OMAN POWER AND WATER PROCUREMENT COMPANY
S.A.O.C.

الشركة العمانية لشراء الطاقة والمياه (ش.م.ع.م)
OMAN POWER AND WATER PROCUREMENT CO. (SAOC)

إحدى شركات مجموعة نماء
Member of Nama Group

ANNUAL REPORT 2018

ISO 9001
BUREAU VERITAS
Certification

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OMAN POWER AND WATER PROCUREMENT CO. (SAOC)
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HIS MAJESTY SULTAN QABOOS BIN SAID

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GLOSSARY

AER	Authority for Electricity Regulation, Oman
BSR	Bulk Supply Revenue
BST	Bulk Supply Tariff
COD	Commercial Operation Date
DGC	Dhofar Generating Company
DGW	Directorate General of Water (in the Office of the Minister of State and Governor of Dhofar)
DPC	Dhofar Power Company (SAOC)
DPS	Dhofar Power System
EHC	Electricity Holding Company
GCCIA	Gulf Cooperation Council Interconnection Authority
GWh	GigaWatt Hour (1,000 MegaWattHours)
GPDC	Al Ghubrah Power and Desalination Company (SAOC)
IAS	International Accounting Standard
IPP	Independent Power Project
IWP	Independent Water Project
IWPP	Independent Water and Power Project
kWh	Kilowatt Hour(s)
m3	Cubic Metre(s)
MCM	Million Cubic Metre
MEDC	Muscat Electricity Distribution Company (SAOC)
MIGD	Million Imperial Gallons per day
MIS	Main Interconnected System
MISC	Majis Industrial Services Company (SAOC)
MJEC	Majan Electricity Company (SAOC)
MOG	Ministry of Oil and Gas
MWh	Megawatt Hour
MZEC	Mazoon Electricity Company (SAOC)
NGSA	Natural Gas Supply Agreement
OCGT	Open-Cycle Gas Turbine
OETC	Oman Electricity Transmission Company (SAOC)
OOCEP	Oman Oil Company Exploration & Procedure
OMR	Omani Rial
OPWP	Oman Power and Water Procurement Company (SAOC)
PAEW	Public Authority for Electricity and Water
PDO	Petroleum Development Oman (LLC)
PPA	Power Purchase Agreement
TWh	Terawatt-hour
QHSE	Quality, Health , Safety , and Environment
PWPA	Power and Water Purchase Agreement
RAEC	Rural Areas Electricity Company (SAOC)
RFP	Request for Proposal
RO	Reverse Osmosis (desalination technology)
RE	Renewable Energy
SSPWC	Sembcorp Salalah Power and Water Company
Sm3	Standard cubic metre(s)

1.1 BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

BOARD OF DIRECTORS

MR.
HAMDAN BIN ALI AL HINAI

CHAIRMAN OF THE BOARD

Other position :
Director General of Purchasing & Contracts, Ministry of Defence

MR.
ABDULAZIZ AL SHIDHANI

DEPUTY CHAIRMAN OF THE BOARD

Other position:
General Manager of Planning & Assets at the Public Authority for Electricity & Water (PAEW)

MS.
HANAN ASKALAN

MEMBER OF THE BOARD

Other position:
Managing director of AlDayeen Consulting, and serves as a member of the national innovation strategy committee, an advisor on technology and innovation for the World Bank

MR.
HUSSAIN AL BALUSHI

MEMBER OF THE BOARD

Other position:
Group Chief Financial and Strategic Planning Officer, Oman Aviation Group

MR.
OSAMA YOUNES

MEMBER OF THE BOARD

Other position:
Financial Expert at the Ministry of Finance

EXECUTIVE MANAGEMENT

MR.
YAQOOB BIN SAIF AL KIYUMI

CHIEF EXECUTIVE OFFICER

MR.
ANDREW RAE

CHIEF OPERATING OFFICER (ACTING)

ABOUT US

1.2 CHAIRMAN'S FOREWORD

Dear Shareholders,

On behalf of the members of the Board, I have the pleasure in presenting the Board Report of Oman Power and Water Procurement Company SAOC for the year 2018.

The year 2018 was another challenging but successful year for OPWP with the company accomplishing number of major initiatives, including:

- Commissioned Barka IV IWP project with a production capacity of 281,000 m^3/day by Barka Desalination Company in June.
- Commissioned Salalah II IPP with a production capacity of 445MW by Dhofar Generation Company in January.
- Released Request for Proposal (RFP) for Ibri II Solar IPP to the market in June and received bidders' proposals in November.
- Released Request for Qualification (RFQ) for Clean Coal IPP to the market in April.
- Released Request for Offer (RFO) for water capacity from Barka 1 RO Plants in May.
- Released Request for Existing Plant Pre-Qualifications (REPPQ) for Power 2022 in June as an implementation of the new procurement strategy for power and related water projects that involve existing generators.
- Received approval from the AER for the Techno Economic Study for Oman's first Waste to Energy IPP in December.
- Completion of the prequalification process for Al Ghubrah III IWP.
- Completed RFQ for Barka V and North Al Batinah IWPs in August.
- Development of Renewable Strategy (road map) to achieve national set target for fuel diversification.
- Implementation of the initial stage of lean management system across OPWP.
- Awarded the contract for the development of Market Management System.

Financial Highlights

Financial accounts continue to be materially affected by changes in the accounting treatment of its Power and Water Purchase Agreements in line with recommendations by its auditors to comply with International Accounting Standards. OPWP has booked a net loss before tax of OMR 1.734 million. Since the company continues to have a negative equity, dividend is not proposed.

Corporate Governance

It is essential to highlight the fact that the Board is committed to the highest standards of corporate governance. In order to facilitate efficient and effective management, the Audit Committee oversees the internal controls and risk management with the help of independent internal auditors.

I can confirm that there are adequate internal control systems in place within the company to protect the interest of the shareholders and other stakeholders.

2019 Key Priorities

OPWP look forward to 2019 several key priorities and projects which include the following:

- Continue improving the Quality, Health & Safety and Environment function within the company.
- Ensure the successful development and implementation of new projects.
- Commissioning of Ibri and Sohar III IPPs with combined capacity of 3200 MW.
- Commissioning of Dhofar Wind power plant with a production capacity of 50MW.
- Initiate procurement process of Oman's first Waste to Energy IPP.
- Initiate procurement of a number of water projects such as Masirah and Dhofar 2023 IWPs.
- Award of IbriII Solar IPP with a capacity of 500 MW.
- Initiate procurement process for second batch of Solar IPPs (Solar IPP 2022/2023).
- Implementation of wind resource assessment on selected sites for data collection.
- Initiate the procurement process for the contracts expiring in year 2024.
- Overseeing the implementation of Market Management System.

General

During 2018, Moody's Investors Service downgraded their rating from Baa2 with a negative outlook to Baa3 with a negative outlook. The downgrade is mainly due to downward pressure in oil prices, which has a negative impact on the assessment of Oman's fiscal and external positions. Such review followed in line with the outlook for Oman nationally and did not represent any OPWP specific issue.

I want to express my sincere gratitude to the Members of the Board of Directors, Executive Management and Company employees whose commitment and dedication have enabled us to have yet another successful year. I am confident that their relentless hard work will continue to drive success for the year 2018. I would also like to thank the Electricity Holding Company, Public Authority for Water, Authority for Electricity Regulation and other affiliated Government agencies and sector companies for their on-going support. I would like to extend my appreciation to our Generators and Customers for their contribution to our accomplishments this year.

Finally, on behalf of the Board Members, the Executive Management and the Company Staff, I take this opportunity to confirm our utmost allegiance and devotion to His Majesty Sultan Qaboos Bin Said and His Majesty's Government for their continuous guidance and relentless support in the pursuance of the development and improvement of both the Electricity and Water Sectors in the Sultanate.

Hamdan bin Ali Al Hinai
Chairman of the Board of Directors

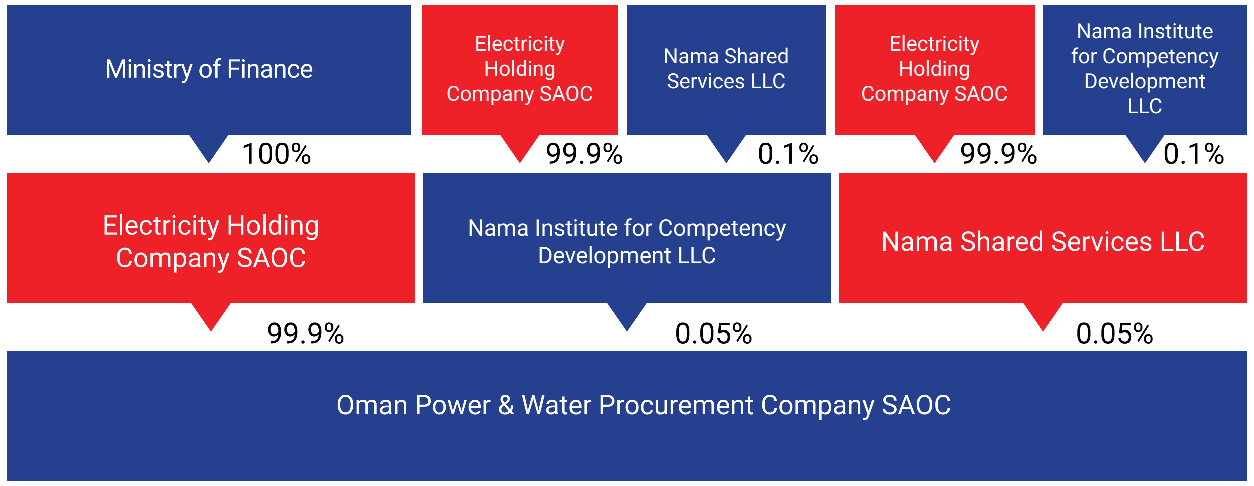
1.3 COMPANY PROFILE

1.3.1 SHAREHOLDERS' STRUCTURE:

Oman Power and Water Procurement Company SAOC (a member of Nama Group) was established as a closed joint stock company (SAOC) in 2003. The Law for the Regulation and Privatization of the Electricity and Related Water Sector (the Sector Law) issued by Royal Decree no. (78/2004) states the functions and duties of the Company. The Transfer Scheme issued pursuant to the Sector Law gave effect to the transfer of electricity and related water activities from the Ministry of Housing, Electricity & Water (MHEW) to the newly established companies in accordance with the functions set for each company. The Transfer Scheme came into effect from 1 May 2005.

The Company was formed with a capital of OMR 500,000 (Five Hundred Thousand Omani Rials) divided into five hundred thousand shares, each with a nominal value of one Omani Rial. The company is wholly owned by the Government of the Sultanate of Oman with 99.99% of the Company's shares held by the Electricity Holding Company on behalf of the Government and

Figure 1 - shareholder's Structure



1.3.2 LICENCED ACTIVITIES:

The Company is carrying out the following activities as stated in its licence and in accordance with the Sector Law promulgated by Royal Decree 78/2004 as amended by Royal Decree 59/2009 and Royal Decree 47/2013:

- to secure New Capacity and Output to enable it to comply with its duties under the Sector Law and its Licence;
- to contract for production Capacity and Output to enable it to comply with its obligations under the Sector Law and its Licence;
- to purchase and procure water Desalination Production Capacity and Output in accordance with Articles (74) to (81) of the Sector Law and its Licence;
- to forecast demand for electricity within the Sultanate of Oman in accordance with the Sector Law and its Licence;

• to the extent that it is permitted to do so by the Sector Law and its Licence, to Import electricity;

• to the extent that it is permitted to do so by the Sector Law and its Licence, to Export electricity;

• to Bulk Supply electricity to Licensed Suppliers and to charge a Bulk Supply Tariff for such Bulk Supply;

• to Bulk Supply Desalinated water from Production Facilities which are subject to a contract with it to Water Departments and to charge a Bulk Supply Tariff for such Bulk Supply;

• to sell demineralised water to Persons other than Water Departments;

• to procure Ancillary Services as required by the Sector Law and its Licence;

• to purchase and procure supplies of fuel for delivery to Licence Holders; and

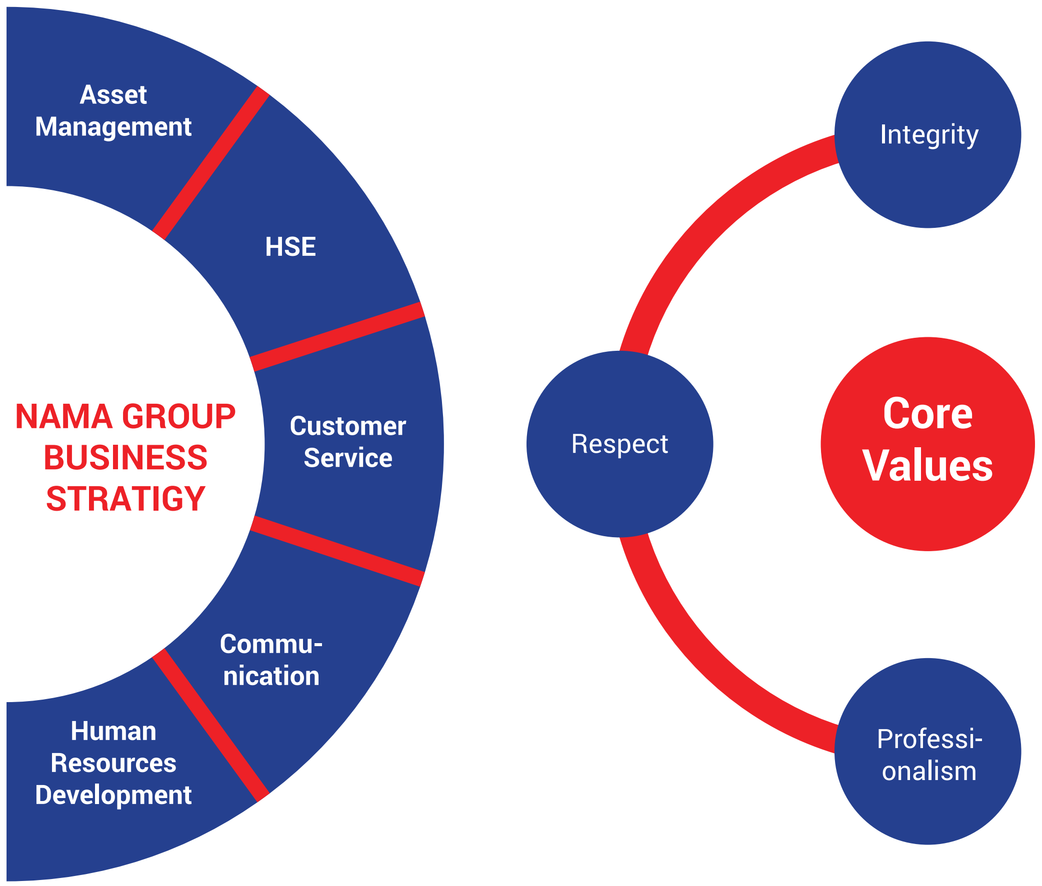
• to carry out any other function assigned to it by the Sector Law.

1.4 COMPANY'S STRATEGY

1.4.1 NAMA GROUP BUSINESS STRATEGY AND SHARED VALUES

The Company Business strategy is aligned with the Nama Group Business Strategy, which focuses on five key elements as illustrated below. Similarly, the Company embraces the shared values of NamaGroup.

Figure 2 - Nama Group Business Strategy and Shared Values



1.4.2 VISION AND MISSION STATEMENTS

Figure 3 - Vision & Mission statements

1.4.3 STRATEGIC OBJECTIVES

Reliability:
• Ensure adequate and reliable Power Capacity
• Ensure adequate and reliable Desalinated Water Capacity
• Diversity of Energy Resources
• Respond over variation in power demand

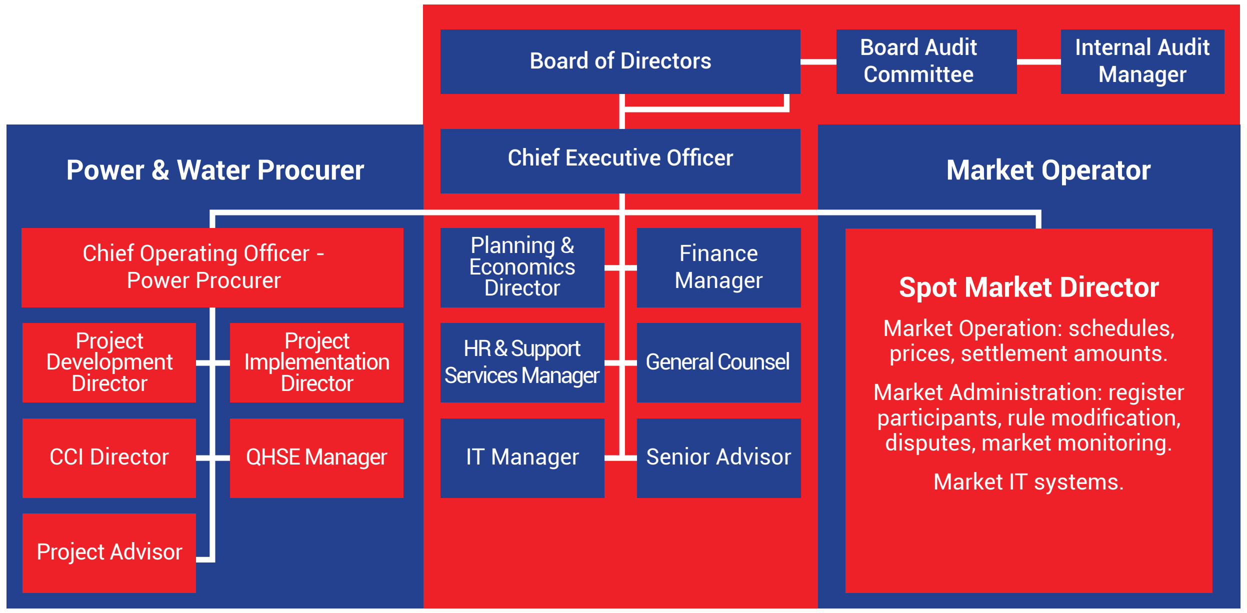
Cost Efficiency:
• Reduce economic cost of Power
• Reduce economic cost of Water

Sustainability:
• Develop and maintain pool of competent Omanis/advisors
• Improve Quality, Health and Safety

1.5 ORGANIZATION STRUCTURE & FUNCTIONS

1.5.1 OPWP HAS CONFIGURED ITS ORGANIZATION STRUCTURE TO IMPLEMENT THE STRATEGIC OBJECTIVES AND INITIATIVES MOST EFFICIENTLY AND EFFECTIVELY.

Figure 4 - OPWP's Organisation Structure



1.5.2 Core Functions:

• Planning & Economics:

The Planning and Economics (PE) department is responsible for forecasting demand for electricity, planning for new capacity and output to meet the generating security planning standard as set out in the OPWP licence, forecasting gas requirements, as well as determining and publishing the Bulk Supply Tariffs for Electricity and Water. The department conducts various strategic studies to meet its forecasting and planning needs, and also provides support to the government on related policy matters.. Based on the direction of the PE department, the project development department initiates the development of the project.

• Project Development:

The Project Development department is responsible for developing the requirements of power generation and water desalination projects, and conducts "fair and transparent" competition open to local and foreign investors for the supply of required capacity and ensuring that all relevant contracts are in placeprior to the project moving to the implementation phase.

• Project Implementation:

The Project Implementation department is responsible for overseeing the project implementation and ensuring that the projects have been delivered as per the specifications in a safe and timely manner. The team monitors the project implementation by way of site visits, HSE inspection, review of project progress reports, meetings with the project team to assess the progress, and escalates critical issues. The team also provides support in obtaining approval and consent from various government departments during the implementation.After the achievement of commercial operation, the project documents are handed over tothe Contracts department to manage the contracts for the remaining life of the contract.

• Client Contracts & Interface department

The Client Contracts & Interface (CCI) department is responsible for managing all the PPA/WPA/PWPA's throughout the life of the contract, once it is handed over by the PI department. Apart from reviewing and certifying the monthly invoices of the Generators, it monitors plant performance to ensure that the generators discharge their obligations under the respective agreements and witness performance tests on an annual basis. Also, the department acts as an intermediary between the Generators and other related entities such as Public Authority for Electricity and Water (PAEW), Ministry of Gas (MOG), Ministry of Environment and Climate Affairs, Oman Electricity Transmission Co. (OETC) as and when required.

• Spot Market

The core scope of the Spot Market Department is to develop the arrangements to implement a daily spot market for electricity in the Main Interconnected System (MIS). The development is expected to take several years and consists of (a) drafting the market rules and associated regulatory documents, (b) developing Information, Communication and Technology (ICT) systems to operate and settle the market, (c) ensuring the development of OPWP's staff capability to operate the market, and (d) coordinating with other stakeholders in their preparations for the spot market. The objective is to pilot the Spot Market in late 2020 before it can go live during 2021.

1.5.3 Support Functions:

• Finance& Accounting:

The Finance Department oversees the accounting and finance functions of the company. It is responsible for ensuring that the company maintains adequate cash-flows to meet its obligations under the contracts. It is also responsible for business planning, price control, budgeting and management reporting. It produces various reports such as statutory accounts, regulatory accounts to meet its legal and licence requirements.

• Regulatory and Compliance:

Regulatory and Compliance support ensures that the company is fully compliant with licensing conditions and all legal requirements of the business

Also, the department manages the legal issues related to P(W)PAs and actively engages with the counterparties to resolve pending disputes. They also provide support to the PD department during the project development phase, and to PI and CCI departments in managing the agreements, as and when required. The department also oversees the centralised procurement function in the company.

• Human Resources & Support Services:

The HR Department's key responsibility is to focus on HR issues such as recruitment, training & development, Omanisation policy and initiatives, payroll and employee performance. Also, the department is responsible for administration, document control and IT function.

• QHSE& Risk Management:

The scope of QHSE function is not limited to OPWP staff but extends to projects under construction and existing generators concerning HSE. The department's role, in coordination with relevant entities, is to review and update HSE policies and procedures, develop HSE audit plan, arrange/conduct audits, identify improvement opportunities and report to the Management. With respect to quality, the Department ensures that the Quality Management System is implemented effectively complying with ISO 9001:2015. The department is also responsible for managing the Enterprise Risk Management process by reviewing it periodically and reporting it to the Audit Committee.

BUSINESS REVIEW

2.1 SIGNIFICANT ACHIEVEMENTS OF THE YEAR 2018

During 2018, the Company was engaged in a number of key projects and strategic initiatives, of which the significant achievements are summarized below.

- **Barka IV IWP :** Barka IV IWP owned by Barka Desalination Company (BDC) achieved the commercial operation in June 2018. The Plant has added a contracted desalination water capacity of 281,000 m3/day (62 MIGD) using RO technology.
- **Salalah II IPP :** Salalah II IPP owned by Dhofar Generation Company (DGC) achieved commercial operation in January 2018, adding 445 MW of contracted capacity to the Dhofar Power System (DPS).
- **Ibri II Solar IPP :** OPWP has released Request for Proposal (RFP) for Ibri II Solar IPP to the market in June 2018 and received bidders' proposals in November 2018.
- **Clean Coal IPP :** TheRequest for Qualification (RFQ) for Clean Coal IPP was released to the market in April 2018.
- **Extension of Barka I RO Plants :** OPWP has initiated and concluded the process of Request for Offer (RFO) for water capacity from Barka 1 RO Plants during 2018.
- **Power 2022 :** As an implementation of the new procurement strategy for power and related water projects which involves existing generators, OPWP released Request for Existing Plant Pre-Qualifications (REPPQ) in

June 2018.
- **Waste to Energy IPP :** As part of the fuel diversification OPWP has completed in collaboration with Be'ah a Techno-Economic Study for Oman first Waste to Energy IPP. The outcome of the study is approved by AER in December 2018..
- **Al Ghubrah III IWP :** the prequalification process to develop 300,000 m3/day desalination plant at Al Ghubrah is completed in August 2018.
- **Barka V and North Al Batinah IWPs :** OPWP has completed the process of prequalification for Barka V IWP (with a capacity of 100,00 m3/day) and North Al Batinah IWP (with a capacity of 150,000 m3/day) in November 2018.
- **Electricity Spot Market :** OPWP is currently working to establish a wholesale electricity spot market. The market is scheduled to begin commercial operation late in 2020. The spot market for electricity will operate alongside the existing system of long-term PPAs and PWPAs. The market rules are largely modelled on those that have been developed in other countries with certain modifications relevant to Oman. Following the development of detailed market rules for the market, OPWP is currently establishing a dedicated Market Operator department, and is developing a Market Management System to operate the market.

2.2 2019 KEY PRIORITIES

2.2.1 STRATEGIC INITIATIVES

• **Contract Extensions :** OPWP expects to complete negotiations with owners of Barka I and Al Kamil plants for the proposed extension of power and water purchase contracts in 2017, that would otherwise expire in the next few years.

• **Renewable resources initiatives :** OPWP has completed Waste to Energy Tecno-Economic feasibility study and submitted for approvals. OPWP is planning to develop a Renewable Development Strategy (road map) and obtain approvals from the relevant authorities. OPWP has kicked-off implementing wind resource assessment on selected sites for data collection.

• **Secure GCCIA Member Benefits:** there are several expected benefits of the interconnection include firm support during emergencies, and opportunities to trade electricity and coordinate both planning reserves and operating reserves. The interconnection is a double circuit link that supports reliable transfers of up to 400 MW and can carry up to 800 MW in emergencies. The link has provided emergency reserves on a number of occasions, preventing power failures in the MIS. In 2016, AER approved OPWP's recognition of the interconnects contribution to planning reserve requirements, based on its record of performance and the contractual obligations with the GCCIA to provide reserves support. OPWP has completed energy exchanges with Abu Dhabi Transco in 2016 and 2018, for net fuel savings at no cost. Further trading opportunities with GCCIA neighbors are expected in coming years.

2.2.2 PROJECTS UNDER IMPLEMENTATION

• **Sohar IWP :** OPWP signed a Water Purchase Agreement (WPA) and related project documents with Myah Gulf Oman Desalination Company (MGODC) (a consortium of Valoriza Agua, Sogex Oman LLC and Oman Brunei Investment Company). MGODC will build, own and operate an Independent Water Project (IWP) located in Sohar and it is scheduled to deliver around 55 MIGD (250,000 m³/day) of potable water through seawater reverse osmosis desalination from third quarter 2019. Upon achieving commercial operation, potable water will be purchased by OPWP under the 20-year long-term WPA.

• **Qurayyat IWP :** OPWP signed a Water Purchase Agreement (WPA) and related project documents with Qurayyat Desalination SAOC (QDC), a company formed by Modern Channels Service of Oman and Hyflux Ltd of Singapore. QDC will build, own and operate the Independent Water Project (IWP) in Qurayyat in the Governorate of Muscat and is scheduled to deliver around 44 MIGD (200,000 m³/day) of potable water through seawater reverse osmosis desalination. The Plant is already supplying Pre-COD water capacity to PAW.

• **Salalah III IWP :** On 7th of December 2017, OPWP signed a Water Purchase Agreement (WPA) and related project documents with Dhofar Desalination Company (DDC) (a consortium of Acwa Power, Veolia Middle East, and Dhofar International Development and Investment Holding (DIDIC)). DDC will build, own and operate an Independent Water Project (IWP) located in Salalah and it is scheduled to deliver around 25 MIGD (113,650 m³/day) of potable water through seawater reverse osmosis desalination by fourth quarter 2020. Upon achieving commercial operation, potable water will be purchased by OPWP under the 20-year long-term WPA.

• **Sharqiyah IWP :** On 7th of December 2017, OPWP signed a Water Purchase Agreement (WPA) and related project documents with Al Asilah Desalination Company (ADC) (a consortium of JGC Cooperation Agua, United Infrastructure Development Company LLC and Doosan Heavy Industries & Construction Company). They will build, own and operate an Independent Water Project (IWP) located in Aseelah (AL Sharqiyah region) and it is scheduled to deliver around 17.6 MIGD (80,000 m³/day) of potable water through seawater reverse osmosis desalination from second quarter 2021. Upon achieving commercial operation, potable water will be purchased by OPWP under the 20-year long-term WPA.

• **Ibri IPP :** On 1st March 2016, OPWP signed a Power Purchase Agreement (PPA) and related project documents with Ad Dhahirah Generation Company (ADGC) (a consortium of ACWA Power, Mitsui, and Dhofar International Development and Investment Holding (DIDIC)). ADGC will build, own and operate an Independent Power Project (IPP) located in Ibri. This project scheduled to add a capacity of 1509 MW to the grid by the second quarter of 2019. Upon achieving commercial operation, power will be purchased by OPWP under the 15-year long-term PPA.

• **Sohar IV IPP :** On 1st March 2016, OPWP signed a Power Purchase Agreement (PPA) and related project documents with Shinas Generation Company (SGC) (a consortium of Acwa Power, Mitsui, and Dhofar International Development and Investment Holding (DIDIC)). SGC will build, own and operate an Independent Power Project (IPP) located in Sohar. This project is scheduled to add a capacity of 1710 MW to the grid by the second quarter of 2019. Upon achieving commercial operation, power will be purchased by OPWP under the 15-year long-term PPA.

• **Dhofar Wind IPP :** OPWP signed a Power Purchase Agreement (PPA) and related project documents with RAECO (Tanweer) (this project is a result of the joint development agreement that was established between Masdar and the Rural Areas Electricity Company of Oman (RAECO)). They will build, own and operate an Independent Power Project (IPP) located 100km NE of Salalah, 60km East of Thumrait. This project is scheduled to add 49.4 MW to the grid by the third quarter of 2019. Upon achieving commercial operation, power will be purchased by OPWP under the 15-year long-term PPA.

2.2.3 Projects under Development

• **Solar IPPs :** With a view to exploit the vast solar energy potential in Oman and also to meet the renewable energy targets of the Country, OPWP has undertaken the procurement process for setting up a 500MW Solar Independent Power Project at IBRI, Oman on similar lines as per Oman's well established I(W)PP program. The request for proposals for the project have been released to the pre-qualified bidders in June 2018 and bids were received in November 2018. The award for the project is expected by March 2019 and the commercial operation date is anticipated to be June 2021. This will be the first of a series of Solar IPP which is expected to be launched by OPWP in the years to come.

Similar Solar IPPs with a capacity between 500 to 1000MW are planned for implementation

having scheduled commercial operations in the year 2022, 2023 and 2024.
The procurement process for Solar 2022 will be initiated by OPWP by Q2, 2019.

• **Waste to Energy IPP :** OPWP undertook a techno-economic feasibility study for exploring the possibility of developing a Water to Energy ("WTE") Power Project in Oman. The feasibility report carried out by OPWP concluded that it is feasible to set up a WTE Power Plant in Oman. Pursuant to this, OPWP has initiated the development process for the project which will follow similar lines as per Oman's well established I(W)PP program. The commercial operation date is anticipated to be in Q2 2023.

• **Wind Resources Assessment :** OPWP is conducting a Wind Resource Assessment ("WRA") to obtain bankable wind resource data to support the future development of wind power projects in Oman. The WRA includes wind data collection from several locations extending from Dhofar to Sharqiyah where satellite images show a high potential of wind resource. The WRA will commence in Q3 2019. The next wind project is planned to be operational in 2023 with an anticipated capacity of 200MW or more.

• **Al Ghubrah III IWP :** with a capacity of 300,000 m^3/d (66 MIGD) at Al Ghubrah area using RO technology, with COD planned for Q4 2023.

• **North Al Batinah IWP :** with a capacity of 150,000 m^3/d (33 MIGD) using RO technology, with COD planned for Q2 2023. The project is expected to be implemented in Sohar area.

• **Barka V IWP :** with a capacity of 100,000 m^3/d (22 MIGD) at Barka area using RO technology, with COD planned for Q3 2022.

• **Masirah IWP :** with a capacity of 10,000 m^3/d at Masirah using RO technology, with COD planned for Q1 2022.

• **Wadi Dayqah IWP :** with a capacity of 125,000 m^3/d (22 MIGD) at Qurayyat area using RO technology, with COD planned for Q3 2022.

• **Dhofar Water 2023 :** with a capacity of 150,000 m^3/d (33 MIGD) at Raysut area using RO technology, with COD planned for Q4 2023.

• **Clean Coal IPP :** As part of the government fuel diversification strategy OPWP has initiated the prequalification process to develop a Clean Coal IPP at Duqm with an expected capacity of 1,200 MW with COD planned for the beginning of 2025.

• **Power 2022 :** refers to the procurement of capacity of approximately 700 MW for operation in the 1st quarter of the year 2022. All of the capacity required will be secured from existing plants that will be out of contract in 2021 and 2022. The procurement of the required capacity is conducted through a new procurement methodology that was developed to allow competition of different technologies at different locations.

• **Manah IPP :** a 264 MW plant developed on a Build Own Operate Transfer (BOOT) scheme with the assets being transferred back to the Government on 1st May 2020. OPWP is studying various options for the plant beyond the expiry of the existing PPA.

FINANCIAL HIGHLIGHTS

REGULATORY FRAMEWORK:

Table 1 - Where money comes from

OMR '000	2018	2017
Bulk Supply Revenue (Power)	664,244	616,112
Bulk Supply Revenue (Water)	151,634	145,725
Other Revenues	4,161	536
Total	820,039	762,374

Figure 5 - Source of Cash

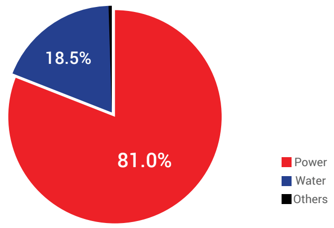
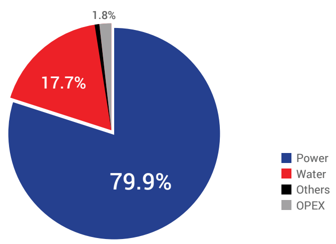


Table 2 - Where money goes

RO'000	2018	2017
Power Purchase cost	657,797	608,618
Water Purchase cost	145,696	141,595
Other cost	4,650	4,634
OPEX	14,816	8,675
Total	822,959	763,524
Profit/loss before Tax - Regulatory framework	(2,920)	(1,150)
Profit/loss before Tax - IFRS	(1,734)	(851)

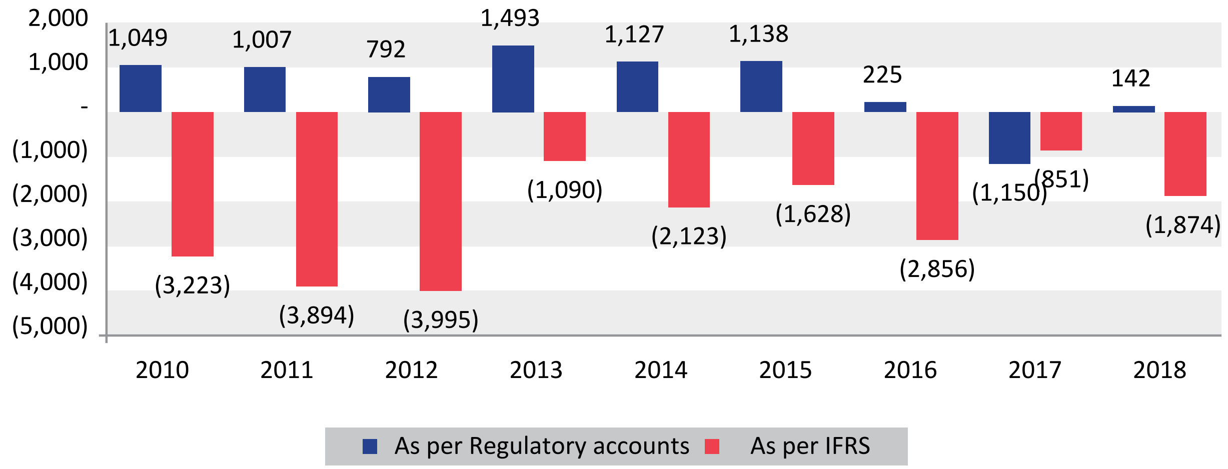
Figure 6 - Application of cash



OPWP is the counterparty to various long-term take-or-pay power and water purchase agreements. Under the IFRS, these long-term contracts are treated as leases and require recognising the cost based on the lease classification – finance or operating –as per IAS17. The regulatory framework recognises the contractual payment obligations under PPA/PWPA's as cost and allows for its recovery under the price control.

In the financial statements, OPWP recognises the revenue as per the price control, which is based on the payment obligations approach and recognises the cost based on lease accounting. The loss in the income statement and accumulated losses in the balance sheet is primarilydue to the mismatch in the basis of accounting revenues and costs. The below chart reflects the profitability position measured based on the two frameworks over last seven years. In 2018, the company made a net profit before tax of OMR 142K Million

Figure 7 - Profit before Tax OMR'000



CREDIT RATINGS:

During 2018, Moody's Investors Service downgraded their rating from Baa2 with a negative outlook to Baa3 with a negative outlook. The downgrade is mainly due to downward pressure in oil prices, which has a negative impact on the assessment of Oman's fiscal and external positions. Such review followed in line with the outlook for Oman nationally and did not represent any OPWP specific issue.

The credit rating agencies understand the issues regarding the IAS17 treatment of P(W)PAs in the accounts of OPWP and conclude that these do not have any effect on the company's ability to meet its obligations. The credit rating reports are available on OPWP's website.

OPERATIONAL HIGHLIGHTS

(AS PER REGULATORY FRAMEWORK)

4.1 ELECTRICITY

Purchase cost – MIS, DPS and Musandam

Table 3 - Purchase cost

Particular	Units	2018	2017	Variance
Main Interconnection system (MIS)				
Cost of Purchase	OMR' 000	544,710	516,589	5%
Units Purchased	GWh	32,835	31,345	5%
Average Cost per MWh	OMR	16.589	16.481	1%
Dhofar Power System (DPS)				
Cost of Purchase	OMR' 000	99,434	82,620	20%
Units Purchased	GWh	3,143	3,224	-3%
Average Cost per MWh	OMR	31.63	25.63	23%
Musandam Power System (DPS)				
Cost of Purchase	OMR' 000	13,654	9,409	45%
Units Purchased	GWh	344	189	82%
Average Cost per MWh	OMR	39.72	49.91	-20%

The full-year capacity charges for the new Salalah II IPP project in January 2018 is the key driver for the increase in average cost per unit of power for DPS. Similarly, for Musandam, the key driver for the increase is a full-year capacity charge during 2018 compared to a part of the year during 2017.

Revenue – MIS, DPS and Musandam

OPWP sells electricity to the distribution companies according to bulk supply tariffs determined annually by OPWP and approved by the Authority. The bulk supply tariff allows OPWP to recover its purchase and procurement costs following the price control formula in the licence. Any excess or shortfall in revenue over the maximum allowed revenue is allowed to carry forward and adjust as a correction factor in the following year. Thus, bulk supply tariff and average revenue per unit in any given year are driven by purchase costs of that year and carry forward over/under recovery from the previous year. There is a difference in the purchase cost per unit for MIS. DPS and Musandam.

To calculate the bulk supply tariff (see below), the cost of MIS and DPS is combined to determine the bulk supply tariff for electricity for MIS and DPS whereas cost of Musandam is ringfenced and recovered separately through the bulk supply tariff for Musandam.

Table 4 - Bulk supply revenue

Particular	Units	2018	2017	Variance
Main Interconnection system (MIS)				
Bulk Supply Revenue for MIS (Power)	OMR' 000	584,484	571,188	2%
Units Sold	GWh	32,835	31,345	5%
Bulk Supply Revenue per MWh	OMR	17.80	18.22	-2%
Dhofar Power System (DPS)				
Bulk Supply Revenue for DPS (Power)	OMR' 000	55,825	59,872	-7%
Units Sold	GWh	3,143	3,224	-3%
Bulk Supply Revenue per MWh	OMR	17.76	18.57	-4%
Musandam Power System (DPS)				
Bulk Supply Revenue for DPS (Power)	OMR' 000	11,802	9,734	21%
Units Sold	GWh	344	189	82%
Bulk Supply Revenue per MWh	OMR	34.34	51.63	-33%

4.2 WATER PURCHASE AND SALE

OPWP sells water to the PAEW and DGW, Salalah according to bulk supply tariffs determined annually by OPWP and approved by the Authority. The bulk supply tariff allows OPWP to recover its purchase and procurement costs following the price control formula in the licence. Any excess or shortfall in revenue over the maximum allowed revenue is allowed to carry forward and adjust as a correction factor in the following year. Thus, bulk supply tariff and average revenue per unit in any given year is driven by purchase costs of that year and carry forward over/under-recovery from the previous year

Table 5 - Water - MIS & DPS

Particular	Units	2018	2017	Variance
Cost of Purchase	OMR' 000	145,696	141,595	3%
Water purchased	000 m^3	313,747	302,702	4%
Average Cost per m^3	OMR	0.464	0.468	-1%
Bulk Supply Revenue (Water)	OMR' 000	127,699	148,841	-14%
Bulk Supply Revenue per m^3	OMR	0.407	0.492	-17%

OPERATIONAL PERFORMANCE

5.1 PROCUREMENT AND BULK SUPPLY ARRANGEMENTS

OPWP purchases electricity and desalinated water in accordance with the Power Purchase Agreements (PPAs),Power and Water Purchase Agreements (PWPAs), and Water Purchase Agreements (WPA) with various generators and desalination companies. These PPAs and PWPAs are generally for a period of 15 years and WPAs are for 20 years.

Table 6 - Long Term Power & Water Purchase Agreements

Plant	Type	Status	Contract Start	Contract expiry	Net Power Capacity in (MW Contracted)	Water (MIGD)
Al Ghubrah Power and Desalination Co. (retired 30th Sept 2018)	PWPA	Operational	2005	2018	351	31.0
Rusail Power Co.	PPA	Operational	2005	2022	652	
Wadi Al-Jizzi Power Co. (retired 30th September 2018)	PPA	Operational	2005	2018	323	
United Power Co. (Manah)	PPA	Operational	1996	2020	254	
Al Kamil Power Co.	PPA	Operational	2002	2021	280	
ACWA Power Barka (Barka I IWPP)	PWPA	Operational	2003	2021	427 (Call –on)* 388 (Call-Off)**	42.6
Sohar Power Co. (Sohar I IWPP)	PWPA	Operational	2007	2022	585	33.0
SMN Barka Power Co.	PWPA	Operational	2009	2024	674	26.4
SembCorp Salalah Power and Water Co.	PWPA	Operational	2012	2027	445	15.0
Al Batinah Power Co. (Sohar II)	PPA	Operational	2013	2028	737	
Al Suwadi Power Co. (Barka III)	PPA	Operational	2013	2028	737	
Phoenix Power Co. (Sur IPP)	PPA	Operational	2014	2029	1983	
Muscat City Desalination Co. (Ghubrah IWP)	WPA	Operational	2014	2034		42.0
Al Sharqia Desalination Co. (Sur IWP)	WPA	Operational	2014	2036		29
Muscat Water Co. (Qurayyat temporary water)-retired	WPA	Operational	2016	2018		1.8
Dhofar Generating Co. (Salalah II) (Existing + New)	PPA	Operational	2014	2032	718	
Musandam Power Co.	IPP	Operational	2016	2031	121	
Qurayyat Desalination Co.	WPA	Operational (but not achieved COD)	2017	2037		44.0
Barka Desalination Co. (Barka IV IWP)	WPA	Operational	2018	2038		61.8
Myah gulf Oman Desalination Co. (Sohar IWP)	WPA	Under construction	2018	2038		55.0
Shinas Generating Co. (Sohar)	IPP	Under construction	2019	2034	1710	
Al Dhahira Generating Co. (Ibri)	IPP	Under construction	2019	2034	1509	

* With MSF Desalination Units in service
** Without MSF Desalination Units in service

Capacity Utilisation – Power

OPWP procures capacity to meet the demand as per its statutory obligations. The following table shows the capacity utilisation at the time of summer peak of 2018.

Table 7 - Key operational parameters – 2018

Plant Owner	Peak CapacityUtilisation	
MIS	(%) 2018	(%) 2017
Al Ghubrah Power and Desalination Co.	46%	73%
Rusail Power Co.	77%	78%
Wadi Al-Jizzi Power Co.	74%	95%
United Power Co. (Manah Plant)	100%	100%
Al Kamil Power Co.	80%	91%
ACWA Power Barka	94%	100%
Sohar Power Co. (Sohar I)	69%	70%
SMN Barka Power Co. (Barka II)	100%	100%
Al Batinah Power Co. (Sohar II)	100%	99%
Al Suwadi Power Co. (Barka III).	100%	92%
Phoenix Power Co. (Sur IPP)	81%	78%
DPS		
SembCorp Salalah Power and Water Co.	63%	93%
Dhofar Generating Co.	34%	42%
Musandam		
Musandam Power Co.	33%	43%

Capacity utilisation - Water

The utilisation of water capacity during 2018 is as under:

Plant Owner	Peak CapacityUtilisation	
	(%) 2018	(%) 2017
Muscat City Desalination Co. (Ghubrah IWP)	86%	82%
Al Ghubrah Power and Desalination Co.	50%	72%
ACWA Power Barka	47%	88%
Sohar Power Co. (Sohar I)	82%	85%
SMN Barka Power Co. (Barka II)	50%	94%
Barka Desalination Co. (Barka IV IWP)	61%	
Qurayyat Desalination Co.	47%	
Al Sharqia Desalination (Sur IWP)	74%	100%
SembCorp Salalah Power and Water Co.	87%	97%

5.2 PURCHASE AND SALE OF POWER AND WATER DURING 2018

Figure 8 - MIS - Purchase and Sale of Electricity and Water during 2018

Figure 9 - Dhofar Power System - Procurement and Sale of Electricity and Water during 2018

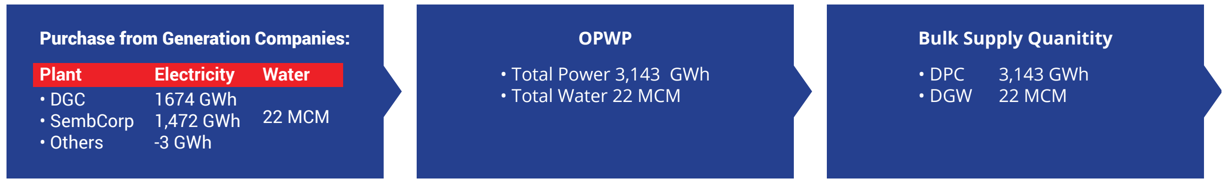
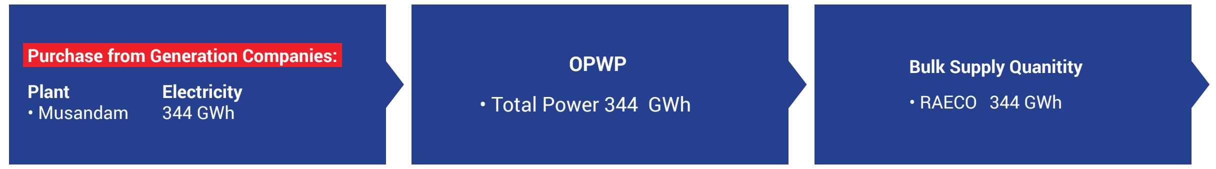
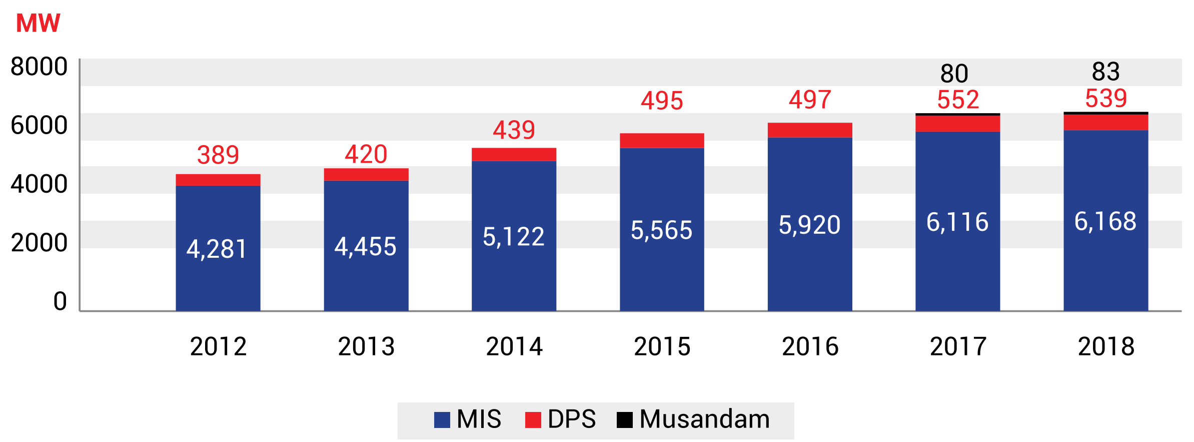


Figure 10 - Musandam Power System - Procurement and Sale of Electricity during 2018



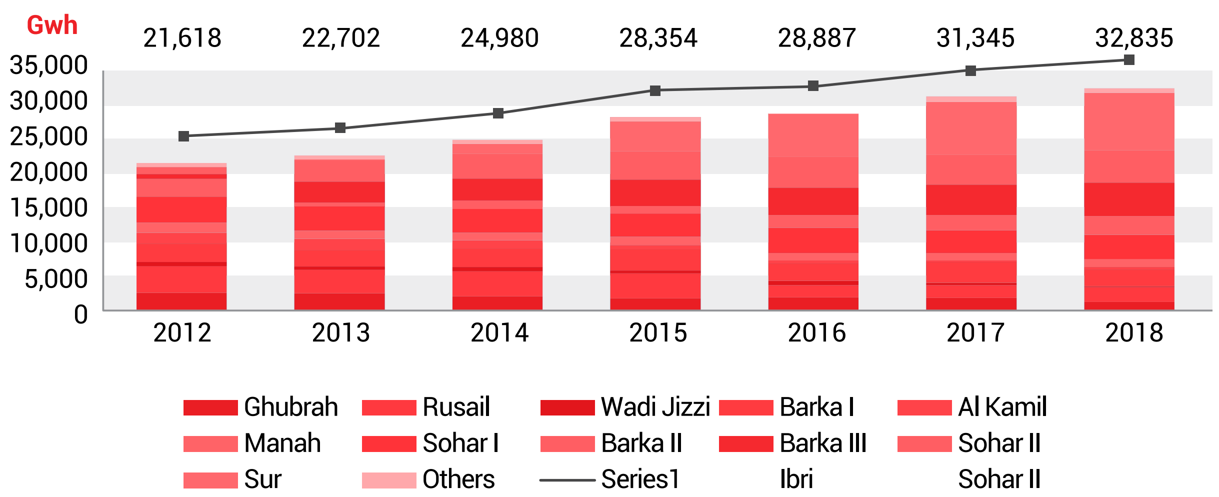
5.3 ELECTRICITY DEMAND AND GENERATION RESOURCES (2012-2018)

Figure 11 - Power Peak Demand in MIS, DPS and Musandam (2012-2018)



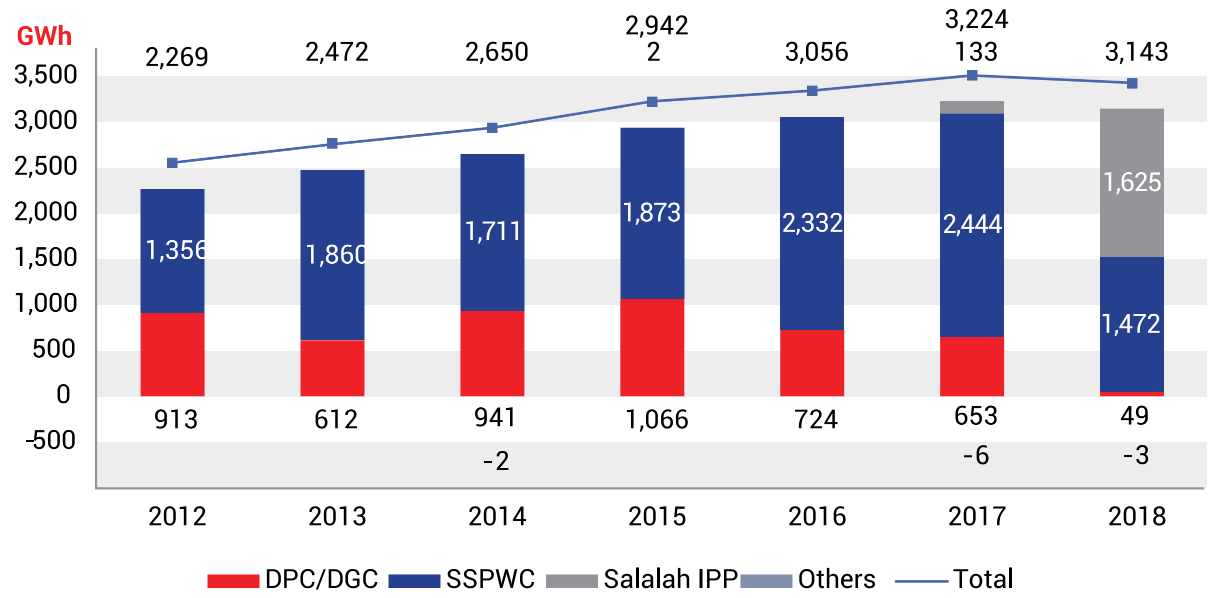
The Peak demand in the MIS has increased from 4,281MW in 2012 to 6,168MW in 2018 at an average annual growth rate of about 6% for MIS (with an increase of 1% in 2018 compared to 2017). DPS also increased at an average annual growth rate of 6% (with a decrease of 2% in 2018 compared to 2017). In Musandam, peak demand increased by 4% in 2018 compared to 2017.

Figure 12 - Electrical Energy Delivered in MIS (2012-2018)



The figure shows an increase in electrical energy at an average annual growth rate of 7% during 2012 -2018 (with an increase of 5% in 2018compared to 2017).

Figure 13 - Electrical Energy Delivered to Dhofar Power System (2012-2018)



The figure shows an increase in electrical energy at an average annual growth rate of 5.6% during 2012-2018(with adecrease of 3% in 2018 compared to 2017 due to the effect of the cyclone "Mekunu" that hit the Governorate of Dhofar in May 2018, which led to a decline in the performance of the network and power plants).

5.4 FUEL EFFICIENCY

The primary fuel resource for power generation and associated water production in the MIS is natural gas, supplied by the Ministry of Oil & Gas. Through the introduction of new more efficient power plants, OPWP has steadily improved system efficiency and the utilization of gas.

Total gas consumption in the MIS in 2018 was about 7.4 billion Sm³, compared to about 7.3 billion Sm³ in 2017, anincrease of 1% gas consumption due to an increase in energy delivered by 5% during this period.

Over the past seven years (2012 – 2018), while annual energy delivered of the power plants in the MIS has increased at an average annual rate of7%, the gas consumption has increased at the rate of 1.6% only during the same period. Thus, fuel utilization rate (Sm3/MWh) has improved at an annual average rate of more than 5% over the last seven years.

Figure 14 - Yearly Gas Consumption (MIS & DPS)

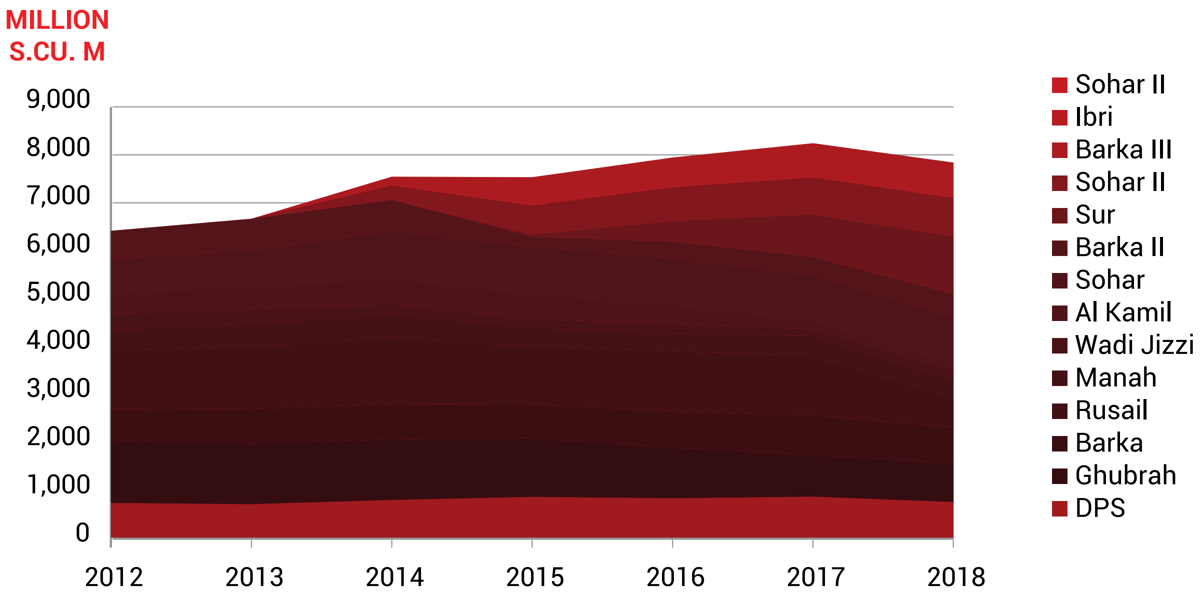
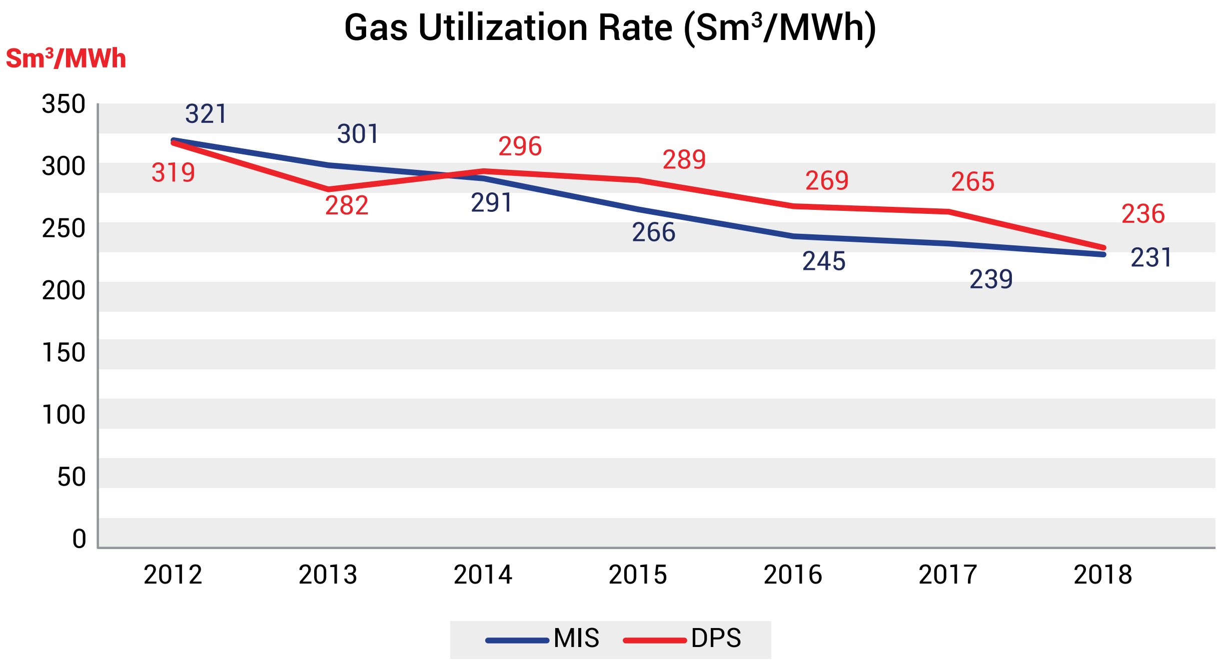


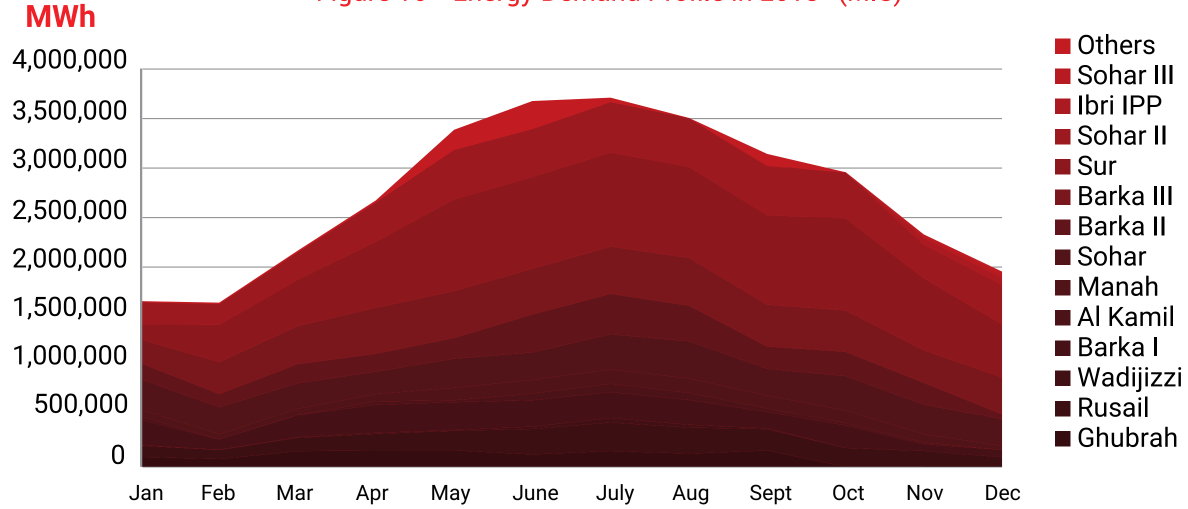
Figure 15 - Gas Utilization Rate from 2012-2018



The figure above shows that gas utilization rate(gas consumption per unit of power generation) has fallen on an average by 5.3% and 4.9% since 2012 respectively for MIS and DPS. For 2018 compared to 2017 the rate improved by 4% in MIS and 11% in DPS.

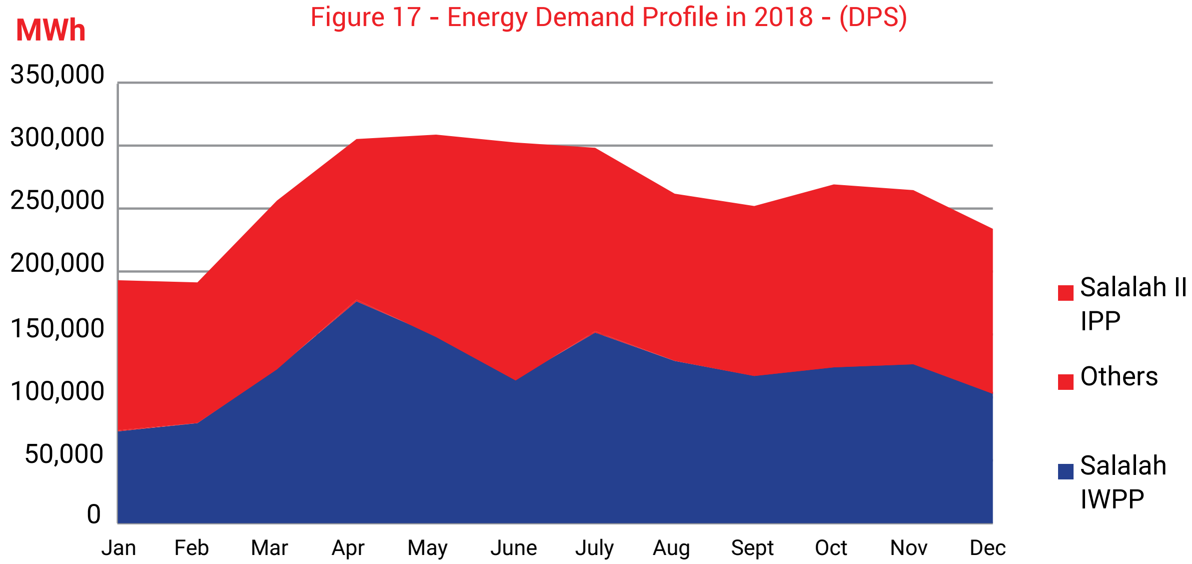
5.5 ENERGY DEMAND IN 2018

Figure 16 - Energy Demand Profile in 2018–(MIS)



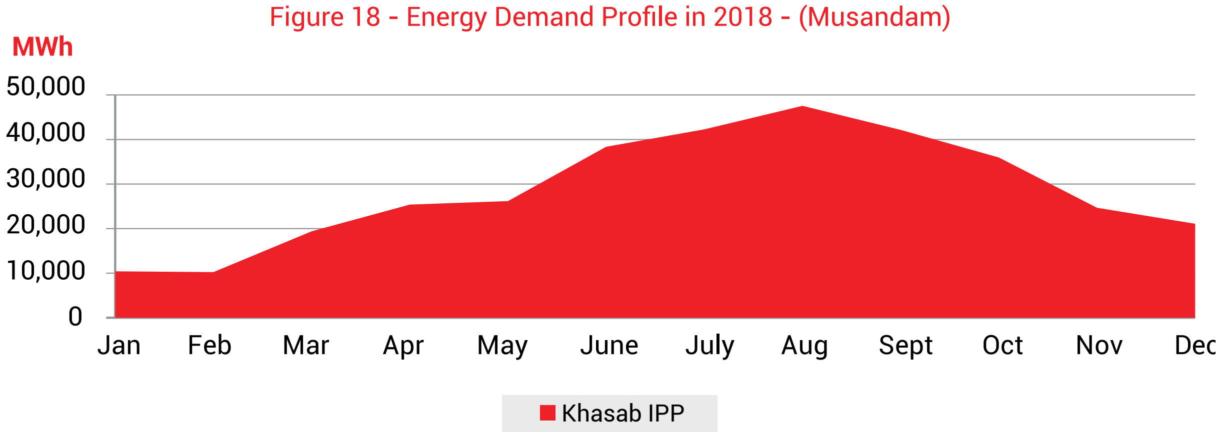
The electricity demand is seasonal in nature and peak requirement in July is more than twice the energy required in January.

Figure 17 - Energy Demand Profile in 2018 - (DPS)



In DPS two power peaks were seen. The first peak appeared during the period April to June and the second peak appeared after autumn in October and November.

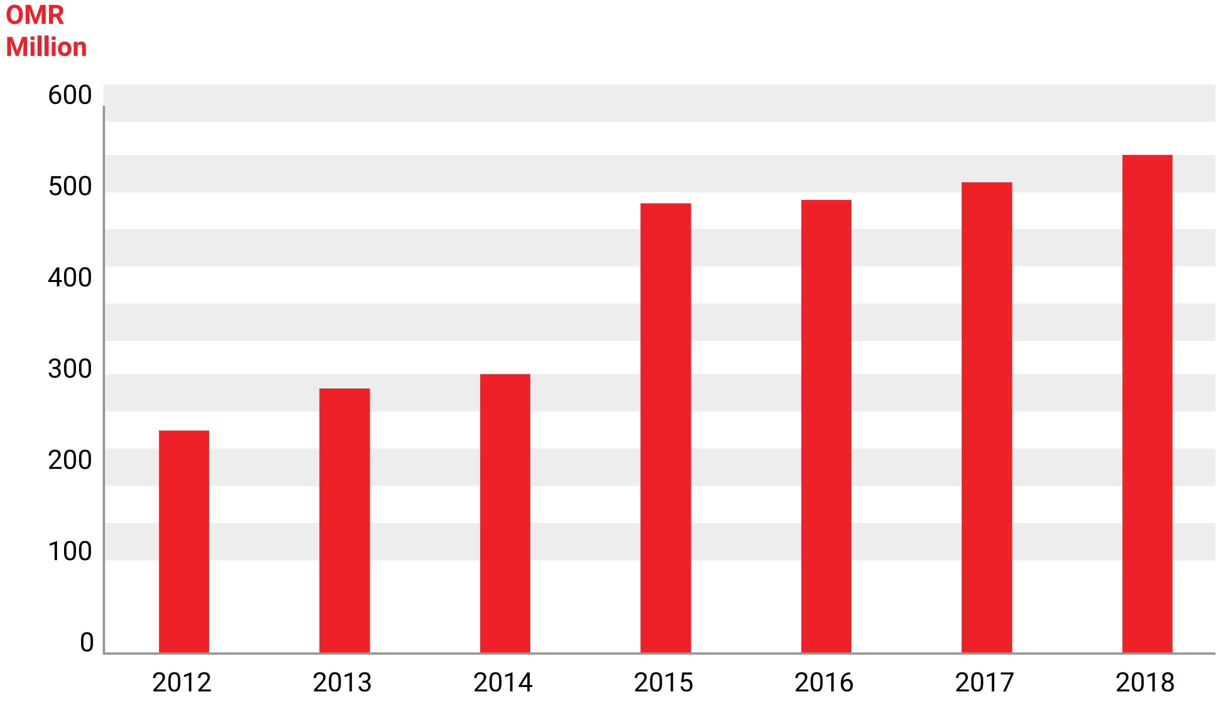
Figure 18 - Energy Demand Profile in 2018 - (Musandam)



The electricity demand is seasonal in nature and peak requirement is in the period from July - August.

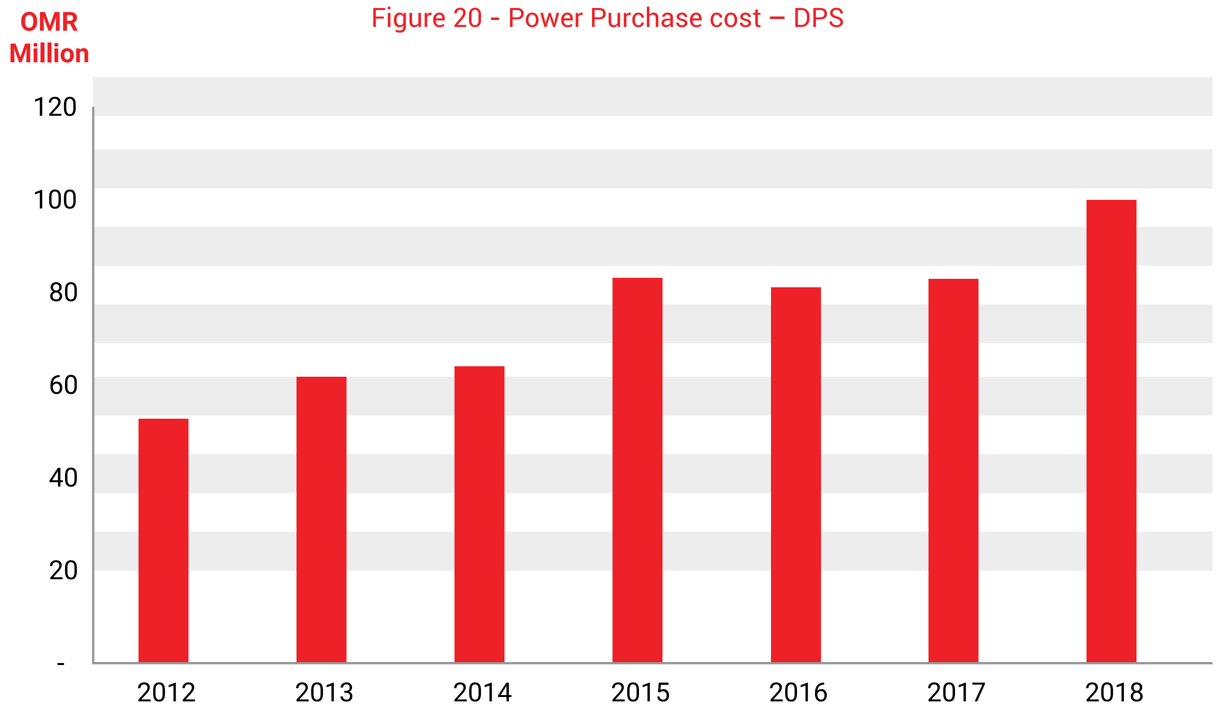
5.6 POWER PURCHASE COST

Figure 19 - Power Purchase cost -MIS



The cost of total energy purchased has increased at an average annual rate of about 14.3% from 2012 to 2018. In 2018, the cost of energy purchased increased by 6% compared to 2017.

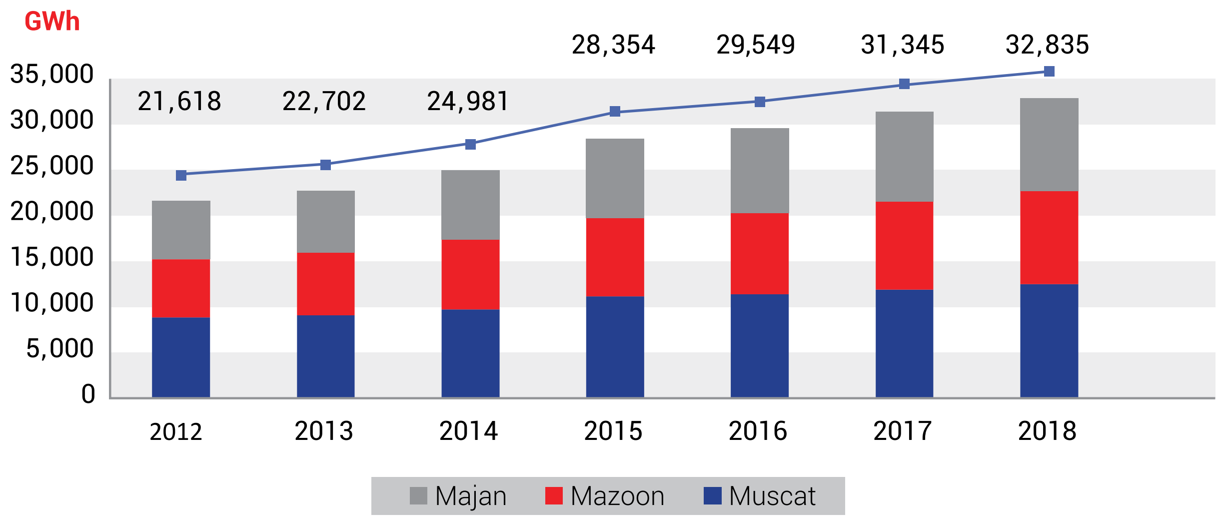
Figure 20 - Power Purchase cost – DPS



The cost of total energy purchased has increased at an average annual rate of 11.3% from 2012 to 2018. In 2018, the cost of energy purchased increased by 21% compared to 2017.

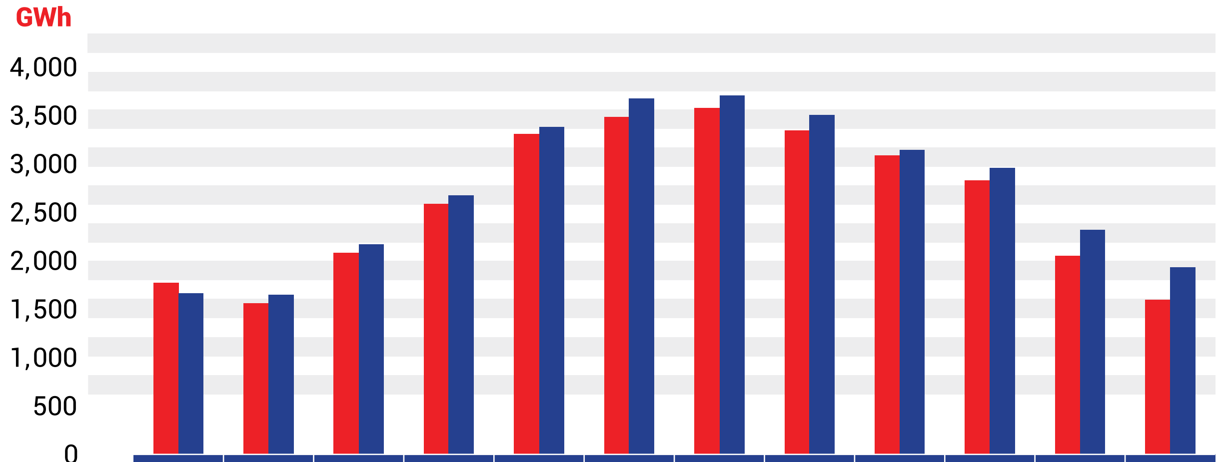
5.7 ELECTRICITY BULK SUPPLY STATISTICS

Figure 21 - Yearly ElectricityBulk Supply Quantity- MIS



The Chart shows the quantity increase in energy used by Muscat, Mazoon and Majan distribution companies over the lastsevenyears.The bulk supply quantity increased by 7% annually over the last seven years and increased over 2017 by 5%.

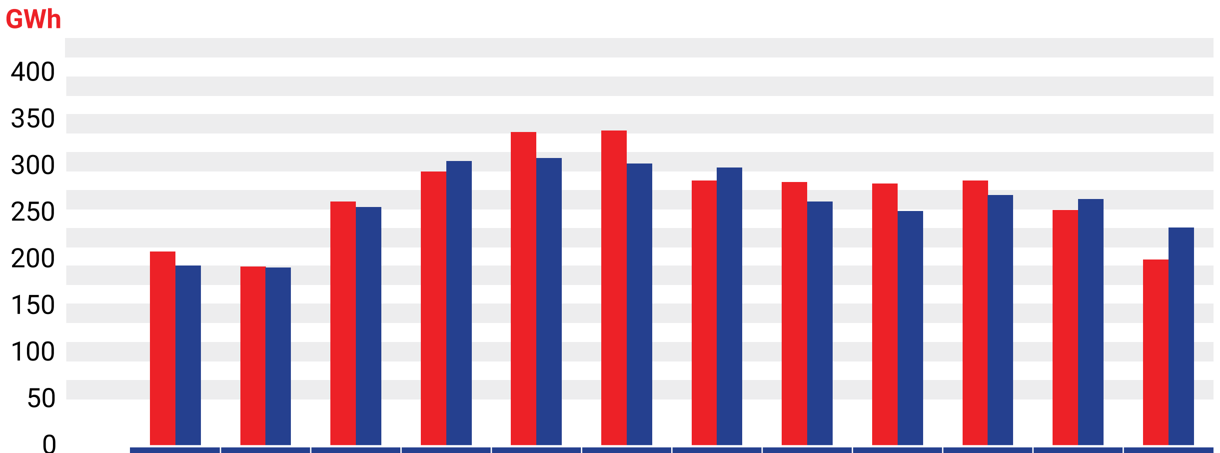
Figure 22 - Monthly Electricity Bulk Supply Quantities - MIS



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	1,773	1,566	2,088	2,593	3,312	3,490	3,584	3,352	3,094	2,833	2,056	1,604
2018	1,666	1,651	2,173	2,679	3,390	3,679	3,713	3,509	3,147	2,963	2,327	1,938

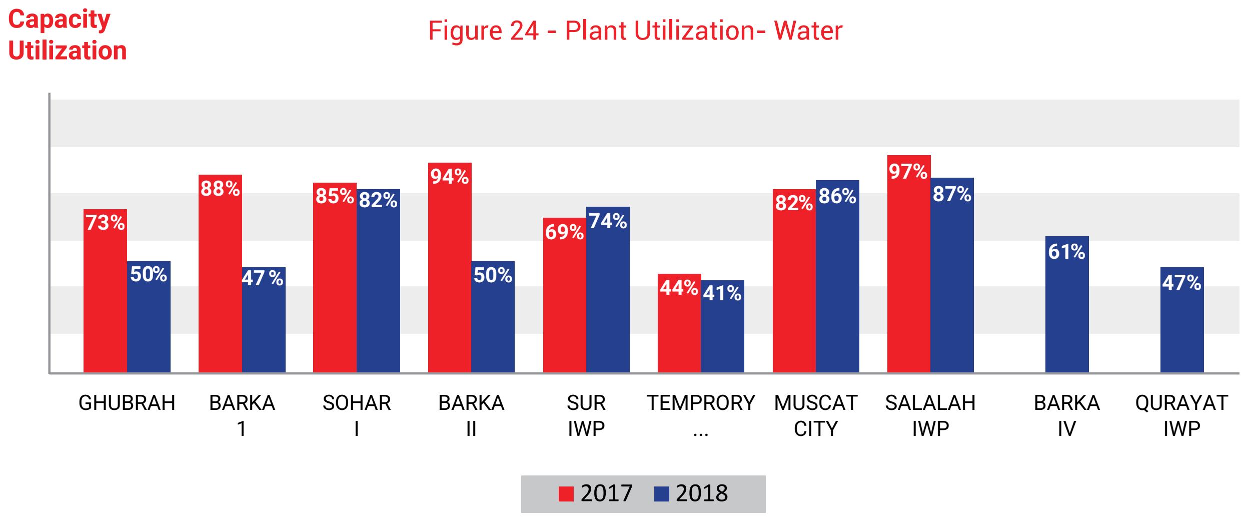
The chart reflects monthly demand profile of the system with demand in winter significantly lower than summer.

Figure 23 - Monthly Electricity Bulk Supply Quantities - DPS



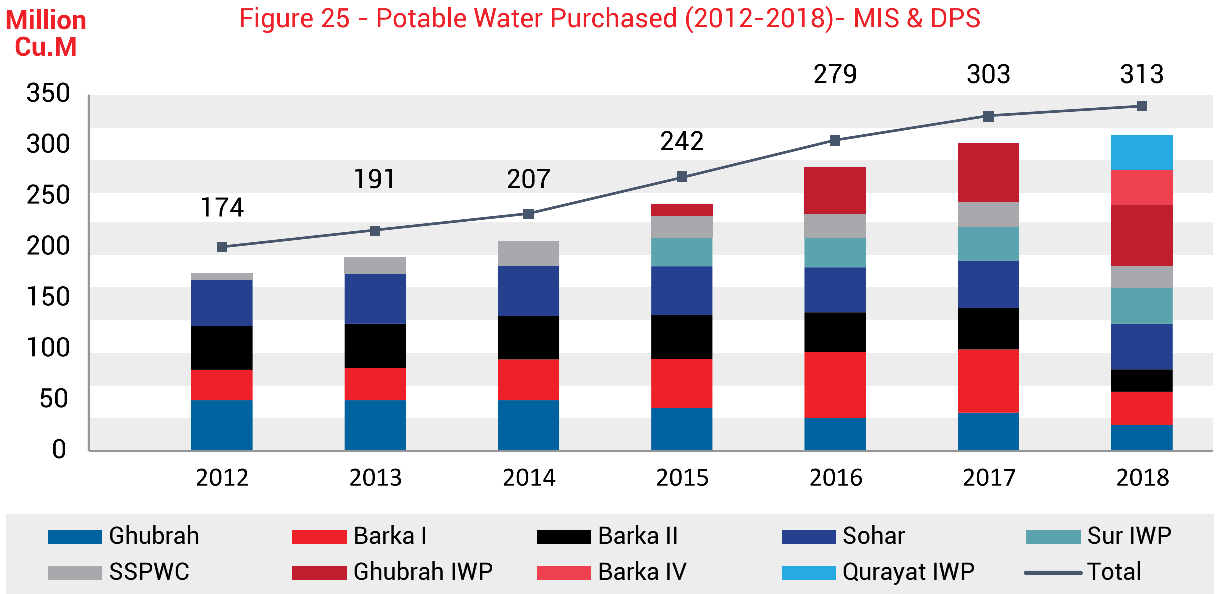
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	209	193	262	295	337	339	285	284	282	285	254	200
2018	193	192	257	306	309	303	299	262	253	270	265	234

Figure 24 - Plant Utilization- Water



The capacity utilization of Plants in 2018 changed because of the addition of Barka IV IWP and Qurayat IWP.

Figure 25 - Potable Water Purchased (2012-2018)- MIS & DPS



The water delivered to the PAEW has increased on an average annual growth rate of 10.2% during 2012 -2018 (with an increase of 3% in 2018 compared to 2017).

HUMAN RESOURCES

6.1 KEY HUMAN RESOURCES INITIATIVES IN 2018:

OPWP views its employees as the company's greatest asset. The company is committed to train and develop a competent workforce, supported by reliable and effective learning and development programs that aim to develop askilled workforce and future leaders. The company undertakes different initiatives to serve the above goal. These initiatives cover a wide range of development in leadership, stakeholder management, change management, project management, economics and many other technical competencies. OPWP also initiated a lean concept in the company and is in the process of trainingfew employees from across the company. The program focuses on introducing structured problem-solving method to maximize customer value while minimizing waste therebycreating more value for customers with fewer resources.

The company recruited nineemployees in2018, and the total number at the year-end reached 81 employees. The company has attainedthe Omanisation of 86.4%.

OPWP gives significant emphasis on the training and development of Omanis across the company. The company has developed a personal development plan (PDP) for Omanis and the training is imparted based on the competency gaps and training needs identified in the PDP. The training effectives is assessed on the job and PDP is updated.

In 2018, the company invested about 4% of staff cost on training and development.

QUALITY, HEALTH & SAFETY AND ENVIRONMENT

The year 2018 started with a strong remainder that you can never afford to be complacent to HSE in all aspects especially in the site; during the first half of the year two project company staff suffered fatal injuries. Further two staff also suffered lost time injuries at another site on the second half of 2018. OPWP looked at arriving at the root cause in order to propose improvements both to the agreements level and at project sites.

The AER HSE Audit also highlighted the need to exercise more control on the HSE related disciplines during the project construction phase.

OPWP continued on its quest to work closer with the project companies through the site visits and a monthly progress meeting that gave the right emphasis on the HSE related practices at the sites.

OPWP will try to do whatever possible to help maintain a good environment for its staff and the generations to come through reducing the footprint. In 2018 OPWP replaced all its light with a more efficient LED light. Furthermore, and from its core value towards the environment OPWP participated in the earth hour at its headquarters at the grand mall.

During the adverse weather conditions OPWP worked with the different stakeholders to help to reduce the exposure of it staff and the project company contractors during those challenging times. OPWP took the advantage to practice to update the business continuity management scenarios.

OPWP values the positive feedback from its different stakeholders and will continue to embrace the challenges in the coming year of 2019; where more focus will be put in streamlining the reporting of the statistic from the project companies, sharing the learning and increasing the visibility of HSE within the company and introducing the lifesaving rules. This will be introduced through active safety awareness campaigns.

OPWP believes that a more competent staff means a safer staff, hence it will continue on increasing the level of involvement through the execution of the training plan, monitoring of the different key performance indicators, building of the HSE capabilities across the organization, and establishing different mediums to increase sharing and learning.

CORPORATE GOVERNANCE REPORT

8.1 CORPORATE GOVERNANCE:

Good governance is fundamental to OPWP being able to deliver water and electricity for Oman that serves the short and long term interests of its shareholders, the nation, and the ultimate consumers. OPWP strives to incorporate good governance in its decision making and business practices. It means OPWP is structured to make timely, evidence-based, independent decisions under the auspices of its regulatory framework. It also serves to ensure that OPWP can manage risks appropriately, act with transparency and integrity, and engage effectively with its stakeholders.

The role of the Board of OPWP is to approve the strategic direction of OPWP, to guide and monitor the management of OPWP and its businesses in achieving its strategic plans, and to oversee good governance practice. The Board aims to protect and enhance the interests of its shareholders while taking into account the interests of other stakeholders, including employees, customers, counter-parties, suppliers, its regulator, and the wider community. In performing its role, the Board is committed to a high standard of corporate governance practice and fostering a culture of compliance thatvalues ethical behaviour, personal and organisationalintegrity, transparency, fairness, accountability and respect for others.

The OPWP Chief Executive Officer has responsibility for the day-to-day management of OPWP and its businesses and is supported in this function by the OPWP senior management team. The Board is ultimately responsible for the strategy and control of OPWP and its business.

In pursuit of good corporate governance, the Board has adopted manuals and policies approved by Nama Group such as - the Group Operating Manual, the Group HR Manual, the Group Compliance Manual, the Group Treasury Policy, the CEO Remuneration and Benefits Policy, the Company Secretary Procedures Manual, the Sector's Policy Statement on Fraud Deterrence, the Sector's Policy Statement on Conflict of Interest, and the Code of Ethics and Business Conduct. The Board has also responded to the change in the jurisdiction of the Tender Board by commissioning, reviewing and adopting a Procurement Process Map which comprehensively establishes and governs, in conjunction with the applicable laws of Oman, the procurement process for the Company.

The Group Manuals and Policiesgovern the relation between EHC and the Subsidiaries,as well as setting forth the procedures of the Board clearly to avoid ambiguity in the governance of the Company.

The Code of Ethics and Business Conduct is a Nama Group initiative in the area of corporate governance which applies to all directors of EHC and its Subsidiaries and which serves to emphasise the Company's commitment to ethics and compliance with the law, set forth

standards of ethical and legal behaviour, provide reporting mechanisms for known or suspected ethical or legal violations, and help prevent and detect wrongdoing.

The Sector's Policy Statement on Conflict of Interest serves to establish clear guidelines on the identification and management of conflicts of interest. At Board level a "conflict of interest" occurs when the private interests of a member of the Board of Directors interfere in any way with the interests of EHC or its Subsidiaries. In addition to avoiding conflicts of interest, member of the Board should also avoid the appearance of a conflict of interest.

The Sector's Policy Statement on Fraud Deterrence introduced across the Nama Group serves as the final component of the corporate governance framework to safeguard the financial viability of the Group and transactions within the Group.

Also, the Company periodically reports its compliance with all statutory obligations to the Board and to its primary shareholder, EHC.

8.2 INTERNAL AUDIT

The Internal Audit function provides an independent and objective opinion on the adequacy and effectiveness of the Company's systems for risk management, internal control, and governance together with recommendations to improve those systems. The function operates independently of management, under a mandate approved by, and kept under review by, the Audit Committee. A risk based approach is used to identify, prioritise and focus on internal audit activities. The annual audit plan is presented to the Audit Committee for approval. The Audit Committee meets the internal auditors to discuss the results of the quarterly internal audit.

Table 8 - Board and Board Committees

	Members - 2016	Number of Meetings in 2016
Board of Directors	Hamdan Al Hinai (Chairman) Abdulaziz Al Shidhani (Deputy Chairman) Osama Younis (MOF representative) Hussain Al Balushi (EHC representative) Hanan Askalan	5 Meetings
Audit Committee	Hanan Askalan (Chairperson) Hussain Al Balushi Abdulaziz Al Shidhani	3 Meetings
Human Resource Committee	Abdulaziz Al Shidhani (Chairman) Hanan Askalan Osama Younis	4 Meetings
InternalTender Committee	Hamdan Al Hinai (Chairman) Hussain Al Balushi Osama Younis Yaqoob Al Kiyumi (CEO) Andrew Rae (Acting COO)	8 Meetings

8.3 RISK MANAGEMENT

To secure the Company's operations and achieve key objectives,OPWP has developed enterprise risk management framework to identify and manage the risks effectively. OPWP manages the risks associated with its operations by identifying; measuring and preventing key uncertainties. Risks are assessed in terms of likelihood as well as business and financial impact.

8.4 BOARD MEETINGS AND SITTING FEES

The Board and its committees are responsible for establishing the general policies of the Company, supervising the execution of its activities, approving its budget and the appointment of the top management positions. The following table shows the number of meetings held by the Board and its committees and attendance of members:

Table 9 - Board meeting and sitting fees

Board Members		Board Meeting	Internal Tender Committee	HR Committee	Audit Committee	Board sitting fees	Committee meeting fees
Mr. Hamdan bin Ali Al Hinai	Chairman	5 (5)	8(8)			3,200	2,800
Mr. Abdulaziz AL Shidhani	Deputy Chairman	4(5)		4(4)	3(3)	2,000	2,500
Mr. Hussain AL Balushi	Member	4(5)	6(8)		3(3)	2,000	2,700
Ms. Hanan Askalan	Member	4(5)		3(4)	3(3)	2,000	2,100
Mr. Osama Younes	Member	5(5)	7(8)	4(4)		2,500	3,300
					Total	11,700	13,400

( ) numbers in bracket represent meetings held during the year. The total sitting fees is RO 25,100

FINANCIAL STATEMENTS

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Financial statements

31 December 2018

Registered address:

P. O. Box 1388
Postal Code 112
Ruwi, Muscat
Sultanate of Oman

Principal place of business:

Muscat Grand Mall
Tilal Complex, 5th Floor
Al Khuwair, Muscat
Sultanate of Oman

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Financial statements
31 December 2018

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Directors' Report

The Directors submit their report and the audited financial statements for the year ended 31 December 2018.

Principal activities

The principal activity is to undertake procurement of new power and water capacity, and purchase of electricity and desalinated water to sell it to the distribution companies and water departments as per the licence issued by the Authority for Electricity Regulation, Oman.

Basis of preparation of accounts

The accompanying audited financial statements have been prepared in accordance with International Financial Reporting Standards and the Commercial Companies Law of 1974, as amended.

Results and appropriation

The results of the Company for the year ended 31 December 2018 are set out on pages 5 and 6 of the financial statements.

Auditors

The financial statements have been audited by KPMG who offer themselves for reappointment.

For and on behalf of the Board of Directors of Oman Power and Water Procurement Company SAOC

Chairman

KPMG

KPMG
4th Floor, HSBC Bank Building
MBD
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P.C. 112
Sultanate of Oman
Tel +968 24749600
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Oman Power and Water Procurement SAOC (the Company) set out on pages 5 to 40, which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the Directors' report set out on page 1.

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

Continued on page 3

Continued from page 2

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Continued on page 4

Continued from page 3

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

We report that the financial statements of the Company as at and for the year ended 31 December 2018, in all material respects, comply with the applicable provisions of the Commercial Companies Law of 1974, as amended.

KPMG

10 March 2019 *KPMG*

Statement of financial position
as at 31 December

	Note	31 December 2018 RO '000	31 December 2017 RO '000
Assets			
Property, plant and equipment	7	119,950	139,687
Deferred tax assets	17	3,269	3,012
Advances	8	5,903	7,626
Other receivables	9	2,934	4,363
Non-current assets		132,056	154,688
Inventories		567	567
Trade and other receivables	9	253,509	216,767
Cash and cash equivalents	10	11,050	6,391
Current assets		265,126	223,725
Total assets		397,182	378,413
Equity			
Share capital	11	500	500
Legal reserve	12	167	167
General reserve	13	250	250
Accumulated losses		(28,381)	(26,728)
Shareholders' funds	14	16,941	16,941
Total equity		(10,523)	(8,870)
Liabilities			
Finance lease liabilities	15	128,454	142,361
Provision for employees' benefits	16	433	615
Non-current liabilities		128,887	142,976
Trade and other payables	18	74,773	85,104
Finance lease liabilities	15	13,907	23,112
Provisions for employees' benefits	16	98	91
Short term loan	19	190,040	136,000
Current liabilities		278,818	244,307
Total liabilities		407,705	387,283
Total equity and liabilities		397,182	378,413

Hamdan Bin Ali Al Hinai
Chairman

Hussain Bin Abdu Latif Al Balushi
Member

Yaqoob Bin Saif Al Kiyumi
Chief Executive Officer

The notes on pages 9 to 40 are an integral part of these financial statements.
The report of independent auditors is set forth on pages 2 to 4.

Statement of profit or loss and other comprehensive income
for the year ended 31 December

	Note	2018 RO'000	2017 RO'000
Income			
Revenue	20	815,946	761,829
Operating costs	21	(790,837)	(734,883)
Gross profit		25,109	26,946
General and administrative expenses	22	(5,365)	(4,479)
Impairment losses	9 &10	(2,991)	-
Other income		5	14
Operating profit		16,758	22,481
Finance income	23	4,156	522
Finance costs	24	(22,646)	(23,855)
Profit / (loss) before tax		(1,732)	(852)
Taxation	25	257	698
Net profit / (loss) and total comprehensive income / (loss) for the year		(1,475)	(154)

The notes on pages 9 to 40 are an integral part of these financial statements.

The report of independent auditors is set forth on pages 2 to 4.

Statement of changes in equity
For the year ended 31 December 2018

	Share Capital RO'000	Legal reserve RO'000	General reserve RO'000	Accumulated losses RO'000	Shareholder's funds RO'000	Total RO'000
At 1 January 2017	500	167	250	(26,574)	16,941	(8,716)
Loss for the year and total comprehensive loss	-	-	-	(154)	-	(154)
At 1 January 2018, as previously reported	**500**	**167**	**250**	**(26,728)**	**16,941**	**(8,870)**
Adjustment from adoption of IFRS 9 (Refer note 2.1)	-	-	-	(178)	-	(178)
Restated balance at 1 January 2018	**500**	**167**	**250**	**(26,906)**	**16,941**	**(9,048)**
Net profit and total comprehensive income for the year	-	-	-	**(1,475)**	-	**(1,475)**
At 31 December 2018	**500**	**167**	**250**	**(28,381)**	**16,941**	**(10,523)**

The notes on pages 9 to 40 are an integral part of these financial statements.

The report of independent auditors is set forth on pages 2 to 4.

Statement of cash flows
for the year ended 31 December 2018

	2018 RO'000	2017 RO'000
Cash flows from operating activities		
Profit before tax	**(1,732)**	(852)
Adjustments for:		
Depreciation on property, plant and equipment	**20,425**	28,889
Interest expense	**6,457**	3,976
Interest on finance leases	**16,189**	19,657
Amortisation of advances	**1,723**	2,501
Impairment losses	**2,991**	-
Provision for employee benefits-Net	**(146)**	134
	45,907	54,305
Changes in:		
Trade and other receivables	**(38,458)**	(84,295)
Trade and other payables	**(10,331)**	21,876
Cash used in operating activities	**(2,882)**	(8,114)
Payment of employee benefits	**(29)**	(87)
Income tax paid	**-**	(33)
Net cash used in operating activities	**(2,911)**	(8,234)
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(688)**	(475)
Net cash used in investing activities	**(688)**	(475)
Cash flows from financing activities		
Interest paid	**(22,646)**	(23,633)
Repayment of finance lease liabilities	**(23,112)**	(31,532)
Short-term loan	**54,040**	45,000
Net cash proceeds from / (used in) financing activities	**8,282**	(10,165)
Net increase / (decrease) in cash and cash equivalents	**4,683**	(18,874)
Cash and cash equivalents at 1 January	**6,391**	25,265
Cash and cash equivalents at 31 December (Note 10)	**11,074**	6,391

The notes on pages 9 to 40 are an integral part of these financial statements.

The report of independent auditors is set forth on pages 2 to 4.

1 Legal status and principal activities

Oman Power and Water Procurement Company SAOC (the "Company") is a closely held Omani joint stock company registered under the Commercial Companies Law of Oman.

The establishment and operations of the Company are governed by the provisions of the Law for the Regulation and Privatisation of the Electricity and Related Water Sector (the "Sector Law") promulgated by Royal Decree 78/2004 and amended by Royal Decree 59/2009.

The Company is primarily undertaking procurement activities pertaining to electricity and desalinated water.

The Company commenced its operations on 1 May 2005 (the "Transfer Date") following the implementation of a decision of the Ministry of National Economy (the "Transfer Scheme') issued pursuant to Royal Decree 78/2004.

Oman Power and Water Procurement Company SAOC is a 99.99% subsidiary of Electricity Holding Company SAOC (the "Holding company"), a company registered in the Sultanate of Oman and 0.005% each is held by the Nama Institute for Competency Development LLC & Nama Shared Services LLC respectively. The Ultimate Parent is the Ministry of Finance, of the Government of Sultanate of Oman, as it holds 100% shareholding in the Holding Company.

2 Standards issued but not yet effective

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements. Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Company's financial statements in the period of initial application.

IFRS 16 Leases

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below.

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

i. Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases of power purchase agreements. The nature of expenses related to those leases shall be changed from the period starting 1 January 2019, as the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The significant impact is expected for the Company's finance leases.

2 Standards issued but not yet effective *(continued)*

IFRS 16 Leases *(continued)*

Based on the information currently available, the Company estimates that it will recognise an additional lease liabilities and right-of-use assets in the amount of RO 2,191 million as at 1 January 2019.

ii. Leases in which the Company is a lessor

The Company will reassess the classification of sub-leases in which the Company is a lessor. Based on the information currently available, the Company expects that it will reclassify number of sub-leases as a finance lease, resulting in recognition of a finance lease receivable of RO 549 million as at 1 January 2019. No significant impact is expected for other leases in which the Company is a lessor.

iii. Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the right-of-use asset is recognised at the date of initial application i.e. 1 January 2019 at an amount equal to the lease liability, using the Company's current incremental rate of borrowing, with no restatement of comparative information. The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Other Standards

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

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.

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, except for separately presenting impairment loss on trade receivables and cash and cash equivalent.

The effect of initially applying these standards is mainly attributed to the increase in impairment losses recognized on financial assets.

The following new and revised IFRS, which are effective for annual periods beginning on or after 1 January 2018, have been adopted by the Company:

3 Changes in significant accounting policies *(continued)*

a) IFRS 15: Revenue from Contracts with Customers

The Company has adopted IFRS 15 on the date of initial application i.e., 1 January 2018. As a result, the Company has changed its accounting policy for revenue recognition.

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found across several standards and interpretations within IFRSs. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company has adopted IFRS 15 using the cumulative method i.e., by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18, and related interpretations.

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

Revenue recognition

The Company has applied 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.

3 Changes in significant accounting policies *(continued)*

a) IFRS 15: Revenue from Contracts with Customers *(continued)*

Revenue recognition *(continued)*

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.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other finance costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

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

The 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. The 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.

The 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.

The 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.

3 Changes in significant accounting policies *(continued)*

a) IFRS 15: Revenue from Contracts with Customers *(continued)*

Revenue recognition *(continued)*

Cost of obtainment and fulfilment

The 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 the Company accounts for such costs using the other guidance.

The 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, the Company recognises these losses to the extent that the carrying amount of the asset exceeds the recoverable amount

Revenue from electricity and water distribution

Revenue represents fair value of income receivable in the ordinary course of business from the sale of electricity to the distribution companies and sale of water to the water departments, including unbilled revenue during the period from the last billing date to the end of the year and other electricity and water related revenue.

Total revenue in excess / (deficit) of the maximum allowed by the regulatory formula in accordance with the licensing requirements is deferred to the subsequent year and is shown as other payables / other receivables.

b) IFRS 9: Financial Instruments

The Company has also adopted IFRS 9 Financial Instrument resulting in a change in the classification and measurement of financial instrument and impairment of financial asset policy of the Company with a date of initial application of 01 January 2018. Until 31 December 2017, the Company applied the provisions of IAS 39: Financial instruments Recognition and Measurement for accounting its financial instruments. The total impact on the Company's retained earnings on adoption of IFRS 9 as at 01 January 2018 is RO 109,314.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fairvalue through other comprehensive income and fair value through profit or loss. IFRS 9 classification is generally based on the business model in which the financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories. See notes for an explanation of how the Company classifies financial assets under IFRS 9.

3 Changes in significant accounting policies *(continued)*

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

Classification of financial assets and financial liabilities (continued)

The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Company's financial liabilities. The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at 1 January 2018.

List of financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 RO '000	IFRS 9 impairment provision RO '000	New carrying amount under IFRS 9 RO '000
Trade receivables	Loans and receivables	Amortised cost	215,121	(174)	214,947
Cash and cash equivalent	Loans and receivables	Amortised cost	6,389	(4)	6,385
			221,510	(178)	221,332

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss model. The new impairment model also applies to certain financial guarantee contracts and other commitments but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

Initial recognition

Financial assets

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 account.

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 account:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

Notes to the financial statements

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3 Changes in significant accounting policies *(continued)*

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

Initial recognition *(continued)*

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 accounts

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 account.
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 income statement.

Subsequent measurement and gain or losses

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 income statement. Any gain or loss on derecognition is recognised in the income statement

Notes to the financial statements

3 Changes in significant accounting policies *(continued)*

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

Subsequent measurement and gain or losses *(continued)*

Financial assets *(continued)*

Financial assets at amortised cost: *(continued)*

i) 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 income statement. 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 income statement.

ii) Equity instruments

These assets are subsequently measured at fair value. Dividends are recognised as income in the income statement 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 income statement

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 income statement.

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 income statement. Any gain or loss on derecognition is also recognised in the income statement.

Reclassification

Financial assets

Company only reclassifies 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.

If the 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)*

b) 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 income statement.

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 income statement.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Company 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 income statement.

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 income statement 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

3 Changes in significant accounting policies *(continued)*

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

Derecognition *(continued)*

Financial assets *(continued)*

transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

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 income statement.

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 following instrument that are not measured through fair value through profit or loss account:

- Trade and other receivables;
- Due from related parties.

Measurement of loss allowances

The Company measures loss allowances on 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 the following bases:
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

- The Company has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs.

3 Changes in significant accounting policies *(continued)*

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

Measurement of loss allowances *(continued)*

• The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

- 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; or
- If it past due for more than 30 days.

• Loss allowances for trade and other receivables is always measured at an amount equal to lifetime expected credit loss.

• 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 borrower is unlikely to pay its credit obligations to the Company in full (based on indicator above). The final approach used for Expected Credit Loss under IFRS9 was simplified approach where default definition was aligned with external ratings. All exposures on account of trade receivables to the Govt. and hence considered very low on default probability

• 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.

Measurement of expected credit losses

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 income statement 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 is charged to the income statement or the statement of other comprehensive income as applicable. Loss allowance on loan commitments and financial guarantee contracts: generally, as a loss allowance;

3 Changes in significant accounting policies *(continued)*

b) 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.

Cash and cash equivalents

For the purpose of the statement of cash flows, all bank balances and short-term deposits with a maturity of three months or less from the date of placement are considered to be cash equivalents.

Impairment

Non-financial assets

The carrying amounts of the Company's non-financial assets other than inventories 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 recognised if the carrying amount of an asset or cash generating unit exceeds 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 specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4 Summary of significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Commercial Companies Law of 1974, as amended.

Basis of preparation

The financial statements have been prepared on the historical cost basis.

As at 31 December 2018 the total liabilities of the Company exceeded the total assets by RO 8,073 thousand (2017: RO 8,870 thousand) and current liabilities of the Company exceeded its current assets by RO 10,810 thousand (2017: RO 20,582 thousand). Management believes that the negative net equity arises only from the accounting for leases and the Company is solvent under the regulatory framework in which it operates. Ministry of Finance, under the Sector Law, has undertaken to secure the availability of the necessary finance for the Company to undertake its activities and achieve its objectives as long as its capital is wholly-owned by the Government, enabling the Company to continue to operate as a going concern for the foreseeable future and to discharge its liabilities to other parties, as they fall due and management has no reason to doubt such support will continue. Accordingly, these financial statements are prepared on a going concern basis and management has concluded that a material uncertainty in respect of going concern does not exist.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or areas where assumptions and estimates are significant to the financial statements are disclosed below.

The principal accounting policies are set out below.

4 Summary of significant accounting policies *(continued)*

Foreign currency translation

Items included in the Company's financial statements are measured and presented using Rial Omani (RO), which is the currency of the Sultanate of Oman, being the economic environment in which the Company operates (the functional currency). The financial statements are prepared in Rial Omani (RO), rounded to the nearest thousand.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss as they arise.

Property, plant and equipment

Recognition and measurement
Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment loss. Borrowing costs which are directly attributable to the acquisition of items of property, plant and equipment, are capitalised.

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

Any gain and loss on disposals of an item of property, plant and equipment is recognized in profit or loss.

Subsequent expenditure
Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Depreciation
Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

	Years
Finance lease assets	13 – 20
Furniture and equipment	2- 5
Motor vehicles	7

Work-in-progress
Work-in-progress is stated at cost. When the underlying asset is ready for use in its intended condition and location, work-in-progress is transferred to the appropriate property, plant and equipment category and depreciated in accordance with the depreciation policy of the Company.

4 **Summary of significant accounting policies** *(continued)*

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Trade payables

Trade payables are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognized in profit or loss on an effective yield basis. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise purchase cost and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated principally using the weighted average method.

Taxation

Income tax is calculated as per the fiscal regulations of the Sultanate of Oman.

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

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the year when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date. The tax effects on the temporary differences are disclosed under non-current liabilities as deferred tax.

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. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off.

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 recognised directly in equity.

4 **Summary of significant accounting policies** *(continued)*

Employees' benefits

A liability is recognised for benefits accruing to employees in respect of wages, salaries and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits are measured at their nominal value using the current remuneration.

Provision for employee benefits is accrued having regard to the requirements of the Oman Labour Law 2003, as amended, or in accordance with the terms and conditions of the employment contract with the employees, whichever is higher. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

End of service benefit for Omani employees are contributed in accordance with the terms of the Social Securities Law 1991 and Civil Service Employees Pension Fund Law. Gratuity for Omani employees who transferred from the Ministry of Housing, Electricity and Water on 1 May 2005 is calculated based on the terms expected to be agreed between the Holding company and the Government. An accrual has been made and is classified as a non-current liability in the statement of financial position.

Leases

The Company as a lessee

Operating leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease unless another systematic basis is more representative of the time pattern of the user's benefit.

Finance leases
Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The related property, plant and equipment is capitalised and depreciated in accordance with the applicable accounting policies of the Company.

Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Company as a lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

5 Significant accounting estimates and judgment

The preparation of financial statements in conformity with IFRS requires the 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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas requiring a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are set out below:

Depreciation
Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The assets held under finance leases are depreciated over the term of the lease.

Deferred Taxation
The Company makes provision for deferred tax liability during the term of the power purchase agreement, arising primarily due to timing difference between the cost as per regulatory framework based on which revenue is determined and the lease cost as per IAS 17.

Lease classification
The Company has entered into the agreements with the Power Generation and Water Desalination Companies. In accordance with the criteria provided in IFRIC 4, "Determining Whether an Arrangement Contains a Lease" ("IFRIC 4"), the Company assesses whether an agreement conveying a right to use an asset meets the definition of a lease. The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date or when there is a change in the arrangement. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. Based on the assessment the agreement is classified either as finance leases or operating leases. Leases are classified according to the arrangement and to the underlying risks and rewards specified therein in line with IAS 17.

Provision for impairment - Measurement of the expected credit loss allowance
Loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The company uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past experience and historical data, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the accounting policy above.

Significant increase in credit risk
While estimating ECL, the Company assumes that the credit risk on a financial asset has significantly increased since initial recognition, when there is an objective evidence or key risk indicators for these financial assets.

IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

The Company performed the following analysis to find objective evidence or key risk indicators of increased credit risk:

- The Company compares the risk of default occurring over the expected life of the financial assets at the reporting date to the corresponding risk of default at inception.
- Additional qualitative reviews have been performed to assess the significant increase in credit risk and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

6 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including price risk, foreign currency risk and interest rate risk), liquidity risk and credit risk. However, 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.

Credit risk, liquidity risk and market risk management is carried out by the Company under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Financial risk factors

Market risk

Price risk

The Company sells electricity to licensed distributors, and water to water departments, according to bulk supply tariffs determined annually by the Company and approved by the Authority for Electricity Regulation, Oman (AER). The Company determines bulk supply tariffs according to the cost-plus method following the principles as per its licence. Hence, the Company is not subject to significant price risk.

Foreign currency risk

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

Interest rate risk

The Company has bank deposits which are interest bearing and are exposed to changes in market interest rates. The Company carries out periodic analysis and monitors the market interest rates fluctuations taking into consideration the Company's needs. The Company's borrowings are short term in nature and subject to current market rates of interest. Further, the Company does not account for any fixed rate financial instrument at fair value, therefore a change in interest rate at the reporting date will affect profit or loss.

At 31 December 2018 and 2017, after taking into account, the effect of interest rate. For the short-term borrowings that are not hedged, if the interest rates on borrowings were to shift by +/- 0.5% there would be a maximum change in the finance cost for the year by RO 808 thousand (2017 - RO 578 thousand).

6 **Financial risk management** *(continued)*

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. The management maintains flexibility in funding by maintaining availability under committed credit lines. The management monitors the Company's liquidity by forecasting the expected cash flows.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the reporting date to the contractual maturities date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

The following are contractual undiscounted cash flows associated with financial liabilities.

31 December 2018	Carrying amount RO'000	Total contractual cashflows RO'000	Less than 1 month RO'000	1 - 3 months RO'000	3 months to 1 year RO'000	1 - 5 years RO'000	More than 5 years RO'000
Interest bearing:							
Finance lease liabilities	**142,361**	**250,913**	**2,323**	**4,646**	**20,905**	**92,967**	**130,072**
Short term loan	**190,040**	**195,160**	**65,040**	**125,000**	**5,120**	**-**	**-**
Non-interest bearing:							
Trade and other payables	**53,718**	**53,718**	**52,986**	**-**	**180**	**552**	**-**
Due to Ministry of Finance	**2,913**	**2,913**	**2,913**	**-**	**-**	**-**	**-**
Suppliers and contractor's payables	**5,974**	**5,974**	**5,974**				
	395,006	**508,678**	**129,236**	**129,646**	**26,205**	**93,519**	**130,072**
31 December 2017							
Interest bearing:							
Finance lease liabilities	165,473	290,214	3,275	6,550	29,475	105,253	145,660
Short term loan	136,000	139,976	47,000	89,000	3,976	-	-
Non-interest bearing:							
Trade and other payables	50,211	50,211	49,623	-	177	412	-
Due to Ministry of Finance	2,913	2,913	2,913	-	-	-	-
Suppliers and contractors payables	2,498	2,498	2,498	-	-	-	-
	357,095	485,812	105,309	95,550	33,628	105,665	145,660

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. The credit risk of the Company is primarily attributable to trade and other receivables, finance lease receivable, bank deposits and bank balances.

Trade and other receivables

The Company's exposure to credit risk on trade and other receivables is influenced mainly by the individual characteristics of each customer. The Company has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables. Trade receivables primarily represent amount due from licensed suppliers and water departments which are related parties and other water

6 **Financial risk management** *(continued)*

Credit risk *(continued)*

Trade and other receivables *(continued)*

departments. The Company does not consider this as an undue exposure since obligation of licensed suppliers, water departments and distribution companies water department is considered fully recoverable.

The exposure to credit risk for trade receivables at the reporting date by type of customer is:

	2018 RO'000	2017 RO'000
Trade receivables from related parties	**219,481**	204,940
Trade receivables – water sales	**12,837**	10,181
	232,318	215,121

Calculation of ECL provision for trade and other receivables- Simplified approach

31 December 2018	Expected credit loss rate %	Estimated total gross carrying amount at default RO'000	Lifetime ECL – credit-impaired RO'000	Net carrying amount RO'000
Baa3	**0.1125%**	**227,049**	**(259)**	**226,790**
Baa3	**100%**	**2,882**	**(2,882)**	**-**
Unrated	**0.2025%**	**2,387**	**(4)**	**2,383**
Total		**232,318**	**(3,145)**	**229,173**
31 December 2017				
		RO'000	RO'000	RO'000
Baa2 Negative	0.0765%	192,439	(147)	192,292
Baa3	0.1125%	20,886	(23)	20,863
Unrated	0.2025%	1,796	(4)	1,792
Total		215,121	(174)	214,947

Trade receivables are due within one month from the date of invoicing.

6 **Financial risk management** *(continued)*

Credit risk *(continued)*

Cash and cash equivalents

The Company held cash and cash equivalents of RO 22.3 million at 31 December 2018 (2017: 6.38 million). The cash and cash equivalent are held with bank and financial institution counterparties, which are rated Baa3, based on Moody's ratings.
Impairment on cash and cash equivalents has been measured on 12-month expected credit loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on external credit ratings of the counterparties.

Calculation of ECL provision for cash and due from bank - General approach

31 December 2018	**Expected credit loss rate %**	**Estimated total gross carrying amount at default RO'000**	**12 month ECL RO'000**	**Net carrying amount RO'000**
Baa3	**0.1125%**	**22,354**	**(24)**	**22,330**
31 December 2017				
Baa2 Negative	0.0765%	6,311	(4)	6,307
Baa2	0.0765%	78	-	78
Total		6,389	(4)	6,385

The Company did not identified any material impairment loss on other financial assets as at the reporting date.

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date is on account of:

	2018 RO'000	2017 RO'000
Assets as per statement of financial position		
Trade receivables	**232,318**	215,121
Other receivables	**4,388**	5,817
Cash at bank	**11,072**	6,389
	247,778	227,327

6 **Financial risk management** *(continued)*

Fair value estimation

The fair values of the financial assets and liabilities are not materially different from their carrying values.

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to provide an adequate return to shareholders.

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The capital structure of the Company comprises share capital, reserves, accumulated losses and shareholders' funds. The Company is not subject to external imposed capital requirements other than the requirements of the Commercial Companies Law of 1974, as amended.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the year. As disclosed in note 3, the Company has support from the Parent company.

7 Property, plant and equipment

	Finance lease assets RO '000	Furniture and equipment RO '000	Motor vehicles RO '000	Work-in-progress RO '000	Total RO '000
Cost					
1 January 2017	317,476	891	74	217	318,658
Additions	32,181	37	25	413	32,656
Transfers	-	217	-	(217)	-
Disposals	-	(29)	-	-	(29)
1 January 2018	**349,657**	**1,116**	**99**	**413**	**351,285**
Additions	**-**	**92**	**-**	**596**	**688**
Disposals	**(151,457)**	**(2)**	**-**	**-**	**(151,459)**
31 December 2018	**198,200**	**1,206**	**99**	**1,009**	**200,514**
Accumulated depreciation					
1 January 2017	182,077	587	74	-	182,738
Charge for the year	28,723	162	4	-	28,889
Disposals	-	(29)	-	-	(29)
1 January 2018	**210,800**	**720**	**78**	**-**	**211,598**
Charge for the year	**20,271**	**148**	**6**	**-**	**20,425**
Disposals	**(151,457)**	**(2)**	**-**	**-**	**(151,459)**
31 December 2018	**79,614**	**866**	**84**	**-**	**80,564**
Carrying amount					
31 December 2018	**118,586**	**340**	**15**	**1,009**	**119,950**
31 December 2017	138,857	396	21	413	139,687

8 Advances

Advance payments pertain to fixed capacity payments made in respect of power and water purchases under operating lease arrangement and represent total cumulative payments made to date reduced by the total cumulative charges to date recognised in the profit or loss.

9 Trade and other receivables

	2018 RO'000	2017 RO'000
Trade receivable from related parties (Note 26)	**219,481**	204,940
Trade receivables - water sales	**12,837**	10,181
Impairment losses	**(3,145)**	-
	229,173	215,121
Prepayments and others	**153**	166
Other receivables	**1,454**	1,480
Revenue recovered less than the maximum allowed as per price control formula (Power and water)	**22,342**	-
Interest on the revenue recovered less than the maximum allowed as per price control formula (power and water)	**387**	-
	253,509	216,767

As at 31 December 2018, RO 3,145 has been impaired (2017 - Nil).

Other receivables include following amount, which are recoverable in more than one year and carries commercial rate of interest 2%. The maturity schedule is as follows:

	2018 RO'000	2017 RO'000
Within one year	**1,454**	1,454
More than one year	**2,934**	4,363
	4,388	5,817

Movement in Impairment allowance on trade receivables

	2018 RO'000	2017 RO'000
Balance as at 1 Jan under IAS 39	**-**	-
Adjustment application of IFRS 9	**174**	-
Balance at 1 January per IFRS 9	**174**	-
Impairment during the year	**2,971**	-
	3,145	-

10 Cash and cash equivalents

	2018 RO'000	2017 RO'000
Cash at bank	**11,072**	6,389
Impairment losses	**(24)**	-
Cash on hand	**2**	2
	11,050	6,391

Movement in Impairment allowance on cash at bank

	2018	2017
Balance as at 1 Jan under IAS 39	**-**	-
Adjustment application of IFRS 9	**4**	-
Balance at 1 January per IFRS 9	**4**	-
Impairment during the year	**20**	-
	24	-

11 Share capital

The Company's authorised, issued and paid-up share capital consists of 500,000 shares of RO 1 each. The details of the shareholders are as follows:

	Percentage of shareholding	Number of shares issued	2018 RO	2017 RO
Electricity Holding Company SAOC	**99.99%**	**499,950**	**499,950**	499,950
Nama Shared Services LLC	**0.005%**	**25**	**25**	25
Nama Institute for Competency Development LLC	**0.005%**	**25**	**25**	25
	100%	**500,000**	**500,000**	500,000

12 Legal reserve

The legal reserve, which is not available for distribution is accumulated in accordance with Article 154 of the Commercial Companies Law 1974, as amended. The annual appropriation must be 10% of the net profit for each year after taxes, until such time as the reserve amounts to at least one third of the share capital. No portion from the profit has been made during the year as the Company has already achieved this minimum amount required in the legal reserve. This reserve is not available for distribution.

13 General reserve

In accordance with the Company's policy, an amount not exceeding 20% of the profit after transfer to legal reserve should be transferred to a general reserve until the balance of the general reserve reaches one half of the share capital, which has been achieved. This reserve is available for distribution to shareholders.

14 Shareholders' funds

Following the implementation of a decision of the Sector Law and in accordance with the transfer scheme, the Electricity Holding Company SAOC (holding company) received certain assets and liabilities from the Ministry of Housing, Electricity and Water (MHEW) on the transfer date (1 May 2005).

Subsequently, part of the assets and liabilities were transferred to the Company. The value of the net assets transferred is represented in the books as shareholders' funds. There is no contractual obligation on the Company to repay this amount.

15 Finance lease liabilities

Amounts payable under finance leases are as follows:

	2018 RO '000	2017 RO '000
Gross finance lease liabilities - minimum lease payments		
Not later than 1 year	**27,874**	39,300
Later than 1 year and not later than 5 years	**92,967**	105,253
Later than 5 years	**130,072**	145,661
	250,913	290,214
Less: future finance charges on lease liabilities	**(108,552)**	(124,741)
Present value of finance lease liabilities-minimum lease payments	**142,361**	165,473

At the commencement of each lease, the Company has recognised assets and liabilities to an amount equal to the estimated fair value of the finance leased assets. The finance expense on the lease liability is determined based on the effective interest method.

The present value of finance lease liabilities is as follows:

	2018	2017
Not later than 1 year	**13,907**	23,112
Later than 1 year and not later than 5 years	**40,460**	47,803
Later than 5 years	**87,994**	94,558
	142,361	165,473

16 Provision for employee benefits

	2018	2017
Non-current	**433**	615
Current	**98**	91
	531	706

Movement in provision for employee benefits

	2018	2017
Opening	**706**	659
Charge for the year	**79**	134
Reversal during the year	**(225)**	-
Payments made during the year	**(29)**	(87)
Closing	**531**	706

17 Deferred tax asset / (liability)

Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using a principal tax rate of 15%. The net deferred tax asset in the statement of financial position and the net deferred tax charge in the statement of profit or loss and other comprehensive income are attributable to the following items:

2018	At 1 January RO '000	(Charge) / credit for the year RO '000	At 31 December RO '000
Accelerated tax depreciation	**(10)**	**1**	**(9)**
Finance lease	**3,992**	**(426)**	**3,566**
Advance payment	**(1,144)**	**258**	**(885)**
Impairment allowance on financial assets	**-**	**476**	**476**
Tax losses	**174**	**(51)**	**121**
	3,012	**257**	**3,269**
2017			
Assets			
Accelerated tax depreciation	(15)	5	(10)
Finance lease	3,531	461	3,992
Advance payment	(1,216)	72	(1,144)
Tax losses	-	174	174
	2,300	712	3,012

18 Trade and other payables

	2018 RO '000	2017 RO '000
Accruals and other expenses	**53,232**	50,332
Trade payables to related parties (note 26)	**12,637**	15,476
Due to Ministry of Finance for excess funding received	**2,913**	2,913
Withholding tax payables	**17**	91
Revenue in excess of maximum allowed as per price control formula, deferred to next year	**-**	13,572
Interest on revenue in excess of maximum allowed as per price control formula	**-**	222
Suppliers and contractors payables	**5,974**	2,498
	74,773	85,104

19 Short-term loan

Borrowings	**190,040**	136,000

The Company has a short term bridge loan facility of RO 200 million from Bank Muscat and National Bank of Oman. The loan carries a rate of interest in the range of 3% to 5% (2017: 3% to 4%) per annum on commercial terms and is repayable in ninety days. The Company is not required to pay any arrangement or commitment fees. Borrowings are secured by letter of comfort given by the Holding company.

20 Revenue

	2018 RO'000	2017 RO'000
Bulk supply revenue for electricity (Note 26)	**652,111**	640,794
Bulk supply revenue for water	**127,699**	148,841
	779,810	789,635
Net under / (over) recovery in maximum allowed revenue as per price control formula	**36,136**	(27,806)
	815,946	761,829

21 Operating costs

Electricity capacity and output purchase costs	**619,102**	559,929
Desalinated water capacity and output purchase costs	**146,815**	141,595
Depreciation on finance lease assets	**20,271**	28,723
Other direct costs	**4,649**	4,636
	790,837	734,883

22 General and administrative expenses

Employee benefit expenses	**2,971**	3,027
Licence fee to the regulator	**782**	410
Service expenses	**1,014**	505
Directors' sitting fees	**25**	23
Depreciation	**153**	166
Gain on disposal of property, plant and equipment	**-**	-
Loss on termination of lease	**-**	-
Other expenses	**410**	348
	5,365	4,479

Employee benefit expenses

Salaries and allowances	**2,561**	2,487
Other benefits	**410**	540
	2,971	3,027

Included within employee benefit expenses is an amount of RO 54,424 (2017 - RO 83,739) relating to post employment benefit expenses.

23 Finance income

Interest on bank account	**43**	36
Interest on the revenue recovered less than the maximum allowed as per price control formula (power and water)	**387**	-
Other interest	**3,726**	486
	4,113	522

24 Finance costs

	2018 RO'000	2017 RO'000
Interest on obligations under finance leases	**16,189**	19,657
Other Interest	**1,337**	-
Interest on excess revenue billed over maximum allowed revenue under the price control formula	**-**	222
Interest on bank loans	**5,120**	3,976
	22,646	23,855

25 Taxation

Income tax is provided as per the provisions of the "Law of Income Tax on Companies" in Oman after adjusting for items which are not taxable or disallowed. The tax rate applicable to the Company is 15%. The deferred tax on all temporary differences have been calculated and dealt with in the statement of profit or loss and other comprehensive income.

	2018 RO'000	2017 RO'000
Current tax	**-**	14
Deferred tax (Note 17)	**(257)**	(712)
	(257)	(698)

The Company is liable to income tax in accordance with the income tax law of the Sultanate of Oman at the enacted tax rate of 15%. The following is a reconciliation of income taxes calculated on accounting profits at the applicable tax rate with the income tax expense for the year:

	2018 RO'000	2017 RO'000
Accounting Profit (loss) before tax	**1,734**	(852)
Tax debit (credit) on accounting profit (loss)	**(260)**	(128)
Tax related to prior year	**-**	22
Tax effect of change in tax rate	**-**	(586)
Other items	**3**	(6)
Tax income (expense) for the year	**(257)**	(698)

Taxation has been agreed with the Oman taxation authorities for all year up to 31 December 2012. The Company's income tax assessment for year 2013 to 2017 has not yet been initiated. The management considers that the amount of additional taxes, if any, that may become payable on finalisation of the open tax years would not be material to the Company's financial position as at 31 December 2018.

Movement in current tax provision is as under:

	2018 RO'000	2017 RO'000
Tax payable at beginning of the year	**-**	19
Current tax charge for the year	**-**	14
Tax paid during the year	**-**	(33)
Tax payable at end of the year	**-**	-

26 Related parties

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

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

The Government is a related party of the entity as it is the ultimate controlling party. The entity in the ordinary course of business transacts with other government owned entities. However, in view of the exemption from disclosure requirements set out in IFRS in relation to related party transactions and outstanding balances with the government, that has control or joint control of, or significant influence over the Company and an entity that is a related party of the same government, the Company has applied the exemptions in IAS 24, related to government entities and only disclosed certain information to meet the disclosure requirements of IAS 24.

The Company entered into transactions in the ordinary course of business with related parties, other affiliates and parties in which certain members and senior management have a significant influence (other related parties).

The Company maintains balances with these related parties which arise in the normal course of business. Outstanding balances at reporting date are unsecured and settlement occurs in cash.

Following is the summary of significant transactions with related parties during the year:

Revenue	2018 RO '000	2017 RO '000
Transactions with related parties under common ownership		
Mazoon Electricity Company SAOC	**187,082**	181,628
Muscat Electricity Distribution Company SAOC	**224,183**	218,514
Majan Electricity Company SAOC	**173,218**	171,046
Rural Area Electricity Company SAOC	**11,802**	9,734
Dhofar Power Company SAOC	**55,826**	59,872
	652,111	640,794
Public Authority for Electricity and Water	**118,403**	136,793

26 Related parties *(continued)*

Expenses	**2018 RO '000**	2017 RO '000
Transactions with related parties under common ownership		
Interest on finance lease to		
Al Ghubrah Power and Desalination Company SAOC	**139**	1,678
Electricity and water output purchases from		
Al Ghubrah Power and Desalination Company SAOC	**42,822**	42,392
Interest on finance lease to Wadi Al Jizzi Power Company SAOC	**483**	1,043
Interest on water output purchases from		
Public Authority for Electricity and Water	**2,270**	-
Electricity output purchases from		
Wadi Al Jizzi Power Company SAOC	**5,712**	10,014
Shared service charges to Nama Shared Services LLC	**118**	-
Training fees to Nama Institute of Competency Development LLC	**61**	7
Accounting service charges from Electricity Holding Company SAOC	**-**	38
	51,605	55,172

Balances with related parties under common ownership are as follows:

Related party receivables		
Muscat Electricity Distribution Company SAOC	**18,641**	15,706
Mazoon Electricity Company SAOC	**34,396**	37,112
Majan Electricity Company SAOC	**38,169**	19,316
Public Authority for Electricity and Water	**119,927**	125,830
Dhofar Power Company SAOC	**5,961**	5,180
Rural Area Electricity Company SAOC	**2,377**	1,786
Electricity Holding Company SAOC	**10**	10
	219,481	204,940

Related party payables		
Al Ghubrah Power and Desalination Company SAOC	**12,291**	14,007
Wadi Al Jizzi Power Company SAOC	**81**	1,052
Nama Shared Services	**29**	-
Electricity Holding Company SAOC	**236**	417
	12,637	15,476

26 Related parties *(continued)*

	2018 RO '000	2017 RO '000
Related party payables		
Balances with related parties under common ownership		
Finance lease payable to		
Al Ghubrah Power and Desalination Company SAOC	**-**	5,469
Finance lease payable to Wadi Al Jizzi Power Company SAOC	**-**	5,367
		10,836

Key management personnel compensation

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

	2018 RO '000	2017 RO '000
Short-term employee benefits	**718**	634
Post-employment benefits	**18**	29
Directors sitting fees	**25**	23
	761	686

27 Contingencies and operational liabilities

Operating lease commitments		
Not more than 1 year	**309,313**	265,699
More than 1 year but not more than 5 years	**1,199,108**	1,233,690
More than 5 years	**1,614,436**	1,889,167
	3,122,857	3,388,556

28 Approval of financial statements

The financial statements were approved by the Board and authorised for issue on _________ 2019.