Notes to the financial statements

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Maha Petroleum Products Marketing Company SAOG ('the Company') is a joint stock company registered under the Commercial Companies Law, of the Sultanate of Oman. The principal activity of the Company is the marketing and distribution of petroleum products. The principal place of business is located at Ghala, Sultanate of Oman.

2 BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS

2.1 Basis of preparation

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

The Commercial Companies Law of the Sultanate of Oman promulgated by Royal Decree No. 18 / 2019 ('the Commercial Companies Law') was issued on 13 February 2019 and came into force on 17 April 2019.

The new Law has replaced the provisions of the Commercial Companies Law promulgated by the Royal Decree No. 4 / 74 and subsequent amendments, thereof. In accordance with Article 3 of the Royal Decree No. 18 / 2019, the commercial companies in existence on the date of enforcement of the new Law, shall comply with its provisions within a year from the date of enforcement of the Law.

The financial statements are presented in Omani Rials, which is the functional currency of the Company.

2.2 New and amended IFRS adopted by the Company

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

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

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

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

  Applying IFRS 16, for existing lease arrangements (except as noted below), the Company has recognized right of use assets and lease liabilities in the statement of financial position, being initially measured at the present value of the future lease payments, with the right of use assets adjusted by the amount of any prepaid or accrued lease payments.

  The Company has also recognised depreciation of right of use assets and interest on the lease liabilities in the statement of comprehensive income. For short-term leases (lease term of 12 months or less) and leases of low-value assets, if any, the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Notes to the financial statements

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

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

- IFRS 16 (Continued)

The Company has used the following practical expedients to leases previously classified as operating leases applying IAS 17.

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company has elected not to recognise right of use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.

The weighted average incremental borrowing rate applied to lease liabilities on 1 January 2019 is 5.5%. The lease liabilities measured at 1 January 2019 was determined as follows:

	1 January 2019 RO'000
Operating lease commitments at 31 December 2018	7,263
Effect of discounting the above	(3,093)
Lease liabilities at 1 January 2019	4,170

The Company has recognised right-of-use asset and lease liability of RO 4.2 million upon transition to IFRS 16.

Lessor:

The Company enters into lease arrangements as a lessor for its investment property. Leases for which the Company is a lessor are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

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

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

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

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

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

Notes to the financial statements

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

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

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

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

- *Allowance for expected credit losses (ECL)*

  The Company applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the settlement of trade receivables over a period of 3 years and the corresponding historical credit losses experienced within this period.

  The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the changes in government policies and volatility of oil prices to be the most relevant factors and, accordingly, adjusts the historical loss rates based on expected changes in these factors.

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

  ECL on bank balances is determined using credit rating information supplied by independent rating agencies, where available. ECL on other receivables is provided if the amount is deemed material.

Notes to the financial statements

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

- *Useful lives of property, plant and equipment*

  Estimation of useful lives of the property, plant and equipment is based on Management's assessment of various factors such as the operating cycles, the maintenance programs and normal wear and tear using its best estimates.

- *Provision for slow and non-moving inventories*

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES

Except as disclosed in note 2.2 to the financial statements, the following accounting policies have been consistently applied in dealing with items considered material to the Company's financial statements:

a) Accounting convention

These financial statements have been prepared under the historical cost convention.

b) Property, plant and equipment

Land is stated at cost and is not depreciated. Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Following initial recognition at cost, expenditure incurred to replace a component of an item of property, plant and equipment which increases the future economic benefits embodied in the item of property, plant and equipment is capitalised. All other expenditures are recognised in the statement of income as an expense as incurred.

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

Capital work in progress is not depreciated. Otherwise, depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of items of property, plant and equipment. The estimated useful economic lives are as follows:

	Years
Buildings and roads	7 – 20
Plant and equipment	3 – 20
Motor vehicles	3 – 7
Furnitures and fixtures	3 – 20

Notes to the financial statements

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Investment properties

Property which is held for rental or capital appreciation is classified as investment property and accounted for under the cost method of accounting.

Land is not depreciated. The cost of building is depreciated by equal instalments over the estimated useful life of 20 years. Rental income on investment properties is recognized in the statement of income for the Company. Any gain or loss arising on disposal or impairment of an investment property is also recognised in the statement of income.

d) Inventories

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

Cost of petroleum products is determined on a first in first out basis. Cost of fuel cards and general stores and consumables is determined by the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Provision is made where necessary for slow and non-moving inventories.

e) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods and services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on their delivery. The normal credit term is 30 to 90 days upon delivery.

Variable consideration

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., fixed and progressive rebates). In determining the transaction price for the sale of goods, the Management considers the effects of variable consideration and consideration payable to the customer (if any).

If the consideration in a contract includes a variable amount, the Management estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of petroleum products provide customers with volume rebates which give rise to variable consideration.

Volume rebates

The Company provides volume or progressive rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Company applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold.

Notes to the financial statements

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Contract balances

The timing of revenue recognition, billings and collections may result in trade receivables, contract assets and contract liabilities.

Due from customers on contracts

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

The contract assets are transferred to trade receivables when the rights become unconditional (i.e. only the passage of time is required before payment of the consideration is due), which usually occurs when the Company issues an invoice to the customer.

Trade receivables

Trade receivables are amounts due from customers for goods transferred and services rendered in the ordinary course of business and represent the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). They are generally due for settlement within 90 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing component, when they are recognised at fair value. The Company holds the trade receivable with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

The Company then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates. The Company reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

g) Financial assets

The Company's financial assets comprise trade and other receivables, amounts due from related parties, term deposits and bank balances and cash. These financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

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

Notes to the financial statements

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial assets (Continued)

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

Financial assets at amortised cost:

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

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

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

h) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. The Company measures the impairment using the expected credit loss (ECL) model for different categories of financial assets.

Trade receivables and contract assets

The Company recognises allowance for expected credit losses (ECLs) applying a simplified approach for trade receivables and contract assets, at an amount equal to lifetime ECLs. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the trade receivables and the economic environment.

Other financial assets

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

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a lifetime ECL is recognised for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default. For bank balances, term deposits and other receivables, the ECL adjustments are made only if they are material.

Notes to the financial statements

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Impairment (Continued)

Write off

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

The Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Non-financial assets

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

i) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents consist of cash and bank balances, with an original maturity of three months or less, net of short term bank borrowings, if any.

j) Employees' end of service benefits

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

k) Taxation

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

l) Trade and other payables

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

m) Financial liabilities

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

Notes to the financial statements

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

o) Foreign currency transactions

Transactions denominated in foreign currencies are translated into Rials Omani and recorded at rates of exchange ruling at the date of the transaction. Liabilities denominated in foreign currencies are translated into Rials Omani at exchange rates ruling on the end of the reporting period. Foreign exchange differences arising on translation are recognised in the statement of income.

p) Leases

Lessee

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

From 1 January 2019

Lease is recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Lease liabilities include (wherever applicable) the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Company under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise the option, and
- penalties for terminating the lease, if the lease term reflects the Company exercising that option.

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

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

Right of use assets are measured at cost comprising the following:

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

Notes to the financial statements

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Leases (Continued)

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

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

Lessor
Lease income from the investment property where the Company is a lessor is recognised in the statement of income on a straight-line basis over the lease term. The investment property is included in the statement of financial position of the Company.

Until 31 December 2018 – Lessee

The operating lease payments are charged to the statement of income on a straight line basis, unless another systematic basis is more representative of the time pattern of the benefit.

q) Dividend

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

r) Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The results of the operating segments are reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

s) Directors' remuneration

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

Notes to the financial statements

5 PROPERTY, PLANT AND EQUIPMENT

a) The movements of property, plant and equipment during the years 2019 and 2018 are set out on pages 33 and 34 respectively.

b) Property, plant and equipment include filling station assets with a carrying value of RO 26.5 million (2018 – RO 24.3 milllion). These assets are constructed and commissioned on filling station sites leased for periods not exceeding 25 years. Lease rentals for sites managed by the Company are agreed for periods varying from 3 to 25 years. In certain cases where the filling station assets cost is shared between the Company and the site owner, only the cost borne by the Company is recognized as property, plant and equipment.

c) Vehicle with a carrying value of RO 2,474 (2018 – RO 16,807) is registered in the name of an employee, who holds it in trust for and on behalf of the Company.

d) Capital work in progress at the end of the reporting period pertains to amounts incurred towards new filling stations under construction. These are expected to be completed in the year 2020.

6 INVESTMENT PROPERTIES

Year 2019	Freehold land RO'000	Buildings RO'000	Total RO'000
Cost			
At the beginning of the year and at the end of the year (as restated)	238	943	1,181
Depreciation			
At 31 December 2018 (as restated)	--	499	499
Charge for the year	--	47	47
At 31 December 2019	--	546	546
Net book values			
At 31 December 2019	238	397	635
At 31 December 2018	238	444	682

Year 2018 (as restated – note 30)	Freehold land RO'000	Buildings RO'000	Total RO'000
Cost			
At the beginning of the year and at the end of the year	238	943	1,181
Depreciation			
At 31 December 2017	--	452	452
Charge for the year	--	47	47
At 31 December 2018	--	499	499
Net book values			
At 31 December 2018	238	444	682
At 31 December 2017	238	491	729

Notes to the financial statements

6 INVESTMENT PROPERTIES (Continued)

The following further notes apply:

a) The rental income during the year from the investment properties amounted to RO 102,000 (2018 – RO 159,000) [refer note 20].

b) At the end of the reporting period, the fair values of the investment properties amounted to RO 1,596,000 based on an open market valuation undertaken by professional valuers.

7 LEASES

a) The Company enters into leasing arrangements for filling stations at various locations across the Sultanate of Oman. The average lease term for the filling stations is around 5 years.

b) At the end of the reporting period, right-of-use asset comprises the following:

	2019 RO'000
Arising on adoption of IFRS 16 (note 2.2)	4,170
Additions during the year	355
Depreciation for the year	(1,010)
At the end of the year	3,515

c) At the end of the reporting period, lease liabilities are analysed as follows:

	2019 RO'000
Non-current portion	2,631
Current portion	1,025
	3,656

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

	2019 RO'000
Upto 1 year	1,086
Between 1 year to 5 years	2,209
Above 5 years	1,177
	4,472

Notes to the financial statements

7 LEASES (Continued)

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

	2019 RO'000
Depreciation	1,010
Interest on lease liabilities (note 23)	228
Payments for short term leases / low – value assets	168
Variable lease payments not included in the lease liability	479
Income from sub-leasing right of use assets	214

f) The total cash outflow for leases amounted to RO 1.74 million.

g) A few property leases in which the Company is the lessee contain variable lease payment terms that are linked to profitability achieved by the leased filling station. The variable payments constitute up to 28% of the Company's entire lease payments. The Company expects this ratio to remain constant in future years.

h) In respect of operating leases for which right of use asset is recognised in 2019, lease rental expenses of RO 980,839 were recorded in 2018.

8 CONTRACT BALANCES

	2019 RO'000	2018 RO'000
Trade receivables (note 10)	65,582	66,688
Contract assets [note a) below]	1,026	963
Contract liabilities [note b) below]	112	--

The following further notes apply:

a) Contract assets at the end of the reporting period comprises the following

Year 2019	Work in progress RO'000	Initial costs of obtaining a contract RO'000	Total RO'000
At 31 December 2018	824	139	963
Additions during the year	185	--	185
Amortisation during the year (note 21)	--	(10)	(10)
Settled during the year	(112)	--	(112)
At 31 December 2019	897	129	1,026

Notes to the financial statements

8 CONTRACT BALANCES (Continued)

a) (continued)

Year 2018	Work in progress RO'000	Initial costs of obtaining a contract RO'000	Total RO'000
Arising on adoption of IFRS 15	943	--	943
Additions during the year	192	149	341
Amortisation for the year (note 21)	--	(10)	(10)
Written off during the year	(311)	--	(311)
At 31 December 2018	824	139	963

(i) Contract assets at the end of the reporting period represent revenue earned from the contracts with the customers as receipt of consideration is conditional on successful completion of performance obligation. Upon completion of obligation and acceptance by the customer, the amounts recognized as contract assets are reclassified to trade receivables.

(ii) Initial costs of obtaining a contract consists of incremental costs incurred towards the development of assets for the client which involves implementation and subsequent services to assets. The contract is for over a year and the costs are expected to be recovered over the duration of the contract.

b) Contract liabilities at the end of the reporting period comprise the following:

	2019 RO'000	2018 RO'000
Advance received from customers	112	--

9 INVENTORIES

	2019 RO'000	2018 RO'000
Petroleum products	3,470	2,953
Less: provision for slow and non-moving inventories (refer note below)	(55)	(150)
	3,415	2,803
Fuel cards	51	79
General stores and consumables	1,056	876
	4,522	3,758

The following further note applies:

The movement in provision for slow and non-moving inventories is as follows:

	2019 RO'000	2018 RO'000
At the beginning of the year	150	--
Provided during the year (note 21)	--	150
Written back during the year (note 20)	(95)	--
At the end of the year	55	150

Notes to the financial statements

10 TRADE AND OTHER RECEIVABLES

	2019 RO'000	2018 RO'000
Trade receivables	65,582	66,688
Less: allowance for expected credit losses [note b) below]	(8,075)	(7,087)
	57,507	59,601
Prepayments	636	485
Accrued income	28	135
Staff receivables	110	108
Amounts due from a related party [note 18 b)]	43	19
Other advances and receivables	601	896
	58,925	61,244

The following further notes apply:

a) Trade receivables are non-interest bearing, unsecured and are generally on terms up to 90 days (2018 – same terms).

b) The movement in allowance for expected credit losses against trade receivables is as follows:

	2019 RO'000	2018 RO'000
At the beginning of the year	7,087	3,178
Provided during the year (note 21)	1,365	4,119
Written back during the year (note 20)	--	(210)
Written off during the year	(377)	--
At the end of the year	8,075	7,087

c) The estimation for allowance for expected credit losses has been detailed under note 29 b).

11 SHORT TERM DEPOSIT, BANK BALANCES AND CASH

	2019 RO'000	2018 RO'000
Bank balances and cash (forming part of cash and cash equivalents) [note a) below]	28,722	34,401
Term deposit with original maturity period of more than 3 months [note b) below]	20,000	--
	48,722	34,401

The following further notes apply:

a) Bank balances and cash include call deposits which earn interest at commercial rates (2018 – same terms).

b) Short term deposit is placed with a local commercial bank and earns interest at commercial rates. The deposit is maturing within one year from the end of the reporting period and has accordingly been classified under current assets.

12 SHARE CAPITAL

a) The authorised share capital of the Company consists of 85,000,000 shares (2018 – 85,000,000 shares) of RO 0.100 each (2018 – RO 0.100 each). The issued and paid-up share capital of the Company consists of 69,000,000 shares (2018 – 69,000,000 shares) of RO 0.100 each (2018 – 0.100 each).

Notes to the financial statements

12 SHARE CAPITAL

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

	2019		2018	
	%	No. of shares	%	No. of shares
ABS Lubricants	40	27,600,000	40	27,600,000
Civil Service Employees Pension Fund	12.9	8,895,910	12.9	8,895,910

13 LEGAL RESERVE

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

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

14 SPECIAL RESERVE

The Company had established special reserve in prior years to cover against any losses from unforeseen contingencies.

15 PROPOSED DIVIDEND

a) Subsequent to the end of the reporting period, the Board of Directors has proposed a cash dividend of RO 0.070 per share (2018 – RO 0.070 per share) amounting to RO 4,830 million (2018 – RO 4.830 million), subject to shareholders' approval at the forthcoming Annual General Meeting.

b) During the year, an amount of RO 42,458 relating to unclaimed dividends for the year 2018 has been settled by transfer of funds to the Investor's Trust Fund of the CMA (2018 – RO 8,909).

16 TRADE AND OTHER PAYABLES

	2019 RO'000	2018 RO'000
Trade payables	39,306	38,692
Accrued expenses	3,550	4,497
Advances from customers	896	1,302
Accrual for directors' remuneration	94	148
Other payables	1,382	1,280
	45,228	45,919

17 BANK BORROWINGS

Bank borrowings at the end of the reporting period represent short term loans which are obtained from local commercial banks in the Sultanate of Oman and carry interest at commercial rates. The interest rates are subject to re-negotiation with the banks on a periodic basis. The borrowings and other facilities are secured by Omnibus counter indemnity form.

Notes to the financial statements

18 RELATED PARTY TRANSACTIONS

a) The Company enters into transactions in the ordinary course of business with key management personnel (including Board of Directors) and entities in which the key Management personnel / significant shareholders of the Company have significant influence or control. Prices and terms of payment for these transactions are approved by the Management and the Board of Directors.

These transactions are entered into on terms and conditions approved by the management and Board of Directors and subject to shareholders' approval at the Annual General Meeting.

	2019 RO'000	2018 RO'000
Transactions with other entities related to Directors:		
Revenue	87	--
Transactions with Directors:		
Directors' remuneration and sitting fees (note 21)	162	200
Operating lease payment for a filling station owned by a Director	24	24

b) Amounts due from a related party are interest free and on normal credit terms (2018 – same terms).

c) The key management personnel compensation for the year comprises:

	2019 RO'000	2018 RO'000
Short term employment benefits	360	477
Employees' end of service benefits	25	44
	385	521

19 REVENUE FROM CONTRACTS WITH CUSTOMERS

	2019 RO'000	2018 RO'000
Retail sales	267,488	277,766
Commercial sales	126,042	144,619
Other sales	72,384	65,530
	465,914	487,915

20 OTHER INCOME

	2019 RO'000	2018 RO'000
Interest income	610	462
Rental income from filling stations and others	550	598
Reimbursement of manpower costs	490	294
Rental income from investment property [note 6 a)]	102	159
Provision for slow and non-moving inventories written back (note 9)	95	--
Allowance for expected credit losses written back during the year [note 10 b)]	--	210
Provisions no longer required	170	--
Others	62	237
	2,079	1,960

Notes to the financial statements

21 OPERATING AND ADMINISTRATION EXPENSES

	2019 RO'000	2018 RO'000
Transportation	4,936	5,295
Filling stations operating expenses	2,052	2,886
Maintenance expenses	1,914	1,775
Technical fees	1,875	1,536
License fees	1,637	1,950
Allowance for expected credit losses [note 10 b)]	1,365	--
Rent and utilities	374	261
Legal and consultancy expenses	291	308
Bank charges	266	225
Directors' remuneration and sitting fees [note 18 a)]	162	200
Marketing expenses	161	236
Municipal fees and taxes	89	229
Impairment of contract assets	56	311
Social responsibility expenses	36	49
Amortisation of contract asset [note 8 a)]	10	10
Provision for slow and non -moving inventories (note 9)	--	150
Others	187	178
	15,411	15,599

22 SALARIES AND EMPLOYEE RELATED COSTS

a) Salaries and employee related costs include the following:

	2019 RO'000	2018 RO'000
Salaries and employee related costs	4,972	4,874
Contributions to defined contributions retirement plan for Omani employees	349	323
Cost of end of service benefits for expatriate employees	56	70
	5,377	5,267

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

	2019 RO'000	2018 RO'000
At the beginning of the year	342	290
Expense for the year	56	70
Settled during the year	(65)	(18)
At the end of the year	333	342

23 FINANCE CHARGES

	2019 RO'000	2018 RO'000
Interest on lease liabilities [note 7 e)]	228	--
Bank interest and charges	900	731
	1,128	731

Notes to the financial statements

24 TAXATION

	2019 RO'000	2018 RO'000 (as restated – note 30)
Statement of income		
Current year	917	1,004
Prior year	--	(103)
Deferred tax credit	(316)	(285)
	601	616
Statement of financial position		
Non-current asset		
Deferred tax	2,157	1,841
Current liability		
Current year	917	1,115
Prior year	--	(103)
	917	1,012

The following further notes apply:

a) The Company is subject to income tax at 15% (2018 – 15%) of taxable profits.

b) During the year, the taxation assessments for the years 2013 to 2017 were finalised by the Tax Authority with no additional demand for tax.

c) The taxation assessment for the year 2018 has not been finalized by the Taxation Authority. The Management considers that the amount of additional taxes, if any, that may become payable on finalization of the taxation assessment for the above tax year, may not be material to the financial position at the end of the reporting period.

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

	2019 RO'000	2018 RO'000
Tax charge on accounting profit at applicable rates	601	865
Add / (less) tax effect of:		
Depreciation	161	99
Provisions	134	68
Others	21	(27)
	917	1,004

Notes to the financial statements

24 TAXATION (Continued)

e) The movement in deferred tax asset shown in the statement of financial position at the end of the reporting period is as follows:

	Accelerated capital allowances RO'000	Provisions RO'000	Others RO'000	Total RO'000
At 1 January 2018 (as originally stated)	461	477	--	938
Effect of restatement (note 30)	--	618	--	618
At 1 January 2018 (as restated)	461	1,095	--	1,556
Credited to the statement of income	239	46	--	285
At 31 December 2018	700	1,141	--	1,841
At 31 December 2018	700	1,141	--	1,841
(Charged) / credited to the statement of income	161	134	21	316
At 31 December 2019	861	1,275	21	2,157

25 BASIC EARNINGS PER SHARE

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

	2019	2018
Net profit for the year (RO'000)	3,408	5,149
Weighted average number of shares outstanding during the year (thousands)	69,000	69,000
Basic earnings per share (in Rials Omani)	0.049	0.075

26 NET ASSETS PER SHARE

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

	2019	2018
Net assets (RO'000)	45,303	46,725
Number of shares outstanding at 31 December (thousands)	69,000	69,000
Net assets per share (in Rials Omani)	0.657	0.677

Notes to the financial statements

27 OPERATING SEGMENTS

The Company is organized in the Sultanate of Oman into three main reportable segments:

- Retail sales segment, which includes sales made through company operated stations, dealer operated stations and third party operated stations.
- Commercial sales segment, which includes sales made in bulk under contractual agreements.
- Other sales segment, which comprises of all other sales which cannot be classified in the other two segments. The segment mainly comprises of sales made to the aviation sector, sales of lubricants and revenue earned from fuel card sales.

Revenue earned from each reportable segment is included under note 19. Performance is measured based on revenue earned by each segment, as included in the internal management reports that are reviewed by the Board of Directors. Segment revenue is used to measure performance as Management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. There were no inter-segmental sales during the year.

28 COMMITMENTS AND CONTINGENCIES

a) At the end of the reporting period, the Company had outstanding bank guarantees, letters of credit and performance bonds amounting to RO 1,872,000 (2018 – RO 12,442,000)

b) At the end of the reporting period, the Company had capital commitments amounting to RO 770,000 (2018 – RO 800,000).

c) Other contingencies:

(i) In December 2015, a civil case, connected to a criminal case initiated against the former Managing Director and the former Senior Marketing Manager of the Company, had been filed by a party claiming RO 659,389 from the Company. The case has been rejected by Primary and appeal courts and has been raised to the Higher Supreme court. Based upon external legal advice, the Board of Directors consider that the Company has no legal responsibility in respect of these two cases and, accordingly, no provision has been made against this claim in the financial statements as at 31 December 2019 on the basis that Management believes the possibility of significant loss to the Company arising is less than probable.

(ii) In previous years, the Company received claims from a major fuel supplier in Oman in respect of:

- Price differential between the international and domestic gasoil prices payable in respect of fuel supplied during prior years to a customer amounting to approximately RO 820,000 as per the notification received from the Ministry of Finance by the fuel supplier. The Company has objected to the claim and considers that the sale was a domestic fuel sale supported by a notification received from the Ministry of Oil and Gas in this regard and not an international sale, as claimed by the fuel supplier.

- The Company had deducted RO 846,000 in previous years from the payable related to invoices raised by the fuel supplier. This deduction pertained to a transportation rebate that was not paid to the Company by the fuel supplier. The Company believes it is eligible to receive the transportation rebate during such period.

Notes to the financial statements

28 COMMITMENTS AND CONTINGENCIES (Continued)

b) Contingencies (Continued)

ii) (Continued)

The fuel supplier has also claimed interest of approximately RO 483,000 in respect of non-settlement of the above claims.

Based upon the review of the correspondences with the supplier relating to above two claims and the opinion of external lawyers and in-house legal counsel, the Board of Directors believes that the possibility of any liability ultimately arising to the Company is less than probable. The Board of Directors are constantly monitoring the status of these claims and consider no related provisions are required to be established in these financial statements.

29 FINANCIAL RISK AND CAPITAL MANAGEMENT

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

a) Market risk

Currency risk
The Company operates in the local market and the entire financial assets and liabilities are denominated in Rials Omani. Accordingly, the Management believes that the Company is not exposed to any material currency risk.

Interest rate risk
The Company is exposed to interest rate risk on its interest bearing assets (bank balances) and liabilities (lease liabilities and bank borrowings). The Management manages the interest rate risk by constantly monitoring the changes in interest rates.

b) Credit risk

Trade receivable

Credit risk primarily arises from credit exposures to customers, including outstanding receivables and committed transactions. The Company has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

The carrying value of trade and other receivables approximate their fair values due to the short-term nature of those receivables.

Expected credit losses (ECL)

The Company applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables.

The default rates are based on settlement of receivables over past periods and corresponding historical credit losses experienced within this period.

Notes to the financial statements

29 FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

b) Credit risk (Continued)

The historical rates are then adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the changes in government policies and volatility of oil prices to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows:

31 December 2019	Trade receivables RO'000	Expected loss rate %	Loss allowance RO'000
Current	30,306	1%	245
1 - 30 days	15,138	1%	107
31 – 60 days	3,237	2%	49
61 – 90 days	1,381	3%	39
Above 90 days	12,916	39%	5,031
Impaired	2,604	100%	2,604
	65,582		8,075

31 December 2018	Trade receivables RO'000	Expected loss rate %	Loss allowance RO'000
Current	24,621	1%	231
1 - 30 days	16,444	2%	245
31 – 60 days	8,900	2%	189
61 – 90 days	4,431	4%	187
Above 90 days	12,292	51%	6,235
	66,688		7,087

Amount due from a related party is expected to have low credit risk and credit losses, if any, on these dues are expected to be immaterial.

ECL on other receivables has not been provided as the amounts involved are not considered to be material to the financial statements.

Bank balances

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

c) Liquidity risk

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

Notes to the financial statements

29 FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

d) Capital management

The Company's objectives when managing capital are:

- to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing services and goods commensurate with the level of risk.

The Company sets capital in proportion to risk and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders, return capital to shareholders or raise additional capital.

30 PRIOR PERIOD RESTATEMENT

During the year, the following prior period errors were identified by the Management and restated:

a) On adoption of IFRS 9 on 1 January 2018, the deferred tax asset arising on allowance for expected credit losses of RO 4.119 million amounting to RO 618,000 had not recognised and adjusted against the opening retained earnings.

b) Certain plots of lands which are held by the Company for an undetermined future use have been classified under property, plant and equipment. Furthermore, the head office building, classified under property, plant and equipment, is partly leased out and the Company is earning rentals therefrom. Accordingly, the related lands and the building should have been classified as investment properties.

The impact of the adjustments on each line item in the financial statements for the years 2018 and 2017 is detailed as follows:

Line item in the financial statements	As previously stated RO'000	Effect of restatement RO'000	As restated RO'000
Year 2018			
Statement of income			
Depreciation of fixed assets	3,892	(47)	3,845
Depreciation of investment properties	--	47	47
Statement of financial position			
Property, plant and equipment	31,985	(682)	31,303
Investment properties	--	682	682
Deferred tax asset	1,223	618	1,841
Retained earnings	34,803	618	35,421
Year 2017			
Statement of financial position			
Property, plant and equipment	31,168	(729)	30,439
Investment properties	--	729	729

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

Notes to the financial statements

5 PROPERTY, PLANT AND EQUIPMENT (Continued)

Year 2019	Freehold land RO'000	Buildings and roads RO'000	Plant and equipment RO'000	Motor Vehicles RO'000	Furniture and equipment RO'000	Capital work in progress RO'000 [note 5 d)]	Total RO
Cost							
At 31 December 2018 (as restated – note 30)	639	31,509	23,895	4,119	1,269	2,683	64,114
Additions during the year	--	--	201	42	109	3,837	4,189
Transfers during the year	--	3,421	1,651	--	15	(5,087)	--
Disposals during the year	--	--	(212)	(68)	--	--	(280)
At 31 December 2019	639	34,930	25,535	4,093	1,393	1,433	68,023
Depreciation							
At 31 December 2018 (as restated – note 30)	--	12,356	16,743	2,458	1,254	--	32,811
Charge for the year	--	1,647	2,260	478	23	--	4,408
Disposals during the year	--	--	(207)	(68)	--	--	(275)
At 31 December 2019	--	14,003	18,796	2,868	1,277	--	36,944
Net book value							
At 31 December 2019	639	20,927	6,739	1,225	116	1,433	31,079
At 31 December 2018 (as restated – note 30)	639	19,153	7,152	1,661	15	2,683	31,303

Notes to the financial statements

5 PROPERTY, PLANT AND EQUIPMENT (Continued)

Year 2018	Freehold land RO'000	Buildings and roads RO'000	Plant and equipment RO'000	Motor Vehicles RO'000	Furniture and equipment RO'000	Capital work in progress RO'000 [note 5 d)]	Total RO
Cost							
At 31 December 2017 (as restated – note 30)	639	26,723	22,166	3,296	1,261	5,406	59,491
Additions during the year	--	270	151	907	8	3,382	4,718
Transfers during the year	--	4,516	1,589	--	--	(6,105)	--
Disposals during the year	--	--	(11)	(84)	--	--	(95)
At 31 December 2018 (as restated – note 30)	639	31,509	23,895	4,119	1,269	2,683	64,114
Depreciation							
At 31 December 2017 (as restated – note 30)	--	10,886	14,840	2,081	1,245	--	29,052
Charge for the year	--	1,470	1,913	453	9	--	3,845
Disposals during the year	--	--	(10)	(76)	--	--	(86)
At 31 December 2018 (as restated – note 30)	--	12,356	16,743	2,458	1,254	--	32,811
Net book value							
At 31 December 2018 (as restated – note 30)	639	19,153	7,152	1,661	15	2,683	31,303
At 31 December 2017 (as restated – note 30)	639	15,837	7,326	1,215	16	5,406	30,439