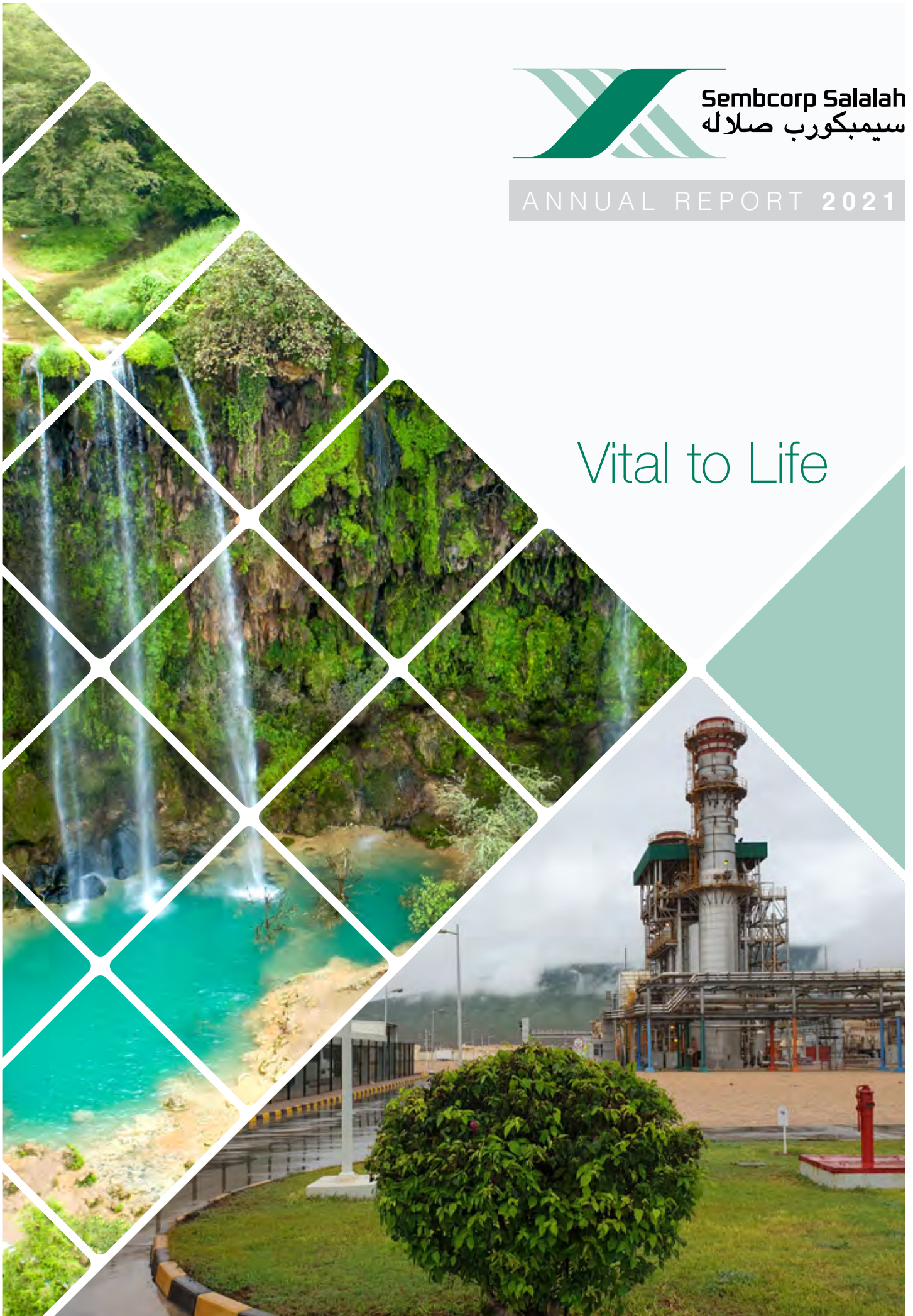




Sembcorp Salalah  
سيمبكورب صلالة

ANNUAL REPORT 2021

Vital to Life



**Registered office:**

P.O. Box 1466  
Postal Code 211  
Salalah  
Sultanate of Oman

**Principal place of business:**

Salalah  
Sultanate of Oman

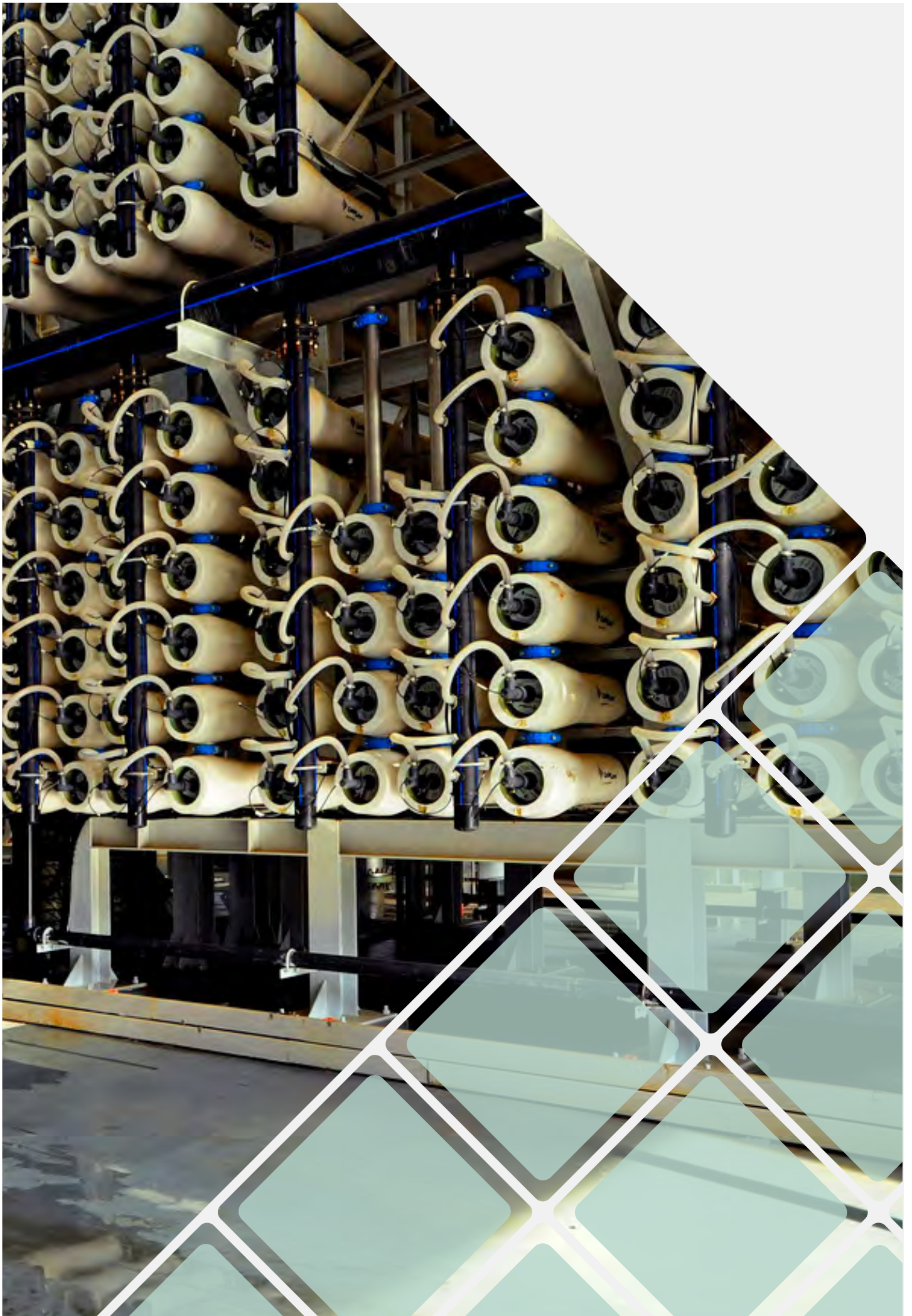


**HIS MAJESTY SULTAN QABOOS  
BIN SAID (Late)**



**HIS MAJESTY SULTAN HAITHAM  
BIN TARIK**







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# Board of Directors



**Tan Cheng Guan**  
Chairman



**Kalat Al Bulooshi**  
Deputy Chairman



**Andrew Koss**  
Non-Executive Director



**Ahmed Ali Sulaiman  
Al Bulushi**  
Independent  
Non-Executive Director



**Tariq Ali Salim Al Amri**  
Independent  
Non-Executive Director



**Sheikh Khalid Mohammed  
Ali Al Hamoodah**  
Independent  
Non-Executive Director



**Yap Siew Leng**  
Non-Executive Director



**Ahmed Ali Ahmed Al Moosawi**  
Non-Executive Director



**Abdullah Mohammed Ali Al Ma'mari**  
Independent  
Non-Executive Director

# Executive Management



**Humaid Salim Al Amri**  
Chief Executive Officer



**Tariq Bashir**  
Chief Financial Officer  
and Company Secretary



**Pratush Sinha**  
Plant Manager



**Salim Mohammed Al Mashikhi**  
Human Resource  
& Admin Manager





# Chairman's Report

## Dear Shareholders,

On behalf of the Board of Directors (the Board) of Sembcorp Salalah Power & Water Company ("SSPWC" or "the Company"), I am pleased to present the audited financial statements for the year ended 31 December 2021.

## Financial Results

The COVID-19 pandemic continued to impact the global economic recovery in 2021. Despite pandemic-related challenges, I am delighted to report that the Company delivered a net profit of RO 18.3 million for the year 2021. Operating profit was RO 32.1 million in 2021 compared to RO 33.8 million the year before. Reduction in operating profit was mainly due to one-off Cyclone Mekunu insurance claim settlements recognised in 2020. Similar to year 2020, Basic Earnings Per Share was Baizas 19.0 for the year 2021. The Company continued to report a strong balance sheet, ending the year with net assets of RO 127.1 million.

I invite you to refer to the Management Discussion and Analysis Report section of the Annual Report for more information on the Company's financial results.

## Dividends

Based on availability of the cashflows, the Board of Directors has decided to consolidate dividends for the year 2022 and will propose to the shareholders to approve total dividend of up to Baizas 6.0 per share, which will be paid on 1 November 2022. During the year 2021, the Company has paid a total dividend of Baizas 6.1 per share.

The Company follows a reasonable dividend payout policy, subject to debt repayments, working capital and operational expenditure requirements. The amount of annual dividends and the determination whether to pay dividends in any year may be affected by a number of other factors, including the Company's business prospects, financial performance, free cash availability, covenants under the Financing Documents and the outlook for the power and water sector.

## Operations

The Company is a key power and water producer in the Dhofar region. We expect to remain as one of the key power and water producers to meet the demands of the region. We continue to strive for the highest level of plant availability and reliability, which is critical to the ongoing success of the Company. In 2021, the reliability of the power and water plant was 99.80% and 99.36% respectively, comparable to 99.87% and 99.73% in 2020. The power plant load factor remained relatively stable year-on-year at 38.51%. Water plant load factor reduced from 99.97% to 73.41%, mainly due to the commissioning of a new Salalah III Independent Water Plant in the region. However, due to the take-or-pay commercial arrangement that we have with Oman Power & Water Procurement Company (OPWP), the plant load factor does not have a significant impact on the profitability of the Company.

The Company was able to continue with normal operations and planned maintenance of the plant while implementing various plant improvement initiatives.



## Going forward

The commitment to safe and reliable operations will remain the Company's top priority. At the same time, we will remain focused on maximising shareholder returns through a continued watch on the financial and operational performance of the Company.

## Health, Safety & the Environment (HSE)

The health and safety of our people as well as protecting the environment we live in remain critical to our business. We aim to achieve world-class health and safety performance in our daily operations and our management team is committed to continuous improvement on this front.

The Company continues to mitigate the impact of the global pandemic on our people and operations through various measures. Due to the measures taken to effectively contain the spread of the virus, there was no significant impact on our operations.

I am also pleased to report that there were no lost time incidents (LTI) and zero incidents of environmental non-compliance in 2021. The Company achieved the milestone of five million safe man-hours without any LTI in August 2021, representing nine consecutive years of safe and efficient operations. This is a strong testament of the commitment that our staff and contractors have in maintaining, implementing and abiding by HSE rules and standards.

## Caring for the Environment and Communities

The Company recognises the importance of being a good corporate citizen in the conduct of our business activities, and is committed to caring for the environment and making a positive impact in the communities that we operate in. We continuously improve our waste management system and reduce carbon emissions by managing our auxiliary power consumption. The Company follows a consistent approach for charitable contributions and community investments that bring positive benefits to the local communities. In 2021, the Company contributed RO 59,931 for corporate social responsibility activities to improve the public infrastructure and to promote education, health and environmental awareness in the Mirbat municipality and nearby communities.

## Corporate Governance

The Board believes that a business built on the principles of good governance is key to our long-term success. Our Company complies with the Code of Corporate Governance issued by the Oman Capital Market Authority. More details can be found in the Corporate Governance Section of this report.

## On Record

Mr Ng Meng Poh and Ms Diane Chen Dan have resigned as directors of the Company during the year 2021. On behalf of the Board, I would like to take this opportunity to record our deep appreciation for their invaluable contributions towards the Company.

As the Chairman of the Board, I would like to thank my fellow directors, our shareholders, our client (OPWP), regulators (the Authority for Public Services Regulation and Capital Market Authority), and our partners (the Environment Authority, the Ministry of Energy and Minerals, the Oman Electricity Transmission Company, Dhofar Integrated Services Company, OQ Company and other governmental and non-governmental bodies) for their guidance and support. I also thank all our employees and contractors for their dedication and commitment to the Company.

Finally, on behalf of the Board of Directors and our people, I would like to extend our deep appreciation and gratitude to His Majesty Sultan Haitham Bin Tariq Al Said's wise leadership and his continued support and encouragement to the private sector. We look forward to continue supporting His Majesty's government and remain committed to our mission to supply quality and reliable power and water of the highest standards to the Dhofar region.

## Tan Cheng Guan

Chairman of the Board

# Operational Highlights

## Health, Safety & the Environment (HSE)

### Health and Safety

Sembcorp Salalah Power & Water Company SAOG (“Sembcorp Salalah” or “the Company”) recorded 539,269 man-hours without lost time incidents and was in full environmental compliance in 2021. Since the start of commercial operations, Sembcorp Salalah has been continuously working to cultivate a safe work culture. In 2021, we achieved another new milestone of five million safe man-hours. The Company and its staff celebrated this achievement along with contractors in October 2021 and reaffirmed our commitment to the highest safety standards. Sembcorp Salalah is accredited with the Integrated Management System Standard ISO 9001:2015, ISO 14001:2015, and OSHAS 18001:2007.

The Company provides a sound framework to promote a safety culture for its employees and contractors, where safety is upheld as the upmost priority in the workplace at

all times. To ensure that our staff is capable and adheres to the company safety standards, the Company provides its employees with relevant HSE and technical capability development training. The Company also conducts safety drills based on its HSE policies and procedures. In order to further enhance the safety culture in the Company, the Management implemented a behaviour-based safety observation (BBS) programme in 2019. This programme elevated the Company's safety culture by providing safety awareness through structured recording, monitoring, analysis, tracking and communication of safety observations. The BBS programme also helps to define proactive safety indicators, encourage better communication through graphical reports and to create and follow up on corrective actions. The programme is internationally recognised, used by many companies globally and has a proven track record in reducing incident rates in organisations.



## Environment

As part of our environmental protection effort, the Company celebrated Oman Environment Day by cleaning Mirbat beach and planting trees in the vicinity. The Company also sponsored the World Water Day event organised by Dhofar Integrated Services Company. The Company was recognised by the Environment Authority for its efforts to support their environmental events.

In 2021, Sembcorp Salalah participated in the Sembcorp Gives Back Week, a global initiative undertaken by the Sembcorp Group where employees from all over the world participated in activities to help local communities. In September 2021, employees along with the Wali office and Mirbat Municipality worked together to clean Mirbat beach and its neighborhood.

## COVID-19 Pandemic

The Dhofar region was not significantly impacted by the COVID-19 pandemic, registering very low numbers of COVID-19 cases since its outspread. Nevertheless, the Company activated its business continuity plan and took all necessary precautionary measures to protect its people and operations since beginning of 2020. The Company continued to take initiatives which included regular disinfection of the Plant, the preparation of emergency response plans to tackle emergency situations, provision of all required personal protective equipment, and the reconfiguration of the Plant entrance system to enable active screening of employees and visitors. In 2021, 21 COVID-19 cases were reported among the employees and contract staff of the Company, and they have all recovered fully.

## Capacity

With five gas turbines and two steam turbines, the contracted power capacity of the Sembcorp Salalah Independent Water and Power Plant (the Plant) is 445MW. The Plant's water production is based on a seawater reverse osmosis process and the contracted water production capacity is 15 Million Imperial Gallons per Day (MiGD). As per our performance test result in 2021, plant net output at delivery point was significantly better than the contracted capacity.

## Availability

The availability of a plant is the amount of time it is technically capable of generating power and water according to its specifications. According to its Power and Water Purchase Agreement (PWPA), Sembcorp Salalah is allowed to take 15% of power contracted capacity as planned outage in winter and none in summer, and 5% of contracted capacity for water throughout the year. The annual availability for Sembcorp Salalah in 2021 was 89.17% for power and 94.76% for water.

## Reliability

The reliability of a plant is its ability to deliver its declared availability under the terms of its PWPA. In 2021, Sembcorp Salalah achieved power and water plant annual reliability of 99.80% and 99.36% respectively.

## Plant Energy Efficiency (Heat Rate)

The energy efficiency of a power plant is measured in terms of the amount of energy required to produce one unit of power. Sembcorp Salalah's heat rate performance in 2021 was better than what was contracted in the PWPA, which contributed to better profitability, and showed a slight improvement compared to previous years.

## Maintenance

The Company continues to diligently and proactively perform maintenance of the Plant to improve plant operation, efficiency and its sustainability. During the year, in addition to routine maintenance of the Plant, the Company successfully completed combustion inspections of three gas turbines, preventive maintenance for a steam turbine generator, and pumps overhauling. The Company has also undertaken various business performance improvement and productivity technology enhancement initiatives. These initiatives include the improvement of plant and access road drainage system to avoid flooding in the Plant, the installation of Silt Density Index analysers, the strengthening of the industrial cyber security system, and the replacement of LED lamps.





# Description of the Company

## Overview of Sembcorp Salalah

Sembcorp Salalah developed, owns and operates an electricity generation and seawater desalination plant located between the towns of Taqah and Mirbat, approximately 50 kilometres from the regional capital of Salalah, which is home to over 400,000 residents. The Plant has been in full commercial operation since May 25, 2012 and has a contracted power capacity of 445MW and a contracted water capacity of 15 MiGD. The Plant plays a major role in meeting the growing power and water demands of the region over the short, medium and long term.

The Company generates its revenues pursuant to a 15-year term PWWA with Oman Power & Water Procurement Company (OPWP). Under the terms of the PWWA, the Plant's contracted power and water capacity is sold exclusively to OPWP on a long term take-or-pay basis.

## History and Background of Sembcorp Salalah

In November 2007, the Oman Government implemented various privatisation policies designed to encourage private sector participation in the electricity and related water sector. In accordance with this implementation, OPWP, together with its financial, legal and technical advisers, invited bids for the Salalah Independent Water & Power Plant project (the Project), comprising the development, ownership, financing, design, construction and operation of the Plant.

A consortium comprising Sembcorp Utilities and Oman Investment Corporation (OIC) submitted its bid for the Project on June 16, 2008, in competition with other consortia. On December 8, 2008, OPWP selected the Sembcorp Utilities / OIC consortium as the preferred bidder for the Project.

The first phase of the Project (designated as the "Phase 1 Power Milestone") was completed in the third quarter of 2011, and within 19 months of the signing of the PWWA. The Plant began dispatching approximately 61MW of power to the power grid. The second phase was subsequently completed in the first quarter of 2012. The construction of the Plant was successfully completed and the final acceptance tests were achieved in May

2012. The Project's total capital cost as of the commercial operation date (COD) in May 2012 was RO 378 million, which included all construction, insurance and related costs (including financing costs).

The following table shows the chronology of the Project's implementation:

Date	Event
November 2007	Request for proposal issued by OPWP
June 16, 2008	Bid submission by Sembcorp Utilities / OIC consortium
December 8, 2008	Sembcorp Utilities / OIC consortium declared as preferred bidder
November 23, 2009	Execution of PWWA and declaration of Effective Date
March 2010	Financial close
July 2011	Phase 1 Power Milestone achieved
January 2, 2012	Phase 2 Power Milestone achieved
March 12, 2012	Phase 2 Water Milestone achieved
April 5, 2012	Scheduled COD and commencement of the term of the PWWA
May 25, 2012	COD achieved
April 3, 2027	Expiry date of PWWA

The Engineering Procurement and Construction (EPC) contractor for the Project was SEPCOIII while the EPC supervision and commissioning of the desalination plant was subcontracted to Hyflux. The Plant uses combined-cycle gas turbine technology and has dual fuel capability with natural gas as the primary fuel and diesel as a backup fuel. It uses reverse osmosis technology for the production of potable water from seawater desalination. Sembcorp Salalah uses General Electric's 6FA gas turbines and Hyflux's reverse osmosis technology.

The Ministry of Finance guarantees the payment obligations due from OPWP to Sembcorp Salalah. This guarantee will remain in force until the initial financing for

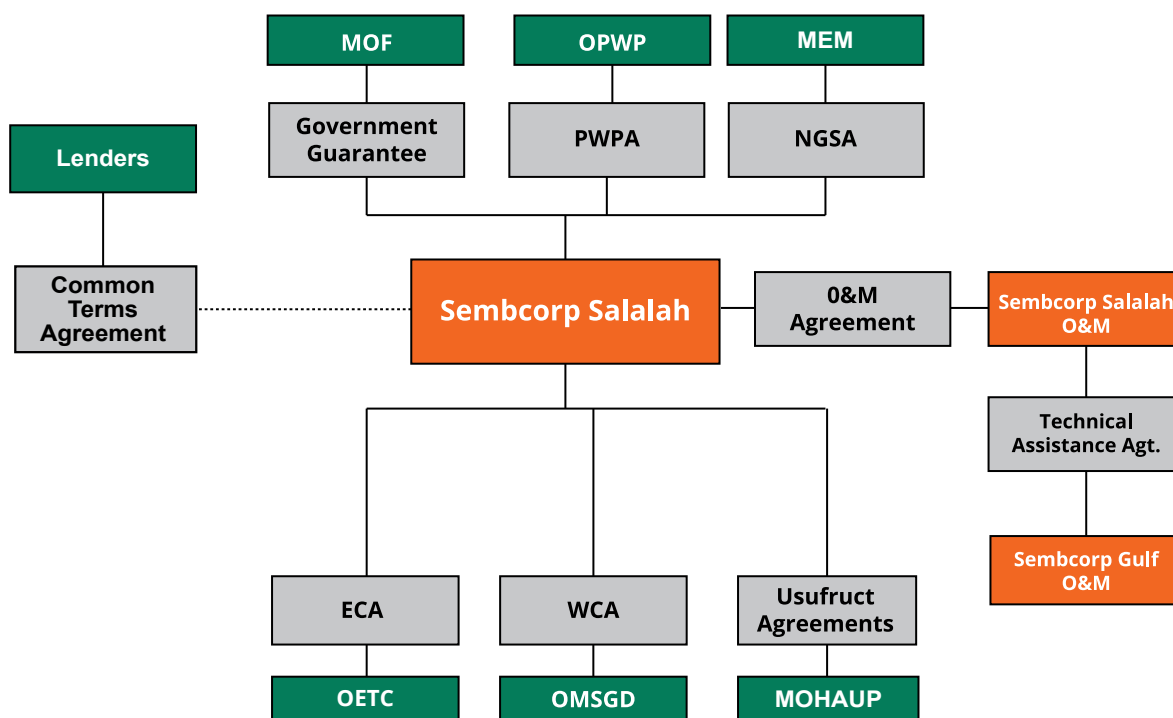
the Project has been fully paid and OPWP maintains BBB- credit rating for 730 days. OPWP pays a charge consisting of a capacity charge covering the Plant's fixed costs and a return on capital, and a variable charge to cover energy and other variable costs. Hence, as long as the power and water are available for dispatch, capacity charges will be paid, subject to agreed outages for maintenance.

## Summary of Contractual Framework

The following table and diagram illustrate the key contracts and the relevant counterparties relating to the Project:

Project Document	Parties	Effective Date	Term	Expiration Date
Project Founders Agreement (PFA)	Electricity Holding Company, the Project Founders and their parent companies and BDCC Investment Company	November 23, 2009	15 years from the Scheduled COD	April 3, 2027
Power and Water Purchase Agreement (PWPA)	Sembcorp Salalah and OPWP	November 23, 2009	15 years from the Scheduled COD	April 3, 2027
Natural Gas Sales Agreement (NGSA)	Sembcorp Salalah and the Ministry of Energy & Minerals (MEM)	November 23, 2009	15 years from the Scheduled COD	April 3, 2027
Electricity Connection Agreement (ECA)	Sembcorp Salalah and Oman Electricity Transmission Company (OETC)	November 23, 2009	25 years from the Effective Date	November 22, 2034
Water Connection Agreement (WCA)	Sembcorp Salalah and the Office of the Minister for State and the Governor of Dhofar (OMSGD)	December 15, 2014	25 years from the date of signing of the WCA	December 15, 2039
Usufruct Agreement	Sembcorp Salalah and the Ministry of Housing and Urban Planning (MOHAUP)	November 23, 2009	25 years from the Effective Date, subject to a further extension of 25 years at the option of Sembcorp Salalah	November 22, 2034, subject to extension
Usufruct Agreement relating to the Temporary Areas	Sembcorp Salalah and the Ministry of Housing and Urban Planning (MOHAUP)	November 23, 2009	4 years from the Effective Date	November 22, 2013
Contractual Service Agreement (CSA)	Sembcorp Salalah and General Electric	December 15, 2009	20 years from the date of the CSA	December 14, 2029
Government Guarantee	Sembcorp Salalah and the Ministry of Finance (MOF)	November 23, 2009	15 years from the Scheduled COD	April 3, 2027
Operations and Maintenance (O&M) Agreement	Sembcorp Salalah and Sembcorp Salalah O&M Services Company LLC	February 8, 2010	15 years from the Scheduled COD	April 3, 2027
Technical Assistance Agreement	Sembcorp Salalah O&M Services LLC and Sembcorp Gulf O&M Co. Ltd	February 8, 2010	15 years from the Scheduled COD	April 3, 2027





## Competitive Strengths

Sembcorp Salalah's competitive strengths include:

### **Strong Predictability of Stable Cash Flows**

Under the PWPA, Sembcorp Salalah is entitled to receive capacity charges from OPWP for the contracted power and water capacities of the Plant, which are periodically tested and comprise approximately 90% of the total revenue of Sembcorp Salalah (excluding fuel revenue, which is a pass-through). These capacity charges are payable by OPWP regardless of whether the actual output of the Plant is dispatched, and regardless of whether Sembcorp Salalah is instructed by the Local Dispatch Center and the Office of the Minister for State and the Governor of Dhofar (OMSGD) to generate and deliver power and / or produce and deliver potable water. This means that, subject to limited exceptions, OPWP is obliged to pay capacity charges to Sembcorp Salalah for 100% of the available power and water capacity of the Plant.

Sembcorp Salalah's capacity charges are calculated such that they cover its debt service and other fixed costs, including fixed operating and maintenance costs, insurance costs and capital returns. Fuel revenues and charges are calculated based on the consumption of natural gas calculated by the Plant model for electrical energy and water output delivered and is in effect a virtual pass-through cost.

In addition, for the power and water that is made available, OPWP also pays Sembcorp Salalah a variable output charge to cover operating costs. Accordingly, Sembcorp Salalah has strong predictability of stable cash flows that are not affected by the amount of power and water required by OPWP as Sembcorp Salalah is paid on an availability basis.

### ***Well-Established Contractual Framework***

The Project represents one of 20 independent power and / or water production projects to be implemented by OPWP on a “build, own and operate” basis and benefits from a well-established contractual framework. OPWP has used a similar procurement and ownership template and a similar contractual framework with other independent water and power plants in Oman prior to the Project.

### ***The Government Guarantees Payment Obligations of OPWP under the PWPA due to the Strategic Importance of the Industry and Project***

The power and water sectors are of high strategic importance to both the Dhofar Governorate and Oman as a whole. The Project is expected to remain critical for the continued supply of electricity and water in the Dhofar Governorate in the long term. According to OPWP, peak demand for electricity in the Salalah System is expected to grow from 549MW in 2019 to 827MW by 2025, at an average growth rate of 6% per annum. Peak water demand in the Salalah / Taqah / Mirbat area is expected to increase at an average rate of nearly 11% per annum.<sup>1</sup>

Consequently, the Oman Government, both directly and indirectly participates in and supports the Project:

- i) as off-taker under the PWPA, as 100% indirect owner of OPWP;
- ii) as supplier, through the Ministry of Energy and Minerals, which is responsible for procuring and delivering all natural gas to the Project;
- iii) as transmission system operator, as 100% indirect owner of Oman Electricity Transmission Company (OETC) and through the OMSGD, which respectively owns and operates all power and water transmission facilities in the Dhofar Governorate; and
- iv) as guarantor, pursuant to the government guarantee (Oman currently has a credit rating of Ba3 by Moody's), which guarantees the payment obligations of OPWP under the PWPA.

In addition to the government guarantee, under the Sector Law, OPWP must remain wholly owned by the Government and the Ministry of Finance is obliged to secure the availability of adequate financing for OPWP to enable it to undertake its activities.

### ***Fully Operational Project with Minimal Operating Risk***

As the Plant is completed and has been in full commercial operation for over 92 months, Sembcorp Salalah is not exposed to any construction risk. Sembcorp Salalah also benefits from minimal operating risk as its operator, Sembcorp Salalah O&M, is a joint venture indirectly owned by two of the Project Sponsors, Sembcorp Utilities and OIC, creating an alignment of interests, which ensures that the Plant is operated efficiently.

Sembcorp Salalah O&M is managed locally and benefits from the procedures and expertise of Sembcorp Utilities, a wholly-owned subsidiary under Sembcorp Industries. Sembcorp Industries holds a long track record and expertise in the industry. With facilities of over 15GW of gross power capacity and around 8.3 million of cubic metres of water per day in operation or under development globally, Sembcorp Industries is well established in the region, has a demonstrated track record of running similar plants and holds a significant equity interest in the Project.

In addition, Sembcorp Salalah has entered a long-term maintenance contract with General Electric, the manufacturer of the Plant's gas turbine units, for the scheduled maintenance of these units. This means that Sembcorp Salalah benefits from the synergies of its gas turbine manufacturer being responsible for the ongoing maintenance of this machinery, and therefore having aligned interests in the Project.

### ***Excess Capacity and Outage Allowance to Ensure an Extended Plant Lifespan***

Power and water plants generally suffer degradation of their capacity to produce electricity and desalinated water over time. Management believes that the excess of actual capacity over the contracted capacity of the Plant, will more than compensate the estimated degradation of the Plant over the term of the PWPA.

The PWPA also contemplates outages, allowing Sembcorp Salalah to perform maintenance on the power plant 15% of the time (outside the peak months of April, May and June) and on the desalination plant 5% of the time (throughout the year). This scheduled maintenance is likely to extend the lifespan of the Plant and delay the degradation of its electricity and desalinated water capacity.

<sup>1</sup> OPWP's Seven-Year Statement (2019-2025) (Post COVID-19 forecast has not been published by OPWP)

### **Mitigation of Fuel Risks**

Under the NGSA, the Ministry of Energy and Minerals (MEM) is responsible for procuring and delivering all of the Plant's natural gas requirements. All gas delivered to the Plant by the MEM must meet minimum quality standards. In the event that natural gas is unavailable, and provided that Sembcorp Salalah is not in breach of its obligations regarding the operations of the Plant and where the Plant is operational using backup diesel, Sembcorp Salalah is still entitled to receive capacity charges from OPWP, in addition to its incremental costs for the use of diesel from the MEM. Any increase in the price of gas charged by the MEM is directly passed through the PWPA. The Plant has therefore mitigated risks associated with gas quality, gas supply and gas price.

In the event, among others, of the non-availability of natural gas or a disruption in the natural gas supply system, Sembcorp Salalah has an obligation under the PWPA to maintain a backup fuel supply for three days of full load at the site, which it complies with at all times.

### **Extensive Experience of the Project Founders**

Sembcorp Salalah benefits from the extensive power, water and energy experience of the Project Founders, including development, ownership and operation of large-scale gas turbine-based power and desalination projects. Sembcorp Utilities is an integrated energy player poised to benefit from the global energy transition. With a strong track record in developing and developed markets, it provides solutions across the energy and utilities value chain. OIC is a private equity investment company with strong experience in investing in the region and has a diversified portfolio of investments in the oil and gas, petrochemical, construction and manufacturing sectors in Oman.

Sembcorp Salalah O&M is also party to the Technical Assistance Agreement with Sembcorp Gulf O&M, a wholly-owned subsidiary of Sembcorp Utilities. This arrangement enables Sembcorp Salalah, where required, to draw upon the technical expertise of Sembcorp Utilities in its operation and maintenance of the Plant.

### **Experienced and Skilled Operational Personnel**

Sembcorp Salalah has the advantage of benefiting from well-trained and experienced personnel employed by Sembcorp Salalah O&M, who bring extensive

management expertise and sharing of know-how accumulated through decades of experience. In particular, Sembcorp Salalah personnel are able to attend training and off-site sessions with personnel of the Project Sponsors around the world in order to share and exchange knowledge and best practices.

Management is strongly supported by:

- highly trained Plant staff, employed by Sembcorp Salalah O&M;
- the O&M contract entered with Sembcorp Salalah O&M, a company formed by the Project Founders;
- the Technical Assistance Agreement entered with Sembcorp Gulf O&M; and
- a long-term maintenance contract with General Electric, the original equipment manufacturer of the gas turbines of the Plant.

## **Technology and Processes**

### **Description of the Plant**

The Plant is an independent power and water plant located between the towns of Taqah and Mirbat, approximately 50 kilometres from Salalah, an administrative town in the Dhofar Governorate.

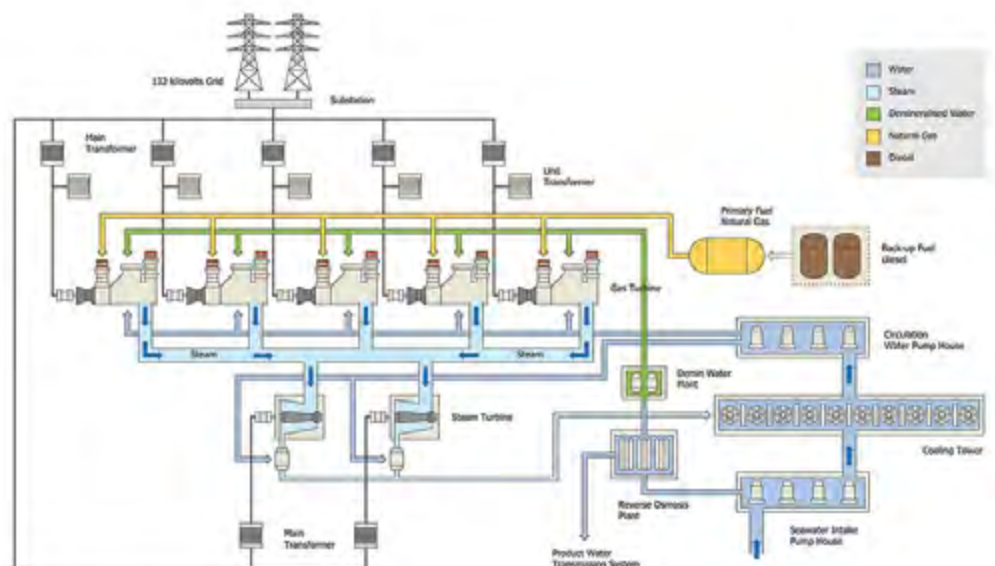
Prior to the Sembcorp Utilities/OIC consortium's bid for the Project, extensive optimisation studies were performed by Sembcorp Utilities' modelling consultant, VTU Energy, to identify, shortlist and select a plant configuration which would represent the most economically attractive and technically sound configuration in accordance with the power and water output requirements and operational constraints required by OPWP. After a detailed scenario analysis, Sembcorp Utilities chose the following configuration for the Plant:

- five GE 6FA gas turbines;
- two steam turbines; and
- five heat recovery steam generators.

The power facility integrates five units of gas turbines with five units of heat recovery steam generators and two steam turbines in a combined-cycle configuration to achieve optimal energy production efficiency.



The following schematic displays the configuration of the Plant:



The following pictures display the Plant's power facility and the seawater reverse osmosis desalination facility:

### Power Facility



With five gas turbines and two steam turbines, the contracted power capacity of the Plant is 445MW.

### Seawater Reverse Osmosis Desalination Facility



The Plant's water production is based on a reverse osmosis process and the contracted water production capacity is 15 MiGD. The Plant commenced full commercial operation on 25 May 2012.

## Gas Turbines

The five 6FA gas turbines used in the Plant were supplied by General Electric and selected due to their good record of reliable commercial operation. The 6FA gas turbine is configured with the robust Dry Low NOx system, which is a leading pollution prevention system for 50 hertz combined-cycle applications, with greater than 54% efficiency and a concentration of nitrous oxides of approximately 15 parts per million (15 ppm NOx).

The 6FA gas turbine can be configured to meet power requirements for mid-size combined-cycle or cogeneration plants such as the Plant, where flexible operation and maximum performance are key considerations. The 6FA gas turbine can be arranged in a multi-shaft configuration where one or two gas turbines are combined with a single steam turbine. The 6FA gas turbine burns a variety of fossil fuels, which can be switched after startup without sacrificing performance.

## Revenue Overview

The PWPA sets out the terms of generation and supply of power and desalinated water to OPWP until 2027. The PWPA imposes an obligation on Sembcorp Salalah to operate and maintain the Plant to an agreed level of availability in respect of the guaranteed contracted power capacity and the guaranteed contracted water capacity following the COD. The PWPA also imposes an obligation on Sembcorp Salalah to operate the Plant in a safe manner and within its design parameters.

Since the COD, the Plant has demonstrated net electricity generating contracted capacity of 445MW and a desalinated water production capacity of 15 MiGD, and sells the electrical energy and the water output to OPWP. In return, Sembcorp Salalah receives a tariff covering capacity charges, electrical energy charges, water output charges and fuel charges from OPWP, described as follows:

- The power capacity charge is payable for each hour during which the Plant is available and is designed to cover fixed costs, including debt service, and return on capital.
- The electrical energy charge is designed to cover variable operating costs of generation, excluding

fuel costs, and is payable according to the electrical energy delivered under the PWPA.

- The water output charge is designed to cover variable operating costs of desalination, excluding fuel costs, and is calculated based on the volume of water output delivered.
- The fuel charge is calculated based on the consumption of natural gas calculated by the Plant model for electrical energy and water output delivered and is in effect a virtual pass-through cost.

Payments are denominated in Rial Omani (RO). The investment charge element of the capacity charge is linked to the RO-USD exchange rate. The fixed and variable operation and maintenance charges for power and water are linked to the RO-USD exchange rate, a prescribed US inflation rate relating to turbines and generators, and the Omani inflation rate for a portion of the total charge. The PWPA defines the RO-USD exchange rate as the mid-rate of the RO-USD spot rate, as published by the Central Bank of Oman on the last Omani business day of the relevant billing period.









# Profile of the Major Shareholders

## **Sembcorp Oman First Investment Holding (SOFIH) and Sembcorp Oman IPO Holding (SOIHL) (wholly-owned subsidiaries of Sembcorp Utilities, a wholly-owned subsidiary of Sembcorp Industries)**

SOFIH and SOIHL are both British Virgin Islands-incorporated companies and wholly-owned subsidiaries of Sembcorp Utilities, a Singapore-based energy and water business serving both the industrial and municipal sectors. SOIHL sold its 20% shareholding in Sembcorp Salalah as part of the IPO in September 2013 and is no longer a shareholder of the Company.

Sembcorp Utilities provides a wide spectrum of third-party utilities and services including power, steam, natural gas, desalinated water, reclaimed water, industrial water, wastewater treatment, chemical waste incineration, chemical feedstock, on-site logistics and solid waste management. Sembcorp Utilities has a number of strategic relationships and long-term partnerships with multinational customers.

Sembcorp Utilities is, in turn, a wholly-owned subsidiary of Sembcorp Industries, a Singapore-based leading energy and urban solutions provider with operations across 11 countries globally.

Sembcorp Industries was incorporated in 1998 following the merger of Singapore Technologies Industrial Corporation and Sembawang Corporation. Sembcorp Industries is listed on the main board of the Singapore Exchange and is a component stock of the Straits Times Index and sustainability indices including the FTSE4Good Index, the Dow Jones Sustainability Asia Pacific Index and the iEdge SG ESG indices. Its largest single shareholder is Temasek Holdings (which is in turn wholly owned by the Minister for Finance, a body constituted under the Singapore Minister for Finance (Incorporation) Act (Chapter 183). The market capitalisation of Sembcorp Industries was approximately S\$3.6 billion<sup>2</sup> as at 31 December 2021. For more information relating to Sembcorp Industries and Sembcorp Utilities, please visit [www.sembcorp.com](http://www.sembcorp.com).

## **Inma Power & Water Company (IPWC) (a wholly-owned subsidiary of OIC)**

IPWC is an Oman-incorporated company and a wholly-owned subsidiary of OIC. OIC is a leading private equity investment company in Oman that combines an ambitious, entrepreneurial spirit with years of experience and a thorough knowledge of investing in the region. Since its establishment in 2005, OIC has been active in developing new projects, making private equity investments and building successful businesses in partnership with local entrepreneurs and leading corporations from around the world. OIC invests in privately-held companies with strong growth potential which can deliver superior risk-adjusted returns.

OIC has a diversified portfolio of investments in the real estate and infrastructure, utilities, petrochemical, insurance, healthcare, construction and manufacturing sectors in Oman. Other than IPWC, OIC's investment portfolio includes Khazaen Economic City Project, Takaful Insurance, Octal Holding, Meras Services and Development, TMK Gulf International Pipe Industries, Aman Healthcare and Nafath Renewable Energy. For more information relating to OIC, please visit its website at [www.oic.om](http://www.oic.om).

<sup>2</sup> Source: Bloomberg



# Industry Structure and Developments

The Oman power system is divided into three regional systems, partially connected via interconnectors:

- the Main Integrated System, which is the largest part of the system and covers the northern area of Oman;
- the Salalah System, located in the Dhofar Governorate, of which the Plant contributed approximately 50% of the power dispatch and 50% of its net installed water capacity during the year 2021; and
- the Rural Areas Electricity System, operated by Rural Area Electricity Company (RAECO), which serves the rest of Oman.

## Oman Power and Water Procurement Company

OPWP is the single buyer of power and water for all Independent Power Plant (IPP) / Independent Water & Power Plant (IWPP) projects within Oman and is the sole customer of Sembcorp Salalah.

## The Salalah System

The Salalah System covers the city of Salalah and surrounding areas in the Governorate of Dhofar. The Salalah System serves approximately 110,000 electricity customers.<sup>3</sup> The Salalah System comprises the generation, transmission and distribution capabilities of:

- Sembcorp Salalah, contracted for 445MW electricity generation capacity;
- Power Station located in Raysut, operated by Dhofar Generation Company (previously owned by Dhofar Integrated Services Company (DISC)) comprising eight open cycle gas turbine units with a total net capacity of 273MW;
- Combined-cycle power plant, owned by ACWA Power and Mitsui, located in Raysut, composing four gas turbines and two steam turbines, with a contracted capacity of 445MW, which was commissioned in January 2018;
- Dhofar I Wind IPP, which has an installed capacity of 50MW;
- Transmission activities owned by Oman Electricity Transmission Company and
- Distribution and supply activities owned by DISC.

The Salalah System also has contingency reserves via the interconnection with the 132 kV link between Thumrait and Harweel, owned by Petroleum Development of Oman (PDO) and completed in 2012.

Salalah system also comprised of the following water producers and water distribution network:

- Sembcorp Salalah, contracted for 15 MiGD desalinated water capacity;
- Salalah III Independent Water Plant (IWP), contracted for 25 MiGD desalinated water capacity;
- Potable water supply and distribution network, owned by Dhofar Integrated Service Company (DISC); and
- A network used by DISC for ground water sources to meet the water demand which are not connected.

Salalah III IWP with a contracted capacity of 25 MiGD was commissioned during the year 2021.

## Salalah System Electricity Demand

According to OPWP, peak demand for electricity in the Salalah System is expected to grow from 549MW in 2019 to 827MW by 2025, at an average growth rate of 6% per annum<sup>3</sup>.

## Salalah System Water Demand

According to OPWP, the water demand in the Salalah / Taqah / Mirbat area is expected to increase at an average rate of nearly 11% per annum<sup>3</sup> over seven years. The main growth drivers are the increasing population and economic development.

<sup>3</sup> OPWP's 7 Year Statement (2019-2025) (Post COVID-19 forecast has not been published by OPWP)







# Management Discussion and Analysis

In 2021, the Company recorded a profit after tax (PAT) of RO 18.30 million compared to RO 18.32 million in the previous year. Operating profit was RO 32.1 million in 2021 compared to RO 33.8 million the year before. Reduction in operating profit was mainly due to one-off Cyclone Mekunu insurance claim settlements recognised in 2020.

## Business Overview

The Company's core business activity is to provide electricity and water in the region of Dhofar. Contracted capacity for the power plant is 445MW and 15 MiGD for the water plant. The Company receives revenue based on the availability of its Plant, which ensures that its business model is stable. The Company contributed around 50% of the power demand and 50% of the desalinated water demand in the region during the year 2021.

A new water plant, Salalah IWP III, was commissioned in Dhofar region during 2021. Since the commissioning of Salalah IWP III, the water demand is being shared by both the water plants which resulted in reduction of plant load factor. However, plant load factor does not present

a significant impact on the profitability of the Company as the Company's revenue is based on the availability of the plant, whilst the reduction of variable revenue is offset by a lower operational cost.

## Performance Overview

The Company's operating and financial performance for the year 2021 is detailed below.

### Operating Performance

The Company has shown strong operating performance in 2021. Key operating performance is characterised by high reliability of its power and water plants though it is slightly lower than the previous year. The Company's water plant reliability is lower mainly because of force majeure outages due to sand and puffer fish ingress during Khareef period and Sea Water Reverse Osmosis feed Glass Reinforced Plastic line failure. The Company's water plant load factor has reduced by approximately 27% mainly due to sharing of water demand with Salalah III IWP commissioned during the year. Key operating parameters for 2021 are noted below:

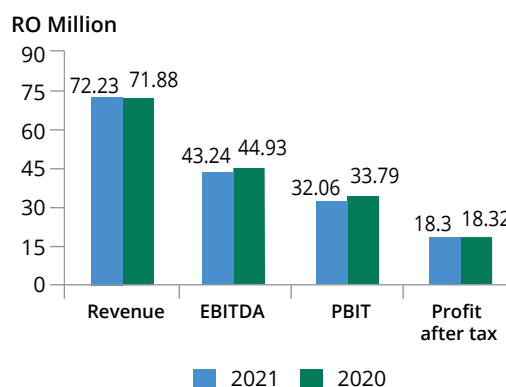
	Unit	2021	2020	Variance
<b>Water Reliability</b>	(%)	<b>99.36</b>	99.73	-0.37%
<b>Power Reliability</b>	(%)	<b>99.80</b>	99.87	-0.07%
<b>Quantity of Water Sold</b>	(Thousand m <sup>3</sup> )	<b>18,270</b>	24,951	-26.78%
<b>Quantity of Power Sold</b>	(MWh)	<b>1,501,213</b>	1,503,517	-0.15%
<b>Plant Load Factor (Power)</b>	(%)	<b>38.51</b>	38.46	0.13%
<b>Plant Load Factor (Water)</b>	(%)	<b>73.41</b>	99.97	-26.57%

## Financial Performance

Key financial performance indicators are shown below:

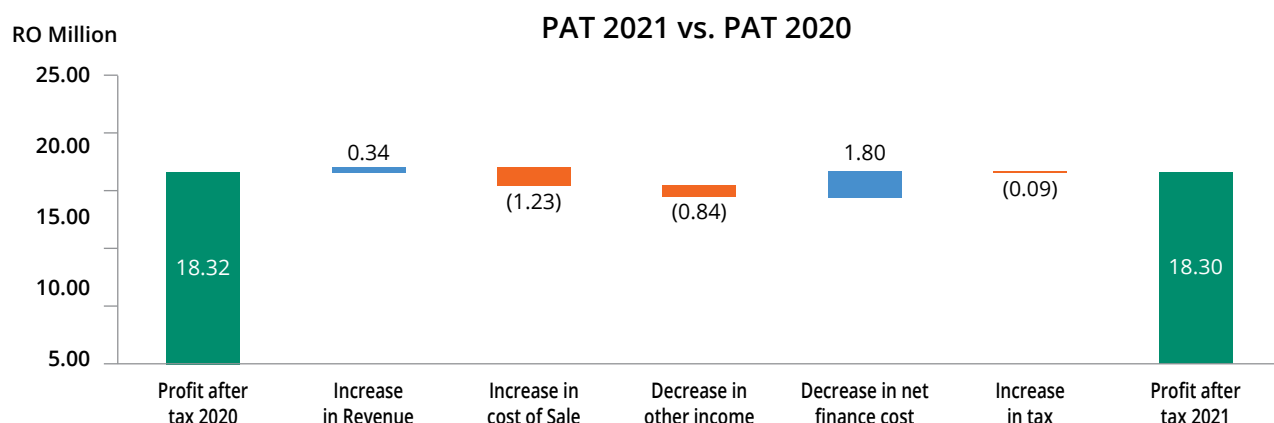
	2021 RO million	2020 RO million
<b>Revenue</b>	<b>72.23</b>	71.88
<b>EBITDA</b>	<b>43.24</b>	44.93
<b>Profit before interest and tax (PBIT)</b>	<b>32.06</b>	33.79
<b>Profit after tax</b>	<b>18.30</b>	18.32

## Key financial performance



## Profit after Tax

The significant variances in components of profit or loss statement for the year ended December 31, 2021 as compared to the year ended December 31, 2020 are elaborated in the following waterfall chart.



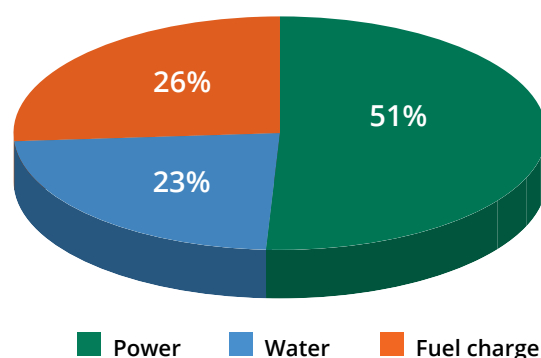
A brief analysis and characteristics of the major components of the profit or loss are presented below:

## Revenue

Power contributed 51% (excluding fuel charge), water 23% and fuel charge 26% to the total revenue. Revenue increased by RO 0.34 million, mainly due to an increase in fuel charge revenue resulting from the increase in fuel charge rate. Fuel charge increased by RO 0.55 million. Fuel charge revenue is a pass-through and is calculated based on consumption of natural gas as computed by the Plant's contractual Fuel Demand Model. Water output charge reduced by RO 0.12 million due to reduction in water production resulting from sharing of water demand with Salalah III IWP. Plant load factor does not present a significant impact on the profitability of the Company

because the reduction of variable revenue is offset by lower operational cost. Water capacity charge reduced by RO 0.1 million due to lower reliability and the leap year impact in 2020 (one day extra capacity charge revenue in 2020).

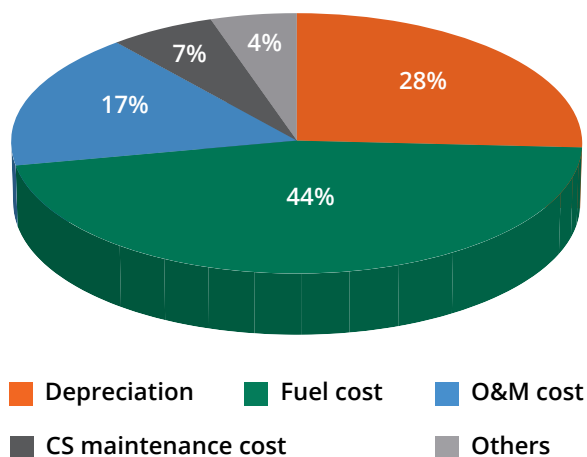
## Revenue Breakdown 2021



## Cost of Sales

Cost of sales mainly comprises depreciation of property, plant and equipment, fuel cost, operations & maintenance (O&M) cost and Long-Term Service Agreement (LTSA) cost. Cost of sales increased by RO 1.3 million compared to 2020, mainly due to the increase in fuel cost, O&M cost and LTSA cost. Fuel cost increased by RO 0.78 million mainly due to an increase in fuel cost rate arising from the inflation index impact in line with the increase in fuel charge revenue and increase in net heat rate. O&M cost increased by RO 0.16 million due to increase in planned maintenance activities and LTSA cost increased by RO 0.35 million due to inflation factor.

Cost of Sales 2021



## Other Income

Other income decreased as compared to the previous year mainly due to one-off insurance claim settlements recognised in 2020, arising from compensation of business interruption and property damage loss from Cyclone Mekunu in 2018.

## Net Finance Cost

Net finance cost decreased in 2021 compared to 2020 due to the scheduled repayment of part of the term loan in line with the financing documents.

## Income tax expenses

Income tax expenses increased mainly due to the increase in current tax compared to the previous year.

## Financial Position

		2021	2020
Total assets	RO million	307.36	322.23
Total liabilities	RO million	180.24	212.98
Shareholders' funds	RO million	133.54	121.06
Shareholders' equity	RO million	127.12	109.25
Current ratio		0.94:1	0.97:1
Gearing ratio		50:50	58:42
Net assets per share	RO/share	0.14	0.13

## Dividend

In 2021, the Company paid a total dividend of Baizas 6.1 per share.

## COVID-19 Pandemic

The COVID-19 pandemic developed rapidly in 2020, with a substantial impact on economies and businesses. To date, 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 such as safety and health measures for the employees (such as social distancing and working from home) and securing the supply of materials that are essential to the operations. The Company is closely monitoring the developing situation of the pandemic at country, regional and global levels and will continue to evaluate and assess the effects of the pandemic. The Company will continue to follow the various government policies and advice and, in parallel, will do its utmost to continue its operations in the best and safest way possible without jeopardising the health of its employees.

## Spot Market

OPWP has developed a wholesale electricity Spot Market through which power generators will be able to sell electricity, with OPWP as the sole purchaser. The geographical scope of the Spot Market is the Main Interconnected System (northern area of Oman). Dhofar Power Grid has not been included in the Spot Market. As Dhofar Power Grid is not included, the Company does not see any impact of the Spot Market on Sembcorp Salalah.

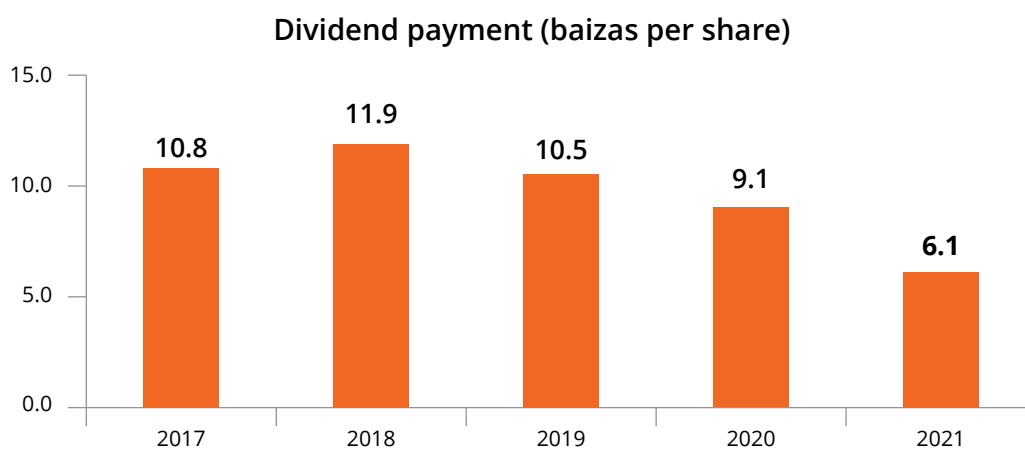
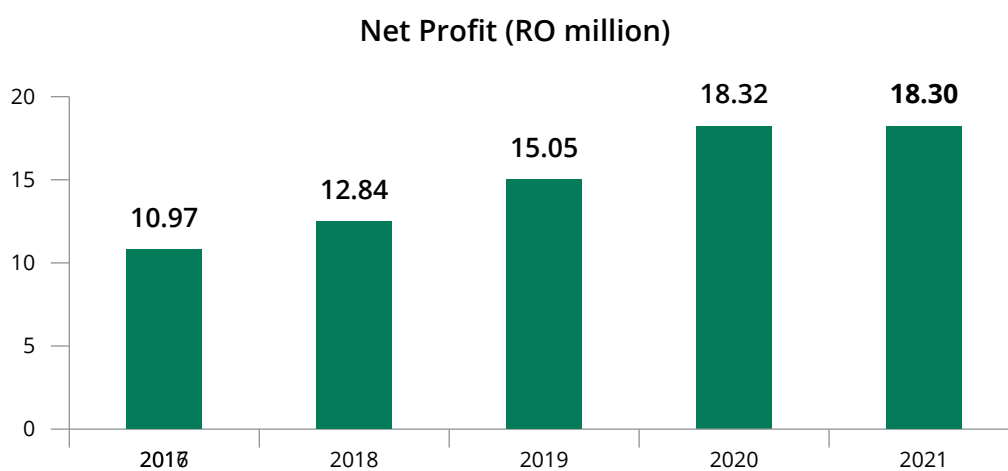
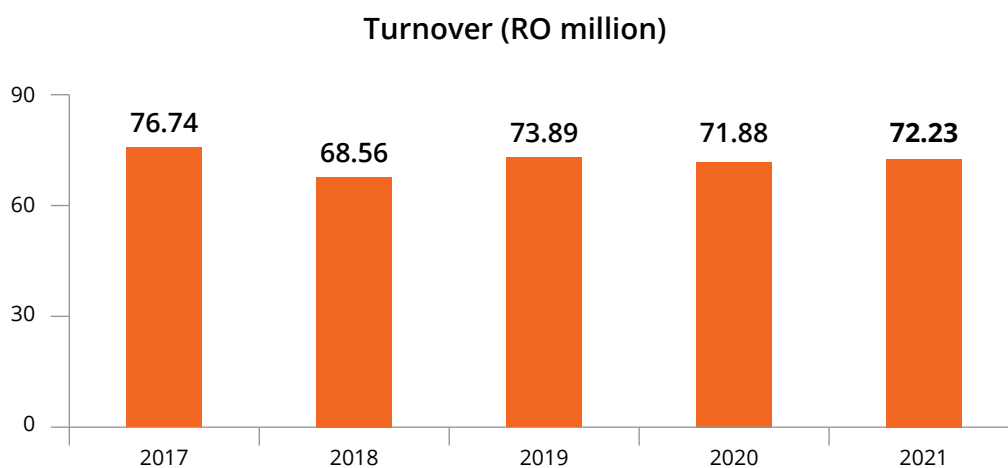
## Business Outlook

2022 is expected to be another challenging year due to the evolving pandemic situation, continued pressures arising from increased cost pressure, local regulatory and economic environment; greater requirement for plant maintenance and increased repayment profile. The Company will continue to focus on better cost management, financial and cash management; improving productivity and efficiency in order to maximise Shareholders' return.

## Historical 5 years performance

Five Years Financials	2021	2020	2019	2018	2017
<b>Key performance indicators for the years (RO million)</b>					
Revenue	<b>72.23</b>	71.88	73.89	68.56	76.74
EBITDA	<b>43.24</b>	44.93	42.35	41.47	41.83
Profit before interest and tax	<b>32.06</b>	33.79	31.34	30.60	30.99
Profit before tax	<b>21.54</b>	21.48	17.61	15.81	15.63
Net profit	<b>18.30</b>	18.32	15.05	12.84	10.97
<b>Financial position at year end (RO million)</b>					
Non-current assets	<b>260.11</b>	270.8	281.07	288.95	297.74
Net current assets	<b>(2.92)</b>	(1.46)	2.34	11.03	15.85
Non-current liabilities	<b>(130.07)</b>	(160.09)	(181.99)	(201.59)	(220.92)
Net assets	<b>127.12</b>	109.25	101.42	98.39	92.67
Shareholder's funds	<b>133.54</b>	121.06	111.43	106.4	104.92
Hedging reserve	<b>(6.42)</b>	(11.81)	(10.01)	(8.01)	(12.25)
Shareholder's equity	<b>127.12</b>	109.25	101.42	98.39	92.67
<b>Per share</b>					
Earnings (baizas)*	<b>19.2</b>	19.2	15.8	13.5	11.5
Dividend (baizas)*	<b>6.1</b>	9.1	10.5	11.9	10.8





# Sustainability - Caring for the Environment & Communities

The Company undertakes its activities with great respect for the environment. It is fully committed to promoting and maintaining the highest standards of health and safety, and minimising its impact on the environment.

The Company's power and desalination plant utilises combined-cycle gas turbine technology for power generation and reverse osmosis technology for the production of desalinated water. Natural gas is the Plant's primary fuel. The Plant was designed and built in accordance to the recommendations and findings from the Environmental Impact Assessment Study to minimise its carbon footprint.

For its commitment to the environment, the Company was accredited with the ISO 14001:2015 (environmental management system) certification. The certification ensures that the Company has a framework in place for effective environment management.

## **Maximum Power Generation from Natural Gas**

The Company recognises that natural gas is a scarce resource and that it is crucial that power generation per unit of natural gas used is maximised.

The technology employed at the Plant utilises high-grade heat from the gas turbine exhausts to generate high pressure steam which powers a steam turbine. As a result of this process, a further 46% of power can be generated without any additional usage of gas.

## **Low Emissions and Effluent Discharge**

The Company's gas turbines are equipped with a Dry Low NOx system which is a leading pollution prevention system. It ensures that international environmental standards are adhered to by achieving a concentration of nitrous oxides of approximately 15 parts per million (15 ppm NOx).

Chemicals are used in various parts of the generation and production processes. Effluents resulting from chemical usage are collected and treated so that all discharges from the Plant comply with the regulatory limits.

## **Bulk Chemical and Hazardous Waste Facility**

The Company constructed this facility to effectively and safely manage chemicals and waste in the Plant, minimising leaks and spillages.

## **Company's Philosophy**

As well as providing a catalyst for growth in the Dhofar Governorate, Sembcorp Salalah aims to contribute positively to, and build a mutually beneficial relationship with the local community.

The key areas where it makes these contributions are local recruitment, environmental management and mitigation, as well as social and community welfare. Sembcorp Salalah is committed to internationally recognised corporate governance practices and ethical business conduct. The Board of Directors and Management understand that the implementation of good governance practices and ethical business conduct result in sound business decisions. In addition to having a positive impact on public perceptions of Sembcorp Salalah, it also benefits the wider economic and social development of Oman.

Sembcorp Salalah's human resource strategy improves Omanisation by recruiting graduate engineers from local colleges and providing them with a structured training programme, including on-the-job exposure and apprenticeships. Sembcorp Salalah collaborates with technical institutions to promote programmes that build skillsets of local youths. The Company also supports regional social development activities that encourage and create awareness in relation to social issues. During the year, the Company recruited seven more Omani staff through its internship programme.

The Company also implements responsible environmental practices and procedures. In 2010, prior to the construction of its Plant, Sembcorp Salalah commissioned an environmental impact assessment which included a review of the environmental impact of the Plant on the local community, as well as a social impact management plan, which has been implemented. Sembcorp Salalah is committed to protecting the environment through its

stipulated environment management programme and operates within the limits of all applicable environmental legislation. The Company has established green belts within the Plant for environmental rejuvenation and improved aesthetics.

### Environmental Protection Initiatives

The Company has invested in projects to achieve better energy efficiency, including the reduction in heat rate and auxiliary power in the Plant. These initiatives not only helped in improving the heat rate efficiency margin, but also contributed to the profit margin of the Company.

### Corporate Social Responsibility (CSR) Initiatives

Since inception, Sembcorp Salalah, has also been involved with various social and community welfare

initiatives in collaboration with both government departments and non-governmental organisations.

In 2021, the Company invested RO 59,931 to support CSR projects which are as follows:

- Donation towards improvement in infrastructure in Mirbat;
- Donation to hospital;
- Computers donated to local Mirbat School for IT Lab; and
- Donations towards improvement in a children's park in Mirbat;









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Private and confidential  
Our ref: aud/rp/mm/4762/22

## Agreed upon procedures on Code of Corporate Governance ("the Code") of Sembcorp Salalah Power and Water Company SAOG

To the Board of Directors of Sembcorp Salalah Power and Water Company SAOG

### Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting the Sembcorp Salalah Power and Water Company SAOG for submission of agreed upon procedures report on the compliance with the Code of Corporate Governance (the "Code") to Capital Market Authority ("CMA") to assist in compliance of requirements prescribed in the CMA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code") and may not be suitable for another purpose.

### Responsibilities of the Sembcorp Salalah Power and Water Company SAOG

Sembcorp Salalah Power and Water Company SAOG has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

Sembcorp Salalah Power and Water Company SAOG (also the Responsible Party) are responsible for the subject matter on which the agreed-upon procedures are performed.

### Practitioners' Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with Sembcorp Salalah Power and Water Company SAOG, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed upon procedures.

## Practitioners' Responsibilities (continued)

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

### Professional Ethics and Quality Control

We have complied with the relevant ethical requirements including independence requirements of International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) issued by the International Ethical Standards Board for Accountants.

Our firm applies International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## Procedures and Findings

We have performed the procedures described below, which were agreed upon with Sembcorp Salalah Power and Water Company SAOG in the terms of engagement dated 14 February 2022, on the compliance with the Code:

S. No	Procedures	Findings
(a)	<i>We checked that the corporate governance report (the report) issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3</i>	No exceptions noted.
(b)	We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2021.  With respect to procedure above, we inquired from and obtained written representation from management and those charged with governance for non-compliance with the Code for the year ended 31 December 2021.	No non-compliance with the Code noted during the year.

This report relates only to the items specified above and does not extend to the Company's financial statements taken as a whole.

Ravikanth Petluri  
16 February 2022



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CR No. 1358131

Tax Card No. 8063052



# Corporate Governance Report

This Corporate Governance Report for the year ended December 31, 2021 sets out the company's corporate governance processes and activities with reference to the principles set out in the 14th principle of the Code of Corporate Governance (the Code) issued vide Circular No. E/4/2015 dated July 22, 2015 which came into force on July 21, 2016.

## Company's Philosophy

The Company adheres to the Code issued by the Capital Market Authority and takes all steps necessary to fulfil the objective of good corporate governance. The following is the Company policy with reference to the corporate governance principles:

### **Corporate Governance and Code of Business Conduct**

Sembcorp Salalah firmly believes that good corporate governance is key to delivering long-term shareholder value. The Company is committed to adhering to high standards of management, its Code of Business Conduct, and having robust systems of internal controls and accountability.

The Company has established detailed functional policies and procedures (through its operation and maintenance company), Financial Authority Limits, clear roles and responsibilities for the Board and Management, Enterprise Risk Management Framework and a Code of Business Conduct, which establishes internal controls throughout the organisation and helps management to take decisions with regards to the Company's affairs. The Board also sets financial and non-financial targets every year and evaluates the Company's performance progressively.

The Company is committed to ensuring that all shareholders have easy access to clear, reliable and meaningful information in order to make informed investment decisions and also encourages shareholders to attend the general meetings. For this purpose, the Company has established an Investor Relations Policy to uphold high standards of corporate transparency and communication with shareholders and to provide a disciplined and a professional approach to the flow of information from the Company at all times.

The Company's Code of Business Conduct expresses high standard of behaviour and integrity that the Company requires from its directors and employees.

### **Board of Directors**

Formation, Roles and Responsibilities and Authority and Competencies

The membership of the Company's Board of Directors (the Board) ensures that at least one third of the Board is independent and all the directors are non-executives whilst it also brings the level of practical and professional expertise required by the Company.

The Board comprises nine directors, all of which are non-executives and four of them are independent. The board members include professionals with strong experience relevant to the Company's business. Given that all of the directors are non-executive and the majority of them are independent, the objectivity of board decision making and issues deliberated is assured. The Board has also reviewed and approved clear job descriptions of the Board and the Chairman, which is in line with the new Code encompassing the roles and responsibilities that are expected of them.

### **Sub-Committees**

The Board established following sub-committees in line with the New Code, detailed terms of reference of which has been established:

1. Nomination and Remuneration Committee
2. Audit Committee

Brief roles and responsibilities of the above are included in this report.

### **Chairman**

The Chairman is non-executive and brings with him vast experience in strategy, business and project development for the utility business industry. He has sufficient experience and knowledge and leadership skills to lead the Board and the Company to ensure that the Board performs its role, responsibilities, functions and powers in directing the Company towards achieving its objectives.

### **Independent directors**

Directors are considered independent if they meet the criteria as mentioned in the Code. Independent directors give their statement annually indicating whether or not a change in circumstances has occurred which might impair their independence. Currently, the Company has four independent directors.

### Company Secretary

The Board ensures that the Company Secretary has sufficient experience and knowledge to assist the board to discharge their roles and responsibilities effectively and efficiently.

### Executive Management

Executive Management manages the operations of the Company in accordance with the established policies and procedures of the Company to achieve the established objective of the Company. Executive Management performs their duties in accordance with financial authority limits as approved by the Board. It is the responsibility of the Management to provide all the necessary information including key risks and challenges to the Board to perform their duties effectively and efficiently.

### Related party transactions

The Company enters into related party transactions only if these are in its best interests. The Company believes in high level of transparency and clarity in identification and reporting of related party transactions. Related party transactions are highlighted to the Audit Committee and the Board for their review before final approval by the shareholders in the Annual General Meeting.

### External auditors

The shareholders appoint an internationally renowned audit firm in accordance with company's Financing Agreements and local regulations as recommended by the Board. The Board makes sure that external auditors are independent so that the auditors give their professional opinion on the financial statements presented to the shareholders.

### Corporate Social Responsibility

Sembcorp Salalah recognises the importance of being a good corporate citizen in the conduct of its business activities as well as in fulfilling its corporate and social responsibilities. The Company follows a consistent approach for its charitable contributions and community investments.

### The Board of Directors and Its Committees

All elected board members are non-executive as required by the Code. The Board members and their attendance at the general meetings, and the Board meetings for the year 2021 are shown below.

Board of Directors		Category	Board meetings				AGM
			10 Feb	26 Apr	27 Jul	25 Oct	22 Mar
Tan Cheng Guan	Chairman	Non-Executive	✓	✓	✓	✓	✓
Kalat Al Bulooshi	Deputy Chairman	Non-Executive	✓	✓	✓	✓	✓
Tariq Al Amri	Director	Non-Executive and Independent	✓	✓	✓	✓	✓
Andrew Koss (Note 1)	Director	Non-Executive	✓	✓	✓	✓	✓
Ahmed Al Bulushi	Director	Non-Executive and Independent	✓	✓	✓	✓	✓
Khalid Ali Al Hamoodah	Director	Non-Executive and Independent	✓	✓	✓	✓	✓
Ahmed Al Moosawi	Director	Non-Executive	✓	✓	✓	✓	✓
Abdullah Mohammed Al Ma'amari	Director	Non-Executive and Independent	✓	✓	✓	✓	✓
Diane Chen Dan (Note 2)	Director	Non-Executive	✓	✓	NA	NA	✓
Yap Siew Leng (Note 2)	Director	Non-Executive	NA	NA	NA	✓	NA

Legends: ✓ = Present, - = Apologies, NA = Not applicable

Note 1: Mr. Andrew Koss replaced Mr. Ng Meng Poh and appointed as new temporary director of the Company on 10 February 2021. Mr. Andrew Koss was confirmed in Annual General Meeting held on 22 March 2021.

Note 2: Ms Chen Dan, Director and Member of Audit Committee, resigned as a director of the Company on 27 July 2021. Ms. Yap Siew Leng appointed as new temporary director of the Company in a board meeting held on 27 July 2021.



The following are the names of directors who hold directorships in Public Joint Stock Companies in Oman other than Sembcorp Salalah.

Name of directors	Number of directorships
Khalid Ali Al Hamoodah	2

The Board formed the Nomination and Remuneration Committee in accordance with the requirement of the Code. On 12 March 2019, the elected board appointed the members of the Committee. On 10 February 2021, the Board increased the number of Audit Committee members from four to five and included Abdullah Mohammed Al Mamari in audit committee. Ms Yap Siew Leng replaced Diane Chen Dan on 27 July 2021 in Audit Committee and Mr. Andrew Koss replaced Ng Meng Poh on 10 February 2021 in Nomination and Remuneration Committee Meeting.

Committee	Chairman	Members
Audit Committee	Tariq Al Amri	Ahmed Al Bulushi, Yap Siew Leng, Ahmed Al Moosawi and Abdullah Mohammed Al Mamari
Nomination and Remuneration Committee	Kalat Al Bulooshi	Andrew Koss and Khalid Ali Al Hamoodah

### Audit Committee Meetings

The following is a list of audit committee members and their attendance in audit committee meetings for the year 2021:

Audit Committee Members		Category	Audit Committee meetings				
			10 Feb.	24 Mar.	26 Apr.	27 Jul.	25 Oct.
Tariq Al Amri	Chairman	Non-Executive and Independent	✓	✓	✓	✓	✓
Ahmed Al Bulushi	Director	Non-Executive and Independent	✓	✓	✓	✓	✓
Abdullah Mohammed Al Mamari (note 1)	Director	Non-Executive and Independent	✓	✓	✓	✓	✓
Ahmed Al Moosawi	Director	Non-Executive	✓	✓	✓	✓	✓
Diane Chen Dan	Director	Non-Executive	✓	✓	✓	✓	NA
Yap Siew Leng	Director	Non-Executive	NA	NA	NA	NA	✓

Legends: ✓ = Present, - = Apologies, NA = Not applicable

Note 1: Abdullah Mohammed Al Mamari was appointed as new Audit Committee Member on 10 February 2021.

### Nomination and Remuneration Committee Meetings

Nomination and Remuneration Committee Members		Category	Nomination and Remuneration Committee Meetings	
			9 Feb.	26 Jul.
Kalat Al Bulooshi	Chairman	Non-Executive	✓	✓
Ng Meng Poh	Director	Non-Executive	✓	NA
Khalid Ali Al Hamoodah	Director	Non-Executive and Independent	✓	✓
Andrew Koss	Director	Non-Executive	NA	✓

Legends: ✓ = Present, - = Apologies, NA = Not applicable

## **Terms of Reference of the Board Committees**

### **Audit Committee**

The Audit Committee (AC) comprises of non-executive directors of which the majority are independent as highlighted above.

### **Authority and Duties of the AC**

The AC assists the Board in fulfilling its fiduciary responsibilities relating to the internal controls, audit, accounting and reporting practices of the Company. Its main responsibilities are to review the Company's policies and control procedures with the external auditors, internal auditors and management and act in the interest of the shareholders in respect of interested person transactions as well as any matters or issues that affect the financial performance of the Company. The AC reviews the quarterly, half-yearly and full-year results announcements and accompanying press releases as well as the financial statements of the Company for adequacy and accuracy of information disclosed prior to submission to the Board for approval.

The AC has explicit authority to investigate any matter within its terms of reference and enjoys full access to and co-operation from management to enable it to discharge its function properly.

Where relevant, the AC is guided by Tenth Principal – Audit Committee and Internal Controls - detailed in the CMA's Code of Corporate Governance.

### **Internal auditors**

The Company has established an in house internal audit function. An internal auditor objectively reviews an organisation's business processes and internal controls, evaluates the efficacy of risk management procedures that are currently in place and ensures that the organization is complying with laws and regulations. The AC meets the internal auditors at least once every quarter without the presence of management. The internal auditor submits its report to the audit committee on a quarterly basis.

### **External Auditors**

Each year, the AC reviews the independence of the Company's external auditors and makes recommendations to the Board on the re-appointment of the Company's external auditors.

The AC reviews and approves the external audit plan to ensure the adequacy of audit scope. It also reviews the external auditors' management letter (if any) and monitors the timely implementation of the required corrective or improvement measures. The AC meets the external auditors at least once every quarter without the presence of management. The AC has reviewed the nature and extent of non-audit services provided by the external auditors to the Company and is satisfied that the independence of the external auditors has not been impaired by their provision of non-audit services. Details of non-audit fees payable to the external auditors are found later in this report.

### **Whistle-Blowing Policy**

The AC also oversees the Company's whistle-blowing policy implemented by the Company to strengthen corporate governance and ethical business practices. Employees are provided with accessible channels to the Company's Internal Auditor and the Sembcorp Group's Internal Audit department to report suspected fraud, corruption, dishonest practices or other misdemeanors. The aim of this policy is to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will, to the extent possible, be protected from reprisal.

### **Nomination and Remuneration Committee (NRC)**

The NRC is charged with the following responsibilities:

- of ensuring that Sembcorp Salalah's Board is reviewed to ensure strong and sound leadership for the continued success of the Company. It ensures that the Board has a balance of skills, attributes, background, knowledge and experience in business, finance and related industries, as well as management skills critical to the Company; and
- for developing, reviewing and recommending to the Board the framework of remuneration for the Board and key management personnel. It assists the Board to ensure that competitive remuneration policies and practices are in place. The NRC also reviews and recommends to the Board the specific remuneration packages for each director as well as for key management personnel. The NRC's recommendations are submitted to the Board for endorsement.

The NRC reviews and makes recommendations to the Board on the independence of the directors, new appointments, re-appointments and re-elections to the Board and Board Committees to ensure the Board maintains an appropriate size. The NRC is also responsible for reviewing the succession plans for the Board Chairman, developing a process for performance evaluation of the Board and Board Committees, and reviewing training and professional development programmes for the Board.

#### **Appointment & Re-Appointment of Directors**

When the need for a new director is identified, the NRC will prepare a shortlist of candidates with the appropriate profile and qualities for nomination. The Board reviews the recommendation of the NRC and appoints the new director. In accordance with the Company's Articles of Association, the new director will hold office until the next AGM, and if eligible, the director can stand for re-appointment.

The Company's Articles of Association require all directors to apply for re-election at the AGM after three years.

The NRC reviews succession planning for key management personnel in the Company. Potential internal and external candidates for succession are reviewed for different time horizons according to immediate, medium-term and long-term needs.

#### **Human Resource Matters**

The NRC has access to expert professional advice on human resource matters whenever there is a need for such external consultations. In engaging external consultants, the Company ensures that the relationship, if any, between the Company and its external consultants will not affect the independence and objectivity of the external consultants.

#### **Remuneration Matters**

The remuneration structure of the Board is approved by the Shareholders in the Annual General Meeting:

##### **Directors' Remuneration Structure**

In light of the CMA rules and in accordance with the approval of sitting fee and remuneration in Annual General Meeting 2021, the Company paid following

sitting fees and remuneration to directors during the year.

	<b>Amount RO</b>
Remuneration for the year 2020 (approved in AGM 2021)	104,455
Sitting fees for the year 2021	25,250
	<u>129,705</u>

In addition, the Nomination and Remuneration Committee and Board of Directors recommended to Shareholders to pay RO 104,455 as bonus for the board members for the year 2021. Directors Remuneration is linked to the performance of the Company.

##### **Executive Management Remuneration**

The Company employs the CEO. All other executive posts are provided by Sembcorp Salalah O&M Services Co.

The aggregate remuneration paid to the Company's top five executives (including those paid through Sembcorp Salalah O&M Services) amounted to RO 454,746. The remuneration paid is commensurate with the qualification, role, responsibility and performance of the executive team in 2021. The breakdown of the remuneration is as follows:

	<b>2021 Amount RO</b>
Short-term employee benefits	428,060
Social security and gratuity	26,686
	<u>454,746</u>

Short term employee benefits include salaries, benefits, allowances and bonuses. Bonuses are linked to the performance of the Company and achievement of goals established by the Nomination and Remuneration Committee. Compensation of some of the key management personnel are paid through Sembcorp Salalah O&M Services Co. LLC.

Employment contracts of executive management meet the requirements of Omani labor law and there is a standard notice period as per Company's policy in case of resignation by the employee.

##### **Details of Non-Compliance related to Code of Corporate Governance by the Company**

There have been no instances of non-compliance on any matter relating to the CMA's code of corporate

governance for MSM listed companies, CMA regulations or the MSM listing agreements. There were no penalties or strictures imposed on the Company by the CMA, MSM or any other statutory authority on any matter related to capital markets during the past three years.

### Means of Communication with Shareholders and Investors

The Company recognises:

- the importance of providing shareholders, investors and analysts with easy access to clear, reliable and meaningful information on its business and operations in order to make informed investment decisions;
- that accurate, coherent and balanced communications help to establish its reputation; and
- the disclosure rules required by the CMA according to Part VII of the CMA Executive Regulations issued in 2009.

As noted above, the Company has an Investor Relations Policy in which the objectives are to uphold high standards of corporate transparency and disclosure and promote clear and open communication with shareholders, investors and analysts by providing a disciplined and a professional approach to the flow of information from the Company at all times.

The Company communicates with its shareholders and investors through the MSM website and its own website, [www.sembcorpsalalah.com.om](http://www.sembcorpsalalah.com.om). Quarterly financial, annual report and operating data and all material information are posted on both websites in a timely fashion as required by the CMA.

The company's executive management is also available to meet shareholders and analysts as and when requested.





## Market Price Data

The Company was listed on the Muscat Stock Exchange (MSX) on October 8, 2013. Below table shows monthly trade turnover and volume with high and low price for the year 2021.

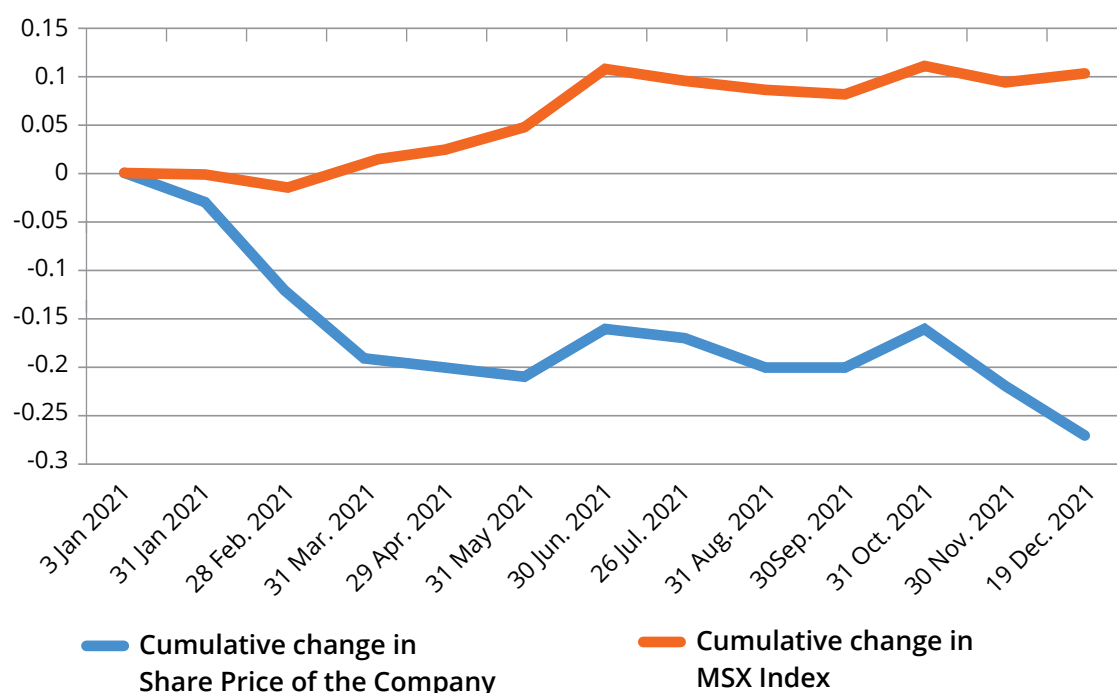
Period	Trade [1]		Share price High RO/share	Share price Low RO/share
	Shares	Value RO		
January	2,880,185	278,106	0.100	0.091
February	1,542,839	148,008	0.098	0.088
March	1,619,380	131,857	0.091	0.080
April	1,392,409	111,252	0.085	0.078
May	1,456,252	116,284	0.080	0.078
June	2,913,888	236,458	0.085	0.078
July	108,645	9,083	0.086	0.081
August	891,123	72,919	0.086	0.080
September	349,704	27,993	0.084	0.080
October	359,943	29,991	0.084	0.080
November	448,476	34,410	0.084	0.071
December	64,628	4,751	0.078	0.073

The table below shows a comparison of the Company's performance against the MSX in 2021.<sup>4</sup>

Date	Sembcorp Salalah share price RO/ share	Cumulative change from 1 January 2021	MSM Index	Cumulative change from 1 January 2021
3-Jan-21	0.100	-	3,659.94	-
31-Jan-21	0.097	-3.00%	3,653.22	-0.18%
28-Feb-21	0.088	-12.00%	3,612.38	-1.30%
31-Mar-21	0.081	-19.00%	3,708.71	1.33%
29-Apr-21	0.080	-20.00%	3,761.01	2.76%
31-May-21	0.079	-21.00%	3,852.61	5.26%
30-Jun-21	0.084	-16.00%	4,063.40	11.02%
26-Jul-21	0.083	-17.00%	4,005.91	9.45%
31-Aug-21	0.080	-20.00%	3,966.75	8.38%
30-Sep-21	0.080	-20.00%	3,942.50	7.72%
31-Oct-21	0.084	-16.00%	4,075.00	11.34%
30-Nov-21	0.078	-22.00%	4,000.35	9.30%
19-Dec-21	0.073	-27.00%	4,043.11	10.47%

<sup>4</sup> Muscat Stock Exchange (MSX) website

### Cumulative Change in Share Price vs. Cumulative Change in MSX Index



### Distribution of Shareholding as at 31 December 2021

The table below shows the shareholder distribution at the end of December 2021.

Percentage holding	Number of shareholders	Value of shares	Percentage of total shares
Less than 5%	1,512	207,030,458	21.69%
5% to 10%	2	142,890,427	14.97%
Above 10%	3	604,651,065	63.34%
Total	1,517	954,571,950	100.00%

### Professional Profile of Statutory Auditors

The shareholders of the Company appointed KPMG as its auditors for 2021. KPMG LLC in Oman was established in 1973 and is part of KPMG Lower Gulf Limited. KPMG in Oman employs more than 150 people, amongst whom are five partners and seven directors, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. It operates in 145 countries and territories and have 236,000 people working in member firms around the

world. KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms.

Break down of fee for the year 2021 is as follows:

	2021 Amount RO
Audit for the year 2021	22,000
Interim quarterly reviews	2,000
	<u>24,000</u>

Out of pocket expenses and fee for translation services are paid on actual basis.

### **Acknowledgement of the Board of Directors**

The Directors confirm their responsibility for the preparation of the financial statements in line with International Financial Reporting Standards to fairly reflect the financial position of the Company and its performance during the relevant financial period. The Board confirms that it has reviewed the efficiency and adequacy of the internal control systems of the Company and is pleased to inform the shareholders that adequate and appropriate internal controls are in place, which are in compliance with the relevant rules and regulations.

The Board of Directors confirms that there are no material matters that would affect the continuity of the Company, and its ability to continue its operations during the next financial year.



**Director**



**Chief Financial Officer**

# Brief Profiles of the Board of Directors and Executive Management

## Board of Directors

### **Tan Cheng Guan,**

Chairman

Mr Tan is Executive Vice President, Office of the Group President & CEO at Sembcorp Industries Limited. He leads the development of Sembcorp's water business and is also Chairman of Sembcorp China, providing strategic guidance to the business.

He is also chairman of Sembcorp's Climate Change Working Committee, and drives the company's performance towards climate-related metrics and targets, overseeing key initiatives such as risk mitigation, opportunities, and greenhouse gas mitigation.

Mr Tan pioneered the early development of Sembcorp's utilities business on Jurong Island in Singapore. He was instrumental in leading the Group's entry into the renewables business, and also led the company's business expansion in China, India, the UK, the Middle East, Myanmar and Bangladesh. He has held various senior appointments in Sembcorp, including the Head of Business Development as well as Head of Group Centre of Excellence.

Possessing broad experience in engineering, strategy, business and project development for the utilities and energy industry, Mr Tan has worked in Shanghai, London, Kuala Lumpur and Sarawak.

Mr Tan holds a Bachelor of Civil Engineering (Honours) from the University of Liverpool, UK, and completed the Advanced Management Program at Harvard Business School, USA.

### **Kalat Al-Bulooshi,**

Deputy Chairman

Eng. Kalat Al Bulooshi is the Chief Executive Officer of Oman Investment Corporation SAOC (OIC) and Chairman of Khazaen Economic City.

Eng. Kalat is an Omani leader in the private equity investment field. He has created opportunities,

raised funds, and successfully founded more than 16 investments in Oman, thereby bringing foreign investments to Oman, creating sustainable development, employment opportunities and creating wealth to the investors. He is the founder and led the development of a number of projects in Oman, such as Sembcorp Salalah Power & Water Plant, Khazaen Economic City, GIPI pipe mill, Takaful Oman, and Aman Health Care. He invested in and was a key player in realising other investments such as Nafath Renewable, Gulf Energy, OCP, Omania Educational Services and V2 trenching.

Prior to his current role at OIC, he worked in project management roles in Petroleum Development of Oman, Sohar Industrial Port and Sohar Aluminum. His work experience includes working for three years in Italy and Canada.

Mr Kalat also serves as an independent board member in Galfar and has previously served a Deputy Chairman of Mwasalat, where he led the restructuring and turnaround of the public transport in Muscat and Oman. He was also an independent member on the board of Oman Gas Company.

Mr Kalat served in a number of national committees such as the PPP, participated in the Oman 2040 vision development and led the private sector development work stream as part of the 10th five-year plan by the Government.

Eng. Kalat holds an Engineering (Honors) degree from the UK, has completed the Wharton Advanced Management Program, and is a Wharton Alumni.

### **Tariq Al Amri,**

Independent Non-Executive Director

Mr Tariq Al Amri is one of four independent directors of Sembcorp Salalah and is the Chairman of the Audit Committee.

He is also the Chief Executive Officer of Oman Environmental Services Holding Company, a company with the objective of transforming the solid waste management sector in Oman. Prior to joining Oman



Environmental Services, Mr Al Amri held a number of key positions in Oman Telecommunications Company, Oman LNG and the Royal Office Pension Fund.

Mr Al Amri has experience in the telecoms and oil and gas sectors and successfully negotiated a number of major commercial agreements while at Oman Telecommunications, in addition to taking a role in Omantel's IPO in 2005. At Oman LNG, he was involved in the economic and financial feasibility studies of a project which has evolved into Qalhat LNG.

Mr Al Amri holds an Electrical Engineering degree from Temple University, USA and a Master of Business Administration (MBA) from the University of Dayton, USA.

**Andrew Koss,**

Non-Executive Director

Mr Andrew is the Chief Executive Officer of Sembcorp UK and the Middle East. He oversees the company's operations comprising large-scale industrial assets on the Wilton International site owned by Sembcorp, a portfolio of flexible gas engines and battery energy storage systems located across the UK, as well as the company's business interests in the Middle East.

Mr Andrew has nearly 30 years of experience in the financial and energy sectors. Prior to joining Sembcorp, he spent 15 years at Drax Group at Drax Group where he rose to chief executive officer of generation and oversaw the group's UK power generation sites and key functions. He was deputy group treasurer of Provident Financial, and has held various accounting and investment banking roles at companies including Coopers & Lybrand, UBS and Dresdner Kleinwort Benson.

Mr Andrew is a qualified chartered accountant, treasurer. He holds a first class honours in Mathematics, Operational Research, Statistics and Economics from the University of Warwick in the UK.

**Yap Siew Leng (Cheryl Yap),**

Non-Executive Director

Ms Yap Siew Leng is Group Financial Controller of Sembcorp Industries. She oversees the Group's Financial Control and Planning function, which includes group reporting & policies, financial planning & analysis, finance shared services and finance process excellence.

Ms Yap has more than 25 years of work experience with 14 years in the oil and gas industry. Prior to Sembcorp, she had held key finance leadership positions at Subsea7 and as Group Financial Controller at a Singapore-listed corporation.

Ms Yap is a Fellow Member of the Association of Chartered Certified Accountants UK, and a Member of the Institute of Singapore Chartered Accountants.

**Ahmed Al Bulushi,**

Independent Non-Executive Director

Mr Ahmed Al Bulushi is one of four independent directors of Sembcorp Salalah and is a member of the Audit Committee.

He is also an Executive within Asyad Group looking after various projects. Prior to moving to Asyad, Mr Al Bulushi held a number of key positions such as CEO of "Mwasalat and Director of Internal Audit in the Royal Court Affairs with, where he was responsible for the operation of the risk management, control and governance systems.

Mr Al Bulushi holds an Information Technology degree and a Master of IT Management from Bond University, Australia..

**Sheikh Khalid Mohammed Ali Al Hamoodah,**

Independent Non-Executive Director

Mr Sheikh Khalid Mohammed Ali Al Hamoodah is one of four independent directors of the Sembcorp Salalah.

Mr Sheikh Khalid is an investor and entrepreneur. He is an active independent board member with public and private sector companies in Oman. His professional career spans over 25 years, where he had held several senior management positions. Before retiring from public service, he was Assistant Executive President at Diwan Royal Court - pension Fund. He spearheaded

the investment department managing multi-asset class investments in the global financial markets. He has been serving Diwan of Royal court in different capacities and has accumulated experience in operational management, administration, project execution along with managing investments. He also plays an integral part in the Investment Committee of Pension Fund. Prior to his role at Diwan of Royal Court he had a short stint with the Ministry of Oil and Gas.

He has been a member on the Board of a number of reputed companies and financial institutions in public and private sectors in Oman and in the GCC region. He is the Chairman of National Mass Housing SAOC. He also sits on the Board of Muscat Gases Company SAOG and Taageer Finance Company SAOG. Currently, he is also serving as Board member in National Bank of Oman GCC Fund managed by National Bank of Oman.

Mr Sheikh Khalid holds an MBA from University of Strathclyde, UK and a Bachelor in Business Administration from Coventry University, UK.

#### **Ahmed Ali Ahmed Al Moosawi,**

Independent Non-Executive Director

Mr Ahmed Ali Ahmed Al Moosawi is a non-executive director of Sembcorp Salalah.

Mr Ahmed is a finance professional. He started his career in 2013 as a derivative officer in Bank Muscat. He is currently working in the Civil Service Employees Pension Fund as Acting Head of the Treasury Section in the Finance Department.

Mr Ahmed holds a Bachelor of Arts in Finance from Majan College, University of Bedfordshire, UK.

#### **Abdullah Mohammed Ali Al Ma'mari,**

Independent Non-Executive Director

Mr Abdullah Mohammed Ali Al Ma'mari is one of four independent directors of the Sembcorp Salalah.

Mr Al Ma'mari is an Assistant Director of Investment in Ministry of Defence Pension Fund. He has valuable experience in evaluating and analysing investment in local and foreign markets. He is mainly responsible for managing the foreign investment portfolio for the Ministry of Defence Pension Fund.

Mr Al Ma'mari holds a bachelor's degree in finance from Sultan Qaboos University, Muscat.

## Executive Management

### **Humaid Salim Al Amri,**

Chief Executive Officer (CEO)

Mr Humaid is the CEO of the Company.

Mr Humaid brings 23 years of technical and management experience in the power and infrastructure industry. He has worked as General Manager with KAYAN AlOmania Construction Company SAOG. During his professional career, he also worked with Petroleum Development of Oman in different roles and headed the Power System Operation and Maintenance section for seven years. His diverse experience provides him with wide exposure to internal and external businesses and allowed him to obtain different recognitions and certifications.

Mr Humaid holds a Master of Science Degree in Power Distribution Engineering from University of Manchester, UK.

### **Tariq Bashir,**

Chief Financial Officer and Company Secretary

Mr Tariq is Chief Financial Officer and Company Secretary of Sembcorp Salalah.

Mr Tariq joined Sembcorp Salalah in September 2011. He has more than 10 years of experience in the financial and commercial aspects of the utility business. Before joining Sembcorp Salalah, he was working with KPMG and was involved in power company audits.

Mr Tariq holds a Bachelor of Commerce from the University of the Punjab, Pakistan, and is a fellow member of the Association of Chartered Certified Accountants.

### **Pratish Sinha,**

Plant Manager

Mr Pratish Sinha is the Acting Plant Manager of Sembcorp Salalah.

He has over 20 years of experience having worked at various multinational power and water companies, specifically in the field of commissioning, operations and maintenance as well as health, safety and environment management. Mr Sinha has deep experience in the operations and maintenance of gas turbines and steam turbines, desalination Multi-Stage Flash Distillation

(MSF) and Reverse Osmosis plants, balance of plant equipment and various control systems such as Mark-V, Vle, DCS and PLC. Throughout his career, he has worked for a 420MW coal-based thermal power plant in India, a 2.45GW Dabhol power plant in India and a 285MW Al Kamil Power plant in Oman.

Mr Sinha joined Sembcorp in 2006 as Control & Instrument Manager for the 893MW combined-cycle power and 130 MiGD desalination water plant at Emirates Sembcorp Water and Power Co in UAE.

Mr Sinha holds a Bachelor of Engineering in Electrical & Electronics from Karnatak University, India.

### **Salim Mohammed Al Mashikhi,**

Human Resource & Information Technology Manager

Mr Al Mashiki is the Manager for the Human Resources, Administration and Information Technology departments at Sembcorp Salalah O&M Services Company.

He is responsible for designing and developing the information technology network system for the company and overseeing its system requirements. Prior to joining Sembcorp Salalah O&M Services Company, Mr Al Mashiki worked in Raysut Cement Company in Oman as a Network and Hardware Administrator.

Mr Al Mashiki holds a diploma in Information Technology from the Salalah College of Technology, Oman..







# Financial statements

## 31 December 2021

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## Independent Auditors' Report

To the Shareholders of Sembcorp Salalah Power and Water Company  
SAOG

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Sembcorp Salalah Power and Water Company SAOG ("the Company"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

#### 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

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

*Continued on page 1(b)*

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Impairment of non-financial assets	
See Note 8,9 and 10 to the financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2021 the Company has non-financial assets with impairment indicators amounting to RO 260.1 million. Non-financial assets comprising the carrying value of property, plant and equipment, right of use assets and intangible assets, are considered as one cash generating unit (CGU) given that the assets do not generate cash flows independently. Where a review for impairment is conducted, the recoverable amount is determined based on the higher of 'value in use' or 'fair value less costs of disposal'.</p> <p>The impairment testing of the non-financial assets of the Company is considered to be a key audit matter because of the materiality of the non-financial assets, and an impairment, if it exists, could have a material impact on the financial statements. We also focused on this area due to the significant judgments required determining the assumptions to be used to estimate the recoverable amount of the assets. The recoverable amount of the CGU has been derived from discounted forecast cash flow model. These models use several key assumptions, including estimates of future fixed and variable charges, operating costs and the weighted-average cost of capital (discount rate).</p>	<ul style="list-style-type: none"> <li>Involving our own valuation specialist to assist in evaluating the appropriateness of the valuation methodology and discount rates applied, which included comparing the weighted-average cost of capital with sector averages for the relevant markets in which the Company operate;</li> <li>Evaluating the appropriateness of the assumptions applied to key inputs such as estimate of future fixed and variable charges, operating costs, inflation, which included comparing these inputs with our own assessments based on our knowledge of the client and the industry;</li> <li>Testing the mathematical accuracy (foot, cross foot, recalculations) of the discounted cash flow model;</li> <li>Performing our own sensitivity analysis, which included assessing the effect of reasonably possible reductions forecast cash flows to evaluate the impact on the currently estimated headroom for the non-financial assets;</li> <li>Evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities.</li> </ul>
Other matter	

The financial statements of the Company as at and for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 11 February 2021.

#### Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon, Chairman's report, Management discussion and Analysis report and Corporate Governance report.

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

Continued on page 1(c)

#### Other Information (continued)

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

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

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

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

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

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

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

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

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

Continued on page 1(d)



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

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

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

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

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

## Report on Other Legal and Regulatory Requirements

Further, we report that financial statements of the Company as at and for the year ended 31 December 2021, comply, in all material respects, with the:

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

Ravikanth Petluri  
16 February 2022



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RO	2020 RO
Revenue from contracts with customers	3	72,226,284	71,881,527
Cost of sales	4	(40,402,593)	(39,111,913)
<b>Gross profit</b>		<b>31,823,691</b>	32,769,614
Administrative and general expenses	5	(656,122)	(715,216)
Other income	6	895,092	1,735,529
<b>Profit before interest and tax</b>		<b>32,062,661</b>	33,789,927
Finance income		97,236	254,292
Finance costs	7	(10,616,661)	(12,569,185)
<b>Profit before income tax</b>		<b>21,543,236</b>	21,475,034
Income tax expense	18(a)	(3,242,580)	(3,152,759)
<b>Profit after tax for the year</b>		<b>18,300,656</b>	18,322,275
<b>Other comprehensive income</b>			
Items that may be reclassified to profit or loss			
Fair value of cash flow hedge adjustments – gross	11	1,787,901	(6,247,674)
Reclassification to profit or loss - gross	7	4,554,546	4,124,176
Deferred tax asset on change in fair value of cash flow hedge	18(c)	(951,366)	318,524
<b>Other comprehensive income for year</b>		<b>5,391,081</b>	(1,804,974)
<b>Total comprehensive income for the year</b>		<b>23,691,737</b>	16,517,301
<b>Earnings per share:</b>			
Basic earnings per share	25	0.0192	0.0192

The notes on pages 56 to 95 are an integral part of these financial statements.  
Independent auditors' report – page 48 – 51.


## STATEMENT OF FINANCIAL POSITION

### AS AT 31 DECEMBER 2021

	Notes	31 December 2021 RO	31 December 2020 RO
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	259,434,928	270,072,326
Right of use assets	9	674,532	701,515
Intangible assets	10	2,965	26,584
<b>Total non-current assets</b>		<b>260,112,425</b>	<b>270,800,425</b>
<b>Current assets</b>			
Inventory	12	5,461,052	5,667,627
Trade and other receivables	13	19,577,001	24,565,231
Bank deposits	14	21,209,320	20,676,336
Cash and cash equivalents	14	1,002,770	521,251
<b>Total current assets</b>		<b>47,250,143</b>	<b>51,430,445</b>
<b>Total assets</b>		<b>307,362,568</b>	<b>322,230,870</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Share capital	15 (a)	95,457,195	95,457,195
Legal reserve	15 (b)	12,860,507	11,030,441
Retained earnings		25,222,303	14,574,602
<b>Shareholders' funds</b>		<b>133,540,005</b>	<b>121,062,238</b>
Hedging reserve	11 & 15(c)	(6,419,750)	(11,810,831)
<b>Net equity</b>		<b>127,120,255</b>	<b>109,251,407</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long term loans	20	100,589,975	126,719,435
Long term lease liability	22	523,572	491,616
Asset retirement obligation	21	732,664	688,084
Deferred tax liability	18(c)	23,417,106	21,801,198
Derivative financial instruments	11	4,803,570	10,392,475
<b>Total non-current liabilities</b>		<b>130,066,887</b>	<b>160,092,808</b>
<b>Current liabilities</b>			
Current portion of long term loans	20	26,735,713	25,154,721
Current portion of derivative financial instruments	11	2,749,077	3,502,619
Trade and other payables	16	18,113,440	22,832,519
Current tax payable	18(d)	2,577,196	1,396,796
<b>Total current liabilities</b>		<b>50,175,426</b>	<b>52,886,655</b>
<b>Total liabilities</b>		<b>180,242,313</b>	<b>212,979,463</b>
<b>Total equity and liabilities</b>		<b>307,362,568</b>	<b>322,230,870</b>
<b>Net assets per share</b>	26	<b>0.140</b>	<b>0.127</b>

The financial statements on pages 52 to 95 were approved and authorised for issue in accordance with a resolution of the Board of Directors on 15 February 2022.

  
Director

  
Chief Executive Officer

The notes on pages 56 to 95 are an integral part of these financial statements.  
Independent auditors' report – page 48 – 51.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital RO	Legal reserve RO	Retained earnings RO	Hedging reserve RO	Total RO
At 1 January 2020	95,457,195	9,198,213	6,771,159	(10,005,857)	101,420,710
Profit for the year	-	-	18,322,275	-	18,322,275
Other comprehensive income					
Fair value of cash flow hedge adjustments – gross (note 11)	-	-	-	(6,247,674)	(6,247,674)
Reclassification to profit or loss - gross (note 7)	-	-	-	4,124,176	4,124,176
Deferred tax liability on change in fair value of cash flow hedge (note 18[c])	-	-	-	318,524	318,524
Total comprehensive income for the year	-	-	18,322,275	(1,804,974)	16,517,301
Transactions with owners of the Company, recognised directly in equity					
Dividends (note 30)	-	-	(8,686,604)	-	(8,686,604)
Transfer to legal reserve (Note 15 b)	-	1,832,228	(1,832,228)	-	-
Total transactions with owners of the Company, recognised directly in equity	-	1,832,228	(10,518,832)	-	(8,686,604)
At 31 December 2020	95,457,195	11,030,441	14,574,602	(11,810,831)	109,251,407
<b>At 1 January 2021</b>	<b>95,457,195</b>	<b>11,030,441</b>	<b>14,574,602</b>	<b>(11,810,831)</b>	<b>109,251,407</b>
Profit for the year	-	-	18,300,656	-	18,300,656
Other comprehensive income					
Fair value of cash flow hedge adjustments – gross (note 11)	-	-	-	1,787,901	1,787,901
Reclassification to profit or loss - gross (note 7)	-	-	-	4,554,546	4,554,546
Deferred tax asset on change in fair value of cash flow hedge (note 18[c])	-	-	-	(951,366)	(951,366)
Total comprehensive income for the year	-	-	18,300,656	5,391,081	23,691,737
Transactions with owners of the Company, recognised directly in equity					
Dividends (note 30)	-	-	(5,822,889)	-	(5,822,889)
Transfer to legal reserve (Note 15 b)	-	1,830,066	(1,830,066)	-	-
Total transactions with owners of the Company, recognised directly in equity	-	1,830,066	(7,652,955)	-	(5,822,889)
<b>At 31 December 2021</b>	<b>95,457,195</b>	<b>12,860,507</b>	<b>25,222,303</b>	<b>(6,419,750)</b>	<b>127,120,255</b>

The notes on pages 56 to 95 are an integral part of these financial statements.  
Independent auditors' report – page 48 – 51.



## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 RO	2020 RO
<b>Operating activities</b>		
Profit before tax	21,543,236	21,475,034
Adjustments for:		
Depreciation and amortization	11,180,702	11,135,180
Amortisation of deferred financing cost	606,253	713,059
Finance costs	10,010,408	11,856,126
Finance income	(97,236)	(254,292)
Allowance for impairment of trade receivable	21,702	-
(Gain)/loss on disposal of property, plant and equipment	(362)	-
Provision for asset retirement obligation	44,580	41,856
Changes in working capital:		
Inventory	206,575	(298,568)
Trade and other receivables	4,978,505	(3,853,847)
Trade and other payables	(4,290,781)	2,895,838
Bank deposits	(532,984)	(1,751,256)
<b>Cash flow generated from operating activities</b>	<b>43,670,598</b>	<b>41,959,130</b>
Income tax paid	(1,397,638)	-
Finance cost paid	(10,406,750)	(11,868,725)
<b>Net cash flow generated from operating activities</b>	<b>31,866,210</b>	<b>30,090,405</b>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(492,974)	(867,468)
Proceedings from sale of property, plant and equipment	634	-
Finance income received	85,259	323,965
<b>Net cash flow used in investing activities</b>	<b>(407,081)</b>	<b>(543,503)</b>
<b>Financing activities</b>		
Repayment of term loan	(25,154,721)	(24,759,471)
Dividend paid	(5,822,889)	(8,686,604)
<b>Net cash flow used in financing activities</b>	<b>(30,977,610)</b>	<b>(33,446,075)</b>
<b>Net change in cash and cash equivalents</b>	<b>481,519</b>	<b>(3,899,173)</b>
Cash and cash equivalents as at 1 January	521,251	4,420,424
<b>Cash and cash equivalents as at 31 December (note 14)</b>	<b>1,002,770</b>	<b>521,251</b>
Reconciliation of liabilities arising from financing activities (note 14.1)		

The notes on pages 56 to 95 are an integral part of these financial statements.  
Independent auditors' report – page 48 – 51.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

#### **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.

##### **(b) Basis of measurement**

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### **(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 of IFRS 16 'Leases'. Based on management's evaluation, the PWPA with OPWP was considered as 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 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 to deregulate the power and water sector in Oman.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 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 included in the following notes:

- Note 11: determining the fair value of the derivative financial instruments.
- Note 8: useful life and impairment of the property, plant and equipment.
- Note 21: determination of asset retirement obligation.

##### **(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 7.5 million (31 December 2020 – RO 13.9 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. The nature of the assets are buildings, roads and pipelines and plant and machinery. Refer note 8 for carrying values of the nature of the assets.

##### **(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.

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

The Company determines whether its non-financial assets are impaired when there are indicators of impairment as defined in IAS 36. This requires an estimation of the value-in-use of the cash-generating unit ('the CGU'), which constitutes the carrying value of property, plant and equipment, right of use assets and intangible assets as at 31 December 2021. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The Company used a weighted average cost of capital of 5.96% to calculate the present value of cash flows for determining the value-in-use. The carrying value of the CGU with indicators of impairment as at 31 December 2021 was RO 260.112 million (31 December 2020 - RO 270.80 million).

The recoverable amount of the CGU has been determined based on value in use calculations. These calculations use pre-tax cash flow projections based on the financial budgets approved by management and based on the historical inflation rates, contractual clauses of PWPA and the estimates for relevant macroeconomic factors. The growth rate considered does not exceed the long-term average growth rate for the utilities industry sectors in which the CGU operates. The value in use does not exhibit significant sensitivity to changes in assumptions for any of the underlying inputs, which could result in an impairment of the CGU as at 31 December 2021. Management believes that the residual value of the CGU 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 which takes into account the possibility of extension of PWPA as well as the government's future plans to deregulate the power and water sector in Oman.





## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 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.

###### **(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 qualifying cash flow hedges, 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**

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(b) Financial instruments (continued)**

##### **(i) Financial assets (continued)**

##### **Derecognition**

##### **Financial assets**

The Company derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
  - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
  - the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

##### **Financial liabilities**

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

##### **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:

**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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 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)**

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 of financial assets**

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.

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

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

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

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

##### **General approach**

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(b) Financial instruments (continued)**

##### **(i) Financial assets (continued)**

##### ***Simplified approach***

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

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

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

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

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

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

##### ***Measurement of ECLs***

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(b) Financial instruments (continued)**

##### **(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.

##### ***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.

Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and if the criteria below is met:

- 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(c) 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**

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.

##### **(d) 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.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(e) 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.

##### **(f) 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.

##### **(g) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand and other short-term, highly liquid investments with original maturities of ninety days or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

##### **(h) 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.

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.

###### **(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 incurred 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(h) Property, plant and equipment**

##### **(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:

	<b>Years</b>
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.

##### **(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.

##### **(i) 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.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(i) Impairment of non-financial assets (continued)**

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.

##### **(j) Leases**

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

##### **(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.

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(j) Leases (continued)**

##### **(i) Company as a lessee (continued)**

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) Company as lessor**

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

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

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'other revenue'.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(k) 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.

##### **(l) 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.

##### **(m) Finance income and cost**

Finance income/cost comprises interest received on bank deposits, foreign exchange gains and losses and interest expense that are recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(n) 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.

##### **(o) 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.

##### **(p) 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.





## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(q) Employee benefits**

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

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

##### **(r) 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.

##### **(s) Dividend**

The Board of Directors takes into account appropriate parameters including the requirements of the Commercial Companies Law 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 by the shareholders.

##### **(t) 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 year.

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. Net assets per share is not a defined performance measure in IFRS standards.

##### **(u) 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.

##### **(v) 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### **(w) 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.

##### **(x) New standards or amendments for 2021 and forthcoming requirements**

A number of new standards, amendments to standards and interpretations are effective for the periods beginning on or after 1 January 2021. Those, which are relevant to the Company, are set out below.

##### **New and revised IFRS in issue and effective**

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) effective from 1 January 2021;
- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) effective from 1 April 2021.

These standards do not have any material impact on these financial statements

##### **New and revised IFRS in issue but not yet effective**

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

- 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 January 2022;
- Reference to the Conceptual Framework - Amendments to IFRS 3. Effective date of this amendment is for annual periods beginning on or after 1 January 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 January 2022;
- Annual Improvements to IFRS Standards 2018-2020. Effective date of this amendment is for annual periods beginning on or after 1 January 2022;
- 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 2023;
- IFRS 17 Insurance contracts. Effective date of this standard is annual periods beginning on or after 1 January 2023;

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 2 Basis of preparation and significant accounting policies (continued)

#### 2.4 Significant accounting policies (continued)

##### (x) New standards or amendments for 2021 and forthcoming requirements (continued)

##### New and revised IFRS in issue but not yet effective (continued)

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). Effective date of this standard is annual periods beginning on or after 1 January 2023;
- Definition of Accounting estimates (Amendments to IAS 8). Effective date of this standard is annual periods beginning on or after 1 January 2023;
- Deferred Tax related to Assets and liabilities arising from a single Transaction (Amendments to IAS 12) Effective date of this standard is annual periods beginning on or after 1 January 2023; and
- 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.

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

### 3 Revenue from contracts with customers

	2021	2020
	RO	RO
Operating lease income - Investment charge	42,962,897	43,166,517
Fixed operation and maintenance charge	8,948,393	8,843,377
Fuel charge	18,602,009	18,056,235
Energy charge	901,480	883,511
Water output charge	811,505	931,511
	<u>72,226,284</u>	<u>71,881,527</u>

##### 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 recognized impairment losses on receivables arising from Company's contract with customer (note 13.1).

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 4 Cost of sales

	2021	2020
	RO	RO
Fuel cost	17,995,877	17,212,177
Depreciation (note 8 and 9)	11,123,419	11,072,985
Operation and maintenance cost (note 19)	7,014,869	6,855,657
Contractual services maintenance cost	2,678,725	2,330,579
Insurance cost	888,000	825,869
Incentive payment (note 19)	444,582	550,438
Security charges	95,620	93,873
License and permits	52,371	52,371
Provision for asset retirement obligation (note 21)	44,580	41,856
Electricity import cost	40,476	33,034
Other overheads	24,074	43,074
	<b>40,402,593</b>	<b>39,111,913</b>

### 5 Administrative and general expenses

Staff costs	209,074	221,437
Directors' remuneration and sitting fees	129,705	138,250
Legal and professional charges	62,128	101,970
Fee and subscription	96,491	96,508
Depreciation and amortization (note 8 and 10)	57,283	62,195
Charity and donations	59,931	59,823
Impairment of financial assets	21,702	-
Other admin and general expenses	18,885	32,228
Travelling expenses	923	2,805
	<b>656,122</b>	<b>715,216</b>

### 6 Other income

Material adverse change claim	891,076	91,401
Insurance claim	-	1,644,128
Other Income	3,654	-
Gain on disposal of property, plant and equipment	362	-
	<b>895,092</b>	<b>1,735,529</b>

Material adverse change claim is a reimbursement of increase in the Company's cost resulting from buyer risk event in accordance with PWPA.

### 7 Finance costs

Interest expense on project financing	5,339,116	7,611,726
Interest expense on interest rate swap	4,554,546	4,124,176
Deferred financing cost (note 14.1)	606,253	713,059
Interest expense on short term borrowings	32,540	35,542
Interest expense on lease liability (note 22)	31,956	30,000
Commission and bank charges	52,250	54,682
	<b>10,616,661</b>	<b>12,569,185</b>

Interest expense on project financing and deferred finance cost relates to the term loan. Interest expense on swaps relates to effective portion of the derivative financial instruments.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 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
<b>Cost</b>								
<b>At 1 January 2021</b>	<b>48,652,121</b>	<b>26,551,709</b>	<b>290,296,410</b>	<b>204,343</b>	<b>333,321</b>	<b>362,134</b>	<b>645,034</b>	<b>367,045,072</b>
Additions	-	54,489	431,238	912	-	6,335	-	492,974
Transfers during the year (note 10)	-	-	-	-	-	-	(1,925)	(1,925)
Disposals during the year	-	-	-	-	(12,265)	-	-	(12,265)
<b>At 31 December 2021</b>	<b>48,652,121</b>	<b>26,606,198</b>	<b>290,727,648</b>	<b>205,255</b>	<b>321,056</b>	<b>368,469</b>	<b>643,109</b>	<b>367,523,856</b>
<b>Accumulated depreciation</b>								
At 1 January 2021	12,898,084	7,115,510	76,188,476	188,092	266,359	316,225	-	96,972,746
Charge for the year	1,469,316	826,496	8,770,193	3,989	37,123	21,058	-	11,128,175
Depreciation of disposals	-	-	-	-	(11,993)	-	-	(11,993)
At 31 December 2021	14,367,400	7,942,006	84,958,669	192,081	291,489	337,283	-	108,088,928
<b>Carrying amount At 31 December 2021</b>	<b>34,284,721</b>	<b>18,664,192</b>	<b>205,768,979</b>	<b>13,174</b>	<b>29,567</b>	<b>31,186</b>	<b>643,109</b>	<b>259,434,928</b>

	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
<b>Cost</b>								
<b>At 1 January 2020</b>	<b>48,596,630</b>	<b>26,551,709</b>	<b>289,263,329</b>	<b>190,049</b>	<b>330,371</b>	<b>320,918</b>	<b>970,502</b>	<b>366,223,508</b>
Additions	51,791	-	630,102	14,294	2,950	41,216	127,115	867,468
Transfer during the year [note 10]	3,700	-	402,979	-	-	-	(452,583)	(45,904)
<b>At 31 December 2020</b>	<b>48,652,121</b>	<b>26,551,709</b>	<b>290,296,410</b>	<b>204,343</b>	<b>333,321</b>	<b>362,134</b>	<b>645,034</b>	<b>367,045,072</b>
<b>Accumulated depreciation</b>								
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 year	1,467,434	823,704	8,718,473	1,560	42,832	31,341	-	11,085,344
At 31 December 2020	12,898,084	7,115,510	76,188,476	188,092	266,359	316,225	-	96,972,746
<b>Carrying amount At 31 December 2020</b>	<b>35,754,037</b>	<b>19,436,199</b>	<b>214,107,934</b>	<b>16,251</b>	<b>66,962</b>	<b>45,909</b>	<b>645,034</b>	<b>270,072,326</b>

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 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 20).

#### (c) The depreciation charge has been allocated as set out below:

	2021 RO	2020 RO
Cost of sales (note 4)	11,096,436	11,046,004
Administrative expenses (note 5)	31,739	39,340
	<u>11,128,175</u>	<u>11,085,344</u>

### 9 Right of use assets

	Land RO	Total RO
<b>Cost</b>		
At 1 January 2021	832,028	832,028
At 31 December 2021	832,028	832,028
<b>Accumulated depreciation</b>		
At 1 January 2021	130,513	130,513
Charge for the year (note 4)	26,983	26,983
At 31 December 2021	157,496	157,496
<b>Net carrying amount as at 31 December 2021</b>	<u>674,532</u>	<u>674,532</u>
	Land RO	Total RO
<b>Cost</b>		
At 1 January 2020	832,028	832,028
At 31 December 2020	832,028	832,028
<b>Accumulated depreciation</b>		
At 1 January 2020	103,532	103,532
Charge for the year	26,981	26,981
At 31 December 2020	130,513	130,513
<b>Net carrying amount at 31 December 2020</b>	<u>701,515</u>	<u>701,515</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 10 Intangible assets

Intangible assets mainly consist of the ERP software and DuPont STOP program.

	2021 RO	2020 RO
<b>Cost</b>		
At 1 January	172,012	126,108
Transfers during the year (note 8)	1,925	45,904
	<u>173,937</u>	<u>172,012</u>
<b>Accumulated amortisation</b>		
At 1 January	(145,428)	(122,573)
Charge for the year (note 5)	(25,544)	(22,855)
	<u>(170,972)</u>	<u>(145,428)</u>
Carrying amount	<u>2,965</u>	<u>26,584</u>

### 11 Hedging reserve

Interest rate swaps:		
SMBC Capital Market Limited	(1,539,777)	(2,814,874)
Standard Chartered Bank	(4,684,044)	(8,674,671)
KfW-IPEX	<u>(1,328,826)</u>	<u>(2,405,549)</u>
Hedging instruments at the end of the year	(7,552,647)	(13,895,094)
Deferred tax asset (note 18)	<u>1,132,897</u>	<u>2,084,263</u>
Hedging reserve at the end of the year (net of tax)	(6,419,750)	(11,810,831)
Less: Hedging reserve at the beginning of the year	<u>(11,810,831)</u>	<u>(10,005,857)</u>
Effective portion of change in fair value of cash flow hedge for the year	<u>5,391,081</u>	<u>(1,804,974)</u>
 Hedging instruments classification:		
Non-current portion of hedging instruments	4,803,570	10,392,475
Current portion of hedging instruments	<u>2,749,077</u>	<u>3,502,619</u>
	<u>7,552,647</u>	<u>13,895,094</u>
 Change in fair value of outstanding hedging instruments since 1 January	1,787,901	6,247,674
Change in value of hedged item used to determine hedge effectiveness	<u>(1,787,901)</u>	<u>(6,247,674)</u>

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 11 Hedging reserve (continued)

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 31 December 2021 is approximately RO 81 million (USD 209 million) and approximately RO 21 million (USD 54 million), at a fixed interest rate of 4.345% (31 December 2020 - 4.345%) and 3.8% (31 December 2020 - 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.

### 12 Inventory

	2021 RO	2020 RO
Fuel inventory	1,164,900	1,134,575
Spare parts and consumables	4,296,152	4,533,052
	<u>5,461,052</u>	<u>5,667,627</u>

### 13 Trade and other receivables

Trade receivable (note 13.1)	17,574,110	23,111,902
Advances to vendors	1,453,592	1,386,506
Prepayments	26,705	56,573
Other receivable	522,594	10,250
	<u>19,577,001</u>	<u>24,565,231</u>

The Company has one customer (OPWP) which accounts for the trade receivables balance as at 31 December 2021 (31 December 2020 - one customer).

#### 13.1 Trade receivable

	2021 RO	2020 RO
Gross trade receivable	17,607,962	23,124,052
Allowance for impairment	(33,852)	(12,150)
	<u>17,574,110</u>	<u>23,111,902</u>

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 14 Cash and cash equivalents

	2021	2020
	RO	RO
Cash in hand	719	362
Cash at bank	1,002,051	520,889
<b>Cash and cash equivalents</b>	<b>1,002,770</b>	<b>521,251</b>
Fixed term deposits (3 to 6 months) and DSRA	21,209,320	20,676,336
<b>Bank deposits</b>	<b>21,209,320</b>	<b>20,676,336</b>

#### **Debt Service Reserve Account (DSRA) (Restricted cash)**

As at 31 December 2021, the Company has placed funds in the bank accounts to meet the Debt Service Reserve Account (DSRA) minimum balance requirement of RO 14,083,435 (31 December 2020: RO 14,320,472) [note 20].

#### **Fixed term deposits**

The fixed term deposits of RO 21,209,320 (31 December 2020: RO 20,676,336) have a weighted average interest rate of 0.50% (31 December 2020: 0.48% per annum).

### 14.1 Reconciliation of liabilities arising from financing activities

	1 January 2021	Cash flows	Non-cash items		31 December 2021
	RO	RO	Interest Cost	Deferred finance cost	RO
			RO	RO	
Long term loans (notes 7 and 20)	151,874,156	(25,154,721)	-	606,253	127,325,688
Long term Lease liability (notes 7 and 22)	491,616	-	31,956	-	523,572

	1 January 2020	Cash flows	Non-cash items		31 December 2020
	RO	RO	Interest Cost	Deferred finance cost	RO
			RO	RO	
Long term loans (notes 7 and 20)	175,920,568	(24,759,471)	-	713,059	151,874,156
Long term Lease liability (notes 7 and 22)	461,616	-	30,000	-	491,616

### 15 Equity

#### **(a) Share capital**

The Company's registered capital (issued and fully paid) amount to RO 95,457,195 comprising 954,571,950 shares at nominal value of 100 Baiza each (2020: 954,571,950 of 100 Baiza each)

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.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 15 Equity (continued)

#### (a) Share capital (continued)

The details of Shareholders are as follows:

31 December 2021			
	Nationality	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>

31 December 2020			
	Nationality	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

	2021 RO	2020 RO
Trade payable	11,713,975	16,328,102
Interest payable	2,291,336	2,719,634
Accrued expenses and other payable	1,982,834	1,843,920
Due to related parties (note 19)	1,384,087	1,940,863
VAT Payable	741,208	-
	<u>18,113,440</u>	<u>22,832,519</u>

### 17 Short term borrowings

The Company has entered into working capital facility agreement with Bank Muscat on 26 February 2013, last amended on 22 December 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 31 December 2021 is Nil (31 December 2020: Nil). The security against the facility is as per Common Terms Agreement and mentioned in note 20 of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 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 charge of RO 951,366 (31 December 2020: reversal of RO 318,524) has been recognised directly in equity in respect of the changes in fair values of interest rate swaps (note 11).

	2021 RO	2020 RO
(a) Recognised in profit or loss		
Current tax for the year	2,577,196	1,396,796
Prior year adjustment	842	75,652
Deferred tax expense for the year	664,542	1,680,311
	<u>3,242,580</u>	<u>3,152,759</u>

#### (b) Reconciliation

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

Profit before tax	21,543,236	21,475,034
Income tax as per rates mentioned above	(3,231,485)	(3,221,255)
Expenses not deductible for tax	(10,253)	(7,156)
Prior year adjustment	(842)	75,652
<b>Income tax expense for the year</b>	<u>(3,242,580)</u>	<u>(3,152,759)</u>

#### (c) Deferred tax asset (liability)

	At 1 January RO	Recognised during the year RO	At 31 December RO
<b>As at December 2021</b>			
<b>Charged to profit or loss</b>			
Property, plant and equipment	(23,957,187)	(680,072)	(24,637,259)
Asset retirement obligation	58,356	8,414	66,770
Right of use asset/ lease liability	13,370	7,116	20,486
	<u>(23,885,461)</u>	<u>(664,542)</u>	<u>(24,550,003)</u>
<b>Deferred tax recognised in other comprehensive income</b>			
Derivative financial instruments	2,084,263	(951,366)	1,132,897
Deferred tax liability (net)	<u>(21,801,198)</u>	<u>(1,615,908)</u>	<u>(23,417,106)</u>
		Recognised	At 31
	At 1 January	during the year	December
	RO	RO	RO
As at December 2020			
Charged to profit or loss			
Property, plant and equipment	(22,985,562)	(971,625)	(23,957,187)
Asset retirement obligation	37,946	20,410	58,356
Right of use asset/lease liability	6,548	6,822	13,370
Tax losses	811,570	(811,570)	-
	<u>(22,129,498)</u>	<u>(1,755,963)</u>	<u>(23,885,461)</u>
Deferred tax recognised in equity			
Derivative financial instruments	1,765,739	318,524	2,084,263
Deferred tax liability (net)	<u>(20,363,759)</u>	<u>(1,437,439)</u>	<u>(21,801,198)</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

	2021	2020
	RO	RO
At 1 January	1,396,796	-
Charge for the year	2,578,038	1,396,796
Paid during the year	(1,397,638)	-
	<u>2,577,196</u>	<u>1,396,796</u>

### (e) Status of prior year returns

The Company's assessment for the tax years 2019 to 2020 have not yet been finalised with the Secretariat General for Taxation at the Ministry of Finance. Management of the Company believe that additional taxes, if any in respect of open tax years, would not be significant to the Company's financial position as at 31 December 2021.

## 19 Related party transactions

The Company maintains balances with these related parties which arise in the normal course of business from the commercial transactions on mutually agreed terms. Outstanding balances at the reporting year end are unsecured and settlement occurs in cash.

No expenses have been recognised during the year for bad or doubtful debts in respect of amounts owed by related parties (31 December 2020: Nil).

Sembcorp Oman First Investment Holding Co Ltd is shareholder with significant influence; whereas Sembcorp Salalah O&M Services Company LLC (SSOM) and Sembcorp Industries Limited (SIL) are an affiliate.

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

	2021	2020
	RO	RO
Sembcorp Industries Limited (SIL)		
- Purchase of intangible assets	-	36,800
- Reimbursement of expenses	55	18,910
Sembcorp Salalah O&M Services Company LLC (SSOM)		
- Operation and maintenance cost	7,014,869	6,855,657
- Incentive payment	444,582	550,438

Due to related parties at the year end comprised:

	2021	2020
	RO	RO
SSOM	1,383,994	1,940,863
SIL	55	-
INMA	38	-
	<u>1,384,087</u>	<u>1,940,863</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 year ended is as follows:

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 19 Related party transactions (continued)

	2021 RO	2020 RO
Directors' remuneration	104,455	114,250
Directors' sitting fees	25,250	24,000
Short term employee benefits	428,060	448,707
Social security and gratuity	24,461	23,420
Post employment benefits	2,225	2,128
	<u>584,451</u>	<u>612,505</u>

Compensation of some of the Key management personnel has been paid through Sembcorp Salalah O&M Services Co. LLC of RO 282,066 (31 December 2020: RO 287,151).

### 20 Term loans

	Maturity	2021 RO	2020 RO
Non-current			
Project financing loan (USD)	2012-2026	106,529,622	127,354,083
Project financing loan (Rials)	2012-2026	22,151,880	26,482,140
		<u>128,681,502</u>	<u>153,836,223</u>
Less: Unamortised transaction cost		(1,355,814)	(1,962,067)
		<u>127,325,688</u>	<u>151,874,156</u>
Less: Current portion of term loans		(26,735,713)	(25,154,721)
		<u>100,589,975</u>	<u>126,719,435</u>

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 30 September 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 of July 2012 (as defined in the CTA)	3.00%
Thereafter up to the sixth 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%

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 20 Term loans (continued)

#### Interest (continued)

Interest on Sinasure Covered (USD) 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.

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 March 2010 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 sixth anniversary of financial close	4.25%
From the sixth anniversary of financial close to the eighth anniversary of financial close	5.75%

#### 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:

	2021	2020
	RO	RO
At 1 January	688,084	646,228
Provision made during the year	44,580	41,856
At 31 December	732,664	688,084



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2021

#### 21 Asset retirement obligation ("ARO") (continued)

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 2020: 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%.

	2021	2020
	RO	RO
Land	<u>523,572</u>	<u>491,616</u>

	2021		2020	
	Total minimum lease payments	PV of minimum Lease payment	Total minimum lease payments	PV of minimum Lease payment
	RO	RO	RO	RO
More than 5 years	<u>1,794,832</u>	<u>523,572</u>	<u>1,794,832</u>	<u>491,616</u>

#### 23 Financial risk management

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 23 Financial risk management (continued)

#### (a) Market risk (continued)

##### Interest rate risk

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

	Interest rate	2021	2020
	%	RO	RO
<b>Financial assets</b>			
Fixed term cash deposit	0.50%	<u>21,209,320</u>	<u>20,676,336</u>
<b>Financial liabilities</b>			
Term loan			
- USD variable rate loans	Libor + 3%	(59,168,492)	(70,734,777)
- USD variable rate loans	Libor + 3.20%	(47,361,130)	(56,619,306)
- RO fixed rate loans	5.75%	(22,151,880)	(26,482,140)
		<u>(128,681,502)</u>	<u>(153,836,223)</u>

#### Adoption of amendments to 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 6 month USD Libor would cease after June 2023. 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 its financial liabilities.

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 adopted the Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7 issued in September 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 2023, 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 23 Financial risk management (continued)

#### (a) Market risk (continued)

##### Interest rate risk (continued)

##### 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.

	Equity			
	2021		2020	
	100 bps	100 bps	100 bps	100 bps
	Increase	Decrease	Increase	Decrease
	RO	RO	RO	RO
Interest rate swap	<u>2,495,056</u>	<u>(2,495,056)</u>	<u>4,275,027</u>	<u>(4,275,027)</u>

##### 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 31 December 2021 (31 December 2020: No significant exposure to 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 PWPA, the Company's sales are billed wholly to OPWP. The Company manages its credit risk with OPWP by monitoring its credit rating. 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).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 23 Financial risk management (continued)

#### (b) Credit risk (continued)

##### Trade receivables (continued)

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:

	2021	2020
	RO	RO
<b>Classified as financial assets measured at amortised cost</b>		
Fixed term cash deposits (3 to 6 months)	21,209,320	20,676,336
Cash and cash equivalents	1,002,770	521,251
Trade receivable	17,607,962	23,124,052
Other receivable	522,594	10,250
	<b>40,342,646</b>	<b>44,331,889</b>

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.

Bank	Rating	2021	2020
<b>Bank balances</b>		<b>RO</b>	<b>RO</b>
Bank Muscat SAOG	NP	991,781	474,264
Bank of China	P-3	10,270	46,625
		<b>1,002,051</b>	<b>520,889</b>
<b>Fixed term deposits</b>			
Bank Muscat SAOG	NP	2,296,000	2,310,000
Bank of China	P-3	18,913,320	18,366,336
		<b>21,209,320</b>	<b>20,676,336</b>
<b>Trade receivables</b>			
<b>OPWP</b>	<b>Ba3</b>	<b>17,607,962</b>	<b>23,124,052</b>

Age analysis of trade and other receivables is as follows:

	2021	2020
	RO	RO
Not past dues	6,113,845	5,703,026
Past due 0 to 3 months	4,221,527	3,227,632
Past due 3 to 6 months	5,016,268	4,757,273
Past due 6 to 12 months	2,778,916	8,814,997
Past due 12 months	-	631,374
<b>Gross trade and other receivables</b>	<b>18,130,556</b>	<b>23,134,302</b>
Allowance for impairment	(33,852)	(12,150)
<b>Net trade and other receivables</b>	<b>18,096,704</b>	<b>23,122,152</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 23 Financial risk management (continued)

#### (b) Credit risk (continued)

##### Trade receivables (continued)

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. As per NGSA, the Company is not liable to pay for fuel if the Company does not receive the fuel revenue.

Subsequent to the balance sheet date, the Company has received confirmation from OPWP and MEM for net settlement of the amounts pertaining to fuel charge receivable and natural gas payable for the year 2021; and accordingly the receivable and payable amounts for the year 2021 will be offset in 2022 financials. Gross receivable and payable balances which will be offset are as follows:

	RO
Fuel element receivable from OPWP for the year of 2021	13,145,836
Fuel element payable to MEM for the year of 2021	(12,663,952)
Net receivable	481,884

The closing loss allowances for trade receivables as at 31 December 2021 reconcile to the opening loss allowances as follows:

	2021	2020
	RO	RO
Opening loss allowance as at 1 January calculated under IFRS 9	12,150	12,150
Charge for the year	21,702	-
At 31 December	33,852	12,150

#### (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.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 23 Financial risk management (continued)

#### (c) Liquidity risk (continued)

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

	Cash flows				
	Carrying Amount RO	Contractual cash flow RO	Less than 1 year RO	More than 1 to 5 years RO	More than 5 years RO
<b>31 December 2021</b>					
<b>Derivatives</b>					
Interest rate swaps used for hedging (note 11)	7,552,647	(7,649,543)	(2,754,868)	(4,894,675)	-
<b>Non-derivative financial liabilities</b>					
Term loans (note 20)	127,325,688	(143,525,366)	(30,280,788)	(113,244,578)	-
Trade and other payables (note 16)	18,113,440	(18,113,440)	(18,113,440)	-	-
Long term lease liability (note 22)	523,572	(1,794,832)	-	-	(1,794,832)
	<u>153,515,347</u>	<u>(171,083,181)</u>	<u>(51,149,096)</u>	<u>(118,139,253)</u>	<u>(1,794,832)</u>
<b>31 December 2020</b>					
<b>Derivatives</b>					
Interest rate swaps used for hedging (note 11)	13,895,094	(14,054,430)	(3,506,644)	(10,082,680)	(465,106)
<b>Non-derivative financial liabilities</b>					
Term loan (note 20)	151,874,156	(172,137,073)	(29,279,510)	(116,387,129)	(26,470,434)
Trade and other payables (note 16)	22,832,519	(22,832,519)	(22,832,519)	-	-
Long term lease liability (note 22)	491,616	(1,794,832)	-	-	(1,794,832)
<b>31 December 2020</b>	<u>189,093,385</u>	<u>(210,818,854)</u>	<u>(55,618,673)</u>	<u>(126,469,809)</u>	<u>(28,730,372)</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at a significantly different amount.

#### Embedded derivatives

The following agreements contain embedded derivatives:

- 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 Consumer price index and the Omani Consumer price index.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 23 Financial risk management (continued)

#### (c) Liquidity risk (continued)

##### Embedded derivatives (continued)

(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 Consumer price index.

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 labour and material price index.

These embedded derivatives are not separated from the host contract, 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)

	2021	2020
	RO	RO
Debt (Long-term loan)	127,325,688	151,874,156
Equity (Shareholders' funds)	133,540,005	121,062,238
Debt to equity ratio (times)	0.95	1.25

##### 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.

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 23 Financial risk management (continued)

#### (c) Liquidity risk (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		
31 December 2021	RO	RO	RO	RO	RO
Financial assets not measured at fair value					
Trade and other receivables	-	18,096,704	-	18,096,704	-
Cash and bank equivalents	-	1,002,770	-	1,002,770	-
Bank deposits	-	21,209,320	-	21,209,320	-
	-	40,308,794	-	40,308,794	-
Financial liabilities measured at fair value					
Derivative instruments	(7,552,647)	-	-	(7,552,647)	(7,552,647)
Financial liabilities not measured at fair value					
Term loan	-	-	(127,325,688)	(127,325,688)	-
Trade and other payables	-	-	(18,113,440)	(18,113,440)	-
	-	-	(145,439,128)	(145,439,128)	-
31 December 2020					
Financial assets not measured at fair value					
Trade and other receivables	-	23,122,152	-	23,122,152	-
Cash and bank equivalents	-	521,251	-	521,251	-
Bank deposits	-	20,676,336	-	20,676,336	-
	-	44,319,739	-	44,319,739	-
Financial liabilities measured at fair value					
Derivative instruments	(13,895,094)	-	-	(13,895,094)	(13,895,094)
Financial liabilities not measured at fair value					
Term loan	-	-	(151,874,156)	(151,874,156)	(151,303,679)
Trade and other payables	-	-	(22,832,519)	(22,832,519)	-
	-	-	(174,706,675)	(174,706,675)	(151,303,679)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 23 Financial risk management (continued)

#### (c) Liquidity risk (continued)

##### Fair value of financial instruments (continued)

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

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

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

### 24 Commitments

#### (a) Performance guarantees

	2021	2020
	RO	RO
Performance guarantees	<u>1,540,800</u>	<u>1,540,800</u>

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:

	2021	2020
	RO	RO
Due:		
Not later than one year	770,400	770,400
Later than one year but not later than five years	3,081,600	3,081,600
Later than five years	<u>308,160</u>	<u>1,078,560</u>
	<u>4,160,160</u>	<u>4,930,560</u>

#### (c) Capital Commitment

Total capital commitment as at 31 December 2021 are in the amount of RO 199,353 (31 December 2020: RO 130,939).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 25 Basic and diluted earnings per share

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

	2021	2020
	RO	RO
Profit for the year (RO)	<b>18,300,656</b>	18,322,275
Weighted average number of shares outstanding during the year	<b>954,571,950</b>	954,571,950
Earnings per share - Basic and diluted (RO)	<b>0.0192</b>	0.0192

Since the Company has no potentially dilutive instruments, the basic and diluted 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 year. Net assets per share is not a defined performance measure in IFRS standards.

	2021	2020
Net assets - Shareholders' funds (RO)	<b>133,540,005</b>	121,062,238
Number of shares at the end of the year	<b>954,571,950</b>	954,571,950
Net assets per share (RO)	<b>0.140</b>	0.127

### 27 Investors' Trust Fund

Record of Investors Trust Fund indicates that the amount of RO 45,809 (31 December 2020: RO 43,715) have not been claimed from the Company by the shareholders as at 31 December 2021.

### 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 PWWA 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 PWWA 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 PWWA:



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

	2021 RO	2020 RO
Due:		
Not later than 1 year	43,142,996	43,142,996
Not later than 2 years	43,142,996	43,142,996
Not later than 3 years	43,257,954	43,142,996
Not later than 4 years	43,142,996	43,257,954
Not later than 5 years	43,142,996	43,142,996
Later than five years	10,346,227	53,489,223
	<u>226,176,165</u>	<u>269,319,161</u>

### 30 Dividend

On 22 March 2021, Shareholders approved cash dividend of Baizas 1.8 per share for the financial year ended 31 December 2020.

On 25 October 2021, Board of Directors approved cash dividend of Baizas 4.3 per share.

On 17 November 2020, the Shareholders, in an Ordinary General Meeting, approved the cash dividend for 2020 of Baizas 6.4 per share.

### 31 Impact of COVID – 19

The novel coronavirus (COVID-19) pandemic developed rapidly in 2020, with a significant number of cases and had a substantial impact on economies and businesses. The Government of Oman established the Supreme Committee for COVID-19 so as to deal with the pandemic situation in the country and contain impact to the extent possible.

To date, 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 such as safety and health measures for the employees (such as social distancing and working from home) and securing the supply of materials that are essential to the operations.

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. The Company will continue to follow the various government policies and advice and, in parallel, will do its utmost to continue its operations in the best and safest way possible without jeopardising the health of its employees.





