MUSCAT CITY DESALINATION COMPANY SAOG

ANNUAL REPORT 2020

DELIVERING ESSENTIALS OF LIFE

So, that with it we revive dead lands and provide drink for the cattle and the human We created.

– Surah AL- Furqan 25:49 –

His Majesty Sultan Qaboos
Bin Said (Late)

His Majesty Sultan Haitham
Bin Tarik

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BOARD OF DIRECTORS

Mr. Tamer Cankardes
Chairman

Mr. Anwar Syahrin Abdul Ajib
Deputy Chairman

Mr. Sultan Obaid Said Al Ghaithi
Director

Mr. Kei Nakamura
Director

Mr. Ajeev Gopinathan
Director

Mr. Mohd Nazersham bin Mansor
Director

Mr. Vishwanathan Sankaranarayan
Director

KEY EXECUTIVE OFFICERS

Mr. Toshiro Baba
Chief Executive Officer

Mr. Kamarulzaman Sulaiman
Chief Financial Officer

BOARD OF DIRECTORS

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 2020.

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 Securities Market (MSM) 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, and 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 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 2020, the Company achieved a higher Plant availability at 95.00%, compared with 93.84% during the same period in 2019.This was mainly due to the lower scheduled outage rate at 3.64% for the financial year in 2020, compared with 5.07% for the same period in 2019. Further, the Company achieved a potable water production of 64,845,538 m3 compared with the total water production of 65,032,354 m3 in 2019. This was mainly due to the lower water output dispatch instructions issued by Public Authority for Water (PAW).

Financial Results

In 2020, operating revenue slightly dropped by 0.4% to OMR 16.74 million as compared to OMR 16.81 million in 2019, as a result of higher unscheduled outage rate in 2020. . The Company recorded profit before tax of OMR 2.36 million, which is 8.6% higher compared with OMR 2.17 million in 2019.

The Company has however, been unable to declare or pay any dividend in 2020 in line with the guidance provided by the Capital Market Authority based on Article 130(3) of the new Commercial Companies Law, promulgated pursuant to SD 18/2019 (CCL). Whilst the Company's audited financial statements for 2020 demonstrate that it has recorded a net profit of OMR 1.84 million after taxation, the Company sustains a loss in other comprehensive income of OMR 2.65 million due to changes in fair values of derivative financial instruments, which is featured as cumulative net change in the fair value of cash flow hedging instruments of OMR 5.88 million in its balance sheet and has resulted in the erosion of the total equity of OMR 13.63 million against the share capital of OMR 15.55 million. The loss in other comprehensive income, which is unrealized, is a direct result from the lower interest rates in the current market. Even though, such erosion in equity does not affect the Company's cashflow position, the Company has been advised that it cannot distribute dividends unless such erosion has been fully extinguished referring to the Article 130(3) of the CCL. The Company has been exploring possibilities to distribute dividends to its shareholders in a way which is fully compliant with the CCL and other applicable Omani legislation with utmost efforts.

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 were no Lost Time Incidents (LTI) or environmental incidents for 2020. As at 31 December 2020, the Company achieved 1768 days without LTI since its COD. In April 2017, the Operator was awarded with ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System. In September 2018, the Operator successfully migrated its ISO 14001:2004 to ISO 14001:2015.

Furthermore, holding against the outbreak of COVID-19 pandemic, the Company has developed and implemented following procedures to prevent our employees, subcontractors on site and visitors from infection of COVID-19, providing a safe and healthy work environment and ensuring the total availability of the Plant and its drinking water production.

- Temperature screening at the Plant entrance;
- Replacing face-to-face meetings with conference calls;
- Enforcement of facial mask usage in the Plant;
- Installation and distribution of sanitizers;
- Routine disinfection of meeting rooms and work stations;
- Installation of informative posters in the buildings;
- Splitting of teams (maintenance, operation and laboratory) to work in shifts to minimize interactions between employees.

Corporate Governance

The Board of Directors and Management of the Company have adopted a comprehensive system of internal controls. The Company's internal auditor left the organisation in July 2019 and the Company is in process of identifying for suitable candidate to fill the vacancy. The Company has engaged Abu Timam Grant Thornton to undertake the Company's internal audit function until it is able to find a suitable candidate. An internal audit plan was developed for 2020 and approved by the Audit Committee, which was fully implemented during the year.

There were no significant findings identified for the year ended 31 December 2020. The Management is fully committed to implementing the recommendations

arising from the findings of the internal auditor.

In accordance with CMA's Code of Corporate Governance, the Company has also appointed a consultant to evaluate the performance of the Board. For further details on the corporate governance framework please refer to the Company's Corporate Governance Report.

Corporate Social Responsibility (CSR)

Our CSR initiatives and programs are reflective of our commitment to keeping the local Omani community at the forefront of our business. Accordingly, our CSR activities during 2020 have sought to build and strengthen our outreach to key sections of the Omani community, represented most notably by the educational and higher learning sector.

This year, however, due to COVID-19 pandemic, most of our programs originally planned as a part of our CSR have been suspended to minimize physical contacts which has been essential to prevent from spread of the COVID-19. Nevertheless, during the beginning of the year before pandemic starts, MCDC continued with its Technical Trainee Program. The Technical Trainee Program was for Omani students who were close to completing their technical diploma or degree program. As a part of this program, 5 students from various technical institutes or colleges have undergone training with our O&M team. The Company has also started one-year internship program for fresh graduates to work with our O&M specialists at our plant. During the year, 5 trainees completed or have continued this program.

In addition, the Company had made the donations for the endowment fund of Ministry of Health in Oman for supporting medical services exerted against COVID-19.

Employment

By the end of 2020, the Omanization level in both the Company and its Operator has been 74%. This is one of the highest levels achieved in the power and water industry. The Company with its Operator has long-term plans to further improve its 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 as well as to the Authority for Public Services Regulation, the Capital Market Authority and other governmental and non-governmental bodies for their encouragement, guidance and support. Also, I like to convey 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 of the Board

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 Interconnected Zone during the term of the WPA. The contracted water capacity of the Plant represents approximately 20% of the operating capacity in the Interconnected Zone as per OPWP's 7 year statement (2019-2025).

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 PAW reservoirs adjacent to the Plant. The Operator is a company controlled by the Project Founders.

The following map displays the approximate location of the Plant:

The Company was incorporated with the commercial registration number 1163374 for an unlimited duration and registered as an S.A.O.C. on 19 January 2013. The company was listed on MSM 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

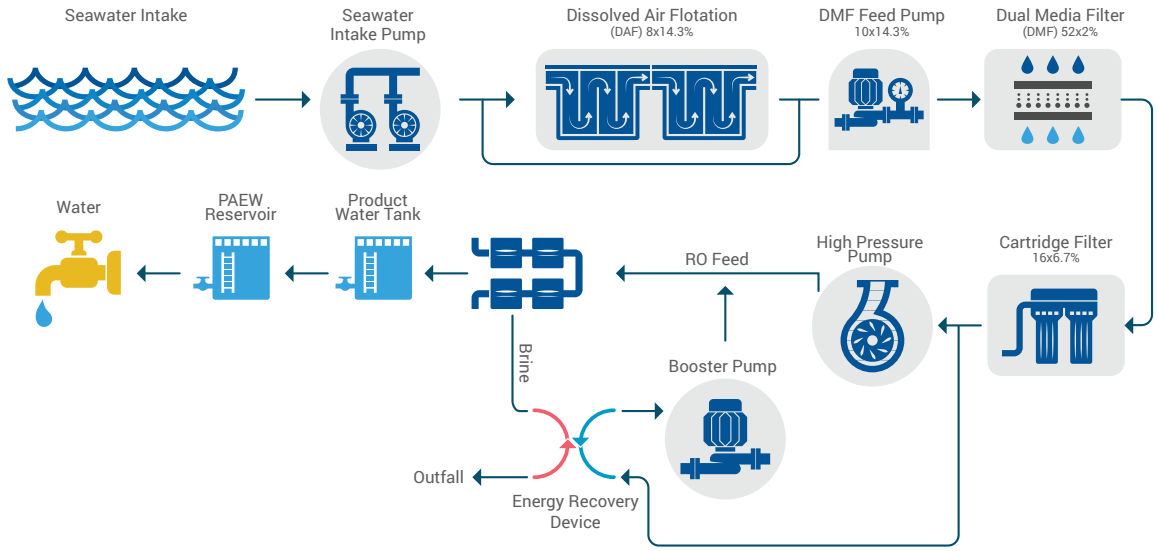
Description of the Plant

The Plant is located in North Al Ghubrah, Muscat Governorate, Sultanate of Oman and was developed under a BOO scheme. The Plant has been in commercial operation since 19 February 2016. The Plant has a capacity of 42 MIGD (191,000 m3/d) and comprises of offshore passive screens, submerged seawater intake and outfall pipelines, a Dissolved Air Flotation (DAF) system, dual media filters 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.

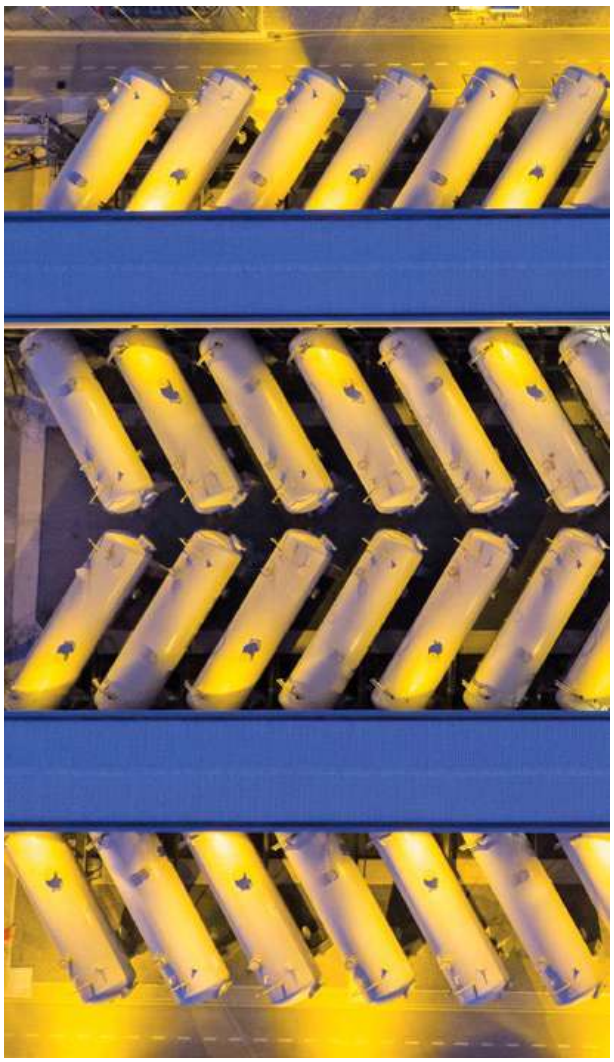
Seawater from the intake is then transferred to the downstream processes.

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 Dissolved Air Flotation (DAF), dual media filter (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 change in electricity charge being imposed by MEDC, with effect from 1st of January 2017, will not have a financial impact on the Company as it has been agreed that this change in the electricity charge will be passed through to OPWP.

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

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 in late 2017 and was subsequently listed on the Muscat Securities Market (MSM) on 2 January 2018.

The Company's core business activity is to develop, own and operate the Al Ghubrah Independent Water Plant, a Sea Water Reverse Osmosis (SWRO) desalination plant, with a contracted capacity of 191,000 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 Interconnected Zone (Northern Region of Oman) during the term of the WPA. The contracted water capacity of the Plant represents approximately 20% of the operating capacity in the Interconnected Zone in accordance with OPWP's 7-year statement (2018-2024).

The potable water is delivered to the Public Authority for Water (PAW) 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.

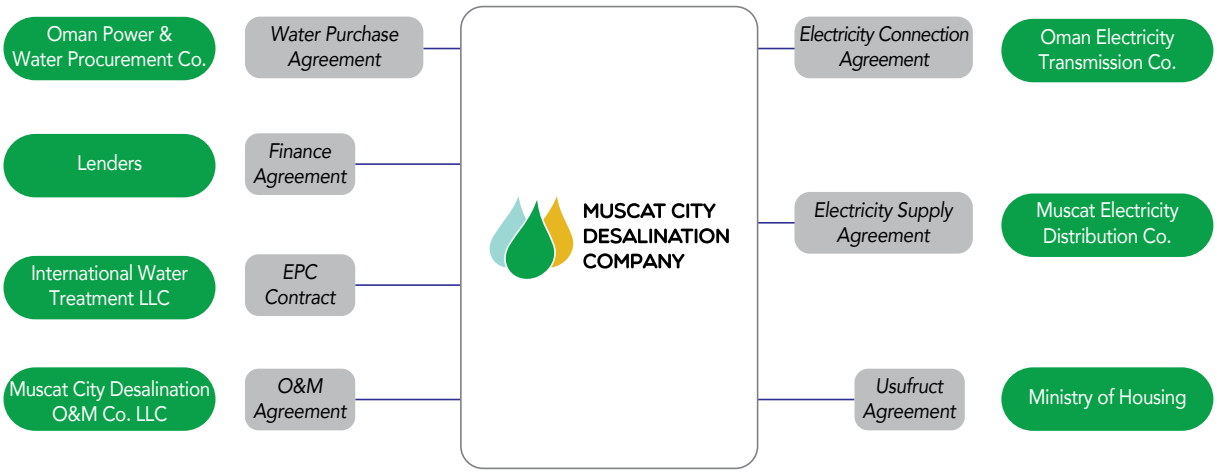
Competitive Strengths

The Company's competitive strengths include the following:

- One of the largest operating SWRO desalination plant at a single location in Oman.
- Well-established contractual framework with long term WPA, ensuring cash flow protection against adverse events such as buyer risk events and force majeure.
- Stable and predictable cash flows, resilient to potential shocks in electricity prices and water demand during the term of the WPA.
- Proven, long-term 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 Omanisation 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 a number of 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 so as to ensure that the Plant is capable of operating and maintaining water production on a continuous and reliable basis.

Under the WPA, the Company is also obliged to exclusively sell water output to OPWP and in return, receives from OPWP, payment for Water Capacity Charges and Water Output Charges. The Water Capacity Charges are designed to cover fixed costs such as debt service, return on capital, tax payments as well as fixed costs to operate and maintain the Plant (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. Furthermore, the Company shall be entitled to continued receipt of capacity charges to the extent of its availability during the force majeure period.

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 40MVA in accordance with the Permitted Tariffs in the ESA for operating the Plant. Both MEDC and the Company have the right to terminate the ESA by giving at least thirty days prior written notice to the other party.

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 on 21 October 2017 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 savings 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 PAW from time to time;
- maintaining the Plant to ensure that the Plant operates at the requisite capacity;
- recruiting, employing and training sufficient staff to operate and maintain the Plant;
- programming and carrying out such performance tests as may be required by the Company or OPWP from time to time and any additional performance tests as the Company or OPWP may propose in accordance

with the testing procedures and restrictions under the WPA;

- performing all operation and maintenance works and procure all resources and materials to comply with the Omanisation Plan specified in the O&M Agreement;
- satisfying all of the Company's operation and maintenance related obligations under the Project Agreements;
- affording all reasonable assistance and co-operation in relation to the performance of the Company's obligations under the Project Agreements; 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 Contract

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

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

The EPC Contract sets out 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 Taking Over date. The Taking Over date was 19 February 2016.

If the Contractor repairs, replace or renews all or any part of the Plant or works, then the Defects Liability Period shall apply to the part of the Plant or the Works so repaired, replaced or renewed until the expiration of 24 months from the date of such repair, replacement or renewal, provided that the defects liability period shall not be greater than 48 months from Taking Over Date. As a result, IWT 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 OMR 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 cashflows 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 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 2020, the Company achieved 1768 days without an LTI since its Commercial Operations Date (COD) on 19 February 2016. The total man-hours is 59,229 hours.

The Operator had, in April 2017, been awarded ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System certification. In September 2018 the ISO 14001:2004 had been successfully migrated to ISO 14001:2015.

In addition to the above measures, the Company and the Operator have developed and implemented the following procedures to prevent employees, subcontractors on site and visitors from the infection of COVID-19, thereby providing a safe and healthy work environment and ensuring the total availability of the Plant and its drinking water production.

- Temperature screening at the Plant entrance;
- Replacing face-to-face meetings with conference calls;
- Enforcement of facial mask usage in the Plant;
- Installation and distribution of sanitizers;
- Routine disinfection of meeting rooms and work stations;
- Installation of informative posters in the buildings;
- Splitting of teams (maintenance, operation and laboratory) to work in shifts to minimize interactions

between employees.

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 PAW water transmission system.

The contracted capacity of the Al Ghubrah Independent Water Plant under the WPA is 42 MIGD applicable from April 2020 to March 2021, following the Annual Performance Tests conducted in March 2020 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 2020, the Company achieved a higher availability of 95.00% after scheduled and forced outages compared to 93.84% in 2019.

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

However, the Plant experienced a series of jelly fish infestation in March, April, and June of 2020. The jelly fish infestation, which drifted with the sea currents, clogged the sea water intake screens and reduced the amount of seawater into the intake pipes. This reduction of sea water intake directly affects the amount of potable water produced by the Plant, thus causing the forced outages.

In addition, in December 2020, the Company implemented the major maintenance, called "pigging". The pigging was intended for the purpose of cleaning-up its one of two 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. The pigging was, after series of preparation works throughout the year, executed in December 2020, and this successfully removed tremendous amounts of marine growth from the intake pipe thereby improving the Plant's overall efficiency. However, the unexpected massive volume of marine growth (or debris) blocked the outlet of the intake pipe, which eventually caused forced outages. Despite it, after the implementation of the pigging, the plant successfully demonstrated immediate effects to improve its efficiency. The Company plans to implement the pigging again for the remaining seawater intake pipe in 2021, which is expected to further improve the Plant's performance.

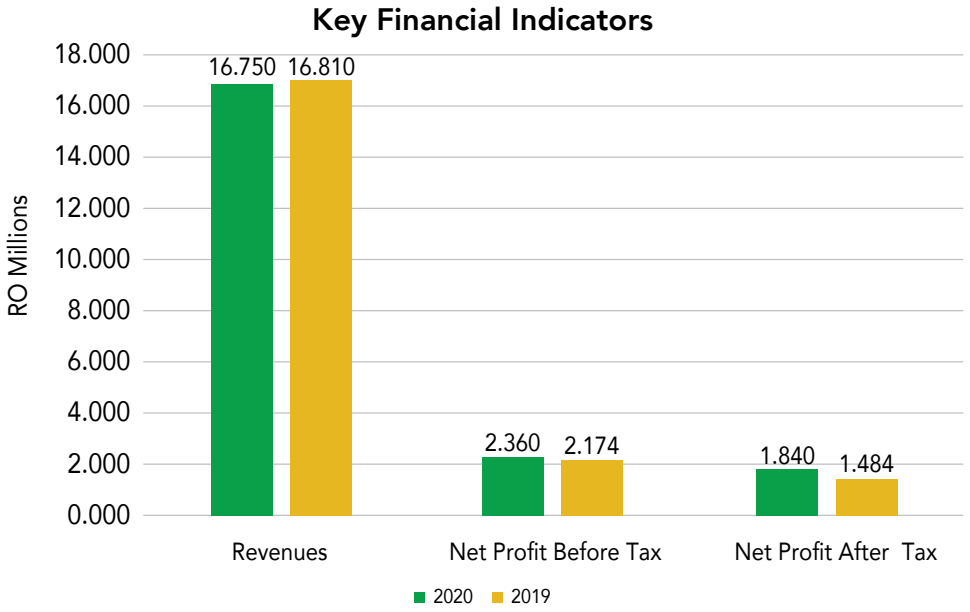
Overall, total forced outages in 2020 was 1.36% against 1.09% for 2019.

Notwithstanding the above, during FY2020, the Plant produced a total of 64,845,538 m3/day of potable water with a utilization factor averaging 92.80% of total plant capacity or 96.36% of scheduled available capacity. Plant production is determined by the daily dispatch instruction issued by PAW.

Financial Highlights

All figures in RO million	Notes	2020	2019
Revenues	1	**16.750**	16.810
Net Profit	2	**1.840**	1.484
Net Profit before Finance Costs	3	**4.797**	4.627
Total Assets	4	**94.004**	93.524
Capital (Paid-up)	5	**15.555**	15.555
Shareholder's Fund (Net Assets)	6	**13.629**	14.445
Term Loan (*1)	7	**57.532**	60.719
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	**-**	1.253

(*1) Excluding unamortized transaction costs



All figures in RO million	Notes	2020	2019
Net Profit Margin	= 2/1	**10.99%**	8.83%
Return on Capital (Paid-up)	= 2/5	**11.83%**	9.54%
Return on Capital Employed	= 3/(6+7)	**6.74%**	6.16%
Debt Equity Ratio	= 7 : 6	**81 : 19**	81 : 19
Net assets per share (RO)	= 6/8	**0.088**	0.093
Basic Earnings Per Share (RO)	= 2/8	**0.012**	0.010
Dividend per share (Baiza)	= 10/9	**-**	8.0550

Analysis of Profit and Loss

The Company managed to generate operating revenue of OMR 16.750 million in FY2020, 0.4% lower than the OMR16.810 million in FY2019. This decrease is mainly due to higher unscheduled outage rate in FY2020.

The profit before tax for FY2020 was OMR 2.360 million, higher compared with OMR 2.174 million in FY2019. The net profit after tax was also higher in FY2020 OMR 1.840 million compared with OMR 1.484 million in FY2019.

Analysis of Balance Sheet

Total assets of the Company stood at OMR 94.004 million as at 31 December 2020 compared with OMR 93.524 million in FY2019. The increase in the total assets was mainly due to higher cash position in FY2020 as compared to FY2019.

The cash and cash equivalents as at 31 December 2020 was OMR 4.209 million compared with OMR 1.973 million as at 31 December 2019.

The shareholders' funds as at 31 December 2020 was OMR13.629 million compared with OMR14.445 million as at 31 December 2019. The decrease in the shareholders' funds was mainly contributed by the higher negative changes in the Hedging Reserve in FY2020 as compared to FY2019. The negative Hedging Reserve (net of deferred tax) has increased by OMR 2.656 million in FY2020 from OMR 3.223 million in FY2019, reflecting the fair value of the 2 interest rate swap arrangements as at the balance sheet date. This has affected the Company's capability to distribute dividends to its shareholders in FY2020.

Term loans (including non-current and current balances) reduced to OMR 57.532 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

Despite a higher net profit in 2020, the Company has however, been unable to declare or pay any dividend in 2020 in line with the guidance provided by the Capital Market Authority based on Article 130(3) of the new Commercial Companies Law, promulgated pursuant to SD 18/2019 (CCL). Whilst the Company's audited financial statements for 2020 demonstrate that it has recorded a net profit of OMR 1.84 million after taxation, the Company sustains a loss in other comprehensive income of OMR 2.65 million due to changes in fair values of derivative financial instruments, which is featured as cumulative net change in the fair value of cash flow hedging instruments of OMR 5.88 million in its balance sheet and has resulted in the erosion of the total equity of OMR 13.63 million against the share capital of OMR 15.55 million. The loss in other comprehensive income, which is unrealized, is a direct result from the lower interest rates in the current market. Even though, such erosion in equity does not affect the Company's cash flow position, the Company has been advised that it cannot distribute dividends unless such erosion has been fully extinguished referring to the Article 130(3) of the CCL. The Company has been exploring possibilities to distribute dividends to its shareholders in a way which is fully compliant with the CCL and other applicable Omani legislation with utmost efforts.

Employees, Training and Omanisation

MCDC and its Operator takes Omanisation as a responsibility to assist in the building of Omani expertise in the water desalination sector. Together, the Company and its Operator employ a total of 50 employees, of which 37 employees are Omani citizens.

Training is conducted frequently, with strong emphasis on HSE, operational improvements and personal development. The employees are encouraged to attend the continuous education programmes 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.

The Project had achieved an overall Omanisation ratio of 74% as at 31 December 2020.

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 FY2021, by improving the Plant's reliability and availability, without compromising on HSE matters.

Corporate Social Responsibility (CSR) Report

Fostering a Community-Centric Philosophy

As our consistent commitments since the establishment of the company, we have fostered our corporate philosophy to be a community-centric that is to contribute to the society and community in the area that we operate in as well as to the Sultanate of Oman.

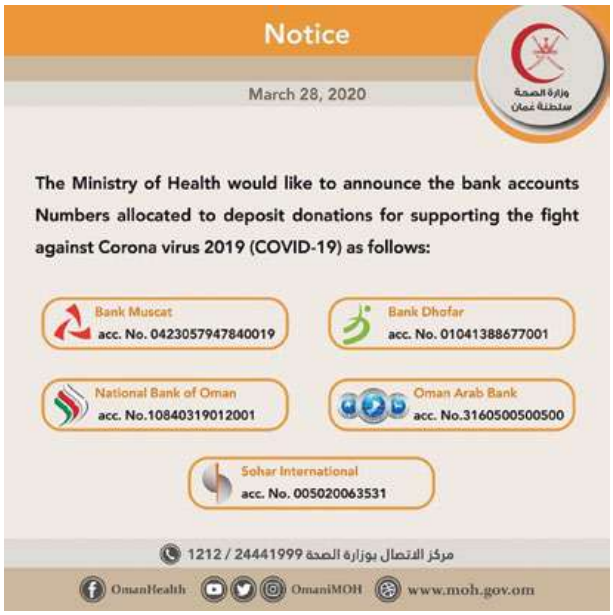
On the ground of this philosophy, our CSR programmes in 2020 have been sought to outreach to primary and higher education sectors as in 2019, but were partially suspended due to the outbreak of COVID-19 being started from the beginning of 2020.

Amongst the COVID-19 pandemic which has continued throughout the year, our Technical Trainee Programme has been carried out in a restricted manner. The Technical Trainee Programme is primarily targeted at Omani students who are close to completing their technical diploma or degree programmes and are required to intern or train at suitable establishments as part of their course requirements. This programme is conceptualized and structured to provide promising candidates with the requisite engineering and technical knowledge in the operation and maintenance of water desalination facilities. Before the outbreak of COVID-19 in the beginning of 2020, 5 students from various technical institutes or colleges had undergone internship with our O&M team.

Candidates for this year's Technical Trainee Programme were drawn from Higher College of Technology and Caledonian College of Engineering.

In addition, aiming for supporting medical services sector exerted against COVID-19, we extended our donations for the endowment fund of Ministry of Health in Oman. This is also in line with our aforementioned philosophy to contribute to the society and community and to express our heartiest appreciation for as well as to support medical services sector daily fighting with COVID-19.

We look forward to working with our shareholders and stakeholders to broaden our CSR programme to cover other sections of the Omani community in the coming year with the utmost attentions and cautions against COVID-19.



Source: www.moh.gov.om

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
Minaret Al Qurum Building, Level 6
Al Qurum
P.O. Box 258, Postal Code 112
Muscat
Sultanate of Oman

Tel: +968 22354300
Fax: +968 22354333
www.deloitte.com

TO THE SHAREHOLDERS OF
MUSCAT CITY DESALINATION COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) Circular No. E/4/2015 dated 22 July 2015 with respect to the accompanying corporate governance report of **Muscat City Desalination Company SAOG** as at and for the year ended 31 December 2020 and its application of corporate governance practices in accordance with CMA code of corporate governance issued under Circular No. 4/2015 dated 22 July 2015 and amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standards on Related Services to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Company's compliance with the Code as issued by the CMA and are summarized as follows:

1. We obtained the corporate governance report issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2. We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors with the Code, for the year ended 31 December 2020. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is 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 relates only to the accompanying corporate governance report of **Muscat City Desalination Company SAOG** to be included in its annual report for the year ended 31 December 2020 and does not extend to any financial statements of **Muscat City Desalination Company SAOG,** taken as a whole.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
14 February 2021

ديلويت آند توش (الشرق الأوسط) وشركاه ش.م.م
C.R. No. 1736256
Deloitte.
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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 organisational discipline, ensure accountability, transparency and fairness.

Following its Initial Public Offering on 2 January 2018, the Company is required to comply with the Capital Market Authority's (CMA) Code of Corporate Governance (Code) and other rules and guidelines issued by the CMA from time to time.

As a step towards good corporate governance, the Board of Directors (the Board) has undertaken the necessary measures to implement the Code 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 2020, the Board consisted of the following Directors:

No.	Name of director	Date of appointment	Independent / non independent	Mode of representation
1.	Ahmad Fuaad bin Mohd Kenali*	27 March 2019	Non-independent	Shareholder representative
2.	Tamer Cankardes	27 March 2019	Non-independent	Shareholder representative
3.	Ruswati binti Othman**	27 March 2019	Non-independent	Personal capacity
4.	Kei Nakamura	27 March 2019	Non-independent	Personal capacity
5.	Sultan Obaid Said Al Ghaithi	27 March 2019	Independent	Personal capacity
6.	Ajeev Gopinathan	27 March 2019	Independent	Personal capacity
7.	Vishwanath Sankaranarayanan	13 May 2020	Independent	Personal capacity
8.	Mohammed Nazersham bin Mansor	27 July 2020	Non-independent	Personal capacity
9.	Anwar Syahrin bin Abdul Ajib	6 December 2020	Non-independent	Shareholder representative

* Ahmad Fuaad bin Mohd Kenali resigned with effect from 6 December 2020

** Ruswati binti Othman resigned with effect from conclusion of board meeting on 26 July 2020

Board meetings / shareholders meetings and attendance in 2020

No.	Name of the director	Position	Attendance							
			Board Meetings						Shareholders Meetings	
									AGM	EGM
			Feb 11	Apr 26	Jul 26	Oct 25	Dec 6	Total	May 13	May 13
1	Ahmad Fuaad bin Mohd Kenali*	Chairman until 26 July 2020 (Shareholder Representative)	•	•	•	•	-	4	•	•
2	Tamer Cankardes	Chairman after 26 July 2020 (Shareholder Representative)	•	•	•	•	•	5	•	•
3	Ruswati binti Othman**	Member until 26 July 2020	P	P	•	-	-	1	•	•
4	Kei Nakamura	Member	•	•	•	•	P	4	•	•
5	Sultan Obaid Said Al Ghaithi	Member	•	•	•	•	•	5	•	•
6	Ajeev Gopinathan	Member	•	•	•	•	•	5	•	•
7	Vishwanath Sankaranarayanan	Member from 13 May 2020	-	-	•	•	•	3	-	-
8	Mohammed Nazersham bin Mansor	Member from 27 July 2020	-	-	-	•	•	2	-	-
9	Anwar Syahrin bin Abdul Ajib	Appointed as member and elected as Deputy Chairman with effect from 6 December 2020 (Shareholder Representative)	-	-	-	-	•	1	-	-

• Attended, P: Proxy

* Ahmad Fuaad bin Mohd Kenali resigned with effect from 6 December 2020

** Ruswati binti Othman resigned with effect from conclusion of board meeting on 26 July 2020

Performance Appraisal for the Board of Directors

Dentons & Co Oman Branch had conducted the Board evaluation based on the criteria approved by the shareholders at the Company's Annual General Meeting held on 13 May 2020. The evaluation report will be presented at the forthcoming Annual General Meeting on 29 March 2021.

Board Audit Committee

The roles of the Board Audit Committee are as follows:

(a) To consider the 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 2020:

No.	Name of the BAC Member	Position	Dates and number of audit committee meetings				
			Feb 11	Apr 26	Jul 26	Oct 25	Dec 6
1	Sultan Obaid Said Al Ghaithi	Chairman	•	•	•	•	•
2	Ajeev Gopinathan	Member	•	•	•	•	•
3	Ruswati binti Othman*	Member until 26 July 2020	P	P	•	-	-
4	Vishwanath Sankaranarayanan	Member from 13 May 2020	-	-	-	•	•
5	Mohammed Nazersham bin Mansor	Member from 27 July 2020				•	•

• Attended, P: Proxy

* Ruswati binti Othman resigned with effect from conclusion of board meeting on 26 July 2020

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:

No.	Name of the BNRC Member	Position	Dates of BNRC Meetings			
			Feb 11	Apr 26	July 26	Oct 25
1	Tamer Cankardes	Chairman after 26 July 2020	•	•	•	•
2	Ahmad Fuaad bin Mohd Kenali*	Chairman until 26 July 2020	•	•	•	•
3	Kei Nakamura	Member	•	•	•	•
4	Anwar Syahrin bin Abdul Ajib	Member with effect from 6 December 2020	-	-	-	-

• Attended, P: Proxy

* Ahmad Fuaad bin Mohd Kenali resigned with effect from 6 December 2020.

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 Sultani Decree 18/19 and the Company's Articles of Association.

Remuneration

a) Sitting Fees to Members of Board and Its Committees

A total amount of RO 32,100 is expensed as sitting fees for the financial year ended 31 December 2020. The Board Audit Committee and BNRC have also accrued sitting fees of RO 4,500 and RO 3,600 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 29 March 2021.

b) Other Payments to Directors

There were no other payments to the Directors other than their sitting fees as stated above.

c) Key Executives of the Company

The Executive Management (as defined in the Commercial Companies Law (SD 18/19)) of the Company received an aggregate amount of RO 231,196 for the financial year ended on 31 December 2020. 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 Company's internal auditor left the organisation in July 2019 and the Company is in process of identifying for suitable candidate to fill the vacancy. The Company has engaged Grant Thornton for its internal audit services until it is able to find a suitable candidate.

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

There were no penalties levied on the Company by the CMA, Muscat Securities Market (MSM) or any other statutory authority on any matter for the past 3 years up to 31 December 2020.

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 MSM website within the regulatory deadlines. 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

High/low share price and performance comparison during each month in 2020.

Month	Price (Baizas)				MSM Index (Service sector)	
	(Service sector)	Low	Closing	Change from 1 January 2020	Closing	Change from 1 January 2020
January	0.108	0.102	0.108	5.88%	1,936.19	1.45%
February	0.110	0.102	0.107	4.90%	1,919.54	0.58%
March	0.107	0.104	0.105	2.94%	1,688.02	-11.56%
April	0.107	0.095	0.105	2.94%	1,697.42	-11.06%
May	0.105	0.100	0.105	2.94%	1,612.81	-15.50%
June	0.115	0.105	0.115	12.75%	1,566.77	-17.91%
July	0.115	0.110	0.110	7.84%	1,538.51	-19.39%
August	0.108	0.100	0.108	5.88%	1,579.00	-17.27%
September	0.108	0.102	0.105	2.94%	1,563.89	-18.06%
October	0.105	0.090	0.097	-4.90%	1,609.75	-15.66%
November	0.103	0.096	0.099	-2.94%	1,600.79	-16.13%
December	0.099	0.091	0.097	-4.90%	1,591.82	-16.60%

Source: MSM's website.

Distribution of shareholdings as at 31 December 2020

Category	Number of Shareholders	Number of Shares Held	Share Capital %
5 % and above	4	120,657,165	77.57%
Less than 5%	2,620	34,893,235	22.43%
Total	**2,624**	**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"). Deloitte refers to one or more of DTTL, its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL, NSE and DME do not provide services to clients. Please see www.deloitte.com/aboutto learn more. Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories, serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 300,000 people make an impact that matters at www.deloitte.com.

About Deloitte Middle East

DME is a leading professional services firm established in the Middle East region with uninterrupted presence since 1926. DME's presence in the Middle East region is established through its affiliated independent legal entities, which are licensed to operate and to provide services under the applicable laws and regulations of the relevant country. DME's affiliates and related entities cannot oblige each other and/or DME, and when providing services, each affiliate and related entity engages directly and independently with its own clients and shall only be liable for its own acts or omissions and not those of any other affiliate.

During the year 2020, Deloitte total fees amounted to RO 19,765 in relation to professional services rendered to the Company (RO 16,000 for audit and RO 3,765 for other services).

Specific areas of Non-Compliance of Corporate Governance

There were no penalties levied on the Company by any statutory authority on any matter related to corporate governance in 2020.

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 Commercial Companies Law of 2019. 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 of the Board

Muscat City Desalination Company SAOG

Report and financial statements for the year ended 31 December 2020

Pages

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
Minaret Al Qurum Building, Level 6
Al Qurum
P.O. Box 258, Postal Code 112
Muscat
Sultanate of Oman

Tel: +968 22354300
Fax: +968 22354333
www.deloitte.com

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 2020, 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 2020, 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' Code of Ethics for Professional Accountants (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 year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte & Touche (M.E.) & Co. LLC
Minaret Al Qurum Building, Level 6
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Deloitte.

Independent auditor's report to the Shareholders of Muscat City Desalination Company SAOG (continued)

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

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.

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 the Board'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.

Deloitte.

Independent auditor's report
to the Shareholders of
Muscat City Desalination Company SAOG (continued)

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

- 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year 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.

Report on other legal and regulatory requirements

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
14 February 2021

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

Signed by
Sachin Singhal
Partner

Statement of financial position

as at 31 December 2020

	Notes	2020 RO'000s	2019 RO'000s
Assets			
Non-current assets			
Property, plant and equipment	5	86,875	89,168
Right-of-use asset	6	250	185
Deferred tax	22	1,348	716
Total non-current assets		88,473	90,069
Current assets			
Trade and other receivables	7	1,322	1,482
Cash and cash equivalents	8	4,209	1,973
Total current assets		5,531	3,455
Total assets		94,004	93,524
EQUITY AND LIABILITIES			
Equity			
Share capital	9.1	15,555	15,555
Legal reserve	9.2	1,961	1,777
Retained earnings		1,992	336
		19,508	17,668
Hedging reserve	10	(5,879)	(3,223)
Net equity		13,629	14,445
Non-current liabilities			
Term loans	11	53,211	56,450
Derivative financial instruments	10	6,518	3,592
Provision for decommissioning obligation	12	382	366
Shareholders' bridge loans	13	8,854	8,854
Shareholders' stand-by equity loans	14	754	754
Lease liability	15	255	183
End-of-service benefits	16	4	26
Deferred tax	22	4,469	3,785
Total non-current liabilities		74,447	74,010
Current liabilities			
Term loans	11	3,314	3,188
Derivative financial instruments	10	399	200
Lease liability	15	3	7
Trade and other payables	17	2,212	1,674
Total current liabilities		5,928	5,069
Total liabilities		80,375	79,079
Total equity and liabilities		94,004	93,524
Net assets per share (RO)	25	0.088	0.093

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 2020

	Notes	2020	2019
		RO'000s	RO'000s
Revenue	18	16,750	16,810
Operating costs	19	(10,595)	(10,654)
Gross profit		6,155	6,156
Other income		-	28
Administrative and general expenses	20	(838)	(867)
Finance costs (net)	21	(2,957)	(3,143)
Profit for the year before tax		2,360	2,174
Income tax	22	(520)	(690)
Profit for the year		1,840	1,484
Other comprehensive (loss) / income for the year			
Items that may be reclassified subsequently to profit or loss			
Changes in fair values of derivative financial instruments	10	(3,125)	(3,057)
Deferred tax on changes in fair values of derivative financial instruments	22	469	458
Other comprehensive loss for the year net of income tax		(2,656)	(2,599)
Total comprehensive loss for the year		(816)	(1,115)
Earnings per share – basic and diluted	24	0.012	0.010

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

Statement of changes in equity

for the year ended 31 December 2020

	Share capital	Legal reserve	Retained earnings	Hedging reserve	Total
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
At 1 January 2020	**15,555**	**1,777**	**336**	**(3,223)**	**14,445**
Profit for the year	**-**	**-**	**1,840**	**-**	**1,840**
Other comprehensive loss net of deferred tax for the year	**-**	**-**	**-**	**(2,656)**	**(2,656)**
Total comprehensive loss for the year	**-**	**-**	**1,840**	**(2,656)**	**(816)**
Transfer to legal reserve	**-**	**184**	**(184)**	**-**	**-**
At 31 December 2020	**15,555**	**1,961**	**1,992**	**(5,879)**	**13,629**
At 1 January 2019	15,555	1,628	254	(624)	16,813
Profit for the year	-	-	1,484	-	1,484
Other comprehensive income net of deferred tax for the year	-	-	-	(2,599)	(2,599)
Total comprehensive loss for the year	-	-	1,484	(2,599)	(1,115)
Transfer to legal reserve	-	149	(149)	-	-
Dividend distributed (Note 9.3)	-	-	(1,253)	-	(1,253)
At 31 December 2019	15,555	1,777	336	(3,223)	14,445

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

Statement of cash flows

for the year ended 31 December 2020

	2020	2019
	RO'000s	RO'000s
Operating activities		
Net profit for the year before tax	**2,360**	2,174
Adjustment for:		
Depreciation	**2,470**	2,468
Amortisation of right-of-use of assets	**3**	11
Provision for end of service benefits	**12**	11
Finance costs (net)	**2,957**	3,143
Cash flows from operating activities before working capital changes	**7,802**	7,807
Change in trade and other receivables	**160**	(97)
Change in trade and other payables	**784**	73
End of service benefits paid	**(34)**	-
Net cash generated from operating activities	**8,712**	7,783
Investing activity		
Additions to property, plant and equipment	**(177)**	(91)
Net cash used in investing activity	**(177)**	(91)
Financing activities		
Net repayment of term loans	**(3,188)**	(3,106)
Finance cost paid	**(2,930)**	(3,014)
Interest on deposits	**4**	18
Repayment of lease liability	**(15)**	(15)
Interest paid to shareholders loan	**(171)**	(170)
Dividend distributed	**-**	(1,253)
Net cash used in financing activities	**(6,300)**	(7,540)
Net change in cash and cash equivalents	**2,236**	153
Cash and equivalents at the beginning of the year	**1,973**	1,820.
Cash and cash equivalents at the end of the year	**4,209**	1,973.

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

Notes to the financial statements

for the year ended 31 December 2020

1. Legal status and principal activities

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

1.1 Key agreements

Water Purchase Agreement

On 11 February 2013 the Company signed a long term Water Purchase Agreement (WPA) with Oman Power and Water Procurement Company SAOC for the supply of 42 million imperial gallons of water per day. The agreement expires 20 years after the Scheduled Commercial Operation Date of 12 October 2014, subject to any extension period or early termination arising under the terms of the agreement.

Engineering, Procurement and Construction Contract

The Company entered into an agreement for the construction of a desalination plant with a capacity of 42 million imperial gallons of water per day with International Water Treatment LLC ("the EPC Contractor") on a turnkey basis which was completed during 2016.

Operation and Maintenance (O&M) contract

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

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

2.1 New and revised IFRSs applied with no material effect on the financial statement effective for annual periods beginning on or after 1 January 2020

In the current period, the Company has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework
- Amendment to IFRS 16 'Leases' to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The effective date is 1 June 2020.
- Amendments in IFRS 7, 9 and IAS 39 regarding pre-replacement issues in the context of the IBOR reform

Effective from 1 January 2020, the Company has implemented amendments to IFRS 9 financial instruments, IAS 39 financial instruments: Recognition, Measurement, and IFRS 7 Financial Instruments Disclosures relating to interest rate benchmark reforms. The amendments (referred as Phase 1 of IBOR transactions project) addresses the hedge accounting requirements arising before Inter-bank offer rate ('IBOR') and proposed a hedging relief for such pre replacement hedges. The amendments including other listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Notes to the financial statements

for the year ended 31 December 2020

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 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2021
Amendment to IFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020 Cycle Amendments to:	
– IFRS 1 First-time Adoption of International Financial Reporting Standards,	1 January 2022
– IFRS 9 Financial Instruments,	1 January 2022
– IAS 41 Agriculture, and	1 January 2022
– IFRS 16 Leases	No effective date is stated
Amendments to IAS 1 Classification of Liabilities as Current or Non-current	1 January 2023
IFRS 17 Insurance Contracts	1 January 2023
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

3. Summary of significant accounting policies

Statement of compliance

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

Going Concern

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

Basis of preparation

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

Notes to the financial statements

for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

Basis of preparation (continued)

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

Functional and presentation currency

The accounting records are maintained in Omani Rial which is the functional and presentation currency for these financial statements.

Following are the significant accounting policies applied by the Company consistently to all the periods presented.

Foreign currencies

Any currency other than the functional currency is considered as a foreign currency. Transactions in foreign currencies are translated to Omani Rials at the rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Omani Rials using the exchange rate at the reporting date.

Non-monetary assets and liabilities measured at historical cost are translated using the exchange rate at the date of the transaction whereas those measured at fair value are translated using the exchange rate at the date when fair value was determined. An exchange difference on settlement of monetary items or on translation is generally recognised in profit or loss.

Cash and cash equivalents

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

Property, plant and equipment

Recognition and measurement

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

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

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

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.

Notes to the financial statements

for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation (continued)

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 year are as follows:

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

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

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

Capital work-in-progress

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

Derecognisition of asset

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

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.

Notes to the financial statements

for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

Impairment (continued)

Non-financial assets (continued)

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.

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.

Notes to the financial statements

for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

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.

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.

Notes to the financial statements

for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

ii) Derivative financial instruments

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

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Company designates the hedging instrument as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

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

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

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

Income tax

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

Current tax

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

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.

Notes to the financial statements

for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

Dividend

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

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

Segment reporting

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

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

Water sales take place in the Sultanate of Oman.

Leases

The Company as a lessee

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

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.

Notes to the financial statements

for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

Leases (continued)

Lease liability (continued)

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

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

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

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

Right-of-use asset

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

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

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.

Notes to the financial statements

for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

Leases (continued)

The Company as lessor (continued)

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

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 year.

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 year. 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.

Notes to the financial statements

for the year ended 31 December 2020

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

Critical judgements (continued)

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

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

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

Key sources of estimation uncertainty

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

Impairment of property, plant and equipment

Property, plant and equipment is stated at cost. Management considers that there are no indications of impairment considering that the plant has successfully started commercial operations and expects to comply with the requirement of the WPA and sell potable water thereafter.

Useful life of property, plant and equipment

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

Provision for decommissioning

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

Novel Coronavirus (Covid-19)

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

The Company is closely monitoring the situation to manage the potential business disruption on its operations and financial performance. While circumstances are continually evolving, the risks are mitigated by the high level of committed contracts underpinning current forecasts; preventive measures taken by management to mitigate operational risks; continued evidence of demand in core Middle East markets; further cost cutting measures taken to improve financial resilience in the current environment.

The Company has performed an assessment of the potential impact of the pandemic on its financial statements for the year ended and based on the long-term WPA with OPWP has concluded that there is no material impact to the operations or the profitability of the Company. As the situation is evolving, the Company will continue to monitor the situation and adjust its critical judgements and estimates, as necessary, during the course of 2021.

Notes to the financial statements

for the year ended 31 December 2020

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 2019	31,326	46,369	19,908	334	655	31	39	-	98,662
Additions	5	37	-	-	-	2	-	47	91
31 December 2019	31,331	46,406	19,908	334	655	33	39	47	98,753
1 January 2020	**31,331**	**46,406**	**19,908**	**334**	**655**	**33**	**39**	**47**	**98,753**
Additions	**9**	**3**	**-**	**-**	**-**	**14**	**-**	**151**	**177**
31 December 2020	**31,340**	**46,409**	**19,908**	**334**	**655**	**47**	**39**	**198**	**98,930**
Accumulated depreciation									
1 January 2019	2,242	3,319	1,426	23	42	26	39	-	7,117
Charge for the year	783	1,159	498	9	17	2	-	-	2,468
31 December 2019	3,025	4,478	1,924	32	59	28	39	-	9,585
1 January 2020	**3,025**	**4,478**	**1,924**	**32**	**59**	**28**	**39**	**-**	**9,585**
Charge for the year	**783**	**1,160**	**498**	**9**	**17**	**3**	**-**	**-**	**2,470**
31 December 2020	**3,808**	**5,638**	**2,422**	**41**	**76**	**31**	**39**	**-**	**12,055**
Carrying value									
31 December 2020	**27,532**	**40,771**	**17,486**	**293**	**579**	**16**	**-**	**198**	**86,875**
31 December 2019	28,306	41,928	17,984	302	596	5	-	47	89,168

Notes to the financial statements

for the year ended 31 December 2020

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 year is recognised as follows:

	2020	2019
	RO'000s	RO'000s
Operating costs (note 19)	**2,467**	2,466
Administrative and general expenses (note 20)	**3**	2
	2,470	2,468

6. Right-of-use assets

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 assets (ROU) of usufruct contract is as under:

	2020	2019
	RO'000s	RO'000s
Cost		
As at 1 January	**196**	196
Addition: change in the life of land lease	**68**	-
Total cost as at 31 December	**264**	196
Depreciation		
As at 1 January	**11**	-
Charge for the year	**3**	11
As at 31 December	**14**	11
Carrying value		
As at 31 December	**250**	185

7. Trade and other receivables

	2020	2019
	RO'000s	RO'000s
Trade receivables	**1,230**	1,392
Prepayments and other receivables	**89**	87
Deposits	**3**	3
	1,322	1,482

The Company has one customer OPWP which is included in the trade receivables balance as at 31 December 2020 and 31 December 2019. 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 2020 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 2020

8. Cash and cash equivalents

	2020	2019
	RO'000s	RO'000s
Cash at bank	**1,248**	1,973
Short term deposits	**2,961**	-
	4,209	1,973

The short-term deposits are denominated in US Dollars and are with an offshore financial institution with maturities of less than one month. These deposits yield interest at an insignificant rate.

9. Capital and reserves

9.1 Share capital

	Authorised	
	2020	2019
	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
	2020	2019	
Summit Water Middle East Company	**32.5**	32.5	Cayman Islands
Malakoff Oman Desalination Company Limited	**32.5**	32.5	British Virgin Islands
Others	**35**	35	Others
	100	100	

9.2 Legal reserve

Article 132 of the Commercial Companies Law 2019 requires that 10% of a company's net profit be transferred to a non-distributable legal reserve until the amount of the legal reserve becomes equal to at least one-third of the Company's paid up share capital.

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

9.3 Dividend

During the year ended 31 December 2020, no dividend was proposed for the Company in the Board meeting held on 14 February 2021 (2019: The Company declared and distributed dividend of RO 1,252,958 or Baiza 8.055 per share).

Notes to the financial statements

for the year ended 31 December 2020

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 48,644,055 (USD 126,512,498) (31 December 2019: RO 51,351,214 (USD 133,553,223)) 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 2020 (For the year ended 31 December 2019: highly effective).

The fair value movement of RO 2,655,911 (31 December 2019: RO 2,598,367) 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:

	2020	2019
	RO'000s	RO'000s
Less than 1 year	**(399)**	(200)
1 to 5 years	**(2,170)**	(1,057)
More than 5 years	**(4,348)**	(2,535)
Total more than 1 year	**(6,518)**	(3,592)
Cumulative changes in fair value	**(6,917)**	(3,792)

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 2020					
Interest rate swaps	**6,916**	**48,644**	**2,806**	**15,262**	**30,576**
31 December 2019					
Interest rate swaps	3,792	51,351	2,707	14,307	34,337

Cumulative changes in fair value are recognised as follows:

	2020	2019
	RO'000s	RO'000s
Cumulative changes in fair value	**(6,917)**	(3,792)
Related deferred tax liability/asset	**1,038**	569
Cumulative changes in fair value, net of deferred tax	**(5,879)**	(3,223)

Notes to the financial statements

for the year ended 31 December 2020

10. Derivative financial instruments (continued)

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

The hedging deficit of RO 5.88 million as at 31 December 2020 (31 December 2019: RO 3.22 million) represents the loss which the Company would incur, if it opts to terminate its interest rate hedging agreements on this date. However, under its Common Terms Agreement with its lenders, the Company is not permitted to terminate its interest rate hedging agreements. Therefore, under this circumstance, the loss will remain unrealised and will be realised during the gradual amortisation of the loan interest.

11. Term loans

	2020	2019
	RO'000s	RO'000s
Term loans	**57,532**	60,719
Less: deferred finance charges	**(1,007)**	(1,081)
	56,525	59,638
Less: current portion of term loans	**(3,314)**	(3,188)
Non-current portion of term loans	**53,211**	56,450

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 2020, RO 81,244,505 (USD 211,299,102) had been drawn down (31 December 2019: 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 3,187,836 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 4.42% (31 December 2019: 4.66%).

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 2020.

12. Provision for decommissioning obligation

The decommissioning cost represents the present value of management's best estimate of the future cost to remove the facilities and restore the affected area at the Company's leased site to its original condition. The estimate has been made on the basis of an independent report by a professional consultant, discounted at 4.60% to its present value, over the plant's estimated useful life of 40 years.

Notes to the financial statements

for the year ended 31 December 2020

13. Shareholders' bridge loans

	2020	2019
	RO'000s	RO'000s
Summit Water Middle East Company	**2,073**	2,073
Malakoff Oman Desalination Company Limited	**2,073**	2,073
Sumitomo Corporation	**2,129**	2,129
Malakoff International Limited	**2,129**	2,129
Interest accrued	**450**	450
	8,854	8,854

Facilities

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

Facilities repayments

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

Interest

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

Security

The Shareholders' loans are unsecured.

14. Shareholders' stand–by equity loans

	2020	2019
	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.

Notes to the financial statements

for the year ended 31 December 2020

15. Lease liability (continued)

At 31 December 2020, future minimum lease commitments under non-cancellable operating leases are as follows:

	2020	2019
	RO'000s	RO'000s
Gross lease liability related to right-of-use assets	**280**	280
Addition: change in life of land lease	**246**	-
Future finance charges on finance leases	**(268)**	(90)
Present value of lease liabilities	**258**	190
The maturity of finance lease liabilities is as follows:		
Not later than 1 year	**3**	7
Later than 1 year	**255**	183
	258	190

16. End of service benefits

	2020	2019
	RO'000s	RO'000s
1 January 2019	**26**	15
Provided during the year	**12**	11
Paid during the year	**(34)**	-
Closing provision	**4**	26

17. Trade and other payables

	2020	2019
	RO'000s	RO'000s
Trade payables	**1,119**	943
Other payables	**1,093**	731
	2,212	1,674

Trade and other payables include an amount of RO 894,329 (31 December 2019: RO 688,630), due to Muscat City Desalination Operation and Maintenance Company LLC, a related party.

18. Revenue

	2020	2019
	RO'000s	RO'000s
Water capacity charges	**9,929**	9,967
Electricity charges	**3,948**	3,934
Water Output O&M Charges	**2,873**	2,909
	16,750	16,810

Notes to the financial statements

for the year ended 31 December 2020

19. Operating costs

	2020 RO'000s	2019 RO'000s
Operation and maintenance cost	**4,412**	4,164
Electricity charges	**3,713**	4,013
Amortisation of right-of-use asset	**3**	11
Depreciation	**2,467**	2,466
	10,595	10,654

20. Administrative and general expenses

	2020 RO'000s	2019 RO'000s
Employee costs	**330**	342
Insurance	**188**	187
Legal and professional expenses	**137**	127
Depreciation	**3**	2
Directors' sitting fees	**16**	25
Bad debts written off	**27**	-
Others	**137**	184
	838	867

21. Finance costs (net)

	2020 RO'000s	2019 RO'000s
Interest expense on term loans and interest swaps	**2,644**	2,872
Interest expense on Shareholders' loan	**171**	170
Amortisation of deferred finance cost	**76**	76
Interest income on term deposits	**(4)**	(18)
Other finance cost	**70**	43
	2,957	3,143

22. Income tax

The Company is liable to income tax at the rate of 15% (31 December 2019: 15%). No provision for income tax has been made for the year ended 31 December 2020 in view of the taxable losses for the period.

Recognised in the statement of comprehensive income

	2020 RO'000s	2019 RO'000s
Deferred tax		
Current year	**520**	690

Notes to the financial statements

for the year ended 31 December 2020

22. Income tax (continued)

Tax reconciliation

The reconciliation of income tax expense is as follows:

	2020	2019
	RO'000s	RO'000s
Profit for the year	**2,360**	2,174
Income tax at standard rate	**354**	326
Non - deductible expenses	**26**	27
Deferred tax not recognised on losses for the year	**300**	429
Deferred tax Asset recognised on carry forward losses	**(160)**	(92)
	520	690

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

31 December 2020	**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	**(3,785)**	**(684)**	**(4,469)**
Deferred tax liability	**(3,785)**	**(684)**	**(4,469)**
Carried forward business losses	**92**	**159**	**251**
Provision for decommissioning obligation	**55**	**3**	**58**
Provision for land lease	**-**	**1**	**1**
Change in fair value of derivative financial instrument (through other comprehensive income)	**569**	**469**	**1,038**
Deferred tax assets	**716**	**632**	**1,348**
31 December 2019			
Property, plant and equipment	(3,001)	(784)	(3,785)
Deferred tax liability	(3,001)	(784)	(3,785)
Carried forward business losses	-	92	92
Provision for decommissioning obligation	52	3	55
Change in fair value of derivative financial instrument (through other comprehensive income)	111	458	569
Deferred tax assets	162	553	716

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.

Notes to the financial statements

for the year ended 31 December 2020

23. Related party transactions (continued)

Significant related party transactions during the year are as follows:

	2020	2019
	RO'000s	RO'000s
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC	**4,412**	4,164
Other cost to Muscat City Desalination Operation and Maintenance Company LLC	**97**	60
Interest expense on Shareholders' loans	**171**	170
Key management compensation	**231**	242
Director's sitting fee (net)	**16**	25

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

	2020	2019
	RO'000s	RO'000s
Amount due to related parties		
Muscat City Desalination Operation and Maintenance Company LLC	**894**	689
Summit Water Middle East Company	**2,644**	2,644
Malakoff Oman Desalination Company Limited	**2,644**	2,644
Malakoff International Limited	**2,160**	2,160
Sumitomo Corporation	**2,160**	2,160

24. Earnings per share

	2020	2019
Profit for the year (RO in '000)	**1,841**	1,484
Weighted average number of shares outstanding during the year (in thousands)	**155,550**	155,550
Earnings per share (basic and diluted) (RO)	**0.012**	0.010

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:

	2020	2019
Net assets (RO in '000)	**13,629**	14,445
Number of shares outstanding at year end (in thousands)	**155,550**	155,550
Net assets per share (RO)	**0.088**	0.093
Net assets per share excluding hedging reserve (RO)	**0.125**	0.114

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.

Notes to the financial statements

for the year ended 31 December 2020

26. Commitments (continued)

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

	2020	2019
	RO'000s	RO'000s
Due within one year	**1,285**	1,281
Due after one year but within five years	**5,128**	5,128
Due after five years	**12,603**	13,887
	19,016	20,296

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.

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

	2020	2019
	RO'000s	RO'000s
Cash at bank and deposits	**4,209**	1,973
Trade receivables	**1,230**	1,392
	5,439	3,365

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

	2020	2019
	RO'000s	RO'000s
Oman Power and Water Procurement Co. SOAC	**1,230**	1,365

Notes to the financial statements

for the year ended 31 December 2020

27. Financial instruments (continued)

Credit risk (continued)

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 impairment, and hence have not recorded any loss allowances on these balances.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company is not exposed to foreign currency risk on its bank deposits designated in US Dollars as the Omani Rial is effectively pegged to the US Dollar and the US Dollar exchange rate has remained unchanged since 1986.

Interest rate risk

The Company's interest rate risk arises principally from medium and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company maintained approximately 85% of its borrowings in fixed rate or hedged in accordance with the Common Terms Agreement with its lenders .

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

The Company has hedged this interest rate at 85% through interest rate swaps contracts in accordance with the Common Terms Agreement with its lenders. Therefore, changes in interest rates during the 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 2020	**RO'000s**	**RO'000s**
Fair value of derivative financial instruments	**3,366**	**(3,366)**
31 December 2019		
Fair value of derivative financial instruments	3,605	(3,605)

Notes to the financial statements

for the year ended 31 December 2020

27. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company uses cash flow forecasting methods which assist it in monitoring cash flow requirements and optimising its cash flow cycle. The Company ensures that it has sufficient cash available to meet its expected operational expenses, including the servicing of financial obligations.

Trade and other receivables at the end of the reporting period are not overdue or impaired. Cash at bank and deposits with the bank are placed with reputable local and foreign financial institutions.

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

31 December 2020	Carrying amount	Total	Less than 1 year	1 to 5 Years	More than 5 years
		---------- Contractual Cash flows ----------			
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
Non derivative financial liabilities					
Term loans	**57,531**	**77,214**	**5,810**	**21,819**	**49,585**
Shareholders' stand - by equity loans	**754**	**754**	**-**	**754**	**-**
Shareholders' bridge loans	**8,854**	**10,076**	**187**	**3,104**	**6,785**
Lease liabilities	**258**	**526**	**15**	**60**	**451**
Trade and other payables	**2,212**	**2,212**	**2,212**	**-**	**-**
	69,609	**90,782**	**8,224**	**25,737**	**56,821**
31 December 2019					
Non derivative financial liabilities					
Term loans	60,719	83,661	5,935	23,680	54,046
Shareholders' stand - by equity loans	754	754	-	754	-
Shareholders' bridge loans	8,854	10,264	188	2,682	7,394
Lease liabilities	190	271	15	75	181
Trade and other payables	1,674	1,674	1,674	-	-
	72,191	96,624	7,812	27,191	61,621

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

for the year ended 31 December 2020

27. Financial instruments (continue)

Gearing ratio

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

	2020	2019
	RO'000s	RO'000s
Debt (Term loans, Shareholder's bridge and shareholders stand–by equity loans net of transaction costs)	**66,134**	69,246
Cash and bank balances	**(4,209)**	(1,973)
Net debt	**61,925**	67,273
Equity	**13,629**	14,445
Net debt to equity ratio	**4.54**	4.66

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.

	2020	2019
	RO'000s	RO'000s
Interest rate swaps – Level 2	**48,644**	51,351

The Company had no financial instruments in level 1 or level 3. During the financial year ended 31 December 2020 and 31 December 2019, 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. 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.

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28. 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:

	2020	2019
	RO'000s	RO'000s
Due within one year	**7,691**	7,670
Due after one year but within five years	**30,701**	30,701
Due after five years	**75,461**	83,153
	113,853	121,524

29. Approval of financial statements

The financial statements were approved by the Board and authorized for issue on 14 February 2021.