

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SOHAR POWER COMPANY SAOG *(continued)*

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 year 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 the 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

In our opinion, the financial statements of **SOHAR POWER COMPANY SAOG** as at **31 December 2019**, in all material respects, comply with the requirements of the Commercial Companies Law No. 18/2019 of the Sultanate of Oman and the relevant disclosure requirements for the public joint stock companies issued by the Capital Market Authority of the Sultanate of Oman.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Dariusz Solecki.


Dariusz Solecki
Baker Tilly MKM (Oman) LLC
Muscat
26 February 2020



SOHAR POWER COMPANY SAOG

Statement of financial position

as at 31 December 2019

		31 Dec 2019	31 Dec 2018 (Restated)	1 Jan 2018 (Restated)	31 Dec 2019	31 Dec 2018 (Restated)	1 Jan 2018 (Restated)
ASSETS	Notes	RO (000)	RO (000)	RO (000)	USD (000)	USD (000)	USD (000)
Non-current assets:							
Property, plant and equipment	5	93,630	105,373	130,584	243,196	273,697	339,179
Right-of-use assets	6	376	-	-	976	-	-
Total non-current assets		94,006	105,373	130,584	244,172	273,697	339,179
Current assets:							
Inventories		705	766	727	1,831	1,989	1,888
Trade and other receivables	7	14,650	5,843	5,846	38,052	15,177	15,184
Cash at bank and on hand	8	4,998	7,911	9,298	12,982	20,548	24,151
Total current assets		20,353	14,520	15,871	52,865	37,714	41,223
Total assets		114,359	119,893	146,455	297,037	311,411	380,402
EQUITY AND LIABILITIES							
Shareholders' equity:							
Share capital	9a	22,101	22,101	22,101	57,405	57,405	57,405
Legal reserve	9b	4,148	4,032	4,032	10,774	10,473	10,473
Accumulated losses		(9,177)	(10,216)	(124)	(23,830)	(26,529)	(316)
Total shareholders' equity		17,072	15,917	26,009	44,349	41,349	67,562
Hedging reserve - net of tax	10	(3,140)	(3,514)	(6,163)	(8,157)	(9,127)	(16,008)
Total capital and reserves		13,932	12,403	19,846	36,192	32,222	51,554

The statement of financial position continues on the next page

SOHAR POWER COMPANY SAOG

Statement of financial position (continued)

as at 31 December 2019

		31 Dec 2019	31 Dec 2018 (Restated)	1 Jan 2018 (Restated)	31 Dec 2019	31 Dec 2018 (Restated)	1 Jan 2018 (Restated)
	Notes	RO (000)	RO (000)	RO (000)	USD (000)	USD (000)	USD (000)
Non-current liabilities:							
Hedging deficit	10	4,152	4,365	7,423	10,785	11,337	19,281
Non-current portion of long term loans	11	57,777	67,091	78,124	150,070	174,262	202,919
Non-current portion of lease liability	6	236	-	-	613	-	-
Provision for decommissioning costs	12	1,676	1,577	1,483	4,353	4,096	3,852
Non-current portion of deferred revenue	15a	1,881	3,414	4,687	4,886	8,868	12,174
Deferred tax liability	20b	9,261	10,149	12,736	24,056	26,361	33,081
Total non-current liabilities		74,983	86,596	104,453	194,763	224,924	271,307
Current liabilities:							
Current portion of long term loans	11	8,649	9,617	10,912	22,465	24,979	28,343
Current portion of lease liability	6	150	-	-	390	-	-
Current portion of deferred revenue	15a	1,533	1,273	997	3,982	3,306	2,590
Trade and other payables	13	13,795	8,703	9,207	35,825	22,601	23,907
Amount due to a related party	14a	235	474	1,040	610	1,231	2,701
Provision for taxation	20c	1,082	827	-	2,810	2,148	-
Total current liabilities		25,444	20,894	22,156	66,082	54,265	57,541
Total liabilities		100,427	107,490	126,609	260,845	279,189	328,848
Total equity and liabilities		114,359	119,893	146,455	297,037	311,411	380,402
Net assets per share	21	0.077	0.072	0.118	0.200	0.187	0.306

The financial statements set out on pages 6 to 44 were approved and authorised for issue by the Board of Directors on 26 February 2020 and were signed on its behalf by:

Chairman

Director

The accompanying notes form an integral part of these financial statements.

SOHAR POWER COMPANY SAOG

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

		31 Dec 2019	31 Dec 2018 (Restated)	31 Dec 2019	31 Dec 2018 (Restated)
	Notes	RO (000)	RO (000)	USD (000)	USD (000)
Revenue	15b	50,586	67,502	131,392	175,330
Cost of revenue	16	(43,069)	(54,391)	(111,868)	(141,275)
Gross profit		7,517	13,111	19,524	34,055
Other income	17	287	220	745	571
		7,804	13,331	20,269	34,626
EXPENSES:					
General and administrative expenses	18	(828)	(932)	(2,151)	(2,421)
Impairment relating to water desalination plant		-	(18,554)	-	(48,192)
Finance costs	19	(5,369)	(5,713)	(13,945)	(14,840)
Total expenses		(6,197)	(25,199)	(16,096)	(65,453)
Profit/(loss) before taxation		1,607	(11,868)	4,173	(30,827)
Income tax (expense)/income	20a	(452)	1,776	(1,174)	4,613
Net profit/(loss) for the year		1,155	(10,092)	2,999	(26,214)
<i>Other comprehensive income:</i>					
Fair value gain on interest rate swaps	10	213	3,058	553	7,943
Related taxation	20a	(33)	(460)	(86)	(1,195)
Other comprehensive income for the year		180	2,598	467	6,748
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		1,335	(7,494)	3,466	(19,466)
Earnings/(losses) per share - basic and diluted	22	0.0052	(0.0457)	0.0136	(0.1186)

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SOHAR POWER COMPANY SAOG

Statement of changes in equity

for the year ended 31 December 2019

	Share capital RO (000)	Legal reserve RO (000)	Accumulated losses RO (000)	Hedging reserve RO (000)	Total RO (000)	Total USD (000)
For the year ended 31 December 2019:						
Balance at 1 January 2019 (as restated)	22,101	4,032	(10,216)	(3,514)	12,403	32,222
Net profit for the year	-	-	1,155	-	1,155	2,999
Transfer to legal reserve	-	116	(116)	-	-	-
Other comprehensive income for the year	-	-	-	180	180	467
Ineffective portion of cash flow hedge (note 10)	-	-	-	194	194	504
Balance at the end of the year	22,101	4,148	(9,177)	(3,140)	13,932	36,192
For the year ended 31 December 2018:						
Balance at 31 December 2017 (as previously reported)	22,101	3,911	5,024	(6,163)	24,873	64,611
Restatement of previous years' revenue (note 15a)	-	121	(5,148)	-	(5,027)	(13,057)
Balance as at 1 January 2018 (as restated)	22,101	4,032	(124)	(6,163)	19,846	51,554
Net loss for the year (as restated)	-	-	(10,092)	-	(10,092)	(26,212)
Other comprehensive income for the year	-	-	-	2,598	2,598	6,748
Ineffective portion of cash flow hedge (note 10)	-	-	-	51	51	132
Balance at the end of the year (as restated)	22,101	4,032	(10,216)	(3,514)	12,403	32,222

The accompanying notes form an integral part of these financial statements.

SOHAR POWER COMPANY SAOG

Statement of cash flows

for the year ended 31 December 2019

	Notes	31 Dec 2019 RO (000)	31 Dec 2018 (Restated) RO (000)	31 Dec 2019 USD (000)	31 Dec 2018 (Restated) USD (000)
Operating activities:					
Net profit/(loss) before taxation		1,607	(11,868)	4,173	(30,827)
<i>Adjustments to net profit/(loss) before taxation to arrive at net cash flow from operating activities:</i>					
Depreciation	5	11,779	6,750	30,595	17,532
Impairment relating to desalination plant	5	-	18,554	-	48,192
Depreciation relating to right-of-use assets	6	150	-	390	-
Finance costs	19	5,369	5,713	13,945	14,839
Deferred revenue	15b	(1,273)	(997)	(3,306)	(2,590)
Operating profit before changes in working capital		17,632	18,152	45,797	47,146
Movements in working capital:					
Decrease/(increase) in inventories		61	(39)	158	(101)
(Increase)/decrease in trade and other receivables		(8,807)	3	(22,875)	8
Increase/(decrease) in trade and other payables		5,092	(504)	13,226	(1,309)
(Decrease) in amount due to a related party		(239)	(566)	(621)	(1,470)
Cash generated from operations		13,739	17,046	35,685	44,274
Payment of finance costs		(4,994)	(5,320)	(12,970)	(13,816)
Payment of income tax	20c	(1,118)	(444)	(2,904)	(1,154)
Net cash generated from operating activities		7,627	11,282	19,811	29,304
Investing activities:					
Purchase of property, plant and equipment	5	(36)	(93)	(94)	(242)
Net cash (used in) investing activities		(36)	(93)	(94)	(242)
Financing activities:					
Net movement in long term loans		(10,504)	(12,576)	(27,283)	(32,665)
Net cash (used in) financing activities		(10,504)	(12,576)	(27,283)	(32,665)
Net (decrease) in cash and cash equivalents		(2,913)	(1,387)	(7,566)	(3,603)
Cash and cash equivalents at the beginning of the year		7,911	9,298	20,548	24,151
Cash and cash equivalents at the end of the year	8	4,998	7,911	12,982	20,548

The accompanying notes form an integral part of these financial statements.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

1 Legal status and principal activities:

SOHAR POWER COMPANY SAOG (the Company) was initially registered as a Closed Joint Stock Company under the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman (replaced by the Commercial Companies Law of 18/2019) on 17 July 2004, having been incorporated on 22 June 2004. The shareholders in their Extra-ordinary General Meeting held on 23 March 2008 resolved to convert the Company from a Closed Joint Stock Company into a Public Listed Joint Stock Company. The commercial operation date (COD) of the Company was determined to be 28 May 2007.

The Company was established to Build, Own and Operate (BOO) a 585 Mega Watt (MW) electricity generation station and a 33 Million Imperial Gallon (IG) per day of water desalination plant at Sohar.

The Company's principal place of business is located at Sohar and the registered office address of the Company is PO Box 147, PC 134, Jawharat Al Shatti, Muscat, the Sultanate of Oman.

2 Significant agreements:

The Company has entered into the following significant agreements with various parties:

a. Power and Water Purchase Agreement (PWPA):

Power and Water Purchase Agreement (PWPA) with the Government of the Sultanate of Oman (the Government) granting the Company the right to generate electricity and produce water at Sohar; and (i) to make available to the Government the Guaranteed Contracted Power Capacity and the Guaranteed Contracted Water Capacity; and (ii) to sell to the Government the Electrical Energy and Potable Water associated with the Guaranteed Contracted Power Capacity and the Guaranteed Contracted Water Capacity.

The Company has entered into a long-term power and water supply agreement with the Ministry of Housing, Electricity and Water (MHEW) of the Government for a period of fifteen years commencing from the scheduled COD of 28 May 2007 (i.e. the agreement will end by April 2022). On 1 May 2005, the PWPA was novated to Oman Power and Water Procurement Co. SAOC (OPWP), a closed joint stock company owned by the Government. All the financial commitments of OPWP are guaranteed by the Government.

b. Natural Gas Sales Agreement:

Natural Gas Sales Agreement with the Ministry of Oil and Gas (MOG) for the purchase of natural gas from MOG. The Natural Gas Sale Agreement is co-terminus with the PWPA.

c. Sub-usufruct Agreement:

Sub-usufruct agreement with Sohar Industrial Port Company SAOC for the grant of usufruct rights over the project site for 15 years from 20 July 2004, with the option of a possible extension of 15 years.

d. Sea-water Extraction Agreement:

Seawater Extraction Agreement with the Ministry of National Economy of the Government, to provide seawater inlet and reject facilities for the plant. The Seawater Extraction Agreement is co-terminus with the PWPA. This agreement was later novated to Majis Industrial Services SAOC (Majis Oman).

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

2 Significant agreements (continued)

- e. Operation and Maintenance Agreement (O&M):
Operation and Maintenance Agreement (O&M Agreement) with Sohar Operation and Maintenance Company LLC, a related party, for the operation and maintenance of the plant for a period of 15 years from the COD or until the date of termination of the PWPA, whichever is earlier.
- f. Financing Agreements:
Financing agreements with lenders for long-term loan facilities.
- g. Management Company Agreement:
Management Company Agreement with Power Management Company LLC, a related party, for providing management services.

3 Basis of preparation:

- a. Statement of compliance:
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as promulgated by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (the Committee), the requirements of the Commercial Companies Law of 18/2019 of the Sultanate of Oman and the Capital Market Law and relevant disclosures requirements for the public joint stock companies issued by the Capital Market Authority (CMA).
- b. Basis of preparation:
These financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value.
- c. Functional currency:
These financial statements are presented in Rial Omani (RO) since this is the functional currency of the Company and United States Dollars (USD), rounded off to the nearest thousand.
- d. Adoption of new and revised International Financial Reporting Standards (IFRS):
For the year ended 31 December 2019, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (the Committee) of the IASB that are relevant to its operations and effective for periods beginning on or after 1 January 2019.
The adoption of these standards and interpretations has not resulted in any significant changes to the Company's accounting policies and has not affected the amounts reported for the current year.
The new and revised Standards and Interpretations in issue but not yet effective at the date of these financial statements have not been adopted in these financial statements. Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements in the period of initial application.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

3 Basis of preparation (continued)

d. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

New and revised IFRS in issue and effective

The following new and revised standards, improvements, amendments and interpretations issued are effective for the first time for periods beginning on or after 1 January 2019 and have been adopted in the preparation of these financial statements.

- IFRS 16 *Leases*
- Amendments to IFRS 9 *Financial Instruments*
- Amendments to IAS 19 *Employee Benefits*
- Amendments to IAS 28 *Investments in Associates and Joint Ventures*
- IFRIC 23 *Uncertainty Over Income Tax Treatments*
- Annual Improvements to IFRS Standards 2015-2017 Cycle:
 - IAS 12 *Income Taxes*
 - IAS 23 *Borrowing Costs*
 - IFRS 3 *Business Combinations*
 - IFRS 11 *Joint Arrangements*

The adoption of these new standards, improvements, amendments and interpretations did not have a material impact on the Company for the year ended 31 December 2019, except for the adoption of IFRS 16. The impact of the first time application of IFRS 16 is described in the notes below.

New and revised IFRS in issue but not yet effective

The following new accounting standards, improvements, interpretations and amendments have been issued, but are not mandatory until the dates shown, and hence have not been early adopted by the Company in preparing the financial statements for the year ended 31 December 2019. The Company intends to apply these standards from the application date as indicated below.

- IFRS 17 *Insurance Contracts* 1 January 2021
- Amendments to IFRS 3 *Business Combinations* 1 January 2020
- Amendments to IFRS 7 *Financial Instruments: Disclosures* 1 January 2020
- Amendments to IAS 1 *Presentation of Financial Statements* 1 January 2020
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* 1 January 2020
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* 1 January 2020
- Amendments due to the Conceptual Framework: 1 January 2020
 - Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.

Management anticipates that all of the above standards, improvements, interpretations and amendments will be adopted by the Company to the extent applicable from their effective dates. The adoption of these standards, improvements, interpretations and amendments is not expected to have a material impact on the financial statements of the Company in the year of their initial application.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

3 Basis of preparation (continued)

- d. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

IFRS 16 Leases:

IFRS 16 supersedes IAS 17 *Leases*; IFRIC 4 *Determining whether an Arrangement contains a Lease*; SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16, does not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application on 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Accordingly, the comparatives are not restated.

Nature of effect of adoption of IFRS 16

Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as operating lease.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The Company recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. For the leases previously classified as operating leases, the lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Practical expedients:

The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Impact on transition:

As at 1 January 2019, the Company recorded right-of-use assets of RO 526,000 and lease liabilities of RO 526,000 with an impact on retained earnings of RO Nil. Right-of-use assets are depreciated over their estimated useful life of three and half years, starting from 1 January 2019. When measuring lease liabilities, the Company discounted lease payments at implicit interest rate of 7.55% for OETC payments and 6% for land lease at 1 January 2019.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

3 Basis of preparation (continued)

- d. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

IFRS 16 – Leases (continued)

Reconciliation with operating lease commitments:

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	OETC RO (000)	Land lease RO (000)	Total RO (000)
Operating lease commitments as at 31 December 2018	343	232	575
Effect of discounting the above	(28)	(21)	(49)
	<hr/>	<hr/>	<hr/>
Lease commitments as at 1 January 2019	315	211	526
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

- e. Restatement of financial statements due to change in revenue recognition policy:

The Company was established to undertake a project to Build, Own and Operate (“BOO”) a power station and water desalination plant at Sohar. The Company entered into a long-term Power and Water Purchase Agreement (PWPA) with Oman Power and Water Procurement Co. SAOC (OPWP) for a period of fifteen years commencing from the scheduled Commercial Operation Date of 28 May 2007. Such a project/arrangement falls within the scope of IFRIC 4 *Determining whether an arrangement contains a lease* which requires the Company to recognise revenue in accordance with IAS 17, i.e. to recognize operating lease revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the use benefit derived from the leased asset. However, since inception the Company has been recognising revenue as per the payment profile of the PWPA, i.e. on other than straight-line basis, considering it to be an alternative basis for revenue recognition under IAS 17.

The management has been of the view that recognising revenue on a straight-line basis will result in unfair presentation of the economic reality. However, the Capital Market Authority (“the CMA”) had required the Company to recognise the operating lease revenue on a straight-line basis. As per the CMA, the Company had breached the requirements of IAS 17 by not recognising the operating lease revenue on a straight-line basis. The decision of the CMA highlighted the Company’s violation of Article 5 of the Capital Market Law, “which requires regulated companies to prepare their balance sheets and financial statements in accordance with recognised accounting principles”. The Company filed an appeal before the Administrative Court against the decision of the CMA. The Administrative Court has issued its final judgement in June 2019, rejecting the case and requiring the Company to fully comply with the decision. Subsequently, the management of the Company decided to change its revenue recognition policy and restate its financial statements in the current year in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* with retrospective effect, as summarized in note 15a.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

4 Summary of significant accounting policies:

A summary of significant accounting policies adopted in the preparation of these financial statements is set out below:

a. Property, plant and equipment:

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Cost includes all costs directly attributable to bringing the asset to its working condition for its intended use.

Depreciation is charged to the statement of profit or loss and other comprehensive income using a straight-line method and estimated rates of depreciation. The estimated useful economic lives for the current and comparative periods are as follows:

		<i>General</i>			
	<i>Water desalination plant</i>	<i>31 Dec 19</i>	<i>31 Dec 18</i>	<i>31 Dec 1931</i>	<i>Dec 18</i>
	<i>Year 2018</i>				
	<i>and before</i>				
Buildings	30 years	30 years	15 years	15 years	30 years
Plant and machinery	30 years	30 years	15 years	15 years	30 years
Technical parts	30 years	30 years	15 years	15 years	30 years
Other assets	4 years	4 years	-	-	-
Decommissioning costs (asset)	30 years	30 years	-	-	-

If there is any indication that there has been a significant change in the useful economic life of a particular asset, the depreciation of that asset is revised prospectively to reflect the new expectation.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss and other comprehensive income.

Repairs are charged to the statement of profit or loss and other comprehensive income when the expenditure is incurred.

b. Capital work in progress:

Capital work in progress is stated at cost including capital advances incurred up to the date of the statement of financial position and is not depreciated. Depreciation on capital work-in-progress commences when the assets are ready for their intended use.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

4 Summary of significant accounting policies (continued)

c. Impairment of assets:

Financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the expected credit loss (ECL) model. Instruments within the scope of the new requirements include financial assets measured at amortised cost, such as trade receivables measured under IFRS 15 and lease receivables measured under IAS 17. Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event, instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“Stage 1”);
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (“Stage 2”); and
- “Stage 3” which covers financial assets that have objective evidence of impairment at the reporting date.

“12-month expected credit losses” are recognised for the first category while “lifetime expected credit losses” are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

In the prior years (i.e. before 2018), the impairment of trade receivables was based on the incurred loss model. Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivables that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

Non-financial assets

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the cash-generating unit to which the asset belongs is used. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

4 Summary of significant accounting policies (continued)

d. Dividends:

Dividends are recognised as a liability in the period in which they are approved by the shareholders. The Board of Directors recommends to the shareholders the dividend to be paid out of the Company's retained earnings. The Directors take into account appropriate parameters including the requirements of the Commercial Companies Law No. 18/2019 of the Sultanate of Oman while recommending dividends. Dividends in earlier years were declared based on a different accounting basis for revenue recognition than the existing basis to recognize operating lease revenue on a straight-line basis.

e. Inventories:

Inventories comprise fuel oils and are stated at the lower of cost and net realisable value. The cost of inventories is accounted for on the first-in first-out basis and includes all costs incurred in acquiring the inventory. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

f. Trade and other receivables:

Trade and other receivables originated by the Company are measured at cost. Trade receivables (including lease receivables) are stated at original invoice amount less provision for any uncollectible amounts as per the expected credit loss model as required under IFRS 9. Bad debts are written off when there is no possibility of recovery.

The Company makes use of a simplified approach in accounting for doubtful trade receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating the provision, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The carrying values of trade and other receivables approximate their fair values due to the short-term nature of those receivables.

g. Cash and cash equivalents:

For the purposes of the statement of cash flows, cash and cash equivalents consist of bank balances and cash and short-term fixed deposits with original maturities of three months or less from the date of placement.

h. Legal reserve:

In accordance with the requirements of the Commercial Companies Law No. 18/2019 of the Sultanate of Oman, the Company transfers 10% of its net profit for the year to legal reserve until such time as the reserve amount equals one third of the fully paid-up share capital of the Company. This reserve is not available for distribution.

i. Trade payables:

Trade payables are recognised for amounts to be paid in the future for goods or services received, whether claimed by the supplier or not.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

4 Summary of significant accounting policies (continued)

j. 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.

Provision for decommissioning costs

A provision for future decommissioning costs is recognised when there is a present obligation as a result of activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of provision can be measured reliably. The estimated future obligations include the costs of removing the facilities and restoring the affected areas.

The provision for future decommissioning costs is the best estimate of the present value of the expenditure required to settle the decommissioning obligation at the reporting date based on the current requirements in accordance with the sub-usufruct agreement. Future decommissioning costs are reviewed annually and any changes in the estimate are reflected in the present value of the decommissioning provision at each reporting date.

The initial estimate of the decommissioning provision is capitalised into the cost of the asset and depreciated on the same basis as the related asset. Changes in the estimate of the provision for decommissioning costs are treated in the same manner, except that the unwinding of the discount is recognised as a finance cost rather than being capitalised into the cost of the related asset.

k. Employees' termination benefits:

Defined contribution plan

In respect of Omani employees, contributions are made in accordance with the Oman Social Insurance Law issued under Royal Decree number 72/91 (as amended) and recognised as an expense in the statement of profit or loss and other comprehensive income as incurred.

Defined benefit plan

For non-Omani employees, provision is made for amounts payable under the Oman Labour Law issued under Royal Decree number 35/2003 based on the employees' accumulated periods of service at the statement of financial position date. The expected costs of these benefits are accrued over the period of employment. This provision is classified as a non-current liability.

l. Deferred revenue:

The Power Capacity Investment Charge Rate and Water Capacity Investment Charge Rate in the PWPA has been structured in such a way that the investment tariff rates are reducing at a constant rate each year over the term of the agreement. The Company is recognizing Capacity Investment Charge income on a straight-line basis over the lease term. The billed revenue in excess of straight-line revenue is deferred as a liability. Deferred revenue is transferred to revenue as the operating lease income is earned in accordance with the straight-line basis. Deferred revenue is recorded as a non-current liability in the statement of financial position, except the amount expected to be transferred to revenue in the next twelve months, which is recorded as a current liability.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

4 Summary of significant accounting policies (continued)

m. Revenue:

Operating lease revenue is recognized on a straight-line basis over the lease term. 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.

Revenue comprises tariffs for power capacity, electrical energy, water capacity and water output charges. Tariffs are calculated in accordance with the PWPA. The operating revenue is recognised by the Company on the accrual basis of accounting. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

n. Other income:

Other income is accounted for on the accruals basis, unless collectibility is in doubt.

o. Operating leases:

Lease policy before 1 January 2019

An operating lease is an agreement whereby the lessor retains substantially all the risks and rewards incidental to ownership of an asset. Operating lease payments were recognised as an expense in the statement of profit or loss and other comprehensive income on straight-line basis over the lease term.

Lease policy after 1 January 2019

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

a) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

b) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

4 Summary of significant accounting policies (continued)

o. Operating leases (continued)

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. a change in future payments resulting from a change in index or rate used to determine such lease payments) or a change in the assessment to purchase the underlying asset.

c) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

p. Foreign currency transactions:

Transactions denominated in foreign currencies are translated to Omani Rial using the foreign exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to Omani Rial using the foreign exchange rates prevailing at that date. Foreign exchange differences arising on translation are recognised in the statement of profit or loss and other comprehensive income.

q. Bank borrowings:

Bank borrowings are recognised initially at fair value. Bank borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period of the bank borrowings using the effective interest rate method.

r. Borrowing costs:

Borrowing costs comprise interest payable on bank borrowings. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets that necessarily take a substantial period of time to get ready for their intended use or sale) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. 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.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

4 Summary of significant accounting policies (continued)

s. Taxation:

Taxation for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax-rates enacted or substantially enacted at the end of the reporting period.

Deferred tax is calculated using the 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax-rates enacted or substantially enacted at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised in other comprehensive income, such as in which case the tax is also recognised in other comprehensive income.

t. Deferred financing costs:

The cost of obtaining long-term financing is deferred and amortised over the term of the long-term loan using the effective interest rate method. Deferred financing costs less accumulated amortisation are offset against the drawn amount of long-term loans. The amortisation of deferred financing costs is capitalised as part of the cost of the plant during construction. Subsequent to plant completion, the element of amortisation of deferred financing costs is charged to the statement of profit or loss and other comprehensive income.

u. Financial liabilities:

All the financial liabilities are initially measured at fair value and are subsequently measured at amortised cost.

v. Derivative financial instruments:

The Company holds derivative financial instruments to hedge its interest rate risk exposures. Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period on a recurring basis. The resulting gains or losses are recognised in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument at the reporting date is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

4 Summary of significant accounting policies (continued)

v. Derivative financial instruments (continued)

Hedge accounting

The Company designates the hedging instruments as fair value or cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gains or losses relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised and accumulated in other comprehensive income are reclassified to profit or loss in the periods when the hedged item is recognised.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

w. Directors' remuneration:

The Company follows the Commercial Companies Law of 18/2019 of the Sultanate of Oman and other relevant directives issued by the Capital Markets Authority, in regard to determination of the amount to be paid as directors' remuneration. Directors' remuneration is charged to the statement of profit or loss and other comprehensive income in the year to which it relates.

x. Critical accounting judgments and key sources of estimation uncertainty:

Preparation of financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions in the financial statements relate to:

Economic useful lives of property, plant and equipment

The Company's property, plant and equipment are depreciated on a straight-line basis over their economic useful lives. Economic useful lives of property, plant and equipment are reviewed by management periodically. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Company.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

4 Summary of significant accounting policies (continued)

x. Critical accounting judgments and key sources of estimation uncertainty (continued)

Credit losses relating to financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that specific financial assets may be impaired. The Company uses the ECL model of IFRS 9 to determine/recognize credit losses relating to financial assets.

The Company uses the simplified approach of IFRS 9 for impairment of trade receivables. Any provision required by application of this model will be recognised in profit or loss.

Trade receivables have been grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. At every reporting date, the default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between default rates, forecast economic conditions and ECLs require the use of estimates.

Provisions for obsolete and slow moving inventories

The Company has a policy to create provisions for obsolete and slow-moving inventories, if any. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the statement of financial position date to the extent that such events confirm conditions existing at the end of the reporting period.

Impairment of non-financial assets

For non-financial assets, the Company assesses at each reporting date whether there is any indication that an asset may be impaired. If such indication exists, or when impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired.

Going concern

The management of the Company reviews the financial position of the Company on a periodical basis and assesses the requirement for any additional funding to meet the working capital requirements and estimated funds required to meet the liabilities as and when they become due. In addition, the shareholders of the Company ensure that they provide adequate financial support for funding the requirements of the Company to ensure the going concern status of the Company.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

5 Property, plant and equipment:

	Buildings RO (000)	Plant & machinery RO (000)	Technical parts RO (000)	Other assets RO (000)	Decommissioning costs (asset) RO (000)	Capital work in progress RO (000)	Total RO (000)	Total USD (000)
Cost								
At 1 January 2019	7,027	189,435	5,032	26	777	269	202,566	526,146
Additions during the year	-	8	17	-	-	11	36	94
At 31 December 2019	7,027	189,443	5,049	26	777	280	202,602	526,240
Depreciation and impairment								
At 1 January 2019	3,411	91,137	2,320	24	301	-	97,193	252,449
Depreciation for the year	409	11,045	298	1	26	-	11,779	30,595
At 31 December 2019	3,820	102,182	2,618	25	327	-	108,972	283,044
Net book value								
At 31 December 2019	3,207	87,261	2,431	1	450	280	93,630	243,196

5.1 Land on which the power station, buildings and auxiliaries are constructed has been sub-leased from Sohar Industrial Port Company SAOC for a period of 15 years from the COD. The sub-lease is further extendable for another 15 years. Currently the lease rent is paid at the rate of approximately RO 65,000 (USD 168,000) per annum [31 December 2018: RO 65,000 (USD 168,000) per annum].

5.2 Property, plant and equipment are mortgaged against long-term loan facilities (note 10) utilised by the Company.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

5 Property, plant and equipment (continued)

	Buildings RO (000)	Plant & machinery RO (000)	Technical parts RO (000)	Other assets RO (000)	Decommissioning costs (asset) RO (000)	Capital work in progress RO (000)	Total RO (000)	Total USD (000)
Cost								
At 1 January 2018	7,027	189,285	4,977	25	777	382	202,473	525,904
Additions during the year	-	35	55	1	-	2	93	242
Transferred from CWIP	-	115	-	-	-	(115)	-	-
At 31 December 2018	7,027	189,435	5,032	26	777	269	202,566	526,146
Depreciation and impairment								
At 1 January 2018	2,529	67,375	1,687	23	275	-	71,889	186,725
Depreciation for the year	235	6,318	170	1	26	-	6,750	17,532
Impairment (note 5.3)	647	17,444	463	-	-	-	18,554	48,192
At 31 December 2018	3,411	91,137	2,320	24	301	-	97,193	252,449
Net book value								
At 31 December 2018	3,616	98,298	2,712	2	476	269	105,373	273,697

5.3 As mentioned in note 2a, the Company's existing long-term agreement for generation of electricity and production of water at Sohar (PWPA) is expected to end by April 2022. Therefore, the Company decided to participate in the "2022 Power procurement process" launched by the OPWP (the Tender). The Company submitted its intent and fulfilled the requirements relating to the supply of power and water. However, it only pre-qualified for supply of power, as per the notification from the OPWP dated 7 February 2019. As a consequence, the Company will not be able to extend the operations of its Water Desalination Plant beyond the term of the current PWPA. This situation triggered an impairment review of the water desalination plant, which revealed that "value in use" of the plant was RO 21.649 million against its estimated "net book value" of RO 40.203 million as at 31 December 2018. The estimated "net book value" was calculated on the basis of a fixed asset valuation by an independent expert. This has resulted in an impairment loss of RO 18.554 million being required to be recorded in the financial statements of the Company for the year ended 31 December 2018. Consequently, the useful life of the water desalination plant was revised to 15 years from the earlier estimate of 30 years, with an approximate remaining useful life of 3 years from January 2019.

No impairment effect in the value of the Power Plant is considered as at the end of the year, as the management's main objective is to extend the PPA contract beyond April 2022.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

5 Property, plant and equipment (continued)

5.4 The depreciation charge for the year has been dealt with in the statement of profit or loss and other comprehensive income as follows:

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	RO (000)	USD (000)	USD (000)
Cost of revenue (note 16)	11,778	6,749	30,592	17,529
General and administrative expenses (note 18)	1	1	3	3
	<u>11,779</u>	<u>6,750</u>	<u>30,595</u>	<u>17,532</u>

6 Right-of-use assets and lease liability:

Right-of-use assets

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	RO (000)	USD (000)	USD (000)
At 1 January 2019	526	-	1,366	-
Depreciation for the year (note 16)	(150)	-	(390)	-
	<u>376</u>	<u>-</u>	<u>976</u>	<u>-</u>

Lease liability

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	RO (000)	USD (000)	USD (000)
At 1 January 2019	526	-	1,366	-
Finance charges	26	-	68	-
Payments during the year	(166)	-	(431)	-
	<u>386</u>	<u>-</u>	<u>1,003</u>	<u>-</u>
Current portion	<u>(150)</u>	<u>-</u>	<u>(390)</u>	<u>-</u>
Non-current portion	<u>236</u>	<u>-</u>	<u>613</u>	<u>-</u>

6.1 The right-of-use assets and the lease liability relate to two operating leases, i.e. lease of land and the electrical connection at Sohar Power Plant, 220 KV Grid Station. The Company has leased land from Sohar Industrial Port Company SAOC for a period of 15 years from 20 July 2004, with the option of a possible extension of 15 years. Moreover, the Company has also made an agreement with Oman Electricity Transmission Company SAOC for electrical connection of Sohar Power Plant with the Transmission System with effective date of 22 January 2006.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

7 Trade and other receivables:

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	RO (000)	USD (000)	USD (000)
Trade receivables (note 7.1)	13,418	5,115	34,852	13,286
Advances and prepayments	237	185	616	480
Other receivables	995	543	2,584	1,411
	<u>14,650</u>	<u>5,843</u>	<u>38,052</u>	<u>15,177</u>

7.1 Trade receivables are generally on 25 days credit terms. The ageing analysis of trade receivables as at end of the year was as follows:

Note past due	2,137	5,115	5,551	13,286
Past due by less than 90 days	407	-	1,057	-
Past due between 91-120 days	1,334	-	3,465	-
Past due between 121-150 days	2,930	-	7,610	-
Past due between 151-180 days	3,230	-	8,390	-
Past due between 181-210 days	3,380	-	8,779	-
	<u>13,418</u>	<u>5,115</u>	<u>34,852</u>	<u>13,286</u>

7.2 All of the trade receivables relate to Oman Power and Water Procurement Company SAOC, the only customer of the Company. The management is confident that these outstanding balances will be settled shortly, therefore no allowance for credit losses has been accounted for. According to the management of the Company, the basis of their belief regarding complete recovery/settlement of the trade receivables is that the Company is not liable to pay trade payables amounting to RO 11,445,000 (note 13) until they receive money from the customer, pursuant to clause 8.6 of the Natural Gas Sales Agreement. Therefore, the management believe that there is no risk regarding recovery of past due receivables.

7.3 The maximum exposure to credit risk at the reporting date is the fair value of receivables mentioned above.

8 Cash and cash equivalents:

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	RO (000)	USD (000)	USD (000)
Bank balances - current accounts	1,997	7,910	5,187	20,545
Bank balances - short term deposits	3,000	-	7,792	-
Cash in hand	1	1	3	3
	<u>4,998</u>	<u>7,911</u>	<u>12,982</u>	<u>20,548</u>

8.1 The current account balances with banks are non-interest bearing.

8.2 Short term deposits consist of RO 3 million placed with a commercial bank at an interest rate of 1.75% per annum, for a period of 3 months starting from 11 December 2019.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

9 Share capital and reserves:

9a Share capital

The authorized, issued and fully paid-up share capital of the Company as registered with the Ministry of Commerce and Industry is as follows:

	31 Dec 2019 RO (000)	31 Dec 2018 RO (000)	31 Dec 2019 USD (000)	31 Dec 2018 USD (000)
Authorized share capital of 600,000,000 shares of RO 0.100 each	60,000	60,000	156,000	156,000
Issued and fully paid-up share capital of 221,010,000 shares of RO 0.100 each	22,101	22,101	57,405	57,405

Details of shareholders who own 10% or more of the Company's share capital at the end of the year were as follows:

Name of the shareholder	Percentage shareholding 31 Dec 2019	Number of shares held 31 Dec 2019	Percentage shareholding 31 Dec 2018	Number of shares held 31 Dec 2018
	Kahrabel FZE, UAE	35%	77,353,500	35%
MENA Sohar 1 SPV Ltd, UAE	20%	44,202,000	20%	44,202,000
Civil Service Employees' Pension Fund, Oman	15%	33,151,500	15%	33,151,500

9b Legal reserve

The legal reserve has been established in accordance with requirements of the Commercial Companies Law No. 18/2019 of the Sultanate of Oman, which requires 10% of a company's net profit to be transferred to a non-distributable legal reserve until the amount of the legal reserve is equal to one-third of the Company's fully-paid up share capital. During the current year, RO 116,000 was transferred to the legal reserve (31 December 2018: RO Nil).

9c Dividend

In accordance with the terms of the loan facilities agreement, there will be no further proposed, approved or distributed dividends until the loan amount is fully repaid or restructured. Therefore, no dividends have been proposed or approved during the current year.

10 Hedging deficit and reserve:

Interest rate swaps

The long-term loan facilities of the Company bear interest at USD LIBOR - 6 months plus applicable margins (refer note 11). In accordance with the term loan agreement, the Company has fixed the rate of interest through Interest Rate Swap Agreements (IRS) to hedge the risk of variation in USD LIBOR - 6 months for at least 95% of its loan facility until 31 March 2022. The corresponding hedged notional amount of the swaps at 31 December 2019 was approximately RO 74 million (USD 191 million) [31 December 2018: RO 82 million (USD 214 million)], bearing fixed interest rates of 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum [31 December 2018: 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum] excluding applicable margins.

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

10 Hedging deficit and reserve (continued)

At 31 December 2019, the interest rate for USD LIBOR - 6 months was 2.60438% per annum (31 December 2018: 2.595380% per annum) whereas the Company has fixed interest on its borrowings as described above.

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	RO (000)	USD (000)	USD (000)
HSBC Bank Plc	(415)	(677)	(1,078)	(1,758)
Standard Chartered Bank	(266)	(393)	(691)	(1,021)
HSBC Bank Plc	(618)	(572)	(1,605)	(1,485)
Standard Chartered Bank	(1,432)	(1,376)	(3,719)	(3,573)
Credit Agricole Corporate and Investment Bank	(1,421)	(1,348)	(3,691)	(3,501)
Hedging deficit at the end of the year	(4,152)	(4,365)	(10,784)	(11,338)
Deferred tax (note 20)	620	653	1,610	1,696
Hedging reserve at the end of the year (net of tax) - before deducting the ineffective portion of cash flow hedge	(3,532)	(3,712)	(9,174)	(9,642)
Less: hedging reserve at the beginning of the year (net of tax) - before deducting the ineffective portion of cash flow hedge	(3,712)	(6,310)	(9,642)	(16,390)
Effective portion of change in the fair value of cash flow hedge for the year	(180)	(2,598)	(468)	(6,748)

10.1 The following is the movement in hedging deficit and reserve:

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	RO (000)	USD (000)	USD (000)
Hedging deficit at the beginning of the year	(4,365)	(7,423)	(11,338)	(19,280)
Change during the year	213	3,058	553	7,943
Hedging deficit at the end of the year	(4,152)	(4,365)	(10,785)	(11,337)
Ineffective portion of cash flow hedge (note 19)	392	198	1,018	514
Deferred tax (note 20)	620	653	1,610	1,696
Hedging reserve at the end of the year	(3,140)	(3,514)	(8,157)	(9,127)

10.2 If the Company had terminated the IRS at 31 December 2019, it would have incurred losses of approximately RO 4.65 million (USD 12.09 million) [31 December 2018: RO 4.85 million (USD 12.59 million)]. However, under the terms of the loan agreements, the Company is not permitted to terminate the IRS.

10.3 In accordance with the requirements of IFRS 9, the hedge is tested on an ongoing basis (i.e. quarterly basis) for its effectiveness on the basis of clean fair values from the swap banks, and consequently

effective and ineffective portions, if any, are recognised in other comprehensive income and profit or loss respectively.

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for the year ended 31 December 2019

11 Long term loans:

	31 Dec 2019 RO (000)	31 Dec 2018 RO (000)	31 Dec 2019 USD (000)	31 Dec 2018 USD (000)
Base facility	56,267	65,077	146,148	169,031
Repayment facility	10,823	12,517	28,112	32,511
Less: current portion of long term loans	(8,649)	(9,617)	(22,465)	(24,979)
	58,441	67,977	151,795	176,563
Less: deferred financing costs	(664)	(886)	(1,725)	(2,301)
Non-current portion of long term loans	57,777	67,091	150,070	174,262

Syndicated facilities

The Company has syndicated long-term loan facilities (Syndicated Facilities), comprising a Base facility and a Repayment facility in the aggregate maximum amount of approximately USD 455 million. HSBC Bank plc is the facility agent (Facility Agent) for the administration and monitoring of the overall loan facilities. HSBC Bank USA – National Association and Bank Muscat have respectively been appointed as the off-shore security trustee and on-shore security agent for the secured finance parties.

Base facility

The Company has obtained a term loan under a Base facility in an aggregate amount of USD 382.50 million. The aggregate amount of the Base facility is repayable in 34 (thirty four) semi-annual installments, of which 28 installments are ranging between USD 6.5 million and USD 13.2 million. The last 6, post concession, installments are of USD 20.35 million each. Repayments under the revised Base facility commenced from 30 September 2007.

Repayment facility

The Company has obtained a term loan under a Repayment facility in an aggregate amount of USD 72 million. The aggregate amount of the Repayment facility is repayable in 34 (thirty four) semi-annual installments, of which 28 installments are ranging between USD 1.2 million and USD 2.5 million. The last 6, post concession, installments are of USD 3.91 million each. Repayments under the Repayment facility commenced from 30 September 2008.

Interest

The facilities bear interest at USD LIBOR - 6 months rates plus applicable margins. The margins vary depending upon the outstanding facilities.

Commitment and other fees

Under the terms of the loan facilities, the Company is required to pay commitment fees, performance bond fees and front end fees for the facilities, as well as agency fees and all other bank fees.

Security

The facilities are secured by comprehensive legal and commercial mortgages on all the assets of the Company.

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Notes to the financial statements

for the year ended 31 December 2019

11 Long term loans (continued)

Covenants

The facilities agreements contain certain covenants pertaining to, amongst other things, project finance ratios, entering into material new agreements, negative pledge, change of business, loan and guarantee etc.

Cash sweep

The long-term loan facilities agreement contains cash sweep prepayments which started from the 17th repayment date i.e. 30 September 2015. The cash sweep prepayment amount equals 100% of all amounts standing to the credit of the operating revenues account but limited to certain conditions. As a consequence, no further amount will be available for distribution as a dividend to the shareholders until the full repayment of the loan.

12 Provision for decommissioning costs:

The provision for decommissioning costs represents the present value of management's best estimate of the future sacrifice of the economic benefits that will be required to remove the facilities and restore the affected area at the Company's sites. The movement in provision for decommissioning costs is as follows:

	31 Dec 2019 RO (000)	31 Dec 2018 RO (000)	31 Dec 2019 USD (000)	31 Dec 2018 USD (000)
At the beginning of the year	1,577	1,483	4,096	3,853
Un-winding of discount on decommissioning costs (note 19)	99	94	257	243
At the end of the year	<u>1,676</u>	<u>1,577</u>	<u>4,353</u>	<u>4,096</u>

13 Trade and other payables:

Trade payables	11,495	3,412	29,854	8,861
Accruals and other payables	2,300	5,291	5,971	13,740
	<u>13,795</u>	<u>8,703</u>	<u>35,825</u>	<u>22,601</u>

- 13.1 Trade payables are generally settled within 30 to 120 days of the suppliers' invoice date.
- 13.2 The contractual maturity date for trade payables is within 12 months from the date of the statement of financial position.
- 13.3 Accruals and other payables include RO 13,302 (USD 34,551) [31 December 2018: RO 12,168 (USD 31,605)] relating to end of service benefits (i.e. gratuity) of the expatriate staff.

14 Related party transactions and balances:

The Company enters into transactions with related parties in the ordinary course of business. These transactions are entered into on terms which the shareholders consider correspond to terms of normal arm's length transactions with third parties. The balances due from/to related parties are unsecured, bear no interest, have no fixed repayment terms and have been disclosed separately in the statement of financial position.

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Notes to the financial statements

for the year ended 31 December 2019

14 Related party transactions (continued)

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	RO (000)	USD (000)	USD (000)
Key management remuneration	178	191	462	496
Directors' remuneration (note 18)	-	-	-	-
Directors' meeting attendance fees (note 18)	29	27	76	71
Services provided by Sohar Operations and Maintenance Co. LLC (SOMC)	5,203	6,351	13,514	16,496
Services provided by Power Management Co. LLC				
-Management fees (note 18)	154	154	400	400
-Other administrative expenses	283	313	735	813
Services provided by Suez Tractebel S.A.	148	148	384	384
International Power S.A. - PS Guarantee fee	319	-	829	-
Electrabel S.A. - Guarantee fee	57	60	148	156
MENA Sohar 1 SPV Ltd - LC fee	32	34	83	88
SOGEX Oman LLC - LC fee	9	8	23	21
MOD Pension Fund - LC fee	8	8	21	21
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

A summary of the related party balances as at 31 December 2019 and 31 December 2018 was as follows:

14a Amount due to a related party

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	RO (000)	USD (000)	USD (000)
SOMC	235	474	610	1,231
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

15 Deferred revenue and revenue:

15a Deferred revenue

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	(Restated) RO (000)	USD (000)	(Restated) USD (000)
At the beginning of the year	4,687	5,684	12,174	14,764
Transferred to revenue (note 15b)	(1,273)	(997)	(3,306)	(2,590)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At the end of the year	3,414	4,687	8,868	12,174
Less: Current portion of deferred revenue	(1,533)	(1,273)	(3,982)	(3,306)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Non-current portion of deferred revenue	1,881	3,414	4,886	8,868
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Notes to the financial statements

for the year ended 31 December 2019

15 Deferred revenue and revenue (continued)

15a Deferred revenue (continued)

Restatement of financial statements due to change in revenue recognition policy

During the year, the Company adopted the straight-line method for recognizing Capacity Investment Charge income under its operating lease arrangement, which was previously recognized on an “as billed” basis. The billed revenue in excess of straight-line revenue as at 1 January 2019 was deferred as a liability and will be transferred to revenue as the operating lease income is earned in accordance with the straight-line basis. Therefore, prior year figures in these financial statements have been restated as summarized below:

- i) Due to recognizing revenue on a straight-line basis against the previous policy of recognizing revenue as per the payment profile of the PWPA (i.e. “as billed” basis), RO 5,683,450 has been recorded as deferred revenue (liability) in the financial statements of the Company as at 1 January 2018. Of the total liability of RO 5,683,450, RO 4,686,776 has been recorded as a non-current liability and RO 996,674 recorded as a current liability. RO 4,686,776 has been recorded as deferred revenue in the financial statements of the Company as at 31 December 2018. Of the total amount of RO 4,686,776, RO 3,413,298 has been recorded as a non-current liability and RO 1,273,478 recorded as a currently liability.
- ii) Retained earnings of the Company as at 1 January 2018 have been reduced by RO 5,148,000 (including effect of decrease in tax of RO 657,000 and increase in legal reserve of RO 121,000 for year 2017) and accumulated losses of the Company as at 31 December 2018 have been increased by RO 4,301,000 (including effect of decrease in tax of RO 657,000 and increase in legal reserve of RO 121,000 for year 2017 and increase in tax of RO 150,000 for year 2018).
- iii) Legal reserve of the Company as at 1 January 2018 and 31 December 2018 has been increased by RO 121,000 and retained earnings have been reduced by the same amount.
- iv) The revenue reported in the financial statements of the Company for the year ended 31 December 2018 has been increased by RO 996,674 (due to change in the investment charge) and the same amount has been reduced from the deferred revenue.
- v) The provision for taxation as at 1 January 2018 and 31 December 2018 has been decreased by RO 657,000 and RO 507,000 respectively, due to reduction in current tax charge for the year 2017 and increase in revenue of RO 996,674 for the year 2018 because of the change in revenue recognition policy.
- vi) Current tax charge for the year ended 31 December 2018 has been increased by RO 150,000 and income tax reversal for the year ended 31 December 2018 has been decreased by the same amount.

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Notes to the financial statements

for the year ended 31 December 2019

15 Deferred revenue and revenue (continued)

15a Deferred revenue (continued)

Restatement of financial statements due to change in revenue recognition policy (continued)

The following is the summary of changes in the statement of financial position relating to the previous year:

Description	1 January 2018			31 December 2018		
	As published RO (000)	Restatement RO (000)	As restated RO (000)	As published RO (000)	Restatement RO (000)	As restated RO (000)
Retained earnings	5,024	(5,148)	(124)	(5,915)	(4,301)	(10,216)
Legal reserve	3,911	121	4,032	3,911	121	4,032
Deferred revenue-non-current portion	-	4,687	4,687	-	3,414	3,414
Deferred revenue-current portion	-	997	997	-	1,273	1,273
Provision for taxation	657	(657)	-	1,334	(507)	827

The following is the summary of changes in the statement of profit or loss and other comprehensive income relating to the previous year:

Description	1 January 2018			31 December 2018		
	As published RO (000)	Restatement RO (000)	As restated RO (000)	As published RO (000)	Restatement RO (000)	As restated RO (000)
Revenue	64,485	552	65,037	66,505	997	67,502
Income tax expense/(reversal)	3,582	(657)	2,925	(1,926)	150	(1,776)

15b Revenue

	31 Dec 2019 RO (000)	31 Dec 2018 RO (000)	30 Jun 2019 USD (000)	31 Dec 2018 USD (000)
Power and water revenue (as billed)	49,313	66,505	128,086	172,740
Transferred from deferred revenue (note 15a)	1,273	997	3,306	2,590
Total revenue (on a straight-line basis)	50,586	67,502	131,392	175,330

15.1 Power and water revenue consists of fixed capacity charges and variable charges as well as fuel costs recovery.

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Notes to the financial statements

for the year ended 31 December 2019

16 Cost of revenue:

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	RO (000)	USD (000)	USD (000)
Fuel gas	24,079	39,705	62,543	103,130
Operating and maintenance costs	5,203	6,351	13,514	16,496
Depreciation (note 5)	11,778	6,749	30,592	17,530
Depreciation relating to right-of-use assets (note 6)	150	-	390	-
Sea water extraction costs	770	786	2,000	2,042
Other operating expenses	1,089	800	2,829	2,078
	43,069	54,391	111,868	141,276

17 Other income:

Reimbursement of extra tax payable (note 20c)	273	220	709	571
Interest on short term deposits (note 8.2)	14	-	36	-
	287	220	745	571

18 General and administrative expenses:

Management fees	154	154	400	400
Directors' meeting attendance fees and remuneration (note 14)	29	27	76	71
Legal and professional fees	145	92	377	240
Staff costs	32	30	83	78
Depreciation (note 5)	1	1	3	3
Other administrative expenses	467	628	1,212	1,629
	828	932	2,151	2,421

19 Finance costs:

Interest on net settlement of swaps	1,820	2,326	4,727	6,042
Interest on Base facility	2,264	2,379	5,880	6,180
Interest on Repayment facility	435	458	1,130	1,190
Ineffective portion of cash flow hedge (note 10.1)	194	51	504	132
Other finance charges	309	157	802	409
Amortisation of deferred financing costs (note 11)	222	248	577	644
Unwinding of discount on decommissioning costs (note 12)	99	94	257	243
Finance charges relating to lease liability (note 6)	26	-	68	-
	5,369	5,713	13,945	14,840

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Notes to the financial statements

for the year ended 31 December 2019

20 Taxation:

20a Current tax

The Company is liable to income tax at the rate of 15% (2018: 15%) on its taxable profits, in accordance with the Income Tax Law of the Sultanate of Oman. For the purpose of determining the tax provision, the net profit for the year has been adjusted for tax purposes. The adjustments are made to certain items relating to expenses and are based on the current understanding of tax provisions and regulations.

	31 Dec 2019	31 Dec 2018 (Restated)	31 Dec 2019	31 Dec 2018 (Restated)
	RO (000)	RO (000)	USD (000)	USD (000)
<i>Recognized in profit or loss</i>				
Current tax charge				
- Current year	1,373	1,120	3,566	2,909
- Restatement due to change in revenue recognition policy	-	150	-	390
- Prior year	-	1	-	3
	<u>1,373</u>	<u>1,271</u>	<u>3,566</u>	<u>3,302</u>
Deferred tax charge (net)				
- Current year:				
Origination and reversal of temporary differences	(921)	(3,047)	(2,392)	(7,915)
	<u>452</u>	<u>(1,776)</u>	<u>1,174</u>	<u>(4,613)</u>
<i>Recognized in other comprehensive income</i>				
Deferred tax charge relating to interest rate swap	33	460	86	1,195
	<u>33</u>	<u>460</u>	<u>86</u>	<u>1,195</u>

The following is a reconciliation of income taxes calculated at the applicable tax rate with income tax expense for the year:

	31 Dec 2019	31 Dec 2018 (Restated)	31 Dec 2019	31 Dec 2018 (Restated)
	RO (000)	RO (000)	USD (000)	USD (000)
Profit/(loss) before taxation	1,607	(11,868)	4,173	(30,827)
Income tax as per rates mentioned above	241	(1,780)	626	(4,625)
Non-deductible expenses	3	3	9	9
Prior year - current tax	-	1	-	3
Prior year - deferred tax	208	-	539	-
Income tax expense/(income)	<u>452</u>	<u>(1,776)</u>	<u>1,174</u>	<u>(4,613)</u>

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Notes to the financial statements for the year ended 31 December 2019

20 Taxation (continued)

20b Deferred tax

Deferred tax liability balance as at the end of the year was as follows:

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	RO (000)	USD (000)	USD (000)
<i>Recognized in the statement of financial position</i>				
Deferred tax liability	9,261	10,149	24,056	26,361

The deferred tax liability and deferred tax charge (net) in profit or loss and other comprehensive income are attributable to the following items:

	At 31 December 2018	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2019
	RO (000)	RO (000)	RO (000)	RO (000)
Provisions	329	(194)	-	135
Fair value of hedging instruments	653	-	(33)	620
Depreciation / impairment	(11,131)	1,113	-	(10,018)
Right-of-use assets and lease liability	-	2	-	2
	<u>(10,149)</u>	<u>921</u>	<u>(33)</u>	<u>(9,261)</u>

	At 31 December 2018	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2019
	USD (000)	USD (000)	USD (000)	USD (000)
Provisions	852	(504)	-	348
Fair value of hedging instruments	1,700	-	(86)	1,614
Depreciation / impairment	(28,914)	2,891	-	(26,023)
Right-of-use assets and lease liability	-	5	-	5
	<u>(26,362)</u>	<u>2,392</u>	<u>(86)</u>	<u>(24,056)</u>

20c Provision for taxation

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RO (000)	(Restated) RO (000)	USD (000)	(Restated) USD (000)
Balance at the beginning of the year	827	657	2,148	1,706
Charge for the year	1,373	1,120	3,566	2,909
Additional tax for the year due to restatement	-	150	-	390
Prior year tax adjustment due to restatement	-	(656)	-	(1,704)
Payments during the year	(1,118)	(444)	(2,904)	(1,153)
	<u>1,082</u>	<u>827</u>	<u>2,810</u>	<u>2,148</u>

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Notes to the financial statements

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20 Taxation (continued)

20c Provision for taxation (continued)

As at 31 December 2018, provision for taxation (i.e. tax payable by the Company as at 31 December 2018) was reduced by RO 506,000 (USD 1,314,000) because of restatement of the financial statements due to change in revenue recognition policy of the Company. However, it is to be noted that final tax return of the Company for the financial year 2018 was filed declaring tax payable for the year of RO 1,120,000 (USD 2,909,000). The amount of tax payable by the Company as at 31 December 2018, without taking into account the restatement, would have been RO 1,333,000 (USD 3,462,000). The Company has not filed the revised tax return for the financial 2018 and this adjustment amount is yet to be agreed by the Secretariat General for Taxation of the Sultanate of Oman.

The taxation charge for the year includes an estimated amount of RO 0.273 million (USD 0.709 million) [2018: RO 0.220 million (USD 0.571 million)] which will subsequently be reimbursed by Oman Power and Water Procurement Co. SAOC (OPWP) according to an agreement between the Company and OPWP. As per a letter from OPWP captioned "Material adverse change claim due to changes in the Income Tax Law", dated 21 December 2016, OPWP agreed to reimburse the Company, throughout the term of the PWPA, for extra tax payable due to an increase in tax rates from 12% to 15%, applicable from year 2017 and onwards.

20d Status of tax assessments

The Company has filed annual tax returns up to the year ended 31 December 2018. The Company's tax assessments from the year ended 31 December 2014 to the year ended 31 December 2018 have not been finalized by the Secretariat General for Taxation of the Sultanate of Oman. The management believe that amount of additional taxes, if any, that may become payable in relation to the tax years for which assessments are pending would not be material to the Company's financial position as at 31 December 2019.

21 Net assets per share:

Net assets value per share is calculated by dividing the shareholders' equity by the number of shares outstanding at the end of the year.

	31 Dec 2019	31 Dec 2018 (Restated)	31 Dec 2019	31 Dec 2018 (Restated)
Shareholders' equity {RO (000)/USD (000)} 41,349	17,072	15,917	44,350	
Number of issued and fully paid-up shares at the end of the year	221,010	221,010	221,010	221,010
Net assets per share {RO (000)/USD (000)}	0.077	0.072	0.200	0.187

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22 Basic and diluted earnings per share:

Basic earnings per share is calculated by dividing the net profit for the period with the weighted average number of shares outstanding during the period. There are no dilution effects.

	31 Dec 2019	31 Dec 2018 (Restated)	31 Dec 2019	31 Dec 2018 (Restated)
Net profit/(loss) for the year {RO (000)/USD (000)}	<u>1,155</u>	<u>(10,092)</u>	<u>2,999</u>	<u>(26,214)</u>
Weighted number of shares outstanding during the year	<u>221,010</u>	<u>221,010</u>	<u>221,010</u>	<u>221,010</u>
Basic and diluted earnings/(losses) per share {RO (000)/USD (000)}	<u><u>0.0052</u></u>	<u><u>(0.0457)</u></u>	<u><u>0.0136</u></u>	<u><u>(0.1186)</u></u>

23 Lease commitments:

The land on which the Sohar Power and Water Plant is constructed, has been leased from Sohar Industrial Port Company SAOC for a period of 15 years from 20 July 2004. At the end of the year, future minimum lease commitments under non-cancellable operating leases were as follows:

	31 Dec 2019 RO (000)	31 Dec 2018 RO (000)	31 Dec 2019 USD (000)	31 Dec 2018 USD (000)
Within 1 year	<u>66</u>	<u>65</u>	<u>171</u>	<u>168</u>
Between 1 and 5 years	<u>102</u>	<u>145</u>	<u>264</u>	<u>378</u>
	<u><u>168</u></u>	<u><u>210</u></u>	<u><u>435</u></u>	<u><u>546</u></u>

24 Contingent liabilities:

There were no contingent liabilities outstanding as at 31 December 2019 (31 December 2018: RO Nil).

25 Capital risk management:

Capital is managed by the Company so that it is able to continue to operate as a going concern while maximising the profitability of the Company.

The capital structure of the Company consists of share capital, reserves and retained earnings. The Company manages its capital by making adjustments to dividend payments and bringing in additional capital in the light of changes in business conditions. No changes were made in the objectives, policies and processes during the year ended 31 December 2019 and year ended 31 December 2018.

26 Financial risk management:

Financial assets and liabilities

Financial assets of the Company carried on the statement of financial position include bank balances and trade and other receivables. Financial liabilities include long term loans, trade and other payables, and amount due to a related party.

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Notes to the financial statements

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26 Financial risk management (continued)

Risk management

The Company's activities expose it to various financial risks, primarily market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Exposure to market, credit and liquidity risks arise in the normal course of the Company's business.

The Company's risk management is carried out internally in accordance with the policies approved by the Board of Directors. Risk management policies and systems are reviewed regularly to ensure that they reflect any change in market conditions and activities of the Company.

Market risk:

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to currency risk on bank borrowings that are denominated in a currency other than the functional currency of the Company. These transactions are denominated in United States Dollar (USD). In respect of the Company's transactions denominated in USD, the management believe that the Company is not materially exposed to currency risk as the RO is effectively pegged to the USD and as the revenues of the Company are protected against foreign exchange fluctuation, by a provision under the PWPA. At the end of the reporting period, the Company had bank balances denominated in USD amounting to RO 0.00825 million (USD 0.0214 million) [31 December 2018: RO 0.01304 million (USD 0.0339 million)].

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Company's interest rate risk arises from long-term loans availed by the Company. The Company has entered into interest rate swaps to hedge its interest rate risk exposure. Under the interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Company's cash flow exposure resulting from variable interest rates on bank borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously.

(iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

As the Company has no significant exposure to investments, it does not have the risk of fluctuation in prices. The management consider that sensitivity analysis is not necessary due to the Company's limited exposure to price risk.

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for the year ended 31 December 2019

26 Financial risk management (continued)

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 trade receivables. At the end of the year, the entire trade receivables were from a government owned company (OPWP). The management therefore considers the credit risk associated with trade receivables to be very low. Furthermore, cash is placed with reputable banks, with good credit ratings, which further minimizes the credit risk.

The age analysis of current trade and other receivables is as follows:

	31 December 2019		31 December 2018	
	Receivables RO (000)	Provision RO (000)	Receivables RO (000)	Provision RO (000)
Not past due (up to 30 days)	2,137	-	5,115	-
Past due up to 210 days	11,281	-	-	-
	<u>13,418</u>	<u>-</u>	<u>5,115</u>	<u>-</u>

	31 December 2019		31 December 2018	
	Receivables USD (000)	Provision USD (000)	Receivables USD (000)	Provision USD (000)
Not past due (up to 3 months)	5,551	-	13,286	-
Past due up to 210 days	29,301	-	-	-
	<u>34,852</u>	<u>-</u>	<u>13,286</u>	<u>-</u>

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 maintains sufficient cash and bank balances to meet the Company's obligations as they fall due for payment.

31 December 2019

	Carrying value RO (000)	Contractual cash flows RO (000)	Less than 6 months RO (000)	6 to 12 months RO (000)	1 to 2 years RO (000)	2 to 5 years RO (000)	More than 5 years RO (000)
<i>Non-derivative financial liabilities (A)</i>							
Secured bank loans	66,503	67,090	3,038	5,807	9,232	49,013	-
Trade, other and related party payables	14,030	14,030	14,030	-	-	-	-
<i>Derivative financial liabilities (B)</i>							
Interest rate swaps used for hedging	4,152	4,653	1,091	1,879	1,683	-	-
Total (A+B)	<u>84,685</u>	<u>85,773</u>	<u>18,159</u>	<u>7,686</u>	<u>10,915</u>	<u>49,013</u>	<u>-</u>

SOHAR POWER COMPANY SAOG

Notes to the financial statements

for the year ended 31 December 2019

26 Financial risk management (continued)

	Carrying value USD (000)	Contractual cash flows USD (000)	Less than 6 months USD (000)	6 to 12 months USD (000)	1 to 2 years USD (000)	2 to 5 years USD (000)	More than 5 years USD (000)
<i>Non-derivative financial liabilities (A)</i>							
Secured bank loans	172,735	174,260	7,890	15,082	23,980	127,308	-
Trade, other and related party payables	36,441	36,441	36,441	-	-	-	-
<i>Derivative financial liabilities (B)</i>							
Interest rate swaps used for hedging	10,784	12,088	2,837	4,881	4,370	-	-
Total (A+B)	219,960	222,789	47,168	19,963	28,350	127,308	-

31 December 2018

	Carrying value RO (000)	Contractual cash flows RO (000)	Less than 6 months RO (000)	6 to 12 months RO (000)	1 to 2 years RO (000)	2 to 5 years RO (000)	More than 5 years RO (000)
<i>Non-derivative financial liabilities (A)</i>							
Secured bank loans	76,708	77,594	4,007	5,612	8,844	59,131	-
Trade, other and related party payables	9,177	9,177	9,177	-	-	-	-
<i>Derivative financial liabilities (B)</i>							
Interest rate swaps used for hedging	4,365	4,845	1,286	644	2,666	249	-
Total (A+B)	90,250	91,616	14,470	6,256	11,510	59,380	-

	Carrying value USD (000)	Contractual cash flows USD (000)	Less than 6 months USD (000)	6 to 12 months USD (000)	1 to 2 years USD (000)	2 to 5 years USD (000)	More than 5 years USD (000)
<i>Non-derivative financial liabilities (A)</i>							
Secured bank loans	199,241	201,543	10,408	14,576	22,972	153,587	-
Trade, other and related party payables	23,832	23,832	23,832	-	-	-	-
<i>Derivative financial liabilities (B)</i>							
Interest rate swaps used for hedging	11,337	12,587	3,344	1,672	6,924	647	-
Total (A+B)	234,410	237,962	37,584	16,248	29,896	154,234	-

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Notes to the financial statements

for the year ended 31 December 2019

26 Financial risk management (continued)

Capital management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders and benefits to other stakeholders. The Management's policy is to maintain a strong capital base so as to retain market confidence and sustain the future development of the business.

Capital commitments

Total amount of capital commitments outstanding as at 31 December 2019 was RO 28,464 (USD 73,932) [31 December 2018: RO 17,749 (USD 46,101)].

27 Fair value measurement:

The management believe that the fair values of financial assets and liabilities are not significantly different from their carrying amounts at the end of the year. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- 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 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The fair value of derivative financial liabilities (interest rate swaps) with a carrying value of RO 4.15 million (USD 10.78 million) [31 December 2018: RO 4.36 million (USD 11.33 million)] is calculated as the present value of the estimated future cash flows based on observable yield curves. Accordingly, they have been fair valued under the Level 2 hierarchy. There were no transfers between the Level 1 and Level 2 hierarchies in the current year.

28 Comparative figures:

Certain balances from the previous year have been re-classified to conform to the current year presentation. Restatement of comparative figures due to change in revenue recognition policy of the Company has been presented in note 15a.

29 Subsequent events:

There were no events occurring subsequent to the date of the statement of financial position and before the approval of the financial statements that are expected to have a significant impact on these financial statements.

30 Approval of the financial statements:

These financial statements were approved and authorised for issue by the Board of Directors on 26 February 2020.