

# **SEMBCORP SALALAH POWER & WATER COMPANY SAOG**

## **UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019**

**Registered office:**

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

**Principal place of business:**

Salalah  
Sultanate of Oman

# **SEMBCORP SALALAH POWER & WATER COMPANY SAOG**

## **UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019**

<b>Contents</b>	<b>Page</b>
Unaudited interim Independent auditors' review report	1
Unaudited interim Statement of profit or loss and other comprehensive income	2
Unaudited interim Statement of financial position	3
Unaudited interim Statement of changes in equity	4
Unaudited interim Statement of cash flows	5
Notes to the unaudited interim financial statements	6 - 42

## *Review report to the shareholders of Sembcorp Salalah Power & Water Company SAOG*

### **Independent auditor's review report**

#### *Introduction*

We have reviewed the accompanying unaudited interim statement of financial position of Sembcorp Salalah Power & Water Company SAOG (the Company) as at 30 June 2019 and the related unaudited interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months period then ended and a summary of significant accounting policies and other explanatory information (unaudited interim financial information). Management is responsible for the preparation and presentation of this unaudited interim financial information in accordance with International Accounting Standard IAS 34 – 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this unaudited interim financial information based on our review.

#### *Scope of review*

We conducted our review in accordance with International Standard on Review Engagements 2410 - 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 – 'Interim Financial Reporting' and with the applicable minimum disclosure requirements issued by the Capital Market Authority.

*PricewaterhouseCoopers*

**28 July 2019**  
**Muscat, Sultanate of Oman**



**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**
**UNAUDITED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019**

	Notes	Unaudited For six months period ended 30 June 2019 RO	Unaudited For six months period ended 30 June 2018 RO
Revenue from contracts with customers	3	37,171,442	34,773,329
Cost of sales	4	(20,481,611)	(18,386,627)
<b>Gross profit</b>		<b>16,689,831</b>	16,386,702
Administrative and general expenses	5	(320,272)	(314,423)
Other expenses		(161,081)	-
Other income		204,045	80,273
<b>Profit before interest and tax</b>		<b>16,412,523</b>	16,152,552
Finance income		233,826	146,805
Finance costs	6	(7,149,339)	(7,541,656)
<b>Profit before income tax</b>		<b>9,497,010</b>	8,757,701
Income tax expense	16	(1,427,114)	(1,542,895)
<b>Profit after tax for the period</b>		<b>8,069,896</b>	7,214,806
<b>Other comprehensive income</b>			
Fair value of cash flow hedge adjustments – gross		(4,772,300)	3,722,040
Reclassification to profit or loss – gross	6	1,230,405	1,879,177
Deferred tax liability on change in fair value of cash flow hedge	16	531,285	(840,182)
<b>Total comprehensive income for the period</b>		<b>5,059,286</b>	11,975,841
<b>Earnings per share:</b>			
Basic earnings per share	23	0.0085	0.0076

The notes on pages 6 to 42 are an integral part of these unaudited interim financial statements.

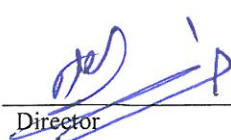
Independent auditors' review report – page 1.

## SEMBICORP SALALAH POWER &amp; WATER COMPANY SAOG

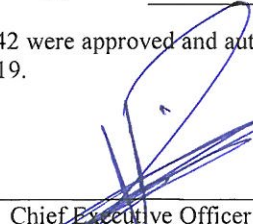
UNAUDITED INTERIM STATEMENT OF FINANCIAL POSITION  
AS AT 30 June 2019

	Notes	Unaudited 30 June 2019 RO	Audited 31 December 2018 RO	Unaudited 30 June 2018 RO
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	7	284,603,625	288,945,645	292,667,535
Right of use assets	8	742,098	-	-
Intangible assets	9	2,741	5,452	8,208
<b>Total non-current assets</b>		<b>285,348,464</b>	<b>288,951,097</b>	<b>292,675,743</b>
<b>Current assets</b>				
Inventory	11	5,150,595	5,149,203	5,011,016
Trade and other receivables	12	11,851,856	9,556,640	18,874,730
Bank deposits	13	20,267,160	19,325,840	21,592,694
Cash and cash equivalents	13	8,609,394	8,098,265	4,611,568
<b>Total current assets</b>		<b>45,879,005</b>	<b>42,129,948</b>	<b>50,090,008</b>
<b>Total assets</b>		<b>331,227,469</b>	<b>331,081,045</b>	<b>342,765,751</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Share capital	14 (a)	95,457,195	95,457,195	95,457,195
Legal reserve	14 (b)	8,500,322	7,693,332	7,130,805
Retained earnings		7,267,593	3,250,232	6,587,718
<b>Shareholders' funds</b>		<b>111,225,110</b>	<b>106,400,759</b>	<b>109,175,718</b>
Hedging reserve	10 & 14(c)	(11,022,293)	(8,011,683)	(7,487,237)
<b>Net equity</b>		<b>100,202,817</b>	<b>98,389,076</b>	<b>101,688,481</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Long term loans	18	163,949,999	175,107,989	187,095,152
Long term lease liability	19	447,528	-	-
Asset retirement obligation	20	625,378	604,528	586,078
Deferred tax liability	16	19,054,741	18,158,912	16,826,147
Derivative financial instruments	10	10,794,927	7,718,333	6,859,294
<b>Total non-current liabilities</b>		<b>194,872,573</b>	<b>201,589,762</b>	<b>211,366,671</b>
<b>Current liabilities</b>				
Current portion of long term loan	18	23,997,209	20,270,583	16,628,654
Current portion of derivative financial instruments	10	2,172,478	1,707,176	1,949,220
Trade and other payables	15	9,982,392	9,124,448	11,132,725
<b>Total current liabilities</b>		<b>36,152,079</b>	<b>31,102,207</b>	<b>29,710,599</b>
<b>Total liabilities</b>		<b>231,024,652</b>	<b>232,691,969</b>	<b>241,077,270</b>
<b>Total equity and liabilities</b>		<b>331,227,469</b>	<b>331,081,045</b>	<b>342,765,751</b>
<b>Net assets per share</b>	24	<b>0.117</b>	0.111	0.114

The financial statements on pages 2 to 42 were approved and authorised for issue in accordance with a resolution of the Board of Directors on 25 July 2019.



Director



Chief Executive Officer



Director

The notes on pages 6 to 42 are an integral part of these unaudited interim financial statements.

Independent auditors' review report – page 1.

**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**
**UNAUDITED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019**

	Share capital RO	Legal reserve RO	Retained earnings RO	Hedging reserve RO	Total RO
At 1 January 2018	95,457,195	6,409,324	3,053,566	(12,248,272)	92,671,813
Profit for the period	-	-	7,214,806	-	7,214,806
Other comprehensive income					
Fair value of cash flow hedge adjustments – gross	-	-	-	3,722,040	3,722,040
Reclassification to profit or loss - gross (note 6)	-	-	-	1,879,177	1,879,177
Deferred tax liability on change in fair value of cash flow hedge	-	-	-	(840,182)	(840,182)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>7,214,806</b>	<b>4,761,035</b>	<b>11,975,841</b>
Transactions with owners of the Company, recognised directly in equity					
Final dividend 2017 (note 28)	-	-	(2,959,173)	-	(2,959,173)
Transfer to legal reserve	-	721,481	(721,481)	-	-
<b>Total transactions with owners of the Company, recognised directly in equity</b>	<b>-</b>	<b>721,481</b>	<b>(3,680,654)</b>	<b>-</b>	<b>(2,959,173)</b>
<b>At 30 June 2018</b>	<b>95,457,195</b>	<b>7,130,805</b>	<b>6,587,718</b>	<b>(7,487,237)</b>	<b>101,688,481</b>
<b>At 1 January 2019</b>	<b>95,457,195</b>	<b>7,693,332</b>	<b>3,250,232</b>	<b>(8,011,683)</b>	<b>98,389,076</b>
Profit for the period	-	-	8,069,896	-	8,069,896
<b>Other comprehensive income</b>					
Fair value of cash flow hedge adjustments – gross	-	-	-	(4,772,300)	(4,772,300)
Reclassification to profit or loss - gross (note 6)	-	-	-	1,230,405	1,230,405
Deferred tax asset on change in fair value of cash flow hedge	-	-	-	531,285	531,285
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>8,069,896</b>	<b>(3,010,610)</b>	<b>5,059,286</b>
<b>Transactions with owners of the Company, recognised directly in equity</b>					
Final dividend 2018 (note 28)	-	-	(3,245,545)	-	(3,245,545)
Transfer to legal reserve	-	806,990	(806,990)	-	-
<b>Total transactions with owners of the Company, recognised directly in equity</b>	<b>-</b>	<b>806,990</b>	<b>(4,052,535)</b>	<b>-</b>	<b>(3,245,545)</b>
<b>At 30 June 2019</b>	<b>95,457,195</b>	<b>8,500,322</b>	<b>7,267,593</b>	<b>(11,022,293)</b>	<b>100,202,817</b>

The notes on pages 6 to 42 are an integral part of these unaudited interim financial statements.

Independent auditors' review report – page 1.

**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**
**UNAUDITED INTERIM STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019**

	Unaudited For six months period ended 30 June 2019 RO	Unaudited For six months period ended 30 June 2018 RO
<b>Operating activities</b>		
Profit before tax	9,497,010	8,757,701
Adjustments for:		
Depreciation and amortization	5,448,100	5,377,161
Amortisation of deferred financing cost	417,133	451,417
Finance costs	6,731,383	7,089,707
Finance income	(233,826)	(146,805)
Provision for asset retirement obligation	20,850	14,551
<i>Changes in working capital:</i>		
Inventory	(1,392)	(407,788)
Trade and other receivables	(2,342,770)	(6,347,000)
Trade and other payables	1,529,889	(1,685,290)
Bank deposits	(941,320)	(7,301,108)
	<u>20,125,057</u>	<u>5,802,546</u>
Finance cost paid	(7,389,240)	(7,113,464)
<b>Net cash flow generated from/(used in) operating activities</b>	<u>12,735,817</u>	<u>(1,310,918)</u>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(1,412,027)	(308,186)
Finance income received	281,381	261,063
<b>Net cash flow used in investing activities</b>	<u>(1,130,646)</u>	<u>(47,123)</u>
<b>Financing activities</b>		
Repayment of term loan	(7,848,497)	(6,634,521)
Dividend paid	(3,245,545)	(2,959,173)
<b>Net cash flow used in financing activities</b>	<u>(11,094,042)</u>	<u>(9,593,694)</u>
<b>Net change in cash and cash equivalents</b>	<u>511,129</u>	<u>(10,951,735)</u>
Cash and cash equivalents as at 1 January	8,098,265	15,563,303
<b>Cash and cash equivalents as at 30 June (note 13)</b>	<u>8,609,394</u>	<u>4,611,568</u>

Reconciliation of liabilities arising from financing activities (note 13.1)

The notes on pages 6 to 42 are an integral part of these unaudited interim financial statements.

Independent auditors' review report – page 1.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019****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 14.

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 PWP”) 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 PWP; 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 unaudited interim financial statements for the six months period ended 30 June 2019 have been prepared in accordance with International Accounting Standard (IAS) 34, ‘Interim financial reporting’. The interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended 31 December 2018, which have been prepared in accordance with IFRSs.

The accounting policies adopted by the Company in these unaudited interim financial statements are consistent with those applied by the Company in its financial statements for the year ended 31 December 2018, except for as referred to in 2.4(b) below. The adoption of new and amended standards are set out in note 2.4 (a).



**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)****2 Basis of preparation and significant accounting policies (continued)****2.1 Basis of preparation (continued)***(b) Basis of measurement*

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

*(c) Use of estimates and judgements*

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

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

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

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

**2.2 Judgements**

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

*(a) Operating lease and useful life of assets*

The Company and OPWP have entered into a PWPA containing a take-or-pay clause favouring the Company. The management has applied the guidance in IFRIC 4, 'Determining whether an arrangement contains a lease'. Based on management's evaluation, the PWPA with OPWP is considered as a lease within the context of IFRS 16 and has been classified as an operating lease under IFRS 16 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. As the Company will extend the land lease until the end of useful life of the plant, lease term of the land has also been considered to be expired at the end of the useful life of the plant.

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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

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

**2.2 Judgements (continued)**

*(b) 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:

*(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 12.97 million (31 December 2018 – RO 9.4 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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

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

**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*

IFRS 16 became effective for the current reporting period. The Company changed its accounting policies and made adjustments under the modified retrospective approach.

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.

The impact of the adoption of IFRS 16 and the new accounting policies are disclosed in note 2.4 (b).

*(b) Change in accounting policies*

*(i) IFRS 16 Leases*

The Company has adopted IFRS 16 'Leases' retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.5%.

	<b>1 January 2019 RO</b>
Operating lease commitments disclosed as at 31 December 2018	1,794,832
Discounting effect using incremental borrowing rate @ 6.5%	<u>(1,361,392)</u>
Lease liability recognised as at 1 January 2019	<u><u>433,440</u></u>

The associated right-of-use assets were measured at the amount equal to the lease liability. Asset Retirement Obligation asset balance as of 31 December 2018 RO 322,037 was also transferred from property, plant and equipment to right-of-use assets in line with the requirement of IFRS 16.

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. As a practical expedient, IFRS 16 does not require the Company to reassess the contract that has already been assessed as a lease under IFRIC 4, i.e whether or not a contract existing at transition is, or contains a lease.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

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

**2.4 Significant accounting policies (continued)**

*(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, 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*

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 UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

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

**2.4 Significant accounting policies (continued)**

*(d) Financial instruments (continued)*

*(i) Financial assets (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*

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 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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**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)*

*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.

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 six months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

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

**2.4 Significant accounting policies (continued)**

*(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.

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:

	<b>Years</b>
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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

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

**2.4 Significant accounting policies (continued)**

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

*(iv) Capital work in progress*

Capital work in progress is measured at cost and is not depreciated until it is transferred into one of the above categories, which occurs when the asset is ready for its intended use.

*(v) Site restoration*

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

*(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*

*(i) Company as a lessee*

Effective 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.



**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

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

**2.4 Significant accounting policies (continued)**

*(k) Leases (continued)*

*(i) Company as a lessee (continued)*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

The lease term is considered to be the non-cancellable period for which the Company has the right to use an underlying asset. The lease term is adjusted for periods covered by an option to extend; if it is reasonably certain that the option will be exercised as well as periods covered by an option to terminate the lease; if it is reasonably certain that the option will not be exercised.

*(ii) The Company as lessor*

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to the ownership of an underlying asset. Lease payments from operating lease are recognised as income on a straight-line basis unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished. Costs incurred in earning the lease income, including depreciation are recognised as an expense. Initial direct cost incurred in obtaining lease, are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as the lease income. Modification to an operating lease is accounted for as a new lease from the effective date of the modification, considering any prepaid or accrued leased payments relating to the original lease as part of the lease payments for the new lease. The respective leased assets are included in the balance sheet based on their nature.

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. IFRS 16 does not require the Company to reassess the contract that has already been assessed as a lease under IFRIC 4, i.e whether or not a contract existing at transition is, or, contains lease.

*Finance lease receivables and finance income*

Finance leases, which transfer from the Company substantially all of the risks and rewards incidental to ownership of the leased item, are recognised as a disposal of asset at the inception of the lease and are presented as receivables under a finance lease at an amount equal to the net investment in the finance lease. Lease receivables are apportioned between finance income and reductions of the receivables under a finance lease so as to achieve a constant periodic rate of return on the lessor's net investment in the finance lease. Finance income earned is recognised within profit and loss in the statement of comprehensive income. Lease receivables due within one year are disclosed as current assets.

The Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract. When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

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

**2.4 Significant accounting policies (continued)**

*(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.

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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

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

**2.4 Significant accounting policies (continued)**

*(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.

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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

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

**2.4 Significant accounting policies (continued)**

*(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.

*(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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

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

**2.4 Significant accounting policies (continued)**

*(x) Determination of fair values (continued)*

*(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.

*(y) Accounting policies applied until 31 December 2018*

*(i) Leases*

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

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

Amounts payable under operating leases, as lessee, is recognized as lease expense on a straight line basis over the lease term.

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.

*(ii) Standards and amendments effective in 2019 and relevant for the Company's operations:*

For the period ended 30 June 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 2019. 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 period materially. The details are referred to in note 2.4(b) above.

*(y) 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 2020 or later periods, but the Company has not early applied the following new or amended standards in preparing these financial statements.

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;
- Definition of Material – Amendments to IAS 1 and IAS 8. Effective date of this standard is 1 January 2020;
- Definition of a Business – Amendments to IFRS 3. Effective date of this standard is 1 January 2020;
- Revised Conceptual Framework for Financial Reporting. Effective date of this standard is 1 January 2020;
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28. The application date of this amendment has been deferred until such time as the IASB has finalised its research project on the equity method.

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

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**3 Revenue from contracts with customers**

	Unaudited 30 June 2019 RO	Unaudited 30 June 2018 RO
Operating lease income - Investment charge	21,970,774	21,145,963
Fixed operation and maintenance charge	4,415,543	4,234,508
Fuel charge	9,815,548	8,552,837
Water output charge	458,652	440,575
Energy charge	510,925	399,446
	<u>37,171,442</u>	<u>34,773,329</u>

**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
  - a. Investment charge
  - b. Fixed operation and maintenance charge
- 2.) Variable charge (i.e. energy, water and fuel charge)

Capacity charge related to investment charge under the PWPA is considered to be a lease component in the agreement and constitutes operating lease income.

Capacity charge related to fixed operation and maintenance charge is for making the capacity available to OPWP and variable charge (covering energy charge, water charge and fuel charge) is for electricity and water output delivered.

**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 the 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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**3 Revenue (continued)**

**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.

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

**Disaggregation of revenue**

The revenue has been disaggregated based on the key drivers by which the Company receives and recognises 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 26.

**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**

	<b>Unaudited 30 June 2019 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Fuel cost	9,430,054	8,355,157
Depreciation (note 7 and 8)	5,425,340	5,360,865
Operation and maintenance cost	3,595,495	3,064,040
Contractual services maintenance cost	1,272,565	1,098,696
Insurance cost	390,342	211,439
Incentive payment	235,778	165,715
Security charges	52,070	52,070
License and permits	42,364	41,656
Electricity import cost	16,637	19,723
Provision for asset retirement obligation (note 20)	20,850	14,551
Other overheads	116	2,715
	<b>20,481,611</b>	<b>18,386,627</b>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**5 Administrative and general expenses**

	Unaudited 30 June 2019 RO	Unaudited 30 June 2018 RO
Staff costs	110,865	85,334
Directors' remuneration and sitting fees	64,600	57,000
Fee and subscription	48,377	48,273
Legal and professional charges	28,450	28,673
Travelling expenses	31,695	31,660
Depreciation and amortisation (notes 7 and 9)	22,760	16,296
Others	8,525	18,371
Charity and Donations	5,000	22,200
Provision for doubtful debts	-	6,616
	<u>320,272</u>	<u>314,423</u>

**6 Finance costs**

	Unaudited 30 June 2019 RO	Unaudited 30 June 2018 RO
Interest expense on project financing	5,486,890	5,210,530
Interest expense on interest rate swap	1,230,405	1,879,177
Deferred financing cost	417,133	451,417
Interest expense on lease liability	14,088	-
Commission and bank charges	823	532
	<u>7,149,339</u>	<u>7,541,656</u>

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



**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**7 Property, plant and equipment**

Unaudited	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
<b>Cost</b>								
At 1 January 2019	48,484,266	26,491,012	287,901,907	189,874	288,922	307,106	268,912	363,931,999
Additions	33,558	30,552	982,477	-	33,000	12,462	319,978	1,412,027
Transfers during the period (7c)	47,190	20,082	(398,588)	-	-	-	(67,272)	(398,588)
At 30 June 2019	48,565,014	26,541,646	288,485,796	189,874	321,922	319,568	521,618	364,945,438
<b>Accumulated depreciation</b>								
At 1 January 2019	9,965,873	5,470,355	58,934,752	182,377	183,129	249,868	-	74,986,354
Charge for the period	725,441	406,269	4,261,542	2,373	19,416	16,969	-	5,432,010
Transfer during the period	-	-	(76,551)	-	-	-	-	(76,551)
At 30 June 2019	10,691,314	5,876,624	63,119,743	184,750	202,545	266,837	-	80,341,813
<b>Carrying amount</b>								
At 30 June 2019	37,873,700	20,665,022	225,366,053	5,124	119,377	52,731	521,618	284,603,625

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 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
<b>Accumulated depreciation</b>								
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
<b>Carrying amount</b>								
At 31 December 2018	38,518,393	21,020,657	228,967,155	7,497	105,793	57,238	268,912	288,945,645

Unaudited	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
<b>Cost</b>								
At 1 January 2018	48,464,586	26,370,631	286,291,844	186,997	268,973	276,736	-	361,859,767
Additions	-	104,572	122,272	-	6,500	7,742	67,100	308,186
At 30 June 2018	48,464,586	26,475,203	286,414,116	186,997	275,473	284,478	67,100	362,167,953
<b>Accumulated depreciation</b>								
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 period	724,191	399,623	4,210,236	5,977	21,679	12,132	-	5,373,838
At 30 June 2018	9,229,474	5,058,431	54,625,647	178,788	172,465	235,613	-	69,500,418
<b>Carrying amount</b>								
At 30 June 2018	39,235,112	21,416,772	231,788,469	8,209	103,008	48,865	67,100	292,667,535

**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019**

24

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

*(a) Leased land*

Land on which the plant is constructed has been leased by the 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. (note 8)

*(b) Security*

The Company's property, plant and equipment are pledged as security against the term loans (note 18).

- (c)* The amount of RO 398,588/- has been transferred from Plant and Machinery to Right of use asset since IFRS 16 requires asset retirement obligation to be accumulated in the cost of Right of use.

The depreciation charge has been allocated as set out below:

	<b>Unaudited 30 June 2019 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Cost of sales (note 4)	<b>5,411,961</b>	5,360,865
Administrative expenses (note 5)	<b>20,049</b>	12,973
	<b><u>5,432,010</u></b>	<b><u>5,373,838</u></b>

**8 Right of use assets**

The Company has adopted IFRS 16 'Leases' from 1 January 2019. In line with IFRS 16 requirement, the Company recognized right of use assets and also reclassified asset retirement obligation from property, plant and equipment to right of use asset.

The Company has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard and therefore comparative information has not been presented.

	<b>Land RO</b>	<b>Asset retirement obligation RO</b>	<b>Total RO</b>
Cost			
<b>At 1 January 2019</b>	<b>433,440</b>	<b>398,588</b>	<b>832,028</b>
Additions during the period	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 30 June 2019</b>	<b><u>433,440</u></b>	<b><u>398,588</u></b>	<b><u>832,028</u></b>
Accumulated depreciation			
<b>At 1 January 2019</b>	<b>-</b>	<b>76,551</b>	<b>76,551</b>
Charge for the period (note 4)	<b>7,676</b>	<b>5,703</b>	<b>13,379</b>
<b>At 30 June 2019</b>	<b><u>7,676</u></b>	<b><u>82,254</u></b>	<b><u>89,930</u></b>
<b>Net carrying amount at 30 June 2019</b>	<b><u>425,764</u></b>	<b><u>316,334</u></b>	<b><u>742,098</u></b>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**9 Intangible assets**

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
<b>Cost</b>			
At 1 January	122,539	122,539	122,539
Additions during the period/year	-	-	-
	<u>122,539</u>	<u>122,539</u>	<u>122,539</u>
<b>Accumulated amortisation</b>			
At 1 January	(117,087)	(111,008)	(111,008)
Charge for the period/year (note 5)	(2,711)	(6,079)	(3,323)
	<u>(119,798)</u>	<u>(117,087)</u>	<u>(114,331)</u>
Carrying amount	<u>2,741</u>	<u>5,452</u>	<u>8,208</u>

Intangible assets mainly represent the purchase of ERP software.

**10 Hedging reserve**

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Interest rate swaps:			
SMBC Capital Market Limited	(2,661,996)	(1,988,103)	(1,912,608)
Standard Chartered Bank	(7,970,026)	(5,687,543)	(5,240,968)
KfW-IPEX	<u>(2,335,382)</u>	<u>(1,749,863)</u>	<u>(1,654,938)</u>
Hedging instruments at the end of the period	(12,967,404)	(9,425,509)	(8,808,514)
Deferred tax asset (note 16)	<u>1,945,111</u>	<u>1,413,825</u>	<u>1,321,277</u>
Hedging reserve at the end of the period (net of tax)	(11,022,293)	(8,011,684)	(7,487,237)
Less: Hedging reserve at the beginning of the period	<u>(8,011,683)</u>	<u>(12,248,272)</u>	<u>(12,248,272)</u>
Effective portion of change in fair value of cash flow hedge for the period	<u>(3,010,610)</u>	<u>4,236,588</u>	<u>4,761,035</u>
Hedging instruments classification:			
Non-current portion of hedging instruments	10,794,927	7,718,333	6,859,294
Current portion of hedging instruments	<u>2,172,478</u>	<u>1,707,176</u>	<u>1,949,220</u>
	<u>12,967,405</u>	<u>9,425,509</u>	<u>8,808,514</u>

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

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

In accordance with the CTA, the Company has fixed the rate of interest through 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.

**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019**

26

**10 Hedging reserve (continued)**

The Company does not hedge the 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 30 June 2019 is approximately RO 120 million (USD 311 million) and approximately RO 31 million (USD 81 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 period 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.

**11 Inventory**

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Fuel inventory	<b>1,087,971</b>	1,076,401	1,093,610
Spare parts and consumables	<b>4,062,624</b>	4,072,802	3,917,406
	<b><u>5,150,595</u></b>	<b><u>5,149,203</u></b>	<b><u>5,011,016</u></b>

**12 Trade and other receivables**

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Trade receivable (note 12.1)	<b>9,162,874</b>	6,080,743	11,771,771
Advances to vendors	<b>1,960,543</b>	2,496,604	2,862,754
Prepayments	<b>338,731</b>	47,418	270,469
Withholding tax receivable (note 12.2)	-	624,569	570,626
Insurance claim receivable	<b>262,133</b>	101,052	3,122,706
Other receivable	<b>127,575</b>	205,587	271,331
Due from related parties (note 17)	-	667	5,073
	<b><u>11,851,856</u></b>	<b><u>9,556,640</u></b>	<b><u>18,874,730</u></b>

The Company has one customer (OPWP) which accounts for the trade receivables balance as at 30 June 2019 (31 December 2018 and 30 June 2018 - one customer).

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**12 Trade and other receivables (continued)**

12.1 *Trade receivable*

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Gross trade receivable	<b>9,170,664</b>	6,088,533	11,778,387
Allowance for impairment	<b>(7,790)</b>	(7,790)	(6,616)
	<b><u>9,162,874</u></b>	<b><u>6,080,743</u></b>	<b><u>11,771,771</u></b>

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

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

**13 Cash and bank balances**

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Cash in hand	<b>282</b>	521	231
Cash at bank	<b>8,609,112</b>	6,749,544	3,053,535
Deposits at call (original maturity of less than 3 months)	<b>-</b>	1,348,200	1,557,802
Cash and cash equivalents	<b><u>8,609,394</u></b>	<b><u>8,098,265</u></b>	<b><u>4,611,568</u></b>
Fixed term deposits (3 to 6 months) and DSRA	<b><u>20,267,160</u></b>	<b><u>19,325,840</u></b>	<b><u>21,592,694</u></b>

*Debt Service Reserve Account (Restricted cash)*

As at 30 June 2019, 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 16,426,531 (31 December 2018: RO 14,750,065 and 30 June 2018 RO 15,966,170). The fixed term deposits of RO 20,267,160 (31 December 2018: RO 19,325,840) have a weighted average interest rate of 2.19% per annum (31 December 2018: 2.43% per annum).

13.1 *Reconciliation of liabilities arising from financing activities*

	<b>1 January 2019 RO</b>	<b>Cash flows RO</b>	<b>Non-cash items (unamortised transaction cost) RO</b>	<b>30 June 2019 RO</b>
Long term loans (notes 6 and 18)	<b><u>195,378,572</u></b>	<b><u>(7,848,497)</u></b>	<b><u>417,133</u></b>	<b><u>187,947,208</u></b>
	<b>1 January 2018 RO</b>	<b>Cash flows RO</b>	<b>Non-cash items (unamortised transaction cost) RO</b>	<b>31 December 2018 RO</b>
Long term loans (notes 6 and 18)	<b><u>209,906,910</u></b>	<b><u>(15,414,679)</u></b>	<b><u>886,341</u></b>	<b><u>195,378,572</u></b>
	<b>1 January 2018 RO</b>	<b>Cash flows RO</b>	<b>Non-cash items (unamortised transaction cost) RO</b>	<b>30 June 2018 RO</b>
Long term loans (notes 6 and 18)	<b><u>209,906,910</u></b>	<b><u>(6,634,521)</u></b>	<b><u>451,417</u></b>	<b><u>203,723,806</u></b>

**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

28

**14 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.

The details of Shareholders are as follows:

<b>Unaudited</b>		<b>30 June 2019</b>		
	<b>Nationality</b>	<b>Number of shares held of nominal value 100 baiza each</b>	<b>% of total</b>	<b>Aggregate nominal value of shares held RO</b>
(SOFIH)	British Virgin Island	381,828,780	40.00%	38,182,878
(IPWC)	Oman	125,431,511	13.14%	12,543,151
Public		447,311,659	46.86%	44,731,166
		<u>954,571,950</u>	<u>100.00%</u>	<u>95,457,195</u>
<b>Audited</b>		<b>31 December 2018</b>		
	<b>Nationality</b>	<b>Number of shares held of nominal value 100 baiza each</b>	<b>% of total</b>	<b>Aggregate nominal value of shares held RO</b>
(SOFIH)	British Virgin Island	381,828,780	40.00%	38,182,878
(IPWC)	Oman	125,431,511	13.14%	12,543,151
Public		447,311,659	46.86%	44,731,166
		<u>954,571,950</u>	<u>100.00%</u>	<u>95,457,195</u>
<b>Unaudited</b>		<b>30 June 2018</b>		
	<b>Nationality</b>	<b>Number of shares held of nominal value 100 baiza each</b>	<b>% of total</b>	<b>Aggregate nominal value of shares held RO</b>
(SOFIH)	British Virgin Island	381,828,780	40.00%	38,182,878
(IPWC)	Oman	125,431,511	13.14%	12,543,151
Public		447,311,659	46.86%	44,731,166
		<u>954,571,950</u>	<u>100.00%</u>	<u>95,457,195</u>

*(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 10).

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**15 Trade and other payables**

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Interest payable	<b>2,965,613</b>	3,637,558	3,716,068
Accrued expenses and other payable	<b>2,699,970</b>	1,676,969	1,806,288
Trade payable	<b>2,528,751</b>	211,700	2,050,278
Provisions	<b>934,292</b>	1,261,056	1,293,118
Due to related parties (note 17)	<b>853,766</b>	980,263	1,477,974
Withholding tax payable	<b>-</b>	1,356,902	788,999
	<b><u>9,982,392</u></b>	<b><u>9,124,448</u></b>	<b><u>11,132,725</u></b>

**16 Income tax**

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 531,285 [31 December 2018: RO (747,633) and 30 June 2018: RO (840,182)] has been recognised directly in equity in respect of the changes in fair values of interest rate swaps (note 10).

	<b>Unaudited 30 June 2019 RO</b>	<b>Unaudited 30 June 2018 RO</b>
(a) <i>Recognised in profit or loss</i>		
Deferred tax expense for the period	<b><u>1,427,114</u></b>	<b><u>1,542,895</u></b>

(b) *Reconciliation*

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

	<b>Unaudited 30 June 2019 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Profit before tax	<b><u>9,497,010</u></b>	<b><u>8,757,701</u></b>
Income tax as per rates mentioned above	<b>(1,424,552)</b>	(1,313,655)
Expenses not deductible for tax	<b>(2,562)</b>	(113)
Change in recognised temporary differences	<b>-</b>	(229,127)
Deferred tax expense for the year	<b><u>(1,427,114)</u></b>	<b><u>(1,542,895)</u></b>

**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

30

**16 Income tax (continued)**

*(d) Deferred tax asset (liability)*

Unaudited As at June 2019	At 1 January RO	Recognised during the period RO	At 30 June RO
<b>Charged to profit or loss</b>			
Property, plant and equipment	(21,691,180)	(648,659)	(22,339,839)
Provision for asset retirement obligation	31,691	3,127	34,818
Lease liability	-	2,113	2,113
Tax losses	2,086,751	(783,695)	1,303,056
	<u>(19,572,738)</u>	<u>(1,427,114)</u>	<u>(20,999,852)</u>
<b>Deferred tax recognised in equity</b>			
Derivative financial instruments	1,413,826	531,285	1,945,111
Deferred tax liability (net)	<u>(18,158,912)</u>	<u>(895,829)</u>	<u>(19,054,741)</u>

Audited As at December 2018	At 1 January RO	Recognised during the year RO	At 31 December RO
<b>Charged to profit or loss</b>			
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
	<u>(16,604,529)</u>	<u>(2,968,209)</u>	<u>(19,572,738)</u>
<b>Deferred tax recognised in equity</b>			
Derivative financial instruments	2,161,459	(747,633)	1,413,826
Deferred tax liability (net)	<u>(14,443,070)</u>	<u>(3,715,842)</u>	<u>(18,158,912)</u>

Unaudited As at June 2018	At 1 January RO	Recognised during the period RO	At 30 June RO
<b>Charged to profit or loss</b>			
Property, plant and equipment	(19,637,095)	(1,211,265)	(20,848,360)
Provision for asset retirement obligation	26,740	2,183	28,923
Tax losses	3,005,826	(333,813)	2,672,013
	<u>(16,604,529)</u>	<u>(1,542,895)</u>	<u>(18,147,424)</u>
<b>Deferred tax recognised in equity</b>			
Derivative financial instruments	2,161,459	(840,182)	1,321,277
Deferred tax liability (net)	<u>(14,443,070)</u>	<u>(2,383,077)</u>	<u>(16,826,147)</u>

(d) The cumulative tax losses up to 30 June 2019 in the amount of RO 8,687,037 (31 December 2018 – RO 13,911,674 and 30 June 2018 RO 17,813,420) 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.

*(e) Status of prior year returns*

The Company's assessment for the tax years 2014 to 2018 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 30 June 2019.



**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**17 Related party transactions**

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

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

No expenses have been recognised in the year for bad or doubtful debts in respect of amounts owed by related parties (30 June 2018: 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 period:

	<b>Unaudited 30 June 2019 RO</b>	<b>Unaudited 30 June 2018 RO</b>
<i>Sembcorp Industries Limited (SIL)</i>		
- Reimbursement of expenses	<b>1,460</b>	36,002
<i>Sembcorp Salalah O&amp;M Services Company LLC (SSOM)</i>		
- Operation and maintenance cost	<b>3,595,495</b>	3,064,040
- Incentive payment	<b>235,778</b>	165,715
<i>Oman Investment Corporation (OIC)</i>		
- Reimbursement of expenses	-	2,400

Balances due to related parties at the period end comprised:

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
SSOM	<b>853,766</b>	980,263	1,463,835
SIL	-	-	14,139
	<b>853,766</b>	980,263	1,477,974
Balances due from related parties at the period/year end comprised:			
SIL	-	667	5,073

**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:

**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

32

**17 Related party transactions (continued)**

**Key management benefits (continued)**

	<b>Unaudited 30 June 2019 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Directors' remuneration	<b>49,100</b>	44,750
Directors' sitting fees	<b>15,500</b>	12,250
Short term employee benefits	<b>239,160</b>	158,372
Social security and gratuity	<b>11,398</b>	12,572
	<b>315,158</b>	227,944

Compensation of some of the Key management personnel has been paid through Sembcorp Salalah O&M Services Co. LLC of RO 165,059 (30 June 2018: RO 128,529).

**18 Term loans**

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Non-current			
Project financing loan (USD)	<b>158,135,020</b>	164,632,437	171,901,134
Project financing loan (Rials)	<b>32,882,760</b>	34,233,840	35,745,300
	<b>191,017,780</b>	198,866,277	207,646,434
Less: Unamortised transaction cost	<b>(3,070,572)</b>	(3,487,705)	(3,922,628)
	<b>187,947,208</b>	195,378,572	203,723,806
Less: Current portion of term loans	<b>(23,997,209)</b>	(20,270,583)	(16,628,654)
	<b>163,949,999</b>	175,107,989	187,095,152

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*

- (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 unfavorable interest rate changes.

The margins are indicated below:

- (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.

	<b>Margin (% per annum)</b>
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%

**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

33

**18 Term loan (continued)**

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

<b>Period</b>	<b>Margin (% per annum)</b>
From financial close to the third anniversary of financial close	<u>8.00%</u>
From the third anniversary of financial close to the fifth anniversary of financial close	<u>7.00%</u>
From the fifth anniversary of financial close to the sixth anniversary of financial close	<u>4.25%</u>
From the sixth anniversary of financial close to the ninth anniversary of financial close	<u>5.75%</u>

*Other fees*

The Company was required to pay front end fees to the Mandated Lead Arranger. In addition, the Company paid commitment fees at 1.3% of undrawn Dollar Commercial facilities and Sinasure Covered facilities and 0.4% of undrawn Rial Omani facilities. As at 30 June 2019, 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.

**19 Long term lease liability**

On adoption of IFRS 16, the Company recognised lease liabilities in relation to lease of land which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate 6.5% as of 1 January 2019.

	<b>30 June 2019 RO</b>	<b>30 June 2018 RO</b>
Land	<u>447,528</u>	<u>-</u>
<b>Maturity profile 31 March 2019</b>	<b>Total minimum lease payments RO</b>	<b>PV of minimum Lease payment RO</b>
More than 5 years	<u>1,794,832</u>	<u>447,528</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**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:

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
At 1 January	<b>604,528</b>	571,527	571,527
Provision made during the period/ year	<b>20,850</b>	33,001	14,551
At 30 June	<b>625,378</b>	604,528	586,078

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% (31 December 2018: 6.5%; 30 June 2018 – 6.5%).

**21 Financial risk management**

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.

**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

35

**21 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	Unaudited 30 June 2019 RO	Audited 31 December 2018 RO	Unaudited 30 June 2018 RO
<b>Financial assets</b>				
Fixed term cash deposit	2.19%	<b>20,267,160</b>	19,325,840	21,592,694
<b>Financial liabilities</b>				
<i>Term loan</i>				
- USD variable rate loans	Libor + 3%	<b>(87,831,070)</b>	(91,439,854)	(95,477,020)
- USD variable rate loans	Libor + 2.85%	<b>(70,303,950)</b>	(73,192,583)	(76,424,114)
- RO fixed rate loans	5.75%	<b>(32,882,760)</b>	(34,233,840)	(35,745,300)
		<b>(191,017,780)</b>	(198,866,277)	(207,646,434)

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

	Equity					
	Unaudited 30 June 2019		Audited 31 December 2018		Unaudited 30 June 2018	
	100 bps Increase RO	100 bps Decrease RO	100 bps Increase RO	100 bps Decrease RO	100 bps Increase RO	100 bps Decrease RO
Interest rate swap	<b>6,233,345</b>	<b>(6,233,345)</b>	6,762,918	(6,762,918)	7,469,991	(7,469,991)

*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 2019.

*(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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**21 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:

	Unaudited 30 June 2019 RO	Audited 31 December 2018 RO	Unaudited 30 June 2018 RO
<b>Classified as loans and receivables</b>			
Fixed term cash deposits (3 to 6 months)	20,267,160	19,325,840	21,592,694
Cash and cash equivalents	8,609,112	8,097,744	4,611,337
Trade receivable	9,170,664	6,088,533	11,778,387
Other receivable	127,575	830,156	841,957
Insurance claim receivable	262,133	101,052	3,122,706
Due from related parties	-	667	5,073
	<b>38,436,644</b>	<b>34,443,992</b>	<b>41,952,154</b>

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	Unaudited 30 June 2019 RO	Audited 31 December 2018 RO	Unaudited 30 June 2018 RO
<b>Bank balances</b>				
Bank Muscat SAOG	NP	7,997,432	6,387,733	2,399,306
Bank of China	P-1	611,680	361,811	654,229
		<b>8,609,112</b>	<b>6,749,544</b>	<b>3,053,535</b>
<b>Fixed term deposits</b>				
Bank Muscat SAOG	NP	2,625,000	2,300,000	2,550,000
Bank of China	P-1	17,642,160	18,374,040	20,600,496
		<b>20,267,160</b>	<b>20,674,040</b>	<b>23,150,496</b>
<b>Trade receivables</b>				
<b>OPWP</b>	<b>Baa3</b>	<b>9,170,664</b>	<b>6,088,533</b>	<b>11,778,387</b>

**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

37

**21 Financial risk management (continued)**

*(b) Credit risk (continued)*

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

	<b>Unaudited 30 June 2019</b>		<b>Audited 31 December 2018</b>		<b>Unaudited 30 June 2018</b>	
	<b>RO</b>	<b>Allowance for impairment</b>	<b>RO</b>	<b>Allowance for impairment</b>	<b>RO</b>	<b>Allowance for impairment</b>
Not past dues	<b>7,401,358</b>	<b>(7,790)</b>	6,904,024	(7,790)	15,741,507	6,616
Past due 0 to 3 months	<b>2,159,014</b>	<b>-</b>	15,332	-	-	-
	<b>9,560,372</b>	<b>(7,790)</b>	6,919,356	(7,790)	15,741,507	6,616

*(c) Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company limits its liquidity risk by ensuring bank facilities and shareholders' advances are available, where required. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

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

**SEMBCORP SALALAH POWER & WATER COMPANY SAOG**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

38

**21 Financial risk management (continued)**

(c) *Liquidity risk (continued)*

	<b>Cash flows</b>				
	<b>Carrying amount</b>	<b>Contractual cash flow</b>	<b>Less than 1 year</b>	<b>More than 1 to 5 years</b>	<b>More than 5 years</b>
<b>30 June 2019(Unaudited)</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
<b>Derivatives</b>					
Interest rate swaps used for hedging	12,967,405	(13,609,739)	(2,201,297)	(9,757,612)	(1,650,830)
<b>Non-derivative financial liabilities</b>					
Term loans	187,947,208	(228,382,343)	(31,505,234)	(129,146,469)	(67,730,640)
Trade and other payables	9,982,392	(9,982,392)	(9,982,392)	-	-
Long term lease liability	447,528	(1,794,832)	-	-	(1,794,832)
	<u>211,344,533</u>	<u>(253,769,306)</u>	<u>(43,688,923)</u>	<u>(138,904,081)</u>	<u>(71,176,302)</u>
<b>31 December 2018</b>					
<b>Derivatives</b>					
Interest rate swaps used for hedging	9,425,509	(10,289,625)	(1,734,145)	(7,062,691)	(1,492,789)
<b>Non-derivative financial liabilities</b>					
Term loans	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)	-	-
	<u>213,928,529</u>	<u>(265,578,337)</u>	<u>(39,495,530)</u>	<u>(141,761,625)</u>	<u>(84,321,182)</u>
<b>30 June 2018 (Unaudited)</b>					
<b>Derivatives</b>					
Interest rate swaps used for hedging	8,808,514	(9,401,278)	(1,976,601)	(5,728,281)	(1,696,396)
<b>Non-derivative financial liabilities</b>					
Term loans	203,723,806	(263,742,652)	(25,139,524)	(138,953,767)	(99,649,361)
Trade and other payables	11,132,725	(11,132,725)	(11,132,725)	-	-
	<u>223,665,045</u>	<u>(284,276,655)</u>	<u>(38,248,850)</u>	<u>(144,682,048)</u>	<u>(101,345,757)</u>

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



**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**21 Financial risk management (continued)**

*(d) 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.
- (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 contracts.

*(e) 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)

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Debt (Long-term loan)	<b>187,947,208</b>	195,378,572	203,723,806
Equity (Shareholders' funds)	<b>111,225,110</b>	106,400,759	109,175,718
Debt to equity ratio (times)	<b>1.69</b>	1.84	1.87

*(f) Fair value of financial instruments*

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

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

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

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018 (continued)**

**21 Financial risk management (continued)**

(f) Fair value of financial instruments (continued)

			Carrying amount		
	Fair value - hedging instrument	Financial assets at amortised cost	Other financial liabilities at amortised cost	Total	
	RO	RO	RO	RO	
<b>30 June 2019</b>					
<b>Financial assets not measured at fair value</b>					
Trade and other receivables	-	9,552,582	-	9,552,582	
Cash and bank balances	-	28,876,554	-	28,876,554	
	-	38,429,136	-	38,429,136	
<b>Financial liabilities measured at fair value</b>					
Derivative instruments	(12,967,405)	-	-	(12,967,405)	
<b>Financial liabilities not measured at fair value</b>					
Term loan	-	-	(187,947,208)	(187,947,208)	(187,947,208)
Trade and other payables	-	-	(9,982,392)	(9,982,392)	(9,982,392)
Lease liability	-	-	(447,528)	(447,528)	(447,528)
			(197,482,072)	(197,482,072)	(197,482,072)
<b>31 December 2018</b>					
<b>Financial assets not measured at fair value</b>					
Trade and other receivables	-	7,012,618	-	7,012,618	
Cash and bank balances	-	27,424,105	-	27,424,105	
	-	34,436,723	-	34,436,723	
<b>Financial liabilities measured at fair value</b>					
Derivative instruments	(9,425,509)	-	-	(9,425,509)	
<b>Financial liabilities not measured at fair value</b>					
Term loan	-	-	(195,378,572)	(195,378,572)	(195,378,572)
Trade and other payables	-	-	(9,124,448)	(9,124,448)	(9,124,448)
	-	-	(204,503,020)	(204,503,020)	(204,503,020)
<b>30 June 2018</b>					
<b>Financial assets not measured at fair value</b>					
Trade and other receivables	-	15,741,507	-	15,741,507	
Cash and cash equivalents	-	26,204,262	-	26,204,262	
	-	41,495,769	-	41,495,769	
<b>Financial liabilities measured at fair value</b>					
Derivative instruments	(8,808,514)	-	-	(8,808,514)	
<b>Financial liabilities not measured at fair value</b>					
Term loan	-	-	(203,723,806)	(203,723,806)	(203,723,806)
Trade and other payables	-	-	(11,132,725)	(11,132,725)	(11,132,725)
	-	-	(214,856,531)	(214,856,531)	(214,856,531)

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**22 Commitments**

*(a) Performance guarantees*

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Performance guarantees	<u>1,540,800</u>	<u>1,540,800</u>	<u>1,540,800</u>

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 follows:

	<b>Unaudited 30 June 2019 RO</b>	<b>Audited 31 December 2018 RO</b>	<b>Unaudited 30 June 2018 RO</b>
Due:			
Not later than one year	770,400	770,400	770,400
Later than one year but not later than five years	3,081,600	3,081,600	3,081,600
Later than five years	<u>2,234,160</u>	<u>2,619,360</u>	<u>3,004,560</u>
	<u><b>6,086,160</b></u>	<u><b>6,471,360</b></u>	<u><b>6,856,560</b></u>

*(c) Capital Commitments*

Total capital commitments as at 30 June 2019 are in the amount of RO 736,298 (31 December 2018: RO 1,109,999).

**23 Basic and diluted earnings per share**

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

	<b>Unaudited 30 June 2019</b>	<b>Unaudited 30 June 2018</b>
Profit for the period (RO)	<u>8,069,896</u>	<u>7,214,806</u>
Weighted average number of shares outstanding during the year	<u>954,571,950</u>	<u>954,571,950</u>
Earnings per share - Basic and diluted (RO)	<u><b>0.0085</b></u>	<u><b>0.0076</b></u>

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

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2019 (continued)**

**24 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.

	<b>Unaudited 30 June 2019</b>	<b>Audited 31 December 2018</b>	<b>Unaudited 30 June 2018</b>
Net assets - Shareholders' funds (RO)	<b>111,225,110</b>	106,400,759	109,175,718
Number of shares at the end of the year	<b>954,571,950</b>	954,571,950	954,571,950
Net assets per share (RO)	<b>0.117</b>	0.111	0.114

**25 Investors' Trust Fund**

Record of Investors Trust Fund indicates that the amount of RO 47,831 have not been claimed from the Company by the shareholders as at 30 June 2019.

**26 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.

**27 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 (IFRS 16) as such arrangements convey the right to use the assets. Management further determined that such arrangement in substance represents an operating lease. The lease commenced on 25 May 2012. The following is the total of future minimum lease receipts expected to be received under PWPA:

	<b>30 June 2019 RO</b>	<b>30 June 2018 RO</b>
Due:		
Not later than 1 year	<b>43,257,954</b>	43,142,996
Not later than 2 years	<b>43,142,996</b>	43,257,954
Not later than 3 years	<b>43,142,996</b>	43,142,996
Not later than 4 years	<b>43,142,996</b>	43,142,996
Not later than 5 years	<b>43,257,954</b>	43,142,996
Later than five years	<b>117,784,505</b>	161,042,458
	<b>333,729,398</b>	376,872,394

**28 Dividend**

On 12 March 2019, in an Annual General Meeting, Shareholders approved 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.

Independent auditors' review report – page 1.