مسندم للطاقة
MUSANDAM POWER

ANNUAL REPORT 2021

MUSANDAM ON

His Majesty
Sultan Qaboos Bin Said (Late)

His Majesty
Sultan Haitham bin Tarik

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BOARD OF DIRECTORS

Mohammed Al Ruwaidhi

Chairman

Mr. Jun H. Kim

Deputy Chairman

Mr. Hamid A. Hamirani

Director

Najla Al Jamali

Director

Maqbool Al Lawati

Director

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors of Musandam Power Company SAOG (the "Company"), I have the pleasure to present the Annual Report of the Company for the year ended 31st December 2021.

Musandam Power Company SAOG (the "Company") was registered and incorporated as a closed joint stock company in the Sultanate of Oman on 18th November 2014. Subsequently, the Company was converted to a joint stock company ("SAOG") and was listed on the Muscat Stock Exchange ("MSX") on 5th December 2019.

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 Company is selling the electrical energy generated to Oman Power and Water Procurement Company SAOC (the "OPWP"). Before listing, the Company was a subsidiary of Oman Oil Facilities Development Company LLC ("OOFDC") which is owned by OQ SAOC ("OQ"), a closely held joint stock company incorporated in the Sultanate of Oman.

The Company commenced commercial operations on 17th June 2017.

Corporate Governance

The Company has a comprehensive system of internal controls in place with clear structure, delegated authorities and accountabilities.

During 2021, the Company continued to carry out a review of key internal policies and procedures in order to ensure highest standards of corporate governance and to ensure compliance with the Code of Corporate Governance and applicable circulars issued up to 31st December 2021 by the Capital Market Authority.

As per Clause no 2(o) of the fourth principle of Corporate Governance Codes the Chairperson must arrange for appraisal of the performance of the Board impartially and independently by a third party appointed by the Annual General Meeting in accordance with a benchmark and standards set by the Board or general meeting. The selection of a third party is completed in last AGM and the outcome of the evaluation report will be presented to the shareholders for approval in the upcoming AGM on 10th March 2022.

Operational Results

The operational performance of the plant during the year was excellent, with 99.97% plant reliability against 98.00% planned (2020: 99.97%). The plant witnessed a high plant load of 75.98 MW during the year (2020: 76.3MW). The total energy generated and delivered was 395,110 MWH (2020: 380,394), an increase of about 3.9% over the previous year.

The splendid plant reliability and fulfilling Tanweer load demand was achieved with a continued focus on excellence in Health, Safety, Environment and Quality Management. We acknowledge the excellent performance of our dedicated and diligent Operation and Maintenance Contractor's (Wartsila) team.

The Company duly met all the stringent environment permit conditions promulgated by Ministry of Environment and Climate Affairs. All HSE activities planned successfully completed and all key performance indicators achieved.

Gas availability from Musandam Gas Plant ("MGP") is declining due to lower gas reservoirs in Musandam as a result, the dependency on diesel operation is likely to be higher resulting in more expensive operating costs. The Company is protected under the NGSA to get reimbursed for any incremental fuel costs due to diesel consumption in the event of shortage or unavailability of gas. The Company is currently working on various options with MEM for alternatives to diesel use.

Financial Results

The Company recorded a net profit of RO 3.095 million in 2021 compared to RO 2.335 million 2020, representing an increase of 33%. The Company's overall profit from the operation and after removing the impact of the other income is higher by RO 0.757 million as compared to 2020. The increase was primarily due to:

- Maintaining the high plant reliability level of 99.9%
- increase in thermal efficiencies resulting in lower heat rate optimizing the power production cost,
- rising diesel prices
- lower interest cost in line with reduction of long-term loan payable

The Company has duly met all its commitments under the facilities agreement. Oman Power and Water Procurement Company SAOC (OPWP) continues to settle all invoices raised by the Company as per the payment provisions provided within the Power Purchase Agreement (PPA) and Ministry of Energy and Minerals (MEM) settlement was paid some of it and the remaining is expected to be settled during 2022.

Finally, the Company's better operational and commercial performance during 2021 enabled it to declare to pay an aggregate dividends of 27.6 Baiza per share (with nominal value of share as Baiza 100 per share). This corresponds to 27.6% of the paid-up capital of the Company.

The share price of the Company stood at 300 Baizas per share on 31st December 2021.

Corporate Social Responsibility

The Company takes its role as a responsible corporate citizen seriously. As part of the settlement agreement between the Company and Wartsila (EPC Contractor), Wartsila provided funds of USD 300,000 on behalf of the Company to install the solar power for schools in Musandam Governate. This was planned to be implemented by end of 2021. During the year 2021, the Company has completed installation of solar power system in Musandam school. The company also provided interactive boards, printers and laptops to Musandam schools students as part of our vision to provide the latest technology to the governate educational system.

Medium term & Future Outlook

The Company continuously endeavors to identify and implement areas of improvement in plant operations. All reasonable measures are being taken by the management to maintain excellent operational performance and the thermal efficiency of the plant during the year 2021 despite the challenges faced due to COVID-19. Any change in the power supply and demand landscape in the Sultanate has limited impact on the financial performance of the Company since its profitability is mainly derived from plant's availability and reliability and the fact that the plant is performing in isolated grid.

The Company and its Operation & Maintenance Contractor are making serious efforts to steadily increase the Omanisation, while ensuring smooth and reliable operation of the plant. currently, the Company is on track to meet Omanisation commitment made to the Authority for Public Services Regulation and Ministry of Labour.

On the 1st of January 2022, The Oman Power and Water Procurement Company SAOC (OPWP) has achieved a significant milestone in the implementation of Oman electricity market which is the Middle East's first electricity spot market. This market will provide new era of the efficient and economical based offered prices for the forecasted demand. The electricity market will initially be implemented in the Main Interconnected System across the northern part of Oman, with prospects to expand to cover other regions over time. The Company's Power Purchase Agreement with OPWP expires in 2032. Accordingly, the spot market will have no impact on the revenue stream of the Company until the expiry of the Power Purchase Agreement.

In terms of challenges and opportunities, the company is facing certain challenges like the availability of natural gas and higher dependency on diesel .The company is working closely with the government to find out solutions by materializing the options of Dolphin Gas, expected in Q2'22, and LNG, in the planning stage. The Company is in the process of renewing the O&M contract with Wartsila for another 3+1+1 years which in likely to realize material annual savings. This will be reported when the agreement in finalized.

The Company has successfully implemented the Value Added Tax ("VAT") as per the Oman VAT Law which was published in the Official Gazette on 18th October 2020 and came into action from 16th April 2021. The Company has been registered with tax authority for Value Added Tax (VAT) from the effective date of 16 April 2021 and since then no non-compliance were recorded against the company.

Conclusion

On behalf of the Board of Directors, I wish to express gratitude to OPWP, the Authority for Public Services Regulation , the Capital Market Authority and other governmental and non-governmental bodies for their guidance and support. I would also like to thank all personnel associated with the operation of Musandam Independent Power Plant and the staff of the Company for their hard work and dedication, and also to those others such as our contractors, whose expertise has assisted us in achieving these excellent results.

Finally, it's my honour and also on behalf of the shareholders, board members and employees of the Company to express to His Majesty Sultan Haitham bin Tarek our best greetings and sincere wishes and praying to Allah the Almighty to grant him success in achieving goodness for our beloved country, its people and the whole humanity. We pledge loyalty and allegiance in serving the nation under his wise leadership.

Mohammed Al Ruwaidhi
Chairperson


MAIN SWITCH

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TO THE SHAREHOLDERS OF
MUSANDAM POWER COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) Circular No. E/4/2015 dated 22 July 2015 with respect to the accompanying corporate governance report of **Musandam Power Company SAOG** as at and for the year ended 31 December 2021 and its application of corporate governance practices in accordance with CMA code of corporate governance issued under Circular No. 4/2015 dated 22 July 2015 and amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standards on Related Services to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Company's compliance with the Code as issued by the CMA and are summarized as follows:

1. We obtained the corporate governance report issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2. We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors with the Code, for the year ended 31 December 2021. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of **Musandam Power Company SAOG** to be included in its annual report for the year ended 31 December 2021 and does not extend to any financial statements of **Musandam Power Company SAOG,** taken as a whole.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
8 February 2022

ديلويت آند توش (الشرق الأوسط) وشركاه ش.م.م
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Deloitte & Touche (M.E.) & Co. LLC.

CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") of Musandam Power Company SAOG (the "Company") hereby presents their Corporate Governance Report for the year ended 31st December 2021 in compliance with the requirement of the Code of Corporate Governance applicable to the Public Joint Stock Companies (the "Code"), clarifications and notifications issued by Capital Market Authority (the "CMA") up to 31st December 2021.

Company's philosophy and principles of Corporate Governance

The Company's philosophy is to adhere to the Code issued by the CMA to fulfill all the requirement of highest standard of Corporate Governance and is aimed to support the Board of Directors and the management of the Company in the efficient conduct of the business. The Company has adopted the principles of good Corporate Governance and has implemented all guidelines issued by the CMA. The Company is committed to place an effective Corporate Governance assuring the shareholders that there is a well performing management in place which supports the highest standards towards transparency, accountability, continuous improvement of business processes, disclosure, displaying the highest ethical standards, observing compliance with laws, permits and regulations and business propriety with the aim of enhancing long term shareholders value and the interest of all stakeholders. Towards this, the Company has established and put in place detailed functional policies, procedures, financial authority limits, clear roles and responsibilities of the Board and Management and systems to ensure fair and timely release of material information about the Company to the stakeholders as well as supports Management to take decisions in relation to Company's obligation and affairs. The Board also set key performance indicator targets every year and evaluates the Company's performance progressively.

The Company has the following two committees of the Board which are fully operational in line with the provisions of the Code:

(i) Audit and Risk Committee; and

(ii) Nomination & Remuneration Committee.

In compliance with the CMA rules and guidelines on disclosure, the Company's Statutory Auditors, Deloitte, have issued a separate Report on the Company's Governance Report for the year ended 31st December 2021.

Board of Directors

In compliance with the Company's Articles of Association, the Board comprises of five (5) non-executive directors, one director got ratified his appointment in the last AGM which was held on 3rd March 2021. Since the Company converted from a private joint stock company to public joint stock company on 5th December 2019, the term of the existing Board shall be completed in 2022. Three (3) members of the current Board were elected in 2019 and the appointment of two (2) board members was approved at the 2020 AGM.

a) Composition, positions, and attendance of Directors in the year 2021:

All directors are non-executive in accordance with the requirement of the Code.

During the year, the composition of the Board changed as follows:

(i) Mr. Maqbool Al Lawati, independent director, resigned being chairperson of the board on 15th July 2021 to comply with the Code of Corporate Governance. Subsequently, the majority of the board nominated Mr. Mohammed Al Ruwaidhi, representing OQ SAOC (OQ), as the new Chairperson of the board with effect from 15th July 2021.

Category of Directors		Attendance							
		Board Meetings 2001							AGM
		9 Feb	28 Apr	15 Jul	28 Jul	27 Oct	23 Dec	Total	3rd Mar 2021
Board Members as of Dec 31, 2021									
Mr. Mohammed Al Ruwaidhi (Chairperson)	Non-independent	n/a	√	√	√	√	√	5	√
Mr. Jun Hyoung Kim (Deputy Chairperson)	Non-independent	√	√	P	√	√	√	5	x
Mr. Maqbool Al Lawati	Independent	√	√	√	√	√	√	6	√
Mr. Hamid Hamirani	Independent	√	√	√	√	√	√	6	√
Mr. Hamid Hamirani	Non-independent	√	√	√	√	√	√	6	√

√: attend, x : absent, n/a : not in seat, P: attend by proxy

b) Directors holding directorship/chairmanship in other joint stock companies in Oman as of December 31, 2021

Name of Director	Name of Companies and Position Held
Ms. Najla Al Jamali	• HSBC Bank Oman, Deputy Chair • Oman National Engineering & Investment Co. SAOG, Director
Mr. Hamid Hamirani	• Baraka Sharewater Company SAOC, Chairperson

The profile of directors and key executive officers is included as an Annexure to the Corporate Governance Report.

Audit Committee

a) Brief description of terms of reference

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

(i) Considering the name of the auditor in the context of their independence (particularly with reference to any other non-audit services), fee and terms of engagement, and recommending the auditors to the board for appointment.

(ii) Reviewing the audit plan and results of the audit firms and the results of the audit process as to whether or not the auditors have had full access to all relevant documents to perform their job

(iii) Implementing appropriate systems to check financial fraud and ensure the fairness of financial statements.

(iv) Oversight of the internal audit function through an approved audit plan, considering the reports of the internal auditor, ensuring the internal auditor have full access to the relevant documents and reviewing the efficiency of internal audit function regularly.

(v) Oversight of the adequacy of the internal control systems.

(vi) Oversight of financial statements in general including the review and integrity of annual and quarterly financial statements before issue, qualifications contained in draft financial statements, and discussions of accounting principles therein and changes in accounting standards adopted by the Company.

(vii) Serving as a channel of communication for the Board with the external and internal auditors.

(viii) Reviewing and ensuring effectiveness of risk management policies.

(ix) Reviewing proposed related party transactions and making suitable recommendations to the Board.

(x) Proposing wages and remunerations and financial and in-kind benefits for the employees of the internal audit unit.

Consistent with this function, the Audit and Risk Committee encourages continuous improvement of, and promote adherence to, the Company's policies, procedures, and practices for corporate accountability, transparency, and integrity.

In fulfilling its role, it is the responsibility of the Audit and Risk Committee to maintain free and open communication with the external auditors, the internal auditor, and the management of the Company and to determine that all parties are aware of their responsibilities.

b) Composition, position, and attendance in the year 2021:

The Audit and Risk Committee is comprised of majority of independent directors as required by the Code. Below is the composition of this Committee and number of meetings held and attendance for the year 2021

Name of Committee Members	Position	Attendance				
		3 Feb	27 Apr	26 Jul	25 Oct	Total
Mr. Hamid Hamirani	Chairperson	√	√	√	√	4
Mr. Maqbool Al Lawati	Member	√	√	√	√	4
Ms. Najla Al Jamali	Member	√	√	P	√	3

√: attend, x : absent, n/a : not in seat, P: attend by proxy

Nomination & Remuneration Committee

a) Brief description of terms of reference

The primary role of Nomination & Remuneration Committee of the Board involves:

(i) Assisting the Shareholders, while electing the Board at a general meeting in the nomination of proficient directors and the election of the most fit for the purpose.

(ii) Assisting the Board in selecting the appropriate and necessary executives for the executive management of the Company.

(iii) Assisting the Company in formulating clear, credible, and accessible policies to inform shareholders about directors' and executives' remuneration subject to the provisions of Administrative Decision No. 11/2005 on the rules of remuneration and sitting fees for directors of SAOG's.

(iv) Developing and deploying additional performance-based criteria to determine the bonus and remuneration of the chief executive officer and senior executive management of the Company.

(v) Submitting to the Board an annual plan of action.

(vi) Providing succession planning for the executive management.

(vii) Developing a succession policy or plan for the Board or at least the chairperson.

(viii) Preparing detailed job descriptions of the role and responsibilities for directors including the chairperson.

(ix) Identifying and nominating qualified persons to act as interim directors on the Board in the event a seat becomes vacant.

(x) Nominating qualified persons to assume senior executive positions, as required, or directed by the Board.

(xi) Preparing a bonus, allowances, and incentive policy for the executive management; and

(xii) Reviewing such policies periodically, considering market conditions and company performance.

b) Composition, position, and attendance in the year 2021:

The Board of the Company constituted the Nomination and Remuneration Committee comprised of 3 Board of Directors out of which one is an independent director. The composition of this Committee is given below:

Name of Committee Members	Position	Attendance			
		9 Feb	16 Mar	23 Nov	Total
Ms. Najla Al Jamali	Chairperson	√	√	√	3
Mr. Mohammed Al Ruwaidhi	Member	n/a	√	√	2
Mr. Maqbool Al Lawati	Member	√	√	√	3

√: attend, x : absent, n/a : not in seat, P: attend by proxy

Appraisal for the performance of the Board

As per Clause no 2(o) of the fourth principle of Corporate Governance codes the Chairperson must arrange for Appraisal of the performance of the Board impartially and independently by a third party appointed by the annual general meeting in accordance with a benchmark and standards set by the Board or general meeting.

The Shareholders selected Abu Timam Grant Thornton to conduct the appraisal of the board in the last AGM which was held on 3rd March 2021 and the report of their appraisal will be presented to the shareholders in the upcoming AGM.

Process of nomination of the directors

The election of the Board is governed by the Company's Articles of Association and Corporate Governance. The Company ensures that the election of the Board is held in accordance with the Commercial Companies Law and rules issued by the Capital Market Authority.

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

(i) Five directors to be elected by the shareholders in general meeting for a term of 3 years.

(ii) All directors shall be non-executive directors.

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

(iv) The members of the Board of Directors are elected from amongst the shareholders or non-shareholders.

(v) A director shall not be allowed to combine the positions of chief executive officer and chairperson; and no director shall be a member of the Board of more than four joint stock companies or chairperson of more than two joint stock companies. As per the Article (2) of Clause (8) of the Ministerial Decision 137/2002, as amended by Ministerial Decision 201/2016, requires that director cannot be an employee or member of the Board of the company carrying out similar activities and whose principal place of business is in Oman.

Remuneration matters

a) Sitting fees to members of the Board and its sub-committees

As approved by the shareholders, the sitting fees of RO 500 for the Chairperson, RO 400 for the members of the Board and RO 200 for the members of the Audit and Risk Committee and Nomination & Remuneration Committee are paid till end of July 2021 and accrued for rest of the year. The sitting fee is payable to the members of the Board, the Audit and Risk Committee and the Nomination & Remuneration Committee who attend the meeting either in person or by video conference. The sitting fee is also paid in case a juristic person, in the absence of its nominated Board member, delegates another representative to attend the Board meeting.

The sitting fees for the year 2021 paid and to be paid to the directors for attending Board, Audit Committee and Nomination & Remuneration Committee meetings amounted to RO 11,800, RO 2,200, and RO 1,600 respectively.

b) Remuneration to Board members

Following approval by the shareholders in the AGM held on 3rd March 2021, the Company paid total remuneration of RO 60,034 to the Board members in respect of the year 2020.

For the financial year 2021, the Board proposes to pay remuneration to the Board members, based on the guidelines of the Administrative Decision 11/2005 of the Capital Market Authority, for their contribution in achieving excellent operational and financial results. The remuneration of RO 142,200 has been proposed by the Board for the year ended 31st December 2021, however, the final amount of remuneration shall be decided and paid, following approval by the shareholders in the AGM scheduled to be held on 10th March 2022.

c) Other payments to directors

There was no other payment to the directors besides the sitting fees and remuneration.

d) Executive Management

The Company paid to its top officers an aggregate amount of OMR 210,000 which includes salaries & allowances. The remuneration paid commensurate with their qualification, role, responsibility, and performance.

The performance-based bonus for staff members is based on the following criteria:

a. At the beginning of the year, benchmark objectives, which include among other parameters, financial performance of the Company, Health, Safety and Environment targets, for each staff member are set.

b. At the end of the year, the performance, and actual results against each of these objectives are evaluated and most importantly, any extraordinary contribution by the staff member leading to Company's improved performance is duly noted and acknowledged.

c. Based on the final score and a transparent process of evaluation, a bonus is worked out and disbursed.

Employees' notice period and severance fees are specified in the standard employment contract entered into by the Company with the staff. Generally, the employment contract carries one month notice period. Severance fee is payable to an employee if the employee is terminated with less than agreed notice period.

Details of non-compliance by the Company

There were no penalties imposed on the Company by the Capital Market Authority ("CMA"), Muscat Stock Exchange ("MSX") or any other statutory authority on any matter related to capital markets in the year 2021 and the management assuring 100% compliance with all the relevant rules & regulations.

Means of communication with the shareholders and investors

The Company communicates with the shareholders and investors mainly through the MSX website and the Company's website (www.musandampower.com) in both English and Arabic. Material information is disclosed immediately, and financial information such as initial quarterly and annual un-audited financial results, un-audited interim financial statements, and annual report including audited financial statements and Management Discussion & Analysis Report are disclosed within the regulatory deadlines. The Company's executive management is also available to meet its shareholders and analysts as and when required.

Market price data

a) a) High/Low share price and performance comparison during each month in year 2021:

Month	Price (Baizas per share)			MSX Service Sector Index (Monthly Closing)
	High	Low	Closing	
January	306	306	306	1,594.91
February	322	306	322	1,549.89
March	320	318	322	1,544.90
April	-	-	-	-
May	-	-	-	-
June	316	290	316	1,722.96
July	330	324	324	1,709.25
August	340	326	334	1,704.36
September	330	302	330	1,697.29
October	330	326	330	1,674.89
November	322	302	312	1,614.83
December	304	300	300	1,620.87

b) Distribution of the shareholding as of December 31st, 2021:

Category	Number of shareholders	Number of shares held	Share capital %
5% and above	5	55,995,475	79.55%
1% to 5%	4	6,733,934	9.57%
Less than 1 %	402	7,660,591	10.88%
Total	**411**	**70,390,000**	**100%**

There are no outstanding securities, or any convertible instruments issued by the Company.

Professional profile of the statutory auditor

Deloitte & Touche (M.E.) LLP ("DME") is the affiliate for the territories of the Middle East and Cyprus of Deloitte NSE LLP ("NSE"), a UK limited liability partnership and member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). Deloitte refers to one or more of DTTL, its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL, NSE and DME do not provide services to clients. Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories, serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 300,000 people make an impact that matters at www.deloitte.com.

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Audit fee for the year 2021 was RO 11,200 for December audit, RO 750 for Corporate Governance Report review and RO 800 for XBRL review.

Related Party Transactions

The company adopts the highest degree of transparency and clarity for Related Party Transactions. All such transactions are subject to review of the Audit & Risk committee and approval of the Board of Directors and where required, by Shareholders in General Meeting.

The details of such transactions, where required, will be sent to every shareholder along with the notice to the general meeting covering the Related Party Transactions details. These transactions will also be disclosed in detail in the company's annual report.

The details of Related Party Transactions for the year 2021 are included within the notes of Financial Statements. All these transactions have been concluded in accordance with the governing regulations applicable at the time when they were entered and disclosed in the Financial Statements in accordance with applicable International Financial Reporting Standards. All the transactions are at 'arms-length' and do not involve any preferential terms.

Acknowledgement by the Board of Directors

- The Board of Directors accepts the responsibility for accurately preparing accounts and financial statements and confirms that the financial statements for the year 2021 have been prepared in accordance with the applicable International Financial Reporting Standards, as verified by the company's statutory auditors.
- The Board of Directors, through the Audit and Risk Committee, has reviewed the Company's system of internal controls and assures efficiency and adequacy of the internal control systems including financial management and its related operations, contractual obligations, and risk management.
- The Company has robust business model and contractual framework as explained in detail in the financial statements and, as such, the Board of Directors confirms that they believe there are no material matters which may affect the continuation of the Company and its ability to continue its operations during the next financial year.

Chairman

Director

BRIEF PROFILES OF DIRECTORS

Name	:	**Mr. Mohammed Al Ruwaidhi, Chairperson**
Year of Joining	:	2021
Education	:	Master of Business Administration MBA and Honor Degree B.Sc. in Process Operation.
Experience	:	Over the past 14 years, Mohammed has worked in OQ SAOC (ORPIC) in various departments, and currently, he is holding the position of Utilities Vice President, In-charge of production, stabilization, and optimization of operations including process operations management, cost management, quality control, and human resource management. Leading a department consist of 124 employees with different job profiles.

Name	:	**Mr. Jun H. Kim, Deputy Chairperson**
Year of Joining	:	2019
Education	:	Mr. Jun H. Kim holds a Bachelor's Degree from Chung-Ang University
Experience	:	Mr. Kim is deputy chairperson of Musandam Power Company and a Vice President of LG International Corp. ("LGI"). He, for more than 20 years, served in various sectors, including petrochemical and infrastructure businesses, and led the business expansions of LGI in the MENA region as a representative manager in Oman, UAE, Jordan, and Turkmenistan for the past 10 years. His broad experiences in corporate strategy and project development, and achievements have brought many Korean companies to pay attention to business activities in the Middle East. From 2003, he has taken an active role in developing projects such as Aromatics Oman, and Oman Polypropylene Plant – the first petrochemical plant in Oman - and many others. Mr. Kim is now the head of Project Development Division in LGI Headquarters located in Seoul, and is responsible for strategic development of infrastructure business around the globe. He has successfully led a hydropower plant in Indonesia to a commercial operation as of January 2020. His contribution, experience, and ability to develop and manage projects in the infrastructure domain are an invaluable asset to LGI and Musandam Power. In addition to Musandam Power, Mr. Kim is also a director of PT. Binsar Natorang Energi, a company operating a 41 MW Hydropower Plant located in Indonesia, and GEPIC Wuwei Co-generation, a company operating a 700 MW Cogeneration Plant located in China.

Name	:	**Mr. Maqbool Al-Lawati, Director**
Year of Joining	:	2019
Education	:	Mr. Maqbool Al-Lawati (BSc, FCCA), is Fellow member of The Chartered Association of Certified Accountants (ACCA), UK; an Alumni of IMD, Lausanne, Switzerland and graduate of Southeastern Oklahoma State University, USA.
Experience	:	Mr. Maqbool Al-Lawati, citizen of the Sultanate of Oman, has been associated with Oil and Gas industry in Oman and Brunei Darussalam since 1979 and held various senior positions in Petroleum Development Oman LLC (PDO), Brunei Shell Petroleum (BSP) and Oman Liquefied Natural Gas LLC (Oman LNG) companies. He is Proprietor of MHMY Auditors, a member firm of IAPA, established since 1990 in Muscat, Sultanate of Oman, serving over 250 clients in the fields of Statutory and Internal Audits, Tax Advisory, Out-Sourcing, Feasibility Studies, Strategic Management Consultancy, Project Financing and related activities. Mr. Al-Lawati is also Partner and Chairman of the Lighthouse LLC, a consulting firm engaged in Business Strategy and Process consultancy, Human Capital Optimisation including Online Assessment Tools, Human Resource Management Systems (HRMS) and related activities. Until August 2019, Mr. Al-Lawati served on the Board of Al-Hassan Engineering Company SAOG, as Chairman of the Board, Chairman of the Executive Committee as well as Member of Audit & Risk and Remuneration & Nominations Committees. Mr. Al-Lawati was Chief Financial Officer at Oman LNG until his retirement in March 2013, responsible for the company's financial activities as well as Supply Chain Management. He was also Chairman of the ERP Committee and Deputy Chairman of Oman LNG Tender Board. Earlier at PDO, as Finance Controller, he participated in all aspects of Finance, including Pension Investment Portfolio, Secretary to Board Finance Committee, Internal Audit Manager and Secretary to Integrated Audit Committee as well as member of the PDO Tender Board. He was also Skill-pool Manager for the Finance Function, responsible for the Career Development of over 150 Finance Professional Staff (many of whom are presently holding Senior Executive positions in various companies). Mr. Al-Lawati was actively engaged in the Local Business Development within Oman, where PDO had the privilege of being the key provider of Private Business Activity within Oman, second only to the Government of Sultanate of Oman. Mr. Al-Lawati is presently serving on the Members Advisory Committee for the ACCA (Association of Chartered Certified Accountants) Oman Chapter. He is an ardent cricket enthusiast and has been active member of Oman Cricket Academy (OCA) since the 1980s.

Name	:	**Mr. Hamid A. Hamirani, Director**
Year of Joining	:	2019
Education	:	Mr. Hamirani is a Fellow of the Chartered Association of Certified Accountants (FCCA), United Kingdom. He is holding a degree in Bachelor of Commerce.
Experience	:	Hamid Is a former advisor to the Minister of Finance and former Independent member of Oman Investment Fund which is now part of the Oman Investment Authority. Hamid represented Ministry of Finance on the Petroleum Development Oman Board Finance Committee and Ras Al Hammrah Real Estate Development Committee. Hamid experience included advising the Minister of Finance on Oman Investment Authority, Oman Air, OQ, IMF Article IV consultation, Medium Term Fiscal Plan, Sovereign Ratings, Public Finance Management, Duqm Development etc. Hamid is currently advisor to Food Systems for Future, A US based NGO with an objective to make nutritional food affordable to all and make malnutrition free world. Hamid was also Financial Controller of Dhofar Cattle Feed Company SOAG, Chief Financial Officer for the Airport Services, Oman Aviation Company SAOC and Internal Audit Manager of Associated British `Ports Plc UK. In addition to the Board of Musandam Power, Mr. Hamirani is also currently the Chairman of Baraka Sharewater Company.

Name	:	**Ms. Najla Al Jamali**
Year of Joining	:	2020
Education	:	Ms. Najla holds a Bachelor of Science degree with honours in Mathematics with Applied Mathematics/Mathematical Physics from Imperial College, London. She also attained a Master of Science degree in Financial Management from the University of London and participated in Schlumberger's leadership program at INSEAD, in France.
Experience	:	Over the past 22 years, Najla has worked in various onshore and offshore upstream Oil and Gas operational roles as well as managerial and consultancy positions in Africa, Europe and the Middle East at reputable companies including Vale, Schlumberger Business Consulting, IHS Energy, Shell and Petroleum Development Oman (PDO). She possesses strong analytical and leadership skills with track record in deriving and implementing strategies as well as business turnaround solutions. Najla joined Oman Oil Company in 2013 and contributed her extensive experience in helping shape the company's strategic direction to fulfill the company's objectives of maximizing value for Oman from its resources. In 2016, Najla was appointed as Acting Executive Managing Director (EMD) of Takamul Investment Company, a wholly owned subsidiary of Oman Oil Company, which manages a number Oman Oil Company's Oman based investments. In 2020, Najla temporarily headed OQ's Alternative Energy before it transitioned to a business line. She continues to be part of Alternative Energy Business Line.

BRIEF PROFILES OF KEY EXECUTIVE OFFICERS

The senior management team has been empowered by the Board of Directors for the day-to-day operations of the Company.

Name	:	**Mr. Murshid Al Yarubi**
Position	:	Chief Executive Officer
Year of Joining	:	2020
Education	:	Mr. Murshid is holding MSc-Eng Masters in Process safety and loss prevention from University of Sheffield UK , MSc Masters of technology (Mtech) Petroleum Engineering Technology at Curtin University of Technology, BEng (Hons.) from University of Sheffield in Systems and control engineering ,HNC (Higher national certificate in Electrical/ Electronic Engineering) Wigan and Leigh College of engineering (UK).
Experience	:	Mr. Murshid Joined PDO 1995 and assigned for production analysis and optimization of well production and re-commissioning of old and new facilities for other production plants e.g. GCU gas conditioning unit for (NGL) natural gas liquid. In 2000-2002 Murshid worked as lead commissioning engineer for Mukheizinah project; joined the team at the constructions stage till commissioning stage of all the new facilities in Mukheizinah Field. He was involved in commissioning of the production facilities e.g. oil furnace, booster pumps, air compressor facilities, PCP's progressive cavity pumps , ESP's electrical submersible pumps and as well as running production tests for new production wells and analyse their performance. 2006 to 2009 working for PDO (Up stream of Oman LNG facilities) as Process control and Automation engineer and was involved in numbers of projects i.e. Barik depletion compressor project design review in process control and instrumentation, Saih Rawal Depletion compressor (SRDC) project design review and HAZOP study. In 2010 to 2014 joined as Operation Readiness & Assurance Engineer (ORA) and executed number of projects, participated in project concept selections, design reviews, Hazardous and Operability study (HAZOP), HAZID, ALARP workshop and instrumented protected function (IPF) challenges and conducted IOA initial operation assessment, review contract strategy and set the key deliverables for the project In 2014 to 2016 he was appointed as Oil and Gas Production Coordinator -Field Operation Manager managing the biggest field in Sultanate of Oman which produce almost 3rd of PDO production; he ensured delivery of integrated Production Plan (IPP) for oil, Gas and water facilities; enforcing and ensuring the compliance to national and company HSE is adhered to staff by conducting several staff engagements. Dec 2016 – 2019 OGC south Asset Manager Asset custodian for all company assets/facilities within the jurisdiction of Nimr, Salalah, Sur and Duqm operation regions / offices. Managing all asset performance including integrity and Process safety management.

BRIEF PROFILES OF KEY EXECUTIVE OFFICERS

Name	:	**Mr. Abdulhameed Al Jabri**
Position	:	Finance Manager
Year of Joining	:	2017
Education	:	Mr. Al Jabri is a Fellow of the Chartered Association of Certified Accountants (FCCA), United Kingdom. He is holding a degree in Bachelor of Commerce.
Experience	:	Mr. Al Jabri has over 17 years of experience working in the audit and consultancy profession, mainly in the power and water sector, with Deloitte Oman. Throughout his tenure with Deloitte Mr. Al Jabri has held different positions including auditor, chief accountant and finally achieving the position of finance manager. Mr. Al Jabri's experience has provided him with the opportunity to develop a comprehensive knowledge of the complete business cycle related to the management of power and water generation businesses. Mr. Al Jabri joined Musandam Power as Finance Manager in January 2017. During his time with the Company Mr. Al Jabri has participated in the development of internal company procedures as well as supporting the successful financial transition from the construction of the Plant to its operation stage.

Name	:	**Mr. Sivaprasad Nandikolla**
Position	:	Technical Manager
Year of Joining	:	2020
Education	:	Diploma in Mechanical Engineering
Experience	:	Mr. Siva Prasad Nandikolla has over 26 years of experience as Technical Manager/Plant Manager/Contract Manager in Mobilization, Operations, Maintenance and Contract Management of HFO/crude oi/Gas/Duel Fuel based reciprocating engine Power plants (Wartsila) up to 175 MW capacity. He worked in Sudan (Africa), South Africa, Mozambique (Africa) and Oman (Gulf) in addition to his native country India in managerial position. He is proficient in preforming power plant Operations and Technical/Contract Management with expertise in building/optimizing organization processes and systems to maximize business results. His overall experience including multinational exposure is an added advantage for life cycle operations of power plant and performance achievements. Mr. Siva joined Musandam Power as Technical Manager in January 2020. Before joining Musandam Power, Mr. Siva was the operation manager for the MIPP working with Wartsila.

Name	:	**Mrs. Nusaiba Al Maskari**
Position	:	Head of Internal Audit
Year of Joining	:	2020
Education	:	Mrs. Nusaiba holds a Bachelor's Degree in BBA business administration major in finance and she is progressing to complete the CIA.
Experience	:	Mrs. Nusaiba has over 15 years of experience working in the audit sector with PricewaterhouseCoopers Oman and mainly in the power and water sectors, with United power, Sohar power, Rusail Power, and SMN power company. In Addition, she was part of the Internal Audit team in "ENGIE," a French multinational utility company. The ENGIE Group ranks among the world's leading energy companies that operate in energy transition, electricity generation and distribution, natural gas, nuclear, renewable energy, and petroleum. ENGIE supplies electricity in 27 countries in Europe and 48 countries worldwide. In Oman, ENGIE has a direct and indirect ownership interest in 6 of the 11 contracted projects by the Oman Power & Water Procurement Co. in the Main Interconnected System. Throughout her time working with PWC, Mrs. Al Maskari has held different positions as an external auditor, financial advisor, and tax consultant. She finally achieved the Head of Internal Audit position after having many years of experience in the power and water sector. Mrs. Al Maskari's experience has provided her with the opportunity to develop a comprehensive knowledge of the complete business cycle related to the management of power and water generation businesses.


MUSANDAM POWER COMPANY SAOG
TEAM BUILDING
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MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The management of Musandam Power Company SAOG (the "Company") is pleased to present its report on the Company's business structure, opportunities and challenges, operational and financial performance, risks and concerns, outlook, and other matters of importance to the shareholders.

Overview

The Company is the first independent power plant in the Musandam Governorate and its core business activity is to develop, own and operate the Musandam Independent Power Plant (the "Plant"). The Plant comprises of 15 Wärtsilä 34DF dual fuel reciprocating engines, running primarily on natural gas but capable of switching to Fuel Oil if necessary, with a contracted power capacity of 120.7 MW and is located on a coastal site within Musandam Governorate, approximately 500km from Muscat in Oman. It has been in full commercial operation since 17th June 2017.

The Company currently generates its revenues pursuant to a 15-year term PPA with OPWP, which is indirectly wholly owned by the Government. The power produced from the Plant is fully contracted to OPWP and used to meet the growing power demand of the Musandam Governorate during the term of the PPA and beyond. The Plant has the capability to supply majority of the peak demand of 132 MW (Under OPWP High Case) estimated by 2025 as per OPWP's 7-year statement (2019-2025). Natural gas is the primary fuel with Fuel Oil as back-up fuel. The Company has signed a long-term NGSA with the MEM to secure supply of the natural gas being the primary fuel over the contracted PPA period. Additionally, the company has signed a call of contract with Al Maha Petroleum Products Marketing Company SAOG and Oman Oil Marketing Company SAOG for the supply of Diesel as a contingency measure in the event of gas shortages or unavailability. The Plant's output is connected to RAECO grid through 132 kV line built by RAECO and serves the Musandam Power System. Wärtsilä Muscat SPC, a 100% subsidiary of Wärtsilä Corporation ("WMU'), a leading global corporation which manufactures and services power sources and other equipment in the energy and marine markets is the EPC Contractor and O&M contractor (pursuant to a 5-year O&M Agreement, which is under negotiation for further renewal since the expiry date is 16th June). Further, the Company has also signed a 15-year LTSA with WMU to ensure successful long term operating performance of the Plant.

The Company has successfully implemented the Value Added Tax ("VAT") as per the Oman VAT Law which was published in the Official Gazette on 18th October 2020 and came into action from 16th April 2021. The Company has been registered with tax authority for Value Added Tax (VAT) from the effective date of 16 April 2021 and since then no non-compliance were recorded against the company.

The Company has implemented ISO 22301 - Business Continuity Management System from Q3 2021.

Industry structure and development

In 2004, the 'Sector Law' came into force which provides the framework for the industry structure of electricity and related water in Oman. It led to the setting up of an independent regulatory agency, the Authority for Public Services Regulation (APSR), a single procurement company, Oman Power and Water Procurement Company SAOC (OPWP) and a holding company, Electricity Holding Company SAOC (EHC).

OPWP is responsible for ensuring that there is sufficient electricity and water production capacity available at the lowest cost to meet growing demands in Oman. OPWP undertakes long-term generation planning and identifies new projects to be developed by private sector entities, to meet the future power generation and water desalination requirements of Oman.

Industry structure and development (continued)

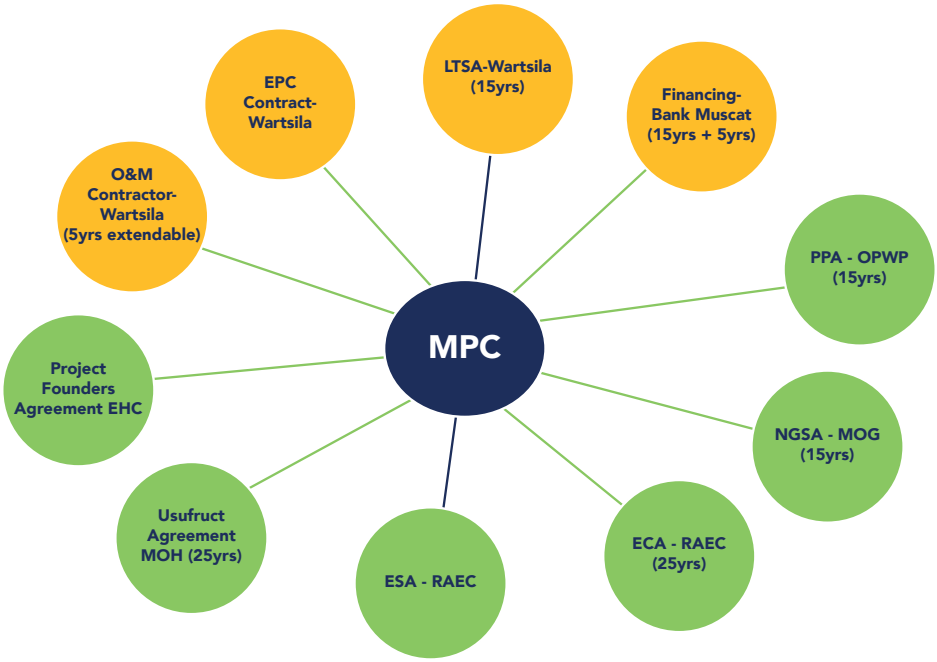
The Oman's electricity and water sector are partly government-owned and partly privatized. OPWP's portfolio of contracted power capacity comprises of long-term contracts with sixteen power plants out of which fourteen are in operation.

The Company is closely following OPWP's "spot market" arrangements for the future procurement of power from independent power producers. APSR has commenced the process of generation license modification relating to the introduction of the spot market. These modifications include new license conditions concerning preparation for spot market implementation by the virtue of any Spot Market Implementation Plan that may be issued by APSR from time to time.

Opportunities and Challenges

The Company has a well-established contractual framework ensuring stable and predictable cash flows like other IPP's in Oman with long term power purchase agreement, ensuring cash flow protection against adverse events.

Contractual Framework



- **Power Purchase Agreement (PPA)**

The PPA was executed between the Company and Oman Power and Water Procurement Company SAOC ("OPWP") on 13th April 2015. The PPA details the terms agreed between the Company and OPWP pursuant to which Musandam Power Company shall undertake the Project.

Under the PPA, the Company is obliged to exclusively sell electrical energy output to OPWP and in return, receive from OPWP capacity charges, electrical energy charges and fuel charges. Capacity charges are designed to cover fixed costs (including debt service and return on capital); electrical energy charges are designed to cover variable operating costs of generation (excluding fuel costs). The fuel charge is amount payable to compensate the Company for the total fuel demand required to produce electrical energy to be delivered in accordance with the terms of the PPA.

Subject to certain adverse events, OPWP risk events and termination provisions contained therein, the term of the PPA commenced on 26th July 2015 and original expiry date as per the PPA was 17th December 2031, (the date which falls 15 years after the SCOD). Due to delay in testing by RAECO, the PPA expiry has been extended to 23rd January 2032.

- **Natural Gas Sales Agreement (NGSA)**

The NGSA was entered into between the Ministry of Energy and Minerals ("MEM") and the Company on 12th July 2015. It establishes the terms upon which the Company purchases natural gas as feedstock for the Plant from the MEM. The NGSA term is linked to the PPA term and therefore expires on 23rd January 2032 (Same date as PPA termination date). In certain circumstances the NGSA term will automatically be extended to reflect any extensions to the term of the PPA.

According to the NGSA, the price payable by the Company for natural gas delivered to and accepted by the Company shall be equal to the OMR equivalent of USD 3.00 per MMBTU, inclusive of all transportation costs of natural gas to the gas delivery point, and all taxes, duties and other imports applicable to the sale of natural gas to or the purchase of natural gas by the Company. The natural gas price shall be escalated on each anniversary from the day of 1st January 2016, on a compounded basis, using (i) a three percent (3%) annual rate, or (ii) the per cent change in the average US Consumer Price Index for the prior calendar year, whichever is higher.

- **Electrical Connection Agreement (ECA)**

The ECA was entered into between Rural Areas Electricity Company SAOC ("RAECO" and currently known as "TANWEER"), a wholly owned Government company which commenced operations on 1st of May 2005, and the Company on 14 May 2015. The ECA sets out the terms and conditions upon and subject to which RAECO and Musandam Power have agreed that Musandam Power shall connect to the Transmission System.

The ECA became effective from the date of its execution and shall remain in force for an initial period of 25 years (the "Initial Term") and will continue in force beyond the expiry of the Initial Term unless and until either party terminates the ECA on twelve months prior written notice to the other, provided that no such notice shall take effect before the expiry of the Initial Term.

- **Usufruct Agreement**

The UAS was executed between the Ministry of Housing & Urban Planning ("MoH") and the Company on 9th February 2015. The UAS constitute the usufruct agreement in relation to the Site. The UAS has a term of 25 years from the date of ratification of the UAS by the Government, subject to a further extension of 25 years at the option of the Company. The Company is under an obligation to only use the Site for the stated purpose as described in the UAS.

- **Operation and Maintenance Agreement (O&M Agreement)**

The O&M Agreement was entered into between WMU and Musandam Power Company on 16th June 2015. It sets out the provision of O&M services by WMU in relation to the Plant. The O&M Agreement requires WMU to operate and maintain the Plant until 16 June 2022 (5 years after the COD), provided that the term of the O&M Agreement may be extended by agreement. MPC analysed future O&M options and initiated agreement extension process with WMU. Currently, MPC negotiating 3 years contract extension to WMU (extendable annually for 2 more years) with possible discounted monthly fee.

- **Long Term services Agreement ("LTSA")**

The LTSA was entered into by the Company and Wartsilla Muscat LLC ("WMU") on the 25th November 2014 and was amended on 24th June 2015. It provides that the Company shall purchase parts, including strategic spares and maintenance parts, from WMU and WMU will perform certain services and 'variation work' such as upgrades and scheduled maintenance to the Plant.

The LTSA will terminate upon the earlier of the 15th anniversary of the COD or upon the reaching of 70,000 ERH (Engine Running Hours) on the applicable 'power unit' (each reciprocating engine unit and all ancillary components and generator equipment).

- **ESA (Electricity Supply Agreement)**

The Electrical supply Agreement was entered into between TANWEER and the Company on 6th April 2015.

This agreement sets out the terms upon which TANWEER undertakes to supply electricity to the site for use by the Company. Under the terms of the ESA, the Company is required to pay for and install suitable metering equipment and pay the "Permitted Tariffs" for the electricity used as defined therein. The ESA also provides that TANWEER may disconnect the supply where, among other things, the Company fails to pay sums due, the installation or use of the electricity interferes with TANWEER's system or the Company fails to comply with any condition of the ECA. Either party may terminate the agreement upon the provision of 30 days prior written notice. However, this agreement is only intended to act as a back up to compliment the other power generation and emergency power generation facilities located on the Site.

- **Facilities Agreement**

The Company has entered into financing agreements with Bank Muscat SAOG, for an aggregate amount of approximately OMR 84.25 million (US$ 219.04 million) subject to the terms of the Facilities Agreement, dated 1st July 2015. The Term Facility has a tenor of 15 years which is extendable by a period of up to 5 years with a fixed coupon of 4.6% for first 7 years from effective date and thereafter higher of bank muscat 5 years deposit rate +margin of 2% or 6% with a maximum cap of 6%.

The Facilities Agreement does not impose any mandatory cash sweep mechanism in respect of the repayment of the Facilities.

Finally, the Company continues to benefit from the extensive experience of its main shareholders in ownership and operation of power projects in the country and worldwide.

Discussion on operational performance

Health and Safety

Health and safety performance given utmost importance within the Company and encompasses Wartsila, various contractors and sub-contractors, in order to achieve the goals set by the top management.

The overall HSE performance in 2021 was good, one lost time accident (LTA) reported.

The plant operation and maintenance are managed by Wartsila. The Plant Operator holds major certifications like ISO 9001, 14001 and OHSAS 18001 as a testimony for safe and high-quality Plant operations. As part of HSE improvements, internal and external audits were successfully conducted with no major finding identified by the auditors.

Business continuity action plan for Covid19 implemented during the year. Significant team contribution by managing well the situation resulted in overcoming all hurdles to ensure the site's continuous operations without interruption to business.

Many other proactive actions, as detailed below, undertaken by the Company and Wartsila have led to such excellent accomplishment of HSE performance.

- Frequent management reviews and monthly safety walks
- HSE Activities plan with performance indicators
- Continuous employee motivation to identify hazards and record near misses, unsafe conditions & unsafe acts. Highest near misses/unsafe conditions/unsafe act cases recorded employee recognized & rewarded quarterly and annually.

Every small incident or a near miss is taken very seriously, analyzed and actions are proactively implemented and shared to all team members.

Human Resources – training and career development

Training program at the plant are established by Wartsila. These are primarily aimed to ensure that all site employees perform their tasks in the most efficient and safe manner. The Company and Wartsila are committed to empower qualified Omani Nationals to acquire better-quality engineering and related skills and take up higher responsibilities in operating and maintaining the Plant. To this end, since inception, the strategy of the Company and Wartsila has been to train and develop qualified Omani staff to take up additional responsibilities in the due course. Annual performance review of each employee includes assessment of their career growth carried out. Wartsila has been successful in identifying candidates, especially young Omani graduates, with high potentials to take them through a higher level of specialized training and peer guidance to develop the skills & competency to higher levels. The Overall Omanisation for the company and at site is 80%.

At the HQ level, the company sets Individual Development Plan for every employee to empower qualified Omani Nationals to acquire better-quality related skills and take up higher responsibilities, helping them to fulfill their assigned tasks. Annual performance review of each employee includes assessment of their career growth is carried out. The Overall Omanisation for the company only is 92%.

Net energy export and load factor

The net energy export and load factor have witnessed an increasing trend since commissioning of Plant in 2017, with maximum of 75.98 MW plant load (the average load factor of 56%) and 395 GW power export during the year. Plant consistently fulfilling load demand from Musandam power grid throughout the year. The efficiency of the power plant is measured in terms of the amount of heat required to produce one unit of power. The plant heat rate is well within operational guaranteed limits since commercial operation.

Capacity

The capacity of a plant is defined as the total electrical power (MW), which can be delivered by the plant at reference site conditions. The tariff structure agreed within the PPA and the Operation and Maintenance Agreement with Wartsila focuses on a fundamental feature that the profitability of the Company is mainly derived from Plant's reliability. The reliability of the plant is its ability to deliver the declared capacity, as per the PPA.

The Capacity revenue is closely associated with Plant reliability, among other parameters like contracted capacity and indexation mechanism provided within the PPA.

The plant reliability consistently maintained well since beginning of plant operations, achieved 99.9% reliability during the year 2021. This continuous achievement deserves kudos to the Plant operating staff.

Maintenance

Maintenance of the Plant was undertaken in accordance with the standard operations and maintenance processes recommended by the Original Equipment Manufacturers (OEM). All scheduled maintenance activities are up to date completed on time.

Others

To improve redundancy of critical equipment, planned to install additional Fuel Oil filter unit during the year. Considering criticality, the project was awarded to OEM Wartsila and installation completed successfully in Feb'21.

Discussion on financial performance

Financial Highlights

Figures in RO millions		2021	2020	% change
Revenues	1	**18.178**	17.658	2.94%
Gross Profit		**7.327**	6.556	11.76%
Finance Costs (net)		**(3.026)**	(3.136)	-3.51%
Net Profit	2	**3.095**	2.335	32.55%
Net Profit before Finance costs and Tax	3	**6.667**	5.931	12.41%
Total Assets	4	**94.174**	87.883	7.16%
Capital (Paid-up)	5	**7.039**	7.039	-
Shareholders' Fund (Net Assets)	6	**11.137**	9.985	11.53%
Term Loan and WCF	7	**61.893**	63.060	-1.85%
Weighted average number of shares*	8	**70.390**	70.390	-
Ordinary Dividends	9	**1.943**	1.943	-
Key Financial Indicators:				
Net Profit Margin	2/1	**17.03%**	13.22%	-
Return on Capital (Paid-up)	2/5	**43.97%**	33.17%	-
Return on Capital Employed	3/(6+7)	**9.13%**	8.12%	-
Debt Equity ratio	7/6	**5.558**	6.315	-
Net assets per share (Baizas)	6/8	**0.158**	0.142	4.41%
Basic earnings per share (Baizas)	2/8	**0.044**	0.033	-10.81%
Dividends per share (Baizas)		**27.6**	27.6	-

Analysis of Profit & Loss

The Company's revenues slightly increased in 2021 by 3% in comparison with 2020 mainly due to Higher Engines Running Hours (ERH) in 2021 and increase in tariff which is revised annually based on local and US indices impacted the revenue positively. In addition to that, the company realized a material thermal efficiency gain in fuel resulted in the gross profit increased by 11.76% in comparison with 2020.

Finance costs is lower in the current year due to the fact that the total amount of the outstanding loan has reduced due to the repayment of the principal's installments during 2021. Also, the cost control measures adopted by the management have delivered better results by having an increase in the net profit by 33% as compared to 2020. As a result, the return on capital employed and basic earnings per share have seen a increase as compared to last year.

The share price stood at 300 Baiza per share as at 31st December 2021.

Analysis of Balance Sheet

Total non-current assets of the Company stood at RO 70.035 million as at 31st December 2021 as compared to RO 71.924 million last year mainly due to depreciation charged during the year. Trade receivables includes OPWP's & MEM invoices. In the financial year 2021, the Company has received partial funds from Ministry of Finance of RO 1.4 million out of the net balance of RO 2.1 million due as of 31 December 2020 from MEM. The Company understands that the payment has been received for the net receivables up to the year 2020. Based on the correspondence with MEM, the Company understand that MEM has already approved to release the payment from their side upto September 2021. The Company believes that the net balance amount of receivable as at year ending would be settled in the financial year 2022. Cash and cash equivalents stood at RO 1.707 million as at 31st December 2021, as compared to RO 0.05 million last year, mainly due OPWP proceeds received by end of December 2021.

The Shareholders Funds (Net Assets) stood at RO 11.137 million as at 31st December 2021 as compared to RO 9.985 million as at 31st December 2020 due to the accumulation of the current year profit. Term Loan (including non-current and current balances) have reduced to RO 59.393 million as a result of scheduled loan repayments in accordance with the terms agreed within the Facilities Agreement. The Company maintains adequate provision for asset retirement obligation to enable it to fulfill its associated contractual obligation at the end of Plant's useful life.

Dividend Distribution

The Company's dividend policy of distributing available cash is conditional upon fulfillment of covenants agreed within the Facilities agreement, which include making adequate provisions for forecasted loan repayments and operating expenses. Consistent with the Company's policy and in accordance with Capital Market Authority regulations, the Company declared and distributed dividend of RO 0.972 million (translating to 13.8 Baizas per share where par value of share is 100 baiza) and dividend of RO 0.972 million (translating to 13.8 Baizas per share where per par value of share is 100 baiza) were declared and distributed in March 2021 and September 2021 respectively.

Others

In comparison with the financial performance disclosed in the IPO Prospectus, the Net Result of the year 2021 was higher by OMR 0.412 million. This is mainly due to the thermal efficiency gain realized by the company in fuel and savings in OPEX and G&A costs although the actual inflation rate applied to the capacity charges compared to assumptions made in the IPO projections was lower. There is no plan to change the dividend policy and plan and the dividends per share will remain as projected 27.6 Bzs/Share.

Risks and Concerns

Loss of Availability due to Machinery Breakdown

The principal risk to the Company is the plant being unavailable due to mechanical breakdown. In order to mitigate this risk, the Company ensures and monitors that Wartsila operates and maintains the Plant in line with the Company's policies, principles, directives and best practices in the industry and as per maintenance schedule prescribed by the OEMs.

Loss of Availability due to Accidental Damage

In accordance with industry best practices, the Company ensures that adequate insurance policies are in place to protect the business against any property damage and loss of income arising from accidental damage.

OPWP Payments

During the year, OPWP has settled in full all invoices within the agreed credit period.

Availability of Gas

Gas availability from Musandam Gas Plant ("MGP") is declining due to lower gas reservoirs in Musandam as a result, the dependency on diesel fuel is likely to be higher resulting in more expensive operation cost. The Company is protected under the NGSA to get reimbursed for any incremental fuel costs due to diesel consumption in the event of shortage or unavailability of gas.

To reduce diesel consumption, OQ is working to receive Dolphin/RAK gas by Q2-2022. In coordination with MEM, the Company also exploring LNG option as an alternative to diesel use.

Outlook

All reasonable and prudent measures will be taken by the management of the Company to ensure high standards of health, safety, environmental compliance reliability and availability are maintained over 2022.

The Company conducts no other business in the Sultanate of Oman or outside and has no subsidiaries.

Internal control

The management is fully aware of the importance of a strong internal control system. The internal auditor scope of work includes analysis of the business risks and review of the internal controls under the supervision of the Audit and Risk Committee of the Board. The management continues to evaluate all business processes along with related policies and procedures and also implements the recommendations of the internal auditor to further augment the overall internal controls environment of the Company.

The internal auditor executes all the functions as prescribed under the Code of Corporate Governance in a professional manner and submits regular reports to the Audit and Risk Committee as per the approved annual internal audit plan.

Conclusion

The management acknowledges and appreciates the commitment and diligence of all the employees of the Company while assuring them of their career advancement and continued welfare.

MUSANDAM POWER COMPANY SAOG
Report and financial statements for the year ended 31 December 2021

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Independent auditor's report to the Shareholders of Musandam Power Company SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Musandam Power Company SAOG** (the "Company") which comprise the statement of financial position as at 31 December 2021, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of financial statements in Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter

Useful life of the generation plant
 	
The Company operates its generation plant (the "plant") under a Power Purchase Agreement ("PPA") entered into with Oman Power and Water Company ("OPWP"), which is the single buyer of power for all projects within the Sultanate of Oman. The PPA, which is for 15 years, expires in June 2032 and has no renewal option and has been determined to be an operating lease. The total cost of the plant and other associated assets was initially recognised during 2017 as plant and machinery in the financial statements of the Company with an estimated useful life of 40 years. The carrying amount of the plant and machinery and building and civil works as at 31 December 2021 was RO 69.920 million (2020: RO 71.813 million).
 	
The useful life of the plant is based on management's technical assessment of factors which are subject to judgement and accordingly contains significant estimation uncertainty. In addition, the estimated useful life that has been assumed by management is more than the term of the PPA as the plant will have an economic viability beyond the initial term of 15 years covered by the current PPA.
 	
In making its assessment of the plant's useful life, management appointed an independent expert in 2018 to prepare a cash flow model for the plant's entire expected operating life-cycle and the cash flow implications of the various options that may apply after the initial 15 year PPA expires. This includes consideration of a potential contract extension or the implementation of a merchant market arrangement. The valuation expert has assessed the useful life of the plant considering various factors such as the plant's operating cycles, maintenance programs, normal wear and tear and future cash flow forecasts. Management are of the view that the plant will be economically viable and will continue to operate after the PPA has expired.
 	
We focused on this area as a key audit matter because the estimation of the useful life of the plant impacts the measurement of accumulated depreciation. This involves application of judgments as to how the plant will be utilised in the post-PPA period and is a matter that is reconsidered annually by management for any changes that may affect the original assessment.
 	
Refer to note 3 (Summary of significant accounting policies) and note 5 (Property, plant and equipment) to the financial statements for further details.
	In relation to the key audit matter, our procedures included the following:
	
	• Evaluating the design and implementation of controls around the estimation of useful life of the plant;
	
	• At the time the initial evaluation was performed, we evaluated the appropriateness and reasonableness of the assumptions (including checking inputs relevant to our audit used in the model and reperforming the arithmetical accuracy of the sections in the model which were relevant for audit purposes) considered by the independent valuation expert for the cash-flow forecasts pertaining to the post-PPA period;
	
	• We re-assessed the relevance and appropriateness of the assumptions detailed above by making enquiries of management as to:
	
	  o the current status of operations of the plant, including the future plans and utilisation of the plant after the end of the PPA; and
	  o the Company's right to extend the land lease under a Usufruct Agreement for an additional term;
	
	• Obtained OPWP's latest seven year statement (2019-2025) published for the power sector in the Oman and Musandam region where the Company operates, which substantiates the Company's strategic position in the region;
	
	• Obtained OPWP's plans for implementation of a merchant market arrangement;
	
	• Reassessing the reasonableness of the useful life of the plant and the depreciation method used by comparing it with other companies in the country which have operating plants with similar technology; and
	
	• Reassessing the continuing adequacy of the disclosures in these financial statements relating to asset lives and the judgments surrounding them to determine if they are in accordance with IFRSs.

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Other information

The Board of Directors (the "Board") is responsible for the other information. The other information comprises annual report of the Company for the year ended 31 December 2021. We obtained the Board of Directors' report, the Corporate Governance Report and Management's Discussion and Analysis prior to the date of this auditor's report and the remaining annual report, which is expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The Board of Directors (the Board) is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority ("the CMA") of the Sultanate of Oman, the Commercial Companies Law of the Sultanate of Oman, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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Auditor's responsibilities for the audit of the financial statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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Independent auditor's report to the Shareholders of Musandam Power Company SAOG (continued)

Report on other legal and regulatory requirements

In our opinion, the financial statements comply in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of the Sultanate of Oman, and the disclosure requirement issued by the Capital Market Authority.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
8 February 2022

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Deloitte & Touche (M.E.)& Co. LLC.

Sachin Singhal
Partner
CA (ICAI) Membership No 502140

Statement of financial position

as at 31 December 2021

	Notes	2021 RO '000	2020 RO '000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**70,035**	71,924
Current assets			
Inventories	6	**3,381**	3,165
Trade and other receivables	7	**19,051**	12,741
Cash and bank balances	8	**1,707**	53
Total current assets		**24,139**	15,959
Total assets		**94,174**	87,883
EQUITY AND LIABILITIES			
Equity			
Share capital	9	**7,039**	7,039
Legal reserve	10	**1,250**	940
Retained earnings		**2,848**	2,006
Total equity		**11,137**	9,985
Non-current liabilities			
Senior facility loan	11(a)	**55,773**	59,327
Provision for asset retirement obligation	13	**174**	168
Lease liability	14	**103**	106
Deferred tax liability	20	**3,199**	2,653
Provision for end of service benefits		**2**	-
Total non-current liabilities		**59,251**	62,254
Current liabilities			
Senior facility loan	11(a)	**3,620**	3,733
Lease liability	14	**3**	3
Trade and other payables	12	**17,663**	11,908
Short term loan facility	11(b)	**2,500**	-
Total current liabilities		**23,786**	15,644
Total liabilities		**83,037**	77,898
Total equity and liabilities		**94,174**	87,883
Net assets per share	24	**0.158**	0.142

Chairman

Director

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

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2021

مسندم للطاقة
MUSANDAM POWER

	Notes	2021	2020
		RO '000	RO '000
Revenue	15	18,178	17,658
Operating costs	16	(10,851)	(11,102)
Gross profit		7,327	6,556
General and administrative expenses	17	(660)	(646)
Finance costs – net	18	(3,026)	(3,136)
Other income		-	21
Profit before tax		3,641	2,795
Tax expense	20	(546)	(460)
Profit and total comprehensive income for the year		3,095	2,335
Basic and diluted profit per share for the year	23	0.044	0.033

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

Statement of changes in equity

for the year ended 31 December 2021

	Share capital	Legal reserve	Retained earnings	Total
	RO '000	RO '000	RO '000	RO '000
At 1 January 2020	7,039	706	1,848	9,593
Profit and total comprehensive income for the year	-	-	2,335	2,335
Transfer to legal reserve (note 10)	-	234	(234)	-
Dividends paid (note 28)	-	-	(1,943)	(1,943)
At 31 December 2020	7,039	940	2,006	9,985
At 1 January 2021	**7,039**	**940**	**2,006**	**9,985**
Profit and total comprehensive income for the year	**-**	**-**	**3,095**	**3,095**
Transfer to legal reserve (note 10)	**-**	**310**	**(310)**	**-**
Dividends paid (note 28)	**-**	**-**	**(1,943)**	**(1,943)**
At 31 December 2021	**7,039**	**1,250**	**2,848**	**11,137**

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

Statement of cash flows

for the year ended 31 December 2021

مسندم للطاقة
MUSANDAM POWER

	Notes	2021	2020
		RO '000	RO '000
Cash flows from operating activities			
Profit before tax		**3,641**	2,795
Adjustments for:			
Finance cost	**18**	**3,026**	3,166
Provision of slow-moving inventory		**7**	-
(Reversal)/provision of employee benefits		**2**	(6)
Depreciation	**5**	**1,990**	2,000
Operating cash flows before working capital changes		**8,666**	7,955
Inventories		**(223)**	367
Trade and other receivables		**(6,310)**	(1,420)
Trade and other payables		**5,755**	4,818
Amounts due to related parties		**-**	(8,674)
Net cash generated from operating activities		**7,888**	3,046
Cash flows from investing activities			
Purchase of property, plant and equipment	**5**	**(101)**	(41)
Net cash used in investing activities		**(101)**	(41)
Cash flows from financing activities			
Proceeds from short term loan facility	**11(c)**	**7,500**	-
Repayment of short-term loan facility	**11(c)**	**(5,000)**	(3,000)
Repayment of senior facility loan	**11(c)**	**(3,733)**	(3,571)
Repayment of principal portion of lease liabilities		**(9)**	(10)
Dividends paid	**28**	**(1,943)**	(1,943)
Finance costs paid		**(2,948)**	(3,087)
Net cash used in financing activities		**(6,133)**	(11,611)
Net increase / (decrease in) cash and cash equivalents		**1,654**	(8,606)
Cash and cash equivalents at the beginning of the year		**53**	8,659
Cash and cash equivalents at the end of the year (note 8)		**1,707**	53

The accompanying notes form an integral part of these 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 Company is selling the electrical energy generated to Oman Power and Water Procurement Company SAOC (the "OPWP"). The registered address of the Company is Muscat, P O Box 228, Postal code 134, Sultanate of Oman.

The Company commenced commercial operations on 17 June 2017.

Significant agreements:

The Company has entered into the following significant agreements:

- An Engineering, Procurement and Construction (EPC) contract with Wartsila Muscat LLC ('the EPC 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 Energy and Minerals (MEM) to purchase natural gas for the Plant.
- An operation and maintenance agreement with Wartsila Muscat LLC to operate and maintain the Plant.
- A diesel purchase agreement with Al Maha Petroleum Products Marketing Co. SAOG and Oman Oil Marketing Co. SAOG.
- 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.

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

2.1 New and amended IFRS applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these financial statements.

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments - Amendments regarding replacement issues in the context of the IBOR reform	1 January 2021

The application of above revised standards has not had impact on the amount reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

2.2 New and amended IFRSs in issue but not yet effective and not early adopted

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 16 Leases - Amendment to extend the exemption from assessing whether a COVID-19-related rent concession is a lease modification	1 April 2021
Amendment to IFRS 3 Reference to the Conceptual Framework	1 January 2022
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Amendments regarding the definition of accounting estimates	1 January 2023
Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020 Cycle Amendments to:	
– IFRS 9 Financial Instruments,	1 January 2022
– IAS 41 Agriculture, and	1 January 2022
– IFRS 3 Business combination	1 January 2022
– IFRS 16 Leases	No effective date is stated
IFRS 3 Business Combinations - Amendments updating a reference to the Conceptual Framework	1 January 2022
Amendments to IAS 1 regarding:	
– Classification of Liabilities as Current or Non-current, and	1 January 2023
– Amendments regarding the disclosure of accounting policies	1 January 2023

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

2.2 New and amended IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments regarding deferred tax on leases and decommissioning obligations	1 January 2023
IFRS 17 Insurance Contracts	1 January 2023
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (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 as highlighted in previous paragraphs, 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

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

Going Concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the Company's financial statements.

Basis of preparation

The financial statements are prepared under the historical cost basis unless otherwise stated.

The financial statements have been presented in Rial Omani ("RO") which is also the functional currency of the Company, and all values are rounded to the nearest thousands (RO '000) except where otherwise stated.

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.

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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 profit or loss as the expense is incurred.

When each major inspection is performed, its cost is recognised in the carrying amount of the property, 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.

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.

3. Summary of significant accounting policies (continued)

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

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.

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

3. Summary of significant accounting policies (continued)

Leases (continued)

Lease liability (continued)

- 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 asset 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.

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 cast 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.

3. Summary of significant accounting policies (continued)

Leases (continued)

Right-of-use asset (continued)

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 payments as defined in the contract. 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 (for capacity revenue please refer revenue accounting policy). 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.

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.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Classification of financial assets

Financial assets 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.

The Company does not have any FVTOCI and FVTPL financial assets.

The Company's financial assets include trade and other receivable, due from a related party and cash and bank balance. These financial assets qualify for and are classified as debt instruments measured at amortised cost.

Amortised cost and effective interest rate method

For financial instruments, 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.

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 and is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

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 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.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (Continued)

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.

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.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (Continued)

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 are no past due amounts.

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.

(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);

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

(iii) Credit-impaired financial assets (continued)

(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, 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.

(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 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.

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.

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.

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.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

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, the Company does not have any FVTPL liabilities.

Financial liabilities measured subsequently at amortised cost.

Financial liabilities are measured subsequently at amortised cost using the effective interest method.

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.'

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.

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.

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.

3. Summary of significant accounting policies (continued)

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

Obligation for contribution to a defined contribution retirement plan for Omani employees, in accordance with the terms of the Social Insurance Law of Oman, are recognised as an expense in the statement of profit or loss as incurred.

Provision for end of service benefits 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.

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.

Income tax

Income tax on the profit or loss for the year comprises current and deferred 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.

3. Summary of significant accounting policies (continued)

Income tax (continued)

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.

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 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 period of the respective loans using the effective interest rate method. Deferred financing costs less accumulated amortisation are offset against the drawn amount of senior facility loan. The amortization of the deferred financing costs is charged to the income statement.

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. The tariff structure under the PPA is comprised of power capacity (includes investment charge and fixed operation and maintenance charge), electrical energy and fuel charges components.

3. Summary of significant accounting policies (continued)

Capacity revenue

The PPA with OPWP is considered as a lease within the context of IFRS 16 and has been classified as an operating lease under 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.

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.

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.

3. Summary of significant accounting policies (continued)

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.

Directors' sitting fees and remuneration.

The Board of Directors sitting fees and remuneration are calculated as per the guidelines prescribed by CMA and these are approved by the Shareholders in the ordinary annual general meeting of the Company.

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

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

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, 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. 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 and has been classified as an operating lease under IFRS 16 Leases 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 Energy and Minerals ("MEM") 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 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 has recognised reimbursement of incremental fuel oil cost as allowed under NGSA and based on the correspondence with MEM 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.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Fuel incremental costs (continued)

Based on the correspondence with MEM, the Company understand that MEM has already approved to release the payment from their side up to September 2021. The Company believes that the net balance amount of receivable as at year ending (refer note 22), would be settled in the financial year 2022.

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.

Novel Coronavirus (Covid-19)

There was no disruption in the energy supply and procurement of services due to Covid-19. The Company has closely monitored the situation during the year ended 31December 2021 and continue to do so to manage the potential business disruption on its operations and financial performance. While circumstances continuing, the risks are mitigated by the high level of committed contracts underpinning current forecasts; preventive measures taken by management to mitigate operational risks; continued evidence of demand in core market; further cost cutting measures taken to improve financial resilience in the current environment.

The Company performed the assessment of the potential impact of the pandemic on its financial statements and has concluded that there is no material impact to the operations or the profitability of the Company. The Company will continue to monitor the situation and adjust its critical judgements and estimates, as necessary, during 2022.

5. Property, plant and equipment

	Plant and machinery	Buildings and civil works	Furniture and fixtures	Computer and office equipment	Motor vehicles	Right-of-use asset	Capital work-in-progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost								
1 January 2020	58,303	20,716	30	11	44	113	75	79,292
Additions	107	-	-	4	-	-	(70)	41
1 January 2021	**58,410**	**20,716**	**30**	**15**	**44**	**113**	**5**	**79,333**
Additions	**88**	**-**	**2**	**16**	**-**	**-**	**(5)**	**101**
31 December 2021	**58,498**	**20,716**	**32**	**31**	**44**	**113**	**-**	**79,434**
Accumulated depreciation								
1 January 2020	3,897	1,437	26	11	33	5	-	5,409
Charge for the year	1,412	567	4	1	11	5	-	2,000
1 January 2021	**5,309**	**2,004**	**30**	**12**	**44**	**10**	**-**	**7,409**
Charge for the year	**1,462**	**519**	**-**	**4**	**-**	**5**	**-**	**1,990**
31 December 2021	**6,771**	**2,523**	**30**	**16**	**44**	**15**	**-**	**9,399**
Carrying value								
31 December 2021	**51,727**	**18,193**	**2**	**15**	**-**	**98**	**-**	**70,035**
31 December 2020	53,101	18,712	-	3	-	103	5	71,924

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

6. Inventories

	2021	2020
	RO '000	RO '000
Stores and spares	1,312	1,307
Fuel and lube oil	2,076	1,858
	3,388	3,165
Less: provision for slow moving inventories	(7)	-
	3,381	3,165

Movement in the provision for slow and non-moving inventories is as follows:

	2021	2020
	RO '000	RO '000
1 January	-	-
Charge during the year	7	-
	7	-

7. Trade and other receivables

	2021	2020
	RO '000	RO '000
Trade receivables (note 19)	18,788	12,354
Prepaid expenses	130	115
(A)	18,918	12,469
Other receivables (B)	133	272
(A) + (B)	19,051	12,741

The Company has one customer OPWP which is included in the trade receivables balance as at reporting date. The average credit period on the invoices raised to OPWP on generation / sale of electricity is 25 days. Further, the Company has billed Ministry of Energy and Minerals (MEM) 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.

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

	2021	2020
	RO '000	RO '000
At 1 January	-	115
written-off	-	(115)
As at 31 December	-	-

7. Trade and other receivables (continued)

During the year 2020, the Company written off the allowance created against the amount receivable from OPWP on account of Commissioning charges. The claim was overruled by OPWP as it was not in line with PPA.

(B) Other receivables

	2021	2020
	RO '000	RO '000
Receivable from EPC Contractor*	**-**	253
Other receivables	**133**	19
	133	272

* In 2018, 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 and agreed to settle an additional amount 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 in 2018 out of which RO 0.807 million will be settled by the EPC contractor over the period of three years. During the current year this amount has been settled.

8. Cash and bank balances

	2021	2020
	RO '000	RO '000
Cash in hand	**2**	1
Cash at bank	**1,705**	52
	1,707	53

Unrestricted cash and cash equivalent amounted to RO 1.707 million (2020: RO 0.053 million).

9. Share capital

	2021	2020
	RO '000	RO '000
Authorised share capital		
200,000,000 shares of RO 0.1 each	**20,000**	20,000
Issued and paid-up share capital		
70,390,000 shares of RO 0.1 each	**7,039**	7,039

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.

9. Share capital (continued)

Shareholders details

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

	2021	2020	**2021**	2020
	Number of shares '000		**%**	%
Oman Oil Facilities Development Company LLC	**29,564**	29,564	**42**	42
LX International Corp.	**12,670**	12,670	**18**	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. Accordingly, during the year RO 310 thousand (2020: RO 234 thousand) is transferred to the legal reserve. The reserve is not available for distribution.

11. Borrowings

a) Senior facility loan

	2021	2020
	RO '000	RO '000
At 1 January	**63,786**	67,357
Less: repayments made during the year	**(3,733)**	(3,571)
At 31 December (gross)	**60,053**	63,786
Less: Deferred financing charges	**(1,090)**	(1,090)
Deferred financing charges amortised	**430**	364
At 31 December (net)	**59,393**	63,060
Less: current portion	**(3,620)**	(3,733)
Non-current portion	**55,773**	59,327

The senior facility loan is denominated in Rials Omani and carries a rate of 4.6% (2020: 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 and DSRA requirements.

11. Borrowings (continued)

a) Senior facility loan (continued)

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

During the year, the Company has obtained a short-term working capital facility of RO 7.5million from a commercial bank and repaid RO 5 million during the year which carried an interest rate of 3.4% per annum (2020: Nil).

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:

Borrowings	At 1 January	Proceeds / (repayments) during the year	Non-cash changes	At 31 December
	RO'000	RO'000	RO'000	RO'000
31 December 2021				
Short term loan facility (net)	-	2,500	-	2,500
Senior facility loan	63,060	(3,733)	66	59,393
	63,060	(1,233)	66	61,893
31 December 2020				
Short term loan facility (net)	3,000	(3,000)	-	-
Senior facility loan	66,568	(3,571)	63	63,060
	69,568	(6,571)	63	63,060

12. Trade and other payables

	2021	2020
	RO '000	RO '000
Trade payables	14,216	11,208
Accrued expenses and provisions	3,447	700
	17,663	11,908

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. During the year 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 is maintained. The movement in the provision for asset retirement obligation is as follows:

	2021	2020
	RO '000	RO '000
At 1 January	**168**	160
Unwinding of discount	**6**	8
At 31 December	**174**	168

14. Lease liability

	2021	2020
	RO '000	RO '000
Gross lease liability related to right-of-use asset	**109**	111
Future finance charges on finance leases	**(3)**	(2)
Present value of lease liability	**106**	109
The maturity of finance lease liability is as follows:		
Not later than 1 year	**3**	3
Later than 1 year	**103**	106
	106	109

Interest expense on lease liability was RO 7.6 thousand (2020: RO 7.8 thousand). For the disclosure related to the liquidity please refer to note 22.

15. Revenue

	2021	2020
	RO '000	RO '000
Revenue from lease contract		
Capacity charges	**11,032**	10,756
Revenue from the contract with the customer		
Energy charges	**2,199**	2,105
Other charges	**4,947**	4,797
	7,146	6,902
	18,178	17,658

16. Operating Cost

	2021	2020
	RO '000	RO '000
Fuel cost	**4,478**	4,915
Operating and maintenance expenses	**3,648**	3,488
Depreciation	**1,981**	1,981
Connection fees	**278**	278
Insurance costs	**246**	175
Others	**220**	265
	10,851	11,102

17. General and administrative expenses

	2021	2020
	RO '000	RO '000
Professional charges	**52**	44
Staff costs	**347**	233
Office expenses	**249**	318
Depreciation	**9**	19
Receivable write-off	**-**	21
Others	**3**	11
	660	646

18. Finance costs – net

	2021	2020
	RO '000	RO '000
Interest on senior facility loan	**2,888**	3,062
Amortization of deferred finance charges (note 11)	**66**	63
Interest on short term loan facility	**72**	21
Interest income on other receivables – unwinding	**(16)**	(30)
Other finance charges	**16**	20
	3,026	3,136

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 board and management.

Government of Sultanate of Oman (the Government) indirectly owns 42% (2020: 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:

	2021	2020
	RO '000	RO '000
a) Due from a related party		
OQ Gas Network Company SAOC	**19**	19

b) Due to / from government and other state-controlled entities

	2021	2020
	RO '000	RO '000
Due from government and other state-controlled entities (note 7)	**18,788**	12,354
Due to government and other state-controlled entity	**12,199**	9,461

Amounts due from / (due to) government and other state-controlled entities mainly include balances receivable / payable from OPWP and MEM in relation the power generation revenue and incremental cost receivables and gas payables, respectively.

Transactions

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

	2021	2020
	RO '000	RO '000
c) Transactions with entities related to the major shareholder		
Support services provided by OQ Gas Network Company SAOC	**-**	17
d) Transactions with government and state-controlled entities		
Purchase of gas from Ministry of Energy and Minerals	**2,772**	2,999
Fuel incremental cost charge to Ministry of Energy and Minerals	**7,790**	5,177
Revenue from Oman Power and Water Procurement Company SAOC	**18,178**	17,658
Connection charges to Rural Areas Electricity Company SAOC	**278**	278
e) Directors' remuneration and sitting fees	**70**	97
f) Key management remuneration	**210**	139

20. Taxation

The tax rate applicable to the Company is 15% (2020: 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 31 December 2021. 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. No deferred tax asset has been recognized on the cumulative tax losses up to 31 December 2021 in the amount of RO 5.265 million (2020 - RO 5.136 million) as the Company does not expect to have sufficient taxable profits in the future years against which such tax losses will be adjusted.

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:

	2021	2020
	RO '000	RO '000
Deferred tax – current year	**546**	442
Deferred tax – prior year	**-**	18
	546	460

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:

	2021	2020
	RO '000	RO '000
Profit before tax	**3,641**	2,795
Taxation @ 15% [(2020: 15%)]	**546**	419
Add: Tax effect of:		
Non-deductible expenses	**-**	1
Deferred on tax losses	**-**	22
Deferred tax – prior period	**-**	18
Tax expense	**546**	460

20. Taxation (continued)

c) Deferred tax liability

	As at 1 January RO '000	Recognised during the year RO '000	As at 31 December RO '000
2021			
Taxable temporary differences			
Effect of accelerated tax depreciation	**(3,181)**	**(568)**	**(3,749)**
Right-of-use asset	**(16)**	**-**	**(16)**
Deductible temporary differences			
Provision for assets retirement	**25**	**1**	**26**
Lease liability	**17**	**-**	**17**
Tax losses	**502**	**21**	**523**
	(2,653)	**(546)**	**(3,199)**
2020			
Taxable temporary differences			
Effect of accelerated tax depreciation	(2,486)	(695)	(3,181)
Right-of-use asset	(17)	1	(16)
Deductible temporary differences			
Impairment of receivables	17	(17)	-
Provision for assets retirement	24	1	25
Lease liability	17	-	17
Tax losses	252	250	502
	(2,193)	(460)	(2,653)

d) Tax status

As of 31 December 2021, the Company's tax assessments for the period from 2014 to 2016 have been completed by the Omani taxation authorities without any modification to the Company's declared income tax returns. For the remaining years, the Management of the Company believe that additional taxes, if any in respect of open tax years, would not be significant to the Company's financial position as at 31 December 2021.

21. Commitments

Operation and maintenance commitment

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

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

	2021	2020
	RO '000	RO '000
Due within one year	**556**	1,149
Due after one year but within five years*	**-**	575
	556	1,724

The O&M Agreement is expiring by June 2022. The negotiation process of renewing the agreement is ongoing and expected to be finalized during Q1-2022.

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

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

	2021	2020
	RO '000	RO '000
Due within one year	**438**	438
Due after one year but within five years	**1,753**	1,753
Due after five years	**2,410**	2,848
	4,601	5,039

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.

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.

22. Financial risk management (continued)

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 is 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 senior facility loan as this carry fixed interest rate. At the reporting date the interest rate risk profile of the Company's interest-bearing financial instruments was:

	2021	2020
	RO '000	RO '000
Borrowings (senior and short-term loan facilities)	**61,893**	63,060

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.

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 Ministry of Energy and Minerals ("MEM") and Oman Power and Water Procurement Company SAOC ("OPWP"). Under the terms of the PPA and NGSA as disclosed in note 1, the Company's sales and fuel incremental costs are billed wholly to OPWP (indirectly wholly owned by the Government) and MEM (as disclosed in note 4) respectively. Therefore, the Company's credit risk on receivables from OPWP and MEM 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.

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

22. Financial risk management (continued)

Credit risk (continued)

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:

	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
31 December 2021				**RO'000**	**RO'000**	**RO'000**
Trade receivables	**Ba3**	**-**	Lifetime	**18,788**	**-**	**18,788**
Cash at bank	**Ba3**	**-**	12 months	**1,705**	**-**	**1,705**
Other receivables	**-**	**-**	12 months	**133**	**-**	**133**
				20,626	**-**	**20,626**
31 December 2020						
Trade receivables	Ba3	-	Lifetime	12,354	-	12,354
Cash at bank	Ba3	-	12 months	52	-	52
Other receivables	-	-	12 months	272	-	272
				12,678	-	12,678

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 MEM receivables 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.

Trade and other payables include RO 12.199 million (2020: RO 9.461 million) payable to MEM for the purchase of Gas. However, trade receivables include RO 17.883 million (2020: RO 11.547 million) receivable from MEM relating to fuel incremental cost as the Company currently does not have the contractual right to offset. In the financial year 2021, the Company has received partial funds from Ministry of Finance of RO 1.4 million out of the net balance of RO 2.1 million due as of 31 December 2020. The Company understands that the payment has been received for the net receivables up to the year 2020. The Company is liaising with MEM for details of invoices settled. For the remaining balance the Company is currently negotiating with MEM to off-set the balance and pay the net amount of RO 5.684 million accordingly. In relation to receivable from MEM further details are disclosed in note 4.

22. Financial risk management (continued)

Credit risk (continued)

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 overdue two years past due. None of the trade receivables that have been written off are subject to enforcement activities.

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

			Past due			
	Carrying amount	Not due	Up to 90 days	Up to 365 days	Over 365 days	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Gross carrying amount:						
31 December 2021						
Trade receivables	**18,788**	**1,095**	**2,314**	**5,285**	**10,094**	**18,788**
Cash at bank	**1,705**	**1,705**	**-**	**-**	**-**	**1,705**
Other receivables	**133**	**133**	**-**	**-**	**-**	**133**
	20,626	**2,933**	**2,314**	**5,285**	**10,094**	**20,626**
31 December 2020						
Trade receivables	12,354	847	1,073	4,189	6,245	12,354
Cash at bank	52	52	-	-	-	52
Other receivables	272	272	-	-	-	272
	12,678	1,171	1,073	4,189	6,245	12,678

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 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 a reputed financial institution having appropriate credit rating.

22. Financial risk management (continued)

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: Further, the Company maintains sufficient bank balances and having adequate working capital facilities.

	Less than 3 months RO '000	3 to 12 months RO '000	1 to 5 years RO '000	More than 5 years RO '000	Total RO '000
31 December 2021					
Trade and other payables	**17,663**	**-**	**-**	**-**	**17,663**
Senior facility loan	**-**	**6,333**	**23,339**	**49,955**	**79,627**
Short term loan facility	**2,500**	**-**	**-**	**-**	**2,500**
Lease liabilities	**-**	**10**	**41**	**144**	**195**
	20,163	**6,343**	**23,380**	**50,099**	**99,985**
31 December 2020					
Trade and other payables	11,908	-	-	-	11,908
Senior facility loan	-	6,628	23,888	55,785	86,301
Lease liabilities	-	10	41	154	205
	11,908	6,638	23,929	55,939	98,414

Categories of financial instruments

	2021 RO '000	2020 RO '000
Financial assets (at amortised cost)		
Cash and bank balances	**1,707**	53
Trade and other receivables	**18,921**	12,626
	20,628	12,679
Financial liabilities (at amortised cost)		
Senior facility loan	**59,393**	63,060
Short term loan facility	**2,500**	-
Lease liability	**106**	109
Trade and other payables	**17,663**	11,908
	79,662	75,077

22. Financial risk management (continued)

Fair value of financial instruments

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

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 comprises of loan facilities from bank, 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.

Gearing ratio

The gearing ratio at the end of the reporting period was as follows:

	2021	2020
	RO '000	RO '000
Debt (senior and short loan term facilities)	**61,893**	63,060
Cash and bank balances	**(1,707)**	(53)
Net debt	**60,186**	63,007
Equity	**11,137**	9,985
Net debt to equity ratio	**540%**	631%

High gearing ratio is normal for the power companies in Oman due to their investment structure.

23. Earnings per share: basic and diluted

	2021	2020
Net profit attributable to ordinary Shareholders of the Company for basic and diluted earnings per share (RO '000)	**3,095**	2,335
Weighted average number of shares (in '000s)	**70,390**	70,390
Earnings per share (RO)	**0.044**	0.033

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 year.

	2021	2020
Net assets (RO in '000)	**11,137**	9,985
Number of shares outstanding at year end ('000s)	**70,390**	70,390
Net assets per share (RO)	**0.158**	0.142

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. The requirements of IFRS 8: Operating Segments - paragraphs 31 to 34 relating to entity wide disclosures have been covered under statements of financial position, profit or loss and other comprehensive income and also in notes 1 to 4 to these financial statements.

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

As disclosed in note 1 and 4 of these financial statements, the arrangement between the Company and OPWP under the PPA 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:

	2021	2020
	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	**62,528**	73,897
	119,372	130,741

28. Dividends

On 3rd February 2020, the Board of Directors proposed a final cash dividend of Baizas 13.8 per share amounting to RO 0.971 million which was paid on 18 March 2020. The dividend was approved by the shareholders in an Annual General Meeting held on 5 March 2020.

On 23rd September 2020, the Board of Directors approved an interim cash dividend of Baizas 13.8 per share amounting to RO 0.972 million which was paid on 30 September 2020.

On 9 February 2021, the Board of Directors proposed a final cash dividend for 2020 of Baisas 13.8 per share and interim cash dividend for 2021 of Baisas 13.8 per share. On 25th March 2021, the Board of Directors approved a final cash dividend of Baizas 13.8 per share amounting to RO 0.971 million which was paid on 30 March 2021.

On 12th September 2021, the Board of Directors approved an interim cash dividend of Baizas 13.8 per share amounting to RO 0.972 million which was paid on 23rd September 2021. The dividend was approved by the shareholders in an Annual General Meeting held on 3rd March 2021.

On 8th February 2022, the Board of Directors proposed a final cash dividend for 2021 of Baisas 13.8 per share. The proposal shall be presented to the annual general meeting on 10th March 2022 for approval.

29. Approval of the financial statements

The financial statements were approved by the board and authorised to issue on 8th February 2022.