MUSCAT CITY DESALINATION COMPANY SAOG

Annual Report 2017

REFRESHING GROWTH

HIS MAJESTY SULTAN QABOOS BIN SAID

Contents

Board of Directors

Mr. Habib Husin
Chairman
Resigned on February 8, 2018

Mr. Tamer Cankardes
Deputy Chairman

Mr. Takashi Ishizuka
Director

Mr. Shinichi Hasegawa
Director
Resigned on February 8, 2018

Ms. Ruswati Binti Othman
Director

Mr. Ahmad Fuaad bin Mohd Kenali
Director
Appointed as Chairman on February 8, 2018

Key Executive Officers

Ms. Subrina Thiagarajah
Chief Executive Officer

Mr. Tomotaka Inoue
Chief Financial Officer

Chairman's (Board of Directors') Report

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 Director's Report of the Company for the year ended 31 December 2017.

The Company was incorporated on 19 January 2013 as a Closed Joint Stock company. In 2017, the Company underwent a successful Initial Public Offering exercise 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 (or 191,000m3/day) Al Ghubrah Independent Water Plant ("the Plant"). The Plant is located to the west of the existing Ghubrah Power and Desalination Plant, Muscat Governorate, Sultanate of Oman and was developed under a Build, Own, Operate ("BOO") scheme. The Plant has achieved its Commercial Operation Date ("COD") on 19 February 2016.

The Company generates its revenue 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 between MEDC and the Company. In order to secure the connection to transmission system, the Company entered into the Electricity Connection Agreement over the contracted WPA period. The operations and maintenance 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 12 month period, the Company achieved a robust potable water production of 57,162,655m3 with an average plant availability of 92% (including planned maintenance as required under the WPA) compared to the total water delivery of 45,841,550m3 with average plant availability of 88% in 2016.

Financial Results

In 2017, operating revenue increased by 22% to RO 15.6 million as a result of improved operating performance as well as recognition of revenue for the full financial year as opposed to 10.5 months in 2016, which was

from the COD. Operating costs in 2017 increased to RO 9.4 million compared to RO 8.1 million in 2016 which corresponds to the higher production during the year.

Accordingly, the Company recorded a net profit before tax of RO 1.7 million, which is 34% higher compared with RO 1.3 million in 2016.

At the Ordinary General Meeting held on 27 December 2017, the shareholders had authorised the Board of Directors to determine and distribute cash dividends to the shareholders in February 2018 and the Board of Directors at its meeting on 8 February 2018 had resolved to distribute cash dividend of Baizas 2.93 per share* to the shareholders who are registered in the Company's register as at 28 February 2018.

Health, Safety and Environment

Ensuring high standards of Health, Safety and Environmental performance continues to be a high priority for the Company and its Operator. This is evidenced by the fact that there were no Lost Time Incidents ("LTI") or environmental incident for 2017. As at 31 December 2017, the Company achieved 673 days without a LTI since its COD. As part of the internal review process of the major shareholders of the Company on the health, safety, environmental and quality processes, both the Company and the Operator were audited by the respective of internal audit departments of Malakoff and Sumitomo. As a testament of its achievement in this respect, the Operator was awarded with ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System in April 2017.

Corporate Governance

MCDC 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 compliance.

In addition, in preparation to become a Public Joint Stock Company in 2018, the Company together with its legal advisor had reviewed and amended the Company's existing Corporate Governance Manuals. This exercise was to ensure that the Company will be in compliance with the highest standards of corporate governance as well as the Code of Corporate Governance issued by the Capital Market Authority.

Corporate Social Responsibility ("CSR")

As part of its role as a responsible corporate citizen, the Company focuses its CSR efforts in the fields of education and training. In the field of training, the Company through its Operator conducted training sessions for students from the Middle East Desalination Research Centre ("MEDRC") and from The Higher College of Technology at the Plant. In the field of education for 2018, the Company intends to collaborate with the Sultan Qaboos University ("SQU") to explore the possibilities in providing training sessions to students from SQU at our Plant. Going forward, the management of the Company will develop an annual action plan to implement the Company's CSR policies, philosophies and principles to fulfil the Company's commitment towards its corporate social responsibility.

Employment

By the end of 2017, the Omanisation level in both the Company and its Operator is 72%. This is one of the highest levels achieved in the power and water industry.

Future Outlook

The Company will continue its efforts in providing reliable supply of water to meet the required quality of potable water whilst the same time ensuring that the high standard of health, safety and environmental compliance achieved in 2017 are maintained and improved upon in 2018.

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 shown. As a result of their contribution, the Company was able to achieve its goals and objectives.

Finally, on behalf of the Board of Directors, I would like to extend our deepest appreciation and gratitude to His Majesty Sultan Qaboos Bin Said and His Government for the 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 dedicate our achievements to the building of a strong nation.

Ahmad Fuaad bin Mohd Kenali
Chairman of the Board

* *As disclosed on the Muscat Securities Market on 21 February 2018, the actual interim dividend paid to shareholders of the Company as at 28 February 2018 is 2.9268 baiza, however the directors report, management discussion and analysis report and the audited financial statements enclosed in this annual report include a rounded up figure of 2.93 baiza per share.*

Description of the Company

Overview

The Company's core business activity is to develop, own and operate the Al Ghubrah Independent Water Project, an 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 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 and beyond. As the largest desalination plant in Oman, the contracted water capacity of the Plant represents approximately 24% of the operating capacity in the Interconnected Zone as per OPWP's 7 year statement (2017-2023).

Electricity is supplied to the Company by MEDC pursuant to the ESA. The Company, as System User has entered into the ECA to secure connection to the Transmission System over the contracted WPA period. The potable water is delivered to PAEW 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. 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 Muscat City Desalination Company S.A.O.G. (under transformation) and its registered office is located at P.O. Box 1935, Postal Code 114, North Ghubrah, Muscat Governorate, Sultanate of Oman.

Technology and Processes

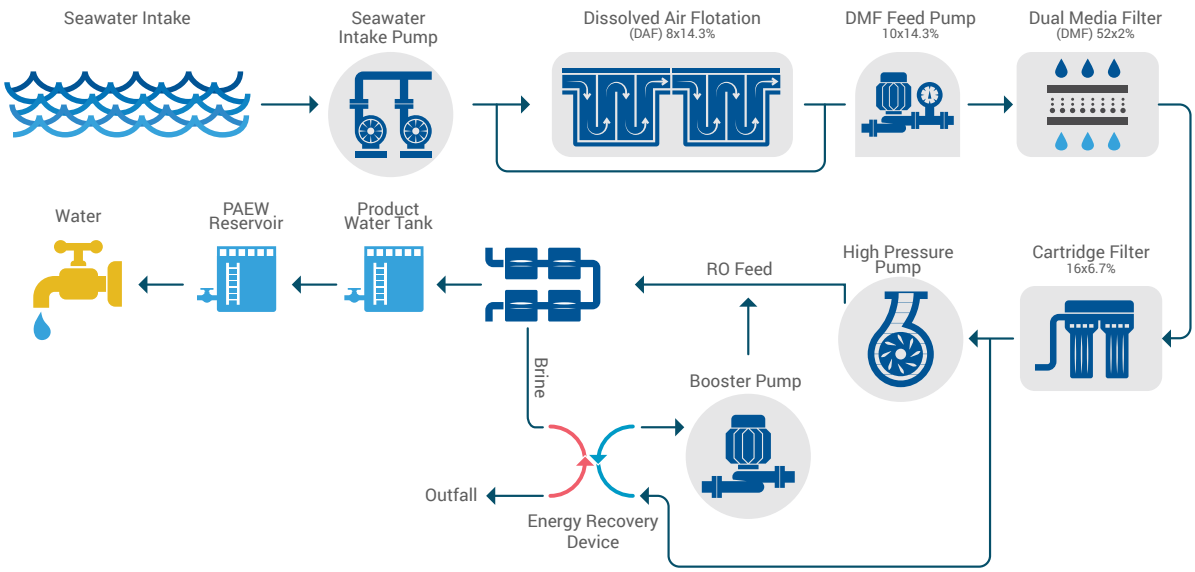
Description of the Plant

The Plant is located to the west of the existing Ghubrah Power and Desalination Plant, 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 offshore passive screens, submerged seawater intake and outfall pipelines, a DAF system, dual media filters for pre-treatment, a double pass 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.

An air burst system is provided to periodically backwash the screens to maintain efficient screen performance. 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 RO system. This is accomplished by the DAF, dual media filter and cartridge filter systems.

The DAF operation comprises of coagulation and flotation of the seawater particles and the seawater will be further treated at the dual media filter system where the particles will be filtered through layers of sand and anthracite. The DAF is bypassed during normal seawater conditions as the dual media filter 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 RO system.

RO system

The RO system comprises of high pressure pumps, booster pumps, energy recovery devices and thin filmed 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. Potabilization is achieved with the addition of carbon dioxide that is combined with crushed and purified limestone to produce a balanced and buffered drinking water suitable for consumption. In addition, chlorine is added for disinfection and fluoride to reduce tooth decay. Potable water is then transferred to the PAEW 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 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.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Management Discussion and Analysis Report

Description of Company and Business

The Muscat City Desalination Company S.A.O.G (hereinafter referred to as MCDC or 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. 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 now is 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 a successful Initial Public Offering (IPO) exercise during 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 m3/d (42 Million Imperial Gallons per Day), located in North Ghubrah, Muscat Governorate, Sultanate of Oman. The Plant has been in commercial operations since 19 February 2016.

The Company generates its revenues pursuant to a Water Purchase Agreement (WPA) with The Oman Water and Power Procurement Company, (OPWP), which is indirectly wholly-owned by the Sultanate of Oman. The desalinated water from the Plant is fully contracted to OPWP and used to meet the growing water demand of the Interconnected Zone (Northern Region of Oman) during the term of the WPA and beyond. The contracted water capacity of the Plant represents approximately 24% of the operating capacity in the Interconnected Zone as per OPWP's 7 year statement (2017-2023).

The potable water is delivered to the Public Authority for Electricity and Water (PAEW) reservoirs adjacent to the Plant.

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

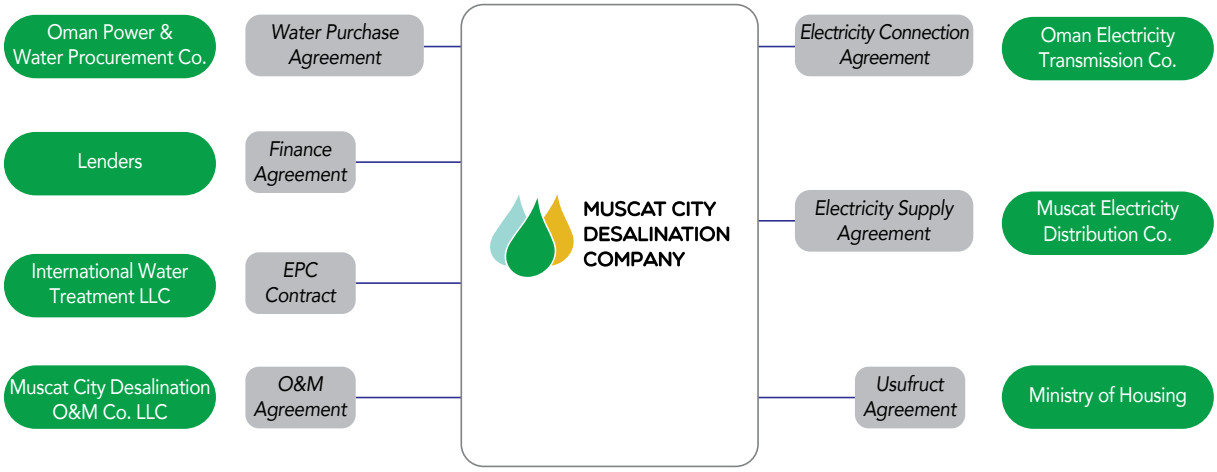
Competitive Strengths

The Company's competitive strengths include the following:

- 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 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 operational personnel respecting highest levels of Omanisation requirements; and
- Continuous demand for water, ensuring opportunities for incremental growth in revenue after the expiry of the current off-take contract.

Contractual Framework

MCDC has a well-established contractual framework and is 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 which the Company must adhere to during 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, receive from OPWP 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 (e.g. manpower, spare parts, maintenance and insurance). The Water Output Charges compensates the Company for variable operation and maintenance costs (e.g. 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 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 a buyer risk event or events 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 delay period.

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

Electrical 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.

Electrical Connection Agreement (ECA)

The ECA was entered into between Oman Electricity Transmission Company (OETC), a wholly owned Government company established in 2003, and the Company on 11 February 2013. The ECA sets out the terms and conditions upon and subject to which OETC and the Company have agreed that the Company shall connect to the Transmission System. It establishes a framework between OETC and the Company to provide for, among other things:

a) the payment by the Company to OETC of the connection fee; and

b) enforcement of the Grid Code as 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 (the "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

The Usufruct Agreements (UAS and UATA) were executed between The Ministry of Housing (MoH) and the Company on 11 February 2013. The UAS and UATA constitute the usufruct agreements in relation to the Site and the Temporary Areas. The UAS 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 an obligation to only use the Site for the stated purpose as described in the UAS and the Temporary Areas for the purposes as described in the UATA.

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.

Following the expiry of the UATA, the Company has restored and returned the Temporary Areas to the MoH and as such, the rights and obligations of the Company under the UATA have been completed.

Operation and Maintenance Agreement

The Operations and Maintenance Agreement (O&M Agreement) was entered into between the Company and the Operator on 27 November 2013. It provides for the provision of O&M services by the Operator in relation to the Plant. 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 11 October 2014, The term 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 operation and maintenance charge due to non-requirement of 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 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;
- 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 a number of obligations which IWT was obliged to comply with. Amongst other things, it was ensured that the works and materials used in 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. 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 the above, 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 approximately OMR 81.25 million (US$211.30million). Senior debts are hedged in compliance with the requirement of the financing agreements via interest rate swap agreements. This further improves the predictability of cash-flows available to shareholders.

Operation and Maintenance

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

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. The Company and its Operator abides strictly by the governing laws and regulations and observes the applicable guidelines and rules issued by the relevant regulatory authorities.

Discussion on Operational Highlights and Financial Performance

Health, Safety and the Environment

The HSE Policy commits the Company and the Operator in creating a safe, secure and healthy working environment and to the elimination of all work related incidents and injuries. The Company and its Operator has HSE policies in place to conduct all its 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 shall perform their work strictly in accordance with the implemented HSE policy, which will be 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 our 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 no Lost Time Incidents (LTI) or environmental incidents occurring. As at 31 December 2017, the Company achieved 673 days without an LTI since its Commercial Operations Date ("COD") on 19 February 2016. The total man-hour is 69,701 hours. There were two near misses and two first aid cases recorded.

As part of a shareholder's review process, the health, safety, environmental and quality processes of both the Company and the Operator were audited by its founding shareholders' (Malakoff and Sumitomo) own internal audit departments.

The Operator has, in April 2017, been awarded ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System certificates.

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 2017 to March 2018, following the Annual Performance Tests conducted in March 2017 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 as per the WPA. During the 12 month period ending 31st December 2017, the Company's availability has been 92% in average after scheduled and forced outages.

During FY2017, the Plant produced a total of 57,162,655 m3/day of potable water with a utilization factor averaging 82% of total plant capacity, 87% of scheduled available capacity. Plant production is determined by daily dispatch instruction issued by PAEW.

Plant Maintenance

Maintenance of the Plant was undertaken in accordance with the Original Equipment Manufacturer (OEM) recommendations and as per the operations and maintenance 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 warranty, falling within Defect Liability

Period (DLP). The DLP commenced from COD and is for a period of 2 years. For the defects which have been rectified within the DLP, the warranty period is extended for another 24 months after the rectification date, up to 48 months after COD. A total of 127 warranty items have been raised out of which 79 items have been closed, and remaining warranty items are still ongoing.

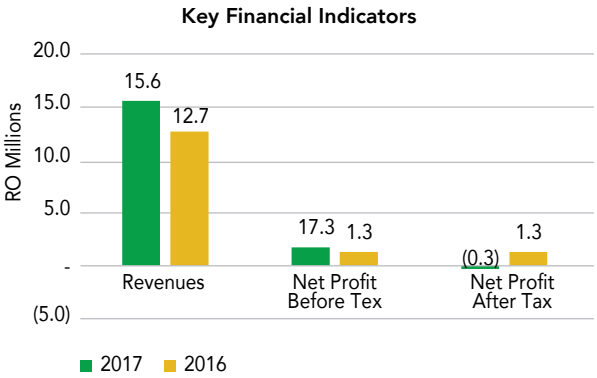
O&M's Human Resource and Training

The Operator's total employee count is 37 with an Omanisation level of 73%.

Training at the Company and Operator is conducted frequently, with strong focus 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 acumen and professionalism in discharging their duties.

Financial Highlights

All figures in RO million	Notes	2017	2016
Revenues	1	**15.6**	12.7
Net Profit	2	**(0.3)**	1.3
Net Profit before Finance Costs	3	**3.3**	4.6
Total Assets	4	**100.0**	110.4
Capital (Paid-up)	5	**15.6**	15.6
Sharehold-er's Fund (Net Assets)	6	**16.0**	15.3
Term Loan (*1)	7	**67.0**	76.7
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	**-**	-



(*) Excluding unamortized transaction costs

Key Financial Indicators	Notes	2017	2016
Net Profit Margin	= 2/1	**-1.92%**	10.24%
Return on Capital (Paid-up)	= 2/5	**-1.92%**	8.33%
Return on Capital Employed	= 3/(6+7)	**3.98%**	5.00%
Debt Equity Ratio	= 7 : 6	**81 : 19**	83 : 17
Net assets per share (RO)	= 6/8	**0.103**	0.098
Basic Earning Per Share (RO)	= 2/8	**(0.002)**	0.008
Dividends per share (RO)	= 10/9	**-**	-

Analysis of Profit and Loss

The Company managed to generate a healthy operating revenue of OMR 15.6 million in FY 2017, 22.83% higher than the OMR 12.7 million in FY2016. This increase is mainly due to the fact that operating revenue was received for the full financial year in FY2017 as compared to FY2016, where it was generated only from COD (February 19, 2016).

The net profit before tax for FY2017 was OMR 1.7 million, also higher compared to OMR 1.3 million in FY 2016.

The net profit after tax, however was lower in FY2017, recording a loss OMR 0.3 million compared to a profit OMR 1.3 million in FY2016. This is mainly due to significant deferred tax expenses incurred in FY2017 recording a tax impact of OMR 2.0 million by virtue of the change in the Sultanate of Oman tax laws.

Analysis of Balance Sheet

Total assets of the company stood at OMR 100.0 million as on 31 December 2017 as compared to OMR 110.4 million in FY 2016. This drop was mainly due to a full year's depreciation being charged for the year and the reduction of the cash and cash equivalents used for the prepayment of senior debts.

The cash and cash equivalents stand at OMR 4.5 million as on 31 December 2017 as compared to OMR 10.5 million at the same date in 2016.

The shareholders' funds (Net Assets) stand at OMR 16.0 million as on 31 December 2017 as compared to OMR 15.3 million in FY2016. Hedging Reserve (net of deferred tax) increased equity by OMR 1.0 million, reflecting the fair value of the 2 interest rate swaps as at the balance sheet date and this does not impact the Company's capability to distribute dividends to the shareholders.

Term loans (Including non-current and current balances) reduced to OMR 67.0 million as a result of scheduled repayment in accordance with financing agreements. In addition to this, the prepayment of term loans of OMR 4.3 million was made during the FY2017.

The Company continues to make adequate provision for asset retirement obligations to enable it to fulfil its legal responsibilities to remove the plant at the end of its useful life and restore the land.

Dividend Distribution

At the Ordinary General Meeting held on 27 December 2017, the shareholders had authorised the Board of Directors to determine and distribute cash dividends to the shareholders in February 2018 and the Board of Directors at its meeting on 8 February 2018 had resolved to distribute cash dividend of Baizas 2.93 per share* to the shareholders who are registered in the Company's register as at 28 February 2018.

Employees 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 the Operator employ a total of 43 employees, of which 31 employees are Omani citizens. The Project has achieved an overall Omanisation ratio of 72% as of 2017.

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 of the Committees 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 which will deliver the Company's strategy, supported by regular reporting of these plans and budgets to the Board of Directors.

Outlook

The company will ensure reasonable and prudent measures are taken to maintain the high standards of health, safety, environmental compliance, reliability and availability achieved in FY2017 are carried over to FY2018.

* *As disclosed on the Muscat Securities Market on 21 February 2018, the actual interim dividend paid to shareholders of the Company as at 28 February 2018 is 2.9268 baiza, however the directors report, management discussion and analysis report and the audited financial statements enclosed in this annual report include a rounded up figure of 2.93 baiza per share.*

Corporate Social Responsibility (CSR) Report

MCDC became a Public Joint Stock Company (SAOG) on 2nd January 2018.

Prior to that, in 2017, MCDC and its Operator, MCDOMC, played their part in Corporate and Social Responsibility, mainly in the sectors of Social Education and Training.

MCDOMC conducted training sessions at our plant for ten (10) students in 2017. Eight (8) of these students were from The Middle East Desalination Research Company ("MEDRC") and two (2) were from The Higher College of Technology, Muscat. These students were based and assigned to the Plant's operations team during their course of training and assisted in the day to day operations of the Plant.

For 2018, MCDOMC is planning to collaborate with the Sultan Qaboos University ("SQU") to explore the possibility to provide training and internship to students from SQU in our Plant.

On the education front, a field trip from the Japanese School, Muscat was conducted in 2017 at the plant. This was an exciting eye opening session for the students, who firstly, went through a slide presentation on the basics of a Reverse Osmosis ("RO") Desalination Plant and followed by a tour around the plant, including a call on the control room for the students to see for themselves the 'heart' of the plant, our RO trains. The students were also educated on the importance of water as a natural resource and on ways to save water in their daily lives.

For 2018, MCDC is planning to work with various local and international schools in Muscat, to conduct more field trips and education for young school children on the importance of water.

The Executive Management is dedicated to put forth an annual plan for our CSR policy, philosophy & principles, including the allocated budget and targeted demographics. This plan will highlight MCDC's commitment in being a Corporate Social Partner to the local community in Muscat specifically and Oman generally, with a strong focus on education and training.

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Report to the Shareholders of Muscat City Desalination Company SAOG ("the Company") of Factual Findings in connection with the Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Company ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance issued under Circular No. 11/2002 dated 3 June 2002 and the revised CMA Code of Corporate Governance issued under CMA Circular 4/2015 dated 22 July 2015 (together the "Governance Code").

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist the Shareholders in evaluating the Company's compliance with the Governance Code. The Procedures we performed were as follows:

1. Corroborated, as required, the matters disclosed in the Report by reference to: internal audit reports issued during the year ended 31 December 2017; Audit Committee and Board minutes of meetings held during the year ended 31 December 2017; and relevant supporting Company records .

2. Confirmed that the Report discloses matters discussed in the Board of Director's report on review of the effectiveness of the Company's system of internal controls and that these matters were reported by Company's internal auditor to the Audit Committee during the year ended 31 December 2017.

3. Checked that the Report includes disclosures set out in Annexure 3 of the Governance Code.

4. Checked whether matters, if any, reported in the Auditors' report on the financial statements for the year ended 31 December 2017 relating to: Adequacy and efficacy of the internal control systems in place; going concern considerations; and the adequacy of policies and procedures set up by the Company were also included in the Auditor's presentation to the Audit Committee.

5. Read the Minutes of Board and Audit Committee meetings during the year ended 31 December 2017 to confirm that any matters of non-compliance with the Governance Code mentioned therein are also included in the Report.

As a result of performing the Procedures, we have no exceptions to report.

We draw attention that as the Company was a closed joint stock Company during 2017, certain requirements of the Governance Code did not apply until 2018.

Because the 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 Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of the Report in accordance with International Standards on Auditing or International Standards on Review Engagement, other matters might have come to our attention that would have been reported to you. This report is solely for the purpose set forth in the second paragraph of this report, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Company's Corporate Governance Report included in the Company's annual report for the year ended 31 December 2017 and does not extend to any financial statements or any other reports of the Company, taken as a whole.

8 February 2018

Paul Callaghan

Corporate Governance Report

Company's Philosophy

Muscat City Desalination Company SAOG (Company) is a value driven organisation. The Company has a strong business foundation due to its core values such as hard work, integrity, responsibility, agility and good corporate governance.

Corporate governance is a framework of rules, processes and practices by which the Board ensures accountability, transparency and fairness.

The Company was a closed joint stock company during the financial year ended 31 December 2017. Following the initial public offering of the Company's ordinary shares and completion of its listing on 2 January 2018, the Company is required to comply with the Capital Market Authority's (CMA) code of corporate governance (Code) and other applicable rules and guidelines issued by the CMA from time to time.

In this context, the Board of Directors (Board) have undertaken the necessary measures to implement the Code and applicable rules. The Board oversees the executive management and protects the long-term interests of the Company's stakeholders. The Board is committed to apply the highest possible standards of corporate governance.

Board of Directors

All members of the Board are non-executive directors. During the year 2017, the Board consisted of the following directors:

No.	Name of director	Date of appointment	Independent / non independent	Mode of representation
1.	Habib Husin	14 March 2016	Non-independent	Shareholder representative
2.	Tamer Cankardes	14 March 2016	Non-independent	Shareholder representative
3.	Takashi Ishizuka	27 October 2016	Non-independent	Personal capacity
4.	Shinichi Hasegawa	14 March 2016	Non-independent	Personal capacity
5.	Ruswati Othman	27 October 2016	Non-independent	Personal capacity
6.	Azhar Abdul Hamid*	27 October 2016	Non-independent	Personal capacity
7.	Ahmad Fuaad bin Mohd Kenali**	27 December 2017	Non-independent	Personal capacity

* Mr. Azhar Abdul Hamid resigned on 4 October 2017.

** Mr Ahmad Fuaad Mohd Kenali replaced him as a non-independent temporary director. Mr Ahmad Fuaad Mohd Kenali was re-appointed by the shareholders ordinary general meeting on 27 December 2017.

Given that the Company was a closed joint stock company in 2017, the Board composition requirements set out in the Code did not apply.

Board Meetings and Attendance in 2017

No.	Name of director	Position	Number of Board meetings attended and dates					Number of general meetings
			Mar 9	July 10	Oct 4	Nov 28	Total	
1.	Habib Husin	Chairman	Present	Present	Present (by proxy)	Present	4	-
2.	Tamer Cankardes	Deputy Chairman	Present	Present	Present	Present	4	3
3.	Takashi Ishizuka	Member	Present	Present	Present	Present	4	-
4.	Shinichi Hasegawa	Member	Present	Present (by proxy)	Present (by proxy)	Present (by proxy)	4	-
5.	Ruswati Othman	Member	Present	Present	Present	Present	4	-
6.	Azhar Abdul Hamid	Member until 4 Oct 2017	Present (by proxy)	Present (by proxy)	Present (by proxy)	-	3	-
7.	Ahmad Fuaad Mohd Kenali	Member as from 4 Oct 2017	-	-	-	Present	1	-

Board Committee

In the year 2017, the Board had an Audit Committee. The roles and responsibilities of the Audit Committee are as follows:

a) To consider the auditors of the Company in the context of their independence (particularly with reference to any other non-audit services), fees and terms of engagement, and to recommend the appointment of the auditors to the Board and Shareholders for appointment.

b) To review the audit plan and results of the audit.

c) To implement appropriate systems to check financial fraud and ensure the fairness of financial statements;

d) To ensure oversight of the internal audit function.

e) To ensure oversight of the adequacy of the internal control systems.

f) To ensure oversight of financial statements in general including the review of annual and quarterly financial statements before issuance, qualifications contained in financial statements, and discussions of accounting principles therein and changes in accounting standards to be adopted by the Company.

g) To serve as a channel of communication between the Board and the external as well as the internal auditors.

h) To review risk management policies.

i) To review the related party transactions and making appropriate recommendations to the Board in relation to the transactions.

The Audit Committee comprises the following members during the year 2017:

No.	Name of the Audit Committee Member	Position	Dates and number of audit committee meetings		
			Jan 30	Oct 4	Nov 28
1	Ruswati Othman	Chairman	Present	By circulation	Present
2	Takashi Ishizuka	Member	Present	By circulation	Present
3	Shinichi Hasegawa	Member	Present	By circulation	Absent

Given that the Company was a closed joint stock company in 2017, the requirements for an Audit Committee as set out in the Code did not apply. Similarly the Company was not required to have a Nomination and Remuneration Committee.

Procedure for Nomination of Directors

Directors are nominated and elected in accordance with the applicable provisions of the Commercial Companies Law promulgated by Sultani Decree 4/74, as amended from time to time, the rules prescribed by the CMA and the Articles of Association of the Company. The maximum term of office for each director is 3 years, 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 requirements of the Company's Articles of Association and the directives of the CMA. The nominees to the membership of the Board must:

a) be of a good conduct and sound reputation;

b) be at least 25 years old;

c) not be unable to settle their indebtedness to the Company;

d) not be declared insolvent or bankrupt unless the state of insolvency or bankruptcy has ceased pursuant to the law;

e) not be convicted of a felony or dishonourable crime unless rehabilitated in accordance with law;

f) not be a member or a representative of a juristic person in more than four public joint stock companies based in Oman once appointed to the Board in question;

g) be authorised to nominate himself for Board membership by the juristic person if he is nominated in such capacity;

h) not be Chairman of more than two public joint stock companies that have their principal place of business in Oman;

i) not be a member of the board of directors of a public or closed joint stock company, which is based in Oman and which is carrying out similar objects to that of the Company;

j) present an acknowledgement which contains a statement of the number of Shares held by the nominee in the Company if he is a Shareholder and that he will not dispose of them to the extent that he will be deprived of his status as a Shareholder, throughout the term of his office; and

k) not participate in the management of a competing business except with the approval of the general meeting and such approval shall be renewed annually.

Remuneration

Neither the Board nor the Audit Committee received any remuneration or sitting fees in 2017.

Senior Management

The key executives of the Company received an aggregate amount of RO 228,325 which includes salaries, bonus and other benefits during 2017. The remuneration paid to these key executives commensurate with their key performance indicators established at the beginning of 2017.

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 in 2017.

Disclosure Policy

Since the Company was a closed joint stock company in 2017, it's shares were not listed on the primary market. Following the listing of the Company's shares on the MSM, it has been communicating with the shareholders mainly through the MSM website. A formal disclosure policy will be adopted by the Board.

Market Price Data

Not Applicable as the Company was not listed on the primary market in 2017.

External Auditor

KPMG is a global network of professional firms providing audit, tax and advisory services across a wide range of industries, Government and not for profit sectors. KPMG provides a full range of services tailored to meet the unique needs of mid-sized, fast growing and family owned businesses. KPMG operates in 155 countries and have more than 174,000 people working in member firms around the world. The KPMG network is coordinated by Swiss cooperative KPMG International (KPMGI). Please visit https://home.kpmg.com/om/en/home.html for more information about KPMG.

KPMG in Oman was established in 1974 and consists of more than 100 personnel and four Partners based in Muscat who serve clients throughout the Sultanate and across all industry sectors. KPMG in Oman is accredited by the CMA to audit joint stock companies. During the year 2017, KPMG billed an amount of RO 17,755 towards professional services rendered to the Company (RO 9,000 for audit, RO 1,500 for statutory tax and RO 7,255 for other tax 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 2017.

Board Acknowledgement

The Board accepts responsibility for the preparation of the financial statements in line with International Financial Reporting Standards ("IFRS"), the disclosures requirements of the CMA and the Commercial Companies Law of 1974, as amended. 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 the continuity of the Company, and its ability to continue its operations for the next financial year.

Yours faithfully,

Chairman of the Board

Muscat City Desalination Company SAOG
Report and financial statements

for the year ended 31 December 2017

Muscat City Desalination Company SAOG
Report and financial statements
for the year ended 31 December 2017

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INDEPENDENT AUDITORS' 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) set out on pages 5 to 34, which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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.

Key audit matter – Valuation of derivatives

The Company has derivative financial liabilities carried at fair value in the amount of RO 1.7 million as at 31 December 2017.

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

We have focused on this area because of the level of judgement involved in their measurement, together with the complexity associated.

Our response

We have performed, amongst other audit procedures, the following:

- Obtained an understanding of the risk management policies, as well as accounting policies for recognition and measurement of derivative financial instruments, applied by the Company;
- Tested the design and implementation of controls over measurement of derivatives;
- Reconciled derivative financial instruments recorded values and data to third party confirmations;
- Independently recalculated the fair value of derivative financial instruments with independent and externally available market data using support from our financial risk management specialists; and
- Considered the appropriateness of disclosures in relation to derivative financial instruments.

For further information on derivative financial instrument and hedge accounting please refer note 3 on pages 13 and 14, note 10 on pages 23 and 24 and note 23 on pages 32 and 33.

Other Information

Management is responsible for the other information. The other information comprises the director's report, report on corporate governance and management discussion and analysis.

Our opinion on the financial statements does not cover the other information and we do 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 period and are therefore the key audit matters. We describe these matters in our auditors' 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

We report that the financial statements of the Company as at and for the year ended 31 December 2017, in all material respects, comply with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 1974, as amended.

8 February 2018

Paul Callaghan

KPMG AUDIT · TAX · ADVISORY
P.O. Box 641 Ruwi - Postal Code 112
Sultanate of Oman

Statement of financial position

as at 31 December

	Notes	2017	2016
Assets		**RO**	RO
Non-current assets			
Property, plant and equipment	5	**93,887,582**	97,106,304
Deferred tax asset	20	**356,251**	1,419,528
Total non-current assets		**94,243,833**	98,525,832
Current assets			
Trade and other receivables	6	**1,288,767**	1,441,601
Cash and cash equivalents	7	**4,471,578**	10,466,554
Total current assets		**5,760,345**	11,908,155
Total assets		**100,004,178**	110,433,987
Equity and Liabilities			
Capital and reserves			
Share capital	8	**15,555,040**	15,555,040
Legal reserve		**1,513,400**	883,186
Retained earnings	8	**669,573**	1,600,333
Cumulative changes in fair values of derivative financial instruments	10	**(1,737,893)**	(2,781,873)
Total equity		**16,000,120**	15,256,686
Non-current liabilities			
Non-current portion of term loans	9	**62,787,629**	71,968,693
Non-current portion of fair value of derivative financial instruments	10	**1,951,937**	3,027,657
Provision for decommissioning obligation	11	**330,426**	1,072,755
Deferred tax	20	**2,093,654**	1,040,182
Non- current portion of shareholders' loans	13	**8,810,579**	5,949,997
End of service benefits	12	**8,687**	19,385
Total non-current liabilities		**75,982,912**	83,078,669
Current liabilities			
Current portion of term loans	9	**3,024,037**	3,423,156
Current portion of fair value of derivative financial instruments	10	**92,643**	133,562
Shareholders' stand – by equity loans	14	**837,030**	837,030
Current portion of Shareholders' loans	13	**1,583,000**	-
Accruals and other payables	15	**2,484,436**	2,738,625
Amount due to related parties	16	**-**	4,966,259
Total current liabilities		**8,021,146**	12,098,632
Total liabilities		**84,004,058**	95,177,301
Total equity and liabilities		**100,004,178**	110,433,987

The financial statements on pages 33 to 58 were approved by the Board of Directors on 08/02/2018 and were signed on their behalf by:

Chief Executive Officer **Chairman**

The report of the Independent Auditors is set forth on pages 29 to 32.

Statement of profit or loss and other comprehensive income

for the year ended 31 December

	Notes	2017	2016
		RO	RO
Operating revenue		**15,593,486**	12,670,953
Operating costs	17	**(9,408,717)**	(8,143,521)
Gross profit		**6,184,769**	4,527,432
Administrative and general expenses	18	**(879,248)**	(906,703)
Delay liquidated damages		**-**	988,344
Finance costs	19	**(3,561,977)**	(3,310,901)
Net profit for the year before tax		**1,743,544**	1,298,172
Income tax	20	**(2,044,090)**	-
Net (loss)/profit for the year		**(300,546)**	1,298,172
Other comprehensive income that is or may be reclassified to profit or loss			
Changes in fair values of derivative financial instruments	10	**1,116,639**	916,034
Deferred tax on changes in fair values of derivative financial instruments	10	**(72,659)**	(109,924)
Other comprehensive income for the year		**1,043,980**	806,110
Total comprehensive income for the year		**743,434**	2,104,282
(Loss)/earnings per share – basic and diluted	21	**(0.002)**	0.008

The attached notes on pages 37 to 58 notes form an integral part of these financial statements.
The report of the Independent Auditors is set forth on pages 29 to 32.

Statement of changes in equity

for the year ended 31 December

	Share capital	Share premium	Legal reserve	(Accumulated losses) / retained earnings	Cumulative changes in fair values of derivative financial instruments	Total
	RO	RO	RO	RO	RO	RO
At 1 January 2016	15,555,040	84,251	5,185,013	(4,083,917)	(3,587,983)	13,152,404
Total Comprehensive loss						
Profit for the year	-	-	-	1,298,172	-	1,298,172
Other comprehensive loss net of deferred tax	-	-	-		806,110	806,110
Transfers	-	(84,251)	(4,301,827)	4,386,078	-	-
At 31 December 2016	15,555,040	-	883,186	1,600,333	(2,781,873)	15,256,686
At 1 January 2017	**15,555,040**	**-**	**883,186**	**1,600,333**	**(2,781,873)**	**15,256,686**
Total Comprehensive Loss						
Loss for the year	**-**	**-**	**-**	**(300,546)**	**-**	**(300,546)**
Transfer to legal reserve	**-**	**-**	**630,214**	**(630,214)**	**-**	**-**
Other comprehensive income net of deferred tax	**-**	**-**	**-**	**-**	**1,043,980**	**1,043,980**
At 31 December 2017	**15,555,040**	**-**	**1,513,400**	**669,573**	**(1,737,893)**	**16,000,120**

The attached notes on pages 37 to 58 notes form an integral part of these financial statements.
The report of the Independent Auditors is set forth on pages 29 to 32.

Statement of cash flows

for the year ended 31 December

	Note	2017 RO	2016 RO
Operating activities			
Net profit for the year before tax		**1,743,544**	1,298,172
Adjustment for:			
Depreciation		**2,487,792**	2,156,855
Finance cost		**3,561,977**	3,310,901
Provision for end of service benefits		**7,950**	10,701
Cash flows from operating activities before working capital changes		**7,801,263**	6,776,629
Change in trade and other receivables		**152,834**	10,789,165
Change in accruals and other payables		**(182,248)**	(16,334,172)
End of service benefit paid		**(18,648)**	(10,381)
Net cash generated from operating activities		**7,753,201**	1,221,241
Investing activity			
Additions to property, plant and equipment		**(11,399)**	(2,737,042)
Net cash used in investing activity		**(11,399)**	(2,737,042)
Financing activities			
Proceeds from shareholders' loans		**-**	4,037,250
Amount due to related parties		**(708,417)**	-
Receipts of term loans		**-**	8,230,473
Repayment of term loans		**(9,655,831)**	(3,166,043)
Finance cost paid		**(3,372,530)**	(2,837,233)
Net cash (used in) / generated from financing activities		**(13,736,778)**	6,264,447
Net change in cash and cash equivalents		**(5,994,976)**	4,748,646
Cash and equivalents at the beginning of the year		**10,466,554**	5,717,908
Cash and cash equivalents at the end of the year		**4,471,578**	10,466,554

The attached notes on pages 37 to 58 notes form an integral part of these financial statements.
The report of the Independent Auditors is set forth on pages 29 to 32.

Notes to the financial statements

for the year ended 31 December 2017

1.1. Legal status and principal activities

Muscat City Desalination Company SAOG, under conversion (the "Company") is a public joint stock company and is registered in the Sultanate of Oman. The Company was incorporated on 19 January 2013. The Company's principal activity is the production and 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, and conversion to an "SAOG" was completed, on 2 January 2018.

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 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.

2. New standards and interpretation not yet effective

A number of relevant new standards and amendments to standards are effective for annual periods beginning after 1 January 2018.

- IFRS 9 Financial Instruments, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. This standard will affect the rules relating to hedge accounting, as well as accounting policy for recognition and measurement of financial instruments, as well as regarding impairment of financial assets.
- IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. This standard will require additional qualitative and quantitative disclosures.
- IFRS 16 Leases replaces the existing guidance in IAS 17 Leases and will be effective from 1 January 2019 and deals with recognition, measurement and classification of leases.

The Company has completed the assessment of the potential impact on its financial statements resulting from the application of IFRS 9 and IFRS 15. As per management, the implementation of IFRS 9 and IFRS 15 is not expected to have a significant impact on the financial statements. However, the implementation of these standards is underway and, accordingly, the expected impact cannot yet be determined with certainty.

3. Summary of significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements also comply with the relevant Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading, with the relevant Rules for Disclosure and Proforma issued by the Capital Market Authority and with the applicable requirements of the Commercial Companies Law of 1974, as amended.

Notes to the financial statements

for the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

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.

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 to all the years presented.

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 2017

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The estimated useful lives for the current year 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.

Capital work-in-progress
Capital work-in-progress is stated at cost less any impairment losses.

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

Impairment
Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

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 2017

3. Summary of significant accounting policies (continued)

Impairment (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

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

With respect to its Omani employees, the Company makes contributions to the Public Authority for Social Insurance under Royal Decree 72/91 calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due. Provision for non-Omani employee terminal benefits under an unfunded defined benefit retirement plan, is made in accordance with Omani Labour Laws and is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior years.

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.

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.

Revenue

Revenue comprises water capacity and water output charges calculated in accordance with the agreement with Oman Power and Water Procurement Company SAOC for sale of desalinated water. Revenue is recognised when water passes through the flow meter installed in the Company premises.

Finance expenses

Finance costs comprise interest on term loans, interest rate swaps and interest on shareholders' loan. 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.

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.

Notes to the financial statements

for the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

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.

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 years 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 other comprehensive income.

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 year, 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.

Notes to the financial statements

for the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

Income tax (continued)

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.

Operating Segment

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 and other activities all take place in the Sultanate of Oman.

Leases

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.

Notes to the financial statements

for the year ended 31 December 2017

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 of a study by an independent consultant and discounted over 40 years using a discount factor of 4.60%.

Application of IFRIC 4 and IFRIC 12

Judgement is required to ascertain whether the WPA agreement with OPWP contains a lease as per IFRIC 4: Determining Whether an Arrangement contains a Lease, 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 IAS 17: Leases. The lease has been classified as an operating lease.

5. Property, plant and equipment

	Civil and structural works	Plant and machinery	Pipelines	Decommission-ing asset	Spares	Furniture, fixtures & office equipment	Motor vehicles	Total
	RO	RO	RO	RO	RO	RO	RO	RO
Cost								
1 January 2017	31,325,719	46,357,456	19,908,264	1,072,755	576,006	25,739	38,734	99,304,673
Additions	-	11,110	-	-	-	289	-	11,399
Adjustment	-	-	-	(742,329)	-	-	-	(742,329)
31 December 2017	**31,325,719**	**46,368,566**	**19,908,264**	**330,426**	**576,006**	**26,028**	**38,734**	**98,573,743**
Accumulated Depreciation								
1 January 2017	676,220	1,000,705	429,754	23,157	12,434	21,982	34,117	2,198,369
Charge for the year	783,206	1,159,120	497,707	26,756	14,400	1,986	4,617	2,487,792
31 December 2017	**1,459,426**	**2,159,825**	**927,461**	**49,913**	**26,834**	**23,968**	**38,734**	**4,686,161**
Carrying value								
31 December 2017	**29,866,293**	**44,208,741**	**18,980,803**	**280,513**	**549,172**	**2,060**	**-**	**93,887,582**

Notes to the financial statements

for the year ended 31 December 2017

5. Property, plant and equipment (continued)

	Civil and structural works	Plant and machinery	Pipelines	Decommissioning asset	Spares	Furniture, fixtures & office equipment	Motor vehicles	Capital work-in-progress	Total
	RO	RO	RO	RO	RO	RO	RO	RO	RO
Cost									
1 January 2016	-	-	-	-	-	24,625	38,734	95,401,338	95,464,697
Additions	-	-	-	1,072,755	-	1,114	-	2,766,107	3,839,976
Transfers	31,325,719	46,357,456	19,908,264	-	576,006	-	-	(98,167,445)	-
31 December 2016	31,325,719	46,357,456	19,908,264	1,072,755	576,006	25,739	38,734	-	99,304,673
Accumulated Depreciation									
1 January 2016	-	-	-	-	-	17,080	24,434	-	41,514
Charge for the year	676,220	1,000,705	429,754	23,157	12,434	4,902	9,683	-	2,156,855
31 December 2016	676,220	1,000,705	429,754	23,157	12,434	21,982	34,117	-	2,198,369
Carrying value								-	
31 December 2016	30,649,499	45,356,751	19,478,510	1,049,598	563,572	3,757	4,617	-	97,106,304

Notes to the financial statements

for the year ended 31 December 2017

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:

	2017	2016
	RO	RO
Operating costs (note 17)	**2,481,189**	2,142,270
Administrative and general expenses (note 18)	**6,603**	12,638
Cost of capital work in progress	**-**	1,947
	2,487,792	2,156,855

6. Trade and other receivables

Trade receivables	**1,243,025**	1,397,244
Prepayments and other receivables	**42,992**	42,857
Deposits	**2,750**	1,500
	1,288,767	1,441,601

7. Cash and cash equivalents

Cash in hand	**102**	227
Cash at bank	**1,203,226**	1,007,242
Short term deposits	**3,268,250**	9,459,085
	4,471,578	10,466,554

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

a) The authorised share capital comprises of 250,000,000 (2016: 250,000,000) ordinary shares of 100 baisa each and the issued share capital comprises 155,550,400 (2016: 155,550,400) fully paid up shares of 100 baisa each.

The Shareholders of the Company are:

	2017		2016	
	Number of shares	**%**	Number of shares	%
Summit Water Middle East Company	**50,553,880**	**32.5**	69,997,680	45
Malakoff Oman Desalination Company Limited	**50,553,880**	**32.5**	69,997,680	45
Others	**54,442,640**	**35**	-	-
Cadagua Al Ghubrah UK Limited	**-**	**-**	15,555,040	10
	155,550,400	**100**	155,550,400	100

Notes to the financial statements

for the year ended 31 December 2017

8. Capital and reserves (continued)

The two main shareholding companies are registered in Cayman Islands and British Virgin Islands, respectively. None of the other ordinary shareholders owns 10% or more of the Company's paid-up share capital as at 31 December 2017.

Legal reserve

Article 154 of the Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable statutory reserve until the amount of the statutory 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.

During the year ended 31 December 2016 an amount of RO 4,515,895 was transferred from legal reserve to offset accumulated losses in accordance with the legal opinions and Fatwas (Edicts) issued by the Capital Market Authority. However, for the period ended 31 March 2017, an amount of RO 555,817 was transferred back from retained earnings to legal reserves, so as to adjust retained earnings as on 31 March 2017 to RO Nil to more accurately comply with the legal opinions and Fatwas (Edicts) issued by the Capital Market Authority. A further transfer of RO 74,397 to legal reserve has been made based on the net profit of the Company generated from 1 April 2017 to 31 December 2017.

Dividend

Shareholders at the Ordinary General Meeting ("OGM") held on 27 December 2017 authorised the Board of Directors to determine and distribute cash dividends to the Shareholders of the Company in February 2018 out of the retained earnings as per the audited financial statements for the period ended 30 September 2017, provided that the aggregate amount shall not exceed 3.2% of the paid up share capital of the Company (i.e., 3.2 Baizas per share).

In the board of directors meeting dated 8 February 2018, it was resolved to distribute cash dividend of Baizas 2.93 per share, out of the retained earnings as per the audited financial statements for the nine months period ended 30 September 2017 to the shareholders of the Company who are registered in the Company' shareholders' register with the Muscat Clearing & Depository Company SAOC as on 28 February 2018.

9. Term loans

	2017	2016
	RO	RO
Term loans	**67,044,178**	76,700,009
Less: deferred finance charges	**(1,232,512)**	(1,308,160)
	65,811,666	75,391,849
Less: current portion of term loans	**(3,024,037)**	(3,423,156)
Non-current portion of term loans	**62,787,629**	71,968,693

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.

Notes to the financial statements

for the year ended 31 December 2017

9. Term loans (continued)

Facilities drawn down

At 31 December 2017, RO 81,244,505 (USD 211,299,102) had been drawn down (31 December 2016: RO 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. Instalments totalling RO 9,655,831 (2016: RO 3,166,043) 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 4.47% (31 December 2016: 4.71%).

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. In addition, a charge has been created over all of the Company's shares.

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. For the interest period ending on 12 January 2017 and on 12 April 2017, the Company was in breach of the debt service coverage ratio requirement; a waiver from this requirement was obtained from the lenders. For remainder of the period the Company was in compliance with the covenants.

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 60,083,570 (USD 156,264,160) (31 December 2016: RO 62,733,622 (USD 163,156,365)) 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 2017 (For the year ended 31 December 2016: highly effective).

The fair value movement of RO 1,116,639 (31 December 2016: RO 916,034) has been included in other comprehensive income.

Notes to the financial statements

for the year ended 31 December 2017

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:

	2017	2016
	RO	RO
Less than 1 year	**(92,643)**	(133,562)
1 to 5 years	**(491,786)**	(717,843)
More than 5 years	**(1,460,151)**	(2,309,814)
Total more than 1 year	**(1,951,937)**	(3,027,657)
Cumulative changes in fair value	**(2,044,580)**	(3,161,219)

Cumulative changes in fair value are recognised as follows:

Cumulative changes in fair value	**(2,044,580)**	(3,161,219)
Related deferred tax asset	**306,687**	379,346
Cumulative changes in fair value, net of deferred tax	**(1,737,893)**	(2,781,873)

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.

			Notional amounts by term to maturity		
	Fair value	Notional amount	1 - 12 month	More than 1 up to 5 years	More than 5 years
31 December 2017	RO	RO	RO	RO	RO
Interest rate swaps	**2,044,580**	**60,083,570**	**2,722,486**	**14,451,991**	**42,909,093**
31 December 2016					
Interest rate swaps	3,161,219	62,733,622	2,650,053	14,245,423	45,838,146

11. Provision for decommissioning obligation

The decommissioning cost represents the present value of management's best estimate of the future cost to remove the facilities and restore the affected area at the Company's leased site to its original condition. 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

	2017	2016
	RO	RO
1 January	**19,385**	19,065
Provided during the year	**7,950**	10,701
Paid during the year	**(18,648)**	(10,381)
31 December	**8,687**	19,385

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for the year ended 31 December 2017

13. Shareholders' loans

	2017	2016
	RO	RO
Summit Water Middle East Company	**2,864,525**	2,864,525
Malakoff Oman Desalination Company Limited	**2,864,525**	2,864,525
Sumitomo Corporation	**2,128,921**	-
Malakoff International Limited	**2,128,921**	-
Interest accrued	**406,687**	220,947
	10,393,579	5,949,997
Less: current portion of Shareholders' loans	**(1,583,000)**	-
Non-current portion of Shareholder's loans	**8,810,579**	5,949,997

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. Further, amounts due to related parties (ultimate shareholders) of RO 4,257,842 (USD 11,073,711) were converted into shareholders' loan 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

	2017	2016
	RO	RO
Summit Water Middle East Company	**376,664**	376,664
Malakoff Oman Desalination Company Limited	**376,664**	376,664
Cadagua Al Ghubrah UK Limited	**83,702**	83,702
	837,030	837,030

Facilities

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.

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15. Accruals and other payables

	2017 RO	2016 RO
Accruals and other payables	**2,484,436**	2,738,625

Accruals and other payables include an amount of RO 637,987 (31 December 2016: RO 660,719), 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:

	2017 RO	2016 RO
Mobilisation and delay fees to Muscat City Desalination Operation and Maintenance Company LLC	**-**	122,500
Operation and maintenance and other cost to Muscat City Desalination Operation and Maintenance Company LLC	**3,657,840**	3,203,367
Net receipts under Shareholders' loans	**-**	4,037,250
Interest expense on Shareholders' loans	**185,740**	220,947
Key management compensation	**254,471**	198,402

Amount due to related parties

Sumitomo Corporation / Cadagua S.A. / Malakoff International Limited	**-**	4,966,259

This amount relates to initial project costs paid by the related parties which has not yet been reimbursed to the related parties and has been capitalised under property, plant and equipment as it relates directly to the construction of the plant. An amount of RO 4,257,842 was converted into shareholders' loan in July 2017.

For additional disclosure of related party balances and transactions refer notes 13, 14 and 15.

17. Operating costs

	2017 RO	2016 RO
Operation and maintenance cost	**3,630,431**	3,203,367
Electricity charges	**3,297,097**	2,797,884
Depreciation	**2,481,189**	2,142,270
	9,408,717	8,143,521

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18. Administrative and general expenses

	2017	2016
	RO	RO
Employee costs	**344,840**	253,923
Arbitration cost	**-**	212,653
Insurance	**238,067**	198,808
Legal and professional expenses	**150,802**	76,477
Exchange differences – net	**11,150**	(14,887)
Lease rental	**15,045**	-
Depreciation	**6,603**	12,638
Others	**112,741**	167,091
	879,248	906,703

Employees related expenses comprise the following:

Salaries	**250,916**	205,643
End of service benefit	**7,950**	10,701
Other Employee Benefits	**85,974**	37,579
	344,840	253,923

The number of employees as at 31 December 2017 was 6 (2016: 6)

19. Finance costs (net)

Interest expense on term loans and interest swaps	**3,234,276**	2,922,640
Interest expense on Shareholders' loan	**185,740**	190,768
Amortisation of deferred finance cost	**75,648**	242,715
Interest income on term deposits	**(53,759)**	(45,222)
Agency fees	**39,605**	-
Other finance costs	**80,467**	-
	3,561,977	3,310,901

Notes to the financial statements

for the year ended 31 December 2017

20. Income tax

The Company is liable to income tax at the rate of 15% (31 December 2016: 12%). The effective tax rate for the Company for the year is nil (31 December 2016: nil). No provision for income tax has been made for the year ended 31 December 2017 in view of the taxable losses for the year.

a) Recognised in the statement of comprehensive income

	2017 RO	2016 RO
Deferred tax		
Current period	**1,262,602**	155,931
Prior period	**781,488**	(155,931)
	2,044,090	-

The reconciliation of income tax expense is as follows:

Profit / (loss) for the period	**1,743,544**	1,298,172
Income tax at standard rate	**261,532**	155,781
Non - deductible expenses	**29,137**	150
Effect of change in tax rate	**227,863**	-
Deferred tax asset not recognised	**744,070**	-
Prior period deferred tax	**781,488**	(155,931)
	2,044,090	-

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

	Asset / (liability) as at 1 January 2017 RO	Recognised in profit or loss and other comprehensive income RO	**Asset / (liability) as at 31 December 2017 RO**
Property, plant and equipment- Deferred tax liability:	(1,040,182)	(1,053,472)	**(2,093,654)**
Carried forward tax losses	911,451	(911,451)	**-**
Provision for decommissioning obligation	128,731	(79,167)	**49,564**
Change in fair value of derivative financial instrument (through other comprehensive income)	379,346	72,659	**306,687**
Deferred tax assets	1,419,528	(917,959)	**356,251**

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. No deferred tax asset on losses has been recognised as management does not consider it probable that sufficient taxable income may arise prior to their expiry to obtain the benefits therefrom.

Notes to the financial statements

for the year ended 31 December 2017

20. Income tax (continued)

As at 31 December 2016, based on the best estimates available deferred tax asset on losses in the amount of RO 911,451 was recognised. At the end of the current year the management revisited the estimates and, accordingly, fully reversed the deferred tax asset as management does not consider it probable that sufficient taxable income may arise prior to their expiry to obtain the benefits therefrom.

21. (Loss)/earnings per share

	2017	2016
(Loss) /profit for the year (RO)	**(300,546)**	1,298,172
Weighted average number of shares outstanding during the year	**155,550,400**	155,550,400
(Loss) /earnings per share (basic and diluted)	**(0.002)**	0.008

22. Lease commitments

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.

At 31 December 2017, future minimum lease commitments under non-cancellable operating leases are as follows:

	2017	2016
	RO	RO
Less than one year	**15,045**	15,045
Between one and five years	**60,180**	60,180
More than five years	**225,675**	240,720
	300,900	315,945

23. 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.

The exposure to credit risk is monitored on an on-going basis and therefore the Company considers the credit risk to be minimal.

Notes to the financial statements

for the year ended 31 December 2017

23. Financial instruments (continued)

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

	2017	2016
	RO	RO
Trade receivables	1,243,025	1,398,744
Bank balances	4,471,476	10,466,327
	5,714,501	11,865,071

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

Oman Power and Water Procurement Co. SAOC	1,328,662	1,397,244

Trade and other receivables at the end of the reporting period are not overdue or impaired. Cash at bank and deposits with the bank are placed with financial institutions with a credit rating of at least BAA3.

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 2017	Carrying amount	Total	Less than 1 year	1 to 5 Years	More than 5 years
		---------- Contractual Cash flows ----------			
	RO	RO	RO	RO	RO
Non derivative financial liabilities					
Term loans	67,044,178	97,144,150	6,273,005	24,132,370	66,738,775
Shareholders' stand – by equity loans	837,030	837,030	837,030	-	-
Shareholders' loans	10,393,579	12,592,947	1,870,607	1,457,460	9,264,880
Accruals and other payables	2,484,436	2,484,436	2,484,436	-	-
	80,759,223	113,058,563	11,465,078	25,589,830	76,003,655

Notes to the financial statements

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23. Financial instruments (continued)

31 December 2016	Carrying amount	Total	Less than 1 year	1 to 5 Years	More than 5 years
		---------- Contractual Cash flows ----------			
	RO	RO	RO	RO	RO
Non derivative financial liabilities					
Term loans	76,700,009	111,768,360	6,747,947	26,205,313	78,815,100
Shareholders' stand – by equity loans	837,030	837,030	837,030	-	-
Shareholders' loans	5,949,997	6,866,645	-	6,866,645	-
Due to related parties	4,966,259	4,966,259	4,966,259	-	-
Accruals and other payables	2,738,625	2,738,625	2,738,625	-	-
	91,191,920	127,176,919	15,289,861	33,071,958	78,815,100

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.

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.

31 December 2017	**100 bp increase**	**100 bp decrease**
	RO	**RO**
Fair value of derivative financial instruments	**4,475,818**	**(4,475,819)**
31 December 2016		
Fair value of derivative financial instruments	5,019,899	(5,019,899)

Notes to the financial statements

for the year ended 31 December 2017

23. Financial instruments (continued)

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 1974, as amended.

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.

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

	2017	2016
	RO	RO
Interest rate swaps – Level 2 (nominal amounts)	**60,083,570**	62,733,622

The Company had no financial instruments in level 1 or level 3. During the year ended 31 December 2017, there were no transfers of financial instruments between the levels for fair value measurement.

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24. Cash flows from financing activities

Reconciliation of movement liabilities/equity to cash flows arising from financing activities is as follows:

	Term loans	Accrued interest	Amount due to related parties	Total
Balance at 1 January 2017	75,391,849	750,460	4,966,259	**81,108,568**
Changes form financing cash flows				
Repayment of term loan	(9,655,831)	-	-	**(9,655,831)**
Finance cost paid	-	(3,372,530)	-	**(3,372,530)**
Repayment of amount due to a related parties	-	-	(708,417)	**(708,417)**
Total changes from operating cash flows	**(9,655,831)**	**(3,372,530)**	**(708,417)**	**(13,736,778)**
Other changes				
Interest expense for the year	-	3,300,589	-	**3,300,589**
Amount due to related parties converted to shareholders' loan	-	-	(4,257,842)	**(4,257,842)**
Amortisation of deferred finance cost	75,648	-	-	**75,648**
Total liabilities / equity - related other changes	**75,648**	**3,300,589**	**(4,257,842)**	**(881,605)**
Balance at 31 December 2017	**65,811,666**	**678,519**	**-**	**66,490,185**

25. Comparative figures

Certain comparative figures for corresponding period have been represented to conform to the presentation adopted in the current year.