

Independent Auditor's Report to the Shareholders of Muscat City Desalination Company SAOG

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Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Muscat City Desalination Company SAOG** (the "Company"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs').

Basis for opinion

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

Key audit matters

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

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Key audit matters (continued)

Key audit matter	How the matter was addressed in the audit
<p>Valuation of derivatives</p> <p>Refer to note 3 (Summary of significant accounting policies) and note 10 (Derivative financial instruments) of the financial statements for further details.</p> <p>At 31 December 2022, derivatives represented 2.5% of total assets. All derivatives are classified as level 2 in the fair value hierarchy as prescribed by IFRS 13 Fair Value Measurement.</p> <p>Financial instruments that are classified as level 2 in the fair value hierarchy will have some element of estimation uncertainty inherent in their value.</p> <p>Derivative financial instruments are used to manage and hedge interest rate risk. These instruments are designated as cash flow hedges. Valuation of the derivatives is based on valuation models using observable input data.</p> <p>As the determination of the fair value of derivatives is a key source of estimation uncertainty, is subject to significant judgement and represents a material balance, this matter was considered to be a key audit matter in our audit of the financial statements.</p>	<p>In relation to the key audit matter our procedures included the following:</p> <ul style="list-style-type: none"> • Obtained an understanding of the process to determine the fair value of derivatives, the risk management policies and the accounting policies adopted by management; • We assessed the controls over the valuation of derivatives to determine if they had been appropriately designed and implemented; • We reconciled the carrying value of derivative financial instruments in the financial statements to external third party confirmations; • We recalculated the fair value of derivative financial instruments with independently obtained and externally available market data using support from our financial risk management specialists; and • We evaluated the disclosures contained in the financial statement in relation to derivative financial instruments to determine if they met the requirements of IFRSs.

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Key audit matters (continued)

Key audit matter	How the matter was addressed in the audit
<p>Useful life of plant</p> <p>The Company operates its water desalination plant under a Water Purchase Agreement ("WPA") entered into with Oman Power and Water Company ("OPWP"), which is the single buyer of water for all projects within the Sultanate of Oman. The WPA, which is for 20 years, expires in October 2034 and has no renewal option and has been determined to be an operating lease. The carrying amount of the plant and machinery, civil and structural works and pipelines (collectively the "plant") as at 31 December 2022 is RO 81.11 million.</p> <p>The useful life of the plant of 40 years is based on management's technical assessment of factors which are subject to judgement and accordingly contains significant estimation uncertainty. In addition, the estimated useful life that has been assumed by management is more than the term of the WPA as the plant will have an economic viability beyond the initial term of 20 years covered by the current WPA.</p> <p>In making its assessment of the plant's useful life, management appointed an independent valuation expert in 2016 to prepare a cash flow model for the plant's entire expected operating life-cycle and the cash flow implications of the various options that may apply after the initial 20 year WPA expires. This includes consideration of a potential contract extension or the implementation of a merchant market arrangement. Further, the independent valuer has assessed the useful life of the plant considering various factors such as plant's operating cycles, maintenance programs and normal wear and tear. Management are of the view that the plant will be economically viable and will continue to operate after the WPA has expired.</p> <p>We focused on this area as a key audit matter because the estimation of the useful life of the plant impacts the measurement of accumulated depreciation and requires significant application of judgment as to how the plant will be utilised in the post-WPA period.</p> <p>Refer to note 3 (Summary of significant accounting policies) and note 5 (Property, plant and equipment) of the financial statements for further details.</p>	<p>In relation to the key audit matter our procedures included the following:</p> <ul style="list-style-type: none"> • Evaluated the design and implementation of controls around the estimation of useful life of the plant; • We assessed the inputs of the assumptions (including assessing inputs relevant to our audit used in the model and reperforming the arithmetical accuracy of the sections in the model which were relevant for audit purposes) considered by the independent valuation expert for the cash-flow forecasts pertaining to the post-WPA period; • We reassessed the relevance and appropriateness of the assumptions detailed above by making enquiries of management as to: <ul style="list-style-type: none"> ○ The current status of operations of the plant, including the future plans and utilisation of the plant after the end of the WPA; and ○ The Company's right to extend the land lease under a Usufruct Agreement for an additional term; • Obtained OPWP's latest seven-year statement (2021-2027) published for the power sector in the Oman region where the Company operates, which substantiates the Company's strategic position in the region; • Reassessed the reasonableness of the useful life of the plant and the depreciation method used by comparing it with other companies in the country which have operating plants with similar technology; • Reassessed the continuing adequacy of disclosures in these financial statements relating to plant life and judgment surrounding it to determine if they are in accordance with IFRS.

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Other information

The Board of Directors ("the Board") is responsible for the other information. The other information comprises the Board of Directors' Report, Corporate Governance Report and Management Discussion and Analysis Report were obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and their preparation in compliance with the relevant disclosure requirements of the Commercial Companies Law of 2019 and the disclosure requirement of issued by the Capital Market Authority of Sultanate of Oman (the "CMA"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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Auditors' responsibilities for the audit of the financial statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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Report on other legal and regulatory requirements

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

In our opinion, the financial statements comply in all material respects, with relevant disclosure requirements of the Commercial Companies Law of 2019, and the disclosure requirements issued by the CMA.

Deloitte & Touche
Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
21 February 2023

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