



MUSCAT CITY
DESALINATION
COMPANY SAOG

**Water Drives
Prosperity.**



Annual Report 2019



His Majesty Sultan Qaboos Bin Said (Late)



His Majesty Sultan Haitham Bin Tarik



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BOARD OF DIRECTORS



Mr. Ahmad Fuaad bin Mohd Kenali
Chairman



Mr. Tamer Cankardes
Deputy Chairman



Ms. Ruswati Binti Othman
Director



Mr. Kei Nakamura
Director



Mr. Ajeev Gopinathan
Director



Mr. Sultan Obaid Said Al Ghaithi
Director

KEY EXECUTIVE OFFICERS



Ms. Subrina Thiagarajah
Chief Executive Officer



Mr. Tomotaka Inoue
Chief Financial Officer

BOARD OF DIRECTORS



Dear Shareholders,

On behalf of the Board of Directors of Muscat City Desalination Company (the Company), I am pleased to present to you the Annual Report of the Company for the year ended 31 December 2019.

The Company was incorporated on 19 January 2013 as a Closed Joint Stock company. In 2017, the Company underwent an Initial Public Offering pursuant to its obligations under the Project Founder's Agreement and was subsequently listed on the Muscat Securities Market (MSM) on 2 January 2018.

Operational Highlights

The Company owns and operates the 42 Million Imperial Gallons per Day (191,000 m³/day) Al Ghubrah Independent Water Plant (the Plant). The Plant is located in North Ghubrah, Muscat Governorate, Sultanate of Oman and was developed under a Build, Own, Operate (BOO) scheme. The Plant achieved its commercial operation date (COD) on 19 February 2016.

The Company currently generates its revenue through the sale of potable water pursuant to a Water Purchase Agreement (WPA) with Oman Power and Water Procurement Company (OPWP). The potable water from the Plant is fully contracted to OPWP. Electricity, which is the main energy source, is procured from Muscat Electricity Distribution Company (MEDC) pursuant to the Electricity Supply Agreement with MEDC. The

Operations and Maintenance (O&M) of the plant is contracted to Muscat City Desalination Operation and Maintenance Company LLC (MCDOMC or the Operator) through a 20 year Operations and Maintenance Contract (O&M Contract).

During the financial year 2019, the Company achieved an availability of 93.84%, compared with 96% during the same period in 2018. This was due to the fact that most of the maintenance outages for the previous Contract Year was completed in the first quarter of 2019. (Contract Year is a defined period in the WPA from 1 April 2018 to 31 March 2019). As this has already been allowed for in the WPA, therefore, there is no financial impact of this lower availability for 2019 compared with 2018. Further, the total forced outage rate for the financial year in 2019 was lower at 1.09%, compared with 1.94% for the same period in 2018 mainly due to the reduction of period and intensity of the algae bloom phenomenon faced by the plant, this year.

This year, the Company achieved a potable water production of 65,032,354 cubic metres an increase of 8.5% compared with the total water production of 59,929,864 cubic metres in 2018.

Financial Results

In 2019, operating revenue increased by 4.6% to RO 16.810 million as a result of improved operating performance compared with RO 16.071 million in 2018. Operating costs in 2019 increased to RO 10.654 million compared with RO 9.776 million in 2018. Accordingly, the Company recorded profit before tax of RO 2.174 million, which is 5.9% higher compared with RO 2.053 million in 2018.

Shareholders at the Annual General Meeting (AGM) held on 27 March 2019 authorised the Board of Directors to determine and distribute cash dividends to the shareholders of the Company in May 2019 of a value not exceeding 1.626 Baizas per share out of the retained profits for the year ended 31 December 2018 and in November 2019 of a value not exceeding 6.429 Baizas per share out of the retained profits for the period ended 30 September 2019 .

Subsequently, the Board of Directors at its meeting held on 29 April 2019, resolved to distribute cash dividend of 1.626 Baizas per share out of the retained earnings in accordance with the audited financial statements for the financial year ended 31 December 2018 to the shareholders who were registered in the Company'

shareholders' register with the Muscat Clearing & Depository Company S.A.O.C. as at 15 May 2019.

The Board of Directors at its meeting held on 17 November 2019 resolved to distribute cash dividend of 6.429 Baizas per share out of the retained earnings in accordance with the audited financial statements for the financial period ended 30 September 2019 to the shareholders who were registered in the Company' shareholders' register with the Muscat Clearing & Depository Company S.A.O.C. as at 28 November 2019.

Health, Safety and Environment

Ensuring full compliance with Health, Safety and Environmental (HSE) standards continues to be a high priority of the Company and its Operator. This is evidenced by the fact that there were no Lost Time Incidents ("LTI") or environmental incidents for 2019. As at 31 December 2019, the Company achieved 1402 days without LTI since its COD. In April 2017, the Operator was awarded with ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System. In September 2018, the Operator successfully migrated its ISO 14001:2004 to ISO 14001:2015.

Corporate Governance

The Board of Directors and Management of the Company believe in the importance of the internal control system. The Company has a comprehensive system of internal controls in place. The Company had carried out a comprehensive review of its key internal policies and procedures in order to ensure its compliance. The Company has engaged an accountancy firm Abu Timam Grant Thornton to undertake the Company's internal audit function for a period of one year. An internal audit plan was developed for 2019 and approved by the Audit Committee, which was fully implemented during the year.

There were no significant findings identified for the year ended 31 December 2019. The Management is fully committed to implementing the recommendations arising from the findings of the internal auditor.

In accordance with the CMA Code of Corporate Governance, the Company has also appointed a consultant to evaluate the performance of the Board. For further details on the corporate governance framework please refer to the Company's Corporate Governance Report.

Corporate Social Responsibility (CSR)

Our CSR initiatives and programmes are reflective of our commitment to keeping the local Omani community at the forefront of our business. Accordingly, our CSR activities during 2019 have sought to build and strengthen our outreach to key sections of the Omani community, represented most notably by the educational and higher learning sector.

During the year, MCDC continued with its Primary Education Programme and the Technical Trainee Programme. The Primary Education Programme targeted Omani schools operating in the vicinity of our water desalination complex in Al Ghubrah whereby 100 Omani school children with their teachers were given an opportunity to visit the facility and were briefed on the production process of potable water using reverse osmosis technology. Meanwhile the Technical Trainee Programme, was for Omani students who were close to completing their technical diploma or degree programme. As a part of this programme, 22 students from various technical institutes, colleges and universities have undergone training with our O&M team during the year.

This year, staff and families of the Company and the Operator also conducted a beach cleaning exercise at the Ghubrah beach, near the Plant. This was conducted in collaboration with the Muscat Municipality. This exercise created awareness about the importance of recycling waste and keeping Oman's beaches clean amongst the employees and their children.

Employment

By the end of 2019, the Omanisation level in both the Company and its Operator is 70%. This is one of the highest level achieved in the power and water industry.

Future Outlook

The Company will continue its efforts to provide reliable supply of water which meets the required quality of potable water whilst at the same time ensuring full compliance in HSE standards.

Conclusion

On behalf of the Board, I would like to thank our shareholders for their confidence and continued support. I would also like to express my utmost appreciation and gratitude to OPWP, the Authority for Electricity Regulation, the Capital Market Authority and other governmental and non-governmental bodies for their encouragement, guidance and support. Our special thanks to all our employees of the Company and the Operator for their unwavering dedication and commitment. As a result of their contribution, the Company was able to achieve its goals and objectives.

On behalf of the Board of Directors, I would also like to extend our sincere condolences to the people of Oman on the recent loss of His Majesty Sultan Qaboos bin Said. All of us are deeply saddened by this great loss. The late Sultan Qaboos Bin Said was a man of great vision, wisdom and a pillar of strength upon which the Sultanate was built on. We pray to the Almighty to rest his Majesty's soul in eternal peace.

We also wish to also extend our heartiest congratulations and best wishes to the new Sultan of Oman, His Majesty Sultan Haitham bin Tariq bin Taimur Al Said as he leads Oman on its journey of development, growth and prosperity. I would also like to thank the Government of Oman for their continued support and encouragement of the private sector by creating an environment that allows us to participate effectively in the growth of the Sultanate's economy and to contribute towards the building of a strong and prosperous nation.

Ahmad Fuaad Kenali
Chairman of the Board



Description of the Company

Overview

The Company's core business activity is to develop, own and operate the Al Ghubrah Independent Water Project, a Sea Water Reverse Osmosis (SWRO) plant with a contracted capacity of 191,000 m³/d (42 MIGD) located in North Ghubrah, Muscat Governorate, Sultanate of Oman. The Plant has been in commercial operation since 19 February 2016.

The Company currently generates its revenues pursuant to a 20-year term Water Purchase Agreement (WPA) with OPWP, which is indirectly wholly-owned by the Government. The desalinated water from the Plant is fully contracted to OPWP and used to meet the growing

water demand of the Interconnected Zone during the term of the WPA. The contracted water capacity of the Plant represents approximately 20% of the operating capacity in the Interconnected Zone as per OPWP's 7 year statement (2019-2025).

Electricity is supplied to the Company by MEDC pursuant to the Electricity Supply Agreement. The Company, as System User, has entered into the Electricity Connection Agreement to secure connection to the Transmission System over the contracted WPA period. The potable water is delivered to PAW reservoirs adjacent to the Plant. The Operator is a company controlled by the Project Founders.

The following map displays the approximate location of the Plant:



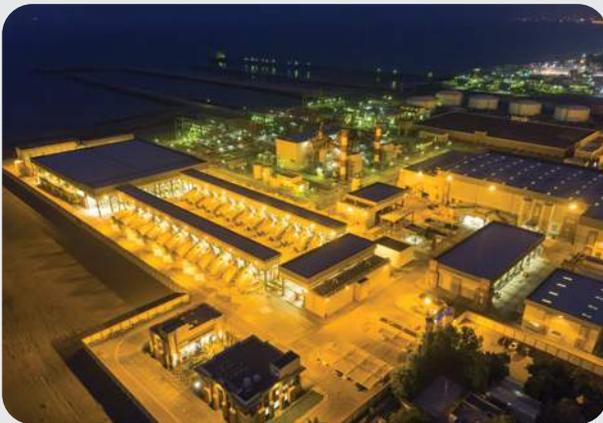
The Company was incorporated with the commercial registration number 1163374 for an unlimited duration and registered as an S.A.O.C. on 19 January 2013. The company was listed on MSM on 2 January 2018 and the legal and commercial name is now Muscat City Desalination Company S.A.O.G. and its registered office is located at P.O. Box 1935, Postal Code 114, North Ghubrah, Muscat Governorate, Sultanate of Oman.

Technology and Processes

Description of the Plant

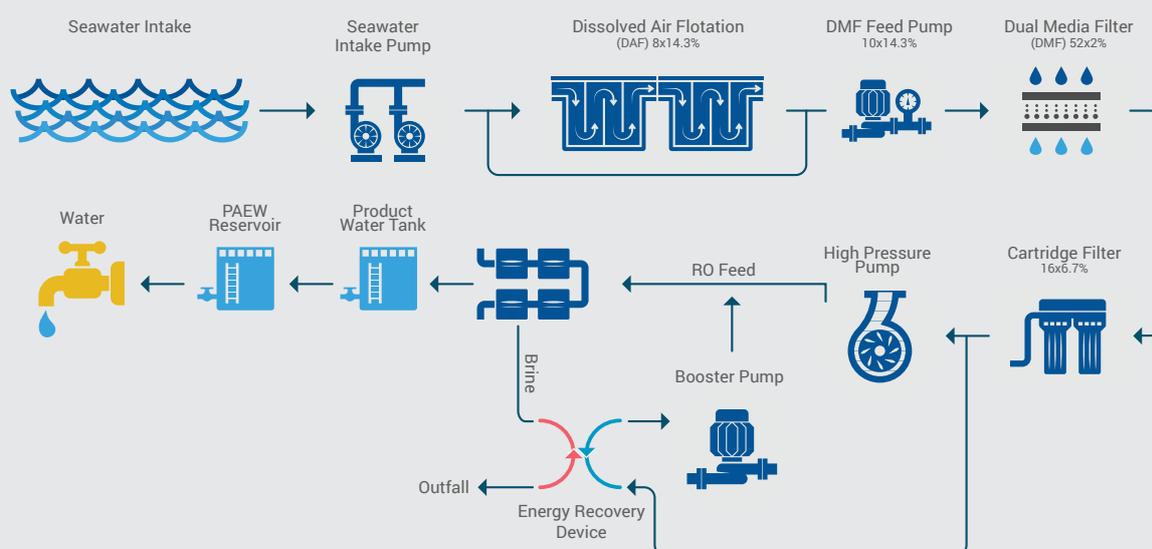
The Plant is located in North Al Ghubrah, Muscat Governorate, Sultanate of Oman and was developed under a BOO scheme. The Plant has been in commercial operation since 19 February 2016. The Plant has a capacity of 42 MIGD (191,000 m³/d) and comprises of offshore passive screens, submerged seawater intake and outfall pipelines, a Dissolved Air Flotation (DAF) system, dual media filters for pre-treatment, a double pass Sea Water Reverse Osmosis (SWRO) system, post treatment with carbon dioxide and a lime dosing remineralisation system plus chlorination and fluoridation, and all other auxiliary systems.

The following pictures display the Plant's water facility in operation:



Desalination process

The desalination process followed by the Plant is shown below:



Seawater Intake

The process starts at the seawater intake where seawater is extracted via two pipelines which are laid under the sea bed using four seawater intake pumps. Immersed but elevated passive screens with 5 mm slot size are installed at the off-shore entry point of the pipeline to prevent passage of sediment, debris and aquatic life.

A chlorination system is installed to prevent marine growth in the pipelines.

Seawater from the intake is then transferred to the downstream processes.

Pre-treatment System

The pre-treatment system is required to treat the seawater upstream to the Reverse Osmosis (RO) system. This is accomplished by the Dissolved Air Flotation (DAF), dual media filter (DMF) and cartridge filter systems (CFS).

The DAF operation comprises of coagulation and flotation of the seawater particles and the seawater will be further treated at the DMF system where the particles will be filtered through layers of sand and anthracite. The DAF is bypassed during normal seawater conditions as the DMF system alone is sufficient to pre-treat the water. The DAF is only operated during adverse seawater conditions such as during algal blooms and red-tide events.

Seawater is finally treated at the cartridge filter where most particles sized above 5 micron will be filtered before being fed to the Reverse Osmosis (RO) system.

RO system

The RO system comprises of high-pressure pumps, booster pumps, energy recovery devices and thin film RO membranes. The RO process is energy intensive as it requires high pressure of up to 70 bar to overcome the osmosis pressure in order to produce the product water. Energy recovery devices are installed to recover the energy in the high pressure reject water to reduce the overall energy required to produce product water.

The initial design of the Project included a two-pass RO system, however, during the course of construction, the potable water specification was revised due to a relaxation of the boron limits as per revised Omani regulatory standards which resulted in the 2nd pass system no longer being required.

Post-treatment System

The water produced downstream from the RO system is still not suitable for consumption, therefore further treatment is required to make it potable. Potabilisation is achieved with the addition of carbon dioxide that is combined with crushed and purified limestone to produce drinking water which is suitable for consumption. In addition, chlorine is added for disinfection and fluoride to reduce tooth decay. The potable water is then transferred to the PAW reservoirs adjacent to the Plant.

Operation and Maintenance

The Plant is operated and maintained throughout the term

of the WPA by the Operator. The Operator is primarily responsible for HSE compliance, plant availability and efficiency, meeting dispatch instructions and operational cost control. The Operator is also responsible for ensuring adequate spare parts are available and that the staff is properly qualified and trained.

Revenue Overview

During the term of the WPA

The WPA sets out the terms for the production and supply of water to OPWP during the term of the WPA. The WPA imposes an obligation on the Company to operate and maintain the Plant at an agreed level of availability with respect to the guaranteed contracted water capacity following the Commercial Operation Date (COD).

Since the COD, the Plant has had a contracted water desalination capacity of 191,000 m³/d (42 MIGD) and sells the water to OPWP. In return, the Company receives a tariff covering Water Capacity Charges and Water Output Charges from OPWP, described as follows:

- The Water Capacity Charges are payable for each hour during which the Plant is available, irrespective of how much water is actually dispatched, and are designed to cover fixed costs, including fixed operating and maintenance costs, debt service, insurance costs, taxes, spare parts, connection fees and return on capital.
- The Water Output Charges are designed to cover variable operating and maintenance costs and electricity charges, and are payable according to the water output delivered under the WPA.
- The change in electricity charge being imposed by MEDC, with effect from 1st of January 2017, will not have a financial impact on the Company as it has been agreed that this change in the electricity charge will be passed through to OPWP.

Payments are denominated in Omani Rials. The Water Investment Charge is linked to the OMR-USD exchange rate. The Water Capacity Operation and Maintenance Charges and Water Output Operation and Maintenance Charges are linked to the OMR-USD exchange rate, the prescribed US PPI for inflation and the Omani CPI for agreed portions of the charge rates. The WPA defines the OMR-USD exchange rate as the mid-rate of the OMR-USD spot rate as published by the Central Bank of Oman (CBO) in the foreign exchange rates indications on the last Omani business day of the relevant billing period.



MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Description of the Company and Business

Muscat City Desalination Company S.A.O.G. (hereinafter referred to as MCDC or the Company) was incorporated as an S.A.O.C. with the commercial registration number 1163374 for an unlimited duration on 19 January 2013. At an EGM held on 27 October 2016, it was resolved to transform the Company into an S.A.O.G. The legal and commercial name is now Muscat City Desalination Company S.A.O.G. and its registered office is located at Building No: 310, Street No: 3605, Complex No: 236, 18 November Street, North Al Ghubrah, Muscat, Sultanate of Oman.

The Company underwent an Initial Public Offering (IPO) exercise in late 2017 and was subsequently listed on the Muscat Securities Market (MSM) on 2 January 2018.

The Company's core business activity is to develop, own and operate the Al Ghubrah Independent Water Plant, a Sea Water Reverse Osmosis (SWRO) desalination plant, with a contracted capacity of 191,000 cubic meter per day (42 Million Imperial Gallons per Day), located in North Ghubrah, Muscat Governorate, Sultanate of Oman (Plant). The Plant has been in commercial operations since 19 February 2016.

The Company generates its revenues from the sale of desalinated water pursuant to a Water Purchase Agreement (WPA) with the Oman Power and Water Procurement Company (OPWP). The desalinated water from the Plant is fully contracted to OPWP to meet the growing water demand of the Interconnected Zone (Northern Region of Oman) during the term of the WPA.

The contracted water capacity of the Plant represents approximately 20% of the operating capacity in the Interconnected Zone in accordance with OPWP's 7 year statement (2019-2025).

The potable water is delivered to the Public Authority for Water (PAW) reservoirs located adjacent to the Plant.

Electricity is supplied to the Plant by Muscat Electricity Distribution Company (MEDC) pursuant to an Electricity Supply Agreement (ESA). The Company as System User, has entered into the Electricity Connection Agreement (ECA) with Oman Electricity Transmission Company (OETC) to secure connection to the Transmission System over the contracted WPA period.

Competitive Strengths

The Company's competitive strengths include the following:

- One of the largest operating SWRO desalination plant at a single location in Oman.
- Well-established contractual framework with long term WPA, ensuring cash flow protection against adverse events such as buyer risk events and force majeure.
- Stable and predictable cash flows, resilient to potential shocks in electricity prices and water demand during the term of the WPA.
- Proven, long-term and reliable SWRO desalination technology.
- Experienced Project Founders with an established track record being able to transfer skills and know-how.
- Fully operational Plant operated by experienced and skilled personnel complying fully with the highest levels of Omanisation requirements.

Contractual Framework

MCDC's contractual framework is as shown below.



Water Purchase Agreement

The WPA was executed between the Company and OPWP on 11 February 2013. The WPA details the commercial terms agreed between the Company and OPWP and sets out standard representations and warranties that the Company is required to provide.

The WPA sets out a number of obligations of the Company throughout the tenure of the agreement. Among other things, the Company must, acting as a reasonable and prudent operator, operate and maintain the Plant in such manner so as to ensure that the Plant is capable of operating and maintaining water production on a continuous and reliable basis.

Under the WPA, the Company is also obliged to exclusively sell water output to OPWP and in return, receives from OPWP, payment for Water Capacity Charges and Water Output Charges. The Water Capacity Charges are designed to cover fixed costs such as debt service, return on capital, tax payments as well as fixed costs to operate and maintain the Plant (such as manpower, spare parts, maintenance and insurance). The Water Output Charges compensates the Company for variable operation and maintenance costs (such as chemicals, SWRO membranes, cartridge filters, consumables, spare parts) and the electricity charges for the water output delivered.

Electricity charges are calculated on the contracted specific power consumption of the Plant.

The Water Capacity Charges are also adjusted for

scheduled unavailability, forced outages, derating of the Plant and also to take into consideration inflation and exchange rate movements. The Water Output Charges are adjusted for changes in the exchange rate, US Producer Price Index (US PPI) and the Omani CPI.

The WPA also outlines various buyer risk events and the relief that the Company will receive should certain specified events occur that will hinder the Company from performing its obligations under the WPA. If a relevant buyer risk event is established in accordance with the terms set out in the WPA, the Company will not be liable for any failure to perform or any delay in its performance and will continue to be entitled to be paid capacity charges during the relevant period in accordance with the terms of the WPA. In the event that it is determined that a material adverse change has occurred and such material adverse change was caused by a buyer risk event or events which constitute a material adverse change, OPWP shall propose a mechanism to the Company in order to adjust the Water Capacity Charges and/or the Water Output Charges, as appropriate, or reimburse the Company by an agreed reimbursement mechanism.

The WPA also provides for relief to the Company if various force majeure events hinder the Company from performing its obligations under the WPA. If it can be established that a force majeure event has occurred, or will occur, and that it could not have been mitigated

by the Company, acting as a reasonable and prudent operator, the Company will be relieved from liability for any failure to perform its obligations under the WPA for the duration of the force majeure event and the term of the WPA will be extended by the period for which the force majeure event hindered the Company from performing its obligations. Furthermore, the Company shall be entitled to continued receipt of capacity charges to the extent of its availability during the force majeure period.

Subject to certain force majeure, buyer risk events and termination provisions contained therein, the term of the WPA which commenced on 11 February 2013 shall expire on 11 October 2034.

Electricity Supply Agreement (ESA)

The ESA was entered into between MEDC and the Company on 11 February 2013 for the supply of electricity up to a maximum of 40MVA in accordance with the Permitted Tariffs in the ESA for operating the Plant. Both MEDC and the Company have the right to terminate the ESA by giving at least thirty days prior written notice to the other party.

Electricity Connection Agreement (ECA)

The ECA was entered into between the Company and OETC, a wholly owned Government company established in 2003, on 11 February 2013. The ECA sets out the terms and conditions for the connection to the Transmission System. It establishes a framework to provide for, amongst others:

- i. the payment by the Company to OETC of the connection fee; and
- ii. enforcement of the Grid Code between OETC and the Company.

The ECA became effective from the date of its execution and shall remain in force for an initial period of 25 years (Initial Term) and will continue in force beyond the expiry of the Initial Term unless and until either party terminates the ECA on six months prior notice to the other, provided that no such notice, shall take effect before the expiry of the Initial Term.

Usufruct Agreements (UAS)

The UAS was executed between the Ministry of Housing (MoH) and the Company on 11 February 2013. The UAS relates to the site on which the Plant is located (Site). It has a term of 25 years from the date of ratification of the

UAS by the Government, subject to a further extension of 25 years at the option of the Company. The Company is under the obligation to only use the Site for the stated purpose as described in the UAS.

In accordance with the UAS, MoH has provided the Site to the Company free and clear of any right adverse to the usufruct right so granted including, but not limited to, any third party claim that may be made relating to the Site. MoH also ensures that the Company has undisturbed enjoyment of the Site throughout the term of the UAS.

Operations and Maintenance Agreement (O&M Agreement)

The O&M Agreement was entered into between the Company and Muscat City Desalination Operations and Maintenance Company LLC (herein referred to as MCDOMC or the Operator) on 27 November 2013. It provides for the provision of O&M services by the Operator. The O&M Agreement requires the Operator to operate and maintain the Plant until 11 October 2034, being 20 years after the Scheduled Commercial Operations Date (SCOD) of 12 October 2014.

The terms of the O&M Agreement may be modified to reflect any extension of the term of the WPA as may be determined between the Company and OPWP in accordance with the terms of the WPA. The O&M Agreement was amended on 21 October 2017 to revise the water capacity O&M charge due to the non-requirement of the second pass Reverse Osmosis sub-system of the Plant and to provide clarity on the sharing of the savings on the electricity consumption charges with the Operator.

Under the O&M Agreement, the Operator is responsible, amongst others, for:

- operating the Plant during the operation period in accordance with the scheduling requirements and the dispatch instructions issued to the Company by OPWP from time to time;
- maintaining the Plant to ensure that the Plant operates at the requisite capacity;
- recruiting, employing and training sufficient staff to operate and maintain the Plant;
- programming and carrying out such performance tests as may be required by the Company or OPWP from time to time and any additional performance tests as the Company or OPWP may propose in accordance with the testing procedures and restrictions under the

WPA;

- performing all operation and maintenance works and procure all resources and materials to comply with the Omanisation Plan specified in the O&M Agreement;
- satisfying all of the Company's operation and maintenance related obligations under the Project Agreements;
- affording all reasonable assistance and co-operation in relation to the performance of the Company's obligations under the Project Agreements; and
- not undertaking any action or failing to take any action which would cause the Company to be in breach of any of its obligations under the Project Agreements.

The fees payable under the O&M Agreement consist of fixed and variable components.

EPC Contract

The EPC Contract was executed between the Company and International Water Treatment Company (IWT) on 10 April 2013. It established the terms upon which IWT was to design, engineer, manufacture, supply, procure, transport, erect, construct, install, test and commission the Plant and to warrant such works and remedy any defects or non-compliances therein.

In consideration of these works, the Company was to pay IWT the contract price in accordance with the milestone payment schedule.

The EPC Contract sets out the obligations of IWT. Amongst others, IWT was to ensure that the works and materials used in the construction were free from charges or liens and defects in title, design or workmanship and that the works would meet all environmental requirements and all applicable laws. IWT was obliged to attain Taking Over of the Plant on or before the Time for Completion, matching the Scheduled Commercial Operations Date (SCOD). The EPC Contract contains provisions for warranties as well as punch list items of the Works (as defined under the EPC Contract) noted by the Company as requiring rectification by IWT within twenty-four months from Taking Over date. The Taking Over date was 19 February 2016.

If the Contractor repairs, replace or renews all or any part of the Plant or works, then the Defects Liability Period shall apply to the part of the Plant or the Works so repaired, replaced or renewed until the expiration of 24 months from the date of such repair, replacement or renewal, provided that the defects liability period shall

not be greater than 48 months from Taking Over Date. As a result, IWT is responsible for carrying out at its cost all works of redesign, repair, reconstruction, rectification, renewal and replacement for the purpose of making good of Defects (as defined under the EPC Contract) or damage to the Plant or any part of the Works which may appear as a result of a Defect and for which IWT is responsible pursuant to the terms of the EPC Contract.

Risk Management

MCDC affirms its commitment towards ensuring and maintaining a sound internal control system which encompasses good governance, risk management and control processes. In light of this, the Company confirms that there is a proper risk management assurance process in place to identify, evaluate and manage significant risks impacting the Company's achievement of its objectives. The Company also acknowledges the presence of a sound system of internal control in safeguarding shareholders' investments, the Company's assets and other stakeholders' interests as well as ensuring compliance with applicable laws and regulations.

MCDC's risk management objectives are:

- Creating the right awareness and understanding of risk at all levels of the organisation.
- Instilling a culture of risk management and risk ownership as everyone's responsibility.
- Identifying risks and managing them well within the risk appetite of the organisation.
- Embedding risk management in the way the business is run.
- Developing a common risk language.
- Complying with appropriate risk management practises in terms of corporate governance guidelines.

Financial Arrangement

The Company has entered into financing agreements with a consortium of international banks, for an aggregate amount of OMR 81.25 million (US\$211.30 million). Senior debts are hedged in compliance with the requirement of the financing agreements via interest rate swap agreements. This further improves the predictability of cashflows of the Company.

Operation and Maintenance

The Plant is operated and maintained during the term of the WPA by the Operator, through the O&M Agreement with the Company. The Operator is primarily responsible for the Plant's availability and efficiency, meeting dispatch instructions, operational cost control and most importantly, the Health, Safety & Environment (HSE) compliance. The Operator is also responsible for ensuring adequate spare parts are available and that its employees are properly qualified and trained.

The maintenance of the Plant was undertaken in accordance with the Original Equipment Manufacturer (OEM) recommendations and in accordance with the O&M manuals. The maintenance schedule is maintained in the Computerized Maintenance Management System (CMMS).

The defects in the Plant, other than normal wear and tear, are being rectified by the EPC Contractor as the plant is under its extended defects liability period. A total of 133 warranty items have been raised out of which 115 items have been closed whilst the remaining warranty items are in the process of being closed or commercially settled with the EPC Contractor. Once the commercial settlement has been agreed and monies have been received from the EPC Contractor, the Company will use the said monies to complete the remaining outstanding warranty works utilizing the O&M Contractor. This will commence once the Company receives the required approvals from its shareholders.

Corporate Governance

The Board of Directors and Management of the Company are committed in ensuring that the highest standards of corporate governance are practiced in the Company and the Operator, as a fundamental part of its responsibilities in managing the businesses and affairs, protecting and enhancing stakeholders' values as well as financial performance while promoting the highest standards of integrity, transparency and accountability. Both the Company and its Operator abide by the governing laws and regulations and observes the applicable guidelines, rules and directives issued by the relevant regulatory authorities.

Discussion on Operational Highlights and Financial Performance

Health, Safety and Environment (HSE)

The HSE Policy commits the Company and the Operator in creating a safe, secure and healthy working environment

and the elimination of all work-related incidents and injuries. The Company and its Operator have HSE policies in place to conduct all operations in a manner that protects the HSE of employees, sub-contractors and the public while complying with all applicable legal and other requirements.

All employees and contractors are required to perform their work in accordance with the implemented HSE policy, which is carried out through the following practices:

- communicating the HSE policy to all interested parties;
- providing the necessary resources to prevent ill health and injury of all working personal and to minimize pollution and environmental impact associated with activities;
- ensuring employees and contractors are provided with adequate training and supervision for the safe performance of the work;
- making all employees and contractors responsible and accountable for health, safety and environment in their daily work activities;
- establishing, maintaining, rehearsing and reviewing with concerned groups all emergency response plans to prevent injury and accidental environmental impact while minimising any damage to company property and the community; and
- seeking continual improvement in HSE performance through periodic monitoring and reviewing of policy, objective and targets.

During the year there were neither Lost Time Incidents (LTI) nor environmental incidents. As at 31 December 2019, the Company achieved 1402 days without an LTI since its Commercial Operations Date (COD) on 19 February 2016. The total man-hour is 69,992 hours.

The Operator had, in April 2017, been awarded ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System certification. In September 2018 the ISO 14001:2004 had been successfully migrated to ISO 14001:2015.

Capacity

The capacity of the plant is defined by the total capacity of water (m³/day or MIGD) which can be delivered by the plant into the PAEW water transmission system.

The contracted capacity of the Al Ghubrah Independent Water Plant under the WPA is 42 MIGD applicable from April 2019 to March 2020, following the Annual Performance Tests conducted in March 2019 which demonstrated that the plant met the contractual requirements under the WPA.

Plant Availability & Output

The reliability of the Plant is a measure of its availability to deliver the declared capacity in accordance with the WPA. For the financial year 2019, the Company achieved availability of 93.84% after scheduled and forced outages compared to 96% in 2018. This was due to the fact that most of the maintenance outages for the previous Contract Year was completed in the first quarter of 2019. (Contract Year is a defined period in the WPA from 1 April to 31 March the following year).

This year, the Plant had experienced reduced days of algae bloom of 18 days compared with 40 days in 2018, 21 days in 2017 and 6 days in 2016. The impact of the algae bloom on the operations and availability of the plant, was minimised with the incorporation of the

Dissolved Air Flotation (DAF) system adopted at the plant.

However, this year in the months of August and September 2019, for the first time, the plant experienced an extraordinary phenomenon of jelly fish infestation. The jelly fish infestation, which drifted with the sea currents, clogged the sea water intake screens and reduced the amount of seawater into the intake pipes. This reduction of sea water intake directly affects the amount of potable water produced by the plant, thus causing the forced outages. However, the amount of forced outages caused by the jelly fish infestation are significantly lower compared with an algae bloom phenomenon. Total forced outages in 2018 was 1.94% against 1.09% for 2019.

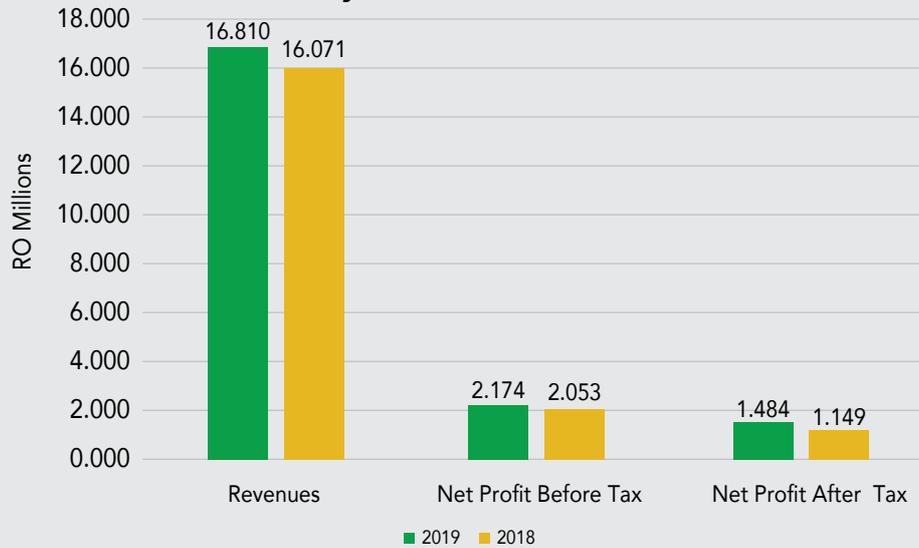
Notwithstanding the above, during FY2019, the Plant produced a total of 65,032,354 m³/day of potable water with a utilization factor averaging 93.32% of total plant capacity or 98.85% of scheduled available capacity. Plant production is determined by the daily dispatch instruction issued by PAEW.

Financial Highlights

All figures in RO million	Notes	2019	2018
Revenues	1	16.810	16.071
Net Profit	2	1.484	1.149
Net Profit before Finance Costs	3	4.627	4.506
Total Assets	4	93.524	94.912
Capital (Paid-up)	5	15.555	15.555
Shareholder's Fund (Net Assets)	6	14.445	16.813
Term Loan (*1)	7	60.719	63.826
Weighted average number of shares	8	155,550,400	155,550,400
Actual number of shares outstanding	9	155,550,400	155,550,400
Ordinary dividends	10	1.253	1.450

(*1) Excluding unamortized transaction costs

Key Financial Indicators



All figures in RO million	Notes	2019	2018
Net Profit Margin	= 2/1	8.83%	7.15%
Return on Capital (Paid-up)	= 2/5	9.54%	7.39%
Return on Capital Employed	= 3/(6+7)	6.16%	5.59%
Debt Equity Ratio	= 7 : 6	81 : 19	79 : 21
Net assets per share (RO)	= 6/8	0.093	0.108
Basic Earning Per Share (RO)	= 2/8	0.010	0.007
Dividends per share (RO)	= 10/9	8.0550	9.3234

Analysis of Profit and Loss

The Company managed to generate a healthy operating revenue of OMR 16.810 million in FY2019, 4.6% higher than the OMR16.071 million in FY2018. This increase is mainly due to the higher available capacity and water production.

The profit before tax for FY2019 was OMR 2.174 million, higher compared with OMR 2.053 million in FY2018. The net profit after tax, is also higher in FY2019 OMR 1.484 million compared with OMR 1.149 million in FY2018.

Analysis of Balance Sheet

Total assets of the Company stood at OMR 93.524 million as at 31 December 2019 compared with OMR 94.912 million in FY2018. This drop was mainly due to the depreciation charge during the year.

The cash and cash equivalents as at 31 December 2019 is OMR 1.973 million compared with OMR 1.820 million as at 31 December 2018.

The shareholders' funds as at 31 December 2019 is OMR14.445 million compared with OMR16.813 million as at 31 December 2018. Hedging Reserve (net of deferred tax) reduced equity by OMR 2.599 million, reflecting the fair value of the 2 interest rate swap arrangements as at the balance sheet date. This however, does not impact the Company's capability to distribute dividends to its shareholders.

Term loans (including non-current and current balances) reduced to OMR 60.719 million as a result of scheduled repayments made in accordance with finance agreements.

The Company continues to make adequate provision for asset retirement obligations to fulfil its legal responsibilities to remove the plant at the end of its useful life and restore the land to its original state, prior to handing over.

Dividend Distribution

Shareholders at the Annual General Meeting (AGM) held on 27 March 2019 authorized the Board of Directors to

determine and distribute cash dividends to the shareholders of the Company in May 2019 of a value not exceeding 1.626 baiza per share out of the retained profits for the year ended 31 December 2018 and in November 2019 of a value not exceeding 6.429 baiza per share out of the retained profits for the period ended 30 September 2019.

Subsequently, the Board of Directors at its meeting held on 29th April 2019, resolved to distribute cash dividend of 1.626 Baizas per share out of the retained earnings in accordance with the audited financial statements for the financial period ended 31 December 2018 to the shareholders who were registered in the Company's shareholders register with the Muscat Clearing & Depository Company S.A.O.C. as at 15 May 2019.

The Board of Directors at its meeting held on 17 November 2019 resolved to distribute cash dividend of 6.429 Baizas per share out of the retained earnings in accordance with the audited financial statements for the financial period ended 30 September 2019 to the shareholders who were registered in the Company's shareholders register with the Muscat Clearing & Depository Company S.A.O.C. as at 28 November 2019.

Employees, Training and Omanisation

MCDC and its Operator takes Omanisation as a responsibility to assist in the building of Omani expertise in the water desalination sector. Together, the Company and its Operator employs a total of 47 employees, of which 33 employees are Omani citizens.

Training is conducted frequently, with strong emphasis on HSE, operational improvements and personal development. The employees are encouraged to attend the continuous education programmes and seminars held from time to time to keep themselves abreast with the latest developments as well as to further enhance their competency and professionalism in discharging their duties.

The Project had achieved an overall Omanisation ratio of 70% as at 31 December 2019.

Internal control systems

The Board acknowledges that ensuring sound Internal Control Systems requires effective interaction among the Board, Management and its auditors. The Board, in ensuring effective discharge of its responsibilities, is assisted by the Board Committees, namely the Audit Committee and Nomination and Remuneration Committee. Each committee has clearly defined terms of reference.

MCDC also has a comprehensive system of internal controls in place, comprising a well-defined governance structure, clearly outlined delegated levels of authority, annual budgets and plans to deliver the Company's strategy, supported by regular reporting of these plans and budgets to the Board of Directors.

Outlook

The Company will endeavor to ensure that it continues to take reasonable and prudent measures to improve its performance for FY2020, by improving the plant's reliability and availability, without compromising on HSE matters.



Corporate Social Responsibility (CSR) Report

Championing a community - Centric Philosophy

From the outset of our operations in the Sultanate of Oman, MCDC has embraced a corporate philosophy that espouses a commitment to being community-centric and socially responsible in the area that we operate in. To this end, the company has formulated an annual CSR programme that enshrines these two broad objectives.

As with previous years, MCDC's CSR programme in 2019 has sought to educate young people about the vital role that a water desalination plant plays in meeting the essential needs of the local population. The beneficiaries

are two-fold: first, children of schools located in the vicinity of the plant in Al Ghubrah, and second, students pursuing their technical diplomas or engineering degree courses at select institutions in the Sultanate.

Children of four schools were given the opportunity to visit the plant's modern facilities as part of guided tours overseen by MCDC's staff with the support from the O&M team. They included three Omani schools – Jabir Bin Zaid, Asim Bin Omar and Hazim Bin Hamam – while the fourth school was the Bangladesh School Muscat, an expatriate community school located near the plant.



The young visitors – ranging in age from 11 to 17 years – were given an overview of the seawater desalination process employed at the plant. The tour also underscored the importance of clean seas, water conservation and preservation of the natural environment in ensuring the sustainable production of potable water for our drinking requirements. In all, more than 100 schoolchildren from these four schools participated in these guided visits.

Technical Trainee Programme

Our CSR strategy for the year included another edition of our well-received Technical Trainee Programme, first introduced in 2018 in line with our commitment to supporting the technical development of young Omanis for promising careers in the water desalination industry.

The programme is primarily targeted at Omani students who are close to completing their technical diploma or engineering degree programme and require to intern or train at suitable establishments as part of their course requirements. It is conceptualized and structured to provide promising candidates with the requisite engineering and technical knowledge in the operation and maintenance of water desalination facilities. This year, saw 22 students participating in this programme at our plant.

As with the previous year, candidates for this year's Technical Trainee Programme were drawn from Higher College of Technology, Calcedonian College of Engineering and the Middle East Desalination Research Centre (MEDRC).

Beach-cleaning campaign

Seeking to broaden its engagement with the local community, MCDC and its operating company MCDOMC conducted a beach-cleaning drive along a waterfront stretch in Muscat Governorate. The campaign, organised in collaboration with Muscat Municipality, was an opportunity for MCDC to demonstrate its support for the Municipality's commendable efforts in keeping Muscat's popular beaches and shoreline as pristine as possible.

Armed with trash bags, the volunteers – all employees of MCDC and MCDOMC, along with their family members – spent nearly half a day scouring the beach for all kinds of litter, including plastic bottles and bags, empty soda cans, disposable food trays and cutlery, and other debris. The exercise yielded several bags of trash, which was deposited at a designated collection point.

Aside from the civic mindedness that was in abundant display during the beach-cleaning drive, the event was also an opportunity for MCDC and MCDOMC's Omani and multinational workforce, and their family members, to get to know each other and enjoy a morning of camaraderie, making this an event that will no doubt, become a fixture in the company's annual CSR calendar, going forward.



TO THE SHAREHOLDERS OF MUSCAT CITY DESALINATION COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) Circular No. E/4/2015 dated 22 July 2015 with respect to the accompanying corporate governance report of **Muscat City Desalination Company SAOG** as at and for the year ended 31 December 2019 and its application of corporate governance practices in accordance with CMA code of corporate governance issued under Circular No. 4/2015 dated 22 July 2015 and amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standards on Related Services to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Company's compliance with the Code as issued by the CMA and are summarized as follows:

1. We obtained the corporate governance report issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and
2. We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors with the Code, for the year ended 31 December 2019. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of **Muscat City Desalination Company SAOG** to be included in its annual report for the year ended 31 December 2019 and does not extend to any financial statements of **Muscat City Desalination Company SAOG**, taken as a whole.

Deloitte Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
11 February 2020



CORPORATE GOVERNANCE REPORT

Company's philosophy

Muscat City Desalination Company S.A.O.G (Company) is a purpose driven organisation. The Company has a strong business foundation due to its core values.

Corporate governance is a framework of principles, criteria and procedures, which a company adopts to achieve organisational discipline, ensure accountability, transparency and fairness.

Following its Initial Public Offering on 2 January 2018, the Company is required to comply with the Capital Market

Authority's (CMA) Code of Corporate Governance (Code) and other rules and guidelines issued by the CMA from time to time.

As a step towards good corporate governance, the Board of Directors (the Board) has undertaken the necessary measures to implement the Code and applicable rules. The Board oversees the executive management's functions and safeguards the long-term interests of the Company. The Board is fully committed to apply the highest possible standards of corporate governance.

Board of Directors

All members of the Board are non-executive in accordance with the requirement of the Code. During the financial year ended 31 December 2019, the Board consisted of the following Directors:

No.	Name of director	Date of appointment	Independent / non independent	Mode of representation
1.	Ahmad Fuaad bin Mohd Kenali	27 March 2019	Non-independent	Shareholder representative
2.	Tamer Cankardes	27 March 2019	Non-independent	Shareholder representative
3.	Ruswati binti Othman	27 March 2019	Non-independent	Personal capacity
4.	Kei Nakamura**	27 March 2019	Non-independent	Personal capacity
5.	Sultan Obaid Said Al Ghaithi*	27 March 2019	Independent	Personal capacity
6.	Ajeev Gopinathan	27 March 2019	Independent	Personal capacity
7.	Vishwanath Sankaranarayanan*	27 March 2018	Independent	Personal capacity

* Vishwanath Sankaranarayanan's term ended on 27 March 2019.

* Pursuant to Board elections conducted at the Annual General Meeting on 27 March 2019, the shareholders elected the new Board consisting of members from 1-6 mentioned in the above table.

Board meetings / shareholders meetings and attendance in 2019

No.	Name of the director	Position	Attendance							
			Board Meetings							Shareholders Meetings
										AGM
			Feb 18	Mar 27	Apr 29	Jul 28	Oct 28	Nov 17	Total	Mar 27
1	Ahmad Fuaad bin Mohd Kenali	Chairman (Shareholder Representative)	•	•	•	•	•	•	6	•
2	Tamer Cankardes	Deputy Chairman (Shareholder Representative)	•	•	•	P	•	•	6	•
3	Ruswati binti Othman	Member	•	•	•	•	•	P	6	•
4	Kei Nakamura**	Member	•	•	•	•	•	•	6	•
5	Sultan Obaid Said Al Ghaithi*	Member	•	•	•	•	•	•	6	•
6	Ajeev Gopinathan	Member from 27 Mar 2019	-	•	•	•	•	•	5	•
7	Vishwanath Sankaranarayanan*	Member until 27 Mar 2019	•	-	-	-	-	-	1	-

•: Attended, P: Proxy

* Vishwanath Sankaranarayanan's term ended on 27 March 2019.

* Pursuant to Board elections conducted at the Annual General Meeting on 27 March 2019, the shareholders elected the new Board consisting of members from 1-6 mentioned in the above table.

Performance Appraisal for the Board of Directors

Dentons & Co Oman Branch had conducted the Board evaluation based on the criteria approved by the shareholders at the Company's Annual General Meeting held on 27 March 2019. The evaluation report will be presented at the forthcoming Annual General Meeting on 19 March 2020.

Board Audit Committee

The roles of the Board Audit Committee are as follows:

- To consider the auditor in the context of their independence (particularly with reference to any other non-audit services), fee and terms of engagement, and recommending the auditors to the Board and shareholders for appointment.
- To review the audit plan and results of the audit.

- To implement appropriate systems to check financial fraud and ensure the fairness of financial statements;
- Ensure oversight of the internal audit function.
- Ensure oversight of the adequacy of the internal control systems.
- Ensure oversight of financial statements in general including the review of annual and quarterly financial statements before issue, qualifications contained in draft financial statements, and discussions of accounting principles therein and changes in accounting standards adopted by the Company.
- Serve as a channel of communication for the Board with the external and internal auditors.
- Review risk management policies.
- Review all related party transactions and provide recommendations to the Board, in relation to the transactions.

The Board Audit Committee comprises the following members during the financial year 2019:

No.	Name of the Audit Committee Member	Position	Dates of Board Audit Committee Meetings				
			Feb 18	Apr 29	Jul 28	Oct 28	Nov 17
1	Sultan Obaid Said Al Ghaithi*	Chairman from 27 Mar 2019	•	•	•	•	•
2	Ajeev Gopinathan	Member	-	•	•	•	•
3	Ruswati binti Othman	Member	•	•	•	•	•
4	Vishwanath Sankaranarayanan*	Chairman until 27 Mar 2019	•	-	-	-	-

•: Attended, P: Proxy

* Vishwanath Sankaranarayanan's term ended on 27 March 2019.

Board Nomination and Remuneration Committee (BNRC)

With the aim of adopting a transparent nomination policy, and to attract directors and key executives with high competence, the Board in accordance with the requirements of the Code established the BNRC.

The primary purpose of the BNRC is to review and approve the Directors' selection criteria and relevant procedures for the appointment of the Chief Executive Office, senior management and other key positions as may be required from time to time. Another important task of the BNRC is to ensure that proper succession planning is implemented.

The BNRC comprises the following members:

No.	Name of the BNRC Member	Position	Dates of BNRC Meetings		
			Feb 18	Oct 28	Nov 17
1	Ahmad Fuaad bin Mohd Kenali	Chairman	•	•	•
2	Tamer Cankardes	Member	•	•	•
3	Kei Nakamura	Member from 27 March 2019	-	•	•
4	Sultan Obaid Said Al Ghaithi*	Member until 27 March 2019	•	-	-

Procedure for Nomination of Directors

Directors are nominated and elected in accordance with the applicable statutory provisions including but not limited to the rules prescribed by the CMA and the Articles of Association of the Company. Directors have a three year term, subject to re-election.

If the office of a director becomes vacant in the period between two ordinary general meetings, the Board may appoint a temporary director in accordance with the Commercial Companies Law promulgated by Sultani Decree 18/19 and the Company's Articles of Association.

Remuneration

a) Sitting Fees to Members of Board and Its Committees

A total amount of RO 11,200 is expensed as sitting fees

for the financial year ended 31 December 2019. The Board Audit Committee and BNRC have also accrued sitting fees of RO 3,000 and RO 1,800 respectively. The sitting fees for each Director did not exceed RO 10,000 per Director as per the guidelines issued by the CMA. This will be tabled for shareholders' approval at the upcoming Annual General Meeting on 19 March 2020.

b) Remuneration of Board Members

The total remuneration proposed to be paid to the Board members is RO 16,000 for the financial year ended 31 December 2019 for their invaluable contribution to the Company. This will be tabled for the shareholders' approval at the Annual General Meeting on 19 March 2020.

(*) The provision for remuneration of RO 6,800 recognised in 2018 was reversed in financial statements 2019.

c) Other Payments to Directors

There were no other payments to the Directors other than their sitting fees and remuneration as stated above.

d) Key Executives of the Company

The Executive Management (as defined in the Commercial Companies Law (SD 18/19)) of the Company received an aggregate amount of RO 241,982 for the financial year ended on 31 December 2019. This includes salaries, bonus and other benefits. The remuneration paid to these key executives commensurate with their key performance indicators established for the financial year.

Internal Auditor

The Company's internal auditor left the organisation in July 2019 and the Company is in process of identifying for suitable candidate to fill the vacancy. The Company has engaged Grant Thornton for its internal audit services until a suitable candidate has been found.

Details of Non-Compliance by The Company During the Last Three Years

There were no penalties levied on the Company by the CMA, Muscat Securities Market (MSM) or any other statutory authority on any matter for the past 3 years up to 31 December 2019.

Means of Communication with The Shareholders and Investors

The Company's means of communication and disclosures are in accordance with the regulatory requirements. The Company discloses its annual un-audited financial results, un-audited interim financial statements, and audited annual financial statements on the MSM website within the regulatory deadlines. The Company also publishes relevant financial information in two local newspapers. Communication with the shareholders is undertaken in both English and Arabic languages.

Market Price Data

a) High/low share price and performance comparison during each month in 2019.

Month	Price (Baizas)				MSM Index (Service sector)	
	(Service sector)	Low	Closing	Change from 1 January 2019	Closing	Change from 1 January 2019
	High	Low	Closing	Change from 1 January 2019	Closing	Change from 1 January 2019
January	0.135	0.126	0.132	1.54%	2142.44	-6.46%
February	0.128	0.120	0.124	-4.62%	2079.39	-9.21%
March	0.130	0.118	0.122	-6.15%	1979.61	-13.57%
April	0.120	0.109	0.110	-15.38%	2034.26	-11.18%
May	0.110	0.106	0.106	-18.46%	1975.07	-13.77%
June	0.114	0.101	0.107	-17.69%	1915.80	-16.35%
July	0.110	0.100	0.101	-22.31%	1838.60	-19.72%
August	0.115	0.101	0.103	-20.77%	1873.58	-18.20%
September	0.120	0.102	0.113	-13.08%	1950.53	-14.84%
October	0.126	0.102	0.103	-20.77%	1909.84	-16.61%
November	0.113	0.100	0.106	-18.46%	1954.94	-14.64%
December	0.106	0.100	0.102	-21.54%	1896.58	-17.19%

b) Distribution of shareholdings as at 31 December 2019

Category	Number of Shareholders	Number of Shares Held	Share Capital %
5 % and above	4	120,651,629	77.56%
Less than 5%	2,695	34,898,771	22.44%
Total	2,699	155,550,400	100.00%

Professional Profile of Statutory Auditor

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During the year 2019, Deloitte total fees amounted to RO 21,560 in relation to professional services rendered to the Company (RO 12,500 for audit, RO 7,000 for quarterly review and RO 2,060 for other services).

Specific areas of Non-Compliance of Corporate Governance

There were no penalties levied on the Company by any statutory authority on any matter related to corporate governance in 2019.

Board Acknowledgement

The Board accepts responsibility for the preparation of the financial statements in line with International Financial Reporting Standards (IFRS), the disclosure requirements of the CMA and the Commercial Companies Law of 2019. The Board confirms that it has reviewed the efficiency and adequacy of the internal control systems of the Company, and is pleased to inform the shareholders that adequate and appropriate internal controls are in place, which are in compliance with the relevant rules and regulations. The Board also confirms that there are no material matters that would affect its sustainability and ability to continue its operations up to the end of the next financial year.

Chairman of the Board

Muscat City Desalination Company SAOG

Report and financial statements for the year ended 31 December 2019

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Independent auditor's report to the shareholders of Muscat City Desalination Company SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Muscat City Desalination Company SAOG** (“the **Company**”), which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the Company's financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the shareholders of Muscat City Desalination Company SAOG (continued)

Key audit matters (continued)

Key audit matter

How the matter was addressed in the audit

Valuation of derivatives

Refer to note 10 of the financial statements for disclosures applicable to this matter.

In relation to the key audit matter, our procedures included the following:

At 31 December 2019, derivatives represented 4.8% of total liabilities. All derivatives are classified as level 2 in the fair value hierarchy as prescribed by IFRS 13 Fair Value Measurement.

- Obtained an understanding of the process to determine the fair value of derivatives, the risk management policies and the accounting policies adopted by management.

Financial instruments that are classified as level 2 in the fair value hierarchy will have some element of estimation uncertainty inherent in their value.

- We assessed the controls over the valuation of derivatives to determine if they had been appropriately designed and implemented.

Derivative financial instruments are used to manage and hedge interest rate risk. These instruments are designated as cash flow hedges. Valuation of the derivatives is based on valuation models using observable input data.

- We reconciled the carrying value of derivative financial instruments in the financial statements to external third party confirmations.

As the determination of the fair value of derivatives is a key source of estimation uncertainty, is subject to significant judgement and represents a material balance, this matter was considered to be a key audit matter in our audit of the financial statements.

- We recalculated the fair value of derivative financial instruments with independently obtained and externally available market data using support from our financial risk management specialists; and
- We evaluated the disclosures contained in the financial statement in relation to derivative financial instruments to determine if they met the requirements of IFRSs.

Other matter

The financial statements of the Company for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 18 February 2019.



**Independent auditor's report
to the shareholders of
Muscat City Desalination Company SAOG (continued)**

Other information

The Board of Directors (the "Board") is responsible for the other information. The other information comprises annual report of the Company. We obtained the Board of Directors' report, the Corporate Governance Report and Management's Discussion and Analysis prior to the date of this auditor's report and the remaining annual report, which is expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Board of Directors and those charged with governance for the financial statements

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Commercial Companies Law of the Sultanate of Oman and the disclosure requirement of issued by the Capital Market Authority of Sultanate of Oman (the "CMA"), and for such internal control as the Board 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, the Board 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 the Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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



**Independent auditor's report
to the shareholders of
Muscat City Desalination Company SAOG (continued)**

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.
- 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.

Independent auditor's report to the shareholders of Muscat City Desalination Company SAOG (continued)

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

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

We also provide the those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of the Sultanate of Oman, and the disclosure requirements issued by the CMA.

Deloitte - Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
11 February 2020

Mark Dunn
Signed by
Mark Dunn
Partner



Statement of financial position

as at 31 December 2019

	Notes	2019 RO'000s	2018 RO'000s
Assets			
Non-current assets			
Property, plant and equipment	5	89,168	91,545
Lease asset (right of use assets)	2	185	-
Deferred tax	21	716	162
Total non-current assets		90,069	91,707
Current assets			
Trade and other receivables	6	1,482	1,385
Cash and cash equivalents	7	1,973	1,820
Total current assets		3,455	3,205
Total assets		93,524	94,912
EQUITY AND LIABILITIES			
Equity			
Share capital	8	15,555	15,555
Legal reserve	8	1,777	1,628
Retained earnings		336	254
Cumulative changes in fair values of derivative financial instruments	10	(3,223)	(624)
Total equity		14,445	16,813
Non-current liabilities			
Non-current portion of term loans	9	56,450	59,562
Non-current portion of fair value of derivative financial instruments	10	3,592	657
Provision for decommissioning obligation	11	366	349
Deferred tax	21	3,785	3,001
Lease liability - non-current portion	24	183	-
Shareholders' bridge loans	13	8,854	8,854
Shareholders' stand-by equity loans	14	754	-
End-of-service benefits		26	15
Total non-current liabilities		74,010	72,438
Current liabilities			
Current portion of term loans	9	3,188	3,106
Current portion of fair value of derivative financial instruments	10	200	77
Lease liability – current portion	24	7	-
Shareholders' stand-by equity loans	14	-	754
Trade and other payables	15	1,674	1,724
Total current liabilities		5,069	5,661
Total liabilities		79,079	78,099
Total equity and liabilities		93,524	94,912
Net assets per share (RO)	23	0.093	0.108



Chairman



Chief Executive Officer

The accompanying notes form an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

for year ended 31 December 2019

	Notes	2019 RO'000s	2018 RO'000s
Operating revenue	17	16,810	16,071
Operating costs	18	(10,654)	(9,776)
Gross profit		6,156	6,295
Other income		28	-
Administrative and general expenses	19	(867)	(885)
Finance costs (net)	20	(3,143)	(3,357)
Profit for the year before tax		2,174	2,053
Income tax	21	(690)	(904)
Profit for the year		1,484	1,149
Other comprehensive (loss) / income for the year – Items that may be reclassified subsequently to profit or loss			
Changes in fair values of derivative financial instruments		(3,057)	1,311
Deferred tax on changes in fair values of derivative financial instruments		458	(197)
Other comprehensive (loss) / income for the year net of income tax		(2,599)	1,114
Total comprehensive (loss) / income for the year		(1,115)	2,263
Earnings per share – basic and diluted (RO)	22	0.010	0.007

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2019

	Share capital	Legal reserve	Retained earnings	Cumulative changes in fair values of derivative financial instruments	Total
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
At 1 January 2019	15,555	1,628	254	(624)	16,813
Profit for the year	-	-	1,484	-	1,484
Other comprehensive income net of deferred tax for the year	-	-	-	(2,599)	(2,599)
Transfer to legal reserve	-	149	(149)	-	-
Dividend distributed (Note 8)	-	-	(1,253)	-	(1,253)
At 31 December 2019	15,555	1,777	336	(3,223)	14,445
At 1 January 2018	15,555	1,513	670	(1,738)	16,000
Profit for the year	-	-	1,149	-	1,149
Other comprehensive income net of deferred tax for the year	-	-	-	1,114	1,114
Transfer to legal reserve	-	115	(115)	-	-
Dividend distributed (Note 8)	-	-	(1,450)	-	(1,450)
At 31 December 2018	15,555	1,628	254	(624)	16,813

The accompanying notes form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2019

	2019 RO'000s	2018 RO'000s
Operating activities		
Profit for the year before tax	2,174	2,053
Adjustment for:		
Depreciation	2,468	2,431
Depreciation of right of use asset	11	-
Provision for end-of-service benefits	11	7
Finance costs	3,143	3,357
Cash flows from operating activities before working capital changes	7,807	7,848
Change in trade and other payables	64	(768)
Change in trade and other receivables	(97)	(96)
Net cash from operating activities	7,774	6,984
Investing activity		
Additions to property, plant and equipment	(91)	(84)
Net cash used in investing activity	(91)	(84)
Financing activities		
Net repayment of term loans	(3,106)	(3,218)
Finance cost paid	(2,996)	(3,080)
Interest paid to shareholders' bridge loans	(170)	(137)
Payment of shareholders' stand -by equity loans	-	(83)
Repayment of principal portion of lease liabilities	(6)	-
Payment of shareholders' loans	-	(1,583)
Dividend distributed	(1,253)	(1,450)
Net cash used in financing activities	(7,531)	(9,551)
Net change in cash and cash equivalents	153	(2,651)
Cash and equivalents at the beginning of the year	1,820	4,471
Cash and cash equivalents at the end of the year (note 7)	1,973	1,820

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2019

1. Legal status and principal activities

Muscat City Desalination Company SAOG (the "Company") is a public joint stock company registered in the Sultanate of Oman. The Company was incorporated on 19 January 2013. The Company's principal activity is the sale of desalinated water. The Company commenced commercial production of potable water on 19 February 2016. The Company was listed on the Muscat Securities Market on 2 January 2018. Shareholding of the Company is disclosed in Note 8 to the financial statements.

1.1 Key agreements

Water Purchase Agreement

On 11 February 2013 the Company signed a long term Water Purchase Agreement (WPA) with Oman Power and Water Procurement Company SAOC ("OPWP") for the supply of 42 million imperial gallons of water per day. The agreement expires 20 years after the Scheduled Commercial Operation Date of 12 October 2014, subject to any extension period or early termination arising under the terms of the agreement.

Engineering, Procurement and Construction Contract

The Company entered into an agreement for the construction of a desalination plant with a capacity of 42 million imperial gallons of water per day with International Water Treatment LLC ("the EPC Contractor") on a turnkey basis which was completed during 2016.

Operation and Maintenance (O&M) contract

The O&M contract, which runs for 20 years after the Scheduled Commercial Operation Date of 12 October 2014, was entered into by the Company on 27 November 2013 and amended on 21 October 2017 with Muscat City Desalination Operation and Maintenance Co LLC, a related party, a company registered in the Sultanate of Oman, for operation and maintenance of the plant.

2. Application of new and revised International Financial Reporting Standards ("IFRS")

2.1 New and amended IFRSs and standard that are effective for the current year

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these financial statements.

IFRS 16 Leases ("IFRS 16")

In the current year, the Company has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has applied IFRS 16 using the modified retrospective approach which requires the Company to recognise the right-of-use asset measured at the amount of lease liability, using the interest rate at the time of first-time application.

Notes to the financial statements

for the year ended 31 December 2019

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 New and amended IFRSs and standard that are effective for the current year (continued)

IFRS 16 Leases ("IFRS 16") (continued)

(a) Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation assessment. Assessment has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

(b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

- Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii)
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Company has used the following practical expedients when applying the modified retrospective approach to leases previously classified as operating lease applying IAS 17.

- 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 Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

Notes to the financial statements

for the year ended 31 December 2019

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 New and amended IFRSs and standard that are effective for the current year (continued)

IFRS 16 Leases ("IFRS 16") (continued)

(c) Financial impact of initial application of IFRS 16

The Company has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the incremental borrowing interest rate at the time of first time application. IFRS 16 transition disclosures also requires the Company to present the reconciliation.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

	RO '000s
Operating lease commitments disclosed as of 31 December 2018	286
Effect of discounting operating lease commitment using the lessee's incremental borrowing rate at the date of initial application of IFRS 16	<u>(90)</u>
Lease liability recognised as at 1 January 2019	<u>196</u>

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 4.64%.

The change in accounting policy affected the following items in the financial statements on 1 January 2019 and the Company has:

- Recognised right of use asset and lease liability initially measured at the present value of future lease payments amounting to RO 196 thousands.
- Recognised depreciation of right of use assets and interest on lease liabilities amounting to RO 11 thousands and RO 9 thousands respectively.
- Presented depreciation on right-of-use-assets and interest on lease liability as adjustment to cash flow from operating activity included in the adjustments for depreciation and finance costs respectively.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following type of asset:

	31 December 2019 RO'000s	1 January 2019 RO'000s
Usufruct contract	<u>185</u>	<u>196</u>

The land which the plant occupies has been leased from the Government of the Sultanate of Oman (represented by the Ministry of Housing) for a period of 25 years from 11 February 2013. The lease term can be extended by an additional 25 years at the request of the Company. Lease rental is paid at the rate of RO 15,045 per annum.

The land lease becomes an on-balance sheet liability that attracts interest, together with new asset on the other side of the balance sheet.

Notes to the financial statements

for the year ended 31 December 2019

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 New and amended IFRSs and standard that are effective for the current year (continued)

IFRS 16 Leases ("IFRS 16") (continued)

(c) Financial impact of initial application of IFRS 16 (continued)

The application of following interpretation and amendments has had no impact on the Company's financial statements for the current and prior years but may affect the accounting for future transactions or arrangements:

- Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing costs.
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments relating to prepayment features with Negative Compensation
- Amendments to IAS 28 Investments in Associates and Joint Ventures relating to long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19 Employee Benefits relating to plan amendment, curtailment or settlement

2.2 New and amended IFRSs in issue but not yet effective and not early adopted

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

New and revised IFRSs	Effective for annual periods beginning on or after
Definition of Material - Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	1 January 2020

The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

Definition of a Business – Amendments to IFRS 3 Business Combinations	1 January 2020
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The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

Notes to the financial statements

for the year ended 31 December 2019

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and amended IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	
IFRS 7 Financial Instruments: Disclosures and IFRS 9 - Financial Instruments Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2020
IFRS 17 Insurance Contracts	1 January 2022
IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as at January 1, 2022.	
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

The Directors anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Company in the period of initial application.

3. Summary of significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board and the requirements of the Commercial Companies Law of the Sultanate of Oman and the Capital Market Authority of the Sultanate of Oman.

Basis of preparation

These financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities measured at fair value.

Notes to the financial statements

for the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Functional and presentation currency

The accounting records are maintained in Omani Rial which is the functional and presentation currency for these financial statements.

Following are the significant accounting policies applied by the Company consistently in the previous year except as those set out in note 2.

Foreign currencies

Any currency other than the functional currency is considered as a foreign currency. Transactions in foreign currencies are translated to Omani Rials at the rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Omani Rials using the exchange rate at the reporting date.

Non-monetary assets and liabilities measured at historical cost are translated using the exchange rate at the date of the transaction whereas those measured at fair value are translated using the exchange rate at the date when fair value was determined. An exchange difference on settlement of monetary items or on translation is generally recognised in profit or loss.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes the amount of cash and cash equivalents paid or the fair value of other consideration given to acquire an asset at the date of acquisition or construction. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised.

The cost of self-constructed assets includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of overheads. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and renewals are charged to profit or loss when the expense is incurred.

Subsequent costs

The Company recognises in the carrying amount of property, plant and equipment the cost of major inspections and the cost of replacing part of such an item when the cost is incurred, if it is probable that the future economic benefits embodied in the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized as an expense as incurred.

Depreciation

Depreciation is calculated so as to write off the cost of property, plant and equipment, other than capital work-in-progress, over their estimated economic useful lives, using the straight-line method, from the date that the asset is brought into use.

Where components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Major repairs are depreciated over the remaining useful life of the related asset, or up to the date of the next major repair, whichever is shorter.

Notes to the financial statements

for the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation (continued)

The estimated useful lives for the current period are as follows:

	Years
Civil and structural works.....	40
Plant and machinery	40
Pipelines	40
Decommissioning asset.....	40
Spares.....	40
Furniture, fixtures and office equipment	4
Motor vehicles.....	4

The useful lives, depreciation method, and residual values of property, plant and equipment are assessed by the management at reporting date and adjusted if appropriate.

Membrane, cartridge filters and other tools were capitalised along with useful life of plant, as this will remain as a part of plant till the end of plant's life without any further cost.

Capital work-in-progress

Capital work-in-progress is stated at cost less any impairment losses. When commissioned, capital work-in-progress is transferred to the appropriate property, plant and equipment category and depreciated in accordance with depreciation policies of the Company.

Impairment

Financial assets

The Company recognises loss allowances for Expected credit losses ("ECL") on financial asset measured at amortised cost, the company measures loss allowances at an amount equal to lifetime ECL. Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

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

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs 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 asset.

Notes to the financial statements

for the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Impairment (continued)

Non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employees' end-of-service benefits

End-of-service benefits for Omani employees are contributed in accordance with the terms of the Social Security Law of 1991.

Provision for end-of-service indemnity for non-Omani employees is made in accordance with the Oman Labour Law as amended and is based on current remuneration and cumulative years of service at the reporting date.

Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimated to settle the present obligation, the carrying amount is the present value of those cash flows.

Provision for decommissioning obligation

The provision for asset retirement obligation is recognised when there is a present obligation as a result of assets constructed on land under usufruct contracts with the Ministry of Housing, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of provision can be measured reliably. The estimated future obligations include the costs of removing the facilities and restoring the affected areas. A corresponding asset is recognised as part of plant and machinery in property, plant and equipment and depreciated accordingly.

The provision for decommissioning obligation is a best estimate of the present value of expected costs required to settle the obligation, at the reporting date based on the current requirements of the Usufruct agreement, using estimated cash flows. The cash flows are discounted at a current pre tax rate that reflects the risks specific to the asset retirement obligation. The unwinding of the discount is expensed as incurred and recognised in the statement of profit or loss and other comprehensive income as a finance cost.

The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset recorded as property, plant and equipment. If there is an indication that the new carrying amount of the asset is not fully recoverable, the asset is tested for impairment and an impairment loss is recognised where necessary.

Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Notes to the financial statements

for the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Revenue

The Company's revenue stream comprises water capacity investment charge, water capacity operation and maintenance charge, water output operation and maintenance charge and electricity charges calculated in accordance with the agreement with Oman Power and Water Procurement Company SAOC for sale of desalinated water.

Water Capacity charge includes water capacity investment charge and water capacity operations and maintenance charge.

The Water Purchase Agreement provides that the company will make available and sell to OPWP a guaranteed water capacity for which the company will receive payment that will compensate for the investments made and the operating costs.

The WPA with OPWP is considered as a lease within the context of IFRS 16 (2018: IFRIC 4) and has been classified as an operating lease under IFRS 16 (2018: IAS 17). Water capacity investment charge is recognized based on the capacity made available in accordance with contractual terms stipulated in WPA and treated as lease revenue under IFRS 16 and is recognized as per the requirement of standard. Fixed O&M charge is recognized based on the capacity made available in accordance with contractual terms stipulated in WPA.

Revenue from sale of water to OPWP is recognized in the accounting period in which the actual production and sale of water take place and the capacity is made available as per the contract. The Company has a long-term agreement with OPWP which determines performance obligation, transaction price and allocates the transaction price to each of the separate performance obligations. The Company does not adjust any of the transaction prices for time value of money as the period between the transfer of the promised output to the customer and payment by the customer does not exceed one month and the sales are made with agreed credit terms which is in line with the industry practice.

Finance expenses

Finance costs comprise interest on borrowings. Borrowing costs, net of interest income, which are directly attributable to the acquisition or construction of qualifying assets such as items of property, plant and equipment are capitalised as part of the cost of property, plant and equipment. All other interest expenses are recognised as an expense in profit or loss using the effective interest rate method.

Deferred financing costs

The cost of obtaining senior facility loan is deferred and amortised over the term of the respective loans using the effective interest rate method. Deferred financing costs less accumulated amortisation are offset against the drawn amount of senior facility loan.

Financial instruments

i) Non-derivative financial instruments

Non-derivative financial instruments comprise receivables, cash and cash equivalents, loans and trade and other payables and amount due to related parties.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest rate method.

ii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its interest rate risk exposures. Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Notes to the financial statements

for the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

ii) Derivative financial instruments (continued)

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Company designates the hedging instrument as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, as is any gain or loss on any hedging that exceeds 100% of the associated liability.

Amounts previously recognised and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax

Income tax is calculated as per the fiscal regulations of the Sultanate of Oman. Current tax is the expected tax payable on the taxable income for the period, using the tax rates ruling at the reporting date.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The tax effects on the temporary differences are disclosed under current or non-current liabilities as deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses 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.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand and bank balances with an original maturity of less than three months.

Notes to the financial statements

for the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Segment reporting

An operating segment is a component of the Company that engages in 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, whose operating results are reviewed regularly by the Chief Executive Officer (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess their performance, and for which discrete financial information is available.

The Company's only activity is the sale of desalinated water to OPWP, being the only customer, hence the chief operating decision maker considers the business of the Company as one operating segment.

Water sales take place in the Sultanate of Oman.

Leases

Upon adoption of IFRS 16 – applicable from 1 January 2019

The Company as a lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the interest rate implicit in the lease or, if that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Upon adoption of IFRS 16 – applicable from 1 January 2019

Lease liability

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives; and
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is presented as a line item in the statement of financial position.

Lease payments are allocated between principal and finance cost. 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.

Notes to the financial statements

for the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Leases (continued)

Upon adoption of IFRS 16 – applicable from 1 January 2019 (continued)

Lease liability (continued)

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

Right-of-use asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate note line item in the property, plant and equipment. The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any Identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Operating expenses' in the statement of profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement- The Company has not used this practical expedient.

The Company as lessor

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Notes to the financial statements

for the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

The Company as lessor (continued)

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

Leases under IAS 17, applicable before 1 January 2019

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease. At inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

Leased assets

Leases of property, plant and equipment that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders.

Earnings and net assets per share

The Company presents earnings per share (EPS) and net assets per share for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Net assets per share is calculated by dividing the net assets attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding during the year. Net assets for the purpose is defined as total equity.

Notes to the financial statements

for the year ended 31 December 2019

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and in future periods, if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future 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.

Impairment of property, plant and equipment

Property, plant and equipment is stated at cost. Management considers that there are no indications of impairment considering that the plant has successfully started commercial operations and expects to comply with the requirement of the WPA and sell potable water to OPWP.

Useful life of property, plant and equipment

The estimation of the useful life of the property, plant and equipment has a significant impact on the financial statements. The useful life has been determined to be 40 years on the strength of an independent consultant's report and the comprehensive maintenance and replacement programme in place.

Provision for decommissioning

The expected cost of decommissioning has been determined on the basis management's technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant and restoration of land and based on study by an independent consultant. The significant uncertainty in estimating the provision is the cost that will be incurred and the applicable discount rate of 4.60%. It has been assumed that the site will be restored using technology and material that are currently available.

Application of IFRIC 4 and IFRIC 12

Judgement is required to ascertain whether the WPA agreement with OPWP contains a lease as per IFRS 16 Leases (2018: International Financial Reporting Interpretation Committee IFRIC 4), or a service concession arrangement as per IFRIC 12: Service Concession Arrangements. If the agreement contains a lease, judgement is required to classify the lease as an operating lease or a finance lease as per IFRS 16 Leases (2018: IAS 17, Leases). The lease has been classified as an operating lease.

Effectiveness of hedge relationship

At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging instrument.

Notes to the financial statements
for the year ended 31 December 2019

5 Property, plant and equipment

Cost	Civil and structural works	Plant and machinery	Pipelines	Decommissioning asset	Spares	Furniture, fixtures and office equipment	Motor vehicles	Capital work-in-progress	Total
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
1 January 2019	31,326	46,369	19,908	334	655	31	39	-	98,662
Additions	5	37	-	-	-	2	-	47	91
31 December 2019	31,331	46,406	19,908	334	655	33	39	47	98,753
Accumulated depreciation									
1 January 2019	2,242	3,319	1,426	23	42	26	39	-	7,117
Charge for the year	783	1,159	498	9	17	2	-	-	2,468
31 December 2019	3,025	4,478	1,924	32	59	28	39	-	9,585
Carrying value									
31 December 2019	28,306	41,928	17,984	302	596	5	-	47	89,168

Notes to the financial statements
for the year ended 31 December 2019

5 Property, plant and equipment (continued)

Cost	Civil and structural works	Plant and machinery	Pipelines	Decommissioning asset	Spares	Furniture, fixtures and office equipment	Motor vehicles	Total
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
1 January 2018	31,326	46,369	19,908	330	576	26	39	98,574
Addition	-	-	-	4	79	5	-	88
31 December 2018	31,326	46,369	19,908	334	655	31	39	98,662
Accumulated depreciation								
1 January 2018	1,459	2,160	928	50	26	24	39	4,686
Adjustment	-	-	-	(27)	-	-	-	(27)
Charge for the year	783	1,159	498	-	16	2	-	2,458
31 December 2018	2,242	3,319	1,426	23	42	26	39	7,117
Carrying value								
31 December 2018	29,084	43,050	18,482	311	613	5	-	91,545

Notes to the financial statements

for the year ended 31 December 2019

5 Property, plant and equipment (continued)

The land on which the plant is constructed has been leased from the Government of the Sultanate of Oman (represented by the Ministry of Housing) for a period of 25 years from 11 February 2013. The lease term can be extended by an additional 25 years at the request of the Company. Lease rentals are paid at the rate of RO 15,045 per annum.

Property, plant and equipment are mortgaged as security for the borrowings of the Company (note 9).

Depreciation charge for the year is recognised as follows:

	2019	2018
	RO'000s	RO'000s
Operating costs (note 17)*	2,477	2,429
Administrative and general expenses (note 18)	2	2
	<u>2,479</u>	<u>2,431</u>

*Operating costs for the year ended 31 December 2019 includes depreciation on right-of-use asset of RO 10,884.

6 Trade and other receivables

	2019	2018
	RO'000s	RO'000s
Trade receivables	1,392	1,329
Prepayments and other receivables	87	53
Deposits	3	3
	<u>1,482</u>	<u>1,385</u>

The Company has one customer OPWP which is included in the trade receivables balance as at 31 December 2019. The average credit period on the invoice raised to OPWP on sale of water is within 30 days. No interest is charged on outstanding trade receivables.

7 Cash and cash equivalents

	2019	2018
	RO'000s	RO'000s
Cash at bank	1,973	1,127
Short term deposits	-	693
	<u>1,973</u>	<u>1,820</u>

The short-term deposits are denominated in US Dollars and are with Sumitomo Mitsui Banking Corporation Limited in London with maturities of less than one month. These deposits yield interest at an insignificant rate.

8 Capital and reserves

	<u>Authorized</u>	
	2019	2018
	RO'000s	RO'000s
Share capital	25,000	25,000
250,000,000 ordinary shares of 100 Baiza each	<u>25,000</u>	<u>25,000</u>
	<u>Issued and fully paid</u>	
155,550,400 shares of 100 Baiza each	15,555	15,555
	<u>15,555</u>	<u>15,555</u>

Notes to the financial statements

for the year ended 31 December 2019

8 Capital and reserves (continued)

Shareholders

The Shareholders of the Company are:

	% holding		Country of incorporation
	2019	2018	
Summit Water Middle East Company	32.5	32.5	Cayman Islands
Malakoff Oman Desalination Company Limited	32.5	32.5	British Virgin Islands
Others	35	35	Others
	<u>100</u>	<u>100</u>	

Legal reserve

Article 132 of the Commercial Companies Law of the Sultanate of Oman requires that 10% of a Company's net profit be transferred to a non-distributable legal reserve until the amount of the legal reserve becomes equal to at least one-third of the Company's paid up share capital.

The Company had used the share premium received on the issue of share capital during 2014 and 2015 to fulfil this requirement.

Dividend

Shareholders at the Annual General Meeting ("AGM") held on 27 March 2019 authorised the Board of Directors to determine and distribute cash dividends to the Shareholders of the Company:

- in May 2019 of a value not exceeding 1.626 Baiza per share out of the retained profits for the year ended 31 December 2018 to the Shareholders who are registered in the Company's register as at a date determined by the Board; and
- in November 2019 of a value not exceeding 6.429 Baiza per share out of the retained profits for the year ended 30 September 2019 (subject to availability of adequate distributable retained profits) to the Shareholders who are registered in the Company's register as at a date to be determined by the Board.

In the board of directors meeting held on 29 April 2019, it was resolved to distribute cash dividend of Baiza 1.626 per share, out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2018 to the shareholders of the Company who are registered in the Company's shareholders' register with the Muscat Clearing & Depository Company SAOC as at 15 May 2019.

In the board of directors meeting held on 17 November 2019, it was resolved to distribute cash dividend of Baiza 6.429 per share, out of the retained earnings as per the audited financial statements for the financial period ended 30 September 2019 to the shareholders of the Company who are registered in the Company's shareholders' register with the Muscat Clearing & Depository Company SAOC as at 28 November 2019.

During the year ended 31 December 2019, the Company declared and distributed dividend of Baiza 8.055 per share (2018: Baiza 9.3234 per share).

Notes to the financial statements

for the year ended 31 December 2019

9 Term loans

	2019	2018
	RO'000s	RO'000s
Term loans	60,719	63,825
Less: deferred finance charges	(1,081)	(1,157)
	<u>59,638</u>	<u>62,668</u>
Less: current portion of term loans	(3,188)	(3,106)
Non-current portion of term loans	<u>56,450</u>	<u>59,562</u>

Facilities

On 25 July 2013, the Company entered into a long-term financing agreement for loan facilities ("the term loans") in the aggregate maximum amount of RO 81,451,616 (USD 211,837,752) with a consortium of international banks.

Facilities drawn down

At 31 December 2019, RO 81,244,505 (USD 211,299,102) had been drawn down (31 December 2018: 81,244,505 (USD 211,299,102)) and the remaining undrawn amount has been cancelled.

Facilities repayments

The term loans are due for repayment in 76 quarterly instalments. Four instalments totalling RO 3,106,307 were paid during the year.

Interest

The term loans bear interest at three-month USD Libor plus margin. The effective interest rate for the year was 4.66% (31 December 2018: 4.64%).

Security

The term loans are secured by a commercial mortgage over the Company's assets and a legal mortgage over the Company's rights, title and interest in the Usufruct Agreement dated 11 February 2013.

Covenants

The facilities agreements contain certain covenants relating to liquidity. These include restrictions on the debt / equity ratio, the debt service coverage ratio and the loan life cover ratio. The company satisfied with these covenants for the interest year in 2019.

10 Derivative financial instruments

In accordance with the Common Terms Agreement, the Company is required to enter into interest rate hedging agreements to cap the Company's exposure to fluctuating interest rates. This requirement covers the term loans.

As at the reporting date, a principal amount of approximately RO 51,351,214 (USD 133,553,223) [(31 December 2018: RO 57,361,085 (USD 149,183,576)] was covered under this agreement for the term loans.

The hedging agreements cap the Company's exposure to fluctuating interest rates. The Company releases a portion of the hedging arrangements in line with the repayment of the term loans.

The hedging arrangement obliges the Company to pay fixed interest at the rate of 2.86% per annum on a quarterly basis for the term loans. These cash flow hedges were assessed as highly effective as at 31 December 2019 (For the year ended 31 December 2018: highly effective).

The fair value movement of RO 2,598,367 (31 December 2018: RO 1,113,570) has been included in other comprehensive income, net of deferred tax.

Notes to the financial statements

for the year ended 31 December 2019

10 Derivative financial instruments (continued)

The classification of the fair values of the derivative financial instruments based on the remaining period to maturity from the reporting date is as follows:

	2019 RO'000s	2018 RO'000s
Less than 1 year	(200)	(77)
1 to 5 years	(1,057)	(147)
More than 5 years	(2,535)	(510)
Total more than 1 year	(3,592)	(657)
Cumulative changes in fair value	(3,792)	(734)

Cumulative changes in fair value are recognised as follows:

Cumulative changes in fair value	(3,792)	(734)
Related deferred tax liability/asset	569	110
Cumulative changes in fair value, net of deferred tax	(3,223)	(624)

The table below shows the fair values of the interest rate swaps, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity.

	Fair value RO'000s	Notional amount RO'000s	Notional amounts by term to maturity		
			1 - 12 month RO'000s	More than 1 up to 5 years RO'000s	More than 5 years RO'000s
31 December 2019					
Interest rate swaps	<u>3,792</u>	<u>51,351</u>	<u>2,707</u>	<u>14,307</u>	<u>34,337</u>
31 December 2018					
Interest rate swaps	<u>734</u>	<u>57,361</u>	<u>6,009</u>	<u>11,519</u>	<u>39,833</u>

11 Provision for decommissioning obligation

The estimate has been made on the basis of an independent report by a professional consultant, discounted at 4.60% to its present value, over the plant's estimated useful life of 40 years.

12 End-of-service benefits

	2019 RO'000s	2018 RO'000s
1 January 2019	15	8
Provided during the year	11	7
Paid during the year	-	-
Closing provision	<u>26</u>	<u>15</u>

13 Shareholders' bridge loans

	2019 RO'000s	2018 RO'000s
Summit Water Middle East Company	2,073	2,073
Malakoff Oman Desalination Company Limited	2,073	2,073
Sumitomo Corporation	2,129	2,129
Malakoff International Limited	2,129	2,129
Interest accrued	450	450
	<u>8,854</u>	<u>8,854</u>
Less: current portion of Shareholders' bridge loans	-	-
	<u>8,854</u>	<u>8,854</u>

Notes to the financial statements

for the year ended 31 December 2019

13 Shareholders' bridge loans (continued)

A reconciliation between opening and closing balances in the statement of financial position for liabilities that result in financing cash flows is presented below:

	At 1 January	Interest Accrued during the year	Interest payments during the year	Repayment during the year	At 31 December
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
2019					
Shareholders bridge loan	<u>8,854</u>	<u>170</u>	<u>(170)</u>	<u>-</u>	<u>8,854</u>
2018					
Shareholders bridge loan	<u>10,394</u>	<u>179</u>	<u>(136)</u>	<u>(1583)</u>	<u>8,854</u>

Facilities

The Shareholders' loans of RO 1,691,800 (USD 4,400,000) were provided in October 2015. Further Shareholders' loans of RO 4,037,250 (USD 10,500,000) were provided during the year ended 31 December 2016. Additional Shareholders' loans of RO 4,257,842 (USD 11,073,711) were provided in July 2017.

Facilities repayments

The Shareholders' loans are due for repayment subject to the consent of the term loan lenders which is dependent on cash flows.

Interest

The Shareholders' loans carry interest at the rate of 2% per annum.

Security

The Shareholders' loans are unsecured.

14 Shareholders' stand by equity loans

	2019	2018
	RO'000s	RO'000s
Summit Water Middle East Company	377	377
Malakoff Oman Desalination Company Limited	<u>377</u>	<u>377</u>
	<u>754</u>	<u>754</u>

The Shareholders' stand by equity loans of RO 837,031 (USD 2,176,932) were provided in November 2015.

Facilities repayments

The Shareholders' stand by equity loans are due for repayment on demand subject to the consent of the term loan lenders which is dependent on cash flows.

Interest

The Shareholders' stand by equity loans are interest free.

Security

The Shareholders' stand by equity loans are unsecured.

Notes to the financial statements

for the year ended 31 December 2019

15 Trade and other payables

	2019 RO'000s	2018 RO'000s
Trade payables	943	933
Other payables	602	698
Others	129	93
	<u>1,674</u>	<u>1,724</u>

Trade and other payables include an amount of RO 688,630 (31 December 2018: RO 702,645), due to Muscat City Desalination Operation and Maintenance Company LLC, a related party.

16 Related party transactions

Related parties comprise the shareholders, directors, key management personnel and any business entities in which these parties have the ability to control or exercise significant influence. The Company maintains significant balances with these related parties which arise in the normal course of business. The terms and conditions of related party transactions are mutually agreed.

Significant related party transactions during the year are as follows:

	2019 RO'000s	2018 RO'000s
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC	<u>4,293</u>	<u>4,089</u>
Interest expense on Shareholders' loans	<u>170</u>	<u>178</u>
Key management compensation	<u>242</u>	<u>226</u>
Director's sitting fee	<u>32</u>	<u>24</u>

Balances with related parties included in the statement of financial position are as follows:

	2019 RO'000s	2018 RO'000s
<i>Amount due to related parties</i>		
Muscat City Desalination O & M Company	689	702
Summit Water Middle East Company	2,644	2,644
Malak off Oman Desalination company Limited	2,644	2,644
Malak off International Limited	2,160	2,160
Sumitomo Corporation	2,160	2,160

17 Revenue

	2019 RO'000s	2018 RO'000s
Water capacity charges	9,967	9,862
Electricity charges	3,934	3,542
Water Output O&M Charges	<u>2,909</u>	<u>2,667</u>
	<u>16,810</u>	<u>16,071</u>

Notes to the financial statements

for the year ended 31 December 2019

18 Operating costs

	2019	2018
	RO'000s	RO'000s
Operation and maintenance cost	4,233	3,970
Electricity charges	3,944	3,377
Depreciation	2,477	2,429
	<u>10,654</u>	<u>9,776</u>

19 Administrative and general expenses

	2019	2018
	RO'000s	RO'000s
Employee costs	342	302
Insurance	187	211
Legal and professional expenses	127	160
Depreciation	2	2
Directors' sitting fees	16	17
Directors' Remuneration	9	7
Others	184	186
	<u>867</u>	<u>885</u>

20 Finance costs (net)

	2019	2018
	RO'000s	RO'000s
Interest expense on term loans and interest swaps	2,872	3,063
Interest expense on Shareholders' loan	170	178
Amortisation of deferred finance cost	76	76
Interest income on term deposits	(18)	(16)
Other finance cost	43	56
	<u>3,143</u>	<u>3,357</u>

21 Income tax

No provision for income tax has been made for the year ended 31 December 2019 in view of the taxable losses for the year.

The Company's income tax assessments for the years 2015 to 2018 have not been finalised by the Secretariat General for Taxation at the Ministry of Finance. Management believe that additional taxes, if any, that may become payable on finalisation of the assessment in respect of these open years would not be material to the Company's financial position as at 31 December 2019.

a) Recognised in the statement of comprehensive income

	2019	2018
	RO'000s	RO'000s
Deferred tax		
– Current year	690	904
– Prior year	-	-
	<u>690</u>	<u>904</u>

Notes to the financial statements

for the year ended 31 December 2019

21 Income tax (continued)

b) Tax reconciliation

The reconciliation of income tax expense is as follows:

	2019 RO'000s	2018 RO'000s
Profit for the year	<u>2,174</u>	<u>2,053</u>
Income tax at standard rate	326	308
Non - deductible expenses	27	28
Effect of change in tax rate	-	-
Deferred tax not recognised on losses for the year	429	568
Deferred tax Asset recognised on carry forward losses	<u>(92)</u>	<u>-</u>
	<u>690</u>	<u>904</u>

c) Deferred tax assets and liabilities represent origination and reversal of temporary differences and comprise:

	Recognised in profit or loss and other comprehensive income 2019 RO'000s	Asset / (liability) as at 31 December 2019 RO'000s
Property, plant and equipment	(3,001)	(784)
Deferred tax liability	<u>(3,001)</u>	<u>(784)</u>
Carried forward business losses	-	92
Provision for decommissioning obligation	52	3
Change in fair value of derivative financial instrument (through other comprehensive income)	111	458
Deferred tax assets	<u>162</u>	<u>553</u>
		<u>92</u>
		<u>55</u>
		<u>569</u>
		<u>716</u>

Deferred tax arises on account of tax losses and temporary differences between the tax base of assets and liabilities and their carrying values in the statement of financial position.

22 Earnings per share

	2019	2018
Profit for the year (RO in '000)	<u>1,484</u>	<u>1,149</u>
Weighted average number of shares outstanding during the year (in thousands)	<u>155,550</u>	<u>155,550</u>
Earnings per share (basic and diluted) (RO)	<u>0.010</u>	<u>0.007</u>

23 Net assets per share

Net assets per share is calculated by dividing the equity attributable to the shareholders of the Company at the reporting date by the number of shares outstanding as follows:

	2019	2018
Net assets (RO in '000)	<u>14,445</u>	<u>16,813</u>
Number of shares outstanding at year end (in thousands)	<u>155,550</u>	<u>155,550</u>
Net assets per share (RO)	<u>0.093</u>	<u>0.108</u>

Notes to the financial statements

for the year ended 31 December 2019

24 Lease liability

The land which the plant occupies has been leased from the Government of the Sultanate of Oman (represented by the Ministry of Housing) for a period of 25 years from 11 February 2013. The lease term can be extended by an additional 25 years at the request of the Company. Lease rental is paid at the rate of RO 15,045 per annum.

In the current year the Company has adopted IFRS 16 from 1 January 2019 and as a result the Company has recorded a lease asset (right-of-use assets) of RO 195,919 and lease liability of RO 195,919 as on 1 January 2019.

	2019	2018
	RO'000s	RO'000s
Gross lease liability related to right-of-use assets	280	-
Future finance charges on finance leases	(90)	-
Present value of lease liabilities	190	-
The maturity of finance lease liabilities is as follows		
Not later than 1 year	7	-
Later than 1 year	183	-
	190	-

Interest expense on lease liability (included in finance cost) was RO 9 thousand (2018: Nil). For the disclosure related to the liquidity please refer to note 25.

At 31 December 2019, future minimum lease commitments under non-cancellable operating leases are as follows:

	2019	2018
	RO'000s	RO'000s
Less than one year	-	15
Between one and five years	-	60
More than five years	-	211
	-	286

During the year, the operating lease has been reclassified as a lease liability under IFRS 16.

25 Commitments

Operation and maintenance commitment

As per the O&M Agreement, Muscat City Desalination Operation and Maintenance Co LLC will operate and maintain the Company's plant until 11 October 2034. Under the O&M agreement, the Company has to pay the fixed operating fee subject to availability.

The minimum future payments under the O&M agreement (excluding indexation) are as follow:

	2019	2018
	RO'000s	RO'000s
Due within one year	1,281	1,281
Due after one year but within five years	5,128	5,128
Due after five years	13,887	15,168
	20,296	21,577

Notes to the financial statements

for the year ended 31 December 2019

26 Financial instruments

This note presents information on the risks arising from the Company's use of financial instruments, namely; credit risk, liquidity risk and market risk to which the Company is exposed, its 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 the establishment and oversight of the Company's risk management framework.

Risk management policies and systems are reviewed regularly to ensure that they reflect any changes in market conditions and the Company's activities. The Company, through its induction and training program, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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 deposits with banks.

As at reporting date, the Company's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

The Company has significant concentration of credit risk with the Government of the Sultanate of Oman represented by OPWP. Under the terms of the WPA, the Company's water sales are billed wholly to OPWP (indirectly owned wholly by the Government). Therefore, the Company's credit risk on receivables from OPWP is limited.

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

	2019	2018
	RO'000s	RO'000s
Cash at bank and deposits	1,973	1,820
Trade receivables	1,392	1,329
	<u>3,365</u>	<u>3,149</u>

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

	2019	2018
	RO'000s	RO'000s
Oman Power and Water Procurement Co. SAOC	<u>1,365</u>	<u>1,329</u>

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL using the simplified approach. The expected credit losses on trade 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. The Company has not accounted for ECL against OPWP because these are government and/or government owned entities and taking into account the historical default experience and the current credit ratings of the Government, the management of the Company have assessed that there is no significant impairment loss.

Notes to the financial statements

for the year ended 31 December 2019

26 Financial instruments (continued)

Credit risk (continued)

Balances with bank are assessed to have low credit risk of default since these banks are highly regulated by the central banks of the respective countries. Accordingly, the management of the Company estimates the loss allowance on balances with bank at the end of the reporting period at an amount equal to 12 month ECL. None of the balances with bank at the end of the reporting period are past due and taking into account the historical default experience and the current credit ratings of the bank, the management of the Company have assessed that there is no impairment, and hence have not recorded any loss allowances on these balances.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting 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 uses cash flow forecasting methods which assist it in monitoring cash flow requirements and optimising its cash flow cycle. The Company ensures that it has sufficient cash available to meet its expected operational expenses, including the servicing of financial obligations.

The maturities of Company's financial liabilities after adding back deferred finance charges at the reporting date are shown below:

31 December 2019	Carrying amount	Total	Less than 1 year	1 to 5 Years	More than 5 years
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
	-----Contractual Cash flows-----				
Non derivative financial liabilities					
Term loans	60,719	83,661	5,935	23,680	54,046
Shareholders' stand – by equity loans	754	754	-	754	-
Shareholders' bridge loans	8,854	10,264	188	2,682	7,394
Lease liabilities	190	271	15	75	181
Trade and other payables	1,674	1,674	1,674	-	-
	<u>72,191</u>	<u>96,624</u>	<u>7,812</u>	<u>27,191</u>	<u>61,621</u>
31 December 2018					
Non derivative financial liabilities					
Term loans	63,826	90,872	6,046	24,111	60,715
Shareholders' stand – by equity loans	754	754	754	-	-
Shareholders' bridge loans	8,854	10,451	187	2,053	8,211
Trade and other payables	1,724	1,724	1,724	-	-
	<u>75,158</u>	<u>103,801</u>	<u>8,711</u>	<u>26,164</u>	<u>68,926</u>

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates 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.

Notes to the financial statements

for the year ended 31 December 2019

26 Financial instruments (continued)

Market risk (continued)

Currency risk

The Company is not exposed to foreign currency risk on its bank deposits designated in US Dollars as the Omani Rial is effectively pegged to the US Dollar and the US Dollar exchange rate has remained unchanged since 1986.

Interest rate risk

The Company's interest rate risk arises principally from medium and long term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's policy is to maintain approximately 100% of its borrowings in fixed rate or hedged instruments.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	100 bp increase RO'000s	100 bp decrease RO'000s
31 December 2019		
Fair value of derivative financial instruments	<u>3,605</u>	<u>(3,605)</u>
31 December 2018		
Fair value of derivative financial instruments	<u>3,906</u>	<u>(3,906)</u>

Capital risk management

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business.

The Company is not subject to externally imposed capital requirements except those under the Commercial Companies Law of the Sultanate of Oman.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Gearing ratio

The gearing ratio at the end of the reporting period was as follows:

	2019 RO'000s	2018 RO'000s
Debt (Term loans, Shareholder's bridge and shareholders stand – by equity loans)	69,246	72,276
Cash and bank balances	<u>(1,973)</u>	<u>(1,820)</u>
Net debt	<u>67,273</u>	70,456
Equity	<u>14,445</u>	16,813
Net debt to equity ratio	<u>4.66</u>	<u>4.19</u>

Notes to the financial statements

for the year ended 31 December 2019

26 Financial instruments (continued)

Fair value

Financial assets consist of cash and bank balances and receivables. Financial liabilities consist of term loans, Shareholders' loans, shareholders' stand by equity loans and payables. Derivatives consist of interest rate swap arrangements. The fair values of financial instruments are not materially different from their carrying values.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

	2019	2018
	RO'000s	RO'000s
Interest rate swaps – Level 2	<u>51,351</u>	<u>57,361</u>

The Company had no financial instruments in level 1 or level 3. During the year ended 31 December 2019, there were no transfers of financial instruments between the levels for fair value measurement.

27 Operating lease arrangement where the Company acts as a lessor

As disclosed in Note 1 to these financial statements, the Company has entered into a WPA with OPWP for a substantial element of the production of water based on availability. As disclosed in Note 4, management has determined that the WPA with OPWP is covered under IFRS 16 Leases (2018: International Financial Reporting Interpretation Committee IFRIC 4) and such arrangement in substance represents an operating lease under IFRS 16 Leases (2018: IAS-17 Leases). The agreement expires 20 years after the Scheduled Commercial Operation Date of 12 October 2014.

The following is the total of future minimum lease receipts (excluding indexation) expected to be received under the WPA:

	2019	2018
	RO'000s	RO'000s
Due within one year	7,670	7,670
Due after one year but within five years	30,701	30,701
Due after five years	<u>83,153</u>	<u>90,823</u>
	<u>121,524</u>	<u>129,194</u>

28 Approval of financial statements

The financial statements were approved by the Board and authorized for issue on 11 February 2020.