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.

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.

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

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

2.1 New and revised IFRSs that are effective for the current year

In the current period, the company has applied a number of other amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2021. The adoption of the following IFRSs have not had any material impact on the disclosures or on the amounts reported in these financial statements and are listed below.

- *IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- *IFRS 9 Financial Instruments - Amendments regarding replacement issues in the context of the IBOR reform*
- *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Amendments regarding the definition of accounting estimates*

The above amendments had no impact on the financial statements of the Company.

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

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
IFRS 17 Insurance Contracts IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.	1 January 2023
Amendments to IFRS 10 Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted
Amendments to IAS 1 – *classification of liabilities as current or non-current*	1 January 2023
Amendments to IFRS 3 – *Reference to the conceptual framework*	1 January 2022
Amendments to IAS 16 – *Property, plant and equipment – proceeds before intended use*	1 January 2022
Amendments to IAS 37 – *Onerous contracts – cost of fulfilling a contract*	1 January 2022
Annual improvements to IFRS Standards 2018-2020 cycle Amendments to IFRS 1 First-time adoption of IFRS, IFRS 9 Financial instruments, IFRS 16 Leases, and IAS 41 Agriculture	1 January 2022
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies	1 January 2023
Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IAS 8 - Definition of accounting estimates	1 January 2023

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.

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

2.3 Interest Rate Benchmark Reform

In July 2017, the United Kingdom Financial Conduct Authority (FCA), which regulates the London Interbank Offered Rate ('LIBOR') announced that the interest benchmark would cease after June 2023 for overnight, 1, 3, 6 and 12 months tenors. LIBOR is one of the most common series of benchmark interest rates. LIBOR reforms and expectations of cessation of LIBOR will impact the Company's current risk management strategy and possibly accounting for financial instruments. As at 31 December 2021, the Company has derivative liability of RO 4 million (2020: RO 6.92 million).

As part of the Company's risk management strategy, the Company uses financial instruments to manage exposure arising from variation of interest rates that could affect profit or loss or other comprehensive income and applies hedge accounting to these instruments.

These financial statements are reference to LIBOR. Refer note 10 to the financial statements for nominal value and details of derivatives contracts under hedging arrangements.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationship directly affected by IBOR reform. The reliefs have the effect that LIBOR reform should not generally cause hedge accounting to terminate.

The Company is assessing the impact of IBOR amendments which are effective for annual periods beginning on or after 1 January 2022.

3. Summary of significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board and the requirements of the Commercial Companies Law of 2019 of the Sultanate of Oman and the disclosure requirements of Capital Market Authority of the Sultanate of Oman.

Going Concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the Company's financial statements.

Basis of preparation

The financial statements are prepared under the historical cost convention except for certain financial assets and liabilities measured at fair value. The financial statements have been presented in Rial Omani ("RO") which is also the functional currency of the Company.

3. Summary of significant accounting policies (continued)

A summary of significant accounting policies, which are consistent with those used in the previous year are set out below.

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.

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.

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.

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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	35 - 40
Plant and machinery	35 - 40
Pipelines	35 - 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.

Derecognisition of asset
An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the period the asset is derecognised.

3. Summary of significant accounting policies (continued)

Impairment

Financial assets
The Company recognises loss allowances for Expected Credit Losses (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

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

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

3. Summary of significant accounting policies (continued)

Revenue (continued)

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

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

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

Finance expenses

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

Deferred financing costs

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

Financial instruments

i) Non-derivative financial instruments

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

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

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

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 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.

3. Summary of significant accounting policies (continued)

Income tax (continued)

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.

Dividend

The Board of Directors take into account appropriate parameters including the requirements of the Commercial Companies Law while recommending the dividend.

Dividends on ordinary shares are recognised when they are approved for payment.

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

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.

3. Summary of significant accounting policies (continued)

Leases (continued)

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.

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).

3. Summary of significant accounting policies (continued)

Leases (continued)

Lease liability (continued)

- 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.

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.

3. Summary of significant accounting policies (continued)

Directors' remuneration

Directors' remuneration has been computed in accordance with the Commercial Companies Law and as per the requirements of Capital Market Authority.

Dividends on ordinary shares

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

Earnings and net assets per share

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

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

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.

Critical judgements

Management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Lease classification
The Company has entered into the Water Purchase Agreement ("WPA") with Oman Power and Water Procurement Company SAOC ("OPWP") to make available the guaranteed contracted capacity of desalinated water from its Plant.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Lease classification (continued)

Management believes that IFRIC 12 is not applicable to the arrangement as the residual interest is borne by the Company and not OPWP. The estimated useful life of the plant of 40 years takes into account the Company's right to extend the land lease under a Usufruct Agreement for an additional term of 25 years. Furthermore, the residual value of the assets will have substantial value at the conclusion of the WPA and the Company will be able to continue to generate revenue through supply of desalinated water.

Management considers the requirements of IFRS 16 Leases, which sets out guidelines to determine when an arrangement might contain a lease. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Once a determination is reached that an arrangement contains a lease, the lease arrangement is classified as either financing or operating according to the principles in IFRS 16 Leases. A lease that conveys the majority of the risks and rewards of operation is a finance lease. A lease other than a finance lease is an operating lease.

Based on management's evaluation, the WPA with OPWP is considered as a lease within the context of IFRS 16 Leases and has been classified as an operating lease under IFRS 16 Leases since significant risks and rewards associated with the ownership of the plant lies with the Company and not with OPWP.

The primary basis for this conclusion is that the WPA is for a term of 20 years while the economic life of the power plant is estimated to be 40 years. The present value of minimum lease payments under the PPA does not substantially recover the fair value of the plant at the inception of the lease.

Key sources of estimation uncertainty

The following are the significant estimates used in the preparation of the financial statements:

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 thereafter.

Useful life of property, plant and equipment
Depreciation is charged so as to write-off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating life, the maintenance programs, and normal wear and tear using its best estimates.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Provision for decommissioning
Upon expiry of their respective Usufruct Agreement (in relation to land lease) and Water Purchase agreements, the Company will have an obligation to remove the facilities and restore the affected area. The estimated cost, discount rate and risk rate used in the provision for decommissioning costs calculation is based on management's best estimates.

Novel Coronavirus (Covid-19)
In January 2020, the World Health Organization ("WHO") announced a global health emergency due to the outbreak of coronavirus ("COVID-19"). Based on the rapid increase in exposure and infections across the world, WHO, in March 2020, classified the COVID-19 outbreak as a pandemic. Actions taken by governmental authorities, nongovernmental organizations, businesses and individuals around the world to slow the COVID-19 pandemic and associated consumer behaviour have negatively impacted forecasted global economic activity, thereby resulting in lower demand for oil. This has created a current and forecasted oversupply, precipitating the recent steep decline in oil prices and an increase in oil price volatility.

Management has performed an assessment of the potential impact of the pandemic on these financial statements and based on the long-term WPA with OPWP has concluded that there is no material impact to the operations or the profitability of the Company. As the situation is evolving, management will continue to monitor the situation and adjust its critical judgements and estimates, as necessary, during 2022.

5. Property, plant and equipment

	Civil and structural works RO'000s	Plant and machinery RO'000s	Pipelines RO'000s	Decommissioning asset RO'000s	Spares RO'000s	Furniture, fixtures and office equipment RO'000s	Motor vehicles RO'000s	Capital work-in-progress RO'000s	Total RO'000s
Cost									
1 January 2020	31,331	46,406	19,908	334	655	33	39	47	98,753
Additions	9	3	-	-	-	14	-	151	177
31 December 2020	31,340	46,409	19,908	334	655	47	39	198	98,930
1 January 2021	**31,340**	**46,409**	**19,908**	**334**	**655**	**47**	**39**	**198**	**98,930**
Additions	**-**	**17**	**12**	**-**	**-**	**6**	**34**	-	**69**
Transfers	**-**	**158**	**-**	**-**	**-**	**40**	**-**	**(198)**	**-**
Disposal / Adjustments	**-**	**-**	**-**	**(18)**	**-**	**-**	**(30)**	**-**	**(48)**
31 December 2021	**31,340**	**46,584**	**19,920**	**316**	**655**	**93**	**43**	**-**	**98,951**
Accumulated depreciation									
1 January 2020	3,025	4,478	1,924	32	59	28	39	-	9,585
Charge for the year	783	1,160	498	9	17	3	-	-	2,470
31 December 2020	3,808	5,638	2,422	41	76	31	39	-	12,055
1 January 2021	**3,808**	**5,638**	**2,422**	**41**	**76**	**31**	**39**	**-**	**12,055**
Charge for the year	**784**	**1,164**	**498**	**8**	**17**	**16**	**8**	**-**	**2,495**
Disposal	-	**-**	**-**	**-**	**-**	**-**	**(30)**	**-**	**(30)**
31 December 2021	**4,592**	**6,802**	**2,920**	**49**	**93**	**47**	**17**	**-**	**14,520**
Carrying value									
31 December 2021	**26,748**	**39,782**	**17,000**	**267**	**562**	**46**	**26**	**-**	**84,431**
31 December 2020	27,532	40,771	17,486	293	579	16	-	198	86,875

5. Property, plant and equipment (continued)

Property, plant and equipment are mortgaged as security for the borrowings of the Company (note 11)

Depreciation charge for the period is recognised as follows:

	2021	2020
	RO'000s	RO'000s
Operating costs (note 19)	**2,471**	2,467
Administrative and general expenses (note 20)	**24**	3
	2,495	2,470

6. Right-of-use asset

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.

Details of right-of-use asset (ROU) of usufruct contract is as under:

	2021	2020
	RO'000s	RO'000s
Cost		
As at 1 January	**264**	196
Addition	**-**	68
Total cost as at 31 December	**264**	264
Depreciation		
As at 1 January	**14**	11
Charge for the year	**7**	3
As at 31 December	**21**	14
Carrying value		
As at 31 December	**243**	250

7. Trade and other receivables

	2021 RO'000s	2020 RO'000s
Trade receivables	**1,515**	1,230
Prepayments and other receivables	**104**	89
Deposits	**3**	3
	1,622	1,322

The Company has one customer OPWP which is included in the trade receivables balance as at 31 December 2021 and 31 December 2020. The average credit period on the invoice raised to OPWP on sale of water is within 25 days. No interest is charged on outstanding trade receivables.

The trade receivables as on 31 December 2021 is in the not due category.

Management assessment of expected credit loss on the trade and other receivables refer note 27.

8. Cash and cash equivalents

	2021 RO'000s	2020 RO'000s
Cash at bank	**1,256**	1,248
Short term deposits	**3,230**	2,961
	4,486	4,209

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.

9. Capital and reserves

9.1 Share capital

	Authorised	
	2021 RO'000s	2020 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

9. Capital and reserves (continued)

9.1 Share capital (continued)

Shareholders

The Shareholders of the Company are:

	% holding		Country of incorporation
	2021	2020	
Summit Water Middle East Company	**32.5**	32.5	Cayman Islands
Malakoff Oman Desalination Company Limited	**32.5**	32.5	British Virgin Islands
Others	**35.0**	35.0	Others
	100.0	100.0	

9.2 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 legal reserve until the amount of the legal reserve becomes equal to at least one-third of the Company's paid up share capital.

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

9.3 Dividend

At the Ordinary General Meeting on 9 December 2021, Shareholders approved cash dividend of Baiza 9.644 per share, totaling circa OMR1.5 million out of the retained earnings of the Company 30 September 2021. The dividend was paid in December 2021.

The Board of Directors, at its meeting held on 14 February 2022, resolved the distribution of cash dividends as below which are subject to Shareholders' approval at the Annual General Meeting to be held on 29 March 2022:

a) cash dividend of Baiza 7.715 per share, out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2021 to the shareholders of the Company who are registered in the Company's shareholders' register with the Muscat Clearing & Depository Company SAOC as at a date to be determined by the Board;

b) cash dividend not exceeding Baiza 11.250 per share, out of the retained earnings as per the audited financial statements for the financial period ended 30 September 2022 to the shareholders of the Company who are registered in the Company' shareholders' register with the Muscat Clearing & Depository Company SAOC as at a date to be determined by the Board.

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 45,838,146 (USD 119,214,944) (31 December 2020: RO 48,644,055 (USD 126,512,498)) 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 2021 (For the year ended 31 December 2020: highly effective).

The fair value movement of RO 2,481,335 [31 December 2020: RO (2,655,911)] 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:

	2021 **RO'000s**	2020 RO'000s
Less than 1 year	**(255)**	(399)
1 to 5 years	**(1,292)**	(2,170)
More than 5 years	**(2,451)**	(4,348)
Total more than 1 year	**(3,743)**	(6,518)
Cumulative changes in fair value	**(3,998)**	(6,917)

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 **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**
31 December 2021					
Interest rate swaps	**3,998**	**45,838**	**2,929**	**14,808**	**28,101**
31 December 2020					
Interest rate swaps	6,917	48,644	2,806	15,262	30,576

10. Derivative financial instruments (continued)

Cumulative changes in fair value are recognised as follows:

	2021 RO'000s	2020 RO'000s
Cumulative changes in fair value	**(3,998)**	(6,917)
Related deferred tax liability/asset	**600**	1,038
Cumulative changes in fair value, net of deferred tax	**(3,398)**	(5,879)

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

The hedging deficit of RO 3.40 million as at 31 December 2021 (31 December 2020: RO 5.88 million) represents the loss which the Company would incur, if it opts to terminate its interest rate hedging agreements on this date. However, under its Common Terms Agreement with its lenders, the Company is not permitted to terminate its interest rate hedging agreements. Therefore, under this circumstance, the loss will remain unrealised and will be realised during the gradual amortisation of the loan interest.

11. Term loans

	2021 RO'000s	2020 RO'000s
Term loans	**54,218**	57,532
Less: deferred finance charges	**(931)**	(1,007)
	53,287	56,525
Less: current portion of term loans and deferred finance charges	**(3,539)**	(3,390)
Non-current portion of term loans	**49,748**	53,135

Facilities

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

Facilities drawn down

At 31 December 2021, RO 81,244,505 (USD 211,299,102) had been drawn down (31 December 2020: 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. Four instalments totalling RO 3,313,838 (31 December 2020: 3,187,836) were paid during the year.

11. Term loans (continued)

Interest

The term loans bear interest at three-months USD Libor plus margin. The effective interest rate for the period was 4.38% (31 December 2020: 4.42%).

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 2021.

Deferred finance charges

Deferred finance charges of RO 75,648 have been included under current portion of term loan. Accordingly, 2020 deferred finance charges of RO 75,648 has also been reclassified to current portion of term loan.

12. Provision for decommissioning obligation

	2021 **RO'000s**	2020 RO'000s
As at 1 January	**382**	366
Change during the period	**(18)**	-
Unwinding of interest on decommissioning cost provision	**20**	16
As at 31 December 2021	**384**	382

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 5.5% to its present value over the plant's estimated remaining useful life of 36 years.

13. Shareholders' bridge loans

	2021 RO'000s	2020 RO'000s
Summit Water Middle East Company	**2,073**	2,073
Malakoff Oman Desalination Company Limited	**2,073**	2,073
Sumitomo Corporation	**2,129**	2,129
Malakoff International Limited	**2,129**	2,129
Interest accrued	**43**	450
	8,447	**8,854**
Less: current portion of Shareholders' bridge loans	**(729)**	**-**
Non-current portion of Shareholders' bridge loans	**7,718**	8,854

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.

Based on the projections in IPO prospectus and waterfall mechanism, the loan will be repaid by an agreed payment of RO 729 thousand from 2022 up to October 2034.

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

	2021 RO'000s	2020 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.

14. Shareholders' stand–by equity loans (continued)

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. Lease liability

The Company adopted IFRS 16 from 1 January 2019 for a plot of land on which the plant is built 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 2021, future minimum lease commitments under non-cancellable operating leases are as follows:

	2021	2020
	RO'000s	RO'000s
Gross lease liability related to right-of-use assets	**515**	280
Additions	**-**	246
Future finance charges on finance leases	**(260)**	(268)
Present value of lease liabilities	**255**	258
The maturity of finance lease liabilities is as follows:		
Not later than 1 year	**3**	3
Later than 1 year	**252**	255
	255	258

16. End of service benefits

	2021	2020
	RO'000s	RO'000s
1 January	**4**	26
Provided during the year	**8**	12
Paid during the year	**-**	(34)
Closing provision	**12**	4

17. Trade and other payables

	2021 RO'000s	2020 RO'000s
Trade payables	**1,821**	1,119
Other payables	**1,018**	1,093
	2,839	2,212

Trade and other payables include an amount of RO 1,185,902 (31 December 2020: RO 894,329), due to Muscat City Desalination Operation and Maintenance Company LLC, a related party.

18. Revenue

	2021 RO'000s	2020 RO'000s
Water capacity charges	**10,107**	9,929
Electricity charges	**4,944**	3,948
Water Output O&M Charges	**3,017**	2,873
	18,068	16,750

19. Operating costs

	2021 RO'000s	2020 RO'000s
Operation and maintenance cost	**4,391**	4,177
Electricity charges	**4,944**	3,948
Amortisation of right-of-use asset	**7**	3
Depreciation	**2,471**	2,467
	11,813	10,595

20. Administrative and general expenses

	2021 RO'000s	2020 RO'000s
Employee costs	**340**	330
Insurance	**183**	188
Legal and professional expenses	**120**	137
Depreciation	**24**	3
Directors' sitting fees	**34**	16
Bad debts written off	**-**	27
Others	**138**	137
	839	838

21. Finance costs (net)

	2021 RO'000s	2020 RO'000s
Interest expense on term loans and interest swaps	**2,468**	2,644
Interest expense on Shareholders' loan	**170**	171
Amortisation of deferred finance cost	**76**	76
Interest income on term deposits	**(2)**	(4)
Other finance cost	**77**	70
	2,789	2,957

22. Income tax

The Company is liable to income tax at the rate of 15% (31 December 2020: 15%). No provision for income tax has been made for the year ended 31 December 2021 in view of the taxable losses for the period.

An assessment of the Company has been completed up to the tax year 2018 by the tax authorities. The management believes that the additional tax assessed, if any, in respect of the un-assessed tax years would not be material to the financial position of the Company at 31 December 2021.

Recognised in the statement of comprehensive income

	2021 RO'000s	2020 RO'000s
Deferred tax		
- Current year	**286**	520

Tax reconciliation

The reconciliation of income tax expense is as follows:

	2021 RO'000s	2020 RO'000s
Profit for the year	**2,637**	2,360
Income tax at standard rate	**396**	354
Non - deductible expenses	**30**	26
Deferred tax not recognised on losses for the year	**174**	300
Deferred tax asset recognised on carry forward losses	**(314)**	(160)
	286	520

22. Income tax (continued)

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

31 December 2021	**Asset / (liability) as at 1 January RO'000s**	**Recognised in profit or loss and other comprehensive income RO'000s**	**Asset / (liability) as at 31 December RO'000s**
Property, plant and equipment	**(4,469)**	**(601)**	**(5,070)**
Deferred tax liability	**(4,469)**	**(601)**	**(5,070)**
Carried forward business losses	**251**	**314**	**565**
Provision for decommissioning obligation	**58**	**-**	**58**
Provision for land lease	**1**	**1**	**2**
Change in fair value of derivative financial instrument (through other comprehensive income)	**1,038**	**(438)**	**600**
Deferred tax assets	**1,348**	**(123)**	**1,225**
31 December 2020			
Property, plant and equipment	(3,785)	(684)	(4,469)
Deferred tax liability	(3,785)	(684)	(4,469)
Carried forward business losses	92	159	251
Provision for decommissioning obligation	55	3	58
Provision for land lease	-	1	1
Change in fair value of derivative financial instrument (through other comprehensive income)	569	469	1,038
Deferred tax assets	716	632	1,348

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.

23. 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:

	2021 RO'000s	2020 RO'000s
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC (inclusive of value added tax)	**4,552**	4,177
Electricity bonus transferred	**216**	235
Other cost to Muscat City Desalination Operation and Maintenance Company LLC	**81**	97
Interest expense on Shareholders' loans	**170**	171
Key management compensation	**228**	231
Director's sitting fee (net)	**34**	16

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

	2021 RO'000s	2020 RO'000s
Amount due to related parties		
Muscat City Desalination Operation and Maintenance Company LLC	**1,186**	894
Summit Water Middle East Company	**2,460**	2,644
Malakoff Oman Desalination Company Limited	**2,461**	2,644
Malakoff International Limited	**2,140**	2,160
Sumitomo Corporation	**2,140**	2,160

24. Earnings per share

	2021	2020
Profit for the period (RO in '000)	**2,351**	1,840
Weighted average number of shares outstanding during the period (in thousands)	**155,550**	155,550
Earnings per share (basic and diluted) (RO)	**0.015**	0.012

25. Net assets per share

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

	2021	2020
Net assets (RO in ‘000)	**16,961**	13,629
Number of shares outstanding at year end (in thousands)	**155,550**	155,550
Net assets per share (RO)	**0.109**	0.088
Net assets per share excluding hedging reserve (RO)	**0.131**	0.125

26. Commitments

Operation and maintenance commitment

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

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

	2021 RO’000s	2020 RO’000s
Due within one year	**1,281**	1,285
Due after one year but within five years	**5,128**	5,128
Due after five years	**11,322**	12,603
	17,731	19,016

27. 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.

27. Financial instruments (continued)

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's deposits with banks.

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

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

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

	2021	2020
	RO'000s	RO'000s
Cash at bank and deposits	**4,486**	4,209
Trade receivables	**1,515**	1,230
	6,001	5,439

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

	2021	2020
	RO'000s	RO'000s
Oman Power and Water Procurement Co. SAOC	**1,515**	1,230

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL using the simplified approach. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has not accounted for ECL against OPWP because these are government and/or government owned entities and taking into account the historical default experience and the current credit ratings of the Government, the management of the Company have assessed that there is no significant impairment loss.

27. Financial instruments (continued)

Credit risk (continued)

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

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 maintained approximately 85% of its borrowings in fixed rate or hedged in accordance with the Common Terms Agreement with its lenders.

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial asset and liability at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

The Company has hedged this interest rate at 85% through interest rate swaps contracts in accordance with the Common Terms Agreement with its lenders. Therefore, changes in interest rates during the period will not significantly affect the Company's cashflow and profit or loss.

27. Financial instruments (continued)

Cash flow sensitivity analysis for variable rate instruments (continued)

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 2021	**100 bp increase RO'000s**	**100 bp decrease RO'000s**
Fair value of derivative financial instruments	**2,820**	**(2,820)**
31 December 2020		
Fair value of derivative financial instruments	3,366	(3,366)

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.

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 reputable local and foreign financial institutions.

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

27. Financial instruments (continued)

Liquidity risk (continued)

31 December 2021	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	**54,218**	**71,750**	**5,836**	**23,436**	**42,478**
Shareholders' stand - by equity loans	**754**	**754**	**-**	**754**	**-**
Shareholders' bridge loans	**8,447**	**9,888**	**917**	**3,334**	**5,637**
Lease liabilities	**255**	**512**	**15**	**60**	**437**
Trade and other payables	**2,839**	**2,839**	**2,839**	**-**	**-**
	66,513	**85,743**	**9,607**	**27,584**	**48,552**
31 December 2020					
Non derivative financial liabilities					
Term loans	57,531	77,214	5,810	21,819	49,585
Shareholders' stand - by equity loans	754	754	-	754	-
Shareholders' bridge loans	8,854	10,076	187	3,104	6,785
Lease liabilities	258	526	15	60	451
Trade and other payables	2,212	2,212	2,212	-	-
	69,609	90,782	8,224	25,737	56,821

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.

27. Financial instruments (continued)

Gearing ratio

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

	2021	2020
	RO'000s	RO'000s
Debt (Term loans, Shareholder's bridge and shareholders stand–by equity loans net of transaction costs)	**62,488**	66,133
Cash and bank balances	**(4,486)**	(4,209)
Net debt	**58,002**	61,924
Equity	**16,961**	13,629
Net debt to equity ratio	**3.42**	4.54

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.

	2021	2020
	RO'000s	RO'000s
Interest rate swaps – Level 2	**45,838**	48,644

The Company had no financial instruments in level 1 or level 3. During the year ended 31 December 2021 and 31 December 2020, there were no transfers of financial instruments between the levels for fair value measurement.

27. Financial instruments (continued)

Valuation approach of interest rate swaps

The fair value of the interest rate swaps is determined using quoted interest rates at the reporting date and present value calculations at a rate that reflects the credit risk of various counterparties.

28. Operating lease arrangement where the Company acts as a lessor

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

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

	2021	2020
	RO'000s	RO'000s
Due within one year	**7,670**	7,691
Due after one year but within five years	**30,701**	30,701
Due after five years	**67,791**	75,461
	106,162	113,853

29. Approval of financial statements

The financial statements were approved by the Board and authorized for issue on 14 February 2022.