Notes to the financial statements

For the year ended 31 December 2018

1 Legal status and principal activities

Al Kamil Power Company SAOG ("the Company") was registered and incorporated on 15 July 2000 as a closed joint stock Company in the Sultanate of Oman. The Company was set up to build and operate a 285 MW electricity generating station at Al Kamil in the Sharqiya Region. The Company was converted to a general joint stock Company on 22 September2004.

2 Significant agreements

The Company has entered into the following significant agreements:

(i) Power Purchase Agreement (PPA) with the Ministry of Housing, Electricity and Water (MHEW), Sultanate of Oman, granting the Company a long-term power supply agreement for a period of fifteen years commencing from the scheduled commercial operation date (COD). Under the terms of PPA, the Company has the right and obligation to generate electricity. The Company was granted a Generation Licence by the Authority for Electricity Regulation (AER), a state regulatory body established under the Sector Law.

On 1 May 2005, the PPA was novated by MHEW to Oman Power and Water Procurement Company SAOC (OPWP), a closed joint stock Company owned by the Government of Sultanate of Oman (Government). All the financial commitments of OPWP are guaranteed by the Government. Provisions for novation and Government Guarantee were embodied in the PPA with OPWP. The provisions for novation were enacted pursuant to the promulgation of the Sector Law in August 2004.

The Company has signed agreement for the extension of the PPA upto 31 December 2021 at revised terms and conditions.

(ii) Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas (MOG) for the purchase of natural gas from MOG at a pre-determined price, expiring on 31 December 2021.

(iii) Usufruct agreement with the Government for grant of Usufruct rights over the project site for 25 years.

(iv) Operation& Maintenance Agreement (OAMA) with Al Kamil Construction & Services LLC (AKCS), a Company incorporated in the Sultanate of Oman, and a related party, for operations and maintenance of the power plant. The OAMA is valid upto 31 December 2021 or the termination date of PPA, whichever is earlier.

(v) Electricity Connection Agreement (ECA) with Oman Electricity Transmission Company SAOC (OETC) for establishing a framework between OETC and the Company to provide connection of the power station to the transmission system and enforcement of the Grid Code between OETC and the Company.

3 Changes in significant accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the financial statements as at and for the year ended 31 December 2017.

The Company has initially applied IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material impact on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards as it does not have material impact on the financial statements.

3.1 IFRS 9 *Financial Instruments*

Company has adopted IFRS 9 'Financial Instruments' as issued by the IASB. The Company applied IFRS 9 with date of initial application as 1 January 2018.

This has resulted in a change in accounting policies of the Company. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

3 Changes in significant accounting policies (continued)

3.1IFRS 9 *Financial Instruments* *(continued)*

The Company adopted IFRS 9 without restating the comparative financial statements. As the adoption of IFRS 9 is not material to the financial statements, the Company has not made any adjustments to the statement of financial position as at 1 January 2018. The impact on the financial statements on the date of adoption of IFRS 9 application (1 January 2018) is summarised below.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Company has adopted IFRS 9 retrospectively, with the practical expedients permitted under the standards.

The adoption of IFRS 9 "Financial Instruments" from 1 January 2018 resulted in changes in accounting policies but no adjustments to the amounts recognised in the financial statements as no major difference arose due to change in accounting policies.

Management has assessed which business models apply to the financial assets held by the Company into the appropriate IFRS 9 categories. The main effects resulting from this reclassification is the classification of 'trade receivables', ‘related party balance’ and 'cash at bank’ as financial assets measured at amortised cost.The Company's financial assets that are subject to IFRS 9's new expected credit loss model include trade receivables, related party balances and cash at bank.

The Company has determined the impact of application of IFRS 9’s impairment requirements on remaining financial assets, which has resulted in no material impact on the opening balances as of 1 January 2018. Accordingly, related impact of impairment based on the expected credit loss model has not been considered in these financial statements.

IFRS 9 Financial Instruments introduces principle-based requirements for the classification of financial assets. The Standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. The classification of financial assets under IFRS 9 is generally based on the business model in which the financial asset is managed and contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. The principal financial instruments of the Company include trade and other receivables, cash and cash equivalents, related party balances and trade and other payables.

Initial recognition

Financial assets

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

On initial recognition, a financial asset is classified as measured at amortised cost; fair value through other comprehensive income – debt instruments; fair value through other comprehensive income – equity instruments; or fair value through profit or loss.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

3. Changes in significant accounting policies *(continued)*

3.1 IFRS 9 *Financial Instruments* *(continued)*

Initial recognition *(continued)*

Financial assets *(continued)*

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

Financial assets at fair value through other comprehensive income

Equity instruments which are not held for trading or issued as contingent consideration in business combination, and for which the company has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss. This election is made on an investment-by-investment basis.

Debt instruments where the contractual cash flows are solely principal and interest and the objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets.

Financial assets at fair value through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Financial assets, at initial recognition, may be designated at fair value through profit or loss, if the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss account. A financial liability is classified as at fair value through profit or loss account if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities, at initial recognition, may be designated at fair value through profit or loss if the following criteria are met:

a) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;

b) The liabilities are part of a Company of financial liabilities which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or

c) The financial liability contains an embedded derivative that would otherwise need to be separately recorded.

Financial liabilities at fair value through profit or loss account are measured at fair value and net gains and losses, including any interest expense, are recognised in the profit or loss account.

Financial assets

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the profit or loss account. Any gain or loss on derecognition is recognised in the profit or loss account.

3. Changes in significant accounting policies *(continued)*

3.1 IFRS 9 *Financial Instruments* *(continued)*

Subsequent measurement and gain or losses

Financial assets at fair value through other comprehensive income

a) Debt instruments

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the profit or loss account. Other net gains and losses are recognised in the statement of other comprehensive income. On derecognition, gains and losses accumulated in the statement of other comprehensive income are reclassified to the profit or loss account.

b) Equity instruments

These assets are subsequently measured at fair value. Dividends are recognised as income in the profit or loss account unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in the statement of other comprehensive income and are never reclassified to the profit or loss account.

Financial assets at fair value through profit or loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the statement of profit or loss.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest method, if applicable. The effective interest method is the method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss account. Any gain or loss on derecognition is also recognised in the profit or loss account.

Reclassification

Financial assets

Company only reclassify financial assets if, and only if, the objective of the business model for managing those financial assets is changed. Such changes are expected to be very infrequent as these changes must be significant to the Company’s operations and demonstrable to external parties.

Company determines that its business model has changed in a way that is significant to its operations, than it reclassifies all affected assets prospectively from the first day of the next reporting period (the reclassification date). Prior periods are not restated.

Financial liabilities

Company determines the classification of financial liabilities on initial recognition. Subsequent reclassification is not allowed.

3. Changes in significant accounting policies *(continued)*

3.1 IFRS 9 *Financial Instruments* *(continued)*

Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the profit or loss account.

Financial liabilities

If the terms of a financial liability are modified and the cash flows of the modified liability are substantially different then, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the profit or loss account.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in the statement of other comprehensive income is recognised in the profit or loss account.

From 1 January 2018, any cumulative gain/loss recognised in the statement of other comprehensive income in respect of equity instrument designated as fair value through other comprehensive is not recognised in the profit or loss account on derecognition of such instrument. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

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

3. Changes in significant accounting policies *(continued)*

3.1 IFRS 9 *Financial Instruments* *(continued)*

Derecognition *(continued)*

Financial assets *(continued)*

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss account.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial asset

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. This requires considerable judgement about how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis.

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost.

Measurement of loss allowances

The Company measures loss allowances on either of the following bases:

The financial assets at amortized cost consist of trade receivables and cash and cash equivalents. Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances for trade receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since the 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 maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

3. Changes in significant accounting policies *(continued)*

3.1 IFRS 9 *Financial Instruments* *(continued)*

Measurement of loss allowances *(continued)*

The Company assumes that the credit risk on a financial asset has significantly increased since initial recognition and while estimating expected credit loss, when there is objective evidence or indicator for the financial assets. Examples of such indicators include:

- Significant financial difficulty of the borrower or issuer;
- Delinquency by borrower;
- Restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a borrower or issuer will enter bankruptcy;
- The disappearance of an active market for a security (if any); or
- If it past due for more than 30 days.

IFRS 9 does not define the term ‘default’, but instead requires each entity to do so. The definition has to be consistent with that used for internal credit risk management purposes for the relevant financial instrument, and has to consider qualitative indicators – e.g. breaches of covenants – when appropriate.

The Company considers a financial asset to be in default when the counter party is unlikely to pay its credit obligations to the Company in full (based on indicator above), without recourse by the Company to actions such as realising security (if any is held); or the financial asset is more than 90 days past due.

Lifetime expected credit losses: These losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, if there is significant increase in credit risk or under simplified approach 12-month expected credit losses: These losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Company is exposed to credit risk. An asset is credit-impaired if one or more events have actually occurred and have a detrimental impact on the estimated future cash flows of the asset.

The term 'significant increase in credit risk' is not defined in IFRS 9. An entity decides how to define it in the context of its specific types of instruments. An entity assesses at each reporting date whether the credit risk on a financial instrument has increased significantly since initial recognition. To make the assessment, an entity considers changes in the risk of default instead of changes in the amount of expected credit losses.

An entity assesses whether there has been a significant increase in credit risk at each reporting date. The impairment model in IFRS 9 is symmetrical, and assets can move into and out of the lifetime expected credit losses category.

To be 'significant', a larger absolute increase in the risk of default is required for an asset with a higher risk of default on initial recognition than for an asset with a lower risk of default on initial recognition.

Expected credit losses are a probability-weighted estimate of credit losses.

Financial assets that are not credit-impaired at the reporting date

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).

Financial assets that are credit-impaired at the reporting date

Measured as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. Any adjustment is recognised in the profit or loss account as an impairment gain or loss.

Presentation of expected credit losses

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets and are charged to the statement of profit or loss.

3. Changes in significant accounting policies *(continued)*

3.1 IFRS 9 *Financial Instruments* *(continued)*

Write - off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Accounting policies applied until 31 December 2017

Impairment

The carrying amount of the Company's assets other than inventories and deferred tax asset are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate.

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

All impairment losses are recognized in the profit or loss and reflected in allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the profit or loss.

Non-financial assets

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

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

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Changes in significant accounting policies *(continued)*

IFRS 9 ***Financial Instruments*** *(continued)*

Accounting policies applied until 31 December 2017 *(continued)*

Impairment *(continued)*

An assessment is made at each reporting date to determine whether there is an objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of profit or loss. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of profit or loss;

(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

(c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

i. Financial assets:

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

ii. Financial liabilities:

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

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, amounts due from related parties, cash and cash equivalents, loans and borrowings, and trade and other payables. Cash and cash equivalents comprise cash balances and deposits with original maturity not greater than three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

3. Changes in significant accounting policies *(continued)*

3.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

Revenue

Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

In accordance with the transition provisions in IFRS 15, the Company has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

As the application of IFRS 15 has no material impact on the financial statements, the Company has not made any adjustments to the statement of financial position as at 1 January 2018.

The Company applies IFRS 15 with effect from 1 January 2018. As a result, the Company has applied the following accounting policy in the preparation of its financial statements.

For contracts determined to be within the scope of revenue recognition, the Company is required to apply a five-step model to determine when to recognise revenue, and at what amount.

The Company recognises revenue from contracts with customers based on the five step model set out in IFRS 15:

Step 1 Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

***Step 2 Identify the performance obligations in the contract*:** A performance obligation is a unit of account and a promise in a contract with a customer to transfer a good or service to the customer.

Step 3 Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4 Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Company will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

Step 5 Recognise revenue when (or as) the entity satisfies a performance obligation.

The Company satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the Company's performance as and when the Company performs; or

2. The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

3. The Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

3. Changes in significant accounting policies *(continued)*

3.2 IFRS 15 Revenue from Contracts with Customers *(continued)*

Variable consideration

Variable consideration amount are estimated at either their expected value or most likely amount and included in revenue to the extent that it is highly probable that the revenue will not reverse

Significant financing component

Company evaluates significant financing component, if the period between customer payment and the transfer of goods/ services (both for advance payments or payments in arrears) is more than one year. Company adjusts the promised amount of consideration for the time value of money using an appropriate interest rate reflecting the credit risk.

Contract modification

A contract modification occurs when the Company and the customer approve a change in the contract that either creates new enforceable rights and obligations or changes the existing enforceable rights and obligations. Revenue related to a modification is not recognised until it is approved. Approval can be in writing, oral, or implied by customary business practices.

Company treats the contract modification as a separate contract if it results in the addition of a separate performance obligation and the price reflects the standalone selling price of that performance obligation. Otherwise, a modification (including those that only affect the transaction price) is accounted for as an adjustment to the original contract, either prospectively or through a cumulative catch-up adjustment.

Company accounts for a modification prospectively if the goods or services in the modification are distinct from those transferred before the modification. Conversely, the Company accounts for a modification through a cumulative catch-up adjustment if the goods or services in the modification are not distinct and are part of a single performance obligation that is only partially satisfied when the contract is modified.

Cost of obtainment and fulfilment

Company capitalises incremental costs to obtain a contract with a customer except if the amortisation period for such costs is less than one year.

If the costs incurred in fulfilling a contract with a customer are not in the scope of other guidance - e.g. inventory, intangibles, or property, plant and equipment - then the Company recognises an asset only if the fulfilment costs meet the following criteria:

- Relate directly to an existing contract or specific anticipated contract;
- Generate or enhance resources that will be used to satisfy performance obligations in the future; and
- Are expected to be recovered.

If the costs incurred to fulfil a contract are in the scope of other guidance, then Company accounts for such costs using the other guidance.

Company amortises the asset recognised for the costs to obtain and/or fulfil a contract on a systematic basis, consistent with the pattern of transfer of the good or service to which the asset relates. In the case of an impairment, Company recognises these losses to the extent that the carrying amount of the asset exceeds the recoverable amount.

Revenue recognition

The Company recognises revenue from the following major sources

- Capacity charge
- Energy charge/variable charge

3. Changes in significant accounting policies *(continued)*

3.2 IFRS 15 Revenue from Contracts with Customers *(continued)*

Cost of obtainment and fulfilment *(continued)*

Capacity charge
Capacity charge includes 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 PPA.

Variable charge
Energy charge and fuel charge are recognised when electricity 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 isonly 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.

Accounting policies applied until 31 December 2017

Operating revenue comprises tariffs for fixed capacity and energy charges. Tariffs are calculated in accordance with the Power Purchase Agreement (PPA).The PPA with OPWP is considered to be a leasing arrangement under IFRIC 4. The lease arrangement is classified as an operating lease. Accordingly, the revenues earned under the PPA are recorded on a straight line basis over its term. Power capacity charge revenue is recognised when the right to receive is established. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and its associated costs.

Revenue from the sale of variable electricity is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when electricity is delivered at the customer's premises, which is taken to be the point of time when the customer has accepted the deliveries and the related risks and rewards of ownership have been transferred to the customer based on contractual terms stipulated in the PPA.

These policies are considered to be appropriate after adoption of IFRS 15.

4 Basis of preparation and summary of significant accounting policies

The principal accounting policies are summarised below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Basis of preparation

(a) The financial statements have been prepared on historical cost basis and in accordance with International Financial Reporting Standards (IFRS). The financial statements also comply with the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading, with the Rules for Disclosure and Proforma issued by the Capital Market Authority and with the Commercial Companies Law of 1974, as amended.

(b) The financial statements are presented in Rial Omani (RO) and United States Dollar (US$), rounded off to the nearest thousand. The Rial Omani is the measurement and presentation currency of these financial statements. For information purposes, Rial Omani amounts in these financial statements have been translated to US Dollar amounts at an exchange rate of 2.60 US Dollars to one Rial Omani.

(c) The preparation of financial statements in conformity with IFRS requires use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where

4 Basis of preparation and summary of significant accounting policies *(continued)*

4.1 Basis of preparation *(continued)*

assumptions and estimates are significant to the financial statements are disclosed in note 6to these financial statements.

A number of new relevant standards, amendments to standards and interpretations are not yet effective for the year 2018, and have not been applied in preparing the financial statements. Those which may be relevant to the Company are set out below.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

IFRS 16 *Leases* (Effective from 1 January 2019)

Management is in the process of assessing the impact of these standards, amendments and interpretations on the financial statements of the Company and does not expect a significant impact on the financial statements of the Company except for the current usufruct agreement in place.

Based on the information currently available the Company estimates that the impact would not be material to the financial statements.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

There are no other IFRSs that are not yet effective that would be expected to have a material impact to the Company.

4.2 Interest income and expenses
Interest income and expense are recognised on an accrual basis using the effective interest rate method.

4.3 Leases

Leases where the Lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are charged to the statement of profit or loss on a straight-line basis over the term of the lease.

4.4 Segment 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 Board of Directors ('Board') that makes strategic decisions.

4.5 Foreign currency

Transactions in foreign currencies are translated into Rial Omani at the exchange rate prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are translated into Rial Omani at the exchange rate prevailing at the reporting date. Differences on exchange are dealt with in the statement of profit or loss and other comprehensive income as they arise.

4 Basis of preparation and summary of significant accounting policies*(continued)*

4.6 Income tax

Income tax on the results for the year comprises current and deferred tax.

Current tax is recognised in the statement of profit or loss and other comprehensive income and is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using liability method, on the temporary differences between the carrying amounts of assets and liabilities or financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date. The tax effects on the temporary differences are disclosed under non-current liabilities as deferred tax. The principal temporary differences arise from depreciation on property, plant and equipment.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. The carrying amount of deferred tax assets is reviewed at reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax is recognised as an expense or benefit in the statement of profit or loss except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

4.7 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. Diluted EPS is calculated by adjusting the basic EPS for the effects of all dilutive potential ordinary shares. The Company does not have any potentially dilutive shares at the reporting date.

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.

4.8 Intangible assets

The Company considers an intangible asset as an identifiable non-monetary asset without physical substance. The three critical attributes of an intangible asset are:

(a) identifiability;
(b) control (power to obtain benefits from the asset); and
(c) future economic benefits (such as revenues or reduced future costs).

An intangible asset is identifiable when it:

(a) is separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or as part of a package) or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

4 Basis of preparation and summary of significant accounting policies*(continued)*

4.9 Intangible assets*(continued)*

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its estimated useful life. Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated amortisation and accumulated impairment losses thereon. The estimated useful life is reviewed at each reporting date, with the effect of any changes in estimate being accounted for on a prospective basis.

4.9 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment is their purchase price together with any incidental expenses necessary to bring the assets to their intended condition and location.

(a) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the statement of profit or loss during the financial yearin which it is incurred.

(b) Depreciation

Depreciation is charged on a straight-line basis over the estimated useful lives of items of property, plant and equipment and major components are accounted for separately as follows:

Plant and machinery	6 – 30 years
Buildings and civil works	40 years
Other assets	3 – 4 years

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 future overhauls 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.

Depreciation is charged from the month of addition to property, plant and equipment, while no depreciation is charged in the month of disposal. Depreciation method, useful lives as well as residual values are re-assessed annually. Capital Spares that are amenable to refurbishment are not subject to depreciation.

4.10 Site restoration

A liability for future site restoration is recognized since the usufruct agreement stipulates 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.

4.11 Inventories

Fuel, maintenance spares and consumables are stated at the lower of cost and net realisable value. Cost is determined on the weighted average principle and includes all costs incurred in acquiring the inventories, cost incurred to bring them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, after allowing for the costs of realisation. Provision is made where necessary for obsolete, damaged and defective items, if any.

4 Basis of preparation and summary of significant accounting policies*(continued)*

4.12 End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the statement of financial position date, having regard to the requirements of the Oman Labour Law 2003, as amended. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability as a result of services rendered by employees up to the statement of financial position date. The accruals related to annual leave and leave passage are disclosed as current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the statement of profit or loss as incurred.

4.13 Provisions

Provisions are recognised in 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 it will result in an outflow of economic benefits that can be reliably estimated.

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

4.14 Trade and other payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

4.15 Dividend distribution

Dividends are recognized as a liability in the year in which the dividends are approved by the Company's shareholders. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the reporting date.

5 Financial risk management

The Company's activities expose it to a variety of financial risks including the effects of changes in market risk (including foreign exchange risk and interest rate risk), liquidity risk and credit risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by the management under policies approved by the Board of Directors.

5.1 Financial risk factors

(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.

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollars (USD) .The Company has negotiated, with its bank, a fixed rate of exchange with respect to USD. Hence, the exposure to foreign currency risk is considered minimal. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. As of 31 December 2018, the Company's market risk due to foreign exchange rates is analysed as follows:

5 Financial risk management *(continued)*

5.1 Financial risk factors*(continued)*

(a) Market risk (continued)

Financial assets / liabilities:

at 31December2018	**Carrying amount in statement of financial position RO'000**	**Amount denominated in Rials RO'000**	**Amount denominated in other currencies RO'000**
Tariff and other receivables (excluding prepayments and advances)	**492**	**492**	**-**
Cash and cash equivalents	**1,475**	**1,473**	**2**
Trade and other payables	**(386)**	**(289)**	**(97)**
Due to related parties	**(170)**	**(170)**	**-**
	1,411	**1,506**	**(95)**

at 31December2017	Carrying amount in statement of financial position RO'000	Amount denominated in Rials RO'000	Amount denominated in other currencies RO'000
Trade and other receivables (excluding prepayments and advances)	612	612	-
Cash and cash equivalents	902	898	4
Trade and other payables	(604)	(531)	(73)
Due to related parties	(340)	(340)	-
	570	639	(69)

(ii) Interest rate risk

The Company's interest rate risk arises from bank deposits, short-term and long-term borrowings. Bank deposits and borrowings at variable rates expose the Company to cash flow interest rate risk. Management regularly monitors the returns on these bank deposits.

At the end of the reporting year the interest rate profile of the Company's interest bearing financial instruments was:

	2018 RO'000	**2018 US $'000**	2017 RO'000	2017 US $'000
Floating rate instruments				
Financial assets at amortised cost - call and deposit accounts	**502**	**1,305**	2	5

(b) Liquidity risk

In accordance with prudent liquidity risk management, the management aims to maintain sufficient cash balances and availability of funding through an adequate amount of committed credit facilities. The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

The amounts disclosed in the table are contractual discounted cash flows:

Notes to the financial statements

For the year ended 31 December 2018

5 Financial risk management *(continued)*

5.1 Financial risk factors *(continued)*

(b) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities:

	Carrying amount RO'000	Carrying amount US$ '000	6 months or less RO'000	6 - 12 months RO'000	1 - 2 Years RO'000
at 31December 2018					
Trade and other payables	**(386)**	**(998)**	**(386)**	**-**	**-**
Due to related parties	**(170)**	**(442)**	**(170)**	**-**	**-**
	(556)	**(1,440)**	**(556)**	**-**	**-**
at 31December 2017					
Trade and other payables	(604)	(1,564)	(604)	-	-
Due to related parties	(340)	(883)	(340)	-	-
	(944)	(2,447)	(944)	-	-

The contractual undiscounted cash flows for the year ended 31December 2018 and 2017 would be gross amounts based on effective interest rates disclosed under relevant notes.

The above commitments are expected to be met out of internally generated funds and cash and cash equivalents available with the Company at the relevant maturity date.

(c) 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 receivables from a customer. The Company does not require collateral in respect of financial assets. The Company seeks to control credit risk by monitoring credit exposure. At 31December 2018, the entire trade receivables were from a Government owned Company, Oman Power and Water Procurement Company SAOC (OPWP). The maximum exposure to credit risk as of the end of the year was RO 0.492 million (US $1.28 million) [2017: RO0.612million (US $ 1.59 million)].OPWP has a credit rating of Baa2 given by Moody's investors' service. Under the expected credit loss model the impairment of Tariff receivable does not have material impact on these financial statements.

The table below shows the balances with banks categorised by credit ratings as published by Moody's Investors Service at the reporting date:

Bank	**Rating**	**2018 RO'000**	2017 RO'000
Societe Generale	Baa2	**-**	2
Bank Muscat SAOG	Baa2	**1,475**	900
		1,475	902

5.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and benefit other stakeholders. The management's policy is to maintain a strong capital base so as to maintain creditor and stakeholders' confidence and to sustain future development of the business.

Management aims to improve the current level of profitability by enhancing top line growth and prudent cost management.

5.3 Fair value estimation

The carrying value of financial assets and liabilities with a maturity of less than one year approximates their fair values.

6 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Judgements

(a) Operating lease

The Company has entered into a PPA containing a take-or-pay clause favouring the Company. The management has applied the guidance in IFRIC 4, 'Determining whether an arrangement contains a lease'. Based on the management's evaluation, the PPA with OPWP is a lease within the context of IFRIC 4 as OPWP has the right to direct how the Company operates the power plant and obtains from the Company electricity generated by the plant and has been classified as an operating lease under IAS 17 since significant risks and rewards associated with the ownership of the plant lie with the Company and not with OPWP. The residual risk is also borne by the Company and not OPWP.

Estimates and assumptions

(a) Impairment of plant and machinery

The Company determines whether its plant and machinery 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. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from this cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying value of the plant as at 31 December 2018 was RO 29.668 million (US$ 77.14 million) [2017 - RO 30.965 (US$ 80.51 million)]. In estimating the expected future cash flows, the Company has considered the terms of the PPA with OPWP, market conditions and the characteristics of the Company's power plant to continue to supply power to OPWP beyond the existing PPA.

(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 programmes, and normal wear and tear using its best estimates.

Certain parts of property, plant and equipment are depreciated based on estimated machine hours. Calculation of machine hour rate depreciation involves significant assumptions in relation to estimated hours and hourly rate of depreciation.

(c) Decommissioning costs

Decommissioning costs are based on management's technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant facilities.

Notes to the financial statements

For the year ended 31 December 2018

7 Operating revenue

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Energy charges	**6,318**	**16,426**	3,464	9,006
Capacity charges	**6,390**	**16,614**	6,853	17,817
	12,708	**33,040**	10,317	26,823

In line with IFRS 15, all revenue is recognised over time and not at a point in time, since the following conditions to recognise the revenue over time are met:

1. The customer simultaneously receives and consumes the benefits provided by the Company's performance as and when the Company performs; or
2. The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

Revenue is generated only in the Sultanate of Oman and the Company has only one Customer, Oman Power and Water Procurement Company SAOC (OPWP).

8 Operating costs and other income

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Fuel costs	**5,718**	**14,867**	3,148	8,185
Operation and maintenance charges	**2,305**	**5,993**	2,091	5,436
Depreciation	**1,632**	**4,243**	1,538	3,999
Amortisation of intangible assets	**-**	**-**	23	58
	9,655	**25,103**	6,800	17,678

9 Other income

Other income represents Change of Law claim from OPWP for tax law amendment (2017- profit on sale of asset).

10 Administrative and general expenses

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Employee costs	**178**	**463**	178	462
Legal and professional fees	**122**	**317**	107	278
Directors/shareholders' meeting expenses	**29**	**77**	28	73
Directors' Remuneration	**24**	**62**	-	-
Share registration fees	**12**	**30**	12	30
Rent, rates and taxes	**14**	**37**	11	29
Depreciation	**6**	**17**	9	22
Social development costs	**20**	**52**	15	39
Bank charges	**8**	**21**	-	-
Utilities	**8**	**20**	8	21
Travelling	**2**	**4**	1	3
Miscellaneous expenses	**33**	**86**	33	87
	456	**1,186**	402	1,044

Notes to the financial statements

For the year ended 31 December 2018

10 Administrative and general expenses *(continued)*

Employees related expenses comprise the following:

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Wages and salaries	**161**	**419**	165	428
Contribution to defined retirement plan	**6**	**16**	6	16
Other benefits	**8**	**20**	4	11
End of service benefits	**3**	**8**	3	7
	178	**463**	178	462

The number of employees as at 31December 2018was 6 (2017:6)

11 Finance costs

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Interest on secured loan, including hedge unwinding	**-**	**-**	17	45
Amortisation of deferred finance costs	**-**	**-**	3	7
Others	**-**	**-**	24	62
	-	**-**	44	114

12 Intangible assets

Pursuant to the Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas (MOG), the Company, effective from November 2007, transferred "Natural Gas Reception System" comprising multiple streams with redundancy, each providing pressure reduction and control filtering, condensate extraction, heating, metering and on-line gas calorific value analysis, to MOG. Although the ownership of this asset was transferred to MOG, the Company retains the beneficial economic use of the asset until the expiry of the NGSA, i.e., 31December 2021.

In terms of the Company's stated policy on intangible assets and amortisation, the book value of the Natural Gas Reception System of RO 0.620 million (US$ 1.61 million) has been classified as intangible asset which has been amortised over the initial period of NGSA.

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Cost				
At 1 January and 31December	**620**	**1,612**	620	1,612
Accumulated amortization				
At 1 January	**(620)**	**(1,612)**	(597)	(1,554)
Amortised for the year	**-**	**-**	(23)	(58)
At 31 December	**(620)**	**(1,612)**	(620)	(1,612)
Net book amount				
At 31 December	**0**	**0**	0	0

Notes to the financial statements

For the year ended 31 December 2018

13 Property, plant and equipment

2018	Plant and machinery RO'000	Building and civil works RO '000	Other Assets RO'000	Total RO'000	Total US$'000
Cost					
At 1 January	**57,416**	**929**	**336**	**58,681**	**152,571**
Acquisitions	**312**	**-**	**56**	**368**	**957**
Disposals	**-**	**-**	**(272)**	**(272)**	**(707)**
At 31 December	**57,728**	**929**	**120**	**58,777**	**152,821**
Accumulated depreciation					
At 1 January	**26,451**	**326**	**331**	**27,108**	**70,483**
Charge for the year	**1,609**	**23**	**6**	**1,638**	**4,260**
Disposals	**-**	**-**	**(272)**	**(272)**	**(707)**
At 31 December	**28,060**	**349**	**65**	**28,474**	**74,036**
Net Book Value					
At 31 December	**29,668**	**580**	**55**	**30,303**	**78,785**

2017	Plant and machinery RO'000	Building and civil works RO '000	Other Assets RO'000	Total RO'000	Total US$'000
Cost					
At 1 January	57,416	929	353	58,698	152,615
Acquisitions	-	-	1	1	3
Disposals	-	-	(18)	(18)	(47)
At 31December	57,416	929	336	58,681	152,571
Accumulated depreciation					
At 1 January	24,936	303	340	25,579	66,508
Charge for the year	1,515	23	9	1,547	4,022
Disposals	-	-	(18)	(18)	(47)
At 31 December	26,451	326	331	27,108	70,483
Net Book Value					
At 31 December	30,965	603	5	31,573	82,088

(i) Land, on which the power station's buildings and auxiliaries are constructed, has been leased from the Government of the Sultanate of Oman for a period of 25 years, extendable for another 25 years. Lease rent is paid at the rate of RO 1,000 per annum.

14 Inventories

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Liquid fuel	**1,122**	**2,917**	1,094	2,844
Maintenance spares and consumables	**497**	**1,293**	497	1,293
	1,619	**4,210**	1,591	4,137

In accordance with the terms of the various project agreements, the Company is required to maintain a base stock of liquid fuel. Such liquid fuel stock is to be held to cover the contingency of interruption in the supply of gas fuel. The requirement is to hold minimum of five days' consumption in order to operate the turbines at full capacity.

Notes to the financial statements

For the year ended 31 December 2018

15 Tariff receivables

Tariff receivables represent the amounts due from Oman Power & Water Procurement Company SAOC (OPWP) in respect of capacity and energy charges.

16 Other receivables and prepayments

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Advances	606	1,575	447	1,161
Prepayments	186	483	56	146
Total	792	2,058	503	1,307
Capital advances	74	192	134	348

¶

Capital advances represent advance against CEMS Upgrade (2017 – Rotor Rewind)

17 Cash and bank balances

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Current account	973	2,530	922	2,398
Call and deposit accounts	502	1,306	2	6
	1,475	3,836	924	2,404

Deposits carried interest at 0 – 0.5%per annum.

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Cash and cash equivalents	1,475	3,836	924	2,404
Bank overdraft	-	-	(22)	(58)
	1,475	3,836	902	2,346

The Company has overdraft facility from Bank Muscat SAOG of a limit upto RO 1.880 million including a sub-limit of RO 1.110 million for short term loan. It carries interest at 5.25% per annum for overdraft(2017- 5.25% per annum).This facility has not utilised as at 31 December 2018.

18 Share capital

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Authorised share capital of 250,000,000 shares of RO 0.100each (2017- 250,000,000 shares of RO 0.100each)	25,000	65,000	25,000	65,000
Issued and fully paid-up share capital of 96,250,000 shares of RO 0.100 each (2017- 96,250,000 shares of RO 0.100 each)	9,625	25,025	9,625	25,025

The Company's shareholders at 31December comprised the following:

	2018		2017	
	Number of shares	%	Number of shares	%
National Power Al Kamil Investments Ltd.	46,915,930	48.74	46,915,930	48.74
Al Kamil Investments Ltd.	15,640,630	16.25	15,640,630	16.25
National Power Oman Investments Ltd.	5,940	0.01	5,940	0.01
Others	33,687,500	35.00	33,687,500	35.00
	96,250,000	100.00	96,250,000	100.00

Notes to the financial statements

For the year ended 31 December 2018

18 Share capital *(continued)*

The three main shareholding companies, representing 65% of the share capital, are registered in the United Kingdom and are subsidiaries of Engie (formerly GDF Suez). None of the other ordinary shareholders owns 10% or more of the Company's paid-up share capital as at 31December 2018.

19 Legal reserve

The Commercial Companies Law of 1974 as amended requires that 10% of a Company's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to one-third of the Company's paid-up share capital. This reserve is not available for distribution. No portion from the profit for the current year has been transferred to Legal Reserve as the Company has already achieved the minimum amount required in the legal reserve.

20 Taxation

(a) Income tax

A Royal Decree 9/2017 was issued on 19 February 2017 and published in the Official Gazette on 26 February 2017 amending the Income Tax law 28/2009. One of the amendments was to increase the tax rate from 12% to 15% and removal of the basic exemption of RO 30,000. The new tax rate was applicable from 01 January 2017. Accordingly, the Company is liable to income tax at the rate of 15% of taxable income.

The Company's effective tax rate for the year ended 31December 2018 was 15% (year ended 31December 2017: 14.85%).

	2018 RO'000	**2018 US $'000**	2017 RO'000	2017 US $'000
Current liability				
Current year	**602**	**1,565**	618	1,607

Tax charge in the statement of profit or loss is made up of the following:

	2018 RO'000	**2018 US $'000**	2017 RO'000	2017 US $'000
Current tax - current year	**602**	**1,565**	618	1,607
Deferred tax relating to the origination and reversal of temporary differences	**(173)**	**(450)**	603	1,569
	429	**1,115**	1,221	3,176
Current tax - prior period	**-**	**-**	(5)	(13)
	429	**1,115**	1,216	3,163

(i) By virtue of Royal Decree 54/2000 the Company was exempt from income tax for an initial period of five years which ended on 30 September2007.

(ii) The management had requested the tax department to accord the appropriate benefit as envisaged by Royal Decree 54/2000 in the calculation of tax payable upon the completion of the assessments i.e., the availability of tax losses incurred by the Company during the tax exemption period to be set-off against the profits of the subsequent years. However, the assessments for the years 2008-2013 were finalised by the Department of Taxation Affairs, Ministry of Finance without according the benefits assured under the Royal Decree 54/2000.The Company submitted an objection and then an appeal contesting the non-adjustment of the carry forward of losses incurred during the tax-exempt period. The Income Tax Committee confirmed the position taken by the Tax authorities for the years 2008 to 2013.The Company filed a suit with the Primary Court and subsequently the Appeals Court contesting ITC's decision for the years 2008 to 2013.Following rejection of the claim by the Appeals Court, the company filed a suit with the Supreme Court for the years 2008 to 2013. The Supreme Court issued a decision rejecting the case for 2013.

Notes to the financial statements

For the year ended 31 December 2018

20 Taxation *(continued)*

The Company has, however, settled the tax liabilities for the year 2008-2013 as per the assessments and hence no additional tax liability has been recorded. Final tax assessments for years 2014 to 2017 are pending with the Omani taxation authorities. The management considers that the amount of additional taxes, if any, that may become payable on finalisation of assessments of the open tax years would not be significant to the Company's financial statements at 31 December 2018.

(b) Reconciliation of effective tax:

	2018 RO'000	**2018 US $'000**	2017 RO'000	2017 US $'000
Profit before taxation	**2,848**	**7,404**	3,078	8,004
Income tax	**427**	**1,111**	460	1,196
Non – deductible expenses	**2**	**4**	2	5
Impact of change on tax rate	**-**	**-**	759	1,975
Prior year charge	**-**	**-**	(5)	(13)
Tax charge for the year	**429**	**1,115**	1,216	3,163

(c) Deferred tax

(i) Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 15% (2017 - 15%).

(ii) At 31December 2018, the Company's deferred tax liability amounted to approximately RO 3.469million(US$ 9.02million) [(2017-RO 3.642 million (US$ 9.47million)] arising on temporary timing differences.

The movement in deferred tax liability during the year is as follows:

Statement of profit or loss:

	2018 RO'000	**2018 US $'000**	2017 RO'000	2017 US $'000
Deferred tax charge	**(173)**	**(450)**	603	1,569

Statement of financial position:

	2018 RO'000	**2018 US $'000**	2017 RO'000	2017 US $'000
Deferred tax liability	**3,469**	**9,019**	3,642	9,471

(ii) The deferred tax liability in the statement of financial position and the net deferred tax charge in the statement of profit or loss and the statement of other comprehensive income are attributable to the following items:

	At 31 December 2018 RO'000	**Charged to the statement of profit or loss RO'000**	**Recognised in the statement of other comprehensive income RO'000**	**At 31 December 2018 RO'000**	**At 31 December 2018 US $'000**
2018					
Tax effect of:					
Accelerated tax depreciation	3,642	(173)	-	3,469	9,019
	3,642	**(173)**	**-**	**3,469**	**9,019**

Notes to the financial statements

For the year ended 31 December 2018

20 Taxation*(continued)*

	At 31 December 2017	Credited to the statement of profit or loss	Recognised in the statement of other comprehensive income	At 31 December 2017	At 31 December 2017
	RO'000	RO'000	RO'000	RO'000	US $'000
2017					
Tax effect of:					
Accelerated tax depreciation	3,039	603	-	3,642	9,471
	3,039	**603**	**-**	**3,642**	**9,471**

21 Provision for decommissioning costs

The provision for decommissioning costs represents the present value of the management's best estimate, based on recognised consultants' advice, of the future sacrifice of economic benefits that will be required to remove the facilities and restore the affected area at the leased site on which the Company's plant is constructed.

Under the Usufruct Agreement, the Company has a legal obligation to remove the plant and machinery 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 movement in decommissioning provision is as follows:

	2018 RO'000	**2018 US $'000**	2017 RO'000	2017 US $'000
At 1 January	**72**	**187**	71	184
Unwinding of discount	**-**	**-**	1	3
At 31December	**72**	**187**	72	187

22 Trade and other payables

	2018 RO'000	**2018 US $'000**	2017 RO'000	2017 US $'000
Trade payables	**-**	**-**	330	853
Accruals and other payables	**328**	**848**	216	561
Payable to creditors for property plant and equipment	**58**	**150**	58	150
	386	**998**	604	1,564

23 Due to related parties

	2018 US $'000	**2018 US $'000**	2017 US $'000	2017 US $'000
Al Kamil Construction & Services LLC	**156**	**406**	324	842
Kahrabel Operation & Maintenance Oman LLC	**14**	**36**	16	41
	170	**442**	340	883

Notes to the financial statements

For the year ended 31 December 2018

24 Net assets per share

Net assets per share is calculated by dividing the shareholders' funds of the Company at the year ended by the number of shares outstanding as follows:

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Shareholders' funds	**30,044**	**78,117**	30,031	78,084
Number of shares outstanding as at 31December('000)	**96,250**	**96,250**	96,250	96,250
Net assets per share- RO/US$	**0.312**	**0.81**	0.312	0.81

25 Earnings per share– basic

Earnings per share is calculated as follows:

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Profit for the year	**2,419**	**6,289**	1,862	4,841
Weighted average number of shares ('000)	**96,250**	**96,250**	96,250	96,250
Earnings per share - RO/US$	**0.025**	**0.07**	0.019	0.05

26 Related parties

The Company has related party relationships with entities over which certain shareholders and directors are able to exercise significant influence. The Company also has related party relationships with its directors. In the ordinary course of business, such related parties provide goods and render services to the Company. The Company has entered into an Operation and Maintenance Agreement with AKCS, a related party, for operations and maintenance of the plant upto 31 December 2021.

Kahrabel Operation and Maintenance Oman (KOMO) and International Power SA are related parties with significant shareholder influence.

(a) The related party transactions during the year were as follows:

	2018 RO'000	2018 US $'000	2017 RO'000	2017 US $'000
Fee charged by AKCS under the Operations and maintenance agreement	**2,180**	**5,668**	1,816	4,722
CEO salary charged by KOMO	**57**	**148**	57	148
Costs incurred by AKCS on behalf of the Company	**38**	**99**	26	68
Fixed Services fee paid to International Power SA Dubai	**22**	**57**	21	55
Fee charged by International Power SA Dubai branch towards PPA Extension	**39**	**101**	-	-
Costs incurred by the Company on behalf of AKCS	**-**	**-**	1	3
Directors' Remuneration	**24**	**62**	-	-
Legal Fee charged by International Power SA	1	3	22	57
Directors' meeting fee	**20**	**52**	21	55
	2,381	**6,190**	1,964	5,108

(b) The details of amounts due to related parties are given in note 23

Notes to the financial statements

For the year ended 31 December 2018

27 Key management compensation

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

	2018 RO'000	**2018 US $'000**	2017 RO'000	2017 US $'000
Compensation of key management personnel				
Short-term benefits	**124**	**323**	121	314
Post-employment benefits	**6**	**15**	5	13
	130	**338**	126	327

28 Segment information

The Company operates only in one business segment, namely, power generation within the Sultanate of Oman.

29 Dividends- paid and proposed

During 2018, the company paid cash dividend for the year 2017 of 25% amounting to RO 2.406 m (RO 0.025 per share) (2017: cash dividend for the year 2016 of 10% amounting to RO 0.963 m i.e. RO 0.010 per share).

Subsequent to the reporting date, the Board of Directors have proposed cash dividend of:

(a) upto 20% (20 Baiza per share) from the retained earnings of the company as at 31 December 2018, to the shareholders of the Company who are registered with Muscat Clearing and Depository Company SAOC as at 31May 2019; and

(b) upto 20% (20 Baiza per share) from the retained earnings of the company as at 31 December 2018, to the shareholders of the Company who are registered with Muscat Clearing and Depository Company SAOC as at 30 November 2019.

The proposed cash dividend is subject to shareholders' approval at the Annual General Meeting.

30 Commitments

	2018 RO'000	**2018 US $'000**	2017 RO'000	2017 US $'000
Capital commitment	**8**	**21**	153	399

Operating lease commitments

At 31December, future minimum lease commitments under non-cancellable operating leases were as follows:

	2018 RO'000	**2018 US $'000**	2017 RO'000	2017 US $'000
Within one year	**1**	**3**	1	3
Between two and five years	**4**	**10**	4	10
After five years	**2**	**5**	3	8
	7	**18**	8	21