Sembcorp Salalah
سيمبكورب صلاله

ANNUAL REPORT 2018

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

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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

Goh Nai Lei
Non-Executive
Temporary Director

Tariq Ali Salim Al Amri
Independent
Non-Executive Director

Sheikh Khalid Mohammed Ali Al Hamoodah
Independent
Non-Executive Director

Executive Management

Humaid Salim Al Amri
Chief Executive Officer

Tariq Bashir
Chief Financial Officer
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 2018.

Financial Results

2018 was another challenging year due to increased costs and lower revenue resulting from the current economic environment and extreme weather conditions caused mainly by Cyclone Mekunu. Despite the challenges, Sembcorp Salalah recorded a net profit of RO 12.84 million for the year 2018 compared to RO 10.97 million in 2017, while operating profit was RO 30.60 million in 2018 as compared to RO 30.99 million the year before. The increase in net profit compared to last year was due to a decrease in tax expense arising from a one off deferred tax expense in 2017. Operating profit was lower due to force majeure outages caused by Cyclone Mekunu and its after effects. The Company had a strong balance sheet, ending the year with net assets of RO 98.39 million.

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

Following a strong performance this year, the Board is pleased to recommend a final dividend for 2018 of Baizas 3.4 per share (3.4% of issued share capital). Together with the interim dividend of Baizas 8.8 per share distributed in November 2018, the total dividend for the company for the year amounts to Baizas 12.2 per share.

Operations

Sembcorp Salalah is a key power and water producer in the Dhofar region. 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 2018, the reliability of the power and water plant was 99.5% and 99.9% respectively, which was significantly better as compared to 94.1% and 99.8% in 2017. The water plant force majeure outage due to Cyclone Mekunu curtailed 10.72% of the maximum net capacity of the plant. The power plant load factor was reduced from 62.7% in 2017 to 37.8% in 2018, mainly due to the region having a second power plant onstream in January 2018. Notwithstanding this, the plant load factor does not have a significant impact on the profitability of the Company due to fixed capacity payments.

After the gas turbine rotor failure incident in 2017, the Company has taken various risk mitigation measures which include installation of a package-3 upgrade on our remaining four gas turbines. The Company has completed the package-3 upgrade works on two gas turbines in 2018 and plan to complete upgrading of the remaining two turbines in 2019.

Going forward

In 2019, the Company's focus will be to maximise shareholder return through a continued focus on enhancing financial and cash management, improving operating performance and tightening cost management.

Health, Safety & the Environment (HSE)

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

We are pleased to report that there were no lost time incidents and no incidents of environmental non-compliance in 2018.

Corporate Governance

The Board believes that a business built on the principles of good governance is more likely to sustain its success over the long term. Our Company is in compliance with the Code of Corporate Governance issued by 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 and in making a positive impact on its community. The Company follows a consistent approach in its charitable contributions and community investments. During the year, the Company spent RO 57,894 on CSR activities to improve the infrastructure and to promote education, health and environmental awareness in Mirbat Municipality and nearby 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 wise rule and for their continued support and encouragement to the private sector, as well as for setting an environment that allows us to participate in the growth of the Sultanate's economy. We look forward to continue playing our part in the growth of Oman and in particular, the Dhofar region.

Tan Cheng Guan
Chairman of the Board

Operational Highlights

Health, Safety & the Environment (HSE)

Sembcorp Salalah recorded 537,328 man hours without lost time incidents and was in full environmental compliance for the entire year of 2018. 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. Sembcorp Salalah was accredited to Integrated Management System Standard ISO 9001: 2015, ISO 14001:2015, and OSHAS 18001:2007 in 2018.

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. During the year, the Company provided firefighting training, IOSH leading and work-safety related courses to most of the staff. The Company has also done various safety drills during the year 2018.

Mother Earth Day

Sembcorp Salalah along with Iben Khaldoon School, Wali Mirbat office, Mirbat Municipality, Royal Oman Police, Marriot hotel and Mirbat Hospital celebrated Mother Earth Day by cleaning Mirbat beach. The event was part of a campaign aimed at raising awareness about the environmental challenges in our planet and all the life it supports. Earth day was celebrated to remind us that the Earth and its ecosystem provides us with life and sustenance. This also helps to promote harmony with nature and earth.

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. 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). As per our performance test result in 2018, plant net output at delivery point was significantly better than the contracted capacity.

Firefighting Training

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 2018 was 87.6% for power and 98.9% for water.

Reliability

The reliability of a plant is its ability to deliver its declared availability under the terms of its PWPA. In 2018, Sembcorp Salalah achieved power and water plant annual reliability of 99.5% and 99.9% respectively.

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 2018 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 a major inspection of three gas turbines, one steam turbine and the major maintenance of a number of critical pumps and overhaul of the ERS system.

After the GT5 rotor failure in 2017, the Company started maintaining and monitoring the remaining four gas turbines rigorously by doing offline hot water wash and also started conducting baroscopic inspection of these units every three months. In order to mitigate the risk of rotor failure, the Company decided to install Package 3 upgrade on the remaining four units. The Company has already installed Package 3 upgrade on two gas turbines in 2018 and plans to install on the remaining two gas turbines in 2019.

Extreme weather conditions

Cyclone Mekunu made landfall in the coasts of Dhofar on 25 May 2018, specifically in the area of Mughsayl, some 40km west of Salalah. The area of Dhofar was affected by extremely high winds, sustained at above 150km/h, with gusts up to 230km/h for almost two days. The rainfall that affected the area during the 24 hours preceding and after landfall, exceeded 600mm. This led to widespread flooding through the region, and severe flashfloods in the creeks and riverbeds (Wadi's) from nearby mountains. This heavy flashflood, which lasted for almost a week, introduced large amounts of silt, debris from trees and vegetation into the ocean. Due to this sea water contamination, the Company's water capacity and production affected from May to September 2018. Total Force Majeure outages during the period amounted to 14,606 megawatts for its power plant and 2,668 thousand cubic meters for its water plant during the period.

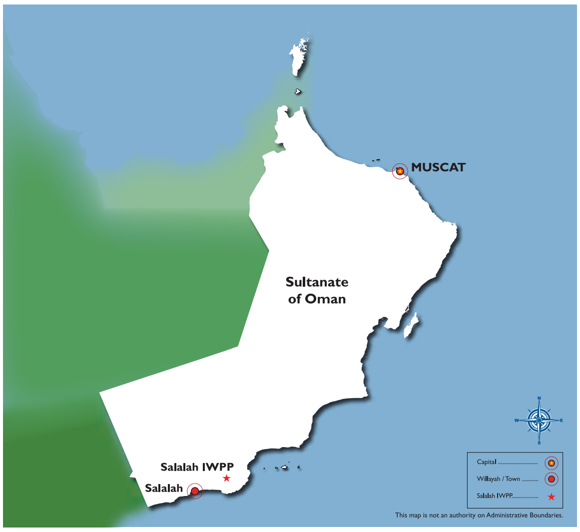
Description of the Company

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 plays 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 is such 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 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 RO 378 million, which included all construction, insurance and related costs (including financing costs).

The following table shows the 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.

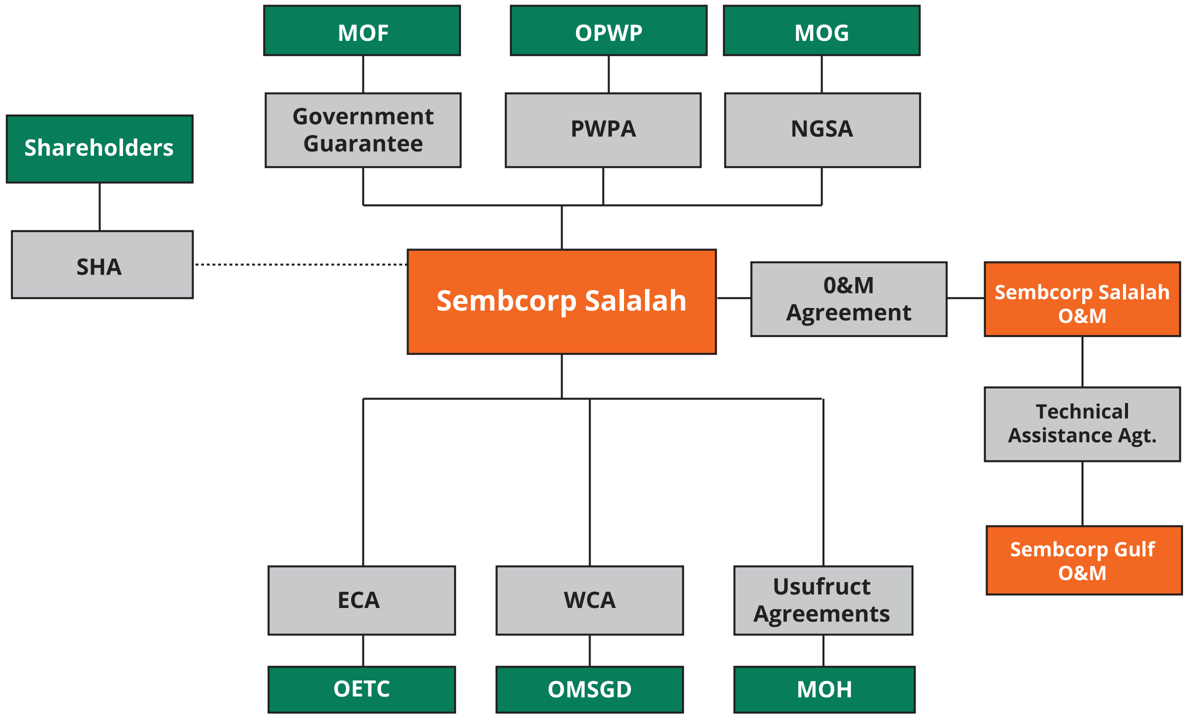
The Ministry of Finance guarantees the payment obligations due from OPWP to Sembcorp Salalah. This guarantee will remain in force until the initial financing for the project has been fully paid and OPWP maintains BBB- credit rating for 730 days. OPWP pays a charge consisting of a capacity charge covering 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.

Celebration of 48th Oman National Day

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	November 23, 2009	15 years from the Scheduled COD	April 3,2027
Power and Water Purchase Agreement (PWPA)	Sembcorp Salalah and OPWP	November 23, 2009	15 years from the Scheduled COD	April 3, 2027
Natural Gas Sales Agreement (NGSA)	Sembcorp Salalah and the Ministry of Oil & Gas	November 23, 2009	15 years from the Scheduled COD	April 3, 2027
Electricity Connection Agreement (ECA)	Sembcorp Salalah and Oman Electricity Transmission Company	November 23, 2009	25 years from the Effective Date	November 22, 2034
Water Connection Agreement (WCA)	Sembcorp Salalah and the Office of the Minister for State and the Governor of Dhofar	December 15, 2014	25 years from the date of signing of the WCA	December 15, 2039
Usufruct Agreement	Sembcorp Salalah and the Ministry of Housing	November 23, 2009	25 years from the Effective Date, subject to a further extension of 25 years at the option of Sembcorp Salalah	November 22, 2034, subject to extension
Usufruct Agreement relating to the Temporary Areas	Sembcorp Salalah and the Ministry of Housing	November 23, 2009	4 years from the Effective Date	November 22, 2013
Contractual Service Agreement (CSA)	Sembcorp Salalah and General Electric	December 15, 2009	20 years from the date of the CSA	December 14, 2029
Government Guarantee	Sembcorp Salalah and the Ministry of Finance	November 23, 2009	15 years from the Scheduled COD	April 3, 2027
O&M Agreement	Sembcorp Salalah and Sembcorp Salalah O&M Services Company LLC	February 8, 2010	15 years from the Scheduled COD	April 3, 2027
Technical Assistance Agreement	Sembcorp Salalah O&M Services LLC and Sembcorp Gulf O&M Co. Ltd	February 8, 2010	15 years from the Scheduled COD	April 3, 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 such 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 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 for 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 570 megawatts in 2018 to 810 megawatts by 2024, 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 "BB" 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 financing 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 80 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 12,000 MW of gross power capacity and over 9 million of cubic metres of water per day in operation or under development globally, Sembcorp Utilities 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 for 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

[1] OPWP's 7 Year Statement (2018-2024)

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.

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 an integrated energy playerwith a strong track record in developing and developed markets. It provides solutions across the utility and energy value chain, with a focus on Gas & Power, Renewable & Environment and Merchant & Retail. OIC is a private equity investment company with strong experience in 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 93, 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

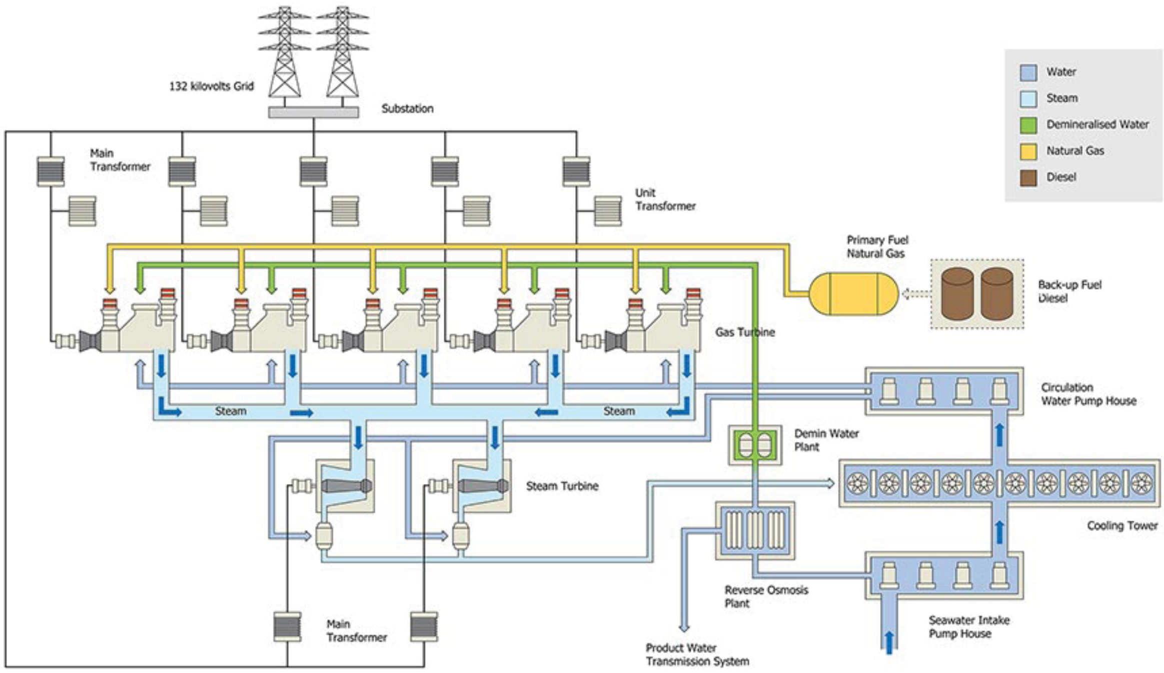
The Plant is an independent power and water plant located between the towns of Taqah and Mirbat, approximately 50 kilometres from Salalah, an administrative town in the Dhofar Governorate.

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.

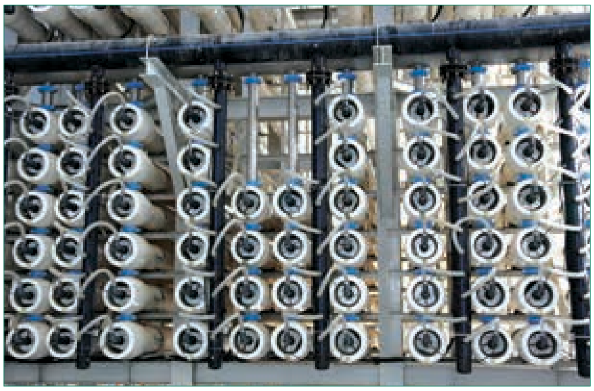
The following schematic displays the configuration of the Plant:



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.

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.

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 14 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$4.5 billion as at 31 December 2018.

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 business partnerships with local entrepreneurs and leading corporations from around the world. OIC invests in privately held companies with strong growth potential which can deliver superior risk-adjusted returns.

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

For more information relating to OIC, please visit its website at www.omaninvcorp.com.

Sembcorp Salalah CEO with Directors and Local Authorities

Opening Ceremony of IT Lab in SCT By Sembcorp CEO

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 40% to 45% of the power dispatch and 100% of its net installed water capacity during the year 2018.
- 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 101,000 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 was commissioned in January 2018.
- Dhofar I Wind IPP has an installed capacity of 50 megawatts. The Project is under construction near Harweel, for completion in 2020.
- 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 the 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 m3 per day

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

Salalah System Electricity Demand

According to OPWP, peak demand for electricity in the Salalah System is expected to grow from 570 megawatts in 2018 to 810 megawatts by 2024, at an average growth rate of 8% 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 Year Statement

Employees recognized for Outstanding Performance Award during Mekunu Cyclone May 2018

Chief Financial Officer and Human Resource Manager of Sembcorp Salalah receiving MSM Quality of Disclosure Award 2018.

Management Discussion and Analysis

We are pleased to present the audited financial statements of Sembcorp Salalah for the year ended December 31, 2018. In 2018, the Company has recorded profit after tax (PAT) of RO 12.84 million compared to a profit after tax of RO 10.97 million in the corresponding year in 2017, while profit before interest and tax is RO 30.60 million in 2018 compared to RO 30.99 million in 2017. The increase in profit after tax was mainly because of a one-off deferred tax impact in 2017 (arising from the change in tax law in February 2017) and lower finance cost in 2018; partially offset by the impact of force majeure outages impact due to Cyclone Mekunu.

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.

In January 2018, the new Salalah IPP2, owned by the Dhofar Generating Company, achieved full commercial operation. Since then, the grid's Load Dispatch Center has implemented an operational policy of sharing the grid demand between both plants which has led to a significantly reduced plant load factor for our power plant. However, this does not present a significant impact on the profitability of the Company because the Company's revenue is based on the availability of the plant, whilst the reduction of variable revenue is offset by a lower operational cost. Currently, the Company is contributing 100% of the desalinated water demand in the region.

Performance Overview

The Company's operating and financial performance is detailed below.

Operating Performance

The Company Key operating performance was generally characterized by high reliability of its power and water plants. The power plant load factor was lower compared to the corresponding year in 2017, mainly because of Salalah IPP2 having achieved full commercial operation in January 2018. However, plant load factor does not have a significant impact on the profitability of the Company. Key operating parameters for 2018 are noted below:

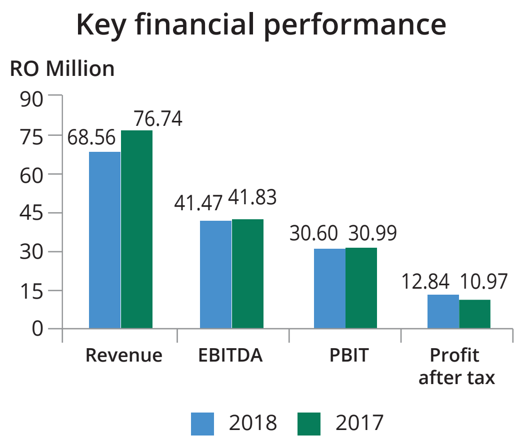
	Unit	2018	2017	Variance %
Water Reliability	(%)	**99.9**	99.8	0.1
Power Reliability	(%)	**99.5**	94.1	5.7
Quantity of Water Sold	(Thousand m^3)	**21,654**	24,212	-10.6
Quantity of Power Sold	(MWh)	**1,471,689**	2,444,101	-39.8
Plant Load Factor (Power)	(%)	**37.8**	62.7	-39.7
Plant Load Factor (Water)	(%)	**87.0**	97.3	-10.6

In addition to the above operating parameters, the Company reported force majeure outages, amounting to 14,606 megawatts for its power plant and 2,668 thousand cubic meters of water for its water plant, due to Cyclone Mekunu and its after-effects resulting in seawater contamination.

Financial Performance

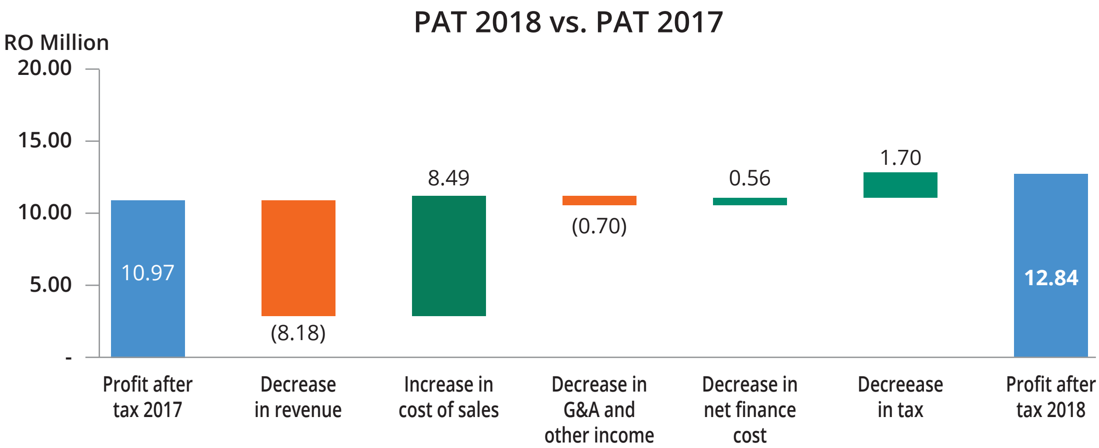
Key financial performance indicators are shown below:

	2018 RO million	2017 RO million
Revenue	**68.56**	76.74
EBITDA	**41.47**	41.83
Profit before interest and tax (PBIT)	**30.60**	30.99
Profit after tax	**12.84**	10.97



Profit after Tax

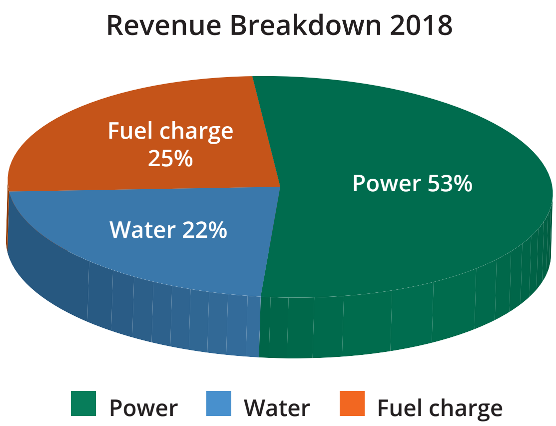
Profit after tax (PAT) increased from RO 10.97 million in 2017 to RO 12.84 million in 2018. The significant variances are elaborated in the following waterfall chart.



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

Revenue

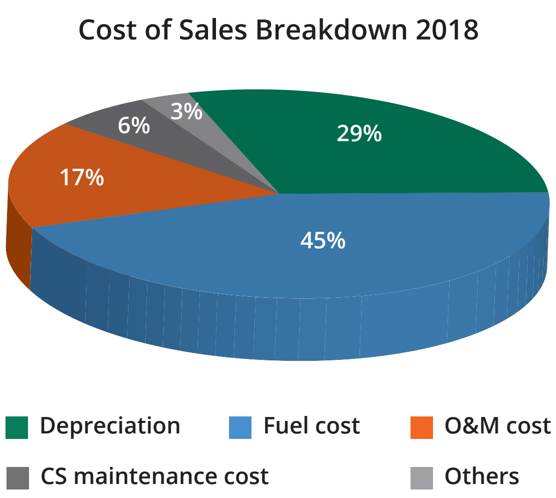
Power contributes 53% (excluding fuel charge), while water and fuel charge contributed 22% and 25% respectively to the overall revenue. Fuel charge revenue is a pass-through and is calculated based on consumption of natural gas as computed by the plant's contractual Fuel Demand Model.



Revenue reduced by 10.7% as compared to revenue for the year 2017. The reduction was mainly because of lower power plant load factor and force majeure outages. Plant load factor resulted in reduced fuel charge and variable energy charge revenue. Reduction in fuel charge and variable energy charge did not significantly affect the profitability of the Company, as the lower plant load factor also resulted in lower fuel cost and operations & maintenance (O&M) cost. Water plant capacity charge reduced mainly due to force majeure outages resulting from Cyclone Mekunu and its after effects.

Cost of sales

Cost of sales mainly comprises depreciation of property, plant and equipment, fuel cost and O&M cost. Cost of sales reduced compared to the corresponding year in in 2017 as a result of lower fuel cost, and lower Long-Term Service Agreement (LTSA) cost. The lower fuel cost is due to reduction in plant load factor. As fuel cost is pass-through in nature, there is a corresponding reduction in fuel charge revenue as mentioned above. LTSA costs have also fallen due to reduction in factored fired hours as compared to last year in line with reduction in plant load factor.



Other income (net off with other gains/ losses)

In 2018, other income mainly includes Change of Law claims from OPWP. Whereas, in 2017, other income mainly represents insurance claim arising from gas turbine rotor failure. Loss on derecognition of gas turbine rotor was recognised in other gains/ losses.

Net Finance Cost

Net finance cost decreased in 2018 compared to 2017 due to the scheduled repayment of part of the term loan in line with the financing documents.

Tax Expenses

Tax expenses reduced by RO 1.7 million compared to 2017, which is mainly because of a one-off deferred tax impact arising from the increase in tax rate from 12% to 15% in 2017.

Financial Position

		2018	2017
Total assets	RO million	**331.08**	344.84
Total liabilities	RO million	**232.69**	252.17
Shareholders funds	RO million	**106.40**	104.92
Shareholders equity	RO million	**98.39**	92.67
Current ratio		**1.35:1**	1.51:1
Gearing ratio		**67:33**	69:31
Net assets per share	RO/share	**0.11**	0.11

Dividend

On 12 February 2019, the Board of Directors proposed a final dividend 3.4% of issued share capital equivalent to Baizas 3.4 per share giving a total dividend of Baizas 12.2 per share (12.2% of issued share capital) for the year 2018.

Risks, Concerns and its Mitigation

Gas turbines

Due to a Gas Turbine rotor failure event in 2017, the Company has taken various measures to mitigate the risk of having such events happen again. These measures include installation of a package 3 upgrade to our remaining gas turbines. The Company has already installed package 3 upgrade works on two of its gas turbines in 2018 and planned to install a package 3 upgrade on our remaining two gas turbines.

Repayment of term loan

Repayment of the term loan is increasing in line with financing agreements, which will affect the cashflow of the Company. The company will still be able to pay reduced dividends throughout the period of PWPA. In order to maximise the shareholder's return and increase the dividends, the Company's management is exploring options such as partial refinancing and provision of DSRA LC instead of maintaining fully funded Debt Service Reserve Account.

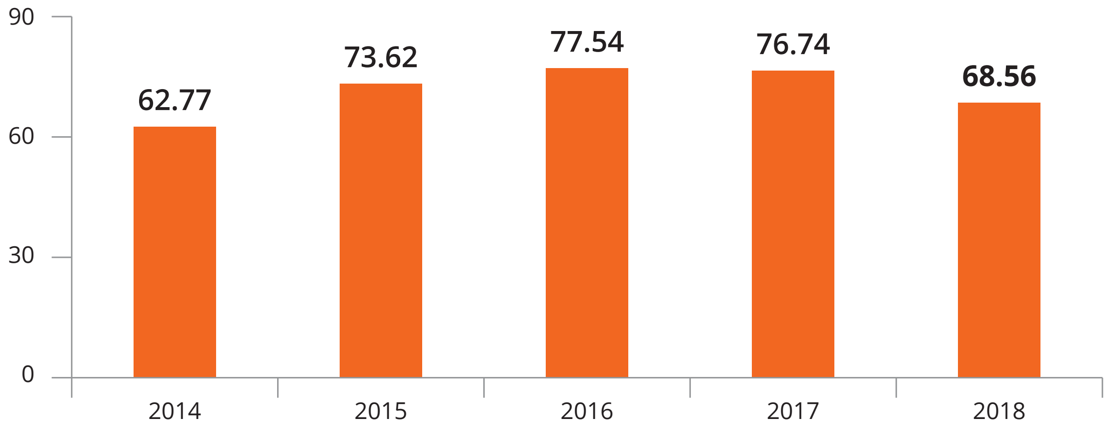
Business Outlook

2018 was a challenging year mainly due to increased cost and reduction in revenue resulting from government austerity measures and extreme weather conditions (Dhofar region hit by Cyclone Mekunu). The Company mitigated the negative impact of Cyclone Mekunu to its highest extent possible. 2019 is expected to be another challenging year as well due to continued pressures resulting from local regulatory and economic environment; greater requirement for plant maintenance and increased repayment profile. We will continue to focus on better cost management, financial and cash management; improving productivity and efficiency in order to maximise Shareholders' return.

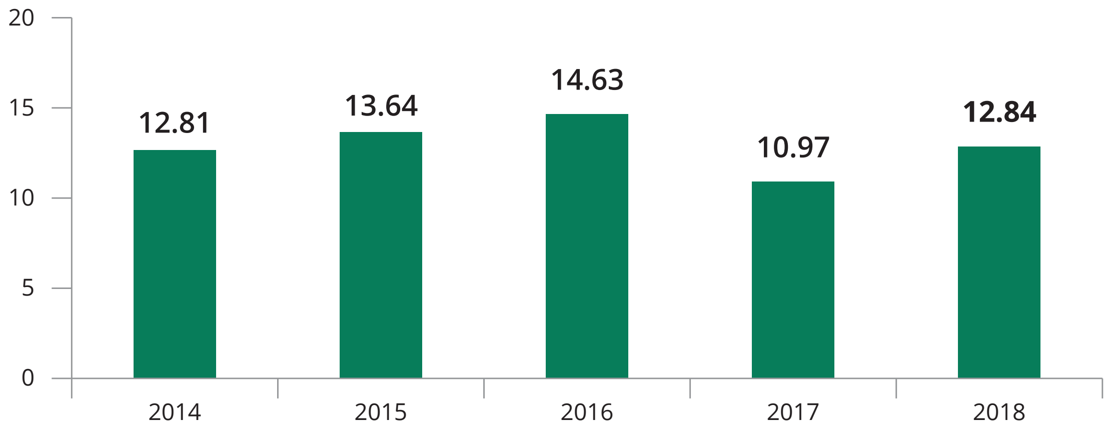
Historical 5 years performance

Five Years Financials	2018	2017	2016	2015	2014
Key performance indicators for the years (RO million)					
Revenue	**68.56**	76.74	77.54	73.62	62.77
EBITDA	**41.47**	41.83	44.10	44.15	45.06
Profit before interest and tax	**30.6**	30.99	33.28	33.32	34.21
Profit before tax	**15.81**	15.63	16.66	15.51	14.56
Net profit	**12.84**	10.97	14.63	13.64	12.81
Financial position at year end (RO million)					
Property plant and Equipment and Intangible assets	**288.95**	297.74	308.29	318.58	329.11
Net current assets	**11.03**	15.85	13.57	17.06	16.82
Non-current liabilities	**(201.59)**	(220.92)	(233.82)	(254.48)	(267.66)
Net assets	**98.39**	92.67	88.04	81.16	78.27
Shareholder's funds	**106.4**	104.92	104.26	102.80	101.95
Hedging reserve	**(8.01)**	(12.25)	(16.22)	(21.64)	(23.68)
Shareholder's equity	**98.39**	92.67	88.04	81.16	78.27
Per share					
Earnings (baizas)*	**13.5**	11.5	15.3	14.3	13.4
Dividend (baizas)*	**12.2**	10.3	13.9	12.7	13.4

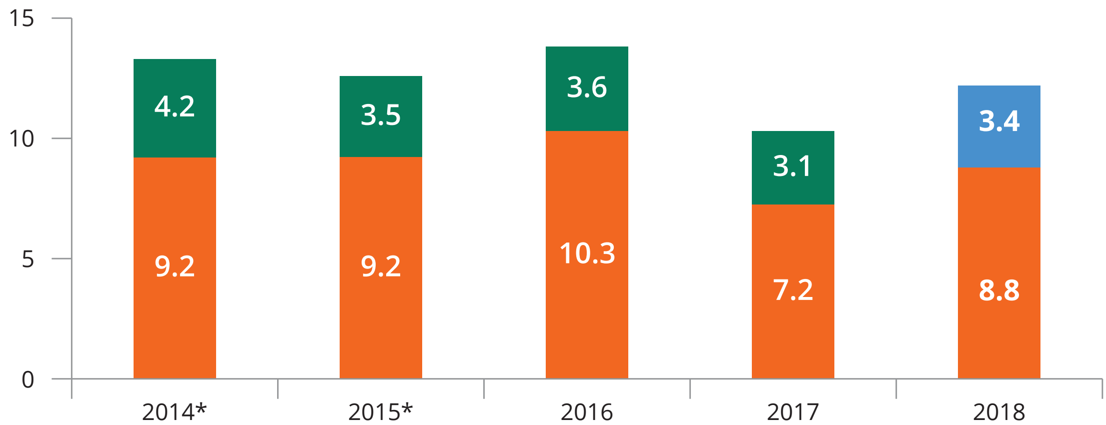
*In 2016, the Company reduced shares' nominal value from RO 1 per share to Baizas 100 per share (Split). Therefore earnings per share and dividend per share pre Split (from year 2014 to 2015) has been restated for comparison purposes.



Net Profit (RO million)



Dividend per share (in baizas)



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 for more effective and safe management of all the chemicals and waste in the plant, minimising 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 2018, the Company invested RO 57,894 to support CSR projects including amongst others:

- Improvement of local government infrastructure after Cyclone Mekunu damage
- Donation to local Mirbat School to support bright/outstanding students
- Donation to local Mirbat and Tawi Attair School to improve infrastructure and provide IT equipment
- Donation to provide IT lab facility to Government Technical College in Salalah
- Donation for IFTAR arrangement for needy people during Ramadan in Mirbat area
- Sponsored sports events to motivate participation in sports and create awareness on healthy activities

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 2018 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.

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 2018 and does not extend to any financial statements of Sembcorp Salalah Power & Water Company SAOG taken as a whole.

PricewaterhouseCoopers

John Molloy

John Molloy

13 February 2019
Muscat, Sultanate of Oman

Corporate Governance Report

This Corporate Governance Report for the year ended December 31, 2018 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 an 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 requires from its directors and employees. .

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 nine directors, all of which are non-executives and five of them are independent. The board members include professionals with strong experience relevant to the company's business. Given that all of the directors are non-executive and 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 descriptions of the Board and the Chairman, which is in line with the new Code encompassing the roles and responsibilities that are 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 towards achieving its objectives.

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 for them. The Company believes in high level 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 professional opinion on the financial statements presented to the shareholders.

Corporate Social Responsibility

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 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 for the year 2018 are shown below.

Board of Directors		Category	Board meetings				AGM
			13 Feb.	27 Apr.	25 Jul.	29 Oct.	8 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 (note 1)	Director	Non-Executive	✓	–	NA	NA	✓
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	✓	✓	✓	✓	–
Goh Nai Lei (note 2)	Temporary Director	Non-Executive	NA	NA	✓	✓	–

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

Note 1: Richard Quek Hong Liat resigned on 30 June 2018.

Note 2: The Board appointed Ms Goh Nai Lei on 25 July 2018 as Temporary Director to fill the vacant position arising from the resignation of Richard Quek Hong Liat.

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

Name of directors	Number of directorships
Kalat Al Bulooshi	1
Ahmed Al Bulushi	1
Abdul Amir Said Mohammed	2
Khalid Ali Al Hamoodah	3

The Board formed the Nomination and Remuneration Committee in accordance with the requirement of the Code. On 25 July 2018, the Board appointed Ms Goh Nai Lei as a member of the Audit Committee to fill the vacancy arising from the resignation of Richard Quek Hong Liat. The Board Committees composition is as follows:-

Committee	Chairman	Members
Audit Committee	Tariq Al Amri	Goh Nai Lei 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 for the year 2018:

Audit Committee Members		Category	Audit Committee meetings					
			13 Feb.	8 Mar.	27 Apr.	25 Jul.	29 Oct.	04 Dec.
Tariq Al Amri	Chairman	Non-Executive and Independent	✓	✓	✓	✓	✓	✓
Richard Quek Hong Liat	Director	Non-Executive	✓	✓	✓	NA	NA	NA
Ahmed Al Bulushi	Director	Non-Executive and Independent	✓	✓	✓	✓	✓	✓
Goh Nai Lei	Temporary Director	Non-Executive	NA	NA	NA	NA	✓	✓

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

Nomination and Remuneration Committee Meetings

Nomination and Remuneration Committee Members		Category	Nomination and Remuneration Committee Meetings	
			12-Feb.	24-Jul.
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 continued 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 NRC will prepare a shortlist of candidates with the appropriate profile and qualities for nomination. The Board reviews the recommendation of the NRC 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 NRC 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 2018, the Company paid following sitting fees and remuneration to directors during the year.

	Amount RO
Remuneration for the year 2017 (approved in AGM 2018)	67,240
Sitting fees for the year 2018	22,000
	89,240

In addition, the Nomination and Remuneration Committee and Board of Directors recommended to Shareholders to pay RO 80,650 as bonus for the board members for the year 2018.

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 379,552. The remuneration paid is commensurate with the qualification, role, responsibility and performance of the executive team in 2018. The breakdown of the remuneration is as follows:

	2018 Amount RO
Short-term employee benefits	345,058
Social security and gratuity	34,494
	379,552

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

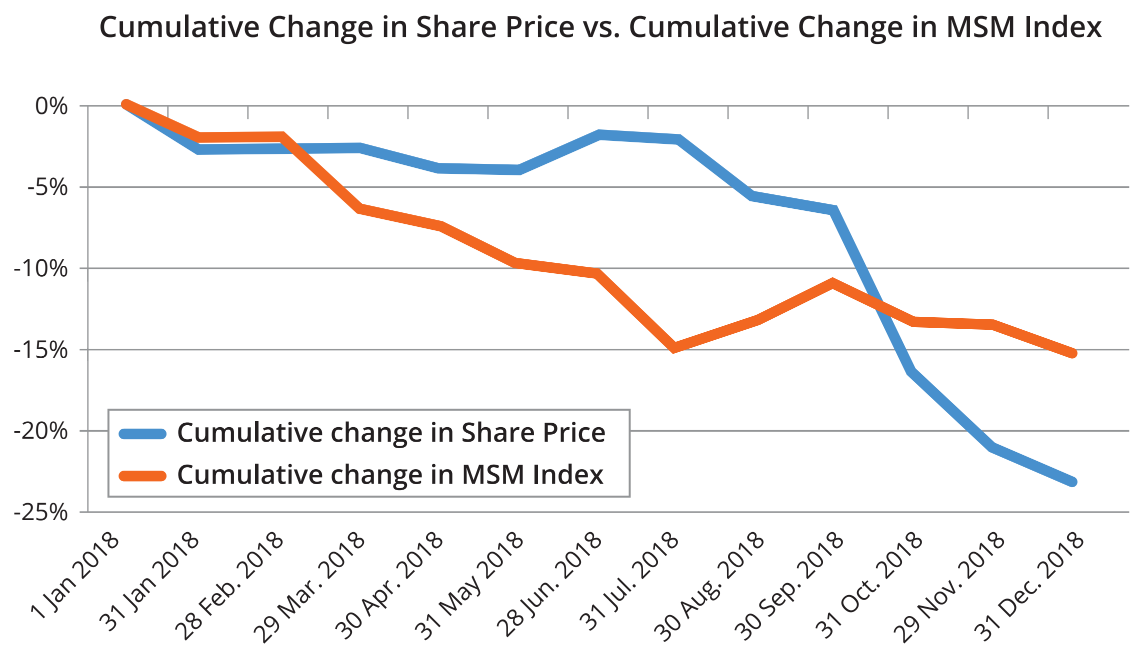
The company was listed on the Muscat Securities Market (MSM) on October 8, 2013. Below table shows monthly trade turnover and volume with high and low price for the year 2018.

Period	Trade [3]		Share price	Share price
	Shares	Value RO	High RO/share	Low RO/share
January	175,700	40,722	0.240	0.218
February	2,683,714	601,165	0.226	0.224
March	9,285,399	2,046,364	0.224	0.218
April	1,053,380	233,863	0.240	0.218
May	1,758,828	388,704	0.224	0.221
June	484,020	108,868	0.230	0.221
July	374,300	84,258	0.226	0.225
August	646,057	142,063	0.220	0.217
September	3,405,013	732,085	0.217	0.212
October	4,984,000	1,045,352	0.212	0.189
November	183,467	34,135	0.192	0.182
December	509,964	88,781	0.179	0.167

The table below shows a comparison of the Company's performance against the MSM in 2018s.[3]

Date	Sembcorp Salalah share price RO/ share	Cumulative change from 1 January 2018	MSM Index	Cumulative change from 1 January 2018
01-Jan-18	0.230	-	5,099.34	-
31-Jan-18	0.224	-2.61%	4,999.96	-1.95%
28-Feb-18	0.224	-2.61%	5,003.37	-1.88%
29-Mar-18	0.224	-2.61%	4,773.51	-6.39%
30-Apr-18	0.221	-3.91%	4,729.05	-7.26%
31-May-18	0.221	-3.91%	4,606.68	-9.66%
28-Jun-18	0.226	-1.74%	4,571.75	-10.35%
31-Jul-18	0.225	-2.17%	4,336.55	-14.96%
30-Aug-18	0.217	-5.65%	4,419.27	-13.34%
30-Sep-18	0.215	-6.52%	4,543.68	-10.90%
31-Oct-18	0.192	-16.52%	4,422.91	-13.27%
29-Nov-18	0.182	-20.87%	4,412.06	-13.48%
31-Dec-18	0.177	-23.04%	4,323.74	-15.21%

[3] Muscat Stock Market website



Distribution of Shareholding as at 31 December 2018

The table below shows the shareholder distribution at the end of December 2018.

Percentage holding	Number of shareholders	Value of shares	Percentage of total shares
Less than 5%	1,523	19,969,099	20.92%
5% to 10%	3	24,762,067	25.94%
Above 10%	2	50,726,029	53.14%
Total	1,528	95,457,195	100.00%

Professional Profile of Statutory Auditors

PwC is a global network of firms operating in 158 countries with more than 250,000 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 4,500 people. (www.pwc.com/me).

PwC has been established in Oman for over 40 years and the Firm comprises four 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 2018 is as follows:

	2018
	Amount RO
Audit for the year 2018	19,500
Interim quarterly reviews	1,200
Other services	1,800
	22,500

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.

Director **Chief Financial Officer**

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, including its renewable energy, water as well as waste-to-resource businesses, and drives the growth of these businesses globally.

He brings with him broad experience in engineering, strategy, business and project development for the utilities industry. Prior to joining Sembcorp, Mr. Tan spent 12 years in engineering and project management for the oil and gas sector at Brown & Root Far East, where he was based in London, Kuala Lumpur and Miri. He also spent three 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, USA.

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. Al Bulooshi has significant greenfield development experiences and have executed a number of large projects and investments in manufacturing, engineering services, petrochemicals, insurance, education and real-estate. He is currently chairman of one of the largest development project in Oman, Khazaen Economic City. Kalat also served on the board of a number of companies in Oman such as Galfar, Sembcorp Salalah and others. Prior to that he worked on project delivery in PDO, Sohar Port and Sohar Aluminium in Oman, Italy and Canada.

Mr Bulooshi holds an engineering honours degree from the UK. He has completed an Advanced Management Programme at Wharton Business School in the States and is a Wharton Alumni.

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.

Goh Nai Lei,
Non-Executive Director

Ms Goh is a temporary director of Sembcorp Salalah.

She is also the Senior Vice President & Head of Commercial at Sembcorp Industries. She is responsible for mergers and acquisitions, structuring and project financing activities at Sembcorp Industries.

Ms Goh was a key member of the team that led several transactions, including Sembcorp's acquisition of UK Power Reserve (the UK's largest flexible distributed energy generator), Green Infra Limited (an Indian renewable company with operating wind and solar assets), Cascal (a NYSE-listed global water company) and the divestments of Sembcorp's interests in its UK and South African municipal water assets.

Prior to joining Sembcorp, she was Regional Director for Southeast Asia (International Business Group) at SingTel, the largest telecommunications operator in Singapore, listed on the Singapore Exchange. As the Regional Director, she was responsible for the full spectrum of financial and business support activities for its Southeast Asia joint ventures and potential investments.

Ms Goh holds a Bachelor of Accountancy from Nanyang Technological University, Singapore and is a member of the Institute of Singapore Chartered Accountants.

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 (S2) 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 heads Sembcorp's Global Operations which provides engineering and process expertise to enhance and optimise operations and maintenance of Sembcorp's utilities worldwide. He also heads Sembcorp's businesses in the Middle East, South Africa, the Americas and Bangladesh.

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 currently Assistant Executive President of Diwan of Royal Court Pension Fund spearheading the investment department which manages multi-asset class investments in the global financial markets. He has been serving Diwan of Royal court in different capacities and accumulated experience in operational management, administration, project execution and managing investments. He also plays an integral part in the investment committee of the Pension Fund. Prior to his role at Diwan of Royal Court he had a short stint with the Ministry of Oil and Gas.

He has been a member on the Board of a number of reputed Companies and Financial Institutions in public and private sector in Oman and in the GCC region. He is the Chairman of National Mass Housing SAOC and Vice Chairman of Taageer Finance Company SAOG. He also sits on the Board of Muscat Gases Company SAOG and Oman Ceramics Company SAOG. Currently, he is also serving as Board member in Al Masah Capital (Diamond Lifestyle Fund) in UAE, National Bank of Oman GCC Fund, Oman managed by National Bank of Oman and Muscat Fund, Oman managed by Bank Muscat.

He is Masters in Business Administration from University of Strathclyde, UK and Bachelors in Business Administration from Coventry University, UK.

Executive Management

Humaid Salim Al Amri,
Chief Executive Officer

Mr. Humaid is the CEO of the Company.

Mr. Humaid brings 22 years of technical and management experience in the power and infrastructure industry. During his professional career, he worked with Petroleum Development of Oman (PDO) in different roles and was heading the Power System Operation and Maintenance team for 7 years. His diverse experience provides him with wide exposure to internal and external businesses and allowed him to obtain different recognitions and certifications. In addition, Mr. Humaid has a demonstrable track record of success with Oil & Gas and power sectors, covering Distribution, Transmission and power generation and downstream Oil processing. Mr. Humaid was holding a post of General Manager with KAYAN AlOmania Construction Company SAOG after he left PDO in 2016.

He is holding a Master of Science Degree in Power Distribution Engineering from University of Manchester, UK.

Tariq Bashir,
Chief Financial Officer and Company Secretary

Mr. Tariq is Chief Financial Officer 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 Acting 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 currently serving as the Acting Plant Manager.

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 2018

Contents

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 2018, 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 2018;
- the statement of financial position as at 31 December 2018;
- 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 Matter	• Useful lives of assets

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.

Our audit approach (continued)

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 a single Power and Water Purchase Agreement ("PWPA") entered into with Oman Power and Water Company ("OPWP"), which is the single buyer of power and water for all projects within the Sultanate of Oman. The PWPA has been determined to be 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 2018 were RO 38.518 million, RO 21.020 million and RO 228.967 million respectively. However, the PWPA relating to the plant is for only 15 years, valid up to 31 March 2027. Further, there is no renewal option in the PWPA. The useful lives of the different components of the plant are based on management's technical assessment of factors which are subject to judgement and accordingly contain significant estimation uncertainty. In addition, the estimated useful lives that have been assumed by management are all more than the term of the PWPA. However, management estimates that the plant and other associated assets will continue in operational existence beyond the initial term of 15 years covered by the current PWPA. In making its assessment of asset useful lives, management appointed an independent valuation expert in 2013 to prepare 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 or the implementation of a merchant market arrangement) and has estimated the useful lives of the plant components considering various factors such as the operating cycles, the maintenance programs, normal wear and tear and future cash flow forecasts. Management believes that the aforementioned assumptions will materialise and accordingly the plant and other associated assets will be economically viable and will continue in operational existence during the post-PWPA period.	Our audit procedures in relation to management's estimate were as follows: • At the time the original evaluation was performed, we evaluated the appropriateness and reasonableness of the assumptions considered by the independent valuer for the cash-flow forecasts pertaining to the post-PWPA period; • During the audit of the financial statements for this current year, we have re-assessed the relevance and appropriateness of those underlying assumptions by: ➢ making enquiries of management as to; - the current status of operations of the plant, including the future plans and utilisation of the plant after the end of the PWPA; and - the Company's right to extend the land lease under a Usufruct Agreement for an additional term; ➢ reviewing the OPWP's plan for the power sector in the region of Dhofar, where the Company operates, which substantiates the Company's strategic position in the region; and ➢ reviewing OPWP plans for implementation of a merchant market arrangement; • Re-assessed 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 • Tested the continuing adequacy of the disclosures in the financial statements relating to asset lives and the judgments surrounding them.

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Useful lives of assets (continued) We focused on this area as a key audit matter because the estimation of asset useful lives by management involves the application of judgment as to how the plant will be utilised in the post-PWPA period and is a matter that is reconsidered annually by management for any changes that may affect the original assessment made. Refer to notes 2.2(a) (Judgements), 2.3 (Estimates and assumptions), 2.4 (i) (iii) (Depreciation) and 7 (Property, plant and equipment) to the financial statements.	

Other information

The directors are responsible for the other information. The other information comprises the Board of Directors' report, the Corporate Governance Report and Management Discussion and Analysis, (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Company's complete Annual Report which 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, 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 the 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.

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 the 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.

John Molloy

13 February 2019

Muscat, Sultanate of Oman

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RO	2017 RO
Revenue from contracts with customers	3	**68,559,831**	76,737,812
Cost of sales	4	**(37,656,986)**	(46,146,665)
Gross profit		**30,902,845**	30,591,147
Administrative and general expenses	5	**(626,051)**	(581,363)
Other gains/(losses) - net	11.2	**-**	(6,012,674)
Other income	11.2	**323,738**	6,994,169
Profit before interest and tax		**30,600,532**	30,991,279
Finance income		**353,027**	408,673
Finance costs	6	**(15,145,270)**	(15,765,225)
Profit before income tax		**15,808,289**	15,634,727
Income tax expense	15	**(2,968,209)**	(4,665,954)
Profit after tax for the year		**12,840,080**	10,968,773
Other comprehensive income			
Fair value of cash flow hedge adjustments – gross	9	**1,707,174**	(1,002,425)
Reclassification to profit or loss - gross	6	**3,277,048**	5,028,191
Change in tax rate adjustment on change in fair value of cash flow hedge	15	**-**	553,065
Deferred tax liability on change in fair value of cash flow hedge	15	**(747,633)**	(603,866)
Total comprehensive income for the year		**17,076,669**	14,943,738
Earnings per share:			
Basic earnings per share	21	**0.013**	0.011

The notes on pages 57 to 98 are an integral part of these financial statements.
Independent auditors' report – page 48 – 52.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 RO	2017 RO
Assets			
Non-current assets			
Property, plant and equipment	7	**288,945,645**	297,733,187
Intangible assets	8	**5,452**	11,531
Total non-current assets		**288,951,097**	297,744,718
Current assets			
Inventory	10	**5,149,203**	4,603,228
Trade and other receivables	11	**9,556,640**	12,641,988
Bank deposits	12	**19,325,840**	14,291,586
Cash and cash equivalents	12	**8,098,265**	15,563,303
Total current assets		**42,129,948**	47,100,105
Total assets		**331,081,045**	344,844,823
Equity and Liabilities			
Equity			
Share capital	13 (a)	**95,457,195**	95,457,195
Legal reserve	13 (b)	**7,693,332**	6,409,324
Retained earnings		**3,250,232**	3,053,566
Shareholders' funds		**106,400,759**	104,920,085
Hedging reserve	9 &13(c)	**(8,011,683)**	(12,248,272)
Net equity		**98,389,076**	92,671,813
Liabilities			
Non-current liabilities			
Long term loans	17	**175,107,989**	194,492,233
Asset retirement obligation	18	**604,528**	571,527
Deferred tax liability	15	**18,158,912**	14,443,070
Derivative financial instruments	9	**7,718,333**	11,417,558
Total non-current liabilities		**201,589,762**	220,924,388
Current liabilities			
Current portion of long term loan	17	**20,270,583**	15,414,677
Current portion of derivative financial instruments	9	**1,707,176**	2,992,173
Trade and other payables	14	**9,124,448**	12,841,772
Total current liabilities		**31,102,207**	31,248,622
Total liabilities		**232,691,969**	252,173,010
Total equity and liabilities		**331,081,045**	344,844,823
Net assets per share	22	**0.111**	0.110

The financial statements on pages 53 to 98 were approved and authorised for issue in accordance with a resolution of the Board of Directors on 12 February 2019.

Director	Chief Executive Officer	Director

The notes on pages 57 to 98 are an integral part of these financial statements.
Independent auditors' report – page 48 – 52.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital RO	Legal reserve RO	Retained earnings RO	Hedging reserve RO	Total RO
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 6)	-	-	-	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
At 1 January 2018	**95,457,195**	**6,409,324**	**3,053,566**	**(12,248,272)**	**92,671,813**
Profit for the year	**-**	**-**	**12,840,080**	**-**	**12,840,080**
Other comprehensive income					
Fair value of cash flow hedge adjustments – gross	**-**	**-**	**-**	**1,707,174**	**1,707,174**
Reclassification to profit or loss - gross (note 6)	**-**	**-**	**-**	**3,277,048**	**3,277,048**
Deferred tax liability on change in fair value of cash flow hedge	**-**	**-**	**-**	**(747,633)**	**(747,633)**
Total comprehensive income for the year	**-**	**-**	**12,840,080**	**4,236,589**	**17,076,669**
Transactions with owners of the Company, recognised directly in equity					
Final dividend 2017	**-**	**-**	**(2,959,173)**	**-**	**(2,959,173)**
Interim dividend 2018	**-**	**-**	**(8,400,233)**	**-**	**(8,400,233)**
Transfer to legal reserve	**-**	**1,284,008**	**(1,284,008)**	**-**	**-**
Total transactions with owners of the Company, recognised directly in equity	**-**	**1,284,008**	**(12,643,414)**	**-**	**(11,359,406)**
At 31 December 2018	**95,457,195**	**7,693,332**	**3,250,232**	**(8,011,683)**	**98,389,076**

The notes on pages 57 to 98 are an integral part of these financial statements.
Independent auditors' report – page 48 – 52.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 RO	2017 RO
Operating activities		
Profit before tax	**15,808,289**	15,634,727
Adjustments for:		
Depreciation and amortization	**10,865,853**	10,836,435
Amortisation of deferred financing cost	**886,341**	949,322
Finance costs	**14,205,482**	14,762,644
Finance income	**(353,027)**	(408,673)
(Gain)/loss on disposal of property, plant and equipment	**-**	(114,758)
Property, plant and equipment written off	**-**	6,127,432
Allowance for impairment of trade receivable	**7,790**	-
Provision for asset retirement obligation	**33,001**	36,924
Changes in working capital:		
Inventory	**(545,975)**	(347,084)
Trade and other receivables	**3,034,818**	(3,052,627)
Trade and other payables	**(3,615,057)**	3,973,508
Bank deposits	**(5,034,254)**	6,975,480
	35,293,261	55,373,330
Finance cost paid	**(14,307,749)**	(14,963,253)
Net cash flow generated from operating activities	**20,985,512**	40,410,077
Investing activities		
Acquisition of property, plant and equipment	**(2,072,232)**	(6,461,791)
Disposal of property, plant and equipment	**-**	165,573
Acquisition of intangible assets	**-**	(10,933)
Finance income received	**395,767**	263,021
Net cash flow used in investing activities	**(1,676,465)**	(6,044,130)
Financing activities		
Repayment of term loan	**(15,414,679)**	(14,483,021)
Dividend paid	**(11,359,406)**	(10,309,377)
Net cash flow used in financing activities	**(26,774,085)**	(24,792,398)
Net change in cash and cash equivalents	**(7,465,038)**	9,573,549
Cash and cash equivalents as at 1 January	**15,563,303**	5,989,754
Cash and cash equivalents as at 31 December (note 12)	**8,098,265**	15,563,303

Reconciliation of liabilities arising from financing activities (note 12.1)

The notes on pages 57 to 98 are an integral part of these financial statements.
Independent auditors' report – page 48 – 52.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

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. For current shareholding refer note 13.

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 on the 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) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

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 judgement 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 had received a further correspondence from OPWP in June 2018, wherein it had proposed to establish a mechanism whereby it would be reimbursing the company for the additional costs incurred by it in respect of withholding tax on a monthly basis. An important pre-condition for reimbursement of such withholding taxes is actual payment by the Company to Secretarial General of Taxation (SGT). Accordingly, the Company has submitted an interim claim to OPWP on 5 September 2018 for actual costs paid by it, which was received by the Company in due course of time.

The Company has received a letter from SGT dated 27 September 2017, whereby the Company was allowed to hold payment of withholding tax on interest payments made to foreign lenders until the issuance of further clarification. The Company is currently awaiting an executive regulation from SGT on whether the withholding tax will be settled gross or net.

The Company considers that the pendency of executive clarification from SGT does not establish substantive conditions that can introduce uncertainty and conditionality into the reimbursement process, and is merely a matter of timing of cash inflows and outflows.

(c) Impairment of financial assets

The impairment provisions for financial assets are assessed based on the "Expected Credit Loss" model, using assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. In determining the required impairment provision the management has used 0.26% as probability of default and 62.3% loss given default.

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:

2 Basis of preparation and significant accounting policies (continued)

2.3 Estimates and assumptions (continued)

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 9.4 million (2017 – RO 14.4 million).

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 adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

a) *New and amended standards adopted by the Company*

A number of new or amended standards became applicable for the current reporting period and the Company changed its accounting policies and made retrospective adjustments with practical expedients as a result of adopting the following standards:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed in note 2.4 (b). The other standards did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

b) *Change in accounting policies*

i) IFRS 9 Financial instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

The Company has adopted IFRS 9 with the practical expedients permitted under the standards which allows the election to not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the company's previous accounting policy. The accounting policies applied until 31 December 2017 are set out in note 2.4 (y) (i).

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies in the financial statements. The new accounting policies are set out in note 2.4(d) below. In accordance with the transitional provisions in IFRS 9 (7.2.15) comparative figures have not been restated.

The adoption of IFRS 9 has not had a significant impact on the Company's accounting policies related to financial assets, financial liabilities and derivative financial instruments.

ii) IFRS 15 Revenue from contracts with the customers

IFRS 15 replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Company has adopted IFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption is recognised in retained earnings as of 1 January 2018 and that the comparatives will not be restated. The accounting policies applied until 31 December 2017 are set out in note 2.4 (y) (ii).

There is no significant impact on the financial statements of the Company due to the application of IFRS 15. Revenue recognition policy in accordance with IFRS 15 is explained in 2.4 (m).

c) *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,

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

c) *Foreign currency (continued)*

ii) Foreign currency transactions (continued)

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.

d) *Financial instruments*

i) Financial assets

Classification

From 1 January 2018, the Company on initial recognition classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (FVOCI), or through profit or loss (FVTPL)), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Company reclassifies these financial assets, when and only when its business model for managing those financial assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction cost for financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its financial assets:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

d) Financial instruments (continued)

Measurement (continued)

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its financial instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

ii) *Derivatives and hedging activities*

Derivative financial instruments

All derivatives in scope of IFRS 9, including those linked to unquoted equity investments, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Fair value changes are recognised in profit or loss unless the entity has elected to apply hedge accounting by designating the derivative as a hedging instrument in an eligible hedging relationship.

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

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

d) *Financial instruments (continued)*

(ii) Derivatives and hedging activities (continued)

Cash flow hedges (continued)

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 gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

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.

Embedded derivatives

An embedded derivative is a component of a contract that also includes a non-derivative host with the effect that some of the cash flows of the combined contract vary in a way similar to a stand-alone derivative.

An embedded derivative is separated if, and only if:

a. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;

b. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and;

c. The contract is not measured at fair value with changes in fair value recognised in profit or loss.

Embedded derivatives which are required to be separated are recognised at fair value with all subsequent changes in fair value recognised in profit or loss. Embedded derivatives that are not required to be separated are considered as part of the host contract and not accounted for separately.

e) *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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

e) Interest bearing borrowings (continued)

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

f) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

g) Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 25 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

i) 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)

i) 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
Plant and machinery (Tools and equipment)	2 to 12
Office equipment	3 to 10
Motor vehicles	5 to 10
Computer equipment	3 to 5

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

i) Property, plant and equipment (continued)

iv) 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.

j) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets. Impairment losses are recognised in the profit and loss statement unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units and then, to reduce the carrying amounts of the other assets in cash-generating units on a pro rata basis.

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

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

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

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

k) 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.

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

k) Leases (continued)

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.

l) 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.

m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Capacity charge
Capacity charge include investment charge and fixed O&M charge. Investment charge is treated as revenue under operating lease and recognized on straight line basis over the lease term. Fixed O&M charge is recognized based on the capacity made available in accordance with contractual terms stipulated in PWPA.

Variable charge
Energy charge, water output charge and fuel charge are recognised when electricity and water are delivered; which is taken to be over time when the customer has accepted the deliveries ,the control of utilities have been transferred to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the utilities.

The Company has a long term agreement with OPWP which determines performance obligation, transaction price and allocates the transaction price to each of the separate performance obligations.

Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

m) Revenue recognition (continued)

Variable charge (continued)

The Company does not adjust any of the transaction prices for time value of money as the period between the transfer of the promised goods or services to the customer and payment by the customer does not exceed one year and the sales are made with agreed credit terms which is in line with the industry practice.

n) 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.

o) 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.

p) 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.

q) Income tax expense

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

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

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.

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

q) *Income tax expense (continued)*

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.

r) *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.

s) *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.

t) *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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

u) Earnings and net assets per share

The Company 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.

v) 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.

w) 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

x) 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.

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.

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

y) Accounting policies applied until 31 December 2017

i) IAS 39 (Financial instruments)

a) 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.

b) 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 2018 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

y) Accounting policies applied until 31 December 2017 (continued)

i) IAS 39 (Financial instruments) (continued)

b) Derivative 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.

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

d) Impairment

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.

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

y) Accounting policies applied until 31 December 2017 (continued)

i) IAS 39 (Financial instruments) (continued)

d) Impairment (continued)
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) IAS 18 (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.

z) Standards and amendments effective in 2018 and relevant for the Company's operations:

For the year ended 31 December 2018, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRS IC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2018. The adoption of certain standards has resulted in changes to the Company's accounting policies however, has not affected the amounts reported for the current year materially. The details are referred to in note 2.4(b) above.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

aa) New standards and interpretation not yet effective

A number of new standards, amendments and interpretations to existing standards have been published and are mandatory for the annual accounting periods beginning on or after 1 January 2019 or later periods, but 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 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 has reviewed the accounting all of its leasing arrangement in light of the new lease accounting rules in IFRS 16. The Company has following operating lease arrangements. The Company as lessor in Power and Water Purchase Agreement (refer to note 25 of the financial statements); and The Company as lessee in Usufruct Agreement. (Refer to note 7a of the financial statements) In the first arrangement where the Company is a lessor in Power and Water Purchase Agreement, the management does not envisage, new IFRS 16 will have any significant financial impact on the Company. However, some additional disclosure will be required from next year. In the second arrangement of Usufruct Agreement, at transition date (1 January 2019), the Company expects to recognize Right of Use of Asset and lease liability at approximately RO 430,000. The Company will also reclassify Asset Retirement Obligation asset from Property, Plant and Equipment to Right of Use of Asset which is expected to be in the amount of RO 316,781 at transition date. There will be additional unwinding charge to profit or loss approximating to RO 28,000 and depreciation charge approximating to RO 15,000 for the year 2019.

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

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

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

- IFRS 17 Insurance contracts. Effective date of this standard is 1 January 2021.
- Amendment to IAS 19 on Employee benefits. Effective date of the amendment is 1 January 2019.
- IFRIC 23 Uncertainty over income tax treatment. Effective date of this interpretation is 1 January 2019.
- Annual Improvements to IFRSs 2015–2017 Cycle – various standards. Effective date of this is 1 January 2019.
- Amendment to IAS 28 on long term interests in associates and joint ventures. Effective date of the amendment is 1 January 2019.
- Amendment to IFRS 9 on prepayment features with negative compensation. Effective date of the amendment is 1 January 2019.

There are no other IFRS, amendments or interpretations that are expected to have a material impact on the Company

3 Revenue

	2018	2017
	RO	RO
Fixed capacity charge – Power	**35,465,184**	33,416,405
Fixed capacity charge - Water	**13,957,975**	15,726,479
Fuel charge	**17,479,731**	25,316,481
Energy charge	**843,470**	907,046
Water output charge	**813,471**	1,371,401
	68,559,831	76,737,812

Contracts with customers

The Company recognized revenue in accordance with PWPA as defined in note 1 of the financial statements. The contract consists of two revenue streams, which are:

1) Capacity charge
2) Variable charge (i.e. energy, water and fuel charge)

Capacity charge (covering investment charge and fixed operation and maintenance charge i.e. fixed O&M) is for making the capacity available to OPWP and variable charge (covering energy charge, water charge and fuel charge) are for electricity and water output delivered.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

3 Revenue (continued)

Accounting policies

Capacity charge

Capacity charge include investment charge and fixed O&M charge. Investment charge is treated as revenue under operating lease and recognized on straight line basis over the lease term. Fixed O&M charge is recognized based on the capacity made available in accordance with contractual terms stipulated in PWPA.

Variable charge

Energy charge, water output charge and fuel charge are recognised when electricity and water are delivered; which is taken to be over time when the customer has accepted the deliveries, the control of utilities have been transferred to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the utilities.

There are no significant judgements that are involved while recognising revenue from contracts with customers.

Performance obligation

The Company sells electricity and water to OPWP in Oman which is only customer of the Company. The contracts with the customer give rise to performance obligations namely production/ supply of electricity and water and making available the capacity for production. Transaction prices for each performance obligation are identifiable in the named contracts with OPWP separately and are equal to stand-alone selling prices of each performance obligation under PWPA.

The Company satisfies performance obligations upon actual delivery of water and electricity output and by making capacity available.

Determination of transaction price

Invoicing is as per transaction price (tariff) based on contracts. The payment terms are for less than a month and accordingly, transaction price does not contain any significant financing component.

Timing of revenue recognition

The Company recognises revenue over time since OPWP (the customer) simultaneously receives and consumes the output of electricity and water and consumes the benefit of plant's availability. In doing so, the Company uses output method to measure the Company's progress towards complete satisfaction of performance obligations satisfied over time. The output method requires the Company to measure actual output delivered with respect to electricity and water and calculate the actual capacity available. Revenue is recognised based on the measurement of output, calculation of availability and the fixed tariff as per the terms of PWPA. The selected output method depicts the Company's performance towards complete satisfaction of the performance obligations since:

i) the output and capacity availability can be measured to the exact quantities for which control has transferred to OPWP; and

ii) The Company's performance does not produce any work in progress or finished goods controlled by the customer that are not included in the measurement of the output.

The revenue is recognised for the amount to which the Company has right to invoice, wherein a receivable from the customer is booked as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The invoice is raised on a monthly basis and is payable after 25 days from the date of receipt of invoice by the customer.

3 Revenue (continued)

Timing of revenue recognition (continued)

No significant judgement is involved in the application of output method for measuring Company's performance towards satisfaction of obligations.

Disaggregation of revenue

The revenue has been disaggregated based on the key drivers by which the Company receive and recognise its revenue. Accordingly, the disaggregated revenue line items do not represent or correspond to the operating segments as defined by IFRS 8 and explained in note 24.

Allocation of transaction price to remaining performance obligation

The Company has no unsatisfied performance obligations with respect to billed revenue. The Company has right to invoice for every unit of output and making available the designated capacity. Actual invoicing for the delivered output is done at the end of every month.

The Company has not recognized any impairment losses on receivables arising from Company's contract with customer.

All the revenue of the Company accrues from contracts with customers.

4 Cost of sales

	2018	2017
	RO	RO
Fuel cost	17,002,829	24,810,601
Depreciation	10,832,006	10,806,063
Operation and maintenance cost	6,422,630	6,390,160
Contractual services maintenance cost	2,345,536	3,025,536
Insurance cost	475,144	476,412
Incentive payment	356,317	410,996
Security charges	104,139	102,509
License and permits	52,371	75,164
Provision for asset retirement obligation	33,001	36,924
Electricity import cost	33,013	12,300
	37,656,986	46,146,665

5 Administrative and general expenses

	2018	2017
	RO	RO
Staff costs	161,480	167,302
Directors' remuneration and sitting fees	102,650	87,740
Fee and subscription	96,914	97,556
Legal and professional charges	72,320	75,845
Charity and donations	57,894	40,119
Travelling expenses	52,762	49,437
Other admin and general expenses	40,394	32,992
Depreciation and amortisation	33,847	30,372
Provision for doubtful debts	7,790	-
	626,051	581,363

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

6 Finance costs

	2018	2017
	RO	RO
Interest expense on project financing	**10,928,434**	9,734,453
Interest expense on interest rate swap	**3,277,048**	5,028,191
Deferred financing cost	**886,341**	949,322
Commission and bank charges	**53,447**	53,259
	15,145,270	15,765,225

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

7 Property, plant and equipment

	Buildings	Roads and pipelines	Plant and machinery	Office equipment	Motor vehicles	Computer equipment	Capital Work in Progress	Total
Cost	RO	RO	RO	RO	RO	RO	RO	RO
At 1 January 2018	48,464,586	26,370,631	286,291,844	186,997	268,973	276,736	-	361,859,767
Additions	19,680	120,381	1,610,063	2,877	19,949	30,370	268,912	2,072,232
At 31 December 2018	48,484,266	26,491,012	287,901,907	189,874	288,922	307,106	268,912	363,931,999
Accumulated depreciation								
At 1 January 2018	8,505,283	4,658,808	50,415,411	172,811	150,786	223,481	-	64,126,580
Charge for the year	1,460,590	811,547	8,519,341	9,566	32,343	26,387	-	10,859,774
At 31 December 2018	9,965,873	5,470,355	58,934,752	182,377	183,129	249,868	-	74,986,354
Carrying amount								
At 31 December 2018	38,518,393	21,020,657	228,967,155	7,497	105,793	57,238	268,912	288,945,645

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

7 Property, plant and equipment (continued)

Cost	Buildings RO	Roads and pipelines RO	Plant and machinery RO	Office equipment RO	Motor vehicles RO	Computer equipment RO	Capital Work in Progress RO	Total 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	-	-	(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

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 the initial term of 25 years has already been paid.

b) Security

The Company's property, plant and equipment are pledged as security against the term loans (note 17).

The depreciation charge has been allocated as set out below:

	2018	2017
	RO	RO
Cost of sales (note 4)	**10,832,006**	10,806,063
Administrative expenses (note 5)	**27,768**	28,771
	10,859,774	10,834,834

8 Intangible assets

	2018	2017
	RO	RO
At 1 January	**122,539**	111,606
Additions during the year	**-**	10,933
	122,539	122,539
Accumulated amortisation		
At 1 January	**(111,008)**	(109,407)
Charge for the year (note 5)	**(6,079)**	(1,601)
	(117,087)	(111,008)
Carrying amount	**5,452**	11,531

Intangible assets mainly represent the purchase of ERP software.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

9 Hedging reserve

	2018 RO	2017 RO
Interest rate swaps:		
SMBC Capital Market Limited	**(1,988,103)**	(3,018,979)
Standard Chartered Bank	**(5,687,543)**	(8,759,808)
KfW-IPEX	**(1,749,863)**	(2,630,944)
Hedging instrument at the end of the year	**(9,425,509)**	(14,409,731)
Deferred tax asset (note 15)	**1,413,826**	2,161,459
Hedging reserve at the end of the year (net of tax)	**(8,011,683)**	(12,248,272)
Less: Hedging reserve at the beginning of the year	**(12,248,272)**	(16,223,237)
Effective portion of change in fair value of cash flow hedge for the year	**4,236,589**	3,974,965
Hedging instrument classification		
Non-current portion of hedging instrument	**7,718,333**	11,417,558
Current portion of hedging instrument	**1,707,176**	2,992,173
	9,425,509	14,409,731
Change in fair value of outstanding hedging instruments since 1 January	**(1,707,174)**	1,002,425
Change in value of hedged item used to determine hedge effectiveness	**1,707,174**	(1,002,425)

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 Company does not hedge entire amount of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. The corresponding hedged notional amount outstanding as of 31 December 2018 is approximately RO 125 million (USD 323 million) and approximately RO 32 million (USD 84 million), at a fixed interest rate of 4.345% and 3.8% per annum respectively.

The interest rate swaps have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Company applies hedge accounting to remove the accounting mismatch between the hedging instrument and the hedged item since all critical terms matched during the year and the economic relationship was 100% effective. This will effectively result in recognising interest expense at a fixed interest rate for the hedged floating rate loans.

Hedge ineffectiveness for interest rate swaps may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and
- differences in critical terms between the interest rate swaps and loans.

Derivatives are only used for economic hedging purposes and not as speculative investments.

10 Inventory

	2018	2017
	RO	RO
Fuel inventory	1,076,401	1,034,624
Spare parts and consumables	4,072,802	3,568,604
	5,149,203	4,603,228

11 Trade and other receivables

	2018	2017
	RO	RO
Trade receivable *(note 11.1)*	6,080,743	6,057,219
Insurance claim receivable *(note 11.2)*	-	4,143,689
Advances to vendors	2,496,604	1,547,064
Withholding tax receivable *(note 11.3)*	624,569	385,956
Other receivable	306,639	336,878
Prepayments	47,418	169,007
Due from related parties *(note 16)*	667	2,175
	9,556,640	12,641,988

The Company has one customer (OPWP) which accounts for the trade receivables balance as at 31 December 2018 (2017 - one customer).

11.1 Trade receivable

	2018	2017
	RO	RO
Gross trade receivable	6,088,533	6,057,219
Allowance for impairment	(7,790)	-
	6,080,743	6,057,219

The ageing of trade receivables at the reporting date disclosed in (note 19).

11.2 Insurance claim receivable

During the previous 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 the damaged rotor.

The Company had recognised insurance income of RO 6,994,169 during financial year ended 31 December 2017, of which RO 4,143,689 was receivable as of 31 December 2017. The Company received the balance of the insurance claim in 2018.

11.3 Withholding tax receivable represents withholding tax on interest payments recoverable from OPWP.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

12 Cash and bank balances

	2018 RO	2017 RO
Cash in hand	**521**	347
Cash at bank	**6,749,544**	13,837,260
Deposits at call (original maturity of less than 3 months)	**1,348,200**	1,725,696
Cash and cash equivalents	**8,098,265**	15,563,303
Fixed term deposits (3 to 6 months) and DSRA	**19,325,840**	14,291,586

Debt Service Reserve Account (Restricted cash)

As at 31 December 2018, the Company has placed funds in the fixed term deposits (3 to 6 months) and current accounts to meet the Debt Service Reserve Account (DSRA) minimum balance requirement of RO 14,750,065 (31 December 2017: RO 13,747,851) [note 17]. The fixed term deposits of RO 19,325,840 (31 December 2017: RO 14,291,586) have a weighted average interest rate of 2.43% (31 December 2017: 1.74% per annum).

12.1 Reconciliation of liabilities arising from financing activities

	1 January 2018 RO	Cash flows RO	Non-cash items (unamortised transaction cost) RO	31 December 2018 RO
Long term loans (notes 6 and 17)	**209,906,910**	**(15,414,679)**	**886,341**	**195,378,572**

	1 January 2017 RO	Cash flows RO	Non-cash items (unamortised transaction cost) RO	31 December 2017 RO
Long term loans (notes 6 and 17)	223,440,609	(14,483,021)	949,322	209,906,910

13 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.

13 Equity (continued)

(a) Share capital (continued)

The details of Shareholders are as follows:

	Nationality	**31 December 2018** Number of shares held of nominal value 100 baiza each	% of total	Aggregate nominal value of shares held RO
(SOFIH)	British Virgin Islands	**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 2017 Number of shares held of nominal value 100 baiza each	% of total	Aggregate nominal value of shares held RO
(SOFIH)	British Virgin Islands	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

(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 9).

14 Trade and other payables

	2018 RO	2017 RO
Interest payable	**3,637,558**	3,739,825
Accrued expenses and other payable	**1,676,969**	2,439,945
Withholding tax payable *(note 14.1)*	**1,356,902**	475,403
Provisions	**1,261,056**	1,526,056
Due to related parties *(note 16)*	**980,263**	1,229,230
Trade payable	**211,700**	3,431,313
	9,124,448	12,841,772

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

14.1 Withholding tax payable represents withholding tax on interest payments and on dividend payment to foreign lenders and foreign shareholders respectively.

15 Income tax

During the financial year ended 31-December-2017, 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, for the financial year ended 2017 and onwards 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.

A deferred tax asset of RO 747,633 (31 December 2017: RO 50,801) has been recognised directly in equity in respect of the changes in fair values of interest rate swaps (note 9).

	2018	2017
	RO	RO
a) Recognised in profit or loss		
Deferred tax expense due to change in income tax rate	-	2,984,644
Deferred tax expense for the year	2,687,871	2,349,704
Deferred tax expense - prior year adjustment	280,338	(668,394)
	2,968,209	4,665,954

b) Reconciliation

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

	2018	2017
	RO	RO
Profit before tax	15,808,289	15,634,727
Income tax as per rates mentioned above	(2,371,243)	(2,345,209)
Expenses not deductible for tax	(9,156)	(525)
Change in recognised temporary differences	(307,472)	(3,970)
Prior year adjustment	(280,338)	668,394
Change in tax rate	-	(2,984,644)
Deferred tax expense for the year	(2,968,209)	(4,665,954)

15 Income tax (continued)

c) Deferred tax asset (liability)

As at December 2018	At 1 January RO	Recognised during the year RO	At 31 December RO
Charged to profit or loss			
Property, plant and equipment	**(19,637,095)**	**(2,054,085)**	**(21,691,180)**
Provision for asset retirement obligation	**26,740**	**4,951**	**31,691**
Tax losses	**3,005,826**	**(919,075)**	**2,086,751**
	(16,604,529)	**(2,968,209)**	**(19,572,738)**
Deferred tax recognised in equity			
Derivative financial instruments	**2,161,459**	**(747,633)**	**1,413,826**
Deferred tax liability (net)	**(14,443,070)**	**(3,715,842)**	**(18,158,912)**

As at December 2017	At 1 January RO	Recognised during the year RO	At 31 December 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)

(d) Status of prior year returns

The Company's assessment for the tax years 2014 to 2017 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 2018.

(e) The cumulative tax losses up to 31 December 2018 in the amount of RO 13,911,674 (31 December 2017 – RO 20,039,318) 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.

16 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

16 Related party transactions (continued)

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 year for bad or doubtful debts in respect of amounts owed by related parties (31 December 2017: Nil).

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

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

	2018	2017
	RO	RO
Sembcorp Industries Limited (SIL)		
- Purchase of intangible assets	**-**	10,933
- Reimbursement of expenses	**41,850**	22,988
- Reimbursement of expenses to the company	**-**	2,175
Sembcorp Salalah O&M Services Company LLC (SSOM)		
- Operation and maintenance cost	**6,422,630**	6,390,160
- Incentive payment	**356,317**	410,996
Oman Investment Corporation (OIC)		
- Reimbursement of expenses	**2,400**	8,146
- Sale of furniture & fixtures	**-**	350
Sembcorp Utilities (Chile) SA		
- Reimbursement of expenses	**2,700**	13,106

Balances due to related parties at the year end comprised:

	2018	2017
	RO	RO
Sembcorp Salalah O&M Services Company LLC (SSOM)	**980,263**	1,229,230

Balances due from related parties at the year end comprised:

	2018	2017
	RO	RO
Sembcorp Industries Limited (SIL)	**667**	2,175

16 Related party transactions (continued)

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 accrued to key management personnel for the year ended is as follows:

	2018 RO	2017 RO
Directors' remuneration	**80,650**	67,240
Directors' sitting fees	**22,000**	20,500
Short term employee benefits	**345,058**	298,778
Social security and gratuity	**34,494**	14,938
	482,202	401,456

Compensation of some of the Key management personnel has been paid through Sembcorp Salalah O&M Services Co. LLC of RO 245,597 (31 December 2017: RO 199,247).

17 Term loan

	Maturity	2018 RO	2017 RO
Non-current			
Project financing loan (USD)	2012-2026	**164,632,437**	177,393,556
Project financing loan (Rials)	2012-2026	**34,233,840**	36,887,400
		198,866,277	214,280,956
Less: Unamortised transaction cost		**(3,487,705)**	(4,374,046)
		195,378,572	209,906,910
Less: Current portion of term loan		**(20,270,583)**	(15,414,677)
		175,107,989	194,492,233

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 30 September 2026.

Interest

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

The margins are indicated below:

Period	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%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

17 Term loan (continued)

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 sixth anniversary of financial close	4.25%
From the sixth anniversary of financial close to the seventh anniversary of financial close	5.75%

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 2018, 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. The Company is in compliance with the covenants attached with the term loans.

18 Asset retirement obligation ("ARO")

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

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

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:

	2018	2017
	RO	RO
At 1 January	**571,527**	534,603
Provision made during the year	**33,001**	36,924
At 31 December	**604,528**	571,527

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 restored using technology and material that are currently available. The provision has been calculated using a discount rate of 6.5% (2017: 6.5%).

19 Financial risk management

Impact of adoption of IFRS 9:
On 1 January 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and liabilities owed by the Company. Financial assets held under "Loans and receivables" have been classified as "financial assets held at amortized cost". No other reclassifications have been made in this respect. Further, no changes to measurement have been made in this respect. Accordingly, carrying value of financial assets, financial liabilities and opening and closing equity remain unchanged in this respect.

Other disclosures
Financial assets are assessed for impairment at each reporting date as disclosed below in credit risk.

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

19 Financial risk management (continued)

a) Market risk (continued)

Interest rate risk

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

	Interest rate	**2018 RO**	2017 RO
Financial assets			
Fixed term cash deposit	2.43%	**20,674,040**	16,017,282
Financial liabilities			
Term loan			
- USD variable rate loans	Libor + 3%	**(91,439,854)**	(98,527,612)
- USD variable rate loans	Libor + 2.85%	**(73,192,583)**	(78,865,944)
- RO fixed rate loans	5.75%	**(34,233,840)**	(36,887,400)
		(198,866,277)	(214,280,956)

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

	Equity			
	2018		2017	
	100 bps Increase RO	**100 bps Decrease RO**	100 bps Increase RO	100 bps Decrease RO
Interest rate swap	**6,762,918**	**(6,762,918)**	8,568,816	(8,568,816)

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 2018.

(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.

19 Financial risk management (continued)

(b) Credit risk (continued)

Impairment of financial assets

The Company has trade receivables from the provision of operation and maintenance services and leasing of assets, which are subject to the expected credit loss model. While fixed term cash deposits, cash and cash equivalents and other receivables are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The company has one customer, and the ECL allowance on receivable from that customer has been computed based on rating grades issued by external rating agency. The ratings by external agency is based on historic default rate and is adjusted for forward-looking macro-economic information (e.g., economic data from industry groups, associations or bodies).

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 360 days past due.

The trade receivables have been guaranteed by the Government of Sultanate of Oman.

The maximum exposure to credit risk at the reporting date, without taking into account collateral or other credit enhancements was:

	2018	2017
	RO	RO
Break down of financial assets (at carrying amount)		
Fixed term cash deposits (3 to 6 Months)	19,325,840	14,291,586
Cash and cash equivalents	8,098,265	15,563,303
Trade receivable (gross of ECL allowance)	6,088,533	6,057,219
Other receivables	931,208	722,834
Insurance claim receivables	-	4,143,689
Due from related parties	667	2,175
	34,444,513	40,780,806

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

Bank	Rating	2018	2017
Bank balances		RO	RO
Bank Muscat SAOG	P-2	6,387,733	9,235,362
Bank of China	P-1	361,811	4,601,898
		6,749,544	13,837,260
Fixed term deposits			
Bank Muscat SAOG	P-2	2,300,000	2,000,000
Bank of China	P-1	18,374,040	14,017,282
		20,674,040	16,017,282
Trade receivables			
OPWP	Baa3	6,088,533	6,057,219

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

19 Financial risk management (continued)

(b) Credit risk (continued)

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

	2018		2017	
	RO	**Allowance for impairment**	RO	Allowance for impairment
Not past due	**7,005,076**	**(7,790)**	10,925,170	-
Past due 0 to 3 months	**15,332**	**-**	547	-
Past due 3 to 6 months	**-**	**-**	200	-
	7,020,408	**(7,790)**	10,925,917	-

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	2018	2017
	RO	RO
31 December – calculated under IAS 39	**-**	-
Amounts restated through opening retained earnings	**-**	-
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	**-**	-
Increase in loan loss allowance recognised in profit or loss during the year	**7,790**	-
Receivables written off during the year as uncollectible	**-**	-
Unused amount reversed	**-**	-
At 31 December	**7,790**	-

(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.

19 Financial risk management (continued)

(c) Liquidity risk (continued)

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

		Cash flows			
	Carrying amount	**Contractual cash flow**	**Less than 1 year**	**More than 1 to 5 years**	**More than 5 years**
31 December 2018	**RO**	**RO**	**RO**	**RO**	**RO**
Derivatives					
Interest rate swaps used for hedging	**9,425,509**	**(10,289,625)**	**(1,734,145)**	**(7,062,691)**	**(1,492,789)**
Non-derivative financial liabilities					
Term loan	**195,378,572**	**(246,164,264)**	**(28,636,937)**	**(134,698,934)**	**(82,828,393)**
Trade and other payables	**9,124,448**	**(9,124,448)**	**(9,124,448)**	**-**	**-**
	213,928,529	**(265,578,337)**	**(39,495,530)**	**(141,761,625)**	**(84,321,182)**

		Cash flows			
	Carrying amount	Contractual cash flow	Less than 1 year	More than 1 to 5 years	More than 5 years
	RO	RO	RO	RO	RO
31 December 2017					
Derivatives					
Interest rate swaps used for hedging	14,409,731	(15,384,856)	(3,022,554)	(9,406,350)	(2,955,952)
Non-derivative 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)

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

Embedded derivatives

The following agreements contain embedded derivatives:

i) The PWPA between the Company and OPWP contains embedded derivatives in pricing the fixed operation and maintenance charge and variable operation and maintenance charge rate for the power facility as well as the desalination facility. Fixed percentages of the fixed operation and maintenance charge rate and variable operation and maintenance charge rate for both facilities get adjusted to reflect changes in the US price index and the Omani Consumer price index.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

19 Financial risk management (continued)

(c) Liquidity risk (continued)

Embedded derivatives (continued)

ii) The NGSA between the Company and MOG contains embedded derivatives in gas price for provision of natural gas to the plant. The gas price gets adjusted to reflect changes in US price index.

iii) The LTSA between the Company and GEIL contains embedded derivatives in pricing the fixed monthly fee and variable monthly fee for provision of long term maintenance services. Fixed percentage of the fixed monthly fee and variable monthly fee gets adjusted to reflect changes in US price index.

These embedded derivatives are not separated from the host contract, and accounted for as a standalone derivative under IFRS9, as the management believes that the economic characteristics and risk associated with the embedded derivatives are closely related to those of the host contract.

Capital management

The Company'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.

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

	2018	2017
	RO	RO
Debt (Long-term loan)	**195,378,572**	209,906,910
Equity (Shareholders' funds)	**106,400,759**	104,920,085
Debt to equity ratio (times)	**1.84**	2.00

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).

19 Financial risk management (continued)

(c) Liquidity risk (continued)

Fair value of financial instruments (continued)

– 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
		at amortised cost			
31 December 2018	**RO**	**RO**	**RO**	**RO**	**RO**
Financial assets not measured at fair value					
Trade and other receivables (excluding advances to vendors, and prepayments)	**-**	**7,012,618**	**-**	**7,012,618**	**-**
Cash and bank balances	**-**	**27,424,105**	**-**	**27,424,105**	**-**
	-	**34,436,723**	**-**	**34,436,723**	**-**
Financial liabilities measured at fair value					
Derivative instrument	**(9,425,509)**	**-**	**-**	**(9,425,509)**	**(9,425,509)**
Financial liabilities not measured at fair value					
Term loan	**-**	**-**	**(195,378,572)**	**(195,378,572)**	**(201,687,572)**
Trade and other payables	**-**	**-**	**(9,124,448)**	**(9,124,448)**	**-**
	-	**-**	**(204,503,020)**	**(204,503,020)**	**(201,687,572)**
31 December 2017					
Financial assets not measured at fair value					
Trade and other receivables (excluding advances to vendors, and prepayments)	-	10,925,917	-	10,925,917	-
Cash and bank balances	-	29,854,889	-	29,854,889	-
	-	40,780,806	-	40,780,806	-
Financial liabilities measured at fair value					
Derivative instrument	(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)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

20 Commitments

(a) Performance guarantees

	2018	2017
	RO	RO
Performance guarantees	**1,540,800**	1,540,800

The Company has taken bank guarantees from Bank Muscat for the amount of USD 4,000,000 and provided 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:

	2018	2017
	RO	RO
Due:		
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	**2,619,360**	3,389,760
	6,471,360	7,241,760

(b) Capital Commitment

Total capital commitment as at 31 December 2018 are in the amount of RO 1,109,999 (2017: RO 106,383).

21 Basic and diluted earnings per share

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

	2018	2017
Profit for the year (RO)	**12,840,080**	10,968,773
Weighted average number of shares outstanding during the year	**954,571,950**	954,571,950
Earnings per share - Basic and diluted (RO)	**0.013**	0.011

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

22 Net assets per share

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

	2018	2017
Net assets – Shareholders' funds (RO)	**106,400,759**	104,920,085
Number of shares at the end of the year	**954,571,950**	954,571,950
Net assets per share (RO)	**0.111**	0.110

23 Investors' Trust Fund

Unclaimed dividends in the amount of RO 9,975 has been deposited with the Investors' Trust Fund of the CMA during the year 2018 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 37,841 have not been claimed from the Company by the shareholders as at 31 December 2018.

24 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, 3 and 4 to these financial statements.

25 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:

	2018	2017
	RO	RO
Due:		
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	**139,890,172**	183,033,167
	355,720,108	398,863,103

26 Dividend

On 12 February 2019, the Board of Directors proposed a final cash dividend of Baizas 3.4 per share (3.4% of issued share capital)

On 29 October 2018 (2017 – 25 October), Board of Directors approved the interim dividend of Baizas 8.8 per share for the year 2018 (Baizas 7.2 per share for the year 2017).

On 8 March 2018, in an Annual General Meeting shareholder approved Baizas 3.1 per share (3.1% of the issued share capital) as final cash dividend for the year 2017.

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