

ANNUAL REPORT 2018



شركة ظفار لتوليد الكهرباء
Dhofar Generating Company

Powering Success







His Majesty Sultan Qaboos Bin Said



Contents

Board of Directors' Report	6
Management Discussion and Analysis Report 2018	10
Auditor's Report on Corporate Governance	16
Corporate Governance Report	17
Financial Statements	23



Board of Directors



John Clark
Chairman



Misuru Yasuhara
Deputy Chairman



Misato Morishima
Member



Said Safrar
Member



Ahmed Hamed Saif Al Busaidi
Member (Independent)



Anshul Rai
Member (Independent)



Abdul Majid Syed
Member

Senior Management Team



Naif Al-Awaaid
Chief Executive Officer



Javed Mustafa
Chief Financial Officer



Amer Al Mashani
Acting Chief Operating Officer



Board of Directors' Report

Dear Shareholders,

It is my greatest pleasure, on behalf of the Board of Directors, to report on the performance of your company, Dhofar Generating Company SAOG ('DGC' or 'Company'), at the end of an immensely successful year.

During the year, the Company's performance has been outstanding with completion of the construction of the new 445MW plant on time and within budget, with Commercial Operation Date ('COD') being achieved on 1 January 2018. Without a doubt, a key achievement was the completion of all construction activities alongside a fully operational plant with a Zero Lost Time safety record and no environmental exceedances. The reliability of both the 273MW Original Plant and 445 New Plant has been exceptional with availability factors of close to 100%.

The excellent operational performance has enabled the business to fulfil its financial obligations by meeting bottom line results and timely debt service to the project lenders.

An important event in the life cycle of the Company was the listing of its shares on the Muscat Securities Market on 5 September 2018, in line with its obligations under the Project Founders Agreement with the NAMA Group. The directors convened all necessary meetings during the year, along with Audit Committee and Nomination and Remuneration Committee meetings, as required.

Strategic positioning

DGC is one of two independent power plants owners in the Dhofar region, with a 62% share in the southern

power grid of the Sultanate of Oman (from 1 January 2018). It owns and operates two power plants: a 273MW Open Cycle Gas Turbine ('OCGT') power plant ('Original Plant') and a 445MW Combined Cycle Gas Turbine ('CCGT') Power Plant ('New Plant').

The Company has one customer, the Oman Power and Water Procurement Company ("OPWP"), and one supplier for the primary fuel (natural gas), the Ministry of Oil and Gas. The EPC Contractor for the New Plant is SEPCO III Electric Power Construction Corporation, a leading power construction contractor from China with extensive international and regional experience. Plant operations and maintenance for both plants has been contracted to Dhofar O&M Company LLC and further sub-contracted to the First National Company for Operation and Maintenance Services LLC ('NOMAC Oman') with an agreement that is co-terminus with the Power Purchase Agreement ('PPA').

Construction – setting new standards

The Company has proved its mettle in the construction initiative by completing all activities for completion of the New Plant ahead of schedule on 27 December 2017. The plant underwent a comprehensive testing regime including 417 start-up tests and 11 performance tests as prescribed by OPWP. Each test was witnessed by OPWP and their on-site consultant engineer. DGC subsequently applied for Commercial Operation Date effective from 1 January 2018 under the terms of the Power Purchase Agreement ("PPA") entered into between the Company and OPWP.

Completion of this critical milestone was a landmark achievement, accomplished through the diligent efforts of the DGC project team and the EPC Contractor who had received extensive guidance and support from the sponsors through a healthy framework of oversight established by the Board of Directors. Both Dhofar O&M and NOMAC Oman participated in the commissioning and testing activities to ensure a smooth and effective takeover of the New Plant. To-date, a major portion of the punch list items open at the time of COD have also been closed out.

DGC will continue to monitor the performance of the plant to identify any warranty issues.

Operational performance

During the year, the NOMAC Oman team has operated and maintained the Original Plant and the New Plant in a prudent manner, following the prescribed good industry practices. In 2018, the Original Plant achieved a reliability of 99.7% (2017: 99.7%), whereas the New Plant, also delivered a reliability factor of 99.7% (2017: N/A). These high reliability factors demonstrate a world class performance of the power plants.

The reliable operations of the power plants bring stability to the Dhofar grid, which is your Company's top priority. Such performance is the primary driver in building strong relationships with our key stakeholders which include the shareholders, OPWP, OETC, AER, the lenders and, most importantly, the local community. A large part of the credit for this excellent operational performance is due to the operator's efforts. NOMAC Oman has operated the plant in a safe, reliable and prudent manner with adequate reporting disclosures to the satisfaction the Company. The O&M team has proved its mettle and flexibility by taking over the New Plant immediately after commissioning and operating a plant based on different technology.

Financial Performance

The financial performance of the Company for 2018 is in line with expectations, with a profit after tax of OMR 0.4m (2017: Loss after tax OMR 0.5m). Under its dividend distribution policy, the Company seeks to distribute the available cash flows as dividends to its shareholders, after meeting the debt service and other operational needs and subject to the applicable local regulations. There have been no dividend payments in the past 5 years. Since acquisition in June 2015, opening cash balances and internally generated cash from the 273MW Original Plant were applied to the construction of the New Plant.

The Company believes in a strong control environment and accordingly endeavors to maintain best in class financial controls and reporting standards. Your Company continues to achieve these standards and this is periodically confirmed by timely, accurate reporting as well as rigorous auditing processes and procedures. Your Company remains in compliance with the Code of Corporate Governance of the Capital Market Authority.

Our human assets

The success of the year has been driven by the diligence and zeal of all the people involved in the management and operations of the Company.

The directors of your Company are a set of diverse individuals with vast financial, operational, technical and market-oriented experience. They have provided a robust and empowering framework to develop a positive work culture and ethic. The management of the company, under the guidance of the Board, have worked diligently and creatively to implement the vision of the Board and to bring excellence to the business. The directors and management of your Company have demonstrated their business acumen and strategy of looking after all stakeholders' interests and generating value for everyone through innovative solutions implemented throughout the year.

I, alongwith the Board, would like to extend my gratitude to the team at DGC, which includes the operations and maintenance people of NOMAC Oman, who have worked meticulously throughout the year to deliver such excellent results. We reaffirm our commitment towards the development of Omani talent.

Social Responsibility

Your Company strongly believes in the importance of being a good corporate citizen while conducting business and fulfilling its social responsibilities. To this end, the Company has participated in various initiatives since the acquisition in 2015. During 2018, the Company has helped sponsor two events in the Dhofar region which include the Geographic Information System Conference in Salalah and the Salalah Cardiovascular Conference. The amount contributed by the Company towards social responsibility initiatives during 2018 totaled OMR 4,000.

As part of a training initiative for local talent, the Company provided about two months' training to 15 local fresh engineers from the universities and colleges and hosted 24 electrical engineers from Salalah College of Technology for a one-day visit.



Looking forwards - 2019

In 2019, the Company will be focused towards the reliable operation of the two power plants in order to meet its obligations to all stakeholders. The team will work to close remaining punch list items and monitor warranty issues, if any. NOMAC Oman, with Dhofar O&M's guidance, will be responsible for the operations and maintenance of the entire plant as envisioned in the O&M Agreements.

Our foremost commitment remains to provide safe, clean and reliable power to the people of the Sultanate of Oman.

Acknowledgements

We appreciate the support of all our key stakeholders especially our customer (the Oman Power and Water Procurement Company), our fuel supplier (Ministry of Oil and Gas), the Public Authority of Electricity and Water,

the Authority of Electricity Regulation and the Ministry of Commerce and Industry.

Finally, on behalf of the Board of Directors, I would like to take the opportunity to express our gratitude to His Majesty Sultan Qaboos Bin Said and His Government for their vision, guidance, wisdom and continued support to Dhofar Generating Company SAOG and the entire private sector. His progressive and enlightened vision continues to be a model for others to emulate and without it, the success being achieved by many would not have been possible.

John Clark

Chairman Board of Directors







Management Discussion and Analysis Report 2018



Main objects and business

The principal activities of Dhofar Generating Company SAOG (the 'Company' or 'DGC') are to develop, finance, design, construct, operate, maintain, insure and own a net 718 MW power generating station and other relevant infrastructure. The Company comprises of an 273MW Open Cycle Gas Turbine ('OCGT') Power Plant ('Original Plant') with commercial operations in May 2003 and a 445MW Combined Cycle Gas Turbine ('CCGT') Power Plant ('New Plant') with commercial operation date ('COD') on 1 January 2018. The Company is located at Raysut, Salalah and has no subsidiaries as of 31 December 2018.

The Company's business is regulated by project agreements with various government entities and financing agreements with project lenders. These project agreements provide an assurance both over revenue and cost elements of the business.

The principal agreement is the 15 year Power Purchase Agreement ('PPA') with the Oman Power and Water Procurement Company ('OPWP') which requires the Company to make the power facilities available and deliver electrical energy as per contractual terms. The PPA expires

on 1 January 2033 i.e. 15 years from the COD of the New Plant. The Company has a fuel supply agreement with the Ministry of Oil and Gas, the term being co-terminus with the PPA term.

The Company has been granted a Generation License by the Authority of Electricity Regulation for a period of 25 years effective 1 January 2014. This license was modified by the Authority on 26 January 2017 to include the additional power capacity available through the New Plant.

The Company has contracted out the operation and maintenance activities to Dhofar O&M Company LLC ('Dhofar O&M' or 'Operator') effective from 4 June 2015. The term of the O&M Agreement is co-terminus with the term of the PPA. Dhofar O&M is an Omani company wholly owned by ACWA Power, Mitsui & Co., Ltd and DIDIC. The Operator has sub-contracted the entire scope of the O&M Agreement to First National Company For Operation & Maintenance Services LLC ('NOMAC Oman'). NOMAC Oman is a subsidiary of First National Operation and Maintenance Company ('NOMAC') which is a wholly owned subsidiary of ACWA Power. The term of the sub-contract O&M agreement is co-terminus with the O&M Agreement.

Risks faced by the company

The main risks faced by the Company include loss of availability due to breakdowns, accidental damage and default in payment by the off-taker. The Company has been able to transfer its operations and maintenance risk as per the O&M Agreement to its Operator after implementing the agreement in 2015.

The Operator has maintained almost perfect reliability since taking over the operations and maintenance function of the plant by implementing robust predictive, proactive and preventive procedures which are well aligned with best international power sector practices.

Financial obligations of the OPWP are secured under the PPA. Additionally, adequate insurance policies are in place to protect the business against property damage, business interruption, public liability and sabotage and terrorism risks. The PPA protects the Company against inflation and the Rial Omani/US Dollar exchange rate movement, if any. Fuel cost is pre-determined in the fuel supply agreement over the period of the PPA. As per the terms of the PPA, reliability of the power plant is the key element relating

to the profitability of the Company. The load factor has a limited impact on the profits mainly to the extent of any heat rate loss.

Interest on the Dollar portion of the long-term loan, which reflects 58% of the total outstanding loan, is hedged through interest rate swap agreements.

The long-term agreements noted above with best in class service providers and government entities provide a high degree of confidence in continuity of operations with minimal disruptions. The management will continue to actively perform risk analyses to identify and mitigate potential challenges.

Operational & Organizational Highlights

Operational performance during 2018 has been remarkable. Commercial availability factor for both Original and New Plant was 99.7%. Unplanned outages during the year were negligible.

The success and reputation of the business is dependent on operational results. NOMAC Oman has played an integral role in achieving these top decile results. The performance reflects NOMAC Oman's worth as an operations and maintenance expert.

NOMAC Oman is a mature and diverse organization with a blend of a highly specialized and talented human resources. NOMAC Oman maintenance philosophy places special emphasis on proactive and predictive maintenance throughout the plant to ensure reliability. Risk management is a core principle of how the team approaches operations and maintenance.

DGC has closely monitored NOMAC Oman's performance and provided guidance where necessary by developing strong communication channels.

Power Generation

273MW Original Plant

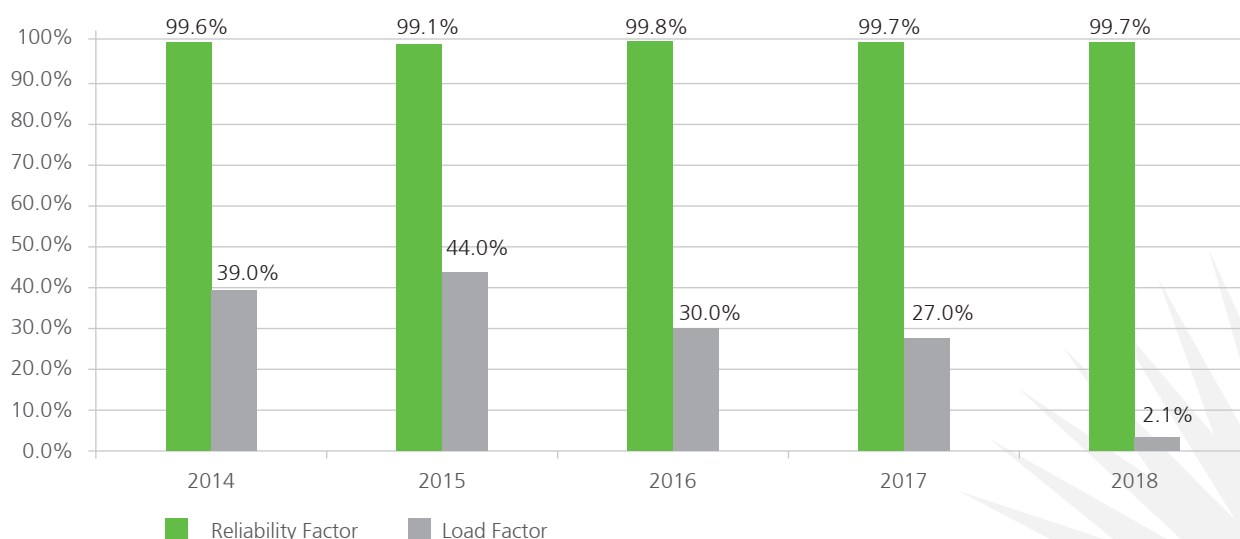
The Original Plant delivered an outstanding power reliability factor in 2018 of 99.7%, which is consistent with prior years.

The plant exported 49 GWh during 2018 (2017: 653 GWh). The load factor, which is 2% for 2018 (2017: 27%), is dependent on the demand for power by the national grid. The load factor of the plant has dropped significantly in 2018 compared to 2017 due to commencement of commercial operations of the new 445MW power plant from 1 January 2018.

The following table reflects the reliability factor, load factor and energy export trend for the last five years.

Year	Energy Exported (GWH)	Load Factor	Reliability Factor
2018	49	2%	99.7%
2017	653	27%	99.7%
2016	1,465	30%	99.8%
2015	1,066	44%	99.1%
2014	941	39%	99.6%

A graphical comparison of reliability factor vs load factor for the last five years is shown below.





445MW New Plant

The New Plant has performed exceptionally well from its COD on 1 January 2018 with a world class power reliability factor of 99.7%.

The plant exported 1,625 GWh during 2018 (2017: Nil). The load factor, which is 41.7% for 2018 (2017: Nil), is dependent on the demand for power by the national grid. The high reliability factor in the first year of operations has provided the team further evidence on the construction quality.

Plant Maintenance Philosophy

The 273MW Plant consists of eight 6B.03 open-cycle gas turbines (GT), i.e. six General Electric PG6581 B gas turbines, one General Electric LM2500 aero-derivative gas turbine and one General Electric PG6561 B gas turbine. GTs 1 to 6 were commissioned in May 2003. Subsequently, GTs 7 and 8, which were in operation by the Ministry of Electricity & Water since 1995 and 1998 respectively, were taken over by the company and integrated with GTs 1 to 6 in 2007.

The 445MW Plant consists of two blocks with a net capacity of 222.65MW per block. Each block includes two GE 6FA.03 gas turbines, two triple pressure HRSGs and one steam turbine from Skoda.

The Company, alongwith the Operator and NOMAC Oman, has developed a robust strategy to ensure that the machines remain in pristine condition with the ability to provide sustained results. The team believes in a risk based approach towards maintenance to create a viable balance between predictive, proactive and scheduled maintenance. Maintenance has been performed on all machines in line with Original Equipment Manufacturer ('OEM') recommendations. NOMAC Oman has entered into a long term services agreement for the maintenance services to the gas turbines of the New Plant with General Electric International (GE). The term of this agreement is sized to continue till the maturity of the PPA. This ensures that the Company has adequate access to the spare parts, technological upgrades so as to minimize risk of unplanned outages, with long term price risk largely passed on to GE. In accordance with this agreement, GE has supplied initial spare parts and will provide diagnostic support and periodic inspections, repair and replacement of parts and repair of physical damage due to defects or equipment failure.

The power plant is required to be 100% available in the summer months due to peak summer demand while in winter period there is an outage allowance of 15% to cater to planned maintenance. All planned outages were performed in the winter period without effecting the revenue stream. The planned outages were in line with recommendations of the OEM. NOMAC Oman performed

routine preventive and predictive maintenance activities along with corrective maintenance to ensure sustained healthiness and reliability of all machines and equipment. Major maintenance activities for 2018 included the Hot Gas Pipe Inspection of GT 3 in early January of the Original Plant.

Health, Safety and Environment

Occupational health, safety and environment is the highest priority for the business and its people.

The team is very proud of its zero LTI safety record since acquisition despite the inherent hazards of construction. NOMAC Oman has completed all maintenance activities in a safe environment. Sub-contractors are expected to conform to the organization's safety standards and they are trained in this respect as by the team. NOMAC Oman celebrated their annual Occupational Health, Safety and Environment Day on 21 May 2018. NOMAC Oman has reached One Million LTI Free Man hours at the end of December 2018.

NOMAC Oman continues to maintain the OSHAS 18001:2007 certification for Occupational Health and Safety and ISO 14001:2004 for its Environmental Management System. We are also pleased to inform that there were no environmental non-conformances during the reporting period. The team is committed to fight complacency and sustain its HSE goals.

Omanisation

Omanisation is a key principle in the human resources strategy of the Company. Key business leaders of DGC and NOMAC Oman are from the local talent pool, which has set a high standard in the local IWPP and IPP sector. This is a result of sustained and focused policy of identifying and grooming people so that the Company remains in line with or ahead of contractual obligations.

NOMAC Oman has a practice of hiring fresh talent from Omani universities and colleges and providing long term training programs leading to employment. Short term summer internships are provided to various students. During 2018, the Company provided about two months training to 15 local fresh engineers from the universities and colleges and hosted 24 electrical engineers from Salalah College of Technology for a one day visit.

The Company also actively hires experienced local talent to fulfill resourcing requirements when required.

Social responsibility

As part of corporate social responsibility, the Company and NOMAC Oman have jointly reached out to the local community through various methods by sponsoring various official events of local importance.

Financial Highlights

Income Statement	OMR in MM's				
	2018	2017	2016	2015	2014
Revenue	39.4	15.4	16.1	21.9	14.9
Operating costs	(28.1)	(14.0)	(14.9)	(18.2)	(9.6)
Gross profit	11.3	1.4	1.2	3.7	5.3
Admin, financial and tax costs	(10.9)	(1.9)	(1.4)	(1.3)	(23.8)
Profit/(loss) after tax	0.4	(0.5)	(0.2)	2.4	29.1
Gross profit margin	28.7%	9.3%	7.4%	16.9%	35.6%
Net profit/(loss) margin	0.8%	(3.1%)	(1.2%)	10.9%	195.3%

Revenues

The net revenues have increased by OMR 24m compared to the previous year. This is due to the COD of the new 445MW power plant on 1 January 2018 resulting in higher capacity revenue.

Operating Costs

There is a net increase of OMR 14.1m in 2018 compared to 2017 directly due to operations of the New Plant resulting in higher OMR 5.3m fuel cost and OMR 3.8m operation and maintenance costs. Depreciation for the year for the New Plant is OMR 3.8m. Certain costs which were capitalized during 2017 in the construction period, are charged to the income statement after COD. These include OMR 0.5m salaries and OMR 0.4m insurance.

Gross Profit

The RO.9.9m increase in gross profit in 2018 compared to the previous year is due to COD of the New Plant resulting in higher availability revenues after set off of operating expenses.

Other Costs

There is a net increase of OMR 9m in other costs due to OMR 6.4m net interest expense which was capitalized in 2017 during construction period and OMR 2.1m deferred tax charge on capitalization of the New Plant.

Net Profit after Tax

The increase of RO.0.9m in net profit after tax is mainly due to COD of the New Plant as explained above.

Balance Sheet	OMR in MM's				
	2018	2017	2016	2015	2014
Total assets	233.1	217.0	154.7	100.6	69.2
Total shareholders' funds	51.4	47.9	28.70	29.10	28.90
Paid up capital	22.2	0.5	0.50	0.50	0.50
Net assets per share – OMR	0.231	95.747	57.392	58.209	57.760
Return on paid up capital (%)	1.6%	(95.7%)	(81.7%)	44.9%	481.9%
Debt equity ratio	3.1	3.1	3.0	1.2	1.1



Cash flows and Dividends

The Company has met its obligations to the lenders by the timely debt service of RO. 8.3m during the year. The final drawdown related to the 445MW New Plant occurred in March 2018 to make EPC related payments after achieving COD on 1 January 2018.

Dividends

No dividends were paid during the year. The Company follows a reasonable dividend payout policy, subject to debt repayments, working capital and operational expenditure obligations. The amount of annual dividends and the determination of whether to pay dividends in any year may be affected by a number of other factors, including but not limited to the business prospects, financial performance, free cash availability, covenants under the Finance Documents and the outlook for the sector.

There have been no dividend payments in the past 5 years. Since acquisition in June 2015, opening cash balances and internally generated cash from the 273MW Original Plant were applied to the construction of the New Plant. Prior to September 2018, DGC was an SAOC company.

Brief History of the Project

The Company was incorporated with the commercial registration number 1668714 for an unlimited duration and registered as an SAOC on 28 February 2001. In 2001, DPC, DGC and the Ministry of Housing, Electricity and Water of Oman entered the Salalah Concession Agreement, a 20 year concession under which DPC became the sole electricity transmission, distribution and supply company within its concession area.

The Salalah Concession Agreement was terminated on 31 December 2013, and all generation activities and assets were transferred to DGC which became a stand-alone entity in which DPC's shares were purchased by EHC and MOF. The Government invited proposals for the acquisition of all shares in DGC and the development of the New Plant in an adjacent site on the following basis:

- The IPP was proposed to have a total aggregate capacity of 718 MW.
- The Project involved the ownership, operation and maintenance of the Original Plant and the design, financing, construction, ownership, operation and maintenance of the New Plant, on a BOO basis, and the capacity of the Plant would be dedicated to, and sell the entirety of its output to OPWP under the PPA.

Following a competitive bidding process run by OPWP, Mitsui & Co., Ltd., ACWA Power and DIDIC (the 'Founders') were awarded the contract to acquire DGC, operate the Original Plant and build the New Plant. EHC and MOF entered into a Share Purchase Agreement with the Founders for the sale of 100% of the shares in DGC on 19 April 2015. The sale and purchase was completed on 4 June 2015. The term of the PPA is 15 years from the COD of the New Plant.

The PFA required the Founders to float 40% of the Shares on the MSM through an IPO. Accordingly, the Company was listed on the Muscat Securities Market on 5 September 2018.

Acknowledgement

The management would like to acknowledge and appreciate the support of the Board under whose guidance 2018 has concluded on a successful note. Most importantly, the management would like to highlight and appreciate the diligent efforts of the entire team whose efforts have brought the year to a positive close.



REPORT OF FACTUAL FINDING

TO THE SHAREHOLDERS OF DHOFAR GENERATING COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Dhofar Generating Company SAOG as at and for the year ended 31 December 2018 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarized as follows:

- 1) We obtained the corporate governance report (the "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 for the year ended 31 December 2018. 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 Dhofar Generating Company SAOG to be included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of Dhofar Generating Company SAOG, taken as a whole.



Muscat
14 February 2019



Corporate Governance Report

Statement of Issue

This report is being presented to comply with the fourteenth principle of the Code of Corporate Governance of Muscat Securities Market (the "MSM") applicable to Public Joint Stock Companies issued vide Circular No E/4/2015 dated 22 July 2015 and further amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016, (collectively the "Code") issued by Capital Market Authority (the "CMA") for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

We are pleased to report that Dhofar Generating Company SAOG (the "Company") remained in compliance with the principles of the Code. The Company was listed on the Muscat Securities Market on 5 September 2018.

Company Philosophy on Code of Governance

The Company is committed to the highest standards of corporate governance. The Company is operating with a set of business principles and corporate conduct is its most important element. These values are reflected in the leadership, management and day to day operations of the Company by the Board of Directors, the management and the employees of the Company.

The Company believes in and practices good corporate governance. The Company's philosophy of the Code of Corporate Governance is aimed at assisting the top management in the efficient conduct of its business and fulfilling its obligations towards all its stakeholders.

The Company has applied the principles of corporate governance in the following manner:

The Company has adopted a Code of Business Conduct and Ethics which is applicable to the employees. The code is intended to govern as a requirement of employment and governs the actions of everyone who works at the Company. This code addresses the following topics:

- Compliance with all Laws, rules, regulations and this Code
- Conflicts of interest and corporate opportunities

- Quality of public disclosures
- Protection and proper use of company assets
- Protection of confidential proprietary information
- Insider trading
- Fair dealing
- Interacting with government
- Environment, health and safety
- Respect for one another

Board of Directors

The Company encourages representation of non-executive and independent directors on its Board of Directors. At present the Board consists of seven directors all of which are non-executive directors three of them are independent directors. The Directors of the Company bring a rich experience of corporate governance, operations and maintenance, finance & accounting, business development and institution building. Their experience is complimented by their academic qualifications in the field of administration, management, finance, accounting and engineering.

Board of Directors was elected in April 2018 and will be subject to re-election in March 2021.

Five meetings of the Board of Directors were held during the year on the following dates:

1. 7 February 2018
2. 26 April 2018
3. 9 May 2018
4. 29 July 2018
5. 21 October 2018

These meetings were convened by issuing proper notices along with the agenda and relevant work papers. All the meetings were presided over by the Chairman of the Board except for the meeting on 7 February 2018 when, in his absence, Mr. Hisakazu Iwasaki chaired the meeting. The minutes of the meetings were appropriately recorded and circulated.



Details of composition and category of directors and their attendance at the meetings of the Board of Directors are given as under:

Name of the Director	Category	Board Meetings held during 2018					AGM
		7 Feb	26 Apr	9 May	29 Jul	21 Oct	18 Mar
Mr. Lucas Hautvast ^{*R}	Non-Independent	Proxy	-	-	-	-	✗
Mr. John Clark (Chairman)	Non-Independent	-	✓	✓	✓	✓	-
Mr. Hisakazu Iwasaki ^R	Non-Independent	✓	-	-	-	-	✓
Mr. Salim Al Awadi ^R	Non- Independent	✓	-	-	-	-	✗
Mr. Syed Abdul Majid	Non-Independent	✓	✓	✓	✓	Proxy	✗
Mr. Kazuaki Oguro ^R	Non-Independent	-	✓	✓	✓	-	✗
Ms. Misato Morishima	Non-Independent	-	✓	✓	✓	✓	✗
Mr. Mitsuru Yasuhara	Non-Independent	-	-	-	-	✓	-
Mr. Atsushi Koguchi ^R	Non-Independent	Proxy	-	-	-	-	-
Mr. Said Safrar	Independent	-	✗	✓	Proxy	✓	-
Mr. Ahmed Al Busaidi	Independent	-	✓	✓	✓	✓	-
Mr. Anshul Rai	Independent	-	✓	✓	✓	✓	-

* Chairman up to 26 April 2018

^R Resigned during the year

Legend:

✓ : Present | - : Not applicable | ✗ : Apologies

The Company held its Annual General Meeting ('AGM') of shareholders on 18 March 2018 for the year ended 31 December 2017.

Directors holding directorship/chairmanship in other joint stock companies in Oman as of 31 December 2018 is given as under:

Name of Director	Number of other SAOG companies	Position held
Mr. Said Safrar	3	Director

Board committees

• Audit Committee

The Board of Directors reconstituted the Audit Committee on 26 April 2018 by appointing three directors as Audit Committee members two of which are independent. The Chairman of the Audit Committee is an independent director. These members have required knowledge and experience of accounting, international financial reporting standards and commercial law that enable them to perform their functions. The Committee supports the Board in fulfilling its oversight and review function. The Committee reviews the Company's adherence to policies, procedures, practices and compliance with laws and regulations.

The Committee ensures that the financial statements prepared are in accordance with the International Financial Reporting Standards and the disclosure rules issued by the CMA.

A brief description of the terms of reference of the audit committee is as under:

- The audit committee has the power to seek required information and/or presence of any employee of the Company.
- Ensuring adequacy of the control environment and overseeing the issuance of financial statements to the stake holders.
- Acting as a communication channel between Auditors, Management and the Board.

Detail of meetings held during the year and attendance by the members is as under:

Name of the Director	Category	Audit Committee Meetings held during 2018			
		7 Feb	9 May	29 Jul	21 Oct
Mr. Hisakazu Iwasaki *	Non-Independent	✓	-	-	-
Mr. Salim Al Awadi	Non-Independent	✓	-	-	-
Mr. Syed Abdul Majid	Non-Independent	✓	-	-	-
Mr. Said Safrar (Chairman)	Independent	-	✓	Proxy	✓
Ms. Misato Morishima	Non-Independent	-	✓	✓	✓
Mr. Anshul Rai	Independent	-	✓	✓	✓

* Chairman up to 26 April 2018

Legend: ✓ : Present | - : Not applicable | ✕ : Apologies

The Audit Committee heard the views of the external auditors before forwarding the financial statements for the year 2018 to the Board of Directors in their meeting held on 14 February 2019.

By interaction with, and oversight of the Management and the Auditors along with evaluation of submitted reports, the Audit Committee reviewed the effectiveness of the internal control system and found it to be adequate and effective.

• Nomination and Remuneration Committee

The Board of Directors constituted the Nomination and Remuneration Committee on 26 April 2018 by appointing three directors as its members one of which is independent. These members possess adequate knowledge and experience to carry out their responsibilities diligently. The Committee assisted the shareholders during the general meeting in the nomination of the most proficient directors to sit on the board and aims to assist the board in selecting the appropriate and necessary executives for the Executive Management. The Committee meets at least 2 times annually.

A brief description of the terms of reference of the Nomination and Remuneration Committee is as under:

- Ensuring the nominated directors possess the necessary skills and abilities as has been defined in the Code.
- Ensure a succession strategy in place for directors and the executive management.

Detail of meeting held during the year and attendance by the members is as under:

Name of the Director	Category	NRC Meetings held during 2018	
		10 Dec	12 Dec
Mr. Mitsuru Yasuhara (Chairman)	Non-Independent	✓	✓
Mr. Ahmed Al Busaidi	Independent	✓	✓
Mr. John Clark	Non-Independent	✓	✓

Process of nomination of directors

Directors are selected as per the Articles of Association of the Company at the AGM. The process calls for any individual or registered shareholders to file their nominations for the post of directors in prescribed form as stipulated by the CMA. The nomination files are scrutinized as prescribed by the CMA guidelines before being accepted. Elections are held by ballot at the AGM.

Pursuant to the terms of Article 95 of the Commercial Companies Law No 4/1974 as translated and Articles of Association of the Company, the tenure of the members of the Board shall be for three (3) years.

Remuneration

Members of the board and other committees

Members of the Board are entitled to a sitting fee of RO 400 per meeting attended during the year. Audit Committee and Nomination & Remuneration Committee are entitled to a sitting fee of RO 200 per meeting attended during the year. The sitting fee of Directors for the year ended 31



December 2018 amounted to RO 16,000 for Board and its Committee meetings attended during the year. The Company has paid no remuneration to directors during the year.

Key management personnel

The Company only includes 3 Top Officers who are approved by the board namely Chief Executive Officer, Chief Financial Officer and acting Chief Operating Officer.

The key management personals were paid an aggregated amount of RO 334,129 which includes secondment fees, end of service benefits and performance related discretionary bonuses. The remuneration paid is commensurate with the qualification, role, responsibility and performance of the executives during the year 2018.

Details of the non-compliance by the Company

There were no penalties or strictures imposed on the Company by CMA, MSM or any other statutory authority on any matter related to capital markets during the year 2018.

Means of Communication with Shareholders and Investors

The Company communicates its financial results and material information by uploading the same on the Muscat Securities Market ('MSM') website. The Company is committed to publishing its quarterly unaudited financial results and annual audited results in two newspapers, English and Arabic. The annual accounts and the Directors' report are dispatched to all the shareholders by mail as required by law and are also available at the Company's Office. The Company discloses its initial and unaudited financial results by uploading the same onto the MSM website. The Company is available to meet its shareholders and their analysts as and when needed.

The Management Discussion and Analysis Report appended to this report assure fair presentation of the affairs of the Company.

Market price and Company's stock performance

The Company was listed on the Muscat Securities Market on 5 September 2018. The monthly high/low prices of the Company shares from 5 September 2018 to 31 December 2018 are as shown below:

Year 2018	Dhofar Generating Company		MSM (Services Sector)	
September 2018	0.224	0.222	2,488	2,375
October 2018	0.219	0.214	2,485	2,389
November 2018	0.222	0.222	2,427	2,347
December 2018	0.218	0.216	2,398	2,280

Source: MSM website

The shareholding of the Company is widely distributed. The pattern of shareholding, major shareholders and their shareholdings as on 31 December 2018, were as follows:

Shareholders by type	Shareholding
Omani	41.5%
GCC nationals	54.0%
Foreigners	4.5%

Source: MCDC website

Major shareholders	Shareholding
MAP Power Holding Company Limited	27.0%
Mitsui & Co. Middle East and Africa Projects Investment & Development Limited	27.0%
Public Authority for Social Insurance	7.5%
Dhofar International Energy Services Co LLC	6.0%
Shareholders holding less than 5%	32.5%

Source: MCDC website

The Company has not issued any securities or convertible financial instruments which have any impact on equity.

Professional profile of External Auditor

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 7,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEA practice, with over 4,600 partners and approximately 106,775 professionals. Globally, EY operates in more than 150 countries and employs 261,559 professionals in 700 offices. During the year RO 9,700/- was charged by external auditors against the audit services rendered by them to the organization Please visit www.ey.com for more information about EY.

Acknowledgement

The Board of Directors acknowledges as at 31 December 2018:

- Its' responsibility for the preparation of financial statements in accordance with the applicable standards and rules.
- Review of the efficiency and adequacy of internal control systems of the Company and that it complies with internal rules and regulations.
- That there is no material matter that affects the continuation of the company and its ability to continue its production and operations during the next financial year.

Yours faithfully



Naif Al Awaid
Chief Executive Officer



Javed Mustafa
Chief Financial Officer





FINANCIAL STATEMENTS

For the year ended 31 December 2018

Contents	Page
Independent Auditor's report	24 - 29
Statement of comprehensive income	30
Statement of financial position	31
Statement of cash flows	32
Statement of changes in equity	33
Notes to the financial statements.....	34 - 66

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DHO FAR GENERATING COMPANY SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Dhofar Generating Company SAOG ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of 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 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis of 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* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these 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 period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
DHO FAR GENERATING COMPANY SAOG (CONTINUED)**

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
<p>1. Valuation of derivative financial instruments</p> <p>The Company has entered into interest rate swap agreements with international banks to hedge interest rate risks. Hedge accounting and the valuation of hedging instruments which is determined through the application of valuation techniques, often involve the exercise of management judgement and the use of assumptions and estimates. Due to the significance of derivative financial instruments and the related estimation uncertainty, this is considered a key audit matter.</p> <p>The Company's accounting policies and disclosures on derivative financial instruments are disclosed in note 2.4.9 and note 13 to the financial statements.</p>	<p>We obtained assurance over the appropriateness of management's assumptions applied in hedge accounting by:</p> <ul style="list-style-type: none"> • Assessing the overall process related to derivative instruments and hedge accounting including internal management policies and procedures; • Evaluating the appropriateness of management's hedge documentation and contracts; • We involved our internal valuation specialists to assist in with our audit of the valuation model, the price curves, and of unobservable inputs to the model and assessment of hedge effectiveness to ensure the accounting is in line to IFRS 9 financial instruments; • Obtaining confirmation of year end derivative financial instruments from counterparties. <p>These contracts are recorded at fair value and qualify for hedge accounting. These contracts give rise to derivative financial liability as disclosed in note 12 and 13 in the financial statements in accordance with IFRS.</p>

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DHOFAR GENERATING COMPANY SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

<p>2. Capitalisation of plant</p> <p>During the year, the Company had completed the construction of its new plant, started the operation from 1 January 2018 and capitalised the cost in plant.</p> <p>We consider the capitalisation as a key audit matter based on the following judgments made by the management:</p> <ul style="list-style-type: none"> ➤ The amounts included in the capital work in progress have met the capitalisation criteria ➤ The transfer of capital work in progress to depreciable assets when the plant was ready for its intended use as assessed by the management ➤ Determination of appropriate useful life of depreciable asset <p>The related accounting policies, critical accounting estimates and judgements and disclosures are set out in notes 2.4.6, 3.4 and 4 respectively, to the financial statements.</p>	<p>Our audit procedures in this matter included the following :</p> <ul style="list-style-type: none"> • Assessed the nature of the costs incurred during the construction phase of the plant through testing on a sample basis and assessed whether the nature of the expenditure met the capitalisation criteria. • Tested, on a sample basis, the assets transferred from capital work-in-progress and considered as put to use by the management upon the issuance of commercial operation date certificate from contractor. • Assessed the appropriateness of the determination of the assets useful lives • Considered the appropriateness of the disclosures in note 4 to the financial statements in accordance with the relevant requirements of IFRSs.
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DHO FAR GENERATING COMPANY SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Other information included in the Company 2018 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Company's 2018 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2018 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

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 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 obtained prior to the date of the 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

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance 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, those charged with governance are 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 those charged with governance either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DHO FAR GENERATING COMPANY SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

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.

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

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



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DHO FAR GENERATING COMPANY SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

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


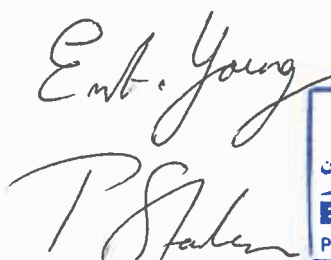
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.



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س.ت: ١٣-١٢٢٤
ص.ت: ١٧٥٠-روي-١١٢، سلطنة عمان
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Philip Stanton
Muscat
14 February 2019



STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RO	2017 RO
Revenue	19	39,397,336	15,421,421
Operating costs	20	(28,080,745)	(13,988,998)
GROSS PROFIT		11,316,591	1,432,423
General and administrative expenses	21	(683,075)	(180,644)
Finance costs	23	(7,406,372)	(1,009,811)
Other income		-	8,000
PROFIT BEFORE TAX		3,227,144	249,968
Income tax expense	18	(2,867,864)	(728,562)
Net profit/ (loss) for the year		359,280	(478,594)
Other comprehensive income/ (expense)			
Items that may be reclassified subsequently to profit or loss			
Fair value gain/(loss) arising during the year on cash flow hedge - net of tax	12	3,221,415	(2,067,904)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		3,580,695	(2,546,498)
Basic and diluted earnings per share	24	0.004	(0.957)

STATEMENT OF FINANCIAL POSITION

AT 31 December 2018

	Notes	2018 RO	2017 RO
ASSETS			
Non-current assets			
Plant, equipment	4	157,140,507	1,235,542
Finance lease receivable	5	54,514,265	56,779,844
Capital work in progress	4	-	146,839,736
		<u>211,654,772</u>	<u>204,855,122</u>
Current assets			
Inventories	6	5,629,348	3,924,783
Finance lease receivable	5	2,265,579	2,088,485
Trade and other receivables	7	3,226,837	3,293,312
Advances and prepayments	8	173,251	263,524
Cash and cash equivalents	9	10,106,712	2,562,308
		<u>21,401,727</u>	<u>12,132,412</u>
TOTAL ASSETS		<u>233,056,499</u>	<u>216,987,534</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	22,224,000	500,000
Proposed increase in share capital	10	-	21,724,000
Legal reserve	11	202,595	166,667
Retained earnings		30,250,353	29,927,001
Cash flow hedge reserve	12	(1,222,955)	(4,444,370)
Total equity		<u>51,453,993</u>	<u>47,873,298</u>
Non-current liabilities			
Long term loan	16	152,625,279	146,781,487
Fair value of the cash flow hedge	12	1,438,771	5,228,670
Provision for decommissioning cost	14	4,067,655	3,000,900
Provision for major maintenance	15	3,917,732	4,423,638
End of service benefits payable		42,862	53,970
Deferred tax liability - net	18	5,977,517	2,386,360
		<u>168,069,816</u>	<u>161,875,025</u>
Current liabilities			
Long term loan	16	6,979,251	3,792,543
Trade and other payables	17	6,553,439	3,291,859
Provision for tax	18	-	154,809
		<u>13,532,690</u>	<u>7,239,211</u>
Total liabilities		<u>181,602,506</u>	<u>169,114,236</u>
TOTAL EQUITY AND LIABILITIES		<u>233,056,499</u>	<u>216,987,534</u>
Net assets per share	30	<u>0.232</u>	<u>95.747</u>

The financial statements were approved by a resolution of the Board of Directors on 14 February 2019.



Chief Executive Officer



Chief Financial Officer



STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 RO	2017 RO
OPERATING ACTIVITIES			
Profit before tax		3,227,144	249,968
Adjustments for:			
Depreciation	5	3,949,946	129,624
Finance costs	23	7,406,372	1,009,811
Interest income on finance lease		(4,730,626)	(4,897,207)
Net charge of end of service benefit		(11,108)	32,973
		9,841,728	(3,474,831)
Working capital changes:			
Inventories		(1,704,565)	56,502
Trade and other receivables		66,475	(1,814,292)
Trade and other payables		2,117,653	956,712
Advances and prepayments		90,273	(89,019)
Cash generated from/ (used in) operations		10,411,564	(4,364,928)
Finance lease instalments (power capacity payments) received		6,819,111	6,896,794
Tax paid during the period	18	-	(49,415)
Net cash from operating activities		17,230,675	2,482,451
INVESTING ACTIVITIES			
Major maintenance - payment	15	(631,408)	(2,318,079)
Additions to equipment and capital work-in-progress	5	(12,086,656)	(57,025,713)
Net cash used in investing activities		(12,718,064)	(59,343,792)
FINANCING ACTIVITIES			
Repayment of shareholders' loan		-	(926,492)
Finance cost paid		(5,798,485)	(4,961,042)
Proceeds from long term loan	16	13,074,003	63,864,215
Repayment of long term loan	16	(4,243,725)	-
Net cash from financing activities		3,031,793	57,976,681
INCREASE IN CASH AND CASH EQUIVALENTS		7,544,404	1,115,340
Cash and cash equivalents at beginning of the year	9	2,562,308	1,446,968
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		10,106,712	2,562,308

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital RO	Proposed share capital RO	Legal reserve RO	Retained earnings RO	Cash flow hedge reserve RO	Total RO
Balance at 1 January 2017	500,000	-	166,667	30,405,595	(2,376,466)	28,695,796
Proposed increase in share capital (note 10)	-	21,724,000	-	-	-	21,724,000
Loss for the year	-	-	-	(478,594)	-	(478,594)
Other comprehensive loss for the year	-	-	-	-	(2,067,904)	(2,067,904)
Total comprehensive income for the year	-	-	-	(478,594)	(2,067,904)	(2,546,498)
Balance at 1 January 2018	500,000	21,724,000	166,667	29,927,001	(4,444,370)	47,873,298
Registration of share capital (note 10)	21,724,000	(21,724,000)	-	-	-	-
Profit for the year	-	-	-	359,280	-	359,280
Other comprehensive income for the year	-	-	-	-	3,221,415	3,221,415
Total comprehensive income for the year	-	-	-	359,280	3,221,415	3,580,695
Transfer to legal reserve	-	-	35,928	(35,928)	-	-
Balance at 31 December 2018	<u>22,224,000</u>	<u>-</u>	<u>202,595</u>	<u>30,250,353</u>	<u>(1,222,955)</u>	<u>51,453,993</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. ACTIVITIES

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

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

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

Agreements

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Changes in accounting policies

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

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

For the year ended 31 December 2018, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on or after 1 January 2018.

- IFRS 15 - Revenue from contracts with customer
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40 Transfers of Investment Property
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice"
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

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

2.2.2. Adoption of IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company adopted IFRS 15 Revenue from contracts with customers using the modified retrospective method with initial date of application of 1 January 2018. Modified retrospective method was applied to all contracts at the date of initial application which allows the cumulative impact of the adoption to be recognised in retained earnings as of 1 January 2018 and the comparatives not to be restated.

The adoption of IFRS 15 did not have material impact on statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity as of 1 January 2018 as in accordance with the contract with customer, all the revenue streams falling under purview of IFRS 15 have only one performance obligation which is expected to occur over the time as the customer simultaneously receives and consumes the benefits provided by the Company.

2.3. Standards issued but not yet effective

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Standards issued but not yet effective (continued)

2.3.1. IFRS 16

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

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

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

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

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

Transition to IFRS 16

The Company plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

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

During 2018, the Company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:

	OMR '000
Assets	
Right-to-use assets	4,586
Liabilities	
Lease liabilities	4,808
Net impact on equity	(222)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Standards issued but not yet effective (continued)

2.3.2. IFRS 17 Insurance Contracts

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

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

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

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

2.3.3. IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

2.3.4. Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Standards issued but not yet effective (continued)

2.3.5. Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

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

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

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

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

These improvements include:

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

2.4. Summary of significant accounting policies

Following are the significant accounting policies adopted by the Company;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

2.4.1. Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

2.4.2. Fair value measurement

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

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

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

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

2.4.2. Fair value measurement (continued)

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

2.4.3. Revenue from contracts with customers

Accounting policies for revenue adopted with effect from 1 January 2018

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

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

(a) Capacity charges

The PPA of the Company is finance lease arrangement for the existing 273 MW power plant and operating lease arrangement for the new 445MW power plant. The treatment for 273 MW plant is a finance lease arrangement and lease interest income is recognised in the statement of comprehensive income. Capacity charge covering the investment charge received under the PPA, are finance lease payments. Amounts received in relation to electricity energy charges (covering the fuel charge and variable operating and maintenance charge) are contingent rental receipts. Capacity charge covering fixed O&M charge is linked to making available the capacity to OPWP and is revenue to the Company.

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

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

(b) Output charges

Output charges are recognised as revenue upon delivery of electricity to the national grid which accrue over time when the customer accepts deliveries and there is no unfulfilled performance obligation that could affect the customer's acceptance of the project.

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

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

Accounting policies for revenue policy upto up to 31 December 2017

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

2.4.3. Revenue from contracts with customers (continued)

Revenue comprises tariffs for capacity, energy charges and fuel allowance calculated and recognized in accordance with the Power Purchase Agreement with Oman Power and Water Procurement Company SAOC. Interest revenue is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

2.4.4. Taxes

Current income tax

Taxation is provided in accordance with Omani fiscal regulations.

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

Deferred tax

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

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

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

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

2.4.5. Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

2.4.6. Plant and equipment

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

Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

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

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

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

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

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

2.4.7. Leases

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

2.4.7. Leases

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

Finance lease as a lessor

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

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

Operating lease as a lessee

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

2.4.8. Financial instruments – initial recognition and subsequent measurement

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

2.4.8.1. Financial assets

Initial recognition and measurement

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

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

2.4.8.1. Financial assets (continued)

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Derecognition

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

2.4.8.1. Financial assets (continued)

Impairment of financial assets

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

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

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

2.4.8.2. Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

2.4.8.2. Financial liabilities (continued)

Loans and borrowings

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

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

Derecognition

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

2.4.9. Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

2.4.9. Derivative financial instruments and hedge accounting (continued)

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

Cash flow hedges

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

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

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

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

2.4.10. Inventories

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

2.4.11. Provisions

General

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

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

Decommissioning liability

The Company records a provision for decommissioning costs as there is a present obligation as a result of activities undertaken pursuant to the Usufruct and PPA. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the statement



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

2.4.11. Provisions (continued)

of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Major maintenance

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

2.4.12. Employee benefits

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

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

2.4.13. Trade receivable

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

2.4.14. Cash and cash equivalents

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

2.4.15. Trade and other payable

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

2.4.16. Share capital

Share capital is recorded at the proceeds received.

2.4.17. Dividend on ordinary shares

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

2.4.18. Directors' remuneration

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

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

3.1. Leases

The Company has entered into the PPA with OPWP to generate electricity and make available the power capacity from its Plant. The PPA covers both the plants i.e 273 MW power plant and 445 MW power plant. Management considers the requirements of IFRIC 4, "Determining Whether an Arrangement Contains a Lease", which sets out guidelines to determine when an arrangement might contain a lease.

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

Once a determination is reached that an arrangement contains a lease, the lease arrangement is classified as either financing or operating according to the principles in IAS 17, Leases. A lease that conveys the majority of the risks and rewards of operation is a finance lease. A lease other than a finance lease is an operating lease.

(I) Finance lease

Based on management's evaluation, the PPA with OPWP with respect to 273 MW power plant has been classified as a finance lease under IAS 17, since significant risks and rewards associated with the ownership of the plant are transferred to OPWP. As per the terms of PPA, the power generation is dependent on the Company's plant and OPWP, being the sole procurer of power generation in Oman, obtains significant amount of the power generated by the Company's plant. accordingly, management has concluded that the PPA satisfies the requirements of IFRIC 4, Determining whether an arrangement contains a lease. Further management has assessed the lease classification as per the requirements of International Accounting Standard 17 Lease and has concluded that the arrangement is a finance lease, as the term of PPA is for the major part of the remaining economic life of the Company's plant. Accordingly, a finance lease receivable has been recognised in the financial statements.

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

(II) Operating lease

Based on management's evaluation, the PPA with OPWP with respect to 445 MW power plant has been classified as a operating lease under IAS 17 since significant risks and rewards associated with the ownership of the plant lies with the Company and not with OPWP. The primary basis for this conclusion is that the PPA is for a term of 15 years while the economic life of the power plant is estimated to be forty years. The present value of minimum lease payments under the PPA does not substantially recover the fair value of the plant at the inception of the lease. Further, the residual risk is borne by the Company and not OPWP.

3.2. Provision for decommissioning obligation

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.3. Provision for major maintenance

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

3.4. Useful lives and residual value of equipment

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

3.5. Going concern

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

3.6. Taxes

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

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

3.7. Impairment of account receivable

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

3.8. Impairment of finance lease receivables

The Company assesses on a forward looking basis the expected credit losses associated with its finance lease receivable, carried at amortised cost. The impairment provisions for financial lease receivable was assessed based on the "Expected Credit Loss" model, using assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the past history, existing market conditions as well as forward looking estimates at the end of each reporting period. As at the reporting date, the impairment impact is considered to be immaterial.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

4. PLANT, EQUIPMENT AND CAPITAL WORK IN PROGRESS

	Plant	Plant capital spares	Decommissioning asset	Computers and equipment	Computer software	Motor Vehicles	Furniture and fixture	Sub total	Capital work-in-progress	Total RO
	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO
Cost:										
At 1 January 2018	-	1,374,461	-	107,350	102,254	19,750	57,880	1,661,695	146,839,736	148,501,431
Additions	-	-	928,519	-	-	-	-	928,519	12,086,656	13,015,175
Transfer	158,926,392	-	-	-	-	-	-	158,926,392	(158,926,392)	-
At 31 December 2018	158,926,392	1,374,461	928,519	107,350	102,254	19,750	57,880	161,516,606	-	161,516,606
Depreciation:										
At 1 January 2018	-	305,436	-	57,190	43,768	5,371	14,388	426,153	-	426,153
Depreciation for the year	3,792,899	76,359	23,213	21,498	20,451	3,950	11,576	3,949,946	-	3,949,946
At 31 December 2018	3,792,899	381,795	23,213	78,688	64,219	9,321	25,964	4,376,099	-	4,376,099
Net book value:										
At 31 December 2018	155,133,493	992,666	905,306	28,662	38,035	10,429	31,916	157,140,507	-	157,140,507
Cost:										
At 1 January 2017	-	1,374,461	-	90,603	67,595	19,750	57,880	1,610,289	85,461,208	87,071,497
Additions	-	-	-	16,747	34,659	-	-	51,406	61,378,528	61,429,934
At 31 December 2017	-	1,374,461	-	107,350	102,254	19,750	57,880	1,661,695	146,839,736	148,501,431
Depreciation:										
At 1 January 2017	-	229,077	-	38,511	24,473	1,656	2,812	296,529	-	296,529
Depreciation for the year	-	76,359	-	18,679	19,295	3,715	11,576	129,624	-	129,624
At 31 December 2017	-	305,436	-	57,190	43,768	5,371	14,388	426,153	-	426,153
Net book value:										
At 31 December 2017	-	1,069,025	-	50,160	58,486	14,379	43,492	1,235,542	146,839,736	148,075,278



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

4. PLANT, EQUIPMENT AND CAPITAL WORK IN PROGRESS (continued)

- (i) Capital work in progress includes finance cost capitalised during the period of RO nil (2017: 8,196,805) incurred in respect of long terms loans (note 16) to finance project costs.
- (ii) The Company transferred RO 158,926,392 (2017 - RO Nil) from capital work in progress to plant on achievement of commercial operation date of 445 MW power plant on 1 January 2018.
- (iii) All plant and equipment are mortgaged with banks against the term loan (note 16)
- (iv) The depreciation charge has been allocated in the statement of comprehensive income as follows:

	2018	2017
	RO	RO
Operating costs (note 20)	3,892,471	76,359
Administrative and general expenses (note 21)	57,475	53,265
	<u>3,949,946</u>	<u>129,624</u>

5. FINANCE LEASE RECEIVABLES

As mentioned in note 3.1 , the arrangement for 273 MW power plant is a finance lease. Accordingly, a finance lease receivable has been recognised for the 273 MW power plant in the financial statements.

	2018	2017
	RO	RO
Non-current	54,514,265	56,779,844
Current	2,265,579	2,088,485
	<u>56,779,844</u>	<u>58,868,329</u>

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

	Less than 1 year RO	Between 1 and 2 years RO	Between 2 and 5 years RO	More than 5 years RO	Total RO
31 December 2018					
Gross finance lease receivables	6,819,111	6,819,111	34,095,557	47,733,780	95,467,559
Less: unearned finance income	(4,553,532)	(4,361,422)	(18,304,431)	(11,468,331)	(38,687,716)
	<u>2,265,579</u>	<u>2,457,689</u>	<u>15,791,126</u>	<u>36,265,449</u>	<u>56,779,844</u>
31 December 2017					
Gross finance lease receivables	6,819,111	6,819,111	34,095,557	54,552,892	102,286,671
Less: unearned finance income	(4,730,626)	(4,553,533)	(19,538,776)	(14,595,408)	(43,418,343)
	<u>2,088,485</u>	<u>2,265,579</u>	<u>14,556,781</u>	<u>39,957,484</u>	<u>58,868,329</u>

The carrying amount of the lease was increased in 2016 by the provision for major maintenance (note 15)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

6. INVENTORIES

	2018	2017
	RO	RO
Spares and consumables	2,958,345	2,803,723
Fuel	2,671,003	1,121,060
	<u>5,629,348</u>	<u>3,924,783</u>

7. TRADE AND OTHER RECEIVABLES

	2018	2017
	RO	RO
Trade receivables from OPWP	2,681,517	1,958,395
Amount due from related parties (note 25)	148	8,514
Other receivables	545,172	1,326,403
	<u>3,226,837</u>	<u>3,293,312</u>

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

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

8. ADVANCES AND PREPAYMENTS

	2018	2017
	RO	RO
Prepaid expenses	166,576	62,995
Advances and others	6,675	200,529
	<u>173,251</u>	<u>263,524</u>

9. CASH AND CASH EQUIVALENTS

	2018	2017
	RO	RO
Cash at bank	10,104,872	2,560,433
Cash in hand	1,840	1,875
	<u>10,106,712</u>	<u>2,562,308</u>

As of 31 December 2018, the Company has undrawn overdraft facility amounting to RO 7,700,000 (2017 - nil) with the interest rate of 3.5% per annum (2017 - nil).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

10. SHARE CAPITAL

The authorised share capital of the Company as at 31 December 2018 is RO 120,000,000 (2017 - RO 500,000). At an Extra Ordinary General Meeting held on 20 December 2017, it was resolved to split the nominal value of each share from RO 1 to 100 Baiza and to split each share into 10 shares.

It was further resolved to increase the Company's issued and paid up capital from RO 500,000 to RO 22,224,000 divided into 222,240,000 shares by converting the shareholders' loan amounting to RO 21,724,000 (note 13). As of 31 December 2017, as the process of registration was not completed, it was presented as proposed increase in share capital. During the current year, this was approved by Ministry of Commerce and Industry and new commercial registration was available on 20 March 2018.

The Company has one class of ordinary shares which carry no right to fixed income.

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

	31 December 2018		31 December 2017	
	Percentage shareholding	No. of shares	Percentage shareholding	No. of shares
MAP Power Holding Company Limited	27%	60,004,800	89.998%	449,990
Mitsui & Co. Middle East and Africa Projects				
Investment & Development Limited	27%	60,004,800	0%	-
General Authority for Social Insurance	7.5%	16,668,000	10%	50,000

11. LEGAL RESERVE

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

12. CASH FLOW HEDGE RESERVE

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

	2018	2017
	RO	RO
At 1 January	(4,444,370)	(2,376,466)
Change in fair value during the year	3,789,899	(2,528,140)
Less: related deferred tax asset (note 18)	(568,484)	460,236
Change in fair value of hedge - net of tax	(1,222,955)	(4,444,370)

All the interest rate swaps are designated and effective as cash flow hedges and the fair value thereof has been recognised directly in other comprehensive income and presented in statement of changes in equity, net of related deferred tax.

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

13. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Negative fair value RO	Notional amount total RO	Notional amount by term to maturity		
			1-12 months RO	More than 1 upto 5 years RO	Over 5 years RO
31 December 2018					
Interest rate swaps	<u>1,438,771</u>	<u>88,500,601</u>	<u>3,890,280</u>	<u>16,434,913</u>	<u>68,175,408</u>
31 December 2017					
Interest rate swaps	<u>5,228,670</u>	<u>90,828,146</u>	<u>2,327,545</u>	<u>16,092,944</u>	<u>72,407,657</u>

14. PROVISION FOR DECOMMISSIONING COSTS

	2018 RO	2017 RO
At 1 January	3,000,900	2,920,584
Provision made during the period	928,519	-
Unwinding of discount on decommissioning cost provision (Note 23)	138,236	80,316
At 31 December	<u>4,067,655</u>	<u>3,000,900</u>

Decommissioning costs represents the present value of management's best estimate of the future outflow of the economic benefits that will be required to remove the facilities and restore the affected area at the Company's rented sites. The cost estimate has been discounted to present value using the rate that reflects the risk profile of the Company.

15. PROVISION FOR MAJOR MAINTENANCE

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

	2018 RO	2017 RO
At 1 January	4,423,638	6,585,146
Unwinding of discount on major maintenance	125,502	156,571
Payments made during the year	(631,408)	(2,318,079)
At 31 December	<u>3,917,732</u>	<u>4,423,638</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

16. LONG TERM LOAN

	2018	2017
	RO	RO
At 1 January	152,502,471	88,638,256
Received during the year	13,074,003	63,864,215
Paid during the year	(4,243,725)	-
Gross loan amount	161,332,749	152,502,471
Less: Unamortised arrangement fee	(1,728,219)	(1,928,441)
At 31 December	159,604,530	150,574,030
Current portion	6,979,251	3,792,543
Non-current portion	152,625,279	146,781,487
	159,604,530	150,574,030

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

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

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

The Rial Omani facility includes stand-by facility of RO 3,032,646.

The repayment schedule of gross term loan is as follows:

	2018	2017
	RO	RO
Payable within one year	7,089,985	3,908,638
Payable between 1 and 2 years	7,363,186	6,530,156
Payable between 2 and 5 years	22,596,221	20,487,182
Payable after 5 years	124,283,357	121,576,495

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

The loan is secured by a charge on all project assets, assignment of insurance / reinsurances, agreement for security over promoters' shares and charge over the Company's project accounts. The weighted average effective interest rate on the bank loans is 3.61% per annum (2017: 2.51%) for USD facility and 4.60% per annum (2017: 4.60%) per annum for OMR Facility (overall effective rate 4.02% per annum) (2017: 3.39%).

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

17. TRADE AND OTHER PAYABLES

	2018	2017
	RO	RO
Trade payables	2,379,765	2,472,326
Amount due to related parties (note 25)	501,493	399,177
Accrued expenses	3,665,422	329,854
Other payables	6,759	90,502
	6,553,439	3,291,859

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

18. TAXATION

	2018 RO	2017 RO
Statement of comprehensive Income		
Current tax (reversal)/charge	(154,809)	154,825
Deferred tax charge	3,022,673	573,737
	<u>2,867,864</u>	<u>728,562</u>
Statement of financial position		
Non-Current liability:		
Deferred tax	<u>5,977,517</u>	<u>2,386,360</u>
Current liability		
Current year	-	154,809
	<u>-</u>	<u>154,809</u>
	2018 RO	2017 RO
Provision for taxation movement:		
1 January	154,809	49,399
Charge for the period	-	154,825
Reversal during the period	(154,809)	-
Tax paid in current year	-	(49,415)
31 December	<u>-</u>	<u>154,809</u>

The income tax charge for the year 2017 is reversed during the current year on account of change in basis of claiming tax allowances for certain expenses.

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

	2018 RO	2017 RO
Accounting profit before tax	3,227,144	249,968
Tax at the rate of 15%	484,072	37,495
Add tax effect of:		
Expenses not allowed in tax	1,216	41,562
Deferred tax prior year	150,408	-
Deferred tax not recognised on tax losses	2,386,977	-
Increase of deferred tax due to income tax rate increase (12% - 15%)	-	649,231
Current tax reversal of prior year	(154,809)	-
Others	-	274
Tax expense for the year	<u>2,867,864</u>	<u>728,562</u>

Tax assessments of the Company have been completed up to tax year 2012. The management considers that the amount of additional taxes, if any, that may become payable on finalisation of the open tax years would not be material to the Company's financial position as at 31 December 2018.

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

18. TAXATION (continued)

Deferred tax

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

	Deferred tax recognised in			
	At 1 January	Profit or loss	Other comprehensive income	At 31 December
	RO	RO	RO	RO
2018				
Deferred tax asset				
Provision for major maintenance cost	-	587,660	-	587,660
Provision for decommissioning cost	-	610,148	-	610,148
Cash flow hedge reserve	784,300	-	(568,484)	215,816
	<u>784,300</u>	<u>1,197,808</u>	<u>(568,484)</u>	<u>1,413,624</u>
Deferred tax liability				
Accelerated tax depreciation	(61,563)	(3,008,359)	-	(3,069,922)
Unrealised gain on recognition of finance lease	(3,109,097)	87,551	-	(3,021,546)
Finance lease receivable for decommissioning asset	-	(282,724)	-	(282,724)
Finance lease receivable for major maintenance	-	(881,153)	-	(881,153)
Decommissioning asset	-	(135,796)	-	(135,796)
	<u>(3,170,660)</u>	<u>(4,220,481)</u>	<u>-</u>	<u>(7,391,141)</u>
Deferred tax liability - net	<u>(2,386,360)</u>	<u>(3,022,673)</u>	<u>(568,484)</u>	<u>(5,977,517)</u>
			Other comprehensive income	
	At 1 January	Profit or loss	income	At 31 December
	RO	RO	RO	RO
2017				
Deferred tax asset				
Cash flow hedge reserve	324,064	-	460,236	784,300
Deferred tax liability				
Accelerated tax depreciation	(43,154)	(18,409)	-	(61,563)
Unrealised gain on recognition of finance lease	(2,553,769)	(555,328)	-	(3,109,097)
Deferred tax asset/ (liability) - net	<u>(2,272,859)</u>	<u>(573,737)</u>	<u>460,236</u>	<u>(2,386,360)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

19. REVENUE

	2018	2017
	RO	RO
Revenue from a contract with a customer		
Fuel cost allowance	15,029,789	9,496,781
Fixed operation and maintenance allowance	6,786,284	919,969
Electrical energy allowance	89,129	72,902
Material adverse change event revenue /(reversal) *	(34,562)	34,562
	<u>21,870,640</u>	<u>10,524,214</u>
Revenue from lease contracts		
Interest income on finance lease	4,730,626	4,897,207
Investment charge income	12,796,070	-
	<u>17,526,696</u>	<u>4,897,207</u>
	<u>39,397,336</u>	<u>15,421,421</u>

* On 20 February 2017, through Royal Decree 9/2017, income tax rate applicable on the Company has been increased from 12% to 15%. This increase falls under the provisions of material adverse change under the PPA. The Company is entitled to recover this incremental tax from the off taker and accordingly this was recognized as a receivable from off taker as on 31 December 2017. However, this was reversed during 2018 as the current tax liability for 2017 was nil computed based on the Income Tax Law Oman.

20. OPERATING COSTS

	2018	2017
	RO	RO
Fuel cost	15,067,818	9,759,271
Operation and maintenance charges	7,003,202	3,568,733
Depreciation (note 5)	3,892,471	76,359
Insurance	656,201	222,905
Employee costs (note 22)	645,474	142,399
Transmission connection charges	342,120	117,529
Repair, maintenance and electricity import cost	329,495	-
Usufruct charges	133,350	63,059
Others costs	10,614	38,743
	<u>28,080,745</u>	<u>13,988,998</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

21. ADMINISTRATIVE AND GENERAL EXPENSES

	2018	2017
	RO	RO
Legal and professional charges	163,417	31,420
Entertainment	102,782	-
Travelling expenses	57,743	4,981
Depreciation (note 5)	57,475	53,265
License fees to regulator	55,152	51,711
Information technology and software related expenses	53,114	2,009
Office expenses	46,550	
Communication expenses	43,283	7,653
Office rent	26,564	7,826
Director sitting fees	16,000	4,542
Training expenses	6,200	1,343
Miscellaneous expenses	54,795	15,894
	683,075	180,644

22. EMPLOYEE COSTS

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

	2018	2017
	RO	RO
Salaries, wages and other benefits	607,174	132,029
Contributions to a defined contribution retirement plan	17,673	3,424
Charge for employee end of service benefits	20,627	6,946
	645,474	142,399

23. FINANCE COSTS

	2018	2017
	RO	RO
Interest on long term loan	6,538,078	320,534
Interest rate swap payments (net)	253,447	-
Interest on loan from Shareholders (note 25)	-	452,390
Commitment fee	12,130	-
LC commission	138,757	-
Amortisation of deferred financing cost	200,222	-
Unwinding of discount on major maintenance (note 15)	125,502	156,571
Unwinding of discount on decommissioning cost provisions (note 14)	138,236	80,316
	7,406,372	1,009,811

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

24. EARNINGS PER SHARE

	2018	2017
	RO	RO
Profit/ (loss) for the year	359,280	(478,594)
Weighted average number of ordinary shares	95,865,600	500,000
	<u>0.004</u>	<u>(0.957)</u>

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

25. RELATED PARTY TRANSACTIONS

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

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

Significant related party balances and transactions for the year ended 31 December 2018 are as follows:

Balances at year end

	2018	2017
	RO	RO
Due from related parties (Note 7)		
International Company for Water and Power Projects	34	-
Shinas Generating Company SAOC	114	-
MAP Power Holding Company Limited	-	4,272
Ad Dhahirah Generating Company SAOC	-	2,144
APM Power Holding Company Limited	-	2,098
	<u>148</u>	<u>8,514</u>

Due to related parties (Note 18)

Dhofar O&M LLC	465,369	298,426
First National Company for Operation and Maintenance - Oman	36,124	58,167
International Company for Water and Power Projects	-	23,298
Mitsui & Co., Ltd	-	19,255
ACWA Power Global Services LLC	-	31
	<u>501,493</u>	<u>399,177</u>

Transactions during the period

O&M Fee and related charges	7,214,548	5,158,976
Secondment charges and expense reimbursement	641,622	425,617
Director sitting fees (note 21)	16,000	11,200
Goods and services received	<u>7,872,170</u>	<u>5,595,793</u>
Goods and services rendered	<u>279,048</u>	<u>353,609</u>
Repayment of shareholders' loan	-	926,492
Interest on shareholders' loan (Note 24)	-	452,390
Shareholder loan converted to equity	-	22,650,492



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

25. RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

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

	2018	2017
	RO	RO
Short-term employee benefits	334,129	344,445
Director sitting fees	16,000	11,200
	<u>350,129</u>	<u>355,645</u>

26. FINANCIAL RISK MANAGEMENT

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as at 31 December in 2018 and 2017.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives at 31 December 2018.

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

- The sensitivity of the relevant statement of comprehensive item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2018 and 2017 including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges for the effects of the assumed changes of the underlying risk.

Interest rate risk

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

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

At 31 December 2018, after taking into account the effect of interest rate swaps, 42% of the Company's borrowings are at a fixed rate of interest (2017: 42%).

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

	2018	2017
	RO	RO
Fixed rate		
Term loan	68,174,050	64,442,657
Variable rate		
Term loan	<u>93,158,699</u>	<u>88,059,814</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

26. FINANCIAL RISK MANAGEMENT (continued)

Interest rate sensitivity (continued)

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

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

	Profit or loss		Equity	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
31 December 2018				
Variable rate financial liabilities	(939,903)	939,903	(798,918)	798,918
Interest rate swaps	892,908	(892,908)	758,972	(758,972)
Net sensitivity	(46,995)	46,995	(39,946)	39,946
	Profit or loss		Equity	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
31 December 2017				
Variable rate financial liabilities	(54,464)	54,464	(46,294)	46,294
Interest rate swaps	51,741	(51,741)	43,980	(43,980)
Net sensitivity	(2,723)	2,723	(2,314)	2,315

Foreign currency risk

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

Credit risk

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

Trade receivables

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

This customer is transacting with the Company for couple of years and no impairment loss has been recognised against the customer. Accordingly the balance due from this customer is assessed to have a strong high credit quality or limited credit risk. At 31 December 2018, the Company had one customer (2017: 1).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

26. FINANCIAL RISK MANAGEMENT (continued)

Trade receivables (continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for the outstanding balance. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets and the amount is immaterial to the financial statements for the year ending 31 December 2018. The Company does not hold collateral as security. The Company evaluates the concentration of risk with respect to trade receivables as low, as its customer is located in Oman and it is a Government customer.

Finance lease receivable

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

Cash at bank

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

Credit Concentration

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

Liquidity risk

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

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

	Carrying Amount RO	Contractual cash flows RO	Less than 1 year RO	More than 1 year RO
31 December 2018				
Non-derivative financial liabilities				
Term loan	161,332,749	229,835,382	13,339,056	216,496,326
Trade payables	2,379,765	2,379,765	2,379,765	-
Due to related parties	501,493	501,493	501,493	-
	<u>164,214,007</u>	<u>232,716,640</u>	<u>16,220,314</u>	<u>216,496,326</u>
Derivative financial liabilities				
Gross payable under IRS	1,471,055	22,897,298	3,015,130	19,882,168
Gross receivable under IRS	(32,284)	(3,982,174)	(524,375)	(3,457,799)
Net payable under IRS	<u>1,438,771</u>	<u>18,915,124</u>	<u>2,490,755</u>	<u>16,424,369</u>
	<u>165,652,778</u>	<u>251,631,764</u>	<u>18,711,069</u>	<u>232,920,695</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

26. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Carrying Amount RO	Contractual cash flows RO	Less than 1 year RO	More than 1 year RO
31 December 2017				
Non-derivative financial liabilities				
Term loan	152,502,471	208,518,106	12,081,225	196,436,881
Trade payables	2,472,326	2,472,326	2,472,326	-
Due to related parties	399,177	399,177	399,177	-
	<u>155,373,974</u>	<u>211,389,609</u>	<u>14,952,728</u>	<u>196,436,881</u>
Derivative financial liabilities				
Gross payable under IRS	5,228,670	20,767,438	2,217,301	18,550,137
Gross receivable under IRS	-	-	-	-
Net payable under IRS	<u>5,228,670</u>	<u>20,767,438</u>	<u>2,217,301</u>	<u>18,550,137</u>
	<u>160,602,644</u>	<u>232,157,047</u>	<u>17,170,029</u>	<u>214,987,018</u>

27. CAPITAL MANAGEMENT

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

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

The capital structure of the Company comprises of net debt (borrowings as detailed in notes 16 offset by cash and bank balances) and equity of the Company (comprising the share capital, reserves and retained earnings). The Company is not subject to externally imposed capital requirements other than the requirements of the Commercial Companies Law of 1974, as amended.

27. CAPITAL MANAGEMENT

The Board regularly reviews the capital structure of the Company. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The gearing ratio at 31 December 2018 of 290.55% (31 December 2017: 309.17%) (see below).

Gearing ratio

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

	2018 RO	2017 RO
Debt (i)	159,604,530	150,574,030
Cash and bank balances	(10,106,712)	(2,562,308)
Net debt	149,497,818	148,011,722
Equity (ii)	51,453,993	47,873,298
Net debt to equity ratio	<u>290.55%</u>	<u>309.17%</u>

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

28. COMMITMENTS AND CONTINGENCIES

At 31 December 2018, the Company had contingent liabilities in respect of Debt Service Reserve Account ('DSRA') letter of credit amounting to RO 2,709,464 and USD 8,750,400 in accordance with the requirement of the Common Terms Agreement ('CTA') given in the normal course of business on which no material liabilities are expected to arise.

Sponsors' Fuel Reserve Account (FRA) Commitment

Under the Common Terms Agreement (CTA) the project's sponsors are required to provide the Fuel Reserve Account (FRA) commitment to the offshore trustee. The FRA commitment can be provided in the form of cash, letter of credit (LC) or letter of guarantee (LG). At 30 September 18 Mitsui & Co., Ltd and ACWA Power provided their support through letter of guarantee and letter of credit respectively, whereas DIDIC deposited the cash of OMR 311,930 in FRA bank account to comply with the CTA requirements. FRA bank balance and FRA support can only be utilized with lenders' and sponsors' consent, therefore DGC do not have any control on these amounts and the amount received from DIDIC is held in a fiduciary capacity and not accounted in these financial statements.

Operating lease commitments

The Company has entered into operating leases on land and transmission connection facilities, with lease terms between 15 and 25 years. Future minimum operating lease commitments under the non-cancellable leases are as follows;

	2018	2017
	RO	RO
Not later than one year	405,095	405,095
One to five years	2,025,476	2,025,476
After five years	4,118,054	4,523,149
	6,548,625	6,953,720

29. CAPITAL COMMITMENT

The Company has capital commitments of RO 158,408 (31 December 2017: RO 10,460,395) with contractors for construction and other activities.

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

30. NET ASSETS PER SHARE

	2018	2017
	RO	RO
Net assets – shareholder funds	51,453,993	47,873,298
Total number of ordinary shares	222,240,000	500,000
	0.232	95.747

31. SEGMENT REPORTING

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

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

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

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