

DHOFAR GENERATING COMPANY SAOG

FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

DHOFAR GENERATING COMPANY SAOG

FINANCIAL STATEMENTS

For the period ended 30 June 2020

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DHOFAR GENERATING COMPANY SAOG

STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2020

		Quarter ended 30-Jun-20	6 Months ended 30-Jun-20	Quarter ended 30-Jun-19	6 Months ended 30-Jun-19
	<i>Notes</i>	Notes	Notes	RO	RO
Revenue	20	13,918,828	21,423,275	13,001,857	20,609,266
Operating costs	21	(8,265,706)	(15,011,457)	(7,465,323)	(14,330,844)
GROSS PROFIT		5,653,122	6,411,818	5,536,534	6,278,422
General and administrative expenses	22	(296,454)	(501,973)	(197,117)	(393,542)
Finance costs	24	(1,811,668)	(3,592,087)	(1,843,026)	(3,658,682)
PROFIT BEFORE TAX		3,545,000	2,317,758	3,496,391	2,226,198
Income tax expense	19	(454,450)	(902,874)	(576,189)	(1,120,289)
Net profit for the period		3,090,550	1,414,884	2,920,202	1,105,909
Other comprehensive income / (loss) ('OCI')					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Fair value (loss) / gain arising during the period on cash flow hedge - net of tax	12	2,353,759	(5,534,508)	(2,218,696)	(3,890,458)
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE PERIOD		5,444,309	(4,119,624)	701,506	(2,784,549)
Basic and diluted earnings per share	25	0.014	0.006	0.013	0.005

The attached notes 1 to 34 form part of these financial statements.

DHOFAR GENERATING COMPANY SAOG

STATEMENT OF FINANCIAL POSITION

AS AT 30 June 2020

	Notes	30-Jun-20 RO	31-Dec-19 RO
ASSETS			
Non-current assets			
Plant, equipment and capital work in progress	4	151,503,160	153,454,538
Finance lease receivable	5	50,750,652	52,056,576
Right-of-use assets	18	3,771,513	3,894,724
		<u>206,025,325</u>	<u>209,405,838</u>
Current assets			
Inventories	6	5,650,337	5,742,701
Finance lease receivable	5	2,559,769	2,457,689
Trade and other receivables	7	21,719,147	11,168,792
Advances and prepayments	8	286,459	269,600
Cash and cash equivalents	9	5,249,055	6,279,412
		<u>35,464,767</u>	<u>25,918,194</u>
TOTAL ASSETS		<u>241,490,092</u>	<u>235,324,032</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	22,224,000	22,224,000
Legal reserve	11	267,715	267,715
Retained earnings		26,004,362	26,589,638
Cash flow hedge reserve	12	(10,908,572)	(5,374,064)
Total equity		<u>37,587,505</u>	<u>43,707,289</u>
Non-current liabilities			
Long term loan	16	142,765,978	145,446,509
Fair value of the cash flow hedge	13	10,908,572	5,675,397
Provision for decommissioning costs	14	4,286,364	4,211,502
Provision for major maintenance	15	3,550,089	3,713,809
End of service benefits payable		50,313	40,364
Lease liabilities	18	3,837,540	3,912,485
Deferred tax liability - net	19	7,373,546	7,447,350
		<u>172,772,402</u>	<u>170,447,416</u>
Current liabilities			
Long term loan	16	7,232,082	7,257,204
Fair value of the cash flow hedge	13	1,925,042	647,030
Lease liabilities	18	360,271	424,674
Trade and other payables	17	21,230,370	12,456,981
Income tax payable	19	382,420	383,438
		<u>31,130,185</u>	<u>21,169,327</u>
Total liabilities		<u>203,902,587</u>	<u>191,616,743</u>
TOTAL EQUITY AND LIABILITIES		<u>241,490,092</u>	<u>235,324,032</u>
Net assets per share	32	<u>0.169</u>	<u>0.197</u>

The financial statements were approved by a resolution of the Board of Directors on 21 July 2020.

Chairman

Acting Chief Executive Officer

The attached notes 1 to 34 form part of these financial statements.

DHOFAR GENERATING COMPANY SAOG

STATEMENT OF CASH FLOWS

For the period ended 30 June 2020

		6 Months ended 30-Jun-20 RO	6 Months ended 30-Jun-19 RO
OPERATING ACTIVITIES			
Profit before tax for the period		2,317,758	2,226,198
Adjustments for:			
Depreciation of plant and equipment	4	1,981,122	1,974,240
Depreciation of right of use asset	21	123,211	147,947
Finance costs	24	3,592,087	3,658,682
Interest income on finance lease	20	(2,205,712)	(2,299,813)
Provision for expected credit losses	22	78,087	-
Provision for end of service benefit		9,949	9,052
		5,896,502	5,716,306
Working capital changes:			
Inventories		92,364	155,118
Trade and other receivables		(10,628,440)	(7,537,350)
Trade and other payables		8,722,055	114,569
Advances and prepayments		(16,859)	131,605
Cash generated from operations		4,065,622	(1,419,752)
Income tax paid		(1,018)	-
Finance lease instalments (power capacity payments) received		3,409,555	3,409,556
Net cash flows generated from operating activities		7,474,159	1,989,804
INVESTING ACTIVITIES			
Major maintenance - payment	15	(236,427)	(170,149)
Additions to equipment and capital work-in-progress	4	(29,744)	(87,151)
Net cash flows used in investing activities		(266,171)	(257,300)
FINANCING ACTIVITIES			
Finance cost paid		(3,179,741)	(3,380,437)
Payment of lease liabilities	18	(261,859)	(331,808)
Repayment of long term loan	16	(2,796,585)	(2,670,749)
Proceeds of short term facilities		7,700,000	-
Repayment of short term facilities		(7,700,000)	-
Dividend payment	34	(2,000,160)	(2,000,160)
Net cash flows (used in) / generated from financing activities		(8,238,345)	(8,383,154)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(1,030,357)	(6,650,650)
Cash and cash equivalents at beginning of the period		6,279,412	10,106,712
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	9	5,249,055	3,456,062

The attached notes 1 to 34 form part of these financial statements.

DHOFAR GENERATING COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2020

	Share capital	Legal reserve	Retained earnings	Cash flow hedge reserve	Total
	RO	RO	RO	RO	RO
Balance at 1 January 2019	22,224,000	202,595	30,250,353	(1,222,955)	51,453,993
Effect of adoption IFRS 16	-	-	(246,478)	-	(246,478)
Balance at 1 January 2019 (adjusted)	22,224,000	202,595	30,003,875	(1,222,955)	51,207,515
Profit for the year	-	-	651,203	-	651,203
Other comprehensive loss for the year	-	-	-	(4,151,109)	(4,151,109)
Total comprehensive income for the year	-	-	651,203	(4,151,109)	(3,499,906)
Transfer to legal reserve	-	65,120	(65,120)	-	-
Dividend paid (note 34)	-	-	(4,000,320)	-	(4,000,320)
Balance at 31 December 2019	22,224,000	267,715	26,589,638	(5,374,064)	43,707,289
Profit for the period	-	-	1,414,884	-	1,414,884
Other comprehensive loss for the period	-	-	-	(5,534,508)	(5,534,508)
Total comprehensive expense for the period	-	-	1,414,884	(5,534,508)	(4,119,624)
Transfer to legal reserve	-	-	-	-	-
Dividend paid (note 34)	-	-	(2,000,160)	-	(2,000,160)
Balance at 30 June 2020	22,224,000	267,715	26,004,362	(10,908,572)	37,587,505

The attached notes 1 to 34 form part of these financial statements.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

1 ACTIVITIES

Dhofar Generating Company (the "Company" or "DGC") was registered as a closely held joint stock company ('SAOC') in the Sultanate of Oman on 28 February 2001 under the Commercial Companies Law in Oman. Subsequently, the Company was converted to a Public Joint Stock Company ("SAOG") and was listed on the Muscat Securities Market on 5 September 2018.

The ultimate investors include International Company for Water and Power Projects ("ACWA Power"), Mitsui & Co., Ltd., and Dhofar International Development & Investment Holding Company S.A.O.G ("DIDIC"). The registered address of ACWA Power is 22616, King Abdul Aziz Road, Riyadh, Kingdom of Saudi Arabia. The registered address of Mitsui & Co., Ltd. Marunouchi I-chime, Chiyoda—ku, Tokyo 100- 8631, Japan Nippon Life Marunouchi Garden Tower. The registered address of DIDIC is P.O.Box: 2163 Salalah, Postal Code: 211, Sultanate of Oman.

The operations of the Company are governed by the provisions of "the Law for the Regulation and Privatization of the Electricity and Related Water Sector" (the Sector Law) promulgated by Royal Decree 78/2004. The principal activity of the Company is electricity generation under a license issued by the Authority for Electricity Regulation, Oman (AER).

Agreements

The Concession Agreement, to which DGC was a party, was terminated effective 1 January 2014. Accordingly, from 1 January 2014, the Company has been granted a generation license by the AER for the electricity generation business. The Company has entered into a Power Purchase Agreement ('PPA') on 31 December 2013 with Oman Power and Water Procurement Company SAOC ('OPWP') to sell the available capacity of Electricity. The PPA was subsequently amended on 1 January 2014.

A second amendment agreement to the PPA was signed on 19 April 2015 which became effective on 22 June 2015 after completion of all requirements under the terms of the agreement. This amendment agreement envisions the construction of a new 445MW power plant and sets the PPA term of the existing 273MW power plant and new plant for a year of 15 years from the scheduled commercial operation date ('SCOD') of the new plant. The SCOD was achieved on 1 January 2018 as per the plan.

The Company entered into an Engineering, Procurement and Construction ('EPC') contract with SEPCO III Electric Power Construction Corporation for the construction of a new 445MW facility. The Company also entered into a long term loan agreement on 8 July 2015 with a consortium of local and international banks including Bank Muscat SAOG, Bank Dhofar SAOG, Mizuho Bank LTD, Standard Chartered Bank, KfW IPEX-Bank GmbH, Sumitomo Mitsui Trust Bank Limited and Sumitomo Mitsui Bank Corporation.

The Company has signed an Operations and Maintenance Agreement with Dhofar O&M Company LLC effective 4 June 2015 for all operations and maintenance of the plants.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These 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 has come into force on 17 April 2019 and the companies should comply with the new law within 1 year from 17 April 2019.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments carried at fair value.

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

2.2 Changes in accounting policies

The accounting policies are consistent with those in the previous years except as following;

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

For the period ended 30 June 2020, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for years beginning on or after 1 January 2020.

2.2.2 Standard issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- IFRS 17 Insurance Contracts
- Amendments to IAS 1 : Classification of Liabilities as Current or Non-Current

2.2.3 Interest Rate Benchmark Reform

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 Company is assessing the impact of Phase 1 IBOR amendments which are effective for annual periods beginning on or after 1 January 2020.

2.3 Summary of significant accounting policies

Following are the significant accounting policies adopted by the Company;

2.3.1 Current versus non-current classification

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

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Expected to be realised within twelve months after the reporting year, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting year
- Held primarily for the purpose of trading

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

2.3.2 Fair value measurement

The Company measures financial instruments such as derivatives at fair value at each reporting date.

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 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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

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

2.3.3 Revenue recognition

The Company's business is to generate and supply electricity to its sole customer OPWP under long term PPA. Revenue from OPWP comprises of the following:

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

The PPA of the Company is finance lease arrangement for the existing 273 MW power plant and operating lease arrangement for the new 445MW power plant.

i) Revenue from lease contracts

The treatment for 273 MW plant is a finance lease arrangement and lease interest income is recognised in the statement of comprehensive income. Capacity charge covering the investment charge receiving under the PPA is finance lease payments and accounted based on IFRS 16.

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.3 Revenue recognition (continued)

i) Revenue from lease contracts (continued)

The investment charge of 445 MW plant has been treated as containing a lease which conveys the right to use the underlying assets in exchange of consideration. This component of revenue is recognised on straight line basis over the lease term to the extent that capacity has been made available based on contractual terms of PPA and accounted based on IFRS 16.

ii) Revenue from contracts with customers

Fixed operation and maintenance charges are recognised as revenue when the capacity is made available by performing required planned and unplanned maintenance on timely basis so that the plant is in a position to run and generate required output and accrue to the business over time. Output charges are recognised as revenue upon delivery of electricity to the national grid which accrue over time when the customer accepts deliveries and there is no unfulfilled performance obligation that could affect the customer's acceptance of the project. Amounts received in relation to electricity energy charges are contingent rental receipts. Revenue from contracts with customers is accounted based on IFRS 15.

The Company has long term agreements with OPWP which determine performance obligation, transaction price and allocates the transaction price to each of the separate performance obligations. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

There is no significant financing component attached to the receivable from customer. Goods and services are provided on agreed credit terms of the contract and payment occurs within 25 days from the submission of invoice. Company submits invoices on monthly basis in arrears and generally are submitted on or before the 5th day of the subsequent month.

2.3.4 Taxes

Current income tax

Taxation is provided in accordance with Omani fiscal regulations.

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

Deferred tax

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

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

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.4 Taxes (continued)

The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset as there is a legally enforcement to offset these in Oman.

2.3.5 Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

2.3.6 Plant and equipment

Capital work in progress is stated at cost, net of accumulated impairment losses, if any.

Depreciation of capital work in progress commences when the assets are ready for the intended use.

Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company 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 statement of comprehensive income as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

	Years
Plant, machinery, civil and structural works	40
Decommissioning assets	40
Plant capital spares and other equipment	18
Computer and equipment	5
Motor vehicle	5
Furniture and fixtures	5
Computer software	5

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.6 Plant and equipment (continued)

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

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts.

2.3.7 Leases

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

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a. Right of use assets

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

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.7 Leases (continued)

b. Lease liabilities

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

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., a changes in future payments resulting from a change in index or rate used to determine such lease payments) or a change in the assessment to purchase the underlying asset.

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

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

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.3.8 Financial assets

Initial recognition and measurement

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

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

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.8 Financial assets (continued)

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial asset with cash flow that are not SPPI are classified and measured at fair value through profit & loss irrespective of business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Company does not have any financial instrument that are measured either of FVOCI or FVPL except for the derivative instrument that are used as hedge instrument.

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

Subsequent measurement

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

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

Financial assets at amortized cost (debt instruments)

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

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

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

The Company's financial assets at amortized cost includes trade receivables and finance lease receivable.

Derecognition

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

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.8 Financial assets (continued)

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

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

Impairment of financial assets

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

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

For trade receivables covering user IFRS 15, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For finance lease receivable, the company applies general approach in calculating the ECL and is determined by using the probability of default (PD), exposure at default (EAD) and loss given default (LGD).

2.3.9 Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.9 Financial liabilities (continued)

Financial liabilities at fair value through profit or loss

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

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

Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

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

Financial liabilities at amortized cost (loans and borrowings)

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

Derecognition

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

2.3.10 Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.10 Derivative financial instruments and hedge accounting (continued)

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

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

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

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

Cash flow hedges

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

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

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

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

2.3.11 Inventories

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.12 Provisions

General

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

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

Decommissioning liability

The Company records a provision for decommissioning costs as there is a present obligation as a result of activities undertaken pursuant to the Usufruct and PPA. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the statement of comprehensive income as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset except for the asset given on finance lease.

Major maintenance

Provision for major maintenance is created to meet the contractual obligations under the PPA. This expenditure is expected to be incurred over the PPA term and would enable the Company to fulfill its obligations under the PPA. In order to be able to honor its contractual obligations towards the off-taker over the non-cancelable term of the PPA, the Company had the unavoidable contractual obligation to carry major maintenance activities.

2.3.13 Employee benefits

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labor Law 2003 and its amendment and IAS-19 'Employee benefits' as amended. Employee entitlements to annual leave and Air passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability. Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the statement of comprehensive income as incurred.

2.3.14 Trade receivable

A receivable is recognised if an amount of consideration that is unconditional as due from the customer (i.e. only the passage of time is recognised balance payment of the consideration is due).

2.3.15 Cash and cash equivalents

For the purpose of the statement of cash flows, the Company considers all bank and cash balances that are free of lien.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.16 Trade and other payable

Liabilities are recognised for the amount to be paid for goods and services rendered, whether or not billed to the company.

2.3.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.3.18 Share capital

Share capital is recorded at the proceeds received.

2.3.19 Dividend on ordinary shares

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

2.3.20 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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

3.1 Determining the lease term of contracts with renewal and termination options-Company as lessee

The Company has one lease contract that includes extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.2 Leases - Estimating the incremental borrowing rate

Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

3.3 Leases - Identification of lease and lease classification

The Company has entered into the PPA with OPWP to generate electricity and make available the power capacity from its Plant. The PPA covers both the plants i.e 273 MW power plant and 445 MW power plant. Management considers the requirements of IFRS 16 which sets out guidelines to determine when an arrangement might contain a lease.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Once a determination is reached that an arrangement contains a lease, the lease arrangement is classified as either financing or operating according to the principles in IFRS 16. A lease that conveys the majority of the risks and rewards of operation is a finance lease. A lease other than a finance lease is an operating lease.

(I) Finance lease

Based on management's evaluation, the PPA with OPWP with respect to 273 MW power plant 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. As per the terms of PPA, the power generation is dependent on the Company's plant and OPWP, being the sole procurer of power generation in Oman, obtains significant amount of the power generated by the Company's plant. accordingly, management has concluded that the PPA satisfies the requirements of IFRS 16. Further management has assessed the lease classification as per the requirements of IFRS 16 and has concluded that the arrangement is a finance lease, as the term of PPA is for the major part of the remaining economic life of the Company's plant. Accordingly, a finance lease receivable has been recognised in the financial statements.

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.

(II) Operating lease

Based on management's evaluation, the PPA with OPWP with respect to 445 MW power plant has been classified as a operating lease under IFRS 16 since significant risks and rewards associated with the ownership of the plant lies with the Company. The primary basis for this conclusion is that the PPA is for a term of 15 years while the economic life of the power plant is estimated to be forty years. The present value of minimum lease payments under the PPA does not substantially recover the fair value of the plant at the inception of the lease. Further, the residual risk is borne by the Company.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.4 Provision for decommissioning obligation

Upon expiry of their respective Usufruct and PPA, the Company will have an obligation to remove the facilities and restore the affected area. The estimated cost, discount rate and risk rate used in the provision for decommissioning costs calculation is based on management's best estimates.

3.5 Provision for major maintenance

With respect to 273 MW power plant, the company has an unavoidable contractual obligation of plant is being available to generate the electricity over the term of the PPA which requires performance of certain activities. Accordingly, it is considered appropriate to create a provision for major maintenance as the unavoidable costs of mid-life revision based on best estimates.

3.6 Useful lives and residual value of equipment

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

3.7 Going concern

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

3.8 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

The Company establishes provisions, based on reasonable estimates, for possible consequences of finalization of tax assessments of the company. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

3.9 Impairment of finance lease receivables

The Company assesses on a forward looking basis the expected credit losses associated with its finance lease receivable, carried at amortized cost. The impairment provisions for financial lease receivable was assessed based on the ECL model, using assumptions about risk of default and expected loss rates. The Company 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 year. As at the reporting date, the impairment impact is considered to be immaterial.

3.10 Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.10 Impairment of non-financial assets (continued)

The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to right of use and property, plant and equipment recognised by the Company.

3.11 Provision for expected credit losses of trade receivables and contract assets

The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on the Company's historical observed default rates.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance). The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

4 PLANT, EQUIPMENT AND CAPITAL WORK IN PROGRESS

	Plant	Plant capital spares and other equipment	Decommissio- ning asset	Computers and equipment	Computer software	Motor Vehicles	Furniture and fixture	Sub total	Capital work-in- progress	Total
	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO
Cost:										
At 1 January 2020	158,926,392	1,480,899	928,519	265,758	102,254	19,750	57,880	161,781,452	8,165	161,789,617
Additions	-	-	-	-	-	-	-	-	29,744	29,744
At 30 June 2020	158,926,392	1,480,899	928,519	265,758	102,254	19,750	57,880	161,781,452	37,909	161,819,361
Depreciation:										
At 1 January 2020	7,585,062	458,647	46,426	109,614	84,520	13,271	37,539	8,335,079	-	8,335,079
Depreciation for the period	1,896,082	41,135	11,606	18,327	6,209	1,975	5,788	1,981,122	-	1,981,122
At 30 June 2020	9,481,144	499,782	58,032	127,941	90,729	15,246	43,327	10,316,201	-	10,316,201
Net book value:										
At 30 June 2020	149,445,248	981,117	870,487	137,817	11,525	4,504	14,553	151,465,251	37,909	151,503,160
Cost:										
At 1 January 2019	158,926,392	1,374,461	928,519	107,350	102,254	19,750	57,880	161,516,606	-	161,516,606
Additions	-	106,438	-	158,408	-	-	-	264,846	8,165	273,011
At 31 December 2019	158,926,392	1,480,899	928,519	265,758	102,254	19,750	57,880	161,781,452	8,165	161,789,617
Depreciation:										
At 1 January 2019	3,792,899	381,795	23,213	78,688	64,219	9,321	25,964	4,376,099	-	4,376,099
Depreciation for the year	3,792,163	76,852	23,213	30,926	20,301	3,950	11,575	3,958,980	-	3,958,980
At 31 December 2019	7,585,062	458,647	46,426	109,614	84,520	13,271	37,539	8,335,079	-	8,335,079
Net book value:										
At 31 December 2019	151,341,330	1,022,252	882,093	156,144	17,734	6,479	20,341	153,446,373	8,165	153,454,538

(i) All plant and equipment are mortgaged with banks against the term loan (note 16)

(ii) The depreciation charge has been allocated in the statement of comprehensive income as follows:

	30-Jun-20 RO	30-Jun-19 RO
Operating costs (note 21)	1,964,664	1,945,866
General and administrative expenses (note 22)	16,458	28,374
	1,981,122	1,974,240

(iii) Plant is constructed on a land which is taken on a long-term lease contract from Ministry of Housing.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

5 FINANCE LEASE RECEIVABLE

As mentioned in note 3.3 , the arrangement for 273 MW power plant is a finance lease. Accordingly, a finance lease receivable has been recognised for the 273 MW power plant in the financial statements.

	30-Jun-20 RO	31-Dec-19 RO
Non-current	50,750,652	52,056,576
Current	2,559,769	2,457,689
	<u>53,310,421</u>	<u>54,514,265</u>

The following table shows the maturity analysis of finance lease receivables:

	Less than 1 year RO	Between 1 and 2 years RO	Between 2 and 5 years RO	More than 5 years RO	Total RO
30 June 2020					
Gross finance lease receivables	6,819,111	6,819,111	20,457,334	51,143,336	85,238,892
Less: unearned finance income	(4,259,342)	(4,042,286)	(10,632,532)	(12,994,311)	(31,928,471)
	<u>2,559,769</u>	<u>2,776,825</u>	<u>9,824,802</u>	<u>38,149,025</u>	<u>53,310,421</u>
31 December 2019					
Gross finance lease receivables	6,819,111	6,819,111	20,457,334	56,257,670	90,353,226
Less: unearned finance income	(4,361,422)	(4,206,723)	(11,214,333)	(16,056,483)	(35,838,961)
	<u>2,457,689</u>	<u>2,612,388</u>	<u>9,243,001</u>	<u>40,201,187</u>	<u>54,514,265</u>

6 INVENTORIES

	30-Jun-20 RO	31-Dec-19 RO
Spares and consumables	2,788,841	2,920,249
Fuel	2,861,496	2,822,452
	<u>5,650,337</u>	<u>5,742,701</u>

7 TRADE AND OTHER RECEIVABLES

	30-Jun-20 RO	31-Dec-19 RO
Trade receivables from OPWP	21,802,578	11,120,284
Less: allowance for expected credit losses	(167,988)	(89,901)
	<u>21,634,590</u>	<u>11,030,383</u>
Other receivables	84,557	138,409
	<u>21,719,147</u>	<u>11,168,792</u>
Allowance for expected credit losses		
At the beginning	89,901	-
Provision made during the period / year	78,087	89,901
	<u>167,988</u>	<u>89,901</u>

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

7 TRADE AND OTHER RECEIVABLES (continued)

(i) The aging of unimpaired trade receivables at the reporting date was:

Less than 25 days	5,268,344	2,726,561
25 to 90 days	3,257,228	3,976,738
90 to 365 days	13,075,618	4,327,084
More than 365 days	33,400	-
	<u>21,634,590</u>	<u>11,030,383</u>

(ii) Trade receivables are non-interest bearing and are on terms of 25 days.

(iii) The Company calculated the ECL for trade receivables and recognised a provision in the statement of comprehensive income for the period ending 30 June 2020.

(iv) Trade receivable includes OMR 16,345,629 outstanding from OPWP against the fuel cost allowance which is overdue as on reporting date.

8 ADVANCES AND PREPAYMENTS

	30-Jun-20	31-Dec-19
	RO	RO
Advances and others	53,830	4,328
Prepaid expenses	232,629	265,272
	<u>286,459</u>	<u>269,600</u>

9 CASH AND CASH EQUIVALENTS

	30-Jun-20	31-Dec-19
	RO	RO
Cash at bank	5,248,121	6,279,047
Cash in hand	934	365
	<u>5,249,055</u>	<u>6,279,412</u>

Cash at bank balances are with commercial banks in Oman and are denominated in Omani Rial. Bank balances are placed with reputed financial institutions. The management believes that the ECL is immaterial at the financial statement as a whole and hence not recognised in these financial statements.

10 SHARE CAPITAL

The authorised share capital of the Company as at 30 June 2020 is RO 120,000,000 (31 December 2019 : RO 120,000,000). Issued and paid up capital as at 30 June 2020 is RO 22,224,000 (31 December 2019 : RO 22,224,000). The Company has one class of ordinary shares which carry no right to fixed income.

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

	30 June 2020		31 December 2019	
	Percentage shareholding	No. of shares	Percentage shareholding	No. of shares
MAP Power Holding Company Limited	27%	60,004,800	27%	60,004,800
Mitsui & Co. Middle East and Africa Projects Investment & Development Limited	27%	60,004,800	27%	60,004,800

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11 LEGAL RESERVE

In accordance with the article 132 of the Commercial Companies Law 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.

12 CASH FLOW HEDGE RESERVE

The USD long term facilities of the Company bear interest at US LIBOR plus applicable margins. The Company has fixed the rate of interest through Interest Rate Swap agreements ("IRS") entered into with various international banks for the facilities.

	30-Jun-20 RO	31-Dec-19 RO
At the beginning (A)	(5,374,064)	(1,222,955)
Change in fair value during the year	(6,511,186)	(4,883,657)
Less: related deferred tax asset (note 19)	976,678	732,548
Change in fair value of hedge during the year (B)	(5,534,508)	(4,151,109)
Change in fair value of hedge - net of tax (C) = (A) + (B)	(10,908,572)	(5,374,064)

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 statement of changes in equity, net of related deferred tax.

13 DERIVATIVE FINANCIAL INSTRUMENTS

The Company's main interest rate risk arises from long-term borrowings with variable rates, which expose the Company to cash flow interest rate risk. The Company has entered into five interest rate swap agreements with five international banks at fixed interest rates ranging from 2.1% - 2.4% per annum. During the current period, the Company's borrowings at variable rate were entirely denominated in US Dollars.

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

	Negative fair value RO	Notional amount total RO	Notional amount by term to maturity		
			1-12 months RO	More than 1 upto 5 years RO	Over 5 years RO
30 June 2020					
Interest rate swaps	12,833,614	83,076,083	4,024,295	16,869,306	62,182,482
31 December 2019					
Interest rate swaps	6,322,427	84,610,321	4,038,929	16,666,743	63,904,649

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

13 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Current and non-current classifications as at the reporting date as follows;

	30-Jun-20 RO	31-Dec-19 RO
Non-current	10,908,572	5,675,397
Current	1,925,042	647,030
	<u>12,833,614</u>	<u>6,322,427</u>

14 PROVISION FOR DECOMMISSIONING COSTS

	30-Jun-20 RO	31-Dec-19 RO
At the beginning	4,211,502	4,067,655
Unwinding of discount on decommissioning cost provision (note 24)	74,862	143,847
	<u>4,286,364</u>	<u>4,211,502</u>

The Company is committed under the lease agreement to decommissioning the site as a result of construction of the power plant. Decommissioning costs represents the present value of management's best estimate of the future outflow of the economic benefits that will be required to remove the facilities and restore the affected area at the Company's rented sites. The cost estimate has been discounted to present value using the pre tax rate that reflects the risk specific to the decommissioning liability.

15 PROVISION FOR MAJOR MAINTENANCE

To meet the obligations under the PPA, major maintenance and upgradation will have to be performed on the power generation assets. This expenditure is expected to be incurred over the PPA term and would enable the Company to fulfil its obligations under the PPA. A provision has been created based on the present value of future cash outflows that will be required for major maintenance and upgradation activities.

	30-Jun-20 RO	31-Dec-19 RO
At the beginning	3,713,809	3,917,732
Unwinding of discount on major maintenance (note 24)	72,707	116,881
Payments made during the period / year	(236,427)	(320,804)
	<u>3,550,089</u>	<u>3,713,809</u>

16 LONG TERM LOAN

	30-Jun-20 RO	31-Dec-19 RO
At the beginning	154,242,763	161,332,749
Paid during the period / year	(2,796,585)	(7,089,986)
Gross loan amount	151,446,178	154,242,763
Less: unamortised arrangement fee	(1,448,118)	(1,539,050)
	<u>149,998,060</u>	<u>152,703,713</u>
Current and non-current classification of the team is as follows;		
Non-current portion	142,765,978	145,446,509
Current portion	7,232,082	7,257,204
	<u>149,998,060</u>	<u>152,703,713</u>

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For the period ended 30 June 2020

16 LONG TERM LOAN (continued)

The loan facility of RO 168,609,121 (USD 437,832,047) was provided by a consortium of local and international banks in pursuance with the PPA to finance the project cost. This loan is repayable in 31 semi-annual instalments starting from 31 July 2018.

According to Common Term Agreement the term loan facility comprises of:

	Currency	Total facility	Interest rates	Final repayment date
1	RO	72,999,959	4.6% per annum	31 December 2032
2	USD	248,271,000	LIBOR + 1.4% per annum	31 December 2032

The repayment schedule of gross term loan is as follows:

	30-Jun-20 RO	31-Dec-19 RO
Payable within one year	7,336,694	7,363,186
Payable between 1 and 2 years	7,431,072	7,305,234
Payable between 2 and 5 years	23,318,135	23,076,393
Payable after 5 years	113,360,277	116,497,950
	<u>151,446,178</u>	<u>154,242,763</u>

The Company hedges USD portion of the loan for interest rate risk via an interest rate swap arrangement as explained in note 12 and 13.

The loan is secured by a charge on all project assets, assignment of insurance / reinsurances, agreement for security over promoters' shares and charge over the Company's project accounts. The weighted average effective interest rate on the bank loans is 3.80% per annum (31 December 2019: 3.83%) for USD facility and 4.60% per annum (31 December 2019: 4.60%) for OMR Facility (overall effective rate 4.13% per annum) (31 December 2019: 4.13%) . The loan is subject to certain covenants relating to maintenance of Debt Service Coverage Ratio.

Also as of 30 June 2020, the Company has undrawn working capital facility amounting to RO 7,700,000 (31 December 2019 - RO 7,700,000) with the interest rate of 3.75% per annum (31 December 2019 - 3.5%).

17 TRADE AND OTHER PAYABLES

	30-Jun-20 RO	31-Dec-19 RO
Trade payables	17,963,221	9,463,583
Accrued expenses	2,698,549	2,449,649
Amount due to related parties (note 26)	568,600	542,549
Other payables	-	1,200
	<u>21,230,370</u>	<u>12,456,981</u>

Trade payables includes OMR 16,154,267 payable to Ministry of Oil and Gas against the Fuel Cost which is overdue as on the reporting date.

18 LEASES

Company as a lessee

The Company adopted IFRS 16 using retrospective method of adoption with the date of initial application on 1 January 2019. The following contracts are covered under IFRS 16;

- The Usufruct agreement with 40 years lease term.
- The Electrical Connection agreement with 20 years lease term.
- Two Electrical connection agreements with a lease term of 15 years each
- The office rent agreement with 3 years lease term.

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

18 LEASES (continued)

The movement of Right-of-use assets as of the reporting date as follows;

	30-Jun-20 RO	31-Dec-19 RO
At the beginning	3,894,724	4,141,145
Depreciation during the period / year (note 21)	(123,211)	(246,421)
	<u>3,771,513</u>	<u>3,894,724</u>

	30-Jun-20 RO	31-Dec-19 RO
Movement of lease liability recognised as of the reporting date is as follows;		
At the beginning	4,337,159	4,431,119
Accrual of interest	122,511	254,790
Payments during the period / year	(261,859)	(348,750)
	<u>4,197,811</u>	<u>4,337,159</u>

Current and non-current classification as of the reporting date is as follows;

Non-current lease liabilities	3,837,540	3,912,485
Current lease liabilities	360,271	424,674
	<u>4,197,811</u>	<u>4,337,159</u>

The following are the amounts recognised in the profit or loss;

	6 Months ended 30-Jun-20 RO	6 Months ended 30-Jun-19 RO
Depreciation of right-of-use assets (note 21)	123,211	147,947
Interest on finance lease (note 24)	122,511	81,503
	<u>245,722</u>	<u>229,450</u>

For leases where the Company is lessor, please refer note 5.

19 TAXATION

	6 Months ended 30-Jun-20 RO	6 Months ended 30-Jun-19 RO
Statement of profit or loss		
Deferred tax charge	902,874	1,120,289
	<u>902,874</u>	<u>1,120,289</u>

	30-Jun-20 RO	31-Dec-19 RO
Statement of financial position		
Non-current liability:		
Deferred tax-net	<u>7,373,546</u>	<u>7,447,350</u>
Current tax liability		
Current year	<u>-</u>	<u>383,438</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

19 TAXATION (continued)

	6 Months ended 30-Jun-19 RO	6 Months ended 30-Jun-19 RO
Movement for current tax liability:		
At the beginning	383,438	-
Charge for the period / year	-	383,438
Payments during the period / year	(1,018)	-
	<u>382,420</u>	<u>383,438</u>

The total income tax for the period can be reconciled to the accounting profits as follows;

	6 Months ended 30-Jun-19 RO	6 Months ended 30-Jun-19 RO
Accounting profit before tax for the period	<u>2,317,758</u>	<u>2,226,198</u>
Tax at the rate of 15%	347,664	333,930
Add tax effect of:		
Deferred tax not recognised on tax losses	554,445	819,221
Deferred tax impact on equity on lease liability recognition	-	(33,320)
Expenses not allowed in tax	765	458
Income tax reversal	-	-
Tax expense for the period	<u>902,874</u>	<u>1,120,289</u>

Tax assessments of tax years 2013 and 2014 have been completed during 2019. These assessments resulted in additional tax of OMR 383,438 which is fully provided in the 2019 financial statements. However, this does not have an impact on the cash position of the Company at the reporting date. The Company has filed an Objection under the Income Tax law with the Tax Authority relating to the tax assessments of 2013 and 2014. Management considers that the amount of additional taxes, if any, that may become payable on finalization of the open tax years would not be material to the Company's financial position as of the reporting date.

The provision for the current and deferred tax have been recorded based on the finance lease model. Further, in respect of the unrealised gain of RO 22,989,752 (the difference between the fair value of plant and finance lease receivable) management has taken a view that this gain will be realised as a part of tariff received over the life of the PPA and only realised gain should be subjected to tax as per the Income Tax Law.

The management believes that future taxable profit will not be sufficient to offset the carried forward tax losses, hence, no deferred tax asset has been recognised on carried forward tax losses.

Deferred tax

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 15%. The net deferred tax liability and deferred tax charge in the statement of comprehensive income are attributable to the following items;

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For the period ended 30 June 2020

19 TAXATION (continued)

2020	Deferred tax recognised in			At 30 June RO
	At 1 January RO	Profit or loss RO	OCI RO	
<i>Deferred tax asset</i>				
Provision for major maintenance cost	557,071	(24,558)	-	532,513
Provision for decommissioning cost	631,725	11,229	-	642,954
Allowance for ECL	13,485	11,713	-	25,198
Lease liabilities and right-of-use assets	66,366	(2,421)	-	63,945
Cash flow hedge reserve	948,364	-	976,678	1,925,042
	<u>2,217,011</u>	<u>(4,037)</u>	<u>976,678</u>	<u>3,189,652</u>
<i>Deferred tax liability</i>				
Accelerated tax depreciation	(5,546,648)	(1,007,032)	-	(6,553,680)
Unrealised gain on recognition of finance lease	(2,924,017)	54,321	-	(2,869,696)
Finance lease receivable for decommissioning asset	(256,524)	13,200	-	(243,324)
Finance lease receivable for major maintenance	(804,858)	38,933	-	(765,925)
Decommissioning asset	(132,314)	1,741	-	(130,573)
	<u>(9,664,361)</u>	<u>(898,837)</u>	<u>-</u>	<u>(10,563,198)</u>
Deferred tax liability - net	<u>(7,447,350)</u>	<u>(902,874)</u>	<u>976,678</u>	<u>(7,373,546)</u>

2019	Deferred tax recognised in			At 31 December RO
	At 1 January RO	Profit or loss RO	OCI RO	
<i>Deferred tax asset</i>				
Provision for major maintenance cost	587,660	(30,589)	-	557,071
Provision for decommissioning cost	610,148	21,577	-	631,725
Allowance for ECL	-	13,485	-	13,485
Lease liabilities and right-of-use assets *	-	22,870	43,496	66,366
Cash flow hedge reserve	215,816	-	732,548	948,364
	<u>1,413,624</u>	<u>27,343</u>	<u>776,044</u>	<u>2,217,011</u>

* Deferred tax impact on retained earnings resulted from transition impact of IFRS 16, recognised directly in the equity (note 2.2.2).

	Deferred tax recognised in			At 31 RO
	At 1 January RO	Profit or loss RO	OCI RO	
<i>Deferred tax liability</i>				
Accelerated tax depreciation	(3,069,922)	(2,476,726)	-	(5,546,648)
Unrealised gain on recognition of finance lease	(3,021,546)	97,529	-	(2,924,017)
Finance lease receivable for decommissioning asset	(282,724)	26,200	-	(256,524)
Finance lease receivable for major maintenance	(881,153)	76,295	-	(804,858)
Decommissioning asset	(135,796)	3,482	-	(132,314)
	<u>(7,391,141)</u>	<u>(2,273,220)</u>	<u>-</u>	<u>(9,664,361)</u>
Deferred tax liability - net	<u>(5,977,517)</u>	<u>(2,245,877)</u>	<u>776,044</u>	<u>(7,447,350)</u>

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For the period ended 30 June 2020

20 REVENUE

	6 Months ended 30-Jun-20 RO	6 Months ended 30-Jun-19 RO
<i>Revenue from a contract with a customer</i>		
Fuel cost allowance	8,679,259	7,854,463
Fixed operation and maintenance allowance	3,872,993	3,819,549
Electrical energy allowance	51,341	53,135
	<u>12,603,593</u>	<u>11,727,147</u>
<i>Revenue from lease contracts</i>		
Interest income on finance lease	2,205,712	2,299,813
Investment charge revenue	6,613,970	6,582,306
	<u>8,819,682</u>	<u>8,882,119</u>
	<u><u>21,423,275</u></u>	<u><u>20,609,266</u></u>

21 OPERATING COSTS

	6 Months ended 30-Jun-20 RO	6 Months ended 30-Jun-19 RO
Fuel cost	8,547,034	7,930,668
Operation and maintenance charges	3,666,707	3,535,969
Depreciation (note 4)	1,964,664	1,945,866
Insurance	327,216	267,309
Employee costs (note 23)	293,757	298,053
Depreciation of right of use asset (note 18)	123,211	147,947
Electricity import cost	75,807	184,319
Transmission connection charges	13,061	20,713
	<u>15,011,457</u>	<u>14,330,844</u>

22 GENERAL AND ADMINISTRATIVE EXPENSES

	6 Months ended 30-Jun-20 RO	6 Months ended 30-Jun-19 RO
Legal and professional charges	136,851	102,520
Allowance for ECL (note 7)	78,087	-
Information technology and software related expenses	72,829	74,921
Travelling expenses	32,505	37,126
Director sitting, remuneration and travelling expenses (note 26)	23,267	23,863
License fees to regulator	32,355	29,870
Depreciation (note 4)	16,458	28,374
Communication expenses	15,908	14,881
Entertainment	13,251	8,212
Office rent	9,789	16,225
Training expenses	7,500	7,500
Corporate social responsibility expense	7,500	7,500
Miscellaneous expenses	55,673	42,550
	<u>501,973</u>	<u>393,542</u>

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For the period ended 30 June 2020

23 EMPLOYEE COSTS

Salaries and the related costs included under operating costs consist of the following:

	6 Months ended 30-Jun-20 RO	6 Months ended 30-Jun-19 RO
Salaries, wages and other benefits	276,007	286,705
Contributions to a defined contribution retirement plan	7,802	2,296
Charge for employee end of service benefits	9,948	9,052
	<u>293,757</u>	<u>298,053</u>

24 FINANCE COSTS

	6 Months ended 30-Jun-20 RO	6 Months ended 30-Jun-19 RO
Interest on long term loan	3,155,019	3,295,528
Interest on finance lease (note 18)	122,511	81,503
Amortisation of deferred financing cost	90,932	95,017
Unwinding of discount on decommissioning cost provision (note 14)	74,862	71,924
Unwinding of discount on major maintenance (note 15)	72,707	58,136
LC commission	64,190	56,574
Interest on working capital loan loan	11,866	-
	<u>3,592,087</u>	<u>3,658,682</u>

25 EARNINGS PER SHARE

	6 Months ended 30-Jun-20 RO	6 Months ended 30-Jun-19 RO
Profit for the year	1,414,884	1,105,909
Weighted average number of ordinary shares	222,240,000	222,240,000
	<u>0.006</u>	<u>0.005</u>

Diluted earnings per share is same as the earnings per share as the Company has not issued any instruments during the period which would have an impact on earnings per share when exercised.

26 RELATED PARTY TRANSACTIONS

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

The Company maintains balances with these related parties which arise in the normal course of business from the commercial transactions, and are entered into at terms and conditions which are approved by the management.

Significant related party balances and transactions as of the reporting date as follows:

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For the period ended 30 June 2020

26 RELATED PARTY TRANSACTIONS (continued)

Balances at the reporting date (Note 19)

	30-Jun-20 RO	31-Dec-19 RO
Due to related parties		
Dhofar O&M LLC	497,472	503,179
International Company for Water and Power Projects - KSA	44,794	20,006
First National Company for Operation and Maintenance - Oman	18,915	16,608
ACWA Power Oman LLC	7,419	-
ACWA Power Global Services LLC	-	1,956
Mitsui & Co. Middle East and Africa Projects investment & Development Limited	-	800
	<u>568,600</u>	<u>542,549</u>
	6 Months ended 30-Jun-20 RO	6 Months ended 30-Jun-19 RO
Transactions during the period		
O&M Fee and related charges	3,668,669	3,715,022
Secondment charges and expense reimbursement	215,737	75,456
Director sitting, remuneration and travelling expenses (note 22)	23,267	23,863
	<u>3,907,673</u>	<u>3,814,341</u>
Goods and services received	<u>40,966</u>	<u>74,892</u>
Goods and services rendered	<u>40,966</u>	<u>74,892</u>

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise). The compensation for key managerial personnel during the period are as follows:

	6 Months ended 30-Jun-20 RO	6 Months ended 30-Jun-19 RO
Short-term employee benefits	86,667	97,847
Long-term employee benefits	3,658	5,270
Director sitting fees, remuneration and travelling expenses	23,267	23,863
	<u>113,593</u>	<u>126,980</u>

Amounts due from/to related parties are interest free, unsecured and receivable on demand. Amount due from related parties are subject to the impairment requirement of IFRS 9, and were assessed as such and management believes the identified impairment loss was immaterial.

27 FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities, other than derivatives, comprise loans, and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include finance lease receivable, trade receivables, and cash that derive directly from its operations.

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For the period ended 30 June 2020

27 FINANCIAL RISK MANAGEMENT (continued)

Market risk

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

The sensitivity analyses in the following sections relate to the position as at the reporting date.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives at the reporting date.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant statement of comprehensive item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at the reporting date including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges for the effects of the assumed changes of the underlying risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

To manage this, the Company enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

At 30 June 2020, after taking into account the effect of interest rate swaps, 42% of the Company's borrowings are at a fixed rate of interest (31 December 2019: 42%).

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

	30-Jun-20	31-Dec-19
	RO	RO
Fixed rate instrument		
Term loan	<u>63,996,302</u>	<u>65,178,049</u>
Variable rate instrument		
Term loan	<u>87,449,876</u>	<u>89,064,714</u>

Interest rate sensitivity

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

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

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27 FINANCIAL RISK MANAGEMENT (continued)

	Profit or loss		Equity	
	100 bps	100 bps	100 bps	100 bps
30 June 2020				
Variable rate financial liabilities	(83,474)	83,474	(70,953)	70,953
Interest rate swaps	79,301	(79,301)	67,406	(67,406)
Net sensitivity	<u>(4,173)</u>	<u>4,173</u>	<u>(3,547)</u>	<u>3,547</u>
	Profit or loss		Equity	
	100 bps	100 bps	100 bps	100 bps
31 December 2019				
Variable rate financial liabilities	(713,920)	713,920	(606,832)	606,832
Interest rate swaps	678,224	(678,224)	576,490	(576,490)
Net sensitivity	<u>(35,696)</u>	<u>35,696</u>	<u>(30,342)</u>	<u>30,342</u>

Foreign currency risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to the US Dollar. Most of the foreign currency transactions are in US Dollars or other currencies linked to the US Dollar. Since the Rial Omani is pegged to the US Dollar management believes that the foreign exchange rate fluctuations would not have significant impact on the pretax profit of the Company.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables and finance lease receivable).

Trade receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables is regularly monitored. Trade receivable balance represents receivables from OPWP, a Government customer in Oman.

This customer is transacting with the Company for number of years. Accordingly the balance due from this customer is assessed to have a strong high credit quality or limited credit risk. At 30 June 2020, the Company had one customer (31 December 2019: one customer).

The Company recognised an allowance for ECL in the financial statements for the period ending 30 June 2020. An impairment analysis is performed at each reporting date as per IFRS 9 expected credit loss method. The provision rates are based on days past due for the outstanding balance. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets and the amount is immaterial to the financial statements for the period ending 30 June 2020. The Company does not hold collateral as security. The Company evaluates the concentration of risk with respect to trade receivables as low, as its customer is located in Oman and it is a Government customer.

Finance lease receivable

Finance Lease receivable has been recorded in accordance with the terms of the PPA with OPWP, a Government customer in Oman and hence does not reflect any significant credit risk and the amount of ECL is not significant.

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

27 FINANCIAL RISK MANAGEMENT (continued)

Cash at bank

Credit risk on bank balances is limited as same are held with banks with sound credit ratings.

Credit Concentration

Except as disclosed, no significant concentrations of credit risk were identified by the management as at the statement of financial position date.

Liquidity risk

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

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

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include contractual interest payments:

	Carrying RO	Contractual RO	Less than 1 RO	More than 1 RO
30 June 2020				
Non-derivative financial liabilities				
Term loan	149,998,060	204,910,108	13,513,482	191,396,626
Trade payables	17,963,221	17,963,221	17,963,221	-
Lease liabilities	4,197,811	8,105,211	424,680	7,680,531
Accrued expenses	2,698,549	2,698,549	2,698,549	-
Due to related parties	568,600	568,600	568,600	-
Income tax payable	382,420	382,420	382,420	-
	175,808,661	234,628,109	35,550,952	199,077,157
Derivative financial liabilities				
Gross payable under IRS	12,833,614	12,833,614	1,925,042	10,908,572
	188,642,275	247,461,723	37,475,994	209,985,729
31 December 2019				
Non-derivative financial liabilities				
Term loan	152,703,713	210,936,192	13,695,307	197,240,885
Trade payables	9,463,583	9,463,583	9,463,583	-
Lease liabilities	4,337,159	8,105,211	424,680	7,680,531
Accrued expenses	2,449,649	2,449,649	2,449,649	-
Due to related parties	542,549	542,549	542,549	-
Income tax payable	383,438	383,438	383,438	-
Other liabilities	1,200	1,200	1,200	-
	169,881,291	231,881,822	26,960,406	204,921,416
Derivative financial liabilities				
Gross payable under IRS	6,322,427	6,322,427	647,030	5,675,397
	176,203,718	238,204,249	27,607,436	210,596,813

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28 FAIR VALUES

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	30-Jun-20		31-Dec-19	
	Carrying RO	Fair value RO	Carrying RO	Fair value RO
Financial assets				
Trade receivable (note 7)	21,634,590	21,634,590	11,030,383	11,030,383
Other receivables (note 7)	84,557	84,557	138,409	138,409
	21,719,147	21,719,147	11,168,792	11,168,792
Financial liabilities				
Interest bearing loans and borrowings				
- Floating rate borrowings	87,449,876	87,449,876	89,064,714	89,064,714
- Fixed rate borrowings	63,996,302	63,520,611	65,178,049	65,058,943
Trade payables	17,963,221	17,963,221	9,463,583	9,463,583
Lease liabilities	4,197,811	4,197,811	4,337,159	4,337,159
Accrued expenses	2,698,549	2,698,549	2,449,649	2,449,649
Due to related parties	568,600	568,600	542,549	542,549
Income tax payable	382,420	382,420	383,438	383,438
Other liabilities	-	-	1,200	1,200
Derivative financial liabilities	12,833,614	12,833,614	6,322,427	6,322,427
	190,090,393	189,614,702	177,742,768	177,623,662

29 CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and benefit other stake holders. The management's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. Management is confident of maintaining the current level of profitability by enhancing top line growth and prudent cost management. The Company is not subject to externally imposed capital requirements.

The capital structure of the Company comprises of net debt (borrowings as detailed in notes 16 offset by cash and bank balances) and equity of the Company (comprising the share capital, reserves and retained earnings). The Company is not subject to externally imposed capital requirements other than the requirements of the Commercial Companies Law.

The Board regularly reviews the capital structure of the Company. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The gearing ratio at 30 June 2020 of 385.10% (31 December 2019: 335.01%) (see below).

Gearing ratio

Gearing ratio at the reporting date as follows:

	30-Jun-20 RO	31-Dec-19 RO
Debt (i)	149,998,060	152,703,713
Cash and bank balances	(5,249,055)	(6,279,412)
Net debt	144,749,005	146,424,301
Equity (ii)	37,587,505	43,707,289
Net debt to equity ratio	385.10%	335.01%

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020

29 CAPITAL MANAGEMENT (continued)

(i) Debt is defined as long- and short-term borrowings (excluding derivatives) as described in note 16.

(ii) Equity includes all capital and reserves of the Company that are managed as capital.

30 COMMITMENTS AND CONTINGENCIES

At 30 June 2020, the Company had contingent liabilities in respect of Debt Service Reserve Account ('DSRA') letter of credit amounting to RO 2,609,818 and USD 9,082,298 (31 December 2019 : RO 2,693,164 and USD 8,728,972) in accordance with the requirement of the Common Terms Agreement ('CTA') given in the normal course of business on which no material liabilities are expected to arise.

Sponsors' Fuel Reserve Account (FRA) Commitment

Under the Common Terms Agreement (CTA) the project's sponsors are required to provide the Fuel Reserve Account (FRA) commitment to the offshore trustee. The FRA commitment can be provided in the form of cash, letter of credit (LC) or letter of guarantee (LG) . At 30 June 2020, Mitsui & Co., Ltd and ACWA Power provided their support through letter of guarantee and letter of credit respectively, whereas DIDIC deposited the cash of OMR 311,930 (31 December 2019 : OMR 311,930) in FRA bank account to comply with the CTA requirements. FRA bank balance and FRA support can only be utilized with lenders' and sponsors' consent, therefore DGC do not have any control on these amounts and the amount received from DIDIC is held in a fiduciary capacity and not accounted in these financial statements.

31 CAPITAL COMMITMENT

The Company has capital commitment of RO 4,664 as of 30 June 2020 (31 December 2019: RO 24,494) with contractors for construction and other activities.

32 NET ASSETS PER SHARE

Net assets per share is calculated by dividing the net assets attributable to the ordinary shareholders of the Company by the ordinary shares outstanding at the reporting date.

	30-Jun-20 RO	31-Dec-19 RO
Net assets – shareholder funds	37,587,505	43,707,289
Total number of ordinary shares	<u>222,240,000</u>	<u>222,240,000</u>
	<u>0.169</u>	<u>0.197</u>

33 SEGMENT REPORTING

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses relating to transactions with other components of the same entity; whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available.

Information regarding the Company's operating segments is set out below in accordance with IFRS 8 - Operating segments. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Company operates in one business segment that of generation of power. All relevant information relating to this primary segment is disclosed in the statement of financial position, statement of comprehensive income and notes to the financial statements.

No geographical analysis has been disclosed as 100% of the Company's revenue is from one customer based in Oman.

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34 DIVIDEND PAYMENT

During the period, the Company paid dividends of 9 Baiza per share for 22,224,000 number of shares amounting to RO 2,000,160 (31 December 2019:RO 4,000,320). These dividends were approved at the Annual General Meeting held on 27 March 2019.

As per the directives of the Capital Market Authority (CMA) the amount of unpaid dividend which is outstanding for more than seven months is required to be transferred to the "Investors' Trust Fund" established by the CMA. During 2019 unpaid cash dividend amounting to RO 7,705 was transferred to the "Investors' Trust Fund".