

# **MUSANDAM POWER COMPANY SAOG**

**Unaudited condensed interim financial statements**

**30 June 2020**

## **Registered address**

P.O. Box 779  
Postal Code 113  
Sultanate of Oman

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# **Musandam Power Company SAOG**

## **Unaudited condensed interim financial statements for the period ended 30 June 2020**

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# Musandam Power Company SAOG

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## Unaudited condensed statement of financial position as at

		30 June 2020 RO '000	Audited 31 December 2019 RO '000
	Notes		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	72,898	73,883
Other receivables	7	127	253
<b>Total non-current assets</b>		<b>73,025</b>	<b>74,136</b>
<b>Current assets</b>			
Inventories	6	3,411	3,532
Trade and other receivables	7	10,931	11,068
Cash and bank balances	8	739	8,659
Amounts due from related parties	19	19	-
<b>Total current assets</b>		<b>15,100</b>	<b>23,259</b>
<b>Total assets</b>		<b>88,125</b>	<b>97,395</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	9	7,039	7,039
Legal reserve	10	706	706
Retained earnings		2,201	1,848
<b>Total equity</b>		<b>9,946</b>	<b>9,593</b>
<b>Non-current liabilities</b>			
Senior facility loan - non-current portion	11(a)	61,087	62,997
Lease liability - non-current portion	14	111	108
Deferred tax liability	20	2,403	2,193
Provision for asset retirement obligation	13	164	160
Provision for end of service benefits		-	6
<b>Total non-current liabilities</b>		<b>63,765</b>	<b>65,464</b>
<b>Current liabilities</b>			
Senior facility loan - current portion	11(a)	3,652	3,571
Lease liability - current portion	14	4	3
Trade and other payables	12	10,758	7,090
Short term loan facility	11(b)	-	3,000
Amounts due to related parties	19	-	8,674
<b>Total current liabilities</b>		<b>14,414</b>	<b>22,338</b>
<b>Total liabilities</b>		<b>78,179</b>	<b>87,802</b>
<b>Total equity and liabilities</b>		<b>88,125</b>	<b>97,395</b>
<b>Net assets per share</b>	24	<b>0.141</b>	<b>0.136</b>

The accompanying notes form an integral part of these financial statements.

## Musandam Power Company SAOG

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### Unaudited condensed statement of profit or loss and other comprehensive income for the six months ended 30 June 2020

	Notes	June 2020 RO '000	Audited June 2019 RO '000
Revenue	15	10,329	8,722
Operating costs	16	(6,867)	(5,408)
<b>Gross profit</b>		<b>3,462</b>	<b>3,314</b>
General and administrative expenses	17	(253)	(502)
Other income		21	-
Finance costs – net	18	(1,696)	(1,739)
<b>Profit before tax</b>		<b>1,534</b>	<b>1,073</b>
Tax expense	20	(210)	(388)
<b>Profit and total comprehensive income for the period</b>		<b>1,324</b>	<b>685</b>
<b>Basic and diluted profit per share for the period</b>	23	<b>0.019</b>	<b>0.010</b>

The accompanying notes form an integral part of these financial statements.

# Musandam Power Company SAOG

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## Unaudited condensed statement of changes in equity for the six months ended 30 June 2020

	Share capital RO '000	Legal reserve RO '000	Retained earnings RO '000	Total RO '000
At 1 January 2019	7,039	442	3,797	11,278
Profit and total comprehensive income for the period	-	-	685	685
Transfer to legal reserve (note 10)	-	69	(69)	-
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 28)	-	-	(2,379)	(2,379)
At 30 June 2019 (Audited)	<u>7,039</u>	<u>511</u>	<u>2,034</u>	<u>9,584</u>
 <b>At 1 January 2020</b>	 <b>7,039</b>	 <b>706</b>	 <b>1,848</b>	 <b>9,593</b>
<b>Profit and total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>1,324</b>	<b>1,324</b>
<b>Transfer to legal reserve (note 10)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 28)	-	-	(971)	(971)
At 30 June 2020	<u>7,039</u>	<u>706</u>	<u>2,201</u>	<u>9,946</u>

The accompanying notes form an integral part of these financial statements.

# Musandam Power Company SAOG

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## Unaudited condensed statement of cash flows for the six months ended 30 June 2020

	Notes	June 2020 RO '000	Audited June 2019 RO '000
<b>Cash flows from operating activities</b>			
Profit before tax		1,534	1,073
Adjustments for:			
Finance costs – net	18	1,696	1,739
Depreciation	5	1,009	1,004
<i>Operating cash flows before working capital changes</i>		4,239	3,816
Inventories		121	347
Trade and other receivables		263	(5,765)
Trade and other payables, lease liability and asset retirement obligations		3,666	2,543
Amount due from related parties	19	(19)	-
Amounts due to related parties	19	(8,674)	951
<b>Net cash (used in) / generated from operating activities</b>		(404)	1,892
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(24)	(43)
<b>Net cash used in investing activities</b>		(24)	(43)
<b>Cash flows from financing activities</b>			
Repayment of working capital facility		(3,000)	-
Repayment of senior facility loan	11(a)	(1,947)	(1,861)
Repayment of shareholders' loan		-	(11)
Dividends paid	28	(971)	(2,379)
Finance costs paid	18	(1,574)	(1,614)
<b>Net cash used in financing activities</b>		(7,492)	(5,865)
<b>Net decrease in cash and cash equivalents</b>		(7,920)	(4,016)
Cash and cash equivalents at beginning of the period		8,659	7,056
<b>Cash and cash equivalents at the end of the period</b>	8	739	3,040

The accompanying notes form an integral part of these financial statements.

**Notes to the unaudited condensed interim financial statements****1. Corporate information and activities**

Musandam Power Company SAOG (the “Company”) was registered and incorporated as a closed joint stock company in the Sultanate of Oman on 18 November 2014. The shareholders at the Company’s Extraordinary General Meeting held on 28 May 2019 approved the conversion of the Company from a Closed Joint Stock Company (SAOC) to a Public Joint Stock Company (SAOG) by offering its shares for the public subscription. The Company was listed on the Muscat Securities Market (“MSM”) on 5 December 2019 and became a listed public company.

The Company is engaged in the design, construction, ownership, financing, operation and maintenance of a dual fuel power plant (the “Plant”) with natural gas as the primary fuel and diesel oil as the alternative fuel with a capacity of 120 Mega Watt (MW) located in Wilayat Bukha in the Musandam Governorate, Sultanate of Oman (the “Project”). The registered address of the Company is Muscat, P O Box 799, Postal code 133, Sultanate of Oman. Before listing, the Company was a subsidiary of Oman Oil Facilities Development Company LLC (“OOFDC”) which is owned by Oman Oil Company SAOC (“OOC”), a closely held joint stock Company incorporated in the Sultanate of Oman, whose registered address is P O Box 799, Postal code 133, Sultanate of Oman. In 2019, upon listing of the Company in MSM, the shareholding of OOFDC and OOC reduced to 42% of the Company’s issued share capital and is considered as a major shareholder of the Company.

The Company commenced commercial operations on 17 June 2017. The electricity generated from the Plant is sold to Oman Power and Water Procurement Company SAOC under a 15 year Power Purchase Agreement. Natural gas required for the Project is supplied by the Ministry of Oil & Gas under a 15 year gas supply agreement.

The Company has entered into the following significant agreements:

- An Engineering, Procurement and Construction (EPC) contract with Wartsila Muscat LLC (‘the contractor’) to carry out and complete all design, engineering, procurement and construction of the power plant and implement the Project.
- A Long Term Services Agreement (“LTSA”) with Wartsila Muscat LLC.
- A Power Purchase Agreement (“PPA”) with Oman Water and Power Procurement Company SAOC (‘OPWP’) to sell the electricity generated from the Plant.
- A Natural Gas Sales Agreement (“NGSA”) with Ministry of Oil & Gas (“MOG”) to purchase natural gas for the Plant.
- An operation and maintenance agreement with Wartsila Muscat LLC to operate and maintain the Plant.
- An electrical connection agreement with Rural Areas Electricity Company SAOC (“RAECO”) for the evacuation of the electricity generated from the Plant.
- Usufruct Agreement with Ministry of Housing for the project site, temporary areas and RAECO substation area.
- A senior facility loan agreement with Bank Muscat SAOG as the lead banker to fund the costs of the Project.

## Notes to the unaudited condensed interim financial statements

### 2. Application of new and revised International Financial Reporting Standards (IFRS)

#### 2.1 New and amended IFRSs and standard that are effective from 2020

The application of following interpretation and amendments has had no impact on the Company's financial statements for the current and prior years but may affect the accounting for future transactions or arrangements:

- Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework
- Amendment to IFRS 3 Business Combinations relating to definition of a business
- Amendments to IAS 1 and IAS 8 relating to definition of material
- IFRS 7 Financial Instruments: Disclosures and IFRS 9 — Financial Instruments. Amendments regarding pre-replacement issues in the context of the IBOR reform

#### 2.2 New and amended IFRSs and standard that are not effective for the current year

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 17 Insurance Contracts	1 January 2022
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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 may have no material impact on the financial statements of the Company in the period of initial application.

### 3. Summary of significant accounting policies

#### Statement of compliance

These condensed interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting, applicable requirements of the new Oman Commercial Companies Law of 2019 ("CCL") and disclosure requirements of the Capital Market Authority of the Sultanate of Oman ("CMA"). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the financial position and performance of the Company since the last annual financial statements as at and for the year ended 31 December 2019. The condensed interim financial statements do not include all information required for full annual financial statements prepared in accordance with International Financial Reporting Standards (IFRSs).



**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Basis of preparation**

The financial statements are prepared under the historical cost convention. The financial statements have been presented in Rial Omani (“RO”) which is also the functional currency of the Company.

A summary of significant accounting policies, which are consistent with those used in the previous year are set out below.

**Property, plant and equipment**

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

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

Plant and machinery	40 years
Building and civil work	40 years
Computer and office equipment	3 years
Furniture and fixtures	3 years
Motor vehicles	3 years

Capital spares shall be recognised in the carrying amount of the affected item of property, plant and equipment when it is put in use. The carrying amount of the replaced item is derecognised. When it is not practical to determine the carrying amount of the replaced part, the cost of the capital spares may be used as an indication of what the cost of the replaced part was at the time it was acquired.

Expenditure incurred to replace a component of an item of property, plant and equipment that is capitalised if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably 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 comprehensive income as the expense is incurred.

When each major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied and the carrying amounts of the replaced components are written off to the profit or loss.

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 and other comprehensive income in the period the asset is derecognised.

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

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Capital work-in-progress**

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

**Impairment of non-financial assets**

The carrying amounts of the Company's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. For the purposes of assessing impairment, assets are grouped at the lowest levels for which they are separately identifiable cash flows (cash generating units).

**Leases**

*Upon adoption of IFRS 16 – applicable from 1 January 2019*

*The Company as a lessee*

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

*Lease liability*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the interest rate implicit in the lease or, if that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

**Notes to the unaudited condensed interim financial statements**

**3. Summary of significant accounting policies (continued)**

**Leases (continued)**

*Upon adoption of IFRS 16 – applicable from 1 January 2019 (continued)*

*Lease liability (continued)*

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives; and
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is presented as a line item in the statement of financial position.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

*Right-of-use asset*

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Leases (continued)**

*Upon adoption of IFRS 16 – applicable from 1 January 2019 (continued)*

***Right-of-use asset (continued)***

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate note line item in the property, plant and equipment. The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any Identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Operating expenses' in the statement of profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement- The Company has not used this practical expedient.

**The Company as lessor**

The Company has entered into a Power Purchase Agreement (“PPA”) with Oman Power and Water Procurement Company SAOC (“OPWP”) on take or pay arrangement for the sale Electricity Generated by the Company to OPWP. PPA do not take the legal form of a lease but convey the rights to OPWP to use the Company’s power generation plant in return for a payment or a series of fixed payments. Contracts meeting these criteria are identified as either operating leases or finance leases.

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Leases (continued)****Leases under IAS 17, applicable before 1 January 2019**

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

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

IFRIC 4 deals with the identification of services and take-or-pay sales or purchasing contracts that do not take the legal form of a lease but convey the rights to customers/suppliers to use an asset or a group of assets in return for a payment or a series of fixed payments. Contracts meeting these criteria should be identified as either operating leases or finance leases. This interpretation is applicable to the Company's PPA.

**Financial instruments**

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

*Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Financial instruments (continued)**

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets include trade and other receivable and cash at bank. These financial assets qualify for and are classified as debt instruments measured at amortised cost.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). The Company does not have any FVTOCI and FVTPL financial assets.

*Amortised cost and effective interest rate method*

- (i) The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Financial instruments (continued)**

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "finance income - interest income" line item.

*Impairment of financial assets*

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI and trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

**(i) Significant increase in credit risk**

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Financial instruments (continued)****(i) Significant increase in credit risk (continued)**

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.<sup>a</sup>

For financial guarantee contracts, the date that the Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Company considers the changes in the risk that the specified debtor will default on the contract.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.



**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Financial instruments (continued)****(ii) Definition of default**

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**(iii) Credit-impaired financial assets**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event (see (ii) above);
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

**(iv) Write-off**

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Financial instruments (continued)****(v) Measurement and recognition of expected credit losses**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Company is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Company expects to receive from the holder, the debtor or any other party.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

***Derecognition of financial assets***

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Financial instruments (continued)****(v) Measurement and recognition of expected credit losses (continued)***Derecognition of financial assets (continued)*

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

**Financial liabilities**

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Company, are measured in accordance with the specific accounting policies set out below.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. The Company does not have financial liabilities at FVTPL.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Financial liabilities (continued)***Financial liabilities measured subsequently at amortised cost*

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

*Foreign exchange gains and losses*

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in profit or loss (note 11) for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

*Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts; and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Trade and other receivables**

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, in which case they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

**Trade and other payables**

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

**Provisions**

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Where some or all of the economic benefits required to settle a provision are expected to be recovered from third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursements.

**End of service benefits**

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

Provision for end of service indemnity for non-Omani employees is made in accordance with the Oman Labour Law as amended and is based on current remuneration and cumulative years of service at the reporting date.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Income tax**

Taxation is provided for in accordance with Omani fiscal regulations.

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

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

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

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

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

Income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

**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.

**Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the profit or loss.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Fair values**

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

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

**Interest bearing loans and borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**Deferred financing costs**

The cost of obtaining equity bridge loan and senior facility loan is deferred and amortised over the term of the respective loans using the effective interest rate method. Deferred financing costs less accumulated amortisation are offset against the drawn amount of equity bridge loan and senior facility loan.

**Revenue**

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. Revenue comprises tariffs for power capacity, electrical energy and fuel charges. Tariffs are calculated in accordance with the PPA.

**Capacity revenue**

The PPA with OPWP is considered as a lease within the context of IFRS 16 (2019: IFRS 16) and has been classified as an operating lease under IFRS 16 (2019: IFRS 16). Under the PPA, the Company is entitled to the Capacity charges for each hour during which the plant is available for power generation. Power capacity investment charge is treated as lease revenue under IFRS 16 and is recognised on a straight line basis over the lease term. Fixed O&M charge is recognised based on the capacity made available in accordance with contractual terms stipulated in PPA.

**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Other revenue from contracts with customers**

Revenue is measured based on the terms specified in the contract with a customer. The Company recognizes electrical energy and fuel charges revenue when it transfers the control of a product or service to a customer i.e. when electricity is delivered and the customer has accepted the deliveries and the control has been transferred to the customer. Energy charge and fuel charge is determined based on the fuel and variable cost of power.

No revenue is recognised if it is not probable that the Company will collect the consideration to which the Company will be entitled in exchange for the goods or services that will be transferred to customers. In evaluating whether collectability of an amount of consideration is probable, the Company considers only the customers' ability and intention to pay that amount of consideration when it is due.

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

The Company does not adjust any of the transaction prices for time value of money as the period between the transfer of the promised goods or services to the customer and payment by the customer does not exceed one year and the sales are made with agreed credit terms which is in line with the industry practice.

**Inventories**

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

**Asset retirement obligation**

The provision for asset retirement obligation is recognised when there is a present obligation as a result of assets constructed on land under usufruct contracts with the Ministry of Housing, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of provision can be measured reliably. The estimated future obligations include the costs of removing the facilities and restoring the affected areas. A corresponding asset is recognised as part of plant and machinery in property, plant and equipment and depreciated accordingly.

The provision for asset retirement obligation is a best estimate of the present value of expected costs required to settle the obligation, at the reporting date based on the current requirements of the Usufruct agreement, using estimated cash flows. The cash flows are discounted at a current pre tax rate that reflects the risks specific to the asset retirement obligation. 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.



**Notes to the unaudited condensed interim financial statements****3. Summary of significant accounting policies (continued)****Asset retirement obligation (continued)**

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 dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset recorded as property, plant and equipment. If there is an indication that the new carrying amount of the asset is not fully recoverable, the asset is tested for impairment and an impairment loss is recognised where necessary.

**Directors' remuneration**

The Board of Directors' remuneration is accrued within the limits and the requirements of the Commercial Companies Law of the Sultanate of Oman.

**Dividends on ordinary shares**

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

**Earnings and net assets per share**

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

Net assets per share is calculated by dividing the net assets attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding during the year. Net assets for the purpose is defined as total equity.

**Segmental reporting**

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

**4. Critical accounting judgments and key sources of estimation uncertainty**

The presentation of financial statements, in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, incomes and expenditures. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised if the revision

**Notes to the unaudited condensed interim financial statements****4. Critical accounting judgments and key sources of estimation uncertainty (continued)**

affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgements**

Management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

**Lease classification**

The Company has entered into the Power Purchase Agreement (“PPA”) with Oman Power and Water Procurement Company SAOC (“OPWP”) to generate electricity and make available the power capacity from its Plant.

Management believes 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 power 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 assets will have substantial value at the conclusion of the PPA and the Company will be able to continue to generate revenue through supply of power taking into account the government’s future plans to deregulate the power sector in Oman.

Management considers the requirements of IFRS 16 Leases (2019: IFRS 16, “Determining Whether an Arrangement Contains a Lease”), which sets out guidelines to determine when an arrangement might contain a lease. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Once a determination is reached that an arrangement contains a lease, the lease arrangement is classified as either financing or operating according to the principles in IFRS 16 Leases (2019: IFRS 16 Leases). A lease that conveys the majority of the risks and rewards of operation is a finance lease. A lease other than a finance lease is an operating lease.

Based on management’s evaluation, the PPA with OPWP is considered as a lease within the context of IFRS 16 Leases (2019: IFRS 16) and has been classified as an operating lease under IFRS 16 Leases (2019: IFRS 16) since significant risks and rewards associated with the ownership of the plant lies with the Company and not with OPWP.

The primary basis for this conclusion is that the PPA is for a term of 15 years while the economic life of the power plant is estimated to be 40 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.

**Fuel incremental costs**

The Company and Ministry of Oil and Gas (“MOG”) have entered into a Natural Gas Sales Agreement (“NGSA”), which includes a clause for reimbursement of the incremental fuel oil costs this represents an amount by which the cost of Fuel Oil is more than the cost of Natural Gas. Due to

**Notes to the unaudited condensed interim financial statements****4. Critical accounting judgments and key sources of estimation uncertainty (continued)****Fuel incremental costs (continued)**

the shortage of the natural gas supply, the Company has incurred additional fuel oil costs to maintain the operations of the Plant (since the commercial operation date). The Company had received correspondence from MOG, wherein it has established a mechanism for reimbursing the Company, additional fuel oil costs incurred on account of the shortage of natural gas supply. The Company has recognised reimbursement of incremental fuel oil cost in view of the correspondence with MOG and OPWP in respect of this matter. The Company has received the confirmation from OPWP that the parameters used by the Company in the calculation of the incremental fuel oil costs does not materially differ from their basis.

Based on the correspondence with MOG, the Company understand that MOG has already approved to release the payment from their side. The matter is currently under discussion between Ministry of Finance and OPWP. The Company believes that the amount receivable would be settled in the 3<sup>rd</sup> Quarter of the financial year 2020.

**Key sources of estimation uncertainty**

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

*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 life, the maintenance programs, and normal wear and tear using its best estimates.

*Asset retirement obligation*

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

## Notes to the unaudited condensed financial statements

## 5. Property, plant and equipment

	Plant and machinery RO '000	Buildings and civil works RO '000	Furniture and fixtures RO '000	Computer and office equipment RO '000	Motor vehicles RO '000	Right-of- use asset RO '000	Capital work-in- progress RO '000	Total RO '000
<b>Cost</b>								
1 January 2020	58,303	20,716	30	11	44	113	75	79,292
Additions	94	-	-	2	-	-	(72)	24
30 June 2020	58,397	20,716	30	13	44	113	3	79,316
<b>Accumulated depreciation</b>								
1 January 2020	3,897	1,437	26	11	33	5	-	5,409
Charge for the period	731	260	4	-	11	3	-	1,009
30 June 2020	4,628	1,697	30	11	44	8	-	6,418
<b>Carrying value</b>								
30 June 2020	53,769	19,019	-	2	-	105	3	72,898
31 December 2019 (Audited)	54,406	19,279	4	-	11	108	75	73,883

The Company's power plant is constructed on land leased from Ministry of Housing. In this respect, the Company recognised right of use asset in 2019 upon adoption of IFRS 16.

## Notes to the unaudited condensed financial statements

## 5. Property, plant and equipment (continued)

The Company achieved the commercial operation start date on 17 June 2017.

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

	30 June 2020 RO '000	Audited 30 June 2019 RO 000
Operating expenses (note 16)	998	992
General and administrative expenses (note 17)	11	12
	<u>1,009</u>	<u>1,004</u>

## 6. Inventories

	30 June 2020 RO '000	Audited 31 December 2019 RO 000
Stores and spares	1,279	1,305
Fuel and lube inventory	2,132	2,227
	<u>3,411</u>	<u>3,532</u>

## 7. Trade and other receivables

Trade receivables (note 19)	10,688	10,381
Prepaid expenses	-	79
	<u>10,688</u>	<u>10,460</u>
Other receivables	370	976
Non-current portion	(127)	(253)
Allowance for impairment of other receivables	-	(115)
	<u>243</u>	<u>608</u>
Other receivables (net) – current portion	<u>10,931</u>	<u>11,068</u>

The Company has one customer OPWP which is included in the trade receivables balance as at 30 June 2020. The average credit period on the invoices raised to OPWP on generation / sale of electricity is 25 days. Further, the Company has billed MOG the incremental fuel oil costs due to the shortage of the gas supply (as disclosed in note 4). The ageing of trade receivables at the reporting date is disclosed in note 22.

## Notes to the unaudited condensed financial statements

## 7. Trade and other receivables (continued)

Movement in the allowance for impairment of other receivables is as follows:

	<b>30 June 2020 RO '000</b>	Audited 30 June 2019 RO '000
At 1 January	115	115
Bad debt written-off	(115)	-
	<u>-</u>	<u>115</u>

During the year, the Company written off the provision created against the amount receivable from OPWP on account of commissioning charges. The claim was overruled by OPWP as it was not inline with PPA.

In 2018, Wartsila Muscat LLC (the "EPC contractor") and the Company entered into the settlement deed to resolve matters relating to the Liquidated Damages and claims levied by the Company and the counter claims levied by the EPC Contractor. As per the settlement deed, the EPC contractor accepted and settled the liquidated damages of RO 3.6 million and agreed to settle an additional amount of RO 1.5 million in respect of the Company's claims relating to losses and other expenditures incurred. As per the settlement deed, the EPC contractor settled an amount of RO 4.2 million in 2018 out of which RO 0.807 million will be settled by the EPC contractor over the period of three years. The remaining balance as of the reporting date is as follows:

	<b>30 June 2020 RO '000</b>	Audited 31 December 2019 RO '000
Current portion	243	240
Non-current portion	127	253
	<u>370</u>	<u>493</u>

## 8. Cash and bank balances

Cash in hand	1	2
Cash at bank	738	8,657
	<u>739</u>	<u>8,659</u>

Unrestricted cash and cash equivalent amounted to RO 0.739 million (2019: RO 8.659 million).

## 9. Share capital

Authorised share capital 200,000,000 shares of RO 0.1 each	<u>20,000</u>	<u>20,000</u>
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## Notes to the unaudited condensed financial statements

Issued and paid up share capital 70,390,000 shares of RO 0.1 each	<b>7,039</b>	7,039
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**9. Share capital (continued)**

In the Extra Ordinary General Meeting held on 28 May 2019, the nominal value of the Company's shares was split to Baisas 100 each and to convert the Company to become a Public Joint Stock company (SAOG). Accordingly existing shareholders at the time of IPO sold their 40% shares in the Company to the new investors. The subscription amount was collected in the Company's bank account and subsequent to the end of 2019 paid to these existing shareholders.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

**Shareholders details**

Details of shareholders, who own 10% or more of the Company's share capital, are as follows:

	Number of shares '000		%	
	30 June 2020	Audited 31 December 2019	30 June 2020	Audited 31 December 2019
Oman Oil Facilities Development Company LLC	<b>29,564</b>	29,564	<b>42%</b>	42%
LGI International Corp.	<b>12,670</b>	12,670	<b>18%</b>	18%

**10. Legal reserve**

As per the Commercial Companies Law of the Sultanate of Oman, 10% of the profit for the year is required to be transferred to a legal reserve until the reserve is equal to one third of the issued share capital. The Company will transfer the reserve for 2020 at the year end. The reserve is not available for distribution.

**11. Borrowings****a) Senior facility loan**

	30 June 2020 RO '000	Audited 31 December 2019 RO '000
At 1 January	<b>67,357</b>	70,763
Less: repayments made during the period/year	<b>(1,947)</b>	(3,406)
At 30 June / 31 December (gross)	<b>65,410</b>	67,357
Less: Deferred financing charges	<b>(991)</b>	(1,090)
Amortisation of deferred financing charges	<b>320</b>	301

## Notes to the unaudited condensed financial statements

At 30 June/31 December (net)	64,739	66,568
Less: current portion	(3,652)	(3,571)
	<u>61,087</u>	<u>62,997</u>
<b>Non-current portion</b>	<b>61,087</b>	<b>62,997</b>

**11. Borrowings (continued)****a) Senior facility loan (continued)**

The senior facility loan is denominated in Rials Omani and carries an rate of 4.6% (2019: 4.6%) per annum. The loan is to be repaid in half yearly instalments commencing on 30 June 2017, with the last instalment scheduled on 17 December 2031. The loan is subject to applicable financial covenants.

The loan is secured by:

- Legal mortgage over the Company's immovable assets.
- Pledge over the Owner's shares.
- Pledge over the project accounts.
- Assignment / charge over all of the Company's rights, titles and interest in and to the project documents, the insurances and reinsurance's, the consents and any other material agreements to which the Company is a party and other material property, asset and revenue of the Company.

**b) Short term loan facility**

In 2019, the Company obtained a short term working capital facility from a commercial bank at market rate. This loan facility was repaid on 18 March 2020. The loan was subject to applicable financial covenants.

**c) Reconciliation of financing cash flows**

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

<b>Borrowings</b>	<b>At 1 January RO'000</b>	<b>Proceeds during the year RO'000</b>	<b>Repayments during the year RO'000</b>	<b>Non-cash changes RO'000</b>	<b>At 30 June RO'000</b>
Short term loan facility	3,000	-	(3,000)	-	-
Senior facility loan	66,568	-	(1,947)	118	64,739
	<u>69,568</u>	<u>-</u>	<u>(4,947)</u>	<u>118</u>	<u>64,739</u>
30 June 2020	69,568	-	(4,947)	118	64,739
30 June 2019 (Audited)	<u>69,902</u>	<u>-</u>	<u>(1,861)</u>	<u>36</u>	<u>68,077</u>

**12. Trade and other payables**

	<b>30 June 2020 RO '000</b>	<b>Audited 31 December 2019 RO '000</b>
Trade payables	8,015	6,880
Accrued expenses and provisions	2,743	210
	<u>10,758</u>	<u>7,090</u>



**Musandam Power Company SAOG**

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**Notes to the unaudited condensed financial statements**

## Notes to the unaudited condensed financial statements

**13. Provision for asset retirement obligation**

Under the Usufruct Agreement with the Ministry of Housing, the Company has an obligation to remove the plant and restore the land to its original condition. The provision for asset retirement obligation has been calculated using an expected present value technique. This technique reflects assumptions such as costs, plant's useful life, inflation and profit margin that third parties would consider to assume the settlement of the obligation. In estimating the costs an inflation rate is applied until the retirement obligations expire in order to determine the value of the future obligation and a discount rate is applied to determine the present value of the obligation. The costs to be incurred in the future may differ from the estimates in terms of their nature and timing of payment. The provisions may be subsequently adjusted in line with changes in the above-mentioned inputs.

During 2018, the Company appointed an independent external firm with relevant expertise to reassess the estimated provision for asset retirement obligation. Based on the expert's report, the provision was reduced and a corresponding adjustment was made in the de-commissioning asset as at 31 December 2019. The movement in the provision for asset retirement obligation is as follows:

	<b>30 June 2020 RO '000</b>	Audited 31 December 2019 RO '000
At 1 January	<b>160</b>	152
Unwinding of discount	<b>4</b>	8
	<hr/>	<hr/>
At 30 June/ 31 December	<b>164</b>	160
	<hr/>	<hr/>

**14. Lease liability**

Gross lease liability related to right-of-use asset	<b>111</b>	113
Future finance charges on finance leases	<b>4</b>	(2)
	<hr/>	<hr/>
<b>Present value of lease liability</b>	<b>115</b>	111
	<hr/>	<hr/>
The maturity of finance lease liability is as follows:		
Not later than 1 year	<b>4</b>	3
Later than 1 year	<b>111</b>	108
	<hr/>	<hr/>
	<b>115</b>	111
	<hr/>	<hr/>

Interest expense on lease liability (included in finance cost) was RO 4 thousand (2019: RO 8 thousand). For the disclosure related to the liquidity please refer to note 22.

## Notes to the unaudited condensed financial statements

## 15. Revenue

	30 June 2020 RO '000	Audited 30 June 2019 RO '000
<b>Revenue under lease</b>		
Capacity charges	5,292	5,036
<b>Revenue from the contract with the customer</b>		
Energy charges	956	994
Other charges	4,081	2,692
	5,037	3,686
	10,329	8,722

## 16. Operating costs

Fuel cost	3,920	2,371
Operating and maintenance expenses	1,662	1,590
Depreciation (note 5)	998	992
Connection fees	139	125
Insurance costs	56	88
Others	92	242
	6,867	5,408

## 17. General and administrative expenses

Professional charges	2	104
Staff costs	112	218
Office expenses	121	154
Others	7	14
Depreciation (note 5)	11	12
	253	502

## 18. Finance costs - net

Finance costs primarily includes the interest on senior facility loan amounting to RO 1.541 million (June 2019: RO 1.614 million).

Interest on senior facility loan	1,541	1,614
Interest on short term loan	25	-
Finance charges	8	-
Finance costs	1,574	1,614
Interest on shareholders' loan	-	70
Other finance charges	-	15
Amortization of deferred finance charges	118	36
Unwinding of discount on asset retirement obligation	4	4
	1,696	1,739

## Notes to the unaudited condensed financial statements

## 19. Related parties transaction

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. Terms of these transactions are approved by the Company's management.

Government of Sultanate of Oman (the Government), indirectly owns 42% (2019: 42%) of the Company's shares. The Company has applied the exemptions in IAS 24 : Related Parties - related to transaction with the Government and other entities controlled, jointly controlled or significantly influenced by the Government. In this respect, the Company has disclosed certain information, to meet the disclosure requirements of IAS 24, in this note.

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

## a) Amounts due from related party

	30 June 2020	Audited 31 December 2019
	RO '000	RO '000
<b>Oman Tank Terminal Company LLC</b>	<b>19</b>	<b>-</b>

## b) Amounts due to related parties

## Entities related to the major shareholder

Oman Oil Marketing Company SAOG	-	1,125
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## Shareholders

Oman Oil Facility Development Company LLC	-	5,256
Oman Oil Company SAOC	-	19
LG International Corp.	-	2,274
	-	8,674

## c) Due to / from government and other state controlled entities

Due from government and other state controlled entities	10,688	10,381
Due to government and other state controlled entities	7,676	6,319

Amounts due from / (due to) government and other state controlled entities mainly include balances receivable / payable from Oman Power and Water Procurement Company SAOC and Ministry of Oil and Gas in relation the power generation revenue and incremental cost receivables and gas payables.

## Notes to the unaudited condensed financial statements

## 19. Related parties transaction (continued)

## Transactions

Transactions with related parties included in the financial statements are as follows:

## d) Transactions with entities related to the major shareholder

	30 June 2020	Audited 30 June 2019
	RO '000	RO '000
Purchase of fuel from Oman Oil Marketing Company SAOG	-	1,113
Support services provided by Oman Gas Company SAOC	5	147
Interest on loan from shareholders	-	70

## e) Transactions with government and state controlled entities

Purchase of gas from Ministry of Oil and Gas	1,473	1,608
Revenue from Oman Power and Water Procurement Company SAOC	8,495	8,722
Connection charges to Rural Areas Electricity Company SAOC	139	125

## f) Directors' remuneration and sitting fees

	10	64
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## g) Key management compensation

Salaries and other benefits	103	52
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## 20. Taxation

The tax rate applicable to the Company is 15% (2019: 15%). For the purpose of determining the taxable result for the period, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

No provision for the current tax been made in these financial statements in view of cumulative taxable losses incurred by the Company as at 30 June 2020. In the current period, the Company has recognized deferred tax asset on the tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilized.

The deferred tax on all temporary differences have been calculated and dealt with in the statement of profit or loss and other comprehensive income.

## a) The taxation charge for the year is comprised of:

	30 June 2020	Audited 30 June 2019
	RO '000	RO '000
Statement of profit or loss and other comprehensive income:		
Deferred tax – current period	210	419
Deferred tax – prior year	-	(31)
	<u>210</u>	<u>388</u>

## Notes to the unaudited condensed financial statements

## 20. Taxation (continued)

## b) Tax reconciliation

The following is a reconciliation of income taxes calculated on accounting profits at the applicable tax rate with the income tax expense for the year. The reconciliation of the accounting profit with the taxation charge in the financial statements is as follows:

	30 June 2020 RO '000	Audited 30 June 2019 RO '000
Profit before tax	1,534	1,073
Taxation @ 15% [(2019: 15%)]	230	161
<b>Add: Tax effect of:</b>		
Non-deductible expenses	2	11
Deferred not recognized on tax losses	(21)	247
IFRS 16 Adjustment	(1)	(31)
Deferred tax – prior period	-	-
Tax expense	210	388

## c) Deferred tax liability

	As at 1 January RO '000	Recognised during the period/year RO '000	As at 30 June / 31 December RO '000
<b>2020</b>			
<i><b>Taxable temporary differences</b></i>			
Effect of accelerated tax depreciation	(2,486)	(345)	(2,831)
Right-of-use asset	(17)	1	(16)
<i><b>Deductible temporary differences</b></i>			
Impairment of receivables	17	-	17
Provision for assets retirement	24	1	25
Right of use liability	17	-	17
Tax losses	252	133	385
	(2,193)	(210)	(2,403)
<b>2019</b>			
<i><b>Taxable temporary differences</b></i>			
Effect of accelerated tax depreciation	(1,621)	(865)	(2,486)
Right-of-use asset	-	(17)	(17)
<i><b>Deductible temporary differences</b></i>			
Impairment of receivables	17	-	17
Provision for assets retirement	2	22	24
Right of use liability	-	17	17
Tax losses	-	252	252
	(1,062)	(591)	(2,193)

## Notes to the unaudited condensed financial statements

## 20. Taxation (continued)

## d) Tax status

As of 30 June 2020, none of the Company's tax assessments have been completed by the Omani taxation authorities. 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 30 June 2020.

## 21. Commitments

## Operation and maintenance commitment

As per the O&M Agreement, Wartsila Muscat LLC will operate and maintain the Company's plant at Musandam until 16 June 2022. Under the O&M agreement, the Company has to pay the fixed operating fee.

All fees are subject to 3% indexation. The minimum future payments under the O&M agreement (excluding indexation) are as follow:

	30 June 2020	Audited 31 December 2019
	RO '000	RO '000
Due within one year	1,149	1,149
Due after one year but within five years	1,149	1,724
	<u>2,298</u>	<u>2,873</u>

As per the LTSA Agreement, Wartsila Muscat LLC will operate and maintain the Company's plant at Musandam until 16 June 2032. Under the LTSA agreement, the Company has to pay the fixed operating fee.

All fees are subject to 3% indexation. The minimum future payments under the O&M agreement (excluding indexation) are as follow:

Due within one year	438	438
Due after one year but within five years	1,753	1,753
Due after five years	3,067	3,286
	<u>5,258</u>	<u>5,477</u>

## 22. Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including price risk, foreign currency risk and interest rate risk), liquidity risk and credit risk. However, the Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

## Notes to the unaudited condensed financial statements

**22. Financial risk management (continued)**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has entrusted the Management with the responsibility of developing and monitoring the Company's risk management policies and procedures and its compliance with them.

**Market risk**

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

*Price risk*

The permitted tariff (prices) for the generation of electricity are determined in accordance with the Power Purchase Agreement with OPWP. Hence, the Company is not subject to significant price risk.

*Foreign currency risk*

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

*Interest rate risk*

The Company is not exposed to interest rate risk on its loan from shareholders and senior facility loan as these carry fixed interest rate. At the reporting date the interest rate risk profile of the Company's interest bearing financial instruments were:

	<b>30 June 2020 RO '000</b>	Audited 31 December 2019 RO '000
Borrowings (senior and short term loan facilities)	<b>64,739</b>	69,568

*Fair value sensitivity analysis for fixed rate instruments*

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

**Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's trade and other receivables and cash balances held with banks.

As at reporting date, the Company's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.



## Notes to the unaudited condensed financial statements

## 22. Financial risk management (continued)

## Credit risk (continued)

The Company has significant concentration of credit risk with the Government of the Sultanate of Oman represented by the MOG and OPWP. Under the terms of the PPA and NGSA, the Company's sales and fuel incremental costs are billed wholly to OPWP (indirectly owned wholly by the Government) and MOG (as disclosed in note 4) respectively. Therefore, the Company's credit risk on receivables from OPWP and MOG is limited.

In order to minimise credit risk, the management develop and maintain the Company's credit risk gradings to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and the Company's own trading records to rate its major customers and other debtors. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Company's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

30 June 2020	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RO'000	Loss allowance RO'000	Net carrying amount RO'000
Trade and other receivables	Ba1	-	Lifetime	10,688		10,688
Cash at bank	Ba1	-	12 month	738		738
Other receivables	-	-	12 month	370		370
Amount due from related parties	-	-	Lifetime	19		19
				<b>11,815</b>	<b>-</b>	<b>11,815</b>

  

31 December 2019 (Audited)	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RO'000	Loss allowance RO'000	Net carrying amount RO'000
Trade and other receivables	Ba1	-	Lifetime	10,381	-	10,381
Cash at bank	Ba1	-	12 month	8,657	-	8,657
Other receivables	-	-	12 month	976	(115)	861
				<b>20,014</b>	<b>(115)</b>	<b>19,899</b>

## Notes to the unaudited condensed financial statements

## 22. Financial risk management (continued)

## Credit risk (continued)

As at the reporting date, the status of past due balances of financial assets is as follows:

	Carrying amount	Not due	Upto 90 days	Upto 180 days	Past due Over 365 days	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
<b>30 June 2020</b>						
Gross carrying amount:						
30 June 2020						
Trade and other receivables	10,688	3,440	838	3,379	3,031	10,688
Cash at bank	738	738	-	-	-	738
Other receivables	370	370	-	-	-	370
Amount due from related parties	19	19	-	-	-	19
	<u>11,815</u>	<u>4,567</u>	<u>838</u>	<u>3,379</u>	<u>3,031</u>	<u>11,815</u>
<b>31 December 2019 (Audited)</b>	Carrying amount	Not due	Upto 90 days	Upto 180 days	Over 365 days	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Gross carrying amount:						
31 December 2019						
Trade and other receivables	10,381	1,171	2,434	4,710	2,066	10,381
Cash at bank	8,657	8,657	-	-	-	8,657
Other receivables	976	861	-	-	115	976
	<u>20,014</u>	<u>10,689</u>	<u>2,434</u>	<u>4,710</u>	<u>2,181</u>	<u>20,014</u>

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL using the simplified approach. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has not accounted for ECL against OPWP and MOG because these are government and/or government owned entities and taking into account the historical default experience and the current credit ratings of the Government, the management of the Company have assessed that there is no significant impairment loss. In relation to receivable from MOG further details are disclosed in note 4.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off are subject to enforcement activities.

**Bank balances**

Balances with bank are assessed to have low credit risk of default since these banks are highly regulated by the central banks of the respective countries. Accordingly, the management of the Company estimates the loss allowance on balances with bank at the end of the reporting period at

## Notes to the unaudited condensed financial statements

## 22. Financial risk management (continued)

## Credit risk (continued)

## Bank balances (continued)

an amount equal to 12 month ECL. None of the balances with bank at the end of the reporting period are past due and taking into account the historical default experience and the current credit ratings of the bank, the management of the Company have assessed that there is no impairment, and hence have not recorded any loss allowances on these balances.

The Company limits its credit risk with regard to bank balance deposits by only dealing with reputable bank and financial institution with strong credit ratings. The Company's bank accounts are placed with reputed financial institutions having credit rating of Ba1 as per the recently ratings issued by Moody's Investors Service.

## Liquidity risk

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. Further, the Company maintains sufficient bank balances. The table below summarises the maturities of the Company's undiscounted financial liabilities at the reporting date:

	Less than 3 month RO '000	3 to 12 month RO '000	1 to 5 years RO '000	more than 5 years RO '000	Total RO '000
<b>At 30 June 2020</b>					
Trade and other payables*	-	10,758	-	-	10,758
Senior facility loan	-	6,631	24,303	58,498	89,432
Lease liabilities	-	10	41	159	210
	-	17,399	24,344	58,657	100,400
	Less than 3 month RO '000	3 to 12 Month RO '000	1 to 5 years RO '000	more than 5 years RO '000	Total RO '000
<b>At 31 December 2019 (Audited)</b>					
Trade and other payables	-	7,090	-	-	7,090
Senior facility loan	-	6,539	24,276	61,062	91,877
Short term loan facility	-	3,000	-	-	3,000
Lease liabilities	-	10	41	164	215
Amounts due to related parties	8,674	-	-	-	8,674
	8,674	16,639	24,317	61,226	110,856

\* Trade and other payables includes RO 7.68 million payable to MOG for the purchase of Gas. However, receivables includes amount of RO 8.20 million receivable from MOG on account of fuel incremental cost. The Company is currently negotiating with MOG to off-set the balance and pay the net accordingly.

## Notes to the unaudited condensed financial statements

## 22. Financial risk management (continued)

Categories of financial instruments	30 June 2020	Audited 31 December 2019
	RO '000	RO '000
<i>Financial assets (at amortised cost)</i>		
Cash and bank balances	739	8,659
Trade and other receivables	11,058	11,242
Amount due from related parties	19	-
	<b>11,816</b>	<b>19,901</b>
<i>Financial liabilities (at amortised cost)</i>		
Senior facility loan	64,739	66,568
Short term loan facility	-	3,000
Amount due to related parties	-	8,674
Lease liability	115	111
Trade and other payables	10,758	7,090
	<b>75,612</b>	<b>85,443</b>

**Capital management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to provide an adequate return to shareholders.

The Board'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. The capital structure of the Company comprises share capital, reserves and retained earnings. Debt comprise of senior loan facility, loan from shareholder and lease liability. The Company is not subject to external imposed capital requirements except those under the Commercial Companies Law of the Sultanate of Oman.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. During the year there is no change in the capital management policy of the Company.

**Fair value of financial instruments**

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash in hand, cash at bank and trade and other receivables. Financial liabilities consist of trade and other payable, loan from shareholders, senior / short term loan facility and amounts due to related parties.

The fair values of financial instruments are not materially different from their carrying values.

## Notes to the unaudited condensed financial statements

**23. Earnings per share: basic and diluted**

	<b>30 June 2020</b>	Audited 30 June 2019
Net profit attributable to ordinary shareholders of the Company for basic and diluted earnings per share (RO '000)	<b>1,324</b>	685
Weighted average number of shares (in '000s)	<b>70,390</b>	70,390
Profit per share (RO)	<b>0.019</b>	0.010

There is no difference between basic and diluted earnings per share because the Company has not issued any instruments which would have an impact on earnings per share when exercised.

**24. Net assets per share**

Net assets per share is calculated by dividing the net assets attributable to the ordinary shareholders of the Company at the reporting date by the weighted average number of ordinary shares outstanding during the period/year.

	<b>30 June 2020</b>	Audited 31 December 2019
Net assets (RO in '000)	<b>9,946</b>	9,593
Number of shares outstanding at period/year end ('000s)	<b>70,390</b>	70,390
Net assets per share (RO)	<b>0.141</b>	0.136

**25. Non-cash financing and investing activities**

The right of use asset and related lease liabilities recognised on the adoption of IFRS 16 in 2019 were non-cash financing and investing activities and therefore not presented in the statement of cash flows.

**26. Segment information**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic decisions maker. The Company's operating activities are disclosed in note 1 to the financial statements. The strategic business unit offers similar services and is managed as one segment. For the strategic business unit, the CEO reviews internal management reports on a monthly basis. Performance is measured based on the profit before income tax, as included in the internal management reports. The CEO considers the business of the Company as one operating segment and monitors accordingly.

## Notes to the unaudited condensed financial statements

**27. Operating lease arrangement where the Company acts as a lessor**

As disclosed in note 1 of these financial statements, the Company has entered into a PPA with OPWP for a substantial element of the production of power with 100% 'take-or-pay' arrangement. As disclosed in note 4, management has determined that the PPA with OPWP is covered under IFRS 16 Leases and such arrangement in substance represents an operating lease under IFRS 16 Leases. The lease commenced on 17 June 2017. The following is the total of future minimum lease receipts expected to be received under the PPA:

	30 June 2020	Audited 31 December 2019
	RO '000	RO '000
Due within one year	11,369	11,369
Due after one year but within five years	45,475	45,475
Due after five years	79,581	85,266
	<u>136,425</u>	<u>142,110</u>

**28. Dividend**

On 3 February 2020, the Board of Directors proposed a final cash dividend of Baisas 13.8 per share amounting to RO 0.971 million which was paid on 24 March 2020.

The above arrangement was approved by the shareholders in an Annual General Meeting held on 5 March 2020.