Sembcorp Salalah
سيمبكورب صلالة

IMS (ISO 9001, ISO 14001
& OHSAS 18001)

ANNUAL REPORT 2014

Investments for life

His Majesty Sultan Qaboos Bin Said

Contents

Board of Directors

Tang Kin Fei
Chairman

Kalat Al Bulooshi
Deputy Chairman

Abdul Amir Saied Mohammed
Non-Executive Director

Hassan Al Nassay
Independent
Non-Executive Director

Richard Quek Hong Liat
Non-Executive Director

Tan Cheng Guan
Non-Executive Director

Ng Meng Poh
Non-Executive Director

Tariq Ali Salim Al Amri
Independent Non-Executive Director

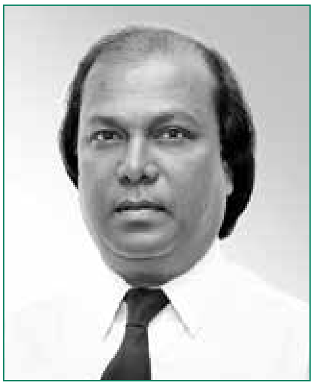
Ahmed Ali Sulaiman Al Bulooshi
Independent
Non-Executive Director

Executive Management

Lim Yeow Keong
Chief Executive Officer

Tariq Bashir
Acting Financial Controller and Company Secretary

Leonilo Barre Caraos
Plant Manager



Cyril Samuel
Corporate Services Head

Salim Mohammed Al Mashikhi
Human Resource Manager

Chairman's Report

Dear Shareholders,

On behalf of the Board of Directors of Sembcorp Salalah Power & Water Company SAOG (Sembcorp Salalah or Company), I have the pleasure to present the audited financial statements for the year ended 31 December 2014.

Health, Safety & Environment (HSE)

We aim to achieve world class health and safety performance and our management team is committed to continuously improving the Company's health and safety performance. In addition, the Company undertakes its activities with the deepest respect to the environment. It is fully committed to promoting and maintaining the highest HSE standards in all of its activities, managing environmental risks relating to our business and minimising our impact on the environment.

In this regard, I am pleased to inform our shareholders that in 2014 the Company has been accredited to ISO 9001:2008 (quality management system), ISO 14001:2004 (environmental management system) and OHSAS 18001:2007 (occupational health and safety management system). Sembcorp Salalah is the first utility company in Dhofar to achieve international accreditation for its integrated management systems.

I am also pleased to report that we achieved 1 million safe man-hours since the start of January 2014. The Company's HSE performance was excellent with no lost time incidents and no environmental violations.

Operations

Sembcorp Salalah is a key power and water producer in the Dhofar region. By the end of 2014, the Company was supplying approximately 60% of the region's power demand and 100% of its desalinated water demand. The management of the Company strives to achieve highest level of plant availability and reliability, which is crucial to the ongoing success of the Company. I am pleased to report that the Company continues to outperform its targets in these areas, to the benefit of both our customers and our shareholders.

Financial Results

Sembcorp Salalah generated a net profit of RO 12.81 million for the year 2014, compared to RO 11.14 million in 2013, registering an increase of RO 1.67 million. Cash flows and profits were better than the Company's IPO projections mainly because of operational efficiencies and a one off net liquidated damage income. The Company has a strong balance sheet, ending the year with net assets of RO 78.27 million.

The Company's Management also reached an amicable settlement regarding delay claims with the Oman Power and Water Procurement Company (OPWP) and its engineering, procurement and construction contractor, SEPCOIII. The net settlement is in favor of Sembcorp Salalah, which will compensate the Company for the losses incurred in 2012 as a result of delay in construction.

I invite you to refer to the Management Discussion and Analysis Report section of the Annual Report for further explanations regarding the financial results.

Following a strong performance this year, the Board of Directors is pleased to recommend a final dividend for 2014 of baizas 42 per share. Together with the interim dividend of baizas 92 per share distributed in November 2014, the total dividend for the company for the year amounts to baizas 134 per share, which is 16% higher than the Company's IPO projections.

Our strong performance has also been recognised in the industry. Sembcorp Salalah was named the top five best performing listed companies in Oman based on our FY2013 results by an established business magazine, Alam al-Iktisaad Wal A'mal.

Corporate Governance

The Board believes that a business built on the principles of good governance is more likely to succeed over the long term. We are in compliance with the recommended Code of Corporate Governance from the Oman Capital Market Authority. More details can be found in the Corporate Governance Section of this report.

Corporate Social Responsibility

The Company has signed a Memorandum of Understanding (MOU) with the Wali of Mirbat to reinforce its commitment on corporate social responsibility towards the local communities. According to the MOU, the Company will set aside RO 32,000 per year of funding for a period of five years starting in 2014, to cover projects which will benefit the public in the Mirbat area. The Company has spent RO 32,000 during the year to improve the schools in Mirbat and Tawi Attair areas.

On Record

As the Chairman of the Board, I would like to thank my fellow directors, our shareholders, our client (OPWP) regulators , (the Authority for Electricity Regulation, the Capital Market Authority), and our partners (the Ministry of Environment & Climate Affairs, the Oman Electricity Transmission Company, Directorate General of Water and other governmental and non-governmental bodies) for their guidance and support. I also thank all of our staff and the staff of our operator, Sembcorp Salalah O&M Services, for their effort and commitment in what has been a landmark year for the Company.

Finally, on behalf of the Board of Directors I would like to extend our deep appreciation and gratitude to His Majesty Sultan Qaboos Bin Said and his government for their continued support and encouragement to the private sector, with the creation of an environment that allows us to participate in the growth of the Sultanate's economy. We believe that the current business environment is building a stronger Oman for the future, and look forward to continue playing our part in the growth of Oman and in particular, the Dhofar region.

Tang Kin Fei

Chairman of the Board

Operational Highlights

Health, Safety & Environment (HSE)

In 2014, Sembcorp Salalah was accredited to ISO 9001:2008 (quality management system), ISO 14001:2004 (environmental management system) and OHSAS 18001:2007 (occupational health and safety management system). Sembcorp Salalah's integrated management system (IMS) incorporates Quality, Environmental (EMS), and Safety (OHS) management systems into a single system, so that similar processes are seamlessly managed and executed without duplication. IMS components common to all systems include resources (people, facilities and equipment, etc.) and processes (documented in the QMS/EMS/OHS and applied throughout the organisation).

During a year in which the staff of Sembcorp Salalah and Sembcorp Salalah O&M Services worked over 635,828 man-hours, Sembcorp Salalah is pleased to announce that we have no lost time incidents or environmental violations. We also achieved one million safe man-hours since January 2014.

The Company has also re-enforced the safety features in our plant by adding protective barriers around all our Energy Recovery Systems in the desalination plant.

Capacity

With five gas turbines and two steam turbines, the contracted power capacity of the Sembcorp Salalah Independent Water and Power Plant (the Plant) is 445 Megawatts (MW), although performance tests confirm a higher capacity at 490 MW. The Plant's water production is based on a seawater reverse osmosis process and the contracted water production capacity is 15 million imperial gallons per day (MiGD).

Availability

The availability of a plant is the amount of time it is technically capable of generating power and water according to its specifications. According to its Power and Water Purchase Agreement (PWPA), Sembcorp Salalah is allowed to take 15% planned outage in winter and none in summer for power, and 5% for water throughout the year.

The availability for Sembcorp Salalah in 2014 was better than contracted at 90% for power and 96.8% for water.

Reliability

The reliability of a plant is its ability to deliver its declared availability under the terms of its PWPA. In 2014, Sembcorp Salalah achieved its best reliability statistics to date with a combined plant annual reliability of about 99.7%.

Plant Energy Efficiency (Heat Rate)

The energy efficiency of a power plant is measured in terms of the amount of energy required to produce one unit of power. Sembcorp Salalah's Heat Rate performance in 2014 was better than that contracted in the PWPA and the Company's IPO projections, which contributed to better profitability.

Maintenance

Annual maintenance on all five gas turbines and two steam turbines was carried out during 2014. Sembcorp Salalah completed our first Hot Gas Path Inspection of one gas turbine and combustion inspections of the remaining two gas turbines during the year. No major abnormality was observed. The Company continues to explore ways to improve plant operation and efficiency. In July 2014, the power and water plant auxiliary power supply automatic changeover was successfully implemented to reduce grid power import during normal operation. In addition, the Company continues to work with our contractors to rectify warranty defects and complete punch list items.

Awards

In June 2014, Sembcorp Salalah was named the Top Five Best Performing Omani Companies (Large Cap) at the Alam al-Iktisaad Wal A'mal (AIWA) Awards. AIWA, a leading Arabic business publication, initiates an annual survey to identify the best performing Muscat Securities Market listed companies, and to recognise organisations excelling in growth and efficiency.

A special report on the awards published by AIWA in 2014 reads: "Sembcorp Salalah makes its maiden entry to AIWA Awards by taking up the second position. The company has developed, financed, built, owns and operates the Salalah Independent Water and Power Plant in Oman. The power plant is the largest and most energy-efficient power and water plant in the Dhofar region. Sembcorp Salalah has also returned the best Topline Growth and Earnings Growth in the large cap segment."

With sixty-four companies participating in the survey, competition was keen for the top five positions in each of the three segments (large cap, mid cap and small cap). Companies were judged based on their financial performance in 2013. For consistent performance in most of the judging parameters, Sembcorp Salalah emerged second place in the large cap category, competing with four other large cap manufacturing companies for the top five positions this year.

Lim Yeow Keong, CEO of Sembcorp Salalah (Second from right), receiving the award for Top Five Best Performing Omani Companies (Large Cap) at the Alam al-Iktisaad Wal A'mal Awards.

Description of the Company

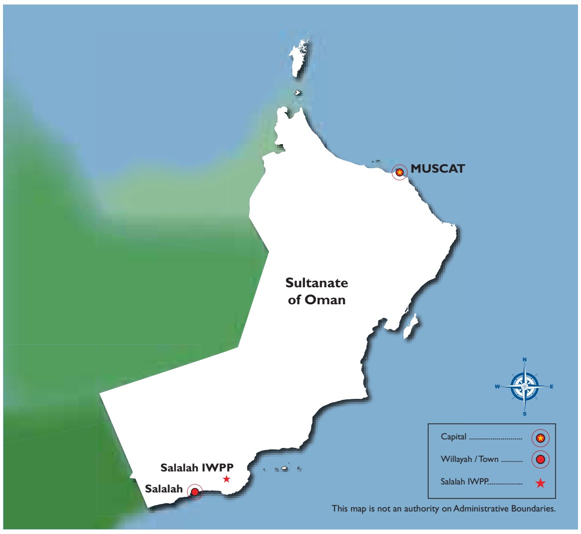
Overview of Sembcorp Salalah

Sembcorp Salalah developed, owns and operates an electricity generation and seawater desalination plant located between the towns of Taqah and Mirbat, approximately 50 kilometres from the regional town of Salalah, home to over 200,000 residents. The Plant has been in full commercial operation since 25 May 2012 and has a contracted power capacity of 445 MW and a contracted water capacity of 15 MiGD.

As the largest and most energy-efficient power and water plant in the Dhofar Governorate, the Plant is expected to play a major role in meeting the growing power and water demand of the region over the short, medium and long term.

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

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



History and Background of Sembcorp Salalah

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

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

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

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

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

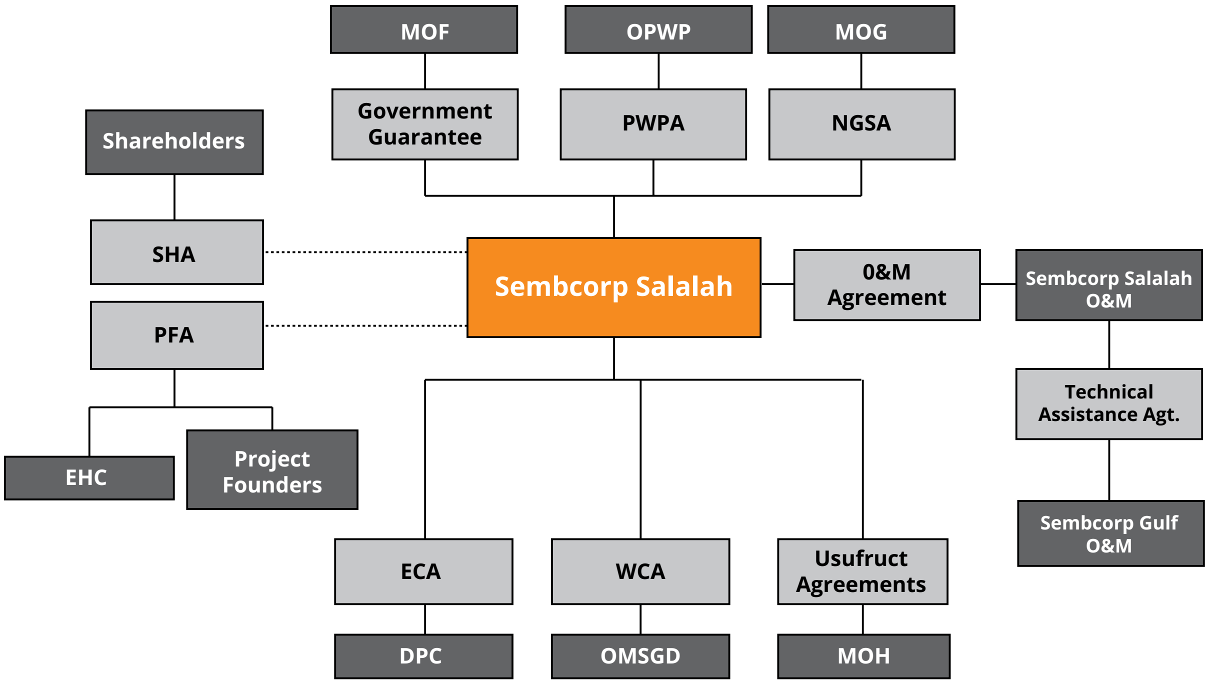
The EPC contractor for the project was SEPCOIII while the EPC supervision and commissioning of the desalination plant was subcontracted to Hyflux. The Plant uses combined cycle gas turbine technology and has dual fuel capability with natural gas as the primary fuel and diesel as a back-up fuel. It also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

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

Summary of Contractual Framework

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

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



Competitive Strengths

Sembcorp Salalah's competitive strengths include:

Strong Predictability of Stable Cash Flows

Under the PWPA, Sembcorp Salalah is entitled to receive capacity charges from OPWP for the contracted power and water capacities of the Plant, which are periodically tested and comprise approximately 90% of the total revenue of Sembcorp Salalah (excluding fuel revenue, which is a pass-through). These capacity charges are payable by OPWP regardless of whether the actual output of the Plant is dispatched by OPWP, and regardless of whether Sembcorp Salalah is instructed by the Dhofar Power Company (DPC) and the Office of the Minister for State and the Governor of Dhofar (OMSGD) to generate and deliver power and/or produce and deliver potable water. This means that, subject to limited exceptions, OPWP is obliged to pay capacity charges to Sembcorp Salalah for 100% of the available power and water capacity of the Plant. Sembcorp Salalah's capacity charges are calculated so that they cover its debt service and other fixed costs, including fixed operating and maintenance costs, insurance costs and capital returns. Fuel revenues and charges are calculated based on the consumption of natural gas calculated by the Plant model for electrical energy and water output delivered and is in effect a virtual pass-through cost. In addition, for the power and water that is made available, OPWP also pays Sembcorp Salalah a variable output charge to cover operating costs. Accordingly, Sembcorp Salalah has strong predictability of stable cash flows that are not affected by the amount of power and water actually required by OPWP as Sembcorp Salalah is also paid on an availability basis.

Well-Established Contractual Framework

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

Government Guarantees Payment Obligations of OPWP under the PWPA due to the Strategic Importance of Both the Industry and Project

The power and water sectors are of high strategic importance to both the Dhofar Governorate and Oman as a whole. The Project is expected to remain critical to the continued supply of electricity and water in the Dhofar Governorate in the long term. According to OPWP, peak demand for electricity in the Salalah System is expected to grow from 468 MW in 2014 to 800 MW by 2020, at an average growth rate of 10% per annum, and water demand in the Salalah/Taqah/Mirbat area is expected to increase at an average rate of nearly 9% per annum. Consequently, the Oman Government, both directly and indirectly participates in and supports the Project:

i) as off-taker under the PWPA, as 100% indirect owner of OPWP;
ii) as supplier, through the Ministry of Oil & Gas, which is responsible for procuring and delivering all natural gas to the Project;
iii) as shareholder, as majority owner of OIC, in turn 100% owner of Inma Power & Water Company (IPWC), which owns a 21.875% interest in Sembcorp Salalah;
iv) as transmission system operator, as 100% indirect owner of Oman Electricity Transmission Company (OETC) and through the OMSGD, which respectively own and operate all power and water transmission facilities in the Dhofar Governorate; and
v) as guarantor, pursuant to the government guarantee (Oman currently has a credit rating of “A” by Standard & Poor’s and “A1” by Moody’s Investor Services), which guarantees the payment obligations of OPWP under the PWPA.

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

Fully Operational Project with Minimal Operating Risk

As the Plant is completed and has been in full commercial operation for over 30 months, Sembcorp Salalah is not exposed to any construction risk. Sembcorp Salalah also benefits from minimal operating risk as its operator, Sembcorp Salalah O&M, is a joint venture indirectly owned by two of the Project Sponsors, Sembcorp Utilities and OIC, creating an alignment of interests which ensures that the Plant is operated efficiently.

Sembcorp Salalah O&M is managed locally and benefits from the procedures and expertise of Sembcorp Utilities, which holds a long track record and expertise in the industry, with facilities of over 5,900 MW of power capacity and over 1,500 MiGD of water in operation or under development globally, is well established in the region, has a demonstrated track record of running similar plants and which holds a significant equity interest in the project.

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

Excess Capacity and Outage Allowance to Ensure an Extended Plant Lifespan

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

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

Mitigation of Fuel Risks

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

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

Extensive Experience of the Project Founders

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

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

Experienced and Skilled Operational Personnel

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

Management is strongly supported by:

- a highly-trained Plant staff of 80 employed by Sembcorp Salalah O&M;
- the O&M Contract entered into with Sembcorp Salalah O&M, a company formed by the Project Founders;
- the Technical Assistance Agreement entered into with Sembcorp Gulf O&M; and
- a long-term maintenance contract with General Electric, the original equipment manufacturer of the gas turbines of the Plant.

Technology and Processes

Description of the Plant

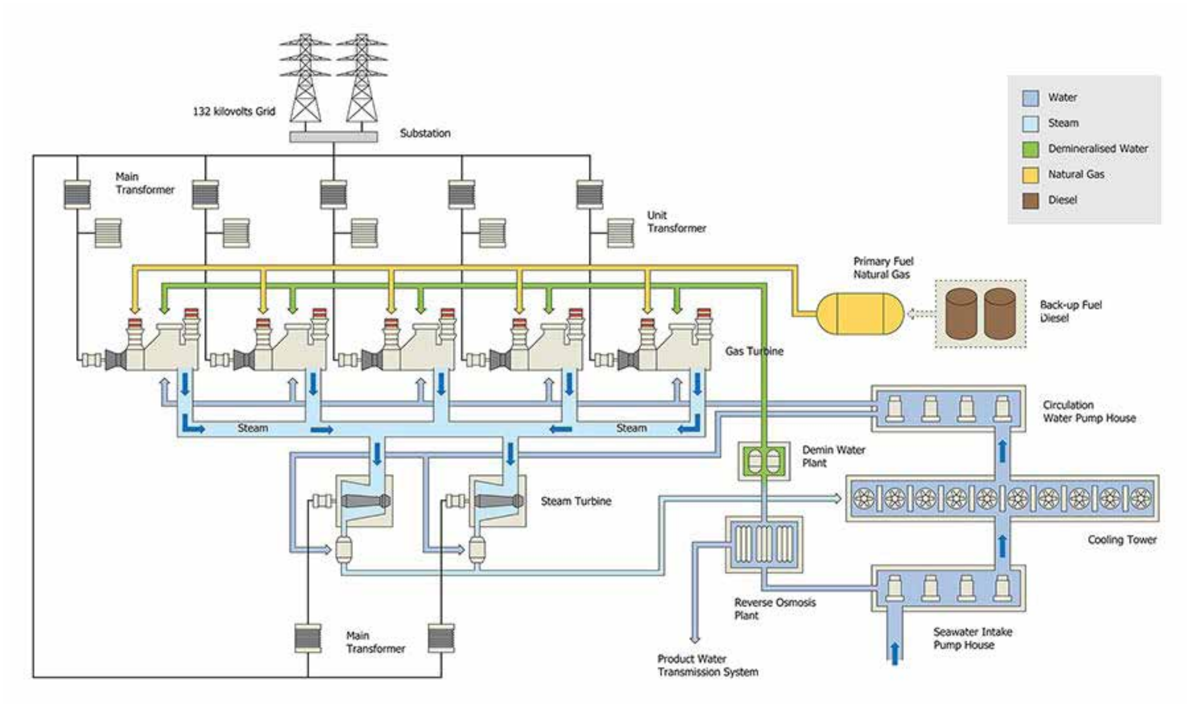
The Plant is an independent power and water plant located between the towns of Taqah and Mirbat, approximately 50 kilometres from Salalah, an administrative town in the Dhofar Governorate.

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

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

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

The following schematic displays the configuration of the Plant:



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

Power Facility

Seawater Reverse Osmosis Desalination Facility

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

Gas Turbines

The five 6FA gas turbines used in the Plant were supplied by General Electric and were selected due to their good record of reliable commercial operation. The 6FA gas turbine is configured with the robust Dry Low NOx system, which is a leading pollution prevention system for 50 hertz combined cycle applications, with greater than 54% efficiency and achieves a concentration of nitrous oxides of approximately 15 parts per million (15 ppm NOx). The 6FA gas turbine can be configured to meet power requirements for mid-size combined cycle or cogeneration plants such as the Plant, where flexible operation and maximum performance are key considerations. The 6FA gas turbine can be arranged in a multi-shaft configuration where one or two gas turbines are combined with a single steam turbine. The 6FA gas turbine burns a variety of fossil fuels, which can be switched after start-up without sacrificing performance.

Revenue Overview

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

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

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

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

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

The fuel charge is calculated based on the consumption of natural gas calculated by the Plant model for electrical energy and water output delivered and is in effect a virtual pass-through cost. Payments are denominated in Omani Rials. The investment charge element of the capacity charge is linked to the OMR-US$ exchange rate. The fixed and variable operation and maintenance charges for power and water are linked to the OMR-US$ exchange rate, a prescribed US inflation rate relating to turbines and generators, and the Omani inflation rate for a portion of the total charge. The PWPA defines the OMR-US$ exchange rate as the mid-rate of the OMR-US$ spot rate as published by the Central Bank of Oman on the last Omani business day of the relevant billing period.

Profile of the Major Shareholders

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

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

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

Sembcorp Utilities is, in turn, a wholly-owned subsidiary of Sembcorp Industries, an energy, water and marine group with an operating history of 50 years, operating in Singapore, Australia, Brazil, Chile, China, India, Indonesia, Norway, Oman, Panama, Philippines, South Africa, Vietnam, United Arab Emirates, United Kingdom, United States and the Caribbean.

Sembcorp Industries was incorporated in 1998 following the merger of Singapore Technologies Industrial Corporation and Sembawang Corporation. Sembcorp Industries is listed on the main board of the Singapore Exchange and is a component stock of the Straits Times Index, several MSCI and FTSE indices. Its largest single shareholder is Temasek Holdings (which is in turn wholly owned by the Minister for Finance, a body constituted under the Singapore Minister for Finance (Incorporation) Act (Chapter 183). The market capitalisation of Sembcorp Industries was approximately S$16 billion as at 31 December 2014.

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

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

IPWC is an Oman-incorporated company and wholly owned subsidiary of OIC, a private equity investment company whose principal activities include identifying, evaluating and executing investments in companies and projects within Oman. OIC's shareholders are Gulf Investment Corporation (50%), the State General Reserve Fund (10%), National Investment Funds Company (35%), and Bank Muscat (5%).

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

For more information in relation to OIC, please visit www.omaninvcorp.com.

Industry Structure and Developments

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

- the Main Integrated System (MIS), which is the largest part of the system and covers the northern area of Oman
- the Salalah System, located in the Dhofar Governorate, of which the Plant's capacity constitutes approximately 60% of the power dispatch and 100% of the net installed water capacity as at the end of 2014.
- the Rural Areas Electricity System, operated by RAECO, which serves the rest of Oman

Oman Power and Water Procurement Company

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

Salalah System

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

- Sembcorp Salalah, contracted for 445 MW electricity generation capacity and 15 MiGD desalinated water capacity;
- New Power Station located in Raysut, operated by DGC (previously owned by Dhofar Power Company (DPC)) comprising eight open cycle gas turbine units with a total net capacity of 276 MW;
- Transmission activities owned by Oman Electricity Transmission Company (OETC), previously owned by DPC; and
- Distribution and supply activities owned by DPC.

OPWP has also announced plans and released tender for a new IPP in Raysut with electricity generation capacity of 300-400 MW alongside restructuring of the existing DPC.

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

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

Salalah System Electricity Demand

According to OPWP, peak demand for electricity in the Salalah System is expected to grow from 468 MW in 2014 to 800 MW by 2020, at an average growth rate of 10% per annum.

Salalah System Water Demand

According to OPWP, the water demand in the Salalah/Taqah/Mirbat area is expected to increase at an average rate of nearly 9% per annum over seven years. The main growth drivers are increasing population and economic development.

Management Discussion and Analysis

We are pleased to present the audited financial statements of Sembcorp Salalah for the year ended 31 December 2014. In 2014, the Company has recorded a profit after tax (PAT) of RO 12.81 million compared to a profit after tax of RO 11.14 million in the corresponding year in 2013, while profit before interest and tax (PBIT) is RO 34.21 million in 2014 compared to RO 38.75 million in 2013.

Business Overview

The Company's core business activity is to provide electricity and water in the region of Dhofar. Contracted capacity for the power plant is 445 MW and for the water plant is 15 MiGD. The Company receives revenue based on the availability of its plant, which ensures that its business model is stable. There are no material changes to the projections included in the Company's IPO prospectus however 2014 profit is higher than profit disclosed in IPO prospectus mainly because of liquidated damages income and better operating performance.

Performance Overview

Operating Performance

The Company has shown strong operating and financial performance in 2014. Currently, the Company is contributing approximately 70% of the total electricity demand and 100% of the desalinated water demand in the Dhofar Governorate. Key operating performance is characterised by high reliability of the power and water plants.

Key operating parameters for the year 2014 are noted below:

	Unit	2014	2013
Water Reliability	(%)	99.4	99.1
Power Reliability	(%)	99.9	99.5
Quantity of Water Sold	(Thousand m^3)	23,653	16,754
Quantity of Power Sold	(MWh)	1,710,976	1,860,152
Plant Load Factor (Power)	(%)	43.9	47.7
Plant Load Factor (Water)[1]	(%)	95.0	67.3

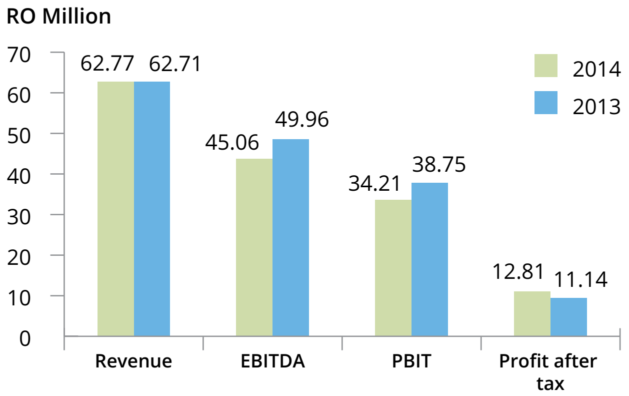
[1] The Company started dispatching water in 1Q2013 when the water transmission system was ready.

Financial Performance

Key financial performance indicators are shown below:

	2014	2013
	RO million	RO million
Revenue	62.77	62.71
EBITDA	45.06	49.96
PBIT	34.21	38.75
Profit after tax	12.81	11.14

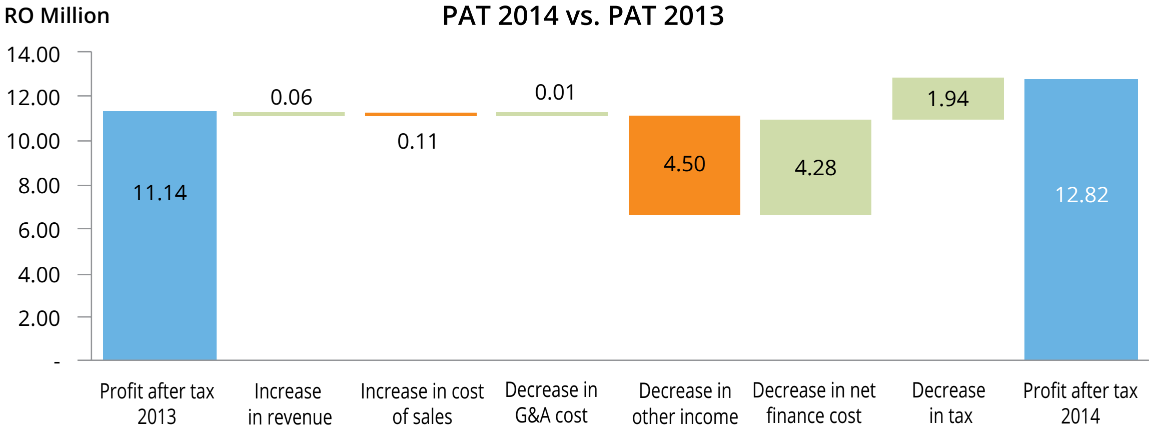
Key financial performance



2014 profit after tax saw significant improvement over 2013 as the Company's cost of debt reduced following the conversion of shareholder loans to equity in July 2013, and a reduction in effective tax rate due to a decrease in the level of tax losses which are forecasted to expire. PBIT and earnings before interest and tax and depreciation allowance (EBITDA) were lower mainly due to a one off gain in 2013 as a result of the write off of interest due to shareholders' loans. This was partially offset by net liquidated damages income of RO 1.5 million which was not included in the projections within the Company's IPO prospectus.

Profit after Tax

Profit after tax (PAT) increased significantly from RO 11.14 million in 2013 to RO 12.81 million in 2014. The significant variances are elaborated in the following waterfall chart.



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

Revenue

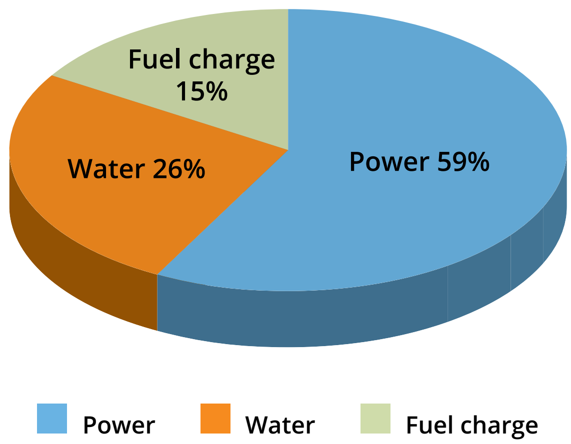
Capacity charges have increased by RO 0.4 million as compared to the previous year mainly due to better operating performance.

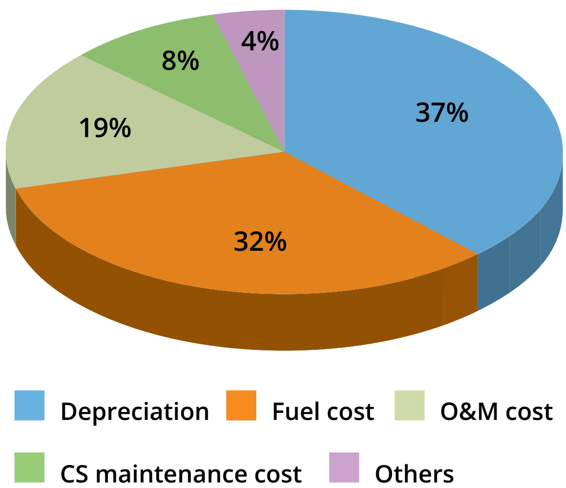
Power contributed 59% (excluding fuel charge) and water contributed 26% to overall revenue. Fuel charge revenue is a pass through and is calculated based on consumption of natural gas calculated by the plant model.

Cost of sales

Cost of sales comprises mainly of depreciation of property, plant and equipment and fuel cost which is pass through in nature.

Analysis of the cost of sales shows an increase in operation and maintenance cost as compared to the last year. This was mainly due to an increase in maintenance cost (as more maintenance activities were undertaken) and higher variable cost, which is based on water plant load factor. On the contrary, cost of sales reduced due to lower depreciation, lower fuel charge (due to lower power plant load factor) and lower Contractual Services (CS) maintenance cost.





Net Finance Cost

Net finance cost decreased in 2014 compared to 2013 due to the conversion of shareholder loans to equity in July 2013. The Company continues to reduce its third party debt in line with its financing documents.

Income Tax

Income tax was lower in 2014 as compared to the previous year mainly because the Company's current year tax losses can be utilised in five years' time and hence deferred tax asset can be recognised on all of the tax losses incurred in the current year. Last year, part of the tax losses were expected to expire and hence no deffered tax asset was recognized on such tax losses.

Dividend

On 16 February 2015, the Board of Directors proposed a final dividend in the amount of Baizas 42 per share giving a total dividend of Baizas 134 per share (2013: Baizas 91 per share) for the year 2014.

Total dividend for the year 2014 is 16% higher than the Company forecast in its IPO prospectus as a result of one off liquidated damages income and operational efficiencies.

Risks and Concerns

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

Business Outlook

Year 2014 has been a good year for Sembcorp Salalah in many fronts. The Company achieved good operating performances (plant reliability more than 99.7%, favourable plant energy efficiency gain, no lost time incidents) and outperformed the financial budget by about 17%. The Company also favorably settled the construction delay claims and was accredited to ISO 9001:2008 (quality management system), ISO 14001:2004 (environmental management system) and OHSAS 18001:2007 (occupational health and safety management system). We hope to carry this positive momentum into 2015. We expect 2015 to be more challenging than 2014 due to head winds from accelerated Omanisation, the on-going push for more salary hikes and increased plant maintenance requirements. We are also exploring refinancing of our senior loans under the prevailing market conditions.

Sustainability - Caring for the Environment & Communities

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

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

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

Maximum Power Generation from Natural Gas

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

The technology employed at the Plant utilises high grade heat from the gas turbine exhausts to generate high pressure steam which powers a steam turbine. As a result of this process, a further 46% of power can be generated for no additional usage of gas.

Low Emissions and Effluent Discharge

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

Chemicals are used in various parts of the generation and production processes. Effluents resulting from chemical usage are collected and treated so that all discharges from the Plant are in compliance with the regulatory limits.

Bulk Chemical and Hazardous Waste Facility

Subsequent to the year 2014, the Company has completed the construction of this facility to more effectively and safely manage all the chemicals and wastes in the plant to minimise leaks and spillages.

Company's Philosophy

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

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

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

The Company also implements responsible environmental practices and procedures. In 2010, prior to the construction of its Plant, Sembcorp Salalah commissioned an environmental impact assessment which included a review of the environmental impact of the Plant on the local community, as well as a social impact management plan, which has been implemented. Sembcorp Salalah is committed to protecting the environment through its stipulated environment management programme and operates within the limits of all applicable environmental legislation. The Company has established green belts within the Plant for environmental rejuvenation and improved aesthetics.

2014 Corporate Social Responsibility (CSR) Initiatives

Sembcorp Salalah has also been involved with various social and community welfare initiatives in collaboration with government departments and non-governmental organisations. These initiatives include sponsorship of the road traffic safety campaign in Oman, assistance and support to handicapped children and the less privileged, and offering an internship programme to the top performing students in local schools and colleges.

In January 2014 the Company also entered into a five year Memorandum of Understanding with the Wali Mirbat to provide RO 32,000 per year for 5 years (total RO 160,000) in support of CSR-related projects in the Mirbat area. The Company has spent RO 32,000 during the year to improve the schools in Mirbat and Tawi Attair areas.

KPMG

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Report to the shareholders of Sembcorp Salalah Power and Water Company SAOG ("the Company") of factual findings in connection with the Corporate Governance report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Company ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007. The Report is set out on pages 32 to 40.

Our engagement was undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Company's application of the provisions of the Code and is free from any material misrepresentation.

Because the Procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose; and we accept no responsibility to any third party. This report relates only to the Report included in the Company's annual report for the year ended 31 December 2014 and does not extend to the financial statements or any other reports of the Company, taken as a whole.

KPMG

16 February 2015

Ahmed Tufail

Corporate Governance Report

As per the guidelines issued by the Capital Market Authorities (CMA) vide their circular 11/2002 dated 3 June, 2002 and the Capital Market Authority Administrative Decision No. 5/2007, the Board and Management of Sembcorp Salalah Power and Water Company presents the Corporate Governance Report for the year ended 31 December 2014.

Company's Philosophy

Sembcorp Salalah firmly believes that good corporate governance is key to delivering long-term shareholder value by adhering to high standards of management, internal controls and accountability.

The Company adheres to the corporate governance code issued by the Capital Market Authority and takes all steps necessary to fulfil the objective of good corporate governance.

The membership of the Company's Board of Directors (the Board) ensures that it is independent whilst it also brings the level of practical and professional expertise required by the Company.

Corporate Governance Activities in 2014

During the year the Board appointed Ahmed Mohammed Abdullah Al Hafidh as internal auditor and also approved the appointment of Pricewaterhouse Coopers to strengthen and support the internal audit function. The Board also endorsed following policies during the year:

Fraud Risk Management Framework;
- Fraud Policy;
- Fraud Control Plan; and
- Whistle-blowing Policy.

The Company's management team established an Enterprise Risk Management (ERM) framework across the Company to manage and mitigate risks. The ERM framework ensures a comprehensive and consistent approach to the identification and management of the risks the Company faces. Risk Management Committee (RMC) was established to ensure that ERM register was updated and that the critical and major risks have been identified and assessed to determine the appropriate type of plans to be implemented. During the year, ERM register was reviewed regularly to ensure that actions associated with reducing risks were being completed according to agreed timescales. An audit was also performed to evaluate that risk controls were operating effectively to mitigate risks.

The Company also implemented a Business Continuity Plan (BCP) detailing how the Company will respond, recover, resume and restore operations to a predefined level following a disruption.

The Board of Directors and Its Committees

The members of the Board were appointed at an Ordinary General Meeting held on 3 November 2013. There is no change in the Board during the year. The Board members and their attendance at the AGM, and the Board meetings are shown below.

Board of Directors		Category	Board meetings				AGM
			24-Feb.	21-Apr.	21-Jul.	21-Oct.	29-Mar.
Tang Kin Fei	Chairman	Non-Executive	✓	✓	✓	✓	-
Kalat Al Bulooshi	Deputy Chairman	Non-Executive	✓	✓	✓	✓	✓
Abdul Amir Said Mohammed	Director	Non-Executive	✓	✓	✓	✓	-
Hassan Al Nassay	Director	Non-Executive and Independent	✓	✓	✓	✓	-
Richard Quek Hong Liat	Director	Non-Executive	✓	✓	✓	✓	-
Tan Cheng Guan	Director	Non-Executive	✓	-	✓	✓	✓
Ng Meng Poh	Director	Non-Executive	✓	✓	✓	-	-
Tariq Al Amri	Director	Non-Executive and Independent	✓	✓	✓	✓	-
Ahmed Al Bulooshi	Director	Non-Executive and Independent	✓	✓	✓	✓	✓

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

Name of Directors	Number of directorships
Ahmed Al Bulooshi	2
Abdul Amir Said Mohammed	2

The Board established three Board Committees and the agreed memberships are as shown below.

Committee	Chairman	Members
Audit Committee	Tariq Al Amri	Richard Quek Hong Liat and Ahmed Al Bulooshi
Nomination Committee	Tang Kin Fei	Tan Cheng Guan and Abdul Amir Said Mohammed
Remuneration Committee	Kalat Al Bulooshi	Ng Meng Poh and Hassan Al Nassay

Audit Committee Meetings

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

Audit Committee Members		Category	Audit Committee meetings				
			8-Jan.	22-Jan.	21-Apr.	21-Jul.	21-Oct.
Tariq Al Amri	Chairman	Non-Executive and Independent	✓	✓	✓	✓	✓
Richard Quek Hong Liat	Director	Non-Executive	✓	✓	✓	✓	✓
Ahmed Al Bulooshi	Director	Non-Executive and Independent	✓	✓	✓	✓	✓

Terms of Reference of the Board Committees

Audit Committee

The Audit Committee (AC) comprises directors who are both independent and non-executive as highlighted above.

Authority and Duties of the AC

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

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

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

External Auditors

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

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

Whistle-Blowing Policy

The AC also oversees the Company's whistle-blowing policy implemented by the Company to strengthen corporate governance and ethical business practices.

Employees are provided with accessible channels to the Company's Internal Auditor and the Sembcorp Group Internal Audit department to report suspected fraud, corruption, dishonest practices or other misdemeanours. The aim of this policy is to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will, to the extent possible, be protected from reprisal.

Nomination Committee

The Nomination Committee (NC) members are highlighted earlier. The NC is charged with the responsibility of ensuring that Sembcorp Salalah's Board is reviewed to ensure strong, independent and sound leadership for the continuous success of the Company. It ensures that the Board has a balance of skills, attributes, background, knowledge and experience in business, finance and related industries, as well as management skills critical to the Company.

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

No meeting of Nomination Committee was held in 2014.

Appointment & Re-Appointment of Directors

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

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

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

Remuneration Committee

The Remuneration Committee (RC) members are highlighted earlier. During the year 2014, only one RC meeting was held on 20 February 2014. The meeting was attended by the Chairman of the committee, Kalat Al Bulooshi and a committee member, Ng Meng Poh. The meeting was held to discuss the terms of reference, directors' remuneration and remuneration of key management personnel.

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

The RC has access to expert professional advice on human resource matters whenever there is a need for such external consultations. In engaging external consultants, the Company ensures that the relationship, if any, between the Company and its external consultants will not affect the independence and objectivity of the external consultants.

Remuneration Matters

The Board of Directors approved the remuneration structure detailed below at its meeting on 2 October 2013.

Directors' Remuneration Structure

In light of the CMA rules and the need to deliver value to shareholders in line with, or better than the projections disclosed in its IPO prospectus, the Company proposes directors' fees and remuneration as follows:

	Amount RO
Remuneration for the year 2013 (approved in AGM 2014)	38,500
Sitting fees for the year 2013 (approved in AGM 2014)	3,000
Sitting fees for the year 2014 (approved in AGM 2014)	21,250
	62,750

In addition, in view of better financial performance for the year 2014, Remuneration Committee and Board of Directors recommended to shareholders to pay RO 84,800 as a bonus for the board members.

Executive Management Remuneration

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

The aggregate remuneration paid to the Company's top five executives (including those paid through Sembcorp Salalah O&M Services) amounted to RO 550,276. The remuneration paid is commensurate with the qualification, role, responsibility and performance of the executive team in 2014.

Break up of the remuneration is as follows:

	2014 Amount RO
Short-term employee benefits	470,385
Social security and gratuity	17,973
Other long-term benefits	61,918
	550,276

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

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

There have been no instances of non-compliance on any matter relating to the CMA's code of corporate governance for MSM listed companies, CMA regulations or the MSM listing agreements. There were no penalties or strictures imposed on the Company by the CMA, MSM or any other statutory authority on any matter related to capital markets since its transformation to a SAOG in October 2013.

Means of Communication with Shareholders and Investors

The Company recognises:

a) the importance of providing shareholders, investors and analysts with easy access to clear, reliable and meaningful information on its business and operations in order to make informed investment decisions;

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

c) the disclosure rules required by the CMA according to Part VII of the CMA Executive Regulations issued in 2009.

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

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

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

Market Price Data

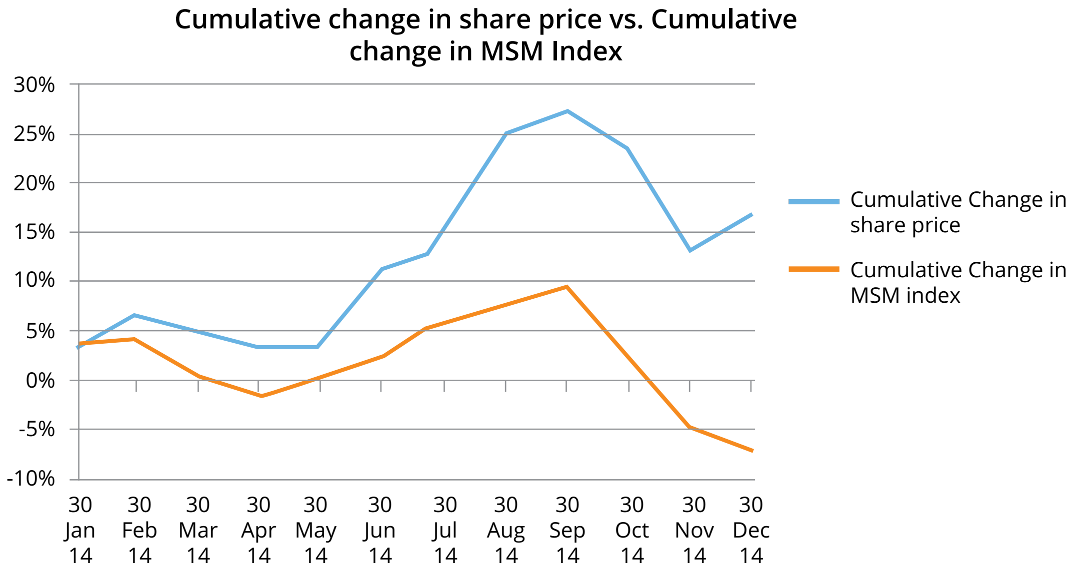
The Company was listed on the Muscat Securities Market (MSM) on 8 October 2013. Since 1 January 2014, Share price has increased from RO 1.905 per share to RO 2.225 registering an increase of 16.80%.

	Trade[1]		Share price	Share price
Period	Shares	Value RO	High[1]	Low[1]
January	2,055,411	4,034,735	1.99	1.91
February	2,270,690	4,521,463	2.05	1.94
March	2,381,719	4,795,857	2.05	1.98
April	1,637,360	3,208,913	2.02	1.92
May	694,947	1,371,832	2.00	1.96
June	1,832,628	3,670,527	2.15	1.95
July	1,219,429	2,607,498	2.16	2.12
August	781,157	1,794,656	2.39	2.14
September	838,888	2,036,289	2.55	2.40
October	1,294,483	3,007,493	2.41	2.16
November	584,030	1,289,331	2.30	2.15
December	1,607,338	3,422,675	2.25	1.83

The table below shows a comparison of the Company's performance against the MSM in 2014.[1]

Date	Sembcorp Salalah share price	Cumulative change from 1 January 2014	MSM Index	Cumulative change from 1 January 2014
30-Jan-14	1.97	3.41%	7,087.32	3.70%
27-Feb-14	2.03	6.56%	7,113.87	4.09%
31-Mar-14	2.00	4.72%	6,856.89	0.33%
30-Apr-14	1.97	3.41%	6,727.19	-1.57%
29-May-14	1.97	3.41%	6,857.43	0.33%
30-Jun-14	2.12	11.29%	7,008.27	2.54%
23-Jul-14	2.15	12.86%	7,200.70	5.36%
31-Aug-14	2.38	24.93%	7,367.16	7.79%
30-Sep-14	2.43	27.30%	7,484.17	9.50%
30-Oct-14	2.35	23.36%	6,974.62	2.05%
30-Nov-14	2.16	13.12%	6,505.99	-4.81%
31-Dec-14	2.23	16.80%	6,343.22	-7.19%

[1]Muscat Stock Market website.



Distribution of Shareholding as at 31 December 2014

The table below shows the shareholder distribution at the end of December 2014.

Percentage holding	Number of shareholders	Value of shares	Percentage of total shares
Less than 5%	2,215	30,393,456	31.84%
5% to 10%	1	5,999,600	6.29%
Above 10%	2	59,064,139	61.87%
Total	2,218	95,457,195	100.00%

Professional Profile of Statutory Auditors

The shareholders of the Company appointed KPMG as the Company's auditors for the year 2014. KPMG is a leading Audit, Tax and Advisory firm in Oman and is a part of KPMG Lower Gulf that was established in 1974. KPMG in Oman employs more than 150 people, amongst whom are four Partners, five Directors and 20 Managers, including Omani nationals. KPMG is a global network of professional firms providing Audit, Tax and Advisory services. KPMG operates in 155 countries and has more than 162,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOGs). During the year 2014, KPMG billed an amount of RO 20,180 breakup of which is as follows:

	2014 Amount RO
Audit for the year 2014	9,270
Review of code of corporate governance 2014	500
Group reporting for the year 2014	1,750
Interim quarterly reviews and audit 2014	6,190
Tax services	1,470
Other services	1,000
	20,180

Acknowledgement of the Board of Directors

The Directors confirm their responsibility for the preparation of the financial statements in line with International Financial Reporting Standards to fairly reflect the financial position of the Company and its performance during the relevant financial period. The Board confirms that it has reviewed the efficiency and adequacy of the internal control systems of the Company and is pleased to inform the shareholders that adequate and appropriate internal controls are in place, which are in compliance with the relevant rules and regulations.

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

Brief Profiles of the Board of Directors and Executive Management

Board of Directors

Tang Kin Fei, Chairman

Mr Tang is the Chairman of Sembcorp Salalah. He is also Group President & CEO of Sembcorp Industries.

With more than 25 years at Sembcorp, he is credited with spearheading its growth into a focused energy, water and marine group with operations across six continents.

Mr Tang is an executive committee member and Vice Chairman of the Singapore Business Federation, as well as a council member of the Singapore Chinese Chamber of Commerce & Industry. He serves on several China-Singapore and Middle East-Singapore business councils and is a director and member of the governing board of the Cambridge Centre for Advanced Research in Energy Efficiency in Singapore, a research centre set up by the University of Cambridge in collaboration with Singapore universities, and the National Research Foundation to study carbon assessment and abatement for the petrochemical industry. Mr Tang sits on the board of the Defence Science and Technology Agency of Singapore, chairs the college advisory board of Nanyang Technological University's College of Engineering and is also Council Chairman of Ngee Ann Polytechnic. In addition, he is Vice Chairman and a trustee of the Kwong Wai Shiu Hospital, a charitable hospital which provides care for needy patients.

Mr Tang holds a First Class Honours degree in Mechanical Engineering from the University of Singapore and completed the Advanced Management Programme at INSEAD.

Kalat Al-Bulooshi, Deputy Chairman

Mr Kalat Al Bulooshi is the Deputy Chairman of Sembcorp Salalah. He is also the CEO of Oman Investment Corporation, an Oman based private equity investment company.

Mr Bulooshi has an engineering degree and has also completed an Advanced Management Programme at Wharton Business School in the States. He has experience in the oil and gas, utilities, ports, infrastructure, metal and manufacturing industries, investment, M&A and Asset Management. He has managed multi-billion dollar projects from concept stage to commissioning and operation, and also worked in Italy and Canada for over three years.

Prior to joining Oman Investment Corporation, Mr. Bulooshi held a number of key positions in leading organisations in Oman, including Sohar Aluminium, Sohar Industrial Ports Company and Petroleum Development of Oman. In addition to Sembcorp Salalah, Mr. Bulooshi is the founder and board member of a number of private and government owned companies.

Board of Directors

Tan Cheng Guan, Non-Executive Director

Mr Tan is a director of Sembcorp Salalah. He is also the Executive Vice President & Head of Group Business Development & Commercial at Sembcorp Industries. Mr Tan is responsible for business development at Sembcorp Industries and drives the expansion of the Group's energy and water businesses globally.

He brings with him broad experience in strategy, business and project development for the utilities industry. Mr Tan started his career with Sembcorp in 1990 and was Managing Director of Vopak China between 2004 to 2007 in Shanghai. Prior to that, he spent 12 years in engineering and project management for the oil and gas sector at Brown & Root Far East and worked in London, Kuala Lumpur and Miri, Sarawak during that period. While at Sembcorp, Mr Tan pioneered the early development of the Group's Utilities business on Jurong Island and drove the business' expansion into China, the UK, the Middle East and India. He also led Sembcorp's acquisition of Cascal's global municipal water business.

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

Abdul Amir Saied Mohammed, Non-Executive Director

Mr Mohammed is a director of Sembcorp Salalah.

He is also a director of Oman Investment Corporation, representing the State General Reserve Fund, which is a shareholder of Oman Investment Corporation. Mr Mohammed was the Deputy Chief Executive Officer at the State General Reserve Fund until 2014. He was responsible for the functions of operation units and assists the Chief Executive Officer in the day-to-day operations.

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

Tariq Al Amri, Independent Non-Executive Director

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

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

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

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

Richard Quek Hong Liat, Non-Executive Director

Mr Quek is a director of Sembcorp Salalah.

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

Mr Quek led the transaction team for Sembcorp's acquisition of Cascal's global municipal water business and project financing teams for the Fujairah and Salalah projects. He also led the divestments of Sembcorp's logistics and engineering & construction businesses.

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

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

Ahmed Al Bulushi, Independent Non-Executive Director

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

He is also the Director of Internal Audit at the Royal Court Affairs where he is responsible for the operation of the risk management, control and governance systems. Prior to joining Internal Audit at the Royal Court Affairs, Mr Al Bulushi held a number of key positions in the finance department of the Royal Yachts, Royal Court Affairs, where he was the Director of Financial Affairs, managing all financial aspects of the organisation.

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

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

Hassan Al Nassay, Independent Non-Executive Director

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

In Addtion, Mr Al Nassay was in the board of directors of the following companies: Emirates CMS Power Company, Abu Dhabi Distribution Company (ADDC), Sharjah Water and Electricity Authority (SEWA) and the GCC Power Interconnection Authority, Mr Al Nassay' has 40 years of Experience in the water and power sectors.

Mr Al Nassay holds a bachelor degree of Electrical and Electronics Technology from the Univesity of Southern Colorado in 1982.

Ng Meng Poh, Non-Executive Director

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

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

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

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

Executive Management

Lim Yeow Keong, Chief Executive Officer

Mr Lim is the CEO of Sembcorp Salalah having joined the Company in 2009.

Mr Lim joined Sembcorp Industries in 1997 after he was awarded a company scholarship. Over the course of his career, Mr Lim has been actively involved in the development of Sembcorp Industries' utilities businesses in the GCC region, in particular the United Arab Emirates and Oman. Mr Lim was the lead developer for the Project and oversaw its development from the tender phase to completion.

Mr Lim holds a First Class Honours degree in Chemical Engineering in collaboration with Environmental Engineering from the University of Toronto, Canada.

Tariq Bashir, Acting Financial Controller and Company Secretary

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

Mr Tariq has joined Sembcorp Salalah on 16 September 2011. He has experience of more than 10 years and is well versed with financial and commercial aspects of the business. Before joining Sembcorp Salalah, he was working with KPMG and was involved in many power company audits.

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

Leonilo Barre Caraos, Plant Manager

Mr Caraos is the Plant Manager of Sembcorp Salalah.

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

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

Cyril Samuel, Corporate Services Head

Mr Samuel is Corporate Services Head at Sembcorp Salalah. He is also responsible for the development of strategic issues of human resource, administration, information technology, corporate communication and organisational plans in Sembcorp Salalah O&M Services Company.

Mr Samuel brings with him more than two decades of experience in diversified fields such as human resource and industrial relations, focusing on organisational development and corporate administrative affairs.

Prior to joining Sembcorp Salalah, Mr Samuel held management positions in Tata Steel, Lafarge India and Dhofar Power Company in Oman, where he managed large-scale organisations and complex labour situations. He also worked on change management strategies associated with the acquisitions of businesses in India. During his time in Tata Steel, he was responsible for creating infrastructure and employee establishment when working on a greenfield project.

Mr Samuel holds a Masters of Business Administration from Xavier School of Management, India, a law degree and a Masters of Commerce, both from the University of Ranchi, India.

Salim Mohammed Al Mashikhi, Human Resource Manager

Mr. Al-Mashikhi is the Manager for Human Resource Departments at Sembcorp Salalah O&M Services Company.

Mr. Al Mashikhi is responsible for managing human resources, training & development, employees relations, corporates social responsibilities, and liaison for the company and also oversees IT requirements. Prior to joining Sembcorp Salalah O&M Services Company, Mr. Al Mashikhi worked in Raysut Cement Company in Oman as Network and Hardware Administrator.

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

Report on the financial statements

We have audited the financial statements of Sembcorp Salalah Power & Water Company SAOG ("the Company"), set out on pages 48 to 74 ,which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion, the financial statements of the Company as at and for the year ended 31 December 2014, in all material respects, comply with

- the relevant disclosure requirement of the Capital Market Audthoriy; and
- the Commercial Companies Law of 1974, as amended.

KPMG

16 February 2015

Ahmed Tufail

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

	Notes	2014 RO	2013 RO
Revenue	3	**62,770,756**	62,711,862
Cost of sales	4	**(29,186,960)**	(29,074,676)
Gross profit		**33,583,796**	33,637,186
Administrative and general expenses	5	**(1,059,824)**	(1,073,617)
Other income	6	**1,683,569**	6,184,900
Operating profit		**34,207,541**	38,748,469
Finance income		**134,307**	54,117
Finance costs	7	**(19,776,946)**	(23,977,012)
Profit before tax		**14,564,902**	14,825,574
Income tax	16	**(1,751,602)**	(3,689,533)
Profit after tax		**12,813,300**	11,136,041
Other comprehensive (loss) income, net of income tax:			
Item that are or may be classified to profit or loss			
Effective portion of change in fair value of cash flow hedge	10	**(3,263,949)**	18,702,625
Total comprehensive (loss) income for the year		**9,549,351**	29,838,666
Earnings per share:			
Basic earnings per share	22	**0.13**	0.12

The notes on pages 52 to 74 are an integral part of these financial statements.

The report of the Independent Auditors is set forth on page 47

Statement of financial position
as at 31 December

	Notes	2014 RO	2013 RO
Assets			
Non-current assets			
Property, plant and equipment	*8*	**329,102,477**	339,401,525
Intangible assets	*9*	**10,349**	9,352
Deferred tax asset	*10&16*	**3,228,584**	2,783,500
Total non-current assets		**332,341,410**	342,194,377
Current assets			
Trade and other receivables	*11*	**6,986,535**	7,504,646
Inventory	*12*	**3,620,071**	2,847,993
Cash and cash equivalents	*13*	**28,589,113**	35,526,941
Total current assets		**39,195,719**	45,879,580
Total assets		**371,537,129**	388,073,957
Equity and liabilities			
Share capital	*14 (a)*	**95,457,195**	95,457,195
Retained earnings		**4,010,262**	8,706,015
Legal reserve	*14 (b)*	**2,485,209**	1,203,879
Shareholders' funds		**101,952,666**	105,367,089
Hedging reserve	*10&14 (c)*	**(23,676,283)**	(20,412,334)
Total equity		**78,276,383**	84,954,755
Non-current liabilities			
Term loan	*18*	**235,476,193**	247,564,593
Asset retirement obligation	*19*	**467,739**	437,421
Deferred tax liability	*16*	**8,037,542**	6,285,940
Derivative instruments	*10*	**26,904,867**	23,195,834
Total non-current liabilities		**270,886,341**	277,483,788
Current liabilities			
Current portion of term loan	*18*	**13,212,581**	12,309,156
Trade and other payables	*15*	**9,161,824**	13,326,258
Total current liabilities		**22,374,405**	25,635,414
Total liabilities		**293,260,746**	303,119,202
Total equity and liabilities		**371,537,129**	388,073,957
Net assets per share	*23*	**1.07**	1.10

The financial statements were approved and authorised for issue in accordance with a resolution of the Board of Directors on 16 February 2015.

Deputy Chairman **Director**

The notes on pages 52 to 74 are an integral part of these financial statements.

The report of the Independent Auditors is set forth on page 47

Statement of cash flows
for the year ended 31 December

	Notes	2014 RO	2013 RO
Cash flows from operating activities:			
Profit before tax		**14,564,902**	14,825,574
Adjustment for:			
Depreciation and amortisation		**10,854,664**	11,208,836
Amortisation of deferred financing cost		**1,124,181**	1,300,200
Interest payable written off		**-**	(6,174,592)
Finance costs		**18,596,825**	22,618,979
Provision for asset retirement obligation		**30,318**	27,851
Provision for doubtful debt		**-**	136,550
		45,170,890	43,943,398
Changes in working capital:			
Increase in inventory		**(772,078)**	(1,057,376)
Decrease in trade and other receivables		**518,111**	3,393,101
Decrease in trade and other payables		**(295,040)**	(9,388,915)
		44,621,883	36,890,208
Finance cost paid		**(18,819,429)**	(21,566,912)
Net cash flow from operating activities		**25,802,454**	15,323,296
Cash flows from investing activities:			
Payment on account of acquisition of property, plant and equipment		**(4,190,330)**	(5,888,365)
Payment on account of acquisition of intangible assets		**(13,075)**	(9,192)
Net cash used in investing activities		**(4,203,405)**	(5,897,557)
Cash flows from financing activities:			
Repayment of term loan		**(12,309,154)**	(11,518,660)
Dividend paid		**(16,227,723)**	(1,240,944)
Net cash used in financing activities		**(28,536,877)**	(12,759,604)
Net change in cash and cash equivalents		**(6,937,828)**	(3,333,865)
Cash and cash equivalents at 1 January		**35,526,941**	38,860,806
Cash and cash equivalents at 31 December	*13*	**28,589,113**	35,526,941

The notes on pages 52 to 74 are an integral part of these financial statements.

The report of the Independent Auditors is set forth on page 47

Statement of changes in equity
for the year ended 31 December

	Share capital	Retained earnings	Legal reserve	Hedging reserve	Total
	RO	RO	RO	RO	RO
Balance as at 1 January 2013	500,000	(75,478)	90,275	(39,114,959)	(38,600,162)
Total comprehensive Income					
Profit	-	11,136,041	-	-	11,136,041
Other comprehensive Income	-	-	-	18,702,625	18,702,625
Total comprehensive Income	-	11,136,041	-	18,702,625	29,838,666
Transactions with owners of the Company, recognised directly in equity					
Conversion of equity bridge and shareholders loans	94,957,195	-	-	-	94,957,195
Interim dividend	-	(1,240,944)	-	-	(1,240,944)
Transfer to legal reserve	-	(1,113,604)	1,113,604	-	-
Transactions with owners of the Company, recognised directly in equity	94,957,195	(2,354,548)	1,113,604	-	93,716,251
Balance as at 31 December 2013	95,457,195	8,706,015	1,203,879	(20,412,334)	84,954,755
At 1 January 2014	**95,457,195**	**8,706,015**	**1,203,879**	**(20,412,334)**	**84,954,755**
Total comprehensive Income					
Profit	**-**	**12,813,300**	**-**	**-**	**12,813,300**
Other Comprehensive Income	**-**	**-**	**-**	**(3,263,949)**	**(3,263,949)**
Total comprehensive income for the year	**-**	**12,813,300**	**-**	**(3,263,949)**	**9,549,351**
Transactions with owners of the Company, recognised directly in equity					
Final dividend 2013		**(7,445,661)**			**(7,445,661)**
Interim dividend 2014	**-**	**(8,782,062)**	**-**	**-**	**(8,782,062)**
Transfer to legal reserve	**-**	**(1,281,330)**	**1,281,330**	**-**	**-**
Transactions with owners of the Company, recognised directly in equity	**-**	**(17,509,053)**	**1,281,330**	**-**	**(16,227,723)**
At 31 December 2014	**95,457,195**	**4,010,262**	**2,485,209**	**(23,676,283)**	**78,276,383**

The notes on pages 52 to 74 are an integral part of these financial statements.

The report of the Independent Auditors is set forth on page 47

Notes
(forming part of the financial statements)

1) Legal status and principal activities

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

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

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

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

Significant agreements:

The Company has entered into the following major agreements:

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

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

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

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

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

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

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

2) Basis of preparation and significant accounting policies

Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Use of estimates and judgements

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in financial valuation of derivatives financial instruments, asset retirement obligation and impairment of trade receivables.

Significant accounting policies

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

(a) Foreign currency

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

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies 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

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

at foreign exchange rates ruling at the dates the fair value was determined. Foreign currency differences arising on translation of monetary items are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, qualifying cash flow hedges or other non monetary items, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Financial instruments

(i) Non derivative financial instruments

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

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

(ii) Derivative financial instruments, including hedge accounting

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

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

(iii) Cash flow hedges

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

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

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

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.

(iv) Separable embedded derivatives

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

(c) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent expenditure

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

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

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

(iii) Depreciation

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

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

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

(iv) Capital work in progress

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

(i) Site restoration

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

(d) Impairment

(i) Financial assets

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

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

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

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

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

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

(ii) 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 income statement unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to 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.

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

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

(e) Financial liabilities

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

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

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

(f) Employee terminal benefits

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

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

(g) Provisions

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

(h) Revenue recognition

Revenue from the sale of electricity and water is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when electricity and water are delivered at the customer's premises which is taken to be the point of time when the customer has accepted the deliveries and the related risks and rewards of ownership have been transferred to the customer based on contractual terms stipulated in PWPA.

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

(i) Financing income

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

(j) Borrowing costs

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

(k) Income tax expense

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

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

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

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

(l) Dividend

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

Dividends on ordinary shares are recognised when they are approved for payment.

(m) Estimation of fair value

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in the active market for similar instruments, quoted market prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments that are valued based on quoted prices of similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(n) New standards and interpretation not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2014, and have not been applied in preparing these financial statements. None of these are expected to have any material impact on the financial statements of the Company.

3 Revenue

	2014 RO	2013 RO
Fixed capacity charge - Power	**35,883,776**	35,624,854
Fixed capacity charge - Water	**15,670,239**	15,575,145
Energy charge	**974,154**	1,037,727
Water output charge	**858,223**	617,119
Fuel charge	**9,384,364**	9,857,017
	62,770,756	62,711,862

4 Cost of sales

	2014 RO	2013 RO
Fuel cost	**9,335,253**	9,736,665
Operation and maintenance cost	**5,476,196**	4,542,768
Contractual services maintenance cost	**2,403,037**	2,496,882
Depreciation	**10,764,328**	11,104,382
Insurance cost	**701,732**	735,508
Incentive payment	**295,588**	251,840
Security charges	**88,745**	65,262
Electricity import cost	**23,261**	54,764
Unwinding of discount - asset retirement obligation	**30,318**	27,851
License and permits	**66,824**	53,238
Other overheads	**1,678**	5,516
	29,186,960	29,074,676

5 Administrative and general expenses

	2014 RO	2013 RO
Staff costs	**374,679**	220,739
Legal and professional charges	**150,636**	266,983
Depreciation and amortisation	**90,336**	104,454
Directors' remuneration and sitting fees	**147,550**	-
Provision for doubtful debts	**-**	136,550
Opening ceremony expenses	**-**	180,363
Fee and subscription	**129,303**	94,680
Travelling expenses	**83,521**	36,599
Charity and donations	**32,000**	705
Other admin and general expenses	**51,799**	32,544
	1,059,824	1,073,617

6 Other income

In 2014, other income mainly represents net liquidated damages income. The net income is partial compensation for lost operating profit in 2012 due to delays in construction of the plant. In 2013, other income mainly represents write off of interest on shareholders' loans from 29 March 2012 to 30 June 2013.

7 Finance costs

	2014	2013
	RO	RO
Interest expense on equity bridge loan	**-**	2,977,930
Interest expense on project financing	**10,346,635**	11,390,859
Interest expense on interest rate swap	**8,250,190**	8,250,190
Deferred financing cost	**1,124,181**	1,300,200
Commission and bank charges	**55,940**	57,833
	19,776,946	23,977,012

8 Property, plant and equipment

	Land and Buildings	Roads and pipelines	Plant and machinery	Office equipment	Motor vehicles	Computer equipment	Capital work in progress	Total
Cost	RO	RO	RO	RO	RO	RO	RO	RO
At 1 January 2014	48,010,442	25,998,788	285,666,650	160,045	256,589	165,040	-	360,257,554
Additions during the year	**14,092**	**-**	**65,261**	**23,880**	**29,700**	**30,605**	**380,000**	**543,538**
At 31 December 2014	**48,024,534**	**25,998,788**	**285,731,911**	**183,925**	**286,289**	**195,645**	**380,000**	**360,801,092**
Accumulated depreciation								
At 1 January 2014	2,683,832	1,481,980	16,512,270	36,212	42,715	99,020	-	20,856,029
Charge for the year	**1,445,487**	**788,626**	**8,476,483**	**38,755**	**27,291**	**65,944**	**-**	**10,842,586**
At 31 December 2014	**4,129,319**	**2,270,606**	**24,988,753**	**74,967**	**70,006**	**164,964**	**-**	**31,698,615**
Carrying amount								
At 31 December 2014	43,895,215	23,728,182	260,743,158	108,958	216,283	30,681	380,000	329,102,477
At 31 December 2013	45,326,610	24,516,808	269,154,380	123,833	213,874	66,020	-	339,401,525

Capital work in progress represents warehouse under construction.

9 Intangible assets

	2014 RO	2013 RO
Opening balance	**9,352**	37,555
Purchased during the year	**13,075**	9,192
Amortisation during the year	**(12,078)**	(37,395)
	10,349	9,352

Intangible assets mainly represent the purchase of ERP software.

10 Hedging reserve

Interest rate swaps:		
SMBC Capital Market Limited	**(5,719,630)**	(5,092,038)
Standard Chartered Bank	**(16,295,431)**	(13,802,338)
KfW-IPEX	**(4,889,806)**	(4,301,458)
Hedging instrument at the end of the year	**(26,904,867)**	(23,195,834)
Deferred tax asset (note 16)	**3,228,584**	2,783,500
Hedging reserve at the end of the year (net of tax)	**(23,676,283)**	(20,412,334)
Less: Hedging reserve at the beginning of the year	**(20,412,334)**	(39,114,959)
Effective portion of change in fair value of cash flow hedge for the year	**(3,263,949)**	18,702,625

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

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

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

The corresponding hedged notional amount outstanding as of 31 December 2014 is approximately USD 416 million and approximately USD 108 million respectively, at a fixed interest rate of 4.345% and 3.8% per annum respectively.

11 Trade and other receivables

Trade receivables	**5,073,835**	5,554,784
Advances to vendors	**1,607,329**	1,526,817
Prepayments	**274,547**	307,301
Other receivables	**30,824**	30,360
Due from related parties *(note 17)*	**-**	85,384
	6,986,535	7,504,646

12 Inventory

	2014 RO	2013 RO
Fuel inventory	**819,385**	914,394
Spare parts and consumables	**2,800,686**	1,933,599
	3,620,071	2,847,993

13 Cash and cash equivalents

	2014 RO	2013 RO
Cash in hand	**894**	1,730
Cash at bank	**28,588,219**	35,525,211
	28,589,113	35,526,941

Cash at bank includes Debt Service Reserve Account in the amount of RO 14,726,213.

The Company has also made a placement in the amount of RO 19,017,413 at a weighted average interest rate of 0.52% per annum. The fixed deposit will mature in March 2015.

14 Equity

(a) Share capital

The Company's registered capital (issued and fully paid) comprises 95,457,195 shares of RO 1 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.

(b) Legal reserve

Article 106 of the Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to at least one-third of the company's issued share capital.

(c) Hedging reserve

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (note 10).

15 Trade and other payables

	2014 RO	2013 RO
Payables to EPC Contractor	**1,799,641**	4,334,151
Trade payables	**75,153**	443,813
Due to related parties *(note 17)*	**512,102**	730,460
Retentions and deductions	**377,870**	1,553,503
Interest payables	**4,650,891**	4,873,495
Accrued expenses and other payable	**1,746,167**	1,390,836
	9,161,824	13,326,258

16 Income tax

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

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

	2014	2013
	RO	RO
a) Recognised in profit or loss		
Deferred tax expense for the year	**1,751,602**	3,689,533

b) Reconciliation

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

Profit before tax		**14,564,902**		14,825,574
	%		%	
Income tax as per rates mentioned above	12.00	**(1,747,788)**	12.00	(1,779,069)
Current year loss for which no deferred tax asset is recognised	-	**-**	16.05	(2,378,972)
Expenses not deductible for tax purposes	0.03	**(3,814)**	2.43	(360,693)
Non taxable income	-	**-**	-5.00	740,951
Change in estimates from prior year	-	**-**	-0.60	88,250
Deferred tax expense for the year	12.03	**(1,751,602)**	24.89	(3,689,533)

c) Deferred tax asset (liability)

	At 1 January	Recognised during the year	**At 31 December**
	RO	RO	**RO**
Charged to profit or loss			
Property, plant and equipment	(7,875,907)	(2,861,562)	**(10,737,469)**
Tax losses	1,589,967	1,109,960	**2,699,927**
	(6,285,940)	(1,751,602)	**(8,037,542)**
Deferred tax recognised in equity			
Derivative instrument	2,783,500	445,084	**3,228,584**

d) Status of prior year returns

The Company's assessment for the tax years 2009 to 2013 have not yet been finalised with the Secretariat General for Taxation at the Ministry of Finance. Management of the Company believe that additional taxes, if any in respect of open tax years, would not be significant to the Company's financial position as at 31 December 2014.

17 Related party transactions

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

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

	2014	2013
	RO	RO
Sembcorp Industries Limited		
- Reimbursement of expenses	**96,860**	98,092
- Intangible Assets	**11,208**	-
- Claims of expenses by the Company	**-**	(21,929)
SSOM		
- Operation and maintenance cost	**5,476,196**	4,542,768
- Incentive payment	**295,588**	251,840
SOFIH		
- Interest expense (1)	**-**	973,944
- Project Bonus (2)	**61,613**	-
SOIHL		
- Interest expense (1)	**-**	486,972
- Project Bonus(2)	**30,806**	-
IPWC		
- Interest expense (1)	**-**	1,395,271
- Project Bonus(2)	**53,928**	-
OIC		
- Reimbursement of expenses	**11,239**	11,982
-Project support service cost	**-**	104,004
Sembcorp Bournemouth Water Limited		
- Reimbursement of expenses	**2,159**	-
Sembcorp Utilities (UK) Limited		
- Reimbursement of expenses	**754**	308

(1) The shareholder waived equitable right of shareholders interest from 29 March 2012 to 30 June 2013 and authorised the Company to write off the same.

(2) Project bonus has been approved by the board of directors and paid after the settlement of liquidated damages.

	2014	2013
Balances due to related parties at the year end comprised:		
SSOM	**512,102**	645,384
Balance due from related party is as follows:		
SUUK	**-**	308

17 Related party transactions *(continued)*

Key Management benefits

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

	2014	2013
	RO	RO
Directors' remuneration	123,300	-
Directors' sitting fees	24,250	-
Short term employee benefits	470,385	435,121
Social security and gratuity	17,973	23,130
Other long term benefits	61,918	32,869
	697,826	491,120

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

18 Term loan

Non-current	Maturity		
Project financing loan (USD)	2012-2026	212,007,503	222,197,699
Project financing loan (Rials)	2012-2026	44,085,060	46,204,020
		256,092,563	268,401,719
Less: Unamortised transaction cost		(7,403,789)	(8,527,970)
		248,688,774	259,873,749
Less: Current portion of term loan		(13,212,581)	(12,309,156)
		235,476,193	247,564,593

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

Repayments

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

Interest

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

18 Term loan *(continued)*

The margins are indicated below:

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

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

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

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

Other fees

The Company was required to pay front end fees to the Mandated Lead Arranger. In addition, the Company paid commitment fees at 1.3% of undrawn Dollar Commercial facilities and Sinosure Covered facilities and 0.4% of undrawn Rial Omani facilities. As at 31 December 2014, there were no undrawn loans.

Securities

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

Covenants

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

19 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.

19 Asset retirement obligation ("ARO") *(continued)*

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

	2014 RO	2013 RO
At 1 January	**437,421**	409,570
Unwinding of discount	**30,318**	27,851
At 31 December	**467,739**	437,421

20 Financial risk management

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

- Market risk
- Credit risk
- Liquidity risk

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

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

Market risk

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

Interest rate risk

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

	Interest rate	2014 RO	2013 RO
Financial assets			
Bank balances		**28,588,219**	35,525,211
Financial liabilities			
Term loan			
- USD variable rate loans	Libor+3.00%	**(117,752,828)**	(123,412,649)
- USD variable rate loans	Libor+2.85%	**(94,254,675)**	(98,785,050)
- RO fixed rate loans	7%	**(44,085,060)**	(46,204,020)
		(256,092,563)	(268,401,719)

20 Financial risk management *(continued)*

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

Cash flow sensitivity analysis for variable rate instruments

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

	Equity			
	100 bps Increase 31 December 2014	**100 bps Decrease 31 December 2014**	100 bps Increase 31 December 2013	100 bps Decrease 31 December 2013
	RO	**RO**	RO	RO
Interest rate swap	**14,152,507**	**(14,152,507)**	15,457,094	(15,457,094)

Currency risk

The majority of the transactions and balances are in either RO or USD. As the RO is pegged to the USD, balances in USD are not considered to represent significant currency risk. The Company is not exposed to significant currency risk as at 31 December 2014.

(b) Credit risk

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

	2014	2013
	RO	RO
Break down of financial assets (at carrying amount)		
Cash and cash equivalents	**28,588,219**	35,525,211
Trade receivable	**5,073,835**	5,554,784
Due from related parties	**-**	-
Other receivable	**30,824**	30,360
	33,692,878	41,110,355

20 Financial risk management *(continued)*

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

(b) Credit risk

	2014		2013	
	RO	Allowance for impairment	RO	Allowance for impairment
Not past dues	**5,103,174**	**-**	5,370,694	136,550
Past due 0 to 3 months	**850**	**-**	-	-
Past due 3 to 6 months	**635**	**-**	-	-
Past due 6 to 12 months	**-**	**-**	351,000	-
	5,104,659	**-**	5,721,694	136,550

(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:

		Cash flows			
	Carrying amount	Contractual cash flow	Less than 1 year	More than 1 to 5 years	More than 5 years
31 December 2014	RO	RO	RO	RO	RO
Derivatives					
Interest rate swaps used for hedging	**26,904,867**	**(28,137,944)**	**(5,750,775)**	**(15,400,322)**	**(6,986,847)**
Non-derivatives financial liabilities					
Term loan	**248,688,774**	**(346,302,052)**	**(20,228,888)**	**(107,485,611)**	**(218,587,553)**
Trade and other payables	**9,161,824**	**(9,161,824)**	**(9,161,824)**	**-**	**-**
	284,755,465	**(383,601,820)**	**(35,141,487)**	**(122,885,933)**	**(225,574,400)**
31 December 2013					
Derivatives					
Interest rate swaps used for hedging	23,195,834	(19,749,693)	(6,090,796)	(16,824,750)	3,165,853
Non-derivatives financial liabilities					
Term loan	259,873,749	(388,103,721)	(20,248,174)	(103,334,782)	(264,520,765)
Trade and other payables	13,326,258	(13,326,258)	(13,326,258)	-	-
	296,395,841	(421,179,672)	(39,665,228)	(120,159,532)	(261,354,912)

20 Financial risk management *(continued)*

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

Fair values

a) Accounting classification and fair values

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

	Carrying amount				Fair value
	Fair value - hedging instrument	Loans and receivables	Other financial liabilities	Total	Level 2
31 December 2014	RO	RO	RO	RO	RO
Financial assets not measured at fair value					
Trade and other receivables	-	5,104,659	-	5,104,659	-
Cash and cash equivalents	-	28,589,113	-	28,589,113	-
	-	33,693,772	-	33,693,772	-
Financial liabilities measured at fair value					
Derivative instrument	(26,904,867)	-	-	(26,904,867)	(26,904,867)
Financial liabilities not measured at fair value					
Term loan	-	-	(248,688,774)	(248,688,774)	(274,349,748)
Trade and other payables	-	-	(9,161,824)	(9,161,824)	-
	-	-	(257,850,598)	(257,850,598)	(274,349,748)
31 December 2013					
Financial assets not measured at fair value					
Trade and other receivables	-	5,585,144	-	5,585,144	-
Cash and cash equivalents	-	35,526,941	-	35,526,941	-
	-	41,112,085	-	41,112,085	-
Financial liabilities measured at fair value					
Derivative instrument	(23,195,834)	-	-	(23,195,834)	(23,195,834)
Financial liabilities not measured at fair value					
Term loan	-	-	(259,873,749)	(259,873,749)	(252,450,784)
Trade and other payables	-	-	(13,326,258)	(13,326,258)	-
	-	-	(273,200,007)	(273,200,007)	(252,450,784)

20 Financial risk management (continued)

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

b) Measurement of fair values

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

Embedded derivatives

The following agreements contain embedded derivatives:

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

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

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

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

Capital management

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

21 Guarantees

	2014 RO	2013 RO
Performance guarantees	**1,540,800**	1,540,800

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

22 Basic and diluted earnings per share

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

	2014	2013
Profit for the year (RO)	**12,813,300**	11,136,041
Weighted average number of shares outstanding during the year (a)	**95,457,195**	95,457,195
Earnings per share - Basic and diluted (RO)	**0.13**	0.12

(a) Weighted average number of shares

Number of share outstanding as of 1 January	**95,457,195**	500,000
Mandatory conversion of shareholders loan to share capital	**-**	94,957,195
Weighted average number of shares outstanding as at 31 December	**95,457,195**	95,457,195

According to the PSA, the Shareholders and the Company were required to convert the Shareholders' loan into equity prior to a Public Offer for sale or listing. The mandatory nature of this conversion of the shareholders loan has been reflected in the weighted average number of shares to arrive at basic earnings per share.

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

23 Net assets per share

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

Shareholders' funds	**101,952,666**	105,367,089
Number of shares at the end of the year	**95,457,195**	95,457,195
Net assets per share	**1.07**	1.10

The mandatory nature of this conversion of the shareholders loan has been reflected in the weighted average number of shares to arrive at basic earnings per share.

24 Dividend

On 16 February 2015, Board of Directors proposed the final dividend 42 baizas per share for the year ended 31 December 2014, giving a total dividend 134 baizas (31 December 2013: 91 baizas) per share for the year.

On 21 October 2014, Board of Directors as authorized in the Annual General Meeting, approved an interim dividend of 92 baizas per share.

25 Comparative information

Certain comparative information had been reclassified to conform to the presentation adopted in these financial statements.