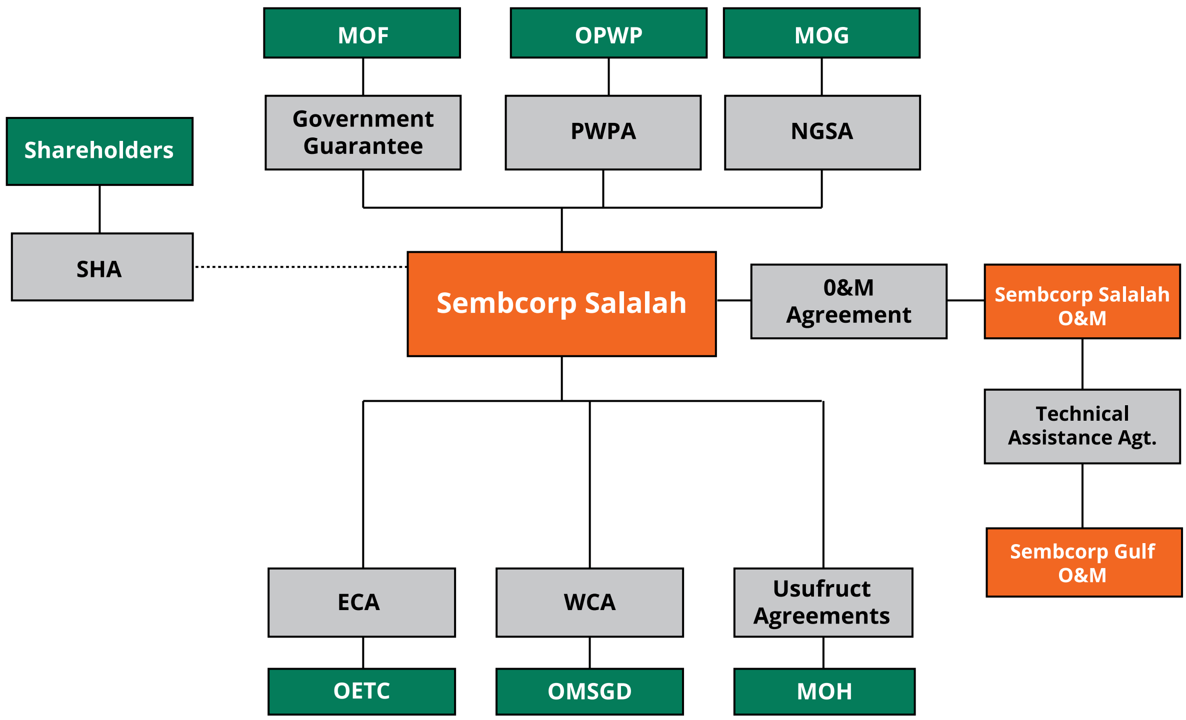
The Ministry of Finance guarantees the payment obligations due from OPWP to Sembcorp Salalah. This guarantee will remain in force until the initial financing for the project has been refinanced or fully paid. OPWP pays a charge consisting of a capacity charge covering the Plant's fixed costs and a return 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.


To commemorate the visit to Sembcorp Salalah of OPWP Board Chairman, Directors and CEO, visitors and staff planted a tree.

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 Local Dispatch Center (LDC) 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 20 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 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 505 megawatts in 2017 to 765 megawatts by 2023, at an average growth rate of 6% per annum, and peak water demand in the Salalah / Taqah / Mirbat area is expected to increase at an average rate of nearly 9% per annum.[1]

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 67 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 around 11,000 MW of gross power capacity and over 1,900 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 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.

[1] OPWP's 7 Year Statement (2017-2023)

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 91 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

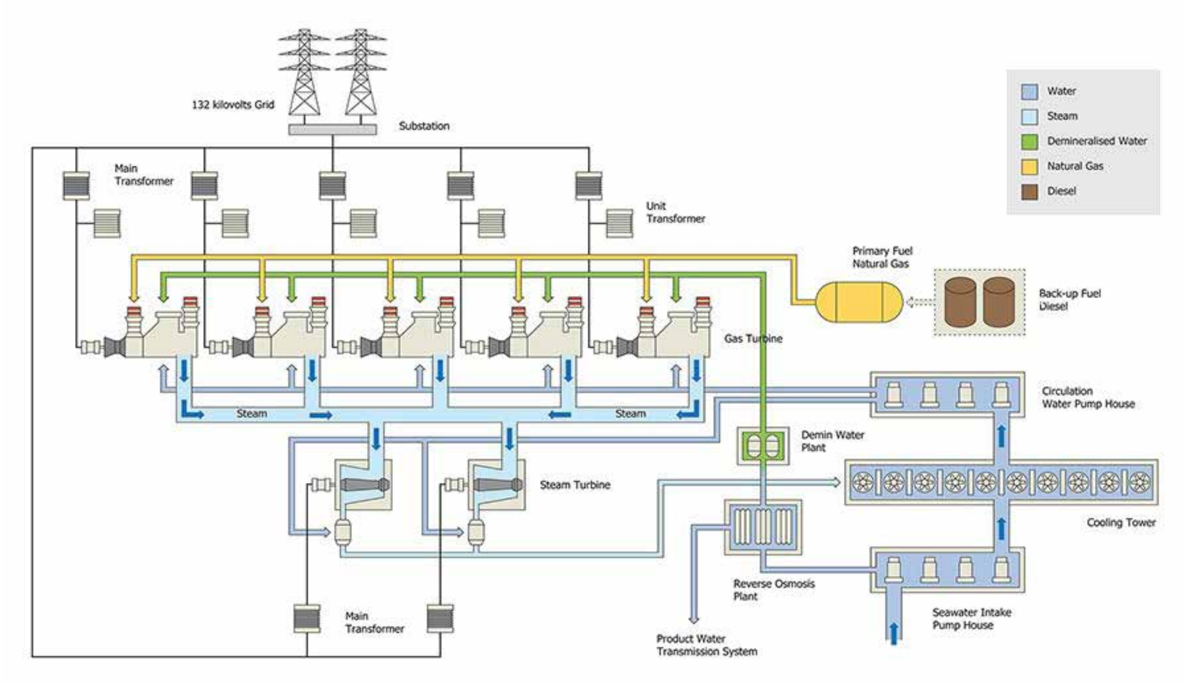
The Plant is an independent power and water plant located between the towns of Taqah and Mirbat, approximately 50 kilometres from Salalah, an administrative town in the Dhofar Governorate.

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, shortlist 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 megawatts. 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.

Racks with reverse osmosis membranes in water plant

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 megawatts 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.

View of Gas Turbines, HRSGs and stacks

Nightime view of power plant

Product Water Pumping Station

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$5.4 billion as at 31 December 2017.

For more information relating to Sembcorp Utilities and Sembcorp Industries, please visit www.sembcorp.com.

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

IPWC is an Oman-incorporated company and a 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.

For more information relating to OIC, please visit website www.oic.om.

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 contributed approximately 85% of the power dispatch and 100% of its net installed water capacity during the year 2017.
- 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 101,449 electricity customers.[2] The Salalah System comprises the generation, transmission and distribution capabilities of:

- Sembcorp Salalah, contracted for 445 megawatts electricity generation capacity and 15 MiGD desalinated water capacity;
- Power Station located in Raysut, operated by Dhofar Generation Company (previously owned by Dhofar Power Company (DPC)) comprising eight open cycle gas turbine units with a total net capacity of 273 megawatts;
- New combined cycle power plant, owned by ACWa Power and Mitsui, located in Raysut, composing four gas turbines and two steam turbines, with a contracted capacity of 445 megawatts, which will be commissioned during 2018.
- Transmission activities owned by Oman Electricity Transmission Company (OETC), previously owned by DPC; and
- Distribution and supply activities owned by DPC.

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.

In addition to this desalination capacity, DGW uses a network for ground water sources to meet the balance of water demand. DGW estimates that groundwater supplies have a total capacity of 100,000 to 110,000 m^3 per day.

During the year 2017, OPWP awarded Salalah II IWP with a contracted capacity of 22 MIGD, which is expected to be commissioned during 2020.

Salalah System Electricity Demand

According to OPWP, peak demand for electricity in the Salalah System is expected to grow from 505 megawatts in 2017 to 765 megawatts by 2023, at an average growth rate of 6% 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 9% per annum over seven years. The main growth drivers are increasing population and economic development.

[2] OPWP's 7 Years Statement

Management Discussion and Analysis

We are pleased to present the audited financial statements of Sembcorp Salalah for the year ended December 31, 2017. In 2017, the Company has recorded profit after tax (PAT) of RO 10.97 million compared to a profit after tax of RO 14.63 million in the corresponding year in 2016, while profit before interest and tax is RO 30.99 million in 2017 compared to RO 33.28 million in 2016. The reduction in profit is mainly because of a one-off deferred tax impact of RO 3 million arising from an increase in tax rate from 12% to 15% and revenue loss arising from the gas turbine 5's rotor failure.

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 megawatts 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 contributed more than 85% of the total electricity demand and 100% of the desalinated water demand in the region for the year 2017.

Performance Overview

Operating Performance

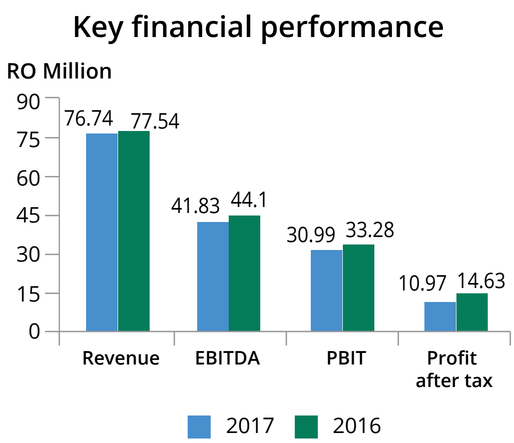
Key operating performance is characterised by high reliability of its water plant but lower reliability of its power plant compared to last year. The power plant reliability is impacted by the failure of GT5 which requires extensive repair. However, the power plant load factor has increased significantly as compared to the corresponding period of 2016, mainly because of higher grid demand allocation to Sembcorp Salalah to capitalise on higher energy efficiency offered by combined cycle technology. Key operating parameters for the year are noted below:

	Unit	2017	2016
Water Reliability	(%)	99.83	98.90
Power Reliability	(%)	94.12	99.64
Quantity of Water Sold	(Thousand m^3)	24,212	23,331
Quantity of Power Sold	(MWh)	2,444,101	2,332,015
Plant Load Factor (Power)	(%)	62.70	59.66
Plant Load Factor (Water)	(%)	97.28	93.48

Financial Performance

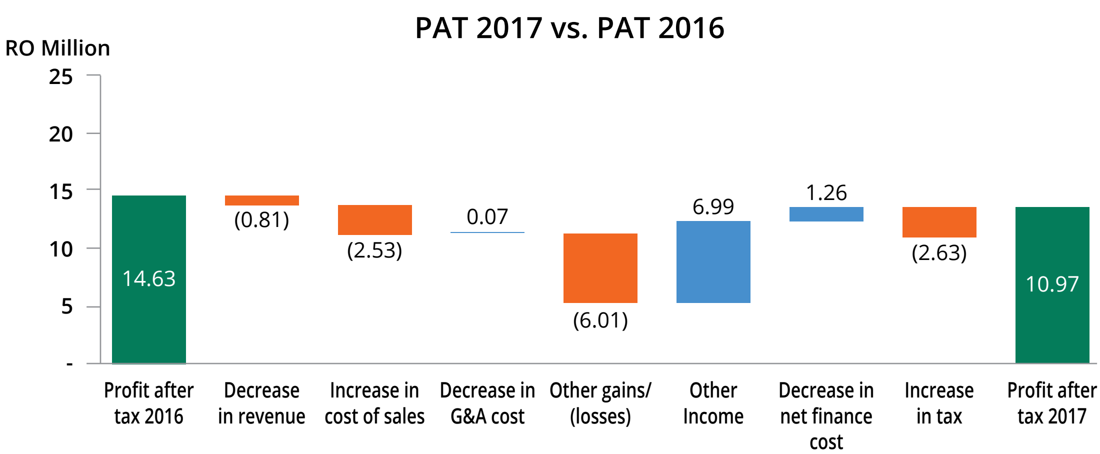
Key financial performance indicators are shown below:

	2017 RO million	2016 RO million
Revenue	76.74	77.54
EBITDA	41.83	44.10
Profit before interest and tax (PBIT)	30.99	33.28
Profit after tax	10.97	14.63



Profit after Tax

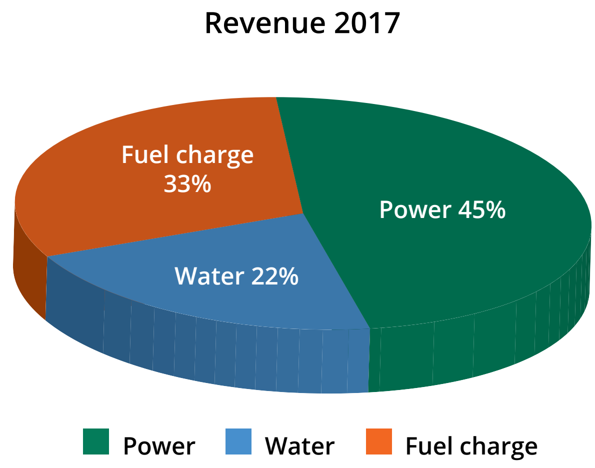
Profit after tax (PAT) decreased from RO 14.63 million in 2016 to RO 10.97 million in 2017. The significant variances are presented in the following waterfall chart.



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

Revenue

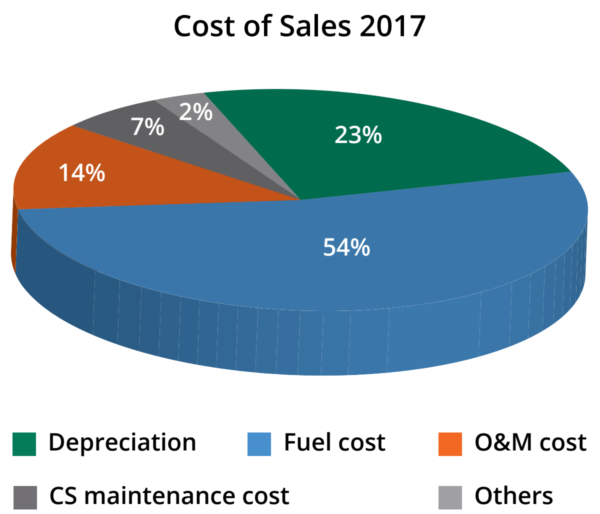
Power contributes 45% (excluding fuel charge), water 22% and fuel charge 33% to total revenue. Revenue is lower by RO 0.8 million as compared to last year mainly because of decrease in capacity charge in the amount of RO 2.5 million net off with increase in fuel charge revenue 1.6 million. The main reason for the decrease in capacity charge was due to the forced outage of gas turbine 5, which was partially compensated by the Business Interruption insurance claim recognised in other income. The increase in fuel charge was mainly due to higher plant load factor and increase in gas price. Fuel charge revenue is a pass through and is calculated based on consumption of natural gas calculated by the plant model.



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 1.5 million as compared to the last year in line with the increase in revenue. O&M cost and maintenance cost increased mainly due to higher preventive maintenance activities and increase in factored fired hours as compared to 2016.



Other gains and losses (net)

The Company suffered the unforeseeable breakdown of the rotor of gas turbine 5, which required the replacement and a complete rebuild of the unit. Other losses mainly represents the cost of write-off of the damaged rotor.

Other income

Other income represents insurance claim recognised in the amount of RO 6,994,169 on account of property damage and business interruption loss resulting from breakdown of gas turbine 5.

Net Finance Cost

Net finance cost decreased in 2017 compared to 2016 due to the scheduled repayment of the term loan in line with its financing documents.

Income Tax

Tax expenses increased by RO 2.6 million compared to 2016 which is mainly because of a one–off deferred tax impact of RO 3 million resulting from the increase in tax rate from 12% to 15% net off with prior year adjustment.

Financial Position

		2017	2016
Total assets	RO million	344.84	349.24
Total liabilities	RO million	252.17	261.21
Shareholders' funds	RO million	104.92	104.26
Shareholders' equity	RO million	92.67	88.04
Current ratio		1.51:1	1.50:1
Gearing ratio		69:31	72:28
Net assets per share (2015 restated)	RO/share	0.11	0.11

Dividend

On February 13, 2018, the Board of Directors proposed a final dividend in the amount of 3.1% of issued share capital equivalent to Baizas 3.1 per share giving a total dividend of Baizas 10.3 per share (13.3% of issued share capital) for the year 2017.

Risks and Concerns

New Tax Law

The new tax law was issued in February 2017, establishing an increase of the tax rate from 12% to 15% and further levied withholding taxes on services, interest payment and dividend payment. The Company sought contractual recourse of the new tax law impact from OPWP. On December 21, 2017, we received reply from OPWP to our Buyer Risk / Material Adverse Change Notice. OPWP accepted that the change in tax law as a buyer risk event and agreed to reimburse withholding tax on interest payment made to foreign lenders and services payments made to foreign vendors. OPWP also agreed to reimburse actual additional tax payment to Secretariat General for Taxation due to increase in tax rate from 12% to 15%.

However, the one-off deferred tax impact for the year 2017 in the amount of RO 3 million will not be reimbursable and therefore has been charged to the profit or loss in the current year.

Gas Turbine Rotor Failure

In August we suffered a major machinery breakdown of Gas Turbine 5, which required the replacement of the unit rotor and a complete rebuild of the unit. The company has maintained insurance coverage for such events, which allowed us to mitigate the largest portion of the property damage and revenue loss that this unforeseen event has caused. The claim has been recorded in these financial statements since property damage and business interruption loss incurred as a result of the breakdown can be measured reliably and the insurance claim can be classified as uncontentious. It is therefore highly likely that the company will be reimbursed in full beyond deductible amounts according to the insurance policy terms. At year end, the company has already received from insurers payment on account in the amount of RO 2.9 million.

Business Outlook

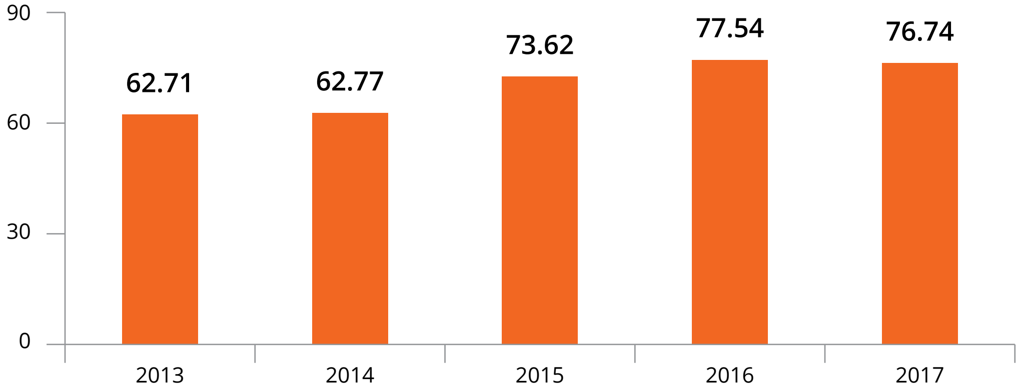
2017 was a challenging year mainly due to increased cost resulting from government austerity measures and change in tax law. The company mitigated the negative impact from the change in tax law and gas turbine rotor failure to the fullest extent possible. 2018 is expected to be challenging as well, due to continued pressures resulting from change in regulatory requirement, 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 and efficiency in order to deliver the targeted shareholder returns.

Historical Five Year Performance

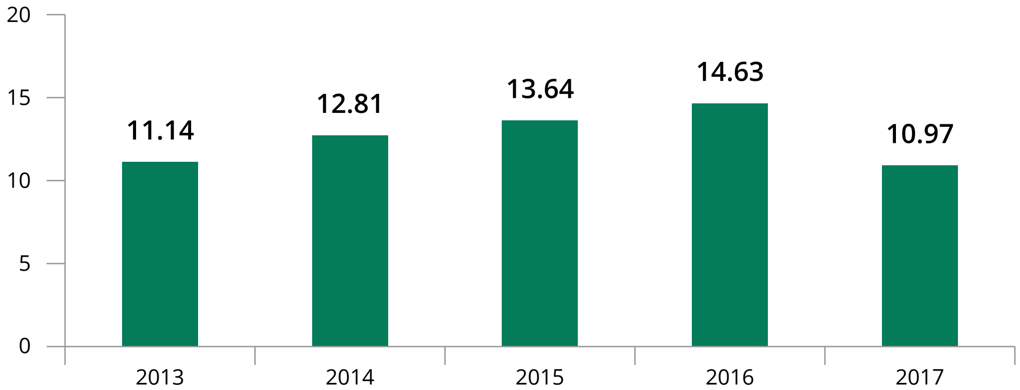
Five Year Financials	2017	2016	2015	2014	2013
Key performance indicators for the years (RO million)					
Revenue	**76.74**	77.54	73.62	62.77	62.71
EBITDA	**41.83**	44.10	44.15	45.06	49.96
Profit before interest and tax	**30.99**	33.28	33.32	34.21	38.75
Profit before tax	**15.63**	16.66	15.51	14.56	14.83
Net profit	**10.97**	14.63	13.64	12.81	11.14
Financial position at year end (RO million)					
Property plant and Equipment and Intangible assets	**297.74**	308.29	318.58	329.11	342.19
Net current assets	**15.85**	13.57	17.06	16.82	20.25
Non-current liabilities	**(220.92)**	(233.82)	(254.48)	(267.66)	(277.48)
Net assets	**92.67**	88.04	81.16	78.27	84.96
Shareholders' funds	**104.92**	104.26	102.80	101.95	105.37
Hedging reserve	**(12.25)**	(16.22)	(21.64)	(23.68)	(20.41)
Shareholder's equity	**92.67**	88.04	81.16	78.27	84.96
Per share					
Earnings (baizas)*	**11.5**	15.3	14.3	13.4	11.7
Dividend (baizas)*	**10.3**	13.9	12.7	13.4	9.1

*In 2016, the Company reduced shares' nominal value from RO 1 per share to Baizas 100 per share (Split). Therefore earnings per share and dividend per share pre Split (from year 2013 to 2015) has been restated for comparison purposes.

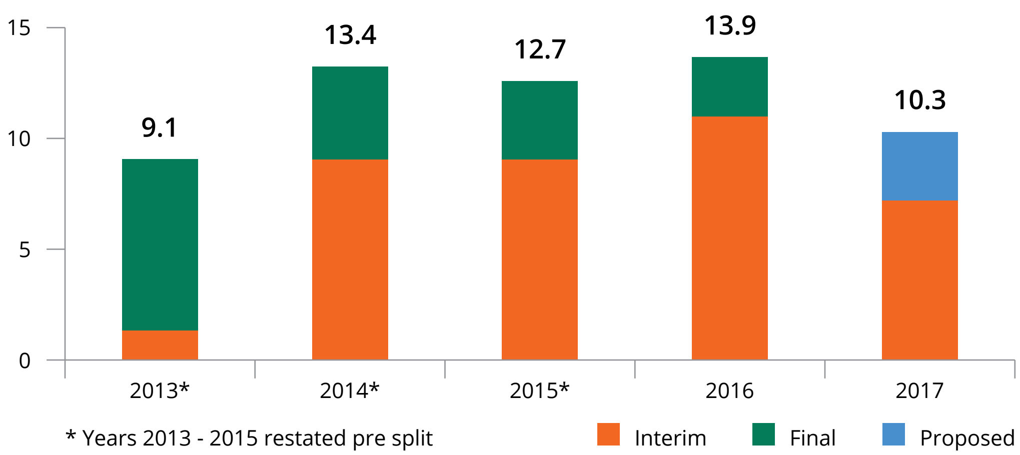
Turnover (RO million)



Net Profit (RO million)



Dividend per share (in baizas)



* Years 2013 - 2015 restated pre split

World Earth Day 2017: Company employees during beach cleaning campaign

Sembcorp Salalah spondored Mirbat Water Week,
a drive for water conservation

Sembcorp Salalah sponsored the Tawi Atir 5K Youth Race

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 in compliance with ISO 14001:2015 (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 the implementation of good governance practices and ethical business conduct result 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 them with 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 seven 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 five years (total RO 160,000) in support of CSR-related projects in the Mirbat area. In 2017, the Company invested RO 40,119 to support CSR projects including amongst others:

- Improvement and expansion works for Mirbat Community Hall
- Donation of 10 projectors for Salalah College of Technology
- Co-sponsorship of the Mirbat Water Week
- Co-sponsorship of Community and Industry Environmental Awareness Workshops hosted by Ministry of Environment and Climate Affairs
- Sponsorship of the Mirbat Women's Forum 2017

Other CSR projects and contributions made during the year 2017 were focused on education and environmental awareness of our surrounding communities.

Employees and contractor staff celebrating 3 million man hours free of accidents

Gas turbine unit transformer

REPORT OF FACTUAL FINDINGS

TO THE SHAREHOLDERS OF SEMBCORP SALALAH POWER & WATER COMPANY SAOG

1. We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) circular no.E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Sembcorp Salalah Power & Water Company SAOG (the company) as at and for the year ended 31 December 2016 and application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no.E/10/2016 dated 1 December 2016 (collectively the 'Code').

2. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in complying with the requirement of the Code issued by the CMA.

3. We have performed the following procedures:

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

   b) We obtained the detailed list of areas of non-compliance identified by the company's Board of Directors with the Code, included in the report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes or/and a checklist prepared by the Board of Directors to identify any non-compliance.

4. As a result of performing the above procedures, we have no exceptions to report other than those disclosed in the corporate governance report of the company for the year ended 31 December 2017.

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

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

7. Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' corporate governance report included in its annual report for the year ended 31 December 2017 and does not extend to any financial statements of Sembcorp Salalah Power & Water Company SAOG taken as a whole.

PricewaterhouseCoopers

14 February 2018
Muscat, Sultanate of Oman

PricewaterhouseCoopers LLC, Hatat House A, Suites 204-211, Wadi Adai, P. O. Box 3075, Ruwi, PC 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Corporate Governance Report

This Corporate Governance Report for the year ended December 31, 2017 sets out the company's corporate governance processes and activities with reference to the principles set out in the 14th principle of the Code of Corporate Governance (the Code) issued vide Circular No. E/4/2015 dated July 22, 2015 which came into force on July 21, 2016.

Company's Philosophy

The company adheres to the 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 (through its operation and maintenance company), 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 Investor Relations 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 Code of Business Conduct expresses high standard of behaviour and integrity that the company required from the directors and employees of the company.

Board of Directors

Formation, Roles and Responsibilities and Authority and Competencies

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 comprises ninedirectors, 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 the majority of them are independent, the 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 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 interests 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 contributions and community investments.

The Board of Directors and Its Committees

All board members were elected on March 15, 2016 during the Annual General meeting. All elected board members are non-executive as required by the Code. The Board members and their attendance at the AGM, and the Board meetings are shown below.

Board of Directors		Category	Board meetings				AGM
			20 Feb.	25 Apr.	27 Jul.	25 Oct.	15 Mar.
Tan Cheng Guan	Chairman	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	✓	–	✓	✓	–

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

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

Name of directors	Number of directorships
Ahmed Al Bulushi	1
Abdul Amir Said Mohammed	2
Khalid Ali Al Hamoodah	4

The Board elected on March 15, 2016 formed the Nomination and Remuneration Committee in accordance with the requirement of the Code. The new Board Committees composition is 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				
			20 Feb.	14 Mar.	25 Apr.	27 Jul.	25 Oct.
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	Nomination and Remuneration Committee Meetings	
			15-Feb.	7-Nov.
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 the 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's 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 the 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 2017, the Company paid following sitting fees and remuneration to directors during the year.

	Amount RO
Remuneration for the year 2016 (approved in AGM 2017)	91,000
Sitting fees for the year 2017	20,500
	111,500

In addition, the Nomination and Remuneration Committee and Board of Directors recommended to Shareholders to pay RO 67,240 as bonus for the board members for the year 2017.

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 313,716. The remuneration paid is commensurate with the qualification, role, responsibility and performance of the executive team in 2017. The breakdown of the remuneration is as follows:

	2017 Amount RO
Short-term employee benefits	298,778
Social security and gratuity	14,938
	313,716

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:

a) 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;

b) that accurate, coherent and balanced communications help to establish its reputation; and

c) 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 in which the objectives 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. 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 October 8, 2013. Below table shows monthly trade turnover and volume with high and low price for the year 2017.

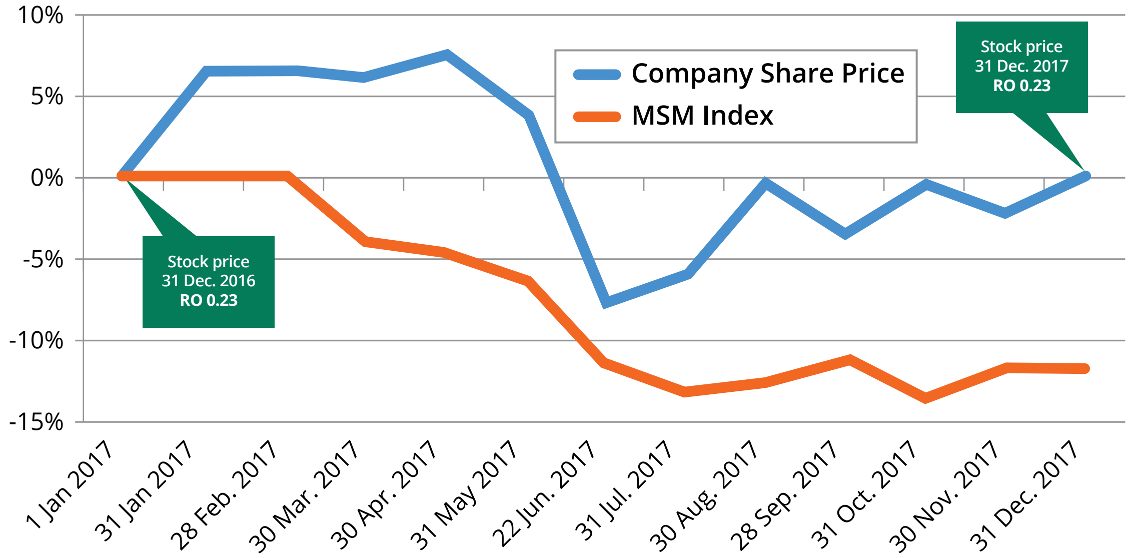
Period	Trade [1]		Share price	Share price
	Shares	Value RO	High RO/share	Low RO/share
January	826,248	3,403,043	0.245	0.233
February	573,851	2,340,627	0.246	0.243
March	8,601,945	35,382,971	0.245	0.240
April	1,306,480	5,444,636	0.248	0.238
May	186,174	774,062	0.250	0.235
June	158,265	727,061	0.230	0.212
July	7,289,804	30,591,446	0.240	0.210
August	748,667	3,279,103	0.230	0.217
September	411,154	1,846,016	0.229	0.220
October	405,916	1,817,535	0.230	0.212
November	315,220	1,390,584	0.233	0.224
December	481,927	2,127,428	0.230	0.224

The table below shows a comparison of the Company's performance against the MSM in 2017.[3]

Date	Sembcorp Salalah share price RO/ share	Cumulative change from 1 January 2017	MSM Index	Cumulative change from 1 January 2017
1-Jan-17	0.230	-	5,782.99	-
31-Jan-17	0.245	6.52%	5,776.17	-0.12%
28-Feb-17	0.245	6.52%	5,780.03	-0.05%
30-Mar-17	0.244	6.09%	5,550.60	-4.02%
30-Apr-17	0.247	7.39%	5,513.52	-4.66%
31-May-17	0.239	3.91%	5,421.95	-6.24%
22-Jun-17	0.212	-7.83%	5,118.31	-11.49%
31-Jul-17	0.216	-6.09%	5,024.24	-13.12%
30-Aug-17	0.229	-0.43%	5,052.55	-12.63%
28-Sep-17	0.222	-3.48%	5,137.35	-11.16%
31-Oct-17	0.229	-0.43%	5,010.66	-13.36%
30-Nov-17	0.225	-2.17%	5,109.62	-11.64%
31-Dec-17	0.230	0.00%	5,099.28	-11.82%

[3] Muscat Stock Market website

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



Distribution of Shareholding as at 31 December 2017

The table below shows the shareholder distribution at the end of December 2017.

Percentage holding	Number of shareholders	Value of shares	Percentage of total shares
Less than 5%	1,602	22,130,968	23.18%
5% to 10%	3	22,600,198	23.68%
Above 10%	2	50,726,029	53.14%
Total	1,607	95,457,195	100.00%

Professional Profile of Statutory Auditors

PwC is a global network of firms operating in 158 countries with more than 236,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC also provides corporate training and professional financial qualifications through PwC's Academy.

Established in the Middle East for over 40 years, PwC Middle East has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 4,200 people. (www.pwc.com/me).

PwC has been established in Oman for over 40 years and the Firm comprises 4 partners, including one Omani national, and over 130 professionals and support staff. Our experts in assurance, tax and advisory professionals are able to combine internationally acquired specialist consulting and technical skills with relevant local experience.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

PWC in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOGs). Break down of fee for the year 2017 is as follows:

	2017
	Amount RO
Audit for the year 2017	16,000
Interim quarterly reviews	1,000
Other services	3,000
	20,000

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.

View of gas turbine and HRSG Nr. 1

Brief Profiles of the Board of Directors and Executive Management

Board of Directors

Tan Cheng Guan,
Chairman

Mr. Tan is Head of Renewables & Environment business at Sembcorp Industries..

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.

Abdul Amir Saied Mohammed,
Independent Non-Executive Director

Mr. Saied is one of five independent directors 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 assisted the Chief Executive Officer in the day-to-day operations.

Mr. Saied holds a Masters degree in Business Administration from the Oxford Brookes University, UK.

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 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 Head Commercial at Sembcorp Industries. Mr. Quek is responsible for mergers and acquisitions, structuring and project financing activities as well as capital recycling 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 Oman National Engineering and Investment Company SAOG.

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 addtion, 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. He is also a board member of Ruwais Power Company in UAE.

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 Head of Middle East, South Africa, Americas & Bangladesh and Head of the Global Operations Group at Sembcorp Industries. 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 is one of five independent directors of the Sembcorp Salalah.

Sheikh Khalid 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 20 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 32 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 led 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 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.

Pratush Sinha,
Plant Manager

Mr. Pratush Sinha is the Plant Manager of Sembcorp Salalah.

Pratush is a professional electrical and electronics engineer who started his career as control & instrument engineer in 1995. He boasts 23 years' experience with different multinational power and water companies, specifically in the field of commissioning, operation, maintenance and health, safety and environment management. Sinha has wide experience in the operation and maintenance of GE gas turbines, steam turbines from Siemens and Dongfang, desalination MSF & RO plants, balance of plant equipment and various control system such as Mark-V, VIe, DCS and PLC. In the span of 23 years of work experience, he has worked for 420MW coal-based thermal power plant in India, 2450MW Dabhol power plant in India and 285MW Al Kamil Power plant in Oman.

Pratush joined Sembcorp in 2006 as Control & Instrument Manager in 893 MW combined cycle power and 130 MiGD desalinated water plant at Sembcorp, Fujairah in UAE. He moved to Sembcorp Salalah in 2011 as maintenance manager, later took charge of Engineering department and was promoted to Plant Manager in early 2017.

Pratush holds a Bachelor of Engineering in Electrical & Electronics from Karnatak University, India.

Salim Mohammed Al Mashikhi,
Human Resource & Information Technology Manager

Mr. Salim is the Manager for the Human Resources, Administration 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 2017

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Independent auditor's report to the shareholders of Sembcorp Salalah Power & Water Company SAOG

Report on the audit of the financial statements

Our opinion

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

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matters	• Useful lives of assets • Asset retirement obligation • Insurance claim receivable

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Useful lives of assets	
The Company operates its main generation and desalination plant under an operating lease. The total cost of the plant and other associated assets was first recognised in 2012 as buildings, roads and pipelines and plant and machinery in the financial statements of the Company with the various components having useful lives attributed to them of between 20 and 35 years. The aggregate carrying values of the buildings, roads and pipelines and plant and machinery as at 31 December 2017 were RO 39.959 million, RO 21.711 million and RO 235.876 million respectively. However, the Power and Water Purchase Agreement (PWPA) relating to the plant is for 15 years valid up to 31 March 2027. Further, there is no renewal option in the PWPA. The useful life of plant is based on management's technical assessment of factors which are subject to judgement and accordingly contain significant estimation uncertainty. In addition, the estimated useful life that has been assumed by management is more than the term of the PWPA. In making its assessment of useful life, management appointed an independent valuation expert for the preparation of a cash flow model for the plant's entire expected operating life-cycle and the cash flow implications of the various options that may apply after the initial 15 year contract expires (i.e. contract extension and implementation of a merchant market in the future) and has estimated the useful life of the plant considering various factors such as the operating cycles, the maintenance programs, normal wear and tear and future cash flow forecasts. We focussed on this area as a key audit matter because the estimation of useful life by management involves application of judgment as to utilisation of the plant in the post-PWPA period. Refer to notes 2.3 (Estimates and assumptions), 2.4 (d) (iii) (Depreciation) and 9 (Property, plant and equipment) to the financial statements.	Our procedures in relation to management's estimate included: • Evaluating the independence, competence and capabilities of the expert employed by management to determine the asset retirement obligation, and that the scope of the expert's work was appropriate; • Assessing the reasonableness of the useful life of the plant and the depreciation method used by comparing it with other companies in the country operating plants with similar technology and capacity; • Evaluating the future cash flow forecasts and the process by which they were drawn up, including testing the underlying calculations by tracing from PWPA clauses and other relevant agreements as referred to in note 1 to the financial statements; and re-performing the computations; • Discussing with management the status of operations of the plant, including the future plans and utilisation of plant after the end of the PWPA; and • Testing the adequacy of the disclosures in these financial statements relating to asset lives and the judgments surrounding them.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Asset retirement obligation Under the terms of the Usufruct agreement between the Ministry of Housing and the Company entered into in 2009, the Company is obliged to remove all structures, fixtures, fittings, equipment and other property of the Company situated at or on the site and to reinstate the site and restore it to the condition it was in at the start of the usufruct term. As at 31 December 2017 the Company has recognised a provision of RO 0.571 million relating to its asset retirement obligation arising from the Usufruct agreements with the Government of the Sultanate of Oman relating to the land on which the plant is constructed. Asset retirement obligation is based on management's technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant and restoring the land. The significant uncertainty in estimating the provision is the cost that will be incurred, the applicable discount rate and the timing of the site restoration activities. Management has estimated this liability by using an expert assessor. The liability is based on employing existing technology and materials currently available. We focussed on this area as a key audit matter because measurement of asset retirement obligations involves the application of significant estimates in respect of the initial and final expected dismantling costs and the discount rate to determine the present value of the future obligation. Refer to note 2.3 (Estimates and assumptions) and note 20 (Asset retirement obligation) to the financial statements.	Our procedures in relation to management's estimate included: • Evaluating the independence, competence and capabilities of the expert employed by management to determine the asset retirement obligation, and that the scope of the expert's work was appropriate; • Testing, on a sample basis, the completeness and accuracy of source data (such as, list of equipment, site layout, plant design and plant technology details) shared by management with the expert by performing a site visit and tracing the relevant information from the Company-provided supporting documents; • Assessing the reasonableness of the assumptions made by the expert keeping in view the general economic and market conditions; • Assessing the reasonableness of the discount rate by reference to the risk adjusted rate specific to the liability. We used our in-house valuation experts to assist for this purpose; and • Testing the adequacy of the disclosures relating to asset retirement obligations in these financial statements.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Insurance claim receivable The Company had an incident at its Gas Turbine No. 5 ("GT5") on 20 August 2017, wherein the GT5 ceased to function due to damage to a compressor rotor blade. The Company considered this to be a major breakdown and as such it constituted an insured event. Accordingly, the Company immediately lodged claims with its insurer. As per the insurance policy the Company is insured for property damage and business interruption risks. A new rotor was installed and GT5 was re-commissioned on 4 December 2017. As at 31 December 2017, the Company has recognised an insurance claim receivable amounting to RO 6.994 million of which RO 5.935 million pertains to property damage and the balance of RO 1.059 million pertains to revenue loss due to business interruption. Management has engaged an expert as their loss adjusters to assist them in computing the claim. The preliminary claim has been acknowledged by the insurers and an interim payment of RO 3.852 million has been sanctioned, of which RO 2.850 million was received before 31 December 2017 and RO 0.866 million received after that date. We focussed on this as a key audit matter because of the materiality of the amounts involved relative to the Company's reported profit and the estimations and judgements inherent in the computation of the final insurance claim which has not yet been fully settled as at the date of our audit report. Refer to note 7 (Other income) and note 13.1 (Insurance claim receivable) to the financial statements.	Our procedures in relation to management's assessment of the insurance claim included: • Evaluating the independence, competence and capabilities of the expert employed by management to determine the insurance claim amount, and that the scope of the expert's work was appropriate; • Evaluating the completeness and accuracy of the claim by: i) Obtaining the complete details of the expenditure incurred by the Company for replacement of the compressor rotor blade, and, on a sample basis, agreeing those amounts to the supplier's invoices. (Property damage loss). ii) Re-computing the business interruption loss relating to capacity charges due to forced unavailability of GT5. iii) Comparing the admissible amount of claim and deductibles as per the relevant provisions of the insurance agreement. • Reviewing the communications of the Company management with the loss adjuster appointed by the Company and the loss adjuster appointed by the insurer, which evidence the acknowledgement of the preliminary insurance claim lodged by the Company. • Discussing with the loss adjuster appointed by the Company so as to ascertain their view on the possibility of the Company being actually able to recover the amount it has claimed from the insurers and any areas of potential uncertainty. • Tracing of the recorded amounts received from the insurers during the current financial year and the subsequent period to bank statements of the relevant period. • Testing the adequacy of the disclosures relating to the insurance claim receivable in these financial statements.

Independent auditor's report to the shareholders of Sembcorp Salalah Power & Water Company SAOG (continued)

Other information

The directors are responsible for the other information. The other information, which we obtained prior to the date of our auditor's report, comprises of the Board of Director's report, the Corporate Governance Report and Management Discussion and Analysis, but does not include the financial statements and our auditor's report thereon. The complete annual report which is not yet received, is expected to be made available to us after that date.

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

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

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

When we read the complete annual report which is not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority ("the CMA") of the Sultanate of Oman and 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, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 directors.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Independent auditor's report to the shareholders of
Sembcorp Salalah Power & Water Company SAOG (continued)

Report on other legal and regulatory requirements

Further, we report that the financial statements have been prepared and comply, in all material respects, with the relevant requirements of the CMA of the Sultanate of Oman and the Commercial Companies Law of 1974, as amended.

Other matter – prior period financial statements audited by predecessor auditor

The financial statements for the period ended 31 December 2016 were audited by another firm of auditors, whose report dated 20 February 2017 expressed an unmodified opinion on those financial statements.

Kashif Kalam

14 February 2018

Muscat, Sultanate of Oman

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RO	2016 RO
Revenue	3	**76,737,812**	77,544,985
Cost of sales	4	**(46,146,665)**	(43,613,597)
Gross profit		**30,591,147**	33,931,388
Administrative and general expenses	5	**(581,363)**	(647,111)
Other gains/(losses) - net	6	**(6,012,674)**	(4,576)
Other income	7	**6,994,169**	-
Operating profit		**30,991,279**	33,279,701
Finance income		**408,673**	135,124
Finance costs	8	**(15,765,225)**	(16,750,077)
Profit before tax		**15,634,727**	16,664,748
Income tax expense	17	**(4,665,954)**	(2,035,929)
Profit after tax		**10,968,773**	14,628,819
Other comprehensive income			
Item that may be subsequently reclassified to profit or loss:			
Effective portion of change in fair value of cash flow hedge (net of income tax)	11	**3,974,965**	5,420,710
Total comprehensive income for the year		**14,943,738**	20,049,529
Earnings per share:			
Basic and diluted earnings per share	24	**0.011**	0.015

The notes on pages 62 to 96 form an integral part of these financial statements.
Independent auditor's report - pages 51 - 57.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 RO	2016 RO
Assets			
Non-current assets			
Property, plant and equipment	9	**297,733,187**	308,284,477
Intangible assets	10	**11,531**	2,199
Total non-current assets		**297,744,718**	308,286,676
Current assets			
Inventory	12	**4,603,228**	4,256,144
Trade and other receivables	13	**12,641,988**	9,443,709
Cash and bank balances	14	**29,854,889**	27,256,820
Total current assets		**47,100,105**	40,956,673
Total assets		**344,844,823**	349,243,349
Equity and liabilities			
Equity			
Share capital	15 (a)	**95,457,195**	95,457,195
Legal reserve	15 (b)	**6,409,324**	5,312,447
Retained earnings		**3,053,566**	3,491,047
Shareholders' funds		**104,920,085**	104,260,689
Hedging reserve	11 & 15(c)	**(12,248,272)**	(16,223,237)
Net equity		**92,671,813**	88,037,452
Liabilities			
Non-current liabilities			
Long term loans	19	**194,492,233**	208,957,588
Asset retirement obligation	20	**571,527**	534,603
Deferred tax liability	17	**14,443,070**	9,726,316
Derivative financial instruments	11	**11,417,558**	14,599,007
Total non-current liabilities		**220,924,388**	233,817,514
Current liabilities			
Current portion of long term loans	19	**15,414,677**	14,483,021
Current portion of derivative financial instruments	11	**2,992,173**	3,836,490
Trade and other payables	16	**12,841,772**	9,068,872
Total current liabilities		**31,248,622**	27,388,383
Total liabilities		**252,173,010**	261,205,897
Total equity and liabilities		**344,844,823**	349,243,349
Net assets per share	25	**0.11**	0.11

The financial statements on pages 58 to 96 were approved and authorised for issue in accordance with a resolution of the Board of Directors on 13 February 2018.

Director	Financial Controller	Director

The notes on pages 62 to 96 form an integral part of these financial statements.
Independent auditor's report - pages 51 - 57.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital RO	Legal reserve RO	Retained earnings RO	Hedging reserve RO	Total RO
At 1 January 2016	95,457,195	3,849,565	3,498,203	(21,643,947)	81,161,016
Profit for the year	-	-	14,628,819	-	14,628,819
Other comprehensive income					
Fair value of cash flow hedge adjustments - gross	-	-	-	(154,200)	(154,200)
Reclassification to profit or loss – gross (note 8)	-	-	-	6,314,098	6,314,098
Deferred tax liability on change in fair value of cash flow hedge	-	-	-	(739,188)	(739,188)
Total comprehensive income for the year	-	-	14,628,819	5,420,710	20,049,529
Transactions with owners of the Company, recognised directly in equity					
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)	-	-
Total transactions with owners of the Company, recognised directly in equity	-	1,462,882	(14,635,975)	-	(13,173,093)
At 31 December 2016	95,457,195	5,312,447	3,491,047	(16,223,237)	88,037,452
At 1 January 2017	**95,457,195**	**5,312,447**	**3,491,047**	**(16,223,237)**	**88,037,452**
Profit for the year	**-**	**-**	**10,968,773**	**-**	**10,968,773**
Other comprehensive income					
Fair value of cash flow hedge adjustments - gross	**-**	**-**	**-**	**(1,002,425)**	**(1,002,425)**
Reclassification to profit or loss – gross (note 8)	**-**	**-**	**-**	**5,028,191**	**5,028,191**
Change in tax rate adjustment on change in fair value of cash flow hedge	**-**	**-**	**-**	**553,065**	**553,065**
Deferred tax liability on change in fair value of cash flow hedge	**-**	**-**	**-**	**(603,866)**	**(603,866)**
Total comprehensive income for the year	**-**	**-**	**10,968,773**	**3,974,965**	**14,943,738**
Transactions with owners of the Company, recognised directly in equity					
Final dividend 2016	**-**	**-**	**(3,436,459)**	**-**	**(3,436,459)**
Interim dividend 2017	**-**	**-**	**(6,872,918)**	**-**	**(6,872,918)**
Transfer to legal reserve	**-**	**1,096,877**	**(1,096,877)**	**-**	**-**
Total transactions with owners of the Company, recognised directly in equity	**-**	**1,096,877**	**(11,406,254)**	**-**	**(10,309,377)**
At 31 December 2017	**95,457,195**	**6,409,324**	**3,053,566**	**(12,248,272)**	**92,671,813**

The notes on pages 62 to 96 form an integral part of these financial statements.
Independent auditor's report - pages 51 - 57.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 RO	2016 RO
Operating activities		
Profit before tax for the year	15,634,727	16,664,748
Adjustment for:		
Depreciation and amortisation	10,836,435	10,819,772
Amortisation of deferred financing cost	949,322	1,010,730
Finance costs	14,762,644	15,685,567
Finance income	(408,673)	(135,124)
Gain on disposal of property, plant and equipment	(114,758)	-
Property, plant and equipment written off	6,127,432	-
Provision for asset retirement obligation	36,924	34,488
Changes in working capital:		
Inventory	(347,084)	301,468
Trade and other receivables	(3,052,627)	(1,887,932)
Trade and other payables	3,973,508	(55,501)
	48,397,850	42,438,216
Finance cost paid	(14,963,253)	(15,865,380)
Net cash flow generated from operating activities	33,434,597	26,572,836
Investing activities		
Acquisition of property, plant and equipment	(6,461,791)	(559,884)
Proceeds from disposal of property, plant and equipment	165,573	5,500
Acquisition of intangible assets	(10,933)	(3,168)
Investment in fixed term cash deposits	(21,609,115)	(45,770,212)
Proceeds from the maturity of fixed term cash deposits	28,584,595	45,937,038
Finance income received	263,021	111,888
Net cash generated from/(used in) investing activities	931,350	(278,838)
Financing activities		
Repayment of term loan	(14,483,021)	(14,116,005)
Dividend paid	(10,309,377)	(13,173,093)
Net cash used in financing activities	(24,792,398)	(27,289,098)
Net change in cash and cash equivalents	9,573,549	(995,100)
Cash and cash equivalents as at 1 January	5,989,754	6,984,854
Cash and cash equivalents as at 31 December (note 14)	15,563,303	5,989,754

Reconciliation of liabilities arising from financing activities (note 14.1)

The notes on pages 62 to 96 form an integral part of these financial statements.
Independent auditor's report - pages 51 - 57.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. Legal status and principal activities

Sembcorp Salalah Power & Water Company SAOG ("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.

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

vi) 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

2.1 Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the rules and guidelines on disclosures issued by the Capital Market Authority of the Sultanate of Oman (CMA) and the applicable requirements of the Commercial Companies Law of 1974, as amended.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

2.1 Basis of preparation (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 financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The areas where accounting assumptions and estimates are significant to the financial statements are disclosed in notes 2.2 and 2.3 below and also in the relevant notes to the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, estimates that involve uncertainties and judgments which have a significant effect on the financial statements include useful lives and residual value of property, plant and equipment, effectiveness of hedge relationship and asset retirement obligation.

2.2 Judgements

Management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Operating Lease and useful life of assets

The Company and OPWP, have entered into a PWPA containing a take-or-pay clause favouring the Company. The management has applied the guidance in IFRIC 4, 'Determining whether an arrangement contains a lease'. Based on management's evaluation, the PWPA with OPWP is considered as a lease within the context of IFRIC 4 and has been classified as an operating lease under IAS 17 since significant risks and rewards associated with the ownership of the plant lies with the Company and not with OPWP. The primary basis for this conclusion being that the PWPA is for a term of 15 years while the economic life of the power plant is estimated to be 35 years. The present value of minimum lease payments under the PWPA does not substantially recover the fair value of the plant at the inception of the lease. Further, the residual risk is borne by the Company and not OPWP. The estimated useful life of the power plant of 35 years takes into account the Company's right to extend the land lease under a Usufruct Agreement for an additional term of 25 years.

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

2.2 Judgements (continued)

(a) Operating Lease and useful life of assets (continued)

Furthermore, the residual value of the assets will have substantial value at the conclusion of the PWPA and the Company will be able to continue to generate revenue through supply of power and water taking into account the government's future plans to deregulate the power and water sector in Oman.

(b) Receivable from OPWP

The Company and OPWP have entered into a PWPA, which includes a clause for Buyer Risk Event (BRE) which includes occurrence of any change in law. As a result of amendments in tax law, which became effective in 2017, the Company has incurred additional costs relating to withholding tax on interest payments to foreign lenders. The management of the Company has exercised its judgment in view of the correspondence with OPWP in respect of this matter and has decided to recognise a receivable from OPWP, as OPWP, through its letter dated 21 December 2017, has acknowledged the BRE and prescribed the procedure for reimbursement of any additional costs incurred by the Company as a result of this BRE.

The Company consider that the reimbursement mechanism advised by OPWP in its letter does not establish substantive conditions that can introduce uncertainty and conditionality into the reimbursement process. Further, the Company consider that the steps outlined in the letter from OPWP are merely procedural matters and not substantive conditions. Based on this, the Company believe that letter from OPWP provide sufficient evidence as to certainty of the reimbursement.

(c) Insurance claim receivable

The Company has recognised insurance income of RO 6,994,169 during the year, of which RO 5,942,536 pertain to property damage and balance amount of RO 1,051,633 pertains to revenue loss due to business interruption resulting from breakdown of Gas Turbine 5 in the Salalah Plant. The Company has received an interim payment of RO 2,850,480 as at 31 December 2017 and has subsequently received RO 866,700.The balance claim of RO 4,143,689 has been recognised as insurance claim receivable in the financial statements for the year ended 31 December 2017.

The Company believe that it is virtually certain that the full claim will be accepted and settled by the insurance company based on the insurance policy in place and considering the advice of experienced loss adjuster appointed to assess the insurance claim. Further, the insurance company has acknowledged the interim insurance claim and have made aforementioned interim payments which provide sufficient evidence as to certainty of the reimbursement of the entire claim made by the Company.

2.3 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below:

a) Effectiveness of hedge relationship

At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging instrument. As at the reporting date, the cumulative fair value of the interest rate swaps was RO 14.4 million (2016 - RO 18.4 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

2.3 Estimates and assumptions (continued)

b) Useful lives of property, plant and equipment

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

c) Asset retirement obligation

Asset retirement obligation is based on management's technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant and restoration of land. The significant uncertainty in estimating the provision is the cost that will be incurred and the applicable discount rate. It has been assumed that the site will be restored using technology and material that are currently available.

2.4 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.

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

2.4 Significant accounting policies (continued)

b) Financial instruments

i) Non derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash at bank, loans and borrowings, and trade and other payables.

Cash at bank comprises bank balances. For the purposes of the statement of cash flows, the Company considers all cash and bank balances with an original maturity of less than three months from the date of placement to be cash and cash equivalents.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

ii) Derivative financial instruments

Derivative financial instruments are recognised at fair value. Subsequent to initial recognition, derivative financial instruments are stated at their fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged. The fair value of a derivative is the equivalent to the unrealised gain or loss arising from marked to market valuation of the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included under non-current assets and their current portion in current assets and derivatives with negative market values (unrealised losses) are included under non-current liabilities and their current portion in current liabilities in the statement of financial position.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, the part of any gain or loss on the derivative financial instrument that qualifies as an effective hedge is recognised directly in equity, net of tax. The ineffective part of any gain or loss is recognised in the statement of profit or loss immediately.

The relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions are documented at the inception of the hedging transaction. The entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in other comprehensive income and presented in hedging reserve in equity. Any in-effective portion is recognised immediately in profit and loss. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit and loss as they arise.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

2.4 Significant accounting policies (continued)

b) Financial instruments (continued)

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.

iii) Separable embedded derivatives

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

c) Interest bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable costs such as loan arrangement fee. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit and loss over the expected period of borrowings on an effective interest rate basis.

d) 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.

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

2.4 Significant accounting policies (continued)

d) Property, plant and equipment (continued)

i) Recognition and measurement (continued)

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:

	Years
Buildings	30 to 35
Roads and pipelines	10 to 35
Plant and machinery	20 to 35
Office equipment	3 to 10
Motor vehicles	5 to 10
Computer equipment	3

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

2.4 Significant accounting policies (continued)

e) 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.

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.

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

2.4 Significant accounting policies (continued)

e) Impairment (continued)

ii) Non-financial assets (continued)

Management determines whether there are any indications of impairment to the carring 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.

f) 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.

g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership. All other leases are classified as operating leases.

Amounts receivable under operating leases, as lessor, are recognised as lease income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. In accordance with IFRS, revenue stemming from (substantial) services in connection with the leased asset is not considered as lease revenue and is accounted for separately.

IFRIC 4 deals with the identification of services and take-or-pay sales or purchasing contracts that do not take the legal form of a lease but convey the rights to customers/suppliers to use an asset or a group of assets in return for a payment or a series of fixed payments. Contracts meeting these criteria should be identified as either operating leases or finance leases. This interpretation is applicable to the Company's PWPA.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

2.4 Significant accounting policies (continued)

h) 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.

i) 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.

j) 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.

k) Borrowing costs

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

l) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition. The cost of raw materials and consumables and goods for resale is based on weighted average method and consists of direct costs of materials and related overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made where necessary for obsolete, slow moving and defective items, based on management's assessment.

m) 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.

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

2.4 Significant accounting policies (continued)

m) Income tax expense (continued)

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.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences 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 benefits will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The assessment regarding adequacy of tax liability for open tax year relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

n) Employee benefits

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

The Company's obligation in respect of non-Omani employees' terminal benefits is the amount of future benefit that such employees have earned in return for their service in the current and prior periods having regard to the employee contract and Oman Labour Law 2003, as amended.

In accordance with the provisions of IAS 19, Employee benefits, management carries an exercise to assess the present value of the Company's obligations as of reporting date, using the actuarial techniques, in respect of employees' end of service benefits payable under the Oman aforesaid Labour Law. Under this method, an assessment is made of an employee's expected service life with the Company and the expected basic salary at the date of leaving the service.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

2.4 Significant accounting policies (continued)

o) Directors' remuneration

Directors' remunerations are computed in accordance with the Article 101 of the Commercial Companies Law of 1974, as per the requirements of Capital Market Authority and are recognised as an expense in the statement of profit or loss.

p) Dividend

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

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved.

q) Earnings and net assets per share

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

Net assets per share is calculated by dividing the net assets attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding during the year. Net assets for the purpose is defined as total equity less hedging deficit/surplus.

r) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who manages the company on a day-to-day basis, as per the directives given by the board of directors that makes strategic decisions.

s) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares and share options are deducted against the share capital account, net of any tax effects. Where the Company's ordinary shares are repurchased (treasury shares), the consideration paid, excluding any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders and presented as reserve for own shares within equity, until they are cancelled, sold or reissued

t) Determination of fair values

i) Trade and other receivables

The fair value of trade and other receivables including cash and bank balances approximates to their carrying amount due to their short-term maturity.

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

2.4 Significant accounting policies (continued)

t) *Determination of fair values (continued)*

ii) Derivatives

The fair value of interest rate swaps is calculated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. This calculation is tested for reasonableness through comparison with the valuations received from the parties issuing the instruments.

iii) Non-derivative financial liabilities

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

u) *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 2018 and earlier application is permitted; however, the Company has not early applied the following new or amended standards in preparing these financial statements.

New or amended standards	Summary of the requirements	Possible impact on financial statements
IFRS 9 Financial Instruments	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. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Company does not envisage any significant impact on the financial statements of the Company.
IFRS 15 Revenue from Contracts with Customers	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Company does not envisage any significant impact on the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

2.4 Significant accounting policies (continued)

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

New or amended standards	Summary of the requirements	Possible impact on financial statements
IFRS 16 Leases	IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaces existing lease recognition guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.	The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.
IFRS 17 Insurance contracts	Final standard issued on 18 May 2017, which will come into effect on 1 January 2021. Applicable for all insurance contracts issued by any entity and investment contracts with discretionary participating features issued by insurers.	The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 17.
IFRIC 22 Foreign currency transactions and advance consideration	Addresses how to determine the date of the transaction when applying IAS 21, where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. Effective date of this interpretation is 1 January 2018.	The Company does not envisage any significant impact on the financial statements of the Company.
IFRIC 23 Uncertainty over income tax treatments	Includes clarifications in respect of uncertain tax treatments. Effective date of this interpretation is 1 January 2019.	The Company is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

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

2.4 Significant accounting policies (continued)

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

New or amended standards	Summary of the requirements	Possible impact on financial statements
New or amended standards	Summary of the requirements	Possible impact on financial statements
Annual Improvements to IFRSs 2015–2017 Cycle – various standards	Amendment to IAS 12 Clarify that an entity should account for all income tax consequences of dividends in the same way, regardless of how the tax arises. Effective date of this interpretation is 1 January 2019. Amendment to IAS 23 Clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of the funds that it has borrowed generally. Effective date of this interpretation is 1 January 2019.	The Company is assessing the potential impact on its financial statements resulting from the application of amendments to IAS 12 and 23.

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

- Amendment to IAS 7 on changes in liabilities arising from financing activities.
- Amendment to IAS 12 on recognition of deferred tax assets for unrealised losses.
- Amendment to IFRS 2 on classification and measurement of share based payment transactions.
- Amendment to IAS 40 on transfer of investment property.
- Annual Improvements to IFRSs 2014–2016 Cycle – various standards.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3 Revenue

	2017	2016
	RO	RO
Fixed capacity charge – Power	33,416,405	35,962,241
Fixed capacity charge – Water	15,726,479	15,614,480
Energy charge	1,371,401	1,344,817
Water output charge	907,046	871,054
Fuel charge	25,316,481	23,752,393
	76,737,812	77,544,985

4 Cost of sales

	2017	2016
	RO	RO
Fuel cost	24,810,601	23,275,542
Depreciation (note 9)	10,806,063	10,787,585
Operation and maintenance cost	6,390,160	5,607,298
Contractual services maintenance cost	3,025,536	2,825,360
Insurance cost	476,412	541,663
Incentive payment	410,996	354,760
Security charges	102,509	99,523
License and permits	75,164	73,208
Provision for asset retirement obligation (note 20)	36,924	34,488
Electricity import cost	12,300	14,170
	46,146,665	43,613,597

5 Administrative and general expenses

	2017	2016
	RO	RO
Staff costs	167,302	147,189
Fee and subscription	97,556	110,863
Directors' remuneration and sitting fees	87,740	117,036
Legal and professional charges	75,845	49,355
Travelling expenses	49,437	38,113
Charity and donations	40,119	34,000
Depreciation and amortisation (notes 9 and 10)	30,372	32,187
Provision for doubtful debts	-	74,276
Others	32,992	44,092
	581,363	647,111

6 Other gains/(losses) - net

	2017	2016
	RO	RO
Gain/(loss) on disposal of assets	114,758	(4,576)
Property, plant and equipment written off (notes 6.1 and 9)	(6,127,432)	-
	(6,012,674)	(4,576)

6.1 During the year, the Company had a major machinery breakdown of Gas Turbine 5 (GT5) due to rotor failure which was replaced with a new rotor. The Company wrote off existing damaged rotor.

7 Other income

The Company has recognised insurance income of RO 6,994,169 during the year, of which RO 5,942,536 pertain to property damage and balance amount of RO 1,051,633 pertains to revenue loss due to business interruption resulting from breakdown of Gas Turbine 5 in the Salalah Plant. The Company has received an interim payment of RO 2,850,480 as at 31 December 2017 and has subsequently received RO 866,700. The income has been recognised since the loss incurred as a result of the breakdown can be measured reliably and it is probable that the future economic benefits will flow to the Company.

8 Finance costs

	2017	2016
	RO	RO
Interest expense on project financing	9,734,453	9,371,469
Interest expense on interest rate swap	5,028,191	6,314,098
Deferred financing cost	949,322	1,010,730
Commission and bank charges	53,259	53,780
	15,765,225	16,750,077

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

9 Property, plant and equipment

	Buildings	Roads and pipelines	Plant and machinery	Office equipment	Motor vehicles	Computer equipment	Total
Cost	**RO**	**RO**	**RO**	**RO**	**RO**	**RO**	**RO**
At 1 January 2017	48,461,676	26,281,102	286,147,923	193,648	275,260	242,828	361,602,437
Additions	2,910	89,529	6,331,349	4,095	-	33,908	6,461,791
Write off (note 6)	-	-	(6,127,432)	-	-	-	(6,127,432)
Disposals	-	-	(59,996)	(10,746)	(6,287)	-	(77,029)
At 31 December 2017	**48,464,586**	**26,370,631**	**286,291,844**	**186,997**	**268,973**	**276,736**	**361,859,767**
Accumulated depreciation							
At 1 January 2017	7,044,937	3,855,958	41,934,985	155,003	123,635	203,442	53,317,960
Charge for the year	1,460,346	802,850	8,492,425	28,160	31,014	20,039	10,834,834
Disposals	-	-	(11,999)	(10,352)	(3,863)	-	(26,214)
At 31 December 2017	**8,505,283**	**4,658,808**	**50,415,411**	**172,811**	**150,786**	**223,481**	**64,126,580**
Carrying amount							
At 31 December 2017	**39,959,303**	**21,711,823**	**235,876,433**	**14,186**	**118,187**	**53,255**	**297,733,187**
Cost							
At 1 January 2016	48,445,982	26,008,548	285,948,116	192,654	287,890	213,845	361,097,035
Additions	15,694	272,554	243,415	994	7,150	28,983	568,790
Disposals	-	-	(43,608)	-	(19,780)	-	(63,388)
At 31 December 2016	48,461,676	26,281,102	286,147,923	193,648	275,260	242,828	361,602,437
Accumulated depreciation							
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
Disposals	-	-	(5,890)	-	(9,582)	-	(15,472)
At 31 December 2016	7,044,937	3,855,958	41,934,985	155,003	123,635	203,442	53,317,960
Carrying amount							
At 31 December 2016	41,416,739	22,425,144	244,212,938	38,645	151,625	39,386	308,284,477

(a) Leased land

Land on which the plant is constructed has been leased by Government of Sultanate of Oman to the Company for a period of 25 years expiring on 23 November 2034 under the term of the Usufruct Agreement, which can be extended for an additional 25 years. Lease rental for 25 years has already been paid.

9 Property, plant and equipment (continued)

(b) Security

The Company's property, plant and equipment are pledged as security against the term loans (note 19). The depreciation charge has been allocated as set out below:

	2017	2016
	RO	RO
Cost of sales (note 4)	10,806,063	10,787,585
Administrative and general expenses (note 5)	28,771	27,692
	10,834,834	10,815,277

10 Intangible assets

	2017	2016
	RO	RO
At 1 January	111,606	108,438
Additions during the year	10,933	3,168
	122,539	111,606
Accumulated amortisation		
At 1 January	(109,407)	(104,912)
Charge for the year (note 5)	(1,601)	(4,495)
	(111,008)	(109,407)
At year end	11,531	2,199

Intangible assets mainly represent the purchase of ERP software.

11 Hedging reserve

	2017	2016
	RO	RO
Interest rate swaps:		
SMBC Capital Market Limited	(3,018,979)	(3,828,118)
Standard Chartered Bank	(8,759,808)	(11,267,077)
KfW-IPEX	(2,630,944)	(3,340,302)
Hedging instrument at the end of the year	(14,409,731)	(18,435,497)
Deferred tax asset (note 17)	2,161,459	2,212,260
Hedging reserve at the end of the year (net of tax)	(12,248,272)	(16,223,237)
Less: Hedging reserve at the beginning of the year	(16,223,237)	(21,643,947)
Effective portion of change in fair value of cash flow hedge for the year.	3,974,965	5,420,710
Hedging instrument classification		
Non-current portion of hedging instrument	11,417,558	14,599,007
Current portion of hedging instrument	2,992,173	3,836,490
	14,409,731	18,435,497

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

11 Hedging reserve (continued)

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 2017 is approximately RO 134 million (USD 348 million) and approximately RO 35 million (USD 91 million), at a fixed interest rate of 4.345% and 3.8% per annum respectively.

12 Inventory

	2017	2016
	RO	RO
Fuel inventory	**1,034,624**	1,028,993
Spare parts and consumables	**3,568,604**	3,227,151
	4,603,228	4,256,144

13 Trade and other receivables

	2017	2016
	RO	RO
Trade receivable	**6,057,219**	6,292,328
Insurance claim receivable (note 13.1)	**4,143,689**	-
Advances to vendors	**1,547,064**	2,794,542
Other receivables	**722,834**	155,418
Prepayments	**169,007**	201,421
Due from related parties (note 18)	**2,175**	-
	12,641,988	9,443,709

The Company has one customer (OPWP) which accounts for the trade receivables balance as at 31 December 2017.

The ageing of trade receivables at the reporting date disclosed in (note 21).

13 Trade and other receivables (continued)

13.1 Insurance claim receivable

The Company has recognised insurance income of RO 6,994,169 during the year, of which RO 5,942,536 pertain to property damage and balance amount of RO 1,051,633 pertains to revenue loss due to business interruption resulting from breakdown of Gas Turbine 5 in the Salalah Plant. The Company has received an interim payment of RO 2,850,480 as at 31 December 2017 and has subsequently received RO 866,700.The balance claim of RO 4,143,689 has been recognised as insurance claim receivable in the financial statements for the year ended 31 December 2017, since the loss incurred as a result of the breakdown can be measured reliably and it is probable that the future economic benefits will flow to the Company.

14 Cash and bank balances

	2017	2016
	RO	RO
Cash in hand	**347**	932
Cash at bank	**13,837,260**	5,988,822
Fixed term cash deposits (Less than 3 months)	**1,725,696**	-
Cash and cash equivalent	**15,563,303**	5,989,754
Fixed term cash deposits (3 to 6 months)	**14,291,586**	21,267,066
	29,854,889	27,256,820

As at 31 December 2017, the Company has placed funds in the fixed term deposits (3 to 6 months) to meet the Debt Service Reserve Account requirement of RO 13,747,851 (31 December 2016: RO 14,219,007) [note 19]. The fixed term deposits of RO 14,291,586 (31 December 2016: RO 21,267,066) have a weighted average interest rate of 1.74% per annum (31 December 2016: 0.92%).

14.1 Reconciliation of liabilities arising from financing activities

	2016	Cash flows	**2017**
	RO	RO	**RO**
Long term loans (note 19)	228,763,977	(14,483,021)	**214,280,956**

15 Equity

(a) Share capital

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

15 Equity (continued)

The details of shareholders are as follows:

	Nationality	31 December 2017 Number of shares held of nominal value 100 baisa each	% of total	Aggregate nominal value of shares held RO
SOFIH	**British Virgin Island**	**381,828,780**	**40.00%**	**38,182,878**
IPWC	**Oman**	**125,431,511**	**13.14%**	**12,543,151**
Public		**447,311,659**	**46.86%**	**44,731,166**
		954,571,950	**100.00%**	**95,457,195**

	Nationality	31 December 2016 Number of shares held of nominal value 100 baisa each	% of total	Aggregate nominal value of shares held RO
SOFIH	British Virgin Island	381,828,780	40.00%	38,182,878
IPWC	Oman	181,368,670	19.00%	18,136,867
Public		391,374,500	41.00%	39,137,450
		954,571,950	100.00%	95,457,195

(b) Legal reserve

Article 106 of the Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to at least one-third of the company's issued share capital. This reserve is not available for distribution to shareholders.

(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 11).

16 Trade and other payables

	2017 RO	2016 RO
Interest payable	**3,739,825**	3,940,434
Trade payable	**3,431,313**	172,630
Accrued expenses and other payable	**2,439,945**	2,583,461
Retention payable (note 29)	**1,526,056**	1,799,641
Due to related parties (note 18)	**1,229,230**	572,706
Withholding tax payable (note 16.1)	**475,403**	-
	12,841,772	9,068,872

16.1 Withholding tax payable represents withholding tax on interest payments to foreign lenders.

17 Income tax

During the year, the tax law in Oman was amended through a royal decree 2017/9 issued on 19 February 2017 which was published in the official gazette on 26 February 2017. The effective date of the implementation of the new tax law was 26 February 2017. Therefore, in 2017 the Company is liable to income tax, in accordance with the amended income tax laws of Sultanate of Oman, at the rate of 15% of taxable income. For the year 2016, applicable income tax rate was 12% of taxable income above RO 30,000 of profit.

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

A deferred tax asset has been recognised directly in equity in respect of the changes in fair values of interest rate swaps (note 11).

	2017	2016
	RO	RO
(a) Recognised in profit or loss		
Deferred tax expense due to change in tax rate	2,984,644	-
Deferred tax expense for the year	1,681,310	2,035,929
	4,665,954	2,035,929

(b) Deferred tax asset (liability)

	At 1 January	Recognised during the year	At 31 December
As at December 2017	**RO**	**RO**	**RO**
Charged to profit or loss			
Property, plant and equipment	**(15,015,841)**	**(4,621,254)**	**(19,637,095)**
Provision for asset retirement obligation	**-**	**26,740**	**26,740**
Tax losses	**3,077,266**	**(71,440)**	**3,005,826**
	(11,938,575)	**(4,665,954)**	**(16,604,529)**
Deferred tax recognised in equity			
Derivative financial instruments	**2,212,260**	**(50,801)**	**2,161,459**
Deferred tax liability (net)	**(9,726,315)**	**(4,716,755)**	**(14,443,070)**

	At 1 January	Recognised during the year	At 31 December
As at December 2016	RO	RO	RO
Charged to profit or loss			
Property, plant and equipment	(13,068,477)	(1,947,364)	(15,015,841)
Tax losses	3,165,831	(88,565)	3,077,266
	(9,902,646)	(2,035,929)	(11,938,575)
Deferred tax recognised in equity			
Derivative financial instruments	2,951,448	(739,188)	2,212,260
Deferred tax liability (net)	(6,951,198)	(2,775,117)	(9,726,315)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

17 Income tax (continued)

c) Reconciliation

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

		2017		2016
		RO		RO
Profit before tax	% age	**15,634,727**	% age	16,664,748
Income tax as per rates mentioned above	15.0%	**(2,345,209)**	12.0%	(1,999,770)
Expenses not deductible for tax purposes	0.0%	**(525)**	0.0%	(4,318)
Change in recognised temporary differences	-4.2%	**664,424**	0.2%	(31,841)
Change in tax rate	19.1%	**(2,984,644)**	0.0%	-
Deferred tax expense for the year	29.9%	**(4,665,954)**	12.2%	(2,035,929)

(d) Status of prior year returns

The Company's assessment for the tax years 2014 to 2016 have not yet been finalised with the Secretariat General for Taxation at the Ministry of Finance. Management of the Company believe 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 2017.

(e) No provision for taxation has been made in these financial statements in view of cumulative taxable losses incurred by the Company as at 31 December 2017. The cumulative tax losses up to 31 December 2017 in the amount of RO 20,038,833 (31 December 2016 - RO 25,643,883) are available for set-off against future profits earned within a period of five years from the year in which the loss was incurred and therefore deferred tax asset on these tax losses has been recognised in these financial statements, as the Company expects to have sufficient taxable profits in the future years against which such tax losses will be adjusted.

18 Related party transactions

Related parties comprise the shareholders, directors, key management personnel and business entities which have the ability to control or exercise significant influence in financial and operating decisions.

The Company maintains balances with these related parties which arise in the normal course of business from the commercial transactions. Outstanding balances at the reporting period end are unsecured and settlement occurs in cash.

No expenses have been recognised in the period for bad or doubtful debts in respect of amounts owed by related parties (31 December 2016: Nil).

Sembcorp Industries Limited (SIL), Oman Investment Corporation (OIC), Sembcorp Oman First Investment Holding Co Ltd, Sembcorp Salalah O&M Services Company LLC and Sembcorp Utilities (Chile) SA are related parties with significant shareholder influence.

18 Related party transactions (continued)

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

	2017 RO	2016 RO
Sembcorp Industries Limited (SIL)		
- Purchase of intangible assets	10,933	-
- Reimbursement of expenses to SIL	22,988	18,918
- Reimbursement of expenses to the Company	2,175	-
Sembcorp Salalah O&M Services Company LLC (SSOM)		
- Operation and maintenance cost	6,390,160	5,607,298
- Incentive payment	410,996	354,760
Oman Investment Corporation (OIC)		
- Reimbursement of expenses	10,729	15,593
- Sale of furniture & fixtures	350	-
Sembcorp Oman First Investment Holding Co Ltd		
- Reimbursement of expenses	-	509
Sembcorp Utilities (Chile) SA		
- Reimbursement of expenses	13,106	-
Balances due to related parties at the yearend comprised:		
SSOM	1,229,230	553,064
Sembcorp Industries Limited	-	14,139
OIC	-	5,503
	1,229,230	572,706
Balances due from related parties at the yearend comprised:		
Sembcorp Industries Limited	2,175	-

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 period ended is as follows:

	2017 RO	2016 RO
Directors' remuneration	67,240	91,286
Directors' sitting fees	20,500	25,750
Short term employee benefits	298,778	338,726
Social security and gratuity	14,938	19,064
	401,456	474,826

Compensation of some of the Key Management personnel has been paid through Sembcorp Salalah O&M Services Co. LLC of RO 199,247 (31 December 2016: RO 233,999).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

19 Term loan

	Maturity	2017 RO	2016 RO
Non-current			
Project financing loan (USD)	2012-2026	**177,393,556**	189,383,397
Project financing loan (Rials)	2012-2026	**36,887,400**	39,380,580
		214,280,956	228,763,977
Less: Unamortised transaction cost		**(4,374,046)**	(5,323,368)
		209,906,910	223,440,609
Less: Current portion of term loan		**(15,414,677)**	(14,483,021)
		194,492,233	208,957,588

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 31 December 2012, with the final instalment being due on 31 December 2026.

Interest

i) 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	3.95%

ii) 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	4.25%

19 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 Sinosure Covered facilities and 0.4% of undrawn Rial Omani facilities. As at 31 December 2017, there were no undrawn loans.

Securities

The term loan and the debt reserve account facility are secured, under the security documents as a whole, by the following collateral:

- a charge on all project assets through commercial/legal mortgage;
- an assignment of its insurance/reinsurance;
- a security over Company's shares (apart from those held by public);
- a charge overall project accounts; and
- direct agreements.

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.

20 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 and profit margin that third parties would consider to assume the settlement of the obligation. The movement in ARO provision is as follows:

	2017	2016
	RO	RO
At 1 January	534,603	500,115
Unwinding of discount	36,924	34,488
At 31 December	571,527	534,603

Because of the long term nature of the liability, there is significant uncertainty in estimating the cost that will be incurred. It has been assumed that the site will be retired using technology and material that are currently available. The provision has been calculated using a discount rate of 6.5%.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

21 Financial risk management

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

- Market risk
- Credit risk
- Liquidity risk

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

The Board of Directors has overall responsibility for 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 %	2017 RO	2016 RO
Financial assets			
Fixed term cash deposit	1.74%	16,017,282	21,267,066
Financial liabilities			
Term loan			
- USD variable rate loans	Libor + 3%	(98,527,612)	(105,186,988)
- USD variable rate loans	Libor + 2.85%	(78,865,944)	(84,196,409)
- RO fixed rate loans	4.25%	(36,887,400)	(39,380,580)
		(214,280,956)	(228,763,977)

Fair value sensitivity analysis for fixed rate instruments

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 statement of profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

21 Financial risk management (continued)

Cash flow sensitivity analysis for variable rate instruments (continued)

	Equity			
	100 bps increase 2017 RO	**100 bps decrease 2017 RO**	100 bps increase 2016 RO	100 bps decrease 2016 RO
Interest rate swap	**8,568,816**	**(8,568,816)**	10,225,643	(10,225,643)

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 2017.

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:

	2017 RO	2016 RO
Classified as loans and receivables		
Cash at bank	**15,562,956**	5,988,822
Fixed term cash deposits (3 to 6 months)	**14,291,586**	21,267,066
Trade receivable	**6,057,219**	6,292,328
Insurance claim receivable	**4,143,689**	-
Other receivables	**722,834**	155,418
Due from related parties	**2,175**	-
	40,780,459	33,703,634

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

21 Financial risk management (continued)

Cash flow sensitivity analysis for variable rate instruments (continued)

b) Credit risk (continued)

The table below shows the balances with banks categorised by short-term credit ratings as published by Moody's investor's service at the reporting date:

		2017	2016
		RO	RO
Bank	**Rating**		
Bank balances			
Bank Muscat SAOG	P-2	9,235,362	5,984,316
Bank of China	P-1	6,327,594	4,506
		15,562,956	5,988,822
Fixed term deposits (3 to 6 months)			
Bank Muscat SAOG	P-2	2,000,000	2,000,000
Bank of China	P-1	12,291,586	19,267,066
		14,291,586	21,267,066

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

	2017		2016	
	Amount RO	Allowance for impairment RO	Amount RO	Allowance for impairment RO
Not past dues	10,922,995	-	6,446,862	-
Past due 0 to 3 months	547	-	650	-
Past due 3 to 6 months	200	-	234	-
	10,923,742	-	6,447,746	-

(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.

21 Financial risk management (continued)

Cash flow sensitivity analysis for variable rate instruments (continued)

(c) Liquidity risk (continued)

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

		Cash flows			
	Carrying amount	Contractual cash flow	Less than 1 year	More than 1 to 5 years	More than 5 years
31 December 2017	**RO**	**RO**	**RO**	**RO**	**RO**
Derivatives					
Interest rate swaps used for hedging	**14,409,731**	**(15,384,856)**	**(3,022,554)**	**(9,406,350)**	**(2,955,952)**
Non-derivatives Financial liabilities					
Term loan	**209,906,910**	**(271,389,899)**	**(23,141,780)**	**(132,814,504)**	**(115,433,615)**
Trade and other payables	**12,841,772**	**(12,841,772)**	**(12,841,772)**	**-**	**-**
	237,158,413	**(299,616,527)**	**(39,006,106)**	**(142,220,854)**	**(118,389,567)**
31 December 2016					
Derivatives					
Interest rate swaps used for hedging	18,435,497	(19,527,914)	(3,860,507)	(11,685,599)	(3,981,808)
Non-derivatives Financial liabilities					
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)	-	-
	250,944,978	(324,259,341)	(34,682,302)	(136,002,309)	(153,574,730)

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

Capital management

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns to members and benefits to other stakeholders, and to provide an adequate return to members by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to members, return capital to shareholders, and issue new shares, or sell assets to reduce debt.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

21 Financial risk management (continued)

Capital management (continued)

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio (debt to equity)

	2017	2016
	RO	RO
Debt (Long-term loan)	209,906,910	223,440,609
Equity (Shareholders' funds)	104,920,085	104,260,689
Debt to equity ratio (times)	2.00	2.14

Fair value of financial instruments

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

	Carrying amount				Fair value
	Fair value - hedging instrument	Loans and receivables	Other financial liabilities	Total	Level 2
31 December 2017	RO	RO	RO	RO	RO
Financial assets not measured at fair value					
Trade and other receivables	-	10,923,742	-	10,923,742	-
Cash and cash equivalents	-	29,854,889	-	29,854,889	-
	-	40,778,631	-	40,778,631	-
Financial liabilities measured at fair value					
Derivative financial instruments	(14,409,731)	-	-	(14,409,731)	(14,409,731)
Financial liabilities not measured at fair value					
Term loan	-	-	(209,906,910)	(209,906,910)	(220,715,725)
Trade and other payables	-	-	(12,841,772)	(12,841,772)	-
	-	-	(222,748,682)	(222,748,682)	(220,715,725)

21 Financial risk management (continued)

Fair value of financial instruments (continued)

	Carrying amount				Fair value
	Fair value - hedging instrument	Loans and receivables	Other financial liabilities	Total	Level 2
31 December 2016	RO	RO	RO	RO	RO
Financial assets not measured at fair value					
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 financial instruments	(18,435,497)	-	-	(18,435,497)	(18,435,497)
Financial liabilities not measured at fair value					
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)

22 Contingencies and commitments

a) Performance guarantees

	2017	2016
	RO	RO
Performance guarantees	**1,540,800**	1,540,800

The Company has taken bank guarantees from Bank Muscat SAOG for the amount of USD 4,000,000 to Oman Electricity Transmission Company SAOG under the electrical connection agreement.

b) Operation and maintenance commitment

As per O&M Agreement, SSOMC operates and maintains the Company's plant at Salalah until 24 May 2027. Under O&M agreement, the Company has to pay the fixed operating fee:

All fees are subject to 3% indexation. The minimum future payments under the O&M agreement (excluding indexation) are as follow:

	2017	2016
Due:	**RO**	RO
Not later than one year	**770,400**	770,400
Later than one year but not later than five years	**3,081,600**	3,081,600
Later than five years	**3,389,760**	4,160,160
	7,241,760	8,012,160

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

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

The Company has entered into a PWPA with OPWP for a substantial element of the production of power and water with 100% 'take-or-pay' clauses in favour of the company.

Management has determined that the take-or-pay arrangements with OPWP under PWPA are covered by International Financial Reporting Interpretation Committee-Determining whether an Arrangement contains a Lease (IFRIC 4) as such arrangements convey the right to use the assets. Management further determined that such arrangement in substance represents an operating lease under IAS-17 Leases. The lease commenced on 25 May 2012. The following is the total of future minimum lease receipts expected to be received under PWPA:

	2017	2016
Due:	RO	RO
Not later than one year	43,142,996	43,142,996
Later than one year but not later than five years	172,686,940	172,686,940
Later than five years	183,033,167	226,176,163
	398,863,103	442,006,099

24 Basic and diluted earnings per share

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

	2017	2016
	RO	RO
Profit for the year (RO)	10,968,773	14,628,819
Weighted average number of shares outstanding during the year	954,571,950	954,571,950
Earnings per share - basic and diluted (RO)	0.011	0.015

Since the Company has no potentially dilutive instruments, the basic and dilutive earnings per share are same.

25 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.

	2017	2016
Shareholders' funds (RO)	104,920,085	104,260,689
Number of shares at the end of the year	954,571,950	954,571,950
Net assets per share (RO)	0.11	0.11

26 Dividend

On 13 February 2018, the Board of Directors proposed a final dividend of Baizas 3.1 per share (3.1% of the issued share capital).

On 25 October 2017 (2016 - 25 October 2016), Board of Directors approved the interim dividend of Baizas 7.2 per share (2016- Baizas 10.3 per share) for the year 2017 (2016 - for the year 2016) which was paid in November 2017 (2016- November 2016).

On 14 March 2017 (2016 - 15 March 2016), in an Annual General Meeting, shareholders approved Baizas 3.6 per share (3.6% of the issued share capital) [2016 - Baizas 3.5 per share (3.5% of the issued share capital)] as final cash dividend for the year 2016 (2016 - for the year 2015).

27 Investors' Trust Fund

Unclaimed dividends in the amount of RO 9,461 has been deposited with the Investors' Trust Fund of the CMA during the year 2017 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 30,616 have not been claimed from the Company by the shareholders as at 31 December 2017.

28 Segmental reporting

The Company has only one segment in accordance with IFRS 8. Segment information is, accordingly, presented in respect of the Company's business segments. The primary format, business segments, is based on the Company's management and internal reporting structure. The requirements of IFRS 8, paragraphs 31 to 34 relating to entity wide disclosures has been covered under statements of financial position, profit and loss and other comprehensive income and also in notes 1, 2 and 4 to these financial statements.

29 Subsequent events

Subsequent to the year-end, the Company has entered into a Settlement Agreement dated 16 January 2018 with EPC Contractor, where the EPC Contractor has agreed to waive its claim over the amounts retained by the Company. However, the Company needs to release the retention bond held by a bank in the Company's favour, in exchange the EPC Contractor will rectify some of the defects (mutually agreed) to the extend to the value of the retention bond. As the settlement agreement was only signed by all parties after 31 December 2017, this did not provide additional evidence of conditions existing at the balance sheet date but was a new agreement. Further this was not considered an extinguishment of liability as there was no agreement at 31 December 2017.

Independent auditor's report - pages 51 - 57.