MUSCAT CITY DESALINATION COMPANY SAOG

DELIVERING THE **ESSENTIALS OF LIFE**

ANNUAL REPORT 2022

He is the One, Who has made the earth a place of settlement for you and the sky a canopy; and sends down rain (water) from the sky, causing fruits to grow as a provision for you. So do not knowingly set up equals to Allah in worship.

Surah Al Baqarah 2:22

His Majesty Sultan Qaboos Bin Said (Late)

His Majesty Sultan Haitham Bin Tarik

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Board Of Directors

Seated Left to Right:
Ashish Gupta I **Sultan 'Obaid Said Al Ghaithi*** (Chairman of Audit Committee), **Tamer Cankardes** (Chairman of the Board) I **Anwar Syahrin bin Abdul Ajib** (Deputy Chairman of the Board) I **Ajeev Gopinathan**

Standing Left to Right:
Mohd Nazersham bin Mansor I **Tsutomu Sakamoto**

*Sultan 'Obaid Said Al Ghaithi resigned with effect from 12 December 2022.

KEY EXECUTIVE OFFICERS

Mr. Kamarulzaman bin Sulaiman

Chief Financial Officer

Mr. Toshiro Baba

Chief Executive Officer

Tamer Cankardes
Chairman

Board Of Directors' Report

Dear Shareholders,

On behalf of the Board of Directors of Muscat City Desalination Company SAOG (the Company), I am pleased to present to you the Annual Report of the Company for the year ended 31 December 2022.

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

Operational Highlights

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

The Company currently generates its revenue through the sale of potable water pursuant to a Water Purchase Agreement (WPA) with Oman Power and Water Procurement Company (OPWP). The potable water from

the Plant is fully contracted to OPWP. Electricity, which is the main energy source, is procured from Muscat Electricity Distribution Company (MEDC) pursuant to the Electricity Supply Agreement with MEDC. The Operations and Maintenance (O&M) of the plant is contracted to Muscat City Desalination Operation and Maintenance Company LLC (MCDOMC or the Operator) through a 20-year Operations and Maintenance Contract (O&M Contract).

During the financial year 2022, the Company achieved a higher Plant availability of 97.39%, compared with 94.88% during the same period in 2021, which was mainly due to the lower scheduled outage rate of 2.38% for the financial year in 2022, compared with 4.66% for the same period in 2021. Further, the total forced outage rate for the financial year in 2022 was 0.23%, compared with 0.46% for the same period in 2021 mainly due to optimised operation during the year.

This year, the Company achieved a potable water production of 66,926,208 m3 an increase of 1.12% compared with the total water production of 66,188,180 m3 in 2021. This was mainly due to the higher water output determined by the dispatch instruction issued by Oman Water and Wastewater Services Company (OWWSC).

Financial Results

In 2022, operating revenue increased by 3.2% to RO 18.644 million as compared to RO 18.068 million in 2021, as a result of lower unscheduled outage rate in 2022. Operating costs in 2022 increased to RO 12.046 million as compared to RO 11.813 million in 2021. Accordingly, the Company recorded profit before tax of RO 2.982 million, which is 13.1% higher compared with RO 2.637 million in 2021.

At the Annual General Meeting on 29 March 2022, the Shareholders approved for the Company to declare cash dividends of Baiza 7.715 per share, amounting to circa RO1.20 million out of the retained earnings of the Company as reflected in the Company's audited financial statements for the financial year ended 31 December 2021 to the shareholders who are registered in the Company's register as at 15 May 2022. The dividend was paid in May 2022.

Moreover, at the Ordinary General Meeting on 11 December 2022, Shareholders approved for the Company to declare cash dividends of Baiza 11.250 per share, totaling circa RO1.75 million out of the retained earnings of the Company as reflected in the Company's audited financial statements for the nine-month period ended 30 September 2022 to the shareholders who are registered in the Company's register as at 11 December 2022. The dividend was paid in December 2022.

The Board of Directors, at its meeting held on 21 February 2023, resolved the distribution of cash dividends in May and November 2023, to the Company's Shareholders who are registered in the Company's register as at the dates to be determined by the Board, out of retained earnings of the Company as reflected in the Company's audited financial statements for the financial year ended 31 December 2022, provided that the aggregate amount of the dividends shall not exceed Baiza 6.43 per share. The dividend distribution is subject to Shareholders' approval at the Annual General Meeting to be held on 23 March 2023 and in compliance with the Commercial Companies Law, other applicable Omani legislation and also certain covenants stipulated in term loan facilities agreements.

Health, Safety and Environment

Ensuring full compliance with Health, Safety and Environmental (HSE) standards continues to be a high priority of the Company and its Operator. This is evidenced by the fact that there was no Lost Time Incident (LTI) or environmental incident for 2022. As at 31 December 2022, the Company achieved 2,498 days without LTI since its COD. In April 2017, the Operator was awarded with ISO 14001:2004 Environmental Management System and ISO 45001:2018 Occupational Health and Safety Management System. In September 2018, the Operator successfully migrated its ISO 14001:2004 to ISO 14001:2015, and both ISO Certificates have been re-certified in June 2021. Furthermore, in March 2022, the Operator has been awarded with ISO 22301:2019 Business Continuity Management System certification.

Corporate Governance

The Board of Directors and Management of the Company believe in the importance of the internal control system. The Company has a comprehensive system of internal controls in place. The Company had carried out a comprehensive review of its key internal policies and procedures in order to ensure its compliance.

The Board has appointed an Internal Auditor to head the Company's Internal Audit Unit effective from 2 January 2022. An internal audit plan was developed for 2022, approved by the Audit Committee, and fully implemented during the year.

There was no significant finding identified for the year ended 31 December 2022. The Management is fully

committed to implementing the recommendations arising from the findings of the Internal Auditor.

In accordance with the Capital Market Authority (CMA) Code of Corporate Governance, the Company will also recommend to the Shareholders at the next Annual General Meeting for the appointment of a consultant to evaluate the performance of the Board for the financial year 2023.

Corporate Social Responsibility (CSR)

Since the outset of our operation, we've deeply committed to contribute toward the wellbeing of the Omani community at the forefront of our business. This philosophy has taken root throughout our day-to-day operation. Our CSR activities in the year 2022 are sought to build and strengthen our outreach to key areas of the local community, especially focused on the area of human development, and health and safety. CSR activities undertaken by the Company in 2022 are as below:

- **Donation of wheelchairs to Oman Association for Persons with Disabilities**
  On the ground of our CSR philosophy, we donated 13 units of wheelchairs to Oman Association for Persons with Disabilities with our sincere wish that these wheelchairs would be of help to young students in the Sultanate of Oman.
- **Cash Donation to Oman Charitable Organization**
  We also made a cash donation to Oman Charitable Organization, which is in line with CMA's guideline.
- **Plant tours for school students for learning the importance of water resources**
  We invited students from 2 Omani public schools to our Plant. During the Plant tours, students were given the opportunity to learn the importance of water resources and process of seawater desalination process which is the primary source of water in Muscat and sustains the life of citizens in the Sultanate of Oman. Students were from Thuraya Bint Mohammed Al-Busaeediya for Girls, and Al-Ullaa Basic School, both of which are in the vicinity of our Plant.
- **On-the-Job technical training for students**
  In line with our commitment to supporting the human development of young Omanis especially who are aiming at working for technical sectors, we accepted some young students to provide on-the-job-training opportunities for the operation and maintenance of water desalination facilities at our Plant. During the year, we accepted, in total, 26 students from the following institutes:
  - Middle East Desalination Research Center (MEDRC);
  - University of Technology & Applied Sciences;
  - National University of Sciences & Technology;
  - Sultan Qaboos University

  In addition, we participated in Eidaad program sponsored by Petroleum Development Oman (PDO) to provide training opportunities for 1 student who was in the last year of study. Furthermore, we provided 1-year training program for fresh graduates in order to have good working experiences with our operators.

Employment

By the end of 2022, the Omanization level in both the Company and its Operator is 82%. The Company with its Operator has long-term plans to further improve Omanization level.

Future Outlook

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

Conclusion

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

Finally, on behalf of the Board of Directors, I would also like to extend our heartiest appreciation and gratitude to His Majesty Sultan Haitham bin Tariq bin Taimur Al Said and His Government for their continued support and encouragement of the private sector by creating an environment that allows us to participate effectively in the growth of the Sultanate's economy and to contribute towards the building of a strong and prosperous nation.

Tamer Cankardes
Chairman

DESCRIPTION OF THE COMPANY

Overview

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

The Company currently generates its revenues pursuant to a 20-year term Water Purchase Agreement (WPA) with OPWP, which is indirectly wholly-owned by the Government. The desalinated water from the Plant is fully contracted to OPWP and used to meet the growing water demand of the Muscat Zone during the term of the WPA. As of 2022, the contracted water capacity of the Plant represents approximately 24% of the operating capacity in the Muscat Zone as per OPWP's 7-year statement (2021-2027)

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

The following map displays the approximate location of the Plant:

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

Technology and Processes

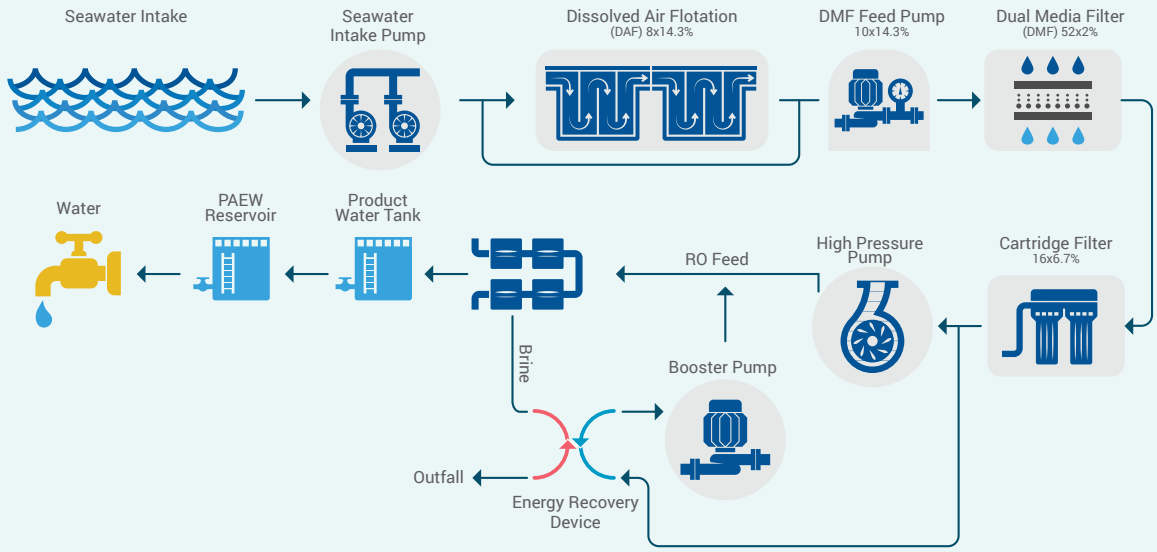
Description of the Plant

The Plant was developed under a BOO scheme and comprises offshore passive screens, submerged seawater intake and outfall pipelines, a Dissolved Air Flotation (DAF) system, Dual Media Filters (DMF) for pre-treatment, a double pass Sea Water Reverse Osmosis (SWRO) system, post treatment with carbon dioxide and a lime dosing remineralisation system plus chlorination and fluoridation, and all other auxiliary systems.

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

Desalination process

The desalination process followed by the Plant is shown below:



Seawater Intake

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

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

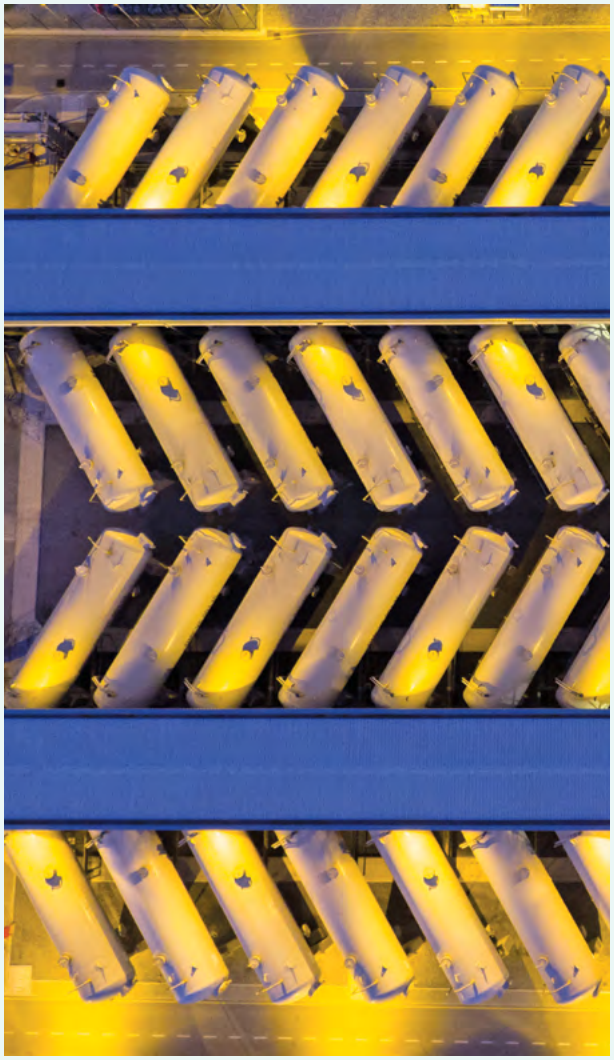
Seawater from the intake is then transferred to the downstream processes.

Pre-treatment System

The pre-treatment system is required to treat the seawater upstream to the Reverse Osmosis (RO) system. This is accomplished by the DAF, DMF and Cartridge Filter Systems (CFS).

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

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



RO system

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

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

Post-treatment System

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

Operation and Maintenance

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

Revenue Overview

During the term of the WPA

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

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

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

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


DMF-W

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Description of the Company and Business

Muscat City Desalination Company S.A.O.G. (hereinafter referred to as MCDC or the Company) was incorporated as an S.A.O.C. with the commercial registration number 1163374 for an unlimited duration on 19 January 2013.

The Company underwent an Initial Public Offering (IPO) exercise during late 2017 and was subsequently listed on the Muscat Stock Exchange (MSX) on 2 January 2018.

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

The Company generates its revenues from the sale of desalinated water pursuant to a Water Purchase Agreement (WPA) with the Oman Power and Water Procurement Company (OPWP). The desalinated water from the Plant is fully contracted to OPWP to meet the growing water demand of the Muscat Zone during the term of the WPA. The contracted water capacity of the Plant represents approximately 24% of the total contracted capacity in the Muscat Zone in accordance with OPWP's 7-year statement (2021-2027).

The potable water is delivered to the Oman Water and Wastewater Services Company (OWWSC) reservoirs located adjacent to the Plant.

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

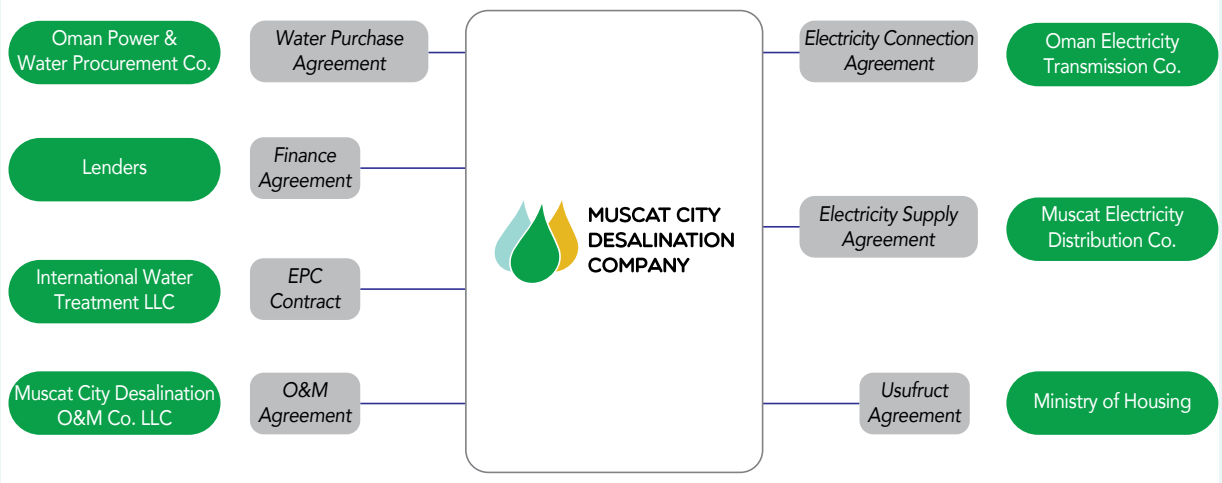
Competitive Strengths

The Company's competitive strengths include the following:

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

Contractual Framework

MCDC's contractual framework is as shown below.



Water Purchase Agreement

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

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

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

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

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

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

The WPA also provides for relief to the Company if various force majeure events hinder the Company from performing its obligations under the WPA. If it can be established that a force majeure event has occurred, or will occur, and that it could not have been mitigated by the Company, acting as a reasonable and prudent operator, the Company will be relieved from liability for any failure to perform its obligations under the WPA for the duration of the force majeure event and the term of the WPA will be extended by the period for which

the force majeure event hindered the Company from performing its obligations.

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

Electricity Supply Agreement (ESA)

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

Electricity Connection Agreement (ECA)

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

i. the payment by the Company to OETC of the connection fee; and

ii. enforcement of the Grid Code between OETC and the Company.

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

Usufruct Agreements (UAS)

The UAS was executed between the Ministry of Housing (MoH) and the Company on 11 February 2013. The UAS relates to the site on which the Plant is located (Site). It has a term of 25 years from the date of ratification of the UAS by the Government, subject to a further extension of 25 years at the option of the Company. The Company is under the obligation to only use the Site for the stated purpose as described in the UAS.

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

Operations and Maintenance Agreement (O&M Agreement)

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

The terms of the O&M Agreement may be modified to reflect any extension of the term of the WPA as may be determined between the Company and OPWP in accordance with the terms of the WPA. The O&M Agreement was amended in 2017, 2018, and 2021 mainly to revise the water capacity O&M charge due to the non-requirement of the second pass Reverse Osmosis sub-system of the Plant and to provide clarity on the sharing of the risks/benefits on the electricity consumption charges with the Operator.

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

- operating the Plant during the operation period in accordance with the scheduling requirements and the dispatch instructions issued to the Company by OPWP from time to time;
- maintaining the Plant to ensure that the Plant operates at the requisite capacity;
- recruiting, employing and training sufficient staff to operate and maintain the Plant;
- programming and carrying out such performance tests as may be required by the Company or OPWP from time to time and any additional performance tests as the Company or OPWP may propose in accordance with the testing procedures and restrictions under the WPA;
- performing all operation and maintenance works and procure all resources and materials to comply with the Omanization Plan specified in the O&M Agreement;
- satisfying all of the Company's operation and maintenance related obligations under the Project Agreements;

- affording all reasonable assistance and co-operation in relation to the performance of the Company's obligations under the Project Agreements; and
- not undertaking any action or failing to take any action which would cause the Company to be in breach of any of its obligations under the Project Agreements.

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

EPC (Engineering, Procurement, and Construction) Contract

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

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

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

If the EPC Contractor repairs, replace or renews all or any part of the Plant or works, then the Defects Liability Period shall apply to the part of the Plant or the Works so repaired, replaced or renewed until the expiration of 24 months from the date of such repair, replacement or renewal, provided that the defects liability period shall not be greater than 48 months from Taking Over Date. As a result, IWT was responsible for carrying out at its cost all works of redesign, repair, reconstruction, rectification, renewal and replacement for the purpose of making good of Defects (as defined under the EPC Contract) or damage to the Plant or any part of the Works which might appear as a result of a Defect and for which IWT was responsible pursuant to the terms of the EPC Contract. During the Defects Liability Period, a total of 133 warranty items had been raised, which have all been closed or commercially settled with the EPC Contractor in 2020.

Risk Management

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

MCDC's risk management objectives are:

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

Financial Arrangement

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

Operation and Maintenance

The Plant is operated and maintained during the term of the WPA by the Operator, through the O&M Agreement with the Company. The Operator is primarily responsible for the Plant's availability and efficiency, meeting dispatch instructions, operational cost control and most importantly, the Health, Safety & Environment

(HSE) compliance. The Operator is also responsible for ensuring that adequate spare parts are available and that its employees are properly qualified and trained.

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

Corporate Governance

The Board of Directors and Management of the Company and the Operator are committed in ensuring that the highest standards of corporate governance are practiced in the Company and the Operator. This is practiced, as a fundamental part of their respective responsibilities in managing the businesses and affairs, protecting and enhancing stakeholders' values as well as financial performance while promoting the highest standards of integrity, transparency and accountability.

Discussion on Operational Highlights and Financial Performance

Health, Safety and Environment (HSE)

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

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

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

During the year, there were neither Lost Time Incidents (LTI) nor environmental incidents. As at 31 December 2022, the Company achieved 2,498 days without an LTI since its Commercial Operations Date (COD) on 19 February 2016. The total man-hour is 69,201 hours.

The Operator had, in April 2017, been awarded ISO 14001:2004 Environmental Management System and ISO 45001:2018 Occupational Health and Safety Management System certification. In September 2018, the Operator successfully migrated ISO 14001:2004 to ISO 14001:2015, and both ISO Certificates have been re-certified in June 2021. Furthermore, in March 2022, the Operator has been awarded with ISO 22301:2019 Business Continuity Management System certification.

Capacity

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

The contracted capacity of the Al Ghubrah Independent Water Plant under the WPA is 42 MIGD applicable from April 2022 to March 2023, following the Annual Performance Tests conducted in March 2022 which demonstrated that the plant met the contractual requirements under the WPA.

Plant Availability & Output

The reliability of the Plant is a measure of its availability to deliver the declared capacity in accordance with the WPA. For the financial year 2022, the Company achieved a higher availability of 97.39%, compared to 94.88% in 2021.

During the year, the Plant experienced negligible amount of algae bloom, and the operations and availability of the Plant was adequately controlled with the incorporation of the Dissolved Air Flotation (DAF) system adopted at the

Plant. In addition, the Plant did not have the material infestation of jellyfish during this year.

In March 2022, the Company implemented the major maintenance, called "pigging" at two seawater intake pipes which successfully improved the Plant's overall efficiency. The pigging was intended for the purpose of cleaning-up its seawater intake pipes to remove massive volumes of marine growth such as barnacles, mussels and other species of adhesive shellfish that have grown and adhered for years to the inside wall of its intake pipes, which restricted the amount of seawater into the intake pipes and reduced the efficiency of the plant.

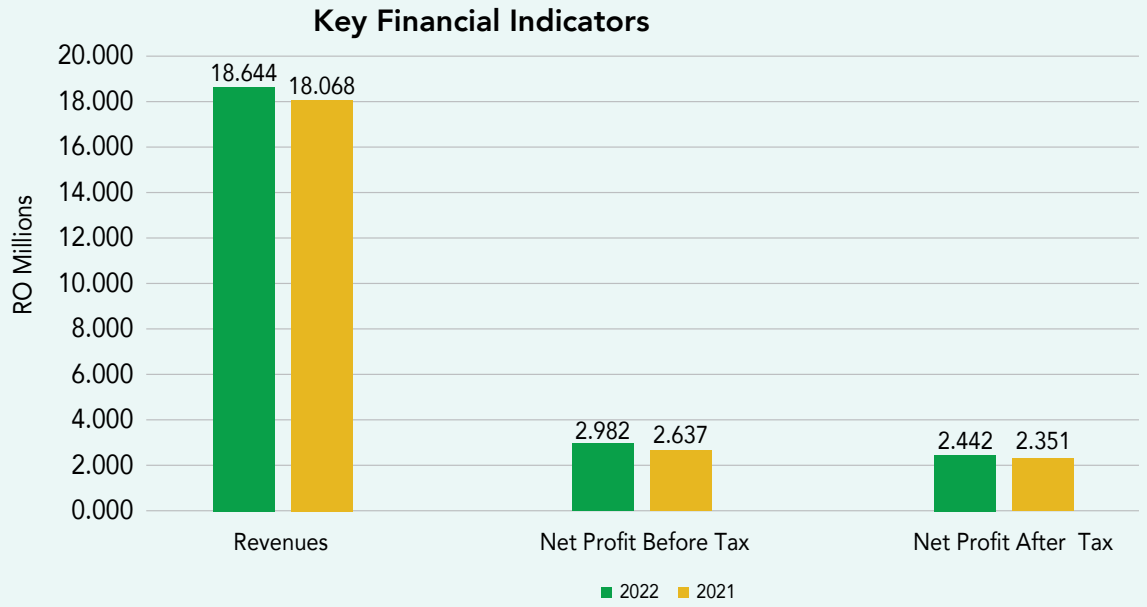
Overall, total forced outages in 2022 was 0.23% against 0.46% for 2021.

Notwithstanding the above, during FY2022, the Plant produced a total of 66,926,208 m3/day of potable water with a utilization factor averaging 96.04% of the total plant capacity. Plant production is determined by the daily dispatch instruction issued by OWWSC.

Financial Highlights

All figures in RO million	Notes	2022	2021
Revenues	1	**18.644**	18.068
Net Profit After tax	2	**2.442**	2.351
Net Profit before Finance Costs	3	**5.168**	5.140
Total Assets	4	**89.056**	92.007
Capital (Paid-up)	5	**15.555**	15.555
Shareholder's Fund (Net Assets)	6	**21.746**	16.961
Term Loan (*1)	7	**50.756**	54.218
Weighted average number of shares	8	**155,550,400**	155,550,400
Actual number of shares outstanding	9	**155,550,400**	155,550,400
Ordinary dividends	10	**2.950**	1.500

(*1) Excluding unamortized transaction costs



All figures in RO million	Notes	2022	2020
Net Profit Margin	= 2/1	**13.10%**	13.01%
Return on Capital (Paid-up)	= 2/5	**15.70%**	15.11%
Return on Capital Employed	=3/(6+7)	**7.13%**	7.22%
Debt Equity Ratio	= 7: 6	**70:30**	76:24
Net assets per share (RO)	= 6/8	**0.140**	0.109
Basic Earnings Per Share (RO)	= 2/8	**0.016**	0.015
Dividend per share (Baiza)	= 10/9	**18.965**	9.644

Analysis of Profit and Loss

The Company managed to generate operating revenue of RO 18.644 million in FY2022, 3.2% higher than the RO 18.068 million in FY2021. This increase is mainly due to lower unscheduled outage rate in FY2022.

The profit before tax for FY2022 was RO 2.982 million, higher compared to RO 2.637 million in FY2021. The net profit after tax was higher in FY2022 RO 2.442 million compared to RO 2.351 million in FY2021.

Analysis of Balance Sheet

Total assets of the Company stood at RO 89.056 million as at 31 December 2022 compared to RO 92.007 million in FY2021. The decrease in the total assets was mainly due to depreciation charge for the period in FY2022.

The cash and cash equivalents as at 31 December 2022 were RO 2.438 million compared to RO 4.486 million as at 31 December 2021. The decrease in the cash was mainly due to dividend payment in FY2022.

The shareholders' funds as at 31 December 2022 was RO 21.746 million compared to RO 16.961 million as at 31 December 2021. The increase in the shareholders' funds was mainly contributed by the higher profit during the year and positive changes in the Hedging Reserve in FY2022 as compared to FY2021. The Hedging Reserve (net of deferred tax) has improved by RO 5.293 million in FY2022 from negative Hedging reserve of RO 3.398 million in FY2021, reflecting the in-the money fair value of the two interest rate swap arrangements as at the balance sheet date. This has improved the Company's capability to distribute dividends to its shareholders in FY2023.

Term loans (including non-current and current balances) reduced to RO 50.756 million as a result of scheduled repayments made in accordance with finance agreements.

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

Dividend Distribution

Shareholders at the Annual General Meeting ("AGM") held on 29th March 2022 authorised the Board of Directors to determine and distribute cash dividends to the Shareholders of the Company. Cash dividend of Baiza 7.715 per share, totalling circa RO1.20 million out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2021, was paid to the shareholders of the Company in May 2022.

At the Ordinary General Meeting on 11 December 2022, Shareholders approved for the Company to declare cash dividend of Baiza 11.250 per share, totalling circa RO1.75 million out of the retained earnings of the Company as reflected in the Company's audited financial statements for the period ended 30 September 2022.The dividend was paid in December 2022.

The Board of Directors, at its meeting held on 21 February 2023, resolved the distribution of cash dividends in May and November 2023, to the Company's Shareholders who are registered in the Company's register as at the dates to be determined by the Board, out of retained earnings of the Company as reflected in the Company's audited financial statements for the financial year ended 31 December 2022, provided that the aggregate amount of the divided shall not exceed Baiza 6.43 per share. The dividend distribution is subject to Shareholders' approval at the Annual General Meeting to be held on 23 March 2023 and in compliance with the Commercial Companies Law, other applicable Omani legislation and also certain covenants stipulated in term loan facilities agreements.

Employees, Training and Omanisation

MCDC and its Operator takes Omanization as a responsibility to assist in the building of Omani expertise in the water desalination sector. Together, the Company and its Operator employ a total of 50 employees, of which 41 employees are Omani citizens. The Project had achieved an overall Omanization ratio of 82% as at 31 December 2022.

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

Internal control systems

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

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

Outlook

The Company will endeavor to ensure that it continues to take reasonable and prudent measures to improve its performance for FY2023, by improving the Plant's reliability and availability, without compromising on HSE matters.


I ♥ OMAN

CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORT

Since the outset of our operation, we've deeply committed to contribute towards the wellbeing of the Omani community in the area where our Plant is operated. This philosophy has taken root throughout our day-to-day operations. Our CSR activities in the year 2022 are continued to be sought to build and strengthen our outreach to key areas of the local community, especially focused on the area of human development, and health and safety, while we had still a certain restriction due to the prolonged outbreak of Covid-19 throughout the year.

- **Donation of wheelchairs to Oman Association for Persons with Disabilities**

  On the ground of our CSR philosophy, we donated 13 units of wheelchairs to Oman Association for Persons with Disabilities with our sincere wish that these wheelchairs would be of help to young students in the Sultanate of Oman.

- **Cash Donation to Oman Charitable Organization**

  We also made a cash donation to Oman Charitable Organization, which is in line with CMA's guideline.

- **Plant tours for school students for learning the importance of water resources.**

  We invited students from 2 Omani public schools to our Plant. During the Plant tours, students were given the opportunity to learn the importance of water resources and process of seawater desalination process which is the primary source of water in Muscat and sustains the life of citizens in the Sultanate of Oman. Students were from Thuraya Bint Mohammed Al-Busaeediya for Girls, and Al-Ullaa Basic School, both of which are in the vicinity of our Plant.

- **On-the-Job technical training for students**

  In line with our commitment to supporting the human development of young Omanis especially who are aiming at working for technical sectors, we accepted some young students to provide on-the-job-training opportunities for the operation and maintenance of water desalination facilities at our Plant. During the year, we accepted, in total, 26 students from the following institutes:

  - Middle East Desalination Research Center (MEDRC);
  - University of Technology & Applied Sciences;
  - National University of Sciences & Technology;
  - Sultan Qaboos University

In addition, we participated in Eidaad program sponsored by Petroleum Development Oman (PDO) to provide training opportunities for 1 student who was in the last year of study. Furthermore, we provided 1-year training program for fresh graduates to have good working experiences with our operators.

We look forward to working with our shareholders and stakeholders to broaden and enhance our CSR programme to better contribute to the Omani community in the coming year.

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The Board of Directors
Muscat City Desalination Company SAOG
Muscat
Sultanate of Oman

Agreed Upon Procedures report on Code of Corporate Governance

Purpose of this Agreed-upon Procedures Report

Our report is solely for the purpose of assisting the directors of Muscat City Desalination Company SAOG (the "Company") in determining whether Corporate Governance Report of the Company is in compliance with the Code of Corporate Governance (the "Code") of the Capital Market Authority of the Sultanate of Oman ("CMA"), as prescribed in the CMA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code") and may not be suitable for another purpose.

Responsibilities of the Engaging Party

The Engaging Party has acknowledged that the agreed upon procedures are appropriate for the purpose of the engagement.

The Engaging Party have prepared the Corporate Governance Report ("the Report") and remains solely responsible for it and are also responsible for identifying and ensuring that the contents of the Report comply with the Code.

Our Responsibilities

We have conducted the procedures agreed with the Company, and set out below, in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), Agreed-Upon Procedures Engagements. An agreed-upon procedures engagement involves performing the procedures that have been agreed with the Company, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness or sufficiency of the agreed-upon procedures.

This agreed-upon procedure engagement is not an audit or assurance engagement made in accordance with generally accepted auditing or assurance standards, the objective of which would be the expression of assurance on the contents of the Report. Accordingly, we do not express such assurance.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the ethical requirements of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") and the independence requirements in accordance with IESBA Code.

We apply the International Standard on Quality Management (ISQM) 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Deloitte.

Procedures and Findings

We have performed the procedures described below, which were agreed with the Company in the terms of our engagement letter dated 23 January 2023, on the compliance of the Report with the Code for the year ended 31 December 2022.

Procedures	Findings
We obtained the Corporate Governance Report issued by the Board of Directors and determined if the items listed in Annexure 3 of the Code are included in the corporate governance report.	*No exceptions noted*

Our report is intended solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose.

This report is based on the information provided to us by the management of the Company. We did not subject the information contained in our report or given to us by management to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we performed were not designed to and are not likely to reveal fraud.

This report relates only to the accompanying Corporate Governance Report of the Company to be included in its annual report for the year ended 31 December 2022 and does not extend to the Company's financial statements taken as a whole.

Deloitte & Touche

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

ديلويت آند توش (الشرق الأوسط) وشركاه ش.م.م
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Deloitte & Touche (M.E.)& Co. LLC.

CORPORATE GOVERNANCE REPORT

Company's philosophy

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

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

The Company's Board of Directors (Board) is constantly striving towards better governance and has undertaken the necessary measures to implement the Capital Market Authority's ("CMA") prescribed SAOG Code of Corporate Governance and applicable rules. The Board oversees the executive management's functions and safeguards the long-term interests of the Company. The Board is fully committed to apply the highest possible standards of corporate governance.

Board of Directors

All members of the Board are non-executive in accordance with the requirement of the Code. During the Financial Year ended 31 December 2022, the Board consisted of the following Directors:

No.	Name of director	Date of appointment	Independent / non independent	Mode of representation
1.	Tamer Cankardes	27 March 2019	Non-independent	Shareholder representative
2.	Anwar Syahrin bin Abdul Ajib	6 December 2020	Non-independent	Shareholder representative
3.	Mohd Nazersham bin Mansor	29 March 2021	Non-independent	Personal capacity
4.	Sultan 'Obaid Said Al Ghaithi*	27 March 2019	Independent	Personal capacity
5.	Tsutomu Sakamoto	16 November 2021	Non-independent	Personal capacity
6.	Ajeev Gopinathan	27 March 2019	Independent	Personal capacity
7.	Vishwanath Sankaranarayanan**	13 May 2020	Independent	Personal capacity
8.	Ashish Gupta	29 March 2022	Independent	Personal capacity

* Sultan 'Obaid Said Al Ghaithi resigned with effect from 12 December 2022.

** All of the above members of the Board were elected at the Company's annual general meeting held on 29 March 2022 except for Vishwanath Sankaranarayanan

Board meetings / shareholders meetings and attendance in 2022

No.	Name of the director	Position	Attendance								
			Board Meetings							Shareholders Meetings	
										AGM	OGM
			Feb 14	Mar 29	Apr 25	Jul 25	Oct 26	Nov 16	Total	Mar 29	Dec 11
1	Tamer Cankardes	Chairman	•	•	•	•	•	•	6	•	•
2	Anwar Syahrin bin Abdul Ajib	Deputy Chairman	•	•	P	•	•	•	5	•	•
3	Tsutomu Sakamoto	Member	•	•	•	•	•	P	5	•	•
4	Mohd Nazersham bin Mansor	Member	•	•	•	P	•	•	5	•	•
5	Sultan 'Obaid Said Al Ghaithi	Member	•	•	•	•	•	•	6	•	-
6	Ajeev Gopinathan	Member	•	•	•	•	•	•	6	•	•
7	Vishwanath Sankaranarayanan*	Member until 29 March 2022	•	-	-	-	-	-	1	•	-
8	Ashish Gupta**	Member	-	•	•	•	•	•	5	-	•

• Attended, P: Proxy

* Vishwanath Sankaranarayanan was not elected at the Company's annual general meeting held on 29 March 2022.

** Ashish Gupta was elected at the Company's annual general meeting held on 29 March 2022.

Performance Appraisal for the Board of Directors

The CMA has announced that the Board evaluation should be conducted once during the term of the Board. In light of this announcement and given that the current Board's term ends on 29 March 2025, the Board has agreed to undertake the next board evaluation in the Financial Year ending 31 December 2023 and the evaluation report shall be presented at the shareholders annual general meeting proposed to be held in 2024.

Board Audit Committee

The role of the Board Audit Committee includes the following:

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

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

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

(d) Ensure oversight of the internal audit function.

(e) Ensure oversight of the adequacy of the internal control systems.

(f) Ensure oversight of financial statements in general including the review of annual and quarterly financial statements before issue, qualifications contained in draft financial statements, and discussions of accounting principles therein and changes in accounting standards adopted by the Company.

(g) Serve as a channel of communication for the Board with the external and internal auditors.

(h) Review risk management policies.

(i) Review all related party transactions and provide recommendations to the Board, in relation to the transactions.

The Board Audit Committee comprises the following members during the Financial Year 2022:

No.	Name of the BAC Member	Position	Dates and number of audit committee meetings				
			Feb 14	Apr 25	Jul 25	Oct 26	Nov 16
1	Sultan 'Obaid Said Al Ghaithi*	Chairman	•	•	•	•	•
2	Ajeev Gopinathan	Member	•	•	•	•	•
3	Vishwanath Sankaranarayanan**	Member until 29 March 2022	•	-	-	-	-
4	Mohd Nazersham bin Mansor	Member	•	•	P	•	•
5	Ashish Gupta***	Member	-	•	•	•	•

• Attended, P: Proxy

* Sultan 'Obaid Said Al Ghaithi resigned with effect from 12 December 2022.
** Vishwanath Sankaranarayanan was not elected at the Company's annual general meeting held on 29 March 2022.
*** Ashish Gupta was elected at the Company's annual general meeting held on 29 March 2022.

Board Nomination and Remuneration Committee (BNRC)

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

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

The BNRC comprises the following members during the Financial Year 2022:

No.	Name of the BNRC Member	Position	Dates of BNRC Meetings	
			Feb 14	Oct 26
1	Tamer Cankardes	Chairman	•	•
2	Anwar Syahrin bin Abdul Ajib	Member	•	•
3	Tsutomu Sakamoto	Member	•	•

• Attended, P: Proxy

Procedure for Nomination of Directors

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

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

Remuneration

a) Sitting Fees to Members of Board and Its Committees

A total amount of RO 38,700 is expensed as sitting fees for the Financial Year ended 31 December 2022. The Board Audit Committee and BNRC have also incurred sitting fees of RO 5,700 and RO 1,800 respectively. The aggregate sitting fee for each Director did not exceed RO 10,000 per Director as per the guidelines issued by the CMA. This will be tabled for shareholders' approval at the upcoming Annual General Meeting on 23 March 2023.

b) Other Payments to Directors

There was no other payment to the Directors other than their sitting fees as stated above.

c) Key Executives of the Company

The Executive Management (as defined in the Companies Law) of the Company received an aggregate amount of RO 251,132 for the Financial Year ended on 31 December 2022. This includes salaries, bonus and other benefits. The remuneration paid to these key executives commensurate with their key performance indicators established for the financial year.

Internal Auditor

The Board appointed a full-time internal auditor with effect from 2 January 2022 and terminated the contract with Grant Thornton.

Details of non-compliance by the Company during the last three years

There were no penalties levied on the Company by the CMA, Muscat Stock Exchange (MSX) or any other statutory authority on any matter for the past 3 years up to 31 December 2022.

Means of Communication with the Shareholders and Investors

The Company's means of communication and disclosures are in accordance with the regulatory requirements. The Company discloses its annual un-audited financial results, un-audited interim financial statements and audited annual financial statements on the MSX website within the regulatory deadlines. The Company has conducted an interactive discussion session with the investor community on 25 August 2022 to present its unaudited financial results for the period ended 30 June 2022. The Company also publishes relevant financial information in two local newspapers. Communication with the shareholders is undertaken in both English and Arabic languages.

Market Price Data

a) High/low share price and performance comparison during each month in 2022.

Month	Price (Baizas)				MSX Index (Service sector)	
	High	Low	Closing	Change from 2 January 2022 Opening Price	Closing	Change from 2 January 2022 Opening MSX Index
January	0.0920	0.0850	0.092	2.22%	1602.4450	-1.39%
February	0.1240	0.0870	0.122	35.56%	1643.9440	1.16%
March	0.1200	0.1070	0.117	30.00%	1617.5120	-0.46%
April	0.1250	0.1160	0.119	32.22%	1636.9600	0.73%
May	0.1210	0.1120	0.113	25.56%	1581.8890	-2.66%
June	0.1200	0.1100	0.113	25.56%	1566.5550	-3.60%
July	0.1130	0.1110	0.111	23.33%	1658.0780	2.03%
August	0.1170	0.1110	0.114	26.67%	1675.0970	3.08%
September	0.1160	0.1100	0.116	28.89%	1624.4080	-0.04%
October	0.1160	0.1100	0.110	22.22%	1529.5640	-5.88%
November	0.1150	0.1080	0.110	22.22%	1551.1030	-4.55%
December	0.1180	0.0980	0.098	8.89%	1616.5970	-0.52%

Source: MSX's website.

b) Distribution of shareholdings as at 31 December 2022.

Category	Number of Shareholders	Number of Shares Held	Share Capital %
5 % and above	4	120,657,165	77.57%
Less than 5%	2,424	34,893,235	22.43%
Total	**2,428**	**155,550,400**	**100.00%**

Source: Muscat Clearing and Depository's Website.

Professional Profile of Statutory Auditor

About Deloitte

Deloitte & Touche (M.E.) LLP ("DME") is the affiliate for the territories of the Middle East and Cyprus of Deloitte NSE LLP ("NSE"), a UK limited liability partnership and member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL").

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During the year 2022, Deloitte total fees amounted to RO 20,240 in relation to professional services rendered to the Company (RO 17,500 for audit and RO 2,740 for other services).

Specific areas of Non-Compliance of Corporate Governance

There was no penalty levied on the Company by any statutory authority on any matter related to corporate governance in 2022.

Board Acknowledgement

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

Chairman

Muscat City Desalination Company SAOG

Report and financial statements
for the year ended 31 December 2022

Pages

Deloitte.

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Muscat City Desalination Company SAOG** (the "Company"), which comprise the statement of financial position as at 31 December 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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Independent Auditor's Report to the Shareholders of Muscat City Desalination Company SAOG (continued)

Key audit matters (continued)

Key audit matter	How the matter was addressed in the audit
Valuation of derivatives Refer to note 3 (Summary of significant accounting policies) and note 10 (Derivative financial instruments) of the financial statements for further details. 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. Financial instruments that are classified as level 2 in the fair value hierarchy will have some element of estimation uncertainty inherent in their value. 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. 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.	In relation to the key audit matter our procedures included the following: • 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.

Deloitte.

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

Key audit matters (continued)

Key audit matter	How the matter was addressed in the audit

Useful life of plant
 	
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.
 	
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.
 	
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.
 	
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.
 	
Refer to note 3 (Summary of significant accounting policies) and note 5 (Property, plant and equipment) of the financial statements for further details.
	In relation to the key audit matter our procedures included the following:
	
	• 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:
	
	  o The current status of operations of the plant, including the future plans and utilisation of the plant after the end of the WPA; and
	  o 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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Independent Auditor's Report to the Shareholders of Muscat City Desalination Company SAOG (continued)

Other information

The Board of Directors ("the Board") is responsible for the other information. The other information comprises 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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Independent Auditor's Report to the Shareholders of Muscat City Desalination Company SAOG (continued)

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.

Deloitte.

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

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

ديلويت آند توش (الشرق الأوسط) وشركاه ش.م.م
C.R. No. 1736256
Deloitte.
0901-07
Deloitte & Touche (M.E.) & Co. LLC.

Sachin Singhal
Partner
CA (ICAI) Membership No. 502140

Statement of financial position

as at 31 December 2022

	Notes	2022 RO'000s	2021 RO'000s
ASSETS			
Non-current assets			
Property, plant and equipment	5	81,973	84,431
Right-of-use asset	6	236	243
Derivative financial instruments	10	2,070	-
Deferred tax	22	594	1,225
Total non-current assets		84,873	85,899
Current assets			
Derivative financial instruments	10	160	-
Trade and other receivables	7	1,585	1,622
Cash and cash equivalents	8	2,438	4,486
Total current assets		4,183	6,108
Total assets		89,056	92,007
EQUITY AND LIABILITIES			
Equity			
Share capital	9.1	15,555	15,555
Legal reserve	9.2	2,440	2,196
Retained earnings		1,856	2,608
		19,851	20,359
Hedging reserve	10	1,895	(3,398)
Net equity		21,746	16,961
Non-current liabilities			
Term loans	11	46,346	49,900
Derivative financial instruments	10	-	3,743
Provision for decommissioning obligation	12	254	384
Shareholders' bridge loans	13	6,988	7,718
Shareholders' stand-by equity loans	14	754	754
Lease liability	15	249	252
End-of-service benefits	16	21	12
Deferred tax	22	5,912	5,070
Total non-current liabilities		60,524	67,833
Current liabilities			
Term loans	11	3,555	3,387
Derivative financial instruments	10	-	255
Shareholders' bridge loans	13	730	729
Lease liability	15	3	3
Trade and other payables	17	2,498	2,839
Total current liabilities		6,786	7,213
Total liabilities		67,310	75,046
Total equity and liabilities		89,056	92,007
Net assets per share (RO)	25	0.140	0.109

Chairman

Chief Executive Officer

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

Statement of profit or loss and other comprehensive income

for year ended 31 December 2022

	Notes	2022	2021
		RO'000s	RO'000s
Revenue	18	18,644	18,068
Operating costs	19	(12,046)	(11,813)
Gross profit		6,598	6,255
Administrative and general expenses	20	(906)	(839)
Finance costs (net)	21	(2,726)	(2,789)
Other income		16	10
Profit for the year before tax		2,982	2,637
Income tax	22	(540)	(286)
Profit for the year		2,442	2,351
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Changes in fair values of derivative financial instruments		6,228	2,919
Deferred tax on changes in fair values of derivative financial instruments	22	(935)	(438)
Other comprehensive income for the year net of income tax	10	5,293	2,481
Total comprehensive income for the year		7,735	4,832
Earnings per share – basic and diluted	24	0.016	0.015

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

Statement of changes in equity

for the year ended 31 December 2022

	Share capital	Legal reserve	Retained earnings	Hedging reserve	Total
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
At 1 January 2022	**15,555**	**2,196**	**2,608**	**(3,398)**	**16,961**
Profit for the year	**-**	**-**	**2,442**	**-**	**2,442**
Other comprehensive income net of deferred tax for the year	**-**	**-**	**-**	**5,293**	**5,293**
Total comprehensive income for the year	**-**	**-**	**2,442**	**5,293**	**7,735**
Transfer to legal reserve	**-**	**244**	**(244)**	**-**	**-**
Dividend distributed (Note 9.3)	**-**	**-**	**(2,950)**	**-**	**(2,950)**
At 31 December 2022	**15,555**	**2,440**	**1,856**	**1,895**	**21,746**
At 1 January 2021	15,555	1,961	1,992	(5,879)	13,629
Profit for the year	-	-	2,351	-	2,351
Other comprehensive income net of deferred tax for the year	-	-	-	2,481	2,481
Total comprehensive income for the year	-	-	2,351	2,481	4,832
Transfer to legal reserve	-	235	(235)	-	-
Dividend distributed (Note 9.3)	-	-	(1,500)	-	(1,500)
At 31 December 2021	15,555	2,196	2,608	(3,398)	16,961

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

Statement of cash flows

for the year ended 31 December 2022

	2022	2021
	RO'000s	RO'000s
Operating activities		
Net profit for the year before tax	**2,982**	2,637
Adjustment for:		
Depreciation	**2,493**	2,495
Amortisation of right-of-use assets	**7**	7
Provision for end of service benefits	**9**	8
Finance costs (net)	**2,726**	2,789
Cash flows from operating activities before working capital changes	**8,217**	7,936
Change in trade and other receivables	**37**	(300)
Change in trade and other payables	**(372)**	593
Net cash generated from operating activities	**7,882**	8,229
Investing activity		
Additions to property, plant and equipment	**(182)**	(69)
Disposal of property, plant and equipment	**-**	5
Net cash used in investing activity	**(182)**	(64)
Financing activities		
Net repayment of term loans	**(3,463)**	(3,314)
Finance cost paid	**(2,421)**	(2,482)
Repayment of lease liability	**(15)**	(15)
Repayment of shareholders loan	**(729)**	-
Interest paid on shareholders loan	**(170)**	(577)
Dividend distributed	**(2,950)**	(1,500)
Net cash used in financing activities	**(9,748)**	(7,888)
Net change in cash and cash equivalents	**(2,048)**	277
Cash and equivalents at the beginning of the year	**4,486**	4,209
Cash and cash equivalents at the end of the year	**2,438**	4,486

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

Notes to the financial statements

for the year ended 31 December 2022

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 Stock Exchange 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 ("MIGD"). 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 ("MIGD") 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 2022. 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.

- Amendments to IFRS 3 – Reference to the conceptual framework
- Amendments to IAS 16 – Property, plant and equipment – proceeds before intended use
- Amendments to IAS 37 – Onerous contracts – cost of fulfilling a contract
- 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

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	1 January 2023
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.	
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 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.

2.3 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 2022, the Company has derivative asset of RO 2.23 million (2021: derivative liability of RO 3.99 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 2023.

Notes to the financial statements

for the year ended 31 December 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.

As at 31 December 2022, the Company's current liabilities exceeded current assets by RO 2,603 (RO'000) (2021 - RO 1,105 (RO'000)). The net liability position is mainly due to fact that the Company's current assets mainly consists of trade receivable for one month whereas current liabilities includes term loan that will be paid over a period of 1 year from 31 December 2022. The management believes that these liabilities will be settled, through receipts from revenue contract from customer. Further, the management believes Company have adequate resources to continue in operational existence. For the year ended 31 December 2022, the Company has generated an operating cash flow of RO 7,882 (RO'000) (2021 – RO 8,229 (RO'000)). These conditions do not cast any material uncertainty in relation to the Company's ability to continue as going concern. Accordingly, these financial statements are prepared on a going concern basis.

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 and rounded to the nearest thousand unless stated otherwise.

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.

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.

3. Summary of significant accounting policies (continued)

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes the amount of cash and cash equivalents paid or the fair value of other consideration given to acquire an asset at the date of acquisition or construction.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised.

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

Subsequent costs

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

Depreciation

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

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

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.

Notes to the financial statements

for the year ended 31 December 2022

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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.

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.

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.

3. Summary of significant accounting policies (continued)

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.

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.

Notes to the financial statements

for the year ended 31 December 2022

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 and hedge accounting

Initial recognition and subsequent measurement

The Company uses derivative financial instruments, such as interest rate swaps to hedge interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

3. Summary of significant accounting policies (continued)

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss and other comprehensive income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the year. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to statement of profit or loss as a reclassification adjustment.

·After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

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.

Dividend

The Board of Directors take into account appropriate parameters including the requirements of the Commercial Companies Law and also certain covenants stipulated in term loan facilities agreements while recommending the dividend.

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

Notes to the financial statements

for the year ended 31 December 2022

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

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.

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.

3. Summary of significant accounting policies (continued)

Lease liability (continued)

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.

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.

Notes to the financial statements

for the year ended 31 December 2022

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.

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.

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

Critical judgements (continued)

Lease classification (continued)

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.

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.

Effectiveness of hedge relationship

At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging instrument (Note 10).

Valuation of derivatives

Derivative financial instruments are used to manage and hedge interest rate risk. These derivative instruments are designated as cash flow hedges by the management. The valuation of the derivatives is based on valuation models using observable input data. This exercise is performed at each reporting date to assess the value of the derivative financial instrument (Note 10).

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for the year ended 31 December 2022

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for the year ended 31 December 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 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
1 January 2022	**31,340**	**46,584**	**19,920**	**316**	**655**	**93**	**43**	**-**	**98,951**
Additions	**-**	**26**	**-**	**-**	**-**	**6**	**-**	**150**	**182**
Disposal / Adjustments	**-**	**-**	**-**	**(147)**	**-**	**-**	**-**	**-**	**(147)**
31 December 2022	**31,340**	**46,610**	**19,920**	**169**	**655**	**99**	**43**	**150**	**98,986**
Accumulated depreciation									
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
1 January 2022	**4,592**	**6,802**	**2,920**	**49**	**93**	**47**	**17**	**-**	**14,520**
Charge for the year	**784**	**1,166**	**498**	**3**	**17**	**17**	**8**	**-**	**2,493**
Disposal	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2022	**5,376**	**7,968**	**3,418**	**52**	**110**	**64**	**25**	**-**	**17,013**
Carrying value									
31 December 2022	**25,964**	**38,642**	**16,502**	**117**	**545**	**35**	**18**	**150**	**81,973**
31 December 2021	26,748	39,782	17,000	267	562	46	26	-	84,431

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:

	2022	2021
	RO'000s	RO'000s
Operating costs (note 19)	**2,468**	2,471
Administrative and general expenses (note 20)	**25**	24
	2,493	2,495

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:

	2022	2021
	RO'000s	RO'000s
Cost		
As at 1 January and 31 December	**264**	264
Depreciation		
As at 1 January	**21**	14
Charge for the year	**7**	7
As at 31 December	**28**	21
Carrying value		
As at 31 December	**236**	243

7. Trade and other receivables

	2022	2021
	RO'000s	RO'000s
Trade receivables	**1,510**	1,515
Prepayments and other receivables	**72**	104
Deposits	**3**	3
	1,585	1,622

The Company has one customer OPWP which is included in the trade receivables balance as at 31 December 2022 and 31 December 2021. 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 2022 is in the not due category.

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

Notes to the financial statements

for the year ended 31 December 2022

8. Cash and cash equivalents

	2022	2021
	RO'000s	RO'000s
Cash at bank	**1,307**	1,256
Short term deposits	**1,131**	3,230
	2,438	4,486

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	
	2022	2021
	RO'000s	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		**Country of incorporation**
	2022	2021	
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. Further during the year, the Company has transferred an amount equal to RO 244,198 (2021: RO 235,180) from its retained earnings being 10% of its net profit.

9.3 Dividend

Shareholders at the Annual General Meeting ("AGM") held on 29th March 2022 authorised the Board of Directors to determine and distribute cash dividends to the Shareholders of the Company. Cash dividend of Baiza 7.715 per share, totalling circa RO1.20 million out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2021, was paid to the shareholders of the Company in May 2022.

9. Capital and reserves (continued)

9.3 Dividend (continued)

At the Ordinary General Meeting on 11 December 2022, Shareholders approved for the Company to declare cash dividend of Baiza 11.250 per share, totalling circa RO1.75 million out of the retained earnings of the Company as reflected in the Company's audited financial statements for the period ended 30 September 2022.The dividend was paid in December 2022.

The Board of Directors, at its meeting held on 21 February 2023, resolved the distribution of cash dividends in May and November 2023, to the Company's Shareholders who are registered in the Company's register as at the dates to be determined by the Board, out of retained earnings of the Company as reflected in the Company's audited financial statements for the financial year ended 31 December 2022, provided that the aggregate amount of the divided shall not exceed Baiza 6.43 per share. The dividend distribution is subject to Shareholders' approval at the Annual General Meeting to be held on 23 March 2023.

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 42,909,094 (USD 111,597,124 (31 December 2021: RO 45,838,146 (USD 119,214,944)) 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 2022 (For the year ended 31 December 2021: highly effective).

The fair value movement of RO 5,292,463 (31 December 2021: RO 2,481,335) 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:

	2022	2021
	RO'000s	RO'000s
Less than 1 year	**160**	(255)
1 to 5 years	**778**	(1,292)
More than 5 years	**1,292**	(2,451)
Total more than 1 year	**2,070**	(3,743)
Cumulative changes in fair value	**2,230**	(3,998)

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 2022					
Interest rate swaps	**2,230**	**42,909**	**3,077**	**14,965**	**24,867**
31 December 2021					
Interest rate swaps	3,998	45,838	2,929	14,808	28,101

Notes to the financial statements

for the year ended 31 December 2022

10. Derivative financial instruments (continued)

Cumulative changes in fair value are recognised as follows:

	2022	2021
	RO'000s	RO'000s
Cumulative changes in fair value	**2,230**	(3,998)
Related deferred tax liability/asset	**(335)**	600
Cumulative changes in fair value, net of deferred tax	**1,895**	(3,398)

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

11. Term loans

	2022	2021
	RO'000s	RO'000s
Term loans	**50,756**	54,218
Less: deferred finance charges	**(855)**	(931)
	49,901	53,287
Less: current portion of term loans and deferred finance charges	**(3,555)**	(3,387)
Non-current portion of term loans	**46,346**	49,900

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 2022, RO 81,244,505 (USD 211,299,102) had been drawn down (31 December 2021: 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 3,462,817 (31 December 2021: RO 3,313,838) were paid during the year.

Interest

The term loans bear interest at three-months USD Libor plus margin. The effective interest rate for the period was 4.65% (31 December 2021: 4.38%).

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 2022.

12. Provision for decommissioning obligation

	2022	2021
	RO'000s	RO'000s
As at 1 January	**384**	382
Change during the period	**(147)**	(18)
Unwinding of interest on decommissioning cost provision	**17**	20
As at 31 December 2022	**254**	384

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 7.00% (2021: 5.50%) to its present value over the plant's estimated remaining useful life of 34 years. During the current year, the change is on account of the change in interest rate.

13. Shareholders' bridge loans

	2022	2021
	RO'000s	RO'000s
Summit Water Middle East Company	**1,709**	2,073
Malakoff Oman Desalination Company Limited	**1,709**	2,073
Sumitomo Corporation	**2,129**	2,129
Malakoff International Limited	**2,129**	2,129
Interest accrued	**42**	43
	7,718	8,447
Less: current portion of Shareholders' bridge loans	**(730)**	(729)
Non-current portion of Shareholders' bridge loans	**6,988**	7,718

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.

The Shareholders' loan will be repaid in line with the projections in IPO prospectus and waterfall mechanism. An amount of RO 729,000 (31 December 2021: RO Nil) were paid during the year. An amount of RO 730,000 will be repaid within the next 12 months.

Interest

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

Security

The Shareholders' loans are unsecured.

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for the year ended 31 December 2022

14. Shareholders' stand–by equity loans

	2022	2021
	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. 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 2022, future minimum lease commitments under non-cancellable operating leases are as follows:

	2022	2021
	RO'000s	RO'000s
Gross lease liability related to right-of-use assets	**496**	511
Future finance charges on finance leases	**(244)**	(256)
Present value of lease liabilities	**252**	255
The maturity of finance lease liabilities is as follows:		
Not later than 1 year	**3**	3
Later than 1 year	**249**	252
	252	255

16. End of service benefits

	2022	2021
	RO'000s	RO'000s
1 January	**12**	4
Provided during the year	**9**	8
31 December 2021	**21**	12

Notes to the financial statements

for the year ended 31 December 2022

17. Trade and other payables

	2022	2021
	RO'000s	RO'000s
Trade payables	**1,399**	1,821
Other payables	**1,099**	1,018
	2,498	2,839

Trade and other payables include an amount of RO 1,129,511 (31 December 2021: RO 1,185,902), due to Muscat City Desalination Operation and Maintenance Company LLC, a related party.

18. Revenue

	2022	2021
	RO'000s	RO'000s
Water capacity charges	**10,388**	10,107
Electricity charges	**4,961**	4,944
Water Output O&M Charges	**3,295**	3,017
	18,644	18,068

19. Operating costs

	2022	2021
	RO'000s	RO'000s
Operation and maintenance cost	**4,823**	4,391
Electricity charges	**4,748**	4,944
Amortisation of right-of-use asset	**7**	7
Depreciation	**2,468**	2,471
	12,046	11,813

20. Administrative and general expenses

	2022	2021
	RO'000s	RO'000s
Employee costs	**371**	340
Insurance	**195**	183
Legal and professional expenses	**122**	124
Depreciation	**25**	24
Directors' sitting fees	**39**	34
Others	**154**	134
	906	839

21. Finance costs (net)

	2022	2021
	RO'000s	RO'000s
Interest expense on term loans and interest swaps	**2,455**	2,468
Interest expense on Shareholders' loan	**170**	170
Amortisation of deferred finance cost	**76**	76
Interest income on term deposits	**(36)**	(2)
Other finance cost	**61**	77
	2,726	2,789

Notes to the financial statements

for the year ended 31 December 2022

22. Income tax

The Company is liable to income tax at the rate of 15% (31 December 2021: 15%). No provision for income tax has been made for the year ended 31 December 2022 in view of the taxable losses for the year.

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 2022.

Recognised in the statement of comprehensive income

	2022	2021
	RO'000s	RO'000s
Deferred tax		
Current year	**540**	286

Tax reconciliation

The reconciliation of income tax expense is as follows:

	2022	2021
	RO'000s	RO'000s
Profit for the year	**2,981**	2,637
Income tax at standard rate	**447**	396
Non - deductible expenses	**27**	30
Deferred tax not recognised on losses for the year	**53**	174
Deferred tax asset recognised on carry forward losses	**13**	(314)
	540	286

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

31 December 2022	**Asset / (liability) as at 1 January**	**Recognised in profit or loss and other comprehensive income**	**Asset / (liability) as at 31 December**
	RO'000s	**RO'000s**	**RO'000s**
Property, plant and equipment	**(5,070)**	**(507)**	**(5,577)**
Change in fair value of derivative financial instrument (through other comprehensive income)	**-**	**(335)**	**(335)**
Deferred tax liability	**(5,070)**	**(842)**	**(5,912)**
Carried forward business losses	**565**	**(13)**	**552**
Provision for decommissioning obligation	**58**	**(19)**	**39**
Provision for land lease	**2**	**1**	**3**
Change in fair value of derivative financial instrument (through other comprehensive income)	**600**	**(600)**	**-**
Deferred tax assets	**1,225**	**(631)**	**594**
31 December 2021			
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

22. Income tax (continued)

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:

	2022	2021
	RO'000s	RO'000s
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC (inclusive of value added tax)	**5,065**	4,552
Electricity bonus transferred	**174**	216
Other cost to Muscat City Desalination Operation and Maintenance Company LLC	**211**	81
Interest expense on Shareholders' loans	**170**	170
Key management compensation	**251**	228
Director's sitting fee (net)	**39**	34

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

	2022	2021
	RO'000s	RO'000s
Amount due to related parties		
Muscat City Desalination Operation and Maintenance Company LLC	**1,130**	1,186
Summit Water Middle East Company	**2,095**	2,460
Malakoff Oman Desalination Company Limited	**2,095**	2,461
Malakoff International Limited	**2,140**	2,140
Sumitomo Corporation	**2,140**	2,140

24. Earnings per share

	2022	2021
Profit for the year (RO in '000)	**2,442**	2,351
Weighted average number of shares outstanding during the year (in thousands)	**155,550**	155,550
Earnings per share (basic and diluted) (RO)	**0.016**	0.015

Notes to the financial statements

for the year ended 31 December 2022

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:

	2022	2021
Net assets (RO in '000)	**21,746**	16,961
Number of shares outstanding at year end (in thousands)	**155,550**	155,550
Net assets per share (RO)	**0.140**	0.109
Net assets per share excluding hedging reserve (RO)	**0.128**	0.131

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:

	2022	2021
	RO'000s	RO'000s
Due within one year	**1,281**	1,281
Due after one year but within five years	**5,128**	5,128
Due after five years	**10,041**	11,322
	16,450	17,731

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.

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.

27. Financial instruments (continued)

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

	2022	2021
	RO'000s	RO'000s
Cash at bank and deposits	**2,438**	4,486
Trade receivables	**1,510**	1,515
	3,948	6,001

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

	2022	2021
	RO'000s	RO'000s
Oman Power and Water Procurement Co. SOAC	**1,510**	1,515

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.

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.

Notes to the financial statements

for the year ended 31 December 2022

27. Financial instruments (continued)

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 year will not significantly affect the Company's cashflow and profit or loss.

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

	100 bp increase	100 bp decrease
31 December 2022	**RO'000s**	**RO'000s**
Fair value of derivative financial instruments	**2,169**	**(2,169)**
31 December 2021		
Fair value of derivative financial instruments	2,820	(2,820)

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.

27. 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:

31 December 2022	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
Derivatives					
Derivative financial instruments	**2,230**	**42,909**	**3,077**	**14,965**	**24,867**
Non derivative financial liabilities					
Term loans	**50,756**	**67,250**	**6,185**	**23,887**	**37,178**
Shareholders' stand - by equity loans	**754**	**754**	**-**	**754**	**-**
Shareholders' bridge loans	**7,718**	**8,448**	**878**	**3,558**	**4,012**
Lease liabilities	**252**	**497**	**15**	**60**	**422**
Trade and other payables	**2,498**	**2,498**	**2,498**	**-**	**-**
	61,978	**79,447**	**9,576**	**28,259**	**41,612**

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
Derivatives					
Derivative financial instruments	3,998	45,838	2,929	14,808	28,101
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

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.

Notes to the financial statements

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27. Financial instruments (continued)

Gearing ratio

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

	2022	2021
	RO'000s	RO'000s
Debt (Term loans, Shareholder's bridge and shareholders stand–by equity loans net of transaction costs)	**58,373**	62,488
Cash and bank balances	**(2,438)**	(4,486)
Net debt	**55,935**	58,002
Equity	**21,746**	16,961
Net debt to equity ratio	**2.57**	3.42

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.

	2022	2021
	RO'000s	RO'000s
Interest rate swaps – Level 2	**42,909**	45,838

The Company had no financial instruments in level 1 or level 3. During the year ended 31 December 2022 and 31 December 2021, there were no transfers of financial instruments between the levels for fair value measurement.

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. Capital Commitments

At 31 December 2022, the Company had capital commitments amounting to RO 5 (RO'000) (2021 – RO nil).

29. 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.

29. Operating lease arrangement where the Company acts as a lessor (continued)

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

	2022	2021
	RO'000s	RO'000s
Due within one year	**7,670**	7,670
Due after one year but within five years	**30,701**	30,701
Due after five years	**60,120**	67,791
	98,491	106,162

30. Approval of financial statements

The financial statements were approved by the Board and authorized for issue on 21st February 2023.