Sembcorp Salalah Power & Water Company SAOC

Financial statements

30 June 2013

Registered office:

P.O. Box 299
Postal Code 134
Jawharat Al Shatti
Sultanate of Oman

Principal place of business:

Salalah
Sultanate of Oman

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Financial Statements

30 June 2013

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INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS OF SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Report on the financial statements

We have audited the financial statements of Sembcorp Salalah Power & Water Company SAOC ("the Company"), set out on pages 2 to 27, which comprise the statement of financial position as at 30 June 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2013, and its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion, the financial statements of the Company as at and for the six month period ended 30 June 2013, in all material respects, comply with the Commercial Companies Law of 1974, as amended.

KPMG

KPMG

2 October 2013

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Statement of profit or loss and other comprehensive income

for the six month period 30 June

	Notes	2013 RO	Unaudited 2012 RO
Revenue	3	**31,292,249**	18,268,167
Cost of sales	4	**(13,934,566)**	(8,763,715)
Gross profit		**17,357,683**	9,504,452
Administrative and general expenses	5	**(435,759)**	(289,049)
Other income	6	**6,184,592**	-
Profit before interest and tax		**23,106,516**	9,215,403
Finance income		**9,229**	-
Finance cost	7	**(13,634,532)**	(6,679,335)
Profit before tax		**9,481,213**	2,536,068
Income tax expense	16	**(2,494,507)**	(1,842,961)
Profit after tax for the period		**6,986,706**	693,107
Other comprehensive income (loss), net of income tax:			
Effective portion of change in fair value of cash flow hedge	10	**14,031,134**	(2,996,401)
Total comprehensive income (loss) for the period		**21,017,840**	(2,303,294)
Earnings per share:			
Basic and diluted, profit for the period attributable to equity holders	24	**13.97**	1.38

The notes on pages 6 to 27 form an integral part of these financial statements.

The report of the Independent Auditors is set forth on page 1.

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Statement of financial position

As at

	Notes	30 June 2013 RO	31December 2012 RO
Non-current assets			
Property, plant and equipment	*8*	**344,652,447**	350,305,973
Intangible assets	*9*	**19,670**	37,555
Deferred tax asset	*10 &16*	**3,420,522**	5,333,858
Total non-current assets		**348,092,639**	355,677,386
Current assets			
Trade and other receivable	*11*	**18,335,045**	11,034,297
Inventory	*12*	**2,137,030**	1,790,617
Cash and cash equivalents	*13*	**37,326,565**	38,860,806
Total current assets		**57,798,640**	51,685,720
Total assets		**405,891,279**	407,363,106
Equity			
Share capital	*14 (a)*	**500,000**	500,000
Retained earnings (accumulated losses)		**6,834,836**	(75,478)
Legal reserve	*14 (b)*	**166,667**	90,275
Shareholders' funds		**7,501,503**	514,797
Hedging reserve	*10 & 14 (c)*	**(25,083,825)**	(39,114,959)
Total equity		**(17,582,322)**	(38,600,162)
Non-current liabilities			
Term loan	*19*	**253,843,468**	258,641,887
Asset retirement obligation	*20*	**423,495**	409,570
Deferred tax liability	*16*	**5,090,914**	2,596,407
Derivative instruments	*10*	**28,504,347**	44,448,817
Total non-current liabilities		**287,862,224**	306,096,681
Current liabilities			
Shareholders loan	*17*	**94,957,195**	94,832,393
Current portion of long term loan	*19*	**11,885,676**	11,575,124
Trade and other payables	*15*	**28,768,506**	33,459,070
Total current liabilities		**135,611,377**	139,866,587
Total liabilities		**423,473,601**	445,963,268
Total equity and liabilities		**405,891,279**	407,363,106

The financial statements were approved and authorised for issue in accordance with a resolution of the Board of Directors on 2 OCT. 2013.

Deputy Chairman

Director

The notes on pages 6 to 27 form an integral part of these financial statements.

The report of the Independent Auditors is set forth on page 1.

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Statement of cash flows

for the six month period 30 June

	2013 RO	Unaudited 2012 RO
Cash flows from operating activities:		
Profit before tax for the period	**9,481,213**	2,536,068
Adjustment for:		
Depreciation and amortisation	**5,761,805**	3,021,805
Amortisation of deferred financing cost	**718,697**	335,501
Interest payable written off	**(6,174,592)**	-
Finance costs	**12,915,835**	6,343,834
Unwinding of discount	**13,925**	2,731
Changes in working capital:		
Increase in inventory	**(346,413)**	(926,224)
Increase in trade receivable, prepayments and other receivable	**(7,300,748)**	(8,689,646)
Increase in trade and other payable	**1,054,565**	6,450,384
Cash generated from operating activities	**16,124,287**	9,074,453
Finance costs paid	**(10,221,492)**	(6,343,834)
Net cash flow from operating activities	**5,902,795**	2,730,619
Cash flows from investing activities:		
Acquisition of property, plant and equipment	**(2,351,154)**	(49,533,989)
Acquisition of intangible assets	**(4,119)**	(45,553)
Net cash used in investing activities	**(2,355,273)**	(49,579,542)
Cash flows from financing activities:		
Proceeds from term loan	-	54,370,200
Repayment of term loan	**(5,081,763)**	-
Net cash(used in) flow from financing activities	**(5,081,763)**	54,370,200
Net change in cash and cash equivalents	**(1,534,241)**	7,521,277
Cash and cash equivalents at beginning of the period	**38,860,806**	4,129,004
Cash and cash equivalents at end of the period	**37,326,565**	11,650,281

The notes on pages 6 to 27 form an integral part of these financial statements.

The report of the Independent Auditors is set forth on page 1.

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Statement of changes in equity

for the six month period ended 30 June

	Share capital RO	Hedging reserve RO	Legal reserve RO	(Accumulated losses) retained earnings RO	Total RO
Unaudited					
At 1 January 2012	500,000	(37,084,527)	-	(887,952)	(37,472,479)
Total comprehensive loss for the period					
Profit for the period	-	-	-	693,107	693,107
Changes in fair value of cash flow hedge, net of income tax	-	(2,996,401)	-	-	(2,996,401)
Total comprehensive income for the period	-	(2,996,401)	-	693,107	(2,303,294)
At 30 June 2012	500,000	(40,080,928)	-	(194,845)	(39,775,773)
At 1 January 2013	**500,000**	**(39,114,959)**	**90,275**	**(75,478)**	**(38,600,162)**
Total comprehensive income for the period					
Profit for the period	**-**	**-**	**-**	**6,986,706**	**6,986,706**
Transfer to legal reserve	**-**	**-**	**76,392**	**(76,392)**	**-**
Changes in fair value of cash flow hedge, net of income tax	**-**	**14,031,134**	**-**	**-**	**14,031,134**
Total comprehensive income for the period	**-**	**14,031,134**	**76,392**	**6,910,314**	**21,017,840**
At 30 June 2013	**500,000**	**(25,083,825)**	**166,667**	**6,834,836**	**(17,582,322)**

The notes on pages 6 to 27 form an integral part of these financial statements.

The report of Independent Auditors is set forth on page 1.

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Notes

(forming part of the financial statements)

1 Legal status and principal activities

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

The Company has 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.

In December 2011, IPWC transferred a 5% interest in the Company to BDCC Investment Company ("BDCC"). The shareholding as of 30 June 2013 is as follows:

	% holding
SOFIH	40%
SOIHL	20%
IPWC	35%
BDCC	5%
	100%

Sembcorp Industries Limited is the ultimate parent company of SOFIH and SOIHL. Oman Investment Corporation ("OIC") is the ultimate parent company of IPWC.

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"). The Company achieved Commercial Operation Date ("COD") on 25 May 2012.

<u>**Significant agreements:**</u>

The Company has entered into the following major agreements:

(i) Power and Water Purchase Agreement (" the PWPA") dated 23 November 2009 with Oman Power & Water Procurement Company SAOC ("OPWP") for a period of fifteen years commencing from the date of commercial operations ("Operation period") to procure the power and water produced by the Company;

(ii) Natural Gas Sales Agreement ("NGSA") dated 23 November 2009 with the Ministry of Oil and Gas ("MOG") of the Government for the supply of natural gas;

(iii) Usufruct Agreement ("Usufruct Agreement") dated 23 November 2009 with the Ministry of Housing for grant of Usufruct rights over the project site;

(iv) Long Term Service Agreement ("LTSA") with General Electric International LLC ("GEIL") for maintenance services on gas turbines and generators;

(v) EPC Turnkey Engineering, Procurement and Construction ("EPC") Contract dated 20 August 2009 with SEPCOIII Electric Power Construction Corporation ("SEPCOIII") for the construction of the Plant;

(vi) Government Guarantee Agreement ("Government Guarantee") dated 23 November 2009 with Government represented by Ministry of Finance ("MOF"), whereby the MOF is prepared to guarantee the payment by the OPWP of its financial obligation to the Company's Senior Lenders under the PWPA.

(vii) Operation and Maintenance ("O& M") agreement with Sembcorp Salalah O&M Services Company LLC ("SSOM") dated 8 February 2010 for a period of 15 years from the scheduled commercial operation date.

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Notes
(forming part of the financial statements)

2 Basis of preparation and significant accounting policies

Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Use of estimates and judgements

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

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in financial valuation of derivatives financial instruments and impairment of trade receivables.

Change in accounting estimates

Useful life of the property, plant and equipment

Details of property, plant and equipment are set out in note 8. During the period, the Company has conducted and considered an operational efficiency review of its plant and machinery, which resulted in changes in the expected useful lives of items of property, plant and equipment.

The plant and machinery, building and pipelines related to the power plant which Management previously expected to be in use for 30 years is now expected to remain in operation for 35 years. Roads which Management previously expected to be in use for 10 years are now expected to remain in operation for 20 years. As a result, the expected useful lives of these assets has increased. The effect of these changes on actual and expected depreciation expenses, included in statement of comprehensive income, in current and future years, respectively, is as follows:

	2013	2014	2015	2016	2017	Later
	RO	RO	RO	RO	RO	RO
Decrease (increase) in depreciation expense	1,165,283	1,546,648	1,546,648	1,550,886	1,546,648	(7,356,114)

Significant accounting policies

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

(a) Foreign currency

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

Notes

(forming part of the financial statements)

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

(a) Foreign currency *(continued)*

(ii) *Foreign currency transactions (continued)*

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

(b) Financial instruments

(i) Non derivative financial instruments

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

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

(ii) Derivative financial instruments, including hedge accounting

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

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

(iii) Cash flow hedges

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

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Notes

(forming part of the financial statements)

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

(b) Financial instruments *(continued)*

(iii) Cash flow hedges *(continued)*

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 the profit or loss.

(iv) Separable embedded derivatives

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

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases future economic benefits embodied in the specific asset to which it relates.

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

(iii) Depreciation

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

Buildings	30 to 35 years
Plant and machinery	12 to 35 years
Roads and pipelines	10 to 35 years
Computer equipment	3 years
Office equipment	3 to 10 years
Motor vehicles	10 years

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Notes
(forming part of the financial statements)

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

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

(iii) Depreciation *(continued)*

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

(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 assets is ready for intended use.

(v) Site restoration

A liability for future site restoration is recognized as the activities giving rise to the obligation of future site restoration take place. The liability is measured at the present value of the estimated future cash outflows to be incurred on the basis of current technology. The liability includes all costs associated with site restoration, including plant closure and monitoring costs.

(d) Impairment

(i) Financial assets

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

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

An impairment loss is reversed if reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

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

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

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Notes

(forming part of the financial statements)

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

(d) Impairment *(continued)*

(ii) Non – financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each balance sheet 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 income 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 cash-generating units and then, to reduce the carrying amount 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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 assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(e) Financial liabilities

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

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

(f) Employee terminal benefits

Contributions to a defined contribution retirement benefit plan, for Omani employees in accordance with the Oman Social Insurance Scheme, are recognised as an expense in the income statement as incurred.

The Company's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods. The provision is calculated using the projected unit credit method and is discounted to its present value. The provision is in accordance with the Omani Labour Law.

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Notes

(forming part of the financial statements)

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

(g) Provisions

A provision is recognised in the balance sheet 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.

(h) 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 at the customers' premise 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 based on contractual terms stipulated in PWPA.

Power capacity charge and water capacity charge revenue is recognised when right to receive is established.

(i) Financing income

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

(j) Borrowing costs

Interest expense and similar charges are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale. The interest component of finance lease payments is recognised in the income statement using the effective interest rate method.

(k) Income tax expense

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

SEMBCORP SALALAH POWER & WATER COMPANY SAOC

Notes

(forming part of the financial statements)

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

(k) Income tax expense *(continued)*

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

(l) Dividend

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

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the Group's and Parent Company's financial statements in the period in which the dividend is declared.

(m) New standards and interpretation not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the six month period ended 30 June 2013, and have not been applied in preparing these financial statements. None of these are expected to have any material impact on the financial statements of the Company.

3 Revenue

	2013 RO	Unaudited 2012 RO
Fixed capacity charge - Power	**18,359,558**	9,780,866
Fixed capacity charge - Water	**7,740,364**	4,782,279
Energy charge	**482,266**	291,422
Water output charges	**197,085**	-
Fuel charge	**4,512,976**	3,413,600
	31,292,249	18,268,167

4 Cost of sales

	2013 RO	Unaudited 2012 RO
Fuel cost	**4,540,354**	3,416,058
Operation and maintenance cost	**1,953,096**	1,322,015
Contractual services maintenance cost	**1,160,927**	863,924
Depreciation	**5,707,098**	3,000,156
Insurance cost	**356,720**	74,340
Incentive payment	**122,850**	78,216
Electricity import cost	**44,140**	-
Unwinding of discount *(note 20)*	**13,925**	2,731
License and permits	**28,927**	-
Other overhead	**6,529**	6,275
	13,934,566	8,763,715

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5 Administrative and general expenses

	2013	Unaudited 2012
	RO	RO
Staff costs	**91,969**	27,160
Legal and professional charges	**73,124**	128,000
Depreciation and amortisation	**54,707**	20,653
Other admin and general expenses	**215,959**	113,236
	435,759	289,049

6 Other income

Other income mainly comprises write back of interest on shareholders loan for the period from 29 March 2012 to 30 June 2013 (note 17).

7 Finance costs

	2013	2012
Interest expense on equity bridge loan	**2,977,930**	1,542,006
Interest expense on project financing	**5,875,328**	2,801,458
Interest expense on interest rate swap	**4,059,705**	1,980,456
Deferred financing cost	**718,697**	335,501
Commission and bank charges	**2,872**	19,914
	13,634,532	6,679,335

8 Property, plant and equipment

	Buildings	Roads and pipelines	Plant and machinery	Office equipment	Motor vehicles	Computer equipment	Total
	RO	RO	RO	RO	RO	RO	RO
Cost							
At 1 January 2013	47,998,922	25,998,788	285,535,849	68,122	229,320	159,560	359,990,561
Additions during the period	10,000	-	12,183	61,982	-	2,110	86,275
At 30 June 2013	48,008,922	25,998,788	285,548,032	130,104	229,320	161,670	360,076,836
Accumulated depreciation							
At 1 January 2013	1,200,442	642,136	7,772,494	7,386	18,557	43,573	9,684,588
Charge for the period	754,825	442,291	4,491,523	12,296	11,679	27,187	5,739,801
At 30 June 2013	1,955,267	1,084,427	12,264,017	19,682	30,236	70,760	15,424,389
Carrying amount							
At 30 June 2013	**46,053,655**	**24,914,361**	**273,284,015**	**110,422**	**199,084**	**90,910**	**344,652,447**
At 31 December 2012	46,798,480	25,356,652	277,763,355	60,736	210,763	115,987	350,305,973

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Notes
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9 Intangible assets

	30 June 2013	31 December 2012
	RO	RO
Opening balance	**37,555**	26,402
Purchased during the period	**4,119**	48,383
Amortisation during the period	**(22,004)**	(37,230)
	19,670	37,555

An intangible asset represents purchase of ERP software.

10 Hedging reserve

Interest rate swaps:		
SMBC Capital Market Limited	**(6,148,129)**	(9,318,935)
Standard Chartered Bank	**(17,122,856)**	(27,081,333)
KfW-IPEX	**(5,233,362)**	(8,048,549)
Hedging reserve at the end of the period	**(28,504,347)**	(44,448,817)
Deferred tax asset	**3,420,522**	5,333,858
Hedging reserve at the end of the period (net of tax)	**(25,083,825)**	(39,114,959)
Less: Hedging reserve at the beginning of the year	**(39,114,959)**	(37,084,527)
Effective portion of change in fair value of cash flow hedge for the year	**14,031,134**	(2,030,432)

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 long term facilities of the Company bear interest at US 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 08 April 2010 respectively, for 95.32% of its USD loan facility.

The corresponding hedged notional amount outstanding as of 30 June 2013 is approximately USD 446 million and USD116 million at a fixed interest rate of 4.345% and 3.8% per annum respectively.

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11 Trade and other receivables

	30 June 2013 RO	31 December 2012 RO
Trade receivable	**16,140,319**	9,058,602
Due from related parties *(note 18)*	**922**	922
Advances to vendors	**1,805,830**	1,573,727
Prepayments	**27,286**	303,181
Retentions	**90,299**	90,299
Other receivable	**270,389**	7,566
	18,335,045	11,034,297

12 Inventory

	30 June 2013 RO	31 December 2012 RO
Fuel inventory	**931,900**	993,568
Spare parts and consumables	**1,205,130**	797,049
	2,137,030	1,790,617

13 Cash and cash equivalents

	30 June 2013 RO	31 December 2012 RO
Cash in hand	**1,576**	1,925
Cash at bank	**37,324,989**	38,858,881
	37,326,565	38,860,806

Cash at bank includes Debt Service Reserve Account in the amount of RO 16,380,052, out of which the Company has made a placement in the amount of RO 15,702,010 at weighted average interest rate of 0.48%. The fixed deposit will mature in the month of September 2013.

14 Equity

(a) Share capital

During the period, the Company has increased its authorised share capital from RO 2 million to RO 100 million. The Company's registered capital (issued and fully paid) comprises 500,000 shares of RO1 each.

On 3 July 2013, Ministry of Commerce and Industry approved to increase company's registered capital (issued and fully paid) from RO 500,000 (500,000 shares of RO 1 each) to RO 95,457,195 (95,457,195 shares of RO 1 each). Registered capital was increased by converting shareholders' loan in the amount of RO 94,957,195 (note 17).

	Share capital before conversion of Shareholders' loan RO	**Shareholders' loan converted to share capital RO**	**Share capital after conversion of Shareholders' loan RO**
SOFIH	**200,000**	**37,982,878**	**38,182,878**
SOIHL	**100,000**	**18,991,439**	**19,091,439**
IPWC	**175,000**	**33,235,018**	**33,410,018**
BDCC	**25,000**	**4,747,860**	**4,772,860**
	500,000	**94,957,195**	**95,457,195**

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.

Subsequently on 7 July 2013 in the EGM it was resolved that the Company will offer 35% of its shares to the public through an initial public offering ("IPO") on the Muscat Security Market. Subsequent to the IPO, the Company will become a listed public joint stock company ("SAOG"). The IPO is expected to close on 26 September 2013.

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14 Equity *(continued)*

(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.

(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 10).

15 Trade and other payables

	30 June 2013 RO	31 December 2012 RO
Payables to EPC contractor	**3,447,002**	5,383,992
Trade payable	**1,226,911**	661,319
Due to related parties (note 18)	**756,269**	642,853
Retentions and deductions	**14,783,649**	14,783,649
Interest payable	**6,515,771**	9,996,020
Accrued expenses and other payable	**2,038,904**	1,991,237
	28,768,506	33,459,070

Retentions and deductions mainly include the deductions from EPC contractor on account of Liquidated damages claimed by the Company.

16 Income tax

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

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

The Company's effective tax rate for the six months period ended 30 June 2013 was 26.31% (six month period ended 30 June 2012: 72.67%). The change in effective tax rate was caused by the reduction in tax losses expired.

A deferred tax asset has been recognised directly in equity in respect of the changes in fair values of interest rate swap (note 10).

	30 June 2013 RO	30 June 2012 RO
a) Recognised in profit or loss		
Tax expense for the period	**2,494,507**	1,842,961

b) Reconciliation

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

	30 June 2013 RO	30 June 2012 RO
Profit before tax	**9,481,213**	2,536,068
Income tax as per rates mentioned above	**(1,137,746)**	(304,328)
Unrecognised deferred tax assets	**(1,604,657)**	(1,117,661)
Expenses not deductible for tax purposes	**(230,934)**	(420,972)
Income not taxable	**478,830**	-
Tax expense for the year	**(2,494,507)**	(1,842,961)

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Notes

(forming part of the financial statements)

16 Income tax *(continued)*

c) Deferred tax asset (liability)

	At 1 January 2013 RO	Recognised during the year RO	**At 30 June 2013 RO**
Charged to profit or loss			
Property, plant and equipment	(4,493,394)	(2,261,289)	**(6,754,683)**
Tax losses	1,896,987	(233,218)	**1,663,769**
	(2,596,407)	(2,494,507)	**(5,090,914)**
Deferred tax recognised in equity			
Derivative instrument	5,333,858	(1,913,336)	**3,420,522**

d) Status of prior year returns

The Company's assessment for the tax years 2009 to 2012 have not yet been finalised with the Secretariat General for Taxation at the Ministry of Finance. The Board of Directors 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 30 June 2013.

17 Shareholders loan

	30 June 2013 RO	31 December 2012 RO
Shareholders loan	**94,957,195**	94,957,195
Less: Unamortised transaction cost	**-**	(124,802)
	94,957,195	94,832,393

On 20 November 2009, the Company, its shareholders and the lenders under the Common Term Agreement ("CTA"), entered into a Project Support Agreement ("the PSA") under which shareholders are required to provide subordinated advances ("the Shareholders loan"). The actual drawdown amount is described below:

	Currency	**Draw down amount**	**30 June 2013 RO**	31 December 2012 RO
SOFIH	USD	**98,605,600**	**37,982,878**	37,982,878
SOIHL	USD	**49,302,800**	**18,991,439**	18,991,439
IPWC	RO	**33,235,018**	**33,235,018**	33,235,018
BDCC*	RO	**4,747,860**	**4,747,860**	4,747,860
			94,957,195	94,957,195

*On 26 December 2011, IPWC entered into Shareholder Loan Assignment whereby IPWC agreed to sell to BDCC a portion of the shareholder loan in the amount of RO 4,747,860.

Repayments

As per the PSA, the aggregate amount of Shareholders' loan may be repaid at any time but only from amounts standing to the credit of Distribution Accounts and available for such purposes in accordance with and subject to the terms of the CTA. Such repayment, if any, cannot be made prior to offer for sale or listing.

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Notes

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17 Shareholders loan *(continued)*

Repayment *(continued)*

According to the PSA, the Shareholders and the Company were required to convert the Shareholders' loan into equity prior to a Public Offer for sale or listing. On 3 July 2013, Shareholders' loan was converted into share capital. Shareholders' loan converted to share capital is as follows:

	Shareholders' loan converted to share capital RO
SOFIH	37,982,878
SOIHL	18,991,439
IPWC	33,235,018
BDCC	4,747,860
	94,957,195

Interest

Shareholders' loan from SOFIH, SOIHL and BDCC carry interest rate at 5.1%.

Shareholders' loan from IPWC carries interest rate at 8.35%.

Interest on shareholders' loan written back

Shareholders of the Company waived their equitable right of interest on shareholders' loan from 29 March 2012 to 30 June 2013 and authorised the Company to write back the same. The breakup of interest waived is as follows:

	Equitable right interest rate	RO
SOFIH	5.1%	2,469,837
SOIHL	5.1%	1,234,918
BDCC	5.1%	308,730
IPWC	5.1%	2,161,107
		6,174,592

Other fees

The Company was required to pay an upfront fee to Shareholders within three business days of the loan being made.

18 Related party transactions

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

	30 June 2013	Unaudited 30 June 2012
	RO	RO
Sembcorp Industries Limited		
- Reimbursement of expenses	**4,220**	45,685
SSOM		
- Operation and maintenance cost	**1,953,096**	1,420,209
- Incentive payment	**167,691**	78,216
SOFIH		
- Finance cost	**973,944**	979,325
SOIHL		
- Finance cost	**486,972**	489,663
IPWC		
- Finance cost	**1,395,271**	1,402,980
OIC		
- Reimbursement of expenses	**2,740**	5,546

	30 June 2013	31December 2012
Balances due to related parties at the period end comprised:		
SOFIH	-	1,495,892
SOIHL	-	747,946
IPWC	**1,377,176**	2,143,012
SSOM	**509,629**	389,650
Sembcorp Industries Ltd	**246,640**	253,203
	2,133,445	5,029,703
Balance due from related party is as follows:		
Emirates Sembcorp Water & Power Company PJSC	**922**	922

Key Management benefits

Key Management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise). Total compensation paid to key management personnel for the six month period ended 30 June 2013 is RO 81,875 (2012:RO 75,692).

19 Term loan

Non-current	*Maturity*		
Project financing loan (USD)	*2012-2026*	**227,526,517**	231,733,480
Project financing loan (Rials)	*2012-2026*	**47,312,100**	48,186,900
		274,838,617	279,920,380
Less: Unamortised transaction cost		**(9,109,473)**	(9,703,369)
		265,729,144	270,217,011
Less: Current portion of term loan		**(11,885,676)**	(11,575,124)
		253,843,468	258,641,887

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19 Term loan *(continued)*

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

Repayments

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

Interest

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

The margins are indicated below:

	Margin % (p.a.)
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 tenth anniversary of completion date	3.55%
Thereafter	3.95%

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

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

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

Other fees

The Company is required to pay a front end fees to the Mandated Lead Arranger. In addition, the Company shall pay commitment fee at 1.3% of undrawn Dollar Commercial facilities and Sinosure Covered facilities and 0.4% of undrawn Rial Omani facilities. As at 30 June 2013, there were no undrawn loans.

Securities

The term loans are secured by a mortgage over the Company's property, plant and equipment and current assets of the Company, including a lien on the balances in the sales collection accounts of the Company.

Covenants

The term loan facilities contain certain covenants pertaining to, amongst other things, liquidation and merger, entering into material new agreements, negative pledge, disposal of asset, granting of loan and guarantee, acquisition of capital assets, debt service coverage ratio, change of business, loan and guarantee, hedging agreement, etc, with which the Company is required to comply.

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20 Asset retirement obligation ("ARO")

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

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

	30 June 2013	31 December 2012
	RO	RO
At 1 January	**409,570**	260,284
Provision made during the year	**-**	132,973
Amortisation during the year *(note 4)*	**13,925**	16,313
At 31 December	**423,495**	409,570

21 Financial risk management

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

- Market risk
- Credit risk
- Liquidity risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has entrusted the Management with the responsibility of developing and monitoring the Company's risk management policies and procedures and its compliance with them.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

At the balance sheet date, the interest rate profile of the Company's interest-bearing financial liabilities was:

	Interest rate	**30 June 2013**	31 December 2012
	%	**RO**	RO
Financial assets			
Bank balances		**37,324,989**	38,858,881
Financial liabilities			
Shareholders loan			
- USD fixed rate loans	*5.10%*	**(56,974,317)**	(56,974,315)
- RO fixed rate loans	*5.10%*	**(4,747,860)**	(4,747,860)
- RO fixed rate loans	*8.35%*	**(33,235,018)**	(33,235,018)
Term loan			
- USD variable rate loans	*Libor+3%*	**(227,526,517)**	(231,733,480)
- RO fixed rate loans	*8%*	**(47,312,100)**	(48,186,900)
		(369,795,812)	(374,877,573)

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21 Financial risk management *(continued)*

(a) ***Market risk*** *(continued)*

Interest rate risk *(continued)*

The Company does not account for any fixed rate financial liabilities at fair value through profit or loss and the Company does not designate hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

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

	Equity			
	100 bps Increase 30 June 2013 RO	**100 bps Decrease 30 June 2013 RO**	100 bps Increase 31 December 2012 RO	100 bps Decrease 31 December 2012 RO
Interest rate swap	**15,184,228**	**(15,184,228)**	17,643,561	(17,643,561)

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 30 June 2013.

(b) ***Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and cash balances held with banks. Under the terms of the PWPA, the Company's sales are billed wholly to OPWP. The Company manages its credit risk with OPWP by monitoring its credit rating and obtaining credit enhancements. The Company limits its credit risk with regard to bank deposits by only dealing with reputable banks and financial institutions with strong credit ratings. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	30 June 2013 RO	31 December 2012 RO
Break down of financial assets (at carrying amount)		
Cash and cash equivalents	**37,326,565**	38,860,806
Trade receivable	**16,140,319**	9,058,602
Due to related parties, retention and other receivables	**361,610**	98,787
	53,828,494	48,018,195
The age analysis of current trade and other receivables is as follows:		
Not past dues	**5,879,708**	4,791,389
Past due 0 to 3 months	**3,000,000**	3,000,000
Past due 3 to 6 months	**3,000,000**	1,366,000
Past due 6 to 12 months	**4,165,922**	-
Past due greater than 12 months	**456,299**	-
	16,501,929	9,157,389

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21 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company limits its liquidity risk by ensuring bank facilities and shareholders' advances are available, where required. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

		Cash flows			
	Carrying amount	**Contractual cash flow**	**Less than 1 year**	**More than 1 to 5 years**	**More than 5 years**
30 June 2013	**RO**	**RO**	**RO**	**RO**	**RO**
Derivatives					
Interest rate swaps used for hedging	**28,504,347**	**(28,559,475)**	**(8,270,824)**	**(19,007,687)**	**(1,280,964)**
Non-derivatives financial liabilities					
Shareholders loan	**94,957,195**	**(94,957,195)**	**(94,957,195)**	**-**	**-**
Term loan	**265,729,144**	**(384,925,345)**	**(23,715,746)**	**(103,100,490)**	**(258,109,109)**
Trade and other payables	**28,768,506**	**(28,768,506)**	**(28,768,506)**	**-**	**-**
	417,959,192	**(537,210,521)**	**(155,712,271)**	**(122,108,177)**	**(259,390,073)**
31 December 2012					
Derivatives					
Interest rate swaps used for hedging	44,448,817	(46,144,726)	(6,678,670)	(31,680,445)	(7,785,611)
Non-derivatives financial liabilities					
Shareholders loan	94,832,393	(97,810,323)	(97,810,323)	-	-
Term loan	270,217,011	(380,958,941)	(20,788,411)	(98,043,720)	(262,126,810)
Trade and other payables	33,459,070	(33,459,070)	(33,459,070)	-	-
	442,957,291	(558,373,060)	(158,736,474)	(129,724,165)	(269,912,421)

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

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 – Fair values are measured based on quoted prices (unadjusted) from active markets for identical financial instruments.
- Level 2 – Fair values are measured using inputs, other than those used for Level 1, that are observable for the financial instruments either directly (prices) or indirectly (derived from prices)
- Level 3 – Fair values are measured using inputs which are not based on observable market data (unobservable input).

	30 June 2013	31 December 2012
	Level 2	Level 2
	RO	RO
Derivative financial liabilities	**28,504,347**	44,448,817

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21 Financial risk management *(continued)*

Embedded derivatives

The following agreements contain embedded derivatives as follows:

(i) The PWPA between the Company and OPWP contains embedded derivatives in the pricing the investment charge rate and the fixed operation and maintenance charge rate for each of the power facility and the desalination facility. Percentages of the fixed operation and maintenance charge rate for each of power facility and the desalination facility will be adjusted to reflect changes in the US price index and the Omani Consumer price index.

(ii) The O & M agreement between the Company and SSOM contains embedded derivatives in pricing the fixed operator fee. Percentages of the fixed operator fee will be adjusted to reflect changes in fixed inflation rate.

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

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

Capital management

The Company aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development and growth of its businesses, while at the same time maintaining an appropriate dividend policy to reward shareholders.

22 Contingent liabilities and guarantees

Guarantees:

	30 June 2013 RO	31 December 2012 RO
Performance guarantees	**1,540,800**	1,540,800

During the period, the Company has taken bank guarantees from Bank Muscat for the amount of USD 4,000,000 to Dhofar Power Company SAOG under the electrical connection agreement.

Liquidated damages:

The Company achieved Commercial Operation Date ("COD") 1 (the Phase 1 Power Milestone) on 16 July 2011 against the originally scheduled date on 6 July 2011 stated in the Power and Water Purchase Agreement ("the PWPA") with the Guaranteed Contracted Power Capacity of 61 MWH.

COD 2 (the Phase II Power and Phase II Water Milestones) was also delayed from its original scheduled date of 6 October 2011 due to the wrong termination kit installation by the Grid Operator, and procured by the grid substation, and occurrence of Cyclone Keila from 1 to 5 November 2011 that impacted construction progress. The Guaranteed Contracted Power Capacity and Guaranteed Contracted Water Capacity during Phase 2 Milestone were 173 MWH and 2841.25 m3/h respectively.

The Company achieved the Phase II Power Milestone on 2 January 2012 and Phase II Water milestone on 12 March 2012 respectively.

Final COD was achieved on 25 May 2012 against the originally scheduled date on 4 April 2012. Delay in the achievement of the milestone was primarily due to the low power grid demand. The Plant was fully operational after COD.

The Company has claimed liquidated damages from SEPCO III, EPC contractor in relation to the above delays.

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Notes

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22 Contingent liabilities *(continued)*

Liquidated damages *(continued)*

The Company is seeking contractual reliefs from OPWP for liquidated damages and revenue losses primarily as follows:

- "Buyer Risk Relief" (which will allow the Company to back date the achievement of Phase 2 Power Milestone) due to the wrong termination kit. However, this relief claim has been disputed by OPWP. Management of the Company is currently in discussion with OPWP to establish the validity of this relief.
- Claim under Clause 28.1 of the PWPA that extreme weather situation (Cyclone Keila hit the coasts of Oman) constitutes a Force Majeure Event for which Management of the Company will seek relief as provided in the PWPA.
- "Buyer Risk Relief" (which allow the Company to back date the achievement of COD) due to the lower grid demand.

SEPCO III has also filed a claim against the Company entitling it to seek recovery of its reasonable increase in costs due to various events amount to owner delays. The claim was principally rejected by the Company and has requested SEPCO III to substantiate the claim that the alleged events in fact caused the delays in achievement of milestones. SEPCO III has yet to establish its entitlement relief for the alleged delay events.

The Company has engaged an external legal counsel to advise and protect the Company's interests in the disputes and claims under the PWPA and the EPC contracts. These claims and disputes are expected to be settled in 2014.

Management of the Company and external legal counsel believes that the final settlement of its disputes with OPWP and SEPCO III should at least result in a neutral position for the Company.

In addition, the Company has received a bank guarantee amounting to USD 70 million, as performance bond from SEPCOIII.

23 Operating lease commitments

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

	30 June 2013 RO	31 December 2012 RO
Within one year	**1,000**	1,000
Between two and five years	**4,000**	4,000
After five years	**17,000**	18,000

24 Basic and diluted earnings per share

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

	30 June 2013	Unaudited 30 June 2012
Profit for the period (RO)	**6,986,706**	693,107
Weighted average number of shares outstanding during the period	**500,000**	500,000
Earnings per share - Basic and diluted (RO)	**13.97**	1.39

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

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25 Net assets per share

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

	30 June 2013	Unaudited 31 December 2012
Shareholders' funds (RO)	**7,501,503**	514,797
Number of shares at the end of the period	**500,000**	500,000
Net assets per share (RO)	**15.00**	1.03

Management believes that the hedging deficit of RO 25 million (2012: RO 39 million) at the end of the reporting period represents the loss which the Company would incur, if it opts to terminate its swap agreement on this date. However under the terms of the financing agreements, the Company is not permitted to terminate the swap agreement. Accordingly the hedging agreement has been excluded from the Shareholders' funds.

26 Dividend

On 2 October 2013, Board of Directors proposed the interim dividend in respect of the year 2013 in the amount of RO 1,241,000 (Bzs 13 per share). The dividend will be approved in the Ordinary General Meeting which is planned to take place later in October 2013.