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 2019

ISO 9001
BUREAU VERITAS
Certification

HIS MAJESTY
SULTAN HAITHAM BIN TARIK
- May God preotect -

HIS MAJESTY
SULTAN QABOOS BIN SAID
- May God rest his soul in peace -

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GLOSSARY

AER Authority for Electricity Regulation, Oman

BST Bulk Supply Tariff

COD Commercial Operation Date

DGC Dhofar Generating Company

DGW Dhofar Directorate General of Water

DPC Dhofar Power Company (SAOC)

DPS Dhofar Power System

EPC Engineering, Procurement, & Construction

GCCIA Gulf Cooperation Council Interconnection Authority

GWh GigaWatt Hour (1,000 MegaWatt Hours)

GPDC Al Ghubrah Power & Desalination Company (SAOC)

IFRS International Financial Reporting Standard

IPP Independent Power Project

IWP Independent Water Project

IWPP Independent Water and Power Project

kWh Kilowatt Hour(s)

MTC Medical Treatment Case

m^3 Cubic Metre(s)

MCM Million Cubic Metre

MIGD Million Imperial Gallons per day

MIS Main Interconnected System

MPS Musandam Power System

MOG Ministry of Oil & Gas

MWh Megawatt Hour

NH Nama Holding

OETC Oman Electricity Transmission Company (SAOC)

OMR Omani Rial

OPWP Oman Power & Water Procurement Company (SAOC)

PAW Public Authority for Water

PWPA Power & Water Purchase Agreement

PPA Power Purchase Agreement

QHSE Quality, Health, Safety, & Environment

RFQ Request for Qualification

RAEC Rural Areas Electricity Company (SAOC)

RFP Request for Proposal

Sm^3 Standard Cubic Metre(s)

TRC Total Recordable Case

WRA Wind Resource Assessment

01
ABOUT US

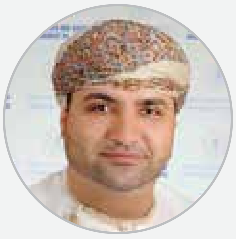
1.1 - Board of Directors & Executive Management

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 Water (PAW)

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
(Outgoing - part of the year)
Member of the Board
Other position: Group Chief Financial and Strategic Planning Officer, Oman Aviation Group

Mr. Vinod Sadhwani
(Incoming - part of the year)
Member of the Board
Other position: Chief Financial Officer (Acting), Nama Holding

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)

1.2 - Chairman's Foreword

Mr. Hamdan Bin Ali Al Hinai
Chairman of the Board

Dear Shareholders,

The Board Members have the pleasure of presenting the Board Report of Oman Power and Water Procurement Company SAOC for the year 2019.

Health, Safety and Environment

The Board considers health, safety, and environment to be a fundamental priority of OPWP's business. It notes that OPWP seeks to constantly evolve and improve in the HSE arena and has undertaken, in 2019, an extensive review of its policies, practices, documentation, and its HSE outlook to enhance and strengthen its existing practices, eliminate less efficient practices and instil, encourage and promote a culture where health, safety, and the environment is at the forefront of OPWP's business.

OPWP has always had and continues to have a strong desire to minimise any impact of its activities on the environment and the company ensures, by enforcing strict contractual terms, that all its power and water projects that have been built, owned and operated by international and local developers are required to comply with national and international standards for environmental management and emissions.

People

The Board believes that the success of the company is a result of the internal capabilities and expertise of the company employees who have worked expeditiously and efficiently to achieve the company's objectives while ensuring compliance with OPWP's statutory duties and obligations.

The health, safety, and wellbeing of our staff, and all people affected by OPWP's activities, plays an important and ever-increasing role in OPWP's behaviour and practices. As highlighted above, the Board continues to promote a company culture conducive to strong health, safety, and environment practices so that it is embedded in the heart and mind of every OPWP employee.

In relation to enhancing the training and knowledge of OPWP staff, the Board is pleased to report that in 2019 various initiatives and training have been implemented across the company to enhance the skill sets and expertise required by the company to continue discharging its obligations and operating its business successfully. The Board looks forward to 2020 in continuing to invest in the development of the internal capabilities and resources of the company through a well-structured approach aimed at achieving the most optimum outcome for both the company and the employee.

2019 Achievements

The year 2019 was another challenging but successful year for OPWP with the company accomplishing several major initiatives, including but not limited to:

- Execution of the Power Purchase Agreement relating to the 500 MW solar project, which will be located at Ibri. The project is scheduled to achieve commercial operation in the second half of 2021.
- Award of the Wind Resource Assessment project to install, commission, and operate monitoring stations at Duqm and Jalaan Bani Bu Ali that will facilitate the collection of ground wind data, which is critical to assess the viability of future wind projects in Oman.
- Receipt of bids for Al Ghubrah III IWP which are currently under evaluation, noting that Ghubrah III IWP is currently the biggest IWP ever procured by OPWP in the country with a capacity of 300,000 m^3/day.
- Receipt of bids for Barka V IWP which are currently under evaluation.
- Completion of capacity assessment analysis for Wadi Dayqah IWP.
- Completion of the pre-qualification process for bidders of Manah Solar I & II IPPs resulting in the qualification of nine consortiums.
- Receipt of binding commitments from the existing generators participating in the Power 2022 project, which should be noted reflects the new procurement process of OPWP to facilitate competition among existing generators with expiring power and water purchase agreements.
- Achievement of commercial operation of Sohar III IPP, with a production capacity of 1,700 MW, by Shinas Generating Company SAOC in May 2019.
- Achievement of commercial operation of Ibri IPP, with a production capacity of 1500 MW, by Ad-Dhahirah Generating Company SAOC in May 2019.
- Achievement of commercial operation of Sohar IV IWP, with a production capacity of 250,000 m^3/day, by Myah Gulf Oman Desalination Company SAOC in August 2019.
- Achievement of commercial operation of Dhofar Wind IPP, with a production capacity of 50 MW, by Tanweer in November 2019.
- Engagement in the enhancement of Oman electricity and water network security system by ensuring the implementation of cyber security in all the power and water plants.
- Heavily participated in ensuring the reliable operation of plants during emergencies such as cyclone Hikaa and cyclone Kyarr, by closely monitoring the adverse conditions and coordinating with relevant authorities.
- Achievement of great milestones in the development of the Oman electricity spot market noting that the first milestone for the detailed requirements gathering, completion of high-level and low-level design requirements for the market management system was completed in April 2019.
- Completion of the various initiative to develop capabilities of Omanis at all levels.
- Initiated the process of the development of the automatic invoices verification system which will result in optimising and making the invoicing process more efficient.
- Consolidated the implementation of lean principles in OPWP's business and transferring knowledge to OPWP employees on the benefits of lean.

Financial Highlights

With the adoption of IFRS 16 Leases from January 2019, the financial statements have been significantly affected by changes in the accounting treatment of its Power and Water Purchase Agreements from operating leases to finance leases. As at 31 December 2019, the total liabilities of the company exceeded the total assets resulting in negative equity of RO 38 million. The negative net equity arises only from the accounting treatment for leases, and OPWP is solvent under the regulatory framework in which it operates.

During 2019, OPWP faced severe liquidity challenges due to delays in payment by its customers, triggering the need for additional working capital facilities to be obtained by OPWP.

Additionally, Moody's Investors Service downgraded OPWP's rating from Baa2 with a negative outlook to Ba1 with a negative outlook in 2019. 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 the credit rating outlook for Oman nationally and did not result from any OPWP specific issue.

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 the efficient and effective management and leadership, the Audit Committee (which reports to the Board) oversees the internal controls and risk management of the company with the assistance of independent internal auditors.

A recent audit was conducted on corporate governance of the company, which revealed and confirmed that there are adequate internal control systems in place to protect the interests of the shareholders, the Board, the staff, and external stakeholders.

Furthermore, the OPWP Board Manual has been amended to reflect the positive changes resulting from the promulgation of the Commercial Companies Law through Royal Decree number 18/2019, which has enhanced the statutory framework of corporate governance under Oman law.

Future Outlook

OPWP has several key priorities and projects during 2020 that it will work on achieving, which includes the following:

- Continuing to improve the quality, health, safety and environment function within the company where OPWP will commence the planning and execution of a sector-wide workshop to involve all stakeholders with the aim of establishing a platform to have a collaborative and mutually beneficial consultative process on health, safety and environment improvements and best practices.

- Continuing the development of the Oman electricity spot market for the best interest of the sector and Oman. In 2020, OPWP will be initiating the relevant and necessary tests of the market management system that will facilitate the operation of the spot market.
- Awarding Al Ghubrah III IWP and executing the project agreements with the successful bidder.
- Awarding Barka V IWP and executing the project agreements with the successful bidder.
- Initiating the procurement process for Masirah IWP.
- Initiating the procurement process for Dhofar IV IWP.
- Determining and initiating the optimum approach towards meeting the capacity requirement of the year 2024.
- Concluding the Power 2022 procurement process and awarding to the successful bidder(s).
- Concluding Manah Solar I & II IPP's procurement process and awarding to the successful bidder(s).
- Commissioning of Salalah III IWP and achievement of commercial operation, with a production capacity of 113,650 m^3/day.
- Continuing to efficiently manage plants under operation in order to ensure the reliability of capacity and successful coordination during emergencies.
- Initiating phase two of the development of the automatic invoices verification system.
- Initiating the first black belt lean project that will embed the lean culture and principles in the organisation and the employees.

Considering the future objectives and goals of OPWP, the Board is confident that these can be achieved with the on-going support of OPWP shareholders and its relevant stakeholders.

Acknowledgements

The Board wishes to express its sincerest gratitude to the executive management of OPWP and the employees whose commitment and dedication have enabled the company, despite the challenges, to achieve yet another successful year. The Board is confident that with their relentless hard work, OPWP will continue to succeed in the year 2020 and beyond.

The Board would like to thank the Electricity Holding Company (NAMA Holding), Public Authority for Water, and other affiliated Government agencies and sector companies for their on-going support and positive collaboration. The Board would also like to sincerely extend its appreciation to OPWP's counterparties, the developers of the I(W)PPs, as well as OPWP's customers, for their continued contribution to OPWP's accomplishments and goals this year and beyond.

Finally, the Board on behalf of OPWP would like to take this opportunity to confirm its utmost allegiance and devotion to His Majesty Sultan Haitham Bin Tarik and the Government of Oman for their continuous guidance and relentless support in the pursuance of the development and improvement of Oman including the electricity and water sectors in the Sultanate.

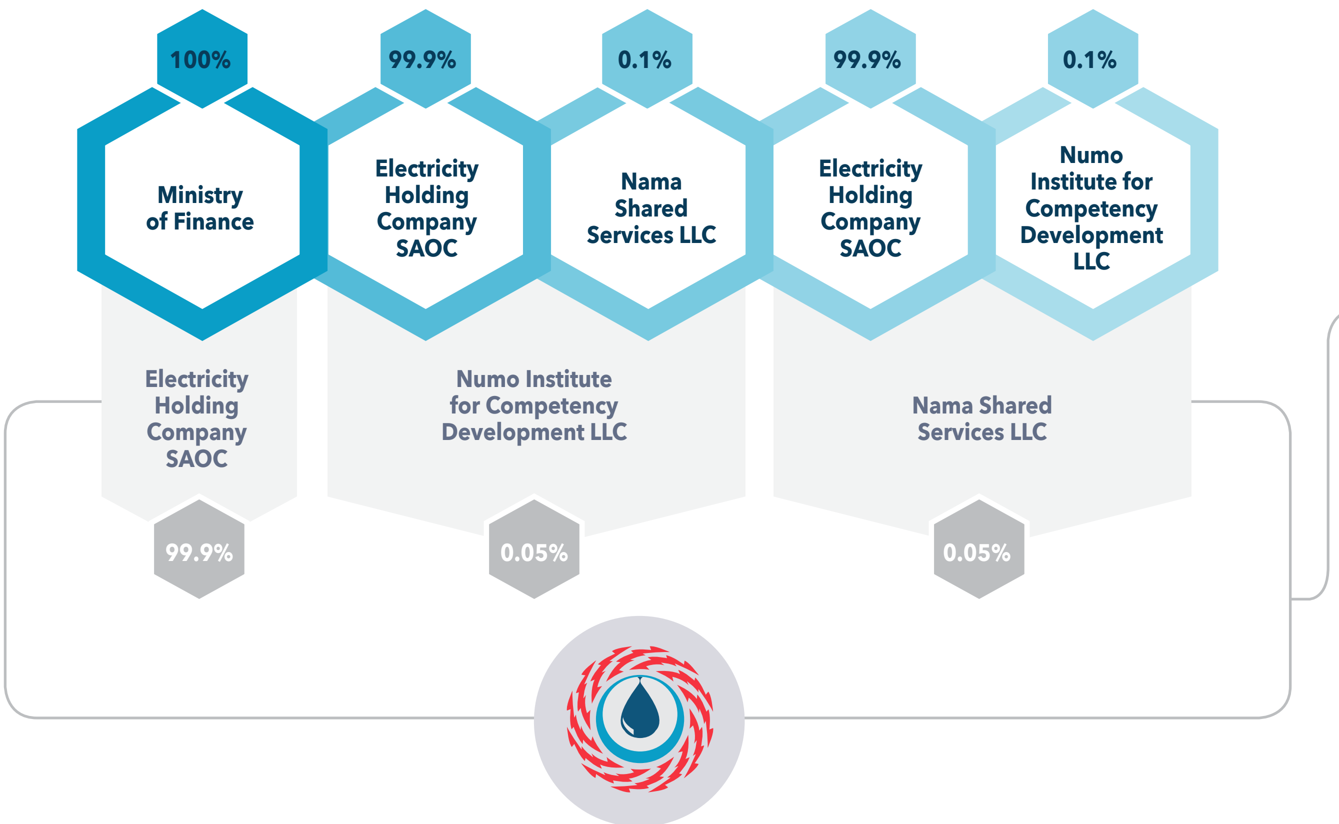
1.3 - Company Profile

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 has a capital of OMR 8,100,000 (Eight Million Hundred Thousand Omani Rials) divided into Eight Million 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.

Figure: 01 - Shareholder's Structure



1.3.2 - Licenced Activities

The Company is carrying out the activities as stated in its licence and in accordance with the Sector Law promulgated by Royal Decree 78/2004 as amended from time to time.

Figure: 02 - Licenced Activities

1.4 - Company's Strategy

1.4.1 - Vision & Mission Statements

Figure: 03 - Visions & Mission Statements

1.4.2 - Values

In addition to the group values, the company is committed to achieve its mission through the following governing values:

Figure: 04 - Values

Integrity
OPWP pursues sound moral and ethical principles at work. We direct our work in the most honest, transparent, fair and responsible manner.

Excellence
OPWP set the highest expectations of ourselves and demand more of ourselves than our stakeholders do.

Continuous Improvement
OPWP is committed to constantly improve its products, processes and services over time - there is always a way to do it better. We empower and motivate our employees to continuously seek opportunities for improvement.

Dependability
OPWP is reliable in achieving its mission and more whenever needed.

1.4.3 - Strategic Objectives

Figure: 05 - Strategic objectives

1 **Reliability**
To ensure adequate, agile, and reliable power procured at the most economic cost.

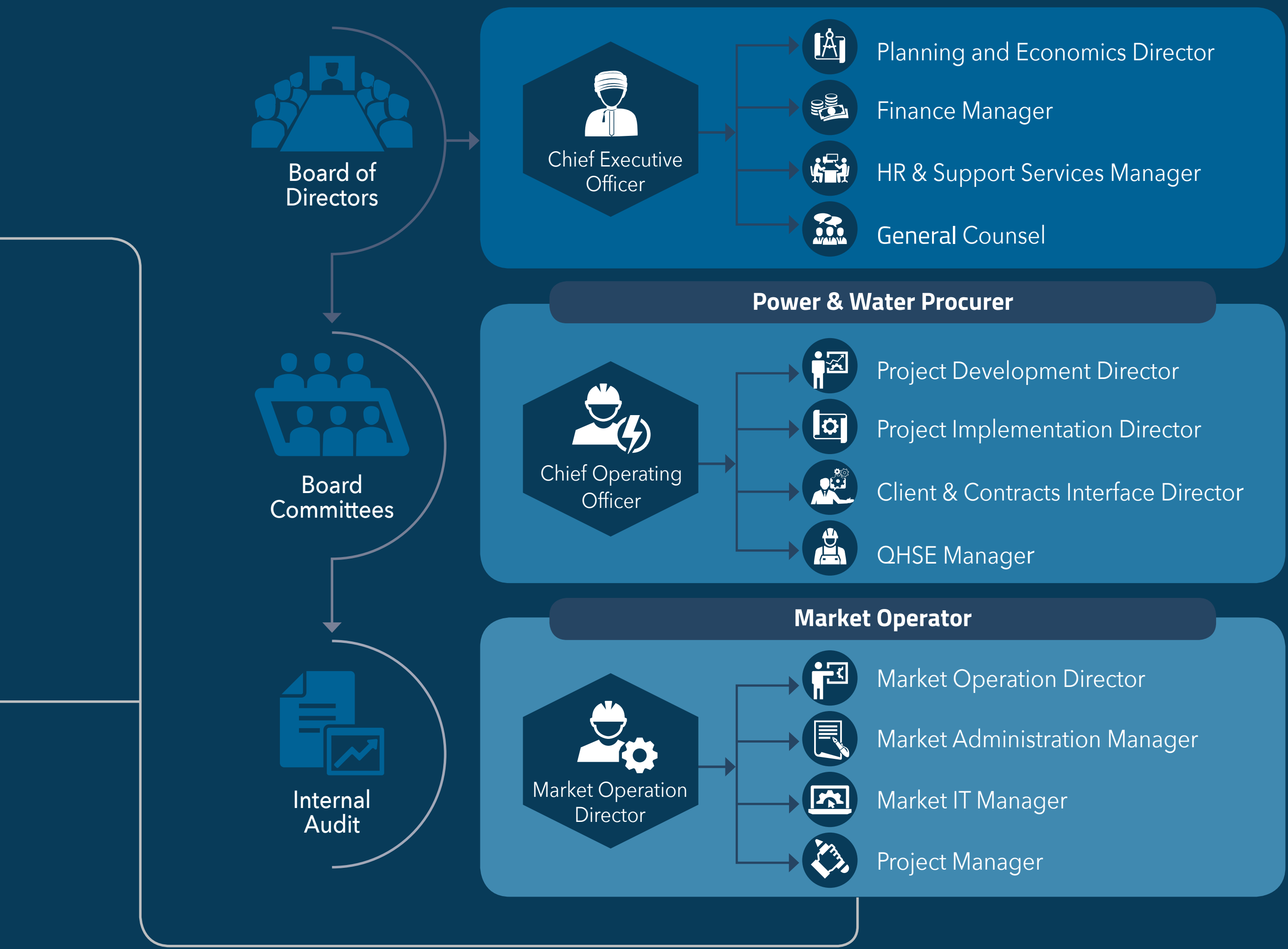
2 **Cost Efficiency**
To procure reliable water capacity at the most economic cost.

3 **Sustainability**
To sustain our business through a strong and competent workforce, a dependable partnership with relevant stakeholders, and a continuous care for the health, safety and the environment.

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: 06 - 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 place before 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 to the Contracts department to manage the contracts for the remaining life of the contract.
- **Client Contracts & Interface:** 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 (PAW), Ministry of Gas (MOG), Ministry of Environment and Climate Affairs, Oman Electricity Transmission Co. (OETC) as and when required.
- **Market Operator:** The core scope of the Market Operator 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.

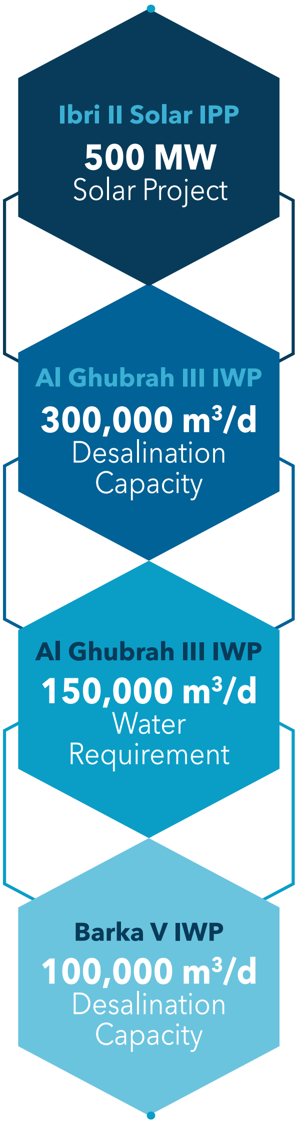
1.5.3 - Support Functions

- **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 financial statements, regulatory financial statements to meet its legal and licence requirements.
- **Regulatory and Compliance:** Regulatory and Compliance 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 & SS 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 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.

02
BUSINESS REVIEW

2.1 - Significant Achievements of the Year 2019

During 2019, the Company was engaged in a number of key projects and strategic initiatives, of which the significant achievements are summarized below.



- **Ibri II Solar IPP:** OPWP awarded the 500 MW solar project to ACWA Power, Gulf Investment Corporation, and Alternative Energy Projects Company Consortium in April 2019. The project is currently under construction and is scheduled to achieve COD in June 2021. It is noted that the solar project serves as part of the implementation of a renewable energy development plan, which is updated annually by OPWP.

- **Wind Resource 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 the wind resources. OPWP awarded the services to Bahwan Enterprises LLC on the 6th of October 2019. MET Towers were installed subsequently in Jaalan Bani Bu Ali and Duqm, and OPWP started receiving wind resource data in February 2020. This serves as part of the implementation of the renewable energy development plan that was initially developed in 2018 and updated annually.

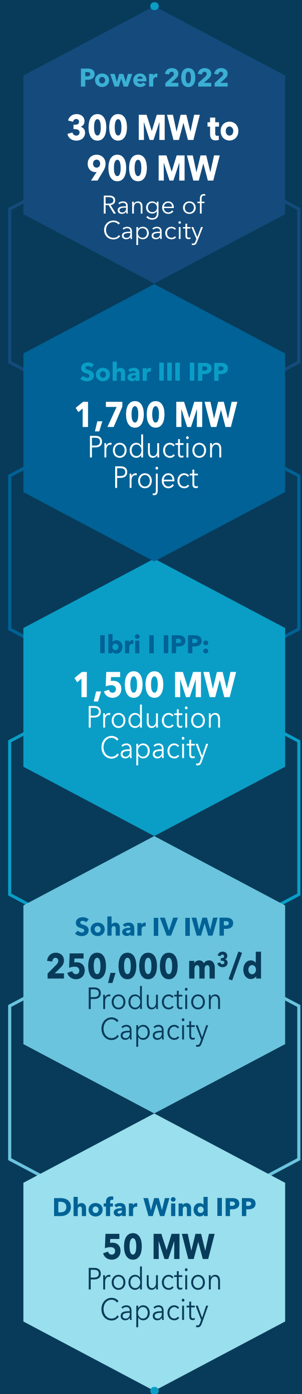
- **Al Ghubrah III IWP:** OPWP released the RFP for the development of Al Ghubrah III IWP with a desalination capacity of 300,000 m^3/d. The bids were subsequently received on the 18th of December 2019. The scheduled COD for the project is targeted for Q4 2023, with an early water requirement of 150,000 m^3/d on Q2 2023.

- **Barka V IWP:** OPWP released the RFP for the development of Barka V IWP on the 19th of May 2019 with a desalination capacity of 100,000 m^3/d. The bids were subsequently received on the 10th of October 2019. The preliminary evaluation of the Bids was completed towards the end of 2019. The scheduled COD for the project is targeted for Q2 2023.

- **Wadi Dayqah IWP:** OPWP completed the capacity assessment analysis for the water project.

- **Manah Solar I & Manah Solar II IPPs:** Continuing the journey of implementing the renewable energy development plan initially developed in 2018, OPWP issued the Request for Qualification ("RFQ") for the development of Manah Solar I and Manah Solar II IPPs in July 2019 and completed the qualification process in December 2019, with nine prequalified Applicants for the two projects. Each project will have a capacity of about 500 MW, and both projects are expected to achieve Commercial Operation Date ("COD") in Q2 and Q3 2023, respectively.

- **Power 2022:** As an implementation of the new procurement strategy for power and related water projects involving existing generators, OPWP released Request for Existing Plant Pre-Qualifications (REPPQ) in June 2018. The REPPQ stage was completed in March 2019 with the four participating generators being qualified to move to the next stage of the competition. It was also concluded that there is no requirement for new capacity given the reduction of demand forecast and the level of commitment from the existing generators, and all of the capacity will be secured from existing plants that will be out of contract in 2021 and 2022 with a range of capacity from 300 MW to 900 MW. The Power 2022 RFP was released to the existing generators on the 16th of October 2019.
- **Sohar III IPP:** Successful ccommissioning of Sohar III IPP with a production capacity of 1,700 MW by Shinas Generating Company in May 2019.
- **Ibri I IPP:** Successful commissioning of Ibri I IPP with a production capacity of 1,500 MW by Ad-Dhahirah Generating Company in May 2019.
- **Sohar IV IWP:** Successful ccommissioning of Sohar IV IWP project with a production capacity of 250,000 m³/day by Myah Gulf Oman Desalination Company in August 2019.
- **Dhofar Wind IPP:** Successful commissioning of the first wind plant (Dhofar Wind IPP) with a production capacity of 50 MW by Tanweer in November 2019.



Other initiatives

- Engaged in the enhancement of Oman Electricity and Water network security system by ensuring implementation of Cyber Security in all Power and Water Plants.
- Ensured reliability of operation of plants during emergency conditions, such as Cyclone Hikaa and Cyclone Kyarr, by closely monitoring the adverse conditions and coordinating with relevant authorities.
- Oman Electricity Market (Spot Market): The Market Management System (MMS) high-level and low-level design requirements were completed on April 2019 and MMS development activities commenced as per target dates.
- Automatic Invoice Verification System: OPWP has appointed a consultant to develop the automatic Invoice Verification system. The system will automate the verification process of the monthly power and water invoices received from the Project Companies as per the respective Purchase Agreement(s).

Lean Initiatives:

OPWP implemented several lean Initiatives during 2019 as under:

- Continuation of improvement in the Bulk Supply Tariff Process.
- Continuation of improvement in the Project Development Process.
- The development of the RFQ database to support the design of MERs.
- The improvement of stakeholders' management.
- The improvement of HSE Management during construction & commissioning phases.
- The improvement in tracking of lessons learned in the projects
- The improvement in the plant outages process and setting specifications for the outage platform.
- Digitization and document sharing, e.g., OneDrive, MS Team, Central Workspace (CWS).

- **2020 Electricity BST:** Electricity Bulk Supply Tariff (BST) is prepared and submitted to the AER in-line with OPWP's License Obligations. This Tariff represents OPWPs' cost of procurement and generation. Based on the demand forecast, the BST for 2020 is estimated to be 5% lower than the underlying 2019 tariffs. AER approval was obtained in December 2019.

- **Improvements in Fuel Utilization:** The 2019 target of fuel utilisation has been achieved, and the improvement was around 10.6% compared to the previous year. For MIS, total gas consumption at the main power and desalination plants in 2019 was around 6.58 billion Sm^3, equivalent to 18.03 million Sm^3/d and it is about 11% less compared to 2018. This was due to the start of the commercial operation of Sohar III IPP, Ibri I IPP, and Sohar IV IWP. Furthermore, DPS gas consumption in 2019 was 796 million Sm^3, equivalent to 2.2 million Sm^3/d and it is about 7% higher than in 2018. This is in line with an 11% increase in electricity production.

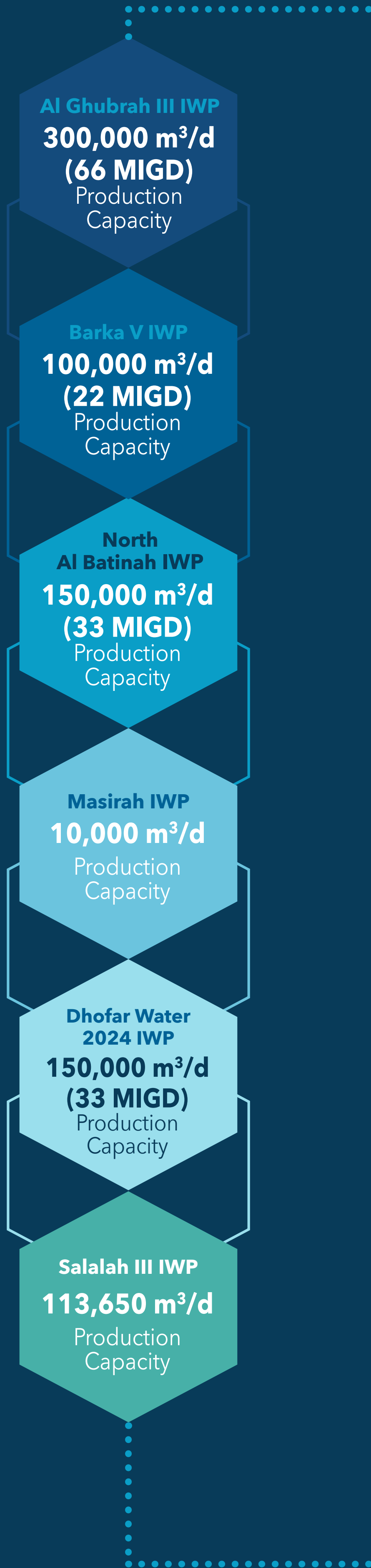
- **2018 Resource Options Study:** Aimed at updating OPWP's understanding of global market trends for different electricity generation technologies, OPWP has routinely commissioned a Resource Options Study once every four years. The latest study was commissioned in 2018 and the final report was submitted in 2019. In addition to current and future price trends of energy generation technologies, such as gas turbines and solar CSP, the latest study also investigated price trends of energy storage technologies.

Improvements in Fuel Utilization
6.58 billion Sm^3

Al Ghubrah III IWP
300,000 m^3/d
Desalination Capacity

2.2 - 2020 Key Priorities

- **HSE:** OPWP is continuing to improve the quality, health, safety and environment function within the company where it will commence the planning and execution of a sector-wide workshop to involve all stakeholders with the aim of establishing a platform to have a collaborative and mutually beneficial consultative process on health, safety and environment improvements and best practices.
- **Oman Electricity Market (Spot Market):** OPWP continue to develop the Oman Electricity Market in conjunction with industry stakeholders. The Market Management System (MMS) is under development. The Market Operator organisation establishment, which is intended to be a ring-fenced department within OPWP, is progressing and coordination work is ongoing with other key stakeholders including, AER, OETC, Generators and Auto-generators. The market is scheduled to begin the operational trials early 2021 and commercial operation is targeted by the third quarter 2021.
- **Al Ghubrah III IWP:** This project, with a capacity of 300,000 m^3/d (66 MIGD), is planned at Al Ghubrah area. The Project is expected to be awarded by Q3 2020, followed by the execution of project agreements.
- **Barka V IWP:** This project, with a capacity of 100,000 m^3/d (22 MIGD), is planned at Barka area. The Project is expected to be awarded by Q3 2020, followed by the execution of project agreements.
- **North Al Batinah IWP:** This project, with a capacity of 150,000 m^3/d (33 MIGD), is planned to be located in Sohar Industrial Port area, with COD planned for Q2 2025.
- **Masirah IWP:** This project, with a capacity of 10,000 m^3/d, is planned at Masirah using RO technology, with COD planned for Q4 2023. The project is a replacement for the existing Tanweer facility currently operational on the island. The project also includes a reservoir as well as a 4 km transmission line.
- **Dhofar Water 2024:** This project, with a capacity of 150,000 m^3/d (33 MIGD), is planned at Rusayl area using RO technology, with SCOD planned for 2024. The RFQ is anticipated in Q3 2020.
- **Power 2022:** As the Power 2022 RFP was released in October 2019 with a targeted to conclude the procurement process by mid-2020.
- **Salalah III IWP:** Commissioning of Salalah III IWP with a production capacity of 113,650 m^3/day with SCOD planned for October 2020.



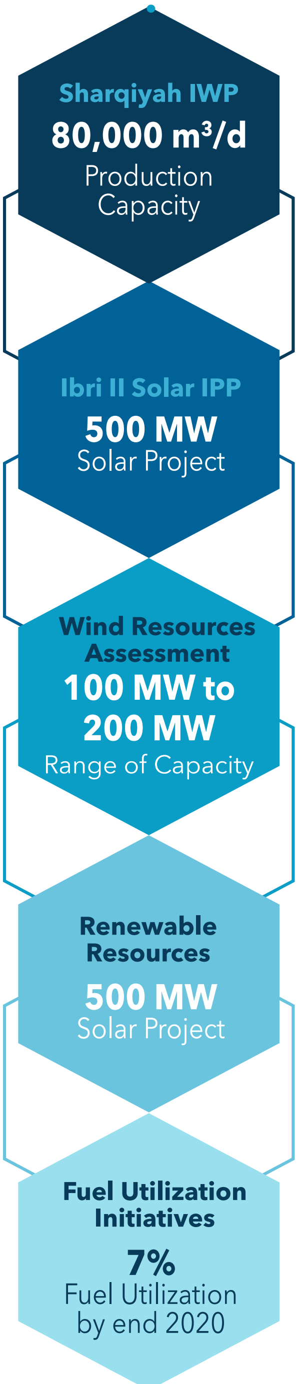
- **Manah Solar I IPP & Manah Solar II IPP:** With the prequalification process completed in 2019, OPWP is targeting the issuance of RFP in 2020.

- **Sharqiyah IWP:** OPWP will continue to monitor the progress of the construction of Sharqiyah IWP, with a capacity of 80,000 m^3/d, and is scheduled to achieve SCOD in April 2021.

- **Ibri II Solar IPP:** OPWP will continue to monitor the progress of the construction of 500 MW Ibri II Solar project, which is scheduled to achieve SCOD in June 2021.

- **Automatic Invoice Verification System:** OPWP intends to capture all requirements under various power and water purchase agreements to develop a RFP and release it to the market during 2020.

- **Wind Resources Assessment:** For 2020, OPWP will be collecting and analysing the data received from the installed MET stations and will ensure that the data collected will be issued monthly and made publicly available through its website, similar to what was done for the solar monitoring sites in Adam and Manah. OPWP looks to utilize the data from the WRA sites to potentially develop wind projects with a capacity range between 100 MW and 200 MW.



- **Renewable Resources:** OPWP is continuing to update its Renewable Development Strategy (road map) and obtain approvals from the relevant. OPWP has kicked-off implementing wind resource assessment on selected sites for data collection. Upon the collection of adequate amounts of wind data, OPWP may conduct a feasibility study for wind power projects across a number of locations. Additionally, OPWP has recently awarded a 500 MW solar project and is in the process of procuring two additional solar projects.

- **Fuel Utilization Initiatives:** OPWP is planning to achieve a 7% improvement in fuel utilization by end 2020.

- **Secure GCCIA Member Benefits:** There are several expected benefits of the interconnection. These include firm support during emergencies, 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.

GCCIA is conducting a detailed study of a second interconnection to connect Oman directly from Ibri to Salwa (KSA). The proposed link is a 400 KV DC link of about 700 km. The study's initial outcomes indicate that the net transfer capacity to Oman will increase from 400 MW to about 1,600 MW. Accordingly, it is expected that the two interconnects would contribute more to the planning reserves requirements.

Lean Initiatives:

While sustaining previous improvements, OPWP will continue to improve processes by applying lean thinking. There is also a focus on strategic projects which includes, but is not limited to, the following:

- Supporting the success of the integration of departments.
- Improvement of Procurement Cycle for tenders that fall under Sub-ITC & PWG committees and the implementation of E-procurement system (EPS).
- The involvement of supporting departments in the Lean journey through workshops and continuous improvement projects.
- Wide implementation of MS Teams, digitization, and asset utilization across departments.
- Clearance of old physical documents from OPWP offices and the structuring of electronic files, in accordance with the relevant rules and regulations.
- Continue improving the Quality, Health & Safety and Environment function within the company.
- Continue managing plants under operation, ensuring the reliability of capacity and smooth coordination during emergencies.

03

FINANCIAL HIGHLIGHTS

Regulatory Framework

Table: 1 - Where money comes from

OMR '000	2019	2018
Bulk Supply Revenue (Power)	690,326	663,408
Bulk Supply Revenue (Water)	140,297	152,539
Others	1,011	4,161
Total	**831,634**	**820,108**

Figure: 7 - Source of Cash

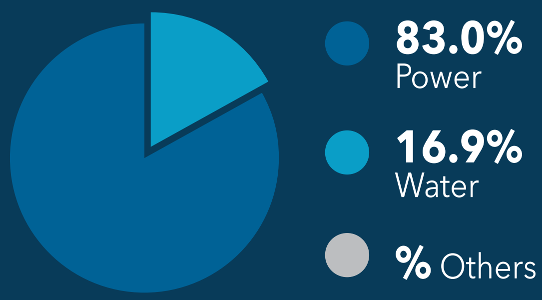
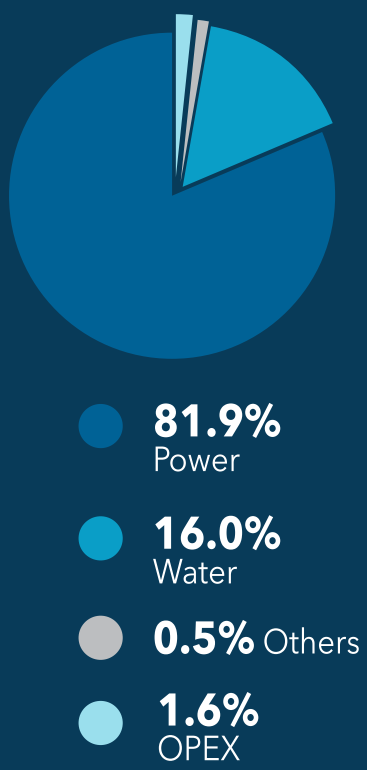


Table: 2 - Where money goes

OMR '000	2019	2018
Power Purchase Cost	681,148	657,797
Water Purchase Cost	133,022	145,696
Other Cost	4,075	4,650
OPEX and others	13,668	14,707
Total	**831,913**	**822,850**
Profit/(loss) before Tax - Regulatory framework	(279)	(2,742)
Net implications of IFRS 9 & IFRS 16	(40,992)	1,008
Profit/(loss) before Tax – IFRS	(41,271)	(1,734)

Figure: 8 - Application of Cash

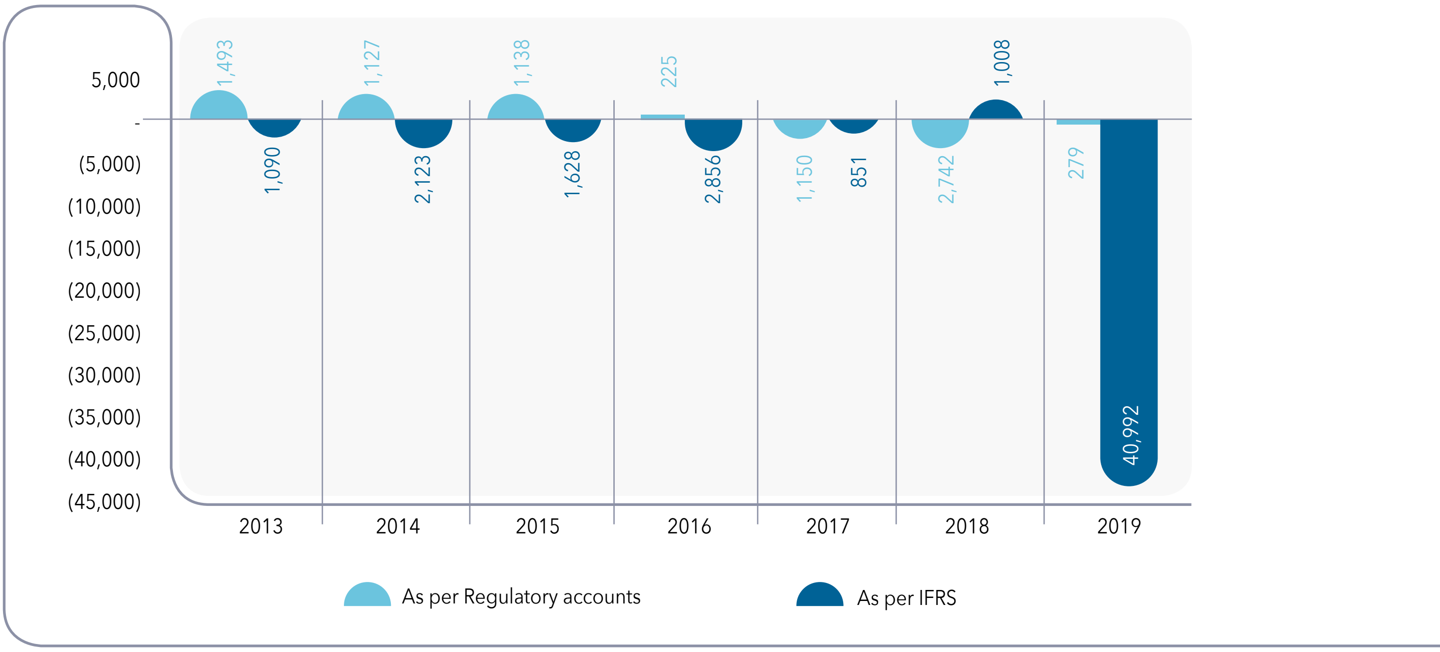


OPWP is a counterparty to various long-term take-or-pay power and water purchase agreements. From 2019 onwards, these long-term contracts are treated as finance leases under IFRS 16, which require capitalising the leases assets and lease liabilities and amortising the leased assets throughout the agreement period and lease liabilities based on the incremental borrowing rate. Furthermore, the bulk supply agreement with water departments is recognised as sub-leases under IFRS 16. The regulatory framework, however, recognises the contractual payment obligations under long term power and water purchase agreements as cost and allows for its recovery through bulk supply revenue under the price control.

In the financial statements, OPWP recognises the revenue for electricity for MIS and Dhofar system as per the price control, which is based on the payment obligations approach and, on the other hand, recognises the cost based on finance lease accounting, i.e., depreciation on leased assets and interest on lease liabilities. The loss in the income statement and accumulated losses in the balance sheet is primarily due to the mismatch in the basis of accounting revenues and costs for electricity. Concerning water, both the revenue and cost of water is recognised based on lease and sub-lease accounting respectively under IFRS 16, and hence it does not have any impact on the net profit. Similarly, the electricity revenue and costs for Musandam IPP is respectively recognised as lease and sub-lease under IFRS 16 and has no impact on the bottom line of the income statement. The below chart reflects the profitability position measured based on the two frameworks over the last seven years. In 2019, the company made a net profit before tax of OMR 124K calculated under the regulatory framework.

Figure: 9 - Profit Before Tax - Regulatory Framework Vs IFRS

Profit Before Tax OMR '000



Credit Ratings

During 2019, Moody's Investors Service downgraded their rating from Baa3 with a negative outlook to Ba1 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 treatment of the long-term agreements under IFRS 16 - Leases in the OPWP books and conclude that these do not have any effect on the company's ability to meet its obligations under the legal and regulatory framework.

04

OPERATIONAL HIGHLIGHTS
(AS PER REGULATORY FRAMEWORK)

4.1 - Electricity, Cost & Revenue

Purchase Cost - MIS, DPS & MPS

There was a marginal increase in the purchase cost for MIS primarily due to the commissioning of two new IPPs, whereas an increase in energy demand is the key driver for the rise in cost for DPS. The increase in cost for MPS is mainly due to a full-year operation of Musandam IPP in 2019.

Table: 3 - Purchase Cost

Particular	Units	2019	2018	Variance
Main Interconnection System (MIS)				
Cost of Purchase	OMR' 000	558,634	544,710	3%
Units Purchased	GWh	32,834	32,835	0%
Average Cost per MWh	OMR	17.014	16.589	3%
Dhofar Power System (DPS)				
Cost of Purchase	OMR' 000	104,496	99,434	5%
Units Purchased	GWh	3,442	3,143	10%
Average Cost per MWh	OMR	30.36	31.63	-4%
Musandam Power System (MPS)				
Cost of Purchase	OMR' 000	18,017	13,654	32%
Units Purchased	GWh	394	344	15%
Average Cost per MWh	OMR	45.67	39.72	15%

Revenue - MIS, DPS & MPS

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 is carried forward and adjusted as a correction factor in the following year. Thus, the 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. For the bulk supply tariff, the cost of MIS and DPS is combined to determine the bulk supply tariff for electricity for MIS and DPS. In contrast, the cost of Musandam is ringfenced and recovered separately through the bulk supply tariff for Musandam.

Table: 4 - Bulk Supply Revenue

Particular	Units	2019	2018	Variance
Main Interconnection System (MIS)				
Bulk Supply Revenue for MIS (Power)	OMR' 000	592,892	584,484	1%
Units Sold	GWh	32,834	32,835	0%
Bulk Supply Revenue per MWh	OMR	18.06	17.80	1%
Dhofar Power System (DPS)				
Bulk Supply Revenue for DPS (Power)	OMR' 000	61,320	55,825	10%
Units Sold	GWh	3,442	3,143	10%
Bulk Supply Revenue per MWh	OMR	17.82	17.76	0%
Musandam Power System (MPS)				
Bulk Supply Revenue for MPS (Power)	OMR' 000	20,709	11,802	75%
Units Sold	GWh	394	344	15%
Bulk Supply Revenue per MWh	OMR	52.50	34.34	53%

4.2: Water - Cost & Revenue

OPWP sells water to the PAW 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 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.

Table: 5 - Water

Particular	Units	2019	2018	Variance
Cost of Purchase	OMR' 000	133,022	145,696	-9%
Water purchased	000 m^3	340,198	313,747	8%
Average Cost per m^3	OMR	0.391	0.464	-16%
Bulk Supply Revenue (Water)	OMR' 000	139,974	127,699	10%
Bulk Supply Revenue per m^3	OMR	0.411	0.407	1%

05 OPERATIONAL PERFORMANCE

5.1 - Procurement & 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 (2019)

Project Name	Project Company	Contract Type	Project Status	Contract Expiry	Contracted Capacity	
	MIS and MPS				**(MW)**	**(MIGD)**
Al Kamil IPP	Al Kamil Power Co. (SAOG)	PPA	Operational	2021	291	-
Barka II IWPP	SMN Barka Power Co. (SAOC)	PWPA	Operational	2024	688	26.4
Barka III IPP	Al Suwadi Power Co. (SAOG)	PPA	Operational	2028	766	-
Barka IWPP	ACWA Power Barka (SAOG) Incl. expansion	PWPA	Operational	2021	397	42.5
Ibri II Solar IPP	Shams Ad-Dhahirah Generating Company (SAOC)	PPA	Under Construction	2035	500	-
Ibri IPP	Ad-Dhahirah Generating Company (SAOC)	PPA	Operational	2034	1,539	-
Manah IPP	United Power Co. (SAOG)	PPA	Operational	2020	264	-
Musandam IPP	Musandam Power Co. (SAOG)	PPA	Operational	2031	121	-
Rusail IPP	Rusail Power Co. (SAOC)	PPA	Operational	2022	694	-
Sohar II IPP	Al Batinah Power Co. (SAOG)	PPA	Operational	2028	766	-
Sohar III IPP	Shinas Generating Co. (SAOC)	PPA	Operational	2034	1,744	-
Sohar IWPP	Sohar Power Co. (SAOG)	PWPA	Operational	2022	597	33.0
Sur IPP	Phoenix Power Co. (SAOG)	PPA	Operational	2029	2,018	-
Aseelah IWP	Al Asilah Desalination Company (SAOC)	WPA	Under construction	2041		18
Barka IV IWP	Barka Desalination Co. (SAOC)	WPA	Operational	2038		62
Ghubrah II IWP	Muscat City Desalination Co. (SAOG)	WPA	Operational	2034		42
Qurayyat IWP	Qurayyat Desalination Co. (SAOC)	WPA	Operational	2037		44
Sohar IV IWP	Myah Gulf Desalination Co. (SAOC)	WPA	Operational	2038		55
Sur II IWP	Sharqiyah Desalination Company (SAOG)	WPA	Operational	2035		29
Dhofar System						
Salalah IWPP	Sembcorp Salalah Power & Water Company (SAOG)	PWPA	Operational	2027	445	15.0
Salalah II IPP	Dhofar Generating Co. (SAOG)	PPA	Operational	2032	717	-
Dhofar I Wind IPP	Tanweer	PPA	Operational	2034	49.4	-
Salalah III IWP	Dhofar Desalination Company (SAOC)	WPA	Under Construction	2040	-	25.0

For MIS, Contracted capacities are shown as of summer 2018 at 45°C, adjusted from the reference condition of 50°C using contractually agreed upon correction factors and as reported as net of plant auxiliaries.

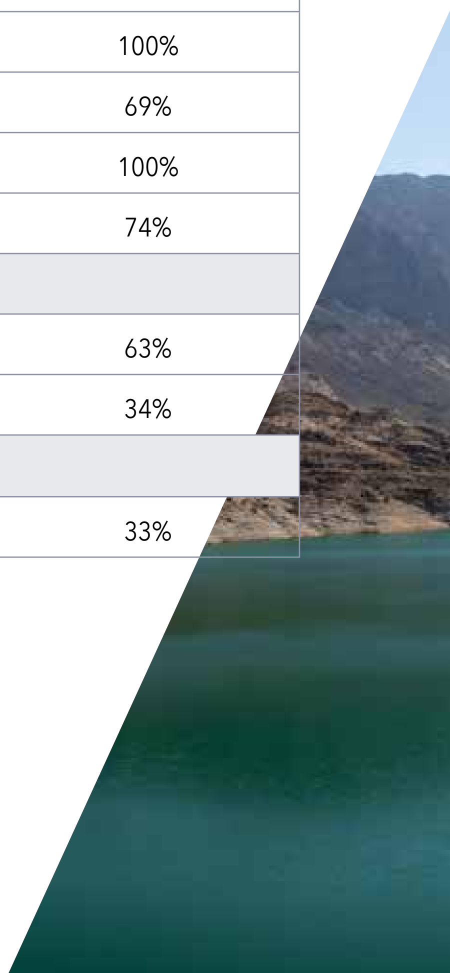
For Dhofar, Contracted Capacities are rated on a net basis (i.e. after allowing for auxiliary consumption inside the plants) at 35°C ambient temperatures output.

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 2019.

Table: 7 - Key Operational Parameters – 2019

Plant Owner	Peak Capacity Utilisation	
	2019	2018
	(%)	(%)
MIS		
ACWA Power Barka (Barka I IWPP)	99.5%	94%
Al Batinah Power Co. (Sohar II IPP)	20.2%	100%
Al Dhahira Generating Co. (Ibri IPP)	64.1%	-
Al Ghubrah Power and Desalination Co. (Ghubrah IWPP)	-	46%
Al Kamil Power Co. (Al Kamil I IPP)	48.2%	80%
Al Suwadi Power Co. (Barka III IPP)	99.2%	100%
Phoenix Power Co. (Sur IPP)	73.4%	81%
Rusail Power Co. (Rusail IPP)	66.6%	77%
Shinas Generating Co. (Sohar III IPP)	63.6%	-
SMN Barka Power Co. (Barka II IWPP)	77.4%	100%
Sohar Power Co. (Sohar I IWPP)	66.3%	69%
United Power Co. (Manah IPP)	77.6%	100%
Wadi Al-Jizzi Power Co. (WJPC)	-	74%
DPS		
SembCorp Salalah Power and Water Co. (Salalah IWPP)	73.7%	63%
Dhofar Generating Co. (Salalah II IPP)	36.5%	34%
Musandam		
Musandam Power Co. (Musandam IPP)	63.1%	33%



Capacity Utilisation - Water

Table: 8 - The Utilisation of Water Capacity during 2019

Plant Owner	Capacity Utilisation	
	2019	2018
ACWA Power Barka (Barka I IPP + Extensions)*	25.6%	47%
Al Ghubrah Power and Desalination Co. (Ghubrah IWPP)	-	50%
Al Sharqia Desalination (Sur II IWPP)	76.0%	74%
Barka Desalination Co. (Barka IV IWP)	63.8%	61%
Muscat City Desalination Co. (Ghubrah II IWP)	93.3%	86%
Qurayyat Desalination Co. (Qurayyat IWP)	85.8%	47%
SembCorp Salalah Power and Water Co. (Salalah IWPP)	99.4%	87%
Sohar Power Co. (Sohar I IWPP)	47.6%	82%
SMN Barka Power Co. (Barka II IWPP)	65.5%	50%

*Barka I MSF Plant is on call-on/Call off basis

5.2 - Purchase and Sale of Power and Water during 2019

Figure: 10 - MIS - Purchase and Sale of Electricity and Water during 2019

Purchase from Generation Companies:

Plant	Power	Water
Al Rusail	1,524 GWh	
Manah	783 GWh	
Al Kamil	54 GWh	
Sohar II	1,389 GWh	
Barka III	4,399 GWh	
Sur IPP	7,939 GWh	
Others	613 GWh	
Ibri	5,447 GWh	
Sohar III IPP	5,115 GWh	
Barka I	1,909 GWh	18 MCM
Sohar I	2,014 GWh	26 MCM
Barka II	1,648 GWh	29 MCM
Sur IWP		36 MCM
Ghubrah	IWP	65 MCM
Barka IV		62 MCM
Sohar IWP		17 MCM
Qurayat IWP		62 MCM

OPWP

Total Power: 32,834 GWh

Total Water: 315 MCM

Bulk Supply Quanitity

Muscat Electricity Co.: 12,496 GWh

Mazoon Electricity Co.: 10,152 GWh

Majan Electricity Co.: 10,185 GWh

PAW : 315 MCM

Figure: 11 - Dhofar Power System - Procurement and Sale of Electricity & Water during 2019

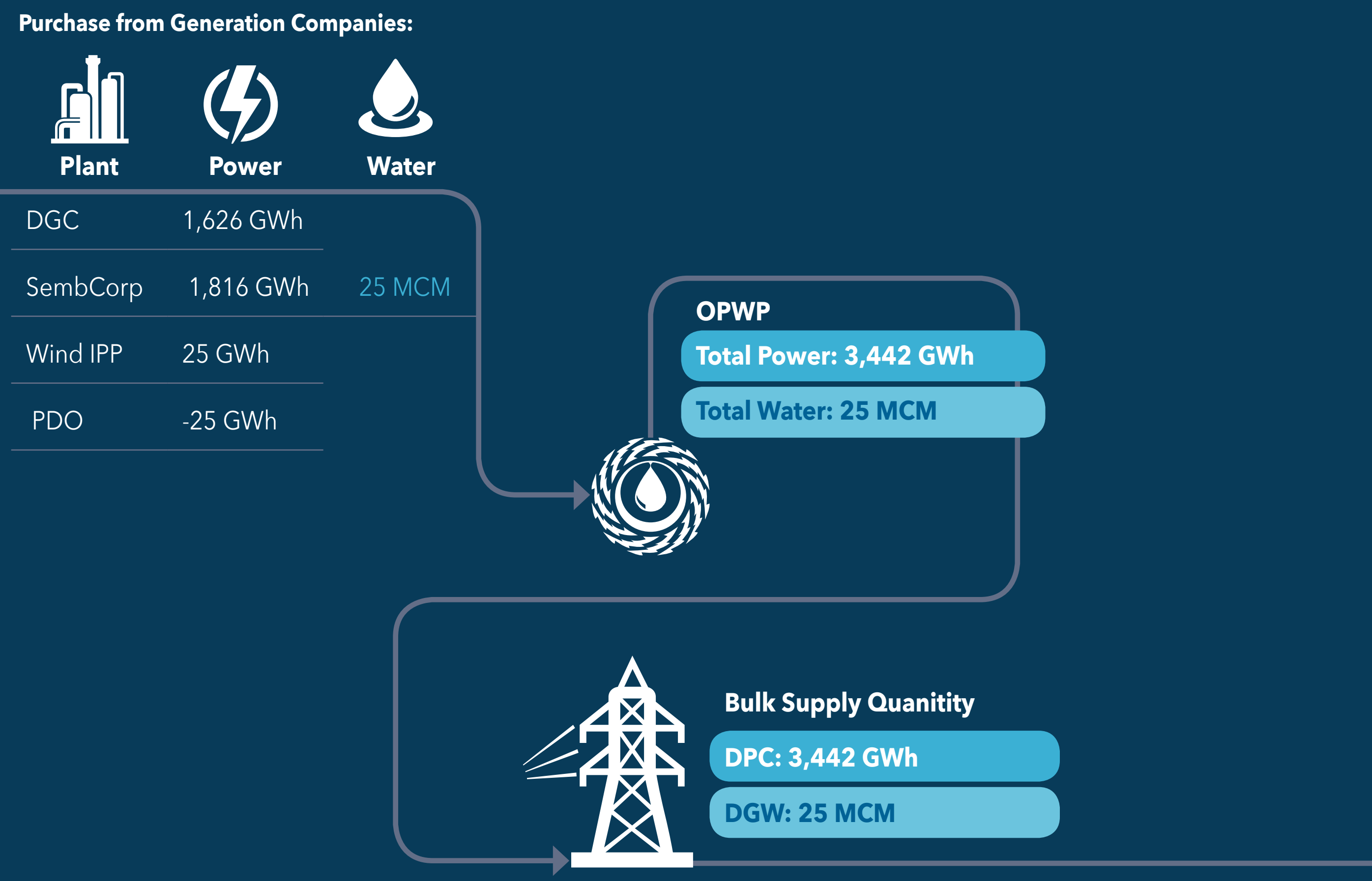
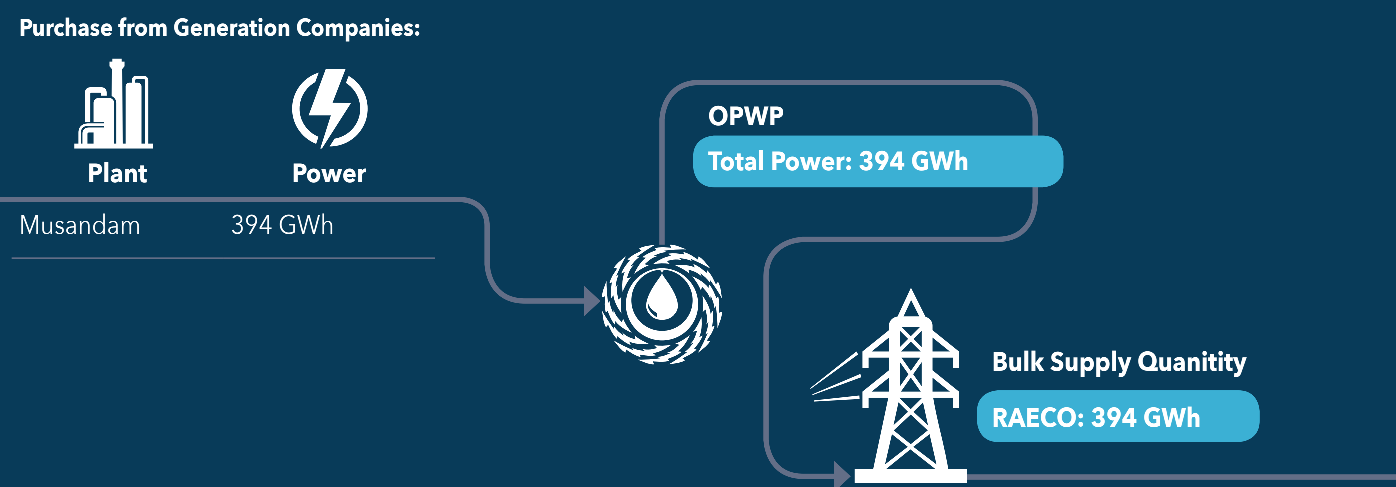
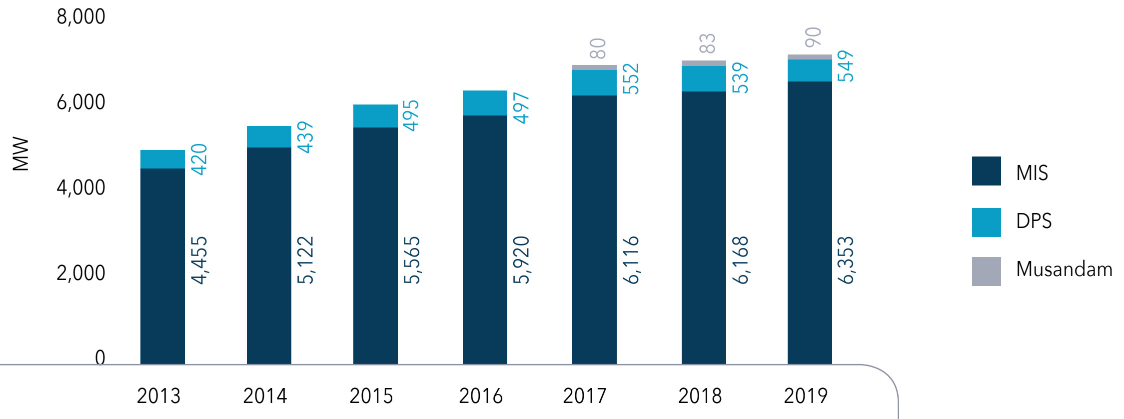


Figure: 12 - Musandam Power System - Procurement and Sale of Electricity during 2019



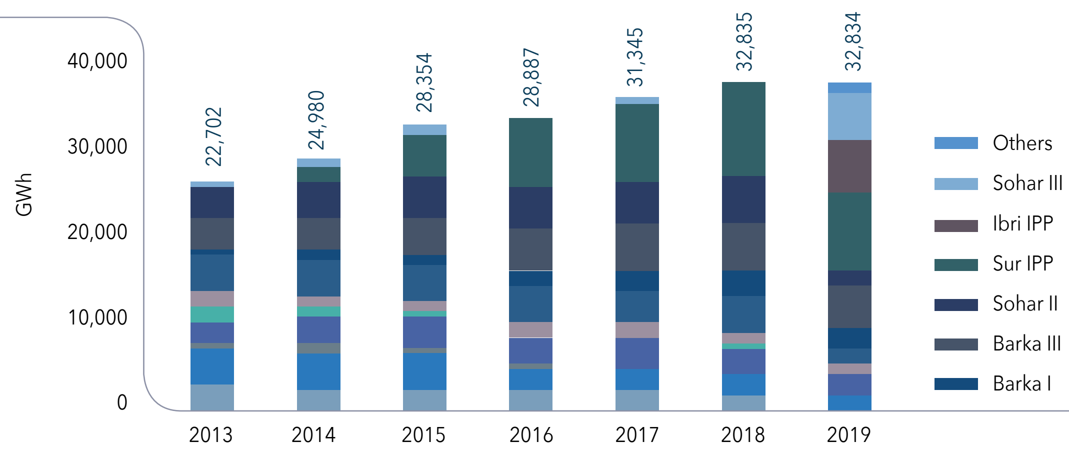
5.3 - Electricity Demand & Generation Resources (2013-2019)

Figure: 13 - Power Peak Demand in MIS, DPS and Musandam (2013-2019)



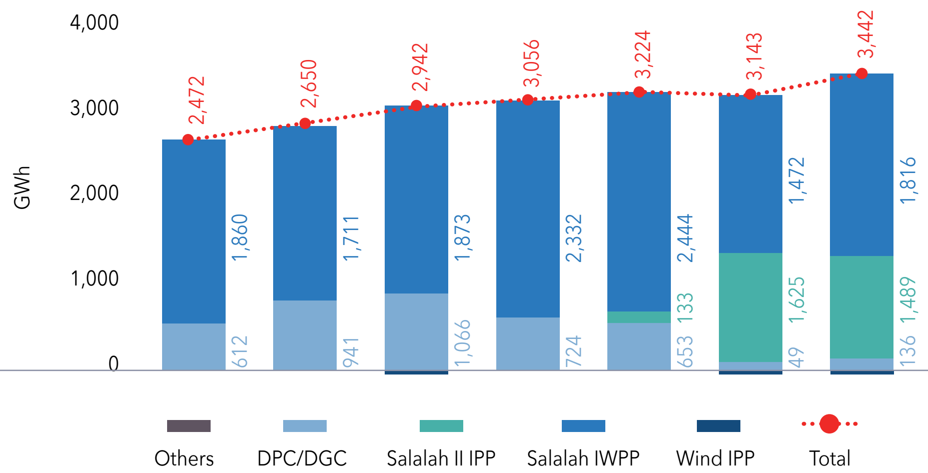
The power peak demand (net) in the MIS has increased from 4,455 MW in 2013 to 6,353 MW in 2019 at an average annual growth rate of about 6% for MIS (with an increase of 3% in 2019 compared to 2018). In DPS also the power peak demand increased at an average annual growth rate of 5% (with an increase of 2% in 2019 compared to 2018). In Musandam, the power peak demand increased by 8% in 2019 compared to 2018.

Figure: 14 - Electrical Energy Delivered in MIS (2013-2019)



The above figure shows an increase in electrical energy delivered at an average annual growth rate of 6% during the period 2013 - 2019 (with 0% increase in 2019 compared to 2018).

Figure: 15 - Electrical Energy Delivered to Dhofar Power System (2013-2019)



The above figure shows an increase in electrical energy delivered at an average annual growth rate of 6% during the period 2013 - 2019 (with an increase of 10% in 2019 compared to 2018.

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 2019 was about 6.6 billion Sm³, compared to about 7.4 billion Sm³ in 2018, a decrease of 11% gas consumption during this period.

Over the past seven years (2013 – 2019), while the annual energy delivered of the power plants in the MIS has increased at an average annual rate of 6%, the total gas consumption has decreased at the rate of 0.3% during the same period.

Figure: 16 - Yearly Gas Consumption (MIS & DPS)

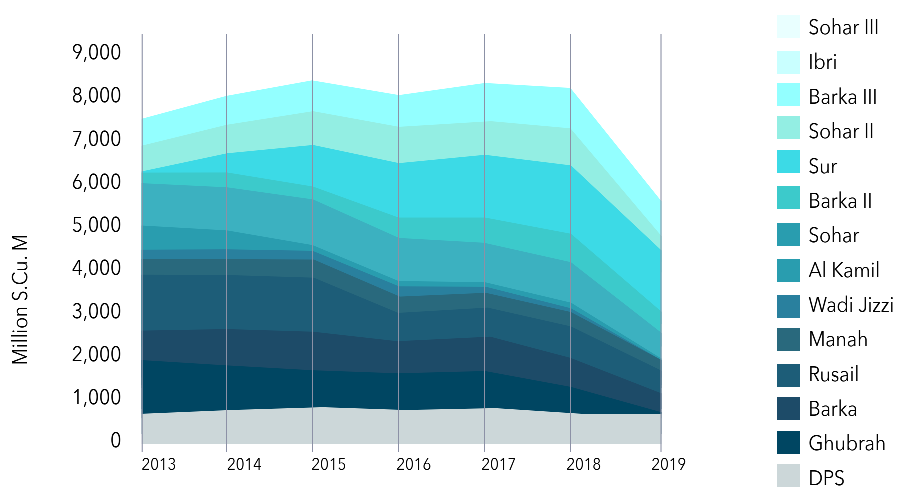
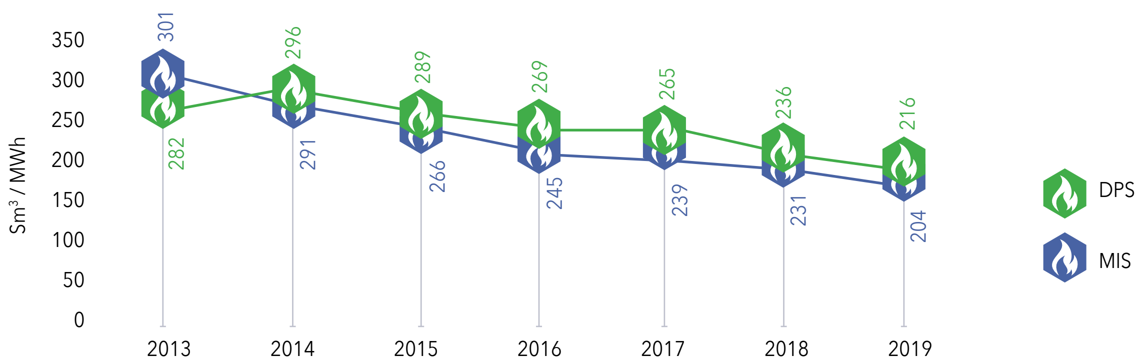


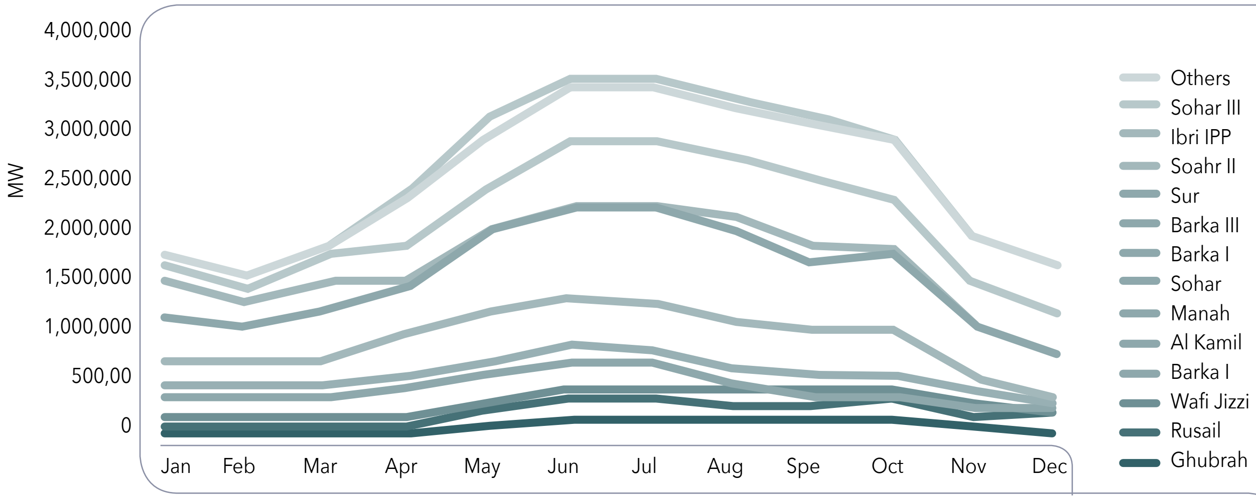
Figure: 17 - Gas Utilization Rate from 2013-2019



The figure above shows that gas utilization rate (gas consumption per unit of power generation) has improved by an annual average rate of 6.3% and 4.4% since 2013, respectively, for MIS and DPS. Compared to 2018, there was an improvement of 12% in MIS and 9% in DPS.

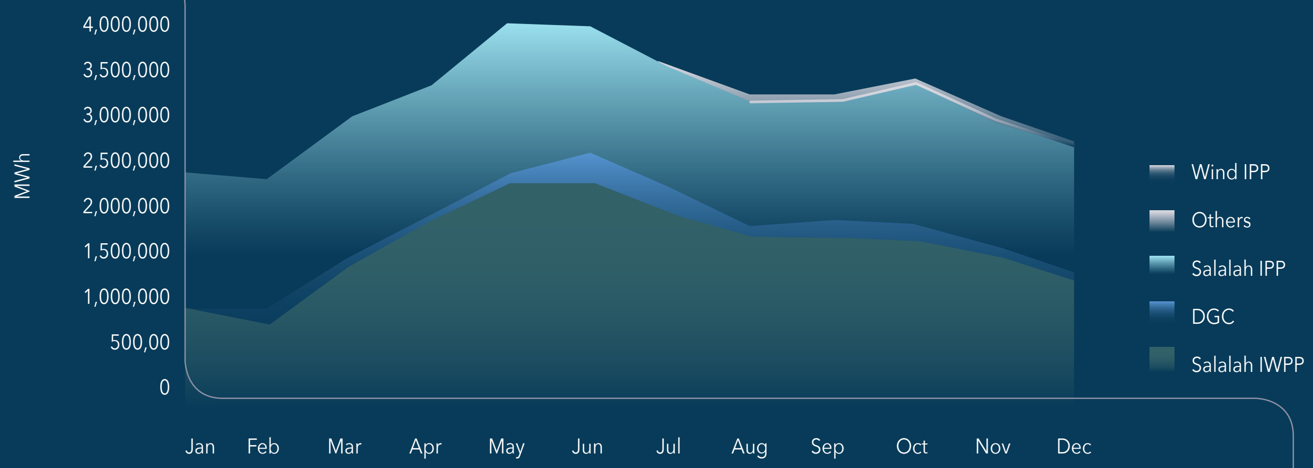
5.5 - Energy Demand in 2019

Figure: 18 - Energy Demand Profile in 2019 – (MIS)



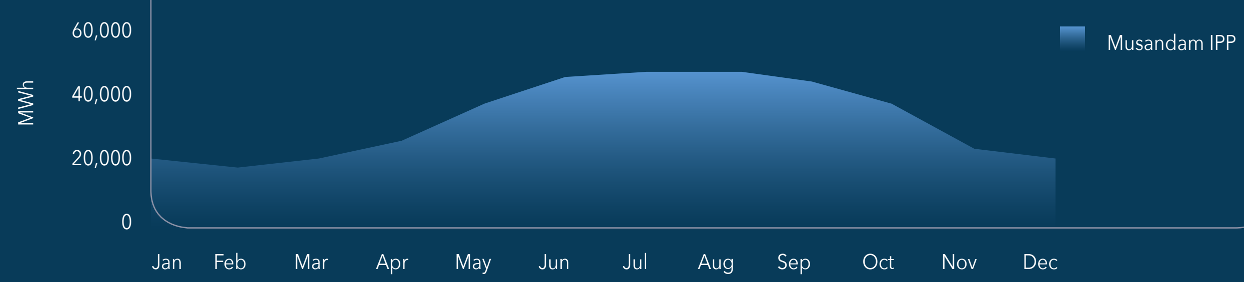
The electricity demand is seasonal in MIS, and the peak electricity requirement in June is more than twice the energy required in January.

Figure: 19 - Energy Demand Profile in 2019 - (DPS)



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

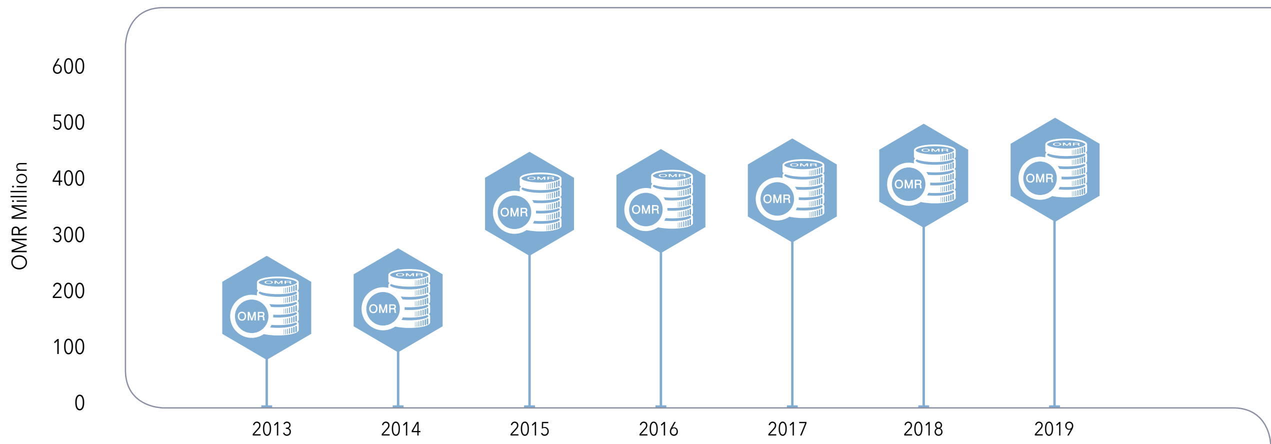
Figure: 20 - Energy Demand Profile in 2019 - (Musandam)



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

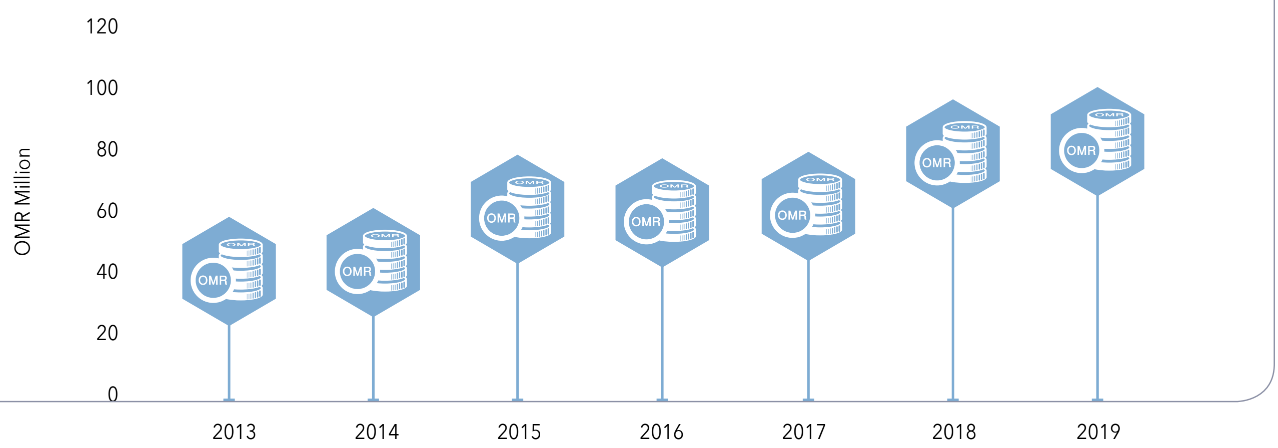
5.6 - Power Purchase Cost

Figure: 21 - Power Purchase Cost - MIS



The cost of total energy purchased has increased at an average annual rate of about 11.54% from 2013 to 2019. In 2019, the cost of energy purchased increased by 2.4% compared to 2018.

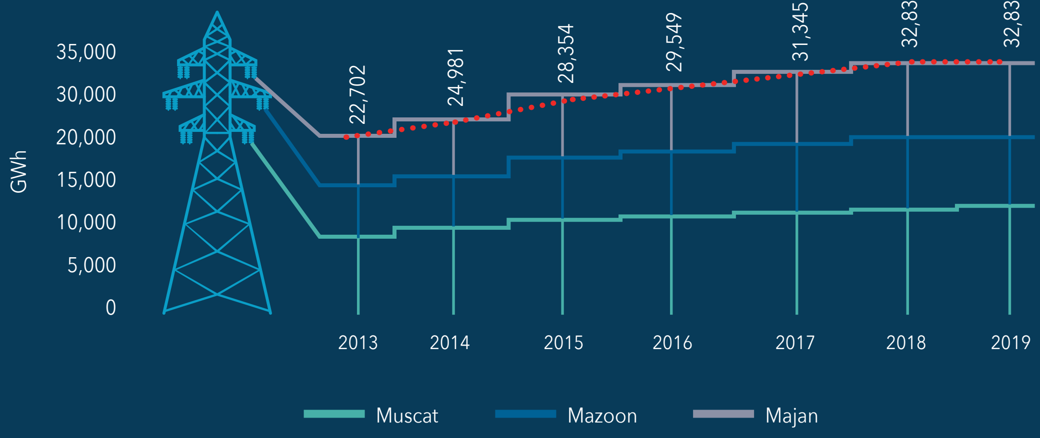
Figure: 22 - Power Purchase Cost - DPS



The cost of total energy purchased has increased at an average annual rate of about 9.23% from 2013 to 2019. In 2019, the cost of energy purchased increased by 5% compared to 2018.

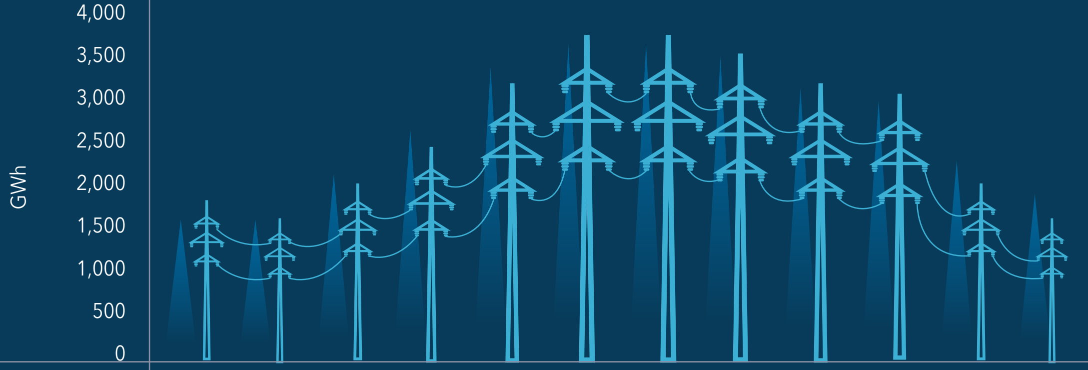
5.7 - Electricity Bulk Supply Statistics

Figure: 23 - Yearly Electricity Bulk Supply Quantity - MIS



The Chart shows the quantity increase in energy used by Muscat, Mazoon and Majan distribution companies over the last seven years. The bulk supply quantity increased by 6.3% annually over the last seven years and 0% increase over 2018.

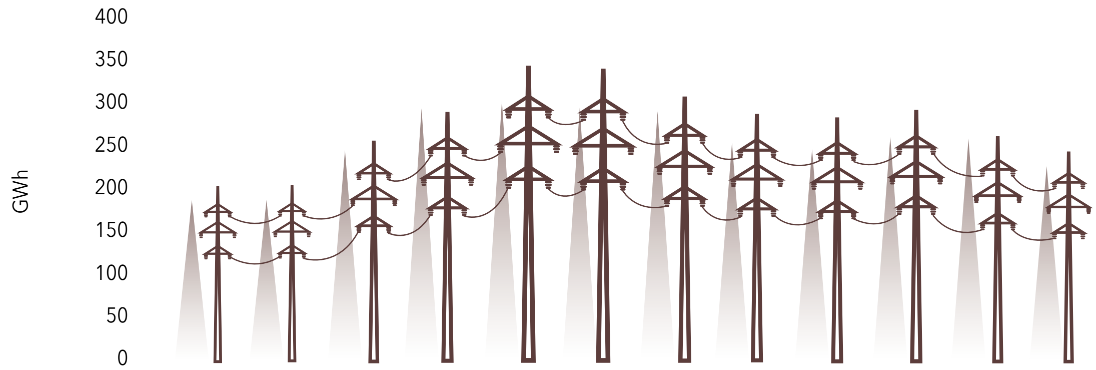
Figure: 24 - Monthly Electricity Bulk Supply Quantities – MIS



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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
2019	1,913	1,690	2,013	2,539	3,312	3,752	3,750	3,547	3,340	3,086	2,092	1,801

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

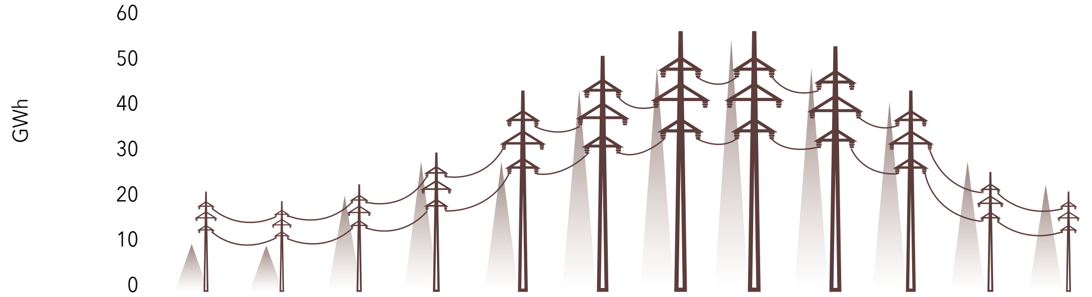
Figure: 25 - Monthly Electricity Bulk Supply Quantities - DPS



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2018	193	192	257	306	309	303	299	262	253	270	265	234
2019	219	214	265	299	356	354	316	293	294	308	273	251

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

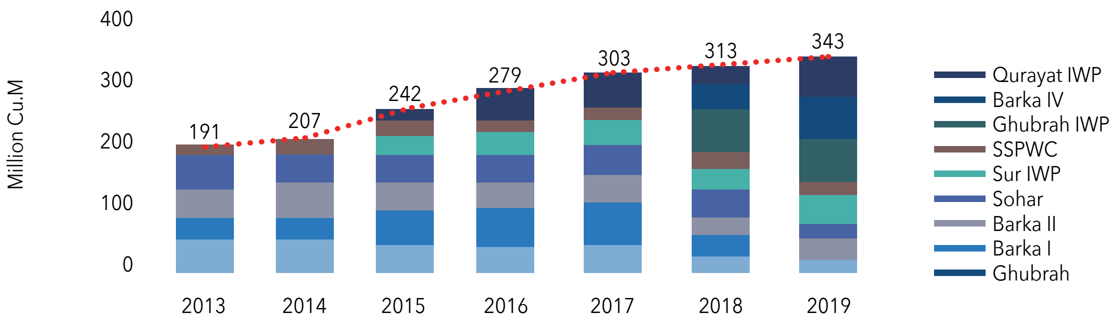
Figure: 26 - Monthly Electricity Bulk Supply Quantities - MPS



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2018	10	10	19	25	26	38	42	48	42	36	25	21
2019	20	17	21	28	39	45	49	48	46	38	24	20

The chart above reflects the monthly electricity demand profile of the Musandam with the similar pattern as MIS and DPS, with the demand in winter significantly lower compared to summer.

Figure: 27 - Potable Water Purchased (2013-2019)



The water delivered in MIS has increased on an average annual growth rate of 10.3% during the period 2013 - 2019 (with an increase of 10% in 2019 compared to 2018).

06

HUMAN RESOURCES

6.1 - Key Human Resources Initiatives in 2019

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 a skilled workforce and future leaders. OPWP 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 training an identified number of employees from across the company. The lean program focuses on introducing a structured problem-solving method to maximize customer value while minimizing waste, thereby creating more value for customers with fewer resources.

The company recruited (5) five employees in 2019, and the total number at the year-end reached 86 employees. The company has attained the Omanisation of 89.5%.

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 effectiveness is assessed on the job, and PDP is updated.

In 2019, the company invested about 4% of staff costs on training and development.

Omanisation
89.5%

Employees
86

New Recruited
5
Employees in 2019

Training of Cost
4%
Invested in 2019

07

HEALTH & SAFETY AND ENVIRONMENT

7.1 - Health, Safety and Environment

OPWP considers that its people are its most important asset and greatest strength. The health, safety and wellbeing of our staff, and all people affected by OPWP's activities, plays an important and ever-increasing role in our behaviour and practices.

In 2019, OPWP carried out an extensive review of its documentation, policies, and practices and implemented the improvements as under:

- Defining parties' roles and responsibilities in the agreements;
- Enhanced incident reporting responsibilities;
- Additional governance steps to empahsise the priority of HSE issues in internal and external interfaces;
- Increased influence over appointment of BOO project EPC Contractors by the developers;
- Enhanced requirements for HSE information provision in bids and further enhanced capacity to exclude bidders where HSE practices are unsatisfactory;
- Enhanced emphasis on HSE in the OPWP Enterprise Risk Management programme;
- Roll out of the NAMA Lifesaving Rules; and
- Increased HSE oversight on the projects under implementation.

OPWP is planning to organise a sector wide workshop to involve all stakeholders and a cooperative and mutually beneficial consultative process on HSE improvements and best practice.

The HSE performance of the BOO power and water projects under construction is as under:

Fatality 0

Lost Time Incident 1

Restricted Work Case (RWC) 2

0 **Environment**

2 **Asset Damage**

1 **Road Traffic Accident**

OPWP continues to monitor various HSE parameters closely, and proactively engage with the project companies to take required corrective and preventive actions.

2019 also saw events of serious adverse weather conditions and resulting enhanced HSE and environmental risk. During these adverse weather conditions OPWP successfully worked with the numerous different stakeholders to help to reduce the exposure of staff, sector personnel and the project company contractors to additional risk during those challenging times.

Environment

Our approach to the environment also reflects a desire for minimising any impact of OPWP activities on the environment and we ensure, by strict contractual terms, that all BOO projects are required to comply with national standards for environmental management and emissions.

MTC 1

First Aid 26

Near MISS 30

4 **TRC**

767 **Unsafe Acts**

9,616 **Unsafe Conditions**

08

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 that values ethical behaviour, personal and organisational integrity, 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 Holding 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 Policies govern the relation between Nama Holding 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, Nama Holding.

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: 9 - Board and Board Committees

	Members - 2019		Number of Meetings in 2019
Board of Directors	Hamdan Al Hinai	Chairman	6 Meetings
	Abdulaziz Al Shidhani	Deputy Chairman	
	Osama Younis	Member	
	Vinod Sadhwani	Member (Incoming)	
	Hanan Askalan	Member	
	Hussain Al Balushi	Member (Outgoing)	
Audit Committee	Hanan Askalan	Chairperson	7 Meetings
	Vinod Sadhwani	Member (Incoming)	
	Abdulaziz Al Shidhani	Member	
	Hussain Al Balushi	Member (Outgoing)	
Human Resource Committee	Abdulaziz Al Shidhani	Chairman	5 Meetings
	Hanan Askalan	Member	
	Osama Younis	Member	
Internal Tender Committee	Hamdan Al Hinai	Chairman	5 Meetings
	Osama Younis	Member	
	Yaqoob Al Kiyumi	Member	
	Andrew Rae	Member	
	Vinod Sadhwani	Member (Incoming)	
	Hussain Al Balushi	Member (Outgoing)	

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: 10 - 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	6 (6)	5 (5)			3,900	2,000
Mr. Abdulaziz Al Shidhani	Deputy Chairman	6 (6)		5 (5)	7 (7)	2,500	3,500
Mr. Vinod Sadhwani	Member	4 (6)	3 (5)		4 (4)	2,000	2,100
Ms. Hanan Askalan	Member	4 (6)		5 (5)	6 (7)	2,000	3,900
Mr. Osama Younes	Member	6 (6)	5 (5)	4 (5)		3,000	2,700
Mr. Hussain Al Balushi	Ex-Member	2 (6)	2 (5)		3 (3)	1,000	1,500
Total						**14,400**	**15,700**

( ) numbers in bracket represent meetings held during the year. The total sitting fees is RO 30,100

09

FINANCIAL STATEMENTS

31 December 2019

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Registered Address:
P. O. Box 1388, Postal Code 112
Ruwi, 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

Report and financial statements
for the year ended 31 December 2019

Contents	***Pages***

Directors' Report

The Directors submit their report and the audited financial statements for the year ended 31 December 2019.

Principal activities

The principal activity is to undertake procurement of electricity and water capacity, and purchase of electricity and desalinated water to sell it to the distribution companies and water departments as per the license 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 promulgated by Royal Decree No.18/ 2019 (" Commercial Companies Law of 2019") was issued on 13 February 2019 and has come into force on 17 April 2019. Companies are allowed to ensure compliance with the new Commercial Companies Law of 2019 by 17 April 2020 as per the transitional provisions contained therein. The Company is currently in the process of implementing all changes required by the Commercial Companies Law, promulgated by Royal Decree No.18/ 2019.

Results and appropriation

The results of the Company for the year ended 31 December 2019 are set out on pages 5 and 6 of the financial statements.

Auditors

The financial statements have been audited by KPMG who are eligible for reappointment.

For and on behalf of the Board of Directors

Hamdan bin Ali bin Nasser Al Hinai **Chairman of the Board**	**Hanan Askalan** **Member of the Board**	**Yaqoob bin Saif Al Kiyumi** **Chief Executive Officer**

KPMG

KPMG Lower Gulf Limited (Oman Branch)
4th Floor, Children's Public Library Building
Shatti Al Qurum
P. O. Box: 641, P.C.: 112
Sultanate of Oman
Tel. +968 24749600
www.kpmg.com/om

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 2019, 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 2019, 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.

KPMG

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 2019, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

KPMG

- 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 comply, in all material respects, with the applicable provisions of Commercial Companies Law of 2019.

KPMG

11 March 2020

KPMG Lower Gulf Limited
(Oman Branch)

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Statement of financial position
as at 31 December

	Note	31 December 2019 RO '000	31 December 2018 RO '000
Non-current assets			
Property, plant and equipment	7	2,762	119,950
Right of use assets	8	1,529,182	-
Lease receivable	9	519,792	-
Advances	10	-	5,903
Deferred tax asset	19	9,457	3,269
Other receivables	11	1,480	2,934
Total non-current assets		2,062,673	132,056
Current assets			
Inventories		567	567
Lease receivable	9	50,609	-
Trade and other receivables	11	418,282	253,509
Cash and cash equivalents	12	49,990	11,050
Total current assets		519,448	265,126
Total assets		2,582,121	397,182
Capital and equity reserves			
Share capital	13	8,100	500
Legal reserve	14	167	167
General reserve	15	250	250
Accumulated losses		(63,466)	(28,381)
Shareholders' funds	16	16,941	16,941
Total equity		(38,008)	(10,523)
Non-current liabilities			
Lease liabilities	17	1,963,560	128,454
Provision for employees' benefits	18	454	433
Total non-current liabilities		1,964,014	128,887
Current liabilities			
Trade and other payables	20	278,929	74,773
Lease liabilities	17	194,347	13,907
Provisions for employees' benefits	18	118	98
Loan from parent company	29	40,032	-
Short term loan	21	142,689	190,040
Total current liabilities		656,115	278,818
Total liabilities		2,620,129	407,705
Total equity and liabilities		2,582,121	397,182

Hamdan bin Ali bin Nasser Al Hinai
Chairman of the Board

Hanan Askalan
Member of the Board

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Statement of profit or loss and other comprehensive income

for the year ended 31 December

	Note	**2019**	2018
		RO'000	RO'000
Revenue	*22*	**735,735**	815,946
Operating costs	*23*	**(649,054)**	(790,837)
Gross profit		**86,681**	25,109
General and administrative expenses	*24*	**(5,775)**	(5,365)
Impairment on financial assets	*11 &12*	**(1,648)**	(2,991)
Other income	*27*	**5,192**	5
Operating profit		**84,450**	16,758
Finance income	*25*	**45,827**	4,156
Finance costs	*26*	**(171,550)**	(22,646)
Loss before tax		**(41,273)**	(1,732)
Taxation	*28*	**6,188**	257
Net loss and total comprehensive loss for the year		**(35,085)**	(1,475)

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Statement of changes in equity

For the year ended 3p1 December 2019

	Share Capital	Legal reserve	General reserve	Accumu-lated losses	Share-holder's funds	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2018, as previously reported	500	167	250	(26,728)	16,941	(8,870)
Adjustment from adoption of IFRS 9	-	-	-	(178)	-	(178)
Restated balance at 1 January 2018	500	167	250	(26,906)	16,941	(9,048)
Loss for the year	-	-	-	(1,475)	-	(1,475)
At 1 January 2019	**500**	**167**	**250**	**(28,381)**	**16,941**	**(10,523)**
Increase in share capital	**7,600**	-	-	-	-	**7,600**
Loss for the year	**-**	**-**	**-**	**(35,085)**	**-**	**(35,085)**
At 31 December 2019	**8,100**	**167**	**250**	**(63,466)**	**16,941**	**(38,008)**

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Statement of cash flows

for the year ended 31 December 2019

	2019	2018
	RO'000	RO'000
Cash flows from operating activities		
Profit before tax	**(41,273)**	(1,732)
Adjustments for:		
Depreciation on property, plant and equipment	**312**	154
Depreciation of right of use assets	**176,301**	20,271
Interest expense	**7,894**	6,457
Interest expenses on leases	**163,656**	16,189
Amortisation of advances	**-**	1,723
Other income	**(5,162)**	-
Impairment losses	**1,648**	2,991
Interest income on leases	**(44,846)**	-
Other Interest income	**(981)**	-
Provision for employees' benefits	**83**	(146)
	257,632	45,907
Changes in:		
Trade and other receivables	**(163,788)**	(38,458)
Trade and other payables	**204,156**	(10,331)
Cash generated from / (used in) operating activities	**298,000**	(2,882)
Payment of employee benefits	**(42)**	(29)
Net cash generated from / (used in) operating activities	**297,958**	(2,911)
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(1,710)**	(688)
Receipt of finance lease receivable	**50,042**	-
Interest income on lease	**44,846**	-
Interest received	**981**	-
Net cash used in investing activities	**(94,159)**	(688)
Cash flows from financing activities		
Increase in share Capital	**7,600**	-
Interest paid on short term loans	**(7,894)**	(6,457)
Finance cost paid	**(163,656)**	(16,189)
Payment of lease liabilities	**(181,835)**	(23,112)
Loan from Parent Company	**40,032**	-
Repayment of short-term loan	**(47,351)**	54,040
Net cash (used in) / generated from financing activities	**(353,104)**	8,282
Net increase in cash and cash equivalents	**39,013**	4,683
Cash and cash equivalents at 1 January	**11,074**	6,391
Cash and cash equivalents at 31 December (Note 12)	**50,087**	11,074

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

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. Basis of preparation

(i) Going concern

As at 31 December 2019 the total liabilities of the Company exceeded the total assets by RO 38,008 thousand (2018: RO 10,523 thousand) and current liabilities of the Company exceeded its current assets by RO 136,667 thousand (2018: RO 13,692 thousand). Management believes that the negative net equity arises mainly 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.

(ii) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards, and the Commercial Companies Law of 2019.

The Commercial Companies Law promulgated by Royal Decree No.18/ 2019 (" Commercial Companies Law of 2019") was issued on 13 February 2019 and has come into force on 17 April 2019. Companies are allowed to ensure compliance with the new Commercial Companies Law of 2019 by 17 April 2020 as per the transitional provisions contained therein. The Company is currently in the process of implementing all changes required by the Commercial Companies Law, promulgated by Royal Decree No.18/ 2019.

(iii) Historical cost convention

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

3 Application of new and revised International Financial Reporting Standards (IFRS)

3.1 Application of new and revised IFRS in issue and effective

- IFRS 16 Leases
- 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

These standards do not have any impact on these financial statements except for IFRS 16.

The Company initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements. The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information

A. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the previous assessment of which existing contracts are, contain a lease. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

I. Leases previously classified as operating leases

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

— their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Company applied this approach to its largest property leases; or

— an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Company applied this approach to all other leases.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

3 Application of new and revised International Financial Reporting Standards (IFRS) *(continued)*

3.1 Application of new and revised IFRS in issue and effective *(continued)*

I. Leases previously classified as operating leases *(continued)*

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

II. Leases previously classified as finance leases under IAS 17

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

C. As a lessor

The Company has not entered into any arrangement in which it is acting as a Lessor.

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

Under IFRS 16, the Company is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Company reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The Company concluded that the sub-lease is a finance lease under IFRS 16.

D. Impacts on financial statements

On transition to IFRS 16, the Company recognised a lease liability amounting with a corresponding right-of-use asset, with zero effect on opening retained earnings. The impact on transition is summarised below.

	2019 **RO'000**
Right-of-use assets	**1,419,879**
Lease liabilities	**(1,962,582)**
Lease receivables	**548,606**
Advance payments	**(5,903)**

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 7%.

Operating lease commitment at 31 December 2018 as disclosed in the Company's financial statements	**3,122,857**
Discounted using the incremental borrowing rate at 1 January 2019	**1,962,582**
Finance lease liabilities recognised as at 31 December 2018	**142,361**
Lease liabilities recognised at 1 January 2019	**2,104,944**

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

3 Application of new and revised International Financial Reporting Standards (IFRS) *(continued)*

3.2 New and revised IFRS in issue 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:

- Amendments to References to Conceptual Framework in IFRS Standards (from 1 January 2020)
- IFRS 17 Insurance Contracts (1 January 2021)

These standards, amendments and interpretations are not expected to have a significant impact on the Company's financial statements.

4. Summary of significant accounting policies

Determination of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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.

Foreign currency translation

Items included in the Company's financial statements are measured and presented using Rials Omani 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 Rials Omani, 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

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss. Borrowing costs which are directly attributable to the acquisition of items of property, plant and equipment, are capitalised.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

4 Summary of significant accounting policies *(continued)*

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment is capitalised if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. All other maintenance expenditure is recognised in profit or loss as an expense as and when incurred.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. In accordance with its policy, the Company reviews the estimated useful lives of its property and equipment on an ongoing basis.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. For leased assets if the lease term is lower than useful lives, depreciation is recognised over the lease term since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The principal estimated useful lives used for this purpose are:

	Years
Right-of-use 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.

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

4 Summary of significant accounting policies *(continued)*

Financial instruments *(continued)*

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

Financial assets at fair value through other comprehensive income

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

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

Financial assets at fair value through profit or loss 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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

4 Summary of significant accounting policies *(continued)*

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

a) Debt instruments

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the 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.

b) 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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

4 Summary of significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial assets at fair value through profit or loss *(continued)*

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 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.

Modifications of financial assets and financial liabilities

Financial liabilities

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

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

4 Summary of significant accounting policies *(continued)*

Financial instruments *(continued)*

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.

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 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

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

4 Summary of significant accounting policies *(continued)*

Financial instruments *(continued)*

Derecognition *(continued)*

Financial liabilities

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

Measurement of loss allowances

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

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

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

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

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

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

4 Summary of significant accounting policies *(continued)*

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.

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

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

Loss allowances for trade and other receivables, contract assets and lease receivable without significant financing are 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

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

4 Summary of significant accounting policies *(continued)*

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.

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

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

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 (Accounting policy applicable before 01 January 2019)
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.

Leases (Accounting policy applicable from 01 January 2019)

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclose separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 3.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

4 Summary of significant accounting policies (continued)

Revenue recognition

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 Company will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

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

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

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

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

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

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

4 Summary of significant accounting policies *(continued)*

Contract modification

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

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

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

Cost of obtainment and fulfilment

Company capitalises incremental costs to obtain a contract with a customer except if the amortisation period for such costs is less than one year.
If the costs incurred in fulfilling a contract with a customer are not in the scope of other guidance - e.g. inventory, intangibles, or property, plant and equipment - then the Company recognises an asset only if the fulfilment costs meet the following criteria:

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

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

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

Revenue from bulk supply of power and water

Revenue represents fair value of income receivable in the ordinary course of business from the sale of electricity to the distribution companies and 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 / recognised and is shown as other payables / other receivables.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

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.

Revenue from bulk supply of power and water

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 tax authorities do not recognize the finance lease accounting for determining tax liability. Therefore, the company treats the value of net assets arising due to the IFRS 16 lease accounting, which includes right-of-use assets, finance lease receivables, and lease liabilities, as a temporary difference and accordingly recognize the deferred tax.

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.

Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

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.

Market risk
The Market risk is the risk that changes in market prices e.g., foreign exchange rates, interest rates that will affect the Company's income. The objective of market risk management is to manage and control market risk exposure with in acceptable parameters, while optimizing the return.

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.

	2019	2018
	RO'000	RO'000
Lease liabilities	**2,157,907**	142,361
Short term loan	**142,689**	190,040

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled.

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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

6 Financial risk management *(continued)*

Liquidity risk *(continued)*

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

31 December 2019	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:							
Lease liabilities	**2,157,907**	**3,188,836**	**29,065**	**58,129**	**261,579**	**1,228,522**	**1,611,541**
Short term loan	**142,689**	**148,396**	**38,583**	**109,813**	**-**	**-**	**-**
Non-interest bearing:							
Trade and other payables	**55,916**	**55,916**	**25,916**	**20**	**-**	**-**	**-**
Due to Ministry of Finance	**2,913**	**2,913**	**-**	**2,913**	**-**	**-**	**-**
Suppliers and contractors payables	**222,989**	**222,989**	**-**	**222,989**			
	2,582,414	**3,619,050**	**93,564**	**393,864**	**261,579**	**1,228,522**	**1,611,541**
31 December 2018							
Interest bearing:							
Lease liabilities	142,361	250,913	2,323	4,646	20,905	92,967	130,072
Short term loans	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 contractors payables	5,974	5,974	5,974				
	395,006	508,678	129,236	129,646	26,205	93,519	130,072

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 & lease 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 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. Further, Company's exposure to credit risk on lease receivables is related to the above referred customers.

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Notes to the financial statements

6 Financial risk management *(continued)*

Trade and other receivables & lease receivables *(continued)*

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

	2019	2018
	RO'000	RO'000
Trade receivables from related parties	**365,682**	219,481
Trade receivables – water sales	**15,404**	12,837
Lease receivables	**571,507**	-
	952,593	232,318

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

31 December 2019

	Expected credit loss rate %	**Estimated total gross carrying amount at default RO'000**	**Lifetime ECL – credit-impaired RO'000**	**Net carrying amount RO'000**
Ba1	**0.1935%**	**949,711**	**(1,838)**	**947,873**
Ba1	**100%**	**2,882**	**(2,882)**	**-**
Total		**952,593**	**(4,720)**	**947,873**

31 December 2018

		RO'000	RO'000	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

Cash and cash equivalents

The Company held cash and cash equivalents of RO 50.09 million at 31 December 2019 (2018: 22.3 million). The cash and cash equivalent are held with bank, which are rated Ba1, 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.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

6 Financial risk management *(continued)*

Cash and cash equivalents *(continued)*

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

	Expected credit loss rate %	Estimated total gross carrying amount at default RO'000	12 month ECL RO'000	Net carrying amount RO'000
31 December 2019				
Ba1	**0.1935%**	**50,085**	**(97)**	**49,988**
31 December 2018				
Baa3	0.1125%	22,354	(24)	22,330

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:

	2019 RO'000	2018 RO'000
Assets as per statement of financial position		
Trade receivables	**378,204**	232,318
Other receivables	**2,934**	4,388
Lease receivables	**571,507**	-
Cash at bank	**50,085**	11,072
	1,002,730	247,778

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 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 2019. 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.

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Notes to the financial statements

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 2018	349,657	1,116	99	413	351,285
Additions	-	92	-	596	688
Disposals	(151,457)	(2)	-	-	(151,459)
1 January 2019	**198,200**	**1,206**	**99**	**1,009**	**200,514**
Reclassified as right of use asset	**(198,200)**	**-**	**-**	**-**	**(198,200)**
1 January 2019	**-**	**1,206**	**99**	**1,009**	**2,314**
Additions	**-**	**476**	**-**	**1,234**	**1,710**
Transfers	**-**	**130**	**-**	**(130)**	**-**
31 December 2019	**-**	**1,812**	**99**	**2,113**	**4,024**
Accumulated depreciation					
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)
1 January 2019	**79,614**	**866**	**84**	**-**	**80,564**
Reclassified as right of use asset	**(79,614)**	**-**	**-**	**-**	**(79,614)**
1 January 2019	**-**	**866**	**84**	**-**	**950**
Charge for the year	**-**	**307**	**5**	**-**	**312**
31 December 2019	**-**	**1,173**	**89**	**-**	**1,262**
Carrying value					
31 December 2019	**-**	**639**	**10**	**2,113**	**2,762**
31 December 2018	118,586	340	15	1,009	119,950

8 Right of use assets

	2019 RO '000
Cost	
1 January 2019	**-**
Impact of adoption of IFRS 16	**198,200**
1 January 2019	**198,200**
Additions*	**1,654,678**
Derecognition**	**(86,381)**
31 December 2019	**1,766,497**
Accumulated depreciation	
1 January 2019	
Impact of adoption of IFRS 16	**79,614**
1 January 2019	**79,614**
Charge for the year	**176,301**
Derecognition	**(18,600)**
31 December 2019	**237,315**
Carrying value	
31 December	**1,529,182**

* Additions includes transfer of Advance payment of RO 5,903 thousand pertaining to Sohar IWP to Right of use asset as per IFRS 16.

** Derecognition of the right-of-use at the beginning of 2019 is as a result of recognising a finance sub-lease.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

8 Right-of-use assets *(continued)*

Leases as lessee

As a sole procurer of power and water in Oman, the Company has entered into long term power purchase agreements for various independent power generation plants and long-term water purchase agreements with various independent water desalination plants in Oman. These long-term agreements are classified as leases. These leases typically run for a period of 15 years for power and 20 years for water, without any option to renew. The lease payments include investment charges which are fixed at the time of execution of the agreement.

9 Lease receivables

Leases as lessor

The Company has classified the bulk supply agreement for power with the distribution and supply companies for Main Inter-connected System and Dhofar Power System as an operating lease, as a lessor.

A sub-lease is a transaction in which a lessee (or "intermediate lessor") grants a right to use the underlying asset to a different party, and the lease (or "head lease") between the original lessor and lessee remains in effect.

A company applies IFRS 16 to all leases of right of use assets in a sub-lease. An intermediate lessor classifies the sub-lease as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. That is, the intermediate lessor treats the right-of-use asset as the underlying asset in the sub-lease, not the item of property, plant or equipment that it leases from the head lessor.

The bulk supply agreement for power pertaining to Mussandam IPP with Rural Area Electricity Company is classified as a sub-lease. Furthermore, bulk supply agreements for water with the Public Authority for Water and Dhofar Governerate of Water has been classified as a sub-lease on 1st January 2019.

During 2019, the Company recognised interest income on lease receivables of 44,846 thousand (Note 25).

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date. Under IAS 17, the Company did not recognise any finance leases as a lessor.

	2019
	OMR
Non-current	**519,792**
Current	**50,609**
Total undiscounted lease receivable	**898,286**
Unearned finance income	**(326,779)**
Net investment in the lease	**571,507**
Impairment losses	**(1,106)**
	570,401

10 Advance payment

The Company accounted the advance payments pertaining 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. With the adoption of IFRS 16, the opening balance of the advance payment has been transferred to the right-of-use asset (Note 8).

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Notes to the financial statements

11 Trade and other receivables

	2019	2018
	RO'000	RO'000
Trade receivable from related parties (Note 29)	**365,682**	219,481
Trade receivables - water sales	**15,404**	12,837
Impairment losses	**(3,614)**	(3,145)
	377,472	229,173
Prepayments and others	**150**	153
Other receivables (current)	**1,454**	1,454
Revenue recovered less than the maximum allowed as per price control formula (Power and water)	**38,457**	22,342
Interest on the revenue recovered less than the maximum allowed as per price control formula (power and water)	**749**	387
	418,282	253,509

As at 31 December 2019, RO 3,614 has been impaired (2018: 3,145).

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:

	2019	2018
	RO'000	RO'000
Within one year (current)	**1,454**	1,454
More than one year (non-current)	**1,480**	2,934
	2,934	4,388

Movement in Impairment losses on trade receivables

	2019	2018
	RO'000	RO'000
1 January	**3,145**	174
Impairment during the year	**469**	2,971
31 December	**3,614**	3,145

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Notes to the financial statements

12 Cash and cash equivalents

	2019	2018
	RO'000	RO'000
Cash in hand	**2**	2
Cash at bank	**50,085**	11,072
Cash and cash equivalents in the statement of cash flow	**50,087**	11,074
Less: Provision for impairment	**(97)**	(24)
Cash and cash equivalents in the statement of financial position	**49,990**	11,050
At 1 Jan 2019	**24**	4
Charge for the year	**73**	20
	97	24

13 Share capital

The Company's authorised, issued and paid-up share capital consists of 8,100,000 shares of RO 1 each. During the year, shareholders have injected an additional share capital of RO 7,600 thousand to support the long-term funding requirement of the Company. The details of the shareholders are as follows:

	Percentage of shareholding	**Number of shares issued**	**2019 RO**	2018 RO
Electricity Holding Company SAOC	**99.99%**	**8,099,190**	**8,099,190**	499,950
Nama Shared Services LLC	**0.005%**	**405**	**405**	25
Nama Institute for Competency Development LLC	**0.005%**	**405**	**405**	25
	100%	**8,100,000**	**8,100,000**	500,000

14 Legal reserve

The legal reserve, which is not available for distribution is accumulated in accordance with Article 132 of the Commercial Companies Law 2019. Article 132 of the Commercial Companies Law of 2019 requires that 10% of a Company's net profit to be transferred to a non-distributable legal reserve until the amount of the legal reserve becomes equal to one-third of the Company's fully-paid share capital. This reserve is not available for distribution. During the year Company has incurred losses and no allocation has been made to the legal reserve.

15 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 not been achieved. During the year Company has incurred losses and no allocation has been made to the general reserve. This reserve is available for distribution to shareholders.

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Notes to the financial statements

16 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.

17 Lease liabilities

	2019	2018
	RO '000	RO '000
Non-current	**1,963,560**	128,454
Current	**194,347**	13,907

Movement during the year

	2019	2018
	RO '000	RO '000
Liability recognized as at 1 January	**142,361**	165,473
Addition during the year	**2,197,382**	-
Add: Finance cost	**163,656**	-
Less: payment of lease obligation	**(345,492)**	(23,112)
	2,157,907	142,361

Maturity analysis

	2019	2018
	RO '000	RO '000
Gross finance lease liabilities - minimum lease payments		
Not later than 1 year	**348,773**	27,874
Later than one year and not later than five years	**1,228,522**	92,967
Later than five years	**1,611,541**	130,072
Minimum lease payments	**3,188,836**	250,913
Less: future finance charges	**(1,030,929)**	(108,552)
Lease liability	**2,157,907**	142,361

Amount recognized in profit or loss

Interest on lease liabilities	**163,656**	-
Interest income on lease receivables	**(44,846)**	-

Amount recognized in the statement of cash flow

Total cash outflows for leases	**(345,492)**	-

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Notes to the financial statements

18 Provision for employees' benefits

	2019 RO	2018 RO
Non-current	**454**	433
Current	**118**	98
	572	531

Movement in provision for employee benefits

	2019 RO	2018 RO
At 1 January	**531**	706
Charge for the year	**83**	79
Reversal during the year	**-**	(225)
Payments made during the year	**(42)**	(29)
At 31 December	**572**	531

19 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:

	At 1 January RO '000	(Charge) / credit for the year RO '000	At 31 December RO '000
2019			
Liability / (Assets)			
Accelerated tax depreciation	**(9)**	**5**	**(4)**
Finance lease	**3,566**	**90,742**	**94,308**
Advance payment	**(885)**	**885**	**-**
Finance lease receivables	**-**	**(85,726)**	**(85,726)**
Impairment on financial assets	**476**	**247**	**723**
Tax losses	**121**	**35**	**156**
	3,269	**6,188**	**9,457**
2018			
Liability / (Assets)			
Accelerated tax depreciation	(10)	1	(9)
Finance lease	3,992	(426)	3,566
Advance payment	(1,144)	258	(885)
Impairment on financial assets	-	476	476
Tax losses	174	(51)	121
	3,012	257	3,269

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Notes to the financial statements

20 Trade and other payables

	2019	2018
	RO '000	RO '000
Accruals and other expenses	**51,542**	53,232
Trade payables to related parties (note 29)	**1,483**	12,637
Due to Ministry of Finance for excess funding received	**2,913**	2,913
Withholding tax payables	**2**	17
Suppliers and contractors' payables	**222,989**	5,974
	278,929	74,773

21 Short-term loan

Borrowings from banks	**142,689**	190,040

The Company has a short-term aggregate 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 4.5% (2018: 3% to 5%) 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.

22 Revenue

	2019	2018
	RO'000	RO'000
Bulk supply revenue for electricity (Note 29)	**674,922**	652,111
Bulk supply revenue for water	**139,974**	127,699
Net under / (over) recovery in maximum allowed revenue as per price control formula	**15,727**	36,136
	830,623	815,946
Adjustments due to sub-lease (as a lessor)		
De-recognition of electricity revenue (sub-lease)	**(7,829)**	-
De-recognition of water revenue (sub-lease)	**(87,059)**	-
	(94,888)	-
	735,735	815,946

23 Operating costs

Electricity capacity and output purchase costs	**681,148**	656,679
Desalinated water capacity and output purchase costs	**133,022**	146,815
Other direct costs	**4,075**	4,649
	818,245	808,143
Adjustments due to sub-lease (as a lessor)		
De-recognition of electricity capacity charges	**(258,433)**	(26,644)
De-recognition of water capacity charges	**(87,059)**	(10,932)
Depreciation on right-of-use assets	**176,301**	20,271
	649,054	790,837

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

24 General and administrative expenses

	2019 RO'000	2018 RO'000
Employee benefit expenses	**3,492**	2,971
License fee to the regulator	**771**	782
Service expenses	**971**	1,014
Directors' sitting fees	**30**	25
Depreciation	**312**	153
Other expenses	**199**	420
	5,775	5,365

Employee benefit expenses

	2019 RO'000	2018 RO'000
Salaries and allowances	**2,797**	2,561
Other benefits	**695**	410
	3,492	2,971

Included within employee benefit expenses is an amount of RO 55,905 (2018 - RO 54,424) relating to post employment benefit expenses.

25 Finance income

	2019 RO'000	2018 RO'000
Interest on bank account	**82**	43
Interest on finance leases	**44,846**	-
Interest on the revenue recovered less than the maximum allowed as per price control formula (power and water)	**749**	387
Other interest	**150**	3,726
	45,827	4,156

26 Finance costs

	2019 RO'000	2018 RO'000
Interest on obligations under leases	**163,656**	16,189
Other Interest	**1,730**	1,337
Interest on bank loans and bank charges	**6,164**	5,120
	171,550	22,646

27 Other income

	2019 RO'000	2018 RO'000
Gain due to recognition of sub-lease	**5,162**	-
Other	**30**	5
	5,192	5

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Notes to the financial statements

28 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.

	2019	2018
	RO'000	RO'000
Current tax	**-**	-
Deferred tax (Note 18)	**(6,188)**	(257)
	(6,188)	(257)

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:

	2019	2018
	RO'000	RO'000
Accounting loss before tax	**(41,271)**	(1,734)
Tax debit (credit) on accounting loss	**(6,191)**	(260)
Other items	**2**	3
Tax income (expense) for the year	**(6,188)**	(257)

Taxation has been agreed with the Oman taxation authorities for all the years up to 31 December 2015. The Company's income tax assessment for year 2016 to 2018 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 2019.

29 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.

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Notes to the financial statements

29 Related parties *(continued)*

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

Revenue	2019 RO ’000	2018 RO ’000
Transactions with related parties under common ownership		
Mazoon Electricity Company SAOC	**189,661**	187,082
Muscat Electricity Distribution Company SAOC	**227,273**	224,183
Majan Electricity Company SAOC	**175,959**	173,218
Rural Area Electricity Company SAOC	**20,709**	11,802
Dhofar Power Company SAOC	**61,320**	55,826
	674,922	652,111
Public Authority for Water	**130,491**	118,403
Expenses		
Transactions with related parties under common ownership		
Interest on finance lease and Electricity and water output purchases from Al Ghubrah Power and Desalination Company SAOC	**344**	42,961
Interest on finance lease and Electricity and water output purchases from Wadi Al Jizzi Power Company SAOC	**-**	6,195
Power purchases from Rural Area Electricity Company SAOC	**261**	-
Shared service charges to Nama Shared Services LLC	**138**	118
Training fees to Nama Institute of Competency Development LLC	**5**	61
Accounting service charges and interest on loan to Electricity Holding Company SAOC	**1,393**	-
	2,141	49,335

Balances with related parties under common ownership are as follows:

	2019	2018
Related party receivables		
Muscat Electricity Distribution Company SAOC	**35,599**	18,641
Mazoon Electricity Company SAOC	**97,393**	34,396
Majan Electricity Company SAOC	**34,515**	38,169
Public Authority for Water	**160,982**	119,927
Dhofar Power Company SAOC	**34,692**	5,961
Rural Area Electricity Company SAOC	**2,501**	2,377
Electricity Holding Company SAOC	**-**	10
	365,682	219,481
Related party payables		
Al Ghubrah Power and Desalination Company SAOC	**1,071**	12,291
Wadi Al Jizzi Power Company SAOC	**81**	81
Rural Area Electricity Company SAOC	**261**	-
Numo Institute for Competency Development	**2**	-
Nama Shared Services	**-**	29
Electricity Holding Company SAOC	**68**	236
	1,483	12,637
Loan from Parent Company	**40,032**	-

The Company has taken a short-term loan from the Parent Company to meet its immediate working capital requirements. The loan is repayable on demand.

OMAN POWER AND WATER PROCUREMENT COMPANY SAOC

Notes to the financial statements

29 Related parties *(continued)*

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:

	2019	2018
	RO'000	RO'000
Short-term employee benefits	**726**	718
Post-employment benefits	**13**	18
Directors sitting fees	**30**	25
	769	761

30. Cash flows from financing activities

	As at 1 January 2019	Acquisition of loan	Repayments	**As at 31 December 2019**
	RO'000	RO'000	RO'000	**RO'000**
Loan from Parent Company	-	40,032	-	**40,032**
Short term loan	190,040	550,346	(597,697)	**142,689**
	190,040	590,378	(597,697)	**182,721**

31 Approval of financial statements

The financial statements were approved by the Board and authorised for issue on _________ 2020.

OMAN POWER AND WATER
PROCUREMENT CO. (SAOC)

OFFICE LOCATION:
Floor: 5, Building: 5
Muscat Grand Mall
Tilal Complex (Office)
Al Khuwair, Al Janubiyyah.