

DHOFAR GENERATING COMPANY SAOG

FINANCIAL STATEMENTS

FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2019

DHOFAR GENERATING COMPANY SAOG

FINANCIAL STATEMENTS

For the period ended 30 September 2019

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DHOFAR GENERATING COMPANY SAOG

STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 September 2019

		Quarter ended 30-Sep-19	9 Months ended 30-Sep-19	Quarter ended 30-Sep-18	9 Months ended 30-Sep-18
	<i>Notes</i>	RO	RO	RO	RO
Revenue	20	9,890,922	30,500,188	9,535,017	30,228,711
Operating costs	21	(7,114,588)	(21,445,432)	(6,861,636)	(21,146,757)
GROSS PROFIT		2,776,334	9,054,756	2,673,381	9,081,954
General and administrative expenses	22	(139,531)	(533,073)	(115,774)	(551,257)
Finance costs	24	(1,837,172)	(5,495,854)	(1,872,901)	(5,587,194)
PROFIT BEFORE TAX		799,631	3,025,829	684,706	2,943,503
Income tax expense	19	(524,544)	(1,644,833)	(701,129)	(2,145,838)
Net profit / (loss) for the period		275,087	1,380,996	(16,423)	797,665
Other comprehensive (loss) / income					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Fair value gain/(loss) arising during the period on cash flow hedge - net of tax	12	(1,400,632)	(5,291,090)	788,977	5,220,151
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE PERIOD		(1,125,545)	(3,910,094)	772,554	6,017,816
Basic and diluted earnings per share	25	0.001	0.006	0.009	0.009

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

DHOFAR GENERATING COMPANY SAOG

STATEMENT OF FINANCIAL POSITION

AS AT 30 September 2019

	Notes	30-Sep-19 RO	31-Dec-18 RO
ASSETS			
Non-current assets			
Plant and equipment	4	154,339,589	157,140,507
Finance lease receivable	5	52,689,876	54,514,265
Right to use assets	18	4,364,384	-
		<u>211,393,849</u>	<u>211,654,772</u>
Current assets			
Inventories	6	5,678,527	5,629,348
Finance lease receivable	5	2,408,186	2,265,579
Trade and other receivables	7	10,723,875	3,226,837
Advances and prepayments	8	289,910	173,251
Cash and cash equivalents	9	4,999,881	10,106,712
		<u>24,100,379</u>	<u>21,401,727</u>
TOTAL ASSETS		<u>235,494,228</u>	<u>233,056,499</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	22,224,000	22,224,000
Legal reserve	11	202,595	202,595
Retained earnings		27,375,578	30,250,353
Cash flow hedge reserve	12	(6,514,045)	(1,222,955)
Total equity		<u>43,288,128</u>	<u>51,453,993</u>
Non-current liabilities			
Long term loan	16	145,446,509	152,625,279
Fair value of the cash flow hedge	13	7,663,581	1,438,771
Provision for decommissioning cost	14	4,175,541	4,067,655
Provision for major maintenance	15	3,833,337	3,917,732
End of service benefits payable		55,659	42,862
Lease liabilities	18	4,295,525	-
Deferred tax liability - net	19	6,721,949	5,977,517
		<u>172,192,101</u>	<u>168,069,816</u>
Current liabilities			
Long term loan	16	7,210,143	6,979,251
Short term borrowing	16	3,000,000	-
Lease liabilities	18	405,095	-
Trade and other payables	17	9,398,761	6,553,439
		<u>20,013,999</u>	<u>13,532,690</u>
Total liabilities		<u>192,206,100</u>	<u>181,602,506</u>
TOTAL EQUITY AND LIABILITIES		<u>235,494,228</u>	<u>233,056,499</u>
Net assets per share	31	<u>0.195</u>	<u>0.232</u>

The financial statements were approved by a resolution of the Board of Directors on 20th Oct 2019.

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STATEMENT OF CASH FLOWS

For the period ended 30 September 2019

		9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
	<i>Notes</i>		
OPERATING ACTIVITIES			
Profit before tax for the period		3,025,829	2,943,503
Adjustments for:			
Depreciation	4	2,967,273	2,986,450
Amortization of right-to-use asset	21	221,922	-
Finance costs	24	5,495,854	5,587,194
Interest income on finance lease	20	(3,432,552)	(3,564,012)
Net charge of end of service benefit		12,797	(6,265)
		8,291,123	7,946,870
Working capital changes:			
Inventories		(49,179)	(1,594,410)
Trade and other receivables		(7,497,038)	(4,183,869)
Trade and other payables		2,971,033	2,445,350
Advances and prepayments		(19,998)	153,141
Cash (used in) generated from operations		3,695,941	4,767,082
Finance lease instalments (power capacity payments) received		5,114,334	5,114,334
Net cash from operating activities		8,810,275	9,881,416
INVESTING ACTIVITIES			
Major maintenance - payment	15	(171,863)	(517,516)
Additions to equipment and capital work-in-progress	4	(166,355)	(12,086,656)
Net cash used in investing activities		(338,218)	(12,604,172)
FINANCING ACTIVITIES			
Finance cost paid		(5,091,240)	(4,063,606)
Payment of lease liabilities	18	(397,342)	-
Proceeds from long term loan	16	-	8,830,278
Repayment of long term loan	16	(7,089,986)	-
Short term borrowing - net	16	3,000,000	-
Dividend payment	33	(4,000,320)	-
Net cash (used in) / from financing activities		(13,578,888)	4,766,672
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(5,106,831)	2,043,916
Cash and cash equivalents at beginning of the period	9	10,106,712	2,562,308
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		4,999,881	4,606,224

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

DHOFAR GENERATING COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2019

	Share capital RO	Proposed share capital RO	Legal reserve RO	Retained earnings RO	Cash flow hedge reserve RO	Total RO
Balance at 1 January 2018	500,000	21,724,000	166,667	29,927,001	(4,444,370)	47,873,298
Proposed increase in share capital (note 10)	21,724,000	(21,724,000)	-	-	-	-
Loss for the year	-	-	-	359,280	-	359,280
Other comprehensive loss for the year	-	-	-	-	3,221,415	3,221,415
Total comprehensive income for the year	-	-	-	359,280	3,221,415	3,580,695
Transfer to legal reserve	-	-	35,928	(35,928)	-	-
Balance at 1 January 2019	<u>22,224,000</u>	<u>-</u>	<u>202,595</u>	<u>30,250,353</u>	<u>(1,222,955)</u>	<u>51,453,993</u>
Profit for the period	-	-	-	1,380,996	-	1,380,996
Other comprehensive income for the period	-	-	-	-	(5,291,090)	(5,291,090)
Total comprehensive income for the period	-	-	-	1,380,996	(5,291,090)	(3,910,094)
Dividend paid (Note 33)	-	-	-	(4,000,320)	-	(4,000,320)
Recognition of finance lease liability (note 18)	-	-	-	(255,451)	-	(255,451)
Balance at 30 September 2019	<u>22,224,000</u>	<u>-</u>	<u>202,595</u>	<u>27,375,578</u>	<u>(6,514,045)</u>	<u>43,288,128</u>

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

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 period 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 interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

These interim 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;

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

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

For the period ended 30 September 2019, 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 periods beginning on or after 1 January 2019.

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

- IFRS 16 - Leases
- IFRS 17 - Insurance Contracts
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The adoption of above standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current period.

2.2.2 IFRS 16

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

Transition to IFRS 16

The Company adopted IFRS 16 retrospectively to each prior reporting period presented. The Company elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4 (note 18).

The Company elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has a lease of office premise that is considered of low value.

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

2.2.3 IFRS 17 Insurance Contracts

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

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

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

2.2.4 IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*

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

- whether an entity considers uncertain tax treatments separately
- the assumptions an entity makes about the examination of tax treatments by taxation authorities
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and
- how an entity considers changes in facts and circumstances

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

2.2.5 Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

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

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

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

2.2.6 Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*

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

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

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

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 period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

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 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.

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.2 Fair value measurement (continued)

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

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

- 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 categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.3.3 Revenue from contracts with customers

The Company's business is to supply power 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.

(a) Capacity charges

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. 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 received under the PPA, are finance lease payments. Amounts received in relation to electricity energy charges (covering the fuel charge and variable operating and maintenance charge) are contingent rental receipts. Capacity charge covering fixed O&M charge is linked to making available the capacity to OPWP and is revenue to the Company.

The investment charge of 445 MW plant has been treated as containing a lease which conveys the right to use the underlying assets for a period of time in exchange of consideration. This component of revenue is recognised on straight line basis over the lease term to the extent that capacity has been made available based on contractual terms of PPA and accounted using IAS 17: Leases and IFRIC 4: Determining whether an arrangement contains a lease, and thus not within the scope of IFRS 15.

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

(b) Output charges

Output charges are recognised as revenue upon delivery of electricity 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.3 Revenue from contracts with customers (continued)

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 year, 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 on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

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

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

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

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).

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.6 Plant and equipment

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

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 profit or loss 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	18
Computer and equipment	5
Motor vehicle	5
Furniture and fixtures	5
Computer software	5

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 or profit or loss 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 or 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.

2.3.7 Leases

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

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.7 Leases

Finance lease as a lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases. Each lease payment is allocated between the lease receivable and finance income so as to achieve a constant rate on the finance lease receivable balance outstanding.

Operating lease as a lessee

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

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

2.3.8.1 Financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt)
- 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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.8.1 Financial assets (continued)

Financial assets at amortised cost (debt instruments)

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

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

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

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

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.

Impairment of financial assets (continued)

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).

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.8.1 Financial assets (continued)

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

2.3.8.2 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:

Financial liabilities at fair value through profit or loss

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

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

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

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

Loans and borrowings

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

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.8.2 Financial liabilities (continued)

Derecognition

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

2.3.9 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

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

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

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

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

Cash flow hedges

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

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.9 Derivative financial instruments and hedge accounting (continued)

Cash flow hedges (continued)

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

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

2.3.10 Inventories

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

2.3.11 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 profit or loss 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.

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.

2.3.12 Employee benefits

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

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.13 Trade receivable

A receivable represents Company's right to receive an amount of compensation is uncollected (i.e only the passage of time on repayment before payments of the compensation is due).

2.3.14 Cash and cash equivalents

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

2.3.15 Trade and other payable

Trade and other payables are initially measured at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.3.16 Share capital

Share capital is recorded at the proceeds received.

2.3.17 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.

2.3.18 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 provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

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 Leases

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 IFRIC 4, "Determining Whether an Arrangement Contains a Lease", 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 IAS 17, Leases. 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.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.1 Leases (continued)

(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 IAS 17, 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 IFRIC 4, Determining whether an arrangement contains a lease. Further management has assessed the lease classification as per the requirements of International Accounting Standard 17 Lease 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 IAS 17 since significant risks and rewards associated with the ownership of the plant lies with the Company and not with OPWP. 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 and not OPWP.

3.2 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.

3.3 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.

3.4 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.

3.5 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.

3.6 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.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.6 Taxes (continued)

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

3.7 Impairment of account receivable

An estimate of the collectible amount of accounts receivable is made using expected loss model which involves evaluation of credit rating and days past due information. For individually significant amounts, this information is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively.

3.8 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 amortised cost. The impairment provisions for financial lease receivable was assessed based on the "Expected Credit Loss" 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 period. As at the reporting date, the impairment impact is considered to be immaterial.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

4 PLANT, EQUIPMENT AND CAPITAL WORK IN PROGRESS

	Plant	Plant capital spares RO	Decommissioning asset RO	Computers and equipment RO	Computer software RO	Motor Vehicles RO	Furniture and fixture RO	Sub total RO	Capital work-in-progress RO	Total RO
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	-	-	-	158,408	-	-	-	158,408	7,947	166,355
At 30 September 2019	158,926,392	1,374,461	928,519	265,758	102,254	19,750	57,880	161,675,014	7,947	161,682,961
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 period	2,844,123	57,269	17,410	21,583	15,244	2,963	8,681	2,967,273	-	2,967,273
At 30 September 2019	6,637,022	439,064	40,623	100,271	79,463	12,284	34,645	7,343,372	-	7,343,372
Net book value:										
At 30 September 2019	152,289,370	935,397	887,896	165,487	22,791	7,466	23,235	154,331,642	7,947	154,339,589
Cost:										
At 1 January 2018	-	1,374,461	-	107,350	102,254	19,750	57,880	1,661,695	146,839,736	148,501,431
Additions	-	-	928,519	-	-	-	-	928,519	12,086,656	13,015,175
Transfer	158,926,392	-	-	-	-	-	-	158,926,392	(158,926,392)	-
At 31 December 2018	158,926,392	1,374,461	928,519	107,350	102,254	19,750	57,880	161,516,606	-	161,516,606
Depreciation:										
At 1 January 2018	-	305,436	-	57,190	43,768	5,371	14,388	426,153	-	426,153
Depreciation for the year	3,792,899	76,359	23,213	21,498	20,451	3,950	11,576	3,949,946	-	3,949,946
At 31 December 2018	3,792,899	381,795	23,213	78,688	64,219	9,321	25,964	4,376,099	-	4,376,099
Net book value:										
At 31 December 2018	155,133,493	992,666	905,306	28,662	38,035	10,429	31,916	157,140,507	-	157,140,507

(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-Sep-19 RO	30-Sep-18 RO
Operating costs (note 21)	2,924,081	1,962,490
Administrative and general expenses (note 22)	43,192	28,723
	2,967,273	1,991,213

(iii) Capital-work-in-progress reflects the amount paid for the feasibility study for plant inter connection.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

5 FINANCE LEASE RECEIVABLES

As mentioned in note 3.(1) , 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-Sep-19 RO	31-Dec-18 RO
Non-current	52,689,876	54,514,265
Current	2,408,186	2,265,579
	<u>55,098,062</u>	<u>56,779,844</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 September 2019					
Gross finance lease receivables	6,819,111	6,819,111	20,457,334	56,257,670	90,353,226
Less: unearned finance income	<u>(4,410,925)</u>	<u>(4,206,723)</u>	<u>(11,214,333)</u>	<u>(15,423,183)</u>	<u>(35,255,164)</u>
	<u>2,408,186</u>	<u>2,612,388</u>	<u>9,243,001</u>	<u>40,834,487</u>	<u>55,098,062</u>
31 December 2018					
Gross finance lease receivables	6,819,111	6,819,111	34,095,557	47,733,781	95,467,560
Less: unearned finance income	<u>(4,553,532)</u>	<u>(4,361,422)</u>	<u>(18,304,431)</u>	<u>(11,468,331)</u>	<u>(38,687,716)</u>
	<u>2,265,579</u>	<u>2,457,689</u>	<u>15,791,126</u>	<u>36,265,450</u>	<u>56,779,844</u>

6 INVENTORIES

	30-Sep-19 RO	31-Dec-18 RO
Spares and consumables	2,944,657	2,958,345
Fuel	2,733,870	2,671,003
	<u>5,678,527</u>	<u>5,629,348</u>

7 TRADE AND OTHER RECEIVABLES

	30-Sep-19 RO	31-Dec-18 RO
Trade receivables from OPWP	10,007,933	2,681,517
Amount due from related parties (note 26)	13,182	148
Material adverse change claim from OPWP	588,451	470,783
Other receivables	114,309	74,389
	<u>10,723,875</u>	<u>3,226,837</u>

All trade receivables are considered good and none of the balances were either past due or impaired at the reporting date. The Company has not recognised any ECL on trade receivable as the amount was not significant.

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

7 TRADE AND OTHER RECEIVABLES (continued)

The ageing of trade receivables at the reporting date as follows:

	30-Sep-19 RO	31-Dec-18 RO
0 - 30 days	6,906,009	2,681,517
31 - 180 days	3,101,924	-
Above 180 days	-	-
	<u>10,007,933</u>	<u>2,681,517</u>

8 ADVANCES AND PREPAYMENTS

	30-Sep-19 RO	31-Dec-18 RO
Advances and others	88,333	6,675
Prepaid expenses	201,577	166,576
	<u>289,910</u>	<u>173,251</u>

9 CASH AND CASH EQUIVALENTS

	30-Sep-19 RO	31-Dec-18 RO
Cash at bank	4,997,991	10,104,872
Cash in hand	1,890	1,840
	<u>4,999,881</u>	<u>10,106,712</u>

As of 30 September 2019, the Company has undrawn working capital facility amounting to RO 4,700,000 (31 December 2018 - RO 7,700,000) with the interest rate of 3.75% per annum (31 December 2018 - 3.5%).

10 SHARE CAPITAL

The authorised share capital of the Company as at 30 September 2019 is RO 120,000,000 (31 December 2018 : RO 120,000,000).

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 September 2019		31 December 2018	
	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

11 LEGAL RESERVE

Article 106 of the Commercial Companies Law of 1974, as amended requires that 10% of a Company's net profit be transferred to a non-distributable legal reserve until the amount of the legal reserve becomes equal to at least one-third of the Company's paid-up share capital. Transfer to legal reserve will be made at the year end.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

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-Sep-19 RO	31-Dec-18 RO
At the beginning	(1,222,955)	(4,444,370)
Change in fair value during the period / year	(6,224,811)	3,789,899
Less: related deferred tax asset (note 19)	933,721	(568,484)
Change in fair value of derivatives during the period / year (net)	(5,291,090)	3,221,415
Change in fair value of hedge - net of tax	<u>(6,514,045)</u>	<u>(1,222,955)</u>

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 September 2019					
Interest rate swaps	<u>7,663,581</u>	<u>84,610,321</u>	<u>3,959,213</u>	<u>16,535,424</u>	<u>64,115,684</u>
31 December 2018					
Interest rate swaps	<u>1,438,771</u>	<u>88,500,601</u>	<u>3,890,280</u>	<u>16,434,913</u>	<u>68,175,408</u>

14 PROVISION FOR DECOMMISSIONING COSTS

	30-Sep-19 RO	31-Dec-18 RO
At the beginning	4,067,655	3,000,900
Provision made during the period / year	-	928,519
Unwinding of discount on decommissioning cost provision (Note 24)	107,886	138,236
	<u>4,175,541</u>	<u>4,067,655</u>

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 rate that reflects the risk profile of the Company.

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

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-Sep-19	31-Dec-18
	RO	RO
At the beginning	3,917,732	4,423,638
Unwinding of discount on major maintenance (Note 24)	87,468	125,502
Payments made during the period / year	(171,863)	(631,408)
	<u>3,833,337</u>	<u>3,917,732</u>

16 LONG TERM LOAN

	30-Sep-19	31-Dec-18
	RO	RO
At the beginning	161,332,749	152,502,471
Received during the period / year	-	13,074,003
Paid during the period / year	(7,089,986)	(4,243,725)
Gross loan amount	154,242,763	161,332,749
Less: Unamortised arrangement fee	(1,586,111)	(1,728,219)
	<u>152,656,652</u>	<u>159,604,530</u>
Current portion	7,210,143	6,979,251
Non-current portion	145,446,509	152,625,279
	<u>152,656,652</u>	<u>159,604,530</u>

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-Sep-19	31-Dec-18
	RO	RO
Payable within one year	7,498,048	7,089,985
Payable between 1 and 2 years	7,439,034	7,363,186
Payable between 2 and 5 years	23,499,053	22,596,221
Payable after 5 years	115,806,628	124,283,357

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

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

16 LONG TERM LOAN (continued)

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 4.22% per annum (31 December 2018: 3.61%) for USD facility and 4.60% per annum (31 December 2018: 4.60%) OMR Facility (overall effective rate 3.94% per annum) (31 December 2018: 4.02%) .

The loan is subject to certain covenants relating to maintenance of Debt Service Coverage Ratio.

The Company has entered in to a short term loan with a private bank in Oman to manage its working capital requirements. As of 30 September 2019, the Company has undrawn working capital facility amounting to RO 4,700,000 (31 December 2018 - RO 7,700,000) with the interest rate of 3.75% per annum (31 December 2018 - 3.5%).

17 TRADE AND OTHER PAYABLES

	30-Sep-19 RO	31-Dec-18 RO
Accrued expenses	2,785,824	3,665,422
Trade payables	5,511,159	2,379,765
Amount due to related parties (note 26)	1,101,778	501,493
Other payables	-	6,759
	<u>9,398,761</u>	<u>6,553,439</u>

18 ADJUSTMENTS RECOGNISED ON ADOPTION OF IFRS 16

The company has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules for the period before 1 January 2019 are therefore recognised in the equity. On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's weighted average cost of capital.

The transition of IFRS 16 impacted to the financial statements on 1 January 2019 as follow.

Non-current assets

Right-to-use assets 4,586,306

Non-current liabilities

Lease liabilities 4,566,348

Current liabilities

Lease liabilities 242,089

Impact on equity (222,131)

Deferred tax impact on retained earnings adjustment (note 19) (33,320)

Net impact on equity (255,451)

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

18 ADJUSTMENTS RECOGNISED ON ADOPTION OF IFRS 16 (continued)

The movement of Right-to-use asset during the period is as follows

	30-Sep-19 RO	31-Dec-18 RO
At 1 January	4,586,306	-
Amortisation during the period (note 21)	(221,922)	-
At 30 September	<u>4,364,384</u>	<u>-</u>

Lease liability recognised in the current year as follows

	30-Sep-19 RO	31-Dec-18 RO
Opening	4,808,437	-
Interest accrued during the period	122,255	-
Payment during the period	(230,072)	-
Closing	<u>4,700,620</u>	<u>-</u>

	30-Sep-19 RO	31-Dec-18 RO
Current lease liabilities	405,095	-
Non-current lease liabilities	4,295,525	-
	<u>4,700,620</u>	<u>-</u>

Amortization relates to the right to use asset and interest charge on the lease liability for the period ended as follows

	9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
Amortization (note 21)	221,922	-
Interest on finance lease (note 24)	122,254	-

19 TAXATION

	9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
Statement of comprehensive Income		
Deferred tax charge	1,644,833	2,300,647
Current tax reversal	-	(154,809)
	<u>1,644,833</u>	<u>2,145,838</u>

Statement of financial position

Non-Current liability:

Deferred tax	<u>6,721,949</u>	<u>5,977,517</u>
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Current liability

Current year	<u>-</u>	154,809
	<u>-</u>	<u>154,809</u>

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

19 TAXATION (continued)

	9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
Provision for taxation movement:		
At the beginning	-	154,809
Reversal during the period / year	-	(154,809)
	<u>-</u>	<u>-</u>

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

	9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
Accounting profit before tax for the period / year	<u>3,025,829</u>	<u>2,943,503</u>
Tax at the rate of 15%	453,874	441,525
Add tax effect of:		
Deferred tax not recognised on tax losses	1,223,620	-
Expenses not allowed in tax	659	-
Deferred tax impact on equity on lease liability recognition	(33,320)	-
Prior year impact	-	991,024
Current tax reversal of prior year	-	(154,809)
Tax expense for the year	<u>1,644,833</u>	<u>1,277,740</u>

Tax assessments of the Company have been completed up to tax year 2012. The management considers that the amount of additional taxes, if any, that may become payable on finalisation of the open tax years would not be material to the Company's financial position as at 30 September 2019.

The provision for the current and deferred tax has 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 will subject to tax as per the Income Tax Law.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

19 TAXATION (continued)

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;

	<u>Deferred tax recognised in</u>			At 30 September RO
	At 1 January RO	Profit or loss RO	Other comprehensiv e income RO	
2019				
<i>Deferred tax asset</i>				
Provision for major maintenance cost	587,660	(12,659)	-	575,001
Provision for decommissioning cost	610,148	16,183	-	626,331
Lease liability (note 18)	-	738,413	(33,320)	705,093
Cash flow hedge reserve (note 12)	215,816	-	933,721	1,149,537
	<u>1,413,624</u>	<u>741,937</u>	<u>900,401</u>	<u>3,055,962</u>
<i>Deferred tax liability</i>				
Accelerated tax depreciation	(3,069,922)	(1,851,423)	-	(4,921,345)
Unrealised gain on recognition of finance lease	(3,021,546)	73,147	-	(2,948,399)
Finance lease receivable for decommissioning asset	(282,724)	19,650	-	(263,074)
Finance lease receivable for major maintenance	(881,153)	57,221	-	(823,932)
Right to use assets	-	(687,977)	-	(687,977)
Decommissioning asset	(135,796)	2,612	-	(133,184)
	<u>(7,391,141)</u>	<u>(2,386,770)</u>	<u>-</u>	<u>(9,777,911)</u>
Deferred tax liability - net	<u>(5,977,517)</u>	<u>(1,644,833)</u>	<u>900,401</u>	<u>(6,721,949)</u>
	At 1 January RO	Profit or loss RO	Other comprehensive income RO	At 31 December RO
2018				
<i>Deferred tax asset</i>				
Provision for major maintenance cost	-	587,660	-	587,660
Provision for decommissioning cost	-	610,148	-	610,148
Cash flow hedge reserve	784,300	-	(568,484)	215,816
	<u>784,300</u>	<u>1,197,808</u>	<u>(568,484)</u>	<u>1,413,624</u>
<i>Deferred tax liability</i>				
Accelerated tax depreciation	(61,563)	(3,008,359)	-	(3,069,922)
Unrealised gain on recognition of finance lease	(3,109,097)	87,551	-	(3,021,546)
Finance lease receivable for decommissioning asset	-	(282,724)	-	(282,724)
Finance lease receivable for major maintenance	-	(881,153)	-	(881,153)
Decommissioning asset	-	(135,796)	-	(135,796)
	<u>(3,170,660)</u>	<u>(4,220,481)</u>	<u>-</u>	<u>(7,391,141)</u>
Deferred tax asset/ (liability) - net	<u>(2,386,360)</u>	<u>(3,022,673)</u>	<u>(568,484)</u>	<u>(5,977,517)</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

20 REVENUE

	9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
<i>Revenue from a contract with a customer</i>		
Fuel cost allowance	11,865,282	11,349,685
Fixed operation and maintenance allowance	5,537,827	5,582,574
Electrical energy allowance	86,269	62,539
	<u>17,489,378</u>	<u>16,994,798</u>
<i>Revenue from lease contracts</i>		
Interest income on finance lease	3,432,552	3,564,012
Investment charge revenue	9,578,258	9,669,901
	<u>13,010,810</u>	<u>13,233,913</u>
	<u>30,500,188</u>	<u>30,228,711</u>

21 OPERATING COSTS

	9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
Fuel cost	11,995,016	11,316,674
Operation and maintenance charges	5,459,754	5,542,879
Depreciation (note 4)	2,924,081	2,943,365
Employee costs (note 23)	433,821	489,558
Insurance	374,770	497,625
Amortization of right-to-use asset (note 18)	221,922	-
Transmission connection charges	36,068	256,590
Usufruct charges	-	100,066
	<u>21,445,432</u>	<u>21,146,757</u>

22 ADMINISTRATIVE AND GENERAL EXPENSES

	9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
Legal and professional charges	117,653	135,661
IT and software related expenses	112,382	39,748
License fees to regulator	44,805	41,364
Depreciation (note 4)	43,192	43,085
Director sitting, remuneration and travelling expenses (note 26)	30,949	11,400
Travelling expenses	30,625	44,810
Office expenses	28,883	34,913
Office rent	22,232	18,126
Entertainment	12,318	101,635
Training expenses	11,250	4,650
Communication expenses	8,423	33,712
Miscellaneous expenses	70,361	42,153
	<u>533,073</u>	<u>551,257</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

23 EMPLOYEE COSTS

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

	9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
Salaries, wages and other benefits	414,050	458,526
Contributions to a defined contribution retirement plan	6,974	13,135
Charge for employee end of service benefits	12,797	17,897
	<u>433,821</u>	<u>489,558</u>

24 FINANCE COSTS

	9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
Interest on long term loan	4,938,740	5,074,130
Amortisation of deferred financing cost	142,108	150,918
Interest on finance lease (note 18)	122,254	-
Unwinding of discount on decommissioning cost provisions (note 14)	107,886	149,066
LC commission	97,398	104,067
Unwinding of discount on major maintenance (note 15)	87,468	95,114
Commitment fee	-	13,899
	<u>5,495,854</u>	<u>5,587,194</u>

25 EARNINGS PER SHARE

	9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
Profit for the period	1,380,996	797,665
Weighted average number of ordinary shares	222,240,000	90,730,815
	<u>0.006</u>	<u>0.009</u>

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

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

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 Significant related party balances and transactions for the period ended 30 September 2019 are as

Balances at year end

	30-Sep-19 RO	31-Dec-18 RO
Due from related parties (Note 7)		
Shinas Generating Company SAOC	-	114
Ad Dhahirah Generating Company SAOC	<u>13,182</u>	<u>34</u>
	<u>13,182</u>	<u>148</u>

Due to related parties (Note 17)

Dhofar O&M LLC	1,048,597	465,369
International Company for Water and Power Projects	333	-
First National Company for Operation and Maintenance - Oman	<u>52,848</u>	<u>36,124</u>
	<u>1,101,778</u>	<u>501,493</u>

Transactions during the period

O&M Fee and related charges	5,757,621	5,287,147
Secondment charges and expense reimbursement	315,849	308,896
Director sitting, remuneration and travelling expenses (note 26)	<u>30,949</u>	<u>11,400</u>
Goods and services received	<u>6,104,419</u>	<u>5,607,443</u>
Goods and services rendered	<u>77,001</u>	<u>232,133</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:

	9 Months ended 30-Sep-19 RO	9 Months ended 30-Sep-18 RO
Short-term employee benefits	154,675	164,899
Director sitting fees, remuneration and travelling expenses	<u>30,949</u>	<u>11,400</u>
	<u>185,624</u>	<u>176,299</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

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.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of interest rate risk and currency risk. Financial instruments affected by market risk include loans and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 30 September 2019 and 31 December 2018.

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 30 September 2019.

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 30 September 2019 and 31 December 2018 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 September 2019, 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 2018: 42%).

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

	30-Sep-19	30-Sep-18
Fixed rate	RO	RO
Term loan	<u>65,178,049</u>	<u>68,174,050</u>
Variable rate		
Term loan	<u>89,064,714</u>	<u>93,158,699</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)

Interest rate risk (continued)

Interest rate sensitivity (continued)

	Profit or loss		Equity	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
30 September 2019				
Variable rate financial liabilities	(695,728)	695,728	(591,369)	591,369
Interest rate swaps	660,942	(660,942)	561,801	(561,801)
Net sensitivity	<u>(34,786)</u>	<u>34,786</u>	<u>(29,568)</u>	<u>29,568</u>
	Profit or loss		Equity	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
31 December 2018				
Variable rate financial liabilities	(939,903)	939,903	(798,918)	798,918
Interest rate swaps	892,908	(892,908)	758,972	(758,972)
Net sensitivity	<u>(46,995)</u>	<u>46,995</u>	<u>(39,946)</u>	<u>39,946</u>

Foreign currency risk

Foreign exchange risk arises when future commercial transactions or recognized 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 couple of years and no impairment loss has been recognised against the customer. Accordingly the balance due from this customer is assessed to have a strong high credit quality or limited credit risk. At 30 September 2019, the Company had one customer (31 December 2018: one customer).

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. 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. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.

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 September 2019. 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.

DHOFAR GENERATING COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 September 2019

27 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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 expected credit loss is not significant

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 encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. 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 they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Company's reputation. Accordingly, the Company ensures that sufficient bank facilities are always available.

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 Amount RO	Contractual cash flows RO	Less than 1 year RO	More than 1 year RO
30 September 2019				
<i>Non-derivative financial liabilities</i>				
Term loan	154,242,763	215,990,284	14,079,130	201,911,154
Trade payables	5,511,159	5,511,159	5,511,159	-
Due to related parties	1,101,778	1,101,778	1,101,778	-
	<u>160,855,700</u>	<u>222,603,221</u>	<u>20,692,067</u>	<u>201,911,154</u>
<i>Derivative financial liabilities</i>				
Gross payable under IRS	7,663,581	16,944,924	2,120,063	14,824,861
Gross receivable under IRS	-	-	-	-
Net payable under IRS	<u>7,663,581</u>	<u>16,944,924</u>	<u>2,120,063</u>	<u>14,824,861</u>
	<u><u>168,519,281</u></u>	<u><u>239,548,145</u></u>	<u><u>22,812,130</u></u>	<u><u>216,736,015</u></u>
31 December 2018				
<i>Non-derivative financial liabilities</i>				
Term loan	161,332,749	229,835,382	13,339,056	216,496,326
Trade payables	2,379,765	2,379,765	2,379,765	-
Due to related parties	501,493	501,493	501,493	-
	<u>164,214,007</u>	<u>232,716,640</u>	<u>16,220,314</u>	<u>216,496,326</u>
<i>Derivative financial liabilities</i>				
Gross payable under IRS	1,471,055	22,897,298	3,015,130	19,882,168
Gross receivable under IRS	(32,284)	(3,982,174)	(524,375)	(3,457,799)
Net payable under IRS	<u>1,438,771</u>	<u>18,915,124</u>	<u>2,490,755</u>	<u>16,424,369</u>
	<u><u>165,652,778</u></u>	<u><u>251,631,764</u></u>	<u><u>18,711,069</u></u>	<u><u>232,920,695</u></u>

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28 CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business through the optimisation of the debt and equity balance.

The Board of Directors monitors the return on capital, which the Company defines as net operating income divided by the total shareholders' equity. The Board of Directors also monitors the level of dividends paid. There were no changes in the Company's approach to capital management during the period.

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 of 1974, as amended.

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 September 2019 of 341.10% (31 December 2018: 290.55%) (see below).

Gearing ratio

Gearing ratio at the end of the reporting period was as follows:

	30-Sep-19	31-Dec-18
	RO	RO
Debt (i)	152,656,652	159,604,530
Cash and bank balances	(4,999,881)	(10,106,712)
Net debt	147,656,771	149,497,818
Equity (ii)	43,288,128	51,453,993
Net debt to equity ratio	341.10%	290.55%

(i) Debt is defined as long- and short-term borrowings (excluding derivatives) and shareholders' loan as described in notes 13 and 16

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

29 COMMITMENTS AND CONTINGENCIES

At 30 September 2019, the Company had contingent liabilities in respect of Debt Service Reserve Account ('DSRA') letter of credit amounting to RO 2,709,464 and USD 8,750,400 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 September 18 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 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.

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29 COMMITMENTS AND CONTINGENCIES (continued)

Operating lease commitments (continued)

Operating lease commitments

The Company had entered into operating leases on land and transmission connection facilities, with lease terms between 15 and 25 years. However, with the transition of IFRS 16, these operating lease commitments have been recognized as lease liability in the statement of financial position (note 18). Future minimum operating lease commitments under the non-cancellable leases are as follows:

	30-Sep-19	31-Dec-18
	RO	RO
Not later than one year	-	405,095
One to five years	-	2,025,476
After five years	-	4,118,054
	<u>-</u>	<u>6,548,625</u>

30 CAPITAL COMMITMENT

The Company has no capital commitments as of 30 September 2019 (31 December 2018: RO 158,408) with contractors for construction and other activities.

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 end of the period.

31 NET ASSETS PER SHARE

	30-Sep-19	30-Sep-18
	RO	RO
Net assets – shareholder funds	43,288,128	51,453,993
Total number of ordinary shares	222,240,000	222,240,000
	<u>0.195</u>	<u>0.232</u>

32 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.

33 DIVIDEND PAYMENT

The Company has paid an interim dividend of RO 4,000,320 during the period (30 September 2018: RO NIL).