SEMBCORP SALALAH POWER & WATER COMPANY SAOG

FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2017

Registered office:

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

Principal place of business:

Salalah
Sultanate of Oman

SEMBCORP SALALAH POWER & WATER COMPANY SAOG

FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2017

Contents	**Pages**

pwc

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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sembcorp Salalah Power & Water Company SAOG (the "Company") as at 30 September 2017, and its financial performance and its cash flows for the 9 month period then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of profit or loss and other comprehensive income for the nine month period ended 30 September 2017;
- the statement of financial position as at 30 September 2017;
- the statement of changes in equity for the 9 month period then ended;
- the statement of cash flows for the 9 month period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

Key Audit Matters	• Useful lives of assets • Asset retirement obligation

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

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

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

Our audit approach (continued)

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Useful lives of assets	
Refer to notes 2.3 (Estimates and assumptions), 2.4 (d) (iii) (Depreciation) and 7 (Property, plant and equipment) to the financial statements. The Company operates its main generation and desalination plant under an operating lease. The total cost of the plant and other associated assets was first recognised in 2012 as buildings, roads and pipelines and plant and machinery in the financial statements of the Company with the various components having useful lives attributed to them of between 20 and 35 years. The aggregate carrying values of the buildings, roads and pipelines and plant and machinery as at 30 September 2017 were RO 40.327 million, RO 21.908 million and RO 238.018 million respectively. However, the Power and Water Purchase Agreement (PWPA) relating to the plant is for 15 years valid up to 31 March 2027. Further, there is no renewal option in the PWPA. Useful life of plant is based on management's technical assessment of factors which are subject to judgement and accordingly presents uncertainty in estimating the useful life of the plant, which is in this case is more than the term of the PWPA. In making its assessment, the management appointed an independent valuation expert for the preparation of a cash flow model for the plant's entire, expected operating life-cycle and the cash flow implications of the various options that may apply after the initial 15 year contract expires (i.e. contract extension and implementation of a merchant market in the future) and has estimated the useful life of the plant considering various factors such as the operating cycles, the maintenance programmes, normal wear and tear and future cash flow forecasts.	Our procedures in relation to management's estimate included: • Assessing the reasonableness of the useful life of the plant and the depreciation method used by comparing it with companies in the country, operating plants with similar technology and capacity; • Evaluating the future cash flow forecasts and the process by which they were drawn up, including testing the underlying calculations by tracing from PWPA clauses and other relevant agreements as referred to in the note 1 to the financial statements; • We held discussion with management on the status of operations of the plant, including the future plans and utilisation of plant after the end of the PWPA; and • We have tested the adequacy of the disclosures in these financial statements relating to asset lives and the judgments surrounding them.

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Asset retirement obligation	
Refer to note 2.3 (Estimates and assumptions) and note 18 (Asset retirement obligation) to the financial statements. Under the terms of the Usufruct agreement between the Ministry of Housing and the Company (Clause 11), the company is obliged to remove all structures, fixtures, fittings, equipment and other property of the Company situated at or on the site and to reinstate the site and restore it to the condition it was in at the start of the usufruct term. As at 30 September 2017 the Company recognised a provision of RO 0.562 million relating to its asset retirement obligation arising from the Usufruct agreements with the Government of the Sultanate of Oman relating to the land on which the plant is constructed. Asset retirement obligation is based on management's technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant and restoring the land. The significant uncertainty in estimating the provision is the cost that will be incurred, the applicable discount rate and the timing of the site restoration activities. Management has estimated this liability by using an expert assessor. The liability is based on employing existing technology and materials currently available.	Our procedures in relation to management's estimate included: • Evaluating the independence, competence and capabilities of the expert employed by management to determine the asset retirement obligation, and that the scope of the expert's work was appropriate; • Testing, on a sample basis, the completeness and accuracy of source data (such as, list of equipment, site layout, plant design and plant technology details) shared by management with the expert by performing site visit and tracing the relevant information from the Company provided supporting documents; • Assessing the reasonableness of the assumptions made by the expert keeping in view the general economic and market conditions; • Assessing the reasonableness of the discount rate by reference to the risk adjusted rate specific to the liability, we used our in-house valuation expert to assist for this purpose; and Testing the adequacy of the disclosures relating to asset retirement obligations in these financial statements.

Other information

The directors are responsible for the other information. The other information, which we obtained prior to the date of our auditor's report comprises of the Management Discussion and Analysis, but does not include the financial statements and our auditor's report thereon.

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

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

Other information (continued)

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

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

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

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority ("the CMA") of the Sultanate of Oman and the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors.

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

Other matters

(i) The financial statements for the year ended 31 December 2016 were audited by another firm of auditors, whose report dated 20 February 2017 expressed an unmodified opinion on those financial statements.
(ii) The financial statements for the 9 month period ended 30 September 2016 were audited by another firm of auditors, whose report dated 25 October 2016 expressed an unmodified opinion on those financial statements.

PricewaterhouseCoopers LLC

Husam Elnaili

Muscat, Sultanate of Oman
26 October 2017

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C.R. No 1230865
PricewaterhouseCoopers LLC

SEMBCORP SALALAH POWER & WATER COMPANY SAOG

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2017

	Notes	**30 September 2017 RO**	30 September 2016 RO
Revenue	3	**59,461,909**	58,514,520
Cost of sales	4	**(35,059,254)**	(32,591,947)
Gross profit		**24,402,655**	25,922,573
Administrative and general expenses	5	**(442,155)**	(470,742)
Profit before interest and tax		**23,960,500**	25,451,831
Finance income		**295,064**	93,927
Finance costs	6	**(12,248,701)**	(12,625,161)
Profit before tax for the period		**12,006,863**	12,920,597
Income tax expense	15	**(4,403,919)**	(1,603,445)
Profit for the period		**7,602,944**	11,317,152
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Effective portion of change in fair value of cash flow hedge (net of income tax)	9	**1,838,680**	(2,641,789)
Total comprehensive income for the period		**9,441,624**	8,675,363
Earnings per share:			
Basic and diluted earnings per share	22	**0.0080**	0.0119

The notes on pages 10 to 39 form an integral part of these financial statements.

Independent auditor’s report - pages 1 - 5.

SEMBCORP SALALAH POWER & WATER COMPANY SAOG

STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017

	Notes	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Assets				
Non-current assets				
Property, plant and equipment	7	**300,432,692**	308,284,477	310,906,535
Intangible assets	8	**1,013**	2,199	2,597
Total non-current assets		**300,433,705**	308,286,676	310,909,132
Current assets				
Inventory	10	**4,520,799**	4,256,144	4,306,571
Trade and other receivables	11	**16,266,295**	9,443,709	8,764,929
Cash and cash equivalents	12	**21,379,738**	27,256,820	29,748,291
Total current assets		**42,166,832**	40,956,673	42,819,791
Total assets		**342,600,537**	349,243,349	353,728,923
Equity and liabilities				
Equity				
Share capital	13 (a)	**95,457,195**	95,457,195	95,457,195
Legal reserve	13 (b)	**6,072,741**	5,312,447	4,981,280
Retained earnings		**6,897,238**	3,491,047	10,342,638
Shareholders' funds		**108,427,174**	104,260,689	110,781,113
Hedging reserve	9 & 13 (c)	**(14,384,557)**	(16,223,237)	(24,285,736)
Net equity		**94,042,617**	88,037,452	86,495,377
Liabilities				
Non-current liabilities				
Long term loan	17	**194,262,975**	208,957,588	208,712,835
Asset retirement obligation	18	**562,296**	534,603	525,981
Deferred tax liability	15	**13,804,043**	9,726,316	8,194,400
Derivative instruments	9	**12,568,422**	14,599,007	22,282,112
Total non-current liabilities		**221,197,736**	233,817,514	239,715,328
Current liabilities				
Current portion of long term loan	17	**15,414,677**	14,483,021	14,483,021
Current portion of derivative instrument	9	**4,354,587**	3,836,490	5,315,315
Trade and other payables	14	**7,590,920**	9,068,872	7,719,882
Total current liabilities		**27,360,184**	27,388,383	27,518,218
Total liabilities		**248,557,920**	261,205,897	267,233,546
Total equity and liabilities		**342,600,537**	349,243,349	353,728,923
Net assets per share	23	**0.114**	0.109	0.116

The financial statements on pages 6 to 39 were approved and authorised for issue in accordance with a resolution of the Board of Directors on 25 October 2017.

Director | Financial Controller | Director

The notes on pages 10 to 39 form an integral part of these financial statements.

Independent auditor's report - pages 1 - 5.

SEMBCORP SALALAH POWER & WATER COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2017

	Share Capital	Legal reserve	Retained earnings	Hedging reserve	Total
	RO	RO	RO	RO	RO
At 1 January 2016	95,457,195	3,849,565	3,498,203	(21,643,947)	81,161,016
Profit for the period	-	-	11,317,152	-	11,317,152
Other comprehensive income/(loss)					
Fair value of cash flow hedge adjustments - gross	-	-	-	(7,936,517)	(7,936,517)
Reclassification to profit or loss – gross (note 6)	-	-	-	4,934,484	4,934,484
Deferred tax liability on change in fair value of cash flow hedge	-	-	-	360,244	360,244
Total comprehensive income/(loss) for the period	-	-	11,317,152	(2,641,789)	8,675,363
Transactions with owners of the Company, recognized directly in equity					
Final Dividend	-	-	(3,341,002)	-	(3,341,002)
Transfer to legal reserve	-	1,131,715	(1,131,715)	-	-
Total transactions with owners of the Company, recognised directly in equity	-	1,131,715	(4,472,717)	-	(3,341,002)
At 30 September 2016	95,457,195	4,981,280	10,342,638	(24,285,736)	86,495,377
At 1 January 2017	**95,457,195**	**5,312,447**	**3,491,047**	**(16,223,237)**	**88,037,452**
Profit for the period	**-**	**-**	**7,602,944**	**-**	**7,602,944**
Other comprehensive income					
Fair value of cash flow hedge adjustments - gross	**-**	**-**	**-**	**(2,375,080)**	**(2,375,080)**
Reclassification to profit or loss – gross (note 6)	**-**	**-**	**-**	**3,887,568**	**3,887,568**
Change in tax rate adjustment on change in fair value of cash flow hedge	**-**	**-**	**-**	**553,065**	**553,065**
Deferred tax liability on change in fair value of cash flow hedge	**-**	**-**	**-**	**(226,873)**	**(226,873)**
Total comprehensive income for the period	**-**	**-**	**7,602,944**	**1,838,680**	**9,441,624**
Transactions with owners of the Company, recognised directly in equity					
Dividend	**-**	**-**	**(3,436,459)**	**-**	**(3,436,459)**
Transfer to legal reserve	**-**	**760,294**	**(760,294)**	**-**	**-**
Total transactions with owners of the Company, recognised directly in equity	**-**	**760,294**	**(4,196,753)**	**-**	**(3,436,459)**
At 30 September 2017	**95,457,195**	**6,072,741**	**6,897,238**	**(14,384,557)**	**94,042,617**

The notes on pages 10 to 39 form an integral part of these financial statements.

Independent auditor’s report - pages 1 - 5.

SEMBCORP SALALAH POWER & WATER COMPANY SAOG

STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2017

	30 September 2017 RO	30 September 2016 RO
Operating activities		
Profit before tax for the period	**12,006,863**	12,920,597
Adjustment for:		
Depreciation and amortisation	**8,086,669**	8,100,359
Amortisation of deferred financing cost	**720,064**	765,977
Finance costs	**11,527,213**	11,857,747
Finance income	**(295,064)**	(93,927)
Provision for asset retirement obligation	**27,693**	25,866
Changes in working capital:		
Inventory	**(264,655)**	251,041
Trade and other receivables	**(6,760,310)**	(1,250,349)
Trade and other payables	**2,300,434**	2,423,329
	27,348,907	35,000,640
Finance cost paid	**(15,305,599)**	(15,865,380)
Net cash flow generated from operating activities	**12,043,308**	19,135,260
Investing activities		
Net payment on account of acquisition/disposal of property, plant and equipment	**(233,698)**	(457,427)
Payment on account of acquisition of intangible assets	**-**	(3,168)
Investment in fixed term cash deposits	**(21,609,115)**	(19,953,389)
Proceeds from the maturity of fixed term cash deposits	**26,681,899**	27,168,273
Finance income received	**232,788**	111,888
Net cash generated from investing activities	**5,071,874**	6,866,177
Financing activities		
Repayment of term loan	**(14,483,021)**	(14,116,005)
Dividend paid	**(3,436,459)**	(3,341,002)
Net cash used in financing activities	**(17,919,480)**	(17,457,007)
Net change in cash and cash equivalents	**(804,298)**	8,544,430
Cash and cash equivalents as at 1 January	**5,989,754**	6,984,854
Cash and cash equivalents as at 30 September	**5,185,456**	15,529,284

The notes on pages 10 to 39 form an integral part of these financial statements.

Independent auditor's report - pages 1 - 5.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

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 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

2.1 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Use of estimates and judgements

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

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

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

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

2.2 Judgements

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

(a) Operating Lease

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

2 Basis of preparation and significant accounting policies (continued)

2.3 Estimates and assumptions

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

(a) Effectiveness of hedge relationship

At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging instrument. As at the reporting date, the cumulative fair value of the interest rate swaps was RO 16.9 million (2016 - RO 18.4 million).

(b) Useful lives and residual value of property, plant and equipment

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

(c) Asset retirement obligation

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

2.4 Significant accounting policies

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

(a) Foreign currency

(i) *Functional and presentation currency*

The financial statements have been presented in Rial Omani (“RO”) which is the functional currency of the Company.

(ii) *Foreign currency transactions*

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(b) Financial instruments

(i) Non derivative financial instruments

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

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

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

(ii) Derivative financial instruments

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(b) Financial instruments (continued)

Cash flow hedges (continued)

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

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, then hedge accounting is discontinued prospectively. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

(iii) Separable embedded derivatives

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

(c) Interest bearing borrowings

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(d) Property, plant and equipment (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:

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

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

(iv) Capital work in progress

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

(v) Site restoration

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

(e) Impairment

(i) Financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(e) Impairment (continued)

(i) Financial assets (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 profit and loss statement unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units and then, to reduce the carrying amounts of the other assets in cash-generating units on a pro rata basis.

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

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

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

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

(f) Financial liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(g) Leases

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

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

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

(h) Provisions

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

(i) Revenue recognition

Revenue from the sale of electricity and water is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when electricity and water are delivered which is taken to be the point of time when the customer has accepted the deliveries and the related risks and rewards of ownership have been transferred to the customer. Capacity charge is treated as revenue under operating lease and recognized on straight line basis over the lease term to the extent that capacity has been made available based on contractual terms stipulated in PWPA.

(j) Finance income

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

(k) Borrowing costs

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

(l) Inventories

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(l) Inventories (continued)

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

(m) Income tax expense

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

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

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

(n) Employee benefits

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

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

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

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(o) Directors' remuneration

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

(p) Dividend

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

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

(q) Earnings and net assets per share

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

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

(r) Segmental reporting

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

(s) Determination of fair values

(i) Trade and other receivables

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

(ii) Derivatives

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

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

2.4 Significant accounting policies (continued)

(s) Determination of fair values (continued)

(iii) Non-derivative financial liabilities

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

(t) New standards and interpretation not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early applied the following new or amended standards in preparing these financial statements.

New or amended standards	Summary of the requirements	Possible impact on financial statements
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Company does not envisage any significant impact on the financial statements of the Company.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Company does not envisage any significant impact on the financial statements of the Company.
IFRS 16 *Leases*	IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaces existing lease recognition guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.	The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

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

New or amended standards	Summary of the requirements	Possible impact on financial statements
IFRS 17 Insurance contracts	Final standard issued on 18 May 2017, which will come into effect on 1 January 2021. Applicable for all insurance contracts issued by any entity and investment contracts with discretionary participating features issued by insurers.	The Company does not envisage any significant impact on the financial statements of the Company.
IFRIC 22 Foreign currency transactions and advance consideration	Addresses how to determine the date of the transaction when applying IAS 21, where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. Effective date of this interpretation is 1 January 2018.	The Company does not envisage any significant impact on the financial statements of the Company.
IFRIC 23: Uncertainty over income tax treatments	Includes clarifications in respect of uncertain tax treatments. Effective date of this interpretation is 1 January 2019.	The Company does not envisage any significant impact on the financial statements of the Company.

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

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

3. Revenue

	30 September 2017 RO	30 September 2016 RO
Fixed capacity charge – Power	**26,243,287**	27,301,228
Fixed capacity charge – Water	**11,757,468**	11,749,526
Energy charge	**1,098,044**	1,009,826
Water output charge	**676,905**	647,194
Fuel charge	**19,686,205**	17,806,746
	59,461,909	58,514,520

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

4. Cost of sales

	30 September 2017 RO	30 September 2016 RO
Fuel cost	**19,342,783**	17,449,334
Depreciation (note 7)	**8,065,204**	8,075,895
Operation and maintenance cost	**4,597,127**	4,101,981
Contractual services maintenance cost	**2,297,842**	2,134,961
Insurance cost	**354,178**	415,408
Incentive payment	**224,432**	247,770
Security charges	**76,221**	74,246
License and permits	**56,373**	54,906
Provision for asset retirement obligation (note 18)	**27,693**	25,866
Electricity import cost	**8,350**	11,230
Other overhead	**9,051**	350
	35,059,254	32,591,947

5. Administrative and general expenses

	30 September 2017 RO	30 September 2016 RO
Staff costs	**129,662**	119,220
Fee and subscription	**72,149**	72,232
Directors' remuneration and sitting fees	**62,450**	90,544
Legal and professional charges	**50,603**	23,801
Travelling expenses	**45,086**	34,204
Charity and donations	**34,819**	2,000
Depreciation and amortisation (notes 7 and 8)	**21,465**	24,464
Provision for doubtful debts	**-**	74,276
Others	**25,921**	30,001
	442,155	470,742

6. Finance costs

	30 September 2017 RO	30 September 2016 RO
Interest expense on project financing	**7,639,645**	6,923,263
Interest expense on interest rate swap	**3,887,568**	4,934,484
Deferred financing cost	**720,064**	765,977
Commission and bank charges	**1,424**	1,437
	12,248,701	12,625,161

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

7. Property, plant and equipment

Cost	Buildings RO	Roads and pipelines RO	Plant and machinery RO	Office equipment RO	Motor vehicles RO	Computer equipment RO	Total RO
At 1 January 2017	48,461,676	26,281,102	286,147,923	193,648	275,260	242,828	361,602,437
Additions	2,910	84,030	139,199	2,665	-	7,711	236,515
Disposals	-	-	-	(10,745)	(6,287)	-	(17,032)
At 30 September 2017	48,464,586	26,365,132	286,287,122	185,568	268,973	250,539	361,821,920
Accumulated depreciation							
At 1 January 2017	7,044,937	3,855,958	41,934,985	155,003	123,635	203,442	53,317,960
Charge for the period	1,092,249	600,391	6,333,861	22,928	23,298	12,756	8,085,483
Disposals	-	-	-	(10,352)	(3,863)	-	(14,215)
At 30 September 2017	8,137,186	4,456,349	48,268,846	167,579	143,070	216,198	61,389,228
Carrying amount							
At 30 September 2017	**40,327,400**	**21,908,783**	**238,018,276**	**17,989**	**125,903**	**34,341**	**300,432,692**
Cost							
At 1 January 2016	48,445,982	26,008,548	285,948,116	192,654	287,890	213,845	361,097,035
Additions	15,694	272,554	243,415	994	7,150	28,983	568,790
Disposals	-	-	(43,608)	-	(19,780)	-	(63,388)
At 31 December 2016	48,461,676	26,281,102	286,147,923	193,648	275,260	242,828	361,602,437
Accumulated depreciation							
At 1 January 2016	5,585,092	3,059,578	33,464,811	118,192	101,752	188,730	42,518,155
Charge for the year	1,459,845	796,380	8,476,064	36,811	31,465	14,712	10,815,277
Disposals	-	-	(5,890)	-	(9,582)	-	(15,472)
At 31 December 2016	7,044,937	3,855,958	41,934,985	155,003	123,635	203,442	53,317,960
Carrying amount							
At 31 December 2016	**41,416,739**	**22,425,144**	**244,212,938**	**38,645**	**151,625**	**39,386**	**308,284,477**
Cost							
At 1 January 2016	48,445,982	26,008,548	285,948,116	192,654	287,890	213,845	361,097,035
Additions	28,344	270,874	112,416	994	-	11,288	423,916
At 30 September 2016	48,474,326	26,279,422	286,060,532	193,648	287,890	225,133	361,520,951
Accumulated depreciation							
At 1 January 2016	5,585,092	3,059,578	33,464,811	118,192	101,752	188,729	42,518,154
Charge for the period	1,092,797	595,210	6,345,893	27,867	23,809	10,686	8,096,262
At 30 September 2016	6,677,889	3,654,788	39,810,704	146,059	125,561	199,415	50,614,416
Carrying amount							
At 30 September 2016	**41,796,437**	**22,624,634**	**246,249,828**	**47,589**	**162,329**	**25,718**	**310,906,535**

(a) Leased land

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

(b) Security

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

7. Property, plant and equipment (continued)

The depreciation charge has been allocated as set out below:

	30 September 2017 RO	30 September 2016 RO
Cost of sales (note 4)	**8,065,204**	8,075,895
Administration expenses (note 5)	**20,279**	20,367
	8,085,483	8,096,262

8 Intangible assets

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
At 1 January	**111,606**	108,438	108,438
Additions during the period/year	**-**	3,168	3,168
	111,606	111,606	111,606
Accumulated amortisation			
At 1 January	**(109,407)**	(104,912)	(104,912)
Charge for the period/year (note 5)	**(1,186)**	(4,495)	(4,097)
	(110,593)	(109,407)	(109,009)
At period/year end	**1,013**	2,199	2,597

Intangible assets mainly represent the purchase of ERP software.

9 Hedging reserve

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Interest rate swaps:			
SMBC Capital Market Limited	**(3,494,549)**	(3,828,118)	(5,649,284)
Standard Chartered Bank	**(10,296,015)**	(11,267,077)	(16,921,155)
KfW-IPEX	**(3,132,445)**	(3,340,302)	(5,026,988)
Hedging instrument at the end of the period/year	**(16,923,009)**	(18,435,497)	(27,597,427)
Deferred tax asset (note 15)	**2,538,452**	2,212,260	3,311,691
Hedging reserve at the end of the period (net of tax)	**(14,384,557)**	(16,223,237)	(24,285,736)
Less: Hedging reserve at the beginning of the period	**(16,223,237)**	(21,643,947)	(21,643,947)
Effective portion of change in fair value of cash flow hedge for the period/year.	**1,838,680**	5,420,710	(2,641,789)
Hedging instrument classification			
Non-current portion of hedging instrument	**12,568,422**	14,599,007	22,282,112
Current portion of hedging instrument	**4,354,587**	3,836,490	5,315,315
	16,923,009	18,435,497	27,597,427

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

9 Hedging reserve (continued)

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 30 September 2017 is approximately RO 134 million (USD 348 million) and approximately RO 35 million (USD 90 million), at a fixed interest rate of 4.345% and 3.8% per annum respectively.

10 Inventory

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Fuel inventory	**1,045,185**	1,028,993	1,022,241
Spare parts and consumables	**3,475,614**	3,227,151	3,284,330
	4,520,799	4,256,144	4,306,571

11 Trade and other receivables

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Trade receivable	**12,089,348**	6,292,328	6,360,817
Advances to vendors	**3,847,825**	2,794,542	1,942,806
Prepayments	**71,671**	201,421	350,480
Other receivable	**257,101**	155,418	110,826
Due from related parties (note 16)	**350**	-	-
	16,266,295	9,443,709	8,764,929

The Company has one customer (OPWP) which accounts for majority of the trade receivables balance as at 30 September 2017 (majority balance as at 31 December 2016 and 30 September 2016).

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

12 Cash and cash equivalents

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Cash in hand	**877**	932	680
Cash at bank	**5,184,579**	5,988,822	15,528,604
Cash and cash equivalent	**5,185,456**	5,989,754	15,529,284
Fixed term cash deposits	**16,194,282**	21,267,066	14,219,007
	21,379,738	27,256,820	29,748,291

Cash and cash equivalent includes balances in Debt Service Reserve Account in the amount of RO 13,747,851 (31 December 2016: RO 14,219,007, 30 September 2016: RO 14,219,007).

The Company has also made a placement in the amount of RO 16,194,282 (31 December 2016: RO 21,267,066, 30 September 2016: RO 14,219,007) at a weighted average interest rate of 1.74% per annum. (31 December 2016: 0.92%, 30 September 2016: 0.77%).

13 Equity

(a) Share capital

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

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

The details of shareholders are as follows:

	Nationality	**30 September 2017 Number of shares held of nominal value 100 baiza each**	**% of total**	**Aggregate nominal value of shares held RO**
SOFIH	**British Virgin Island**	**381,828,780**	**40.00%**	**38,182,878**
IPWC	**Oman**	**125,431,511**	**13.14%**	**12,543,151**
Public		**447,311,659**	**46.86%**	**44,731,166**
		954,571,950	**100.00%**	**95,457,195**

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

	Nationality	30 September 2016 Number of shares held of nominal value 100 baiza each	% of total	Aggregate nominal value of shares held RO
SOFIH	British Virgin Island	381,828,780	40.00%	38,182,878
IPWC	Oman	181,368,670	19.00%	18,136,867
Public		391,374,500	41.00%	39,137,450
		954,571,950	100.00%	95,457,195

(b) Legal reserve

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

(c) Hedging reserve

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (note 9).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

14 Trade and other payables

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Trade payable	**2,521,149**	172,630	2,229,605
Accrued expenses and other payable	**2,226,765**	2,583,461	2,713,769
Retention payable	**1,792,580**	1,799,641	1,799,641
Due to related parties (note 16)	**708,665**	572,706	864,253
Withholding tax payable	**194,263**	-	-
Interest payable	**147,498**	3,940,434	112,614
	7,590,920	9,068,872	7,719,882

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

15 Income tax

The Company is liable to income tax, in accordance with the income tax laws of Sultanate of Oman, at the rate of 15% of taxable income. For the year 2016, applicable income tax rate was 12% of taxable income above RO 30,000 of profit.

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

A deferred tax asset has been recognised directly in equity in respect of the changes in fair values of interest rate swaps (note 9).

	30 September 2017 RO	30 September 2016 RO
(a) Recognised in profit or loss		
Deferred tax expense due to change in income tax rate	**2,984,644**	-
Deferred tax expense for the period	**2,087,669**	1,603,445
Deferred tax expense - prior year adjustment	**(668,394)**	-
	4,403,919	1,603,445
(b) Reconciliation		
Profit before tax	**12,006,863**	12,920,597
Income tax as per rates mentioned above	**(1,801,029)**	(1,550,472)
Expenses not deductible for tax	**(2,471)**	(3,411)
Change in recognised deductible temporary differences	**(284,169)**	(49,562)
Prior year adjustment	**668,394**	-
Change in tax rate	**(2,984,644)**	-
Deferred tax expense for the year	**(4,403,919)**	(1,603,445)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

15 Income tax (continued)

(c) Deferred tax asset (liability)

As at September 2017	**At 1 January RO**	**Recognised during the period RO**	**At 30 September RO**
Charged to profit or loss			
Property, plant and equipment	**(15,015,841)**	**(4,968,612)**	**(19,984,453)**
Tax losses	**3,077,265**	**539,337**	**3,616,602**
Asset retirement obligation	**-**	**25,356**	**25,356**
	(11,938,576)	**(4,403,919)**	**(16,342,495)**
Deferred tax recognised in equity			
Derivative instrument	**2,212,260**	**326,192**	**2,538,452**
Deferred tax liability (net)	**(9,726,316)**	**(4,077,727)**	**(13,804,043)**

As at December 2016	At 1 January RO	Recognised during the year RO	At 31 December RO
Charged to profit or loss			
Property, plant and equipment	(13,068,477)	(1,947,364)	(15,015,841)
Tax losses	3,165,830	(88,565)	3,077,265
	(9,902,647)	(2,035,929)	(11,938,576)
Deferred tax recognised in equity			
Derivative instrument	2,951,447	(739,187)	2,212,260
Deferred tax liability (net)	(6,951,200)	(2,775,116)	(9,726,316)

As at September 2016	At 1 January RO	Recognised during the period RO	At 30 September RO
Charged to profit or loss			
Property, plant and equipment	(13,068,477)	(1,533,584)	(14,602,061)
Tax losses	3,165,830	(69,860)	3,095,970
	(9,902,647)	(1,603,444)	(11,506,091)
Deferred tax recognised in equity			
Derivative instrument	2,951,447	360,244	3,311,691
	(6,951,200)	(1,243,200)	(8,194,400)

(d) Status of prior year returns

The Company's assessment for the tax years 2014 to 2016 have not yet been finalised with the Secretariat General for Taxation at the Ministry of Finance. Management of the Company believe that additional taxes, if any in respect of open tax years, would not be significant to the Company's financial position as at 30 September 2017.

(e) No provision for taxation has been made in these financial statements in view of cumulative taxable losses incurred by the Company as at 30 September 2017. The cumulative tax losses up to 30 September 2017 are RO 24,110,685 (31 December 2016 - RO 25,642,832) and are available for set-off against future profits earned within a period of five years from the year in which the loss was incurred. Deferred tax asset on the tax losses has been recognised in these financial statements considering the availability of adequate future taxable profits against which such losses will be adjusted.

16 Related party transactions

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

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

No expenses have been recognised in the period for bad or doubtful debts in respect of amounts owed by related parties (30 September 2016: Nil).

Sembcorp Industries Limited (SIL), Oman Investment Corporation (OIC) and Sembcorp Utilities (Chile) SA are related parties with significant shareholder influence.

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

	30 September 2017 RO	30 September 2016 RO
Sembcorp Industries Limited (SIL)		
- Reimbursement of expenses	**27,202**	2,283
Sembcorp Salalah O&M Services Company LLC (SSOM)		
- Operation and maintenance cost	**4,597,127**	3,880,142
- Incentive payment	**224,432**	193,693
Oman Investment Corporation (OIC)		
- Reimbursement of expenses	**8,146**	5,463
- Sale of furniture & fixtures	**350**	-
Sembcorp Utilities (Chile) SA		
- Reimbursement of expenses	**13,106**	-
Sembcorp Oman First Investment Company		
- Reimbursement of expenses	**-**	509

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Balance due to related parties at the period/year end:			
SSOM	**695,610**	553,064	858,438
SIL	**13,055**	14,139	5,306
OIC	**-**	5,503	-
SOFI	**-**	-	509
	708,665	572,706	864,253
Balance due from related party at the period/year end:			
OIC	**350**	-	-

16 Related party transactions (continued)

Key Management benefits

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

	30 September 2017 RO	30 September 2016 RO
Directors' remuneration	**45,200**	70,794
Directors' sitting fees	**17,250**	19,750
Short term employee benefits	**222,371**	263,828
Social security and gratuity	**16,425**	22,275
	301,246	376,647

Compensation of some of the Key Management personnel has been paid through Sembcorp Salalah O&M Services Co. LLC of RO 155,134 (30 September 2016: RO 192,350) which has been accounted for in operations and maintenance cost of the Company.

17 Term loan

	Maturity	**30 September 2017 RO**	31 December 2016 RO	30 September 2016 RO
Non-current				
Project financing loan (USD)	2012-2026	**177,393,556**	189,383,397	189,383,397
Project financing loan (Rials)	2012-2026	**36,887,400**	39,380,580	39,380,580
		214,280,956	228,763,977	228,763,977
Less: Unamortised transaction cost		**(4,603,304)**	(5,323,368)	(5,568,121)
		209,677,652	223,440,609	223,195,856
Less: Current portion of term loan		**(15,414,677)**	(14,483,021)	(14,483,021)
		194,262,975	208,957,588	208,712,835

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

17 Term loan (continued)

Interest

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

The margins are indicated below:

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

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

(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 30 September 2017, 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.

18 Asset retirement obligation ("ARO")

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

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

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
At 1 January	**534,603**	500,115	500,115
Provision made during the period/ year (note 4)	**27,693**	34,488	25,866
At period/year end	**562,296**	534,603	525,981

Because of the long term nature of the liability, there is significant uncertainty in estimating the cost that will be incurred. It has been assumed that the site will be retired using technology and material that are currently available. The provision has been calculated using a discount rate of 6.8%.

19 Financial risk management

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

- Market risk
- Credit risk
- Liquidity risk

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

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

(a) Market risk

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

19 Financial risk management (continued)

(a) Market risk (continued)

Interest rate risk

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

	Interest rate %	**30 September 2017 RO**	31 December 2016 RO	30 September 2016 RO
Financial assets				
Cash at Bank		**5,184,579**	5,988,822	15,528,604
Fixed term cash deposit (3 to 6 months)	1.54%	**16,194,282**	21,267,066	14,219,007
		21,378,861	27,255,888	29,747,611
Financial liabilities				
Term loan				
- USD variable rate loans	Libor + 3%	**(98,527,612)**	(105,186,988)	(105,186,988)
- USD variable rate loans	Libor + 2.85%	**(78,865,944)**	(84,196,409)	(84,196,409)
- RO fixed rate loans	4.25%	**(36,887,400)**	(39,380,580)	(39,380,580)
		(214,280,956)	(228,763,977)	(228,763,977)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Equity					
	30 September 2017		31 December 2016		30 September 2016	
	100 bps increase RO	**100 bps decrease RO**	100 bps Increase RO	100 bps decrease RO	100 bps increase RO	100 bps decrease RO
Interest rate swap	**8,496,807**	**(8,496,807)**	10,225,643	(10,225,643)	10,823,766	(10,823,766)

Currency risk

The majority of the transactions and balances are in either RO or USD. As the RO is pegged to the USD, balances in USD are not considered to represent significant currency risk. The Company is not exposed to significant currency risk as at 30 September 2017.

19 Financial risk management (continued)

(b) Credit risk

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

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Classified as loans and receivables			
Cash at bank	**5,184,579**	5,988,822	15,528,604
Fixed term cash deposits	**16,194,282**	21,267,066	14,219,007
Trade receivable	**12,089,348**	6,292,328	6,360,817
Other receivables	**257,101**	155,418	110,826
	33,725,310	33,703,634	36,219,254

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

		30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Bank	**Rating**			
Bank balances				
Bank Muscat SAOG	**P-2**	**962,794**	5,984,316	11,518,201
Bank of China	**P-1**	**4,221,785**	4,506	4,010,403
		5,184,579	5,988,822	15,528,604
Fixed term deposits				
Bank Muscat SAOG	**P-2**	**2,177,000**	2,000,000	1,988,236
Bank of China	**P-1**	**14,017,282**	19,267,066	12,230,771
		16,194,282	21,267,066	14,219,007

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

	30 September 2017		31 December 2016		30 September 2016	
	RO	**Allowance for impairment RO**	RO	Allowance for impairment RO	RO	Allowance for impairment RO
Not past dues	**12,345,382**	**-**	6,446,862	-	6,471,643	-
Past due 0 to 3 months	**715**	**-**	650	-	-	-
Past due 3 to 6 months	**702**	**-**	234	-	74,276	74,276
	12,346,799	**-**	6,447,746	-	6,545,919	74,276

19 Financial risk management (continued)

(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**
30 September 2017	**RO**	**RO**	**RO**	**RO**	**RO**
Derivatives					
Interest rate swaps used for hedging	**16,923,009**	**(17,753,270)**	**(4,402,778)**	**(10,436,657)**	**(2,913,835)**
Non-derivatives financial liabilities					
Term loan	**209,677,652**	**(272,583,156)**	**(25,368,957)**	**(131,736,532)**	**(115,477,667)**
Trade and other payables	**7,396,657**	**(7,396,657)**	**(7,396,657)**	**-**	**-**
	217,074,309	**(279,979,813)**	**(32,765,614)**	**(131,736,532)**	**(115,477,667)**
31 December 2016					
Derivatives					
Interest rate swaps used for hedging	18,435,497	(19,527,914)	(3,860,507)	(11,685,599)	(3,981,808)
Non-derivatives financial liabilities					
Term loan	223,440,609	(295,662,555)	(21,752,923)	(124,316,710)	(149,592,922)
Trade and other payables	9,068,872	(9,068,872)	(9,068,872)	-	-
	232,509,481	(304,731,427)	(30,821,795)	(124,316,710)	(149,592,922)
30 September 2016					
Derivatives					
Interest rate swaps used for hedging	27,597,427	(28,515,421)	(5,352,022)	(16,432,681)	(6,730,718)
Non-derivatives financial liabilities					
Term loan	223,195,856	(290,150,276)	(24,099,159)	(119,341,863)	(146,709,254)
Trade and other payables	7,719,882	(7,719,882)	(7,719,882)	-	-
	230,915,738	(297,870,158)	(31,819,041)	(119,341,863)	(146,709,254)

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

19 Financial risk management (continued)

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

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

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

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Debt (Long-term loan)	**209,677,652**	223,440,609	223,195,856
Equity (Shareholder's funds)	**108,427,174**	104,260,689	110,781,113
Debt to equity ratio (times)	**1.93**	2.14	2.01

Fair value of financial instruments

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

19 Financial risk management (continued)

Fair value of financial instruments (continued)

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

	Carrying amount				Fair value
	Fair value - hedging instrument	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 2**
30 September 2017	**RO**	**RO**	**RO**	**RO**	**RO**
Financial assets not measured at fair value					
Trade and other receivables	**-**	**12,346,449**	**-**	**12,346,449**	**-**
Cash and bank balances	**-**	**21,379,738**	**-**	**21,379,738**	**-**
	-	**33,726,187**	**-**	**33,726,187**	**-**
Financial liabilities measured at fair value					
Derivative instrument	**(12,568,422)**	**-**	**-**	**(12,568,422)**	**(12,568,422)**
Financial liabilities not measured at fair value					
Term loan	**-**	**-**	**(209,677,652)**	**(209,677,652)**	**(218,266,380)**
Trade and other payables	**-**	**-**	**(7,396,658)**	**(7,396,658)**	**-**
	-	**-**	**(217,074,310)**	**(217,074,310)**	**(218,266,380)**
31 December 2016					
Financial assets not measured at fair value					
Trade and other receivables	-	6,447,746	-	6,447,746	-
Cash and bank balances	-	27,256,820	-	27,256,820	-
	-	33,704,566	-	33,704,566	-
Financial liabilities measured at fair value					
Derivative instrument	(18,435,497)	-	-	(18,435,497)	(18,435,497)
Financial liabilities not measured at fair value					
Term loan	-	-	(223,440,609)	(223,440,609)	(257,285,667)
Trade and other payables	-	-	(9,068,872)	(9,068,872)	-
	-	-	(232,509,481)	(232,509,481)	(257,285,667)
30 September 2016					
Financial assets not measured at fair value					
Trade and other receivables	-	6,471,643	-	6,471,643	-
Cash and bank balances	-	29,748,291	-	29,748,291	-
	-	36,219,934	-	36,219,934	-
Financial liabilities measured at fair value					
Derivative instrument	(27,597,427)	-	-	(27,597,427)	(27,597,427)
Financial liabilities not measured at fair value					
Term loan	-	-	(223,195,856)	(223,195,856)	(233,393,978)
Trade and other payables	-	-	(7,719,882)	(7,719,882)	-
	-	-	(230,915,738)	(230,915,738)	(233,393,978)

20 Contingencies and commitments

(a) Performance guarantee

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Performance guarantees	**1,540,800**	1,540,800	1,540,800

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

(b) Operation and maintenance commitment

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

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

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Due:			
Not later than one year	**770,400**	770,400	770,400
Later than one year but not later than five years	**3,081,600**	3,081,600	3,081,600
Later than five years	**3,389,760**	4,160,160	4,352,760
	7,241,760	8,012,160	8,204,760

21 Operating lease agreement for which the company acts as a lessor

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

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

	30 September 2017 RO	31 December 2016 RO	30 September 2016 RO
Due:			
Not later than one year	**43,142,995**	43,142,995	43,142,995
Later than one year but not later than five years	**172,686,940**	172,686,940	172,686,940
Later than five years	**193,609,311**	226,176,163	236,752,306
	409,439,246	442,006,098	452,582,241

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (continued)

22 Basic and diluted earnings per share

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

	30 September 2017 RO	30 September 2016 RO
Profit for the period (RO)	**7,602,944**	11,317,152
Weighted average number of shares outstanding during the period	**954,571,950**	954,571,950
Earnings per share - basic and diluted (RO)	**0.0080**	0.0119

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

	30 September 2017	31 December 2016	30 September 2016
Shareholders' funds (RO)	**108,427,174**	104,260,689	110,781,113
Number of shares at the end of the year	**954,571,950**	954,571,950	954,571,950
Net assets per share (RO)	**0.114**	0.109	0.116

24 Dividend

On 14 March 2017, in an Annual General Meeting, shareholders approved Baizas 3.6 per share (3.6% of the issued share capital) as final cash dividend for the year 2016. Together with the interim dividend of Baizas 10.3 per share distributed in November 2016, the total dividend for the company for the year 2016 amounts to Baizas 13.9 per share.

25 Investors' Trust Fund

Unclaimed dividends in the amount of RO 7,107 has been deposited with the Investors' Trust Fund of the CMA during the year 2017 in accordance with the circular number 15/2003 dated 22 November 2003 issued by CMA. Record of Investors Trust Fund indicates that the amount of RO 28,676 have not been claimed from the Company by the Shareholders as at 30 September 2017.

26 Segmental reporting

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