

**Sohar Power Company SAOG**

**Unaudited Financial statements for the nine  
months period ended 30 September 2016**

**Sohar Power Company SAOG**  
**Unaudited Financial statements for the nine months period ended 30**  
**September 2016**

<b>Contents</b>	<b>Page</b>
Directors' report	2-3
Statement of financial position	4
Statement of profit or loss	5
Statement of other comprehensive income	6
Statement of changes in shareholders' equity	7
Statement of cash flows	8
Notes to the financial statements	9 - 35

## Sohar Power Company SAOG

### Statement of financial position as at 30 September 2016

	Notes	30 September 2016 RO'000	31 December 2015 RO'000	30 September 2016 USD'000	31 December 2015 USD'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	138,858	143,886	360,671	373,730
<b>Total non-current assets</b>		<u>138,858</u>	<u>143,886</u>	<u>360,671</u>	<u>373,730</u>
<b>Current assets</b>					
Inventories		735	749	1,909	1,945
Trade and other receivables	6	6,183	6,614	16,059	17,180
Cash and bank balances	7	4,113	9,182	10,683	23,849
<b>Total current assets</b>		<u>11,031</u>	<u>16,545</u>	<u>28,651</u>	<u>42,974</u>
<b>Total assets</b>		<u><u>149,889</u></u>	<u><u>160,431</u></u>	<u><u>389,322</u></u>	<u><u>416,704</u></u>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	8	22,101	22,101	57,405	57,405
Legal reserve	9	3,613	3,254	9,386	8,453
Retained earnings		2,343	1,833	6,086	4,761
Hedging deficit - net of tax	11	(12,793)	(12,904)	(33,229)	(33,513)
<b>Total capital and reserves</b>		<u>15,264</u>	<u>14,284</u>	<u>39,648</u>	<u>37,106</u>
<b>Non-current liabilities</b>					
Hedging deficit	11	14,537	14,664	37,759	38,085
Non-current portion of long-term loans	12	91,344	103,770	237,257	269,531
Provision for decommissioning costs	13	1,374	1,312	3,569	3,409
Deferred tax liability	14	8,983	8,591	23,332	22,318
<b>Total non-current liabilities</b>		<u>116,238</u>	<u>128,337</u>	<u>301,917</u>	<u>333,343</u>
<b>Current liabilities</b>					
Trade and other payables	15	8,818	8,538	22,902	22,175
Due to related parties	16	562	655	1,460	1,697
Current portion of long-term loans	12	9,007	8,617	23,395	22,383
<b>Total current liabilities</b>		<u>18,387</u>	<u>17,810</u>	<u>47,757</u>	<u>46,255</u>
<b>Total equity and liabilities</b>		<u><u>149,889</u></u>	<u><u>160,431</u></u>	<u><u>389,322</u></u>	<u><u>416,704</u></u>
<b>Net assets per share</b>	22	<u><u>0.127</u></u>	<u><u>0.123</u></u>	<u><u>0.330</u></u>	<u><u>0.320</u></u>

These financial statements, as set out on pages 4 to 35, 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 nine months period ended 30 September 2016

	Notes	Nine months period ended 30 September 2016 RO'000	Nine months period ended 30 September 2015 RO'000	Nine months period ended 30 September 2016 USD'000	Nine months period ended 30 September 2015 USD'000
Revenue	17	51,066	46,460	132,639	120,676
Cost of revenue	18	(41,483)	(37,840)	(107,748)	(98,284)
<b>Gross profit</b>		<u>9,583</u>	<u>8,620</u>	<u>24,891</u>	<u>22,392</u>
Other income	19	403	-	1,048	-
		<u>9,986</u>	<u>8,620</u>	<u>25,939</u>	<u>22,392</u>
<b>Expenses</b>					
General and administrative expenses	20	(640)	(593)	(1,663)	(1,542)
Finance costs	21	(5,378)	(5,755)	(13,969)	(14,948)
		<u>(6,018)</u>	<u>(6,348)</u>	<u>(15,632)</u>	<u>(16,490)</u>
Profit before tax for the period		3,968	2,272	10,307	5,902
Income tax expense	14	(374)	(546)	(971)	(1,419)
Net profit after tax for the period		<u>3,594</u>	<u>1,726</u>	<u>9,336</u>	<u>4,483</u>
Basis earnings per share	23	<u>0.016</u>	<u>0.008</u>	<u>0.04</u>	<u>0.02</u>

Sohar Power Company SAOG

Statement of other comprehensive income for the nine months period ended 30 September 2016

	Notes	Nine months period ended 30 September 2016 RO'000	Nine months period ended 30 September 2015 RO'000	Nine months period ended 30 September 2016 USD'000	Nine months period ended 30 September 2015 USD'000
Net profit after tax for the period		3,594	1,726	9,336	4,483
Other comprehensive income:					
<i>Items that may be reclassified into profit and loss</i>					
Fair value gains on interest rate swaps		127	187	326	486
Related taxation	14	(16)	(22)	(42)	(57)
Total other comprehensive income for the period		<u>111</u>	<u>165</u>	<u>284</u>	<u>429</u>
Total comprehensive income for the period		<u><u>3,705</u></u>	<u><u>1,891</u></u>	<u><u>9,620</u></u>	<u><u>4,912</u></u>

## Sohar Power Company SAOG

### Statement of changes in shareholders' equity for the nine months period ended 30 September 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 period		-	-	1,726	-	1,726	4,483
Other comprehensive income for the period		-	-	-	165	165	429
Transfer to legal reserve	9	-	173	(173)	-	-	-
Dividends declared and paid		-	-	(2,077)	-	(2,077)	(5,396)
At 30 September 2015		<u>22,101</u>	<u>3,051</u>	<u>1,575</u>	<u>(15,251)</u>	<u>11,476</u>	<u>29,806</u>
Net profit after tax for the period		-	-	2,030	-	2,030	5,274
Other comprehensive income for the year		-	-	-	2,347	2,347	6,101
Transferred to legal reserve		-	203	(203)	-	-	-
Dividends declared and paid		-	-	(1,569)	-	(1,569)	(4,075)
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 period		-	-	3,594	-	3,594	9,336
Transfer to legal reserve	9	-	359	(359)	-	-	-
Other comprehensive income for the period		-	-	-	111	111	284
Dividends declared and paid	10	-	-	(2,725)	-	(2,725)	(7,078)
At 30 September 2016		<u><u>22,101</u></u>	<u><u>3,613</u></u>	<u><u>2,343</u></u>	<u><u>(12,793)</u></u>	<u><u>15,264</u></u>	<u><u>39,648</u></u>

**Sohar Power Company SAOG**

**Statement of cash flows for the nine months period ended 30 September 2016**

	Notes	Nine months period ended 30 September 2016 RO'000	Nine months period ended 30 September 2015 RO'000	Nine months period ended 30 September 2016 USD'000	Nine months period ended 30 September 2015 USD'000
<b>Operating activities</b>					
Cash receipts from customers		50,932	44,510	132,291	115,610
Cash paid to suppliers and employees		(35,834)	(29,983)	(93,074)	(77,878)
<b>Operating profit</b>		<u>15,098</u>	<u>14,527</u>	<u>39,217</u>	<u>37,732</u>
Interest paid		(5,378)	(7,324)	(13,969)	(19,023)
<b>Net cash provided by operating activities</b>		<u>9,720</u>	<u>7,203</u>	<u>25,248</u>	<u>18,709</u>
<b>Investing activities</b>					
Purchase of property, plant and equipment	5	(28)	(215)	(73)	(558)
<b>Net cash used in investing activities</b>		<u>(28)</u>	<u>(215)</u>	<u>(73)</u>	<u>(558)</u>
<b>Financing activities</b>					
Net movement in long-term loans		(12,036)	(8,273)	(31,262)	(21,488)
Dividends paid	10	(2,725)	(2,077)	(7,078)	(5,395)
<b>Net cash used in financing activities</b>		<u>(14,761)</u>	<u>(10,350)</u>	<u>(38,340)</u>	<u>(26,883)</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(5,069)</u>	<u>(3,362)</u>	<u>(13,166)</u>	<u>(8,732)</u>
Cash and cash equivalents, beginning of the period		9,182	9,716	23,849	25,236
<b>Cash and cash equivalents, end of the period</b>	7	<u>4,113</u>	<u>6,354</u>	<u>10,683</u>	<u>16,504</u>

## **Sohar Power Company SAOG**

### **Notes to the financial statements for the nine months period ended 30 September 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 their Extraordinary 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.

#### **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 (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 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 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 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 nine months period ended 30 September**  
**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 have been 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 period 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:

<b>Standard or Interpretation</b>	<b>Title</b>	<b>Effective for annual periods beginning on or after</b>
IAS 1	Presentation of Financial Statements	1 January 2016
IAS 16	Property, Plant and Equipment	1 January 2016
IAS 19	Employee Benefits	1 January 2016
IAS 38	Intangible Assets	1 January 2016

**Sohar Power Company SAOG**  
**Notes to the financial statements for the nine months period ended 30 September 2016**

**3 Basis of preparation (continued)**

**Standards, amendments and interpretations issued and effective in the period 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:

<b>Standard or Interpretation</b>	<b>Title</b>	<b>Effective for annual periods beginning on or after</b>
IAS 27	Separate Financial Statements	1 January 2016
IAS 34	Interim Financial Reporting	1 January 2016
IAS 41	Agriculture	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 period 2016**

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for the nine months period ended 30 September 2016. They have not been adopted in preparing the financial statements for the nine months period ended 30 September 2016 and are not expected to affect the Company in the period of initial application. In all cases, the Company intends to apply these standards from the application date as indicated in the table below.

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

There would have been no change in the operational results of the Company for the nine months period ended 30 September 2016 had the Company early adopted any of the above standards applicable to the Company, except for IFRS 9,15 and 16, the impact of which is being assessed by the Company.

**Early adoption of amendments or standards in the period 2016**

The Company did not early-adopt any new or amended standards in the nine months period ended 30 September 2016.

**Sohar Power Company SAOG**  
**Notes to the financial statements for the nine months period ended 30 September**  
**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 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 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 recognized 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.

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, recognizing 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.

**Sohar Power Company SAOG**  
**Notes to the financial statements for the nine months period ended 30 September**  
**2016**

**4 Summary of significant accounting policies (continued)**

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

The estimated useful economic lives are as follows:

<b>Description</b>	<b>Years</b>
Buildings	30
Plant and machinery	30
Technical parts	30
Other assets	4
Decommissioning assets	30

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining net profit or loss.

Repairs and renewals 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 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 declared. 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.

**Sohar Power Company SAOG**  
**Notes to the financial statements for the nine months period ended 30 September**  
**2016**

**4 Summary of significant accounting policies (continued)**

**(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 based on 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.

**(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 maturity 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.

**Sohar Power Company SAOG**  
**Notes to the financial statements for the nine months period ended 30 September**  
**2016**

**4 Summary of significant accounting policies (continued)**

**(j) Employees' terminal benefits**

In respect of Omani employees, contributions are made in accordance with the Oman Social Insurance Law 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, 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.

**(l) Other income**

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

**(m) Finance leases**

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income in the statement of profit or loss.

**(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 comprehensive income on a straight-line basis over the lease term.

**(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.

**Sohar Power Company SAOG**  
**Notes to the financial statements for the nine months period ended 30 September**  
**2016**

**4 Summary of significant accounting policies (continued)**

**(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.

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 comprehensive income, 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 other comprehensive income

**(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.

**Sohar Power Company SAOG**  
**Notes to the financial statements for the nine months period ended 30 September**  
**2016**

**4 Summary of significant accounting policies (continued)**

**(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 gain or loss is 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 ongoing 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 the statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

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



**Sohar Power Company SAOG**  
**Notes to the financial statements for the nine months period ended 30 September**  
**2016**

**4 Summary of significant accounting policies (continued)**

**(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.

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 nine months period ended 30 September 2016

#### 5 Property, plant and equipment

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

September 2016	Buildings	Plant and machinery	Technical parts	Other assets	Decommissioning assets	Capital work-in-progress	Total RO'000	Total USD'000
<b>Cost</b>								
At 31 December 2015	7,027	189,234	4,901	24	777	326	202,289	525,426
Additions during the period	-	2	44	-	-	26	72	187
Transferred from capital work-in-progress during the period	-	-	-	-	-	(44)	(44)	(114)
At 30 September 2016	<u>7,027</u>	<u>189,236</u>	<u>4,945</u>	<u>24</u>	<u>777</u>	<u>308</u>	<u>202,317</u>	<u>525,499</u>
<b>Accumulated depreciation</b>								
At 31 December 2015	2,059	54,753	1,348	21	222	-	58,403	151,696
Charge for the period	176	4,733	127	1	19	-	5,056	13,132
At 30 September 2016	<u>2,235</u>	<u>59,486</u>	<u>1,475</u>	<u>22</u>	<u>241</u>	<u>-</u>	<u>63,459</u>	<u>164,828</u>
<b>Net book amount</b>								
At 30 September 2016	<u>4,792</u>	<u>129,750</u>	<u>3,470</u>	<u>2</u>	<u>536</u>	<u>308</u>	<u>138,858</u>	<u>360,671</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 availed by the Company.

**Sohar Power Company SAOG**

**Notes to the financial statements for the nine months period ended 30 September 2016**

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

<b>2015</b>	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Technical parts</b>	<b>Other assets</b>	<b>Decommissioning assets</b>	<b>Capital work-in-progress</b>	<b>Total RO'000</b>	<b>Total USD'000</b>
<b>Cost</b>								
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>
<b>Accumulated depreciation</b>								
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>
<b>Net book amount</b>								
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>

## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

6 Trade and other receivables	30 September	31 December	30 September	31 December
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Trade receivables	7,024	6,890	18,244	17,898
Less: allowance for credit losses	<u>(1,392)</u>	<u>(1,392)</u>	<u>(3,616)</u>	<u>(3,616)</u>
	5,632	5,498	14,628	14,282
Advances and prepayments	32	168	83	436
Other advances	519	948	1,348	2,462
	<u>6,183</u>	<u>6,614</u>	<u>16,059</u>	<u>17,180</u>

Trade receivables are generally on 30 days credit terms.

The ageing analysis of unimpaired trade receivables is as follows:	30 September	31 December	30 September	31 December
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Up to 3 months	<u>5,632</u>	<u>5,498</u>	<u>14,628</u>	<u>14,282</u>

Trade receivables are from Oman Power and Water Procurement Co. SAOC, the only customer of the Company

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:	30 September	31 December	30 September	31 December
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Current account balances with banks	4,113	9,182	10,683	23,849
	<u>4,113</u>	<u>9,182</u>	<u>10,683</u>	<u>23,849</u>

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

#### 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:

	30 September	31 December	30 September	31 December
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Authorised share capital of 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 shares of RO 0.100	<u>22,101</u>	<u>22,101</u>	<u>57,405</u>	<u>57,405</u>

## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

#### 8 Share capital (continued)

b) At the end of the period, 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 30 September 2016	Number of shares held 30 September 2016	Percentage share holding 31 December 2015	No of shares held 31 December 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 share capital is set aside. During the nine months period ended 30 September 2016, the Company has transferred an amount of Rial 359 to the legal reserve (2015: Rial 173).

#### 10 Dividends paid and proposed

- (a) Subsequent to the end of the year 2015, the shareholders approved a final cash dividend of RO 1.812 million (8.2% of the existing share capital) for the year 2015, which was distributed to shareholders after their approval in the Annual General Meeting held on 29 March 2016.
- (b) The Board of Directors of the Company have approved an interim dividend of RO 0.913 million (4.132% of the existing share capital) for the period ended 30 June 2016, based on shareholders approval in the Annual Ordinary General Meeting held on 29 March 2016 of a ceiling of 4.132%. This was distributed to shareholders in August 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 maximum hedged notional amount of the swaps at 30 September 2016 is approximately RO 102 million (USD 265 million) [31 December 2015: RO 114 million (USD 296 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.

## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

#### 11 Hedging deficit (continued)

At 30 September 2016, the USD LIBOR was 0.9109% per annum, (31 December 2015 - 0.5331% per annum) whereas the Company has fixed interest on its borrowing as described above.

	30 September 2016 RO'000	31 December 2015 RO'000	30 September 2016 USD'000	31 December 2015 USD'000
HSBC Bank plc	(2,383)	(2,922)	(6,190)	(7,588)
Standard Chartered Bank	(1,586)	(1,919)	(4,119)	(4,983)
HSBC Bank plc	(1,639)	(1,473)	(4,257)	(3,824)
Standard Chartered Bank	(4,482)	(4,240)	(11,642)	(11,014)
Credit Agricole Corporate & Investment Bank	(4,447)	(4,110)	(11,551)	(10,676)
Hedging instrument at the end of the period/year	(14,537)	(14,664)	(37,759)	(38,085)
Deferred tax	1,744	1,760	4,530	4,572
Hedging reserve at the end of the period/year (net of tax)	(12,793)	(12,904)	(33,229)	(33,513)
Less: Hedging reserve at the beginning of the period/year	(12,904)	(15,416)	(33,513)	(40,042)
Effective portion of change in the fair value of cash flow hedge for the period/year	(111)	(2,512)	(284)	(6,529)

In case, the Company terminates the IRS at 30 September 2016, it may incur losses to the extent of approximately RO 14.54 million (USD 37.76 million) [31 December 2015: RO 15.92 million (USD 41.36 million)]. However, under the terms of loan agreements, the Company is not permitted to terminate the interest rate swap agreements.

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 equity and statement of profit or loss,

12 Long-term loans	30 September 2016 RO'000	31 December 2015 RO'000	30 September 2016 USD'000	31 December 2015 USD'000
Base facility	85,414	95,686	221,855	248,537
Repayment facility	16,416	18,404	42,639	47,803
Less: Current portion of long-term loans	(9,007)	(8,617)	(23,395)	(22,383)
	92,823	105,473	241,099	273,957
Less: deferred financing cost	(1,479)	(1,703)	(3,842)	(4,426)
Non-current portion of long-term loans	91,344	103,770	237,257	269,531

## **Sohar Power Company SAOG**

### **Notes to the financial statements for the nine months period ended 30 September 2016**

#### **12 Long-term loans (continued)**

##### **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 outstanding facilities.

##### **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 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 accounts but limited to some conditions. As a consequence, aside from the interim dividend of RO 0.913 million paid in August 2016 no further amount will be available for distribution as dividend to shareholders until the full repayment of the loan.

## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

#### 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:

	30 September 2016 RO'000	31 December 2015 RO'000	30 September 2016 USD'000	31 December 2015 USD'000
At the beginning of the period/year	1,312	1,235	3,408	3,208
Unwinding of discount on decommissioning costs (Note 21)	62	77	161	201
At the end of the period/year	<u>1,374</u>	<u>1,312</u>	<u>3,569</u>	<u>3,409</u>

#### 14 Income tax

##### (a) Current tax

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

	Nine months period ended 30 September 2016 RO'000	Nine months period ended 30 September 2015 RO'000	Nine months period ended 30 September 2016 USD'000	Nine months period ended 30 September 2015 USD'000
Statement of profit or loss				
Deferred tax charge (net)				
- Current period	<u>374</u>	<u>546</u>	<u>971</u>	<u>1,419</u>
Statement of other comprehensive income				
Taxation (credit)/charge relating to interest rate swap	<u>16</u>	<u>22</u>	<u>42</u>	<u>57</u>
	30 September 2016 RO'000	31 December 2015 RO'000	30 September 2016 USD'000	31 December 2015 USD'000
Statement of financial position				
Deferred tax liability	<u>8,983</u>	<u>8,591</u>	<u>23,332</u>	<u>22,318</u>



## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

#### 14 Income tax (continued)

##### (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 30 September 2016.

##### (c) 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:

	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	30 September 2016 RO'000
Provisions	232	12	-	244
Tax losses	859	(267)	-	592
Fair value of hedging instrument	1,760	-	(16)	1,744
Depreciation	(11,442)	(120)	-	(11,562)
	<u>(8,591)</u>	<u>(375)</u>	<u>(16)</u>	<u>(8,983)</u>

	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	30 September 2016 USD'000
Provisions	601	31	-	632
Tax losses	2,229	(694)	-	1,535
Fair value of hedging instrument	4,572	-	(42)	4,530
Depreciation	(29,720)	(309)	-	(30,029)
	<u>(22,318)</u>	<u>(972)</u>	<u>(42)</u>	<u>(23,332)</u>

## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

15 Trade and other payables	30 September	31 December	30 September	31 December
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Trade payables	3,985	3,152	10,351	8,187
Accruals and other payables	4,833	5,386	12,551	13,988
	<u>8,818</u>	<u>8,538</u>	<u>22,902</u>	<u>22,175</u>

Trade payables are generally settled within 30 to 120 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.

#### 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. 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.

Significant transactions during the period with related parties are as follows:	Nine months period ended	Nine months period ended	Nine months period ended	Nine months period ended
	30 September	30 September	30 September	30 September
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Services provided by Sohar Operations and Maintenance Co. LLC (SOMC)	4,611	4,644	11,977	12,063
Services provided by Power Management Co. LLC				
- Management fees	115	115	300	300
- Other administrative expenses	214	224	556	581
Services provided by Suez -Tractebel S.A.	32	32	85	85
Directors' remuneration	79	9	205	21
Directors' meeting attendance fees	13	13	34	35
Key management remuneration	196	171	509	444
Electrabel S.A. - guarantee fee	48	48	125	125
MENA Sohar 1SPV LTD - LC fee	28	27	73	71
Sogex Oman LLC - LC fee	8	7	20	18
MOD Pension Fund - LC fee	8	7	20	18

## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

#### 16 Related party transactions and balances (continued)

A summary of the related party balances as at 30 September 2016 is as follows:

Amounts due to related parties	30 September	31 December	30 September	31 December
	2016	2015	2016	2015
	RO'000	RO'000	USD'000	USD'000
Sohar Operations and Maintenance Co. LLC	540	655	1,403	1,697
Power Management Co. LLC	22	-	57	-
	<u>562</u>	<u>655</u>	<u>1,460</u>	<u>1,697</u>
<b>17 Revenue</b>	<b>Nine months period ended 30 September 2016</b>	<b>Nine months period ended 30 September 2015</b>	<b>Nine months period ended 30 September 2016</b>	<b>Nine months period ended 30 September 2015</b>
	RO'000	RO'000	USD'000	USD'000
Power and water revenue	51,066	46,460	132,639	120,676
	<u>51,066</u>	<u>46,460</u>	<u>132,639</u>	<u>120,676</u>
<b>18 Cost of revenue</b>	<b>Nine months period ended 30 September 2016</b>	<b>Nine months period ended 30 September 2015</b>	<b>Nine months period ended 30 September 2016</b>	<b>Nine months period ended 30 September 2015</b>
	RO'000	RO'000	USD'000	USD'000
Fuel gas	30,328	27,019	78,774	70,178
Operations and maintenance costs	4,611	4,644	11,977	12,063
Depreciation (note 5)	5,055	5,050	13,130	13,120
Seawater extraction	544	533	1,413	1,385
Repairs and maintenance	205	-	532	-
Other operating expenses	740	594	1,922	1,538
	<u>41,483</u>	<u>37,840</u>	<u>107,748</u>	<u>98,284</u>
<b>19 Other income</b>	<b>Nine months period ended 30 September 2016</b>	<b>Nine months period ended 30 September 2015</b>	<b>Nine months period ended 30 September 2016</b>	<b>Nine months period ended 30 September 2015</b>
	RO'000	RO'000	USD'000	USD'000
Insurance claim	387	-	1,006	-
Claim received against forced outage	16	-	42	-
	<u>403</u>	<u>-</u>	<u>1,048</u>	<u>-</u>

## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

20 General and administrative expenses	Nine months period ended 30 September 2016 RO'000	Nine months period ended 30 September 2015 RO'000	Nine months period ended 30 September 2016 USD'000	Nine months period ended 30 September 2015 USD'000
Management fees	115	115	300	300
Directors' meeting attendance fees and remuneration	92	22	239	56
Legal and professional fees	75	64	195	165
Staff costs	26	14	68	37
Depreciation (note 5)	1	1	2	2
Other administrative expenses	331	377	859	982
	<u>640</u>	<u>593</u>	<u>1,663</u>	<u>1,542</u>
<b>21 Finance costs</b>	<b>Nine months period ended 30 September 2016 RO'000</b>	<b>Nine months period ended 30 September 2015 RO'000</b>	<b>Nine months period ended 30 September 2016 USD'000</b>	<b>Nine months period ended 30 September 2015 USD'000</b>
Interest on net settlement of swaps	3,468	4,104	9,008	10,661
Interest on base facility	1,170	978	3,039	2,540
Interest on repayment facility	228	188	592	489
Amortisation of deferred financing costs	225	242	584	630
Other financial charges	225	185	585	478
Unwinding of discount on decommissioning cost (note 13)	62	58	161	150
	<u>5,378</u>	<u>5,755</u>	<u>13,969</u>	<u>14,948</u>
<b>22 Net assets per share</b>				
Net assets per share is calculated by dividing the net assets at the end of the reporting period by the number of shares outstanding as follows:				
	<b>30 September 2016 RO'000</b>	<b>31 December 2015 RO'000</b>	<b>30 September 2016 USD'000</b>	<b>31 December 2015 USD'000</b>
Shareholders' equity	<u>28,057</u>	<u>27,188</u>	<u>72,875</u>	<u>70,619</u>
Number of issued and paid-up shares at the end of the period/year	<u>221,010</u>	<u>221,010</u>	<u>221,010</u>	<u>221,010</u>
Net assets per share	<u>0.127</u>	<u>0.123</u>	<u>0.330</u>	<u>0.320</u>

## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

#### 23 Basic 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.

	Nine months period ended 30 September 2016 RO'000	Nine months period ended 30 September 2015 RO'000	Nine months period ended 30 September 2016 USD'000	Nine months period ended 30 September 2015 USD'000
Net profit for the period	3,594	1,726	9,336	4,483
Weighted average number of shares at end of the period	221,010	221,010	221,010	221,010
Basic earnings per share (RO/USD)	<u>0.016</u>	<u>0.008</u>	<u>0.04</u>	<u>0.02</u>

#### 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:

	30 September 2016 RO'000	31 December 2015 RO'000	30 September 2016 USD'000	31 December 2015 USD'000
Within 1 year	63	63	164	164
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>1,016</u>

25 There were no contingent liabilities as at 30 September 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 returns to the members.

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 nine months period ended 30 September 2016 and year ended 31 December 2015.

## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

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

	30 September 2016 RO'000	31 December 2015 RO'000	30 September 2016 USD'000	31 December 2015 USD'000
Trade and other payables	8,818	8,538	22,902	22,175
Due to related parties	562	655	1,460	1,697
Long-term loans	100,351	112,387	260,652	291,914
Less: cash and bank balances	(4,113)	(9,182)	(10,683)	(23,849)
Net debt	<u>105,618</u>	<u>112,398</u>	<u>274,331</u>	<u>291,937</u>
Share capital	22,101	22,101	57,405	57,405
Legal reserve	3,613	3,254	9,386	8,453
Retained earnings	2,343	1,833	6,086	4,761
Total capital	<u>28,057</u>	<u>27,188</u>	<u>72,877</u>	<u>70,619</u>
Total capital and net debt	<u>133,675</u>	<u>139,586</u>	<u>347,208</u>	<u>362,556</u>
Gearing ratio	<u>79.01%</u>	<u>80.52%</u>	<u>79.01%</u>	<u>80.52%</u>

## **Sohar Power Company SAOG**

### **Notes to the financial statements for the nine months period ended 30 September 2016**

#### **27 Financial assets and liabilities and risk management (continued)**

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.

##### **(a) 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 a 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. At the end of the reporting period, the Company had bank balances denominated in USD amounting to RO 787,252 (31 December 2015: RO 200,000).

###### **(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 significant 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.

## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

#### 27 Financial assets and liabilities and risk management (continued)

##### (b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables. 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 receivables to be very low because the receivables are from the Government. Furthermore, the cash is placed in reputable banks, which minimize the credit risk.

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

	<u>30 September</u>		<u>31 December 2015</u>	
	RO'000	Provision	RO'000	Provision
Not past dues	5,632	-	5,498	-
More than one year	1,392	1,392	1,392	1,392
	<u>7,024</u>	<u>1,392</u>	<u>6,890</u>	<u>1,392</u>

	<u>30 September</u>		<u>31 December 2015</u>	
	USD'000	Provision	USD'000	Provision
Not past dues	14,628	-	14,282	-
More than one year	3,616	3,616	3,616	3,616
	<u>18,244</u>	<u>3,616</u>	<u>17,898</u>	<u>3,616</u>

##### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains sufficient bank balances and cash to meet the Company's obligations as they fall due for payment.

<u>30 September 2016</u>	Carrying Value	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
<i>Non Derivative financial liabilities (A)</i>							
Secured bank loans	100,351	101,830	3,657	5,350	9,337	27,695	55,791
Accounts and related party payable	9,380	9,380	9,380				
<i>Derivative financial liabilities (B)</i>							
<i>Interest rate swaps used for hedging</i>	12,793	14,537	1,903	1,517	3,972	6,353	792
<b>Total (A+B)</b>	<u>122,524</u>	<u>125,747</u>	<u>14,940</u>	<u>6,867</u>	<u>13,310</u>	<u>34,048</u>	<u>56,583</u>



## Sohar Power Company SAOG

### Notes to the financial statements for the nine months period ended 30 September 2016

#### 27 Financial assets and liabilities and risk management (continued)

##### (c) Liquidity risk (continued)

<u>30 September 2016</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
<i>Non Derivative financial liabilities (A)</i>							
Secured bank loans	260,652	264,494	9,499	13,896	24,253	71,935	144,911
Accounts and related party payable	24,346	24,346	24,346				
<i>Derivative financial liabilities (B)</i>							
<i>Interest rate swaps used for hedging</i>	33,229	37,759	4,942	3,940	10,318	16,502	2,057
<b>Total (A+B)</b>	<b>318,227</b>	<b>326,599</b>	<b>38,787</b>	<b>17,836</b>	<b>34,571</b>	<b>88,437</b>	<b>146,968</b>
<u>31 December 2015</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
<i>Non-derivative financial liabilities (A)</i>							
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				
<i>Derivative financial liabilities (B)</i>							
<i>Interest rate swaps used for hedging</i>	15,925	14,906	1,249	2,180	3,845	6,151	1,481
<b>Total (A+B)</b>	<b>136,244</b>	<b>136,928</b>	<b>12,693</b>	<b>7,286</b>	<b>12,852</b>	<b>33,951</b>	<b>70,146</b>
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
<i>Non-derivative financial liabilities (A)</i>							
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				
<i>Derivative financial liabilities (B)</i>							
<i>Interest rate swaps used for hedging</i>	41,364	38,717	3,244	5,662	9,987	15,977	3,847
<b>Total (A+B)</b>	<b>353,881</b>	<b>355,658</b>	<b>32,969</b>	<b>18,924</b>	<b>33,382</b>	<b>88,185</b>	<b>182,198</b>

## **Sohar Power Company SAOG**

### **Notes to the financial statements for the nine months period ended 30 September 2016**

#### **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 reporting period. 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 14.5 million (USD 37.8 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**

There were no capital commitments as at 30 September 2016 (31 December 2015: Rial Nil).

#### **30 Subsequent events**

There were no events occurring subsequent to 30 September 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 period/year have been reclassified, wherever necessary, in order to conform with the presentation adopted in the current period/year. Such reclassifications do not affect previously reported net profit or shareholders' equity.