1. Legal status and principal activities

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

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

This is the first set of the Company's financial information where IFRS 16 has been applied. Changes to significant accounting policies are described below.

The Company has adopted IFRS 16 'Leases' as issued by the IASB in January 2016 and effective for the period beginning on 1 January 2019, which resulted in a change in accounting policy. The Company did not adopt early, any requirement of IFRS 16 in the previous period.

Except IFRS 16, below accounting policies applied in this financial information are same as those applied in the Company's financial statements as at and for the year ended 31 December 2018.

The changes in the accounting policies are also expected to be reflected in the Company's financial statements as at and for the year ending 31 December 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-to-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. The Company has adopted IFRS 16 from 1 January 2019 and as a result the Company has recorded a lease asset (right-of-use assets) of RO 195,919 and lease obligation of RO 195,919 as on 1 January 2019.

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

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

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

2.1 New and revised IFRSs applied with no material effect on the condensed interim financial information Effective for annual periods beginning on or after 1 January 2019

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities*
- Amendments to IAS 28 *Investment in Associates and Joint Ventures:* Relating to long-term interests in associates and joint ventures
- Annual Improvements to IFRSs 2015-2017 *Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*
- Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*
- IFRIC 23 *Uncertainty over Income Tax Treatments*

2.2 New and revised IFRS standards and interpretations but not yet effective

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

New and revised IFRSs	**Effective for annual periods beginning on or after**
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
Amendment to IFRS 3 Business Combinations relating to definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

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

3. Summary of significant accounting policies

Statement of compliance

The special purpose financial statements (hereinafter financial statements) have been prepared in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board and the requirements of the Commercial Companies Law of 2019.

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. These financial statements have been prepared solely for the purpose of submitting to the Capital Market Authority in lieu of the Company declaring dividends and may not be suitable for any other purpose.

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 periods 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.

3. Summary of significant accounting policies

Property, plant and equipment

Recognition and measurement (continued)
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.

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

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

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

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

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

3. Summary of significant accounting policies (continued)

Earnings per share

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

Impairment

Financial assets
The Company recognises loss allowances for ECLs on financial asset measured at amortised cost, the company measures loss allowances at an amount equal to lifetime ECL. Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

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

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

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

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

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 periods.

3. Summary of significant accounting policies (continued)

Provisions

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

Provision for decommissioning obligation

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

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

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

Equity

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

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.

3. Summary of significant accounting policies (continued)

Finance expenses

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

Deferred financing costs

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

Financial instruments

i) Non-derivative financial instruments

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

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

ii) Derivative financial instruments

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

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.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

ii) Derivative financial instruments (continued)

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

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

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

Income tax

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

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

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

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

Cash and cash equivalents

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

3. Summary of significant accounting policies (continued)

Segment reporting

An operating segment is a component of the Company that engages in activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Chief Executive Officer (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess their performance, and for which discrete financial information is available.

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

Water sales take place in the Sultanate of Oman.

Leases

Upon adoption of IFRS 16 – applicable from 1 January 2019

The Company as a lessee

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

Lease liability

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

To determine the incremental borrowing rate, the Company:

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

3. Summary of significant accounting policies (continued)

Leases

Upon adoption of IFRS 16 – applicable from 1 January 2019

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

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

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

Leases (continued)

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

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

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

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

The Company as lessor

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

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

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

Leases under IAS 17, applicable before 1 January 2019

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

3. Summary of significant accounting policies (continued)

Leases (continued)

Leases under IAS 17, applicable before 1 January 2019 (continued)

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.

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.

4. Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty (continued)

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 RO'000	Plant and machinery RO'000	Pipelines RO'000	Decommissioning asset RO'000	Spares RO'000	Furniture, fixtures and office equipment RO'000	Motor vehicles RO'000	Total RO'000
Cost								
1 January 2018	31,326	46,369	19,908	330	576	26	39	98,574
Additions	-	-	-	-	79	5	-	84
Adjustment	-	-	-	4	-	-	-	4
1 January 2019	31,326	46,369	19,908	334	655	31	39	98,662
Additions	5	-	-	-	-	-	-	5
30 September 2019	**31,331**	**46,369**	**19,908**	**334**	**655**	**31**	**39**	**98,667**
Accumulated depreciation								
1 January 2018	1,459	2,160	928	50	26	24	39	4,686
Adjustment	-	-	-	(27)	-	-	-	(27)
Charge for the year	783	1,159	498	-	16	2	-	2,458
1 January 2019	2,242	3,319	1,426	23	42	26	39	7,117
Charge for the period	587	870	373	7	12	2	-	1,851
30 September 2019	**2,829**	**4,189**	**1,799**	**30**	**54**	**28**	**39**	**8,968**
Carrying value								
30 September 2019	**28,502**	**42,180**	**18,109**	**304**	**601**	**3**	**-**	**89,699**

5 Property, plant and equipment (continued)

	Civil and structural works RO'000	Plant and machinery RO'000	Pipelines RO'000	Decommissioning asset RO'000	Spares RO'000	Furniture, fixtures and office equipment RO'000	Motor vehicles RO'000	Total RO'000
Cost								
1 January 2018	31,326	46,369	19,908	330	576	26	39	98,574
Addition	-	-	-	-	79	5	-	84
30 September 2018	31,326	46,369	19,908	334	655	31	39	98,658
Accumulated depreciation								
1 January 2018	1,459	2,160	928	50	26	24	39	4,686
Charge for the year	587	869	374	6	12	1	-	1,849
30 September 2018	2,046	3,029	1,302	56	38	25	39	6,535
Carrying value								
30 September 2018	29,280	43,340	18,606	274	617	6	-	92,123

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 period is recognised as follows:

	30 September 2019 RO'000s	30 September 2018 RO'000s
Operating costs (note 17)	**1,857**	1,848
Administrative and general expenses (note 18)	**2**	1
	1,859	1,849

Operating costs for the period ended 30 September 2019 includes depreciation on right-of-use asset of RO 8,163.

6 Trade and other receivables

	30 September 2019 RO'000s	31 December 2018 RO'000s
Trade receivables	**1,440**	1,329
Prepayments and other receivables	**118**	53
Deposits	**3**	3
	1,561	1,385

7 Cash and cash equivalents

	30 September 2019 RO'000s	31 December 2018 RO'000s
Cash at bank	**1,174**	1,127
Short term deposits	**1,500**	693
	2,674	1,820

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

Share capital	Authorized 30 September 2019 RO'000s	31 December 2018 RO'000s
250,000,000 ordinary shares of 100 Baisa each	**25,000**	25,000
	Issued and fully paid	
155,550,400 shares of 100 Baisa each	**15,555**	15,555

Shareholders

The Shareholders of the Company are:

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

Legal reserve

Article 132 of the Commercial Companies Law 2019 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.

Dividend

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

- in May 2019 of a value not exceeding 1.626 baiza per share out of the retained profits for the year ended 31 December 2018 to the Shareholders who are registered in the Company's register as at a date determined by the Board; and

- in November 2019 of a value not exceeding 6.429 baiza per share out of the retained profits for the period ended 30 September 2019 (subject to availability of adequate distributable retained profits) to the Shareholders who are registered in the Company's register as at a date to be determined by the Board.

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

9 Term loans

	30 September 2019 RO'000s	31 December 2018 RO'000s
Term loans	**61,509**	63,825
Less: deferred finance charges	**(1,100)**	(1,157)
	60,409	62,668
Less: current portion of term loans	**(3,156)**	(3,106)
Non-current portion of term loans	**57,253**	59,562

Facilities

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

Facilities drawn down

At 30 September 2019, RO 81,244,505 (USD 211,299,102) had been drawn down (31 December 2018: 81,244,505 (USD 211,299,102)) and the remaining undrawn amount has been cancelled.

Facilities repayments

The term loans are due for repayment in 76 quarterly instalments. Three instalments totalling RO 2,316,945 were paid during the period.

Interest

The term loans bear interest at three-month USD Libor plus margin. The effective interest rate for the period was 4.68% (31 December 2018: 4.64%).

Security

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

Covenants

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

10 Derivative financial instruments

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

As at the reporting date, a principal amount of approximately RO 55,269,021(USD 143,742,578) (31 December 2018: RO 57,361,085 (USD 149,183,576) was covered under this agreement for the term loans.

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

The hedging arrangement obliges the Company to pay fixed interest at the rate of 2.86% per annum on a quarterly basis for the term loans. These cash flow hedges were assessed as highly effective as at 30 September 2019 (For the year ended 31 December 2018: highly effective).

The fair value movement of RO 3,582,640 (30 September 2018: RO 2,199,613) has been included in other comprehensive income, net of deferred tax.

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:

	30 September 2019 RO'000s	31 December 2018 RO'000s
Less than 1 year	**(531)**	(77)
1 to 5 years	**(1,066)**	(147)
More than 5 years	**(3,352)**	(510)
Total more than 1 year	**(4,418)**	(657)
Cumulative changes in fair value	**(4,949)**	(734)

Cumulative changes in fair value are recognised as follows:

Cumulative changes in fair value	**(4,949)**	(734)
Related deferred tax liability/asset	**(742)**	110
Cumulative changes in fair value, net of deferred tax	**(4,207)**	(624)

10 Derivative financial instruments (continued)

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		
30 September 2019	**Fair value** *RO'000s*	**Notional amount** *RO'000s*	**1 - 12 month** *RO'000s*	**More than 1 up to 5 years** *RO'000s*	**More than 5 years** *RO'000s*
Interest rate swaps	**4,949**	**55,269**	**5,931**	**11,904**	**37,434**
31 December 2018					
Interest rate swaps	734	57,361	6,009	11,519	39,833

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

	30 September 2019 *RO'000s*	31 December 2018 *RO'000s*
1 January 2019	**15**	8
Provided during the period / year	**8**	7
Paid during the period / year	**-**	-
Closing provision	**23**	15

13 Shareholders bridge loans

Summit Water Middle East Company	**2,073**	2,073
Malakoff Oman Desalination Company Limited	**2,073**	2,073
Sumitomo Corporation	**2,129**	2,129
Malakoff International Limited	**2,129**	2,129
Interest accrued	**492**	450
	8,896	8,854
Less: current portion of Shareholders' bridge loans	**-**	-
	8,896	8,854

13 Shareholders bridge loans (continued)

Facilities

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

Facilities repayments

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

Interest

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

Security

The Shareholders' loans are unsecured.

14 Shareholders' stand – by equity loans

	30 September 2019	31 December 2018
	RO'000s	*RO'000s*
Summit Water Middle East Company	**377**	377
Malakoff Oman Desalination Company Limited	**377**	377
	754	754

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.

15 Trade and other payables

	30 September 2019	31 December 2018
	RO'000s	*RO'000s*
Trade payables	**1,028**	933
Other payables	**649**	698
Others	**27**	93
	1,704	1,724

Trade and other payables include an amount of RO 728,134 (31 December 2018: RO 702,645), due to Muscat City Desalination Operation and Maintenance Company LLC, a related party.

16 Related party transactions

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

Significant related party transactions during the period are as follows:

	30 September 2019	30 September 2018
	RO'000s	*RO'000s*
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC	**3,169**	2,949
Interest expense on Shareholders' loans	**127**	136
Key management compensation	**149**	144
Director's sitting fee	**9**	11

16 Related party transactions

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

	30 September 2019 RO'000s	31 December 2018 RO'000s
Amount due to related parties		
Muscat City Desalination O & M company	**728**	702
Summit Water Middle East Company	**2,654**	2,644
Malak off Oman Desalination company Limited	**2,654**	2,644
Malak off International Limited	**2,171**	2,160
Sumitomo Corporation	**2,171**	2,160
Amount due from related parties		
Muscat City Desalination O & M company	**64**	-

17 Operating costs

	30 September 2019 *RO'000s*	30 September 2018 *RO'000s*
Operation and maintenance cost	**3,152**	2,914
Electricity charges	**3,158**	2,652
Depreciation	**1,857**	1,848
	8,167	7,414

18 Administrative and general expenses

	30 September 2019 *RO'000s*	30 September 2018 *RO'000s*
Employee costs	**226**	192
Insurance	**141**	157
Legal and professional expenses	**95**	93
Depreciation	**2**	1
Directors' sitting fees	**2**	11
Others	**144**	138
	610	592

19 Finance costs (net)

	30 September 2019 RO'000s	30 September 2018 RO'000s
Interest expense on term loans and interest swaps	**2,159**	2,301
Interest expense on Shareholders' loan	**127**	136
Amortisation of deferred finance cost	**57**	57
Interest income on term deposits	**(13)**	(11)
Other finance cost	**29**	46
	2,359	2,529

20 Income tax

The Company is liable to income tax at the rate of 15% (30 September 2018: 15%). The effective tax rate for the Company for the period is nil (30 September 2018: nil). No provision for income tax has been made for the period ended 30 September 2019 in view of the taxable losses for the period.

a) Recognised in the statement of comprehensive income

	30 September 2019 RO'000s	30 September 2018 RO'000s
Deferred tax		
- Current period	**503**	676
- Prior period	**-**	-
	503	676

b) Tax reconciliation

The reconciliation of income tax expense is as follows:

	30 September 2019	30 September 2018
Profit for the period	**1,652**	1,556
Income tax at standard rate	**248**	233
Non - deductible expenses	**20**	21
Effect of change in tax rate	**-**	-
Deferred tax not recognised on losses for the period	**318**	422
Deferred tax Asset recognised on carry forward losses	**(83)**	-
	503	676

Notes to the financial statements
for the nine months period ended 30 September 2019 (continued)

20 Income tax (continued)

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

	Asset / (liability) as at 1 January 2019 RO'000s	Recognised in profit or loss and other comprehensive income RO'000s	**Asset / (liability) as at 30 September 2019 RO'000s**
Property, plant and equipment	(3,001)	(587)	**(3,588)**
Deferred tax liability	(3,001)	(587)	**(3,588)**
Carried forward business losses	-	83	83
Provision for decommissioning obligation	52	3	55
Change in fair value of derivative financial instrument (through other comprehensive income)	110	632	742
Deferred tax assets	162	718	880

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.

21 Earnings per share

	30 September 2019 RO'000s	30 September 2018 RO'000s
Profit for the period	**1,149**	880
Weighted average number of shares outstanding during the period	**155,550,400**	155,550,400
Earnings per share (basic and diluted)	**0.007**	0.006

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.

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

At 30 September 2019, future minimum lease commitments under non-cancellable operating leases are as follows:

	30 September 2019 RO'000s	31 December 2018 RO'000s
Less than one year	**15**	15
Between one and five years	**60**	60
More than five years	**196**	211
	271	286

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.

23 Financial instruments (continued)

Credit risk (continued)

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

	30 September 2019 RO'000s	31 December 2018 RO'000s
Cash at bank and deposits	**2,674**	1,820
Trade receivables	**1,440**	1,329
	4,114	3,149

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

	30 September 2019 RO'000s	31 December 2018 RO'000s
Oman Power and Water Procurement Co. SOAC	**1,440**	1,329

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 Ba1.

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.

23 Financial instruments (continued)

Liquidity risk (continued)

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

30 September 2019	Carrying amount	Total	Less than 1 year	1 to 5 Years	More than 5 years
		------------	Contractual Cash flows	------------	
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
Non derivative financial liabilities					
Term loans	**61,509**	**86,344**	**6,035**	**24,103**	**56,206**
Shareholders' stand – by equity loans	**754**	**754**	**-**	**754**	**-**
Shareholders' bridge loans	**8,896**	**10,311**	**188**	**2,501**	**7,622**
Trade and other payables	**1,704**	**1,724**	**1,724**	**-**	**-**
	72,863	**99,133**	**7,947**	**27,358**	**63,828**
31 December 2018					
Non derivative financial liabilities					
Term loans	63,826	90,872	6,046	24,111	60,715
Shareholders' stand – by equity loans	754	754	754	-	-
Shareholders' bridge loans	8,854	10,451	187	2,053	8,211
Trade and other payables	1,724	1,724	1,724	-	-
	75,158	103,801	8,711	26,164	68,926

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.

23 Financial instruments (continued)

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.

30 September 2019	**100 bp increase RO'000s**	**100 bp decrease RO'000s**
Fair value of derivative financial instruments	**3,760**	**(3,760)**
31 December 2018		
Fair value of derivative financial instruments	3,906	(3,906)

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 2019.

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.

23 Financial instruments (continued)

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

	30 September 2019 RO'000s	31 December 2018 RO'000s
Interest rate swaps – *Level 2*	**55,269**	57,361

The Company had no financial instruments in level 1 or level 3. During the period / year ended 30 September 2019 and 31 December 2018, there were no transfers of financial instruments between the levels for fair value measurement.