

SEMBCORP SALALAH POWER & WATER COMPANY SAOG

INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020

Registered office:

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Postal Code 211
Salalah
Sultanate of Oman

Principal place of business:

Salalah
Sultanate of Oman

SEMBCORP SALALAH POWER & WATER COMPANY SAOG

INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020

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Independent auditor's report to the shareholders of Sembcorp Salalah Power & Water Company SAOG

Report on the audit of the interim financial statements

Our opinion

In our opinion, the interim financial statements present fairly, in all material respects, the financial position of Sembcorp Salalah Power & Water Company SAOG (the "Company") as at 30 September 2020, and its financial performance and its cash flows for the nine-month period then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's interim financial statements comprise:

- the interim statement of profit or loss and other comprehensive income for the nine-month period ended 30 September 2020;
- the interim statement of financial position as at 30 September 2020;
- the interim statement of changes in equity for the nine-month period then ended;
- the interim statement of cash flows for the nine-month period then ended; and
- the notes to the interim financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the interim financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the interim financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Sultanate of Oman.

Our audit approach

Overview

Key Audit Matter • Useful lives of assets

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the interim financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the interim financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

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Independent auditor's report to the shareholders of Sembcorp Salalah Power and Water Company SAOG (continued)

Our audit approach (continued)

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Useful lives of assets</p> <p>The Company operates its main generation and desalination plant under a single Power and Water Purchase Agreement ("PWPA") entered into with Oman Power and Water Procurement Company SAOC ("OPWP"), which is the single buyer of power and water for all projects within the Sultanate of Oman. The PWPA has been determined to be an operating lease. The total cost of the plant and other associated assets was first recognised in 2012 as buildings, roads and pipelines and plant and machinery in the interim financial statements of the Company with the various components having useful lives attributed to them of between 20 and 35 years. The aggregate carrying values of the buildings, roads and pipelines and plant and machinery as at 30 September 2020 were RO 36.07 million, RO 19.64 million and RO 216.25 million respectively. However, the PWPA relating to the plant is for only 15 years, valid up to 31 March 2027. Further, there is no renewal option in the PWPA.</p> <p>The useful lives of the different components of the plant are based on management's technical assessment of factors which are subject to judgement and accordingly contain significant estimation uncertainty. In addition, the estimated useful lives that have been assumed by management are all more than the term of the PWPA. However, management estimates that the plant and other associated assets will continue in operational existence beyond the initial term of 15 years covered by the current PWPA.</p> <p>In making its assessment of asset useful lives, management appointed an independent valuation expert in 2013 to prepare a cash flow model for the plant's entire expected operating life-cycle and the cash flow implications of the various options that may apply after the initial 15 year contract expires (i.e. contract extension or the implementation of a merchant market arrangement) and has estimated the useful lives of the plant components considering various factors such as the operating cycles, the maintenance programs, normal wear and tear and future cash flow forecasts.</p>	<p>Our audit procedures in relation to management's estimate were as follows:</p> <ul style="list-style-type: none"> At the time the original evaluation was performed, we evaluated the appropriateness and reasonableness of the assumptions considered by the independent valuer for the cash-flow forecasts pertaining to the post-PWPA period; During the audit of the interim financial statements for this current period, we have re-assessed the relevance and appropriateness of those underlying assumptions by: <ul style="list-style-type: none"> making enquiries of management as to; <ul style="list-style-type: none"> the current status of operations of the plant, including the future plans and utilisation of the plant after the end of the PWPA period; and the Company's right to extend the land lease under a Usufruct Agreement for an additional term; reviewing the OPWP's latest published plan and statements titled 'OPWP 7 Year Statement 2019 – 2025, Issue 13' published in 2019 for the power sector in the region of Dhofar, where the Company operates, to identify any potential change to the Company's strategic position in the region and hence any possible need for modification to the assumptions underpinning future usage of the plant and the related asset lives; reviewing publicly available information in respect of: <ul style="list-style-type: none"> updates on OPWP's plans communicated in the 'OPWP 7 Year Statement 2019 – 2025, Issue 13'; and impact of COVID – 19 on the demand growth rates in the region of Dhofar.

Independent auditor's report to the shareholders of Sembcorp Salalah Power and Water Company SAOG (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Useful lives of assets (continued)</p> <p>Management believes that the aforementioned assumptions remain valid and continue to apply in the current period. Accordingly, the plant and other associated assets are still expected to be economically viable and will continue in operational existence after the PWPA period expires in 2027.</p> <p>We focussed on this area as a key audit matter because the estimation of asset useful lives by management involves the application of judgment as to how the plant will be utilised in the post-PWPA period and is a matter that is reconsidered annually by management for any changes that may affect the original assessment made.</p> <p>Refer to notes 2.2(a) (Judgements), 2.3(b) (Estimates and assumptions), 2.4 (g) (iii) (Depreciation) and 8 (Property, plant and equipment) to the interim financial statements.</p>	<ul style="list-style-type: none"> Re-assessed the reasonableness of the useful life of the plant, and the depreciation method used, by comparing it with other companies in the country operating plants with similar technology. Tested the continuing adequacy of the disclosures in the interim financial statements relating to asset lives and the judgments surrounding them.

Other matter

As disclosed in note 32, the interim statement of profit or loss and other comprehensive income and related explanatory notes for the three-month periods ended 30 September 2020 and 2019 are unaudited, and have been presented for disclosure purposes only.

Responsibilities of the directors for the interim financial statements

The directors are responsible for the preparation and fair presentation of the interim financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as they determine is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the interim financial statements, the directors 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the interim financial statements

Our objectives are to obtain reasonable assurance about whether the interim 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 the interim financial statements.

Independent auditor's report to the shareholders of Sembcorp Salalah Power and Water Company SAOG (continued)

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

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

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

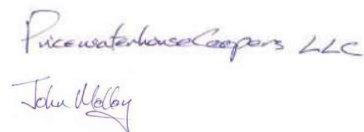
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the interim 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

Further, as required by the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, we report that the interim financial statements have been prepared and comply, in all material respects, with those requirements and provisions.



John Molloy

Muscat, Sultanate of Oman

28 October 2020

SEMBCORP SALALAH POWER & WATER COMPANY SAOG
**INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020**

	Notes	Unaudited Three months period ended 30 September 2020 RO	Nine months period ended 30 September 2020 RO	Unaudited Three months period ended 30 September 2019 RO	Nine months period ended September 2019 RO
Revenue from contracts with customers	3	17,886,629	54,229,856	18,662,113	55,833,555
Cost of sales	4	(10,055,003)	(29,083,560)	(10,986,298)	(31,467,909)
Gross profit		7,831,626	25,146,296	7,675,815	24,365,646
Administrative and general expenses	5	(155,356)	(548,346)	(146,693)	(466,965)
Other expenses		-	-	-	(157,369)
Other income	6	25,089	1,710,691	12,449	212,782
Profit before interest and tax		7,701,359	26,308,641	7,541,571	23,954,094
Finance income		37,937	235,599	147,793	381,619
Finance costs	7	(3,141,282)	(9,611,280)	(3,613,522)	(10,762,861)
Profit before income tax		4,598,014	16,932,960	4,075,842	13,572,852
Income tax expense	18	(691,588)	(2,534,251)	(616,895)	(2,044,009)
Profit after tax for the period		3,906,426	14,398,709	3,458,947	11,528,843
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Fair value of cash flow hedge adjustments – gross	11	52,866	(6,194,995)	(1,216,221)	(5,988,521)
Reclassification to profit or loss - gross	7	1,066,261	2,894,624	599,208	1,829,613
Deferred tax asset on change in fair value of cash flow hedge	18	(167,870)	495,055	92,552	623,837
Total comprehensive income for the period		4,857,683	11,593,393	2,934,486	7,993,772
Earnings per share:					
Basic earnings per share	25	0.0041	0.0151	0.0036	0.0121

The notes on pages 9 to 47 are an integral part of these interim financial statements.

Independent auditors' report – page 1 - 4.

SEMBCORP SALALAH POWER & WATER COMPANY SAOG

INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020

	Notes	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Assets				
Non-current assets				
Property, plant and equipment	8	272,716,456	280,336,106	282,584,006
Right of use assets	9	708,297	728,496	735,297
Intangible assets	10	32,802	3,535	1,363
Total non-current assets		273,457,555	281,068,137	283,320,666
Current assets				
Inventory	12	5,847,514	5,369,059	5,226,011
Trade and other receivables	13	34,212,692	20,781,057	16,534,809
Bank deposits	14	12,010,536	18,925,080	2,625,000
Cash and bank balance	14	12,491,961	4,420,424	19,276,349
Total current assets		64,562,703	49,495,620	43,662,169
Total assets		338,020,258	330,563,757	326,982,835
Equity and Liabilities				
Equity				
Share capital	15 (a)	95,457,195	95,457,195	95,457,195
Legal reserve	15 (b)	10,638,084	9,198,213	8,846,216
Retained earnings		17,152,653	6,771,159	10,380,646
Shareholders' funds		123,247,932	111,426,567	114,684,057
Hedging reserve	11			
	& 15(c)	(12,811,173)	(10,005,857)	(11,546,754)
Net equity		110,436,759	101,420,710	103,137,303
Liabilities				
Non-current liabilities				
Long term loans	20	126,554,845	151,161,095	150,970,018
Long term lease liability	22	484,116	461,616	454,572
Asset retirement obligation	21	677,620	646,228	635,803
Deferred tax liability	18	21,386,969	20,363,759	19,579,084
Derivative financial instruments	11	10,377,695	9,360,421	10,350,134
Total non-current liabilities		159,481,245	181,993,119	181,989,611
Current liabilities				
Current portion of long term loans	20	27,424,341	24,759,473	24,759,473
Short term borrowings	17	3,500,000	-	-
Current portion of derivative financial instruments	11	4,694,272	2,411,175	3,234,284
Trade and other payables	16	31,467,655	19,979,280	13,862,164
Current tax payable	18	1,015,986	-	-
Total current liabilities		68,102,254	47,149,928	41,855,921
Total liabilities		227,583,499	229,143,047	223,845,532
Total equity and liabilities		338,020,258	330,563,757	326,982,835
Net assets per share	25	0.129	0.117	0.120

The financial statements on pages 5 to 47 were approved and authorised for issue in accordance with a resolution of the Board of Directors on 26 October 2020.

Director

Chief Executive Officer

The notes on pages 9 to 47 are an integral part of these interim financial statements.

Independent auditors' report - page 1 - 4.

SEMBCORP SALALAH POWER & WATER COMPANY SAOG
**INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020**

	Share capital RO	Legal reserve RO	Retained earnings RO	Hedging reserve RO	Total RO
At 1 January 2019	95,457,195	7,693,332	3,250,232	(8,011,683)	98,389,076
Profit for the period	-	-	11,528,843	-	11,528,843
<i>Other comprehensive income</i>					
Fair value of cash flow hedge adjustments – gross	-	-	-	(5,988,521)	(5,988,521)
Reclassification to profit or loss - gross (note 7)	-	-	-	1,829,613	1,829,613
Deferred tax liability on change in fair value of cash flow hedge	-	-	-	623,837	623,837
Total comprehensive income for the period	-	-	11,528,843	(3,535,071)	7,993,772
<i>Transactions with owners of the Company, recognised directly in equity</i>					
Final dividend 2018 (note 30)	-	-	(3,245,545)	-	(3,245,545)
Transfer to legal reserve	-	1,152,884	(1,152,884)	-	-
Total transactions with owners of the Company, recognised directly in equity	-	1,152,884	(4,398,429)	-	(3,245,545)
At 30 September 2019	<u>95,457,195</u>	<u>8,846,216</u>	<u>10,380,646</u>	<u>(11,546,754)</u>	<u>103,137,303</u>
 At 1 January 2020	 <u>95,457,195</u>	 <u>9,198,213</u>	 <u>6,771,159</u>	 <u>(10,005,857)</u>	 <u>101,420,710</u>
Profit for the period	-	-	14,398,709	-	14,398,709
Other comprehensive income					
Fair value of cash flow hedge adjustments – gross	-	-	-	(6,194,995)	(6,194,995)
Reclassification to profit or loss - gross (note 7)	-	-	-	2,894,624	2,894,624
Deferred tax asset on change in fair value of cash flow hedge	-	-	-	495,055	495,055
Total comprehensive income for the period	-	-	<u>14,398,709</u>	<u>(2,805,316)</u>	<u>11,593,393</u>
Transactions with owners of the Company, recognised directly in equity					
Final dividend 2019 (note 30)	-	-	(2,577,344)	-	(2,577,344)
Transfer to legal reserve	-	1,439,871	(1,439,871)	-	-
Total transactions with owners of the Company, recognised directly in equity	-	<u>1,439,871</u>	<u>(4,017,215)</u>	-	<u>(2,577,344)</u>
At 30 September 2020	<u>95,457,195</u>	<u>10,638,084</u>	<u>17,152,653</u>	<u>(12,811,173)</u>	<u>110,436,759</u>

The notes on pages 9 to 47 are an integral part of these interim financial statements.

Independent auditors' report – page 1 - 4.

SEMBCORP SALALAH POWER & WATER COMPANY SAOG
**INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020**

	Note	30 September 2020 RO	30 September 2019 RO
Operating activities			
Profit before tax		16,932,960	13,572,852
Adjustments for:			
Depreciation and amortization		8,326,708	8,225,707
Amortisation of deferred financing cost	7	548,469	621,501
Finance costs		9,062,358	10,140,310
Finance income		(235,599)	(381,619)
Allowance for impairment of trade receivable	23(b)	(1,919)	-
Provision for asset retirement obligation	21	31,392	31,275
<i>Changes in working capital:</i>			
Inventory		(478,455)	(76,808)
Trade and other receivables		(13,508,974)	(7,097,304)
Trade and other payables		13,378,065	8,341,045
Bank deposits		4,604,463	4,575,775
Cash flow generated from operating activities		38,659,468	37,952,734
Finance cost paid		(10,929,548)	(13,722,507)
Net cash flow generated from operating activities		27,729,920	24,230,227
Investing activities			
Acquisition of property, plant and equipment	8	(716,126)	(2,161,836)
Finance income received		314,857	500,755
Net cash flow used in investing activities		(401,269)	(1,661,081)
Financing activities			
Repayment of term loan		(22,489,851)	(20,270,582)
Proceeds from short term borrowings		3,500,000	-
Dividend paid		(2,577,344)	(3,245,545)
Net cash flow used in financing activities		(21,567,195)	(23,516,127)
Net change in cash and cash equivalents		5,761,456	(946,981)
Cash and cash equivalents as at 1 January		4,420,424	8,098,265
Cash and cash equivalents as at 30 September	14	10,181,880	7,151,284
Reconciliation of liabilities arising from financing activities (note 14.1)			

The notes on pages 9 to 47 are an integral part of these interim financial statements.

Independent auditors' report – page 1 - 4.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020**

1 Legal status and principal activities

Sembcorp Salalah Power & Water Company SAOG (“the Company”) was registered as a closed Omani Joint Stock Company in the Sultanate of Oman on 29 September 2009.

The Company entered into a Shareholders Agreement (“the Shareholders Agreement”) dated 17 November 2009 between Sembcorp Oman First Investment Holding Co Ltd (“SOFIH”) 40% shareholder, Sembcorp Oman IPO Holding Co Ltd (“SOIHL”) 20% shareholder and Inma Power & Water Company LLC (“IPWC”) 40% shareholder. For current shareholding refer note 15.

The Company was awarded a tender by the Government of the Sultanate of Oman (“the Government”) to build, own and operate an electricity generation and seawater desalination plant together with the associated facilities in the Salalah region (“the Plant”).

On 8 October 2013, the Company was listed on the Muscat Securities Market and became a listed public joint stock company (“SAOG”).

Significant agreements

The Company has entered into the following major agreements:

- (i) Power and Water Purchase Agreement (“the PWPA”) dated 23 November 2009 with Oman Power & Water Procurement Company SAOC (“OPWP”) for a period of fifteen years commencing from the date of commercial operations (“Operation period”) to procure the power and water produced by the Company;
- (ii) Natural Gas Sales Agreement (“NGSA”) dated 23 November 2009 with the Ministry of Oil and Gas (“MOG”) of the Government for the supply of natural gas;
- (iii) Usufruct Agreement (“Usufruct Agreement”) dated 23 November 2009 with the Ministry of Housing for grant of Usufruct rights over the project site;
- (iv) Long Term Service Agreement (“LTSA”) with General Electric International LLC (“GEIL”) for maintenance services on gas turbines and generators;
- (v) Government Guarantee Agreement (“Government Guarantee”) dated 23 November 2009 with the Government represented by the Ministry of Finance (“MOF”), whereby the MOF is prepared to guarantee the payment by OPWP of its financial obligations to the Company’s Senior Lenders under the PWPA; and
- (vi) Operation and Maintenance (“O&M”) agreement with Sembcorp Salalah O&M Services Company LLC (“SSOM”) dated 8 February 2010 for a period of 15 years from the scheduled commercial operation date.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the rules and guidelines on disclosures issued by the Capital Market Authority of the Sultanate of Oman (CMA) and the applicable requirements of the Commercial Companies Law of 2019.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

2 Basis of preparation and significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Basis of measurement

These financial statements are prepared on a historical cost basis except where otherwise described in the accounting policies below.

(c) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The areas where accounting assumptions and estimates are significant to the financial statements are disclosed in notes 2.2 and 2.3 below and also in the relevant notes to the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, estimates that involve uncertainties and judgments which have a significant effect on the financial statements include useful lives and residual value of property, plant and equipment, effectiveness of hedge relationship and asset retirement obligation.

2.2 Judgements

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

(a) Operating lease and useful life of assets

The Company and OPWP have entered into a PWPA containing a take-or-pay clause favouring the Company. The management had applied the guidance in IFRS 16 'Leases'. Based on management's evaluation, the investment charge element in PWPA with OPWP was considered as constituting a lease within the context of IFRS 16 and has been classified as an operating lease 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 being that the PWPA is for a term of 15 years while the economic life of the power plant is estimated to be 35 years. The present value of minimum lease payments under the PWPA 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. The estimated useful life of the power plant of 35 years takes into account the Company's right to extend the land lease under a Usufruct Agreement for an additional term. As the Company will extend the land lease until the end of useful life of the plant, lease term of the land has also been considered to expire at the end of the useful life of the plant.

Furthermore, the residual value of the assets will have substantial value at the conclusion of the current PWPA and the Company will be able to continue to generate revenue through supply of power and water taking into account the government's future plans including plans to deregulate the power and water sector in Oman.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

2 Basis of preparation and significant accounting policies (continued)

2.2 Judgements (continued)

(b) Impairment of financial assets

The impairment provisions for financial assets are 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 Company’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period. In determining the required impairment provision, the management has used 0.29% as probability of default (31 December 2019 - 0.39% and 30 September 2019 – 0.39%) and 62.10% loss given default (31 December 2019 - 61.85% and 30 September 2019 - 61.80%).

2.3 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below:

(a) Effectiveness of hedge relationship

At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging instrument. As at the reporting date, the cumulative fair value of the interest rate swaps was RO 15.07 million (31 December 2019 – RO 11.77 million and 30 September 2019 – RO 13.6 million).

(b) Useful lives of property, plant and equipment

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

(c) Asset retirement obligation

Asset retirement obligation is based on management’s technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant and restoration of land. The significant uncertainty in estimating the provision is the cost that will be incurred and the applicable discount rate. It has been assumed that the site will be restored using technology and material that are currently available.

2.4 Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

(a) Foreign currency

(i) Functional and presentation currency

The financial statements have been presented in Rial Omani (“RO”) which is the functional currency of the Company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(a) Foreign currency (continued)

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company at foreign exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency at the exchange rate at the date of the transaction. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated into the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign currency differences arising on translation of monetary items are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, qualifying cash flow hedges or other non-monetary items, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Financial instruments

(i) Financial assets

Classification

The Company on initial recognition classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (FVOCI), or through profit or loss (FVTPL)), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Company reclassifies these financial assets, when and only when its business model for managing those financial assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction cost for financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its financial assets:

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Financial assets (continued)

Measurement (continued)

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its financial instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(ii) Derivatives and hedging activities

Derivative financial instruments

All derivatives in scope of IFRS 9, including those linked to unquoted equity investments, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Fair value changes are recognised in profit or loss unless the entity has elected to apply hedge accounting by designating the derivative as a hedging instrument in an eligible hedging relationship.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, then hedge accounting is discontinued prospectively. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Derivatives and hedging activities (continued)

Embedded derivatives

An embedded derivative is a component of a contract that also includes a non-derivative host with the effect that some of the cash flows of the combined contract vary in a way similar to a stand-alone derivative.

An embedded derivative is separated if, and only if:

- a. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- b. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and;
- c. The contract is not measured at fair value with changes in fair value recognised in profit or loss.

Embedded derivatives which are required to be separated are recognised at fair value with all subsequent changes in fair value recognised in profit or loss. Embedded derivatives that are not required to be separated are considered as part of the host contract and not accounted for separately.

(c) Interest bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable costs such as loan arrangement fee. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit and loss over the expected period of borrowings on an effective interest rate basis.

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

(d) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(e) Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 25 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and other short-term, highly liquid investments with original maturities of nine months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases future economic benefits embodied in the specific asset to which it relates.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Depreciation

Depreciation is calculated using the straight-line method to allocate the cost less its residual value so as to write off items of property, plant and equipment over their estimated useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of an item is depreciated separately. The estimated useful lives are as follows:

	Years
Buildings	30 to 35
Roads and pipelines	10 to 35
Plant and machinery	20 to 35
Plant and machinery (Tools and equipment)	2 to 12
Office equipment	3 to 10
Motor vehicles	5 to 10
Computer equipment	3 to 5

Certain items of property, plant and equipment are subject to overhauls at regular intervals. The inherent components of the initial overhaul are determined based on the estimated costs of the next overhaul and are separately depreciated in order to reflect the estimated intervals between two overhauls. The costs of the overhauls subsequently incurred are capitalised as additions and the carrying amounts of the replaced components are written off to the profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(g) Property, plant and equipment (continued)

(iv) Capital work in progress

Capital work in progress is measured at cost and is not depreciated until it is transferred into one of the above categories, which occurs when the asset is ready for its intended use.

(v) Site restoration

A liability for future site restoration is recognized as the activities giving rise to the obligation of future site restoration. The liability is measured at the present value of the estimated future cash outflows to be incurred on the basis of current technology. The liability includes all costs associated with site restoration, including plant closure and monitoring costs.

(h) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets. Impairment losses are recognised in the profit and loss statement unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units and then, to reduce the carrying amounts of the other assets in cash-generating units on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Management determines whether there are any indications of impairment to the carrying values of property, plant and equipment on an annual basis because of the difference between the duration of contracted cash flows and accounting depreciation of assets. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows for the period lying beyond the term of the initial PWPA and also choose a suitable discount rate in order to calculate the present value of those cash flows.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Leases

(i) Company as a lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(i) Leases (continued)

(i) Company as a lessee (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

The lease term is considered to be the non-cancellable period for which the Company has the right to use an underlying asset. The lease term is adjusted for periods covered by an option to extend; if it is reasonably certain that the option will be exercised as well as periods covered by an option to terminate the lease; if it is reasonably certain that the option will not be exercised.

(ii) The Company as lessor

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to the ownership of an underlying asset. Lease payments from operating lease are recognised as income on a straight-line basis unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished. Costs incurred in earning the lease income, including depreciation are recognised as an expense. Initial direct cost incurred in obtaining lease, are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as the lease income. Modification to an operating lease is accounted for as a new lease from the effective date of the modification, considering any prepaid or accrued leased payments relating to the original lease as part of the lease payments for the new lease. The respective leased assets are included in the balance sheet based on their nature.

Finance lease receivables and finance income

Finance leases, which transfer from the Company substantially all of the risks and rewards incidental to ownership of the leased item, are recognised as a disposal of asset at the inception of the lease and are presented as receivables under a finance lease at an amount equal to the net investment in the finance lease. Lease receivables are apportioned between finance income and reductions of the receivables under a finance lease so as to achieve a constant periodic rate of return on the lessor's net investment in the finance lease. Finance income earned is recognised within profit and loss in the statement of comprehensive income. Lease receivables due within one year are disclosed as current assets.

The Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract. When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(j) Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Capacity charge

Capacity charge include investment charge and fixed O&M charge. Investment charge is treated as revenue under operating lease and recognized on straight line basis over the lease term. Fixed O&M charge is recognized based on the capacity made available in accordance with contractual terms stipulated in PWPA.

Variable charge

Energy charge, water output charge and fuel charge are recognised when electricity and water are delivered; which is taken to be over time when the customer has accepted the deliveries, the control of utilities have been transferred to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the utilities.

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

Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

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

(l) Finance income

Finance income comprises interest received on bank deposits and foreign exchange gains and losses that are recognised in the profit and loss statement. Interest income is recognised in the profit and loss statement, as it accrues, taking into account the effective yield on the asset.

(m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time that the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets. All other borrowing costs are recognised as expenses in the period in which they are incurred.

(n) 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. The cost of raw materials and consumables and goods for resale is based on weighted average method and consists of direct costs of materials and related overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made where necessary for obsolete, slow moving and defective items, based on management's assessment.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(o) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of profit and loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

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

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The assessment regarding adequacy of tax liability for open tax year relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(p) Employee benefits

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

The Company's obligation in respect of non-Omani employees' terminal benefits is the amount of future benefit that such employees have earned in return for their service in the current and prior periods having regard to the employee contract and Oman Labour Law 2003, as amended.

In accordance with the provisions of IAS 19, Employee benefits, management carries an exercise to assess the present value of the Company's obligations as of reporting date, using the actuarial techniques, in respect of employees' end of service benefits payable under the Oman aforesaid Labour Law. Under this method, an assessment is made of an employee's expected service life with the Company and the expected basic salary at the date of leaving the service.

(q) Directors' remuneration

Directors' remunerations are computed in accordance with the Commercial Companies Law, as per the requirements of Capital Market Authority and are recognised as an expense in the statement of profit or loss.

(r) Dividend

The Board of Directors takes into account appropriate parameters including the requirements of the Commercial Companies Law 2019 while recommending the dividend.

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

2 Basis of preparation and significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(s) Earnings and net assets per share

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

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

(t) Segmental reporting

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

(u) Share capital

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

(v) Determination of fair values

(i) Trade and other receivables

The fair value of trade and other receivables including cash and bank balances approximates to their carrying amount due to their short-term maturity.

(ii) Derivatives

The fair value of interest rate swaps is calculated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. This calculation is tested for reasonableness through comparison with the valuations received from the parties issuing the instruments.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(w) Standards and amendments effective in 2020 and relevant for the Company's operations:

The Company had early adopted the amendments to IFRS 9 and IFRS 7 for IBOR reforms during the financial year ended 31 December 2019.

For the period ended 30 September 2020, 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 (IFRS IC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2020.

The Company has applied the following standards and amendments as of 1 January 2020:

- (a) Definition of Material – amendments to IAS 1 and IAS 8
- (b) Definition of a Business – amendments to IFRS 3; and
- (c) Revised Conceptual Framework for Financial Reporting.

The amendments listed above did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

2 Basis of preparation and significant accounting policies (continued)**2.4 Significant accounting policies (continued)**

(x) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:*

A number of new standards, amendments and interpretations to existing standards have been published and are not mandatory for 30 September 2020 reporting periods and have not been early adopted by the Company.

The following new or amended standards are not expected to have a significant impact on the Company's financial statements.

- Amendments to IAS 1, Presentation of financial statements' on classification of liabilities. Effective date of this amendment is for annual periods beginning on or after 1 January 2022;
- Covid-19-related Rent Concessions - Amendments to IFRS 16 - Effective date of this amendment is for annual periods beginning on or after 1 June 2020;
- Property, Plant and Equipment: Proceeds before intended use - Amendments to IAS 16. Effective date of this amendment is for annual periods beginning on or after 1 June 2022;
- Reference to the Conceptual Framework - Amendments to IFRS 3. Effective date of this amendment is for annual periods beginning on or after 1 June 2022;
- Onerous Contracts - Cost of Fulfilling a Contract Amendments to IAS 37. Effective date of this amendment is for annual periods beginning on or after 1 June 2022;
- Annual Improvements to IFRS Standards 2018-2020. Effective date of this amendment is for annual periods beginning on or after 1 June 2022;
- Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28. the application date of this amendment until such time as the IASB has finalised its research project on the equity method.
- IFRS 17 Insurance contracts. Effective date of this standard is annual periods beginning on or after 1 January 2023.

There are no other IFRS standards, amendments or interpretations that are expected to have a material impact on the Company.

3 Revenue

	Unaudited Three months period ended 30 September 2020 RO	Nine months period ended 30 September 2020 RO	Unaudited Three months period ended 30 September 2019 RO	Nine months period ended 30 September 2019 RO
Operating lease income - Investment charge	10,525,203	32,604,889	10,509,432	32,480,206
Fixed operation and maintenance charge	2,142,877	6,694,338	2,105,268	6,520,811
Fuel charge	4,757,456	13,572,751	5,531,906	15,347,454
Water output charge	232,309	696,590	164,478	686,161
Energy charge	228,784	661,288	351,029	798,923
	<u>17,886,629</u>	<u>54,229,856</u>	<u>18,662,113</u>	<u>55,833,555</u>

Contracts with customers

The Company recognized revenue in accordance with PWPA as defined in note 1 of the financial statements. The contract consists of two revenue streams, which are:

- 1.) Capacity charge
 - a. Investment charge
 - b. Fixed operation and maintenance charge
- 2.) Variable charge (i.e. energy, water and fuel charge)

Capacity charge related to investment charge under the PWPA is considered to be a lease component in the agreement and constitutes operating lease income.

Capacity charge related to fixed operation and maintenance charge is for making the capacity available to OPWP and variable charge (covering energy charge, water charge and fuel charge) is for electricity and water output delivered.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**

3 Revenue (continued)

Accounting policies (continued)

Capacity charge

Capacity charge include investment charge and fixed O&M charge. Investment charge is treated as revenue under operating lease and recognized on straight line basis over the lease term. Fixed O&M charge is recognized based on the capacity made available in accordance with contractual terms stipulated in PWPA.

Variable charge

Energy charge, water output charge and fuel charge are recognised when electricity and water are delivered; which is taken to be over time when the customer has accepted the deliveries, the control of utilities have been transferred to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the utilities.

There are no significant judgements that are involved while recognising revenue from contracts with customers.

Performance obligation

The Company sells electricity and water to OPWP in Oman which is the only customer of the Company. The contracts with the customer give rise to performance obligations namely production/ supply of electricity and water and making available the capacity for production. Transaction prices for each performance obligation are identifiable in the named contracts with OPWP separately and are equal to stand-alone selling prices of each performance obligation under PWPA.

The Company satisfies performance obligations upon actual delivery of water and electricity output and by making capacity available.

Determination of transaction price

Invoicing is as per transaction price (tariff) based on contracts. The payment terms are for less than a month and accordingly, transaction price does not contain any significant financing component.

Timing of revenue recognition

The Company recognises revenue over time since OPWP (the customer) simultaneously receives and consumes the output of electricity and water and consumes the benefit of plant's availability. In doing so, the Company uses output method to measure the Company's progress towards complete satisfaction of performance obligations satisfied over time. The output method requires the Company to measure actual output delivered with respect to electricity and water and calculate the actual capacity available. Revenue is recognised based on the measurement of output, calculation of availability and the fixed tariff as per the terms of PWPA. The selected output method depicts the Company's performance towards complete satisfaction of the performance obligations since:

- (i) the output and capacity availability can be measured to the exact quantities for which control has transferred to OPWP; and
- (ii) The Company's performance does not produce any work in progress or finished goods controlled by the customer that are not included in the measurement of the output.

The revenue is recognised for the amount to which the Company has right to invoice, wherein a receivable from the customer is booked as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The invoice is raised on a monthly basis and is payable after 25 days from the date of receipt of invoice by the customer.

No significant judgement is involved in the application of output method for measuring the Company's performance towards satisfaction of obligations.

Disaggregation of revenue

The revenue has been disaggregated based on the key drivers by which the Company receives and recognises its revenue. Accordingly, the disaggregated revenue line items do not represent or correspond to the operating segments as defined by IFRS 8 and explained in note 28.

Allocation of transaction price to remaining performance obligation

The Company has no unsatisfied performance obligations with respect to billed revenue. The Company has right to invoice for every unit of output and making available the designated capacity. Actual invoicing for the delivered output is done at the end of every month.

The Company has not recognized any impairment losses on receivables arising from Company's contract with customer.

All the revenue of the Company accrues from contracts with customers.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

4 Cost of sales

	Unaudited Three months period ended 30 September 2020 RO	Nine months period ended 30 September 2020 RO	Unaudited Three months period ended 30 September 2019 RO	Nine months period ended 30 September 2019 RO
Fuel cost	4,522,458	12,930,987	5,276,229	14,706,283
Depreciation (note 8 and 9)	2,791,977	8,280,933	2,765,177	8,190,517
Operation and maintenance cost (note 19)	1,703,320	4,955,226	1,822,733	5,418,228
Contractual services maintenance cost	640,856	1,729,259	720,824	1,993,389
Insurance cost	207,525	613,519	196,558	586,900
Incentive payment (note 19)	120,055	369,013	142,732	378,510
Security charges	27,977	79,143	26,035	78,105
License and permits	22,671	68,015	21,182	63,546
Provision for asset retirement obligation (note 21)	10,464	31,392	10,425	31,275
Electricity import cost	7,700	25,934	4,250	20,887
Other overheads	-	139	153	269
	10,055,003	29,083,560	10,986,298	31,467,909

5 Administrative and general expenses

	Unaudited Three months period ended 30 September 2020 RO	Nine months period ended 30 September 2020 RO	Unaudited Three months period ended 30 September 2019 RO	Nine months period ended 30 September 2019 RO
Staff costs	58,298	170,761	56,153	167,018
Directors' remuneration and sitting fees	32,450	116,129	27,600	92,200
Legal and professional charges	16,917	90,262	10,354	38,804
Fee and subscription	22,955	71,244	23,733	72,110
Depreciation and amortisation (notes 8 and 10)	14,308	45,775	12,430	35,190
Charity and Donations	1,000	30,931	3,000	8,000
Travelling expenses	910	12,325	4,059	35,754
Others	9,012	12,838	9,364	17,889
Net reversal of impairment on financial assets [note 23 (b)]	(494)	(1,919)	-	-
	155,356	548,346	146,693	466,965

6 Other income

Other income for the period ended 30 September 2020 mainly constitutes the insurance settlement claim in respect of compensation for business interruption and property damage loss arising from Cyclone Mekunu which took place in May 2018.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

7 Finance costs

	Unaudited Three months period ended 30 September 2020 RO	Nine months period ended 30 September 2020 RO	Unaudited Three months period ended 30 September 2019 RO	Nine months period ended 30 September 2019 RO
Interest expense on project financing	1,888,666	6,128,186	2,802,675	8,289,565
Interest expense on interest rate swap	1,066,261	2,894,624	599,208	1,829,613
Deferred financing cost (note 14.1)	178,695	548,469	204,369	621,501
Interest expense on short term borrowings	-	17,048	-	-
Interest expense on lease liability (note 21)	7,500	22,500	7,044	21,132
Commission and bank charges	160	453	226	1,050
	<u>3,141,282</u>	<u>9,611,280</u>	<u>3,613,522</u>	<u>10,762,861</u>

Interest expense on project financing and deferred finance cost relates to the term loan (note 20). Interest expense on swaps relates to the derivative financial instruments (note 11).

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

8 Property, plant and equipment

	Buildings RO	Roads and pipelines RO	Plant and machinery RO	Office equipment RO	Motor vehicles RO	Computer equipment RO	Capital work in progress RO	Total RO
Cost								
At 1 January 2020	48,596,630	26,551,709	289,263,329	190,049	330,371	320,918	970,502	366,223,508
Additions	-	-	574,404	-	2,950	11,582	127,190	716,126
Transfers during the period (note 10)	-	-	402,979	-	-	-	(448,883)	(45,904)
At 30 September 2020	48,596,630	26,551,709	290,240,712	190,049	333,321	332,500	648,809	366,893,730
Accumulated depreciation								
At 1 January 2020	11,430,650	6,291,806	67,470,003	186,532	223,527	284,884	-	85,887,402
Charge for the period	1,098,567	616,652	6,518,213	1,278	32,060	23,102	-	8,289,872
At 30 September 2020	12,529,217	6,908,458	73,988,216	187,810	255,587	307,986	-	94,177,274
Carrying amount								
At 30 September 2020	36,067,413	19,643,251	216,252,496	2,239	77,734	24,514	648,809	272,716,456

	Buildings RO	Roads and pipelines RO	Plant and machinery RO	Office equipment RO	Motor vehicles RO	Computer equipment RO	Capital work in progress RO	Total RO
Cost								
At 1 January 2019	48,484,266	26,491,012	287,901,907	189,874	288,922	307,106	268,912	363,931,999
Additions	65,174	40,615	1,760,010	175	41,449	13,812	768,862	2,690,097
Transfer during the year [note 8 (c)]	47,190	20,082	(398,588)	-	-	-	(67,272)	(398,588)
At 31 December 2019	48,596,630	26,551,709	289,263,329	190,049	330,371	320,918	970,502	366,223,508
Accumulated depreciation								
At 1 January 2019	9,965,873	5,470,355	58,934,752	182,377	183,129	249,868	-	74,986,354
Charge for the year	1,464,777	821,451	8,611,802	4,155	40,398	35,016	-	10,977,599
Transfer during the year [note 8(c)]	-	-	(76,551)	-	-	-	-	(76,551)
At 31 December 2019	11,430,650	6,291,806	67,470,003	186,532	223,527	284,884	-	85,887,402
Carrying amount								
At 31 December 2019	37,165,980	20,259,903	221,793,326	3,517	106,844	36,034	970,502	280,336,106

	Buildings RO	Roads and pipelines RO	Plant and machinery RO	Office equipment RO	Motor vehicles RO	Computer equipment RO	Capital Work in Progress RO	Total RO
Cost								
At 1 January 2019	48,484,266	26,491,012	287,901,907	189,874	288,922	307,106	268,912	363,931,999
Additions	41,408	35,877	1,717,305	175	33,000	12,952	321,119	2,161,836
Transfers during the period [note 8 (c)]	47,190	20,082	(398,588)	-	-	-	(67,272)	(398,588)
At 30 September 2019	48,572,864	26,546,971	289,220,624	190,049	321,922	320,058	522,759	365,695,247
Accumulated depreciation								
At 1 January 2019	9,965,873	5,470,355	58,934,752	182,377	183,129	249,868	-	74,986,354
Charge for the period	1,094,923	613,768	6,433,711	3,297	29,717	26,022	-	8,201,438
Transfer during the period [note 8 (c)]	-	-	(76,551)	-	-	-	-	(76,551)
At 30 September 2019	11,060,796	6,084,123	65,291,912	185,674	212,846	275,890	-	83,111,241
Carrying amount								
At 30 September 2019	37,512,068	20,462,848	223,928,712	4,375	109,076	44,168	522,759	282,584,006

The Property, Plant and Equipment are subject to operating lease arrangement with OPWP as mentioned in note 2.2(a) of the interim financial statements.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

8 Property, plant and equipment (continued)

(a) Leased land

Land on which the plant is constructed has been leased by the Government of Sultanate of Oman to the Company for a period of 25 years expiring on 23 November 2034 under the term of the Usufruct Agreement, which can be extended for an additional 25 years. Lease rental for the initial term of 25 years has already been paid. (note 9).

(b) Security

The Company's property, plant and equipment are pledged as security against the term loans (note 19).

(c) The cost of RO 398,588/- and accumulated depreciation of RO 76,551/- had been transferred from Plant and Machinery to Right of use asset during the financial year ended 31 December 2019 and three and nine months period ended 30 September 2019; since IFRS 16 which was adopted from 1 January 2019 required asset retirement obligation to be classified as part of the Right of use asset.

(d) Capital work in progress

Capital work in progress mainly consists of Cyber Security project related assets.

The depreciation charge has been allocated as set out below:

	Unaudited Three months period ended 30 September 2020 RO	Nine months period ended 30 September 2020 RO	Unaudited Three months period ended 30 September 2019 RO	Nine months period ended 30 September 2019 RO
Cost of sales (note 4)	2,785,194	8,260,733	2,758,376	8,170,337
Administrative expenses (note 5)	8,091	29,139	11,052	31,101
	<u>2,793,285</u>	<u>8,289,872</u>	<u>2,769,428</u>	<u>8,201,438</u>

9 Right of use assets

	Land RO	Asset retirement obligation RO	Total RO
Cost			
At 1 January 2020	433,440	398,588	832,028
Additions during the period	-	-	-
At 30 September 2020	<u>433,440</u>	<u>398,588</u>	<u>832,028</u>
Accumulated depreciation			
At 1 January 2020	15,480	88,052	103,532
Charge for the period (note 4)	11,589	8,610	20,199
At 30 September 2020	<u>27,069</u>	<u>96,662</u>	<u>123,731</u>
Net carrying amount at 30 September 2020	<u>406,371</u>	<u>301,926</u>	<u>708,297</u>
Audited	Land RO	Asset retirement obligation RO	Total RO
Cost			
At 1 January 2019	433,440	398,588	832,028
At 31 December 2019	<u>433,440</u>	<u>398,588</u>	<u>832,028</u>
Accumulated depreciation			
At 1 January 2019	-	76,551	76,551
Charge for the year	15,480	11,501	26,981
At 31 December 2019	<u>15,480</u>	<u>88,052</u>	<u>103,532</u>
Net carrying amount at 31 December 2019	<u>417,960</u>	<u>310,536</u>	<u>728,496</u>

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**9 Right of use assets (continued)**

	Land RO	Asset retirement obligation RO	Total RO
Cost			
At 1 January 2019	433,440	398,588	832,028
Additions during the period	-	-	-
At 30 September 2019	433,440	398,588	832,028
Accumulated depreciation			
At 1 January 2019	-	76,551	76,551
Charge for the period (note 4)	11,578	8,602	20,180
At 30 September 2019	11,578	85,153	96,731
Net carrying amount at 30 September 2019	421,862	313,435	735,297

10 Intangible assets

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Cost			
At 1 January	126,108	122,539	122,539
Additions during the period/year	-	3,569	-
Transfers during the period/year (note 8)	45,904	-	-
	172,012	126,108	122,539
Accumulated amortisation			
At 1 January	122,573	117,087	117,087
Charge for the period/year (note 5)	16,637	5,486	4,089
	139,210	122,573	121,176
Carrying amount	32,802	3,535	1,363

Intangible assets mainly represent the purchase of ERP software and DuPont STOP programme.

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11 Hedging reserve

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
<u>Interest rate swaps:</u>			
SMBC Capital Market Limited	(3,065,894)	(2,426,587)	(2,782,933)
Standard Chartered Bank	(9,390,804)	(7,266,179)	(8,362,442)
KfW-IPEX	(2,615,269)	(2,078,830)	(2,439,043)
Hedging instruments at the end of the period	(15,071,967)	(11,771,596)	(13,584,418)
Deferred tax asset (note 18)	2,260,794	1,765,739	2,037,663
Hedging reserve at the end of the period (net of tax)	(12,811,173)	(10,005,857)	(11,546,755)
Less: Hedging reserve at the beginning of the period	(10,005,857)	(8,011,683)	(8,011,684)
Effective portion of change in fair value of cash flow hedge for the period	(2,805,316)	(1,994,174)	(3,535,071)
Hedging instruments classification:			
Non-current portion of hedging instruments	10,377,695	9,360,421	10,350,134
Current portion of hedging instruments	4,694,272	2,411,175	3,234,284
	15,071,967	11,771,596	13,584,418
Change in fair value of outstanding hedging instruments since 1 January	6,194,995	4,956,568	5,988,521
Change in value of hedged item used to determine hedge effectiveness	(6,194,995)	(4,956,568)	(5,988,521)

On 19 November 2009, the Company entered into a Common Terms Agreement (“CTA”), for credit facilities with a consortium of international and local banks with Standard Chartered Bank as the Dollar Commercial Facility Agent, Bank Muscat SAOG as the Rial Commercial Facility Agent and Bank of China, Shan dong Branch as the Sinosure Facility Agent.

The Dollar Commercial Facility and the Sinosure Facility bear interest at USD LIBOR plus applicable margins.

In accordance with the CTA, the Company has fixed the rate of interest through Interest Rate Swap Agreements (“IRS”) entered into with SMBC Capital Market Limited, KfW IPEX Bank GmbH and Standard Chartered Bank dated 20 November 2009, 23 March 2010 and 8 April 2010 respectively, for 95.32% of its USD loan facility.

The Company does not hedge the entire amount of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. The corresponding hedged notional amount outstanding as of 30 September 2020 is approximately RO 96 million (31 December 2019 - RO 112 million and 30 September 2019 – RO 112 million) and approximately RO 25 million (31 December 2019 - RO 29 million and 30 September 2019 – RO 29 million), at a fixed interest rate of 4.345% (31 December 2019 - 4.345% and 31 September 2019 – 4.345%) and 3.8% (31 December 2019 - 3.8% September and 31 2019 – 3.8 %) per annum respectively.

The interest rate swaps have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Company applies hedge accounting to remove the accounting mismatch between the hedging instrument and the hedged item since all critical terms matched during the period and the economic relationship was 100% effective. This will effectively result in recognising interest expense at a fixed interest rate for the hedged floating rate loans.

Hedge ineffectiveness for interest rate swaps may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and
- differences in critical terms between the interest rate swaps and loans.

Derivatives are only used for economic hedging purposes and not as speculative investments.

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FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

12 Inventory

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Fuel inventory	1,138,592	1,108,424	1,080,787
Spare parts and consumables	4,708,922	4,260,635	4,145,224
	<u>5,847,514</u>	<u>5,369,059</u>	<u>5,226,011</u>

13 Trade and other receivables

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Trade receivable (note 13.1)	32,651,213	19,182,040	14,460,690
Advances to vendors	1,383,715	1,467,633	1,647,107
Prepayments	176,173	25,946	137,310
Other receivable	1,591	79,937	31,281
Insurance claim receivable	-	25,501	258,421
	<u>34,212,692</u>	<u>20,781,057</u>	<u>16,534,809</u>

The Company has one customer (OPWP) which accounts for the entire trade receivables balance as at 30 September 2020 (31 December 2019 and 30 September 2019 - one customer).

13.1 Trade receivable

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Gross trade receivable	32,661,444	19,194,190	14,468,480
Allowance for impairment (note 23 (b))	(10,231)	(12,150)	(7,790)
	<u>32,651,213</u>	<u>19,182,040</u>	<u>14,460,690</u>

The ageing of trade receivables at the reporting date disclosed in note 23 (b).

14 Cash and bank balances

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Cash in hand	654	923	794
Cash at bank	10,181,226	4,419,501	7,150,490
Cash and cash equivalents	<u>10,181,880</u>	<u>4,420,424</u>	<u>7,151,284</u>
Add: Cash at Bank (DSRA)	2,310,081	-	12,125,065
Cash and bank balances	<u>12,491,961</u>	<u>4,420,424</u>	<u>19,276,349</u>
Fixed term deposits (3 to 6 months) and DSRA	<u>12,010,536</u>	<u>18,925,080</u>	<u>2,625,000</u>

14.1 Debt Service Reserve Account (Restricted cash)

As at 30 September 2020, the Company has placed funds in the Debt Service Reserve Account (DSRA) (3 to 6 months) to meet the minimum balance requirement of RO 14,320,472 (31 December 2019: RO 15,078,163 and 30 September 2019 RO 15,078,163) [note 20].

14.2 The fixed term deposits of RO 12,010,536 (31 December 2019: RO 18,925,080 and 30 September 2019: RO 2,625,000) have a weighted average interest rate of 0.30% (31 December 2019: 2.06% per annum and 30 September 2019: 2.5% per annum).

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

14 Cash and bank balances (continued)

14.1 Reconciliation of liabilities arising from financing activities

	1 January 2020 RO	Cash flows RO	Non-cash items (unamortised transaction cost) RO	30 September 2020 RO
Long term loans (notes 7 and 20)	<u>175,920,568</u>	<u>(22,489,851)</u>	<u>548,469</u>	<u>153,979,186</u>
	1 January 2019 RO	Cash flows RO	Non-cash items (unamortised transaction cost) RO	31 December 2019 RO
Long term loans (note 20)	<u>195,378,572</u>	<u>(20,270,583)</u>	<u>812,579</u>	<u>175,920,568</u>
	1 January 2019 RO	Cash flows RO	Non-cash items (unamortised transaction cost) RO	30 September 2019 RO
Long term loans (notes 7 and 20)	<u>195,378,572</u>	<u>(20,270,582)</u>	<u>621,501</u>	<u>175,729,491</u>

15 Equity

(a) Share capital

The Company's registered capital (issued and fully paid) comprises 954,571,950 shares.

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

The details of Shareholders are as follows:

		30 September 2020 Number of shares held	% of total
SOFIH	British Virgin Island	381,828,780	40.00%
IPWC	Oman	125,431,511	13.14%
Public		<u>447,311,659</u>	<u>46.86%</u>
		<u>954,571,950</u>	<u>100.00%</u>

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

15 Equity (continued)

	Nationality	31 December 2019	
		Number of shares held	% of total
SOFIH	British Virgin Island	381,828,780	40.00%
IPWC	Oman	125,431,511	13.14%
Public		447,311,659	46.86%
		<u>954,571,950</u>	<u>100.00%</u>

	Nationality	30 September 2019	
		Number of shares held	% of total
SOFIH	British Virgin Island	381,828,780	40.00%
IPWC	Oman	125,431,511	13.14%
Public		447,311,659	46.86%
		<u>954,571,950</u>	<u>100.00%</u>

(b) Legal reserve

Article 132 of the Oman Commercial Companies Law of 2019 requires that 10% of a company's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to at least one-third of the company's issued share capital. This reserve is not available for distribution to shareholders.

(c) Hedging reserve

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (note 11).

16 Trade and other payables

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Trade payable	25,800,039	13,548,686	9,226,311
Due to related parties (note 19)	2,433,673	1,427,161	1,643,305
Accrued expenses and other payable	2,161,044	1,800,935	2,254,908
Interest payable	872,543	2,762,233	34,229
Provisions	200,356	440,265	703,411
	<u>31,467,655</u>	<u>19,979,280</u>	<u>13,862,164</u>

17 Short term borrowings

The Company has entered into working capital facility agreement with Bank Muscat on 26 February 2013, last amended on 2 January 2020. The working capital facility ("the Facility") limit is RO 3.85 million and carry interest rate of maximum 3.75% per annum. The balance outstanding as of 30 September 2020 is RO 3.5 million (31 December 2019: Nil; 30 September 2019: Nil). The security against the facility is as per Common Terms Agreement and mentioned in note 20 of the financial statements.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

18 Income tax

The Company is liable for income tax, in accordance with the income tax laws of Sultanate of Oman, at the rate of 15% of taxable income.

A deferred tax asset of RO 495,055 (31 December 2019: RO 351,913 and 30 September 2019: RO 623,837) has been recognised directly in equity in respect of the changes in fair values of interest rate swaps (note 11).

	Unaudited Three month period ended 30 September 2020 RO	Nine months period ended 30 September 2020 RO	Unaudited Three month period ended 30 September 2019 RO	Nine months period ended 30 September 2019 RO
(a) <i>Recognised in profit or loss</i>				
Current tax for the period	452,790	1,015,986	-	-
Deferred tax expense for the period	238,798	1,518,265	616,895	2,044,009
	<u>691,588</u>	<u>2,534,251</u>	<u>616,895</u>	<u>2,044,009</u>

(b) Reconciliation

The following is the tax reconciliation of income taxes calculated at the applicable tax rate with the income tax expenses.

	30 September 2020 RO	30 September 2019 RO
Profit before tax	16,932,960	13,572,852
Income tax as per rates mentioned above	(2,539,944)	(2,035,928)
Expenses not deductible for tax	(5,268)	(8,081)
Prior year adjustment	10,961	-
Deferred tax expense for the period	<u>(2,534,251)</u>	<u>(2,044,009)</u>

(c) Deferred tax asset (liability)

	At 1 January RO	Recognised during the period RO	At 30 September RO
As at September 2020			
Charged to profit or loss			
Property, plant and equipment	(22,985,562)	(730,217)	(23,715,779)
Asset retirement obligation	37,946	18,408	56,354
Right of use asset/ lease liability	6,548	5,114	11,662
Tax losses	811,570	(811,570)	-
	<u>(22,129,498)</u>	<u>(1,518,265)</u>	<u>(23,647,763)</u>
Deferred tax recognised in equity			
Derivative financial instruments	1,765,739	495,055	2,260,794
Deferred tax liability (net)	<u>(20,363,759)</u>	<u>(1,023,210)</u>	<u>(21,386,969)</u>

	At 1 January RO	Recognised during the year RO	At 31 December RO
As at December 2019			
Charged to profit or loss			
Property, plant and equipment	(21,691,180)	(1,294,382)	(22,985,562)
Asset retirement obligation	31,691	6,255	37,946
Right of use asset/lease liability	-	6,548	6,548
Tax losses	2,086,751	(1,275,181)	811,570
	<u>(19,572,738)</u>	<u>(2,556,760)</u>	<u>(22,129,498)</u>
Deferred tax recognised in equity			
Derivative financial instruments	1,413,826	351,913	1,765,739
Deferred tax liability (net)	<u>(18,158,912)</u>	<u>(2,204,847)</u>	<u>(20,363,759)</u>

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

18 Income tax (continued)

(c) Deferred tax asset (liability) (continued)

	At 1 January RO	Recognised during the period RO	At 30 September RO
As at September 2019			
<i>Charged to profit or loss</i>			
Property, plant and equipment	(21,691,180)	(977,686)	(22,668,866)
Asset retirement obligation	31,691	4,691	36,382
Right of use asset/lease liability	-	3,170	3,170
Tax losses	2,086,751	(1,074,184)	1,012,567
	<u>(19,572,738)</u>	<u>(2,044,009)</u>	<u>(21,616,747)</u>
<i>Deferred tax recognised in equity</i>			
Derivative financial instruments	1,413,826	623,837	2,037,663
Deferred tax liability (net)	<u>(18,158,912)</u>	<u>(1,420,172)</u>	<u>(19,579,084)</u>

(d) The movement in the current tax liability for the period comprise of:

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
At 1 January	-	-	-
Charge for the period/year	1,015,986	-	-
Paid during the period/year	-	-	-
At 30 September	<u>1,015,986</u>	<u>-</u>	<u>-</u>

The current tax liability for the period ended 30 September 2019 and financial year ended 31 December 2019 was settled by adjusting it against accumulated losses.

(e) Status of prior year returns

The Company's assessment for the tax years 2014 to 2019 have not yet been finalised with the Secretariat General for Taxation at the Ministry of Finance. Management of the Company believe that additional taxes, if any in respect of open tax years, would not be significant to the Company's financial position as at 30 September 2020.

(f) There are no cumulative tax losses as at 30 September 2020. The cumulative tax losses as at 31 December 2019 amounting to RO 5,410,468 and as at 30 September 2019 amounting to RO 8,687,037 were available for set-off against future profits earned within a period of five years from the year in which the loss was incurred and therefore deferred tax asset on these tax losses had been recognised in the financial statements, as the Company expected to have sufficient taxable profits in the future years against which such tax losses were to be adjusted.

19 Related party transactions

Related parties comprise the shareholders, directors, key management personnel and business entities which 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. Outstanding balances at the reporting period end are unsecured and settlement occurs in cash.

No expenses have been recognised during the period for bad or doubtful debts in respect of amounts owed by related parties (31 December 2019: Nil and 30 September 2019: Nil).

Sembcorp Industries Limited (SIL) is related party with significant shareholder influence; whereas Sembcorp Salalah O&M Services Company LLC (SSOM) is an affiliate.

The Company had the following significant transactions with related parties during the period:

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)**
19 Related party transactions (continued)

	Unaudited Three month period ended 30 September 2020 RO	Nine months period ended 30 September 2020 RO	Unaudited Three month period ended 30 September 2019 RO	Nine months period ended 30 September 2019 RO
<i>Sembcorp Industries Limited (SIL)</i>				
- Reimbursement of expenses	<u>3,288</u>	<u>3,288</u>	3,629	5,089
<i>Sembcorp Salalah O&M Services Company LLC (SSOM)</i>				
- Operation and maintenance cost	<u>1,703,320</u>	<u>4,955,226</u>	1,822,733	5,418,228
- Incentive payment	<u>120,055</u>	<u>369,013</u>	142,732	378,510

Due to related parties at the period end comprised:

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
SSOM	2,433,673	1,427,161	1,641,086
SIL	<u>-</u>	<u>-</u>	<u>2,219</u>
	<u>2,433,673</u>	<u>1,427,161</u>	<u>1,643,305</u>

Key management benefits

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). Total compensation accrued to key management personnel for the period ended is as follows:

	Unaudited Three month period ended 30 September 2020 RO	Nine months period ended 30 September 2020 RO	Unaudited Three month period ended 30 September 2019 RO	Nine months period ended 30 September 2019 RO
Directors' remuneration	26,700	98,629	22,100	71,200
Directors' sitting fees	5,750	17,500	5,500	21,000
Short term employee benefits	88,314	356,731	85,500	324,660
Social security and gratuity	<u>5,012</u>	<u>18,326</u>	<u>4,891</u>	<u>16,289</u>
	<u>125,776</u>	<u>491,186</u>	<u>117,991</u>	<u>433,149</u>

Compensation of some of the key management personnel has been paid through Sembcorp Salalah O&M Services Co. LLC of RO 224,013 (30 September 2019: RO 220,575).

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

20 Term loans

	Maturity	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Non-current				
Project financing loan (USD)	2012-2026	127,354,083	147,851,334	147,851,335
Project financing loan (Rials)	2012-2026	28,751,760	30,744,360	30,744,360
		156,105,843	178,595,694	178,595,695
Less: Unamortised transaction cost		(2,126,657)	(2,675,126)	(2,866,204)
		153,979,186	175,920,568	175,729,491
Less: Current portion of term loans		(27,424,341)	(24,759,473)	(24,759,473)
		126,554,845	151,161,095	150,970,018

On 19 November 2009, the Company entered into a Common Terms Agreement (“CTA”), for credit facilities with a consortium of international and local banks with Standard Chartered Bank as the Dollar Commercial Facility Agent, Bank Muscat SAOG as the Rial Commercial Facility Agent and Bank of China, Shondong Branch as Sinosure Facility Agent, collectively “the Mandated Lead Arranger”.

Repayments

The aggregate amount of drawdowns under the above facilities is repayable in full by 29 half yearly instalments commencing from 31 December 2012, with the final instalment being due on 30 September 2026.

Interest

(i) Interest on Dollar Commercial facilities is charged at a floating rate of LIBOR plus margin. The Company has entered into an interest rate swap to cap its obligation against unfavorable interest rate changes.

The margins are indicated below:

	Margin (% per annum)
Prior to completion date (as defined in the CTA)	3.00%
Thereafter up to the ninth anniversary of completion date	2.85%
Thereafter up to the tenth anniversary of completion date	3.20%
Thereafter up to the thirteenth anniversary of completion date	3.55%
Thereafter	3.95%

(ii) Interest on Sinosure Covered facilities is charged at a floating rate of LIBOR plus margin (3% p.a.). The Company has entered into an interest rate swap to cap its obligation against unfavourable interest rate changes.

(iii) Interest under the Rial Commercial Facilities Agreement is charged at a fixed rate, as shown in the table below:

Period	Margin (% per annum)
From financial close to the third anniversary of financial close	8.00%
From the third anniversary of financial close to the fifth anniversary of financial close	7.00%
From the fifth anniversary of financial close to the eighth anniversary of financial close	4.25%
From the eighth anniversary of financial close to the twelfth anniversary of financial close	5.75%

Other fees

The Company was required to pay front end fees to the Mandated Lead Arranger. In addition, the Company paid commitment fees at 1.3% of undrawn Dollar Commercial facilities and Sinosure Covered facilities and 0.4% of undrawn Rial Omani facilities. As at 30 September 2020, there were no undrawn loans.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

20 Term loans (continued)

Securities

The term loan and the debt reserve account facility are secured, under the security documents as a whole, by the following collateral:

- a charge on all project assets through commercial/legal mortgage;
- an assignment of its insurance/reinsurance;
- a security over Company's shares (apart from those held by public);
- a charge over all the project accounts; and
- direct agreements.

Covenants

The term loan facilities contain certain covenants pertaining to, amongst other things, liquidation and merger, entering into material new agreements, negative pledge, disposal of assets, granting of loans and guarantees, acquisition of capital assets, debt service coverage ratio, change of business, hedging agreements, etc, with which the Company is required to comply. The Company is in compliance with the covenants attached with the term loans.

21 Asset retirement obligation ("ARO")

Under the Usufruct Agreement, the Company has a legal obligation to remove the Plant at the end of its useful life and restore the land. The Company shall at its sole cost and expense dismantle, demobilise, safeguard and transport the assets, eliminate soil and ground water contamination, fill all excavation and return the surface to grade of the designated areas.

The fair value of the ARO provision has been calculated using an expected present value technique. This technique reflects assumptions such as costs, plant useful life, inflation and profit margin that third parties would consider to assume the settlement of the obligation. The movement in ARO provision is as follows:

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
At 1 January	646,228	604,528	604,528
Provision made during the period/ year	31,392	41,700	31,275
At 30 September / 31 December	677,620	646,228	635,803

Because of the long term nature of the liability, there is significant uncertainty in estimating the cost that will be incurred. It has been assumed that the site will be restored using technology and material that are currently available. The provision has been calculated using a discount rate of 6.5% (31 December 2019: 6.5% and 30 September 2019: 6.5%).

22 Long term lease liability

The Company recognised lease liabilities in relation to lease of land [notes 1 and 8 (a)]. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate 6.5%.

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Land	484,116	461,616	454,572

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

22 Long term lease liability (continued)

	30 September 2020		31 December 2019		30 September 2019	
	Total minimum lease payments RO	PV of minimum Lease payment RO	Total minimum lease payments RO	PV of minimum Lease payment RO	Total minimum lease payments RO	PV of minimum Lease payment RO
More than 5 years	1,794,832	484,116	1,794,832	461,616	1,794,832	454,572

23 Financial risk management

Other disclosures

Financial assets are assessed for impairment at each reporting date as disclosed below in credit risk.

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Company has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

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

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

(a) Market risk

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

Interest rate risk

At the reporting date, the interest rate profile of the Company's interest-bearing financial assets and liabilities is:

	Interest rate	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Financial assets				
Fixed term cash deposit	0.30%	12,010,536	18,925,080	2,625,000
Financial liabilities				
Short term borrowing	3.25%	(3,500,000)	-	-
<i>Term loan</i>				
- USD variable rate loans	Libor + 3%	(70,734,777)	(82,119,324)	(82,119,324)
- USD variable rate loans	Libor + 2.85%	(56,619,306)	(65,732,010)	(65,732,011)
- RO fixed rate loans	5.75%	(28,751,760)	(30,744,360)	(30,744,360)
		(159,605,843)	(178,595,694)	(178,595,695)

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

23 Financial risk management (continued)

(a) Market risk (continued)

Interest rate risk (continued)

IFRS 9 and IFRS 7 Interest Rate Benchmark Reform

In July 2017, the United Kingdom Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), announced that the interest benchmark would cease after 2021. LIBOR is one of the most common series of benchmark interest rates. LIBOR reforms and expectation of cessation of LIBOR will impact the Company's current risk management strategy and possibly accounting for financial liabilities of RO 15,071,967.

As part of the Company's risk management strategy, the Company uses financial instruments to manage exposures arising from variation of interest rates that could affect profit or loss or other comprehensive income and applies hedge accounting to these instruments (note 11).

These financial instruments are referenced to Libor. Refer note 11 to the financial statements for nominal value and details of derivative contracts under hedging arrangements.

The Company had early adopted the Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7 issued in September 2019 during the financial year ended 31 December 2019. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that LIBOR reform should not generally cause hedge accounting to terminate.

In calculating the change in fair value attributable to the hedged risk of term loan, the Company has made the following assumptions that reflect its current expectations:

- The floating-rate debt will move to the benchmark adopted during 2022, and the spread will be similar to the spread included in the interest rate swap used as the hedging instrument;
- No other changes to the terms of the term loan are anticipated; and
- the Company has incorporated the uncertainty over when the floating-rate debt will move to new adopted benchmark, the resulting adjustment to the spread, and the other aspects of the reform that have not yet been finalised by adding an additional spread to the discount rate used in the calculation.

The Company is assessing the impact and next steps to ensure a smooth transition from LIBOR to the new benchmark rates.

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial liabilities at fair value through profit or loss and the Company does not designate hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rate at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

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

Cash flow sensitivity analysis for variable rate instruments (continued)

		Equity				
30 September 2020		31 December 2019		30 September 2019		
100 bps Increase	100 bps Decrease	100 bps Increase	100 bps Decrease	100 bps Increase	100 bps Decrease	
RO	RO	RO	RO	RO	RO	
Interest rate swap	<u>4,214,512</u>	<u>(4,214,512)</u>	<u>5,454,008</u>	<u>(5,454,008)</u>	<u>5,380,597</u>	<u>(5,380,597)</u>

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

23 Financial risk management (continued)

(a) Market risk (continued)

Currency risk

The majority of the transactions and balances are either in RO or USD. As the RO is pegged to the USD, balances in USD are not considered to represent significant currency risk. The Company is not exposed to significant currency risk as at 30 September 2020 (31 December 2019 and 30 September 2019 : No exposure to significant currency risk).

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and cash balances held with banks. Under the terms of the PWWA, the Company's sales are billed wholly to OPWP. The Company manages its credit risk with OPWP by monitoring its credit rating and obtaining credit enhancements. The Company limits its credit risk with regard to bank deposits by only dealing with reputable banks and financial institutions with strong credit ratings. The carrying amount of financial assets represents the maximum credit exposure.

Impairment of financial assets

The Company has trade receivables from the provision of operation and maintenance services and leasing of assets, which are subject to the expected credit loss model. While fixed term cash deposits, cash and cash equivalents and other receivables are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The company has one customer, and the ECL allowance on receivable from that customer has been computed based on rating grades issued by external rating agency. The ratings by external agency is based on historic default rate and is adjusted for forward-looking macro-economic information (e.g., economic data from industry groups, associations or bodies).

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 360 days past due.

The trade receivables have been guaranteed by the Government of Sultanate of Oman. The maximum exposure to credit risk at the reporting date, without taking into account collateral or other credit enhancements was:

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Classified as loans and receivables			
Fixed term cash deposits (3 to 6 months)	12,010,536	18,925,080	2,625,000
Cash and bank balances	12,491,961	4,420,424	19,276,349
Trade receivable	32,661,444	19,194,190	14,468,480
Other receivable	1,591	79,937	31,281
Insurance claim receivable	-	25,501	258,421
	57,165,532	42,645,132	36,659,531

The table below shows the balances with banks categorised by short-term credit rating as published by Moody's investor's service at the reporting date. Although one of the bank has been rated as not prime, management does not foresee any credit risk.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

23 Financial risk management (continued)

(b) Credit risk (continued)

Trade receivables (continued)

Bank	Rating	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Bank balances				
Bank Muscat SAOG	P-3	12,447,326	4,391,244	6,574,218
Bank of China	P-1	37,516	28,257	12,701,337
		12,484,842	4,419,501	19,275,555
Fixed term deposits				
Bank Muscat SAOG	P-3	-	2,400,000	2,625,000
Bank of China	P-1	12,010,536	16,525,080	-
		12,010,536	18,925,080	2,625,000
Trade receivables				
OPWP	Ba3	32,661,444	19,194,190	14,468,480

Age analysis of trade and other receivables is as follows:

	30 September 2020		31 December 2019		30 September 2019	
	RO	Allowance for impairment	RO	Allowance for impairment	RO	Allowance for impairment
Not past dues	5,998,878		5,946,560		6,428,180	
Past due 0 to 3 months	4,803,045		5,281,487		5,920,575	
Past due 3 to 6 months	4,788,295	(10,231)	5,920,575	(12,150)	2,151,006	(7,790)
Past due 6 to 12 months	9,001,236		2,151,006		-	
Past due 12 months	8,071,581		-		-	
	32,663,035	(10,231)	19,299,628	(12,150)	14,499,761	(7,790)

Overdue payment represents outstanding amount from OPWP on account of fuel charge revenue. Fuel charge revenue is pass through in nature and does not pose any significant risk to the Company, since the terms of NGSA state that the Company is not liable to pay MOG for the fuel it procures if the Company does not receive the fuel revenue from OPWP.

The closing allowances for impairment of trade receivables as at 30 September 2020 reconcile to the opening allowances for impairment are as follows:

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Opening allowance for impairment as at 1 January 2019 – calculated under IFRS 9	12,150	7,790	7,790
Increase in allowance recognised in profit or loss during the period/year	-	4,360	-
Receivables written off during the year as uncollectible	-	-	-
Reversal of impairment allowance (note 5)	(1,919)	-	-
At 30 September/31 December	10,231	12,150	7,790

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

23 Financial risk management (continued)

(c) Liquidity risk

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

The Company limits its liquidity risk by ensuring bank facilities and shareholders' advances are available, where required. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements

	Cash flows				
	Carrying Amount	Contractual cash flow	Less than 1 year	More than 1 to 5 years	More than 5 years
30 September 2020	RO	RO	RO	RO	RO
Derivatives					
Interest rate swaps used for hedging	15,071,967	(15,238,060)	(4,702,075)	(10,034,836)	(501,149)
Non-derivative financial liabilities					
Term loans	153,979,186	(175,935,988)	(33,065,719)	(116,437,553)	(26,432,716)
Short term borrowing	3,500,000	(3,500,000)	(3,500,000)	-	-
Trade and other payables	31,467,655	(31,467,655)	(31,467,655)	-	-
Long term lease liability	484,116	(1,794,832)	-	-	(1,794,832)
	<u>204,502,924</u>	<u>(227,936,535)</u>	<u>(72,735,449)</u>	<u>(126,472,389)</u>	<u>(28,728,697)</u>
31 December 2019					
Derivatives					
Interest rate swaps used for hedging	11,771,596	(12,302,099)	(2,437,116)	(8,718,257)	(1,146,726)
Non-derivative financial liabilities					
Term loan	175,920,568	(210,674,366)	(31,372,134)	(124,579,067)	(54,723,165)
Trade and other payables	19,979,280	(19,979,280)	(19,979,280)	-	-
Long term lease liability	461,616	(1,794,832)	-	-	(1,794,832)
	<u>208,133,060</u>	<u>(244,750,577)</u>	<u>(53,788,530)</u>	<u>(133,297,324)</u>	<u>(57,664,723)</u>

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

23 Financial risk management (continued)

(c) Liquidity risk

30 September 2019

Derivatives

Interest rate swaps used for hedging	13,584,418	(14,227,204)	(3,281,199)	(9,603,330)	(1,342,675)
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Non-derivative financial liabilities

Term loans	175,729,491	(211,869,606)	(33,701,451)	(123,650,278)	(54,517,877)
Trade and other payables	13,862,164	(13,862,164)	(13,862,164)	-	-
Long term lease liability	454,572	(1,794,832)	-	-	(1,794,832)
	<u>203,630,645</u>	<u>(241,753,806)</u>	<u>(50,844,814)</u>	<u>(133,253,608)</u>	<u>(57,655,384)</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at a significantly different amount. Based on the future cashflow forecast, management believes that the Company will be able to meet its obligations at its maturity profile. The Company meets its debt financial covenant of Debt Service Coverage ratio for the period of the next one year

Embedded derivatives

The following agreements contain embedded derivatives:

- (i) The PWPA between the Company and OPWP contains embedded derivatives in pricing the fixed operation and maintenance charge and variable operation and maintenance charge rate for the power facility as well as the desalination facility. Fixed percentages of the fixed operation and maintenance charge rate and variable operation and maintenance charge rate for both facilities get adjusted to reflect changes in the US price index and the Omani Consumer price index.
- (ii) The NGSa between the Company and MOG contains embedded derivatives in gas price for provision of natural gas to the plant. The gas price gets adjusted to reflect changes in US price index.
- (iii) The LTSA between the Company and GEIL contains embedded derivatives in pricing the fixed monthly fee and variable monthly fee for provision of long term maintenance services. Fixed percentage of the fixed monthly fee and variable monthly fee gets adjusted to reflect changes in US price index.

These embedded derivatives are not separated from the host contract, and accounted for as a standalone derivative under IFRS 9, as the management believes that the economic characteristics and risk associated with the embedded derivatives are closely related to those of the host contract.

Capital management

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns to members and benefits to other stakeholders, and to provide an adequate return to members by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to members, return capital to shareholders, and issue new shares, or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio (debt to equity)

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Debt (Long-term loan)	<u>153,979,186</u>	175,920,568	175,729,491
Equity (Shareholders' funds)	<u>123,247,932</u>	111,426,567	114,684,057
Debt to equity ratio (times)	<u>1.25</u>	1.58	1.53

SEMBCORP SALALAH POWER & WATER COMPANY SAOG**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)****23 Financial risk management (continued)****Fair value of financial instruments**

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

23 Financial risk management (continued)

Fair value of financial instruments (continued)

		Carrying amount			Fair value
	Fair value - hedging instrument	Financial assets at amortised cost	Other financial liabilities	Total	Level 2
		At amortised cost			
30 September 2020	RO	RO	RO	RO	RO
Financial assets not measured at fair value					
Trade and other receivables	-	32,652,804	-	32,652,804	-
Cash and bank balances	-	24,502,497	-	24,502,497	-
	-	57,155,301	-	57,155,301	-
Financial liabilities measured at fair value					
Derivative instruments	(15,071,967)	-	-	(15,071,967)	(15,071,967)
	-				
Financial liabilities not measured at fair value					
Term loan	-	-	(153,979,186)	(153,979,186)	(153,378,716)
Trade and other payables	-	-	(31,467,655)	(31,467,655)	-
Short term borrowing	-	-	(3,500,000)	(3,500,000)	-
	-	-	(188,946,841)	(188,946,841)	(153,378,716)
31 December 2019					
Financial assets not measured at fair value					
Trade and other receivables	-	19,287,478	-	19,287,478	-
Cash and bank balances	-	23,345,504	-	23,345,504	-
	-	42,632,982	-	42,632,982	-
Financial liabilities measured at fair value					
Derivative instruments	(11,771,596)	-	-	(11,771,596)	(11,771,596)
Financial liabilities not measured at fair value					
Term loan	-	-	(175,920,568)	(175,920,568)	(181,873,270)
Trade and other payables	-	-	(19,979,280)	(19,979,280)	-
	-	-	(195,899,848)	(195,899,848)	(181,873,270)

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

23 Financial risk management (continued)

Fair value of financial instruments (continued)

		Carrying amount			Fair value
	Fair value - hedging instrument	Financial assets at amortised cost	Other financial liabilities	Total	Level 2
		At amortised cost			
30 September 2019	RO	RO	RO	RO	RO
<i>Financial assets not measured at fair value</i>					
Trade and other receivables	-	14,750,392	-	14,750,392	-
Cash and cash equivalents	-	19,276,349	-	19,276,349	-
	-	34,026,741	-	34,026,741	-
<i>Financial liabilities measured at fair value</i>					
Derivative instruments	(13,584,418)	-	-	(13,584,418)	(13,584,418)
<i>Financial liabilities not measured at fair value</i>					
Term loan	-	-	(175,729,491)	(175,729,491)	(181,185,081)
Trade and other payables	-	-	(13,862,164)	(13,862,164)	-
	-	-	(189,591,655)	(189,591,655)	(181,185,081)

24 Commitments

(a) Performance guarantees

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Performance guarantees	1,540,800	1,540,800	1,540,800

The Company has taken bank guarantees from Bank Muscat for the amount of USD 4,000,000 and provided to Oman Electricity Transmission Company SAOG under the electrical connection agreement.

(b) Operation and maintenance commitment

As per O&M Agreement, SSOMC operates and maintains the Company's plant at Salalah until 24 May 2027. Under O&M agreement, the Company has to pay the fixed operating fee:

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

	30 September 2020 RO	31 December 2019 RO	30 September 2019 RO
Due:			
Not later than one year	770,400	770,400	770,400
Later than one year but not later than five years	3,081,600	3,081,600	3,081,600
Later than five years	1,268,522	1,848,960	2,038,922
	5,120,522	5,700,960	5,890,922

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

24 Commitments (continued)

(c) Capital Commitment

Total capital commitment as at 30 September 2020 are in the amount of RO 295,732 (31 December 2019: RO 736,298 and 30 September 2019: RO 1,031,007).

25 Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period as follows:

	Unaudited For three month period ended 30 September 2020	For nine months period ended 30 September 2020	Unaudited For three month period ended 30 September 2019	For nine months period ended 30 September 2019
Profit for the period (RO)	3,906,426	14,398,709	3,458,947	11,528,843
Weighted average number of shares outstanding during the period	954,571,950	954,571,950	954,571,950	954,571,950
Earnings per share - Basic and diluted (RO)	0.0041	0.0151	0.0036	0.0121

Since the Company has no potentially dilutive instruments, the basic and dilutive earnings per share are same.

26 Net assets per share

Net assets per share are calculated by dividing the shareholders' funds by the number of shares at the end of the reporting period.

	30 September 2020	31 December 2019	30 September 2019
Net assets - Shareholders' funds (RO)	123,247,932	111,426,567	114,684,057
Number of shares at the end of the period/year	954,571,950	954,571,950	954,571,950
Net assets per share (RO)	0.129	0.117	0.120

27 Investors' Trust Fund

Record of Investors Trust Fund indicates that the amount of RO 48,217 (31 December 2019: RO 47,129 and 30 September 2019: RO 47,831) have not been claimed from the Company by the shareholders as at 30 September 2020.

28 Segmental reporting

The Company has only one segment in accordance with IFRS 8. Segment information is, accordingly, presented in respect of the Company's business segments. The primary format, business segments, is based on the Company's management and internal reporting structure. The requirements of IFRS 8, paragraphs 31 to 34 relating to entity wide disclosures has been covered under statements of financial position, profit and loss and other comprehensive income and also in notes 1, 2, 3 and 4 to these financial statements.

29 Operating lease agreement for which the Company acts as a lessor

The Company has entered into a PWPA with OPWP for a substantial element of the production of power and water with 100% 'take-or-pay' clauses in favour of the company.

Management has determined that the take-or-pay arrangements with OPWP under PWPA are covered by IFRS 16 'Leases' as such arrangements convey the right to use the assets to OPWP. Management further determined that such arrangement in substance represents an operating lease under IFRS 16 Leases [note 2.2 (a)]. The lease commenced on 25 May 2012. The following is the total of future minimum lease receipts expected to be received under PWPA:

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2020 (continued)

29 Operating lease agreement for which the Company acts as a lessor (continued)

	30 September 2020 RO	30 September 2019 RO
Due:		
Not later than 1 year	43,142,996	43,257,954
Not later than 2 years	43,142,996	43,142,996
Not later than 3 years	43,142,996	43,142,996
Not later than 4 years	43,257,954	43,142,996
Not later than 5 years	43,142,996	43,257,954
Later than five years	64,065,366	107,208,361
	279,895,304	323,153,257

30 Dividend

On 26 October 2020, the Board of Directors proposed interim cash dividend for 2020 of Baizas 6.4 per share.

On 12 February 2020, Board of Directors proposed final cash dividend of Baizas 2.7 per share for the financial year ended 31 December 2019. Capital Market Authority advised the Companies to suspend the approval of Annual General Meeting for payment of dividend and to distribute the dividend proposed by the board of directors as per approved AGM agenda. Therefore, the Company distributed the dividend proposed by the board of directors on its cut off date of 1 April 2020. On 10 June 2020, the Company convened its Annual General Meeting in which Shareholders approved the final cash dividend of Baizas 2.7 per share.

On 29 October 2019, the Board of Directors approved interim cash dividend of Baizas 7.1 per share in accordance with the authorization given by the Shareholders at its AGM on 12 March 2019 to the Shareholders registered in the Company's Shareholder register with Muscat Clearing & Depository Company SAOC on 1 November 2019. On 12 March 2019, in an Annual General Meeting, Shareholders approved a final cash dividend of Baizas 3.4 per share for the financial year ended 31 December 2018.

31 Impact of COVID – 19

As the novel coronavirus (COVID-19) spreads beyond China and becomes a global pandemic, this outbreak will inevitably impact economies and businesses. The Government of Oman has established Supreme Committee for COVID-19 which is dealing with pandemic situation in the country and trying to minimize its impact to the extent possible.

For the nine months ended 30 September 2020, the Company has not experienced any significant pandemic-related impact on its operating and financial performance. However, the Company has taken all possible measures to mitigate the risks arising from the COVID-19 situation. As at the reporting date, the Company has sufficient funds available to meet its obligations.

The Company is closely monitoring the developing situation of the pandemic at country, regional and global level and will continue to evaluate and assess the effects of pandemic.

32 Other information

Three month ended September 2020 and 2019 figures in statement of profit or loss and respective explanatory notes are unaudited and are for disclosure purpose only.

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