1. Legal status and principal activities

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

1.1 Key agreements

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

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

2 New standards and interpretation effective in 2018 and relevant for companies operations

For the period ended 31 December 2018, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2018.

Changes in significant accounting policies:

The Company has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue with Customers' as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Company did not early adopt any requirements of IFRS 9 and IFRS 15 in previous periods.

IFRS 9 Financial instruments

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

2 New standards and interpretation effective in 2018 and relevant for companies operations *(continued)*

IFRS 9 Financial instruments *(continued)*

Impact on adoption of IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied with effect from 1 January 2018, using modified retrospective method and accordingly the comparative period has not been restated. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable. Any adjustments to the 2017 numbers has been rendered in the opening retained earnings of 1 January 2018.

The Company adopted IFRS 9 from 1 January 2018 and there is no significant impact on the adoption of IFRS 9.

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

The following table below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

Financial assets and financial liabilities

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 RO '000	New carrying amount under IFRS 9 RO '000
Interest rate swaps used for hedging	Cash flow – hedging instrument	Cash flow – hedging instrument	(2,045)	(2,045)
Trade and other receivables	Loans and Receivables	Amortised cost	1,246	1,246
Cash and cash Equivalents	Loans and Receivables	Amortised cost	4,471	4,471
Trade payables	Other financial Liabilities	Other financial Liabilities	2,484	2,484

2 New standards and interpretation effective in 2018 and relevant for companies operations *(continued)*

IFRS 9 Financial instruments *(continued)*

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, Under IFRS 9, credit losses are recognised earlier than under IAS 39 for assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 does not have any significant impact as the Company has only one customer Oman Power and Water Procurement Company (OPWP) for sale of desalinated water; The due date for the receivables amount is 25 days from the date upon which the OPWP receives invoices and there has been no overdues from OPWP in the past.

iii. Hedge accounting

As per IFRS 9 when the Company first applies the standard, it may choose to continue to apply the hedge accounting requirements of IAS 39 rather than those of IFRS 9.The Company has elected to apply the requirement of IAS 39 until the macro hedge accounting project is completed.

IFRS 15 Revenue from contracts with customer

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, on IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

IFRS 15 is effective from annual periods beginning on or after 1 January 2018. The Company has completed review of the potential impact of the adoption of IFRS15 on its financial statements. The company adopted IFRS 15 from 1 January 2018, For the Company where sale of service is only expected performance obligation IFRS 15 does not have an impact on the profit or loss as the timing of revenue recognition will not change under the new standard.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

Certain new accounting standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2019 and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

2 New standards and interpretation effective in 2018 and relevant for companies operations *(continued)*

IFRS 16 Leases

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The Company is in the process of assessing the potential impact of IFRS16 on its financial statements.

3 Summary of significant accounting policies

Statement of compliance

These 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 1974, as amended and guidelines on disclosures issued by the Capital Market Authority.

Basis of preparation

These financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities measured at fair value.

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.

3 Summary of significant accounting policies *(continued)*

Foreign currencies *(continued)*

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

Property, plant and equipment

Recognition and measurement
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes the amount of cash and cash equivalents paid or the fair value of other consideration given to acquire an asset at the date of acquisition or construction. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised.

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

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

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

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

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

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

3 Summary of significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

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.

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.

Earnings per share

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

Impairment

Financial assets

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

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

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

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

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Summary of significant accounting policies *(continued)*

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.

Equity

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

Revenue

Revenue comprises water capacity and water output charges calculated in accordance with the agreement with Oman Power and Water Procurement Company SAOC for sale of desalinated water. Revenue is recognised when water passes through the flow meter installed in the Company premises.

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.

Financial instruments

i) Non-derivative financial instruments

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

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

3 Summary of significant accounting policies *(continued)*

Financial instruments (continued)

ii) Derivative financial instruments

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

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

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

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

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

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

Income tax

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

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

3 Summary of significant accounting policies *(continued)*

Income tax *(continued)*

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

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

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.

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

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

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

3 Summary of significant accounting policies *(continued)*

Leases *(continued)*

Leased assets
Leases of property, plant and equipment that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

Lease payments
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and in future periods, if the revision affects both current and future periods.

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

Useful life of property, plant and equipment
The estimation of the useful life of the property, plant and equipment has a significant impact on the financial statements. The useful life has been determined to be 40 years on the strength of an independent consultant's report and the comprehensive maintenance and replacement programme in place.

Provision for decommissioning
The expected cost of decommissioning has been determined on the basis of a study by an independent consultant and discounted over 40 years using a discount factor of 4.60%.

Application of IFRIC 4 and IFRIC 12
Judgement is required to ascertain whether the WPA agreement with OPWP contains a lease as per IFRIC 4: Determining Whether an Arrangement contains a Lease, or a service concession arrangement as per IFRIC 12: Service Concession Arrangements. If the agreement contains a lease, judgement is required to classify the lease as an operating lease or a finance lease as per IAS 17: Leases. The lease has been classified as an operating lease.

Notes to the financial statements
for the year ended 31 December 2018

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 & office equipment RO'000s	Motor vehicles RO'000s	Total RO'000s
Cost								
1 January 2018	31,326	46,369	19,908	330	576	26	39	98,574
Additions	-	-	-	4	79	5	-	88
31 December 2018	**31,326**	**46,369**	**19,908**	**334**	**655**	**31**	**39**	**98,662**
Accumulated Depreciation								
1 January 2018	1,459	2,160	928	50	26	24	39	4,686
Charge for the period	783	1,159	498	(27)	16	2	-	2,431
31 December 2018	**2,242**	**3,319**	**1,426**	**23**	**42**	**26**	**39**	**7,117**
Carrying value								
31 December 2018	**29,084**	**43,050**	**18,482**	**311**	**613**	**5**	**-**	**91,545**

5 Property, plant and equipment *(continued)*

	Civil and structural works RO'000s	Plant and machinery RO'000s	Pipelines RO'000s	Decommissioning asset RO'000s	Spares RO'000s	Furniture, fixtures & office equipment RO'000s	Motor vehicles RO'000s	Total RO'000s
Cost								
1 January 2017	31,326	46,358	19,908	1,073	576	26	39	99,306
Additions	-	11	-	-	-	-	-	11
Transfers	-	-	-	(743)	-	-	-	(743)
31 December 2017	31,326	46,369	19,908	330	576	26	39	98,574
Accumulated Depreciation								
1 January 2017	676	1,001	430	23	12	22	34	2,198
Charge for the year	783	1,159	498	27	14	2	5	2,488
31 December 2017	1,459	2,160	928	50	26	24	39	4,686
Carrying value								
31 December 2017	29,867	44,209	18,980	280	550	2	-	93,888

5 Property, plant and equipment *(continued)*

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

Property, plant and equipment are mortgaged as security for the borrowings of the Company (note 9).

Depreciation charge for the period is recognised as follows:

	31 December 2018 RO'000s	31 December 2017 RO'000s
Operating costs (note 17)	**2,429**	2,481
Administrative and general expenses	**2**	7
	2,431	2,488

6 Trade and other receivables

	31 December 2018 RO'000s	31 December 2017 RO'000s
Trade receivables	**1,329**	1,243
Prepayments and other receivables	**53**	43
Deposits	**3**	3
	1,385	1,289

7 Cash and cash equivalents

Cash at bank	**1,127**	1,203
Short term deposits	**693**	3,268
	1,820	4,471

The short term deposits are denominated in US Dollars and are with Sumitomo Mitsui Banking Corporation Limited in London with maturities of less than one month. These deposits yield interest at an insignificant rate.

8 Capital and reserves

Share capital	Authorized 31 December 2018 RO'000s	31 December 2017 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 2018	2017	Country of incorporation
Summit Water Middle East Company	**32.5**	32.5	Cayman Islands
Malakoff Oman Desalination Company Limited	**32.5**	32.5	British Virgin Islands
Others	**35**	35	Others
	100	100	

Legal reserve

Article 154 of the Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable statutory reserve until the amount of the statutory reserve becomes equal to at least one-third of the Company's paid up share capital.

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

Dividend

Shareholders at the Ordinary General Meeting ("OGM") held on 27 December 2017 authorised the Board of Directors to determine and distribute cash dividends to the Shareholders of the Company in February 2018 out of the retained earnings as per the audited financial statements for the period ended 30 September 2017, provided that the aggregate amount shall not exceed 3.2% of the paid up share capital of the Company (i.e., 3.2 Baizas per share).

In the board of directors meeting held on 8 February 2018, it was resolved to distribute cash dividend of Baizas 2.9268 per share, out of the retained earnings as per the audited financial statements for the financial period ended 30 September 2017 to the shareholders of the Company who are registered in the Company' shareholders' register with the Muscat Clearing & Depository Company SAOC as on 28 February 2018.

Shareholders at the Annual General Meeting ("AGM") held on 27 March 2018 authorised the Board of Directors to determine and distribute cash dividends to the Shareholders of the Company in November/December 2018 out of the retained earnings as per the audited financial statements for the period ended 30 September 2018, provided that the aggregate amount shall not exceed 6.4% of the paid up share capital of the Company (i.e., 6.4 Baizas per share).

8 Capital and reserves (*continued)*

Dividend (*continued)*

In the Board of Directors meeting held on 13 November 2018, it was resolved to distribute cash dividend of Baizas 6.3966 per share, out of the retained earnings as per the audited financial statements for the financial period ended 30 September 2018 to the shareholders of the Company who are registered in the Company' shareholders' register with the Muscat Clearing & Depository Company SAOC as on 29 November 2018.

9 Term loans

	31 December 2018 RO'000s	31 December 2017 RO'000s
Term loans	**63,825**	67,044
Less: deferred finance charges	**(1,157)**	(1,232)
	62,668	65,812
Less: current portion of term loans	**(3,106)**	(3,024)
Non-current portion of term loans	**59,562**	62,788

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 2018, RO 81,244,505 (USD 211,299,102) had been drawn down (31 December 2017: 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 3,218,533 were paid during the period.

Interest

The term loans bear interest at three month USD Libor plus margin. The effective interest rate for the period was 4.64% (31 December 2017: 4.47%).

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. In addition, a charge has been created over all of the Company's shares.

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 2018.

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 57,361,085(USD 149,183,576) (31 December 2017: RO 60,083,570 (USD 156,264,160) 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 2018 (For the year ended 31 December 2017: highly effective).

The fair value movement of RO 1,113,570 (31 December 2017: RO 1,043,980) 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:

	31 December 2018 RO'000s	31 December 2017 RO'000s
Less than 1 year	**(77)**	(93)
1 to 5 years	**(147)**	(492)
More than 5 years	**(510)**	(1,460)
Total more than 1 year	**(657)**	(1,952)
Cumulative changes in fair value	**(734)**	(2,045)

Cumulative changes in fair value are recognised as follows:

Cumulative changes in fair value	**(734)**	(2,045)
Related deferred tax liability/asset	**110**	307
Cumulative changes in fair value, net of deferred tax	**(624)**	(1,738)

10 Derivative financial instruments *(continued)*

The table below shows the fair values of the interest rate swaps, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity.

			Notional amounts by term to maturity		
31 December 2018	**Fair value** *RO'000s*	**Notional amount** *RO'000s*	**1 - 12 month** *RO'000s*	**More than 1 up to 5 years** *RO'000s*	**More than 5 years** *RO'000s*
Interest rate swaps	**734**	**57,361**	**6,009**	**11,519**	**39,833**
31 December 2017					
Interest rate swaps	2,045	60,083	2,722	14,452	42,909

11 Provision for decommissioning obligation

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

12 End of service benefits

	31 December 2018 *RO'000s*	31 December 2017 *RO'000s*
1 January	**8**	19
Provided during the year	**7**	8
Paid during the year	**-**	(19)
Closing provision	**15**	8

13 Shareholders' bridge loans

Summit Water Middle East Company	**2,073**	2,865
Malakoff Oman Desalination Company Limited	**2,073**	2,865
Sumitomo Corporation	**2,129**	2,129
Malakoff International Limited	**2,129**	2,129
Interest accrued	**450**	406
	8,854	10,394
Less: current portion of Shareholders' loans	**-**	(1,583)
	8,854	8,811

13 Shareholders' bridge loans *(continued)*

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

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

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

Security
The Shareholders' loans are unsecured.

14 Shareholders' stand – by equity loans

	31 December 2018	31 December 2017
	RO'000s	*RO'000s*
Summit Water Middle East Company	**377**	377
Malakoff Oman Desalination Company Limited	**377**	377
Cadagua Al Ghubrah UK Limited	**-**	83
	754	837

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 Accruals and other payables

	31 December 2018	31 December 2017
	RO'000s	*RO'000s*
Accruals and other payables	**1,724**	2,485

Accruals and other payables include an amount of RO 702,645 (31 December 2017: RO 637,987), due to Muscat City Desalination Operation and Maintenance Company LLC, a related party.

16 Related party transactions

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

Significant related party transactions during the period are as follows:

	31 December 2018	31 December 2017
	RO'000s	*RO'000s*
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC	**4,089**	3,658
Interest expense on Shareholders' loans	**178**	186
Key management compensation	**219**	254
Director's sitting fees and allowances	**24**	-

17 Operating costs

Operation and maintenance cost	**3,970**	3,631
Electricity charges	**3,377**	3,297
Depreciation	**2,429**	2,481
	9,776	9,409

18 Administrative expenses

Employee costs	**302**	353
Insurance	**211**	238
Legal and professional expenses	**160**	151
Depreciation	**2**	7
Others	**210**	130
	885	879

19 Finance costs (net)

	31 December 2018 *RO'000s*	31 December 2017 *RO'000s*
Interest expense on term loans and interest swaps	**3,063**	3,234
Interest expense on Shareholders' loan	**178**	186
Amortisation of deferred finance cost	**76**	76
Interest income on term deposits	**(16)**	(54)
Other finance cost	**56**	120
	3,357	3,562

20 Income tax

The Company is liable to income tax at the rate of 15% (31 December 2017: 15%). No provision for income tax has been made for the period ended 31 December 2018 in view of the taxable losses for the period.

a) Recognised in the statement of comprehensive income

Deferred tax		
- Current period	**904**	1,263
- Prior period	**-**	781
	904	2,044

b) Tax reconciliation

The reconciliation of income tax expense is as follows:

Profit for the period	**2,053**	1,743
Income tax at standard rate	**308**	262
Non - deductible expenses	**28**	29
Effect of change in tax rate	**-**	228
Deferred tax not recognised on losses for the period	**568**	744
Prior period deferred tax	**-**	781
	904	2,044

20 Income tax *(continued)*

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

	Asset / (liability) as at 1 January 2018 RO'000s	Recognised in profit or loss and other comprehensive income RO'000s	**Asset / (liability) as at 31 December 2018 RO'000s**
Property, plant and equipment	(2,094)	(907)	**(3,001)**
Deferred tax liability	(2,094)	(907)	**(3,001)**
Provision for decommissioning obligation	50	2	52
Change in fair value of derivative financial instrument (through other comprehensive income)	307	(197)	110
Deferred tax assets	357	(195)	162

Deferred tax arises on account of tax losses and temporary differences between the tax base of assets and liabilities and their carrying values in the statement of financial position. No deferred tax asset on losses has been recognised as management does not consider it probable that sufficient taxable income may arise prior to their expiry to obtain the benefits therefrom.

21 Earnings / (loss) per share

	31 December 2018 RO'000s	31 December 2017 RO'000s
Net Profit/loss for the year (RO)	**1,149**	(301)
Weighted average number of shares outstanding during the period	**155,550**	155,550
Earnings/(loss) per share (basic and diluted)	**0.007**	(0.002)

22 Lease commitments

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

At 31 December 2018, future minimum lease commitments under non-cancellable operating leases are as follows:

	31 December 2018 RO'000s	31 December 2017 RO'000s
Less than one year	**15**	15
Between one and five years	**60**	60
More than five years	**211**	226
	286	301

23 Financial instruments

This note presents information on the risks arising from the Company's use of financial instruments, namely; credit risk, liquidity risk and market risk to which the Company is exposed, its objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

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

Credit risk

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

The exposure to credit risk is monitored on an on-going basis and therefore the Company considers the credit risk to be minimal.

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

23 Financial instruments *(continued)*

Credit risk *(continued)*

	31 December 2018 RO'000s	31 December 2017 RO'000s
Cash at bank and deposits	**1,820**	4,471
Trade receivables	**1,329**	1,243
	3,149	5,714

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

Oman Power and Water Procurement Co. SOAC	**1,329**	1,243

Trade and other receivables at the end of the reporting period are not overdue or impaired. Cash at bank and deposits with the bank are placed with financial institutions with a credit rating of at least BAA3.

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.

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

31 December 2018	**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	**63,826**	**90,872**	**6,046**	**24,111**	**60,715**
Shareholders' stand – by equity loans	**754**	**754**	**754**	**-**	**-**
Shareholders' loans	**8,854**	**10,451**	**187**	**2,053**	**8,211**
Accruals and other payables	**1,724**	**1,724**	**1,724**	**-**	**-**
	75,158	**103,801**	**8,711**	**26,164**	**68,926**

23 Financial instruments *(continued)*

Liquidity risk *(continued)*

31 December 2017	Carrying amount	Total	Less than 1 year	1 to 5 Years	More than 5 years
		----------------Contractual Cash flows----------------			
	RO	RO	RO	RO	RO
Non derivative financial liabilities					
Term loans	67,044	97,144	6,273	24,132	66,739
Shareholders' stand – by equity loans	837	837	837	-	-
Shareholders' loans	10,394	12,593	1,871	1,457	9,265
Accruals and other payables	2,485	2,484	2,484	-	-
	80,760	113,058	11,465	25,589	76,004

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's policy is to maintain approximately 100% of its borrowings in fixed rate or hedged instruments.

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

31 December 2018	**100 bp increase RO'000s**	**100 bp decrease RO'000s**
Fair value of derivative financial instruments	**3,906**	**(3,906)**
31 December 2017		
Fair value of derivative financial instruments	4,476	(4,476)

23 Financial instruments *(continued)*

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 1974, as amended.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Fair value

Financial assets consist of cash and bank balances and receivables. Financial liabilities consist of term loans, Shareholders' loans, shareholders' stand – by equity loans and payables. Derivatives consist of interest rate swap arrangements. The fair values of financial instruments are not materially different from their carrying values.

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

	31 December 2018 RO'000s	31 December 2017 RO'000s
Interest rate swaps – *Level 2*	**57,361**	60,083

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