

ANNUAL  
REPORT  
**2018**

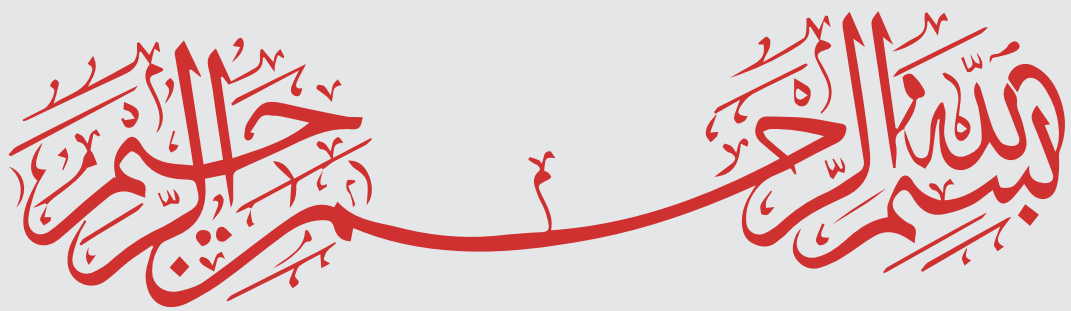


RESHAPING FOR THE **FUTURE**

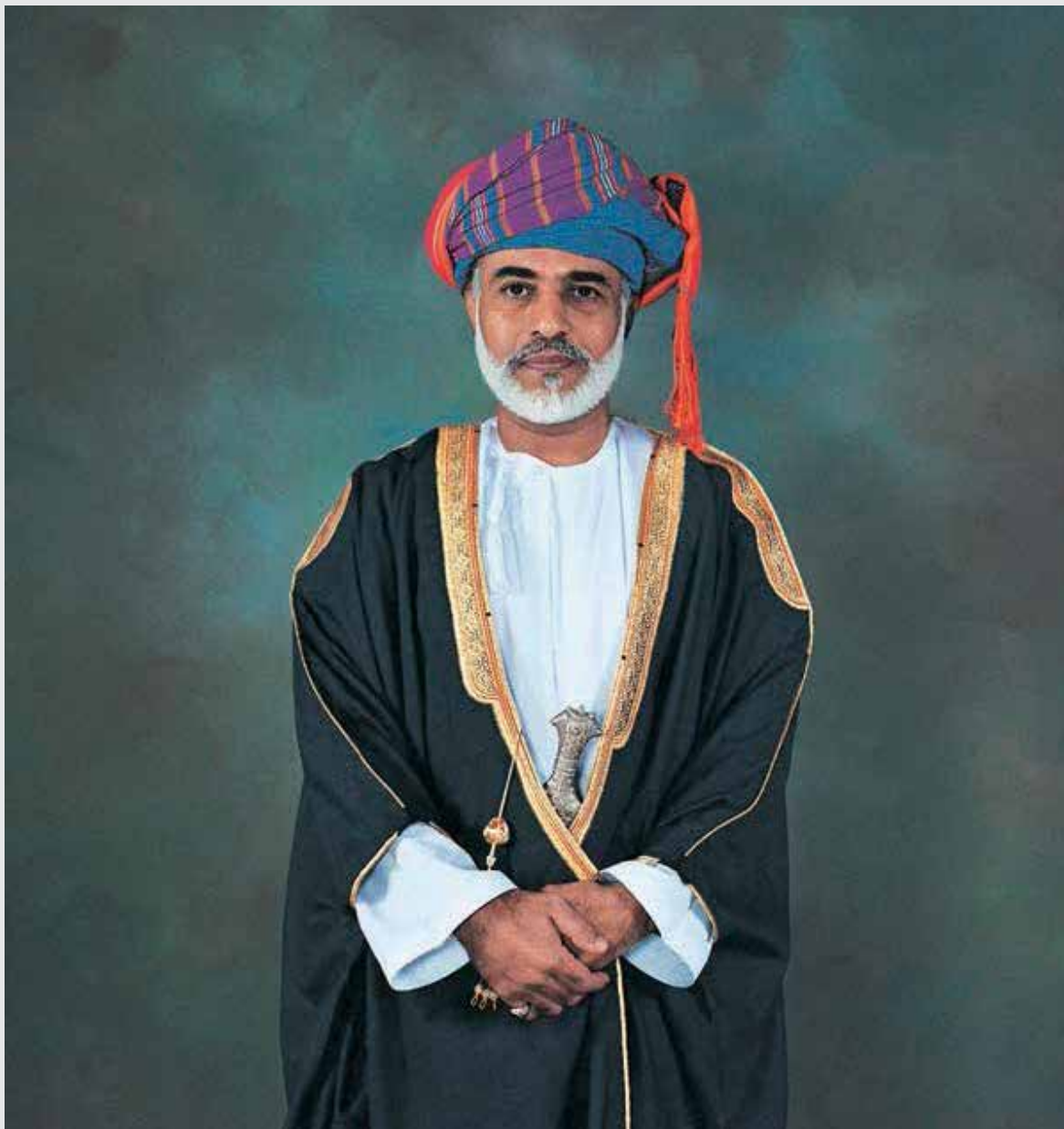


The background of the page features a photograph of an industrial facility, likely a power plant or refinery, at night. Large, complex piping systems are illuminated by warm, yellowish lights, creating a strong contrast with the dark night sky. A large, white, stylized lightning bolt graphic is positioned on the right side of the image, pointing towards the text. The top of the page has a solid blue header, and a vertical red stripe runs along the right edge.

# POWER & WATER FOR OMAN







His Majesty Sultan Qaboos bin Said



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# Overview and Highlights

## Safety is our first and foremost priority

The company accomplished landmark achievement of completing 16 years without Lost Time Incident in 2018, testimony of putting safety first!

## Business Continuity

Pursuing business opportunities beyond 2021 through active participation in Power 2022 procurement process and extension of WPAs.

## Operational Challenge

Restoring plant operations after unfortunate incidents at GTG-2 and GTG-1 in shortest possible time.

## Developing People

Continued recruiting local talent to develop future leaders.





## Mission

To meet the commitments with the stakeholders by producing safe, environmentally friendly, reliable and cost effective electricity and water in a socially responsible manner.

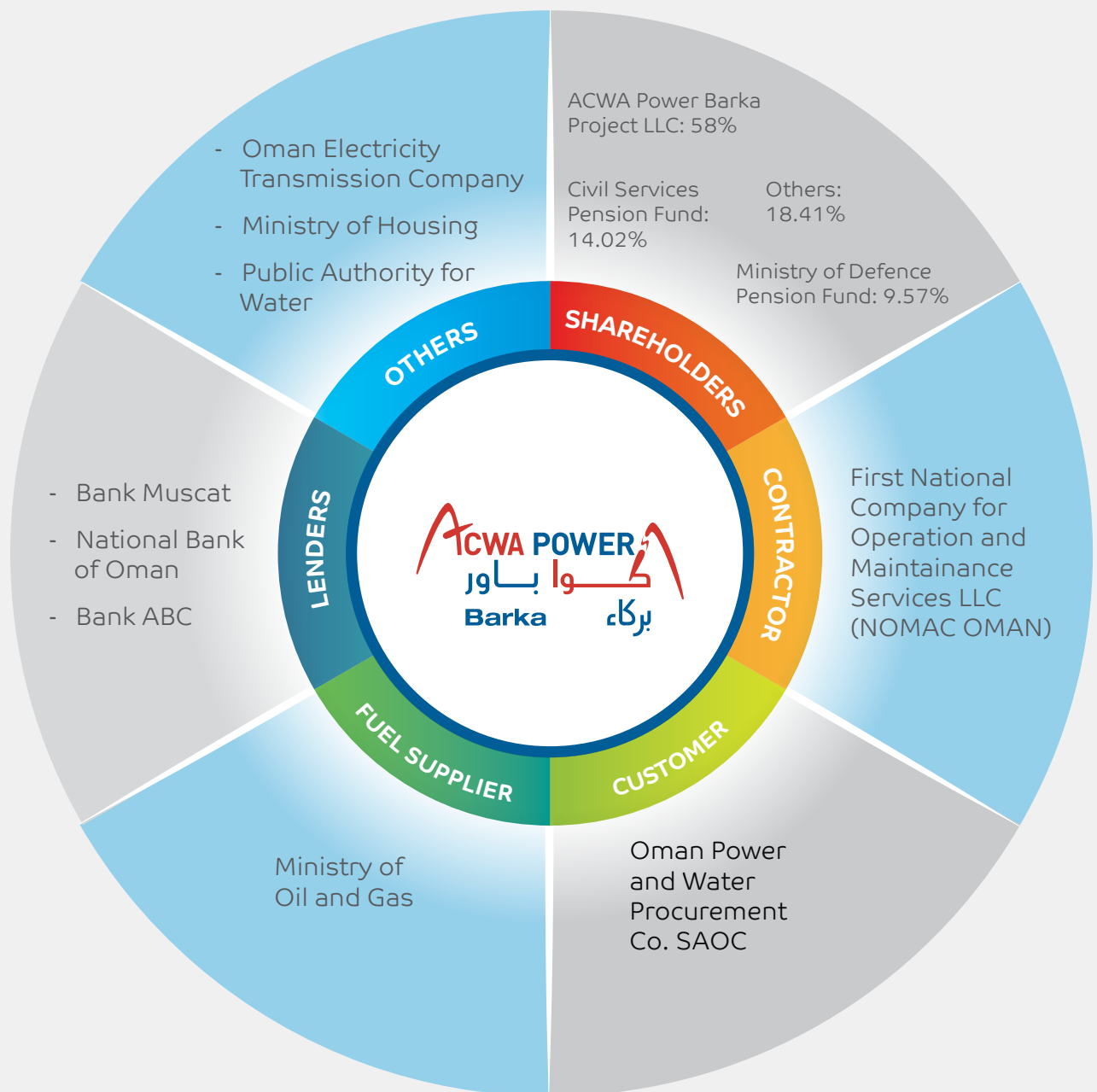
## Vision

Maintain plant overall reliability to maximum, ensuring world class safety and environmental standards. Meet shareholder aspirations by adding maximum value by sustaining project economics.

## Values

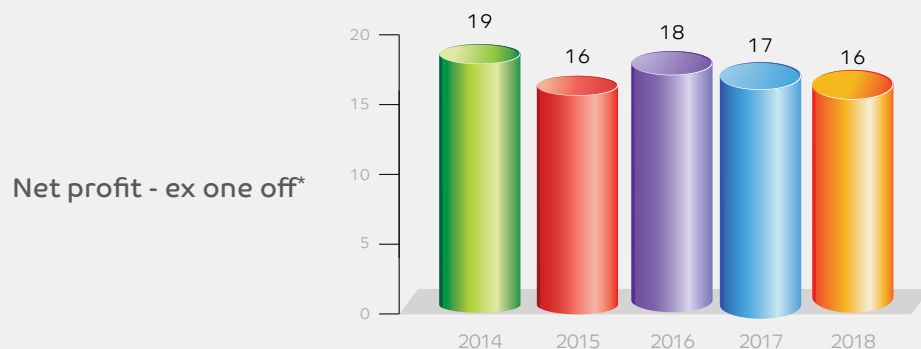
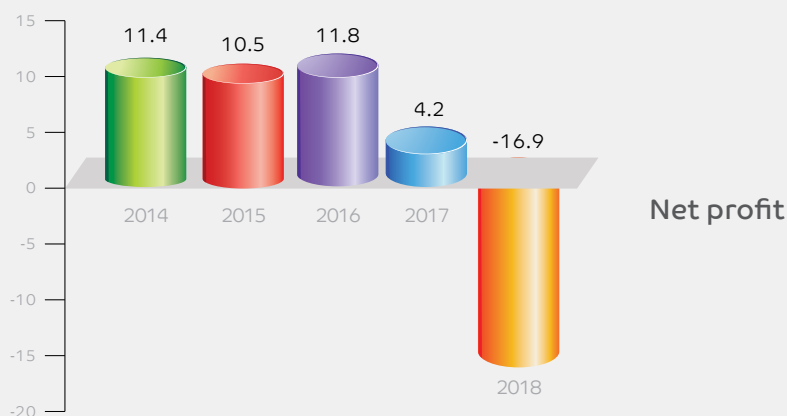
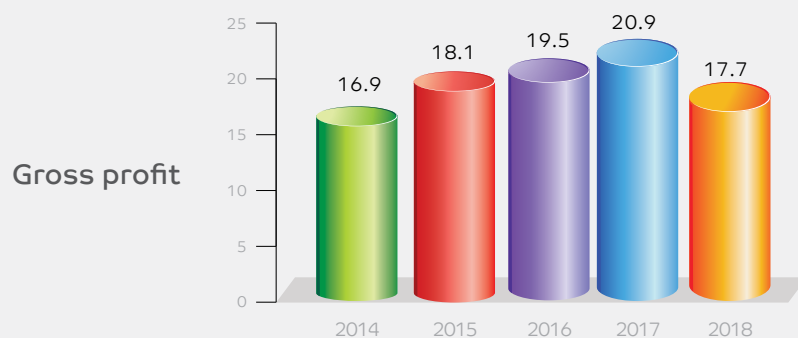
- Safety First
- Commitment
- Fun at Work
- Integrity
- Continuous Improvement

# Stakeholders



# Financial, Operational & Safety Highlights

## Historical highlights (in million Omani Rials)



\*Excluding impacts of Supreme Court decision, increase in income tax rate and impairment expense.

# Board of Directors



**Ahmed Al Subhi**  
Chairman



**Kashif Rana**  
Deputy Chairman



**Ganesh Subramanian**  
Member



**Hamad Al Wahaibi**  
Member



**Zeeshan Hyder**  
Member



**Theagrajan Eswaran**  
Member



**Ahmed El Sinani**  
Member



# CEO and the Management Team



**Zafar Yasin**  
Chief Technical Officer

**Salim Sibani**  
CEO

**Usman Anwar**  
Chief Financial Officer



# ACWA Power Barka Team







# Directors, Management & Governance Reports







## Board of Directors Report

Dear Shareholders,

On behalf of the Board of Directors of ACWA Power Barka SAOG, I feel proud and privileged to present the performance of your Company for the year ended 31 December 2018.

### Highlights of the year

Our proudest achievement remains our safety record of 16 years without a Lost Time Accident. A safe working environment is our topmost priority and all other goals are secondary to this essential target. Credit is due to the operations and maintenance contractor, NOMAC Oman, who have all played a critical role in building an environment in which the approach to safety is much beyond policies and procedures.

The key project documents of the Company including PWPA, WPAs, NGSA and O&M completed their original term successfully during the year. The Company have already executed the Amendment Agreements to extend the term of these agreements until end of 2021.

The Company remained engaged with OPWP to secure new long-term contracts for the plants for the period after 2021. The Company submitted its commercial bid under Request for Offer (RFO) process for RO1 and RO2 plants which unfortunately was not accepted by OPWP as disclosed in detail to the shareholders earlier in the year.

The Company is participating in Power 2022 Procurement Process initiated by OPWP during the year. The process provides an opportunity to existing generators, whose contracts are expiring on or around end of 2021, to bid for new contract term. The Company believes that under the Power 2022 Procurement Process it will not be able to contract its MSFE desalination plant after 2021, like other MSFE plants in the Sector, due to being



commercially not viable based on criteria set by OPWP. This unfortunate situation has resulted in recognition of non-cash impairment impact of OMR 31.5 million under IFRS as disclosed to the shareholders earlier.

The Company was successful in closing out the EPC Contracts for the two RO Plants by entering into the Final Settlement Agreements with the EPC Contractors. The Company with help of its Operator undertook certain outstanding work during the year.

From operational perspective, the Company faced a unique challenge where generators of both gas turbines failed in the last quarter of the year due to electrical faults resulting in full shut down of the plant. The Barka team proved its mettle by successfully overcoming this difficult situation and completed the repair works including replacement of stator for GT1 generator in the least possible time. The generator units 1 & 2 were back in service in record 38 days and 76 days respectively. The Company is engaged with its insurers for the two insurance claims.

The performance of the two RO Plants was affected earlier in the year due to changes in the seawater quality. This Company is well protected under force majeure provisions of the project agreements for such events.



# Safety remains the core principle in all work practices in line with our values.



The closing share price of the year on the Muscat Securities Market was RO.0.720 against a par value of RO.0.100.

Your Company successfully held its Annual General Meeting (AGM) for 2017 on 26 March 2018. All agenda items were approved by the shareholders. The key highlight of this AGM was election of Directors upon completion of their term. A new Board of Directors has been constituted upon conclusion of these elections.

## Strategic positioning

Your Company currently holds a 6% share in the power sector and 24% share in the water sector in the Sultanate of Oman. There is one off taker, the Oman Power and Water Procurement Company, and one natural gas supplier for the primary fuel, the Ministry of Oil and Gas. The operations and maintenance of the plants is performed by First National Company for Operation and Maintenance Services LLC ('NOMAC Oman'), a subsidiary of NOMAC KSA which is wholly owned by ACWA Power.

The utilities sector globally is transitioning into more fuel efficient and highly cost competitive using novel technologies and refinement of its essential resources. Your Company is actively

positioning itself to remain active and is pursuing continuous improvement initiatives to safeguard its long-term attractiveness. During the year, the Company initiated a 'Beach Wells' pilot program as an alternative feed water to RO plants to mitigate deterioration in seawater quality. An independent study was also conducted to reduce internal power consumption.

## Operational performance

While numerous factors play a role in the success of an IWPP, the operational performance will always remain the key contributor towards the Company's performance. The Company faced technical challenges on its power generation units and SWRO plants that affected their performance during the year. The Company however is confident that with help of its Operator and main vendors, these challenges will be overcome in near future.

The Company successfully demonstrated the Guaranteed Net Contracted Power and Water Capacity for the Contract Year 2018-19 in the Annual Plant Performance Test for natural gas and diesel oil. These tests were carried out under the new operating Call On / Call Off regime under the extension term.



## Occupational Health, Safety and environment

The landmark achievement during the year was the achievement of 16 years without a Lost Time Accident on 2 May 2018. This safety record is not merely a statistic, but represents a lot of effort by all the individuals working at the plants. The Barka team strives to improve its work practice based on both internal and external reviews on its safety culture.

Safety remains your Company's topmost priority and monitors NOMAC Oman actively in this regard. The Operator has completed all maintenance activities including the repair work related to generator failures without any accident, which is a remarkable achievement considering the hazards involved with such activities. Preserving the environment is also one of the key considerations of your Company. We are pleased to inform you that there were no environmental exceedances during the year.

Many initiatives were taken during the year including sharing of lessons learned across different locations, process safety management program including annual internal audits, fire and safety audit program, implementation of web based reporting system (Synergi-Life reporting system), HSE reward and recognition program for the team and contractors, Stop plastic usage program which

aim to reduce the quantity of plastic usage within the workplace.

On the conclusion of another safe year, the entire team commits to fight complacency to keep everyone safe.

## Financial performance

We seek to maintain the trust of our stakeholders by conducting business in a fair and ethical manner. The Company believes in maintaining highest level of financial controls and reporting standards which is proven time and again through timely and reliable financial reporting and by having rigorous internal and external auditing processes and procedures in place. The Company remains in compliance with the Code of Corporate Governance of the Capital Market Authority.

As highlighted earlier, the Company will likely not be able to contract its MSFE water desalination plant after 2021 due to conditions under the RFO and Power 2022 Procurement Process. This unfortunate situation resulted in recognition of non-cash impairment of OMR 31.5 million in the book value of MSFE plant beyond the current contract term. This treatment is in line with IFRS framework and agreed upon with the auditors of the Company.

The Company recorded gross profit of RO 17.8m (2017: RO 20.9m) for the year which demonstrates strong operational performance despite having to deal with major operational failure events and outages. Excluding one-off non-cash impact of impairment of RO 31.5m, the company would have reported a positive profit before tax of RO 11.7m (2017: RO 14.4m). However, due to the impact of recognition of one-off MSFE impairment, which corresponds to loss per share of RO 0.106 (2017: earnings per share RO 0.027), the Company is reporting a net loss after tax of RO 16.9m (2017: Profit after tax RO4.2m)

The Company is steadfastly working with the regulatory authorities, lenders and industry peers to find a long term solution for the changing dynamics of the power sector in Oman and believes that the outcome is dependent on successfully navigating the rollover risks of the PWPA and WPA.

In line with the decision by the shareholders in the last Annual General Meeting, the Company has not declared any dividend during 2018 in order to preserve the cash towards the tax liability arising out of Supreme Court decision that came out in early 2018.

The Company remains in compliance with the revised Code of Corporate Governance of the Capital Market Authority applicable from July 2016.

### Valuing our people

Any business's performance is a direct result of the dedication and effort of the people employed by it. Your Company is blessed by having a dedicated, well diversified and multi-talented team of people who have achieved great results through sheer hard work and an exceptional ability of teamwork. The Company's organizational model relies on a limited number of highly competent professionals with flexibility to reach out to competence pool of its parent, ACWA Power, on a need basis. This strategy has allowed the Company to retain essential competencies at site while containing overhead costs down to an acceptable level.

The board of directors consists of seasoned professionals who have provided crucial guidance during the year. The board recognizes the importance of nurturing local talent in line with the national vision and is fully committed to developing the local skill set.

It is important to acknowledge the efforts of not only the ACWA Power Barka team, but also the people of NOMAC Oman without whom your Company could not have achieved world class operational excellence.

### Social Responsibility

The Company firmly believes in supporting the local community by participating in local endeavors to develop the youth of the nation. Contributions were also made in the educational sector by renovating the free access laboratory in the engineering department at College of Technology – Al Musannah and provided necessary equipment for students to help them in gathering information related to the technological advancements and innovations in Engineering.

A sun shade project was also undertaken to cover the passage areas in the Elderly Social House at Rustaq to provide healthy and safe environment to elderly citizens.

A mist spray system will be installed in one of the governmental schools in Barka to provide the students with refreshed environment and reduce the outside temperature.

### External Assessment of the Board of Directors

The Shareholders in the Annual General Meeting held on 26 March 2018 resolved that assessment of the Board of Directors to be carried out once during the three-year term. Therefore, no assessment was carried out during current year.

### Outlook 2019

The Company is looking ahead to continue its participation in the Power 2022 Procurement Process to submit a robust and competitive bid to OPWP and secure a long term PPA contract. Considering the evolving power sector dynamics in the country, the commercial terms under this new procurement process are likely to be less favourable compared to existing contracts. Efforts will be continued to explore further opportunities for the two RO plants for the period beyond 2021. Securing these new contracts for the RO Plants and the Power plant is an immediate priority for the Company and is also vital for the sustenance of operations beyond 2021.

The Lifetime extension activities on gas turbines 1 are planned for future years. The Company along





with its Operator will team up to focus on procuring strategic components that require replacement. These activities require significant funding from the Company to ensure business continuity and meeting its contractual commitments. Resultantly, the Company does not plan to distribute dividends to the shareholders in 2019.

The Company will work with its Operator to complete the outstanding works related to the two RO Plants pursuant to the Settlement Agreements with the EPC Contractors.

The Company received full written judgement by the Supreme Court regarding its tax dispute on the carry forward of tax losses and will endeavor to

recover the disputed amount from OPWP under the Material Adverse Change Claim.

The Company has kept a provision for its tax obligations and had to attend major technical faults which resulted in no provisions for dividends payments for 2018.

NOMAC Oman will continue to perform all necessary planned maintenance in a timely manner as per prudent industrial practice to ensure the healthiness of all equipment.

We will continue to participate in the local sector to promote a healthy, competitive environment with a focus on safe, clean and reliable power and water.



## Acknowledgements

As per our past practice, we have continued our efforts to maintain strong relationships with all our stakeholders through open and transparent communications. A lot of credit is due to the local authorities for creating a congenial atmosphere with reciprocity, which has created an example for other countries to follow.

We appreciate the support of all our key stakeholders especially our customer (the Oman Power and Water Procurement Company), our fuel supplier (Ministry of Oil and Gas), the Public Authority of Electricity and Water, the Authority of Electricity Regulation and the Capital Market Authority.

Above all, the Board of Directors is immensely grateful to His Majesty Sultan Qaboos Bin Said for his vision, guidance and wisdom which has resulted in the success of many over the era of his blessed reign.

Ahmed Al Subhi  
Chairman Board of Directors



# Management Discussion and Analysis Report





# Management Discussion and Analysis Report

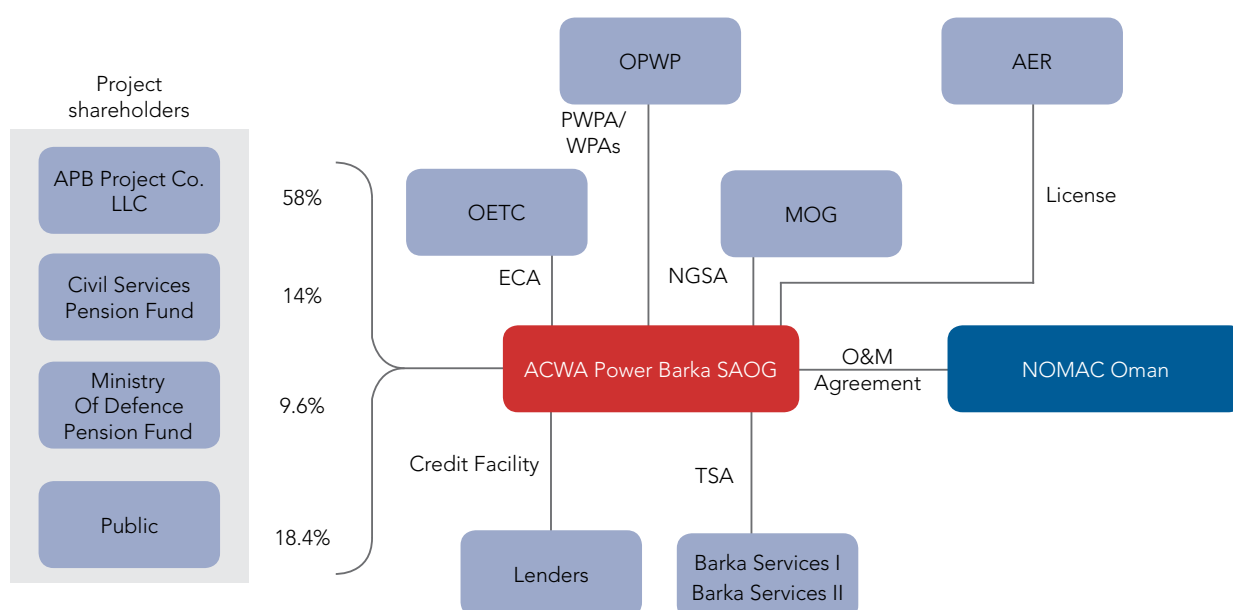
## Business Framework

The principal activities of ACWA Power Barka SAOG (the 'Company') are to develop, finance, design, construct, operate, maintain, insure and own a gross 457 MW power generating station and 20 MIGD MSF water desalination plant and other relevant infrastructure. The Company commenced its commercial operations from 11 June 2003. In July 2012, Company was awarded a 10 MIGD Seawater Reverse Osmosis Expansion Project ('Expansion Phase 1') by Oman Power and Water Procurement Company ('OPWP') which commenced its commercial operations on 29 May 2014. In November 2014, the Company was further awarded a 12.5 MIGD Seawater Reverse Osmosis

Expansion Project ('Expansion Phase 2') by OPWP which commenced its commercial operations on 26 February 2016. The Company is located at Barka and has no subsidiaries as of 31 December 2018.

The Company's business is regulated by project agreements with various government entities and financing agreements with project lenders. These project agreements provide an assurance both over revenue and cost elements of the business.

The principal agreement was the 15-year Power and Water Purchase Agreement ('PWPA') with OPWP which requires the Company to make the power and water facilities available and accordingly deliver electrical energy and water output as per contractual terms. The PWPA expired in April 2018 and was amended and accordingly extended till December 2021. The Company has a fuel supply agreement with the Ministry of Oil and Gas (MOG) with an extended term that matches the PWPA term. The Company has also extended the term of its O&M Agreement with NOMAC Oman until December 2021.







The Annual Performance tests were successfully performed for the Main Plant, Expansion Phase 1 and Expansion Phase 2 in April 2018 for the Contract Year 2018-19 which ensures the revenue stream for the Contract Year.

The Company has been granted a Generation and Desalination License by the Authority of Electricity Regulation for a period of 25 years.

The Company has contracted out the operation and maintenance activities to First National Company for Operation and Maintenance Services LLC ('NOMAC Oman') effective from 1 June 2011. The term of the O&M Agreements is co-terminus with the term of the PWPA / WPAs. An Amendment Agreement with NOMAC Oman was executed with NOMAC Oman in during the year to extend the term until 31 December 2021. NOMAC Oman is an Omani company wholly owned by NOMAC KSA which in turn is wholly owned by ACWA Power.

The Barka Seawater Facilities Company (BSFC) was formed after the constitutive general meeting of the company was held in 2010. ACWA Power Barka and SMN Barka each are 50% equity shareholders of BSFC and manage the company jointly. The Shared Facilities constitute the seawater intake and outfall facilities. These facilities are currently being operated and maintained by NOMAC Oman under an O&M Agreement with the Barka Seawater Facilities Company.

### 16 years without a Lost Time Incident

The Company has achieved a safety milestone of 16 years without a Lost Time Incident on 2 May 2018. This unique and proud achievement was celebrated with great zeal on May 13, 2018. The Company and its Operator have worked together closely to develop a sustainable strategy in achieving this laudable result. The Company has encouraged a proactive safety culture in which everyone is identified as a safety leader.

### Operational & Organizational Highlights

The Company transitioned from its previous operating regime under original offtake contracts to extended terms. Under the new operating regime, Company mostly operated while its MSFE water plant being under Call-off mode. This was a big achievement, that not only Company moved into new regime seamlessly, successfully demonstrated performance tests but also it operated under very high reliability throughout the year. However, towards the end of the year, there were two unfortunate incidents when GTG-1 and GTG-2 suffered electrical faults, causing the whole plant to shut down. This was an extremely challenging situation, but through concerted efforts of the Company along with operator, the repair activities were completed in low time and plant operations were fully restored.

The reliability factors of Expansion Project Phase 1 & 2 respectively stood at 92% and 94%.

The Company considers its people as its biggest asset and this is reflected in the continued focus on team development. Through specialized in-house, national and international trainings, the Company has been striving to enrich its committed and talented pool of staff. The Company encourages diversification of its team by giving them opportunities in various departments. Furthermore, the Company has been committed to Omanization and considers it as a national service.

### Power Generation

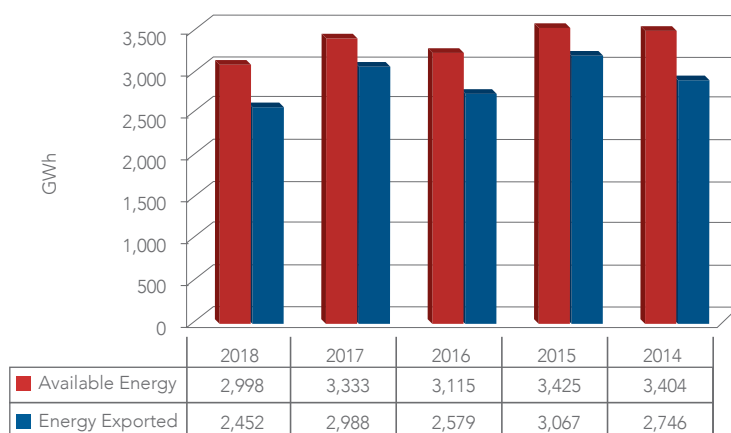
During the year, your Company maintained a reliability factor of 90.4% on its power facility. This drop in reliability factor is the result of two high impact low probability (HILP) events of gas turbine generator failure. Barka team once again showed their resilience against such a challenge and bring back one gas turbine unit (GT-2) online within 38 days. While the second gas turbine (GT-1) was put in service within 76 days after replacing the affected stator with a new

stator. Attending these failures in such a short time is unprecedented in the power sector.

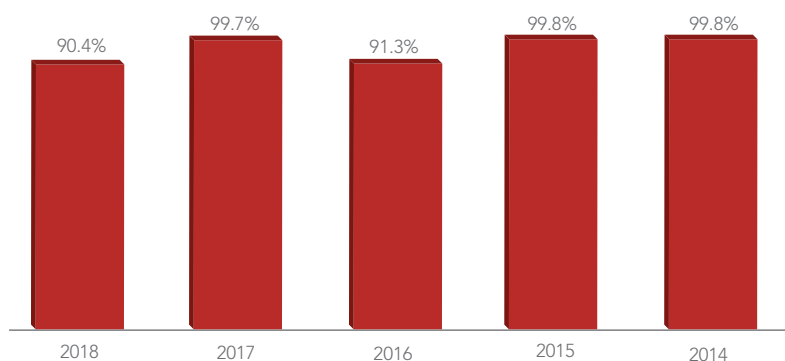
The power plant exported 2,452 GWh during the year and cumulatively has exported 40,206 GWh since commencement of commercial operations in June 2003. The average hourly net power exported during year was 280 MW (2017: 341 MW). The load factor, which is 69.0% for 2018 (2017: 79.8%) is dependent on the demand for power by the national grid and has no impact on the business performance.

The following table and graph show the progression in exported energy and reliability factors for the last five years.

Year	Available Energy (GWh)	Energy Exported (GWh)	Export Factor (%)	Reliability Factor (%)
2018	2,998	2,452	81.8	90.4
2017	3,333	2,988	89.6	99.7
2016	3,115	2,579	82.8	91.3
2015	3,425	3,067	89.5	99.8
2014	3,404	2,746	80.7	99.8



#### Reliability Factor (Power)



As stated above the drop in reliability factor during 2018 is the result of two High Impact Low probability (HILP) events of gas turbines generators failure.

## Water Production

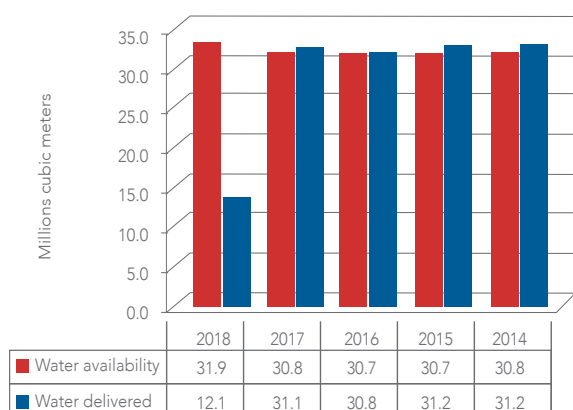
On 30 April 2018 the Plant completed initial term of 15 years of its PWPA. From 1st May 2018 Plant commenced operation as per the amended PWPA for the extension term ending on 31 Dec 2021. In the amended PWPA operation of the Plant is foreseen in two modes i.e. Call-On (MSF in service) and Call-Off (MSF standby) mode. As per this arrangement the Plant operated in Call-On until mid-June 2018 and thereafter operated in Call-Off mode for remainder of 2018. The biggest challenge during Call-off mode is to preserve the MSF units and make them ready for any upcoming requirement of the off-taker. Team has established a robust preservation procedure following the requirements of OEM which has enabled the Company to continue maintaining the top-notch reliability factor of 98.5% during 2018 as well.

With the completion of two new big RO Plants during 2018, MSF units are in standby mode since mid-June 2018 and accordingly the average hourly export during 2018 is much lower than previous years. The hourly average water export during the year remained 1,386 m3 (2017: 3,546 m3).

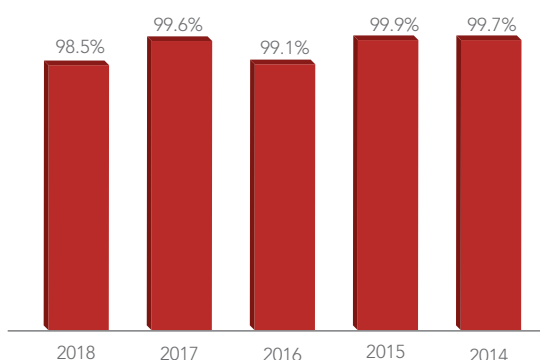
The following table and graph show the progression in exported water and reliability factors for the last five years.



Year	Water Availability (Mlnm3)	Water delivered (Mlnm3)	Export Factor (%)	Reliability Factor (%)
2018	31.9	12.1	38.0	98.5
2017	30.8	31.1	100.9	99.6
2016	30.7	30.8	100.3	99.1
2015	30.7	31.2	101.6	99.9
2014	30.8	31.2	101.1	99.7



### Reliability Factor (Water)

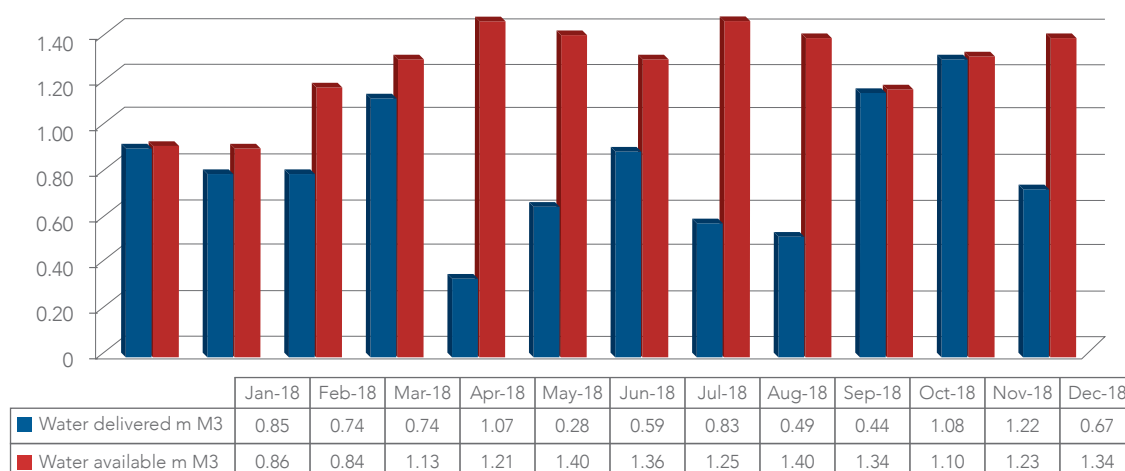


### Reverse Osmosis Phase 1 Facility

Commercial supply of water from the Expansion Phase 1 Plant ("RO1") was commenced from 29 May 2014. Since then plant has been supplying the most needed water to the national water grid and maintained a reliability factor of 92.2% during 2018 (2017: 87.0%). Though the reliability factor is still not at par with the industry however it is

better than 2017. This improvement is the result of complete replacement of RO membranes (in Mar-Apr 2018) and self-cleaning filters (last quarter of 2017) from different manufacturers which improved the quality of pre-treated water and reduced the membranes failure rate. 2018 monthly results of the available and delivered water are summarized in the graph below.

### RO - 1 Water



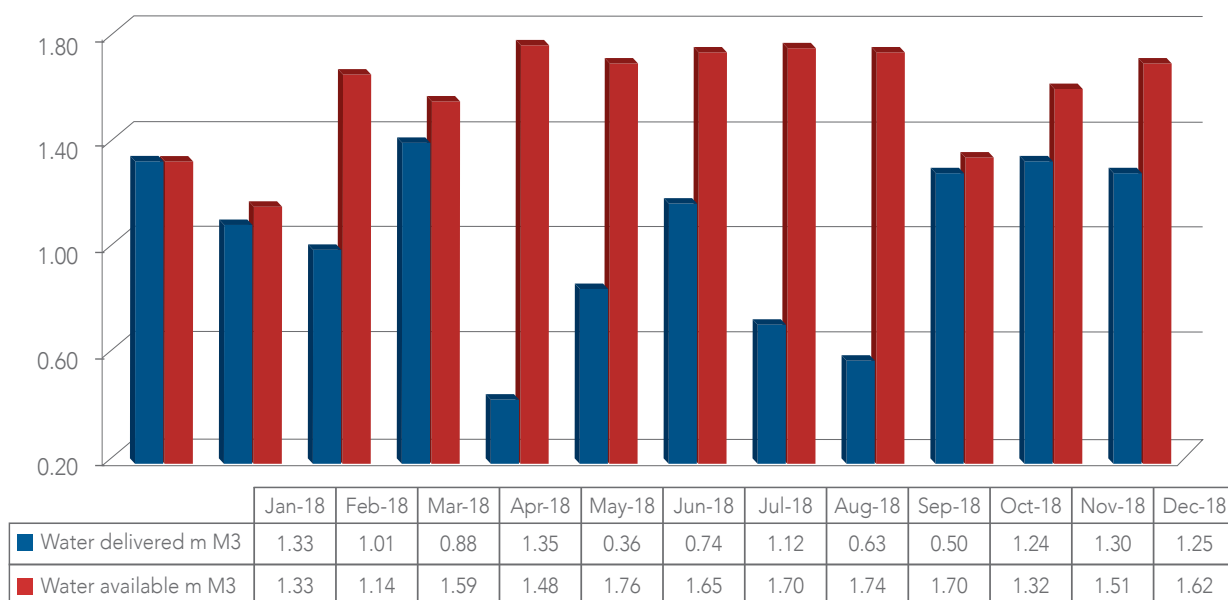
## Reverse Osmosis (RO) Phase 2 Facility

12.5 MIGD RO phase 2 Plant completed its Initial Performance Test on 25 Feb 2016 and declared commercially available on 00:00 hrs of 26 Feb 2016. Since this date Plant is operating following dispatch

instructions of the off-taker. Plant maintained a reliability factor of 93.7% during 2018 (2017: 93%).

A graphical presentation of the available and delivered water during this reporting period is given below:

### RO - 2 Water



## Plant Maintenance Philosophy

The power island consists of two gas turbines of V94.2 Siemens design and one steam turbine manufactured by Ansaldo Energia. The net generating capacity of these machines is 427.36 MW under reference ambient conditions in Call-On mode and 388 MW in Call-Off mode under revised reference conditions. Your Company, along with NOMAC Oman, has developed a robust strategy to ensure that the machines remain in pristine condition with the ability to provide sustained results.

The team believes in a risk based approach towards maintenance to create a viable balance between predictive, proactive and scheduled maintenance. All machines, which include both gas turbines, the steam turbine and both heat recovery steam generators, have been subject to planned maintenance as advised by the Original Equipment Manufacturer ('OEM'), Ansaldo Energia, since commissioning in June 2003.

Since the restructuring in 2011, all maintenance has been performed by NOMAC Oman as envisioned in the operations and maintenance agreement.

During the year, NOMAC Oman has ensured that inventory is adequately procured, especially taking into consideration the long lead time of various

specialized equipment and the requirements of the plant for the upcoming major maintenance.

The high reliability of these machines has been maintained by the excellent operations and maintenance management programme developed by the Barka team. NOMAC Oman utilizes a Computerized Maintenance Management System to ensure a holistic approach towards maintaining the plant. Safety plays the foremost role in all maintenance work and is the topmost priority.

A summary of the annual inspection and maintenance activities during 2018 are described below.

1. A planned full steam cycle outage to carry out all preventive and corrective maintenance activities on common steam cycle.
2. Planned outages of all the three desalination units: 20 days outage on each desalination unit was taken from the Winter Down time to carry out necessary preventive and predictive maintenance activities in line with approved schedule from the Off-taker.
3. A Planned minor outage of GT-1 and HRSG-1.
4. An unplanned outage of GT-2 for ~38 days to repair its generator.



5. An unplanned outage of GT-1 for ~76 days to replace stator of its generator.
6. During the aforesaid planned/unplanned outages numerous preventive/predictive maintenance related activities were completed on different auxiliaries and balance of which is vital for a reliable and efficient plant operations.
7. Numerous planned and short notice outages were taken to conduct the preventive and periodic maintenance activities on both the RO plants. Activities includes replacement of membranes, chemical cleaning of RO/UF/MF membranes.

### Performance Test

Plant commenced 16th year of its commercial operation from 1st May 2018 under the amended power and water purchase agreement which covers the extended term ending on 31 Dec 2021. In the extended term Plant is required to operate in two modes i.e. Call-On (with MSF) and Call-Off (without MSF) with different guaranteed power capacities of 427.36 MW and 388 MW respectively. Accordingly the Company was obliged to demonstrate followings during its 2018 annual performance test ("APT").

1. guaranteed power capacity with natural gas - Call-On mode
2. guaranteed water capacity with natural gas - Call-On mode
3. guaranteed power capacity with diesel - Call-On mode
4. guaranteed water capacity with diesel - Call-On mode
5. guaranteed power capacity with natural gas - Call-Off mode
6. guaranteed power capacity with diesel oil - Call-Off mode

The Company successfully demonstrated both the power and water capacities in all the above stated tests and thus successfully concluded the Annual Performance Test for the Main Plant. The Company also completed the APT for Expansion Phase 1 & 2 plants successfully and within the time frame envisaged in the respective water purchase agreements. The success of these tests is crucial for the Company as it is the basis of determining the capacity payments for the contract year.

The tests demonstrated the Net Power and Water Capacity on gas and diesel oil as well



as the performance of the intake and outfall water facility. Similarly, Water Capacity for Expansion Phase 1 & 2 plants was also demonstrated. The results of these tests were in full compliance with the contractual obligations and will ensure a steady stream of future cash flows.

## Environment

ACWA Power Barka gives utmost importance to the environment and is committed to produce safe, clean, reliable and cost effective electricity and water for the consumers.

The fuel used at ACWA Power Barka is Natural Gas which has a low sulphur content of 5 parts per million or less. The gas turbines installed at the plant are equipped with dry low NOx (DLN) burner technology to control air emissions levels of NOx.

The results of the Annual Performance Test confirmed the business operated well within allowable environmental parameters. The Continuous Monitoring Emission System (CEMS) installed provides real time air quality measurements while ambient air monitoring system tracks air quality and the effects on the environment by plant operations. Effluent water has complied with all applicable environmental permits. In addition, the Barka team takes special care in hazardous waste handling, ensures segregation according to waste type and disposal in line with applicable environmental regulations.

The annual Environmental Day was held on 13 May 2018. The team took the opportunity to re-look at the plant-wide environment aspect/impact assessment.

Compliance with air quality requirements is being monitored on a continuous basis through a Continuous Emissions Monitoring System (CEMS). Effluent water discharged back to the sea during the year has complied with all applicable environmental permits. The team takes special care in hazardous waste handling, ensures segregation according to waste type and disposal in line with applicable environmental regulations.

There have been zero exceedances during the year and all regulatory permits have been maintained or in the process of usual renewal.

## Safety

The Company is proud of its stellar safety record. The completion of 16 years without a Lost Time Incident on 2 May 2018 has certainly been the most significant achievement during the year.

Your Company believes that safety comes first, all occupational accidents can be prevented, working safely is a condition of employment and to provide authority at the grass root level to stop unsafe work. The team's proactive approach towards safety practices, identifying hazards and performing risk analyses through evaluation processes played a pivotal role in preventing safety incidents.

The safety conscious approach of the team kept the team focused and helped in maintaining the highest safety standard throughout this incident despite a very challenging timeline. Regular training programs such as fire awareness training, incident commander training, IOSH Managing Safety, Process Safety Management – NEBOSH, Scaffolding Training, NEBOSH award, Forklift Driving, JLG Training and etc had been organized during the year 2018 to enhance the competency of staff members.

NOMAC Oman, the O&M Operator of the plant, has completed all maintenance activities in safest possible manner. Sub-contractors are also appraised on the prevailing safety culture which help them adhere to best safety practices. The Company and its Operator celebrated their annual Occupational Health, Safety and Environment Day on 13 May 2018 with the theme "Beat Plastic Pollution" and "Plastic Usage Reduction Program" and conducted various exercises related to safety and environment.

NOMAC Oman continues to maintain the BS OSHAS 18001:2007, ISO 14001:2015 and ISO 9001:2015 certification for Occupational Health and Safety, Environmental Management and Quality Management System.

## Omanization

Right from inception, your Company has adopted a viable strategy in identifying, retaining and grooming local talent because of which the Company is well ahead of its contractual obligations.

The above strategy has allowed the Company and its Operator to appoint seasoned and experienced Omani professionals in all disciplines including the senior management team. The Operator has also continued the practice of recruiting fresh engineers and developing them. The focus on identifying and recruiting experienced Omani people remained a top priority.

## Social responsibility

The Company and its Operator have been involved with various social and community welfare initiatives. The Company continued its support to the educational sector. It contributed in renovating the



Free Access lab in the Engineering Department at Musannah College of Technology and provided necessary equipment for students to help them in gathering information related to the technological advancements and innovations in Engineering

Also, the Company executed a sun shade project to cover the passage areas in the Elderly Social House at Rustaq to provide around 50 elderly people who live in the house with relaxed and healthy environment.

In continuation to support the educational sector, Mist Spray System will be installed in one of the governmental schools in Barka to provide the students with refreshed environment and reduce the outside temperature.

## Commercial Highlights

### PWPA / WPAs beyond 2021

The Company successfully completed initial term of its PWPA and WPAs during the year. This indeed is a landmark achievement in the life span of contract generation IWPP model.

The Company is participating in the Request for Offer (RFO) and Power 2022 Procurement to secure new long-term contracts for the period beyond 2021. The Company submitted its bids under the RFO process however, this bid was not accepted by OPWP under the Request for Offer (RFO) process. This was an unfortunate

position to be in for the Company considering that both the RO plants are relatively new and have only completed a few years of operations.

With regards to the power plant, the OPWP has initiated the Power 2022 Procurement Process. The Company along with some other existing generators is working to secure a new contract term. The Company believes that under the Power 2022 Procurement Process it will not be able to contract its MSFE desalination plant after 2021, like other MSFE plants in the Sector, due to being commercially not viable based on criteria set by OPWP. This unfortunate situation has resulted in recognition of non-cash impairment impact of OMR 31.5 million under IFRS as disclosed to the shareholders earlier.

### Spot Market

The Authority for Electricity Regulation is in the process of introducing 'Spot Market' for electricity sector which will start on a trial basis by 2020. The main objective of this initiative is to optimize the residual value of non-contracted power generation capacity through additional utilization during peak load periods which cannot be covered by baseload commitments. The Company is actively participating on this initiative and has taken the necessary steps to ensure its installed capacity is fully utilized.

## Financial Highlights

	RO in MM's				
Income Statement	2018	2017	2016	2015	2014
Revenue – 'straight line'	61.5	71.7	66.8	65.4	***60
Operating costs	43.8	50.7	47.3	47.3	***43.1
Gross profit	17.7	20.9	19.5	18.1	16.9
Other costs	*34.7	**16.7	7.7	7.5	5.4
Net profit / (loss) after tax – excluding one off items	9.9	12.2	11.8	10.5	11.4
Net profit / (loss) after tax	(16.9)	4.2	11.8	10.5	11.4
Gross profit margin	29%	29%	29%	28%	28%
Net profit / (loss) margin	(27%)	6%	18%	16%	19%
Earnings / (loss) per share (RO)	(0.106)	0.027	0.074	0.066	0.071

\* During the year, Company has recognized an impairment loss of OMR 26.8 (net of tax) on its MSFE plant and machinery.

\*\* The Company recognized OMR 3.3m one-off deferred tax liability on account of revision in income tax rate from 12% to 15% and also recognized OMR 4.7m tax liability in respect of adverse decision from Supreme Court on the matter of carry forward of losses incurred during exemption period.

\*\*\* Numbers have been restated on basis of current fuel prices for comparison purposes.

### Revenues

The revenues have decreased by (OMR 10.1m) compared to previous year. The primary driver of this decrease is lower water output revenue from MSFE water plant (OMR 3.4m) due to it being under call-off mode for most of the part of the year. Likewise, there was lower power output revenue due to lower demand from the grid resulting in a decrease of (OMR 2.5m). Overall capacity revenue of Main plant was lower by (OMR 2m) primarily on account of incidents at Power plant. Lower revenue was generated by both RO plants causing a decrease of (OMR 1.1m) and there was a lower recognition of deferred revenue by (OMR 1.1m).

### Operating Costs

Operating costs are lower as compared to corresponding year by (OMR 6.9m). This decrease is primarily attributed to lower gas consumed due to lower output.

### Gross Profit

The net decrease of (OMR 3.2m) in gross profit is primarily due to lower capacity revenue from all the plants including impact of GTG-2 and GTG-1 incidents. Furthermore, the absence of deferred



revenue has also contributed to lower gross profit in current year.

### Other Costs

Other costs for the current year are higher (RO 18m) as compared to previous year. This is primarily attributable to (RO 26.8m) impairment loss (net of tax) recognized during the year. This is partially offset by tax liability recognized on account of Supreme Court decision (RO 4.7m) and a one-off deferred tax liability (RO 3.3m) recognized in the corresponding year.

### Net Profit after Tax

This year company incurred a loss after tax of (RO 16.9m) as compared to a net profit after tax of (RO 4.2m) in the corresponding year primarily due to the recognition of impairment loss.





Balance Sheet	RO in MM's				
	2018	2017	2016	2015	2014
Total assets	129.4	164.3	170.9	182.4	147.5
Total equity	37.9	54.8	57.7	52.6	46.2
Paid up capital	16	16	16	16	16
Return on assets (%)	(13)	2.5	6.8	5.8	7.8
Net assets per share – RO	0.237	0.342	0.360	0.331	0.292
Return on paid up capital (%)	(105)	26	73	66	71
Debt equity ratio	62:38	57:43	59:41	63:37	62:38
Ordinary dividend (%)	-	45	43	27	50
Dividend per share – RO	-	0.045	0.043	0.027	0.050
Dividend payout ratio (%)	-	166*	58	41	70

\* The higher dividend payout ratio is due to lower profit on account of recognition of tax liabilities for i) increase in income tax rate and ii) adverse Supreme Court decision.

## Cash flows and Dividends

The Company has met its obligations to the lenders by the timely debt service of (OMR 15.0m) during the year. The Company incurred (OMR 1.5m) in capital expenditure.

In view of tax liabilities because of adverse Supreme Court decision last year, the Company did not pay any dividends.

## Risks faced by the Company

The risks that are being faced by a power company like your Company include loss of availability due to breakdowns, accidental damage and default in payment by the off-taker. The Company has materially transferred its operations and maintenance risk to the Operator pursuant to its O&M Agreements.

The primary risks associated with the Company are:

- Renewal of existing contracts or securing new contracts for period beyond 2021. The Company is actively engaged with OPWP to secure renewal / extension of its contracts under the Power 2022 and RFO Process.
- Increase in forced outages of the two RO plants due to severe seawater quality beyond design limits of the pretreatment units. The Company has initiated improvement program involving main vendors.
- Technical failure of GT2 generator unit like GT1 experienced in 2018. The Company has carried out major repair works and is utilizing built-in monitoring & control system to mitigate such risk
- Cybersecurity related threats are becoming an ever-increasing risk in the recent times. The Company has been focusing to mitigate these risks through implementing a robust and comprehensive Cybersecurity framework at its Plants. This strategy is also in line with what has been prescribed by the Authority for Electricity Regulation to be followed by the industry.

NOMAC Oman has maintained almost perfect reliability since taking over the operations and maintenance function of the plant by implementing robust predictive, proactive and preventive procedures which are well aligned with best international industrial practices.

Financial obligations of the OPWP under the project agreements are secured by a Guarantee issued by the Ministry of Finance. In addition, comprehensive insurance program is in place to protect the business against property damage, business interruption,

public liability and sabotage and terrorism risks. The PWPA and WPAs protect the Company against inflation and the Rial Omani/US Dollar exchange rate movement, if any. Fuel cost is pre-determined in the fuel supply agreement over the period of the PWPA.

Major portion of the long-term loan is denominated in Omani Rials.

These proven risk mitigation strategies have successfully protected the business from any untoward exposure over many years and the management will continue to actively perform risk analyses to identify and mitigate potential challenges.

## History of the Project

### Introduction

ACWA Power Barka SAOG ("the Company") was incorporated as an Omani Joint Stock Company in the Sultanate of Oman on November 19, 2000 under a trade license issued by Ministry of Commerce & Industry.

### History of the company

The Government of the Sultanate of Oman invited proposals (tender number 45/2000) in April 2000 for:

1. The design, procurement, construction, commissioning and financing of a natural gas and fuel oil fired electricity generating plant and a sea- water desalination plant, with an anticipated guaranteed net contracted capacity of about 427 MW of power and 20 MIGD of water, and the gas connection facilities; and
2. The operation and maintenance of the Plant in such a manner as to ensure that the Plant and the gas connection facilities may at all times be operated for a period of 15 years from the COD; and
3. The sale of the electrical energy and water associated therewith, to the power purchaser, in accordance with the PWPA.

The Project was awarded by the Government to a consortium comprising AES Corporation and Multitech LLC, following a competitive bidding process. The consortium formed the Company for the purposes of entering into the Project Agreements and undertaking the Project. Subsequently in 2010, AES Corporation sold its shareholding in the Project to ACWA Power International. The Project has been developed by the Company under a Build, Own and Operate ("BOO") scheme. The BOO concept

enables the Company to operate as a going concern beyond the contracted period of 15 years by either extending the PWPA (if agreed to by OPWP) or selling into an electricity pool, if one has been created at that time.

The 427 MW gas fired power plant and 20 MIGD desalination plant is situated on the Omani coast approximately 60 km north-west of Muscat. The site is strategically located near the main gas transmission system and electricity grid network.

The power section of the Plant uses two V94.2 Ansaldo Gas Turbines (to drive electrical generators) with Heat Recovery Steam Generators (HRSG's), which utilize the exhaust heat of the gas turbines to produce steam, and

this steam is supplied to a Steam Turbine to complete the combined cycle. The desalination section of the Plant uses three identical Multi-stage Flash Evaporator desalination units supplied by Hitachi, which produce 6.67MIGD each.

The land for the Plant is owned by Government and is leased to the Company for 25 years (renewable for a further 25 years) under a Usufruct Agreement. The plot of land measures about 110,000 sq m. Enelpower S.p.A of Italy and Hitachi Zosen Corporation of Japan were the principal Engineering, Procurement, and Construction ("EPC") contractor(s) for the Project.

## Major Stakeholders

Shareholders:	ACWA Power, Civil Services Pension Fund, Ministry of Defence Pension Fund
Lenders:	Consortium of local and regional banks led by Bank Muscat SAOG
Power and Water Offtaker:	OPWP
Gas Supplier:	MOG
O&M arrangements:	NOMAC Oman with technical support agreements with ACWA Power
EPC contractor(s)	Enelpower S.p.A. of Italy (power plant) and Hitachi Zosen Corporation of Japan (desalination plant)
	ABEINSA (Expansion Project – Phase 1)
	Osmoflo (Expansion Project – Phase 2)

## Technical Details

### Capacity

The capacity of the power plant is defined as the total electrical energy in mega-watts (MW's), which can be delivered by the power plant, under specific environmental conditions (site reference conditions). During the term of the PWPA, the guaranteed capacity of the Company power plant is 427 MW. The demonstrated net capacity in the initial plant performance test was 447 MW. This excess capacity will reasonably assure the ability of the Company to meet its contractual guarantees throughout the term of the PWPA. In extended term till 2021, Company is operating under Call off / Call on mode for MSFE. During Call off mode, the guaranteed capacity of the power plant is 388 MW.

The capacity of the desalination plant is defined as the total desalinated water in MIGD, which

can be delivered by the desalination plant per day under specific environmental conditions (site reference conditions). The guaranteed capacity of the Company's existing desalination plant is 20 MIGD. The water capacity has increased by 10 MIGD and by another 12.5 MIGD after completion of the Expansion Project Phase 1 and Phase 2 respectively.

As per the requirements of the PWPA, the capacities of both the power and water plants are proved each year in an annual performance test, which is witnessed and confirmed by the OPWP.

### Availability

Availability is the period of time the plant is capable of generating power and producing desalinated water at the rated capacities. In terms of the Project Agreements, the power plant is required to achieve 100% availability



in the summer and 85% availability in the winter. The desalination plant is required to achieve 95% availability in the summer and 87% availability in the winter.

### Power Plant Efficiency (Heat Rate)

The efficiency of the power plant is measured in terms of heat rate, which is the amount of heat required to produce one unit of power (and related water) while consuming a certain variable calorific value of heat as measured in thermal units. Thermal units used to measure the heat rate are British Thermal Units (BTU's) or kilo-joules.

### Tariff Structure:

MHEW/OPWP pays the Capacity Charges, Electrical Energy Output Charges and Water Output Charges in return for the Company making available the electrical generation and desalinated water production capacity and selling the Electrical Energy Delivered and the Water Output Delivered. The tariff is structured in such a way as to provide incentives for the Project Company to comply accurately with dispatch instructions and to optimise availability and efficiency.

**Capacity Charge:** payable for each hour during which the Plant is available for generation. The capacity charge is the total of:

- Investment charge: to compensate the capital and all related costs of the Project (such as tax payments, debt service and return on capital);
- Fixed operation and maintenance charge: to compensate the fixed operation and maintenance and all related fixed costs of the Plant; and
- New industry charge: to compensate for proposed periodic licensing costs envisaged under the Sector Law.

**Energy Charge:** The energy charge compensates for the fuel and variable cost of power and water delivered. The energy charge is the total of:

- Variable operation and maintenance costs of electrical energy delivered and desalinated water delivered;
- Fuel Charge: The Fuel Charge component of the Electrical Energy Charge is based on theoretical natural gas consumption, which is calculated on the basis of the Reference Cycle Heat Rate, corrected for ambient conditions and loading conditions. The Electrical Energy Charge is payable according to the Electrical Energy Delivered. The Fuel Charge for water is calculated as part of the natural gas consumption not allocated to the production of electrical energy.

- Start-up charge: payable to the Company for the costs of starting the power and desalination plant.

Payments are denominated in Omani Rials (RO). The entire Investment Charge element of the Capacity Charge is linked to the RO-USD exchange rate. The fixed and variable operation and maintenance charges for power and water are linked to the RO-USD exchange rate, the US inflation rate and the Omani inflation rate.

### Profile of Major Shareholders

#### ACWA Power

ACWA Power is a developer, investor, co-owner and operator of a portfolio of power generation and desalinated water production plants currently with presence in 11 countries including in the Middle East and North Africa, Southern Africa and South East Asia regions. ACWA Power's portfolio, with an investment value in excess of USD 30 billion, can generate 29+ GW of power and produce 3.9 million m<sup>3</sup> /day of desalinated water to be delivered on a





bulk basis to state utilities and industrial majors on long term off-take contracts under Public-Private-Partnership, Concession and Utility Services Outsourcing models.

ACWA Power, registered and head-quartered in the Kingdom of Saudi Arabia, is owned by eight Saudi conglomerates, Sanabil Direct Investment Company (owned by the Public Investment Fund of Saudi Arabia), the Saudi Public Pensions Agency and the International Finance Corporation (a member of the World Bank Group).

ACWA Power pursues a mission to reliably deliver electricity and desalinated water at the lowest possible cost while seeking to maximize local content and local employment creation, thereby contributing to the social and economic development of the communities and countries it invests in and serves.

ACWA Power strives to achieve success by adhering to the values of Safety, People and Performance in operating its business.

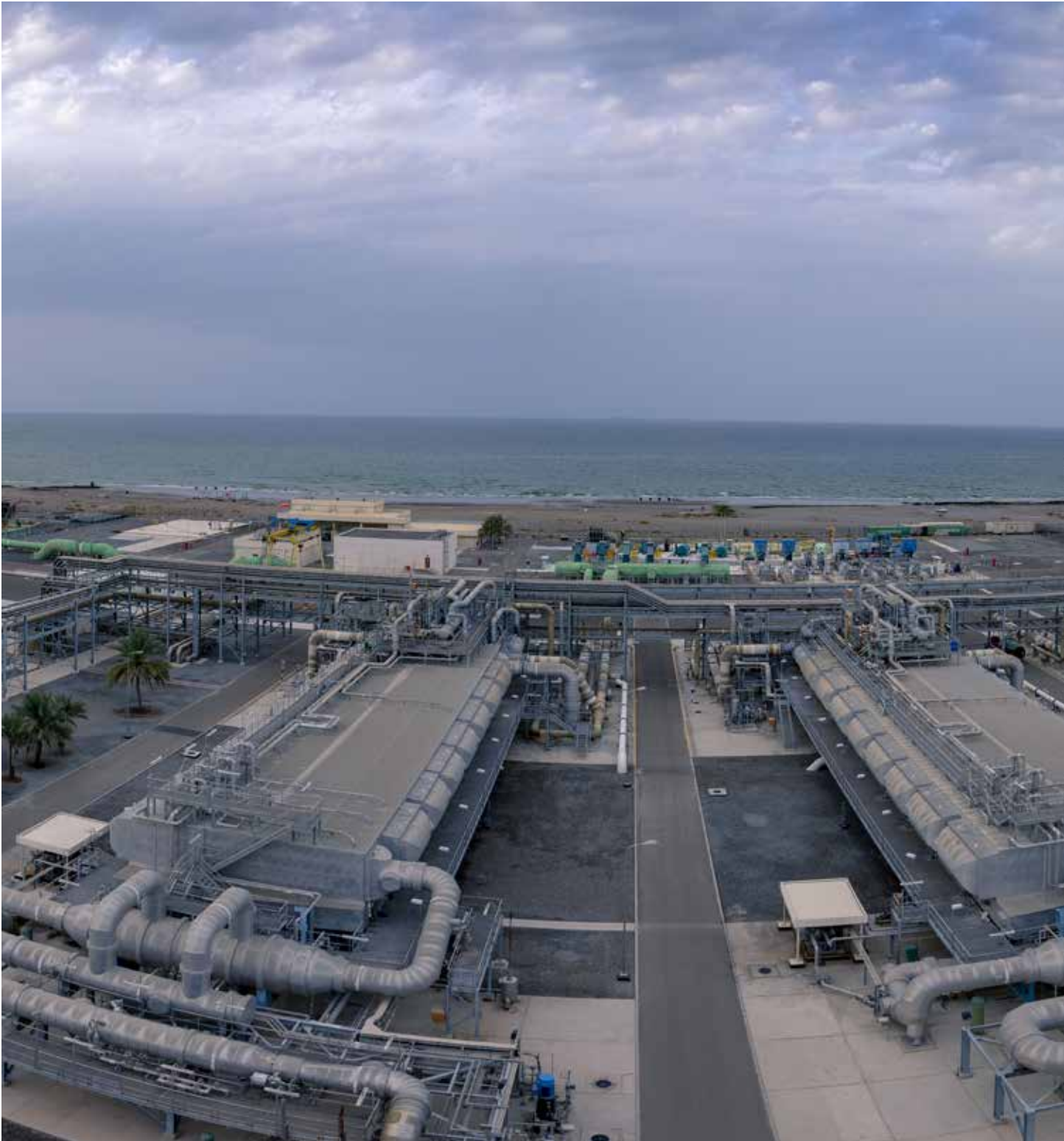
### Civil Services Pension Fund

The Civil Service Employees Pension Fund ("CSEPF") was established simultaneously with the introduction of the Law of Pensions and End of Service Benefits for Omani Nationals employed in the Government sector in the beginning of 1986. It undertakes the responsibility for implementation of provisions of the law in addition to managing and investing the pensions and end of service funds.

### Ministry of Defence Pension Fund

The Ministry of Defence Pension Fund is a public legal entity in the Sultanate of Oman duly organized under, and registered pursuant to, Sultani Decree 87/93 issued on 29th December 1993. The Ministry of Defence Pension Fund is one of the largest pension funds in Oman and is a major investor in the local capital markets, both in equities and bonds. It is also a major participant in project investments and Real Estate investments. The Fund is represented on the boards of several prominent Corporates in Oman.

# Corporate Governance Report







## REPORT OF FACTUAL FINDING

### TO THE SHAREHOLDERS OF ACWA POWER BARKA COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of ACWA POWER BARKA COMPANY SAOG (the "Company") as at and for the year ended 31 December 2018 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarised as follows:

- 1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and
- 2) We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2018. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of ACWA Power Barka SAOG to be included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of ACWA Power Barka SAOG, taken as a whole.



Muscat  
27 February, 2019



# Corporate Governance Report

## Statement of Issue:

This report is being presented to comply with the fourteenth principle of the Code of Corporate Governance of Muscat Securities Market (the "MSM") applicable to Public Joint Stock Companies issued vide Circular No E/4/2015 dated 22 July 2015 and further amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016, (collectively the "Code") issued by Capital Market Authority (the "CMA") for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

We are pleased to report that ACWA Power Barka SAOG (the "Company") remained in compliance with the principles of the Code.

## Company Philosophy on Code of Governance:

The Company is committed to the highest standards of corporate governance. The Company is operating with a set of business principles and corporate conduct is its most important element. These values are reflected in the leadership, management and day to day operations of the Company by the Board of Directors, the management and the employees of the Company.

The Company believes in and practices good corporate governance. The Company's philosophy of the Code of Corporate Governance is aimed at assisting the top management in the efficient conduct of its business and fulfilling its obligations towards all its stakeholders.

The Company has applied the principles of corporate governance in the following manner:

The Company has adopted a Code of Business Conduct which is applicable to the employees. The Code is intended to govern as a requirement of employment and governs the actions of everyone who works at the Company. This code addresses the following topics:

- Compliance with All Laws, Rules, Regulations and this Code
- Conflicts of Interest and Corporate Opportunities
- Quality of Public Disclosures

- Protection and Proper Use of Company Assets
- Protection of Confidential Proprietary Information
- Insider Trading
- Fair Dealing
- Interacting With Government
- Environment, Health and Safety
- Respect for One Another
- Record Retention

The Company encourages representation of non-executive and independent directors on its Board of Directors. At present the Board consists of seven directors all of which are non-executive directors. Three of them are independent directors while two directors represent the minority shareholders. All the directors have excellent industry and corporate governance experience.

Upon election of new Directors, the Audit Committee was constituted by the Board of Directors and it is performing its functions in accordance with its terms of reference drawn in compliance with the code of corporate governance and an effective internal audit function has been set up. The periodic financial statements issued during the year were reviewed by the Audit Committee.

In compliance with the Code, Nomination and Remuneration Committee of the Board of Directors also carried out its functions during the year.

## Board of Directors

The Board of Directors was elected in March 2017 and will be subject to re-election in March 2020. The Company's Board of Directors consists of seven members.

The Directors of the Company bring a rich experience of corporate governance, operations and maintenance, finance & accounting, business development and institution building. Their experience is complimented by their academic qualifications in the field of administration, management, finance, accounting and engineering. The Company arranged training of Code of Corporate Governance for the members during the year.

Four meetings of the Board of Directors were held during the year on the following dates:

- 28 February 2018
- 25 April 2018
- 24 July 2018
- 29 October 2018



These meetings were convened by issuing proper notices along with the agenda and relevant work papers. All meetings were presided over by the Chairman of the Board except for 28 February 2018 when he gave his proxy to Mr. Kashif Rana who presided the meeting. The minutes of the meetings were appropriately recorded and circulated.

Mr. Mohammad Abunayyan and Mr. Suhail Hajee resigned from the directorship of the Company during the year and Mr. Zeeshan Hyder and Mr. Ganesh Subramanian were appointed as temporary directors. Mr. Ahmed Al Subhi was appointed as Chairman of the Board in place of Mr. Mohammad Abunayyan.

Details of composition and category of directors and their attendance at the meetings of the Board of Directors is given as under:



Name of Director	Category	Board Meetings held and attended during 2018				AGM 26 <sup>th</sup> Mar 18
		28 <sup>th</sup> Feb	25 <sup>th</sup> Apr	24 <sup>th</sup> Jul	29 <sup>th</sup> Oct	
Mr. Mohammad Abdullah Abunayyan ** - representing ACWA Power Barka Project LLC (Ex-Chairman)	Non-Independent	P	P	P	NA	-
Mr. Ahmed Al Subhi – representing ACWA Power Barka Project LLC (Chairman)	Non-Independent	NA	NA	NA	P	NA
Mr. Kashif Rana (Deputy Chairman)	Non-Independent	P	-	P	P	P
Mr. Suhail Hajee **	Independent	P	NA	NA	NA	-
Mr. Ganesh Subramanian *	Independent	NA	P	P	P	-
Mr. Ahmed El Sinani – representing Civil Services Pension Fund	Non-Independent	P	P	P	P	P
Mr. Theagarajan Eswaran	Independent	P	P	P	P	P
Mr. Hamad Al Wahaibi - representing Ministry of Defence Pension Fund	Independent	P	P	P	P	-
Mr. Zeeshan Hyder *	Non-Independent	NA	P	P	P	-

Legend: P: Present –: Apologies NA: Not applicable

\* Appointed during the year as temporary director

\*\* Resigned

\*\*\* Term completed

The Company held its Annual General Meeting of shareholders on 26 March 2018 for the year ended 31 December 2017.

No dividend was approved by the Board during 2018.

The following table shows the number of directorships of ACWA Power Barka's Board members in other public joint stock companies in the Sultanate of Oman as of 31 December 2018.

Name of director	Number of Directorships
Mr. Ahmed Al Subhi	3
Mr. Ahmed El Sinani	2
Mr. Hamad Al Wahaibi	2

Procedures for standing as a candidate for the Board of Directors

The election of the Board is governed by the Rules and Conditions for Election of Directors of Public Joint Stock Companies and their Responsibilities issued vide ministerial decision 173/2002 on 23 October 2002 and subsequent amendment vide ministerial decision 201/2016 on 31 August 2016 and Article 26 to Article 29 of the Company's Articles of Association.

As per the Rules and Conditions for Election of Directors of Public Joint Stock Companies and their responsibilities and the Articles of Association of the Company which states:

The management of the Company shall be entrusted to Board of Directors comprising of seven members.

The Directors shall be non-executives and shall not be working for the Company in consideration of a fixed monthly or annual remuneration.

The term of office of the Board shall, subject to a re-election, be for a maximum period of 3 years (renewable) to be elected by resolution at the Company's Ordinary General Meeting.

A minimum of one third of the Directors must be independent directors.

A juristic person shall not be represented on the Board of the Company by more than one director on the Board.

The position of Chief Executive Officer / General Manager / Chairman shall not be held by a single person.

Nominee to the membership of the Board must not be an employee or director of a public or closed joint stock company which is based in the Sultanate of Oman carrying out similar objectives to that of the Company.

If the office of an elected Director becomes vacant during the period falling between two Ordinary General Meetings, the Board of Directors, based on recommendations from the NRC, may appoint a temporary director who meets the requirements of these Articles of Association. The temporary director shall hold his office until the next Ordinary General Meeting.

The Articles of Association of the Company are substantially in line with the provisions of the Capital Market Authority and in the event of any conflict between these Articles of Association and any relevant law, the provisions of such law shall prevail.

### Audit Committee

The Board of Directors reconstituted the Audit Committee on 22 March 2017 by appointing three directors as Audit Committee members two of which were independent. The Chairman of the Audit Committee is an independent director. These members have required knowledge and



experience of accounting, international financial reporting standards and commercial law that enable them to perform their functions. The Committee supports the Board in fulfilling its oversight and review function. The Committee reviews the Company's adherence to policies, procedures, practices and compliance with laws and regulations.

The Committee ensures that the financial statements prepared are in accordance with the International Financial Reporting Standards and the disclosure rules issued by the CMA.

A brief description of the terms of reference of the audit committee is as under:

1. The audit committee has the power to seek required information and/or presence of any employee of the Company.
2. Ensuring adequacy of the control environment and overseeing the issuance of financial statements to the stake holders.
3. Acting as a communication channel between Auditors, Management and the Board.

Detail of meetings held during the year and attendance by the members is as under:

Name of Director	Category	AC Meetings held and attended during 2018			
		28 <sup>th</sup> Feb	25 <sup>th</sup> Apr	24 <sup>th</sup> Jul	29 <sup>th</sup> Oct
Mr. Suhail Hajee * (Ex-Chairman)	Independent	P	NA	NA	NA
Mr. Ganesh Subramanian ** (Chairman)	Independent	NA	P	P	P
Mr. Kashif Rana	Non-Independent	P	-	P	P
Mr. Theagarajan Eswaran	Independent	P	P	P	P

Legend: P: Present –: Apologies NA: Not applicable

\*Resigned

\*\* Appointed

The Audit Committee heard the views of the external auditors before forwarding the financial statements for the year 2018 to the Board of Directors in their meeting concluded on 27 February 2019. During this meeting, the views of the internal auditor and the external auditors were heard separately without the presence of the Management. In addition, the Audit Committee has also reviewed the reports and views of Internal Audit on a quarterly basis. The Audit Committee reviewed and approved the Internal Audit plan for 2019. The Audit Committee also submitted its plan for 2019 to the Board.

By interaction with, and oversight of the Management, Internal and External Auditors along with evaluation of submitted reports, the Audit Committee reviewed the effectiveness of the internal control system and found it to be adequate and effective.

## Nomination and Remuneration Committee

The Board of Directors constituted the Nomination and Remuneration Committee on 22 March 2017 by appointing three directors as its members one of which is independent. These members possess adequate knowledge and experience to carry out their responsibilities diligently. The Committee assisted the Board in the nomination of the most proficient directors to fill the vacancies and aims to assist the board in selecting the appropriate and necessary executives for the Executive Management. The Committee meets at least 2 times annually.

A brief description of the terms of reference of the Nomination and Remuneration Committee is as under:

Ensuring the nominated directors possess the necessary skills and abilities as has been defined in the Code.

Ensure a succession strategy in place for directors and the executive management.





Detail of meeting held during the year and attendance by the members is as under:

Name of Director	Category	NRC Meeting held and attended during 2018	
		29 <sup>th</sup> Nov	18 <sup>th</sup> Dec
Mr. Kashif Rana (Chairman)	Non -Independent	P	P
Mr. Theagarajan Eswaran	Independent	P	P
Mr. Zeeshan Hyder *	Non - Independent	P	P

\*Appointed

## Executive Management

The Management team of the Company is led by its Chief Executive Officer ('CEO') who has been appointed by the Board of Directors. The CEO is supported by two Team Leaders who report directly to him and oversee the different departments of the Company. All Leaders have vast experience in their respective roles.

Remuneration of Directors and Key Management Officers



Members of the Board, Audit Committee and Nomination and Remuneration Committee are entitled to a sitting fee of RO 400 per meeting attended during the year. The sitting fee of Directors for the year ended 31 December 2018 amounted to RO. 13,200 for Board and its Committee meetings attended during the year. Further, the Company has paid RO 120,000 to directors as remuneration for the year 2017, as approved by shareholders at the Annual General Meeting held on 26 March 2018.

The Company will propose RO. 31,543 as remuneration to directors for 2018 which will be paid to directors after approval from shareholders in the annual general meeting planned to be held on 28 March 2019.

The details of annual remuneration of key management officers of the Company are as under.

Key officers	Annual remuneration (RO)
Remuneration	256,964
Travel	542
Other Perquisites	6,638
<b>Total</b>	<b>264,144</b>

The remuneration paid to the officers is commensurate with the role, responsibilities and skills required for the position based on a well laid down policy and process for determining remuneration linked with performance. Employment contracts of executive management meet the requirements of Omani labor law and there is a standard notice period as per Company's policy in case of resignation by the employee.

## Regulatory penalties

CMA imposed a penalty of OMR 250 on the company based on its view that Company had submitted the minutes of 2018 Annual General Meeting with a delay of one day after the prescribed deadline of 15 days from the date of AGM. However, the Company and its legal counsel are of the view that submission of AGM minutes was within the prescribed timelines and in line with past practice.

## Communication to Shareholders

The Company effectively communicated with the shareholders during the year using all available means of communication. Periodic financial statements along with the Management Discussion and Analysis Report were approved by the Board for issuance.

The financial statements were submitted to MSM according to timelines prescribed by the law. The annual and quarterly financial statements were also published in two daily newspapers i.e. Arabic and English. These financial statements were made available at the official web site of MSM after being approved from the Board of Directors. The Annual Report for the year ended 31 December 2018 includes the Board of Directors' Report and the Management Discussion and Analysis Report.

## Distribution of Shareholdings

The shares of the Company are listed and traded on MSM. The shareholding of the Company is widely distributed. The pattern of shareholding, major

shareholders and their shareholdings as on 31 December 2018, were as follows:

Shareholders by type	Shareholding
Omani	98.23%
GCC Nationals	1.44%
Foreigners	0.33%

Major Shareholders	Shareholding
ACWA Power Barka Project LLC	58.00%
Civil Service Pension Fund	14.02%
Ministry of Defence Pension Fund	9.56%
Shareholders holding less than 5%	18.42%

## Market price data and Company's stock performance

Year 2018	ACWA Power Barka		MSM (Services Sector)	
	High	Low	High	Low
January	0.764	0.764	2924.11	2595.65
February	0.764	0.764	2656.85	2605.14
March	0.748	0.748	2643.35	2516.41
April	0.744	0.744	2642.23	2525.35
May	0.744	0.744	2530.52	2462.41
June	0.744	0.744	2475.52	2446.85
July	0.780	0.764	2475.76	2376.87
August	0.764	0.764	2409.03	2366.49
September	0.752	0.752	2487.77	2374.57
October	0.700	0.720	2485.45	2389.46
November	0.720	0.720	2427.20	2346.82
December	0.720	0.720	2397.88	2279.58

Source: The above data has been obtained from MSM website.

The Company has not issued any securities or convertible financial instruments which have any impact on equity.



## Professional Profile of External Auditor

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 7,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,600 partners and approximately 106,775 professionals. Globally, EY operates in more than 150 countries and employs 261,559 professionals in 700 offices. Please visit [ey.com](http://ey.com) for more information about EY.

The annual audit fee of the Company payable to the external auditor for the year was OMR 11,500.

Chief Executive Officer

## Acknowledgement

The Board of Directors acknowledges as at 31 December 2018:

- Its' responsibility for the preparation of financial statements in accordance with the applicable standards and rules.
- Review of the efficiency and adequacy of internal control systems of the Company and that it complies with internal rules and regulations.
- That there is no material matter that affects the continuation of the company and its ability to continue its production and operations during the next financial year.

Yours faithfully

Chief Financial Officer



# Financial Statements







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PR No. HMH/15/2015; HMA/9/2015

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ACWA POWER BARKA SAOG

### Report on the audit of the financial statements

#### *Opinion*

We have audited the financial statements of ACWA Power Barka SAOG (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key audit matters*

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
ACWA POWER BARKA SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

*Key audit matters (continued)*

<i>Key audit matters</i>	<i>How our audit addressed the key audit matters</i>
<p><b><i>Impairment of property, plant and equipment</i></b></p> <p>Property, plant and equipment as at 31 December 2018 include Multi-stage flash distillation (MSF) water facility (the plant') with carrying value before impairment amounting to RO 39.6 Million as at 31 December 2018.</p> <p>Based on the outcome of the Request for Offer ("RFO") bidding process, the Company will not be in a position to assume operations of the MSF Water Desalination Plant from 2022 onwards under the Power 2022 procurement process. Accordingly, the management identified this as an impairment indicator for its MSF Water Plant with 20 MIGD Capacity. Management internally estimated the recoverable amount of its MSF Water Plant with 20 MIGD based on value-in-use computation.</p> <p>The estimation of recoverable amount of the plant was assessed as a key audit matter due to the degree of complexity involved in valuation and the significance of the judgements and estimates made by the management.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>• Overview of the process of assessing impairment indicators and performing of impairment tests</li> <li>• Assessment (with the assistance of valuation specialist) of estimates and assumptions made by the management in order to determine the asset's recoverable amount, including: <ul style="list-style-type: none"> <li>➤ The key assumptions adopted by the management for future years (discount rate, tax rate, allocation of overhead and fixed operations and maintenance cost by comparing them to market data and available historical internal data.</li> <li>➤ Arithmetical correctness of the discounted cashflows model, and</li> <li>➤ Assumption made to determine cash flows and residual values after the period covered by a contractual cashflows.</li> <li>➤ Reconciliation of source data used in impairment test models and assessment of impairment triggers for financial forecasts approved by the management of the company;</li> <li>➤ Assessment of completeness of disclosures in the financial statements of the Company in terms of impairment in accordance with the International Accounting Standard 36 <i>Impairment of assets</i>.</li> </ul> </li> </ul>

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ACWA POWER BARKA SAOG (CONTINUED)

### Report on the audit of the financial statements (continued)

#### *Other information included in the Company's 2018 Annual Report*

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Company's 2018 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2018 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ACWA POWER BARKA SAOG (CONTINUED)

### Report on the audit of the financial statements (continued)

#### *Auditor's responsibilities for the audit of the financial statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
ACWA POWER BARKA SAOG (CONTINUED)**

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

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

**Report on other legal and regulatory requirements**

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

*Ernst & Young LLC*

*Philip Stanton*

Philip Stanton  
Muscat

27 February 2019



## STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

		2018	2017
	Notes	RO	RO
Revenue	4	61,532,087	71,699,212
Operating costs	5	<u>(43,768,836)</u>	<u>(50,737,218)</u>
<b>GROSS PROFIT</b>		17,763,251	20,961,994
Other income	6	79,036	150,555
General and administrative expenses	7	(2,119,581)	(2,144,655)
Finance costs	8	(4,094,662)	(4,535,105)
Impairment charge of plant and equipment	9	<u>(31,592,836)</u>	<u>-</u>
<b>(LOSS) / PROFIT BEFORE INCOME TAX</b>		(19,964,792)	14,432,789
Income tax	11	3,000,616	(10,192,340)
<b>(LOSS)/ PROFIT FOR THE YEAR</b>		<u>(16,964,176)</u>	<u>4,240,449</u>
Earnings Per Share: Basic and diluted	10	<u>(0.106)</u>	<u>0.027</u>

The attached notes 1 to 33 form part of these financial statements.

## STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

		2018	2017
	Note	RO	RO
(Loss)/ profit for the year		(16,964,176)	4,240,449
<i>Other comprehensive income that may be reclassified subsequently to profit or loss:</i>			
Cumulative changes in the fair value	22	-	36,798
Total other comprehensive (expense)/ income for the year		<u>(16,964,176)</u>	<u>4,277,247</u>

The attached notes 1 to 33 form part of these financial statements.



## STATEMENT OF FINANCIAL POSITION

At 31 December 2018

		2018	2017
	Notes	RO	RO
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	113,263,856	147,105,636
Intangible assets	13	144,374	96,511
<b>Total non-current assets</b>		<u>113,408,230</u>	<u>147,202,147</u>
<b>Current assets</b>			
Inventories	14	5,029,751	4,715,113
Accounts receivable and prepayments	15	6,351,618	6,111,717
Cash and cash equivalents	16	4,549,526	6,104,367
<b>Total current assets</b>		<u>15,930,895</u>	<u>16,931,197</u>
<b>TOTAL ASSETS</b>		<u>129,339,125</u>	<u>164,133,344</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17	16,000,000	16,000,000
Statutory reserve	18	5,333,333	5,333,333
Special reserve	19	85,555	85,555
Retained earnings		16,472,676	33,436,852
<b>Total equity</b>		<u>37,891,564</u>	<u>54,855,740</u>
<b>Non-current liabilities</b>			
Deferred taxation	11	12,033,170	16,809,748
Provision for site restoration	20	2,468,867	-
Employees' end of service benefits	21	62,961	51,797
Long term loan	23	48,112,599	60,126,394
Deferred revenue	24	-	545,609
<b>Total non-current liabilities</b>		<u>62,677,597</u>	<u>77,533,548</u>
<b>Current liabilities</b>			
Trade and other payables	25	7,208,451	8,956,115
Income tax payable	11	9,078,210	8,395,959
Short term borrowings	26	-	3,062,156
Long term loan - current portion	23	12,483,303	11,329,826
<b>Total current liabilities</b>		<u>28,769,964</u>	<u>31,744,056</u>
<b>Total liabilities</b>		<u>91,447,561</u>	<u>109,277,604</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>129,339,125</u>	<u>164,133,344</u>

The financial statements were authorised for issue in accordance with a resolution of the board of directors on 27 February 2019.

  
Chief Executive Officer

  
Chief Financial Officer

The attached notes 1 to 33 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Statutory reserve	Special reserve	Retained earnings	Cumulative changes in fair value	Total
	RO	RO	RO	RO	RO	RO
Balance at 1 January 2017	16,000,000	5,333,333	85,555	36,396,403	(36,798)	57,778,493
Profit for the year	-	-	-	4,240,449	-	4,240,449
Other comprehensive income	-	-	-	-	36,798	36,798
Total comprehensive income for the year	-	-	-	4,240,449	36,798	4,277,247
Dividends (Note 17)	-	-	-	(7,200,000)	-	(7,200,000)
Balance at 31 December 2017	16,000,000	5,333,333	85,555	33,436,852	-	54,855,740
Loss for the year				(16,964,176)	-	(16,964,176)
Other comprehensive income				-	-	-
Total comprehensive expense for the year	-	-	-	(16,964,176)	-	(16,964,176)
Balance at 31 December 2018	<u>16,000,000</u>	<u>5,333,333</u>	<u>85,555</u>	<u>16,472,676</u>	<u>-</u>	<u>37,891,564</u>

The attached notes 1 to 33 form part of these financial statements.

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

		2018	2017
	Notes	RO	RO
<b>OPERATING ACTIVITIES</b>			
Profit before income tax		(19,964,792)	14,432,789
Adjustments for:			
Depreciation	12	5,738,882	5,725,167
Amortisation of intangible assets	13	28,565	11,371
Amortisation of deferred revenue	24	(545,609)	(1,657,128)
Provision for employees' end of service benefits	21	11,164	12,890
Allowance for impairment of receivables	15	7,602	-
Finance costs	8	4,094,662	4,535,105
Gain on sale of property, plant and equipment	6	(6,500)	-
Write off of property, plant and equipment	7	165,907	-
Impairment charge of a plant	9	31,592,836	-
		21,122,717	23,060,194
Working capital changes:			
Inventories		(314,638)	252,435
Accounts receivable and prepayments		(247,503)	43,718
Accounts payable and accruals		(79,679)	(5,035,610)
Cash from operations		20,480,897	18,320,737
Payment of income taxes		(1,093,711)	(1,263,754)
Employees' end of service benefits paid	21	-	(8,231)
Net cash from operating activities		19,387,186	17,048,752
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	12	(1,359,981)	(581,147)
Proceeds from sale of property, plant and equipment		6,500	-
Purchase of intangible assets	13	-	(10,154)
Net cash used in investing activities		(1,353,481)	(591,301)
<b>FINANCING ACTIVITIES</b>			
Finance cost paid		(3,718,165)	(4,045,282)
Dividends paid		(1,478,400)	(5,721,600)
Repayment of long term loan	23	(11,329,825)	(10,899,489)
Net cash used in financing activities		(16,526,390)	(20,666,371)
<b>INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		1,507,315	(4,208,920)
Cash and cash equivalents at 1 January		3,042,211	7,251,131
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	16	4,549,526	3,042,211

The attached notes 1 to 33 form part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 1 ACTIVITIES

ACWA Power Barka SAOG ("the Company") is an Omani Public Joint Stock Company. It was incorporated as a closely held joint stock Company in the Sultanate of Oman on 19 November 2000 under a trade license issued by the Ministry of Commerce & Industry. The Company's registered address is at P O Box 572, Postal Code 320, Barka, Sultanate of Oman.

As per the terms of the Project Founders Agreement, the Company in an Initial Public Offering (IPO) offered 35% of its existing shares to the public when the Company was transformed from a closely held joint stock Company to a public joint stock Company listed on the Muscat Securities Market (MSM). The shares were listed on the Muscat Securities Market (MSM) on 12 January 2005.

The registered address of International Company for Water and Power Projects ("ACWA Power"), the ultimate parent Company is at Airport Road, Qurtubah, Building 5, Business Gate Office Complex, Kingdom of Saudi Arabia.

The principal activities of the Company are to develop, finance, design, construct, operate, maintain, insure and own a power generating station and water desalination plant and associated gas interconnection facilities and other relevant infrastructure. The Company commenced its commercial operations from 11 June 2003.

Below are the major plants operated by the Company and their dates of commercial operation:

Main Plant which consists of 427MWH gas fired power generation facility and 20 MIGD Multi-Stage Flash Distillation (MSF) water facility and commenced its commercial operations on 11 June 2003.

Sea Water Reverse Osmosis (SWRO) Plant of 10 MIGD (Expansion – Phase I) has commenced its commercial operations with effect from 29 May, 2014.

Sea Water Reverse Osmosis (SWRO) Plant of 12.5 MIGD (Expansion – Phase II) has commenced its commercial operations effective from 26 February 2016.

In addition, the Company also has a 50% interest in Barka Seawater Facilities Company SAOC (BSFC) and accounted as a Joint Operation in the entity's financial statements.

### 2 SIGNIFICANT AGREEMENTS

A) The Company has entered into following significant agreements with respect to Main Plant:

- i. Power and Water Purchase Agreement (PWPA) with the Ministry of Housing, Electricity and Water (MHEW) granting the Company the right to generate electricity and desalinate water in Wilayat of Barka for a period of fifteen years commencing from the commercial operations date based on a tariff structure.

Effective 1 May 2005, the rights and obligations of MHEW under the PWPA have been novated to OPWPC in accordance with the arrangements described in the Master Novation Agreement signed on 26 November 2000. All the financial obligations of the OPWPC under the Project Agreements are secured under the Guarantee issued by the Ministry of Finance, Government of Oman, which has come into force on execution of the Novation Agreements.

Effective from 1 May 2005, the Company has been granted a Generation and Desalination license by the Authority for Electricity Regulation, Oman for a period of twenty five years.

- ii. Natural Gas sales agreement (NGSA) including subsequent amendment with the Ministry of Oil and Gas (MOG) for the purchase of natural gas for fifteen years.
- iii. Usufruct agreement with the Government for grant of Usufruct rights over the plant site for 25 years.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 2 SIGNIFICANT AGREEMENTS (continued)

#### A) The Company has entered into following significant agreements with respect to Main Plant (Continued)

- iv. Agreement with local and regional banks for long-term loan facilities.
- v. Agreement with Arab Banking Corporation B.S.C. for working capital facilities.
- vi. Operation and Maintenance Agreement (O&M Agreement) with First National Company for Operation and Maintenance Services LLC (NOMAC Oman) to operate and maintain the Plant.
- vii. Shareholders agreement with SMN Barka Power Company in respect of establishment of Barka Shared Facilities Company (BSFC) pursuant to PWPA.
- viii. Amendment Agreement to the Power and Water Purchase Agreement with OPWPC for the extension period till 31 December 2021.
- ix. Second Amendment Agreement to the Natural Gas Sales Agreement with the Ministry of Oil and Gas for the purchase of natural gas for the extension period ending 31 December 2021.
- x. Amendment Agreement to the Operation and Maintenance Agreement (O&M Agreement) with First National Company for Operation and Maintenance Services LLC (NOMAC Oman) for the extension period till 31 December 2021.

#### B) The Company has entered into following significant agreements with respect to 10MIGD Reverse Osmosis Water Expansion Project (Expansion – Phase I):

- i. Water Purchase Agreement (WPA) with the OPWPC granting the Company the right to desalinate water in Wilayat of Barka, using reverse osmosis technology.
- ii. Usufruct agreement with the Government for grant of Usufruct rights over the Project site for 25 years.
- iii. Agreement with local banks for long-term loan facilities.
- iv. Engineering, Procurement and Construction contracts with Abiensa (Spain) and its subsidiaries for the supply and construction of Expansion – Phase I and subsequent agreements thereon.
- v. Supplemental Operation and Maintenance Agreement with NOMAC Oman for the operation and maintenance of Expansion – Phase I.
- vi. Effective 16 September 2013, the Authority for Electricity Regulation, Oman issued the modified existing generation and desalination licence to incorporate the water delivered under the Expansion – Phase I.
- vii. Amendment Agreement to the Water Purchase Agreement with OPWPC for the extension period till 31 December 2021.
- viii. Amendment Agreement to the Supplemental Operation and Maintenance Agreement with NOMAC Oman for the extension period till 31 December 2021.

#### C) The Company has entered into following significant agreements with respect to 12.5MIGD Reverse Osmosis Water Expansion Project (Expansion Project - Phase II):

- i. Water Purchase Agreement (WPA) with the OPWPC granting the Company the right to desalinate water in Wilayat of Barka, using reverse osmosis technology.
- ii. Agreement with local banks for long-term loan facilities.
- iii. Engineering, Procurement and Construction contracts with Osmoflo Group for the supply and construction of Expansion Project - Phase II and subsequent agreements thereon.
- iv. Supplemental Operation and Maintenance Agreement with NOMAC Oman for the operation and maintenance of Expansion Project - Phase II.
- v. Usufruct agreement with the Government for grant of Usufruct rights over the Project site and temporary areas for 25 years.
- vi. Permeate Water Supply Agreement with the OPWPC for supply of permeate water.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 2 SIGNIFICANT AGREEMENTS (continued)

- C) The Company has entered into following significant agreements with respect to 12.5MIGD Reverse Osmosis Water Expansion Project (Expansion Project - Phase II) (Continued)
- vii. Effective 31 August 2015, the Authority for Electricity Regulation, Oman issued the modified existing generation and desalination licence to incorporate the water delivered under the Expansion – Phase II.
  - viii. Amendment Agreement to the Phase II Water Purchase Agreement with OPWPC for the extension period till 31 December 2021.
  - ix. Amendment Agreement to the Supplemental Operation and Maintenance Agreement with NOMAC Oman for the extension period till 31 December 2021.

### 3 SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The financial statements are prepared under the historical cost convention, except for fair valuation of derivative instruments.

The financial statements have been presented in Rial Omani which is the functional and reporting currency for these financial statements.

#### Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards, the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, the disclosure requirements of the Capital Market Authority and the requirements of the Commercial Companies Law of 1974, as amended and the provision for disclosure included in the Executive Regulations of the Capital Market Law.

#### Changes in accounting policies

The accounting policies are consistent with those in the previous years except as follows:

##### Adoption of new and revised international financial reporting standards (IFRSs)

For the year ended 31 December 2018, the Company has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2018.

- IFRS 15 - Revenue from contracts with customer
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations
- Amendments to IAS 40 Transfers of Investment Property
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

The adoption of these standards and interpretations has not resulted in any major changes to the Company's accounting policies and has not affected the amounts reported for the current and prior periods.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Changes in accounting policies (Continued)

##### Adoption of new and revised international financial reporting standards (IFRSs) (Continued)

##### Adoption IFRS 15 revenue from contract with customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company adopted IFRS 15 *Revenue from contracts with customers* using the modified retrospective method of adoption with initial date of application of 1 January 2018. Modified retrospective method was applied to all contracts at the date of initial application which allows the cumulative impact of the adoption to be recognised in retained earnings as of 1 January 2018 and the comparatives not to be restated.

The adoption of IFRS 15 did not have material impact on statement of financial position, statement of profit or loss, other comprehensive income, statement of cash flows and statement of changes in equity as of 1 January 2018 as in accordance with the contract with customer, all the revenue streams falling under purview of IFRS 15 have only one performance obligation which is expected to occur over the time as the customer simultaneously receives and consumes the benefits provided by the Company.

*Revenue recognition policy in accordance with IFRS 15 is explained below.*

The Company's business is to supply power and water to its sole customer Oman Power and Water Procurement Company SAOC (OPWP) under long term Power and Water Purchase Agreement (PWPA) and Water Purchase Agreements (WPAs). Revenue from OPWP comprises of the following:

- Capacity charge covering the investment charge and fixed operation and maintenance charge; and
- Output charge covering the fuel charge and variable operation and maintenance charge.

##### (a) Capacity charges

The PWPA and WPAs of the Company are operating lease arrangements and investment charge has been treated as containing a lease which conveys the right to use the underlying assets for a period of time in exchange of consideration. This component of revenue is recognised on straight line basis over the lease term to the extent that capacity has been made available based on contractual terms of PWPA/ WPAs and accounted using IAS 17: Leases and IFRIC 4: Determining whether an arrangement contains a lease, and thus not within the scope of IFRS 15.

Fixed operation and maintenance charges are recognised as revenue when the capacity is made available by performing required planned and unplanned maintenance on timely basis so that the plant is in a position to run and generate required output and accrue to the business over time.

##### (b) Output charges

Output charges are recognised as revenue upon delivery of electricity and water to the national grid which accrue over time when the customer accepts deliveries and there is no unfulfilled performance obligation that could affect the customer's acceptance of the product.



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Changes in accounting policies (Continued)

##### Adoption IFRS 15 revenue from contract with customers (Continued)

The Company has long term agreements with OPWP which determine performance obligation, transaction price and allocates the transaction price to each of the separate performance obligations.

Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

There is no significant financing component attached to the receivable from customer. Goods and services are provided on agreed credit terms of the contract and payment occurs within 25 days from the submission of invoice. Company submits invoices on monthly basis in arrears and generally are submitted on or before the 5<sup>th</sup> day of the subsequent month. Since the company has three distinct contracts with OPWP a separate invoice is generated under each contract on monthly basis.

#### Standards issued but not yet effective

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of the Company but are not yet mandatory for the year ending 31 December 2018:

##### IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

##### Transition to IFRS 16

The Company plans to adopt IFRS 16 with Modified Retrospective Approach where the lessee does not restate comparative information, instead the entity recognises the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (if any). The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards issued but not yet effective (Continued)

##### Transition to IFRS 16 (Continued)

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

During 2018, the Company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:

	OMR
Assets	
Right-to-use assets	513,885
Liabilities	
Lease liabilities	513,885
Net impact on equity	-

In applying the Modified Retrospective Approach as above the Company has measured its lease liability at the date of initial application at the present value of the remaining lease payments based on the Company's incremental borrowing rate over the remaining lease term and measure the right of use asset at the value of the lease liability (adjusted for any prepaid or accrued lease payment). The Company has applied this policy choice available to it under IFRS 16. On that basis, there is no net impact on equity.

##### IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

##### IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately
- the assumptions an entity makes about the examination of tax treatments by taxation authorities

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards issued but not yet effective (Continued)

##### IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (Continued)

- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- how an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply the interpretation from its effective date.

##### Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

##### Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

##### Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards issued but not yet effective (Continued)

Annual Improvements 2015-2017 Cycle (issued in December 2017) (Continued)

##### *IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

##### *IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

**Following are the significant accounting policies adopted by the Company:**

#### **Current versus non-current classification**

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### **Financial instruments recognition, measurement and subsequent measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments recognition, measurement and subsequent measurement (Continued)

Financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

*Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

*Financial assets at amortised cost (debt instruments)*

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments), and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade receivables and cash and cash equivalents.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments recognition, measurement and subsequent measurement (Continued)

Financial assets (Continued)

#### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### *Impairment of financial assets*

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

#### **Financial liabilities**

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments recognition, measurement and subsequent measurement (Continued)

Financial liabilities (Continued)

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and bank borrowings.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

*Loans and borrowings*

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

*Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

**Derivative financial instruments and hedge accounting**

*Initial recognition and subsequent measurement*

The Company uses derivative financial instruments, such as interest rate swaps to hedge interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments recognition, measurement and subsequent measurement (Continued)

Financial liabilities (Continued)

Initial recognition and subsequent measurement (Continued)

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

#### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment.

After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Taxation

Taxation is provided in accordance with Omani fiscal regulations.

Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity, in which case it is recognised in the statement of comprehensive income or directly in equity, respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax laws that have been enacted at the reporting date.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

#### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation, any identified impairment loss and residual value.

Depreciation is calculated on a straight line basis over the estimated useful lives of assets as follows:

Plant and machinery	30 – 40 Years
Tools	5 Years
Computer software	4 Years
Office equipment	5 Years
Motor vehicles	5 Years
Furniture and fixtures	5 Years
Computer equipment	3 Years
Capital spares	8 – 16 Years

Spare parts that are major components of plant and machinery are recorded as capital spares upon purchase and depreciated over a period of 8 -16 years after they have been installed in the plant.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the statement or profit or loss as the expense is incurred.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment (Continued)

When each major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognised.

The assets' residual values, useful lives and methods are reviewed, and adjusted prospectively, if appropriate, at each financial year end.

#### Capital work-in-progress

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to the appropriate property, plant and equipment category and depreciated in accordance with the Company's policy.

#### Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

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

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

IFRIC 4 deals with the identification of services and take-or-pay sales or purchasing contracts that do not take the legal form of a lease but convey the rights to customers/suppliers to use an asset or a group of assets in return for a payment or a series of fixed payments. Contracts meeting these criteria should be identified as either operating leases or finance leases. On adoption of IFRIC 4 "Determining whether an arrangement contains a lease" the management concluded that its PWPA for existing plant and WPAs for Expansion – Phase I and II contain lease arrangements. These lease arrangements have been determined to be operating leases under IAS 17.

#### Interest in joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When the Company undertakes its activities under joint operations, the Company as a joint operator recognises its assets, liabilities, revenue and expenses and its share of the assets, liabilities, revenue and expenses in accordance with the IFRS applicable to those particular assets, liabilities, revenue and expenses.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Interest in joint operation (Continued)

When the Company transacts with the joint operation, profits and losses resulting from the transactions with the joint operation are recognised in the Company's financial statements only to the extent of interests in the jointly operation that are not related to the Company.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use 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.

#### Impairment of non financial assets

At each reporting date, the Company reviews the carrying amounts of its assets (or cash-generating units) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and the carrying amount of the asset and is recognized immediately in the statement of profit or loss. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognized as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized earlier.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### Provisions

##### General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Provisions (Continued)

##### General (Continued)

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

##### *Site restoration costs*

The Company records a provision for site restoration costs as there is a present obligation as a result of activities undertaken pursuant to the Usufruct and PWPA/ WPAs. These costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the liability. The unwinding of the discount is expensed as incurred and recognised in the statement of profit or loss as a finance cost. The estimated future costs are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

#### Employees' end of service benefits

Provision for end of service indemnity for non-Omani employees' is made in accordance with the Oman labour law, and is based on current remuneration and cumulative years of service at the reporting date.

End of service indemnity for Omani employees are contributed in accordance with the terms of the Social Security Law of 1991.

#### Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders.

#### Foreign currencies

The Company's financial statements are presented in Omani Rials, which is also the company's functional currency. Transactions in foreign currencies are initially recorded by the Company at its functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

#### Cash and cash equivalents

For the purpose of the statement of cash flows, the Company considers all bank and cash balances that are free of lien and with a maturity of less than three months from the date of placement, and bank overdrafts, to be cash and cash equivalents.



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 4 REVENUE

	2018	2017
	RO	RO
<b>Revenue from contracts with customer</b>		
Capacity charges – electricity	5,564,346	4,528,869
Capacity charges – water	6,037,393	4,863,510
Energy charge – electricity	24,088,104	26,629,446
Output charge – water	4,441,996	8,533,447
Material adverse change event revenue (a)	407,724	440,003
	<u>40,539,563</u>	<u>44,995,275</u>
<b>Revenue from lease contracts</b>		
Capacity charges – electricity	10,961,235	11,015,564
Capacity charges – water	9,485,680	14,031,245
Deferred revenue adjustment for straight-line basis recognition:		
Capacity charges – electricity (Note 24)	278,692	862,318
Capacity charges – water (Note 24)	266,917	794,810
	<u>20,992,524</u>	<u>26,703,937</u>
	<u>61,532,087</u>	<u>71,699,212</u>

- (a) On 20 February 2017, through Royal Decree 9/2017, income tax rate applicable on the Company has been increased from 12% to 15%. This increase falls under the provisions of material adverse change under the offtake agreements of the Company. The Company is entitled to recover this incremental tax from the offtaker and accordingly this has been claimed and recorded as a receivable from offtaker.
- (b) Technical failures occurred in Gas Turbine Generator 1 (GTG1) and Gas Turbine Generator 2 (GTG2) of Main Plant resulted in loss of capacity revenue for the year amounting to RO 2,171,167.
- (c) Negotiations with OPWP on the extension of PWPA/ WPAs were concluded and relevant extension agreements were signed on 30 October 2017. The terms of these agreements extend up to 31 December 2021.

The future minimum lease receipts under non-cancellable operating lease in the aggregate and for each of the following periods:

	2018	2017
	RO	RO
<b>Operating lease arrangement - lessor</b>		
Future minimum lease payments:		
Within one year	18,408,913	20,512,445
After one year but not more than five years	38,317,776	57,514,095
	<u>56,726,689</u>	<u>78,026,540</u>

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 5 OPERATING COSTS

	2018	2017
	RO	RO
Natural gas	26,735,657	33,859,112
Operation and maintenance fee – NOMAC Oman (a)	8,775,655	9,626,356
Depreciation of property, plant and equipment (Note 12 [b])	5,709,478	5,698,811
Operating and technical services fee	1,851,059	1,551,350
Repairs and maintenance (b & c)	414,512	(57,123)
Electricity back up maintenance	219,235	10,965
Fuel oil	57,865	34,546
Start-up costs	5,375	13,201
	<u>43,768,836</u>	<u>50,737,218</u>

- (a) The Company has contracted the services of NOMAC Oman to operate and maintain its Plants. Under these agreements, the Company pays monthly fixed and variable fees to NOMAC Oman in consideration of its undertaking of all planned and unplanned operating and maintenance activities over the remaining terms of PWPA / WPAs. NOMAC Oman is an affiliate of the Company.
- (b) The Company during the year recognised maintenance expense of RO 310,857 on account of the Gas Turbine (GT) failure occurred in its Power Plant.
- (c) Repair and maintenance cost of the comparative period of year 2017 include a credit of RO 165,849 received from the insurers as compensation for the repair and maintenance expenses incurred in the financial year 2016.

### 6 OTHER INCOME

	2018	2017
	RO	RO
Other income	71,668	21,849
Gain on sale of property, plant and equipment	6,500	-
Interest income	868	2,028
Insurance claims	-	126,678
	<u>79,036</u>	<u>150,555</u>

Other income for the year comprise of excess money recovered from the EPC contractor of SWRO1

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

plant as part of the Final Settlement Agreement entered during the year.

### 7 GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
	RO	RO
Salaries and allowances	583,699	622,376
Legal and professional charges	508,191	428,449
Insurance	447,935	410,918
Fees and subscription	173,743	282,296
Write off of property, plant and equipment (Note 12 [g])	165,907	-
Communication	45,814	54,871
Depreciation of property, plant and equipment (Note 12 [b])	29,404	26,356
Amortisation of intangible assets (Note 13)	28,565	11,371
Security and agency fee	23,102	19,130
Events and office supplies	16,298	28,804
Corporate social responsibility expenses	15,700	29,485
Contribution to social insurance	15,010	14,127
Directors' remuneration and sitting fees	13,200	129,943
Employees' end of service benefits (Note 21)	11,164	12,890
Land rent (usufruct payment)	9,652	21,940
Provision for doubtful debts	7,602	-
Advertisement	6,919	25,422
Travel	6,189	8,768
Miscellaneous expenses	5,322	11,303
Training	4,630	2,615
Loss on exchange	3,685	639
Printing and stationery	201	601
Withholding tax expenses	(2,351)	2,351
	<u>2,119,581</u>	<u>2,144,655</u>

### 8 FINANCE COSTS

	2018	2017
	RO	RO
Interest on long term loan	3,586,636	3,936,329
Amortisation of financing cost (Note 23)	469,507	553,513
Interest on working capital finance	27,716	21,156
Commitments/administration fees	10,803	-
Interest rate swap payments (net)	-	24,107
	<u>4,094,662</u>	<u>4,535,105</u>

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 9 IMPAIRMENT CHARGE OF PLANT AND EQUIPMENT

	2018	2017
	RO	RO
Impairment charge of MSF water plant (Note 12)	31,592,836	-
	<u>31,592,836</u>	<u>-</u>

The Company recognised impairment charge as at 31 December 2018 on its MSF water plant with 20 MIGD capacity. The Company will not be in a position to assume operations of the MSF Water Desalination Plant from 2022 onwards under the Power 2022 Procurement Process as it is not allowed to do so pursuant to the outcome of the Request for Offer ("RFO") bidding process for the two RO Plants. This impact had to be taken to the profit and loss of the current year as required by IAS 36: Impairment of Assets.

Recoverable value was estimated based on value in use method as it reflects more accurately the manner in which the economic benefits embodied in the asset expected to be realised by the entity. All future cash flows were based on managements' best estimate about the future course of action that the Company would endeavour to carry out. The Company used a post-tax discount rate of 6.6% in assessing the Net Present Value (NPV) of future cash flows.

A summary of the impairment assessment disclosed below:

	2018
	RO
Recoverable value	8,034,822
Carrying value	39,627,658
Impairment charge	<u>31,592,836</u>

### 10 EARNINGS PER SHARE: BASIC AND DILUTED

	2018	2017
	RO	RO
(Loss)/ profit for the year	<u>(16,964,176)</u>	<u>4,240,449</u>
Number of ordinary shares	<u>160,000,000</u>	<u>160,000,000</u>
Earnings per share	<u>(0.106)</u>	<u>0.027</u>

No figure for diluted earnings per share has been presented because the Company has not issued any instruments which would have an impact on earnings per share when exercised.



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 11 INCOME TAX

Income tax is provided as per the provisions of the "Law of Income Tax on Companies" in Oman after adjusting the items which are non-assessable or disallowed. Income tax is calculated @ 15% (2017: 15%) on the adjusted taxable income.

	2018	2017
	RO	RO
<b>Statement of Comprehensive Income</b>		
Current tax charge	1,775,962	1,921,722
Deferred tax (reversal)/ charge	(37,653)	254,631
Deferred tax reversal on impairment charge of plant and equipment	(4,738,925)	-
Current tax charge on disallowance of carry forward tax losses incurred during the exemption period	-	4,704,964
Income tax rate increase (2017:12% to 15%) impact on opening deferred tax liability	-	3,311,023
	<u>(3,000,616)</u>	<u>10,192,340</u>
<b>Statement of Financial Position</b>		
<b>Non-Current liability:</b>		
Deferred tax	<u>12,033,170</u>	<u>16,809,748</u>
<b>Current liability:</b>		
Current year	1,775,962	1,921,722
Prior years	<u>7,302,248</u>	<u>6,474,237</u>
	<u>9,078,210</u>	<u>8,395,959</u>
<b>Deferred tax liability:</b>		
At 1 January	16,809,748	13,244,094
Movement for the year	<u>(4,776,578)</u>	<u>3,565,654</u>
At 31 December	<u>12,033,170</u>	<u>16,809,748</u>

The total income tax for the current year tax can be reconciled to the accounting profits as follows:

	2018	2017
	RO	RO
(Loss)/ profit for the year before tax	(19,964,792)	14,432,789
Tax at statutory tax rate of 15% (2017: @15%)	(2,994,719)	2,164,918
Tax effect of items non-deductible for tax purposes	(5,897)	11,435
Current tax charge on disallowance of carry forward tax losses incurred during the exemption period	-	4,704,964
Income tax rate increase (2017: 12% to 15%) impact on opening deferred tax liability	-	3,311,023
Income tax for the year	<u>(3,000,616)</u>	<u>10,192,340</u>

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 11 INCOME TAX (continued)

#### Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 15 % (2017 – 15%). The net deferred tax liability and deferred tax (reversal)/ charge in the statement of profit or loss are attributable to the following items:

	At 1 January 2018	Charge to statement of profit or loss	At 31 December 2018
	RO	RO	RO
<b>Asset</b>			
Deferred revenue	(65,489)	65,489	-
Provisions for debtors	-	(1,140)	(1,140)
Income tax losses available to carry forward (a)	-	(10,697)	(10,697)
<b>Liability</b>			
Tax effect of accelerated depreciation	16,875,237	(4,830,230)	12,045,007
	<u>16,809,748</u>	<u>(4,776,578)</u>	<u>12,033,170</u>

The Company has not recognised deferred tax liability and deferred tax asset arising from the initial recognition of site restoration asset and corresponding provision by applying the exemptions provided in IAS 12 - Income Taxes (IAS 12.15) and (IAS 12.24).

- (a) Income tax losses to be carried forward to the extent of future taxable profits available to BSFC resulted in a recognition of deferred tax asset at BSFC of which 50% share is recognised in the entity's financial statements.

	At 1 January 2017	Charge to statement of profit or loss	At 31 December 2017
	RO	RO	RO
<b>Asset</b>			
Deferred revenue	(209,416)	143,927	(65,489)
<b>Liability</b>			
Tax effect of accelerated depreciation	13,453,510	3,421,727	16,875,237
	<u>13,244,094</u>	<u>3,565,654</u>	<u>16,809,748</u>

#### Status of tax assessments and related matters

In accordance with Royal Decree No. 54/2000, the Company was exempted from income tax for a period of five years with effect from commencement of operations of the project as set out in the Project Agreements. The tax exemption was granted for a period of five years commencing from 11 June 2003 and expiring on 10 June 2008 (the Tax Holiday Period). At the time of issuance of Royal Decree 54/2000, the Company was eligible to carry forward its tax losses indefinitely under Article 14 of the applicable Income Tax Law since it is engaged in one of the activities specified in sub paragraphs of paragraph 1 of Article 51 (bis) of that Income Tax Law. The Company also believed that tax losses can be carried forward indefinitely pursuant to the provisions of the Foreign Capital investment Law.

The assessments for the years 2001 to 2012 were finalized by the Department of Taxation out of which company has assessed losses for respective years till 2009.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 11 INCOME TAX (continued)

#### Status of tax assessments and related matters (Continued)

The Department of Taxation made some adjustments to the taxable income for the years 2001 to 2009 relating to technical service fees, project development fee and amortisation of deferred financing costs. In addition, the Department of Taxation, by a separate decision, also ruled that tax losses relating to the Tax Holiday Period cannot be carried forward. These adjustments and the denial of the Company's right to carry forward the losses assessed for the years 2003 to 2008 were contested by the Company. The Secretariat General for taxation (SGT) and the Taxation Committee at the Ministry of Finance, whilst rejecting the Company's position against the adjustments made to the taxable income by the SGT for all the above years, ruled for the years 2001 to 2005 that the issue of carry forward of losses should be raised in the years when they are claimed as set off against the taxable profits. However, for the years 2006 to 2009, they confirmed the SGT's position that the tax losses relating to the Tax Holiday Period cannot be carried forward. The issue relating to carrying forward of tax losses was, therefore, pursued with the Commercial Courts only for the years 2006 to 2009. The Company believed that position taken by SGT leads to an incentive given under the Royal Decree 54/2000 becoming a disincentive.

The Company filed a case in the Primary Court challenging the adjustments relating to tax years 2001 to 2005. The Primary Court decided the case in favour of the Company. The SGT appealed and the Appeal Court upheld the decision of the Primary Court to allow the technical service fee and project development fee as tax deductible. However, with respect to the deferred financing cost, the Appeal Court decided in favour of the Department of Taxation and denied the Company's claim. The company filed an appeal with the Supreme Court in respect of the disallowance of the amortisation of finance costs. Department of Taxation also filed an appeal with the Supreme Court against Appeal court decision on allowance of technical service fee and project development fee. The Supreme Court has upheld the decision of Appeal court, thereby allowing technical fee and project development fee fully. As regards to the deferred financing costs, Supreme Court has ruled that these need to be claimed in the year these are actually incurred and cannot be amortised.

For the years 2006 to 2009, the Company filed a case with the Primary Court on all the issues including the right to carry forward the assessed tax losses incurred during the Tax Holiday Period. The Primary Court rejected the Company's claim on grounds of insufficient supporting evidence. However, as Management believed that they had a strong case, an appeal was filed with the Appeal Court which was decided in the Company's favour, thereby allowing the technical fee fully and also to carry forward the assessed tax losses for an indefinite period. The SGT had filed an appeal in Supreme Court against the order of the Appeal Court and proceedings were ongoing as at 31 December 2017.

During March 2018, the Company received the final written judgment of Supreme Court on the issue of carry forward of tax losses incurred during the tax exemption period (2003 – 2008) and disallowance of the technical services fees. The written decision confirms the earlier understanding that the judgment has been rendered against the Company on the issue of carry forward of tax losses while on the issue of disallowance of Technical Services Fee, the Supreme Court has decided in favour of the Company. Also, the SGT has, in its assessments for the years 2010 to 2012 allowed fully the technical fees paid by the Company. The impact of this ruling was an increase in income tax liability of the Company by OMR 4,704,964 and had been incorporated in the financial statements for the year ended 31 December 2017 since it was considered as an adjusting event under IAS 10: Events After the Reporting Period. The Company had previously disclosed this additional amount as contingent liability in the financial statements of 2015 and 2016.

No other tax related matters are outstanding in Commercial Courts as of the financial statements approval date.

During the year, the SGT also issued Order Giving Effect to the Supreme Court judgment issued for the Tax Years 2006-2009 in which it allowed for the tax depreciation of project development and technical services fees incurred by the Company during the Tax Year 2003 and also allowed for non capitalised technical services fees incurred during respective Tax Years. In view of the Supreme Court verdict, the tax losses incurred during the tax exemption period are not allowed to be carried forward. Revised assessment orders until the Tax Year 2009 show a tax loss position for the Company.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 12 PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Tools	Furniture, Fixture and Office Equipment	Motor Vehicles	Capital Spares	Capital work in progress	Total
	RO	RO	RO	RO	RO	RO	RO
Cost							
At 1 January 2018	208,720,376	110,063	652,641	139,483	2,724,037	219,695	212,566,295
Provision for site restoration (d)	2,468,867	-	-	-	-	-	2,468,867
Additions	-	-	1,150	24,000	-	1,334,831	1,359,981
Transfer from Capital Work-In Progress	582,427	-	47,148	-	-	(629,575)	-
Transfer from Capital Work-In Progress to intangible assets (e )	-	-	-	-	-	(76,428)	(76,428)
Cost adjustment (f)	(96,575)	-	-	-	-	-	(96,575)
Disposal	-	-	-	(25,000)	-	-	(25,000)
Write off (g)	(269,570)	-	-	-	-	-	(269,570)
At 31 December 2018	<u>211,405,525</u>	<u>110,063</u>	<u>700,939</u>	<u>138,483</u>	<u>2,724,037</u>	<u>848,523</u>	<u>215,927,570</u>
Depreciation and impairment							
At 1 January 2018	63,141,457	110,063	604,515	121,041	1,483,583	-	65,460,659
Impairment charge for the year (Note 9)	31,592,836	-	-	-	-	-	31,592,836
Depreciation charge for the year	5,607,212	-	19,192	10,212	102,266	-	5,738,882
Disposal	-	-	-	(25,000)	-	-	(25,000)
Write off (g)	(103,663)	-	-	-	-	-	(103,663)
At 31 December 2018	<u>100,237,842</u>	<u>110,063</u>	<u>623,707</u>	<u>106,253</u>	<u>1,585,849</u>	<u>-</u>	<u>102,663,714</u>
Net carrying amount							
At 31 December 2018	<u>111,167,683</u>	<u>-</u>	<u>77,232</u>	<u>32,230</u>	<u>1,138,188</u>	<u>848,523</u>	<u>113,263,856</u>

- (a) In accordance with the terms of its PWPA, the Company had transferred its sea water intake / outfall facilities to a Shared Facilities Company under a joint operation agreement (Note 2 A vii). The transferred assets continue to be used by the Company for its operations since the Company retains significant risks and rewards relating to these assets.
- (b) The depreciation charge has been allocated in the statement of profit or loss as follows:

	2018	2017
	RO	RO
Operating costs (Note 5)	5,709,478	5,698,811
Administrative expenses (Note 7)	29,404	26,356
	<u>5,738,882</u>	<u>5,725,167</u>



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 12 PROPERTY, PLANT AND EQUIPMENT (continued)

- (c) The plants are situated on land leased from the Ministry of Housing for a Initial Term of 25 Years from their effective date and are renewable for a Second Term of 25 Years.
- (d) Provision for site restoration comprise of initial recognition of site restoration asset of the Company amounting to RO. 2,277,304 and entity's share of site restoration asset of BSFC amounting to RO 191,563 (refer Note 20).
- (e) During the year, the Company transferred RO 76,428 (2017 - RO 97,728) from capital work in progress to intangible assets.
- (f) Cost adjustment of RO 96,575 (2017: 242,287) represents reversal of excess accruals related to initial project cost capitalised for SWRO2 plant. Resultantly the depreciation related to such cost adjustment have also been reversed.
- (g) Existing Stator of the Gas Turbine Generator 1 (GTG1) of the Power Plant is being replaced due to a technical failure occurred during the year. Accordingly, the existing stator has been derecognised from the balance sheet and net book value of the asset (RO 165,907) is charged to profit and loss under general and administrative expenses (refer Note 7). Replacement activities are on going as of the balance sheet date and as such cost incurred to date have been recognised as part of addition to "Capital work in progress" category.
- (h) Depreciation charge for the plant & machinery includes depreciation of RO 3,834 (2017: 3,593) related to the additional assets of BSFC which is accounted as Joint Operator's share of the BSFC and within the category of operating costs.

	Plant and machinery	Tools	Furniture, Fixture and Office Equipment	Motor Vehicles	Capital Spares	Capital work in progress	Total
	RO	RO	RO	RO	RO	RO	RO
<b>Cost</b>							
At 1 January 2017	208,729,216	110,063	629,156	139,483	2,627,867	89,378	212,325,163
Additions	66,308	-	8,640	-	96,170	410,029	581,147
Transfer from CWIP	167,139	-	14,845	-	-	(279,712)	(97,728)
Cost adjustment	(242,287)	-	-	-	-	-	(242,287)
At 31 December 2017	<u>208,720,376</u>	<u>110,063</u>	<u>652,641</u>	<u>139,483</u>	<u>2,724,037</u>	<u>219,695</u>	<u>212,566,295</u>
<b>Depreciation</b>							
At 1 January 2017	57,546,515	110,063	590,859	108,341	1,379,714	-	59,735,492
Depreciation charge for the year	<u>5,594,942</u>	<u>-</u>	<u>13,656</u>	<u>12,700</u>	<u>103,869</u>	<u>-</u>	<u>5,725,167</u>
At 31 December 2017	<u>63,141,457</u>	<u>110,063</u>	<u>604,515</u>	<u>121,041</u>	<u>1,483,583</u>	<u>-</u>	<u>65,460,659</u>
<b>Net carrying amount</b>							
At 31 December 2017	<u>145,578,919</u>	<u>-</u>	<u>48,126</u>	<u>18,442</u>	<u>1,240,454</u>	<u>219,695</u>	<u>147,105,636</u>

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 13 INTANGIBLE ASSETS

	2018	2017
	RO	RO
Cost		
At 1 January	107,882	-
Addition	-	10,154
Transfer from Capital Work-In Progress	76,428	97,728
At 31 December	184,310	107,882
Amortisation		
At 1 January	11,371	-
Amortisation charge for the year	28,565	11,371
At 31 December	39,936	11,371
Net carrying amount - as at 31 December	144,374	96,511

### 14 INVENTORIES

	2018	2017
	RO	RO
Consumable spare parts	4,215,158	3,960,499
Fuel oil	733,321	672,582
Chemicals	81,272	82,032
	5,029,751	4,715,113

### 15 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2018	2017
	RO	RO
Trade receivable	5,197,285	5,228,509
Less: Allowance for impairment of receivables	(7,602)	-
	5,189,683	5,228,509
Material adverse change claim receivable from OPWP	930,831	531,229
Prepayments	205,411	16,869
Other receivables	12,995	230,701
Staff advances	7,272	12,349
Advances and deposits to suppliers	5,426	12,307
Insurance claim receivable	-	79,728
Due from related parties (Note 29)	-	25
	6,351,618	6,111,717
Movement in the allowance for impairment of trade receivable is as follows:		
Charge for the year (net)	7,602	-
Balance as at 31 December	7,602	-

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 15 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

The allowance required as at the balance sheet date for impairment of trade receivables under the ECL is not materially different to the recognised allowance and as such not recognised.

As at 31 December, the ageing of unimpaired trade receivable:

	Not past due		Past due	
	Total	0 - 90 days	90 - 180 days	> 180 days
	RO	RO	RO	RO
2018	<u>5,189,683</u>	<u>5,188,771</u>	<u>-</u>	<u>912</u>
2017	<u>5,228,509</u>	<u>5,216,770</u>	<u>1,405</u>	<u>10,334</u>

(a) The Company does not hold any collateral over these balances.

(b) At the reporting date, 100% (2017: 100%) of trade receivable are from a single customer, OPWPC.

### 16 CASH AND CASH EQUIVALENTS

	2018	2017
	RO	RO
Cash in hand	649	736
Bank balances:		
Current accounts	536,968	1,760,750
Deposit accounts	<u>4,011,909</u>	<u>4,342,881</u>
	<u>4,549,526</u>	<u>6,104,367</u>

Deposit accounts carry interest rates at 0.02% per annum (2017- 0.05% per annum) and mature within 3 months (2017 – 3 months) from the date of placement.

Cash and cash equivalents for the purpose of cash flow statement comprise of;

	2018	2017
	RO	RO
Cash in hand	649	736
Bank balances	4,548,877	6,103,631
Short term borrowings (Note 26)	<u>-</u>	<u>(3,062,156)</u>
	<u>4,549,526</u>	<u>3,042,211</u>

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 17 SHARE CAPITAL

	Authorised share capital	
	2018	2017
	RO	RO
Ordinary shares of RO 0.100 (2017: RO 0.100 ) each	<u>100,000,000</u>	<u>100,000,000</u>

	Issued and fully paid up capital	
	2018	2017
	RO	RO
Ordinary shares of RO 0.100 (2017: RO 0.100 ) each	<u>16,000,000</u>	<u>16,000,000</u>

The Company has one class of ordinary shares which carry no right to fixed income.

Shareholders who own 10% or more of the Company's share capital at the reporting date are:

	2018		2017	
	Percentage shareholding	No. of shares ('000)	Percentage shareholding	No. of shares ('000)
ACWA Power Barka Project LLC	58	92,800	58	92,800
Civil Services Pension Fund	14	22,427	14	22,427

During the year, no interim dividend was declared (2017: 23 Baiza per share amounting to RO 3,680,000 was declared and paid for 160,000,000 shares of Baiza 100 each).

During the year, no final dividend was declared (2017: 22 Baiza per share amounting to RO 3,520,000 was declared in 2017 itself for 160,000,000 shares of Baiza 100 each and was fully paid by subsequent to reporting date).

### 18 STATUTORY RESERVE

In accordance with the Commercial Companies Law of the Sultanate of Oman, 10% of the profit for the period is required to be transferred to a statutory reserve until the reserve is equal to one third of the issued share capital. The Company has resolved to discontinue such transfers as the reserve totals one third of the issued share capital. The reserve is not available for distribution.

### 19 SPECIAL RESERVE

In accordance with the Articles of Association, the excess of share issue amount collected over actual issue expenses have been transferred to a non-distributable special reserve.



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 20 PROVISION FOR SITE RESTORATION

	2018	2017
	RO	RO
Recognised during the year	2,468,867	-
Balance as at 31 December	2,468,867	-

The annual reassessment carried out during the year reveals that there is a need to recognise provision for site restoration stemming from the Usufruct Agreements that the Company and its joint operation (BSFC) have with Ministry of Housing. This is due to the changes taken place in the industry and resulting modifications to the assumptions that based the assessment. Accordingly, the Company and BSFC have recognised site restoration provision as at 31 December 2018 which is the reassessment date.

Due to the long term nature of the liability, there is significant uncertainty surrounding cost estimates that will be incurred. It has been assumed that the decommissioning and restoration activity will be undertaken in an organised and controlled manner using technology and material that are currently available. The provision has been calculated using a discount rate in the range of 6% - 7%.

To assess the site restoration provision required as at 31 December 2018, the Company and BSFC engaged an international expert who has extensive experience in similar exercises. Based on the values provided, the discounted present value was recognised as addition to Plant and Machinery during the year. The provision recognised during the year include component relates to the BSFC amounting to RO 191,563 while rest belongs to the Company. No accretion charge is applicable as the provision recognised as at 31 December 2018.

### 21 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the liability recognised at the reporting date is as follows:

	2018	2017
	RO	RO
Balance as at 1 January	51,797	47,138
Provided during the year	11,164	12,890
End of service benefits paid during the year	-	(8,231)
Balance as at 31 December	62,961	51,797

### 22 DERIVATIVE FINANCIAL INSTRUMENTS

	2018	2017
	RO	RO
Cumulative changes in fair value:		
At 1 January	-	(36,798)
Change in fair value during the year	-	36,798
At 31 December	-	-

These interest rate swaps were designated as cash flow hedges and the fair value thereof had been accounted within equity. The interest rate swaps expired as at 30 April 2017 and thereafter Company has not entered in to new contract in view of the low interest rate regime available in the market.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 23 LONG TERM LOAN

	2018	2017
	RO	RO
Loan from banks	61,728,992	73,058,817
Less: unamortised transaction costs	(1,133,090)	(1,602,597)
	<u>60,595,902</u>	<u>71,456,220</u>
Current portion	12,483,303	11,329,826
Non-current portion	<u>48,112,599</u>	<u>60,126,394</u>
	<u>60,595,902</u>	<u>71,456,220</u>
Movements in the long term loan recognised at the reporting date is as follows:		
Balance as at 1 January	73,058,817	83,958,306
Repaid during the year	<u>(11,329,825)</u>	<u>(10,899,489)</u>
Balance as at 31 December	<u>61,728,992</u>	<u>73,058,817</u>

According to the Fourth Amended and Restated Loan Agreement, the term loan facility has the following four tranches:

Tranche	Currency	Principal amount	Interest Rates	Final Repayment Date
1	RO	62,539,208	5.50% fixed until October 31, 2019 and to be reviewed thereafter	October 31, 2022
2	US\$	28,000,000	LIBOR + 3.25%	October 31, 2020
3	RO	16,600,000	5.50% fixed until October 31, 2019 and to be reviewed thereafter	October 31, 2024
4	RO	24,921,292	4.75% fixed until October 31, 2019 and thereafter Fixed deposit rate + 2.5% with a cap of 6.5%.	October 31, 2024

The repayment schedule before deduction of loan transaction costs is as follows:

	2018	2017
	RO	RO
Payable within one year	12,483,303	11,329,826
Payable between 1 and 2 years	13,214,873	12,483,302
Payable between 2 and 5 years	28,581,036	37,141,045
Payable after 5 years	<u>7,449,780</u>	<u>12,104,644</u>
	<u>61,728,992</u>	<u>73,058,817</u>

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 23 LONG TERM LOAN (continued)

The loan is secured by a charge on all project and Expansion – Phase I and II assets, Government guarantee under PWPA, assignment of insurance / reinsurances, agreement for security over promoters' shares and charge over Company's project accounts.

The movement in unamortised transaction costs is as follows:

	2018	2017
	RO	RO
At 1 January	1,602,597	2,156,110
Amortised during the year	(469,507)	(553,513)
At 31 December	<u>1,133,090</u>	<u>1,602,597</u>

### 24 DEFERRED REVENUE

	2018	2017
	RO	RO
At 1 January	545,609	2,202,737
Electricity capacity revenue amortised (Note 4)	(278,692)	(862,318)
Water capacity revenue amortised (Note 4)	(266,917)	(794,810)
	<u>-</u>	<u>545,609</u>

### 25 TRADE AND OTHER PAYABLES

	2018	2017
	RO	RO
Amounts due to related parties (Note 29)	3,338,267	3,871,331
Trade accounts payable	1,685,103	2,273,822
Accrued and other expenses	2,185,081	1,332,562
Dividend payable	-	1,478,400
	<u>7,208,451</u>	<u>8,956,115</u>

As per the directives of the Capital Market Authority (CMA) the amount of unpaid dividend which is outstanding for more than seven months is required to be transferred to the "Investors' Trust Fund" established by the CMA. During the year unpaid cash dividend amounting to RO 9,877 was transferred to the "Investors' Trust Fund" (2017: RO 11,314).

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 26 SHORT TERM BORROWINGS

	2018	2017
	RO	RO
Bank overdrafts (a)	-	3,062,156
	-	3,062,156

(a) Bank overdraft had been availed as at 31 December 2017 from Bank ABC of Bahrain at a fixed interest rate of 6.5%.

(b) The Company has a Short term loan availed from Bank ABC of Bahrain at a rate of LIBOR + 3%. Total granted amount of the facility is USD 16 Mn and as of the balance sheet date the entire amount remain unutilised.

### 27 SEGMENT REPORTING

Information regarding the Company's operating segments is set out below in accordance with IFRS 8 - Operating segments. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by Senior Management and the Board of Directors in order to allocate resources to the segment and to assess its performance. There has not been a change in segment reporting compared to the previous period.

#### Reportable segments

At 31 December 2018, the Company is organised into two main operating segments:

#### Base Plant

Base Plant segment comprises of power production and Multi-Stage Flash Distillation (MSF) facilities which commenced its commercial operations on 11 June 2003.

#### Expansion Plants

Expansion Plants segment comprises of two Reverse Osmosis based water production facilities which commenced their commercial operations on 29 May 2014 and 26 February 2016. In view of similar operating and economic characteristics, these two plants have been aggregated as one reportable segment in line with the requirements of IFRS 8.

#### Segment revenues and results

Year ended 31 December 2018	Base Plant	Expansion Plants	Total
	RO	RO	RO
Revenue	51,398,314	10,133,773	61,532,087
Natural gas	25,784,785	950,872	26,735,657
Operation and maintenance fee – NOMAC Oman	5,820,204	2,955,451	8,775,655
Depreciation of property, plant and equipment	4,107,819	1,601,659	5,709,478
Interest on long term loan	1,994,438	1,592,198	3,586,636
Impairment charge on plant and machinery	31,592,836	-	31,592,836
Segment (loss)/ profit before income tax	(22,515,773)	2,550,981	(19,964,792)



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 27 SEGMENT REPORTING (continued)

Year ended 31 December 2017	Base Plant	Expansion Plants	Total
	RO	RO	RO
Revenue	<u>60,352,583</u>	<u>11,346,629</u>	<u>71,699,212</u>
Natural gas	<u>32,586,174</u>	<u>1,272,938</u>	<u>33,859,112</u>
Operation and maintenance fee – NOMAC Oman	<u>6,524,533</u>	<u>3,101,823</u>	<u>9,626,356</u>
Depreciation of property, plant and equipment	<u>4,096,109</u>	<u>1,602,702</u>	<u>5,698,811</u>
Interest on long term loan	<u>2,173,047</u>	<u>1,763,282</u>	<u>3,936,329</u>
Segment profit before income tax	<u>11,357,123</u>	<u>3,075,666</u>	<u>14,432,789</u>

No segment information for the balance sheet is presented as management considers balance sheet in its entirety for decision making.

### 28 CAPITAL COMMITMENTS

	2018	2017
	RO	RO
Payable within one year	<u>5,460,285</u>	423,046
Payable between 1 and 2 years	<u>2,003,494</u>	-
Payable between 2 and 3 years	<u>5,290,422</u>	-
	<u>12,754,201</u>	<u>423,046</u>

- (a) Pursuant to the Amendment Agreement to the O&M Agreement with NOMAC Oman, which is effective until 31 December 2021, the Company has committed to sponsor amount of RO 11,553,000 for performance of Life Time Extension (LTE) activities of two Gas Turbines of the Power Plant. LTE activities for GT1 & GT2 are expected to fall in March 2020 and October 2021 respectively. The Company however will continue to assess the need to undertake such activities based on business requirements.
- (b) The Company has agreed to sponsor remaining cost for replacing the stator of GT1 at RO 971,998. The Stator was failed in last quarter of 2018 due to electrical fault. The Company is expecting to recover these costs through its insurers subject to policy deductibles.

### 29 RELATED PARTY TRANSACTIONS

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

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 29 RELATED PARTY TRANSACTIONS (continued)

During the year the Company entered into the following transactions with related parties:

	2018		2017	
	Services rendered	Services received	Services rendered	Services received
	RO	RO	RO	RO
Related parties	142,870	12,622,558	144,633	11,756,603

Balances with related parties included in the statement of financial position are as follows:

	2018		2017	
	Trade receivables	Trade and other payables	Trade receivables	Trade and other payables
	RO	RO	RO	RO
ACWA Power Barka Services 1 (Mauritius) Limited	-	111,936	-	87,694
ACWA Power Barka Services 2 (Mauritius) Limited	-	111,936	-	87,694
ACWA Power Barka Project LLC	-	-	25	-
ACWA Power Global Services LLC	-	2,065	-	-
Barka Seawater Facilities Company SAOC	-	9,805	-	11,826
International Company for Water and Power Projects - Dubai	-	4,979	-	28,929
NOMAC Oman	-	3,097,546	-	3,655,188
	-	3,338,267	25	3,871,331

Outstanding balances at the year-end arise in the normal course of business. Outstanding balances at the reporting date are unsecured and settlement occurs in cash. For the year ended 31 December 2018, the Company has not recorded any impairment in respect of amounts owed by related parties (2017: Nil).

#### Compensation of key management personnel

The remuneration of directors and other members of key management during the year are as follows:

	2018	2017
	RO	RO
Short-term benefits	264,144	183,475
Employees' end of service benefits	25,068	16,314
	289,212	199,789
Director sitting fees	13,200	22,800
Director's remuneration	-	107,143

In view of the net loss incurred, no directors' remuneration recognised for the year in accordance with Commercial Companies Law and CMA regulations.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 30 RISK MANAGEMENT

#### Overview

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

- Credit risk
- Liquidity risk
- Market risk

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by finance department under policies approved by the management. The finance department identifies, evaluates and hedges financial risks in close co-operation with the Company. The management provides written principles for overall risk management covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

#### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

The company provides services to OPWP, a Government customer in Oman. This customer accounts for 100% of outstanding accounts receivable at 31 December 2018 (2017: 100%).

With respect to credit risk arising from the other financial assets of the company, including cash and cash equivalents, the company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Management believes that the company's other financial assets are not susceptible to significant credit risk.

The maximum exposure to credit risk at the reporting date was on account of:

	2018	2017
	RO	RO
Trade receivables	5,189,683	5,228,509
Bank balances	4,548,877	6,103,631
Other receivables	951,098	854,007
Due from related parties	-	25
	<u>10,689,658</u>	<u>12,186,172</u>

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition the Company has access to credit facilities.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 30 RISK MANAGEMENT (continued)

The tables below summarise the maturities of the Company's undiscounted financial liabilities at 31 December based on contractual payment dates and current market interest rates:

Year ended 31 December 2018	Carrying value	Less than 1 year	1 - 2 years	More than 2 years	Total
		RO	RO	RO	RO
Term loan	60,595,902	15,533,252	15,608,933	39,660,473	70,802,658
Accounts payables	1,685,103	1,685,103	-	-	1,685,103
Due to related parties	3,338,267	3,338,267	-	-	3,338,267
Other payables	2,185,081	2,185,081	-	-	2,185,081
	<u>67,804,353</u>	<u>22,741,703</u>	<u>15,608,933</u>	<u>39,660,473</u>	<u>78,011,109</u>

Year ended 31 December 2017	Carrying value	Less than 1 year	1 - 2 years	More than 2 years	Total
		RO	RO	RO	RO
Term loan	71,456,220	14,986,506	15,533,252	55,269,406	85,789,164
Short term borrowings	3,062,156	3,062,156	-	-	3,062,156
Accounts payables	2,273,822	2,273,822	-	-	2,273,822
Due to related parties	3,871,331	3,871,331	-	-	3,871,331
Other payables	2,810,962	2,810,962	-	-	2,810,962
	<u>83,474,491</u>	<u>27,004,777</u>	<u>15,533,252</u>	<u>55,269,406</u>	<u>97,807,435</u>

#### Market Risk

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

#### Foreign currency risk

The Company's functional and presentation currency is Rial Omani and the Company's performance is substantially independent of changes in foreign currency rates. The Company has transactional currency exposures. There are no significant financial instruments denominated in foreign currency and consequently foreign currency risk is not significant.

#### Interest rate risk

The Company is exposed to interest rate risk on its long term loan facility obtained based on LIBOR. Therefore the management had entered into interest rate swap agreements as disclosed in note 22. However, after the expiry of interest rate swap on 30 April 2017, the management has not entered in to new contracts enabling the company to obtain current lower LIBOR rate benefit. Further, the Company has short term bank deposits with fixed interest rate and are therefore not exposed to interest rate risk. The Company adopts a policy of ensuring that major portion of its borrowing are on a fixed rate basis.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 30 RISK MANAGEMENT (continued)

At the reporting date the interest rate risk profile of the Company's interest bearing financial instruments is as follows:

	2018	2017
	RO	RO
<b>Fixed rate instruments</b>		
Financial assets – deposit accounts	4,011,909	4,342,881
Financial liabilities - long term loan	(58,520,354)	(71,563,730)
	<u>(54,508,445)</u>	<u>(67,220,849)</u>
<b>Variable rate instruments</b>		
Financial liabilities - long term loan	<u>(3,208,638)</u>	<u>(4,557,243)</u>

#### Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on variable rate financial instruments. With all other variables held constant, the Company's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Increase/ decrease in basis points	Effect on profit for the year
2018	+/-100	32,086
2017	+/-100	45,572

#### Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and benefit other stake holders. The management's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

Management is confident of maintaining the current level of profitability by enhancing top line growth and prudent cost management. The Company is not subject to externally imposed capital requirements.

### 31 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets, financial liabilities and derivatives.

Financial assets consist of bank balances and receivables. Financial liabilities consist of term loans and payables.

The fair values of the financial assets and liabilities are not materially different from their carrying values.

#### Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 31 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The Company used to held interest rate swap derivatives instruments measured at fair value. However, after the expiry of interest rate swap on 30 April 2017, the management has not entered in to new contracts enabling the company to obtain current lower LIBOR rate benefit. The fair values of the interest rate swaps arrangements were worked out using level 2 valuation technique and related details are included in Note 22.

The fair values of other financial instruments approximate their carrying value as of the reporting date and would qualify for level 2 disclosures.

### 32 USE OF ESTIMATES AND JUDGMENTS

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value for the year. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated assets and liabilities.

The following are the significant estimates/ judgments used in the preparation of the financial statements:

#### Useful lives and residual value of property, plant and equipment

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

#### Impairment of account receivable

An estimate of the collectible amount of accounts receivable is made using expected loss model which involves days past due information and forward looking information. This assessment is performed on an individual basis.

#### Net Realizable Value of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

#### Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The company establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the company. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

### 32 KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### Taxes (Continued)

The Company also assumes that it will be able to realise deferred tax assets and liabilities as the Company continue to generate taxable profits from operation. Further, the Company assumes certain position in relation to the business in computing deferred tax. Changes in interpretation or business prospect may lead to adjustment in the financial statements in later years.

#### Deferred revenue adjustment for straight-line basis recognition

Capacity charge is payable to the Company by OPWPC for each hour during which the plant is available for generation and desalination. Capacity charges income (excluding receipts for services provided, such as insurance and maintenance) is recognised on a straight-line basis over the lease term. Billed revenue in excess of straight-line revenue is deferred as liability.

The company makes model based estimates in computing the deferred revenue to be recognised in each accounting period. The key estimates included assessment of the following are listed below and may have a material impact on the amount of revenue and related profits recognised:

- Scheduled unavailability
- RO-USD exchange rate
- De-rating
- Forced outages
- US and the Omani inflation rate

#### Joint operation

The management has assessed the shareholders agreement dated 6 February 2008 between ACWA Power Barka SAOG and SMN Barka Power Company SAOC committed to establish a shared facility company owned 50:50 between the shareholders and concluded that it falls within the scope of IFRS 11, 'Joint Arrangements' and the arrangement is a joint operation. The primary basis for this conclusion is that both shareholders have collective/joint control over the arrangement, its activities primarily aim to provide the parties with an output and it depends on the shareholders on a continuous basis for settling the liabilities relating to the activity conducted through the arrangement. The joint arrangement is structured as a closed public joint stock company and provides the Company and the parties to the agreements with rights to their respective share of the assets, liabilities, income and expenses of joint operation.

#### Provision for site restoration

Upon expiry of their respective Usufruct and PWPA/ WPAs, the Company will have an obligation to remove the facilities and restore the affected area. The estimated cost, discount rate and risk rate used in the calculation are based on management's best estimates.

#### Impairment of plant

The Company determines whether plants are impaired if there are indicators for impairment. This requires an estimation of the value in use of the cash-generating unit/ asset. Estimating the value in use requires the Company to make estimate of the expected future cash flows from the cash-generating unit/ asset and also to choose a suitable discount rate in order to calculate the net present value of those cash flows. These calculations use contractual cash flows and projections based on management's best estimates considering the future market outlook and information available to the management.

#### Determining whether an arrangement contains a lease

On adoption of IFRIC 4 "Determining whether an arrangement contains a lease" the management concluded that its PWPA for existing plant and WPAs for Expansion – Phase I and II contain lease arrangements. These lease arrangements have been determined to be operating leases under IAS 17. Accordingly, the investment charge applicable have been recognised as lease income.

### 33 COMPARATIVES

The comparative figures for the previous year have been reclassified, where necessary, in order to conform to the current year's presentation.