

# **DHOFAR GENERATING COMPANY SAOG**

## **Financial statements**

**For the year ended 31 December 2023**

**Registered office:**

P.O. Box: 1571

Postal Code: 211

Muscat

Sultanate of Oman

**Principal place of business:**

Salalah

Sultanate of Oman

# DHOFAR GENERATING COMPANY SAOG

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## Financial statements

For the year ended 31 December 2023

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**Key Audit Matters (continued)**

**Impairment testing of non-financial assets**

See Note 2.3.6, 3.2(d) and 4 to the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2023 the Company has non-financial assets comprising primarily of property, plant and equipment and Right of use assets which is considered as one CGU of RO 140.06 million where impairment indicators existed on the reporting date. Accordingly, the Management of the Company carried out an impairment testing to assess the recoverable value of the non-financial assets based on value in use methodology. The recoverable amount is determined based on the higher of 'value in use' or 'fair value less costs of disposal.</p> <p>The impairment testing of the non-financial assets of the Company is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgment required in determining the assumptions to be used to estimate the recoverable amount. The recoverable amount of the CGU has been determined by management from discounted forecast cash flow models (value in use). These models use several key assumptions, including estimates of future fixed and variable income, operating costs and the weighted-average cost of capital (discount rate).</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>• Understanding the process for impairment assessment;</li> <li>• Evaluating the design and implementation of key internal controls over the impairment assessment;</li> <li>• Involving our own valuation specialist to assist in evaluating the appropriateness of the discount rates applied;</li> <li>• Evaluating the appropriateness of the key inputs such as estimate of future fixed and variable income, operating costs which included comparing these inputs with our own assessments based on our knowledge of the Company and the industry;</li> <li>• Testing the mathematical accuracy of the discounted cash flow model;</li> <li>• Performing our own sensitivity analysis for key inputs, which included assessing the effect of reasonably possible reductions in forecast cash flows to evaluate the impact on the currently estimated recoverable amount;and</li> <li>• Evaluating the adequacy of the financial statement disclosures.</li> </ul>

**Other matter**

The financial statements of the Company as at and for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 6 February 2023.

**Other Information**

Management is responsible for the other information. The other information comprises Chairman's report, Management discussion and Analysis report and Corporate Governance report.

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

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Continued from page 1(b)

### Other Information (continued)

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

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged with Governance are responsible for overseeing the Company's financial reporting process.

### Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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### Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

### Report on Other Legal and Regulatory Requirements

Further, we report that financial statements of the Company as at and for the year ended 31 December 2023, comply, in all material respects, with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 2019.

Mobeen Chaudhri  
19 February 2024

KPMG LLC





# DHOFAR GENERATING COMPANY SAOG

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	Notes	31-Dec-23 RO	31-Dec-22 RO
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	138,381,140	142,350,209
Right-of-use assets	17	1,679,440	1,728,835
Finance lease receivable	5	35,059,980	37,945,699
Trade and other receivables	7	1,753,308	1,669,111
Prepayments of connection charges		812,852	693,152
Derivative financial instrument	13	1,563,221	2,145,835
<b>Total non-current assets</b>		<b>179,249,941</b>	<b>186,532,841</b>
<b>Current assets</b>			
Inventories	6	5,537,659	5,526,956
Finance lease receivable	5	2,979,242	2,745,581
Trade and other receivables	7	4,582,735	4,433,230
Advances and prepayments	8	230,411	145,003
Cash and cash equivalents	9	4,684,314	6,527,193
Derivative financial instrument	13	440,908	605,235
<b>Total current assets</b>		<b>18,455,269</b>	<b>19,983,198</b>
<b>TOTAL ASSETS</b>		<b>197,705,210</b>	<b>206,516,039</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	10	22,224,000	22,224,000
Legal reserve	11	1,079,778	917,468
Retained earnings		28,426,317	26,965,524
<b>Equity before hedging reserve</b>		<b>51,730,095</b>	<b>50,106,992</b>
Hedging reserve	12	1,703,509	2,338,408
<b>Total equity</b>		<b>53,433,604</b>	<b>52,445,400</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Term loan	15	110,609,444	119,061,879
Provision for decommissioning costs	14	5,467,092	5,206,754
Lease liabilities	17	1,849,068	1,867,885
Deferred tax	18	11,998,741	11,360,062
End of service benefits		54,895	99,232
<b>Total non-current liabilities</b>		<b>129,979,240</b>	<b>137,595,812</b>
<b>Current liabilities</b>			
Term loan	15	7,646,662	8,558,295
Trade and other payables	16	6,509,574	7,780,402
Lease liabilities	17	133,137	133,137
Income tax payable	18	2,993	2,993
<b>Total current liabilities</b>		<b>14,292,366</b>	<b>16,474,827</b>
<b>Total liabilities</b>		<b>144,271,606</b>	<b>154,070,639</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>197,705,210</b>	<b>206,516,039</b>
<b>Net assets per share (RO Baizas)</b>	31	<b>0.240</b>	<b>0.236</b>

The financial statements were approved by a resolution of the Board of Directors on 14 February 2024.

  
Chairman



  
Chief Executive Officer

Independent auditors' report – page 1(a)-1(d)

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

## DHO FAR GENERATING COMPANY SAOG

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	31-Dec-23 RO	31-Dec-22 RO
Revenues	19	52,316,361	47,041,605
Direct costs	20	<u>(42,572,668)</u>	<u>(36,673,415)</u>
<b>Gross profit</b>		<b>9,743,693</b>	<b>10,368,190</b>
General and administrative expenses	21	(756,423)	(1,110,188)
Finance cost	23	(6,789,432)	(6,871,757)
Finance income	7	<u>175,985</u>	<u>194,554</u>
<b>Profit before tax</b>		<b>2,373,823</b>	<b>2,580,799</b>
Income tax expense	18	<u>(750,720)</u>	<u>(641,959)</u>
<b>Profit for the year</b>		<b>1,623,103</b>	<b>1,938,840</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
<i>Cashflow Hedge - Effective portion of changes in fair value</i>	23	528,563	9,410,727
<i>Cashflow Hedge - Reclassified to profit or loss</i>	23	(1,275,504)	(116,685)
<i>Cashflow Hedge - Related tax</i>	18	<u>112,042</u>	<u>(1,394,107)</u>
<b>Other comprehensive (loss) / income for the year</b>		<b>(634,899)</b>	<b>7,899,935</b>
<b>Total comprehensive income for the year</b>		<b>988,204</b>	<b>9,838,775</b>
<b>Basic and diluted earnings per share (RO Baizas)</b>	24	<b>0.007</b>	<b>0.009</b>

Independent auditors' report – page 1(a)-1(d).

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



DHOFAR GENERATING COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Share capital	Legal reserve	Retained earnings	Hedging reserve	Total
	RO	RO	RO	RO	RO
Balance at 1 January 2022	22,224,000	723,584	25,220,568	(5,561,527)	42,606,625
Profit for the year	-	-	1,938,840	-	1,938,840
Other comprehensive income for the year	-	-	-	7,899,935	7,899,935
Total comprehensive income for the year	-	-	1,938,840	7,899,935	9,838,775
Transfer to legal reserve	-	193,884	(193,884)	-	-
Balance at 31 December 2022	22,224,000	917,468	26,965,524	2,338,408	52,445,400
<b>Balance at 1 January 2023</b>	<b>22,224,000</b>	<b>917,468</b>	<b>26,965,524</b>	<b>2,338,408</b>	<b>52,445,400</b>
Profit for the year	-	-	1,623,103	-	1,623,103
Other comprehensive (loss) for the year	-	-	-	(634,899)	(634,899)
Total comprehensive income for the year	-	-	1,623,103	(634,899)	988,204
Transfer to legal reserve	-	162,310	(162,310)	-	-
Balance at 31 December 2023	22,224,000	1,079,778	28,426,317	1,703,509	53,433,604

Independent auditors' report – page 1(a)-1(d).

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

## DHO FAR GENERATING COMPANY SAOG

### STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	<i>Notes</i>	31-Dec-23 RO	31-Dec-22 RO
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the period		1,623,103	1,938,840
Adjustments for:			
Depreciation of property, plant and equipment	4	3,969,069	3,973,074
Amortization of right-of-use asset	17	49,395	59,150
Finance costs	23	6,675,112	6,755,904
Interest income on major maintenance receivable	7	(175,985)	(194,554)
Interest income on finance lease receivable	19	(3,232,068)	(3,449,054)
Interest cost on lease liabilities	23	114,320	115,853
(Reversal)/allowance for expected credit losses	21	(131,615)	1,080
Allowance for end of service benefit		(44,337)	(17,565)
Tax expense	19	750,720	641,959
		<b>9,597,714</b>	<b>9,824,687</b>
Working capital changes:			
Inventories		(10,703)	163,393
Trade and other receivables		(226,492)	12,130,470
Trade and other payables		(438,776)	(10,071,265)
Prepayments of connection charges		(119,700)	(119,700)
Advances and prepayments		(85,408)	302,641
Net cash flows generated from operating activities		<b>8,716,636</b>	<b>12,230,226</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Finance lease receivable		2,755,594	2,540,195
Interest income on finance lease receivable		3,232,068	3,449,054
Net cash flows from investing activities		<b>5,987,662</b>	<b>5,989,249</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of term loan	15	(9,512,670)	(9,924,794)
Finance cost paid on term loan	23	(7,410,155)	(6,243,048)
Payment of lease liabilities	17	(18,817)	(33,195)
Finance cost paid on lease liabilities	17	(114,320)	(115,853)
Interest income on major maintenance receivable		175,985	194,554
Net cash flows used in financing activities		<b>(16,879,977)</b>	<b>(16,122,336)</b>
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(2,175,680)</b>	<b>2,097,139</b>
Cash and cash equivalents at 1st January		6,553,847	4,456,708
<b>CASH AND CASH EQUIVALENTS AT 31st DECEMBER</b>	9	<b>4,378,167</b>	<b>6,553,847</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVELENTS:</b>			
Cash and cash equivalents as above		4,378,167	6,553,847
Add: restricted cash		311,930	-
Less: allowance for expected credit losses		(5,783)	(26,654)
Cash and equivalents - 31st December	9	<b>4,684,314</b>	<b>6,527,193</b>

Independent auditors' report – page 1(a)-1(d).

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

# DHOFAR GENERATING COMPANY SAOG

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

### 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 Company's registered address is P O Box 1571, Postal Code 211, Muscat, 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 Public Service Regulation, Oman (APSR).

#### Significant 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 APSR 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 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 entered into natural gas sales agreement dated 1st June 2015 with Ministry of Oil and Gas for the purchase of natural gas. On 18th August 2020, it was renamed as the Ministry of Energy and Minerals "MEM". During the year 2023, as per the Ministry of Finance's decision, "MEM" has transferred this agreement to Integrated Gas Company SAOC "IGC" in accordance with the Privatization Law (promulgated by Royal Decree no. 51/2019) with an effect from 1 January 2023.

The Company has entered into a Usufruct Agreement with the Ministry of Housing for 25 years. The Company has an option to extend the lease term for further period of 25 years.

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

### 2 MATERIAL ACCOUNTING POLICIES

#### 2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standard IFRS as issued by the International Accounting Standard Board ("IASB") and the applicable requirements of the Commercial Companies Law of the Sultanate of Oman and the disclosure requirements of Capital Market Authority.

# DHOFAR GENERATING COMPANY SAOG

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

### 2 MATERIAL ACCOUNTING POLICIES (continued)

#### 2.2 Changes in accounting policies

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments carried at fair value. The financial statements have been presented in Rial Omani which is the functional and reporting currency of the Company.

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

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

##### 2.2.1 New and revised IFRSs that are effective for the current year

In the current year, the company has applied a number of other amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2023. The adoption of the following standards have no material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies.
- Amendments to IAS 8 - Definition of Accounting Estimates.
- Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction.
- Amendments to IAS 12 - International Tax Reform.

##### 2.2.2 New and revised IFRS standards and interpretations but not yet effective

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
Amendments to IAS 1 - Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants	1 January 2024
The amendments, as issued in 2020 and 2022, aim to clarify the requirements on determining whether a liability is current or non-current, and require new disclosures for non-current liabilities that are subject to future covenants.	
Amendments to IAS 7 and IFRS 7 - Supplier Finance Arrangements	1 January 2024
The amendments introduce new disclosures relating to suppliers finance arrangements that assist users of the financial statements to assess the effects of these arrangements on an entity's liabilities and cash flows and on an entity's exposure to liquidity risk.	
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024
Lack of Exchangeability (Amendments to IAS 21)	1 January 2025

The directors anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments as highlighted in previous paragraphs, may have no material impact on the financial statements of the Company in the period of initial application.

##### 2.2.3 Interest Rate Benchmark Reform

The United Kingdom Financial Conduct Authority (FCA), which regulates the London Interbank Offered Rate ('LIBOR') was effective till 30th June 2023 for overnight, 1, 3, 6 and 12 months tenors. From 1st July 2023, Secured Overnight Financing Rate (SOFR) is implemented which used as benchmark overnight interest rates. The Company completed its transition to SOFR on 31 July 2023.

# DHOFAR GENERATING COMPANY SAOG

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

### **2 MATERIAL ACCOUNTING POLICIES (continued)**

#### **2.2 Changes in accounting policies (continued)**

##### **2.2.3 Interest Rate Benchmark Reform (continued)**

As part of the Company's risk management strategy, the Company uses financial instruments to manage exposure arising from variation of interest rates that could affect profit or loss or other comprehensive income and applies hedge accounting to these instruments.

##### **Interest Rate Swap**

Swap models: The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and inter-bank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark inter-bank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counter party; this is calculated based on credit spreads derived from current credit default swap or bond prices.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationship directly affected by LIBOR reform. The reliefs have the effect that LIBOR and SOFR reform should not generally cause hedge accounting to terminate.

### **2.3 Summary of material accounting policies**

Following are the significant accounting policies adopted by the Company and consistently applied for all the periods presented.

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

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

#### **2.3.2 Fair value measurement**

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

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### **2 MATERIAL ACCOUNTING POLICIES (continued)**

#### **2.3 Summary of material accounting policies (continued)**

#### **2.3.2 Fair value measurement (continued)**

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

#### **2.3.3 Revenue**

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

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

The treatment for 273 MW plant is a finance lease arrangement and lease interest income is recognised in the statement of profit or loss and other comprehensive income. The investment charge related to this plant receiving under the PPA is finance lease payments.

445 MW plant has been treated as containing an operating lease which conveys the right to use the underlying assets in exchange of consideration. This component of revenue is recognised on straight-line basis over the lease term to the extent that capacity has been made available based on contractual terms of PPA

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



## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### **2 MATERIAL ACCOUNTING POLICIES (continued)**

#### **2.3 Summary of material accounting policies (continued)**

##### **2.3.3 Revenue (continued)**

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

There is no significant financing component attached to the receivable from customer other than major maintenance revenue. Goods and services are provided on agreed credit terms of the contract and payment occurs within 25 days from the submission of invoice. The 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 Income Taxes**

Taxation is provided in accordance with Omani fiscal regulations.

Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or other comprehensive income.

##### **Current tax**

Current tax is the expected tax payable on the taxable income for the year or relating to previous years as a result of tax assessment, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

##### **Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that at the time of the transaction:

- i) affects neither accounting nor taxable profit or loss, and
- ii) does not give rise to equal taxable and deductible temporary differences.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

##### **Deferred tax related to assets and liabilities arising from a single transaction**

The Company has adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) from 1 January 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. For leases and decommissioning liabilities, an entity is required to recognise the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, an entity applies the amendments to transactions that occur on or after the beginning of the earliest period presented.

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### **2 MATERIAL ACCOUNTING POLICIES (continued)**

##### **2.3 Summary of material accounting policies (continued)**

##### **2.3.4 Income Taxes (continued)**

The Company previously accounted for deferred tax on leases and decommissioning liabilities by applying the 'integrally linked' approach, resulting in a similar outcome as under the amendments, except that the deferred tax asset or liability was recognised on a net basis. Following the amendments, the Company has recognised a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its right-of-use assets. However, there was no impact on the statement of financial position because the balances qualify for offset under paragraph 74 of IAS 12. There was also no impact on the opening retained earnings as at 1 January 2023 as a result of the change. The key impact for the Company relates to disclosure of the deferred tax assets and liabilities recognised.

##### **2.3.5 Foreign currencies**

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

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

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

##### **2.3.6 Property, plant and equipment**

Property, plant and equipment are stated at cost, net of accumulated impairment losses, if any.

Depreciation of property, plant and equipment commences when the assets are ready for the intended use.

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in statement of 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 and machinery	40
Buildings, civil and structural works	40
Decommissioning assets	40
Plant capital spares and other equipment	18
Computers and equipment	5
Computer software	5
Furniture and fixture	5
Motor vehicles	5

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### **2 MATERIAL ACCOUNTING POLICIES (continued)**

#### **2.3 Summary of material accounting policies (continued)**

#### **2.3.6 Property, plant and equipment (continued)**

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

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

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

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

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

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

#### **2.3.7 Leases**

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

##### *Company as a lessee*

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

##### *a. Right-of-use assets*

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

##### *b. Lease liabilities*

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

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

## **2 MATERIAL ACCOUNTING POLICIES (continued)**

### **2.3 Summary of material accounting policies (continued)**

#### **2.3.7 Leases (Continued)**

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

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

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

#### *Company as a lessor*

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

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

#### **2.3.8 Financial assets**

#### *Initial recognition and measurement*

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

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. A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

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

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### **2 MATERIAL ACCOUNTING POLICIES (continued)**

#### **2.3 Summary of material accounting policies (continued)**

#### **2.3.8 Financial assets (Continued)**

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

##### *Subsequent measurement*

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

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

##### *Financial assets at amortized cost (debt instruments)*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss account:

**Business model test:** The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes).

**Cash flow characteristics test:** The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Company's financial assets at amortized cost includes major maintenance receivable, trade receivables, cash and cash equivalents 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.

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.

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### **2 MATERIAL ACCOUNTING POLICIES (continued)**

#### **2.3 Summary of material accounting policies (continued)**

#### **2.3.8 Financial assets (continued)**

##### *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.

Under IFRS 9, loss allowance are measured on either of the following bases:

- 12 month ECL: these are ECLs that result from possible default events within 12 months after the reporting date; and
- Lifetime ECL: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowance at an amount equal to lifetime ECLs, except for the following, which are measured as 12- month ECLs:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Finance assets for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

##### *General approach*

The Company applies three-stage approach to measuring ECL. Assets migrate through the three stages based on the change in credit quality since initial recognition. Financial assets with significant increase in credit risk since initial recognition, but not credit impaired, are transitioned to stage 2 from stage 1 and ECL is recognized based on the probability of default (PD) of the counter party occurring over the life of the asset. All other financial assets are considered to be in stage 1 unless it is credit impaired and an ECL is recognized based on the PD of the customer within next 12 months. Financial assets are assessed as credit impaired when there is a detrimental impact on the estimated future cash flows of the financial asset. The Company applies general approach to all financial assets except trade receivable without significant financing component.

##### *Simplified approach*

The Company applies simplified approach to measuring credit losses, which mandates recognition of lifetime expected loss allowance for trade receivables without significant financing component. Under simplified approach, there is no need to monitor for significant increases in credit risk and the Company will be required to measure lifetime expected credit losses at all times.

##### *Significant increase in credit risk*

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward- looking information.

The Company assumes that the credit risk on a financial asset has increased significantly based on the certain delinquency period (days past due) or if exposure has moved from investment grade to non-investment grade on credit rating scale of independent credit rating agency in case of low credit risk instrument.

To determine whether a financial instrument has low credit risk, the Company uses internal credit ratings which are mapped to the external credit rating agencies such as Moody's etc. The Company considers that the rating within the investment grade, (the Company considers this to be Ba3 or higher per Moody's), are considered a low risk and have less likelihood of default. Where the external rating of a financial instrument is not available, the Company reviews the ability of the counterparty by reviewing their financial statements and other publicly available information.



## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 2 MATERIAL ACCOUNTING POLICIES (continued)

#### 2.3 Summary of material accounting policies (continued)

##### 2.3.8 Financial assets (continued)

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held) or based on the certain delinquency period (days past due).

##### *Measurement of ECLs*

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

##### *Credit-impaired financial assets*

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand and at bank. Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amount of cash, which are subject to an insignificant risk of changes in value and have maturity of three months or less at the date of acquisition.

##### *Trade receivable*

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

##### 2.3.9 Financial liabilities

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss account. A financial liability is classified as at fair value through profit or loss account if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities, at initial recognition, may be designated at fair value through profit or loss if the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;
- The liabilities are part of a Company of financial liabilities which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or
- The financial liability contains an embedded derivative that would otherwise need to be separately recorded.

Financial liabilities at fair value through profit or loss account are measured at fair value and net gains and losses, including any interest expense, are recognised in the profit or loss account.

##### *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 and other comprehensive income.

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

## **2 MATERIAL ACCOUNTING POLICIES (continued)**

### **2.3 Summary of material accounting policies (continued)**

#### **2.3.9 Financial liabilities (continued)**

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

#### *Financial liabilities at amortized cost (loans and borrowings)*

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

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

#### *Derecognition*

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

#### *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

#### *Trade and other payable*

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

#### **2.3.10 Derivative financial instruments and hedge accounting**

##### *Initial recognition and subsequent measurement*

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

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

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

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:

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### **2 MATERIAL ACCOUNTING POLICIES (continued)**

#### **2.3 Summary of material accounting policies (continued)**

#### **2.3.10 Derivative financial instruments and hedge accounting (continued)**

- 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 and other comprehensive income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

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

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

#### **2.3.11 Inventories**

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

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.

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### **2 MATERIAL ACCOUNTING POLICIES (continued)**

#### **2.3 Summary of material accounting policies (continued)**

##### **2.3.12 Provisions (continued)**

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 and other comprehensive income as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset except for the asset given on finance lease.

##### **2.3.13 Employee benefits**

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

The Company's obligation in respect of non-Omani employees' terminal benefits is the amount of future benefit that such employees have earned in return for their service in the current and prior periods having regard to the employee contract and Oman Labour Law 2023.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law are recognised as an expense in the statement of comprehensive income as incurred.

##### **2.3.14 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset.

All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

##### **2.3.15 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares and share options are deducted against the share capital account, net of any tax effects. Where the Company's ordinary shares are repurchased (treasury shares), the consideration paid, excluding any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders and presented as reserve for own shares within equity, until they are cancelled, sold or reissued.

##### **2.3.16 Directors' remuneration**

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

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

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 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 and judgements used in the preparation of the financial statements:

##### 3.1 Judgements

###### a) Classification of Generation plant as a lease

Judgement is required to ascertain whether the PPA agreement with OPWP is a concession arrangement as per IFRIC 12 Service Concession Arrangements or contains a lease as per IFRS 16 Leases and if the agreement contains a lease, judgement is required to classify the lease as an operating lease or a finance lease as per IFRS 16 Leases. Management has evaluated the applicability of IFRIC 12 Service Concession Arrangements and concluded that IFRIC 12 is not applicable to the arrangement as the residual interest is borne by the Company and not OPWP. The estimated useful life of the plant of 40 years takes into account the Company's right to extend the land lease under a Usufruct Agreement for an additional term of 25 years.

Furthermore, the residual value of the 445 MW power plant will have substantial value at the conclusion of the PPA and the Company will be able to continue to generate revenue through electricity generation taking into account the government's future plans related to power sector in Oman.

###### b) Leases - Identification of lease and lease classification

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

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

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

###### (I) Finance lease

Based on management's evaluation, the PPA with OPWP with respect to 273 MW power plant has been classified as a finance lease under IFRS 16, since significant risks and rewards associated with the ownership of the plant are transferred to OPWP.

The management has assessed the lease classification as per the requirements of IFRS 16 and has concluded that the arrangement is a finance lease, as the term of PPA is for the major part of the remaining economic life of the Company's plant. Accordingly, a finance lease receivable has been recognised in the financial statements.

The primary basis for this conclusion being that the PPA is for substantial portion of the life of the plant and the present value of minimum lease payments substantially equates the fair value of the plant at the inception of the lease.

# DHOFAR GENERATING COMPANY SAOG

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

### **3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**

#### **3.1 Judgements (Continued)**

##### **b) Leases - Identification of lease and lease classification (Continued)**

###### **(II) Operating lease**

Based on management's evaluation, the PPA with OPWP with respect to 445 MW power plant has been classified as an operating lease under IFRS 16 since significant risks and rewards associated with the ownership of the plant lies with the Company. The primary basis for this conclusion is that the PPA is for a term of fifteen 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.

###### **c) Electrical connection agreement – determining control and useful life of connection assets**

The Company had entered into electrical connection agreements with transmission company for connection to the transmission system. The Company applies judgement in evaluating the terms of the contract to determine the control of connection assets. As per management's assessment, considering the load dispatch center function of transmission company along with right to operate and maintain the connection assets, it is concluded that the control for connection assets remains with the transmission company. Further, management has assessed that the Company will receive the benefits from connection assets till plant is in operation, accordingly, connection charges will be amortized over the estimated useful life of the plant.

#### **3.2 Estimates and assumptions**

##### **a) Provision for decommissioning obligation**

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. In particular, the Company has assumed that the site will be restored using technology and materials that are currently available. The Company estimated the outcome for the total cost to be RO 5.467 million (2022: 5.207 million) reflecting different assumptions about pricing of the individual components of the cost. The provision has been calculated using a discount rate of 5% percent, which is the risk free rate in Oman. The rehabilitation is expected to occur on 2057.

##### **b) Effectiveness of hedge relationship**

At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging relationship.

##### **c) Useful lives of property, plant and equipment**

Depreciation is charged so as to write off the cost of assets 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 nature of the assets are buildings, civil, structural work, plant and machinery.

##### **d) Impairment of non-financial assets**

The Company determines whether its non-financial assets are impaired when there are indicators of impairment as defined in IAS 36. This requires an estimation of the value-in-use of the cash-generating unit ('the CGU'), which constitutes the carrying value of property, plant and equipment and right of use assets as at 31 December 2023. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As the term of PPA is shorter than the CGU, there is indicator for impairment in the CGU as at 31 December 2023 which have a carrying value of RO 140.06 million (31 December 2022 – RO 144.08).

The recoverable amount of the CGU has been determined based on value in use calculations. These calculations use pre-tax cash flow projections based on the financial budgets approved by management and based on the historical inflation rates, contractual clauses of PPA and the estimates for relevant macroeconomic factors. The growth rate considered does not exceed the long-term average growth rate for the utilities industry sectors in which the CGU operates. Management believes that the residual value of the CGU will have substantial value at the conclusion of the current PPA and the Company will be able to continue to generate revenue through supply of power which takes into account the possibility of extension of PPA as well as the government's future plans to deregulate the power and water sector in Oman.



**DHOFAR GENERATING COMPANY SAOG**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2023

**4 PROPERTY, PLANT AND EQUIPMENT**

	Plant and machinery		Buildings, civil and structural works		Plant capital spares and other equipment		Decommissioning asset		Computers and equipment		Computer software		Motor vehicles		Furniture and fixture		Total		
	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	
Cost:																			
At 1 January 2022	150,211,411	9,007,974	1,480,899	1,393,077	1,480,899	1,480,899	1,393,077	328,426	102,254	19,750	57,880	162,601,671							
Additions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
At 1 January 2023	150,211,411	9,007,974	1,480,899	1,393,077	1,480,899	1,480,899	1,393,077	328,426	102,254	19,750	57,880	162,601,671							
Depreciation:																			
At 1 January 2023	17,856,313	1,125,996	705,463	141,176	705,463	705,463	141,176	242,630	102,254	19,750	57,880	20,251,462							
Depreciation for the year	3,581,613	225,200	82,272	35,769	82,272	82,272	35,769	44,215	-	-	-	3,969,069							
At 31 December 2023	21,437,926	1,351,196	787,735	176,945	787,735	787,735	176,945	286,845	102,254	19,750	57,880	24,220,531							
Net book value:																			
At 31 December 2023	128,773,485	7,656,778	693,164	1,216,132	693,164	693,164	1,216,132	41,581	-	-	-	138,381,140							
Cost:																			
At 1 January 2022	150,211,411	9,007,974	1,480,899	1,393,077	1,480,899	1,480,899	1,393,077	328,426	102,254	19,750	57,880	162,601,671							
Additions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
At 31 December 2022	150,211,411	9,007,974	1,480,899	1,393,077	1,480,899	1,480,899	1,393,077	328,426	102,254	19,750	57,880	162,601,671							
Depreciation:																			
At 1 January 2022	14,274,700	900,797	623,191	105,408	623,191	623,191	105,408	195,755	101,127	19,530	57,880	16,278,388							
Depreciation for the year	3,581,613	225,199	82,272	35,768	82,272	82,272	35,768	46,875	1,127	220	-	3,973,074							
At 31 December 2022	17,856,313	1,125,996	705,463	141,176	705,463	705,463	141,176	242,630	102,254	19,750	57,880	20,251,462							
Net book value:																			
At 31 December 2022	132,355,098	7,881,978	775,436	1,251,901	775,436	775,436	1,251,901	85,796	-	-	-	142,350,209							

(i) All property, plant and equipment are mortgaged with banks against the term loan (note 15).

(ii) The property, plant and equipment relates to the 445 MW power plant which is subject to operating lease arrangement with OPWP as mentioned in note 3.1(b)(ii).

(iii) The depreciation charge has been allocated in the statement of profit or loss and other comprehensive income as follows:

	2023	2022
Direct costs (note 20)	RO 3,966,942	RO 3,967,030
General and administrative expenses (note 21)	2,127	6,044
	<u>3,969,069</u>	<u>3,973,074</u>

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

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 5 FINANCE LEASE RECEIVABLE

As mentioned in note 3, the arrangement for 273 MW power plant is a finance lease. Accordingly, a finance lease receivable has been recognised in these financial statements.

	2023 RO	2022 RO
Finance lease receivable	38,084,044	40,839,635
Less: allowance for expected credit losses	(44,822)	(148,355)
	<u>38,039,222</u>	<u>40,691,280</u>
<i>Non-current portion:</i>		
Finance lease receivable - non current	35,094,792	38,084,044
Less: allowance for expected credit losses	(34,812)	(138,345)
	<u>35,059,980</u>	<u>37,945,699</u>
<i>Current portion:</i>		
Finance lease receivable - current	2,989,252	2,755,591
Less: allowance for expected credit losses	(10,010)	(10,010)
	<u>2,979,242</u>	<u>2,745,581</u>

The company during the year 2023 recognised interest income on lease receivable of OMR 3,232,068 (2022:OMR 3,449,054).

	Less than 1 year RO	Between 1 and 2 years RO	Between 2 and 3 years RO	Between 3 and 4 years RO	Between 4 and 5 years RO	More than 5 years RO	Total RO
<b>31 December 2023</b>							
Gross finance lease receivables	5,989,248	5,989,248	5,989,248	5,989,248	5,989,248	23,956,994	53,903,236
Less: unearned finance income	(2,999,996)	(2,746,522)	(2,471,554)	(2,173,271)	(1,849,694)	(3,578,155)	(15,819,192)
	<u>2,989,252</u>	<u>3,242,726</u>	<u>3,517,694</u>	<u>3,815,978</u>	<u>4,139,554</u>	<u>20,378,839</u>	<u>38,084,044</u>
<b>31 December 2022</b>							
Gross finance lease receivables	5,989,248	5,989,248	5,989,248	5,989,249	5,989,249	29,946,242	59,892,484
Less: unearned finance income	(3,233,657)	(2,999,996)	(2,746,522)	(2,471,554)	(2,173,271)	(5,427,849)	(19,052,849)
	<u>2,755,591</u>	<u>2,989,252</u>	<u>3,242,726</u>	<u>3,517,695</u>	<u>3,815,978</u>	<u>24,518,393</u>	<u>40,839,635</u>

The movement in allowance for expected credit losses is as follows:

	2023 RO	2022 RO
At 1 January	148,355	156,980
Reversal of allowance during the year (note 21)	(103,534)	(8,625)
At 31 December	<u>44,821</u>	<u>148,355</u>

#### 6 INVENTORIES

	2023 RO	2022 RO
Spares and consumables	2,729,854	2,732,936
Liquid fuel	2,807,805	2,794,020
	<u>5,537,659</u>	<u>5,526,956</u>

Liquid fuel of RO 81,325 (2022: RO 135,153) were recognised as an expense in 'cost of sales' during the year.

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 7 TRADE AND OTHER RECEIVABLES

	2023 RO	2022 RO
Trade receivables from OPWP	3,506,773	3,510,039
Less: allowance for expected credit losses (note 26)	<u>(1,072)</u>	<u>(471)</u>
	3,505,701	3,509,568
Major maintenance receivable (*)	2,321,125	2,307,742
Other receivables	468,949	260,627
Amount due from related parties (note 25)	<u>40,268</u>	<u>24,404</u>
	<u><u>6,336,043</u></u>	<u><u>6,102,341</u></u>

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

	RO	RO
Non-current	1,755,490	1,677,525
Less: allowance for expected credit losses	<u>(2,182)</u>	<u>(8,414)</u>
	<u>1,753,308</u>	<u>1,669,111</u>
Current	4,584,360	4,435,833
Less: allowance for expected credit losses	<u>(1,625)</u>	<u>(2,603)</u>
	<u><u>4,582,735</u></u>	<u><u>4,433,230</u></u>

Trade receivables are non-interest bearing and are on terms of 25 days, while major maintenance receivable are interest bearing.

(\*) The movement for major maintenance receivable is as follows:

	2023 RO	2022 RO
At 1 January	2,318,288	2,525,395
Add: maintenance revenue recognised during the year (note 19)	659,450	428,202
Add: finance income recognised during the year	175,985	194,554
Less: payments received during the year	<u>(829,863)</u>	<u>(829,863)</u>
	2,323,860	2,318,288
Less: allowance for expected credit losses	<u>(2,735)</u>	<u>(10,546)</u>
At 31 December	<u><u>2,321,125</u></u>	<u><u>2,307,742</u></u>

The movement in allowance for expected credit losses is as follows:

	2023 RO	2022 RO
At 1 January	10,546	10,546
Allowance charged during the year (note 21)	<u>(7,811)</u>	<u>-</u>
At 31 December	<u><u>2,735</u></u>	<u><u>10,546</u></u>

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

	2023 RO	2022 RO
Non-current	1,755,490	1,677,525
Less: allowance for expected credit losses	<u>(2,182)</u>	<u>(8,414)</u>
	<u>1,753,308</u>	<u>1,669,111</u>
Current	568,370	640,763
Less: allowance for expected credit losses	<u>(553)</u>	<u>(2,132)</u>
	<u><u>567,817</u></u>	<u><u>638,631</u></u>

#### 8 ADVANCES AND PREPAYMENTS

	2023 RO	2022 RO
Advances	94,803	1,863
Prepayments	<u>135,608</u>	<u>143,140</u>
	<u><u>230,411</u></u>	<u><u>145,003</u></u>

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 9 CASH AND CASH EQUIVELENTS

	2023 RO	2022 RO
Cash at bank	4,377,930	6,553,137
Less: allowance for expected credit losses	(5,783)	(26,654)
	<u>4,372,147</u>	<u>6,526,483</u>
Restricted cash (note 29(ii))	311,930	-
Cash in hand	237	710
	<u><u>4,684,314</u></u>	<u><u>6,527,193</u></u>

Bank balances are placed with reputed financial institutions in Sultanate of Oman and United Kingdom which are denominated is Omani Rial and US Dollars respectively.

The movement in allowance for expected credit losses is as follows:

	2023 RO	2022 RO
At 1 January	26,654	16,949
Less: allowance (reversed)/charged during the year (note 21)	(20,871)	9,705
At 31 December	<u><u>5,783</u></u>	<u><u>26,654</u></u>

#### 10 SHARE CAPITAL

The authorised share capital of the Company as at 31 December 2023 is RO 120,000,000 (2022 : RO 120,000,000). Issued and paid up capital as at 31 December 2023 is RO 22,224,000 (2022 : RO 22,224,000) of 100 baiza. 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:

	2023		2022	
	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

In accordance with the article 132 of the Commercial Companies Law 18/2019 applicable to companies registered in the Sultanate of Oman, 10% of a company's net profit after the deduction of taxes will be transferred to a non-distributable statutory reserve each year until the amount of such legal reserve has reached a minimum of one third of that Company's issued share capital. This reserve is not available for distribution to shareholders as dividends.

#### 12 HEDGING RESERVE

The USD long term facilities of the Company bear interest at US LIBOR plus applicable margins till July 2023. From 1st August 2023, Secured Overnight Financing Rate ('SOFR') plus applicable margins is implemented. The Company has fixed the rate of interest through Interest Rate Swap Agreements ("IRS") entered into with various international banks for the facilities.

	2023 RO	2022 RO
At 1 January (A)	<u>2,338,408</u>	<u>(5,561,527)</u>
Change in fair value before tax during the year	(746,941)	9,294,042
Less: related deferred tax asset (note 19)	112,042	(1,394,107)
Change in fair value after tax during the year (B)	<u>(634,899)</u>	<u>7,899,935</u>
At 31 December (C) = (A) + (B)	<u><u>1,703,509</u></u>	<u><u>2,338,408</u></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.

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 13 DERIVATIVE FINANCIAL INSTRUMENT

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 2.9% - 3.2% per annum. The Company's borrowings at variable rate are 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.

	Fair value RO	Notional amount total RO	Notional amount by term to maturity		
			1-12 months RO	More than 1 up to 5 years RO	Over 5 years RO
<b>31 December 2023</b>					
Interest rate swaps	<b>2,004,129</b>	<b>68,449,060</b>	<b>4,544,411</b>	<b>13,982,596</b>	<b>49,922,053</b>
<b>31 December 2022</b>					
Interest rate swaps	<b>2,751,070</b>	<b>72,407,657</b>	<b>4,232,249</b>	<b>18,253,355</b>	<b>49,922,053</b>

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

	2023 RO	2022 RO
Non-current	1,563,221	2,145,835
Current	440,908	605,235
	<b>2,004,129</b>	<b>2,751,070</b>

Interest rate swaps arising from agreements with:

	2023 RO	2022 RO
SMBC Capital Market Limited	216,815	287,222
Standard Chartered Bank	831,791	1,179,716
KfW IPEX-Bank	534,327	689,719
SMTB	210,726	294,350
Mizuho	210,470	300,064
Hedging instruments at 31 December	<b>2,004,129</b>	<b>2,751,070</b>

#### 14 PROVISION FOR DECOMMISSIONING COSTS

	2023 RO	2022 RO
At 1 January	5,206,754	4,958,813
Unwinding of discount on decommissioning cost provision (note 23)	260,338	247,941
At 31 December	<b>5,467,092</b>	<b>5,206,754</b>

The Company is committed under the lease agreement to decommission the site as a result of construction of the power plant. Decommissioning costs represent 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.

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 15 TERM LOAN

	2023 RO	2022 RO
At 1 January	128,598,870	138,523,664
Paid during the year	<u>(9,512,670)</u>	<u>(9,924,794)</u>
Gross loan amount	119,086,200	128,598,870
Less: unamortised arrangement fee	<u>(830,094)</u>	<u>(978,696)</u>
At 31 December	<u><u>118,256,106</u></u>	<u><u>127,620,174</u></u>
Current and non-current classification as of the reporting date is as follows:		
Non-current portion	110,609,444	119,061,879
Current portion	<u>7,646,662</u>	<u>8,558,295</u>
	<u><u>118,256,106</u></u>	<u><u>127,620,174</u></u>

The term loan facility of RO 165,576,474 (USD 429,957,087) 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 installments starting from 31 July 2018.

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

	Currency	Total term loan facility	Interest rates	Final repayment date
1	RO	69,967,312	5.59% pa	31 December 2032
2	USD	248,271,000	SOFR + 1.8% pa	31 December 2032

The repayment schedule of term loan is as follows:

	2023 RO	2022 RO
Payable within 1 year	7,646,662	8,558,295
Payable between 1 and 2 years	11,093,863	10,780,247
Payable between 2 and 5 years	34,039,650	33,384,535
Payable after 5 years	<u>66,306,025</u>	<u>75,875,793</u>
	<u><u>119,086,200</u></u>	<u><u>128,598,870</u></u>

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

The loan is secured by a charge on all project assets (property, plant and equipment, right of use, finance lease receivable, prepayment of connection charge, inventory, trade and other receivable, cash and cash equivalents), 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 5.63% per annum (2022: 4.10%) for USD facility and 5.19% per annum (2022: 5%) for RO Facility (overall effective rate 5.70% per annum) (2022: 4.46%). The loan is subject to certain covenants relating to maintenance of Debt Service Coverage Ratio.

As of 31 December 2023, the Company has undrawn working capital facility amounting to RO 7,700,000 with an interest rate of 4.25% per annum (2022 - 3.75%). The balance outstanding as of 31 December 2023 is nil (2022: nil)

The Company's cash sweep obligation under the loan agreement has taken effect from 31 July 2021. The cash sweep mechanism requires that after operating costs and debt service payments have been accounted for, 95% of the free cash flows to be paid to the lenders towards prepayment of the loan amount ("Cash Sweep Mechanism"). Under the Cash Sweep Mechanism, the prepayment amounting to RO 2,012,767 (2022: RO 2,584,207) made during the period towards the settlement of loan outstanding amount.

A reconciliation between opening and closing balances in the statement of financial position for liabilities that result in financing cash flows is presented below:

	At 1 January RO	Repayments during year RO	Non-cash changes RO	At 31 December RO
<b>31 December 2023</b>				
Term loan	<u>127,620,174</u>	<u>(9,512,670)</u>	<u>148,602</u>	<u><u>118,256,106</u></u>
<b>31 December 2022</b>				
Term loan	<u>137,351,727</u>	<u>(9,924,794)</u>	<u>193,241</u>	<u><u>127,620,174</u></u>



## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 16 TRADE AND OTHER PAYABLES

	2023 RO	2022 RO
Trade payables	4,483,045	3,870,698
Accrued expenses	964,964	2,672,140
VAT and other payables	749,634	724,229
Amount due to related parties (note 25)	311,931	513,335
	<u>6,509,574</u>	<u>7,780,402</u>

#### 17 LEASES

The Company, as a lessee, has entered into the following contracts which are covered under IFRS 16:

The Usufruct agreement with 40 years lease term.

The movement of right-of-use assets as of the reporting date as follows:

	2023 RO	2022 RO
At 1 January	1,728,835	1,787,985
Depreciation charged during the year (note 20)	(49,395)	(59,150)
At 31 December	<u>1,679,440</u>	<u>1,728,835</u>

Movement of lease liability recognised as of the reporting date is as follows;

	2023 RO	2022 RO
At 1 January	2,001,022	2,034,217
Interest accrued during the year (note 23)	114,320	115,853
Payments during the year	(133,137)	(149,048)
At 31 December	<u>1,982,205</u>	<u>2,001,022</u>

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

	2023 RO	2022 RO
Non-current lease liabilities	1,849,068	1,867,885
Current lease liabilities	133,137	133,137
	<u>1,982,205</u>	<u>2,001,022</u>

The maturity of lease liability is as follows:

	2023 RO	2022 RO
Not later than 1 year	133,137	133,137
Not later than 2 years	133,137	133,137
Not later than 3 years	133,137	133,137
Not later than 4 years	133,137	133,137
more than 5 years	1,449,657	1,468,474
	<u>1,982,205</u>	<u>2,001,022</u>

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

	2023 RO	2022 RO
Amortization of right-of-use assets (note 20)	49,395	59,150
Interest on lease liabilities (note 23)	114,320	115,853
	<u>163,715</u>	<u>175,003</u>

The following are the amounts recognised in statement of cash flows;

	2023 RO	2022 RO
Payment of lease liabilities	18,817	33,195
Finance cost paid on lease liabilities	114,320	115,853
Total cash flows for leases	<u>133,137</u>	<u>149,048</u>

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

**DHOFAR GENERATING COMPANY SAOG**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2023

**18 TAXATION**

	2023 RO	2022 RO
<b>Statement of profit or loss</b>		
Deferred tax charge		
Origination and reversal of temporary differences	358,756	(41,186)
Recognition of previously unrecognised tax losses	391,964	683,145
	<u>750,720</u>	<u>641,959</u>

	2023 RO	2022 RO
<b>Statement of financial position</b>		
<b>Non-current liability:</b>		
Deferred tax-net	<u>11,998,741</u>	<u>11,360,062</u>

<b>Current tax liability</b>		
Current tax	<u>2,993</u>	<u>2,993</u>

	2023 RO	2022 RO
<b>Movement for current tax liability:</b>		
At 1 January	2,993	2,993
Payments during the year	-	-
At 31 December	<u>2,993</u>	<u>2,993</u>

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

	2023 RO	2022 RO
Accounting profit before tax for the year	<u>2,373,823</u>	<u>2,580,799</u>
Tax at the rate of 15%	356,073	387,120
Add tax effect of:		
Expenses not allowed in tax	2,683	1,366
Deferred tax not recognised on tax losses	391,964	683,145
Deferred tax prior year	-	(429,672)
Tax expense for the year	<u>750,720</u>	<u>641,959</u>

The tax assessments up to the year 2017 has been completed by the tax authorities. The Company's assessment for the tax years 2018 to 2022 have not yet been finalised with the Secretariat General for Taxation at the Ministry of Finance. Management of the Company believe that additional taxes, if any in respect of open tax years, would not be significant to the Company's financial position as at 31 December 2023.

The Company has recorded unrealized gains of RO 22,989,752 for the year ended 31 December 2014 as a result of derecognition of the service concession receivable and recognition finance lease receivable. Management has taken a view that this gain will be realised as a part of tariff received over the life of the PPA and only realised gain should be subjected to tax as per the Income Tax Law.

Deferred income tax assets are recognised for all deductible temporary differences 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 carryforward of unused tax losses can be utilised.

The government of Sultanate of Oman announced an Economic Stimulus Plan on 9 March 2021 to support the Sultanate's efforts to counter Covid effects on the economy. As per the plan, companies are allowed to carry forward their tax losses incurred for tax year 2020 for an unlimited period to be adjustable against future taxable income. The Company incurred tax loss of RO 8,021,680 for 2020 and recognised a deferred tax asset of RO 1,203,252 in year 2020.

The carried forward tax losses will expire within 5 years except for the tax year 2020. Management believes that future taxable profit will not be sufficient to offset the carried forward tax losses which will expire within 5 years, hence deferred tax asset of RO 6,913,110 (2022 - RO 6,521,144) has not been recognized on carried forward tax losses.

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 18 TAXATION (continued)

##### Deferred tax

Deferred taxes are calculated on all temporary differences 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;

31 December 2023	Deferred tax recognised in			At 31 December RO
	At 1 January RO	Profit or loss RO	OCI RO	
<i>Deferred tax asset / (liability)</i>				
Provision for decommissioning cost	781,013	39,051	-	820,064
Allowance for expected credit losses	27,904	(19,742)	-	8,162
Lease liabilities	300,153	(2,822)	-	297,331
Right-of-use Assets	(259,326)	7,410	-	(251,916)
Carried forward tax losses	1,203,252	-	-	1,203,252
Hedge reserve	(412,661)	-	112,042	(300,619)
Accelerated tax depreciation	(10,008,166)	(977,201)	-	(10,985,367)
Unrealised gain on recognition of finance lease	(2,559,540)	150,176	-	(2,409,364)
Finance lease receivable for decommissioning asset	(177,431)	25,862	-	(151,569)
Unamortised maintenance revenue	(67,476)	21,182	-	(46,295)
Decommissioning asset	(187,784)	5,364	-	(182,420)
Deferred tax liability - net	<b>(11,360,062)</b>	<b>(750,720)</b>	<b>112,042</b>	<b>(11,998,741)</b>

31 Dec 2022	Deferred tax recognised in			At 31 December RO
	At 1 January RO	Profit or loss RO	OCI RO	
<i>Deferred tax asset / (liability)</i>				
Provision for decommissioning cost	743,822	37,191	-	781,013
Allowance for expected credit losses	27,742	162	-	27,904
Lease liabilities	305,132	(4,979)	-	300,153
Right-of-use Assets	(268,198)	8,872	-	(259,326)
Carried forward tax losses	1,295,640	(92,388)	-	1,203,252
Hedge reserve	981,446	-	(1,394,107)	(412,661)
Accelerated tax depreciation	(9,193,151)	(815,015)	-	(10,008,166)
Unrealised gain on recognition of finance lease	(2,694,353)	134,813	-	(2,559,540)
Finance lease receivable for decommissioning asset	(203,694)	26,263	-	(177,431)
Unamortised maintenance revenue	(125,233)	57,757	-	(67,476)
Decommissioning asset	(193,150)	5,366	-	(187,784)
Deferred tax liability - net	<b>(9,323,997)</b>	<b>(641,958)</b>	<b>(1,394,107)</b>	<b>(11,360,062)</b>

#### 19 REVENUE

	2023 RO	2022 RO
Fixed operation and maintenance charge	7,274,942	7,159,760
Fuel charge	28,618,256	23,422,998
Electrical energy charge	188,986	160,924
Major maintenance revenue (note 7)	659,450	428,202
Interest income from finance lease	3,232,068	3,449,054
Investment charge from operating lease	12,342,659	12,420,667
	<b>52,316,361</b>	<b>47,041,605</b>

The revenue is based on actual invoiced amount and the future receipts of the investment charges are disclosed in the note 5 and 30 of the financial statements. The revenue has been disaggregated based on the key drivers by which the Company receives and recognises its revenue.

The Company has no unsatisfied performance obligations with respect to the billed revenue. The Company has right to invoice for every unit of output and making available the designated capacity.

All the revenue of the Company accrues from contracts with customers is within the Sultanate of Oman. The Company has recognized credit losses on receivables arising from Company's contract with customer (note 7).

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 20 DIRECT COSTS

	2023	2022
	RO	RO
Fuel cost	28,893,288	23,503,756
Operation and maintenance charges	8,283,520	7,985,409
Depreciation (note 4)	3,966,942	3,967,030
Insurance	634,554	628,578
Major maintenance expenses	555,686	307,405
Transmission connection charges	163,582	164,032
Depreciation of right-of-use asset (note 17)	49,395	59,150
Electricity import cost	25,701	58,055
	<u>42,572,668</u>	<u>36,673,415</u>

#### 21 GENERAL AND ADMINISTRATIVE EXPENSES

	2023	2022
	RO	RO
Employee costs (note 22)	476,943	569,588
Legal and professional charges	224,604	202,295
License fees to regulator	68,179	97,830
Information technology and software related expenses	52,137	75,916
Director sitting fee and remuneration (note 25)	32,600	32,400
Corporate social responsibility expense	15,000	15,000
Communication expenses	11,323	16,621
Miscellaneous expenses	5,125	85,450
Depreciation (note 4)	2,127	6,044
Training expenses	-	7,964
Allowance for expected credit losses (note 21 (i))	(131,615)	1,080
	<u>756,423</u>	<u>1,110,188</u>

	2023	2022
	RO	RO
(i) Allowance for expected credit losses		
Finance lease receivables (note 5)	(103,534)	(8,625)
Major maintenance receivables (note 7)	(7,811)	-
Trade and other receivable (note 26)	601	-
Cash and cash equivalents (note 9)	(20,871)	9,705
	<u>(131,615)</u>	<u>1,080</u>

#### Professional Services

The professional fees due to the external auditor for the year 2023 in amount of RO 15,500 out of which RO 13,500 related to financial statement audit and RO 2,000 related to other services.

#### 22 EMPLOYEE COSTS

Salaries and the related costs included under general and administrative expenses consist of the following:

	2023	2022
	RO	RO
Salaries, secondment charges and other benefits	468,174	544,639
Contributions to a defined contribution retirement plan	11,331	11,621
Charge for employee end of service benefits	(2,562)	13,328
	<u>476,943</u>	<u>569,588</u>

#### 23 FINANCE COST

	2023	2022
	RO	RO
Interest on long term loan	7,410,156	6,243,048
Interest income on interest rate SWAP	(1,275,504)	(116,685)
Unwinding of discount on decommissioning cost provision (note 14)	260,338	247,941
Amortisation of deferred financing cost on term loan (note 15)	148,602	193,241
Interest on lease (note 17)	114,320	115,853
LC commission	103,484	146,969
Interest on working capital loan	28,036	41,390
	<u>6,789,432</u>	<u>6,871,757</u>

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 24 EARNINGS PER SHARE

	2023 RO	2022 RO
Profit for the year (RO)	1,623,103	1,938,840
Weighted average number of ordinary shares	222,240,000	222,240,000
	<u>0.007</u>	<u>0.009</u>

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

#### 25 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. Pricing policies and terms of these transactions are approved by the Board of directors.

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

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

##### Balances at the reporting date (Notes 7, 9 and 16)

	Relationship	2023 RO	2022 RO
<b>Due to related parties</b>			
Dhofar O&M Company LLC	Other related party	-	494,087
ACWA Power Company	Other related party	-	19,248
Dhofar International Development & Investment Holding Co. S.A.O.G	Significant influence	311,931	-
		<u>311,931</u>	<u>513,335</u>

##### Due from related parties

		2023 RO	2022 RO
Ad Dhahirah Generating Company SAOC	Other related party	596	-
First National Company for Operation and Maintenance - Oman	Other related party	24,824	21,741
ACWA Power Oman LLC	Other related party	742	2,372
Dhofar Desalination Company SAOC	Other related party	14,106	-
ACWA Power Global Services Ltd	Other related party	-	291
		<u>40,268</u>	<u>24,404</u>

		2023 RO	2022 RO
<b>Transactions during the period</b>			
O&M fee and related charges		8,717,856	8,274,835
Other expenses and reimbursement		1,637,533	815,034
Services received	Other related party	10,355,389	9,089,869
Services rendered	Other related party	189,344	155,173

##### 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 year are as follows:

	2023 RO	2022 RO
Short-term employee benefits	81,139	76,992
Long-term employee benefits	4,860	7,380
Directors sitting fees and remuneration (note 21)(short-term benefits)	32,600	32,400
	<u>118,599</u>	<u>116,772</u>

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

## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 26 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, major maintenance receivable, trade receivables, and cash that derive directly from its operations.

##### Market risk

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

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

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

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

##### Interest rate risk

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

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

At reporting date, after excluding the effect of interest rate swaps, 42.60% of the Company's borrowings are at a fixed rate of interest (31 December 2022: 42.48%).

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

	2023 RO	2022 RO
<b>Fixed rate instrument</b>		
Term loan	<u>50,730,898</u>	<u>54,626,815</u>
<b>Variable rate instrument</b>		
Term loan	<u>68,355,302</u>	<u>73,972,055</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.

	Profit or loss		Equity	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
<b>31 December 2023</b>				
Variable rate financial liabilities	(683,553)	683,553	(581,020)	581,020
Interest rate swaps	682,596	(682,596)	580,207	(580,207)
Net sensitivity	<u>(957)</u>	<u>957</u>	<u>(813)</u>	<u>813</u>
<b>31 December 2022</b>				
Variable rate financial liabilities	(739,721)	739,721	(628,762)	628,762
Interest rate swaps	738,685	(738,685)	627,882	(627,882)
Net sensitivity	<u>(1,036)</u>	<u>1,036</u>	<u>(880)</u>	<u>880</u>

# DHOFAR GENERATING COMPANY SAOG

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

### 26 FINANCIAL RISK MANAGEMENT (continued)

#### Foreign currency risk

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

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily cash and cash equivalents, trade receivables, finance lease receivable, derivative financial instrument, and major maintenance receivable). The carrying amount of financial assets represent the maximum credit exposure. The Company does not hold collateral as security.

#### 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. Outstanding customer receivables is regularly monitored. Trade receivable balance represents receivables from OPWP, a Government customer in Oman.

This customer is transacting with the Company for number of years. Accordingly the balance due from this customer is assessed to have a strong high credit quality or limited credit risk. At reporting date, the Company has one customer (31 December 2022: one customer).

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

The 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 owned entity.

	Rating	2023 RO	2022 RO
<b>Trade receivables</b>			
Oman Power and Water Company SAOG	Ba1	<u>3,506,773</u>	<u>3,510,039</u>
Age analysis of trade receivables is as follows:			
		31-Dec-23 RO	2022 RO
Not past dues		3,506,773	3,507,326
Past due 0 to 3 months		-	-
Past due 3 to 6 months		-	-
Past due 6 to 12 months		-	2,712
<b>Gross trade and other receivables</b>		<u>3,506,773</u>	<u>3,510,038</u>
Allowance for expected credit losses		<u>(1,072)</u>	<u>(471)</u>
<b>Net trade and other receivables</b>		<u><u>3,505,701</u></u>	<u><u>3,509,567</u></u>

(ii) The movement in allowance for expected credit losses is as follows:

	2023 RO	2022 RO
At 1 January	471	471
Allowance for expected credit loss recognized during the year (note 21)	601	-
At 31 December	<u><u>1,072</u></u>	<u><u>471</u></u>

#### Finance lease receivable

Finance Lease receivable has been recorded in accordance with the terms of the PPA with OPWP, a Government owned entity in Oman and an allowance for ECL is recognised at the reporting date (note 5).

#### Major maintenance receivable

Major maintenance receivable has been recorded in accordance with the terms of the PPA with OPWP, a Government owned entity in Oman and an allowance for ECL is recognised at the reporting date (note 7).



## DHOFAR GENERATING COMPANY SAOG

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 26 FINANCIAL RISK MANAGEMENT (continued)

##### Credit risk (continued)

##### Cash and cash equivalents

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

Bank	Rating	2023 RO	2022 RO
<b>Bank Balances</b>			
Bank Muscat S.A.O.G	Ba2	4,362,275	6,522,183
SMBC Bank International Plc	A1	15,655	30,954
		<u>4,377,930</u>	<u>6,553,137</u>

ECL on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The amount of impairment allowance at 31 December 2023 is RO 5,783 (2022: RO 26,654).

##### Derivative financial instruments

The derivatives are entered into with bank and financial institution counterparties, which are rated A1 to Ba2, based on Moody's ratings.

##### Credit Concentration

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

##### Liquidity risk

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

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

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

	Carrying Amount value RO	Contractual cash flows cashflows RO	Less than 1 year RO	More than 1 year RO
<b>31 December 2023</b>				
<b>Non-derivative financial liabilities</b>				
Term loan	118,256,106	151,806,714	16,733,252	135,073,463
Trade payables	4,483,045	4,483,045	4,483,045	-
Other payables	749,634	749,634	749,634	-
Lease liabilities	1,982,205	1,953,625	133,137	1,820,488
Due to related parties	311,931	311,931	311,931	-
	<u>125,782,921</u>	<u>159,304,949</u>	<u>22,410,999</u>	<u>136,893,951</u>
	Carrying Amount value RO	Contractual cash flows cashflows RO	Less than 1 year RO	More than 1 year RO
<b>31 December 2022</b>				
<b>Non-derivative financial liabilities</b>				
Term loan	127,620,174	133,563,925	16,124,543	117,439,382
Trade payables	3,870,698	3,870,698	3,870,698	-
Other payables	724,229	724,229	724,229	-
Lease liabilities	2,001,022	4,659,795	133,137	4,526,658
Due to related parties	513,335	513,335	513,335	-
	<u>134,729,458</u>	<u>143,331,982</u>	<u>21,365,942</u>	<u>121,966,040</u>

# DHOFAR GENERATING COMPANY SAOG

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

### 26 FINANCIAL RISK MANAGEMENT (continued)

#### Liquidity risk(continued)

##### Categories of financial assets

	2023 RO	2022 RO
<b>Financial assets (at amortised cost)</b>		
Cash and cash equivalents	4,684,314	6,527,193
Finance lease receivable	38,039,222	40,691,280
Trade and other receivables	8,657,168	8,410,083
	<u>51,380,704</u>	<u>55,628,556</u>
<b>Financial liabilities (at amortised cost)</b>		
Term loan	118,256,106	127,620,174
Lease liabilities	1,982,205	2,001,022
Trade and other payables	5,232,679	5,108,262
	<u>125,470,990</u>	<u>134,729,458</u>

### 27 FAIR VALUES

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

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

	Carrying amount			Total	Fair value
	Fair value- hedging instrument	Financial assets at amortised cost	Other financial liabilities At amortised cost		Level 2
31 December 2023	RO	RO	RO	RO	RO
<b>Financial assets measured at fair value</b>					
Derivative instruments	2,004,129	-	-	2,004,129	2,004,129
<b>Financial assets not measured at fair value</b>					
Finance lease receivable	-	38,039,222	-	38,039,222	-
Trade and other receivables	-	8,657,168	-	8,657,168	-
Cash and cash equivalents	-	4,684,314	-	4,684,314	-
	<u>2,004,129</u>	<u>51,380,704</u>	<u>-</u>	<u>53,384,833</u>	<u>2,004,129</u>
<b>Financial liabilities not measured at fair value</b>					
Term loan	-	-	119,086,200	119,086,200	-
Lease liabilities	-	-	1,982,205	1,982,205	-
Trade and other payables	-	-	5,232,679	5,232,679	-
	<u>-</u>	<u>-</u>	<u>126,301,084</u>	<u>126,301,084</u>	<u>-</u>

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### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 27 FAIR VALUES (continued)

	Carrying amount			Total	Fair value Level 2
	Fair value- hedging instrument	Financial assets at amortised cost	Other financial liabilities At amortised cost		
	RO	RO	RO		
31 December 2022					
Financial assets measured at fair value					
Derivative instruments	2,751,070	-	-	2,751,070	2,751,070
Financial assets not measured at fair value					
Finance lease receivable	-	40,691,280	-	40,691,280	-
Trade and other receivables	-	8,410,083	-	8,410,083	-
Cash and cash equivalents	-	6,527,193	-	6,527,193	-
	<u>2,751,070</u>	<u>55,628,556</u>	<u>-</u>	<u>58,379,626</u>	<u>2,751,070</u>
Financial liabilities not measured at fair value					
Term loan	-	-	128,598,870	128,598,870	-
Lease liabilities	-	-	2,001,022	2,001,022	-
Trade and other payables	-	-	5,108,262	5,108,262	-
	<u>-</u>	<u>-</u>	<u>135,708,154</u>	<u>135,708,154</u>	<u>-</u>

The following tables show the valuation techniques used in measuring Level 2 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

Type	Valuation technique
Interest rate swaps	The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps.

The fair value and carrying value of financial assets is same as these are expected to mature within ninety days or less.

#### 28 CAPITAL MANAGEMENT

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

The capital structure of the Company comprises of net debt (borrowings as detailed in notes 15 and lease liabilities offset by cash and cash equivalents) and equity of the Company (comprising the share capital, reserves and retained earnings). The Company is not subject to externally imposed capital requirements other than the requirements of the Commercial Companies Law.

The Board regularly reviews the capital structure of the Company. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The gearing ratio at 31 December 2023 is 216.26% (2022: 234.71%).

##### Gearing ratio

Gearing ratio at the reporting date as follows:

	2023 RO	2022 RO
Debt (i)	120,238,311	129,621,196
Less: cash and cash equivalents	(4,684,314)	(6,527,193)
Net debt	<u>115,553,997</u>	<u>123,094,003</u>
Equity (ii)	<u>53,433,604</u>	<u>52,445,400</u>
Net debt to equity ratio	<u>216.26%</u>	<u>234.71%</u>

(i) Debt is defined as long and short-term borrowings (excluding derivatives) as described in note 16 and lease liabilities (note 18).

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

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### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

#### 29 COMMITMENTS AND CONTINGENCIES

##### (i) Debt Service Reserve Account Letter of Credit

At 31 December 2023, the Company had contingent liabilities in respect of Debt Service Reserve Account ('DSRA') letter of credit amounting to RO 2,550,409 and USD 9,002,507 (2022: RO 2,675,452 and USD 8,852,169) 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.

##### (ii) 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 31 December 2023, Mitsui & Co., Ltd and ACWA Power Company have provided their support through letter of guarantee and letter of credit respectively, whereas DIDIC deposited cash of RO 311,930 (2022 : RO 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.

##### (iii) Capital commitments

The Company has no capital commitments as of 31 December 2023 (2022: RO Nil ) with contractors for construction and other activities.

#### 30 OPERATING LEASE ARRANGEMENT WHERE THE COMPANY ACTS AS A LESSOR

As disclosed in notes to these financial statements, the arrangement between the Company and OPWP under the PPA for 445 MW power plant is covered under IFRS 16 Leases and such arrangement in substance represents an operating lease under IFRS 16 Leases. The lease commenced on 1 January 2018. The following is the total of future minimum lease receipts expected to be received under the PPA:

Due:	2023 RO	2022 RO
Not later than 1 year	13,485,222	13,420,288
Not later than 2 years	13,435,393	13,485,222
Not later than 3 years	13,412,741	13,435,393
Not later than 4 years	13,397,511	13,412,741
More than 5 years	67,114,373	80,511,885
	<u>120,845,240</u>	<u>134,265,528</u>

#### 31 NET ASSETS PER SHARE

Net assets representing the company's net equity as at the reporting date. Net assets per share is calculated by dividing the net assets attributable to the ordinary shareholders of the Company by the ordinary shares outstanding at the reporting date.

	2023 RO	2022 RO
Net assets - shareholder funds	53,433,604	52,445,400
Total number of ordinary shares	222,240,000	222,240,000
Net assets per share (RO Baizas)	<u>0.240</u>	<u>0.236</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.

The Company has only one segment in accordance with IFRS 8. Segment information is, accordingly, presented in respect of the Company's business segments. The primary format, business segments, is based on the Company's management and internal reporting structure. The requirements of IFRS 8, paragraphs 31 to 34 relating the entity wide disclosures have been covered under statements of financial position, profit and loss and other comprehensive income and also in notes 4 and 19 to these financial statements.

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

#### 33 DIVIDEND

No dividends have been declared for the year (2022: Nil)