

**Oman Power and Water Procurement
Company SAOC**

FINANCIAL STATEMENTS

31 DECEMBER 2023

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

Principal place of business:
Muscat Grand Mall
Tilal Complex, 5th Floor
Al Khuwair, Muscat
Sultanate of Oman

Oman Power and Water Procurement Company SAOC
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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INDEPENDENT AUDITOR'S 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 Company SAOC (the "Company"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("the IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in 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.

Material uncertainty related to going concern

Without qualifying our opinion, We draw attention to note 2 of the financial statements, which indicates that as at 31 December 2023, the Company incurred a loss of RO 7.7 million (2022: 14.0 million) , current liabilities of the Company exceeded its current assets by RO 131 million (2022: RO 133 million) and had a deficiency of asset of RO 113 million (2022: 106 million), which may indicate the existence of a material uncertainty relating to going concern as the Company will require additional funding and financial support to meet its financial obligations as they fall due and continue its operations for the foreseeable future . In this regard, the managers of the Company have obtained a confirmation from the shareholders of the Company that they will provide the Company with adequate financial support to enable it to meet its liabilities as they fall due and continue its operations for a foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis and do not include any adjustment that may arises from this uncertainty.

Other information

Audit Committee and management is responsible for the other information. The other information comprises the Board of Directors' report.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN POWER AND WATER PROCUREMENT COMPANY SAOC (CONTINUED)

Report on the audit of the financial statements (continued)

Other information (continued)

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

Responsibilities of management and Audit Committee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and their preparation in compliance with the relevant requirements of the Commercial Companies Law of 2019 of the Sultanate of Oman, 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.

Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's 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 auditor's 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.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN POWER AND WATER PROCUREMENT COMPANY SAOC (CONTINUED)**

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- 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 auditor's 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 auditor's 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 Audit Committee 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

As required by the applicable provisions of the Commercial Companies Law of 2019 and the Ministerial Decision 146/2021, we report that:

- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the Company has maintained accounting records and the financial statements are in agreement therewith;
- the financial information included in the Board of Directors' report is consistent with the books of accounts of the Company; and
- based on the information that has been made available to us, nothing has come to our attention, which causes us to believe that the Company has contravened, during the year ended 31 December 2023, any of the applicable provisions of the Commercial Companies Law of 2019 or its Articles of Association, which would materially affect the financial performance of the Company for the year ended 31 December 2023 or its financial position as at 31 December 2023.



Mohamed Al Qurashi
21 March 2024
Muscat



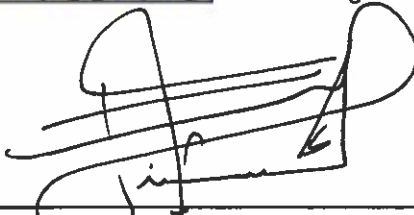

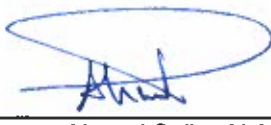
Oman Power and Water Procurement Company SAOC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 RO'000	2022 RO'000
ASSETS			
Non-current assets			
Property and equipment	6	3,559	4,055
Right-of-use assets	7	856,258	1,010,296
Lease receivables	8	443,941	481,300
Deferred tax assets	23	22,946	21,603
Total non-current assets		1,326,704	1,517,254
Current assets			
Lease receivables	8	38,161	41,882
Trade and other receivables	9	259,296	285,277
Cash and cash equivalents	10	1,168	18,524
Total current assets		298,625	345,683
TOTAL ASSETS		1,625,329	1,862,937
EQUITY AND LIABILITIES			
Equity			
Share capital	11	8,100	8,100
Legal reserve	12	167	167
General reserve	13	250	250
Accumulated losses		(121,850)	(114,121)
Total equity		(113,333)	(105,604)
LIABILITIES			
Non-current liabilities			
Lease liabilities	14	1,309,177	1,489,174
Employees' end of service benefits	15	343	394
Total non-current liabilities		1,309,520	1,489,568
Current liabilities			
Lease liabilities	14	179,997	185,638
Trade and other payables	16	114,021	93,490
Short term borrowings	17	135,000	199,520
Current tax payable	23	124	325
Total current liabilities		429,142	478,973
Total liabilities		1,738,662	1,968,541
TOTAL EQUITY AND LIABILITIES		1,625,329	1,862,937

The financial statements were authorised for issue and approved by the Board of Directors on 27/02/2024 and were signed on their behalf by:

 <hr/> Abdul Aziz Said Al Shidhani Chairman	 <hr/> Aflah Mustafa Al Lawati Member	 <hr/> Ahmed Salim Al Abri Acting Chief Executive Officer
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The attached notes 1 to 28 form part of these financial statements.

Oman Power and Water Procurement Company SAOC

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	<i>Notes</i>	2023 RO'000	2022 RO'000
Revenue	18	898,368	821,050
Operating costs	19	(815,199)	(733,484)
Gross profit		83,169	87,566
General and administrative expenses	20	(6,578)	(6,341)
Reversal/(provision) for expected credit losses	8,9 & 10	1,173	(48)
Other income		4	18
Operating profit		77,768	81,195
Finance income	21	38,575	41,624
Finance costs	22	(125,415)	(139,327)
Loss before tax		(9,072)	(16,508)
Taxation	23	1,343	2,473
LOSS AND OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		(7,729)	(14,035)

The attached notes 1 to 28 form part of these financial statements.

Oman Power and Water Procurement Company SAOC

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	<i>Share capital</i> <i>RO'000</i>	<i>Legal</i> <i>reserve</i> <i>RO'000</i>	<i>General reserve</i> <i>RO'000</i>	<i>Accumulated losses</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
At 1 January 2022	8,100	167	250	(100,086)	(91,569)
Loss and total comprehensive expense for the year	-	-	-	(14,035)	(14,035)
At 1 January 2023	8,100	167	250	(114,121)	(105,604)
Loss and total comprehensive expense for the year	-	-	-	(7,729)	(7,729)
At 31 December 2023	8,100	167	250	(121,850)	(113,333)

The attached notes 1 to 28 form part of these financial statements.

Oman Power and Water Procurement Company SAOC

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 RO'000	2022 RO'000
OPERATING ACTIVITIES			
Loss before tax		(9,072)	(16,508)
<i>Adjustments for:</i>			
Depreciation on property and equipment	6	1,026	1,133
Depreciation of right-of-use assets	7	154,038	160,626
(Reversal)/allowance for expected credit losses	8,9 & 10	(1,173)	48
Accruals for employees' end of service benefits	15	149	35
Interest income on lease receivables	21	(37,851)	(40,804)
Other interest income		(724)	(820)
Finance costs	22	125,415	139,327
Gain on disposal of property and equipment		-	(5)
		231,808	243,032
Changes in working capital:			
Trade and other receivables		26,264	(1,322)
Trade and other payables		20,531	(748)
		278,603	240,962
Cash generated from operating activities			
Income tax paid		(201)	-
Employees' end of service benefits paid	15	(200)	(89)
		278,202	240,873
INVESTING ACTIVITIES			
Purchase of property and equipment	6	(530)	(465)
Proceeds from the disposal of property and equipment		-	5
Receipt of finance lease receivable	8	79,734	86,573
Interest received	21	724	820
		79,928	86,933
FINANCING ACTIVITIES			
Payment of lease liabilities	14	(305,459)	(320,146)
Repayment of short-term borrowings - net		(64,520)	(6,471)
Interest paid on short term loans		(5,594)	(6,892)
		(375,573)	(333,509)
Net cash flows used in financing activities			
Decrease in cash and cash equivalents		(17,443)	(5,703)
Cash and cash equivalents at 1 January		18,614	24,317
Cash and cash equivalents at 31 December	10	1,171	18,614

The attached notes 1 to 28 form part of these financial statements.

Oman Power and Water Procurement Company SAOC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023

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 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 Public Services Regulation, Oman.

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 subsidiaries of the Holding Company namely Numo Institute for Competency Development LLC & Nama Shared Services LLC. The Ultimate Parent is the Government of Sultanate of Oman, as it holds 100% shareholding in the Holding Company through the Oman Investment Authority (OIA), which was formed during the period pursuant to the Royal Decree 61/2020 under which all the shareholdings of the entities owned by the Ministry of Finance (MoF) have been transferred to OIA. Before the formation of OIA, 100% shares of the Holding Company were held by MOF.

2 BASIS OF ACCOUNTING

Fundamental Accounting Concept

As at 31 December 2023, the Company incurred a loss of RO 7.7 million (2022: 14.0 million), its current liabilities of the Company exceeded its current assets by RO 131 million (2022: RO 133 million) and had a deficiency of asset of RO 113 million (2022: 106 million), which may indicate the existence of a material uncertainty relating to going concern as the Company will require additional funding and financial support to meet its financial obligations as they fall due and continue its operations for the foreseeable future. In this regard, the managers of the Company have obtained a confirmation from the shareholders of the Company that they will provide the Company with adequate financial support to enable it to meet its liabilities as they fall due, and continue its operations for a foreseeable future. Further, the Company has generated net cashflows of RO 273 million (2022: 241 million) from operations during the year which are utilised to settle the obligations. Accordingly, these financial statements have been prepared on a going concern basis and do not include any adjustment that may arise from this uncertainty.

3 BASIS OF PREPARATION

a) *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) as issued by the International Accounting Standards Board ("IASB"), and the requirements of the Commercial Companies Law of 2019, as amended.

b) *Basis of measurement*

These financial statements are prepared on historical cost basis except for certain derivative financial instruments which are measured at fair value.

c) *Presentation and functional currency*

These financial statements are presented in Rial Omani ("RO"), which is the Company's functional as well as presentation currency. All amounts have been rounded to the nearest thousand (RO '000 and USD '000) except where otherwise stated.

3 BASIS OF PREPARATION (CONTINUED)

d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in impairment of property and equipment, financial valuation of derivative financial instruments and impairment of financial assets.

Measurement of fair value

The Company measures fair values using the following fair value hierarchy based on the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in the active market for similar instruments, quoted market prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments that are valued based on quoted prices of similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Key sources of estimation uncertainties

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset payments of principal and interest on the principal amount are solely outstanding.

Determining the lease term of contracts with renewal and termination options – Company as lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset). The Company included the renewal period as part of the lease term for leases of buildings (labour camps) with six years non-cancellable period

Useful lives of property and equipment

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

3 BASIS OF PREPARATION (CONTINUED)

d) Use of estimates and judgments (continued)

Key sources of estimation uncertainties (continued)

Provision for current tax and deferred tax

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company reviews the provision for tax on a regular basis. In determining the provision for tax, laws of particular jurisdictions (where applicable entity is registered) are taken into account. The management considers the provision for tax to be a reasonable estimate of potential tax liability after considering the applicable laws and past experience.

The Company has evaluated the available evidence about future taxable income and other possible sources of realisation of income tax assets, and the amount recognised has been limited to the amount that, based on management's best estimate, is more likely than not to be realised.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Provision for expected credit losses of trade receivables and contract assets

The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating.)

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

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.

Leases - estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available.

4 CHANGES IN ACCOUNTING POLICIES

4.1 Standards and amendments issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- *Amendments to IFRS 16: Lease Liability in a Sale and Leaseback*
- *Amendments to IAS 1 - Classification of Liabilities as Current or Non-current*
- *Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7*

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

4.2 New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- *IFRS 17 Insurance Contracts*
- *Definition of Accounting Estimates - Amendments to IAS 8*
- *Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2*
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12*
- *International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12*

The above standards do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

5 MATERIAL ACCOUNTING POLICY INFORMATION

The accounting policies applied in these separate financial statements are the same as those applied in the Company's separate financial statements as at and for the year ended 31 December 2023.

5.1 Leases

the Company enters 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 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.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. At inception of a contract the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset the Company assesses whether:

- a) the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- b) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- c) the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - i) the Company has the right to operate the asset; or
 - ii) the Company designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Company as a lessee

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received (if any). Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. The Company depreciates the lease assets over the lease terms. Hence the estimated remaining useful life is irrelevant.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- i) fixed payments, including in-substance fixed payments;
- ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.1 Leases (continued)

- iii) amounts expected to be payable under a residual value guarantee; and the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Company presents right-of-use assets and lease liabilities separately in the statement of financial position.

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.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When the sublease is assessed as a finance lease, the company derecognises the right-of-use asset relating to the head lease that it transfers to the sublessee and recognised the net investment in the sublease within "sub-lease receivables". Any differences between the right-of-use asset derecognised and the net investment in sublease is recognised in profit or loss. Lease liability relating to the head lease is retained in the statement of financial position, which represents the lease payments owed to the head lessor.

When the sublease is assessed as an operating lease, the company recognise lease income from sublease in profit or loss within "Other income". The right-of-use asset relating to the head lease is not derecognised. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Based on the nature of the PPA/WPA entered with the sub-lessee, the management is of the view that the arrangement meets the definition of a lease. This is mainly because:

- the assets were built exclusively for the sub-lessee and is an identified asset;
- sub-lessee will be entitled to all the output generated from these assets and in substance will obtain substantially all of the economic benefits of the IWP/IPP; and
- the assets will not provide economic benefits to any third party apart from the sub-lessee.

OPWP will classify 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. Given that the subleases are for the whole of the remaining term of the head lease -i.e. the sub-lease is for the major part of the useful life of the right of-use asset therefore, OPWP will classify these arrangements as a finance lease.

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.1 Leases (continued)

Considering that the head lease in these arrangements will be recognised in the balance sheet and given that the subleases are finance leases, OPWP will recognise, therefore, the liability for the head lease and recognised the head lease right of use asset. This is because, the sub-lessee has the risks and rewards of ownership of the finance lease asset. Accordingly, OPWP will recognise a sub-lease finance lease receivable. The head lease finance lease liability and the sub-lease finance lease receivable cannot be offset unless there is an intention and a legally enforceable right to set off.

Importantly, OPWP is acting as a principal in its own right as both lessor and lessee, or whether it is merely acting as agent for the head lessor or ultimate lessee. Based on the terms of the License, the Sector Law, and the respective PPA/WPA/BSA, OPWP will, in effect, have the role of a principal and not an agent. Further, the supply/inventory and the credit risks rests with OPWP and not the sub-lessee, confirming that OPWP does not have an agency relationship.

5.2 Currency

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the exchange rates prevailing at the dates of the transactions.

At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing at the reporting date.

Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rates at the date of the transaction.

Translation gains and losses related to monetary items are recognized in the profit or loss and other comprehensive income in the year in which they arise, with the exception of those related to monetary items that qualify as hedging instruments in a cash flow hedge that are recognized initially in profit or loss and other comprehensive income to the extent that the hedge is effective.

5.3 Financial Instruments

IFRS 9 Financial Instruments has principle-based requirements for the classification of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The classification of financial assets under IFRS 9 is generally based on the business model in which the financial asset is managed and contractual cash flows characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- 1) Trade and other receivables
- 2) Cash and cash equivalents
- 3) Amounts due from related parties
- 4) Short term borrowing
- 5) Short term loan from a shareholder
- 6) Trade and other payables
- 7) Lease liabilities

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.3 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:

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

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

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

Financial liabilities

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

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

- i) 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;
- ii) The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or
- iii) The financial liability contains an embedded derivative that would otherwise need to be separately recorded.

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

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.3 Financial Instruments (continued)

Subsequent measurement of financial assets

Financial assets

Financial assets carried at amortised cost

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

Subsequent measurement of financial liabilities

The Company categorises its financial liabilities into two measurement categories: FVTPL and amortised cost.

The Company designates a financial liability as measured at FVTPL when it meets the definition of held for trading or when they are designated as such on initial recognition using the fair value option.

Gains and losses on financial liabilities designated as at FVTPL are split into the amount of change in fair value attributable to changes in credit risk of the liability, presented in other comprehensive income, and the remaining amount in profit or loss.

The Company recognises the full amount of change in the fair value in profit or loss only if the presentation of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. That determination is made at initial recognition and is not reassessed.

Cumulative gains or losses presented in other comprehensive income is subsequently transferred within equity.

Financial liabilities not held at FVTPL are subsequently measured at amortised cost using the effective interest method.

The Company's financial liabilities include accounts payable, due to related parties, fair value of derivatives, short term borrowings and term loans.

Except for fair value of derivatives which is measured at fair value, all other financial liabilities of the Company are measured at amortised cost.

Derecognition of financial assets

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

- i) The rights to receive cash flows from the asset have expired; or
- ii) 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
- iii) The Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.3 Financial Instruments (continued)

Derecognition of financial assets (continued)

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.

Derecognition of financial liabilities

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

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

Impairment of financial assets

The Company assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the issuer, default or delinquency by an issuer, indications that an issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Company of assets such as adverse changes in the payment status of issuers. or economic conditions that correlate with defaults in the Company.

IFRS 9 defines expected credit losses as the weighted average of credit losses with the respective risks of a default occurring as the weightings.

At each reporting date the Company provides for expected losses on all of the following using reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring expected credit losses:

- i) Financial assets measured at amortised cost,
- ii) Financial assets mandatorily measured at FVTOCI, and
- iii) Loan commitments when there is a present obligation to extend credit.

The Company measures expected credit losses through a loss allowance at an amount equal to:

- i) the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- ii) full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.3 Financial Instruments (continued)

Impairment of financial assets (continued)

The Company provides for a loss allowance for full lifetime expected credit losses for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses.

The Company determines the amount of expected credit losses by evaluating the range of possible outcomes as well as incorporating the time value of money. These expected losses are discounted to the reporting date using the effective interest rate of the asset (or an approximation thereof) that was determined at initial recognition.

Derivative financial instruments and hedge accounting

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk.

A hedging relationship qualifies for hedge accounting only if all of the following criteria are met:

- i) there is formal designation and documentation of the hedging relationship at the inception of hedge;
- ii) There is an economic relationship between the hedged item and hedging instrument;
- iii) the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- iv) the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedge item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

As part of risk management strategies, the Company uses derivative financial instruments, such as interest rate swaps, to hedge interest rate sensitivities. These derivative financial instruments qualify for hedge accounting and are designated as cash flow hedges. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The Company adjusts the cash flow hedge reserve in equity to the lower of the following:

- a) the cumulative gain or loss on the hedging instrument from inception of the hedge; and
- b) the cumulative change in fair value of the hedged item from inception of the hedge.

Effectiveness testing, rebalancing and discontinuation

The Company performs prospective assessment of effectiveness of its cash flow hedges at each reporting date. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and any remaining gain or loss is hedge ineffectiveness which is recognised in profit or loss.

When the Company discontinues hedge accounting for a cash flow hedge, the amount that has been accumulated in the cash flow hedge reserve remains in equity if the hedged future cash flows are still expected to occur, until such cash flows occur. If the hedged future cash flows are no longer expected to occur, that amount is immediately reclassified to profit or loss.

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.3 Financial Instruments (continued)

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Company discontinues hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after any rebalancing). This includes instances when the hedging instrument expires or is sold, terminated or exercised.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is presented in the statement of financial position when and only when, the Company 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 obligation simultaneously.

5.4 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from profit or loss and other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment.

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

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and the difference is recognised in the profit and loss and other comprehensive income.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Depreciation

Depreciation is charged to the profit and loss and other comprehensive income on a straight-line basis over the estimated useful lives of the asset less its residual value.

The management assigns useful lives and residual values to the items of property and equipment based on intended use of the assets and the expected economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual lives or residual values differing from the initial estimates. The management has reviewed the residual values and useful lives of the major items of property and equipment and have determined that no adjustment is necessary. The estimated useful lives for current and comparative periods are as follows:

	Years
Furniture, fixtures and equipment	2 - 5
Motor vehicles	7

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.4 Property, plant and equipment (continued)

Capital work-in-progress

Capital work in progress is measured at cost and is not depreciated until it is transferred into one of the fixed asset categories, which occurs when the asset is ready for intended use.

Capital spares

Cost of capital Spares includes all expenditure directly attributable to the acquisition of capital spares.

Capital spares shall be recognised in the carrying amount of the affected item of property and equipment when it is put in use. The carrying amount of the replaced item is derecognised. When it is not practical to determine the carrying amount of the replaced part, the cost of the capital spare may be used as an indication of what the cost of the replaced part was at the time it was acquired.

5.5 Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances and short term deposits with an original maturity of three months or less.

5.6 Employee terminal benefits

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 categorised as a non-current liability.

End of service benefits 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 Ministry of Housing, Electricity and Water on 1 May 2005 is calculated based on the terms 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.

5.7 Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

5.8 Borrowing costs

Interest expense and similar charges are expensed in the profit and loss and other comprehensive income in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of a qualifying asset which necessarily takes a substantial period of time to prepare for its intended use or sale. Finance income is recognised as it accrues in the statement of profit and loss.

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.9 Impairment

Non-derivative financial assets

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

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the income statement. An impairment loss is reversed if reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the profit and loss and other comprehensive income.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss and other comprehensive income unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity.

The recoverable amount of the cash generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit.

The management determines whether there are any indications of impairment to carrying value of property, plant and equipment on an annual basis because of the difference between the duration of the contracted cash flows and accounting depreciation of assets. This requires an estimation of the value in use of the cash generating unit. Estimating the value in use requires the Company to make an estimate of the residual value of the cash generating unit at the end of the term of the PPA considering the expected future cash flows for the period beyond the term of the PPA and also a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' 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.

5.10 Government grants

Grants from the Government are recognised at their value where there is a reasonable assurance that the grant will be received and the Company will comply with all the attached conditions. Government grants relating to the costs are deferred and recognised in the statement of profit and loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the construction of assets are included in deferred revenue as 'funding from Government sponsored projects' within non-current liabilities and are credited to profit and loss on straight line basis over the expected useful life of the related assets.

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.11 Revenue from contracts with customers

The Company recognises revenue from contracts with customers based on the five step model:

Step 1 Identify the contract(s) with a customer

A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2 Identify the performance obligations in the contract

A performance obligation is a unit of account and a promise in a contract with a customer to transfer a good or service to the customer.

Step 3 Determine the transaction price

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

Step 4 Allocate the transaction price to the performance obligations in the contract

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

Step 5 Recognise revenue

When (or as) the Company satisfies a performance obligation.

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

- i) The customer simultaneously receives and consumes the benefits provided by the Company's performance as and when the Company performs; or
- ii) The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- iii) 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.

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.

Variable consideration

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

Significant financing component

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

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.11 Revenue from contracts with customers (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.

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

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

Cost of obtainment and fulfilment

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

- i) Relate directly to an existing contract or specific anticipated contract;
- ii) Generate or enhance resources that will be used to satisfy performance obligations in the future; and
- iii) 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.

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

5.12 Income tax

Income tax for the year comprises current and deferred tax, which is computed as per the fiscal regulations of the Sultanate of Oman. Income tax is recognised in the profit and loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Deferred tax is calculated on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

5.13 Dividends

The Board of Directors takes into account appropriate parameters including the requirements of the Commercial Companies Law while recommending the dividend. Dividends on ordinary shares are recognised when they are approved for payment.

5 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

5.14 Directors' sitting fees and remuneration

Directors' sitting fees and remuneration are approved by the shareholders in the ordinary annual general meeting of the Company and are recognised as an expense in the profit and loss and other comprehensive income.

5.15 Cash and cash equivalents

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

5.16 Determination of fair value

Derivative financial instruments

Fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using yield curves of the respective currencies. The fair value of interest rate swaps is based on estimated future cash flows based on the terms and maturity of each contract and using market interest rates.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and counterparty when appropriate.

Non derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5.17 Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

Oman Power and Water Procurement Company SAOC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023

6 PROPERTY AND EQUIPMENT

	<i>Furniture and equipment RO'000</i>	<i>Motor Vehicles RO'000</i>	<i>Work-in- progress RO'000</i>	<i>Total RO'000</i>
Cost				
At 1 January 2022	1,878	74	4,478	6,430
Additions	47	-	418	465
Transfers	4,848	-	(4,848)	-
Disposals	-	(74)	-	(74)
At 1 January 2023	6,773	-	48	6,821
Additions	75	-	455	530
Transfers	-	-	-	-
Disposals	(2)	-	-	(2)
At 31 December 2023	6,846	-	503	7,349
Accumulated depreciation				
At 1 January 2022	1,633	74	-	1,707
Charge for the year	1,133	-	-	1,133
Related to disposal	-	(74)	-	(74)
At 1 January 2023	2,766	-	-	2,766
Charge for the year	1,026	-	-	1,026
Related to disposal	(2)	-	-	(2)
At 31 December 2023	3,790	-	-	3,790
Carrying values				
At 31 December 2023	3,056	-	503	3,559
At 31 December 2022	4,007	-	48	4,055

7 RIGHT-OF-USE ASSETS

	2023 RO'000	2022 RO'000
Cost		
At 1 January	1,632,793	1,758,810
Retirement	-	(126,017)
At 31 December	1,632,793	1,632,793
Accumulated Depreciation		
At 1 January	622,497	587,888
Charge for the year	154,038	160,626
Retirement	-	(126,017)
At 31 December	776,535	622,497
Carrying value - at 31 December	856,258	1,010,296

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.

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8 LEASES 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. The Company applies IFRS 16 to all leases of right of use assets in a sub-lease. An intermediate lessor classifies the sublease 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 Majan Electricity Distribution Company and bulk supply agreements for water with the Oman Waste Water Services Company and Dhofar Integrates Services Company has been classified as a sub-lease.

8.1 The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	2023	2022
	RO'000	RO'000
Total undiscounted lease receivable	742,190	821,923
Unearned finance income	(259,001)	(296,851)
Net investment in the lease	483,189	525,072
Expected credit loss (note 8.4)	(1,087)	(1,890)
	482,102	523,182
Non current	443,941	481,300
Current	38,161	41,882
	482,102	523,182
8.2 Undiscounted gross finance lease receivables – Maturity analysis		
Not later than 1 year	72,878	79,733
Later than one year and not later than five years	256,019	273,357
Later than five years	413,293	468,833
	742,190	821,923

8.3 Movement in net investment in the lease

	2023	2022
	RO'000	RO'000
At 1 January	525,072	512,122
Additions during the year	-	58,719
Interest income on lease receivables	37,851	40,804
Payments received	(79,734)	(86,573)
At 31 December	483,189	525,072

8.4 Movement in expected credit loss on lease receivable

	2023	2022
	RO'000	RO'000
At 1 January	1,890	1,913
Reversal during the year	(803)	(23)
At 31 December	1,087	1,890

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9 TRADE AND OTHER RECEIVABLES

	2023	2022
	RO'000	RO'000
Amounts due from related parties (note 24.3)	255,954	243,079
Allowance for expected credit loss	(2,846)	(3,129)
	253,108	239,950
Revenue recovered less than the maximum allowed as per price control formula (Power and water)	-	40,242
Interest on the revenue recovered less than the maximum allowed as per price control formula (power and water)	-	767
Prepayments and others	121	81
VAT receivables	5,967	4,212
Other receivables	100	25
	259,296	285,277

9.1 The movement in expected credit losses was as follows:

At 1 January	3,129	3,101
(Reversal)/allowance charged during the year	(283)	28
At 31 December	2,846	3,129

10 CASH AND CASH EQUIVALENTS

	2023	2022
	RO'000	RO'000
Cash at bank and on hand	1,171	18,614
Less: Expected credit loss	(3)	(90)
Cash and bank balances in the statement of financial position	1,168	18,524

10.1 The movement in expected credit losses was as follows:

	2023	2022
	RO'000	RO'000
At 1 January	90	47
Charge for the year	(87)	43
At 31 December	3	90

11 SHARE CAPITAL

The Company's authorised, issued and paid-up share capital consists of 8,100,000 (2022: 8,100,000) shares of RO 1 each. The details of the shareholders are as follows:

	Percentage of Shareholding	2023	2022
Electricity Holding Company SAOC (EHC)	99.99%	8,099,190	8,099,190
Nama Shared Services Company LLC	0.005%	405	405
Numo Institute for Competency Development LLC	0.005%	405	405
	100.00%	8,100,000	8,100,000

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12 LEGAL RESERVE

Article 132 of the Commercial Companies Law of 2019 requires that 10% of a Company's net profit after deduction of taxes 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. During the year Company has incurred losses and no allocation has been made to the legal reserve.

13 GENERAL RESERVE

In accordance with Article 133 of the Commercial Companies Law of 2019 and the Company's policy, an amount not exceeding 20% of the net profit of each financial year after deduction of taxes and transfer to legal reserve should be transferred annually to a general reserve until the balance of general reserve reach one half of the share capital. The reserve is available for distribution to the shareholders. During the year Company has incurred losses, hence no transfer has been made to the general reserve.

14 LEASE LIABILITIES

Lease liabilities represents 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. OPWP has used the incremental borrowing rate of 7% as a discount factor for the leases under IFRS 16.

14.1 The movement in lease liabilities during the year is as follows:

	2023	2022
	RO'000	RO'000
At 1 January	1,674,812	1,803,804
Addition during the year	-	58,719
Interest expense on lease liabilities (note 22)	119,821	132,435
Payments	(305,459)	(320,146)
At 31 December	<u>1,489,174</u>	<u>1,674,812</u>

14.2 Lease liabilities are classified into current and non-current portion as follows

	2023	2022
	RO'000	RO'000
Non-current	1,309,177	1,489,174
Current	179,997	185,638
	<u>1,489,174</u>	<u>1,674,812</u>

14.3 Maturity analysis of lease liabilities is as follows

	2023	2022
	RO'000	RO'000
Less than one year	286,301	305,459
More than 1 year and less than 5 years	1,004,695	1,093,292
More than five years	771,807	969,511
Minimum lease payments	<u>2,062,803</u>	<u>2,368,262</u>
Less: future finance charges	(573,629)	(693,450)
Lease liabilities	<u>1,489,174</u>	<u>1,674,812</u>

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14 LEASE LIABILITIES (CONTINUED)

14.4 Amounts recognised in the statement of comprehensive income.

	2023 RO'000	2022 RO'000
Interest on lease liabilities (note 22)	119,821	132,435
Interest income on lease receivables (note 21)	(37,851)	(40,804)
	<u>81,970</u>	<u>91,631</u>

15 EMPLOYEES' END OF SERVICE BENEFITS

	2023 RO'000	2022 RO'000
At 1 January	394	448
Charge for the year	149	35
Payments during the year	(200)	(89)
At 31 December	<u>343</u>	<u>394</u>

16 TRADE AND OTHER PAYABLES

	2023 RO'000	2022 RO'000
Amounts due to related parties (note 24.4)	28,101	27,470
Accruals and other expenses	15,018	59,810
Revenue recovered less than the maximum allowed as per price control formula (power and water)	5,310	-
VAT output	1,443	3,095
Suppliers and contractors' payables	61,235	197
Amounts due to Ministry of Finance for excess funding received (note 24.4)	2,913	2,913
Withholding tax payables	1	5
	<u>114,021</u>	<u>93,490</u>

17 SHORT TERM BORROWINGS

	2023 RO'000	2022 RO'000
Borrowings from banks	<u>135,000</u>	<u>199,520</u>

The Company has a short-term aggregate loan facilities of RO 200 million from Bank Muscat and National Bank of Oman. The loans carry a rate of interest in the range of 3.5% to 5.5% (2022: 3.5% to 5.5%) 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.

18 REVENUES

	2023 RO'000	2022 RO'000
Bulk supply revenue for electricity	880,000	769,929
Bulk supply revenue for water	145,099	150,112
Recognition of under recovery of revenue as per price control formula	(46,997)	(19,843)
Revenue from exports – electricity	-	7,425
	<u>978,102</u>	<u>907,623</u>
Adjustments due to sub-lease (as a lessor)		
De-recognition of electricity revenue (sub-lease) (note 8)	(7,827)	(7,832)
De-recognition of water revenue (sub-lease) (note 8)	(71,907)	(78,741)
	<u>898,368</u>	<u>821,050</u>

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18 REVENUES (CONTINUED)

	2023 RO'000	2022 RO'000
<i>Bulk supply revenue based on geographic location</i>		
North region of Oman	905,654	812,274
South region of Oman	119,445	107,767
Exports	-	7,425
	<u>1,025,099</u>	<u>927,466</u>

(i) Revenues are recognized at point in time by RO 898.4 million (2022: RO 821 million) and Over the period of time by RO Nil (2022: Nil)

(ii) Recognition of under recovery of revenue as per price control formula has not been included in revenue based on geographic location.

19 OPERATING COSTS

	2023 RO'000	2022 RO'000
Electricity capacity and output purchase costs	829,217	753,356
Desalinated water capacity and output purchase costs	136,408	138,921
Other direct costs	995	727
	<u>966,620</u>	<u>893,004</u>
<i>Adjustments due to sub-lease (as a lessor)</i>		
De-recognition of electricity capacity charges	(233,555)	(246,044)
De-recognition of water capacity charges	(71,904)	(74,102)
Depreciation on right-of-use assets (note 7)	154,038	160,626
	<u>815,199</u>	<u>733,484</u>

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2023 RO'000	2022 RO'000
Employees' benefits expenses (note 20.1)	3,404	2,954
License fee to the regulator	761	971
Service expenses	1,125	1,070
Depreciation on property and equipment (note 6)	1,026	1,133
Directors' sitting fees (note 24.2)	27	13
Other expenses	235	200
	<u>6,578</u>	<u>6,341</u>

20.1 Employees benefits expenses

Salaries and allowances	2,618	2,568
Other benefits	653	386
Voluntary exit scheme expenses	133	-
	<u>3,404</u>	<u>2,954</u>

Voluntary Exit Scheme (VES) is a program for early retirement of the staff for the purpose of optimizing staff cost. Staff wish to benefit from the VES is eligible for payment of 12 months gross salary with a maximum cap of OMR 30K. At year end, the Company has received applications from five-employees for which the Company has made a provision of OMR 133K.

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21 FINANCE INCOME

	2023	2022
	RO'000	RO'000
Interest on finance leases receivables (note 8.3)	37,851	40,804
Interest on the revenue recovered less than the maximum allowed as per price control formula (power and water)	679	767
Interest on bank deposits	45	53
	38,575	41,624

22 FINANCE COSTS

	2023	2022
	RO'000	RO'000
Interest on lease liabilities (note 14.1)	119,821	132,435
Interest on short term borrowings	5,594	6,892
	125,415	139,327

23 INCOME TAX

23.1 Tax expense recognised in the statement of comprehensive income

	2023	2022
	RO'000	RO'000
Current tax	-	245
Deferred tax	(1,343)	(2,718)
	(1,343)	(2,473)

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 comprehensive income.

23.2 The movement in current and deferred tax during the year was as follows:

	<i>Current tax</i>		<i>Deferred tax</i>	
	2023	2022	2023	2022
	RO'000	RO'000	RO'000	RO'000
At 1 January	325	80	(21,603)	(18,885)
Charge for the year	-	245	(1,343)	(2,718)
Paid during the year	(201)	-	-	-
At 31 December	124	325	(22,946)	(21,603)

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23 INCOME TAX (CONTINUED)

23.3 Reconciliation of income tax expense

The following is a reconciliation of income tax on the accounting profit with the tax expenses at the applicable tax of 15% (2022:15%):

	2023	2022
	RO'000	RO'000
Accounting loss before tax	<u>(9,072)</u>	<u>(16,508)</u>
Tax on accounting loss	(1,361)	(2,476)
Non-deductible temporary differences	<u>18</u>	<u>3</u>
Tax income for the year	<u>(1,343)</u>	<u>(2,473)</u>

23.4 Deferred tax

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:

	2023	2022
	RO'000	RO'000
Accelerated tax depreciation	(103)	(78)
Finance lease assets (net)	94,937	99,677
Impairment on financial assets	590	766
Finance lease receivables	<u>(72,478)</u>	<u>(78,762)</u>
	<u>22,946</u>	<u>21,603</u>

23.5 Status of assessments

Taxation has been agreed with the Oman taxation authorities for all the years up to 31 December 2020. The Company's income tax assessment for year 2021 to 2022 has not yet been finalised. 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 2023.

24 RELATED PARTY TRANSACTIONS AND BALANCES

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 at mutually agreed terms.

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).

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24 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

24.1 Summary of significant transactions with related parties during the year:

	2023 RO'000	2022 RO'000
Entities under common control:		
<i>Revenue from bulk supply of electricity and water</i>		
Nama Electricity Supply Company SAOC formerly Muscat Electricity Distribution Company SAOC	694,887	243,306
Mazoon Electricity Company SAOC	34,856	211,283
Majan Electricity Company SAOC	47,432	224,188
Dhofar Integrated Services Company SAOC	119,445	107,767
Oman Water and Wastewater Services Company SAOC	128,479	133,497
	<u>1,025,099</u>	<u>920,041</u>
<i>Interest income on sublease (note 8.3)</i>		
Majan Electricity Company SAOC	1,363	3,570
Nama Electricity Supply Company	1,909	-
Oman Water and Wastewater Services Company SAOC	27,615	29,437
Dhofar Integrated Services Company SAOC	6,964	7,797
	<u>37,851</u>	<u>40,804</u>
	2023 RO'000	2022 RO'000
<i>Expenses</i>		
Shareholders		
Shared service charges to Nama Shared Services LLC	440	209
Training fees to Nama Institute of Competency Development LLC	35	33
Accounting service charges & interest on loan to Electricity Holding Company SAOC	57	95
Entities under common control:		
Power purchases from Rural Area Electricity Company SAOC	63,586	28,328
Ancillary services from Al Ghubrah Power and Desalination Company SAOC	7,058	3,352
	<u>71,176</u>	<u>32,017</u>
24.2 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:		
	2023 RO'000	2022 RO'000
Short-term employee benefits	610	572
Post-employment benefits	-	6
Directors sitting fees (note 20)	27	13
	<u>637</u>	<u>591</u>
Number of key management personnel	<u>7</u>	<u>7</u>

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24 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

24.3 Amounts due from related parties

	2023 RO'000	2022 RO'000
Entities under common control:		
Mazoon Electricity Company SAOC	-	53,466
Majan Electricity Company SAOC	-	25,083
Nama Electricity Supply Company SAOC formerly Muscat Electricity Distribution Company SAOC	151,898	10,450
Oman Water and Wastewater Services Company SAOC	37,764	91,490
Dhofar Integrated Services Company SAOC	66,289	62,587
Shareholder		
Electricity Holding Company SAOC	3	3
	255,954	243,079

24.4 Amounts due to related parties

	2023 RO'000	2022 RO'000
Entities under common control:		
Al Ghubrah Power and Desalination Company SAOC	1,342	1,371
Wadi Al Jizzi Power Company SAOC	-	82
Rural Area Electricity Company SAOC	26,598	25,961
Shareholder:		
Numo Institute for Competency Development	2	3
Nama Shared Services	145	13
Electricity Holding Company SAOC	14	40
	28,101	27,470
Amount due to Ministry of Finance for excess funding received (note 16)	2,913	2,913
	31,014	30,383

24.5 Lease receivables (note 8)

The Company has bulk supply agreement for power pertaining to Musandam IPP with Rural Area Electricity Company SAOC which has been classified as sub-lease. The company also has bulk supply agreement for water with Oman Water and Wastewater Services Co and Dhofar Integrated Services which has also been classified as sub-lease.

	2023 RO'000	2022 RO'000
Entities under common control:		
Majan Electricity Company SAOC	-	46,741
Nama Electricity Supply Company	42,184	-
Oman Water and Wastewater Services Co	354,259	378,845
Dhofar Integrated Services	86,746	99,486
	483,189	525,072

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25 CAPITAL MANAGEMENT

For the purpose of the Company's capital management, the capital comprise of share capital, reserves and retained earnings. There was no change in Company's approach to the capital management during the year. The primary objective of the Company's capital management is to maximise the shareholders' value while ensuring it delivers on its legal and regulatory responsibilities.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividends payment to the shareholders, return capital to the shareholders or issue new share capital. The Company's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest bearing borrowings. The Company includes within net debt short term borrowings, trade and other payables, lease liabilities less cash and cash equivalents.

	2023	2022
	RO'000	RO'000
Net debt		
Short term borrowings	135,000	199,520
Lease liabilities	1,489,174	1,674,812
Less: cash and cash equivalents	(1,168)	(18,524)
	1,623,006	1,855,808
Equity		
Share capital	8,100	8,100
Legal reserve	167	167
General reserve	250	250
Accumulated losses	(121,850)	(114,121)
	(113,333)	(105,604)
Equity and net debt	1,509,673	1,750,204
Gearing ratio	108%	106%

In order to achieve this overall objective, the Company's capital management, among other things, aims to ensure that it meets its financial covenants attached to the interest bearing term loans and borrowings that defines capital structure requirements. Breaches in meeting the financial covenants would permit the lenders to immediately call term loans and short term borrowings. There have been no breaches of the financial covenants of any interest bearing term loans and short term borrowings at current year end.

26 FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for establishing and overseeing the Company's risk management framework. The Board has entrusted the management with the responsibility of developing and monitoring the Company's risk management policies and procedures and its compliance with them.

26 FINANCIAL RISK MANAGEMENT (CONTINUED)

26.1 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The tariff for the Company is determined under the permitted Tariff Regulations issued by the Authority for Public Services Regulations (APSR). Accordingly, the Company is not exposed to significant price risk.

Interest rate risk

The Company has short term borrowings which are interest bearing and exposed to changes in underlying interest rates. The Company manages the interest rate risk by continuously monitoring interest rates.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in the variable interest rates at the reporting date would have increased/(decreased) equity and statement of profit or loss and other comprehensive income by the amounts of RO 1.13 million (2022: RO 2 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of change in foreign exchange rates. The Company is exposed to foreign currency risk arising from currency exposure primarily with respect to the US Dollar. The Rial Omani is effectively pegged to the US Dollar and since most of the foreign currency transactions are in US Dollar, the management believes that exchange rate fluctuations would have an insignificant impact on the Company's profit.

26.2 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and cash balances and short term deposits held with banks.

The Company limits its credit risk with regard to bank deposits by only dealing with reputable banks and financial institutions.

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

	2023	2022
	RO'000	RO'000
Amounts due from related parties	255,954	243,079
Lease receivables from related parties	483,189	525,072
Cash and cash equivalents	1,171	18,614
	<u>740,314</u>	<u>786,765</u>

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26 FINANCIAL RISK MANAGEMENT (continued)

Amounts due from related parties

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 amounts due from licensed suppliers and water companies which are related parties. The Company does not consider this as an undue exposure since obligation of licensed suppliers, and water companies is considered fully recoverable. Further, Company's exposure to credit risk on lease receivables is related to the above referred customers.

The age of trade receivables and related impairment loss at the reporting date is:

	2023			2022		
	Gross RO'000	ECL RO'000	Past due but not impaired RO'000	Gross RO'000	ECL RO'000	Past due but not impaired RO'000
Ba 1	736,873	(1,663)	735,210	765,881	(2,749)	763,132
Ba 1	2,270	(2,270)	-	2,270	(2,270)	-
	739,143	(3,933)	735,210	768,151	(5,019)	763,132

Credit quality disclosure

	ECL Model	12 months or Lifetime ECL	Gross amounts RO'000	ECL RO'000	Net carrying amounts RO'000
31 December 2023					
Amounts due from related parties	Provision matrix External rating	Lifetime	739,143	(3,933)	735,210
Cash and cash equivalents		12 month	1,171	(3)	1,168
31 December 2022					
Amounts due from related parties	Provision matrix External rating	Lifetime	768,151	(5,019)	763,132
Cash and cash equivalents		12 month	18,614	(90)	18,524

For amounts due from related parties, the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

The Company always measures the loss allowance for amounts due from related parties at an amount equal to lifetime ECL. The expected credit losses on receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Oman Power and Water Procurement Company SAOC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023

26 FINANCIAL RISK MANAGEMENT (continued)

Bank balances and short term bank deposits

The Company limits its credit risk with respect to bank deposits by only dealing with banks with high credit rating. The table below shows the balances with banks categorised by short term credit ratings as published by Moody's Service at the reporting date.

	<i>Rating</i>	2023 RO'000	2022 RO'000
Bank balances:			
Bank Muscat SAOG	Ba 1	743	18,534
HSBC	Ba 1	-	7
National Bank of Oman	Ba 1	428	73
		1,171	18,614

26.3 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company limits its liquidity risk by ensuring that a working capital facility is available, when required.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The following are the contractual maturities of financial liabilities, including interest payments:

	<i>Carrying amount</i> <i>RO'000</i>	<i>Contractual cash flow</i> <i>RO'000</i>	<i>Less than 3 months</i> <i>RO'000</i>	<i>3 months to 1 year</i> <i>RO'000</i>	<i>More than 1 year</i> <i>RO'000</i>
31 December 2023					
<i>Non-interest bearing</i>					
Trade and other payables	114,021	114,021	114,021	-	-
<i>Interest bearing</i>					
Short term borrowings	135,000	138,610	138,610	-	-
Lease liabilities	1,489,174	2,062,803	71,575	214,726	1,776,502
	1,738,195	2,315,434	324,206	214,726	1,776,502
31 December 2022					
<i>Non-interest bearing</i>					
Trade and other payables	93,490	93,490	93,490	-	-
<i>Interest bearing</i>					
Short term borrowings	199,520	200,434	200,434	-	-
Lease liabilities	1,674,312	2,368,262	76,365	229,094	2,062,803
	1,967,322	2,662,186	370,289	229,094	2,062,803

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

26 FINANCIAL RISK MANAGEMENT (continued)

Fair value hierarchy:

The management believes that the fair value of the financial assets and liabilities are not significantly different from their carrying amounts as shown in the financial statements at the reporting date.

There were no transfers between level 1 and level 2 during the year.

Measurement of fair values

Type	Valuation technique	Significant un-observable inputs
Other financial liabilities (level 2)	Discounted cash flows	Not applicable

27 CLIMATE RELATED RISKS

The Company and its customers may face significant climate-related risks in the future. These risks include the threat of financial loss and adverse non-financial impacts that encompass the political, economic and environmental responses to climate change. The key sources of climate risks have been identified as physical and transition risks. Physical risks arise as the result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns, such as sustained higher temperatures, heat waves, droughts and rising sea levels and risks. Transition risks may arise from the adjustments to a net-zero economy, e.g., changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behavior and investor demand. These risks are receiving increasing regulatory, political and societal scrutiny, both within the country and internationally.

While certain physical risks may be predictable, there are significant uncertainties as to the extent and timing of their manifestation. For transition risks, uncertainties remain as to the impacts of the impending regulatory and policy shifts, changes in consumer demands and supply chains. The Company is making progress on embedding climate risk in its risk framework.

28 COMPARATIVE AMOUNTS

Certain corresponding figures for year ended 31 December 2022 have been reclassified in order to conform to the presentation for the current year. Such reclassifications do not affect previously reported profit or shareholder's equity.