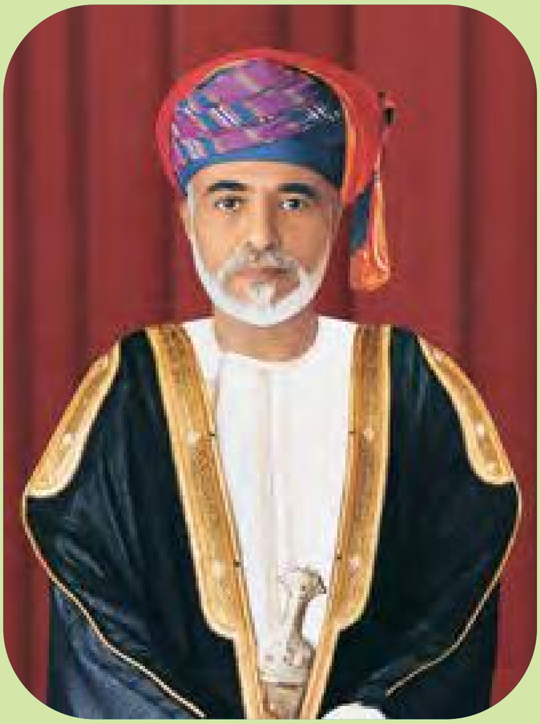
اس ام ان باور القابضة ش.م.ع.ع
SMN POWER HOLDING SAOG

ANNUAL REPORT 2019

Powering Lives
Powering the Future

Registered office:
P.O.Box 121, Postal Code 134
Jawharat A'Shatti, Sultanate of Oman

Principal place of business:
Qurum Building, 1st Floor
Office No. 15, Way No. 1013
Al Qurum, Sultanate of Oman

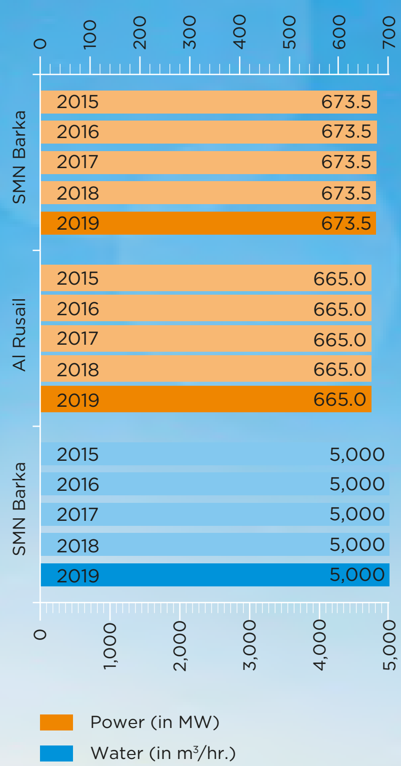


His Majesty
Sultan Qaboos Bin Said (Late)

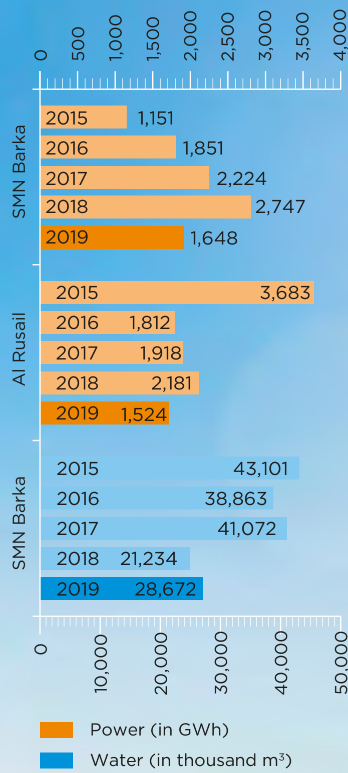
His Majesty
Sultan Haitham bin Tarik

Highlights 2019

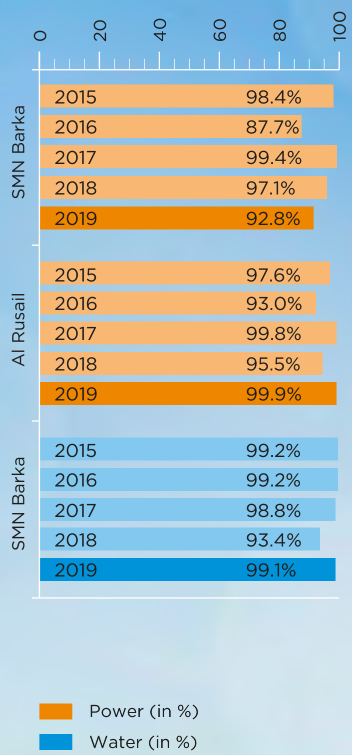
Power & Water Contracted Capacities (Year-End)



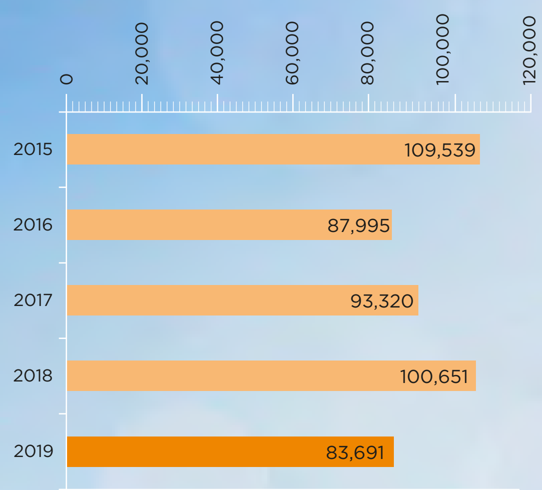
Power & Water Delivered



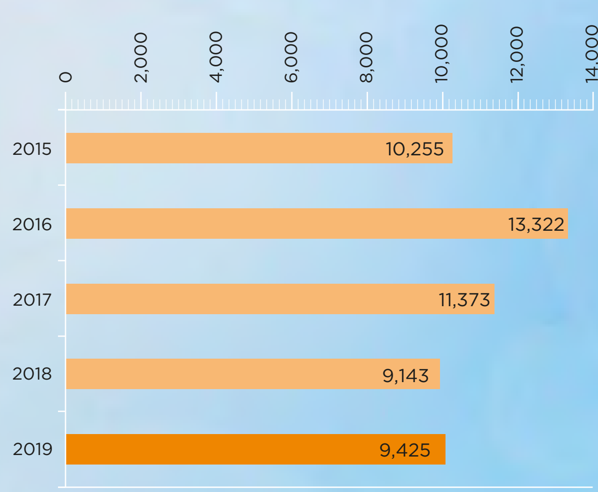
Power & Water Commercial Availability



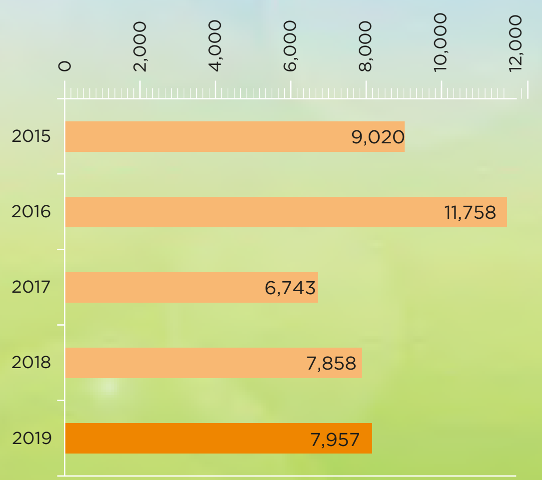
Consolidated Revenues (in RO '000)



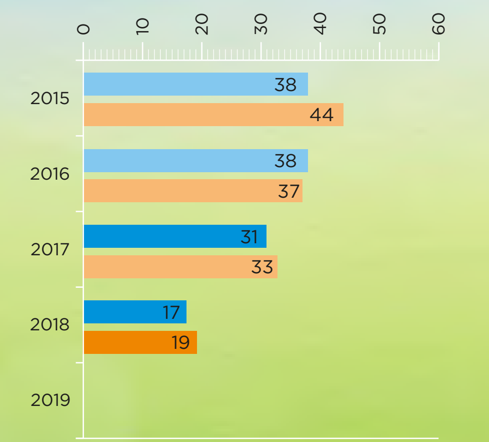
Consolidated Profits before Taxes (in RO '000)



Consolidated Net Profit (in RO '000)



Dividend Paid (Bzs/Share)



Dividends projection (IPO Prospectus)**
Dividends paid**

** on the basis of nominal of bzs 100 / share after the stock split

Contents

Board of Directors

Dr. Abdullah Al Yahya'ey
Chairman

Quentin des Cressonnières
Vice Chairman

Ahmed Saud Said
Al Zakwany
Director

Hamad Al Hammadi
Director

Ahmed Al Shamsi
Director

Khamis Al Balushi
Director

Imran Sheikh
Director

Zoher Karachiwala
Corporate Secretary

Management

Sachin Abhyankar
Chief Executive Officer

Olivier Tabone
Chief Financial Officer

Anupam Kunwar
Chief Technical Officer

Board of Directors' Report

Dear Shareholders,

On behalf of the Board of Directors ('the Board') of SMN Power Holding SAOG ('the Company'), I have the pleasure to present the audited consolidated financial statements for the year ended 31 December 2019.

The Company reviews its corporate structures, policies and processes on a continuous basis to ensure that the highest standards of governance are adopted and implemented, in compliance with local and international regulatory requirements and principles.

I invite the investors to refer to the Corporate Governance Report of this Annual Report.

Operations

Providing a safe working environment is a key priority and I am happy to share that the Health & Safety (H&S) performance was excellent as no Lost Time Accident ('LTA') occurred. SMN Barka and Al Rusail Plants completed 4,443 and 3,967 days respectively without LTA as on the 31st December 2019.

The commercial performance of both plants, SMN Barka and Al Rusail, is measured by their reliability which is the ability to deliver the declared capacity as per the contract.

In 2019, the reliability for SMN Barka Plant was 92.8 % for power and 99.1 % for water (97.1% and 93.4% in 2018).

Al Rusail showed an excellent power reliability of 99.9 % in 2019 (99.5% in 2018).

The reliability of the RO desalination plant was well maintained during the year.

The power reliability in SMN Barka was impacted by damages to some blades of a gas turbine (GT3). The GT3 blades damage was seen during a routine inspection on 18th March 2019. The unit was brought back to service on 4th April 2019.

Another reason impacting the reliability of the power plant was the significant cycling of the plant which led to failure of some components and increased forced outage of the Heat Recovery Steam Generator. SMN Barka is in communication with OPWP, AER and the Load Dispatch Centre to address those issues and reduce the number of starts and stops.

I invite the Investors to refer to the Management Discussion and Analysis section of this Annual Report for further explanation on the performance in 2019.

Financial Results

The Company generated a consolidated net profit RO 8 Million for the year 2019 compared to a net profit of RO 7.9 Million in 2018.

The Company was however not in a position to distribute any dividend in 2019. As previously disclosed and in line with the financing arrangements disclosed during the Initial Public Offering ('IPO'), the cash sweep mechanism (accelerated repayment of the debt) started on 30 September 2018 for SMN Barka, similar to the mechanism already in place for Al Rusail since 30 September 2016. As a consequence, the excess cash generated by the project companies is now paid to the lenders and will not flow to the Shareholders until the loans are fully settled, expected to be in 2022 for Al Rusail and 2026 for SMN Barka, or until the time the loans can be restructured.

I invite the investors to refer to the Management Discussion and Analysis Report of this Annual Report for further explanation on the financial performance of the Company.

Corporate Social Responsibility

At the AGM held on 24th March 2019, the Shareholders approved an amount of RO 30,000 for CSR activities during the year 2019.

The Company successfully delivered within budget the following projects during the year:

- Contribution to the Solar PV renewable energy project at Qutaibah bin Muslim School in al Kamil;
- Tree Plantation Project at the coastal area beside Barka Power Plants;
- Sponsorship for the Autism Conference;
- Hydroponics project at Omayma Bint Abdul Mutalib Basic Education School;
- Active participation to the Sultan Qaboos University Engineering Forum;
- Donation of used IT equipment.

Please refer to the CSR report included in this Annual Report for further details on these initiatives.

Future Outlook

In terms of plant operations and performance, the Company will continue its focus on H&S, work closely with the O&M contractor to improve the plant reliability at SMN Barka and maintain the excellent plant reliability at Al Rusail. Management will continue to liaise with OPWP, AER and the Load Dispatch Centre to reduce the number of starts and stops.

In terms of initiatives to prepare for the future of Al Rusail and SMN Barka power plants, the Company will work intensively on the following activities:

- For Al Rusail, the main objective in 2020 is to make all possible efforts to obtain a new PPA term for 2 Gas Turbines ('GT'), GT7 & 8, beyond March 2022.
- For SMN Barka, the Company will work closely with AER, OPWP and all stakeholders of the power and water sector on any opportunity to extend the PWPA agreement and in parallel work on implementation of the spot market.

The spot market is expected to go live by end of 2020 or early 2021. While both Al Rusail and SMN Barka will participate in the implementation of the spot market, such implementation will have no impact on the Company's cash-flows in the next financial year as both Al Rusail and SMN Barka will remain under the P(W)PA framework and will be remunerated based on their capacity and availability. The profitability and ability to generate cash flows are independent of market demand throughout the P(W)PA term.

In terms of dividend distribution, as previously disclosed and in line with the financing arrangements during the IPO, the excess cash generated by the project companies is now paid to the lenders and will not flow to the Shareholders until the loans are fully settled, expected to be in 2022 for Al Rusail and 2026 for SMN Barka, or until the time the loans can be restructured. The P(W)PA extension projects for both Al Rusail and SMN Barka will be a key factor to potentially restructure the debt in the coming years, remove or defer the cash sweep and allow further dividend distribution.

As Chairman of the Board, I would like to thank our Shareholders, not only for their confidence, but also for their continued support and for the expertise they bring into the Company. The Board of Directors expresses its gratitude to Oman Power & Water Procurement Company ('OPWP'), the Authority for Electricity Regulation ('AER'), the Capital Market Authority ('CMA') and other governmental and non-governmental bodies for their guidance and support. I also insist upon thanking all the operational staff working at Barka II and Al Rusail plants as well as the team at our corporate office for their loyalty and dedication.

Finally, on behalf of the Board of Directors, I would like to express our heartfelt condolences on the sudden sad demise of His Majesty Sultan Qaboos bin Said bin Taimur and pray to the almighty to rest his soul in eternal peace.

Also, the Board of Directors welcomes the elevation of His Majesty Sultan Haitham bin Tariq bin Taimur and the Board is looking forward to working under the guidance, wise leadership and growth oriented policies for the development of the sultanate of Oman.

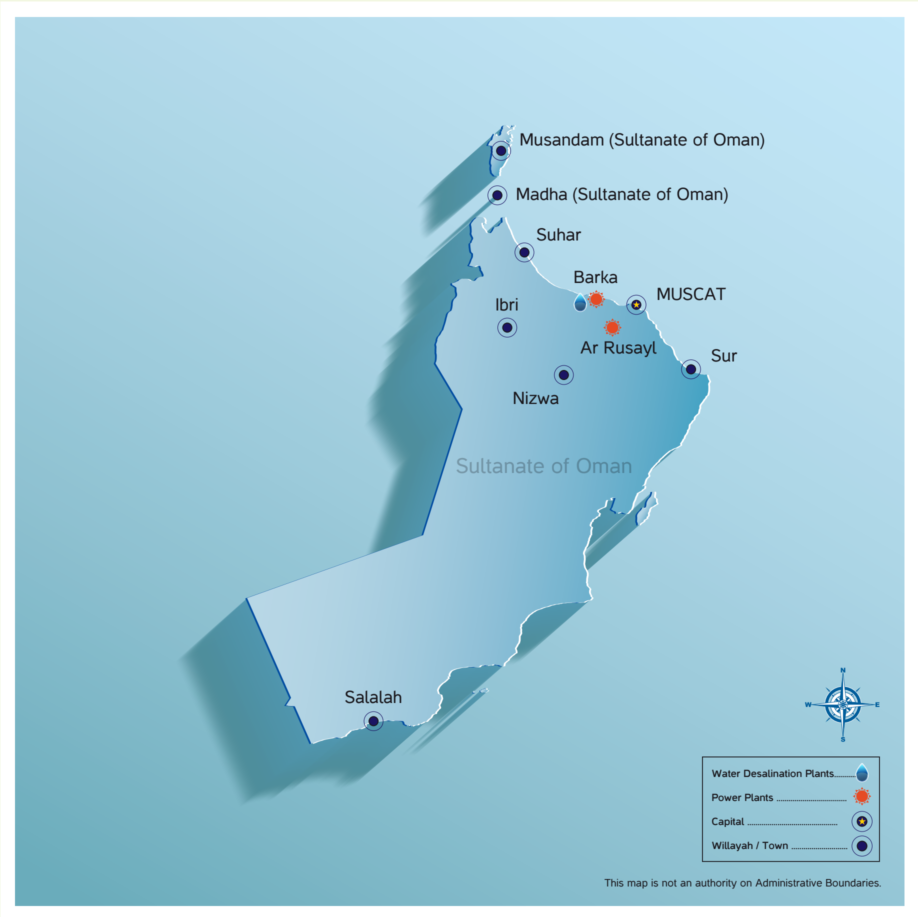
Dr. Abdullah Al Yahya'ey
Chairman of the Board

Description of the Company

SMN Power Holding SAOG (the Company) was incorporated on 7 May 2011. As the holding company of two power entities, SMN Barka and Al Rusail, the holding combines 1,343 MW of power and 120,000 m3/day potable water capacity.

Background:

On 2 November 2005, the Government invited proposals for the development of an Independent Water and Power Producer ('IWPP') at Barka and the privatization of Al Rusail (Tender No 210 / 2005). In 2006, the Founders (Suez Tractebel S.A., Mubadala Development Company PJSC and National Trading Company LLC) secured the award from OPWP following a competitive bidding process. The project has been established under a BOO scheme (Build, Own, Operate). The BOO concept enables the Founders (through the operator) to operate the Plants beyond the current PPA horizon of 15 years by either extending the P(W)PA (if agreed to by OPWP) or by selling into an electricity pool which may exist at that time. The Founders incorporated SMN Power Holding Company Ltd ('SMN Jafza') for the purpose of holding the shares in both Project Companies and for undertaking the Project through the Project Companies. From the inception of the Project until the transfer to the Company, SMN Jafza held 99.99% of the shares in both project companies. Each of the projects developed by each of the relevant project companies has been implemented as follows:



For SMN Barka:

Date	Events
2 November 2005	Request for Proposal issued by Tender Board
26 June 2006	Bid Submission
6 December 2006	Execution of Project Documents
20 February 2007	Financial Close
28 July 2008	Early Power COD
30 September 2008	End of Early Power period
15 November 2009	Final COD achieved

For Al Rusail:

Date	Events
2 November 2005	Request for Proposal issued by Tender Board
26 June 2006	Bid Submission
6 December 2006	Execution of Project Documents
31 January 2007	Completion under SPA / Settlement Agreement
20 February 2007	Financial Close / Facilities Agreement

Description of SMN Barka Plant:

SMN Barka is an IWPP plant situated at Barka. The site is approximately 50 km northwest of Muscat, Oman.

Also popularly known as Barka II / Barka Phase 2, the design net rated power output of the facility in a combined cycle mode is 678 MW and 363 MW in open cycle. The water production capacity is about 26.4 MIGD or 120,000 m^3/day.

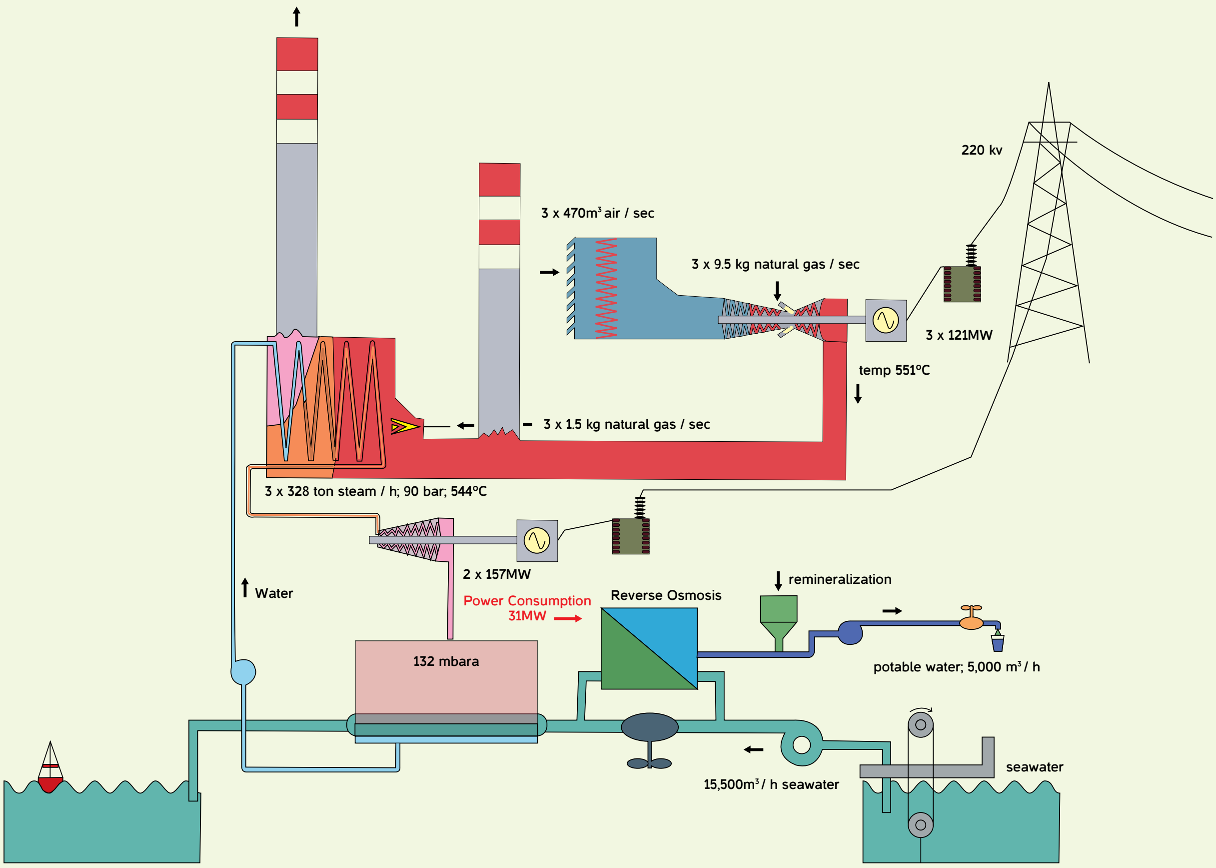
The facility entered into full commercial operation on 15 November 2009 and commenced the fifteen-year PWPA, guaranteeing the sale of its electricity and potable water capacity and production to OPWP.

The power plant comprises three V 94.2 Rev 6 dual fuel combustion turbines (Siemens design manufactured by Ansaldo Energia, Italy), three supplementary fuel fired heat recovery steam generators and two Siemens condensing steam turbines, along with ancillary equipment required for operation of the power plant.

The SMN Barka power plant is designed as a three + two configuration with three combustion turbines, three supplementary fired HRSGs and two steam turbines forming one combined cycle power block. The arrangement allows for operational flexibility as high and low pressure steam from any boiler can be supplied to either steam turbine.

The individual V94.2 gas turbines hot exhaust gases directly flow into naturally circulated heat recovery steam generators, generating steam at two pressure levels: high pressure steam at 85 bar and low pressure steam at 7 bar. The high pressure steam from each of the heat recovery steam generators is combined in a common header and passes to one of the two steam turbines as is low pressure steam.

The facility is equipped with bypass stacks allowing operation of each combustion turbine



in open cycle if a boiler or steam turbine failure occurs and steam dumping direct to the steam turbine condensers is also provided. The SMN Barka Plant is designed for black start operation by means of diesel generators which are capable of starting the plant via connections to at least two gas turbines.

Desalination for water production involves a sea water reverse osmosis desalination plant with a contracted capacity of 26.4 MIGD or 5,000 m3/hour of water. The reverse osmosis system comprises of 14 trains in the first pass and 7 trains in the second pass. Unlike "natural" osmosis, which facilitates solvent migration so that concentrations are even on both sides of a membrane, reverse osmosis involves forcing seawater at high pressure through a membrane that is almost impervious to suspended minerals. In the end pure water is left on one side and highly concentrated brine on the other.

Reverse osmosis provides SMN Barka the flexibility, in certain cases, to produce desalinated water even when the power production is not operational, using power from the electricity grid.

The power plant operates on natural gas as primary fuel with fuel oil as back-up. The plant is connected to the gas transmission infrastructure owned by MOG, to the existing water transmission system owned and operated by PAW and finally to the main interconnected transmission system at 220 kV which is owned by OETC.

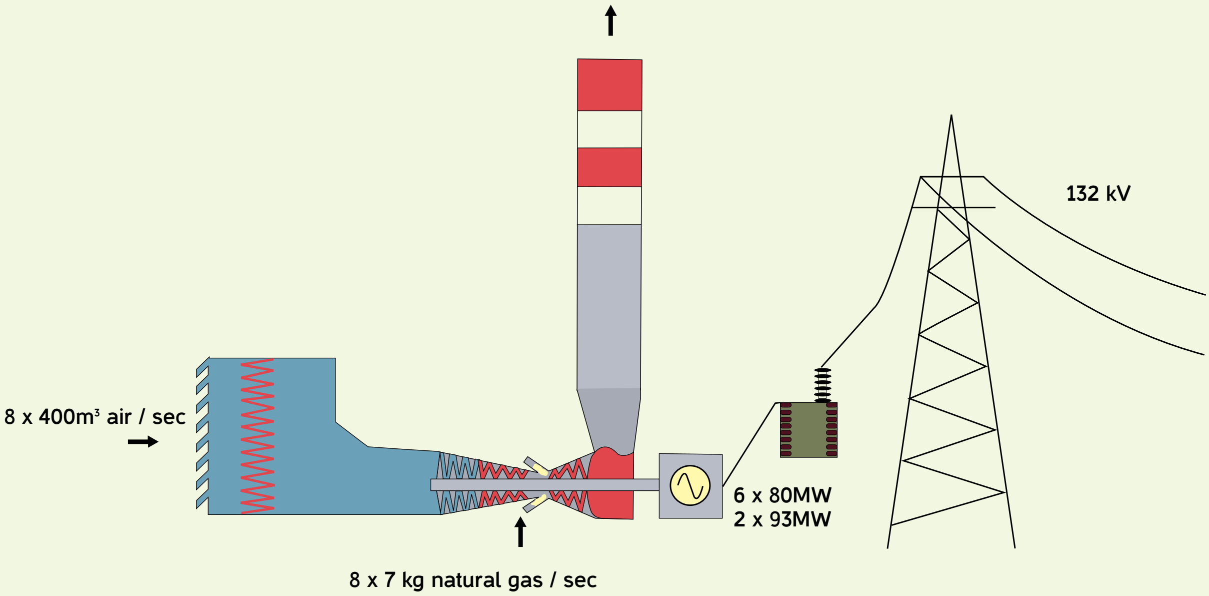
The auxiliary power for the Plant is derived from the Plant's internal electrical system with back up from the grid. The equipment and facilities required for the operation, testing, maintenance and repair of the equipment (for example control room, laboratory, stores, workshop, etc.) are available at site.

SMN Barka has contracted the all operations and maintenance activities ('O&M') of the power station to Suez Tractebel Operations and Maintenance Oman ('STOMO').

Description of Al Rusail Plant:

Al Rusail is a natural gas-fired 665 MW power plant, the first state-owned power generation company to be privatized in the Sultanate of Oman. In December 2006, the shareholders acquired the shares of Al Rusail from the Government (through acquisition of 99% of the shares in Al Rusail by SMN Jafza).

The plant is located inland, approximately 40 km west of Muscat in an industrial area. It consists of eight Frame 9E gas turbines installed in four phases between 1984 and 2000. Al Rusail's primary fuel is natural gas supplied by MOG, but diesel oil is also stored on site to serve as a backup fuel. Power capacity and production are sold to OPWP under the 17-year PPA ending in September 2021 (6 gas turbines) and March 2022 (2 gas turbines).



The combustion turbines are laid out side by side. An overhead travelling crane can access all turbines for maintenance purposes. The generating equipment is outdoor type with the 132 kV Gas Insulated Switchgear (GIS) housed in brick buildings. Underground cable circuits run from the generator step-up transformers to the 132 kV switchgear and then by overhead line to the system at the northern and southern site boundaries. The control room, management offices and administration are housed in one building adjacent to the gatehouse. Spares are housed in a separate building on the site. The Plant is connected to the main interconnected transmission system at 132 kV.

Al Rusail has contracted all O&M activities at the power plant to STOMO.

Combustion turbines

The combustion turbines are all the same frame size but have been provided by different suppliers at different times. The EPC Contractors who built Al Rusail units prior to the privatization were MJB / GE / Alstom / BHEL, recognized as some of the world's leading suppliers of systems, components and services in the generation, transmission and distribution of power. The units at Al Rusail were installed in four phases between 1984 and 2000:

- Phase I consists of GTs 1, 2 and 3 the first being commissioned in 1984.
- Phase II consists of GTs 4, 5 and 6 the first being commissioned in 1987.
- Phase III consists of GT 7 commissioned in 1997.
- Phase IV consists of GT 8 commissioned in 2000.

As a result of technology improvements over time, the machines have different firing temperatures and spares are therefore not necessarily interchangeable between units.

Current shareholders:

As at 31 December 2019, the Company's issued and paid-up capital consists of 199,635,600 shares of 100 baizas each. The details of the shareholders are as follows:

		31 December 2019		
	Nationality	Number of shares held of nominal value 100 baiza each	% of total	Aggregate nominal value of shares held (RO' 000)
Kahrabel FZE	UAE	**61,637,490**	**30.875%**	**6,164**
Mubadala Power Holding Company Limited	UAE	**61,637,490**	**30.875%**	**6,164**
Civil Service Employees' Pension Fund	Omani	**15,158,016**	**7.593%**	**1,516**
Ministry of Defense Pension Fund	Omani	**12,910,443**	**6.469%**	**1,291**
Qalhat LNG SAOC	Omani	**10,000,000**	**5.009%**	**1,000**
Public		**38,292,161**	**19.179%**	**3,829**
		199,635,600	**100%**	**19,964**

Profile of Major Shareholders

Kahrabel F.Z.E.

Kahrabel oversees and manages the development, construction and operation of the electricity and water production business of ENGIE in the MENA region. It is an entity 100% owned directly by International Power S.A., which is itself indirectly wholly owned by International Power Ltd. International Power Ltd. is owned indirectly by ENGIE, global Energy and Services Group active in low-carbon power generation, global energy networks and customer solutions.

ENGIE employs 160,000 people worldwide and achieved revenues of 60.6 billion in 2018. Listed in Paris and Brussels (ENGI), the Group is represented in the main indices, both financial and CSR.

In the GCC, ENGIE is the leading independent power & water producer with 30 GW power production and 5.9 million m3/day potable water production to support the regional economies. It is the GCC's leading Facility Management provider and develops solutions to improve the energy performance & efficiency of buildings, industry, infrastructure and cities in the region.

From its regional HQ in Dubai, ENGIE continues to develop its three key businesses in a geographical scope that includes the Middle East, South & Central Asia and Turkey.

For more information about ENGIE, please visit www.engie.com

Mubadala Power Holding Company:

Mubadala Power Holding Company Limited is a wholly owned subsidiary of Mubadala Investment Company ('Mubadala'), a registered public joint stock company in the Emirate of Abu Dhabi.

Mubadala Investment Company actively manages a worldwide portfolio supporting the vision of a globally integrated and diversified economy, through sustainable returns to its shareholder, the Government of Abu Dhabi. In March 2018, Abu Dhabi Investment Council (ADIC) joined the Group.

Mubadala's US $225 billion portfolio spans five continents with interests in aerospace, ICT, semiconductors, metals and mining, renewable energy, oil and gas, petrochemicals, utilities, healthcare, real estate, defense services, pharmaceuticals and medical technology, agribusiness and a global portfolio of financial holdings. Mubadala is a trusted partner, an engaged shareholder and a responsible global company that is committed to ethics and world-class standards.

For more information about Mubadala please visit www.mubadala.com

Civil Service Employees' 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. The Fund is an independent government unit which has a juristic personality, an administrative and financial independence.

Ministry of Defense Pension Fund

Ministry of Defense Pension Fund ('MODPF') is a public legal entity in the Sultanate of Oman duly organized under, and registered pursuant to, Sultani Decree 87/93 issued on December 29, 1993. The MODPF 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.

Oman LNG (Qalhat LNG SAOC)

Oman Liquefied Natural Gas LLC ('Oman LNG') is a joint venture company established by a Royal Decree in 1994 and operates underPlant.png the laws of the Sultanate of Oman. The Company engages in the business of producing and selling Liquefied Natural Gas (LNG) and its by-product, Natural Gas Liquids (NGLs). Oman LNG undertakes, directly or indirectly, project operations and related activities essential to liquefy, store, transport and market Oman's natural gas and to deliver LNG to customers. The Company operates 3 liquefaction trains - at its site in Qalhat near Sur with a nameplate capacity of 10.4 million tonnes per annum (mtpa). The Company's activities contribute to the Government of Oman's objectives of diversifying the economy. Oman LNG's Liquefaction Plant is located on the coast at Qalhat near Sur in the South Sharqiyah Governorate and its head office is in Muscat.

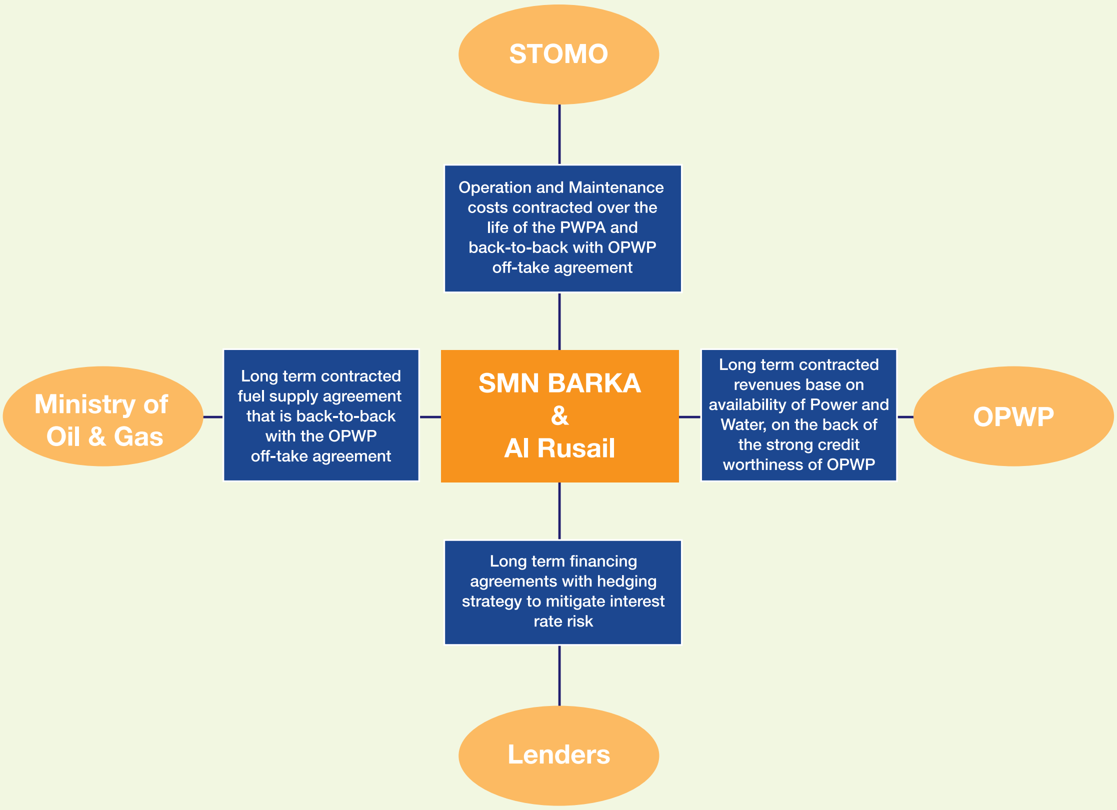
As of September 1, 2013, Oman LNG officially integrated with Qalhat LNG. The integrated entity operates under the name of Oman LNG.

Management Discussion and Analysis Report

Power industry structure and our business model

The Sector Law, promulgated by Royal Decree 78/2004, provides the regulatory framework for Oman's power and water industry. It stipulates the installation of a regulatory authority, the Authority for Electricity Regulation ('AER') the Electricity Holding Company ('EHC') / NAMA Holding, owned by the Ministry of Finance and owner of Oman Power and Water Procurement Company ('OPWP') which is the single buyer of water and power from all IPP/IWPP projects in Oman.

The business model of both project companies held by SMN Power Holding SAOG, i.e. SMN Barka Power Company SAOC and Al Rusail Power Company SAOC, is based on a strong contractual framework, with solid and reliable partners. Back-to-back contracts significantly reduce the risks over a long-term period. The supply of the output to the off-taker OPWP, the gas supply from MOG, the operation and maintenance of the plants by the operator STOMO and the financing of the project, are all guaranteed over a long-term period of 15 years for SMN Barka and 17 years for Al Rusail. Over this period (ending in March 2022 for Al Rusail and March 2024 for SMN Barka), the project companies are remunerated for their capacity and availability. Their profitability and ability to generate cash flows are independent of market fluctuation, commodity prices and market demand throughout the PWPA term.



The plants are operated and maintained under the terms of the O&M agreement with STOMO. The highest standards in terms of health, safety and operational excellence are applied, to ensure availability and efficiency. Interest rates volatility and impact on the financing expenses are mitigated through adequate hedging policies, in line with the requirements defined by the lenders in the Facility Agreements. Furthermore, the Company is benefiting from the strong track records of its original founders, reflected in the high level of experience of the Board of Directors, bringing significant value to both projects.

The power & water sector has witnessed some interesting developments in 2019:

- OPWP has published a request for proposal (RFP) in October 2019, inviting generators with expiring contracts in 2021/2022 such as Al Rusail to bid for a contract extension;
- OPWP is working with all generators for the introduction of a Spot Market with the objective to go live at the end of 2020;
- OPWP awarded a large solar PV project and bids invited for additional desalination projects.

These changes in the power & water sector signify potential opportunities for the company. With its strong operational track record and unique characteristics, SMN Power Holding and its affiliates are currently working hard to prepare the future for both plants in close collaboration with AER, OPWP, OETC, STOMO and other stakeholders.

Discussion on operational performance

Health, Safety and Environment

During 2019, SMN Power Holding and its subsidiaries have focused on Health, Safety and Environment ('HSE') as their primary objective.

Both SMN Barka and Al Rusail focused on preventing any injuries ('Zero Harm'), lost time accidents ('LTA'), first aid or medical treatment incidents using proactive measures such as HSE observations, fresh eyes observations and identification of unsafe conditions.

Regular HSE reviews together with STOMO ('O&M contractor') have produced significant improvements in the HSE culture at the plants, reaffirming to all employees that HSE is given the highest priority in our operations.

The overall HSE performance over 2019 was excellent, as no Lost Time Accident ("LTA") occurred. SMN Barka and Al Rusail Plants completed 4,443 and 3,967 days respectively without LTA as on the 31st December 2019. Many proactive actions undertaken by STOMO at both plants lead to such excellent accomplishment.

Zero harm objective;

Focus on behavioral based programs such as fresh eyes, toolbox talks, regular safety walks, emergency drills, training, safety committee meetings, HSE audits (internal & external);

Tracking of HSE observations and incidents using an integrated information system (' INTELEX');

OSHAS 18001 and ISO 45001 certifications retained at both plants, Al Rusail and SMN Barka.

Capacity:

The capacity of a plant is defined as the total electrical power (MW) and water (cubic meter per day), which can be delivered by the plant at reference site conditions.

The contractual capacity of SMN Barka under the Power and Water Purchase Agreement ('PWPA') for the year 2019 was 673.520 MW power and 120,000 m^3/day water. The

Annual Performance Test demonstrated that for both, power and water, the plant met the contractual requirements.

The contractual capacity of Al Rusail under the Power Purchase Agreement ('PPA') is 664.999 MW power. At the Annual Performance Test, the plant demonstrated its capability to meet the contractual capacity requirements.

Generation

During the year, Al-Rusail Power Plant exported a total of 1,524 GWh electrical energy while SMN Barka's power generation reached a total of 1,648 GWh and its water production amounted to 28,672 thousand cubic meters.

Reliability:

The reliability of the Plant is its ability to deliver the declared capacity, as per the contract.

In 2019, SMN Barka's reliability was 92.8 % for power and 99.1 % for water (97.1% and 93.4% in 2018).

The power reliability in Barka II was impacted by the gas turbine 3 blades damage in March 2019. The GT3 blades damage was seen during a routine inspection on 18th March 2019. The unit was brought back to service on 4th April 2019.

Another reason impacting the reliability of the power plant was the significant cycling of the plant which led to failure of some components and increased forced outage of the Heat Recovery Steam Generator. Fuel oil operation of the units was impacted due to the failure of the fuel oil distributor in gas turbines. A review of the cause of distributor failure and its rectification is in progress. SMN Barka is in communication with OPWP, AER and the Load Dispatch Centre to optimize plant cycling.

The water reliability was well maintained during the year. A Motor Control Center (MCC) impacted by fire in 2018 was replaced in October 2019 with a new MCC panel procured from original equipment manufacturer. The replacement work was carried using the planned outage allowance with no forced outage.

Al Rusail showed an excellent reliability of 99.9 % (99.5% in 2018).

Plant Efficiency (Heat Rate):

The efficiency of the power plant is measured in terms of the amount of energy consumed to produce one unit of electrical energy. SMN Power and ENGIE STOMO have focused on improving the heat rate in order to save gas for the country. The overall heat rates for both plants are in in line with the contract.

Maintenance and Improvements:

The following repair and maintenance activities were carried out during 2019:

- SMN Barka Power and Water Desalination Plant:
- Steam turbine 1 and 2 inspection and replacement of blades for stages 11 to 14;
- Annual inspection of gas turbines 1&2;
- The High Pressure (HP) pumps repair program continued and the repair of 13 HP pumps was completed;
- The repair of gas turbine 3 in which the blades were found damaged;
- Replacement of premix fuel distributor (spider) on gas turbine 1;
- RO plant Motor Control Centre replacement;
- Maintenance and repair of valves and critical lines of the RO plant;
- Maintenance and repair of critical valves on the Heat Recovery Steam Generators (HRSG).

- Al Rusail Power Plant:
- Annual Maintenance of gas turbines 1, 3, 5 and 6;
- Major inspection of GT7 ;
- Gas turbine 4 Hot Gas Path Inspection (HGPI) and compressor rotor replacement.

Al Rusail Power 2022 PPA extension project

OPWP confirmed Al Rusail as Qualified Bidder under the Request for Existing Plant Pre Qualification (REPPQ) process launched in June 2018. OPWP launched the next stage of the power procurement, Request for Purchase (RFP), in October 2019. This procurement process allows four Qualified Bidders, with PPA's expiring in 2021/2022, to tender for an extension from 4 to 15 years. Al Rusail Power Company is preparing for the submission of a competitive bid in accordance with the timeline set in the RFP documents. OPWP intends to procure a minumum of 300 MW and a maximum of 900 MW power capacity as per the criteria led down in RFP.

Discussion on financial performance

Financial Highlights

Profit and Loss (RO' 000)	2019	2018	Variance
Total Revenues	83,691	100,651	-16,960
Profit from Operations	15,668	16,714	-1,046
Finance charges	(7,335)	(8,457)	+1,122
Profit before tax	9,425	9,143	+282
Taxes	(1,468)	(1,285)	-183
Net Profit	7,957	7,858	99

Balance Sheet (RO' 000)	2019	2018	Variance
Non-current Assets	176,041	189,778	-13,737
Current Assets	52,584	21,635	+30,949
Total Assets	228,625	211,413	+17,212
Total Shareholders' Fund	48,825	40,870	+7,955
Hedging Deficit	(5,036)	(4,420)	-616

Other information	2019	2018	Variance
Net Profit to Revenue	+9.5%	+7.8%	+1.7%
Dividend paid	None due to cash sweep mechanism	19.0 bzs / share (Nominal value RO 0.100 / share)	-19.0 bzs / share (Nominal value RO 0.100 / share)

Analysis of the Profit & Loss

- **Total Revenues** in 2019 amount to RO 83.7 Million, representing a decrease of RO 17 Million compared to 2018. Total Revenues include variable revenues (Fuel Charge and Variable Operating & Maintenance Charge) and fixed revenues (Fixed Capacity Fees).

- The decrease in variable revenues from the previous year (-RO 16.7 Million) is due to the lower power dispatch of the plants by the authorities. The total power production was GWh 3,172 in 2019 (lower by 1,713 GWh compared to 2018), this reduction in power production has resulted in lower gas revenue in particular. Increase / decrease in variable revenues does not impact the profitability which is mostly generated by the Fixed Capacity Fees. In practice, the increase in variable revenues is almost entirely offset by the increase in variable costs for an equivalent amount.
- The decrease in Fixed Capacity Fees (-RO 0.3 Million) is due to the lower commercial availability in 2019 compared to the prior year. As described in the operational section, SMN Barka power plant was impacted by a higher level of forced outages.

• **The consolidated profit from Operations** reduced by RO 1 Million compared to 2018 mainly due to the following items:

- Outage delay on the overhaul of Steam Turbines 1&2 corresponding to a financial loss of RO 0.5 Million;
- Repair costs on GT3 including blades replacement causing a loss of RO 0.6 Million;
- Increased repair and maintenance costs of RO 0.5 Million as certain parts were damaged due to the high cycling of the plant;
- The negative impact of the above mentioned events were partially offset by improved water availability compared to 2018. As a reminder, the water production of Barka II in 2018 was severely affected by the presence of phytoplankton in seawater resulting in high force majeure (RO 0.3 Million) and by an incident in the water plant switch room causing forced outage (RO 0.3 Million).

• **Finance charges** have reduced by RO 1.1 Million compared to 2018 following the scheduled repayments of the term loan facilities for the two project companies and by lower interest rates having a favorable impact on the unhedged portion of the loans.

• **The consolidated net resul**t for the period ended 31 December 2019 amounts to RO 8 Million.

No dividend distribution during the year

As previously disclosed and in line with the financing arrangements disclosed during the IPO, the cash sweep mechanism (accelerated repayment of the debt) started on 30 September 2018 for SMN Barka, similar to the mechanism already in place for Al Rusail since 30 September 2016. As a consequence, the excess cash generated by the project companies is now paid to the lenders and will not flow to the Shareholders until the loans are fully settled, expected in 2022 for Al Rusail and 2026 for SMN Barka, or until the time the loans can be restructured.

As explained earlier, the Company is preparing for the future of Al Rusail and SMN Barka power plants. Both plants are working closely with AER, OPWP and all stakeholders of the power sector on any opportunity to extend the P(W)PA agreement and in parallel work on implementation of the spot market.

Based on market conditions and possible P(W)PA contract extensions, the Company will strive to restructure the debt in the coming years, remove or defer the cash sweep in order to allow further dividend distribution.

Analysis of the Balance Sheet

The total consolidated assets amount to RO 228.6 Million as at 31 December 2019.

The reduction in Non-Current Assets is driven by the depreciation of the plant (fixed assets), receipts of the finance lease and the payment of the senior debt installment and interests as scheduled.

The increase in Current Assets is due to the delay from OPWP on the payment of the Fuel Charge from the monthly invoices for both SMN Barka and Al Rusail plants. As per the Natural Gas Sale Agreement (NGSA) signed by the Company with the Ministry of Gas ('MOG'), the Company will pay the gas invoices to MOG once OPWP releases the corresponding Fuel Charge payments. The Company is therefore protected thanks to these back to back arrangements, as the increase in receivables is offset by a corresponding increase in payables.

The hedging reserve, net of deferred tax, is negative by RO 5.0 Million by end of 2019. The negative variance (- RO 0.6 Million) with respect to last year's balance (RO -4.4 Million) results from the decrease in forward interest rates. As per IFRS 9, the fair value of financial instruments has to be calculated at each balance sheet date. Such deficit represents the lack of opportunity for the future would the Company have not been hedged at the inception of the project and exposed to interest rate volatility. Considering the obligations defined in the Facility Agreements, the Company however is not allowed to be fully exposed to market volatility. Such deficit does not impact the future profitability of the Company.

The Company repaid installments of its long-term loans in accordance with the contractual repayment schedule and has met all its obligations under its bank covenants.

Omanisation

The Ministry of Manpower has issued a Ministerial Decision No 248/2014 ('MD'), published in the Official Gazette on 14th September 2014, and effective on the day following its publication, by means of which the Ministry has revised the Omanisation percentage to be achieved in private sector enterprises operating in the electricity and water sectors.

Omanisation is a principle the Company has embraced and being implemented since its inception. The MD has only triggered adjustments to the Omanisation strategy. The Company's approach is built around a revised succession plan and opportunities for Omani employees for incremental responsibility, while maintaining opportunities for experience and expertise transfer between the employees.

Risks and concerns

Technological risk

The technological risk is considered low as the Plant uses proven technology from renowned international suppliers (mainly Siemens in Barka II and GE in Al Rusail). In order to mitigate this risk, the Company ensures and monitors that STOMO operates and maintains both plants in line with best practices in the industry and as per maintenance schedule outlined by the OEMs.

Availability loss due to Accidental Damage

The Company ensures that adequate insurance policies are in place to protect the business against any property damage and loss of income arising from accidental damage.

Availability loss due to Heavy Cycling of the plants

SMN Barka has faced heavy cycling with an increased number of start and stop of the plant over the last four years. Such heavy cycling has been detrimental to the plant's equipment resulting in an increased failure rate. In order to mitigate this risk, the Company has increased its predictive and preventive maintenance.

SMN Barka has liaised with OPWP, AER and the Load Dispatch Centre to optimize the cycling of the plant.

Ongoing disputes with the Oman Tax Authority:

For Al Rusail

The Company has disputed the Tax Authority's position to disregard the application of the finance lease principle for tax purposes. For the tax year 2007, the Tax Committee confirmed twice (in 2015 and 2016) the acceptance of the Finance Lease principle adopted by the Company.

For the tax years 2008 & 2009, the Tax Authority assessed the Company based on the 'Fixed Asset Model', instead of the Finance Lease principle. The Company filed an appeal to the Tax Committee for the years 2008 and 2009 in line with its position for the year 2007. In its final decision on 28 December 2017, the Tax Committee ruled in favor of the Tax Department for the tax years 2008 and 2009 deviating from its previous ruling which accepted the finance lease model.

The Company filed a case with the Primary Court to challenge the decision of the Tax Committee for the years 2008 and 2009. The Primary Court, however, rejected the Company's appeal in April 2018. The Company filed an appeal with the Appeal Court in May 2018. The Appeal Court also, in its judgment dated 28 October 2018, rejected the Company's case against the Tax Committee. The rejection of the Company's case by the Appeal Court does not result in any additional tax payment for the tax years 2008 and 2009 as the Company will be in a tax loss position for these years as per the tax assessments issued by the Tax Authorities. The Company filed an appeal with the Supreme Court in December 2018 as it believes it has a strong case to present.

For SMN Barka

The dispute with the Tax Authority relates to the disallowance of Liquidated Damages ('LDs') to the off-taker OPWP, although Liquidated Damages received from the subcontractor Doosan were taxed in the hands of the Company for the Tax Year 2009. The Tax Committee in its decision dated 19th December 2019 has ruled in favour of the Tax Department based on the view that LDs paid to OPWP are in the nature of a "penalty" and that penalties are not deductible expenses for tax computation.

The Company has explained the nature of Liquidated Damages ('LD') and why it would be consistent to consider both LD's received and LD's paid. Liquidated Damages represent a monetary compensation to be paid by a party to another party of the contract due to non-fulfillment of a contractual obligation. In construction contracts, it is generally a mandatory provision to safeguard each party's interest.

The Power and Water Purchase Agreement (PWPA), signed by the Company with OPWP, also contains the mandatory LDs provisions. As per these provisions, LDs would be levied if the Company does not meet the scheduled dates for early power period and Scheduled Commercial Operation Date (SCOD). The EPC contract signed by the Company with the EPC contractor Doosan also contains similar provisions i.e. the Company would impose LDs on Doosan if it does not complete the construction within the due date.

Due to delay in achieving the commercial operation dates, OPWP imposed LDs on the Company in accordance with the terms of the PWPA and the Company in turn imposed LDs on Doosan in accordance with the terms of the EPC contract. Oman Civil Code also mentions that LDs are commercial agreements and not in nature of penalty.

Despite this clear justification, the Tax Authorities, whilst taxing the LDs income fully for the tax year 2009, have disallowed the deduction for LDs expense.

Based on the advice from its tax and legal consultants, the Company has decided to file an appeal before the Primary Court.

Internal control systems

The Company believes in a rigorous internal control system. The control environment has been further reinforced during 2019 by continuously enhancing the organization and further implementing policies and procedures in line with the code of corporate governance and industry best practices.

The Audit Committee was pleased with the progress achieved over the year and satisfied with the Internal Audit organization of the Company combining the efforts of the in-house Internal Auditor supported by a reputable specialized firm.

Outlook - opportunities and challenges

Management will liaise with OPWP, AER and the Load Dispatch Centre to optimize the cycling of the plant. Management will work on improving the plant availability at SMN Barka by working closely with the O&M contractor while aiming to maintain the high availability at Al Rusail.

The Company will prepare for the future of Al Rusail and SMN Barka power plants:

- For Al Rusail the main objective in 2020 is to make all possible efforts to obtain a new PPA term for 2 units, GT7 & 8, beyond March 2022. Securing a new PPA is key for Al Rusail. In parallel, the Company is preparing a retirement plan for GT1 to 6 as those old gas turbines will not meet the emissions' benchmark required for a new environmental permit. The investment required to upgrade those GT's (installation of Dry Low NOx combustion) is also economically prohibitive.
- For SMN Barka, the Company will work closely with AER, OPWP and all stakeholders of the power and water sector on any opportunity to extend the PWPA agreement and in parallel work on the implementation of the spot market. The Company will also continue the development and implementation of plant efficiency improvements.
- The spot market is expected to go live by end of 2020 or early 2021. While both Al Rusail and SMN Barka will participate in the implementation of the spot market, such implementation will have no impact on the Company's cash-flows in the next financial year as both Al Rusail and SMN Barka will remain under the P(W)PA framework.

As previously disclosed and in line with the financing arrangements during the IPO, the cash sweep mechanism (accelerated repayment of the debt) started on 30 September 2018 for SMN Barka, similar to the mechanism already in place for Al Rusail since 30 September 2016. As a consequence, the excess cash generated by the project companies is now paid to the lenders and will not flow to the Shareholders until the loans are fully settled in 2022 for Al Rusail and 2026 for SMN Barka, or until the time the loans can be restructured. The P(W)PA extension projects for both Al Rusail and SMN Barka will be a key factor to potentially restructure the debt in the coming years, remove or defer the cash sweep and allow further dividend distribution.

Corporate Social Responsibility Report

SMN Power wants to be a responsible corporate citizen. Our CSR policy focuses on initiatives in the areas of society, environment and economy with sustainability at the heart.

At the AGM held on 10th March 2019, the Shareholders approved an amount of RO 30,000 for CSR activities during the year 2019. As part of SMN's commitment towards the society, the Company has supported the following initiatives:

	Project Description	Amount (RO)
1	Solar PV renewable energy project at Qutaibah bin Muslim School in Al Kamil	15,000
2	Hydroponics project at Omayma Bint Abdul Mutalib Basic Education School in Al-Khaburah	6,900
3	Tree Plantation Project by the beach beside SMN Barka Power Plant	4,600
4	Sponsor for the autism conference	3,000
5	Sponsor for the Engineering gathering at Sultan Qaboos University	500
6	IT equipment's donated to Al Rahma Charity Association	N/A
	Total	**30,000**

Solar PV renewable energy project at Qutaibah bin Muslim School in al Kamil

In continuation of the joint initiative between SMN Power Holding with Al Suwadi Power Company, Al Batinah Power Company and Al Kamil Power Company, the Company is developing a new Solar PV project at Al Kamil. Qutaibah bin Muslim School has been selected by the Ministry of Education based on their strategy and the project is currently in final stage of discussion with the three bidders. Once the contractor is selected the agreement will be signed with the Ministry of Education to start the project implementation.

Tree Plantation Project by the beach beside Barka Power Plants

In order to develop a sustainable project close to SMN Barka power plant, the Company initiated discussions with Barka Municipality for the plantation of trees besides SMN Barka Power and Water Plant. The proposal was accepted by the Municipality. After scrutinizing the bids for the project, the contract was given to M/s. Rehannat Al Hadaiq Trading and the tree plantation work was completed. 240 samplings, primarily local tress like Ghaf are planted and the contractor has the responsibility to maintain the trees for 1 year to ensure high survival rate.

Sponsorship for the Autism Conference

SMN Power has participated in the sponsorship for the Autism conference. The objective is to increase the awareness about autism, train healthcare personnel and families of the patients. An amount of RO 3,000 was donated for this initiative.

Hydroponics project at' Omayma Bint Abdul Mutalib Basic Education School

A new project selected by the Ministry of Education for Hydroponics Project was at Omayma Bint Abdul Mutalib School (1-10) in the Wilayat of Al Khaboura in North Batinah Governorate. SMN has committed to cover the whole cost of RO 6,900 for this project. The agreement was signed with the Ministry of Education and the project was assigned to M/s AFNAN AGRICULTURE SERVICES.

Sultan Qaboos University Engineering Gathering

The Company participated in the sponsorship of an engineering forum at the Sultan Qaboos University. An amount of RO 500 was contributed towards prizes distribution for the best project. A technical manager from SMN was part of the evaluation panel and shared his experience with the students.

Donation of IT equipment's

In line with the policy approved by the Board, SMN Power has donated used laptops, desktops and accessories to Al-Rahma Charity Association.

EY
Building a better working world

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

REPORT OF FACTUAL FINDING

TO THE SHAREHOLDERS OF SMN POWER HOLDING 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 SMN Power Holding SAOG (the "Company") as at and for the year ended 31 December 2019 and its application of the corporate governance practices in accordance with amendments to CMA's 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 2019. 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 SMN Power Holding SAOG to be included in its annual report for the year ended 31 December 2019 and does not extend to any financial statements of SMN Power Holding SAOG, taken as a whole.

Ernst & Young LLC

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ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Muscat
22 February 2020

Corporate Governance Report

The Board of Directors and Management of SMN Power Holding SAOG ('SMN Power' or 'the Company') hereby present the Corporate Governance Report for the year ended 31 December 2019.

Company's Philosophy

The Company's Corporate Governance philosophy is based on three main components:

- Transparency towards internal and external stakeholders;
- Strict observance of laws, permits and regulations;
- Display of the highest ethical standards in conducting its business.

The Company has embraced the rules and practices issued by the code of corporate governance by which the Board of Directors of the Company ensures accountability, fairness, and transparency in a company's relationship with all its stakeholders (shareholders, management, employees, lenders, customer, suppliers and the community).

The Company's regular review of corporate structures, policies and processes ensures that the highest standards are adopted and implemented, consistent with local and international governance requirements and principles.

The Company has recently analysed the changes made to the Commercial Company Law vide Royal Decree 18/2019 and has amended its Articles of Association accordingly. The amended Articles of Association will be submitted for Shareholders' approval during the EGM to be held on 24th March 2020.

In accordance with the rules and guidelines issued by the Capital Market Authority ('CMA'), the Company's statutory auditors, EY, have issued a separate report on the Company's Governance Report for the year end 31 December 2019.

The Board of Directors

The Board of Directors is composed of seven non-executive members:

- Dr. Abdullah Al Yahya'ey (Chairman)
- Mr. Quentin des Cressonnières (Vice-Chairman)
- Mr. Imran Sheikh
- Mr. Hamad Al Hammadi
- Mr. Ahmed Al Shamsi
- Mr. Ahmed Al Zakwany
- Mr. Khamis Al Balushi

Composition and Attendance of Board Members for Board Meetings during 2019:

Name of Directors	Category of Directors	21 Feb	2 May	24 Jul	31 Oct	Total	AGM 22 Mar
Dr. Abdullah Al Yahya'ey (Chairman)	Non-Executive & Non-Independent	✓	✓	✓	✓	4	✓
Mr. Quentin des Cressonnières (**) (Vice-Chairman)	Non-Executive & Non-Independent	–	–	✓	✓	2	
Mr. Imran Sheikh	Non-Executive & Independent	✓	✓	✓	✓	4	
Mr. Ahmed Al Zakwany	Non-Executive & Independent	✓	✓	✓	✓	4	
Mr. Hamad Al Hammadi	Non-Executive & Non-Independent	✓	✓	✓	proxy	3	
Mr. Ahmed Al Shamsi	Non-Executive & Non-Independent	✓	proxy	✓	✓	3	
Mr. Khamis Al Balushi (**)	Non-Executive & Independent	–	✓	✓	✓	3	
Mr. Hamed Al Maghdri (*) (Vice-Chairman)	Non-Executive & Non-Independent	✓	✓	–	–	2	
Mr. Juma Al Khamisi (*)	Non-Executive & Independent	✓	–	–	–	1	

(*) Resigned or replaced during the year
(**) Appointed during the year

Directorship / Membership in Other Public Companies (SAOG) in Oman:

None of the current Directors hold a directorship or membership in other public companies.

The profiles of the Directors and senior management team are included as an annexure to the Corporate Governance Report.

The Audit Committee

The primary function of the Audit Committee is to provide independent assistance to the Board in fulfilling their oversight responsibility to the shareholders, potential shareholders, the investment community and other stakeholders relating to:

(i) The integrity of the company's financial statements and accounting and financial reporting processes;

(ii) The effectiveness of the Company's risk management and internal control systems;

(iii) The performance of the company's internal audit function;

(iv) The qualifications and independence of the external auditors; and

(v) The Company's compliance with ethical, legal and regulatory requirements.

The Audit Committee comprises of 3 Directors appointed by the Board and meets at least 4 times annually, reporting to the Board of Directors.

All members of the Audit Committee are non-executive, the majority of whom are from the Board's independent directors.

In line with the above responsibilities, the Audit Committee has encouraged Management to engage in continuous improvement of, and foster adherence to, the Company's policies, procedures and practices at all levels. The Committee has provided an open channel of communication between the external and internal auditors, Management, and the Board.

As required by Article 27 of the Decision No. 18/2018 issued by Capital Market Authority (CMA), an external assessment of the Internal Audit Unit of the Company was carried out for the year 2019 by MGI Vision Chartered Accountants (the Consultants). The Consultants concluded that the internal audit activities of the Company Generally Conform to the regulations of CMA's Decision No. 10/2018 relating to internal audit activity and to the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA).

The Consultants also provided recommendations to enhance the effectiveness of the Internal Audit function and enable the Company to reach the full level of conformity with the requirement of the Decision No. 10/2018 issued by CMA and standards of IPPF issued by IIA. The recommendations of the Consultants will be considered by the Company.

Composition of the Audit Committee and Attendance in 2019:

Name of Committee Members	Position					
		21 Feb	1 May	24 Jul	31 Oct	TOTAL
Mr. Imran Sheikh	Chairman	✓	Proxy	✓	✓	3
Mr. Hamad Al Hammadi	Vice-Chairman	✓	✓	✓	_	3
Mr. Ahmed Al Zakwany	Member	✓	✓	✓	✓	4

Nomination & Remuneration Committee

The primary purpose of the Nomination and Remuneration Committee ('NRC') is to assist the general meeting in the nomination of proficient and high caliber directors, to prepare job descriptions of the directors including the Chairperson of the Board, to develop a succession plan for the Board and the executive management and to propose a proper remuneration and incentives policy to attract competent executive management.

The NRC comprises of 3 Directors appointed by the Board and meets at least 2 times annually, reporting to the Board of Directors.

All members of the NRC are non-executive.

Composition and Attendance of NRC Members during 2019:

Name of NRC Members	Position	Meetings Held and Attended during 2019			
		8 Feb	24 Jul	9 Oct	TOTAL
Mr Ahmed Al Zakwany	Chairperson	✓	✓	✓	3
Dr. Abdullah Al Yahya'ey	Member	✓	✓	✓	3
Mr Hamed Al Maghdri (*)	Member	✓	--	--	1
Mr. Quentin des Cressonnières (**)	Member	--	--	✓	1

(*) Resigned during the year
(**) Appointed during the year

During the course of 2019, the NRC Members:

- reviewed the performance of the Executive Management for the year 2018 based on the performance-based criteria approved by the Board;
- reviewed the 2019 performance-based criteria for the Executive Management and recommended the criteria for Board approval;
- reviewed and approved the succession planning for the Executive Management (CEO and CFO) and Directors;
- reviewed the remuneration of the Directors for the year 2018 and recommended the proposal to the Board of Directors who in turn recommended to the Shareholders for approval.
- reviewed the suitable training courses for the Directors;

As requested by the Board, they additionally reviewed the progress of the Omanisation plan at all levels of the Company.

Process of Nomination of the Directors

Directors are selected as per the Articles of Association of the Company at the Annual General Meeting ('AGM'). The Board of Directors was elected on 28th March 2017 for the term of three years. The next full re-election will take place at the AGM to be held on 24th March 2020.

In accordance with the requirement of the Code and the Articles of Association of the Company, the following shall be observed on the formation of the Board:

(i) All directors shall be non-executive directors;

(ii)At least one third of the directors shall be independent.

The opinion of the Nomination and Remuneration Committee is taken into consideration when electing directors to ensure that the directors possess the required attributes and professional competencies.

Remuneration Matters

a) Directors – Remuneration / Attendance Fee

As per Article No. 42 of Articles of Association and administrative decision 11/2005 issued by CMA, the Company was entitled to pay directors' remuneration, sitting fees and sub-committee sitting fees equivalent to not more than 5% of calculated net profit.

During the AGM held on 22 March 2019, the shareholders approved sitting fees of RO 400 for the Board of Directors, RO 200 for the Audit Committee and RO 200 for the NRC. The sitting fees are payable to the Board, Audit Committee and NRC members for attending the meetings either in person or over video conferencing system.

Sitting fees for the year 2019 paid to the Directors attending the Board of Directors, the Audit Committee and the Nomination and Remuneration Committee amounted to RO 14,400.

The shareholders also approved during the AGM the payment of Directors' remuneration for an amount of RO 35,000 for the financial year ended 31 December 2018.

b) Top Officers of the Company

The Company paid to its top 5 officers an aggregate amount of RO 371,000.

The remuneration paid is commensurate with the qualification, role, responsibility and performance of the officers during the year 2019.

Non Compliance by the Company

There were no penalties or strictures imposed on the Company by CMA, MSM or any other statutory authority on any matter related to capital markets during the last three years.

Means of Communication with Shareholders and Investors

The Company communicates its financial results and material information by uploading the same on the MSM website. The Company is committed to publishing its quarterly unaudited financial results and annual audited results in two newspapers, English and Arabic. The annual accounts and the Directors' report are dispatched to all the shareholders by mail as required by law and are also available at the Company's Head Office. The Company discloses its initial and unaudited financial results by uploading the same onto the MSM website. The Company is available to meet its shareholders and their analysts as and when needed.

The SMN Power has a website at www.smnpower.com and the financial results are posted when required.

The Management Discussions and Analysis Report appended to this report provides a fair presentation of the affairs of the Company.

Market Price Data

The Company was listed on the Muscat Securities Market as from 23 October 2011.

The monthly high/low prices of the Company shares over the year 2019 are as shown below:

Month	High	Low	Average	MSM 30 Index
Jan-19	0.261	0.192	0.257	4,166.47
Feb-19	0.192	0.154	0.187	4,144.47
Mar-19	0.192	0.154	0.187	3,983.66
Apr-19	0.116	0.116	0.116	3,945.64
May-19	0.093	0.093	0.093	3,934.15
Jun-19	0.090	0.261	0.084	3,884.91
Jul-19	0.084	0.082	0.084	3,760.63
Aug-19	0.082	0.082	0.082	4,004.86
Sep-19	0.082	0.070	0.080	4,017.69
Oct-19	0.070	0.071	0.077	3,999.88
Nov-19	0.069	0.070	0.074	4,064.14
Dec-19	0.071	0.070	0.069	3,981.19

Since the listing of the Company on 23 October 2011, a total amount of 289 bzs / share (on the basis of nominal value of RO 0.100 per share after the stock split) has been distributed to the Shareholders of the Company who subscribed to the share during the Initial Public Offer (IPO) in October 2011 and still held those shares by 1 May 2019. This level of paid dividend has exceeded the IPO projection which was 261 bzs per share (on the basis of nominal value of 100 bzs/share after the stock split).

As previously disclosed and in line with the financing arrangements disclosed during the IPO, the cash sweep mechanism (accelerated repayment of the debt) started on 30 September 2018 for SMN Barka, similar to the mechanism already in place for Al Rusail since 30 September 2016. As a consequence, the excess cash generated by the project companies is now paid to the lenders and will not flow to the Shareholders until the loans are fully settled, expected to be in 2022 for Al Rusail and 2026 for SMN Barka, or until the time the loans can be restructured.

As explained earlier, the Company is preparing for the future of Al Rusail and SMN Barka power plants. Both plants are working closely with AER, OPWP and all stakeholders of the power sector on any opportunity to extend the P(W)PA agreements. Al Rusail has taken part in the Power 2022 procurement process and is a qualified bidder. SMN Barka will participate in a similar process called Power 2024 which will be released in the coming months. In parallel, Al Rusail and SMN Barka are also working with all stakeholders in the preparation and implementation of the spot market.

Based on market conditions and possible P(W)PA contract extensions, the Company will strive to restructure the debt in the coming years, remove or defer the cash sweep in order to allow further dividend distribution.

Distribution of Shareholding

The distribution of shareholding of SMN Power Holding SAOG as at 31 December 2019 was as follows:

CATEGORY	Number of Shareholders	Number of shares held	Share capital %
Less than 5%	290	38,292,161	19.18%
5% to 10%	3	38,068,459	19.07%
10% and above	2	123,274,980	61.75%
Total	295	199,635,600	100.00%

Professional Profile of Statutory 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 4,889 partners and approximately 124,318 professionals. Globally, EY operates in more than 150 countries and employs 328,597 professionals in 700 offices. Please visit ey.com for more information about EY.

Acknowledgement by the Board of Directors

The Board of Directors accepts the responsibility for accurately preparing the financial statements in accordance with International Financing Reporting Standards ('IFRS') and International Accounting Standards ('IAS') in order to fairly reflect the financial position of the Company and its performance during the relevant financial period.

The Board, through the Audit Committee, confirms that it has reviewed the Company's system of internal controls and that adequate internal controls are in place, which are in compliance with the relevant rules and regulations.

The Board of Directors confirms that there are no material matters that would affect the continuity of the Company, and its ability to continue its operations during the next financial year.

Brief Profiles of Directors

Name	Dr. Abdullah Al Yahya'ey Elected Chairman in 2017
Year of Joining	2011
Education	Dr. Abdullah Al Yahya'ey received his undergraduate degree from the University of Qatar, a graduate degree from the University of Wales, a graduate degree from the University of London and a doctorate degree from the University Of Dundee.
Experience	Dr. Abdullah Al Yahya'ey is the Country President of Mubadala Development Company's (MDC) Oman Representative Office ('ORO'). He has been occupying this position since joining MDC in September 2007, and since his appointment, he has made significant achievements in setting up the Mubadala ORO, managing Mubadala interest in Mukahizna Enhancement Oil Recovery project, Habiba Gas Exploration & Development and block 54 Exploration and Production Sharing Agreement, and contributing to various MDC and Mubadala Petroleum new business development opportunities worldwide. From 2014 to 2016, he was also endorsing the responsibilities of Country President of Mubadala Petroleum (MP) in Kazakhstan and Russia. Since July 2015 he is the Chairman for MP Tender Board Committee and since September 2016 he is also the Chairman of the Board of Directors of Tabreed Oman SAOC. He also supports Masdar business development opportunities in Oman and in particular the Wind farm Project in Southern Oman. Prior to working for Mubadala, he occupied from 1998 to 2007 several leadership positions in the Oman Ministry of Petroleum and Minerals and the Ministry Oil and Gas.

Name	Mr. Quentin des Cressonnières Vice-Chairman
Year of joining	2019
Education	Mr. Quentin des Cressonnières holds an MBA from Solvay Business School, Brussels.
Experience	Mr. Quentin des Cressonnières is Head of Asset Management Kuwait & Kingdom of Saudi Arabia and Board member of Engie power & water assets in the Middle East. Previously General Manager of ENGIE Services Kuwait, he focused on Energy Efficiency and Facility Management solutions, as well as hybrid solutions and renewable projects. Prior, Quentin was Chief Financial Officer of Shamal Azzour, Kuwait's first Independent Water and Power Project (IWPP). He has been involved in the power sector in Europe and Middle East for more than 12 years. Since 2012, he participated to the development, financing and the management of the construction phase of Azzour.

Name	Hamad Al Hammadi
Year of Joining	2017
Education	Bachelor in Accounting and Finance (2006).
Experience	Mr. Hamad Al Hammadi brings a wealth of experience in deal sourcing, value creation, turnarounds, and mentorship. With more than 15 years of industry experience, he has helped in creating high profile projects across multi-sectors including Utilities, Real Estate and Finance.

Name	Ahmed Al Shamsi
Year of Joining	2017
Education	Master Degree, University of Manchester (2014) specialized in International Development, Public Policy and Management. Bachelor Degree, University of Manchester (2009) in Economics and Social Studies.
Experience	Mr. Ahmed Al Shamsi has over 10 years of experience in the development management of regional and international projects in the industry. He has been working since 2009 in Business Development and Asset Management for Mubadala Investment Company in Abu Dhabi, and is currently Vice-President managing several key investments for the Company.

Name	Imran Sheikh
Year of Joining	2015
Education	Mr. Imran Sheikh holds an MBA from Manchester Business School, UK. He is a qualified accountant with fellow memberships of UK chartered accountancy bodies of CIMA and ACCA, and holds the designation of Chartered Financial Analyst from the CFA Institute, USA.
Experience	Mr. Imran Sheikh has worked for twenty four years, as a senior Financial Officer in the power and water industry in the GCC and Pakistan. He started his career in the IWPP/IPP in 1996 with International Power group at Hub O&M, Pakistan. He moved to Shuweihat CMS International Power Company in Abu Dhabi in December 2002, where he served for three years. He then joined Qatar Power Company, Qatar, in January 2006 firstly as a Business Manager and later on as Chief Financial Officer. In July 2019, he moved, in a senior leading finance role, to Fujairah Asia Power Company (also called Fujairah F2) which is a power generation and seawater desalination plant with 2,000 MW of net power capacity and 130 MIGD of net water capacity.

Name	Ahmed Al Zakwany
Year of Joining	2014
Education	Mr. Ahmed Al Zakwany is a Fellow Chartered Accountant (FCCA) – UK coupled with Executive Education from London Business School.
Experience	Mr. Ahmed Al Zakwany is currently Deputy CEO for Qalhat LNG and Chief Financial Officer for Oman LNG. He started his career in Oman's Ministry of Defence where he joined as a Junior Auditor before becoming the Chief Internal Auditor. In 2006, he moved to the private sector and joined Oman LNG as Chief Internal Auditor. He subsequently occupied a number of positions before being appointed as Chief Financial Officer in February 2016. Ahmed has over 25 years of experience covering Audit, Finance, Corporate Governance, Control Framework, and possesses solid leadership, professional excellence, boosted by robust people management skills. His strong qualities both technically and professionally, enabled him to be appointed as the Oman LNG and Qalhat LNG Integration Director in 2013 ushering a new era of Oman's LNG industry. In 2014, Ahmed was awarded the 'Best Finance Executive of the year 2014' by the CFO Strategies Forum for MENA.

Name	Khamis Al Balushi
Year of Joining	2019
Education	Diploma in Banking Studies from Institute of Banking and Financial Studies, Muscat, Oman, 1987, Advanced Diploma in Marine Military Sciences from Britannia Royal Naval College, Dartmouth, UK, 1991, and Bachelor of Military Sciences from the Command and Staff College. At Bait Al Falaj, Muscat, Sultanate of Oman, 2009.
Experience	Mr. Khamis Al Balushi is currently the Director of Finance of the Royal Navy of Oman. He is also a representative of the Royal Navy of Oman as a member of the Executive Committee of the Ministry of Defense Pension Fund. He has been working in the Ministry of Defense for over 30 years in which he held various positions in the various Ministry of Defense formations, in addition to passing several courses in administration, supplies, procurement, strategic studies & analysis and finance from prestigious institutes and colleges in the UK, USA, Pakistan, Malaysia and Turkey.

Brief Profile of the Management Team

SMN Power is led by a Management Team who is relying upon a team of professionals managing SMN Barka Power Company and Al Rusail Power Company.

In addition to a team at SMN Power and Affiliates level, a team of qualified and experienced people within STOMO manage the operations and maintenance at both plants.

The senior management team has been empowered by the Board of Directors of the Company to manage the day-to-day operations of the Company and its affiliates. The team benefits from the local and international support of its shareholders.

Name	Sachin Abhyankar
Date of Joining	Chief Executive Officer since 1 March 2019
Education	Mr Sachin Abhyankar holds a Post Graduate Diploma in International Business, a Diploma in Finance Management and a Bachelors' degree in Mechanical Engineering.
Experience	Mr. Sachin Abhyankar has over 25 years of experience in the business development, construction, commissioning and O&M in the power & water industry. After graduating, he joined Essar power in India before moving to Sharjah electricity and water authority. He shifted to AES Barka in 2002, starting with commissioning and taking incremental responsibility in Operation and Maintenance, to become maintenance manager. In 2008, he moved to Singapore with AES Climate Solutions, developing emission reduction projects in South East Asia. Strong techno-commercial experience enabled Sachin to move to Business Development in Dubai in 2012, working on major bids in thermal, wind, solar and RO desalination sector.

Name	Olivier Tabone
Date of Joining	January 2015 – Chief Financial Officer
Education	Mr. Olivier Tabone holds a Master's Degree in Management and Accounting from Toulouse Business School, France ('Grande Ecole' Programme - 1998). He is also a Chartered Management Accountant (CIMA - UK).
Experience	Mr. Olivier Tabone has over 20 years of experience in financial management at both Corporate and Asset levels, in large multinational corporations and has worked in several countries (France, UK, Germany, UAE and Oman).
	He began his career in 1998 working for Faurecia Automotive, firstly in Germany as Plant Assistant Controller and later on in Paris as Financial Controller of the GM/Ford programmes. He joined Safran Landing Systems (Messier-Dowty) in 2002 at the Head Office in Paris working as Finance Manager for the Airbus Programmes and was later seconded to the UK business in Gloucester as Finance Manager in charge of the planning and reporting activities. He subsequently joined GKN Aerospace (a subsidiary of GKN PLC) as Finance Director of the major facility based on the Isle of Wight (UK), where he was responsible for all financial activities of a site of 1000 employees. He joined Mubadala in 2010 as Vice-President Finance in charge of financial planning and business performance for the Aerospace Unit. He also played a key role in several business development and restructuring activities, including the transfer of Abu Dhabi Aircraft Technologies (ADAT) to Etihad Airways and the carve-out of the engine business.

Name	Anupam Kunwar
Date of Joining	June 2016 – Chief Technical Officer
Education	Bachelor Degree in Electrical Engineering, Maulana Azad National Institute of Technology, Bhopal, India. Level 3 certificate in First Line Management, ILM , UK.
Experience	Mr. Anupam Kunwar joined SMN Power in June 2016 and has worked within ENGIE Group of companies since 2007. He worked with ENGIE STOMO from 2007 until May 2016 as Maintenance Manager for Rusail Power Plant and then Barka 2 Power and Desalination Plant. Previously, he worked for Enron Corporation and Tata Chemicals in India. Mr. Anupam has over 25 years of professional experience in O&M, construction and commissioning of Power and desalination plants In India and the Middle East.

Name	Zoher Karachiwala
Year of Joining	2007 – Company Secretary
Education	Bachelor Degree in Commerce, Chartered Accountant.
Experience	Mr. Zoher Karachiwala is the Company Secretary. He is also the Chief Executive Officer of United Power Company SAOG and Company Secretary of Sohar Power Company. He has over 40 years of experience in the field of Statutory Audit, Accounting and Finance. He was KPMG Audit Partner in Pakistan before joining United Power Company in 1995. Acted as Honorary Chairman of Audit Committee and the Board of Directors for a public company in Oman.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SMN POWER HOLDING SAOG

Report on the audit of the consolidated and parent company financial statements

Opinion
We have audited the consolidated and parent company financial statements (the "financial statements") of SMN Power Holding SAOG (the "Company") and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2019, and their statement of 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 consolidated financial position of the Group and separate financial position of the Company as at 31 December 2019 and their respective financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis of 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 Code of Ethics for Professional Accountants (including International Independence Standards)* (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.

Emphasis of matter
We draw attention to Note 20 to the consolidated and parent company financial statements, which describes details of the tax ruling against Group. The management believes that it has a strong case to present and is confident of a favourable outcome, and accordingly no further provision has been made in these consolidated financial statements. Our opinion is not modified in respect of this matter.

Other matter
The consolidated and parent company financial statements of Group for the year ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion on those statements with emphasis of matter on the tax ruling against Al Rusail Power Company relating to years 2008 and 2009, on 21 February 2019.

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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SMN POWER HOLDING SAOG (CONTINUED)

Report on the audit of the consolidated and parent company financial statements (continued)

Key audit matters (continued)

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.

Key audit matters	*How our audit addressed the key audit matters*
1. Valuation of derivative financial instruments in consolidated financial statements The Group has entered into interest rate swap agreements with international banks to hedge interest rate risks. Hedge accounting and the valuation of hedging instruments which is determined through the application of valuation techniques, often involve the exercise of management judgement and the use of assumptions and estimates. Due to the significance of derivative financial instruments and the related estimation uncertainty, this is considered a key audit matter. The Company's accounting policies and disclosures on derivative financial instruments are disclosed in note 3.4.(h) and note 16 to the financial statements.	We obtained assurance over the appropriateness of management's assumptions applied in hedge accounting by: • Assessing the overall process related to derivative instruments and hedge accounting including internal management policies and procedures; • Evaluating the appropriateness of management's hedge documentation and contracts; • Obtained confirmation of year end derivative financial instruments from counterparties: • Involved our internal valuation specialists to assist in with our audit of the valuation model, the price curves, and of unobservable inputs to the model and assessment of hedge effectiveness to ensure the accounting is in line to IFRS 9 financial instruments; These contracts are recorded at fair value and qualify for hedge accounting. These contracts give rise to derivative financial liability as disclosed in note 16 in the financial statements in accordance with IFRS.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SMN POWER HOLDING SAOG (CONTINUED)

Report on the audit of the consolidated and parent company financial statements (continued)

Key audit matters (continued)

Key audit matters	*How our audit addressed the key audit matters*
2. Impairment of Goodwill in the consolidated financial statements and related carrying value of the investment in the subsidiaries in the parent company financial statements The Group has goodwill arising from a past business combination relating to acquisition of a subsidiaries. Management's annual assessment of impairment of goodwill (and the related carrying value of investment in the parent company financial statements) has been identified as a key audit matter as this is complex and judgmental involving value in use calculations by estimating forecasted cash flows, discount rates and terminal growth rates. The accounting policies relating to impairment of goodwill and the disclosures are set out in notes 3.3 (a) and 10 to the consolidated and parent company financial statements. The impairment assessment was based upon a value in use model that requires significant management judgement with respect to the discount rate and the underlying cash flows and, in particular, future revenue growth.	As part of our audit procedures we have performed the following: • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; • Involved our internal valuation specialists to assist in evaluating the suitability and appropriateness of the impairment model as prepared by the management and the reasonableness of the discount rate by assessing the weighted average cost of capital • Evaluating the future cash flow forecasts and the process by which they were drawn up, including comparing the underlying calculations to source data; • Evaluated the independence and professional competence of the independence of the management specialist. • Performing sensitivity analyses where we flexed discount rates as they are the key assumptions against the value-in-use calculations are most sensitive; and • Testing the adequacy of the disclosures in these consolidated and parent company financial statements relating to impairment assessment of subsidiaries and goodwill and the related estimates involved.

Report on the audit of the consolidated and parent company financial statements (continued)

Key audit matters (continued)

Key audit matters	*How our audit addressed the key audit matters*
3. Useful lives of assets The Group operates its Barka power generation and desalination plant under a single Power and Water Purchase Agreement (PWPA) with Oman Power & Water Procurement Company (OPWP), which has been determined to be an operating lease. The carrying values of the plant and equipment as at 31 December 2019 is RO 154.563 million. However, the PWPA relating to the plant is only for 15 years valid up to 31 March 2024. Further, there is no renewal option in the PWPA. The useful life of plant and equipment is based on management's technical assessment of factors which are subject to judgement and accordingly contains significant estimation uncertainty. In addition, the estimated useful life that has been assumed by management is more than the term of the PWPA. However, the management estimates that the plant and machinery will have an economic viability beyond the initial term of 15 years covered by the current PWPA. Management's judgement is based factors such as the operating cycles, the maintenance programs, normal wear and tear and future cash flow forecasts. The estimation of asset useful life by management involves application of judgment as to how the plant will be utilised in the post PWPA period and is a matter that is reconsidered annually by management for any changes that may affect the original assessment made. Refer to note 4.3 (Estimates and assumptions) and note 6 (Property, plant and equipment) to the consolidated financial statements.	As part of our audit procedures we have performed the following: • We evaluated the appropriateness and reasonableness of the assumptions considered by the independent valuer for the cash-flow forecasts pertaining to the post-PWPA period; • We re-assessed the relevance and appropriateness of the underlying assumptions by: - Making enquiries of the management as to: - the current status of operations of the plant, including the future plans and utilisation of plant after the end of the PWPA; and - the Company's right to extend the land lease under a Usufruct Agreement for an additional term; - reviewing OPWP's plan for power sector in the region of Barka, where the Company operates, which substantiates the company's strategic position in the region; and - reviewing OPWP's plans for implementation of a merchant market arrangement; • Reassessed the reasonableness of the useful life of the plant and the depreciation method used by comparing it with other companies in the country operating plants with similar technology; • Testing the continuing adequacy of the disclosures in these financial statements relating to asset lives and the judgments surrounding them.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SMN POWER HOLDING SAOG (CONTINUED)

Report on the audit of the consolidated and parent company financial statements (continued)

Other information included in the Company 2019 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Group's 2019 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 2019 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 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, 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 Group'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 Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SMN POWER HOLDING SAOG (CONTINUED)

Report on the audit of the consolidated and parent financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)
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 Group'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 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 Group'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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SMN POWER HOLDING SAOG (CONTINUED)

Report on the audit of the consolidated and parent financial statements (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 and CMA of the Sultanate of Oman.

Ernst & Young LLC

B. Hindy

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س ت: ١٢٢٤٠١٣
ص ب: ١٧٥٠ روي – ١١٢ ، سلطنة عمان
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Bassam Moustafa Hindy
Muscat
22 February 2020

SMN POWER HOLDING SAOG AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019

		Parent Company		Consolidated	
	Notes	**2019 RO' 000**	2018 RO' 000	**2019 RO' 000**	2018 RO' 000
ASSETS					
Non-current assets					
Finance lease receivables	5	**-**	-	**4,258**	9,718
Property, plant and equipment	6	**-**	-	**155,341**	163,493
Right of use assets	7	**-**	-	**464**	483
Long-term prepayment	8	**-**	-	**239**	345
Investment in subsidiaries	9	**27,405**	19,303	**-**	-
Goodwill	10	**-**	-	**15,739**	15,739
		27,405	19,303	**176,041**	189,778
Current assets					
Loan to a subsidiary	11	**-**	8,102	**-**	-
Inventories	12	**-**	-	**2,973**	3,009
Trade and other receivables	13	**66**	53	**35,247**	7,097
Finance lease receivables	5	**-**	-	**5,460**	4,685
Fixed term cash deposits	14 (a)	**-**	350	**4,973**	3,763
Cash and cash equivalents	14 (b)	**30**	35	**3,931**	3,081
		96	8,540	**52,584**	21,635
Total assets		**27,501**	27,843	**228,625**	211,413
EQUITY AND RESERVES AND LIABILITIES					
EQUITY AND RESERVES					
Share capital	15 (a)	**19,964**	19,964	**19,964**	19,964
Statutory reserve	15 (b)	**6,522**	6,522	**6,691**	6,691
Retained earnings		**923**	938	**22,170**	14,215
Shareholder's funds		**27,409**	27,424	**48,825**	40,870
Hedging Reserve	16	**-**	-	**(5,036)**	(4,420)
Net equity		**27,409**	27,424	**43,789**	36,450
LIABILITIES					
Non-current liabilities					
Term loan	17	**-**	-	**105,845**	126,091
Lease liabilities	18	**-**	-	**444**	460
Derivative financial instruments	16	**-**	-	**4,446**	4,328
Provision for end of service benefits		**-**	-	**112**	114
Provision for site restoration	19	**-**	-	**2,701**	2,532
Deferred tax liability	20	**-**	-	**15,822**	15,980
		-	-	**129,370**	149,505
Current liabilities					
Term loan	17	**-**	-	**17,441**	16,864
Lease liabilities	18	**-**	-	**76**	52
Derivative financial instruments	16	**-**	-	**1,477**	870
Trade and other payables	21	**92**	419	**34,815**	6,805
Current tax payable	20	**-**	-	**1,657**	867
		92	419	**55,466**	25,458
Total liabilities		**92**	419	**184,836**	174,963
Total equity and liabilities		**27,501**	27,843	**228,625**	211,413
Net assets per share (RO)	32	**0.137**	0.138	**0.245**	0.205

These consolidated financial statements were approved by the the Board of Directors on 20 February 2020 and signed on their behalf by:

Director **Director**

The notes 1 to 34 form an integral part of these consolidated and parent company financial statements

SMN POWER HOLDING SAOG AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

		Parent Company		Consolidated	
		2019	2018	**2019**	2018
	Notes	**RO' 000**	RO' 000	**RO' 000**	RO' 000
Revenue	22	**-**	-	**83,691**	100,651
Operating costs	23	**-**	-	**(66,806)**	(82,513)
Gross profit			-	**16,885**	18,138
General and administrative expenses	24	**(234)**	(267)	**(1,217)**	(1,424)
(Loss)/Profit from operations		**(234)**	(267)	**15,668**	16,714
Finance charges	25	**-**	-	**(7,335)**	(8,457)
Investment income	26	**-**	3,793	**-**	-
Other income	27	**219**	-	**1,092**	886
Profit before tax		**(15)**	3,526	**9,425**	9,143
Income tax	20	**-**	-	**(1,468)**	(1,285)
Net profit for the year		**(15)**	3,526	**7,957**	7,858
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods:					
Fair value of cash flow hedge adjustments – net	16	**-**	-	**1,137**	543
Reclassification to profit or loss - gross	25	**-**	-	**(1,862)**	3,047
Deferred tax liability – current period change	20	**-**	-	**109**	(539)
Other Comprehensive Income/ expense for the year, net of tax		**-**	-	**(616)**	3,051
Total comprehensive income/ expense for the year		**(15)**	3,526	**7,341**	10,909
Basic and diluted earnings per share (RO)	33	**0.000**	0.018	**0.040**	0.039

The notes 1 to 34 form an integral part of these consolidated and parent company financial statements

SMN POWER HOLDING SAOG AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

Parent Company

	Share capital	Legal reserve	Retained Earnings	Total
	RO' 000	RO' 000	RO' 000	RO' 000
At 1 January 2018	19,964	6,170	1,557	27,691
Net profit and total comprehensive income for the period	-	-	3,526	3,526
Transactions with owners recognised directly in equity	-	-	-	-
Dividend paid	-	-	(3,793)	(3,793)
Transferred to legal reserve	-	352	(352)	-
At 31 December 2018	19,964	6,522	938	27,424
At 1 January 2019	**19,964**	**6,522**	**938**	**27,424**
Net profit and total comprehensive income for the year	**-**	**-**	**(15)**	**(15)**
At 31 December 2019	**19,964**	**6,522**	**923**	**27,409**

The notes 1 to 34 form an integral part of these consolidated and parent company financial statements

SMN POWER HOLDING SAOG AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

Consolidated

	Share capital RO' 000	Statutory reserve RO' 000	Retained earnings RO' 000	Hedging reserve RO' 000	Total RO' 000
At 1 January 2018	19,964	6,338	10,501	(7,471)	29,332
Net profit for the period	-	-	7,858	-	7,858
Other comprehensive income					
Fair value of cash flow hedge adjustments - gross	-	-	-	543	543
Reclassification to profit or loss - gross (note 25)	-	-	-	3,047	3,047
Deferred tax liability – current period change	-	-	-	(539)	(539)
Total comprehensive income	-	-	7,858	3,051	10,909
Transactions with owners recognised directly in equity					
Dividend paid/payable [note 15(c)]	-	-	(3,793)	-	(3,793)
Transfer to statutory reserve	-	353	(353)	-	-
At 31 December 2018	19,964	6,691	14,213	(4,420)	36,448
At 1 January 2019	**19,964**	**6,691**	**14,213**	**(4,420)**	**36,448**
Net profit for the year	**-**	**-**	**7,957**	**-**	**7,957**
Other comprehensive income					
Fair value of cash flow hedge adjustments - gross	**-**	**-**	**-**	**1,137**	**1,137**
Reclassification to profit or loss - gross (note 25)	**-**	**-**	**-**	**(1,862)**	**(1,862)**
Deferred tax liability – current period change	**-**	**-**	**-**	**109**	**109**
Total comprehensive income	**-**	**-**	**7,957**	**(616)**	**7,341**
Transfer to statutory reserve	**-**	**-**	**-**	**-**	**-**
At 31 December 2019	**19,964**	**6,691**	**22,170**	**(5,036)**	**43,789**

The notes 1 to 34 form an integral part of these consolidated and parent company financial statements

SMN POWER HOLDING SAOG AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2019

	Parent Company		Consolidated	
	2019	2018	**2019**	2018
	RO' 000	RO' 000	**RO' 000**	RO' 000
Operating activities				
Profit before tax	**(15)**	3,526	**9,425**	9,143
Adjustments for:				
Depreciation of property, plant and equipment	-	-	**8,190**	8,168
Depreciation of right-of-use assets	-	-	**67**	65
Lease interest of right-of-use assets	-	-	**33**	39
Accretion charge for provision for site restoration	-	-	**169**	145
Amortisation of long-term prepayment	-	-	**106**	106
Amortisation of deferred finance cost	-	-	**251**	282
Transfer to provision for end of service benefits	-	-	**10**	10
Gain on disposal of property, plant and equipment	-	-	**(8)**	-
Finance charges on borrowings	-	-	**6,823**	7,926
	(15)	3,526	**25,066**	25,884
Working capital changes in:				
Receipt against finance lease recoverable	-	-	**4,685**	4,404
Trade and other receivables	**(13)**	1	**(28,150)**	1,238
Inventories	-	-	**36**	(98)
Trade and other payables	**(327)**	171	**28,378**	(1,534)
Cash generated from operations	**(355)**	3,698	**30,015**	29,894
End of service benefit paid	-	-	**(12)**	-
Income tax paid	-	-	**(727)**	(167)
Net cash flows from/ (used in) operating activities	**(355)**	3,698	**29,276**	29,727
Investing activities				
Purchase of property, plant and equipment	-	-	**(39)**	(240)
Proceeds from disposal of property, plant and equipment	-	-	**8**	-
Fixed term cash deposits (maturity 3 to 6 months)	**350**	(130)	**(1,210)**	(678)
Net cash flows from/ (used in) investing activities	**350**	(130)	**(1,241)**	(918)
Financing activities				
Dividend paid	-	(3,793)	**-**	(3,793)
Finance charges paid	-	-	**(7,191)**	(8,167)
Term loan repaid	-	-	**(19,920)**	(16,641)
Lease payments	-	-	**(74)**	(75)
Net cash flows used in financing activities	**-**	(3,793)	**(27,185)**	(28,676)
Net change in cash and cash equivalents	**(5)**	(225)	**850**	133
Cash and cash equivalents at the beginning of the year	**35**	260	**3,081**	2,948
Cash and cash equivalents at the end of the year	**30**	35	**3,931**	3,081

Reconciliation of liabilities arising from financing activities (note 14.1)

The notes 1 to 34 form an integral part of these consolidated and parent company financial statements

SMN POWER HOLDING SAOG AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019 (continued)
(forming part of the consolidated financial statements)

1. Legal status and principal activities

SMN Power Holding SAOG (the "Parent Company" or "Company") is a public Omani joint stock company incorporated on 7 May 2011 under the Commercial Companies Law of Oman in Sultanate of Oman.

The Parent Company holds a 99.99% stake in each of Al-Rusail Power Company SAOC (RPC) and SMN Barka Power Company SAOC (SMNBPC). RPC and SMNBPC (the Project Companies) are two closed joint stock companies incorporated in the Sultanate of Oman.

The Company and its subsidiaries (the Group) are engaged in the business of power generation, water desalination or other businesses related thereto, the management and supervision of such companies, to invest its funds in shares, bonds and securities, to provide loans, security and finance to its subsidiaries, and to own patents, trademarks, concessions and other incorporeal rights, utilise them and lease them to its subsidiaries and other companies.

2. Significant agreements

(a) The Company

i) The Secondment Services Agreement entered into on 1 May 2017 by and between Kahrabel Operation and Maintenance Oman LLC (KOMO) and the Company.

ii) The Secondment Services Agreement entered into on 1 May 2012 by and between SMNBPC, RPC, Mubadala Development Company and the Company.

iii) Cost Sharing Agreement entered into on 21 February 2019, by and between SMNBPC, RPC and the Company.

(b) Subsidiary - RPC

i) Power Purchase Agreement (PPA) dated 1 May 2005 (amended on 6 December 2006 and 19 April 2012) with Oman Power and Water Procurement Company SAOC (OPWP) relating to the commitment (1) from the Company to sell to OPWP the available capacity of electricity and (2) from OPWP to purchase this available capacity and electricity energy delivered up to March 2022.

ii) Natural Gas Sales Agreement (NGSA) dated 1 May 2005 and the NGSA Amendment Agreement dated 6 December 2006 with the Ministry of Oil and Gas (MOG) for the purchase of natural gas.

iii) Usufruct agreement dated 1 May 2005 with the Government for grant of Usufruct rights over the plant site for 25 years.

iv) Financing Agreements with international banks and local banks and respective hedging agreements as disclosed in notes 16 and 17.

v) Agreement with Bank Muscat SAOG for working capital facilities dated 15 February 2007, with latest amendment dated 24 September 2019.

SMN POWER HOLDING SAOG AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019 (continued)
(forming part of the consolidated financial statements)

2. Significant agreements (continued)

(b) Subsidiary - RPC (continued)

vi) Operation & Maintenance (O&M) Agreement with Suez Tractebel Operations and Maintenance Oman LLC (STOMO) dated 1 February 2007 for a period of 15 years ending March 2022.

vii) Cost Sharing Agreement entered into on 21 February 2019, by and between SMNBPC, RPC and the Company.

(c) Subsidiary - SMNBPC

i) Power and Water Purchase Agreement (PWPA) dated 6 December 2006, amended on 27 January 2010, with OPWP for a period of 15 years from the scheduled commercial operation date.

ii) Natural Gas Sales Agreement (NGSA) dated 6 December 2006 with the Ministry of Oil and Gas (MOG) for the purchase of natural gas for a period of 15 years from the scheduled commercial operation date.

iii) Usufruct Agreement relating to the Barka site dated 6 December 2006 and respective amendment dated 3 December 2007, with the Government for grant of Usufruct rights over the plant site for 25 years.

iv) Turnkey Engineering, Procurement and Construction (EPC) Contract dated 14 December 2006 and successive amendments on 14 April 2008, 22 May 2012, 26 November 2013 and 17 August 2017 with Doosan to perform the engineering, procurement and construction of the shared facilities and the plant.

v) Settlement Agreement with Doosan dated 22 May 2012 to close the disputes related to delay in construction of the plant.

vi) O&M Agreement with Suez Tractebel Operations and Maintenance Oman LLC (STOMO) dated 10 February 2007 and O & M Agreement amendments dated 31 October 2007 and 17 December 2007 for a period of 15 years from the scheduled commercial operation date.

vii) Financing Agreements with international banks and local banks and respective hedging agreements as disclosed in notes 16 and 17.

viii) Equity Contribution Loan (ECL) agreement dated 20 February 2007 with SMN Power Holding Company Ltd, subsequently transferred to SMN Power Holding SAOG following a Deed of Novation dated 9 August 2011 and entered into between (i) SMN Barka: (ii) RPC; (iii) SMN Jafza; (iv) the parent Company; (v) Kahrabel FZE; (vi) Mubadala Power Holding Company Limited; (vii) National Trading Company LLC and (viii) MDC Industry Holding Company LLC.

ix) Agreement with Bank Muscat SAOG for working capital facilities dated 9 September 2010, with latest amendment dated 24 September 2019.

x) Shareholders Agreement dated 20 February 2007 with ACWA Power Barka SAOG (formerly AES Barka) in respect of the establishment of Barka Seawater Facilities Company SAOC.

xi) Cost Sharing Agreement entered into on 21 February 2019, by and between SMNBPC, RPC and the Company.

3. Basis of preparation and significant accounting policies

3.1 Basis of preparation

(a) Going concern

As at 31 December 2019, the Group's current liabilities exceed its current assets by RO 2.9 million (2018 – RO 3.8 million). However, the Group will generate sufficient cash flows by making available the plant capacity to the off-taker to discharge the short term liabilities as and when they fall due. The main portion of the current liability representing the long term loan is payable semi-annually and the future short term capacity charge revenue from the off-taker will be in excess of such liability. The Company may also re-negotiate payment terms with related parties, if necessary. Further, the Company also has access to credit facilities as described in note 17.

(b) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) and the requirements of the Commercial Companies Law of the Sultanate of Oman, as amended and the Capital Market Authority.

The new Commercial Companies Law promulgated by the Royal Decree No. 18/2019 (the Commercial Companies Law of the Sultanate of Oman) was issued on 13 February 2019 which has replaced the Commercial Companies Law of 1974. As per the articles of the Royal Decree No. 18/2019, the new Commercial Companies Law became effective on 17 April 2019 and the companies should comply with the new law within 1 year from 17 April 2019.

(c) Basis of measurement

These financial statements are prepared on historical cost basis except for derivative financial instruments which are measured at fair value.

(d) Functional and presentation currency

These consolidated financial statements are measured and presented in Rial Omani (RO) which is considered as the currency of the primary economic environment in which the Group operates ('the functional and presentation currency'). The RO amounts in these financial statements have been translated using an exchange rate US$ 1 = RO 0.3845.

(e) Use of estimates and judgments

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

3. Basis of preparation and significant accounting policies (continued)

3.1 Basis of preparation (continued)

(e) Use of estimates and judgments (continued)

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

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

In particular, estimates that involve uncertainties and judgments which have a significant effect on the financial statements are as below:

3.2 Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets as disclosed in note 3.4(e).

SMN POWER HOLDING SAOG AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019 (continued)
(forming part of the consolidated financial statements)

3. Basis of preparation and significant accounting policies (continued)

3.2 Judgements (continued)

(b) Finance lease

Al-Rusail Power Company SAOC (RPC) and Oman Power and Water Procurement Company SAOC (OPWP), has entered into a Power Purchase Agreement (PPA) containing a take-or-pay clause favouring RPC. The management has applied the guidance in IFRIC 4, 'Determining whether an arrangement contains a lease'. Based on management's evaluation, the Power Purchase Agreement (PPA) with OPWP is considered as a lease within the context of IFRIC 4 and has been classified as a finance lease under IFRS 16, since significant risks and rewards associated with the ownership of the plant are transferred to OPWP. The primary basis for this conclusion being that the PPA is for substantial portion of the life of the plant and the present value of minimum lease payments substantially equates the fair value of the plant at the inception of the lease.

(c) Operating lease and useful life of assets

SMN Barka Power Company SAOC (SMNBPC) and Oman Power and Water Procurement Company SAOC (OPWP), have entered into a Power & Water Purchase Agreement (PWPA) containing a take-or-pay clause favouring SMNBPC. The management has applied the guidance in IFRIC 4, 'Determining whether an arrangement contains a lease'. Based on management's evaluation, the PWPA with OPWP is considered as a lease within the context of IFRIC 4 and has been classified as an operating lease under IFRS 16 since significant risks and rewards associated with the ownership of the plant lies with the SMNBPC and not with OPWP. The primary basis for this conclusion being that the PWPA is for a term of 15 years while the economic life of the power plant is estimated to be thirty years. The present value of minimum lease payments under the PWPA does not substantially recover the fair value of the plant at the inception of the lease. The residual risk is borne by SMN Barka and not OPWP. The estimated useful life of the power plant of 30 years takes into account the Company's right to extend the land lease under a Usufruct Agreement for an additional term of maximum of 25 years. Furthermore, the residual value of the assets will have substantial value at the conclusion of the PWPA and the Company will be able to continue to generate revenue through supply of power and water taking into account the government's future plans to deregulate the power and water sector in Oman.

(d) Joint arrangement

The management has assessed the shareholders agreement dated 20 February 2007 between ACWA Power Barka SAOG and SMN Barka Power Company SAOC (SMNBPC) 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 Group's joint arrangement is structured as a closed public joint stock company and provides the Group and the parties to the agreements with rights to their respective share of the assets, liabilities, income and expenses of joint operations.

3. Basis of preparation and significant accounting policies (continued)

3.2 Judgements (continued)

(e) Insurance claim receivable

SMNBPC has recognised insurance receivable of RO 221,088 during the year pertaining to property damage loss resulting from repair of Steam Turbines in the Barka Plant. Management believe that it is virtually certain that the full claim will be accepted as the related repair costs are considered by the insurers as a continuation of a repair programme and are part of an existing open insurance claim and settled by the insurance company based on the insurance policy in place and considering the advice of experienced loss adjuster appointed to assess the insurance claim. The first phase of the repair programme was completed in 2015 and its related repair costs were fully settled in 2016.

3.3 Estimates and assumptions

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

(a) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These calculations use current period actual free cash flows, contractual cash flows of the PWPA/PPA and projections based on management's best estimates considering the future market outlook. The net carrying amount of goodwill at 31 December 2019 was RO 15.7 million (2018 - RO 15.7 million).

(b) Effectiveness of hedge relationship

At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging instrument. As at the reporting date, the cumulative fair value of the interest rate swaps is RO 5.9 million (2018 - RO 5.2 million).

(c) Useful lives of property, plant and equipment

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

3. Basis of preparation and significant accounting policies (continued)

3.3 Estimates and assumptions (continued)

(d) Site restoration costs

Site restoration costs are based on management's technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant facilities. The significant uncertainty in estimating the provision is the cost that will be incurred and the applicable discount rate. It has been assumed that the site will be restored using technology and material that are currently available. The provision has been calculated using a discount rate of 6.1% in RPC and 7.6% in SMNBPC.

3.4 Significant accounting policies

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 effective for the year ended 31 December 2019:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Phase 1 Interest Rate Benchmark Reform (IBOR) Amendments to IFRS 9, IAS 39 and IFRS 7 were published by the IASB in September 2019, which includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. The Group is assessing the impact of Phase 1 IBOR amendments which are effective for annual periods beginning on or after 1 January 2020.

The accounting policies adopted are consistent with those of the previous financial year.

3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(a) Basis of consolidation

The results of subsidiaries acquired or disposed of during the period are included in profit and loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Name of Subsidiary	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity	Date of acquisition / incorporation
Al-Rusail Power Company SAOC (RPC)	Sultanate of Oman	99.99%	99.99%	Electricity generation activities under a license issued by the Authority for Electricity Regulation, Oman.	1 February 2007
SMN Barka Power Company SAOC (SMNBPC)	Sultanate of Oman	99.99%	99.99%	Electricity generation and water desalination activities under a license issued by the Authority for Electricity Regulation, Oman	26 November 2006

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an group so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. Management has assessed its investments as required under IFRS 10 and concluded that it has control over these subsidiaries. Accordingly, the investments continue to be recognised as subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

Interest in joint arrangements

The Group has interests in joint arrangements which include joint operations and joint ventures. A joint arrangement is a contractual arrangement in which two or more parties have joint control. A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement.

The Group combines its share of the assets, liabilities, income and expenses of joint operations with similar items, line by line, in its consolidated financial statements. The financial statements of joint operations are prepared at the same reporting date as the Group, using consistent accounting policies.

The group recognises in relation to its joint operation interest its assets, including its share of any assets held jointly, liabilities, including its share of any liabilities incurred jointly, revenue from the sale of its share of the output arising from the joint operation, share of the revenue from the sale of the output by the joint operation, expenses, including its share of any expenses incurred jointly.

Profits or losses resulting from ‘upstream’ and ‘downstream’ transactions between the Group and the joint operation are recognised in the Group’s financial statements only to the extent of unrelated investor’s’ interests in the joint operation.

The joint operations are consolidated until the date on which the Group ceases to have joint control over them.

(b) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration paid over the Group’s interest in the net fair value of the separately identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairments, annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group’s cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

SMN POWER HOLDING SAOG AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019 (continued)
(forming part of the consolidated financial statements)

3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(b) Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash- generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial forecasts approved by the Board of Directors, contractual cash flows of the PWPA/PPA and projections by the management using industry reports, consultant's forecast and other data available to the management.

(c) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any identified impairment loss.

i) Subsequent expenditure

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.

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 period in which the asset is derecognised.

When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

ii) Depreciation

Depreciation is calculated so as to allocate the cost of property, plant and equipment, other than capital work-in-progress, on a straight-line basis over its estimated useful life. The estimated useful lives are as follows:

	Years
Plant and equipment	30
Furniture and fixture	5 to 7
Motor vehicles	3
Office equipment	3

Depreciation method, useful lives and residual values are assessed at each reporting date.

iii) Capital work-in-progress

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

iv) Site restoration

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

(d) Impairment

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell

In assessing the 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. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Policy for impairment of financial assets under IFRS 9 is disclosed in note 3.4 (h) to these financial statements.

SMN POWER HOLDING SAOG AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019 (continued)
(forming part of the consolidated financial statements)

3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(e) Leases

(A) Identifying a lease

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

At inception or on reassessment of contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(B) As a lessee

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- Amount expected to be payable under a residual value guarantee;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(B) As a lessee (continued)

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payment associated with these leases as an expense on a straight-line basis over the lease term.

(C) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this in the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicator such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease component, the Group applies IFRS 15 to allocate the consideration in the contract. The Group recognizes lease payments received under operating leases as income on straight-line basis over the lease term.

(f) Long term prepayments

Items of long-term prepayments are measured at cost less accumulated amortisation based on the number of years for which the benefit will be derived from the prepayments.

(g) Inventories

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

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

(h) Financial instruments

i) Non derivative financial instruments

Initial recognition and measurement

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument and derecognised when the Group loses control of the contractual rights that comprise the financial assets and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired.

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3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(h) Financial instruments (continued)

At initial recognition, the group measures its financial assets and liabilities at fair value. The associated transaction costs for assets and liabilities carried at fair value are expensed out in profit or loss and for assets and liabilities not carried at fair value, the associated transaction costs are added to/deducted from the fair value of asset/ liability.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets classification and subsequent measurement

The Group from 1 January 2018 classifies all its non-derivative financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (FVTOCI), or through profit or loss (FVTPL), and
- those to be measured at amortised cost.

The classification depends on the group's business model for managing the financial assets and the cash flow characteristics of the assets.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Subsequent measurement of financial asset depends on the group's business model for managing the asset and the cash flow characteristics of the asset. The measurement categories into which the group classifies its debt instruments and their subsequent measurement is as follows:

Debt instruments

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

i) Non derivative financial instruments (continued)

Financial liabilities classification and subsequent measurement

The Group classifies its financial liabilities in the following categories: fair value through profit or loss and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, also include directly attributable transaction costs.

The measurement of financial liabilities depends on their classification as follows:

Other financial liabilities: Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest expense, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

The Group's financial liabilities comprise loans and borrowings and trade and other payables.

Interest bearing loans and borrowings

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

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Legally enforceable right must not be contingent on future events and must be enforceable in normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counter party.

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3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(h) Financial instruments (continued)

ii) Derivative financial instruments

All derivatives in scope of IFRS 9, including those linked to unquoted equity investments, are measured at fair value. Value changes are recognised in profit or loss unless the group has elected to apply hedge accounting by designating the derivative as a hedging instrument in an eligible hedging relationship.

Cash flow hedges

The Group has elected to avail option under IFRS 9 para 7.2.21 for carry over of hedge accounting requirements of IAS 39 as its accounting policy for all its current and prior period hedging relationships. The said election shall not affect the amounts recognized and disclosures made in prior period financial statements.

The accounting policies being carried over from prior years are as follows:

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. In accordance with its policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised at fair value. Subsequent to initial recognition, derivative financial instruments are stated at their fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of a derivative is the equivalent to the unrealised gain or loss arising from marked to market valuation of the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included under non-current assets and their current portion in current assets and derivatives with negative market values (unrealised losses) are included under non-current liabilities and their current portion in current liabilities in the statement of financial position.

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

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

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3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(h) Financial instruments (continued)

ii) Derivative financial instruments (continued)

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

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

When a hedging instrument expires or is sold, terminated or exercised, or the group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, then hedge accounting is discontinued prospectively. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss. The Group has not entered into any new hedging relationships during the current period requiring adoption of hedging accounting requirements of IFRS 9.

iii) Separable embedded derivatives

Derivatives embedded in contracts where the host is a financial asset in the scope of the IFRS 9 are not required to be separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its financial instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The impairment provisions for financial assets are assessed based on the “Expected Credit Loss” model, using assumptions about risk of default and expected loss rates.

3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(h) Financial instruments (continued)

iv) Impairment (continued)

The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the past history, existing market conditions as well as forward looking estimates at the end of each reporting period. In determining the required impairment provision the management has used 0.45% as probability of default and 45% loss given default. As at 31 December 2019, the impairment impact is considered to be immaterial.

The group's assets subject to impairment are trade and other receivables and cash and bank balances. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, and were assessed as such and the identified impairment loss was immaterial.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(i) Provisions

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

(j) Taxation

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

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

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

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3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(j) Taxation (continued)

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(j) Taxation (continued)

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

For further details please refer note 20(e).

(k) Foreign currency

In preparing the financial statements, transactions in currencies other than the Group functional currency of the component of the Group are recorded at the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation gains and losses related to monetary items are recognised in profit or loss in the period in which they arise, with the exception of those related to monetary items that qualify as hedging instruments in a cash flow hedge that are recognised initially in other comprehensive income to the extent that the hedge is effective.

(l) Employee benefits

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

The Group's obligation in respect of non-Omani employees' terminal benefits is the amount of future benefit that such employees have earned in return for their service in the current and prior periods having regard to the employee contract and Oman Labour Law 2003, as amended. In accordance with the provisions of IAS 19, Employee benefits, management carries an exercise to assess the present value of the Group's obligations as of reporting date, using the actuarial techniques, in respect of employees' end of service benefits payable under the Oman aforesaid Labour Law. Under this method, an assessment is made of an employee's expected service life with the Group and the expected basic salary at the date of leaving the service.

3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(m) Revenue recognition

Revenue stemming from PWPA/PPA comprises of the following:

- Capacity charge covering the investment charge and the fixed operating and maintenance charge; and
- Energy charge covering the fuel charge and variable operating and maintenance charge.

The PWPA in SMNBPC is an operating lease arrangement and capacity charge related to the investment charge is treated as operating lease revenue and recognized on straight line basis over the lease term to the extent that capacity has been made available based on contractual terms stipulated in PWPA.

The PPA in RPC is a finance lease arrangement and lease interest income recognised in the statement of comprehensive income is part of the minimum lease payment. Capacity charge covering the investment charge received under the PPA, are finance lease payments (note 5). Amounts received in relation to electricity energy charges (covering the fuel charge and variable operating and maintenance charge) are contingent rental receipts. Capacity charge covering fixed O&M charge is linked to making available the capacity to OPWP and is revenue for the group.

Revenue from sale of electricity and water and making capacity available to OPWP is recognised in the accounting period in which the actual production and sale of energy and water take place and the capacity is made available as per the contract. The group has the right to bill the customer on an hourly basis. The contract with the Customer has three deliverables which are considered as separate performance obligations namely production/ supply of electricity, production/ supply of water and making available the designated capacity. Where the contracts include multiple performance obligations, the transaction price is allocated based on stand-alone selling price of each performance obligation. Stand-alone selling price for each performance obligation of the group is identified in the contract with customer separately.

A receivable is recognised when the electricity and water output is produced/ delivered or the capacity is made available over time and accordingly assessed that the consideration is unconditional because only the passage of time is required before the payment is due.

3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(m) Revenue recognition (continued)

As the contract with the Customer includes provision of electricity and water and making capacity available based on a pre-determined rate, revenue is recognised for the amount to which the group has a right to invoice for performance obligation satisfied in terms of PWPA and PPA. Customer is invoiced on a monthly basis and consideration is payable when invoiced.

The Group has a long term agreement with OPWP which determines performance obligation, transaction price and allocates the transaction price to each of the separate performance obligations. The Group does not adjust any of the transaction prices for time value of money as the period between the transfer of the promised output to the customer and payment by the customer does not exceed one year and the sales are made with agreed credit terms which is in line with the industry practice.

(n) Borrowing costs

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

(o) Directors' remuneration

The Directors' remuneration is governed by the Memorandum of Association of the company and the Commercial Companies Law.

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees and the distribution of dividends to the shareholders.

(p) Dividend

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

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

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3. Basis of preparation and significant accounting policies (continued)

3.4 Significant accounting policies (continued)

(q) Earnings and net assets per share

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

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

(r) Cash and cash equivalents

Cash and cash equivalents are carried at cost in case of local currency and at closing exchange rate in case of foreign currency. For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand and bank and short term highly liquid investments with original maturities of three months or less, and that are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

(s) Investment in subsidiaries

Investments in subsidiaries are stated at cost less impairment losses (if any) in the company's separate financial statements. A subsidiary is an entity in which the company is able to exert control over the financial and operating policies and which is not a joint venture.

(t) Segmental reporting

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

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. The fair value of unquoted derivatives is determined by reference to broker/dealer price.

Trade and other receivables

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

Derivatives

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

Non-derivative financial liabilities

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

4. Determination of fair values (continued)

Non-derivative financial liabilities (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable quotations.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

5. Finance lease receivables

Leasing arrangements - Consolidated

RPC

Management has concluded that the Power Purchase Agreement (PPA), as amended effective 1 December 2006, conveys a right of use of the power plant to the customer (OPWP), in accordance with IFRIC 4 - ‘Determining whether an arrangement contains a lease’. The lease qualifies as a finance lease under “IFRS 16 - Leases”. The factors leading to this lease classification are (a) the lease term is for the major part of the remaining economic life of the plant, and, (b) at inception of the lease, the present value of the minimum lease payments amounted to substantially all of the fair value of the plant. In accordance with IFRS, revenue stemming from the substantial operation and maintenance services is not considered as lease revenue.

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5. Finance lease receivables (continued)

Leasing arrangements – Consolidated (continued)

RPC (continued)

At 31 December 2019	Consolidated Minimum lease receipts RO'000	 Present value of minimum lease receipts RO'000
Amounts receivable under finance lease		
Within one year	**5,460**	**5,460**
In 2 to 5 years (inclusive)	**4,873**	**4,258**
	10,333	**9,718**
Less : unearned finance income	**(615)**	**-**
Present value of minimum lease receipts	**9,718**	**9,718**
Included in the statement of financial position as :		
Current finance lease receivables		**5,460**
Non-current finance lease receivables		**4,258**
Amounts invoiced to OPWP		**9,718**

At 31 December 2018	Consolidated Minimum lease receipts RO' 000	 Present value of minimum lease receipts RO' 000
Amounts receivable under finance lease		
Within one year	5,447	4,685
In 2 to 5 years (inclusive)	10,333	9,718
	15,780	14,403
Less : unearned finance income	(1,377)	-
Present value of minimum lease receipts	14,403	14,403
Included in the statement of financial position as :		
Current finance lease receivables		4,685
Non-current finance lease receivables		9,718
Amounts invoiced to OPWP		14,403

The interest rate implicit in the lease is 6.2% per annum.

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5. Finance lease receivables (continued)

Leasing arrangements – Consolidated (continued)

(a) Leased land

Land on which the Plant is constructed has been leased by Government of Sultanate of Oman to RPC for a period of 25 years expiring on 1 May 2030 under the terms of the Usufruct Agreement with an option for a further lease extension of 25 years if required.

(b) Contingent rents

Rental income relating to finance lease includes the following contingent rent:

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Electricity energy charges	**23,608**	32,771

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6. Property, plant and equipment

Consolidated

	Plant and equipment RO' 000	Furniture and fixture RO' 000	Motor vehicles RO' 000	Office equipment RO' 000	Leasehold improvement RO' 000	Total RO' 000
Cost						
At 1 January 2019	236,612	102	70	184	1,968	238,936
Additions	19	-	19	1	-	39
Disposal	-	-	(17)	-	-	(17)
At 31 December 2019	**236,631**	**102**	**72**	**185**	**1,968**	**238,958**
Accumulated depreciation						
At 1 January 2019	74,019	48	56	153	1,167	75,443
Charge for the year (notes 23 and 24)	7,900	20	15	9	247	8,191
Disposals	-	-	(17)	-	-	(17)
At 31 December 2019	**81,919**	**68**	**54**	**162**	**1,414**	**83,617**
Carrying amount At 31 December 2019	**154,712**	**34**	**18**	**23**	**554**	**155,341**

Consolidated

	Plant and equipment RO' 000	Furniture and fixture RO' 000	Motor vehicles RO' 000	Office equipment RO' 000	Leasehold improvement RO' 000	Total RO' 000
Cost						
At 1 January 2018	236,366	102	70	180	1,787	238,505
Additions	246	-	-	4	181	431
At 31 December 2018	236,612	102	70	184	1,968	238,936
Accumulated depreciation						
At 1 January 2018	66,133	28	41	144	929	67,275
Charge for the year (notes 23 and 24)	7,886	20	15	9	238	8,168
At 31 December 2018	74,019	48	56	153	1,167	75,443
Carrying amount At 31 December 2018	162,593	54	14	31	801	163,493

6. Property, plant and equipment (continued)

(a) Leased land

Land on which the plant is constructed has been leased by Government of Sultanate of Oman to SMNBPC for a period of 25 years expiring in December 2031 under the term of the Usufruct Agreement, which can be extended for another maximum of 25 years, if required (note 18).

(b) Security

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

(c) Plant and equipment

The plant and equipment which is subject to an operating lease with OPWP solely relates to SMNBPC.

7. Right of use assets

The statement of financial position shows the following amounts relating to leases:

Consolidated

	Property RO' 000	Equipment RO' 000	Total RO' 000
Cost			
At 1 January 2019	295	253	548
Additions	-	48	48
At 31 December 2019	295	301	596
Accumulated depreciation			
At 1 January 2019	49	16	65
Charge for the year (notes 23 and 24)	49	18	67
At 31 December 2019	98	34	132
Carrying amount			
At 31 December 2019	197	267	464

	Property RO' 000	Equipment RO' 000	Total RO' 000
Cost			
At 1 January 2018	295	253	548
Additions	-	-	-
At 31 December 2018	295	253	548
Accumulated depreciation			
At 1 January 2018	-	-	-
Charge for the year (notes 23 and 24)	49	16	65
At 31 December 2018	49	16	65
Carrying amount			
At 31 December 2018	246	237	483

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8. Long-term prepayment

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Cost		
At 1 January and 31 December	**1,609**	1,609
Accumulated amortization		
At 1 January	**1,264**	1,158
Amortisation for the year (note 23)	**106**	106
At 31 December	**1,370**	1,264
Net book value at 31 December	**239**	345

9. Investment in subsidiaries

Details of the company's subsidiaries are as follows:

Name of the subsidiaries	Principal Activities	Date of acquisition	Proportion of shares acquired %	Parent Company 2019 RO' 000	Parent Company 2018 RO'000
RPC	Electricity generation	18 July 2011	99.99	**3,851**	3,851
SMNBPC	Electricity generation / Desalinated Water	18 July 2011	99.99	**23,554**	15,452
				27,405	19,303

Management has assessed its investments as required under IFRS 10 and concluded that it has control over these investments. Accordingly, the investments continue to be recognised as subsidiaries.

The investment in subsidiaries, incorporated in the Sultanate of Oman, has been recorded at cost.

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9. Investment in subsidiaries

Subsidiary - SMNBPC

The investment in SMNBPC amount comprise of the following amounts:

	Parent Company	
	2019	2018
	RO' 000	RO' 000
Cost of acquisition of SMNBPC	**15,452**	15,452
Equity contribution loan	**8,102**	-
	23,554	15,452

Equity Contribution Loan (ECL) given to SMNBPC has been classified as investment in subsidiary with effect from 11 December 2019 as the ECL facility is subordinated to the respective term loan facilities of SMNBPC and is repayable at the option of SMNBPC. (note 11)

10. Goodwill

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Goodwill	**15,739**	15,739

(a) Goodwill represents the excess of the cost of acquiring shares in a subsidiary over the aggregate fair value of the net assets acquired and rights to build and operate a new power plant.

(b) The carrying amount of goodwill as of the reporting year end allocated to each of the cash-generating units is as follows:

	Consolidated	
	2019	2018
	RO' 000	RO' 000
SMN Barka Power Company SAOC	**14,952**	14,952
Al-Rusail Power Company SAOC	**787**	787
	15,739	15,739

(c) The recoverable amount of each cash-generating unit is determined based on a value-in-use calculation, using current year actual free cash flows, contractual cash flows of the PWPA/PPA and projections based on management's best estimates considering the future market outlook. The key assumptions of the value-in-use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs incurred during the year. Management estimates discount rates that reflect current market assessments of the time value of money and the risks specific to each cash-generating unit. The growth rates are based on management estimates having regard to industry growth rates. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

10. Goodwill

(d) Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of the cash generating units, management has reviewed all the key assumptions and believes that changes in any of the key assumptions would not cause the carrying value of the goodwill to materially exceed its recoverable amount as of the reporting date.

Management has reviewed the underlying results and financial position of related cash generating units to which the goodwill pertains to and has determined that no provision for impairment of goodwill is required as at 31 December 2019.

11. Loan to a subsidiary

	Parent Company	
	31 December 2019	31 December 2018
	RO' 000	RO' 000
SMNBPC	**-**	8,102

The loan to a subsidiary has been put in place through the novation of existing Equity Contribution Loan (ECL) novated from SMN Power Holding Company (SMNPHC) to the company pursuant to the Novation Agreement dated 9 August 2011.

The ECL facility carried an interest of 9% per annum up to September 2011. Effective from 1 October 2011, ECL carried nil interest rate after amending the agreements between the company, RPC and SMNBPC as approved by the respective Boards of Directors.

Equity Contribution Loan (ECL) given to SMNBPC was classified as investment in subsidiary with effect from 11 December 2019. The ECL facility is subordinated to the respective term loan facilities of SMNBPC and is repayable at the option of SMNBPC. (note 9)

12. Inventory

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Fuel oil (diesel)	**2,973**	3,009

Inventory represent stock of diesel held by the group at the reporting date as backup fuel to operate the plant.

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13. Trade and other receivables

	Parent Company		Consolidated	
	2019	2018	**2019**	2018
	RO' 000	RO' 000	**RO' 000**	RO' 000
Trade receivables	**-**	-	**34,428**	5,927
Due from related parties (note 28)	**41**	28	**66**	51
Prepayments	**25**	25	**421**	338
Other receivables	**-**	-	**331**	781
	66	53	**35,246**	7,097

The Group has one customer (OPWP) which accounts for majority of the trade receivables balance as at 31 December 2019 (majority balance as at 31 December 2018). The overdue amount as of 31 December 2019 amounted to RO 28.4 million (31 December 2018 – nil) which represents the amount of energy charge invoiced to OPWP and a similar amount is shown under trade payable as per the back to back nature of the agreement with the Ministry of Oil and Gas.

Other receivables include insurance claim receivable of RO 0.2 million (31 December 2018 – RO 0.7 million) on account of property damage loss resulting from repair of Steam Turbines in the Barka Plant. These claims have been recorded in the consolidated financial statements since the property damage losses incurred can be measured reliably and it is virtually certain that the future economic benefits will flow to the Group.

The ageing of trade receivables at the reporting date was:

	Consolidated	
	2019	2018
	RO' 000	RO' 000
1 to 30 days	**6,040**	5,927
30 to 60 days	**3,463**	-
60 to 90 days	**4,446**	-
Over 90 days	**20,479**	-
	34,428	5,927

Trade receivable are stated net of accumulated provision for ECL RO 51thousand (31 December 2018 – Nil).

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14. Cash and bank

Cash and bank comprise the fixed term cash deposits and cash and cash equivalents.

(a) *Fixed term cash deposits*

Fixed term cash deposits represent amounts kept with banks for a period of 3 to 6 months having fixed interest rate. The interest rate on these deposits was in the range of 2.04% to 2.58% (2018 – 0.5% to 2.37%).

(b) *Cash and cash equivalents*

	Parent Company		**Consolidated**	
	2019	2018	**2019**	2018
	RO' 000	RO' 000	**RO' 000**	RO' 000
Cash at bank	**30**	35	**3,927**	3,078
Cash in hand	**-**	-	**4**	3
Cash and cash equivalents	**30**	35	**3,931**	3,081

14.1 Reconciliation of liabilities arising from financing activities (The Group)

	2018	**Cash flows**	**Non-cash items**	**2019**
	RO' 000	**RO' 000**	**RO' 000**	**RO' 000**
Term loan (notes 17 and 30)	142,955	**(19,920)**	**251**	**123,286**
Accrued interest on hedging reserve and term loan (notes 21 and 25)	1,892	**(7,194)**	**6,824**	**1,522**
Provision for site restoration (notes 19 and 25)	2,532	**-**	**169**	**2,701**
Liabilities arising from financing activities	147,379	**(27,114)**	**7,244**	**127,509**

Cash flows from financing activities include other finance charges incurred and paid during the year amounting to RO 0.105 million (2018: RO 0.104 million) which do not have any corresponding liability in the statement of financial position at the reporting date.

15. Share capital and reserves

(a) *Share capital*

The Company has authorized share capital of RO 70,000,000 consisting of 700,000,000 shares of 100 baizas each (2018: RO 70,000,000 consisting of 700,000,000 shares of 100 baizas each).

As at 31 December 2019, the Company's issued and paid-up capital consists of 199,635,600 shares of 100 baizas each. The details of the shareholders are as follows:

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15. Share capital and reserves (continued)

(a) Share capital (continued)

	31 December 2019			
	Nationality	Number of shares held of nominal value 100 baiza each	% of total	Aggregate nominal value of shares held (RO' 000)
Kahrabel FZE	**UAE**	**61,637,490**	**30.875%**	**6,164**
Mubadala Power Holding Company Limited	**UAE**	**61,637,490**	**30.875%**	**6,164**
Civil Service Employees' Pension Fund	**Omani**	**15,158,016**	**7.593%**	**1,516**
Ministry of Defense Pension Fund	**Omani**	**12,910,443**	**6.467%**	**1,291**
Qalhat LNG SAOC	**Omani**	**10,000,000**	**5.009%**	**1,000**
General public		**38,292,161**	**19.181%**	**3,829**
		199,635,600	**100%**	**19,964**

	31 December 2018			
	Nationality	Number of shares held of nominal value 100 baiza each	% of total	Aggregate nominal value of shares held (RO' 000)
Kahrabel FZE	UAE	61,637,490	30.875%	6,164
Mubadala Power Holding Company Limited	UAE	61,637,490	30.875%	6,164
Civil Service Employees' Pension Fund	Omani	15,158,016	7.593%	1,516
Ministry of Defense Pension Fund	Omani	14,910,443	7.469%	1,491
Qalhat LNG SAOC	Omani	10,000,000	5.009%	1,000
General public		36,292,161	18.179%	3,629
		199,635,600	100%	19,964

(b) Statutory reserve

In accordance with the Commercial Companies Law of the Sultanate of Oman applicable to companies registered in the Sultanate of Oman, 10% of a company's net profits after the deduction of taxes will be transferred to a non-distributable statutory reserve each year until the amount of such legal reserve has reached a minimum of one-third of that Company's issued share capital. This reserve is not available for distribution to shareholders as dividends.

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15. Share capital and reserves (continued)

(c) Dividends paid

During the Annual General Meeting on 22 March 2018, the company approved a final dividend of RO 3,793,076 from its consolidated retained earnings of the company as at 31 December 2017 corresponding to 19% (19 bzs/share), on the basis of nominal value of bzs 100 to the shareholders of the company who are on the shareholders' list registered with Muscat Clearing and Depository Company SAOC as on 1 May 2018.

16. Hedging reserve/ Derivative financial instruments

(a) Subsidiary - RPC

	2019 RO' 000	2018 RO' 000
Interest rate swaps:		
Credit Agricole - MTM	(144)	(238)
Hedging instrument at the end of the year	(144)	(238)
Deferred tax asset (note 20)	21	35
Hedging reserve at the end of the year (net of tax)	(123)	(203)
Less: Hedging reserve at the beginning of the year	(203)	(480)
Effective portion of change in fair value of cash flow hedge for the year.	80	277
Hedging instrument classification		
Non-current portion of hedging instrument	53	143
Current portion of hedging instrument	91	95
	144	238

RPC entered on 20 February 2007 into an interest rate swap agreement with financial institution related to the base term loan facility at the rate of 4.88% per annum till September 2021.

The notional value of the hedge as at the reporting date was RO 4.81 million (2018: RO 8.40 million). As at the reporting date the hedged amount was 58% (2018: 63%) of the loan amount.

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16. Hedging reserve/ Derivative financial instruments (continued)

(b) Subsidiary - SMNBPC

	2019	2018
	RO' 000	RO' 000
Interest rate swaps:		
HSBC Bank PLC	**(1,647)**	(1,576)
Mizuho	**(1,632)**	(1,570)
Credit Agricole	**(2,500)**	(1,814)
Hedging instrument at the end of the year	**(5,779)**	(4,960)
Deferred tax asset (note 20)	**866**	743
Hedging reserve at the end of the year (net of tax)	**(4,913)**	(4,217)
Less: Hedging reserve at the beginning of the year	**(4,217)**	(6,991)
Effective portion of change in fair value of cash flow hedge for the year.	**(696)**	2,774
Hedging instrument classification		
Non-current portion of hedging instrument	**4,393**	4,185
Current portion of hedging instrument	**1,386**	775
	5,779	4,960

SMNBPC has entered on 20 February 2007 into three interest rate swap agreements related to the base term loan facility with international banks (HSBC, Mizuho, CA-CIB) at fixed rates of 4.8675%, 4.8885% and 4.8570% per annum respectively.

On 7 September 2018, SMNBPC entered into a new hedging agreement with Credit Agricole Corporate and Investment Bank increasing the hedged amount up to 80% for the period from September 2018 to March 2024 at a fixed rate of 2.968%.

The notional value of the hedge as at the reporting date was RO 89.46 million (2018: RO 104.33 million). As at the reporting date the hedged amount was 78% (2017: 80%) of the loan amount.

(c) Fair value of swaps

The negative fair value of the above swaps amounting to RO 5.9 million (2018 - RO 5.2 million) is based on market values of equivalent instruments at the reporting date.

All the interest rate swaps are designated and effective as cash flow hedges and the fair value thereof has been recognised directly in other comprehensive income and presented in equity net of related deferred tax.

The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. Group policy is to maintain at least minimum requirements as stipulated in the facilities agreement of its borrowings at fixed rate using interest rate swaps. During the current period, the Group's borrowings at variable rate were entirely denominated in US Dollars.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Under these swaps, the Group agrees with other parties to exchange, at specified intervals (semi-annually), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

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17. Term loan

		Consolidated	
		2019	2018
		RO' 000	RO' 000
Term loan		**124,069**	143,989
Less: Unamortised finance costs		**(783)**	(1,034)
		123,286	142,955
Less: Current portion		**(17,441)**	(16,864)
Long-term portion		**105,845**	126,091
RPC	(i)	**4,283**	9,814
SMNBPC	(ii)	**101,562**	116,277
		105,845	126,091

i) The syndicated term loan of RPC is denominated in USD, secured over the present and future assets of the subsidiary and carries interest at a variable rate of LIBOR plus applicable margin and is repayable in bi-annual installments due from 30 September 2009 until 30 March 2022. There is also a mandatory repayment of the loan through all excess cash, beginning on 30 September 2016.

ii) The syndicated term loan of SMNBPC is denominated in USD, secured over the present and future assets of the subsidiary and carries interest at a variable rate of LIBOR plus applicable margin. The loan amortises, with bi-annual repayments of predetermined percentages of 87.5% of the outstanding principal amount due from 30 September 2009 until 30 June 2024 with the remaining 12.5% being repaid, after the validity of the PWPA, in four equal installments from 30 September 2024 to 30 March 2026. There is also a mandatory repayment of the loan through all excess cash (cash sweep), beginning on 30 September 2018.

Repayment term

The repayment schedule of the loans is as follows:

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Payable within one year	**17,441**	16,864
Payable between 1 and 2 years	**16,494**	17,441
Payable between 2 and 5 years	**69,871**	47,388
Payable after 5 years	**20,263**	62,296
	124,069	143,989

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17. Term loan (continued)

Security

The term loan and the debt reserve account facility are secured, under the security documents as a whole, by the following collateral:

- a charge over the Subsidiaries' assets (including, amongst others, the Project Accounts, all tangible assets and receivables);
- a pledge of Subsidiaries' shares;
- a pledge of shares in the investment in joint arrangement [see note 29(b)];
- an assignment of Subsidiaries' contracts (including the Project Documents) to which it is a party;
- an assignment of Subsidiaries' insurance; and
- security over the Company cash pooling accounts and an assignment of the rights of the Company thereunder.
- subordinate loan provided to subsidiaries – Equity contribution loan to SMNBPC

Financial Covenants

Under the terms of the borrowing facilities, the group is required to comply with a minimum debt service coverage ratio of 1.1: 1.0 and there is no breach during the reporting period.

Financial guarantee (DSRA LC Facility)

	Consolidated	
	2019	2018
	RO' 000	RO' 000
SMNBPC	**8,822**	8,746
RPC	**1,677**	1,681
	10,499	10,427

Subsidiary - SMNBPC

The term loan facility bears variable interest rate at US$ Libor plus margin as follows:

i) 0.70% per annum during the period from, and including, the Commercial Operation Date until the fifth anniversary of the Commercial Operation Date;

ii) 0.90% per annum from, and including, the fifth anniversary of the Commercial Operation Date until the ninth anniversary of the Commercial Operation Date;

iii) 1.10% per annum from and including, the ninth anniversary of the Commercial Operation Date until the thirteenth anniversary of the Commercial Operation Date;

iv) 1.25% per annum from, and including, the thirteenth anniversary of the Commercial Operation Date until the fifteenth anniversary of the Commercial Operation Date; and

v) thereafter 1.60% per annum.

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17. Term loan (continued)

Subsidiary - RPC

The term loan facility bears variable interest rate at US$ Libor plus margin as follows:

i) 0.70% per annum during the period from, and including, the Commercial Operation Date until the fifth anniversary of the Commercial Operation Date;

ii) 0.90% per annum from, and including, the fifth anniversary of the Commercial Operation Date until the ninth anniversary of the Commercial Operation Date; and

iii) thereafter, 1.10% per annum from, and including, the ninth anniversary of the Commercial Operation Date until the thirteenth anniversary of the Commercial Operation Date.

For the purpose of interest rate margin re-set in accordance with the facilities agreements, the Commercial Operation Date is 15 November 2009 (for both RPC and SMNBPC).

Working Capital Facilities

The Group has working capital facilities of RO 5.8 million (2018 – RO 5.8 million), which are secured under the conditions below and carry interest at the market rates applicable at the date of utilisation request with a maximum interest rate of 3.5 % per annum (2018: market rates applicable at the date of utilisation request with a maximum interest rate of 3.5 % per annum). The balance outstanding as of 31 December 2019 is nil (2018 – nil).

The working capital facility is secured under the security documents as a whole, by the following collateral:

- A charge over the subsidiaries' assets (including, amongst others, the bank accounts, plant assets and finance lease receivables);
- A pledge of its shares;
- An assignment of its contracts (including the Project Documents) to which it is a party;
- An assignment of its insurance; and
- Security over the Company's cash pooling account and an assignment of its rights there under.

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18. Lease liabilities

At 31 December 2019	Contractual undiscounted cash flows RO' 000	Present value of lease payments RO' 000
Amount payable under operating leases		
Within one year	77	57
In 2 to 5 years	150	92
More than 5 years	707	371
	934	520
Less : unpaid finance cost	(414)	-
Present value of lease payments	520	520

Lease liabilities included in the statement of financial position as:

	Consolidated
Current lease liabilities	76
Non-current lease liabilities	444
	520

At 31 December 2018	Consolidated Contractual undiscounted cash flows RO' 000	Present value of lease payments RO' 000
Amount payable under operating leases		
Within one year	76	52
In 2 to 5 years	194	131
More than 5 years	689	329
	959	512
Less : unpaid finance cost	(447)	-
Present value of lease payments	512	512

Lease liabilities included in the statement of financial position as:

	Consolidated
Current lease liabilities	52
Non-current lease liabilities	460
	512

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18. Lease liabilities (continued)

Amounts recognized in the consolidated statement of profit or loss and other comprehensive income:

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Interest on lease liabilities (included in finance charges)	**33**	39
Expenses relating to short-term leases (included in operating costs)	**47**	47
Expenses relating to leases of low-value assets, excluding short-term lease of low-value assets (included in general and administrative expenses)	**1**	1

Amounts recognized in the Statement of Cash Flows

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Total cash outflow for leases	**74**	75

The Group has leased land on which the SMNBPC plant is constructed. The land has been leased by Government of Sultanate of Oman for a period of 25 years expiring in December 2031 under the terms of the Usufruct Agreement, which can be extended for an additional 25 years.

The Group leases a building for its office space and connection equipment for its plants, with lease terms of five to thirty years respectively.

The Group also leases IT equipment and machinery and these leases are short term and/ or leases of low value items. The group has elected not to recognize right of use assets and lease liability for these leases.

19. Provision for site restoration

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Balance at 1 January	**2,532**	2,196
Additions	**14**	191
Accretion charge for the year (note 25)	**155**	145
Balance at 31 December	**2,701**	2,532

Because of the long term nature of the liability, there is significant uncertainty in estimating the cost that will be incurred. It has been assumed that the site will be retired using technology and material that are currently available. The provision has been calculated using a discount rate of 6.1% in RPC and 7.6% in SMNBPC.

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20. Taxation

	Consolidated	
	2019	2018
(a) Recognised in profit and loss	**RO' 000**	RO' 000
Current tax	**1,517**	719
Deferred tax for the year	**(49)**	566
Tax expense for the year	**1,468**	1,285

The tax charge has arisen on the profits of the parent and its subsidiaries which are subject to income tax at the rate of 15% of taxable profits.

(b) Reconciliation

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

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Profit before tax	**9,425**	9,143
Income tax (15% of above)	**1,414**	1,371
Others	**54**	(86)
Tax expense for the period	**1,468**	1,285

(c) Deferred tax liability – net

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Deferred tax liability – SMNBPC	**15,718**	15,856
Deferred tax liability – RPC	**104**	124
	15,822	15,980

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20. Taxation (continued)

Subsidiary – SMNBPC (continued)

(c) Deferred tax liability – net

Recognised deferred tax assets and liabilities are attributable to the following items:

	As at 1 January 2019 RO' 000	**Recognised during the year RO' 000**	**As at 31 December 2019 RO' 000**
Deferred tax liability recognised in profit or loss			
Property, plant and equipment	(16,640)	**26**	**(16,614)**
Provision for site restoration	131	**11**	**142**
Lease Liability	56	**(56)**	**-**
Unamortised finance cost	(146)	**34**	**(112)**
Net deferred tax (liability)/ asset	(16,599)	**15**	**(16,584)**
Deferred tax asset directly recognised in equity			
Fair value adjustment of interest rate swap	743	**123**	**866**
Deferred tax (liability)/ asset	(15,856)	**138**	**(15,718)**

	As at 1 January 2018 RO' 000	Recognised during the year RO' 000	As at 31 December 2018 RO' 000
Deferred tax liability recognised in profit or loss			
Property, plant and equipment	(16,462)	(178)	(16,640)
Provision for site restoration	112	19	131
Lease Liability	-	56	56
Unamortised finance cost	(183)	37	(146)
Loss carried forward	549	(549)	-
Net deferred tax (liability)/ asset	(15,984)	(615)	(16,599)
Deferred tax asset directly recognised in equity			
Fair value adjustment of interest rate swap	1,233	(490)	743
Deferred tax (liability)/ asset	(14,751)	(1,105)	(15,856)

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20. Taxation (continued)

Subsidiary – RPC (continued)

Subsidiary - RPC

Recognised deferred tax assets and liabilities are attributable to the following items:

	As at 1 January 2019 RO' 000	**Recognised during the year RO' 000**	**As at 31 December 2019 RO' 000**
Deferred tax liability recognised in profit or loss			
Provision for site restoration	(49)	**14**	**(35)**
Unamortised finance costs	(11)	**6**	**(5)**
Lease Liability	21	**(21)**	**-**
Leasehold improvements	(120)	**35**	**(85)**
Net deferred tax (liability)/ asset	(159)	**34**	**(125)**
Deferred tax asset directly recognised in equity			
Fair value adjustment of interest rate swap	35	**(14)**	**21**
Deferred tax (liability)/ asset	(124)	**20**	**(104)**

	As at 1 January 2018 RO' 000	Recognised during the year RO' 000	As at 31 December 2018 RO' 000
Deferred tax liability recognised in profit or loss			
Provision for site restoration	(62)	13	(49)
Unamortised finance costs	(17)	6	(11)
Lease Liability	0	21	21
Leasehold improvements	(129)	9	(120)
Net deferred tax (liability)/ asset	(208)	49	(159)
Deferred tax asset directly recognised in equity			
Fair value adjustment of interest rate swap	84	(49)	35
Deferred tax (liability)/ asset	(124)	0	(124)

20. Taxation (continued)

Subsidiary – RPC (continued)

(d) The movement in the current tax liability for the period comprise of:

	Consolidated	
	2019	2018
	RO' 000	RO' 000
At 1 January	**867**	315
Charge for the year	**1,517**	719
Paid during the year	**(727)**	(167)
At 30 December	**1,657**	867

(e) Status of previous year returns

Subsidiary - SMNBPC

The tax returns of the Company for the years 2007, 2008 and 2010 to 2016 have been assessed by the Secretariat General for Taxation at the Ministry of Finance and have not resulted in any additional tax payable.

The tax return for the year 2009 was assessed by the Secretariat General for Taxation in March 2016. In the assessment, the Tax Department disallowed certain expense items including payments made on interest rate swap settlements and liquidated damages paid to OPWP, although liquidated damages received from the subcontractor were considered in arriving at the taxable income of the company. After filing an objection to the Tax Department which was rejected, the company proceeded to file an appeal in April 2017 to the Tax Committee. In order to file the appeal as per the regulations, the Company issued a bank guarantee amounting to RO 1.46 million [refer note 29 (b)] in favour of Ministry of Finance covering the disputed tax payable and interest for one year. In its final decision on 18 December 2019, the Tax Committee ruled in favor of the Tax Department. SMNPBC has filed a case in the Primary Court to challenge the decision of the Tax Committee for the year 2009 as SMNBC has a strong case to present and the management and SMNBC's legal advisor are both confident of a favourable outcome.

The tax returns for the years 2017 to 2018 have not yet been assessed by the Secretariat General for Taxation at the Ministry of Finance. The management is of the opinion that additional taxes, if any, related to the open tax years would not be material to the company's financial position as at the reporting date.

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20. Taxation (continued)

(e) Status of previous year returns (continued)

Subsidiary – RPC

The tax return for the year 2007 was assessed by the Tax Department in December 2013. In its conclusion, the Tax Department disregarded the finance lease model adopted by the company (as per the requirements of IFRIC 4 – see note 6) and completed the tax assessment on the basis of 'fixed asset' model allowing depreciation to the company.

After filing an objection to the Tax Department which was rejected, the company proceeded to file an appeal in June 2014 to the Tax Committee. On 11 June 2015, the Tax Committee announced its decision to accept the company's position and to consider the contractual arrangement of its capital asset as a finance lease. However, on 9 August 2015 Tax Department has filed a letter to the Tax Committee to rectify the decision. The company submitted its response to Tax Department's letter explaining its strong technical position. On 21 January 2016, the Tax Committee rejected the Tax Department's request and reiterated its initial position confirming the contractual arrangement as a finance lease.

The tax returns for the years 2008 and 2009 had also been assessed by the Secretariat General for Taxation at the Ministry of Finance on the basis of 'fixed asset' model allowing depreciation to the company. The company formally objected the Tax Department assessment, which was also rejected in December 2014. Accordingly, in February 2015, the company had filed an appeal to the Tax Committee for the years 2008 and 2009 in line with its position for the year 2007.

In its final decision on 28 December 2017, the Tax Committee ruled in favor of the Tax Department for the tax years 2008 and 2009 deviating from its previous ruling which accepted the finance lease model. The company filed a case in the Primary Court to challenge the decision of the Tax Committee for the years 2008 and 2009. The Primary Court, however, rejected the company's appeal in April 2018. The company filed an appeal with the Appeal Court in May 2018. The Appeal Court also, in its judgment dated 28 October 2018 rejected the Company's case against the Tax Committee. The rejection of the Company's case by the Appeal Court does not result in any additional tax payment for the tax years 2008 and 2009 as the company will be in a tax loss position for these years as per the tax assessments issued by the Tax Authorities. The company has now filed an appeal with the Supreme Court in December 2018 as management believes that it has a strong case to present and the management and the company's tax legal advisor are both confident of a favourable outcome. Should the Supreme Court decide against the company then the maximum exposure for the company would be RO 2.32 million.

20. Taxation (continued)

(e) Status of previous year returns (continued)

Subsidiary – RPC

The tax return for the year 2010 has been also assessed by the Secretariat General for Taxation in December 2016 at the Ministry of Finance on the basis of 'fixed asset' model allowing depreciation to the company. The company has formally objected to the Tax Department's assessment which was rejected in April 2017.

Subsequently, in May 2017, the company filed an appeal to the Tax Committee for the year 2010 similar to previous years.

The tax return for the years 2011 to 2014 have been also assessed by the Secretariat General for Taxation at the Ministry of Finance on the basis of 'fixed asset' model allowing depreciation to the company. The company has formally objected the Tax Department assessment and a formal response is awaited.

The management is confident of a favourable outcome for the years 2008 to 2014 and accordingly, income tax and deferred tax continue to be calculated on the basis of the finance lease model.

The tax returns for the years 2015 to 2018 have not yet been assessed by the Secretariat General for Taxation. The management is of the opinion that additional taxes, if any other than discussed above, related to the open tax years would not be material to the company's financial position as at the reporting date.

RPC had filed a case with the Primary Court to challenge the decision of the Tax Committee for the years 2008 and 2009, whereby, the Tax Committee had upheld the 'fixed asset' model treatment deviating from its previous decision for the year 2007, meted out by the Secretariat General for Taxation at the Ministry of Finance and hence allowed depreciation to the subsidiary and rejected the finance lease model adopted by it. The Primary and Appeal Courts rejected the subsidiary's appeal in their decisions in April and October 2018, respectively. Consequently, RPC has filed an appeal with the Supreme Court in December 2018. Management, on the basis of the advice from its external legal counsel, is of the view that it has a strong case to present and is confident of a favorable outcome primarily because of the fact that the Primary and Appeal Courts' judgments are not line in with the fundamental assumption of "substance-over-form" under the IFRS.

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21. Trade and other payables

	Parent Company		Consolidated	
	2019	2018	**2019**	2018
	RO' 000	RO' 000	**RO' 000**	RO' 000
Supplier and contractor payables	**2**	20	**29,120**	1,659
Other accrued expenses	**69**	390	**1,528**	2,322
Accrued interest on term loan and hedging reserve	**-**	-	**1,522**	1,892
Due to related parties (note 28)	**21**	9	**2,645**	932
	92	419	**34,815**	6,805

22. Revenue

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Revenue from contract with customer		
Energy and Water Output Charges	**41,421**	58,130
Fixed operating and Maintenance charges	**12,132**	11,975
Operating lease income investment charge	**23,861**	24,055
Total Revenue contract with customer	**77,414**	94,160
Revenue from lease contracts		
Interest income on finance lease	**762**	1,043
Investment charge revenue	**5,514**	5,429
Total Revenue from Lease contracts	**6,276**	6,472
Total Revenue	**83,691**	100,632

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22. Revenue (continued)

(a) The Group has PWPA and PPA with OPWP as disclosed in significant contracts (note 2) for supply of electricity and water and making available the capacity to OPWP.

(b) Capacity charge related to investment charge under the PWPA is considered as lease component of the agreement and constitutes operating lease income for SMNBPC.

(c) Capacity charge related to fixed operating and maintenance charge is for making the capacity available to OPWP and energy and water output charges are for electricity and water output delivered.

(d) The revenue has been disaggregated based on how revenues are affected by general economic factors like change in demand, drivers of revenue and off-take of product. However, the management and chief operating decision makers of the Group assess performance of the Group at Group level. Accordingly, the disaggregated revenue line items do not represent or correspond to the operating segments as defined by IFRS 8 and explained in note 31

(e) The Group sells its entire output to OPWP in Oman which is the only customer of the Group. The contracts with the customer give rise to performance obligations namely production / supply of electricity and water and making available the capacity for production. Transaction prices for each performance obligation are identifiable in the aforementioned contracts with OPWP separately and are equal to stand-alone selling prices of each performance obligation under PPA and PWPA.

(f) The Group satisfies performance obligations upon actual delivery of water and electricity output and by making capacity available.

(g) The Group has recognized revenue over time since OPWP (the customer) simultaneously receives and consumes the output of electricity and water under the contract and by availing the available capacity. In doing so, the Group has used output method to measure the Group's progress towards complete satisfaction of performance obligations satisfied over time. The output method required the Group to measure actual output delivered with respect to electricity and water and calculate actual capacity availability. Based on the measurement and calculation of output and availability respectively and fixed tariff as per the terms of PWPA and PPA revenue is recognized. The selected output method depicts the Group's performance towards complete satisfaction of the performance obligations since:

   i) the output and capacity availability can be measured to the exact quantities for which control has transferred to OPWP; and

   ii) The Group's performance has not produced any work in progress or finished goods controlled by the customer that are not included in the measurement of the output.

(h) The Group has no unsatisfied performance obligations with respect to billed revenue. The Group has right to invoice for every unit of output and making available the designated capacity. Actual invoicing for the delivered output is done at the end of every month. Invoicing is as per transaction price (tariff) based on contracts. The payment terms are for less than a month and accordingly, transaction price does not contain any significant financing component.

(i) No significant judgement is involved in the application of output method for measuring Group's performance towards satisfaction of obligations.

(j) The Group has not recognized any impairment losses on receivables arising from Group's contract with customer.

(k) All the revenue of the Group accrues from contracts with customers.

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23. Operating costs

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Energy consumption	**43,652**	59,528
Contract fixed fee for plant operations	**9,032**	8,849
Depreciation (notes 6 and 7)	**8,165**	8,146
Contract variable fee for plant operations	**2,518**	3,397
Repair and maintenance	**1,589**	1,544
Contract other fee for plant operations	**908**	487
Insurance	**762**	661
Amortisation of long term prepayment (note 8)	**106**	106
Generation and license fee	**63**	63
Customs duty	**70**	54
Fuel oil	**35**	43
Other direct costs	**50**	(450)
Contract (penalties) / incentives for plant operations	**(144)**	85
	66,806	82,513

The contract penalties represent penalties applied to the Operation and Maintenance Contractor for lower plant availability and variable margins during the period than the contractual benchmark

24. General and administrative expenses

	Parent Company		Consolidated	
	2019	2018	**2019**	2018
	RO' 000	RO' 000	**RO' 000**	RO' 000
Staff costs (see below)	**110**	110	**703**	675
Legal and professional charges	**41**	58	**256**	486
Depreciation (notes 6 and 7)	**-**	-	**93**	87
Directors' remuneration and sitting fee	**50**	53	**57**	59
Insurance expenses	**-**	-	**21**	20
Other expenses	**33**	46	**87**	97
	234	267	**1,217**	1,424

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24. General and administrative expenses

	Parent Company		Consolidated	
Staff cost are as follows:	**2019**	2018	**2019**	2018
	RO' 000	RO' 000	**RO' 000**	RO' 000
Salaries, wages and other benefits	**110**	110	**664**	642
Increase in obligation for defined benefit plan	**-**	-	**12**	8
Contributions to Omani Social Insurance Scheme	**-**	-	**25**	25
	110	110	**703**	675

25. Finance charges

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Interest on term loan	**4,962**	4,879
Hedging charges	**1,862**	3,047
Amortisation of deferred finance cost	**251**	282
Accretion charge for provision for site restoration (note 19)	**155**	145
Exchange loss	**63**	62
Expected credit loss	**51**	-
Interest on DSRA LC	**48**	49
Interest on leases (note 18)	**33**	39
Interest income on fixed term deposits	**(36)**	(65)
Interest on short-term borrowings	**(54)**	19
	7,335	8,457

26. Investment income

	Parent Company	
	2019	2018
	RO' 000	RO'000
Dividend - SMNBPC	**-**	3,793

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27. Other income

Parent company's other income represents cost re-charge from the two subsidiaries as per the cost sharing agreement entered between the parties on 21 February 2019.

	Consolidated	
	2019	2018
	RO' 000	RO' 000
Insurance proceeds on property damage	**580**	708
Refund from Off-taker on change in Income Tax	**311**	150
Liquidated damages	**150**	-
Miscellaneous income	**51**	28
	1,092	886

The other income of RO 219K for SMN Power Holding SAOG is in respect of the back charges of the costs charged to SMN Barka Power Company SAOC and Al Rusail Power Company SAOC as per the cost sharing agreement dated 21 February 2019 (effective from march 2019).

This was entered into due to the cash sweep effect of the term loan that restricted the company from receiving any dividend income from September 2016 for Al Rusail Power Company SAOC as per the facilities agreement dated 20 February 2007 and September 2018 for SMN Barka Power Company SAOC as per the facilities agreement dated 20 February 2007

Other income includes an amount of RO 580,282 which represents insurance claim receivable on account of property damage loss resulting from repair of Steam Turbines and Gas Turbines 1 and 3 in the Barka Plant. These claims have been recorded in these consolidated financial statements since the property damage losses incurred can be measured reliably and it is virtually certain that the future economic benefits will flow to the Group.

Refund from Off-taker represents Change of Law claim from OPWP for tax law amendment pursuant to Royal Decree 9/2017. Liquidated damages represent a claim made to a contractor for business interruption losses suffered due to delay in repair of Steam Turbines.

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28. Related parties

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

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

No expenses have been recognised in the period for bad or doubtful debts in respect of amounts owed by related parties (2018: Nil).

SUEZ-Tractebel Operation and Maintenance Oman (STOMO), Kahrabel Operation and Maintenance Oman (KOMO), Mubadala Development Co (Mubadala) and International Power SA are related parties with significant shareholder influence.

Following is the summary of significant transactions with related parties during the period:

a) Expenses incurred by the Parent (SMN Power Holding SAOG):

	2019	2018
	RO' 000	RO' 000
Administrative fee (KOMO)	**110**	110
Directors' remuneration	**35**	35
Directors' sitting fee	**15**	18
Company Secretary fee	**7**	7
	167	170

b) Expenses incurred by the subsidiaries (SMNBPC and RPC):

	2019	2018
	RO' 000	RO' 000
SUEZ-Tractebel Operation and Maintenance Oman LLC		
Operation and maintenance expense - fixed fee	**9,032**	8,849
Operation and maintenance expense - variable fee	**2,518**	3,397
Contract incentive for plant operations	**(144)**	(450)
Operation and maintenance expense - other fees	**908**	487
Customs duty	**70**	51
Repair and maintenance	**1,587**	578
	13,971	12,912
Kahrabel FZE		
Fixed service fee	**74**	80
Legal fee	**4**	4
	78	84
Mubadala		
Administrative fee	**142**	142
Directors' remuneration	**5**	5
Directors' sitting fee	**1**	1

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28. Related parties (continued)

Following is the summary of significant transactions with related parties during the period: (continued)

c) Key management benefits

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise).

	Parent Company		Consolidated	
	2019	2018	**2019**	2018
	RO' 000	RO' 000	**RO' 000**	RO' 000
Employment benefits	**110**	110	**371**	369
Directors' remuneration	**35**	35	**40**	40
Directors' sitting fee	**15**	18	**16**	19
Company Secretary fee	**7**	7	**7**	7
	167	170	**434**	435

d) Due from related parties

	Parent Company		Consolidated	
	2019	2018	**2019**	2018
	RO' 000	RO' 000	**RO' 000**	RO' 000
STOMO	**-**	-	**26**	25
KOMO	**1**	12	**1**	13
Barka Seawater Facilities Company SAOC	**-**	-	**34**	8
Mubadala	**2**	1	**5**	5
SMNBPC	**23**	8	**-**	-
RPC	**15**	7	**-**	-
	41	28	**66**	51

e) Due to related parties:

	Parent Company		Consolidated	
	2019	2018	**2019**	2018
	RO' 000	RO' 000	**RO' 000**	RO' 000
STOMO	**-**	-	**2,572**	836
Barka Seawater Facilities Company SAOC	**-**	-	**40**	50
KOMO	**9**	9	**9**	31
Mubadala	**12**	-	**24**	15
	21	9	**2,645**	932

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29. Contingencies and operational commitments

(a) Subsidiary – RPC

Environmental Permit from Ministry of Environment and Climate Affairs of the Sultanate of Oman (MECA)

At the time of acquisition of the Company by SMN Jafza in 2007, the Authority for Electricity Regulation (AER) issued specific recommendations on the environmental monitoring system to be installed at the power plant (i.e. the Predictive Emissions Monitoring Systems – PEMS). These recommendations were fully implemented by the Company and compliance confirmed by AER as stated in their 2007 Annual Report.

RPC was issued with a Preliminary Environmental Permit, which expired on 12 May 2009. Article 8 of Ministerial Decree (MD) 187/2001 (The Environmental Law and the Regulations for Organising the Issuance of Environmental Approvals and Final Environmental Permits) provides that the MECA may close down an establishment if it is found to be practicing its activity (i) without environmental approval; (ii) without the final environmental permit; or (iii) after the expiry of the environmental approval of the final environmental permit (as the case may be).

On 18th February 2018, RPC has received an Environmental Permit from the Ministry of Environment and Climate Affairs (MECA), valid until 13th February 2021. One of permitting conditions stipulates a continuous measurement of emissions to be part of the monitoring plan.

In May 2018, RPC submitted an environmental audit report, performed by HMR Consultants (HMR), a company having expertise in environmental audits, to MECA. The report stated that Predictive Emissions Monitoring Systems (PEMS) have been incorporated in the plant design to monitor the emission releases from the GT stacks.

The monthly monitoring data for stack emission are reported to MECA. MECA replied that PEMS was installed without following United States Environmental Protection Agency (USEPA).

RPC/HMR clarified that PEMS have been verified using the standard available in 2008 and third-party portable continuous emissions monitoring equipment to compare analysis results at different load scenarios.

As RPC responded to all MECA's comments on the environmental audit report by letter in September 2018 and no further feedback from MECA is currently available, RPC has no reason to believe that MECA will take action under MD 187/2001.

Operation and Maintenance commitment

As per the Operation and Maintenance (O&M) agreement, STOMO operates and maintains the Subsidiary's Plant at Rusail until 31 March 2022. Under the O&M agreement, the Subsidiary has to pay the following operating fees:

- a fixed monthly fee; and
- a variable fee.

All fees are subject to indexation based on Omani and US Consumer Price Indices.

29. Contingencies and operational commitments (continued)

(a) Subsidiary – RPC (cotinued)

The minimum future payments under the O&M agreement (excluding indexation) for the Group are as follows:

	2019	2018
	RO' 000	RO' 000
Not later than one year	2,427	2,427
Receivable one to five years	3,033	5,460
	5,460	7,887

(b) Subsidiary – SMNBPC

Shared facilities commitment

With reference to the Shareholders Agreement dated 20 February 2007, ACWA Power Barka SAOG (formerly AES Barka) and the Subsidiary committed to establish a shared facility company owned 50/50 between the above shareholders.

On 9 March 2009, SMNBPC injected a total of RO 250,000 in a restricted bank account to fund the capital of the new company to be named Barka Seawater Facilities Company SAOC (BSFC).

On 19 July 2010, SMNBPC and ACWA Power Barka SAOG finalized the incorporation of the Shared Facilities Company and conducted the Constitutive General Meeting and the first Board Meeting.

On 1 October 2014, BSFC acquired the shared facility assets from ACWA Power Barka SAOG and commenced commercial operations.

Operation and Maintenance commitment

As per the O&M agreement, STOMO operates and maintains the SMNBPC's Plant at Barka until 30 March 2024. Under the O&M agreement, the Subsidiary has to pay the following operating fees:

- a fixed monthly fee;
- a power variable fee; and
- a water variable fee.

All fees are subject to indexation based on Omani and US Consumer Price Indices.

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29. Contingencies and operational commitments (continued)

(b) Subsidiary – SMNBPC (continued)

The minimum future payments under the O&M agreement considering a COD on 15 November 2009 (excluding indexation) for the Group are as follows:

	2019	2018
	RO' 000	RO' 000
Not later than one year	**4,021**	4,021
Receivable one to five years	**13,402**	16,418
After five years	**-**	994
	17,423	21,433

Financial guarantee (DSRA LC Facility) - Group

	2019	2018
	RO' 000	RO' 000
SMNBPC	**8,822**	8,746
RPC	**1,677**	1,681
	10,499	10,427

Bank guarantees – Group

	2019	2018
	RO' 000	RO' 000
Bank guarantee received		
Retention guarantee dated 24 January 2007 with the latest amendment dated 17 August 2017 (valid up to 15 January 2019)	**-**	442
Bank guarantee given		
Bank guarantee given to Ministry of Finance (valid up to 15 April 2020) - note 20	**1,456**	1,458

Subsequent to the Settlement Agreement with Doosan dated 22 May 2012 (note 2), the EPC Performance Bond was released and the retention guarantee reduced from RO 10.2 million to RO 1.9 million on 3 June 2012. Pursuant to the terms of 2nd amendment of EPC agreement, the retention guarantee was further reduced to RO 1.6 million on 27 September 2013. Pursuant to the terms of 3rd amendment of EPC agreement, the retention guarantee was extended up to 30 June 2017. Pursuant to the terms of 4th amendment of EPC agreement, the retention guarantee was reduced to RO 0.8 million on 19 June 2017 and was valid up to 30 September 2018. Pursuant to the 5th amendment of EPC agreement, the retention guarantee was further reduced to RO 0.4 million and valid until 15 January 2019.

30. Financial instruments

Financial assets are assessed for impairment at each reporting date as disclosed in note 3.4(h).

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

- Credit risk
- Liquidity risk
- Market risk

The Group's overall risk management focuses on the unpredictability of markets it is potentially exposed to and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out in order to identify, evaluate, mitigate and monitor financial risks.

(a) Credit risk

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

The potential risk in respect of amounts receivables is limited to their carrying values as management regularly reviews these balances whose recoverability is in doubt.

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date was on account of:

	Parent Company		Consolidated	
	2019	2018	**2019**	2018
Financial assets held at amortized cost (previously "loans and receivables")	**RO' 000**	RO' 000	**RO' 000**	RO' 000
Loan to subsidiary	**-**	8,102	**-**	-
Trade and other receivables (excluding prepayments)	**-**	-	**34,759**	6,708
Finance lease receivables	**-**	-	**9,718**	14,403
Due from related parties	**41**	25	**67**	51
Cash at bank	**29**	35	**3,927**	3,078
	70	8,162	**48,471**	24,240

The exposure to credit risk for trade receivables at the reporting date was due entirely from OPWP.

30. Financial instruments (continued)

(a) Credit risk (continued)

There is no impairment of receivables at the reporting date.

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written-off against allowance account.

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

		Parent Company		Consolidated	
		2019	2018	**2019**	2018
Bank	**Rating**	**RO' 000**	RO' 000	**RO' 000**	RO' 000
Bank balances					
Bank Muscat SAOG	P-2	**27**	33	**3,896**	3,048
HSBC Bank plc	P-1	**3**	2	**31**	30
		30	35	**3,927**	3,078
Fixed term deposits					
Bank Muscat SAOG	P-2	**-**	350	**13**	350
HSBC Bank plc	P-1	**-**	-	**4,960**	3,413
		-	350	**4,973**	3,763

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group'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 Group's reputation. The Group's access to credit facilities is described in note 17.

The following are the undiscounted maturities of the financial liabilities for the Parent Company and the Group respectively.

Parent Company	**Carrying amount RO' 000**	**Contractual cash flows RO' 000**	**6 months or less RO' 000**
31 December 2019			
Non-derivatives			
Other payables and due to related parties	**92**	**92**	**92**

Parent Company	Carrying amount RO' 000	Contractual cash flows RO' 000	6 months or less RO' 000
31 December 2018			
Non-derivatives			
Other payables and due to related parties	419	419	419

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30. Financial instruments (continued)

(b) Liquidity risk (continued)

Group	Carrying amount	Undiscounted cash flows	6 Months or less	6 to 12 Months	1 to 2 years	More than 2 years
Non-Derivatives	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
31 December 2019						
Term loan	**123,286**	**(124,069)**	**(7,471)**	**(9,971)**	**(16,494)**	**(90,133)**
Trade and other payables	**32,170**	**(32,170)**	**(32,170)**	**-**	**-**	**-**
Due to related parties	**2,645**	**(2,645)**	**(2,645)**	**-**	**-**	**-**
Lease liabilities	**469**	**(883)**	**(38)**	**(38)**	**(146)**	**(661)**
	158,570	**(159,767)**	**(42,324)**	**(10,009)**	**(16,640)**	**(90,794)**
Derivatives						
Interest rate swap	**5,923**	**(5,923)**	**(567)**	**(910)**	**(1,846)**	**(2,600)**

Group	Carrying Amount	Undiscounted cash flows	6 Months or less	6 to 12 Months	1 to 2 years	More than 2 years
Non-Derivatives	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
31 December 2018						
Term loan	142,955	(143,989)	(6,853)	(10,011)	(17,441)	(109,684)
Trade and other payables	5,873	(5,873)	(5,873)	-	-	-
Due to related parties	932	(932)	(932)	-	-	-
Lease liabilities	512	(959)	(38)	(38)	(194)	(689)
	150,272	(151,753)	(13,696)	(10,049)	(17,635)	(110,373)
Derivatives						
Interest rate swap	5,198	(5,198)	(325)	(546)	(1,454)	(2,873)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group'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.

As of 31 December 2019, the Group does not hold any such financial instruments that have any risk of changes in prices for investment in equity instruments.

30. Financial instruments (continued)

(c) Market risk (continued)

Currency risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the group's functional currency.

The Group is exposed to foreign exchange risk arising from currency exposures primarily with respect to the US Dollar. Management believes that in case US Dollar weaken or strengthen against Rial Omani there would be an insignificant impact in the post-tax profit.

Interest rate risk

The Group has borrowings which are interest bearing and exposed to changes in market interest rates. The Group has hedged this interest rate risk through interest rate swaps. The percentage of interest charges hedged is presented below:

In RPC, 60%-65% of the interest charges were hedged for the period from 1 October 2016 to 30 September 2018, 60%-65% and 50%-0% from 1 October 2018 onwards.

In SMNBPC, 80% of the interest charges are hedged for the period from 30 September 2018 to 31 March 2024 and 60%-65% from there onwards.

The interest rate profile of the Group's interest bearing financial instruments is disclosed in notes 16 and 17 to these parent company and consolidated financial statements.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would not have a significant impact on the equity or the profit or loss at the reporting date mainly as a result of interest rate swaps (note 16).

Fair value of financial instruments

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

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

30. Financial instruments (continued)

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

Level 2	**Consolidated**	
	2019	2018
	RO' 000	RO' 000
Financial liabilities measured at fair value		
Interest rate swap	**5,923**	5,198

The valuation techniques of the above financial liabilities are disclosed in note 4.

There are no financial assets at fair value at the reporting date. Further, there were no transfers between Level 1, Level 2 and Level 3 during the period.

Capital management

The Group's policy is to maintain an optimum capital base to maintain investor, creditor and market confidence to sustain future growth of business as well as achieve appropriate return on capital.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can provide adequate returns to members and benefits for other stakeholders by pricing the services commensurate to the level of risk. The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

30. Financial instruments (continued)

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

	2019	2018
	RO' 000	RO' 000
Debt (Term loan)	**123,285**	142,955
Equity (Shareholders' funds)*	**48,826**	40,870
Debt to equity ratio (times)	**2.52**	3.50

*Shareholders' funds comprises of Equity, Statutory reserves and Retained earnings.

31. Operating lease agreement for which a subsidiary (SMNBPC) acts as a lessor

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

Management has determined that the take-or-pay arrangements with OPWP under PWPA are covered by International Financial Reporting Interpretation Committee - Determining whether an Arrangement contains a Lease (IFRIC 4) as such arrangements convey the right to use the assets. Management further determined that such arrangement in substance represents an operating lease under IFRS 16 Leases. The lease commenced on 15 November 2009.

The following is the total of future minimum lease receipts expected to be received under PWPA, excluding indexation:

	2019	2018
	RO' 000	RO' 000
Due:		
Not later than one year	**25,474**	25,474
Later than one year and not later than five years	**98,448**	101,936
Later than five years	**-**	22,048
	123,922	149,458

SMN POWER HOLDING SAOG AND ITS SUBSIDIARIES
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(forming part of the consolidated financial statements)

32. Net assets per share

	Parent Company		Consolidated	
	2019	2018	**2019**	2018
	RO' 000	RO' 000	**RO' 000**	RO' 000
Net assets - Shareholders' funds* (RO' 000)	**27,409**	27,563	**48,826**	40,870
Number of shares outstanding during the year ('000)	**199,636**	199,636	**199,636**	199,636
Net asset per share (RO)	**0.137**	0.138	**0.245**	0.205

*Shareholders' funds comprises of Equity, Statutory reserves and Retained earnings.

33. Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.

	Parent Company		Consolidated	
	2019	2018	**2019**	2018
	RO' 000	RO' 000	**RO' 000**	RO' 000
Profit for the year (RO' 000)	**(15)**	3,526	**7,956**	7,858
Weighted average number of shares outstanding during the year ('000)	**199,636**	199,636	**199,636**	199,636
Earnings per share - basic and diluted (RO)	**0.000**	0.018	**0.040**	0.039

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

34. Segmental reporting

The Group has only one segment in accordance with IFRS 8. Segment information is, accordingly, presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure. The requirements of IFRS 8, paragraphs 31 to 34 relating to group wide disclosures has been covered under consolidated statements of financial position, profit and loss and other comprehensive income and also in notes 1, 2 and 22 to these consolidated financial statements.