

Sohar Power Company SAOG

**Financial statements for the year ended
31 December 2016**

Sohar Power Company SAOG
Financial statements for the year ended 31 December 2016

Contents	Page
Administration and contact details	1
Independent auditor's report	2-5
Statement of financial position	6
Statement of profit or loss	7
Statement of other comprehensive income	8
Statement of changes in shareholders' equity	9
Statement of cash flows	10
Notes to the financial statements	11 - 39

Sohar Power Company SAOG
Administration and contact details as at 31 December 2016

Commercial registration number	1761773
Board of Directors	Mr. Saif Abdullah Al Harthy - Chairman Ms. Anne-Stephanie Nguyen Qui - Vice-Chairman Mr. Rodak Iqbal - Director Mr. Sami Abdullah Khamis Al-Zadjali - Director Mr. Jeronimo Roura - Director Mr. Ahmed Sultan Al-Yaqoubi - Director Mr. Navneet Kasbekar - Director Mr. Tashfen Yasin - Director Mr. T. N. Sundararaju - Director Ms. Isabelle Gunay Demir - Director Mr. Ian Lawrence - Director Mr. Khamis Al Hashmi - Director
Audit Committee	Mr. Navneet Kasbekar - Chairman Mr. Ian Lawrence - Member Ms. Isabelle Gunay Demir - Member
Executive management	Mr. Guillaume Baudet - Chief Executive Officer Mr. Mirdas Al Rawahi - Chief Financial Officer Mr. Sreenath Hebbar - Chief Technical Officer Mr. Jamal Al Bloushi - Administration Manager Mr. Zoher Karachiwala - Company Secretary
Registered office	PO Box 147 Postal Code 134 Jawharat Al Shatti Sultanate of Oman
Bankers	HSBC Bank Oman Standard Chartered Bank Bank Sohar Bank Dhofar Bank Muscat Oman Arab Bank
Auditors	BDO Suites 601 & 602 Penthouse, Beach One Bldg. Way Number 2601, Shatti Al Qurum PO Box 1176, PC 112, Ruwi Sultanate of Oman

Sohar Power Company SAOG

Statement of financial position as at 31 December 2016

	Notes	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	137,171	143,886	356,288	373,730
Total non-current assets		<u>137,171</u>	<u>143,886</u>	<u>356,288</u>	<u>373,730</u>
Current assets					
Inventories		691	749	1,795	1,945
Trade and other receivables	6	5,200	6,460	13,506	16,781
Bank balances	7	7,150	9,182	18,571	23,849
Total current assets		<u>13,041</u>	<u>16,391</u>	<u>33,872</u>	<u>42,575</u>
Total assets		<u><u>150,212</u></u>	<u><u>160,277</u></u>	<u><u>390,160</u></u>	<u><u>416,305</u></u>
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	8	22,101	22,101	57,405	57,405
Legal reserve	9	3,708	3,254	9,633	8,453
Retained earnings		3,197	1,833	8,309	4,761
Shareholders' equity		<u>29,006</u>	<u>27,188</u>	<u>75,347</u>	<u>70,619</u>
Hedging deficit - net of tax	11	(9,356)	(12,904)	(24,301)	(33,513)
Total capital and reserves		<u>19,650</u>	<u>14,284</u>	<u>51,046</u>	<u>37,106</u>
Non-current liabilities					
Hedging deficit	11	10,632	14,664	27,615	38,085
Non-current portion of long-term loans	12	91,429	103,770	237,478	269,531
Provision for decommissioning costs	13	1,395	1,312	3,624	3,409
Deferred tax liability	14	9,648	8,591	25,060	22,318
Total non-current liabilities		<u>113,104</u>	<u>128,337</u>	<u>293,777</u>	<u>333,343</u>
Current liabilities					
Trade and other payables	15	8,165	8,538	21,199	22,175
Amount due to a related party	16	286	501	743	1,298
Current portion of long-term loans	12	9,007	8,617	23,395	22,383
Total current liabilities		<u>17,458</u>	<u>17,656</u>	<u>45,337</u>	<u>45,856</u>
Total equity and liabilities		<u><u>150,212</u></u>	<u><u>160,277</u></u>	<u><u>390,160</u></u>	<u><u>416,305</u></u>
Net assets per share	22	<u><u>0.131</u></u>	<u><u>0.123</u></u>	<u><u>0.341</u></u>	<u><u>0.320</u></u>

These financial statements, as set out on pages 6 to 39, were approved and authorised for issue by the Board of Directors on _____ and signed on their behalf by:

Chairman

Vice - Chairman

Sohar Power Company SAOG

Statement of profit or loss for the year ended 31 December 2016

		Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
	Notes	RO'000	RO'000	USD'000	USD'000
Revenue	17	66,307	62,657	172,226	162,746
Cost of revenue	18	(53,661)	(50,822)	(139,378)	(132,004)
Gross profit		<u>12,646</u>	<u>11,835</u>	<u>32,848</u>	<u>30,742</u>
Other income	19	403	788	1,047	2,048
		<u>13,049</u>	<u>12,623</u>	<u>33,895</u>	<u>32,790</u>
Expenses					
General and administrative expenses	20	(858)	(807)	(2,230)	(2,097)
Finance costs	21	(7,075)	(7,574)	(18,376)	(19,673)
		<u>(7,933)</u>	<u>(8,381)</u>	<u>(20,606)</u>	<u>(21,770)</u>
Profit before tax for the year		5,116	4,242	13,289	11,020
Income tax expense	14	(573)	(486)	(1,488)	(1,263)
Net profit after tax for the year		<u>4,543</u>	<u>3,756</u>	<u>11,801</u>	<u>9,757</u>
Basic and diluted earnings per share	23	<u>0.021</u>	<u>0.017</u>	<u>0.053</u>	<u>0.044</u>

Sohar Power Company SAOG

Statement of other comprehensive income for the year ended 31 December 2016

		Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
	Notes	RO'000	RO'000	USD'000	USD'000
Net profit after tax for the year		4,543	3,756	11,801	9,757
Other comprehensive income:					
<i>Items that may be reclassified into profit and loss</i>					
Fair value gains on interest rate swaps		4,032	2,854	10,466	7,418
Related taxation	14	(484)	(342)	(1,254)	(889)
Total other comprehensive income for the year		<u>3,548</u>	<u>2,512</u>	<u>9,212</u>	<u>6,529</u>
Total comprehensive income for the year		<u><u>8,091</u></u>	<u><u>6,268</u></u>	<u><u>21,013</u></u>	<u><u>16,286</u></u>

Sohar Power Company SAOG

Statement of changes in shareholders' equity for the year ended 31 December 2016

	Notes	Share capital RO'000	Legal reserve RO'000	Retained earnings RO'000	Hedging deficit RO'000	Total RO'000	Total USD'000
At 31 December 2014		22,101	2,878	2,099	(15,416)	11,662	30,290
Net profit after tax for the year		-	-	3,756	-	3,756	9,757
Other comprehensive income for the year		-	-	-	2,512	2,512	6,529
Transferred to legal reserve	9	-	376	(376)	-	-	-
Final dividend for the year 2014	10	-	-	(2,077)	-	(2,077)	(5,394)
Interim dividend for the year 2015	10	-	-	(1,569)	-	(1,569)	(4,076)
At 31 December 2015		<u>22,101</u>	<u>3,254</u>	<u>1,833</u>	<u>(12,904)</u>	<u>14,284</u>	<u>37,106</u>
Net profit after tax for the year		-	-	4,543	-	4,543	11,801
Other comprehensive income for the year		-	-	-	3,548	3,548	9,216
Transferred to legal reserve	9	-	454	(454)	-	-	-
Final dividend for the year 2015	10	-	-	(1,812)	-	(1,812)	(4,706)
Interim dividend for the year 2016	10	-	-	(913)	-	(913)	(2,371)
At 31 December 2016		<u><u>22,101</u></u>	<u><u>3,708</u></u>	<u><u>3,197</u></u>	<u><u>(9,356)</u></u>	<u><u>19,650</u></u>	<u><u>51,046</u></u>

Sohar Power Company SAOG

Statement of cash flows for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 RO'000	Year ended 31 December 2015 RO'000	Year ended 31 December 2016 USD'000	Year ended 31 December 2015 USD'000
Operating activities					
Cash receipts from customers		66,737	59,737	173,343	155,161
Cash paid to suppliers and employees		<u>(46,874)</u>	<u>(40,708)</u>	<u>(121,750)</u>	<u>(105,736)</u>
Operating profit		19,863	19,029	51,593	49,425
Interest paid		<u>(7,075)</u>	<u>(7,384)</u>	<u>(18,377)</u>	<u>(19,180)</u>
Net cash provided by operating activities		<u>12,788</u>	<u>11,645</u>	<u>33,216</u>	<u>30,245</u>
Investing activities					
Purchase of property, plant and equipment	5	<u>(144)</u>	<u>(260)</u>	<u>(374)</u>	<u>(677)</u>
Net cash used in investing activities		<u>(144)</u>	<u>(260)</u>	<u>(374)</u>	<u>(677)</u>
Financing activities					
Net movement in long-term loans		(11,951)	(8,273)	(31,042)	(21,486)
Dividends paid	10	<u>(2,725)</u>	<u>(3,646)</u>	<u>(7,078)</u>	<u>(9,470)</u>
Net cash used in financing activities		<u>(14,676)</u>	<u>(11,919)</u>	<u>(38,120)</u>	<u>(30,956)</u>
Net decrease in cash and cash equivalents		(2,032)	(534)	(5,278)	(1,388)
Cash and cash equivalents, beginning of the year		<u>9,182</u>	<u>9,716</u>	<u>23,849</u>	<u>25,237</u>
Cash and cash equivalents, end of the year	7	<u><u>7,150</u></u>	<u><u>9,182</u></u>	<u><u>18,571</u></u>	<u><u>23,849</u></u>

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

1 Legal status and activities

Sohar Power Company SAOG ("the Company") was initially registered as a closed joint stock company in the Sultanate of Oman on 17 July 2004. The Company was incorporated on 22 June 2004. The Company has been established to build and operate a 585 megawatt (MW) electricity generating station and 33 Million Imperial Gallon per day of water desalination plant at Sohar. The commercial operation date ("COD") has been determined to be 28 May 2007. The shareholders in the Extra-ordinary General Meeting held on 23 March 2008 resolved to convert the company from a closed joint stock company into a public joint stock company.

The Company's principal place of business is located at Sohar, Sultanate of Oman.

The financial statements were approved for issue by the Board of Directors on 27 February 2017.

2 Significant agreements

The Company has entered into the following significant agreements:

- (i) 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. 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.
- (ii) 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.
- (iii) Sub-usufruct agreement with Sohar Industrial Port Company SAOC for grant of usufruct rights over the project site for 15 years, with the option possibility of extension of 15 years.
- (iv) 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.
- (v) Operation and Maintenance Agreement ("O&M" Agreement) with Sohar Operation and Maintenance Company LLC, a related party, for operations and maintenance of the plant for a period of 15 years from the COD or the date of termination of the PWPA, whichever is earlier.
- (vi) Financing agreements with lenders for long-term loan facilities.
- (vi) Management Company Agreement with Power Management Company LLC, a related party, for providing management services.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

3 Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), the requirements of the Commercial Companies Law 1974, as amended, of the Sultanate of Oman and the relevant disclosure requirements for licensed companies issued by the Capital Market Authority.

Basis of presentation

The financial statements are prepared under the historical cost convention and going concern assumption, except for certain financial assets and financial liabilities which are carried at their fair values. The preparation of financial statements is in conformity with IFRS that requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies.

Functional currency

The financial statements are presented in Omani Rials and United States Dollars (rounded off to the nearest thousand).

Improvements/amendments to IFRS/IAS 2012/2014 cycle

Improvements/amendments to IFRS/IAS issued in 2012/2014 cycle contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Company's annual audited financial statements beginning on or after 1 January 2016 and subsequent periods with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

Standards, amendments and interpretations effective and adopted in the year 2016

The following new standards, amendment to existing standards or interpretations to published standards are mandatory for the first time for the financial year beginning 1 January 2016 and have been adopted in the preparation of the financial statements:

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IAS 1	Presentation of Financial Statements	1 January 2016
IAS 16	Property, Plant and Equipment	1 January 2016

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

3 Basis of preparation (continued)

Standards, amendments and interpretations issued and effective in the year 2016 but not relevant

The following new standards, amendments to existing standards and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2016 or subsequent periods, but are not relevant to the Company's operations:

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IAS 19	Employee Benefits	1 January 2016
IAS 27	Separate Financial Statements	1 January 2016
IAS 28	Investments in Associates and Joint Ventures	1 January 2016
IAS 34	Interim Financial Reporting	1 January 2016
IAS 38	Intangible Assets	1 January 2016
IAS 41	Agriculture	1 January 2016
IFRS 7	Non-current Assets Held for Sale and Discontinued Operations	1 January 2016
IFRS 7	Financial Instruments - Disclosures	1 January 2016
IFRS 10	Consolidated Financial Statements	1 January 2016
IFRS 11	Joint Arrangements	1 January 2016
IFRS 12	Disclosure of Interests in Other Entities	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016

Standards, amendments and interpretations issued but not yet effective in the year 2016

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for the year ended 31 December 2016. They have not been adopted in preparing the financial statements for the year ended 31 December 2016. In all cases, the Company intends to apply these standards from the application date as indicated in the table below.

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

IFRS 9, 'Financial Instruments' has an effective date for accounting periods beginning on or after 1 January 2018 now that it has been finalised. IFRS 9 outlines the recognition, measurement and derecognition of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. Financial assets are to be measured at amortised cost, fair value through profit and loss or fair value through other comprehensive income, with an irrevocable option on initial recognition to recognise some equity financial assets at fair value through other comprehensive income. The impairment model in IFRS 9 moves to one that is based on expected credit losses rather than the IAS 39 incurred loss model. The derecognition principles of IAS 39, 'Financial Instruments: Recognition and Measurement' have been transferred to IFRS 9. The hedge accounting requirements have been liberalised from that allowed previously. The requirements are based on whether an economic hedge is in existence, with less restriction about proving whether a relationship will be effective than current requirements.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

3 Basis of preparation (continued)

Standards, amendments and interpretations issued but not yet effective in the year 2016 (continued)

IFRS 15, 'Revenue from Contracts with Customers' issued in May 2014 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related IFRICs 13, 15 and 18, and SIC-31. IFRS 15 is applicable for annual periods beginning on or after 1 January 2018. The standard is based on a 5 step approach to recognise revenue and also provides specific principles to apply, when there is a contract modification, accounting for contract costs and accounting for refunds and warranties. On application of the standard, the disclosures are likely to increase.

IFRS 16 issued in January 2016 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with lessor accounting substantially unchanged from IAS 17. IFRS 16 is effective from 1 January 2019.

The Company is assessing the impact on the operational results of the Company for the year ended 31 December 2016 had the Company early adopted any of the above standards applicable to the Company.

Early adoption of amendments or standards in the year 2016

The Company did not early-adopt any new or amended standards in the year ended 31 December 2016.

4 Summary of significant accounting policies

Power and Water Purchase Agreement

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.

In 2005, IFRIC 4 ("Determining whether an arrangement contains a lease") was issued and it became effective from 1 January 2006. The Company at that time considered the applicability of IFRIC 4, which provides guidance for determining whether an arrangement is, or contains, a lease that should be accounted for in accordance with IAS 17. If such an assessment results in an operating lease; then lease income from such an operating lease would be recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit.

The management has reviewed the applicability of IFRIC 4 and concluded that the PWPA conveys a right of use of the Company's plant consistent with an operating lease arrangement.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

Power and Water Purchase Agreement (continued)

The management believes that the gradually decreasing lease payments reflect the fair value of the consideration for the Company's availability with respect to Electrical Energy Generating Capacity and Water Output Desalination Capacity in the respective years and represents a more systematic basis of benefit derived, evidenced by:

- The off-taker's acceptance of the decreasing tariff, recognising that the expense incurred by the Company to make available capacity to generate the energy and the desalinated water also follows a decreasing pattern. This pattern is driven by the importance of the debt service costs;
- The PWPA explicitly mentioning that the (frontloaded) lease payments compensate for the Company's debt service costs that are significantly higher in the earlier years and lower in the later years; and
- The absence of any explicit claw-back provisions for the off-taker with respect to the initially higher amounts of Investment Charge paid, in case of a breach of contract by the Company.

A summary of the significant accounting policies adopted in the preparation of these financial statements is set out below. These policies have been adopted for all the years presented, unless stated otherwise.

(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 working condition for their intended use.

Depreciation is calculated by the straight-line method to write-off the cost of each asset to its estimated residual value over its expected useful economic life.

The estimated useful economic lives are as follows:

Description	Years
Buildings	30
Plant and machinery	30
Technical parts	30
Other assets	4
Decommissioning assets	30

Items of property, plant and equipment are derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of asset is included in the statement of profit or loss in the year the item is derecognised.

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

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

(b) Capital work-in-progress

Capital work-in-progress is stated at cost including capital advances incurred upto 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.

(c) Impairment of assets

Financial assets

At the end of each reporting period, the management assesses if there is any objective evidence indicating impairment of financial assets carried at cost or non-collectability of receivables. An impairment loss, if any, arrived at as a difference between the carrying amount and the recoverable amount, is recognised in the statement of profit or loss. The recoverable amount represents the present value of expected future cash flows discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted.

Non-financial assets

At the end of each reporting period, the management assesses if there is any indication of impairment of non-financial assets. If an indication exists, the management estimates the recoverable amount of the asset and recognises an impairment loss in the statement of profit or loss. The management also assesses if there is any indication that an impairment loss recognised in prior years no longer exists or has reduced. The resultant impairment loss or reversals are recognised immediately in the statement of profit and loss.

(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 net profits. The Directors take into account appropriate parameters including the requirements of the Commercial Companies Law 1974, as amended, while recommending dividend.

(e) Inventories

Inventories comprise of fuel oil and gas are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is accounted on the first-in first-out basis and includes expenditure incurred in acquiring the inventories and includes an appropriate share of fixed and variable overheads.

(f) Trade and other receivables

Trade and other receivables originated by the Company are measured at cost. An allowance for credit losses of trade and other receivables is established when there is objective evidence that the Company will not be able to collect the amounts due. When a trade or other receivable is uncollectible, it is written-off against the allowance account for credit losses. The carrying value of trade and other receivables approximate their fair values due to the short-term nature of those receivables.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

(g) Cash and cash equivalents

For the purposes of 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) Trade payables

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

(i) 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 is 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 is 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.

(j) Employees' terminal benefits

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 as incurred.

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. This provision is classified as a non-current liability.

(k) Revenue

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 accruals basis of accounting. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

(l) Other income

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

(n) Operating leases

Operating lease is an agreement whereby the lessor retains substantially all the risks and rewards incidental to ownership of an asset. Lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the benefit.

(o) Foreign currency transactions

Transactions denominated in foreign currencies are translated to Omani Rial at 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 at the foreign exchange rates prevailing at that date. Foreign exchange differences arising on translation are recognised in the statement of profit and loss.

(p) Bank borrowings

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. 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 over the period of the bank borrowings using the effective interest rate method.

(q) Borrowings 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.

(r) Income tax

Taxation for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the period, 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.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

(r) Income tax (continued)

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 the statement of profit or loss, except when they relate to items that are recognised in statement of other comprehensive income, in which case the tax is also recognised in the statement of profit or loss.

(s) 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.

(t) Financial liabilities

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

(u) 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 the statement of profit and loss immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the statement of 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 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.

Hedge accounting

The Company designates the hedging instrument as 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 off-setting changes in fair values or cash flows of the hedged item.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

(u) Derivative financial instruments (continued)

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 the statement of other comprehensive income. The gains or losses relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts previously recognised in and accumulated in statement of other comprehensive income are reclassified to statement of 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.

(v) Directors' remuneration

The Company follows the Commercial Companies Law 1974, as amended, and other latest 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 in the year to which they relate.

(w) Critical accounting judgments and key source of estimation uncertainty

Preparation of financial statements in accordance with IFRS 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.

Provisions

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. An estimate of the collectible amount of trade receivables is made when the collection of the full amount is no longer probable. For individually significant amounts, this estimate is performed on an individual basis. Amounts which are not significant, but which are past due, are individually assessed collectively and a provision is applied according to the length of time the receivable is past due, based on historical recovery rates. Any difference between the amount actually collected in future periods and the amounts expected will be recognised in the statement of profit or loss.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

4 Summary of significant accounting policies (continued)

(w) Critical accounting judgments and key source of estimation uncertainty (continued)

Provisions (continued)

The Company also creates a provision for obsolete and slow-moving inventories. 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.

Going concern

The management of the Company reviews the financial position of the Company on a periodical basis and assesses the requirement of 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 to funding the requirements to 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 2016

5 Property, plant and equipment

(a) The movement in property, plant and equipment is as set out below:

December 2016	Buildings	Plant and machinery	Technical parts	Other assets	Decommissioning assets	Capital work-in-progress	Total RO'000	Total USD'000
Cost								
At 31 December 2015	7,027	189,234	4,901	24	777	326	202,289	525,426
Additions during the year	-	38	44	-	-	62	144	374
Disposals during the year	-	(36)	-	-	-	-	(36)	(94)
Transferred from capital work-in-progress during the year	-	-	-	-	-	(81)	(81)	(210)
At 31 December 2016	<u>7,027</u>	<u>189,236</u>	<u>4,945</u>	<u>24</u>	<u>777</u>	<u>307</u>	<u>202,316</u>	<u>525,496</u>
Accumulated depreciation								
At 31 December 2015	2,059	54,753	1,348	21	222	-	58,403	151,696
Charge for the year	235	6,311	169	1	26	-	6,742	17,512
At 31 December 2016	<u>2,294</u>	<u>61,064</u>	<u>1,517</u>	<u>22</u>	<u>248</u>	<u>-</u>	<u>65,145</u>	<u>169,208</u>
Net book amount								
At 31 December 2016	<u>4,733</u>	<u>128,172</u>	<u>3,428</u>	<u>2</u>	<u>529</u>	<u>307</u>	<u>137,171</u>	<u>356,288</u>

(b) Land on which the power station, building and auxiliaries are constructed has been sub-leased from the Sohar Industrial Port Company SAOC for a period of 15 years from the COD. The sub-lease is further extendable for another 15 years. Lease rent is paid at the rate of approximately RO 61,600 (USD 160,000) per annum.

(c) Property, plant and equipment are mortgaged against long-term loan facilities (Note 12) availed by the Company.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

5 Property, plant and equipment (continued)

2015	Buildings	Plant and machinery	Technical parts	Other assets	Decommissioning assets	Capital work-in-progress	Total RO'000	Total USD'000
Cost								
At 31 December 2014	7,009	189,031	4,888	22	777	302	202,029	524,749
Additions during the year	18	203	13	2	-	24	260	677
At 31 December 2015	<u>7,027</u>	<u>189,234</u>	<u>4,901</u>	<u>24</u>	<u>777</u>	<u>326</u>	<u>202,289</u>	<u>525,426</u>
Accumulated depreciation								
At 31 December 2015	1,824	48,447	1,180	19	196	-	51,666	134,196
Charge for the year	235	6,306	168	2	26	-	6,737	17,500
At 31 December 2015	<u>2,059</u>	<u>54,753</u>	<u>1,348</u>	<u>21</u>	<u>222</u>	<u>-</u>	<u>58,403</u>	<u>151,696</u>
Net book amount								
At 31 December 2015	<u><u>4,968</u></u>	<u><u>134,481</u></u>	<u><u>3,553</u></u>	<u><u>3</u></u>	<u><u>555</u></u>	<u><u>326</u></u>	<u><u>143,886</u></u>	<u><u>373,730</u></u>

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

	2016	2015
Cost of revenue	6,741	6,735
Expenses	1	2
	<u>6,742</u>	<u>6,737</u>

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

6 Trade and other receivables	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
Trade receivables	6,460	6,890	16,779	17,898
Less: allowance for credit losses	(1,392)	(1,392)	(3,616)	(3,616)
	<u>5,068</u>	<u>5,498</u>	<u>13,163</u>	<u>14,282</u>
Advances and prepayments	132	168	343	436
Other advances	-	794	-	2,063
	<u>5,200</u>	<u>6,460</u>	<u>13,506</u>	<u>16,781</u>

Trade receivables are generally on 25 days credit terms.

The ageing analysis of unimpaired trade receivables is as follows:	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
Up to 3 months	<u>5,068</u>	<u>5,498</u>	<u>13,163</u>	<u>14,282</u>

Trade receivables are from Oman Power and Water Procurement Co. SAOC, the only customer of the Company (2015: OPWP).

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

The carrying amounts of the Company's trade receivables are denominated in Omani Rial.

7 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
Current account balances with banks	<u>7,150</u>	<u>9,182</u>	<u>18,571</u>	<u>23,849</u>
	<u>7,150</u>	<u>9,182</u>	<u>18,571</u>	<u>23,849</u>

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

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

8 Share capital

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

	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
Authorised share capital of 600,000,000 shares of RO 0.100	<u>60,000</u>	<u>60,000</u>	<u>156,000</u>	<u>156,000</u>
Issued and fully paid-up share capital of 221,010,000 shares of RO 0.100	<u>22,101</u>	<u>22,101</u>	<u>57,405</u>	<u>57,405</u>

At the end of the year, shareholders who own 10% or more of the Company's share capital and the number of shares they hold are as follows:

Name of the shareholders	Percentage share holding 2016	Number of shares held 2016	Percentage share holding 2015	No of shares held 2015
Kahrabel FZE	35%	77,353,500	35%	77,353,500
MENA Sohar 1SPV LTD	20%	44,202,000	20%	44,202,000
Civil Service Employees Pension Fund	15%	33,151,500	15%	33,151,500

9 Legal reserve

In accordance with the provisions of the Commercial Companies Law 1974, as amended, of the Sultanate of Oman, an amount equivalent to 10% of the Company's net profit before appropriations is required to be transferred to a non-distributable reserve until such time as a minimum of one-third of the issued and fully paid-up share capital is set aside. During the year ended 31 December 2016, the Company has transferred an amount of Rial 454 thousand to the legal reserve (2015: Rial 376 thousand).

10 Dividends paid and proposed

- (a) The Board of Directors proposed a final cash dividend of RO 1.812 million (8.2% of the existing share capital) for the year ended 31 December 2015, which was approved and distributed to the shareholders after their approval in the Annual General Meeting held on 29 March 2016.
- (b) The Board of Directors of the Company proposed an interim dividend of RO 0.913 million (4.132% of the existing share capital) for the year ended 31 December 2016, which was approved and distributed to the shareholders after their approval in the Annual General Meeting held on 29 March 2016.
- (c) As previously discussed and, in line with the facilities agreement entered into with its lenders, there will be no more proposal of dividend distribution to shareholders until the debt is fully repaid or restructured.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

11 Hedging deficit

Interest rate swap

The long-term loan facilities of the Company bear interest at US LIBOR plus applicable margins (refer note 12). 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 US LIBOR for 95% of its loan facility till 31 March 2022. The corresponding maximum hedged notional amount of the swaps at 31 December 2016 is approximately RO 100 million (USD 260 million) [31 December 2015: RO 108 million (USD 282 million)] bearing fixed interest rates of 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum (31 December 2015: 7.89%, 4.50%, 5.70%, 4.36% and 4.36% per annum) excluding applicable margin.

At 31 December 2016, the USD LIBOR was 1.2336% per annum, (31 December 2015 - 0.5331% per annum) whereas the Company has fixed interest on its borrowings as described above.

	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
HSBC Bank plc	(1,935)	(2,922)	(5,026)	(7,588)
Standard Chartered Bank	(1,233)	(1,919)	(3,203)	(4,983)
HSBC Bank plc	(1,102)	(1,473)	(2,862)	(3,824)
Standard Chartered Bank	(3,181)	(4,240)	(8,262)	(11,014)
Credit Agricole Corporate & Investment Bank	(3,181)	(4,110)	(8,262)	(10,676)
Hedging instrument at the end of the year	(10,632)	(14,664)	(27,615)	(38,085)
Deferred tax (Note 14)	1,276	1,760	3,314	4,572
Hedging reserve at the end of the year (net of tax)	(9,356)	(12,904)	(24,301)	(33,513)
Less: Hedging reserve at the beginning of the year	(12,904)	(15,416)	(33,513)	(40,042)
Effective portion of change in the fair value of cash flow hedge for the year	<u>(3,548)</u>	<u>(2,512)</u>	<u>(9,212)</u>	<u>(6,529)</u>

In case, the Company terminates the IRS at 31 December 2016, it may incur losses to the extent of approximately RO 11.64 million (USD 30.23 million) [31 December 2015: RO 15.92 million (USD 41.36 million)]. However, under the terms of the loan agreements, the Company is not permitted to terminate the interest rate swap agreements.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

11 Hedging deficit (continued)

In accordance with 'IAS 39 Financial Instruments: Recognition and Measurement', the hedge is tested quarterly 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 the statement of changes in shareholders' equity and statement of profit or loss, respectively.

12 Long-term loans	31 December	31 December	31 December	31 December
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Base facility	85,414	95,686	221,855	248,537
Repayment facility	16,429	18,404	42,673	47,803
Less: Current portion of long-term loans	(9,007)	(8,617)	(23,395)	(22,383)
	<u>92,836</u>	<u>105,473</u>	<u>241,133</u>	<u>273,957</u>
Less: deferred financing costs	(1,407)	(1,703)	(3,655)	(4,426)
Non-current portion of long-term loans	<u>91,429</u>	<u>103,770</u>	<u>237,478</u>	<u>269,531</u>

Syndicated facilities

The Company has syndicated long-term loan facilities ("syndicated facilities") in the aggregate maximum amount of apparently USD 455 million. HSBC Bank plc is the facility agent ("Facility Agent") for administration and monitoring of the overall loan facilities. HSBC Bank USA - National Association and Bank Muscat has 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 the term loan under base facility in an aggregate amount of USD 382.50 million. The aggregate amount of 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 shall be of USD 20.35 million each. Repayments under the revised Base facility commenced from 30 September 2007.

Repayment facility

The Company has obtained the term loan under repayment facility in an aggregate amount of USD 72 million. The aggregate amount of 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 shall be of USD 3.91 million each. Repayments under the repayment facility commenced from 30 September 2008.

Interest

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

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

12 Long-term loans (continued)

Commitment and other fees

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

Security

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

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 contain cash sweep prepayments which have started from the 17th repayment date i.e. 30 September 2015. The cash sweep prepayment amount equals to 100% of all amounts standing to the credit of the operating revenues account but limited to certain conditions. As a consequence, aside from the interim dividend of RO 0.913 million already paid in August 2016, no further amount will be available for distribution as dividends to the shareholders until the full repayment of the loan.

13 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 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
At the beginning of the year	1,312	1,235	3,408	3,208
Unwinding of discount on decommissioning costs (Note 21)	83	77	216	201
At the end of the year	<u>1,395</u>	<u>1,312</u>	<u>3,624</u>	<u>3,409</u>

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

14 Income tax

(a) Current tax

Provision for income tax has been made after giving due consideration to adjustments for potential allowances and disallowances.

	Year ended 31 December 2016 RO'000	Year ended 31 December 2015 RO'000	Year ended 31 December 2016 USD'000	Year ended 31 December 2015 USD'000
Statement of profit or loss				
Deferred tax charge (net)				
- Current period	<u>573</u>	<u>486</u>	<u>1,488</u>	<u>1,263</u>
Statement of other comprehensive income				
Taxation (credit)/charge relating to interest rate swap	<u>484</u>	<u>342</u>	<u>1,256</u>	<u>889</u>
The following further notes apply:				
	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
Statement of financial position				
Deferred tax liability	<u>9,648</u>	<u>8,591</u>	<u>25,060</u>	<u>22,318</u>

(b) Status of tax assessments

The Company is subject to income tax in accordance with the income tax law of the Sultanate of Oman at the tax rate of 12% on taxable profits in excess of RO 30,000. The Company's assessments have been agreed with the Oman Tax Authorities upto the tax year 2011. The management considers that the 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 2016.

- (c) The Royal Decree 9/2017 has been issued on 19 February 2017 amending the Income Tax law 28/2009 and was published in the Official Gazette on 26 February 2017. The Company is assessing the resultant impact on the Company's tax calculations, if any, which shall be accounted for in the financial statement for the year ending 31 December 2017.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

14 Income tax (continued)

(d) Deferred tax

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

	At 31 December 2015 RO'000	Recognised in the statement of profit or loss RO'000	Recognised in the statement of other comprehensive income RO'000	At 31 December 2016 RO'000
Provisions	232	15	-	247
Tax losses	859	(593)	-	266
Fair value of hedging instrument	1,760	-	(484)	1,276
Depreciation	(11,442)	5	-	(11,437)
	<u>(8,591)</u>	<u>(573)</u>	<u>(484)</u>	<u>(9,648)</u>

	At 31 December 2015 USD'000	Recognised in the statement of profit or loss USD'000	Recognised in the statement of other comprehensive income USD'000	At 31 December 2016 USD'000
Provisions	601	38	-	639
Tax losses	2,229	(1,540)	-	689
Fair value of hedging instrument	4,572	-	(1,254)	3,318
Depreciation	(29,720)	14	-	(29,706)
	<u>(22,318)</u>	<u>(1,488)</u>	<u>(1,254)</u>	<u>(25,060)</u>

15 Trade and other payables	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
Trade payables	3,030	3,152	7,870	8,187
Accruals and other payables	5,135	5,386	13,329	13,988
	<u>8,165</u>	<u>8,538</u>	<u>21,199</u>	<u>22,175</u>

Trade payables are generally settled within 30 to 60 days of the suppliers' invoice date.

The contractual maturity date for trade payables is due within 12 months from the statement of financial position date.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

16 Related party transactions and balances

The Company, in the ordinary course of business, deals with parties, which fall within the definition of 'related parties' as contained in International Accounting Standard Number 24. The management believes that such transactions are not materially different from those that could be obtained from unrelated parties.

Significant transactions during the year with related parties are as follows:	Year ended 31 December 2016 RO'000	Year ended 31 December 2015 RO'000	Year ended 31 December 2016 USD'000	Year ended 31 December 2015 USD'000
Services provided by Sohar Operations and Maintenance Co. LLC (SOMC)	6,446	6,306	16,742	16,380
Services provided by Power Management Co. LLC				
- Management fees	154	154	400	400
- Other administrative expenses	314	309	816	803
Services provided by Suez				
-Tractebel S.A.	34	32	88	84
Services provided by Laborelec Middle East	14	5	36	13
Key management remuneration	183	157	475	408
Directors' remuneration (Note 20)	137	99	356	258
Directors' meeting attendance fees (Note 20)	19	19	49	50
Electrabel S.A. - guarantee fee	65	63	169	163
MENA Sohar 1SPV LTD - LC fee	37	34	96	88
SOGEX Oman LLC - LC fee	9	9	23	23
MOD Pension Fund - LC fee	8	9	21	23

A summary of the related party balances as at 31 December 2016 is as follows:

Amounts due to a related party	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
Sohar Operations and Maintenance Co. LLC	286	501	743	1,298
	<u>286</u>	<u>501</u>	<u>743</u>	<u>1,298</u>

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.

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

17 Revenue	Year ended	Year ended	Year ended	Year ended
	31 December	31 December	31 December	31 December
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Power and water revenue	66,307	62,657	172,226	162,746
	<u>66,307</u>	<u>62,657</u>	<u>172,226</u>	<u>162,746</u>
	<u><u>66,307</u></u>	<u><u>62,657</u></u>	<u><u>172,226</u></u>	<u><u>162,746</u></u>
18 Cost of revenue	Year ended	Year ended	Year ended	Year ended
	31 December	31 December	31 December	31 December
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Fuel gas	38,961	36,429	101,197	94,622
Operations and maintenance costs	6,446	6,306	16,742	16,380
Depreciation (Note 5)	6,741	6,735	17,509	17,495
Seawater extraction	725	653	1,883	1,697
Other operating expenses	788	699	2,047	1,810
	<u>53,661</u>	<u>50,822</u>	<u>139,378</u>	<u>132,004</u>
	<u><u>53,661</u></u>	<u><u>50,822</u></u>	<u><u>139,378</u></u>	<u><u>132,004</u></u>
19 Other income	Year ended	Year ended	Year ended	Year ended
	31 December	31 December	31 December	31 December
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Insurance claim	387	774	1,005	2,012
Claim received against forced outage	16	14	42	36
	<u>403</u>	<u>788</u>	<u>1,047</u>	<u>2,048</u>
	<u><u>403</u></u>	<u><u>788</u></u>	<u><u>1,047</u></u>	<u><u>2,048</u></u>
20 General and administrative expenses	Year ended	Year ended	Year ended	Year ended
	31 December	31 December	31 December	31 December
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Management fees	154	154	400	400
Directors' meeting attendance fees and remuneration (Note 16)	156	118	405	308
Legal and professional fees	98	81	255	210
Staff costs	29	21	75	54
Depreciation (Note 5)	1	2	3	5
Other administrative expenses	420	431	1,092	1,120
	<u>858</u>	<u>807</u>	<u>2,230</u>	<u>2,097</u>
	<u><u>858</u></u>	<u><u>807</u></u>	<u><u>2,230</u></u>	<u><u>2,097</u></u>

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

21 Finance costs	Year ended 31 December 2016 RO'000	Year ended 31 December 2015 RO'000	Year ended 31 December 2016 USD'000	Year ended 31 December 2015 USD'000
Interest on net settlement of swaps	4,475	5,367	11,623	13,940
Interest on base facility	1,649	1,328	4,283	3,450
Interest on repayment facility	317	256	823	664
Amortisation of deferred financing costs	297	320	771	830
Other financial charges	254	226	660	588
Unwinding of discount on decommissioning costs (note 13)	83	77	216	201
	<u>7,075</u>	<u>7,574</u>	<u>18,376</u>	<u>19,673</u>

22 Net assets per share

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

	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Shareholders' funds (in '000)	<u>29,006</u>	<u>27,188</u>	<u>75,340</u>	<u>70,619</u>
Number of issued and fully paid-up shares at the end of the year (in '000)	<u>221,010</u>	<u>221,010</u>	<u>221,010</u>	<u>221,010</u>
Net assets per share (RO/USD)	<u>0.131</u>	<u>0.123</u>	<u>0.341</u>	<u>0.320</u>

23 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net profit for the year with the weighted average number of shares issued during the year.

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
Net profit for the year (in '000)	<u>4,543</u>	<u>3,756</u>	<u>11,801</u>	<u>9,757</u>
Weighted average number of shares at the end of the year (in '000)	<u>221,010</u>	<u>221,010</u>	<u>221,010</u>	<u>221,010</u>
Basic and diluted earnings per share (RO/USD)	<u>0.021</u>	<u>0.017</u>	<u>0.053</u>	<u>0.044</u>

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

24 Lease commitments

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

	31 December 2016 RO'000	31 December 2015 RO'000	31 December 2016 USD'000	31 December 2015 USD'000
Within 1 year	63	63	164	162
Between 1 and 5 years	251	250	652	649
After 5 years	31	78	81	203
	<u>345</u>	<u>391</u>	<u>897</u>	<u>1,014</u>

25 Contingent liabilities

There were no contingent liabilities outstanding as at 31 December 2016 (31 December 2015: Rial Nil).

26 Capital risk management

The capital is managed by the Company in a way that it is able to continue to operate as a going concern while maximising 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 in dividend payments and bringing in additional capital in light of changes in business conditions. No changes were made in the objectives, policies and processes during the year ended 31 December 2016 and 2015.

27 Financial assets and liabilities and risk management

(a) Financial assets and liabilities

Financial assets and liabilities carried on the statement of financial position include cash and bank balances, trade and other receivables, due to related parties, long-term loans and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

(b) Risk management

Risk management is carried out by the Finance Department of the Company under the guidance of the senior management and Board of Directors. The senior management and Board of Directors provide significant guidance for overall risk management covering specific areas such as credit risk, interest rate risk, foreign exchange risk and investment of excess liquidity.

(c) Capital management

The primary objective if the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders' value.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes within net debt, trade and other payables, due to related parties and long-term loans

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

less cash and bank balances. Capital includes share capital, reserves and retained earnings.

27 Financial assets and liabilities and risk management (continued)

(c) Capital management (continued)

The Company has complied with externally imposed capital requirements as stipulated in the Commercial Companies Law, 1974 (as amended) and by the Capital Market Authority.

	December 2016 RO'000	December 2015 RO'000	December 2016 USD'000	December 2015 USD'000
Trade and other payables	8,165	8,538	21,199	22,175
Amount due to a related party	286	501	743	1,298
Long-term loans	100,436	112,387	260,873	291,914
Less: cash and bank balances	(7,150)	(9,182)	(18,571)	(23,849)
Net debt	<u>101,737</u>	<u>112,244</u>	<u>264,244</u>	<u>291,538</u>
Share capital	22,101	22,101	57,405	57,405
Legal reserve	3,708	3,254	9,633	8,453
Retained earnings	<u>3,197</u>	<u>1,833</u>	<u>8,309</u>	<u>4,761</u>
Shareholders' equity	<u>29,006</u>	<u>27,188</u>	<u>75,347</u>	<u>70,619</u>
Total capital and net debt	<u><u>130,743</u></u>	<u><u>139,432</u></u>	<u><u>339,591</u></u>	<u><u>362,157</u></u>
Gearing ratio	<u><u>77.81%</u></u>	<u><u>80.50%</u></u>	<u><u>77.81%</u></u>	<u><u>80.50%</u></u>

In addition, the Company's activities expose it to a variety of financial risks: market risk (including currency rate risk, interest rate risk and price risk), credit risk and liquidity risk.

(d) 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. The currency in which these transactions are denominated is USD. In respect of the Company's transactions denominated in USD, the management believes that the Company is not 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 0.06 million (31 December 2015: RO 0.20 million).

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

27 Financial assets and liabilities and risk management (continued)

(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 an interest rate swap 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 exposure to investments, it does not have the risk of fluctuation in prices. Management considers that sensitivity analysis is not necessary due to the Company's limited exposure to price risk.

(e) 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 accounts receivable was from a government owned company (OPWP). The management considers the credit risk associated with the trade receivables to be very low because the receivables are from the Government. Furthermore, the cash is placed in reputable banks, with good credit ratings, which minimize the credit risk.

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

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	RO'000	Provision RO'000	RO'000	Provision RO'000
Not past due	5,068	-	5,498	-
More than one year	1,392	1,392	1,392	1,392
	<u>6,460</u>	<u>1,392</u>	<u>6,890</u>	<u>1,392</u>

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

27 Financial assets and liabilities and risk management (continued)

(e) Credit risk (continued)

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	USD'000	Provision USD'000	USD'000	Provision USD'000
Not past due	13,163	-	14,282	-
More than one year	3,616	3,616	3,616	3,616
	<u>16,779</u>	<u>3,616</u>	<u>17,898</u>	<u>3,616</u>

(f) 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 bank balances and cash to meet the Company's obligations as they fall due for payment.

<u>31 December 2016</u>	Carrying value RO'000	Contractual cash flow RO'000	6 months or less 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
Non-derivative financial liabilities (A)							
Secured bank loans	100,436	101,843	3,658	5,350	9,337	27,695	55,803
Accounts and related party payable	8,676	8,676	8,676	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	11,639	12,496	3,451	3,025	2,524	1,634	1,862
Total (A+B)	<u>120,751</u>	<u>123,015</u>	<u>15,785</u>	<u>8,375</u>	<u>11,861</u>	<u>29,329</u>	<u>57,665</u>

	Carrying value USD'000	Contractual cash flow USD'000	6 months or less 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
Non-derivative financial liabilities (A)							
Secured bank loans	260,873	264,528	9,500	13,896	24,253	71,935	144,944
Accounts and related party payable	22,535	22,535	22,535	-	-	-	-
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	30,230	32,459	8,964	7,857	6,557	4,245	4,836
Total (A+B)	<u>313,638</u>	<u>319,522</u>	<u>40,999</u>	<u>21,753</u>	<u>30,810</u>	<u>76,180</u>	<u>149,780</u>

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

27 Financial assets and liabilities and risk management (continued)

(f) Liquidity risk (continued)

31 December 2015	Carrying value RO'000	Contractual cash flow RO'000	6 months or less RO'000	6 to12 months RO'000	1 to 2 years RO'000	2 to 5 years RO'000	More than 5 years RO'000
Non-derivative financial liabilities (A)							
Secured bank loans	112,387	114,090	3,512	5,106	9,007	27,800	68,665
Accounts and related party payable	7,932	7,932	7,932				
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	15,925	14,906	1,249	2,180	3,845	6,151	1,481
Total (A+B)	136,244	136,928	12,693	7,286	12,852	33,951	70,146
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Non-derivative financial liabilities (A)							
Secured bank loans	291,914	296,338	9,122	13,262	23,395	72,208	178,351
Accounts and related party payable	20,603	20,603	20,603				
Derivative financial liabilities (B)							
Interest rate swaps used for hedging	41,364	38,717	3,244	5,662	9,987	15,977	3,847
Total (A+B)	353,881	355,657	32,969	18,925	33,382	88,184	182,197

28 Fair values of financial instruments

The management believes 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 10.63 million (USD 27.62 million) [31 December 2015: RO 14.7 million (USD 38.1 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 Level 2 hierarchy. There were no transfers between the Level 1 and Level 2 hierarchies in the current year.

29 Capital commitments

Outstanding capital commitments as at 31 December 2016 amounted to RO Nil (31 December 2015: RO Nil).

Sohar Power Company SAOG

Notes to the financial statements for the year ended 31 December 2016

30 Subsequent events

There were no events occurring subsequent to 31 December 2016 and before the date of the report that are expected to have a significant impact on these financial statements.

31 Comparative figures

Certain comparative figures for the previous year have been reclassified, wherever necessary, in order to conform with the presentation adopted in the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.