Notes to the financial statements

1 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 has been established to build and operate a 285 MW electricity generating station ("the power plant") at Al Kamil in the Sharqiya Region. The commercial operation date ("COD") has been determined to be 1 May 2002. The Company was converted to a general joint stock Company on 22 September 2004.

2 SIGNIFICANT AGREEMENTS

The Company has entered into the following significant agreements:

a) 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) i.e. 1 May 2002. Under the terms of PPA, the Company has the right and obligation to generate electricity. The Company was granted a Generation License 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 the 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.

b) 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.

c) Usufruct agreement with the Government for grant of Usufruct rights over the project site for 25 years, which is renewable for a further period of upto 25 years.

d) 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.

e) 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 BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS

3.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), the relevant requirements of the Commercial Companies Law of the Sultanate of Oman and the relevant disclosure requirements issued by the Capital Market Authority.

The financial statements are presented in Rial Omani (RO) and United States Dollar (USD) on a historical cost basis, 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.

Notes to the financial statements

3 BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS (Continued)

3.1 Basis of preparation (Continued)

The Commercial Companies Law of the Sultanate of Oman promulgated by Royal Decree No. 18 / 2019 ('the Commercial Companies Law') was issued on 13 February 2019 and came into force on 17 April 2019. The new Law has replaced the provisions of the Commercial Companies Law promulgated by the Royal Decree No. 4 / 74 and subsequent amendments, thereof.

In accordance with Article 3 of the Royal Decree No. 18 / 2019, the commercial companies in existence on the date of enforcement of the new Law, shall comply with its provisions within a year from the date of enforcement of the Law.

3.2 New and amended IFRS adopted by the Company

The financial statements have been drawn up based on accounting standards, interpretations and amendments effective at 1 January 2019.

The Company has adopted the following new and revised Standards and Interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee, which were effective for the current accounting period:

- IFRS 16, 'Leases' issued in January 2016 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with lessor accounting substantially unchanged from IAS 17.

  Lessor:

  The Management had assessed in earlier periods under IFRIC 4 'Determining whether an arrangement contains a lease', that the Power Purchase Agreement (PPA) conveyed a right-of-use of the power plant to OPWP, and that the lease qualified as an operating lease under 'IAS 17 Leases'.

  Consequently, in accordance with the transition provisions of IFRS 16, the Management has used the practical expedient of not re-assessing whether the PPA contains a lease or not and has applied IFRS 16 to the PPA from the date of initial application, i.e. 1 January 2019. Additionally, in its capacity as lessor, the Company is also not required to make any adjustment on transition to IFRS 16.

  The accounting policies for the Company, as a lessor, on adoption of IFRS 16, have substantially remained the same as applicable under IAS 17. Accordingly, income from the above operating lease is recognised on a straight-line basis over the term of the PPA.

  Lessee:

  As a lessee, the Company leases assets, including land for its power plant at Al Kamil and office premises. The Company has adopted the limited retrospective approach available under IFRS 16 with the cumulative impact of initially applying the standard, if any, being recognised as an adjustment to the opening retained earnings at 1 January 2019. Accordingly, comparative information has not been restated.

  Applying IFRS 16, for existing lease arrangements (except as noted below), the Company has recognized a right-of-use asset and lease liabilities in the statement of financial position, being initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments. The Company has also recognised depreciation of right-of-use asset and interest on the lease liabilities in the statement of comprehensive income.

Notes to the financial statements

3 BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS (Continued)

3.2 New and amended IFRS adopted by the Company (Continued)

- IFRS 16 (Continued)

  For short-term leases (lease term of 12 months or less) and leases of low-value assets, if any, the Company has opted to recognise the lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'general and administration' in the statement of comprehensive income.

  The weighted average incremental borrowing rate applied to lease liabilities on 1 January 2019 is 7%. The lease liabilities measured at 1 January 2019 was determined as follows:

	1 January 2019	
	RO'000	USD'000
Operating lease commitments at 31 December 2018	150	391
Effect of discounting the above	(68)	(178)
Lease liabilities at 1 January 2019	82	213

  The Company has recognised right-of-use asset and lease liabilities of RO 81,975 (USD 213,135) upon transition to IFRS 16.

- Other than IFRS 16, the Management believes the adoption of the following amendments and standards, has not had any material impact on the recognition, measurement, presentation and disclosure of items in the financial statements for the current accounting period.

  - IFRIC 23 'Uncertainty over Income Tax Treatment' issued in June 2017 clarifies how to apply the recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments.

  - Amendments to IFRS 9 'Financial Instruments' issued in October 2017 allow entities to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met, instead of at fair value through profit or loss.

  - Annual amendments to IFRSs (2015 - 2017 cycle) issued in December 2017 include amendments to IFRS 3 'Business combinations, IAS 12 'Income Taxes' and IAS 23 'Borrowing costs'.

  - Amendments to IAS 19 'Employee benefits' issued in February 2018 require an entity to use the updated assumptions from the re-measurement of net defined benefit liability or asset to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

3.3 New and amended IFRS which are in issue but not yet effective

At the end of the reporting period, the following significant new and revised standards were in issue but not yet effective:

- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, changes in accounting estimates and errors' issued in October 2018 clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. The amendments are applicable for annual periods commencing on or after 1 January 2020.

Notes to the financial statements

3 BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS (Continued)

3.3 New and amended IFRS which are in issue but not yet effective (Continued)

- Amendments to IFRS 9 'Financial instruments' and IFRS 7 'Financial instruments: Disclosures' issued in September 2019 modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the inter-bank offered rate reform. In addition, the amendments require entities to provide additional information about their hedging relationships which are directly affected by these uncertainties. The amendments are applicable for annual periods commencing on or after 1 January 2020.

The Management believes the adoption of the above amendments is not likely to have any material impact on the recognition, measurement, presentation and disclosure of items in the financial statements for future periods.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements, the Management is required to make estimates and assumptions which affect reported income and expenses, assets, liabilities and related disclosures. The use of available information and application of judgements based on historical experience and other factors are inherent in the formation of estimates that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods effected. In particular, estimates that involve uncertainties and judgements which have significant effect on the financial statements are as follows:

- *Impairment of property, plant and equipment*

  At the end of each reporting period, the Company assesses whether there is any indication that its property, plant and equipment is impaired in accordance with IAS 36 'Impairment of assets'. If such an indication exists, the Company estimates the recoverable amount of the property, plant and equipment (cash generating unit – CGU). The Management has identified the expiry of the PPA on 31 December 2021 as one such indicator.

  Accordingly, the Company appointed a technical consultant for the preparation of cash flow models, considering the various scenarios under a wholesale spot market for the remaining useful life of the project assets.

  In estimating the expected future cash flows, the Management has considered the current market conditions and the characteristics of the Company's power plant to continue to supply power to OPWP beyond the existing PPA based on information available with the Management at the end of the reporting period. Estimating the value-in-use of the CGU also requires the use of appropriate discount rate to discount the future expected cash flows of the CGU.

  The Management has concluded that no impairment provision is required against the carrying value of property, plant and equipment at 31 December 2019 as the estimated value in use of RO 31.18 million (USD 81.07 million) exceeds the carrying value of the property, plant and equipment of RO 29.27 million (USD 76.11 million).

  Every 1% change to the discount rate of 9% that was applied in the calculation would have impacted the value in use of property, plant and equipment by RO 1.8 million (USD 4.68 million), other factors remaining constant. Similar, every 10% change in the estimated terminal value of the property, plant and equipment would have impacted the value in use by RO 0.26 million (USD 0.68 million), other factors remaining constant [see also note 7 d)].

Notes to the financial statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

- *Going concern assumption*

  The Company is participating in the Government of the Sultanate of Oman's Power 2022 procurement process to obtain an extension to the PPA beyond 31 December 2021. The Management has also assessed the Company's ability to continue as a going concern and believes that the estimated residual value of the assets will have substantial value in use at the conclusion of the PPA and the Company will be able to continue to generate revenue considering the Government's power sector related initiatives in Oman.

- *Operating lease*

  The Company has entered into a PPA containing a take-or-pay clause favoring the Company. In earlier years, the Management had applied the guidance under the then applicable, IFRIC 4 'Determining whether an arrangement contains a lease' and concluded that the PPA with OPWP is an operating lease within the context of IFRIC 4 due to the following:

  - There is an identified asset i.e. the power plant. The power plant is explicitly specified in the PPA and the Company does not have the right to substitute the specified power plant;
  - OPWP has the right to direct how the Company operates the power plant and OPWP obtains substantially all the economic benefits from the use of the power plant over the PPA term;
  - A component of the revenue is made based on the power plant's availability than for the actual use;
  - The estimated life of the power plant extends much beyond the term of the PPA; and
  - 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.

  The conclusion that the PPA with OPWP was an operating lease under IAS 17 based on the above estimates continues to be valid even on adoption of IFRS 16 'Leases' with effect from 1 January 2019.

- *Estimation of decommissioning costs*

  Decommissioning costs are based on a technical consultant's assessment of the probable future costs to be incurred in respect of the decommissioning of the plant facilities. The estimated cost, discount rate and risk rate used in the calculation are based on Management's best estimates.

- *Estimation of lease term and right-of-use asset*

  The Management determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Management applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease by considering all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

  Further, estimates that involve uncertainties and judgements which have significant effect on the financial statements includes the determination of the appropriate rate to discount the lease liabilities in accordance with IFRS 16 and assessment of whether a right-of-use asset is impaired in accordance with IAS 36.

Notes to the financial statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

- *Valuation of plant spares*

  Property, plant and equipment include plant spare parts amounting to RO 4.17 million (USD 10.84 million), which were capitalized in an earlier period. In accordance with the operations and maintenance (O&M) agreement, the O&M provider shall ensure that the plant spares that are used during the project life shall be either refurbished or replaced in their original condition, as appropriate and in accordance with good practice and as soon as reasonably practical at the O&M provider's cost.

  Therefore, the Management has estimated the depreciation charge on the plant spares after considering the estimated residual value of these spares in their original condition at the end of the useful life of the plant and machinery. During the year, there has been a change in the estimated residual value of the plant spares, resulting in an additional depreciation charge of RO 107,220 (USD – 278,772) [note 7 e)].

- *Useful lives of property, plant and equipment*

  Estimation of useful lives of the property, plant and equipment 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.

  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.

- *Expected credit losses on trade receivables in accordance with the IFRS 9 'Financial Instruments'*

  The Company uses a single rate valuation method to calculate ECLs for trade receivables since the historical data is not representative and there have been insignificant credit losses in the past. The default rates are based on those provided by external credit rating agencies for industry and country wise default rates and adjusted for forward-looking factors specific to the economic environment in the Sultanate of Oman.

  At every reporting date, the default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between default rates, forecast economic conditions and ECLs require the use of estimates. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

- *Provision for slow and non-moving inventories*

  Provision for slow and non-moving inventories is based on Management's estimates of the realizable value of the inventories based on the Company's provisioning policy and historical experiences considering the technical usage of the inventories.

5 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied in dealing with items considered material to the Company's financial statements.

a) Accounting convention

The financial statements are prepared under the historical cost convention.

Notes to the financial statements

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Revenue

Revenue comprises tariffs for power capacity and electrical energy generation charges. Tariffs are calculated in accordance with the PPA. The Company recognizes revenue from the following major sources:

- Capacity charges
- Energy charges

Capacity charges

Capacity charges include investment charge and fixed operation and maintenance (O&M) charge. Investment charge is treated as revenue under operating lease under IFRS 16 'Leases' and recognized on straight line basis over the lease term. The fixed O&M charge is recognized based on the capacity made available in accordance with contractual terms stipulated in the PPA.

Energy charges

Energy charges comprise the fuel charges and variable operation and maintenance charges. Energy charges are recognised when electricity is 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 are in accordance with agreed credit terms.

There is no significant financing component attached to the receivable from customer. The goods and services are provided on agreed credit terms of the contract and payment occurs within 25 days from the submission of invoice, which is generally done on a monthly basis, on or before the 5th day of the subsequent month.

c) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised When each major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other expenditures are recognised in the statement of comprehensive income as an expense as incurred.

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.

Notes to the financial statements

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment (Continued)

Items of property, plant and equipment are derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the statement of comprehensive income in the year the item is derecognized.

Capital work in progress is not depreciated. Depreciation is charged on the property, plant and equipment so as to write off their cost less their estimated residual values over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Asset	Years
Plant and machinery	6 - 30
Building and civil works	40
Other assets	3 - 4

d) Intangible asset

Costs that are directly associated with identifiable and unique software products controlled by the Company and which have probable economic benefits exceeding the costs beyond one year are recognised as intangible assets and are amortised over their estimated lives.

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

e) Inventories

Inventories comprise of fuel oil and spare parts and are stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Provision is made where necessary for obsolete, slow moving and defective items.

f) Financial assets

Initial recognition

The Company's financial assets comprise trade and other receivables and bank balances and cash. These financial assets are classified, at initial recognition, as subsequently measured at amortised cost. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

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

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

Notes to the financial statements

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Financial assets (Continued)

Financial assets at amortised cost:

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Interest income from financial assets, if any, is included in finance income using the effective interest rate method. Impairment losses, if any, are presented as separate line item in the statement of income.

g) Trade receivables

Trade receivables are amounts due from the customer (OPWP) for services performed in the ordinary course of business and represent the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). They are generally due for settlement within 25 days from the submission of invoice 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 component, 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.

h) Impairment

Financial assets

Trade receivables

The Company uses a single rate valuation method to calculate ECLs for trade receivables since the historical data is not representative of credit losses as there have been insignificant credit losses in the past. The default rates are based on an external credit rating agency's industry and country wise default rates, adjusted for forward-looking factors specific to the economic environment in the Sultanate of Oman.

Other financial assets

For other financial assets, which are subject to impairment, the ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL).

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a lifetime ECL is recognised for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

For bank balances and cash, the ECL adjustments are made only if they are material.

Notes to the financial statements

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Impairment (Continued)

Write off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

The Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written 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.

Non-financial assets

At the end of each reporting period, the Management assesses if there is any indication of impairment of non-financial assets. If an indication exists, the Management estimates the recoverable amount of the asset and recognises an impairment loss in the statement of income. The Management also assesses if there is any indication that an impairment loss recognized in prior years no longer exists or has reduced. The resultant impairment loss or reversals are recognised immediately in the statement of income.

i) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, including deposits with an original maturity period of 3 months or less, net of short-term bank borrowings, if any.

j) Employees' end of service benefits

Payment is made to Government of the Sultanate of Oman's Social Security Scheme under Royal Decree 72 / 91 (as amended) for Omani employees. Provision is made for amounts contractually payable under the Labour Laws of Sultanate of Oman Royal Decree 35 / 2003 (as amended) applicable to expatriate employees' accumulated periods of service at the end of the reporting period.

k) Financial liabilities

All financial liabilities are initially measured at fair value and are subsequently measured at amortised cost.

l) Trade and other payables

Liabilities are recognized for amounts to be paid in the future for goods or services received whether or not billed to the Company.

m) Taxation

Taxation is provided for in accordance with the Sultanate of Oman's fiscal regulations.

Deferred taxation is provided using the liability method on all temporary differences at the reporting date. It is calculated at the tax rates that are expected to apply to the period when it is anticipated the liabilities will be settled, and is based on the rates (and laws) that have been enacted at the end of the reporting period.

Deferred tax assets in relation to carry forward losses or timing differences are recognised to the extent that it is probable that future taxable profits will be achieved.

Notes to the financial statements

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Foreign currency transactions

Foreign currency transactions are translated into Omani Rials at the exchange rate prevailing on the transaction date. Foreign currency monetary assets and liabilities are translated into Rials Omani at the exchange rate prevailing at the end of the reporting period. Exchange differences arising are taken to the statement of comprehensive income.

o) Dividend

The Board of Directors recommends to the shareholders the dividend to be paid out of profits. The Directors take into account appropriate parameters including the requirements of the Commercial Companies Law of the Sultanate of Oman, and other relevant directives issued by CMA while recommending the dividend. Dividend distribution to the shareholders is recognized as a liability in the Company's financial statements only in the period in which the dividends are approved by the shareholders.

p) 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 rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provision for decommissioning costs

A provision for future decommissioning costs is recognised, when as a result of activities undertaken, there is a present obligation and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of provision can be measured reliably. The estimated future obligations include the costs of removing the facilities and restoring the affected areas.

The provision for future decommissioning cost is the best estimate of the present value of the expenditure required to settle the decommissioning obligation at the reporting date based on the current requirements as per the sub-usufruct agreement. Future decommissioning cost is reviewed annually and any changes in the estimate are reflected in the present value of the decommissioning provision at each reporting date.

The initial estimate of the decommissioning provision is capitalized into the cost of the asset and depreciated on the same basis as the related asset. Changes in the estimate of the provision for decommissioning is treated in the same manner, except that the unwinding of the discount is recognised as a finance cost rather than being capitalised into the cost of the related asset.

q) Leases

Lessor

Lease income from operating lease where the Company is a lessor is recognised in the statement of income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature.

Notes to the financial statements

5 SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Leases (Continued)

Lessee

From 1 January 2019

The Company leases its office and power plant premises under various leasing arrangements. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices unless it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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. Lease liabilities include (wherever applicable) 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, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Company under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise the option, and
- penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used.

Lease payments are allocated between the principal and interest. The interest is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use asset is measured at cost comprising the following:

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

Right-of-use asset is generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and of low-value assets are recognised on a straight-line basis as an expense in the statement of income.

r) Directors' remuneration

The Company follows the Commercial Companies Law of the Sultanate of Oman, and other latest relevant directives issued by CMA, in regard to determination of the amount to be paid as Directors' remuneration. Directors' remuneration and meeting attendance fees are charged to the statement of comprehensive income in the year to which they relate.

Notes to the financial statements

6 INTANGIBLE ASSETS

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Cost				
At the beginning and end of the year	620	1,612	620	1,612
Depreciation				
At the beginning and end of the year	(620)	(1,612)	(620)	(1,612)
Net book values				
At the end of the year	--	--	--	--

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 ON 31 December 2021.

In terms of the Company's stated policy on intangible assets, the book value of the Natural Gas Reception System of RO 0.62 million (USD 1.61 million) has been classified as intangible asset which has been fully amortised over the initial period of NGSA.

7 PROPERTY, PLANT AND EQUIPMENT

Year 2019	Plant and machinery RO '000	Building and civil works RO '000	Other assets RO '000	Total RO '000	Total USD '000
Cost					
At 31 December 2018	57,728	929	120	58,777	152,821
Additions during the year	585	--	8	593	1,542
At 31 December 2019	58,313	929	128	59,370	154,363
Depreciation					
At 31 December 2018	28,060	349	65	28,474	74,036
Charge for the year	1,584	23	17	1,624	4,221
At 31 December 2019	29,644	372	82	30,098	78,257
Net book values					
At 31 December 2019	28,669	557	46	29,272	76,106
At 31 December 2018	29,668	580	55	30,303	78,785

Notes to the financial statements

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

Year 2018	Plant and machinery RO '000	Building and civil works RO '000	Other assets RO '000	Total RO '000	Total USD '000
Cost					
At 31 December 2017	57,416	929	336	58,681	152,571
Additions during the year	312	--	56	368	957
Disposals during the year	--	--	(272)	(272)	(707)
At 31 December 2018	57,728	929	120	58,777	152,821
Depreciation					
At 31 December 2017	26,451	326	331	27,108	70,483
Charge for the year	1,609	23	6	1,638	4,260
Relating to disposals	--	--	(272)	(272)	(707)
At 31 December 2018	28,060	349	65	28,474	74,036
Net book values					
At 31 December 2018	29,668	580	55	30,303	78,785
At 31 December 2017	30,965	603	5	31,573	82,088

The following further notes apply:

a) The depreciation charge for the year has been allocated as follows:

	2019 RO '000	2019 USD '000	2018 RO '000	2018 USD '000
Operating costs (note 20)	1,607	4,176	1,632	4,243
General and administration (note 22)	17	45	6	17
	1,624	4,221	1,638	4,260

b) Land, on which building and civil works and plant and machinery are constructed, is leased from the Government of Oman for a period of 25 years. The lease agreement expires in the year 2025 and is renewable for a further period upto 25 years [note 8 d)].

c) Capital work in progress are costs attributable towards the upgradation of Continuous Emission Monitoring System, which is awaiting testing and therefore not yet available for use at the end of the reporting period (2018 – upgradation of Continuous Emission Monitoring System).

d) At the end of the reporting period, the Company has assessed whether there is any indication that the property, plant and equipment has been impaired in accordance with IAS 36 'Impairment of assets'. Towards that assessment, the Company appointed an independent technical consultant for the preparation of cash flow models, considering the various scenarios under a wholesale spot market, for the remaining useful life of the project assets after the expiry of the PPA on 31 December 2021.

In estimating the expected future cash flows, the Company has considered the current market conditions and the characteristics of the Company's power plant to continue to supply power to OPWP beyond the existing PPA.

Based on the forecasted cash flows, the Management considers that the Company will be able to recover the carrying value of the property, plant and equipment at 31 December 2019 amounting to RO 29.27 million (USD 76.11 million) [2018 - RO 30.30 million (USD 78.79 million)] [see also notes 4) and 8 b)].

Notes to the financial statements

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

d) (Continued)

The key assumptions forming the basis for the impairment test are as follows:

- Terminal value of the plant has been estimated to be 10% of the initial project cost;
- The discount factor in determining the value in use is 9%; and
- An average inflation of 2.2% has been considered to the base rates.

e) During the year, the Management has reviewed and revised the estimated residual value of plant spares with a carrying value of RO 4.17 million (USD 10. 84 million) at 31 December 2019.

Accordingly, the change in the accounting estimate has resulted in an additional depreciation charge of RO 107,220 (USD 278,772) and a decrease in the profit for the year before taxation by an equivalent amount. The change in residual value will also have an effect on the depreciation and the profit / loss for the future periods.

8 LEASES

Lessor

a) The operating lease, in which the Company is the lessor, relates to the revenue generated from capacity charge which is based on a take-or-pay clause favoring the Company under the PPA, which ends on 31 December 2021.

The present value of minimum lease payments under the PPA does not substantially recover the fair value of the property, plant and equipment at the inception of the lease. The residual risk is therefore borne by the Company on expiry of the PPA.

b) However, the Management believes the unguaranteed residual value of the assets will have substantial value in use at the end of the PPA and the Company will be able to continue to generate adequate revenue beyond 2021. The validity of this assumption is based on the fact that the Company is participating in the Government of Oman's 'Power 2022 Procurement' process which provides an opportunity to obtain an extension to the PPA beyond 2021 and will otherwise be in a position to sell to OPWP on the spot market, if it materializes [see also note 7 d)].

c) At the end of the reporting period, the maturity analysis of the undiscounted lease rentals (investment charge – excluding indexation) to be received under the existing PPA is as follows:

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Year 2020	2,918	7,587	--	--
Year 2021	2,910	7,566	--	--
	5,828	15,153	--	--

Lessee

d) The Company has entered into a leasing agreement with the Government of the Sultanate of Oman for the land on which the power plant, building and other civil works are constructed. The lease term is for a period of 25 years expiring in the year 2025, with an option to extend the lease term upto a further period of 25 years. [note 7 b)].

Notes to the financial statements

8 LEASES (Continued)

e) The right-of-use asset on the above lease arrangement has been recognised as follows:

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Cost				
Arising on adoption of IFRS 16 (note 3.2)	82	213	--	--
At the end of the year	82	213	--	--
Depreciation				
Charge for the year and at the end of the year (note 20)	6	15	--	--
Net book values				
At the end of the year	76	198	--	--

f) At the end of the reporting period, the lease liabilities (present value of discounted payments) are disclosed in the statement of financial position as follows:

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Non-current liabilities	80	209	--	--
Current liabilities	7	18	--	--
	87	227	--	--

g) The contractual maturity analysis of the undiscounted cash flows of the lease liabilities is as follows:

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Upto 1 year	1	3	--	--
Between 1 year to 5 years	22	57	--	--
Above 5 years	126	328	--	--
	149	388	--	--

h) The amounts included in the statement of comprehensive income relating to leases comprise:

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Depreciation (note 20)	6	15	--	--
Interest on lease liabilities	6	16	--	--
Short term lease payments	18	47	14	37

i) The total cash outflow for leases amounted to RO 19,392 (USD 50,419).

9 INVENTORIES

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Liquid fuel	1,152	2,994	1,122	2,917
Maintenance spares and consumables	493	1,282	497	1,293
	1,645	4,276	1,619	4,210

Notes to the financial statements

10 TRADE AND OTHER RECEIVABLES

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Trade receivables	799	2,076	492	1,278
Change of law claim (note 21)	125	325	122	317
Prepayments and other receivables	176	459	670	1741
	1,100	2,860	1,284	3,336

Note:

Trade receivables represent amounts due from a single customer, Oman Power and Water Procurement Company SAOC (OPWP), in respect of capacity and energy charges and are non-interest bearing and are generally on terms of 25 days credit from the submission of invoice [see note also note 26 b)].

11 BANK BALANCES AND CASH

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Call and deposit accounts	1,483	3,856	502	1,306
Other bank balances	237	616	973	2,530
	1,720	4,472	1,475	3,836

Note:

Call deposits are placed with commercial banks in the Sultanate of Oman and earn interest at 0.5% to 3.35% per annum (2018– 0.5% per annum).

12 SHARE CAPITAL

a) The authorized share capital of the Company is RO 25 million comprising 250 million shares of RO 0.100 each (2018 – RO 25 million comprising 250 million shares of RO 0.100 each). The issued and paid up share capital of the Company is RO 9.625 million comprising 96,250,000 shares of RO 0.100 each (2018 - 96,250,000 shares of RO 0.100 each)

b) The details of shareholders who own 10% or more of the Company's share capital are as follows:

		2019 and 2018
	%	No. of shares
National Power Al Kamil Investment Limited	48.74	46,915,930
Al Kamil Investments Limited	16.25	15,640,630

The above shareholders, representing 65% of the share capital, are registered in the United Kingdom and are subsidiaries of Engie (formerly GDF Suez).

13 LEGAL RESERVE

In accordance with Article 132 of the Commercial Companies Law of Oman, annual appropriation of 10% of the net profit for the year is to be made to the legal reserve until the reserve equals one third of the Company's capital. The reserve is not available for distribution but can be utilized to set off against any accumulated losses and increasing the Company's capital by issuing shares.

No transfer has been made in the current year as the Company has already achieved the minimum amount required in the legal reserve in an earlier period.

Notes to the financial statements

14 RELATED PARTY TRANSACTIONS

a) The Company enters into transactions in the ordinary course of business with the Directors, shareholders and entities in which certain Directors or shareholders of the Company have significant influence or control. Prices and terms of payment for these transactions are approved by the Directors. The nature and volume of significant related party transactions were as follows:

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Operating costs	1,624	4,221	2,180	5,668
General and administration	80	208	119	309
Directors' remuneration	12	31	24	62
Directors' meeting attendance fees	17	44	20	52

b) The compensation paid to key management personnel for the year comprises:

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Short term employment benefits	129	335	124	323
Employees' end of service benefits	6	15	6	15
	135	350	130	338
Number of key management personnel	3	3	3	3

c) Amounts due to related parties are repayable on demand and are not subject to interest (2018 – similar terms).

d) During the year, the 5 directors earned an aggregate amount of RO 12,000 (USD 31,200) [2018 - RO 24,000 (USD 62,400)] in respect of director's remuneration. The Directors' remuneration, meeting attendance fees and other related party transactions are subject to shareholders' approval at the forthcoming Annual General Meeting.

15 PROPOSED AND PAID DIVIDENDS

a) During the year, the Company paid cash dividend of 40% for the year 2018 amounting to RO 3.85 million (RO 0.040 per share) (2018 - cash dividend of 25% for the year 2017 amounting to RO 2.41 million [RO 0.025 per share]).

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

- upto 35% (upto 35 baiza per share) from the retained earnings as at 31 December 2019, to the shareholders registered with Muscat Clearing and Depository Company SAOC as at 31 May 2020 (2018 – upto 20% from the retained earnings as at 31 December 2018 for shareholders registered as at 31 May 2019); and

- upto 20% (upto 20 baiza per share) from the retained earnings as at 31 December 2019, to the shareholders registered with Muscat Clearing and Depository Company SAOC as at 30 November 2020 (2018 – upto 20% from the retained earnings as at 31 December 2018 for shareholders registered as at 30 November 2019).

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

c) During the year, an amount of RO 1,634 (USD 4,284) relating to unclaimed dividends for the year 2018 has been settled by transfer of funds to the Investors' Trust Fund of the CMA [2018 – RO 1,267 (USD 3,294)].

Notes to the financial statements

16 BANK BORROWINGS

The Company has approved credit facilities sanctioned from a local commercial bank and carries interest at commercial rates when availed. The interest rates on the facilities are subject to re-negotiation with the bank upon renewal of the facility, which generally takes place on an annual basis.

17 PROVISION FOR DECOMMISSIONING COSTS

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
At the beginning of the year	72	187	72	187
Capitalized during the year [note c) below]	93	242	--	--
Unwinding of discount (note 22)	3	8	--	--
At 31 December 2019	168	437	72	187

The following further notes apply:

a) 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, demobilize, safeguard and transport the assets, eliminate soil and ground water contamination, fill all excavation and return the surface to grade of the designated areas.

b) The provision for decommissioning costs represents the present value of the Management's best estimate based on technical consultant's 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.

c) During the year, the Company engaged a technical consultant to re-assess the existing provision for decommissioning cost. Based on the consultant's report, the provision during the year has been increased by an amount of RO 93,102 (USD 242,065).

18 TRADE AND OTHER PAYABLES

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Trade payables	273	703	--	--
Creditors for capital purchases	58	150	58	150
Accruals and other payables	99	257	328	848
	430	1,110	386	998

Notes to the financial statements

19 REVENUE

	2019 RO '000	2019 USD '000	2018 RO '000	2018 USD '000
Capacity charge:				
- Operating lease income investment charge [note b)]	2,924	7,602	2,922	7,597
- Fixed operation and maintenance charge and others [note c)]	3,508	9,122	3,468	9,017
	6,432	16,724	6,390	16,614
Energy charges [note c)]	893	2,322	6,318	16,426
	7,325	19,046	12,708	33,040

The following further notes apply:

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

b) Capacity charge covering the investment charge is recognized on straight line basis over the lease term to the extent that capacity has been made available based on contractual terms of PPA and is accounted in accordance with IFRS 16 'Leases'.

c) Fixed operation and maintenance, energy (fuel charge and variable operation and maintenance charge) and other charges is treated as revenue in accordance with IFRS 15 'Revenue from contracts with customers'.

20 OPERATING COSTS

	2019 RO '000	2019 USD '000	2018 RO '000	2018 USD '000
Fuel costs	828	2,155	5,718	14,867
Operation and maintenance charges	2,004	5,210	2,305	5,993
Depreciation [note 7 a)]	1,607	4,176	1,632	4,243
Depreciation on right-of-use asset [note 8 h)]	6	15	--	--
	4,445	11,556	9,655	25,103

21 OTHER INCOME

	2019 RO '000	2019 USD '000	2018 RO '000	2018 USD '000
Interest income	34	88	--	--
Change of law claim (refer note below)	144	375	251	653
	178	463	251	653

Note:

As per the Royal Decree 9 / 2017, income tax rate applicable on the Company has been increased from 12% to 15%. The increase falls under the provisions of material adverse change under the PPA agreement of the Company. Majority of the claim for change of law pertains to the Company recovering the incremental tax as per the PPA agreement.

Notes to the financial statements

22 GENERAL AND ADMINISTRATION

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Salaries and employee related costs [refer note a) below]	186	484	178	463
Legal and professional fees	68	177	122	317
Directors' meeting expenses	23	60	29	77
Social development costs	20	52	20	52
Office rent	18	47	14	37
Depreciation [note 7 a)]	17	45	6	17
Directors' remuneration	12	31	24	62
Share registration fees	12	31	12	30
Utilities	10	26	8	20
Bank charges	6	15	8	21
Unwinding of discount (note 17)	3	8	--	--
Travelling	1	2	2	4
Miscellaneous	33	86	33	86
	409	1,064	456	1,186

The following further notes apply:

a) Salaries and employee related costs includes the following:

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Salaries and wages	168	437	161	419
Contributions to defined contributions plan for Omani employees	7	17	6	16
Cost of end of service benefits for expatriate employees	3	9	3	8
Other employee related costs	8	21	8	20
	186	484	178	463

b) The movement in expatriate employees' end of service benefits liability during the year is as follows:

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
At the beginning of the year	12	31	9	23
Expense for the year	3	9	3	8
At the end of the year	15	40	12	31

Notes to the financial statements

23 TAXATION

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Statement of comprehensive income				
Current taxation				
Current year	579	1,505	602	1,565
Prior year tax credit [refer note c) below]	(1,329)	(3,455)	--	--
Deferred tax credit	(167)	(434)	(173)	(450)
Taxation (credit) / charge	(917)	(2,384)	429	1,115
Statement of financial position				
Current assets				
Tax refund due [note c)]	152	395	--	--
Non-current liabilities				
Deferred tax liability	3,302	8,585	3,469	9,019
Current liabilities				
Current year	--	--	602	1,565
Prior year	4	11	--	--
	4	11	602	1,565

The following further notes apply:

a) The Company is subject to tax at 15% (2018 – 15%) on the profit for the year adjusted for tax purposes.

b) 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 September 2007.

c) The Management had requested the Tax Authority (Authority) 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 Authority 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 (ITC) confirmed the position taken by the Taxation 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. On 15th January 2019, the Supreme Court issued a final judgment for the years 2008 to 2012 deciding to overrule the Appeals court and confirmed the Company's right to indefinitely carry forward the losses incurred during the exemption period until its final settlement.

By virtue of this decision, the Taxation Authority accorded a tax credit of RO 1,329,026 (USD 3,455,468) which the Company has recognized as tax credit during the year. The tax liability amounting to RO 598,441 (USD 1,555,947) as per the Final Return of Income for the year 2018 and the estimated tax liability for the year 2019 amounting to RO 578,993 (USD 1,505,382) was adjusted against this credit and the balance of RO 151,592 (USD 394,139) is reflected as 'tax refund due' under current assets.

Notes to the financial statements

23 TAXATION (Continued)

d) The tax assessments for the years 2014 to 2018 have not been finalized by the Taxation Authority. The Management believes that the tax assessed, if any, for the unassessed tax years would not be material to the Company's financial position at the end of the reporting period.

e) The reconciliation of taxation on the accounting profit with the current taxation charge for the year is as follows:

	2019		2018	
	RO '000	USD '000	RO '000	USD '000
Tax charge on accounting profit at applicable rates	413	1,074	427	1,111
Add tax effect of:				
Depreciation	161	419	173	450
Others	5	12	2	4
	579	1,505	602	1,565

f) At the end of the reporting period, the deferred tax liability in the statement of income primarily relates to accelerated capital allowances.

24 BASIC EARNINGS PER SHARE

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

	2019		2018	
	RO'000	USD '000	RO'000	USD '000
Net profit for the year	3,560	9,257	2,419	6,289
Weighted average number of shares outstanding during the year ('000)	96,250	96,250	96,250	96,250
Basic earnings per share	0.037	0.10	0.025	0.07

25 NET ASSETS PER SHARE

Net assets per share is calculated by dividing the net assets at the end of the reporting period by the number of shares outstanding as follows:

	2019		2018	
	RO'000	USD '000	RO'000	USD '000
Net assets	29,754	77,364	30,044	78,117
Number of shares outstanding as at 31 December ('000)	96,250	96,250	96,250	96,250
Net assets per share	0.309	0.80	0.312	0.81

Notes to the financial statements

26 FINANCIAL RISK AND CAPITAL MANAGEMENT

The Company's activities expose it to financial risks, primarily being, market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The risk management is carried out internally in accordance with the policies approved by the Board of Directors.

a) Market risk

Currency risk
The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar. The Company has negotiated, with its bank, a fixed rate of exchange with respect to USD. Hence, the Management does not believe that the Company is exposed to any material currency risk.

Interest rate risk
The Company is exposed to interest rate risk on its interest-bearing assets (bank balances) and liabilities (lease liabilities). However, the net impact of any reasonable fluctuation in the interest rates, is not expected to be material to the Company's financial position at the end of the reporting period.

b) Credit risk

Credit risk primarily arises from credit exposure to a customer, including outstanding receivable and any bank balances held with commercial banks.

Trade receivables

The Company seeks to control credit risk by monitoring the credit exposure on an ongoing basis. The carrying value of trade and other receivables approximate their fair values due to the short-term nature of those receivables.

The credit exposure of accounts receivable is further analyzed as follows:

- The entire trade receivable was from a Government owned company (OPWP) (2018 – entire trade receivable from OPWP).
- At the end of the reporting, an amount of RO 266,328 (USD 692,453) is past due but not impaired (2018 – nil).

Expected credit losses (ECL)

The Company uses a single rate valuation method to calculate ECLs for trade receivables since the historical data is not representative and there have been insignificant credit losses in the past. The default rates are based on those provided by an external credit rating agency for industry and country wise default rates and adjusted for forward-looking factors specific to the economic environment in the Sultanate of Oman. Under the ECL model, the impairment of trade receivables does not have a material impact on the financial statements.

Bank balances

Credit risk from bank balances maintained in call and current account deposits with local commercial banks is managed by ensuring balances are maintained with reputed banks only. The ECL on bank balances are not expected to be material to the Company's financial position at the end of the reporting period and have accordingly not been provided.

Notes to the financial statements

26 FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

c) Liquidity risk

The Company manages liquidity risk by monitoring cash flows and ensuring that adequate funds are available including unutilized credit facilities to meet its obligations as they fall due. The financial liabilities are payable within 6 months from the end of the reporting period.

d) Capital management

The Company's objectives when managing capital is to enable the entity to continue as a going concern, so that it can continue to provide adequate returns to the Members. There are externally imposed capital requirements binding on the Company. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to the shareholders, return capital to shareholders or raise additional capital.

27 COMMITMENTS

At the end of the reporting period, the outstanding capital commitments amounted to approximately RO 10,889 (USD 28,311) [2018 - RO 8,000 (USD 20,800)].

28 COMPARATIVES

Comparatives have been regrouped or reclassified, wherever necessary, in order to conform to the presentation adopted in these financial statements.