MUSCAT CITY DESALINATION COMPANY

Refreshing Growth

Annual Report 2018

His Majesty Sultan Qaboos Bin Said

Contents

Board of Directors

Mr. Ahmad Fuaad bin Mohd Kenali
Chairman

Mr. Tamer Cankardes
Deputy Chairman

Ms. Ruswati Binti Othman
Director

Mr. Kei Nakamura
Director

Mr. Vishwanath Sankaranarayanan
Director

Mr. Sultan Obaid Said Al Ghaithi
Director

Key Executive Officers

Ms. Subrina Thiagarajah
Chief Executive Officer

Mr. Tomotaka Inoue
Chief Financial Officer

MUSCAT CITY DESALINATION COMPANY SAOG

Board of Directors' Report

Dear Shareholders,

On behalf of the Board of Directors of Muscat City Desalination Company (the Company), I am pleased to present to you the Annual Report of the Company for the year ended 31 December 2018.

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, Sultanate of Oman and was developed under a Build, Own, Operate (BOO) scheme. The Plant achieved its Commercial Operation Date (COD) on 19 February 2016.

The Company currently generates its revenue through the sale of potable water pursuant to a Water Purchase Agreement (WPA) with Oman Power and Water Procurement Company (OPWP). The potable water from the Plant is fully contracted to OPWP. Electricity, which is the main energy source, is procured from Muscat Electricity Distribution Company (MEDC) pursuant to the Electricity Supply Agreement with MEDC. The Operations and Maintenance ("O&M") of the plant is contracted to Muscat City Desalination Operation and Maintenance Company LLC (MCDOMC or the "Operator") through a 20 year Operations and Maintenance Contract (O&M Contract).

During the year 2018, the Company achieved a potable water production of 59,929,864m3 with plant availability of 96% (including planned maintenance) compared with the total water production of 57,162,655m3 with average plant availability of 92% in 2017.

Financial Results

In 2018, operating revenue increased by 3% to RO16.1 million as a result of improved operating performance compared with RO15.6 million in 2017. Operating costs in 2018 increased to RO9.8 million compared with RO9.4 million in 2017. Accordingly, the Company recorded profit before tax of RO 2.1 million, which is 24% higher compared with RO1.7 million in 2017.

As approved by the shareholders, the Board of Directors at its meeting on 8 February 2018 resolved to distribute cash dividends of Baizas 2.9268 per share to the shareholders who are registered in the Company's register as at 28 February 2018.

Subsequently, the 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 earning in accordance with 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).

The Board of Directors at its meeting held on 13 November 2018 resolved to distribute cash dividend of 6.3966 Baizas per share out of the retained earnings in accordance with the audited financial statements for the financial period ended 30 September 2018 to the shareholders who were registered in the Company's shareholders' register with the Muscat Clearing & Depository Company S.A.O.C. as at 29 November 2018.

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 2018. As at 31 December 2018, the Company achieved 1037 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.

Corporate Governance

The Board of Directors and Management of the Company believe in the importance of the internal control system. The Company has a comprehensive system of internal controls in place. The Company had carried out a comprehensive review of its key internal policies and procedures in order to ensure its compliance. The Company has appointed a full time in-house internal auditor and engaged an external audit firm for a period of one year to support the Company's internal auditor. An internal audit plan was developed for 2018 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 2018. The Management is fully committed to implementing the recommendations arising from the findings of the internal auditor.

In accordance with the CMA Code of Corporate Governance, the Company has also appointed a consultant to evaluate the performance of the Board. Please refer to the Company's corporate governance report for further information on the Company's corporate governance structure.

Corporate Social Responsibility (CSR)

Our CSR initiatives and programmes are reflective of our commitment to keeping the local Omani community at the forefront of our business. Accordingly, our CSR activities during 2018 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.

During the year, MCDC launched the Primary Education Programme and the Technical Trainee Programme. The Primary Education Programme targeted Omani schools operating in the vicinity of our water desalination complex in Al Ghubrah whereby 80 Omani schoolchildren and their teachers were given an opportunity to visit the facility and were briefed on the production process of potable water using reverse osmosis technology. Meanwhile the Technical Trainee Progamme, was for Omani students who were close to completing their technical diploma or degree programme. As a part of this programme, 17 students from various technical institutes, colleges and universities have undergone internships with our O&M team during the year.

Employment

By the end of 2018, the Omanisation level in both the Company and its Operator is 72%. This is one of the highest levels achieved in the power and water industry.

Future Outlook

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

Conclusion

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

Finally, on behalf of the Board of Directors, I would like to extend our deepest appreciation and gratitude to His Majesty Sultan Qaboos Bin 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.

Ahmad Fuaad Kenali
Chairman of the Board

Description of the Company

MUSCAT CITY DESALINATION COMPANY SAOG

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 (2018-2024).

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 PAEW 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

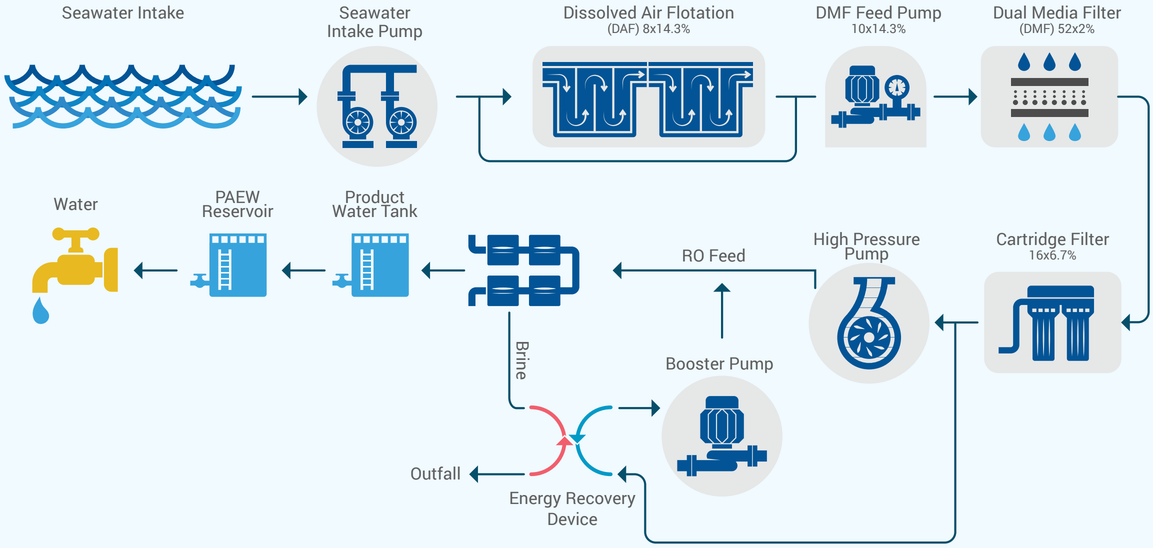
Description of the Plant

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 Dissoved 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. Potabilization is achieved with the addition of carbon dioxide that is combined with crushed and purified limestone to produce a balanced and buffered drinking water suitable for consumption. In addition, chlorine is added for disinfection and fluoride to reduce tooth decay. Potable water is then transferred to the PAEW 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 Operaton 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

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. At an EGM held on 27 October 2016, it was resolved to transform the Company into an S.A.O.G. The legal and commercial name is now Muscat City Desalination Company S.A.O.G. and its registered office is located at Building No: 310, Street No: 3605, Complex No: 236, 18 November Street, North Al Ghubrah, Muscat, Sultanate of Oman.

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.

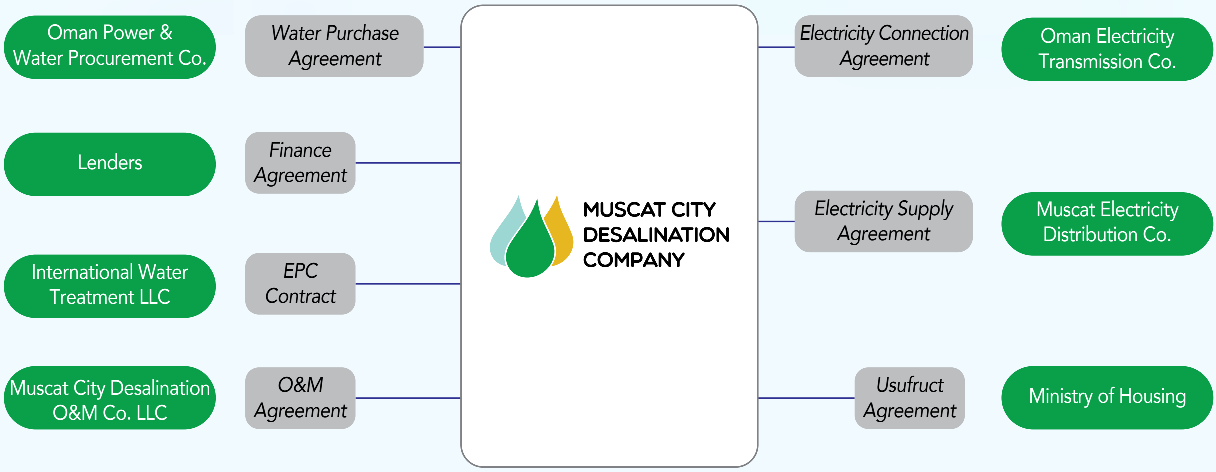
Competitive Strengths

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 a 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 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 were 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 OPWP from time to time;
- maintaining the Plant to ensure that the Plant operates at the requisite capacity;
- recruiting, employing and training sufficient staff to operate and maintain the Plant;
- programming and carrying out such performance tests as may be required by the Company or OPWP from time to time and any additional performance tests as the Company or OPWP may propose in accordance with the testing procedures and restrictions under the WPA;

- performing all operation and maintenance works and procure all resources and materials to comply with the 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 is 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 may appear as a result of a Defect and for which IWT is responsible pursuant to the terms of the EPC Contract.

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).

The defects in the Plant, other than normal wear and tear, are being rectified by the EPC Contractor as the plant is under its extended defects liability period. A total of 133 warranty items have been raised out of which 112 items have been closed, and remaining warranty items are still ongoing.

Corporate Governance

The Board of Directors and Management of the Company are committed in ensuring that the highest standards of corporate governance are practiced in the Company and the Operator, as a fundamental part of its 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. Both the Company and its Operator abide by the governing laws and regulations and observes the applicable guidelines, rules and directives issued by the relevant regulatory authorities.

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 2018, the Company achieved 1037 days without an LTI since its Commercial Operations Date (COD) on 19 February 2016. The total man-hour is 69,848 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.

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 PAEW water transmission system.

The contracted capacity of the Al Ghubrah Independent Water Plant under the WPA is 42 MIGD applicable from April 2018 to March 2019, following the Annual

Performance Tests conducted in March 2018 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 2018, the Company achieved availability of 96% after scheduled and forced outages.

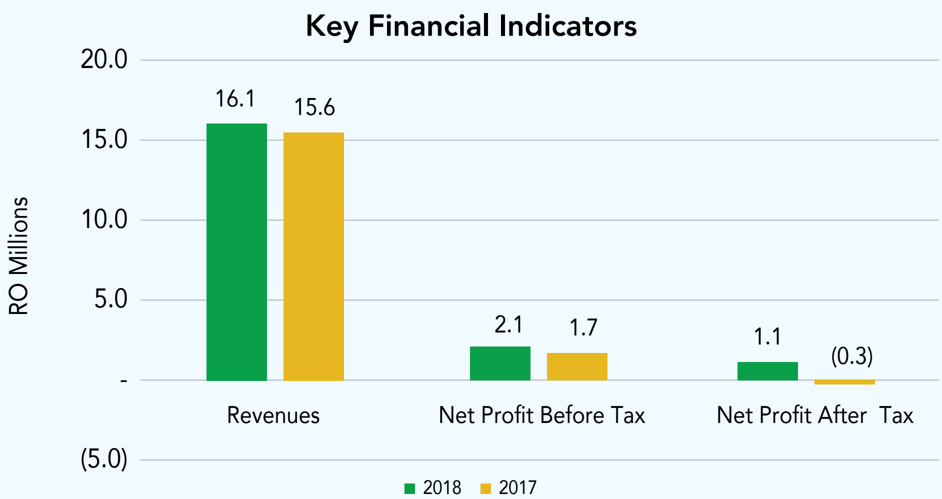
This year, the Plant had experienced additional events of algae bloom aggregating to almost 40 days of algae bloom compared with 21 days in 2017 and 6 days in 2016. Nonetheless, the impact of the algae bloom on the operations and availability of the plant, was mitigated with the incorporation of the Dissolved Air Flotation (DAF) system adopted at the plant. Technical support was also provided to the Operator by the founding shareholders, Malakoff Corporation Berhad (Malakoff) of Malaysia and Sumitomo Corporation (Sumitomo) of Japan, based on their experiences around the world.

During FY2018, the Plant produced a total of 59,929,864 m3/day of potable water with a utilization factor averaging 86% of total plant capacity or 88% of scheduled available capacity. Plant production is determined by the daily dispatch instruction issued by PAEW.

Financial Highlights

All figures in RO million	Notes	2018	2017
Revenues	1	**16.1**	15.6
Net Profit	2	**1.1**	(0.3)
Net Profit before Finance Costs	3	**4.5**	3.3
Total Assets	4	**94.9**	100.0
Capital (Paid-up)	5	**15.6**	15.6
Shareholder's Fund (Net Assets)	6	**16.8**	16.0
Term Loan (*1)	7	**63.8**	67.0
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	**1.45**	-

(*) Excluding unamortized transaction costs



Key Financial Indicators	Notes	2018	2017
Net Profit Margin	= 2/1	**6.83%**	-1.92%
Return on Capital (Paid-up)	= 2/5	**7.05%**	-1.92%
Return on Capital Employed	= 3/(6+7)	**5.58%**	3.98%
Debt Equity Ratio	= 7 : 6	**79 : 21**	81 : 19
Net assets per share (RO)	= 6/8	**0.108**	0.103
Basic Earning Per Share (RO)	= 2/8	**0.007**	(0.002)
Dividends per share (RO)	= 10/9	**9.3234**	-

Analysis of Profit and Loss

The Company managed to generate a healthy operating revenue of OMR16.1 million in FY2018, 3.21% higher than the OMR15.6 million in FY2017. This increase is mainly due to the higher available capacity and water production.

The profit before tax for FY2018 was OMR2.1 million, higher compared to OMR1.7 million in FY2017. The net profit after tax, is also higher in FY2018 OMR 1.1 million compared with a loss of OMR0.3 million in FY2017.

Analysis of Balance Sheet

Total assets of the Company stood at OMR94.9 million as at 31 December 2018 compared with OMR100.0 million in FY2017. This drop was mainly due to a full year depreciation charge and the reduction of the cash and cash equivalents, used to pay for the dividends and repayment of shareholders' loans.

The cash and cash equivalents as at 31 December 2018 is OMR1.8 million compared with OMR4.5 million as at 31 December 2017.

The shareholders' funds as at 31 December 2018 is OMR16.8 million compared with OMR16.0 million as at 31 December 2017. Hedging Reserve (net of deferred tax) increased equity by OMR 1.1 million, reflecting the fair value of the 2 interest rate swaps as at the balance sheet date. This however, does not impact the Company's capability to distribute dividends to its shareholders.

Term loans (including non-current and current balances) reduced to OMR63.8 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

At the Ordinary General Meeting held on 27 December 2017, the shareholders authorised the Board of Directors to determine and distribute cash dividends to the shareholders in February 2018 and the Board of Directors at its meeting on 8 February 2018 resolved to distribute cash dividend of Baizas 2.9268 per share to its shareholders who are registered in the Company's register as at 28 February 2018.

The 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 based on 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).

The Board of Directors at its meeting held on 13 November 2018 approved the distribution of cash dividend of Baizas 6.3966 per share out of the retained earnings based on the audited financial statements for the financial period ended 30 September 2018 to the shareholders of the Company who are registered in the Company's shareholders' register with the Muscat Clearing & Depository Company S.A.O.C. as at 29 November 2018.

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 employs a total of 46 employees, of which 33 employees are Omani citizens.

Training is conducted frequently, with strong focus on HSE, operational improvements and personal development. The employees are encouraged to attend continuous education programmes and seminars held 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 has achieved an overall Omanisation ratio of 71.7% as at 31 December 2018.

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, 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 FY2019, by improving the plant's reliability and availability, without compromising on HSE matters.

Corporate Social Responsibility

CSR: Nurturing a Community-Centric Approach

Our Corporate Social Responsibility (CSR) initiatives and programmes are reflective of our commitment to contribute towards the wellbeing of the Omani community at the forefront of our business. This is also consistent with our broader corporate philosophy of contributing to the society and community in the area that we operate in.

Accordingly, our CSR activities during 2018 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.

During the year, Muscat City Desalination Company S.A.O.G. (MCDC or "Company") launched the Primary Education Programme targeting Omani schools in the vicinity of our water desalination complex in Al Ghubrah. The programme aimed at introducing Omani children and young adults to the fundamentals of our business, viz. the production of potable water from seawater to meet the water requirements of communities in the Muscat Governorate and beyond. Through the supervised visits and guided tours of our desalination process as well as our facility, our young guests were given the opportunity to understand and appreciate the Company's emphasis on quality as well as the environmental safety, conservation of natural resources, and sustainability of our business.

In total, 80 Omani children from three schools, namely Al Waljah, Al Fyid and Thuraya Al Busaidi, participated in the visits of our Al Ghubrah complex during the month of November. They were accompanied by a total of five teachers. The visits were organized with the support of our O&M Team's HSE Officer in coordination with the Company's HR & Admin Executive and Public Relationship Officer (PRO).

Going forward, the Primary Education Programme is proposed to be expanded to include schools around the Muscat Governorate, as well as children of different age groups. The educational nature of these visits is also consistent with the Omani Government's advocacy of water rationalization, conservation and reduction of waste.

Furthermore, we are preparing to roll out our Technical Trainee Programme, which is in line with our commitment to supporting the technical development of young Omanis with a view to preparing them for possible jobs that may become available within MCDC or the wider industry.

Students from Thuraya Al Busaidi School.

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. Our programme has been conceptualized and structured to provide promising candidates with the requisite engineering knowledge and technical ability in regard to the operation and maintenance of water desalination facilities. Thus, while they learn and work alongside our O&M team, we will also have the opportunity to identify candidates for further guidance to prepare them for possible openings within the O&M company or other organisations in the industry. As a part of the Technical Trainee Programme, 17 students from various technical institutes, colleges and universities had undergone internship with our O&M team during the year.

The process of identifying suitable Omani technical candidates for this programme is being handled in cooperation with key faculty members of various Colleges of Applied Sciences in the Sultanate, Sultan Qaboos University, and the Middle East Desalination Research Centre (MEDRC).

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 years.

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Report to the Shareholders of Muscat City Desalination Company SAOG ("the Company") of Factual Findings in connection with the Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Company ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance issued under Circular No. 11/2002 dated 3 June 2002 and the revised CMA Code of Corporate Governance issued under CMA Circular 4/2015 dated 22 July 2015 (together the "Governance Code"). The Report is set out on pages 1 to 6.

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist the Shareholders in evaluating the Company's compliance with the Governance Code. The Procedures we performed were as follows:

1. Corroborated, as required, the matters disclosed in the Report by reference to: internal audit reports issued during the year ended 31 December 2018;Audit Committee and Board minutes of meetings held during the year ended 31 December 2018; and relevant supporting Company records.

2. Confirmed that the Report discloses matters discussed in the Board of Director's report on review of the effectiveness of the Company's system of internal controls and that these matters were reported by Company's internal auditor to the Audit Committee during the year ended 31 December 2018.

3. Checked that the Report includes disclosures set out in Annexure 3 of the Governance Code.

4. Checked whether matters, if any, reported in the Auditors' report on the financial statements for the year ended 31 December 2018 relating to: Adequacy and efficacy of the internal control systems in place; going concern considerations; and the adequacy of policies and procedures set up by the Company were also included in the Auditor's presentation to the Audit Committee.

5. Read the Minutes of Board and Audit Committee meetings during the year ended 31 December 2018 to confirm that any matters of non-compliance with the Governance Code mentioned therein are also included in the Report.

As a result of performing the Procedures, we have no exceptions to report.

Because the 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 Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of the Report in accordance with International Standards on Auditing or International Standards on Review Engagement, other matters might have come to our attention that would have been reported to you. This report is solely for the purpose set forth in the second paragraph of this report, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Company's Corporate Governance Report included in the Company's annual report for the year ended 31 December 2018 and does not extend to any financial statements or any other reports of the Company, taken as a whole.

KPMG

18 February 2019

Mobeen Chaudhri

Corporate Governance Report

Company's philosophy

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

Corporate governance is a framework of rules, processes and practices by which a board ensures 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 Company's 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 protects 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 year 2018, the Board consisted of the following directors:

No.	Name of director	Date of appointment	Independent / non independent	Mode of representation
1	Habib Bin Husin*	14 March 2016	Non-independent	Shareholder representative
2	Tamer Cankardes	14 March 2016	Non-independent	Shareholder representative
3	Takashi Ishizuka**	27 October 2016	Non-independent	Personal capacity
4	Shinichi Hasegawa*	14 March 2016	Non-independent	Personal capacity
5	Ruswati Othman	27 October 2016	Non-independent	Personal capacity
6	Ahmad Fuaad bin Mohd Kenali	27 December 2017	Non-independent	Personal capacity
7	Vishwanath Sankaranarayanan*	27 March 2018	Independent	Personal capacity
8	Sultan Obaid Said Al Ghaithi*	27 March 2018	Independent	Personal capacity
9	Kei Nakamura**	29 October 2018	Non-independent	Personal capacity

*Habib Bin Husin and Shinichi Hasegawa resigned on 8 February 2018. Vishwanath Sankaranarayanan and Sultan Obaid Said Al Ghaithi replaced them as temporary directors, and they were re-appointed by the shareholders at the Annual General Meeting on 27 March 2018.

** Kei Nakamura replaced Takashi Ishizuka on 29 October 2018 as a temporary director, and was re-appointed by the shareholders at the Ordinary General Meeting on 13 December 2018.

Board meetings / shareholders meetings and attendance in 2018

No.	Name of the director	Position	Attendance								
			Board Meetings							Shareholders Meetings	
										AGM	OGM
			Feb 8	Mar 27	Apr 29	Jul 29	Oct 29	Nov 13	Total	Mar 27	Dec 13
1	Habib Bin Husin*	Chairman until Feb 8, 2018	•	-	-	-	-	-	1	-	-
2	Tamer Cankardes	Deputy Chairman	•	•	P	•	P	•	6	•	-
3	Takashi Ishizuka**	Member until Oct 29, 2018	•	•	•	•	-	-	4	•	-
4	Shinichi Hasegawa*	Member until Feb 8, 2018	-	-	-	-	-	-	0		-
5	Ruswati Othman	Member	•	•	•	•	•	P	6	•	-
6	Ahmad Fuaad bin Mohd Kenali	Chairman as from Feb 8, 2018	•	•	•	•	•	•	6	•	•
7	Vishwanath Sankaranarayanan*	Member as from Feb 8, 2018	•	•	•	•	•	•	6	•	-
8	Sultan Obaid Said Al Ghaithi*	Member as from Feb 8, 2018	•	•	•	•	•	•	6	•	-
9	Kei Nakamura**	Member as from Oct 29, 2018	-	-	-	-	•	•	2	-	•

•:Attended, P: Proxy

*Habib Bin Husin and Shinichi Hasegawa resigned on 8 February 2018. Vishwanath Sankaranarayanan and Sultan Obaid Said Al Ghaithi replaced them as temporary directors, and they were re-appointed by the shareholders at the Annual General Meeting on 27 March 2018.

**Kei Nakamura replaced Takashi Ishizuka on 29 October 2018 as a temporary director, and was re-appointed by the shareholders at the Ordinary General Meeting on 13 December 2018.

Performance Appraisal for the Board of Directors

Dentons & Co Oman Branch conducted a board evaluation in based on the criteria approved by the shareholders at the Company's Annual General Meeting held on 27 March 2018. The evaluation report will be presented at the forthcoming Annual General Meeting on 27 March 2019.

Board Audit Committee

The role of the Board Audit Committee is 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 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 proposed related party transactions and making suitable recommendations to the Board.

The Board Audit Committee comprises the following members during the year 2018:

No.	Name of the Audit Committee Member	Position	Dates and number of audit committee meetings				
			Feb 7	Apr 29	Jul 29	Oct 29	Nov 13
1	Ruswati Othman	Chairman until 7 Feb 2018, Member from 8 Feb 2018	•	•	•	•	•
2	Takashi Ishizuka	Member until 7 Feb 2018	•	-	-	-	-
3	Shinichi Hasegawa	Member until 7 Feb 2018	-	-	-	-	-
4	Vishwanath Sankaranarayanan*	Chairman from 8 Feb 2018	-	•	•	•	•
5	Sultan Obaid Said Al Ghaithi*	Member from 8 Feb 2018	-	•	•	•	•

•:Attended, P: Proxy

Board Nomination and Remuneration Committee (BNRC)

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

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

The BNRC comprises the following members:

No.	Name of the BNRC Member	Position	Dates and number of BNRC meetings	
			Mar 27	Oct 29
1	Ahmad Fuaad bin Mohd Kenali	Chairman	•	•
2	Tamer Cankardes	Member	•	-
3	Sultan Obaid Said Al Ghaithi	Member	•	•

Procedure for nomination of directors

Directors are nominated and elected in accordance with the applicable provisions of the Commercial Companies Law promulgated by Sultani Decree 4/74, as amended from time to time, 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 who meets the requirements of the Company's Articles of Association and the directives of the CMA. The nominees to the membership of the Board must:

(a) be of a good conduct and sound reputation;

(b) be at least 25 years old;

(c) not be unable to settle their indebtedness to the Company;

(d) not be declared insolvent or bankrupt unless the state of insolvency or bankruptcy has ceased pursuant to the law;

(e) not be convicted of a felony or dishonourable crime unless rehabilitated in accordance with law;

(f) not be a member or a representative of a juristic person in more than four public joint stock companies based in Oman once appointed to the Board in question;

(g) be authorised to nominate himself for Board membership by the juristic person if he is nominated in such capacity;

(h) not be Chairman of more than two public joint stock companies that have their principal place of business in Oman;

(i) not be a member of the board of directors of a public or closed joint stock company, which is based in Oman and which is carrying out similar objects to that of the Company;

(j) present an acknowledgement which contains a statement of the number of shares held by the nominee in the Company if he is a Shareholder and that he will not dispose of them to the extent that he will be deprived of his status as a Shareholder, throughout the term of his office; and

(k) not participate in the management of a competing business except with the approval of the general meeting and such approval shall be renewed annually.

Remuneration

a) Sitting fees to members of Board and its committees

A total amount of RO 13,200 is expensed as sitting fees for the year ended 31 December 2018. The Board Audit Committee and BNRC have also accrued sitting fees of RO 2,800 and RO 1,000 respectively. The sitting fees for each director did not exceed RO 10,000 as per the guidelines issued by the CMA.

b) Remuneration of Board members

The total remuneration proposed to be paid to the independent board members is RO 6,800 for the financial year ended 31 December 2018 for their excellent contribution to the company. This will be presented for the shareholders' approval at the Annual General Meeting on 27 March 2019.

c) Other payments to directors

There were no other payment to the directors besides their sitting fees and remuneration as applicable.

d) Key executives of the Company

The key executives of the Company received an aggregate amount of RO 219,224 which includes salaries, bonus and other benefits during 2018. The remuneration paid to these key executives commensurate with their key performance indicators established for the financial year.

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 in 2018.

Means of communication with the shareholders and investors

The Company means of communication and disclosures are in accordance with regulatory requirements and international standards. 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 takes place in both English and Arabic.

Market price data

a) High/low share price and performance comparison during each month in 2018

Month	Price (Baizas)				MSM Index (Service sector)
	High	Low	Closing	Change from 2 January 2018	Closing
January	0.166	0.152	0.163	4.49%	2,619.63
February	0.164	0.157	0.160	2.56%	2,631.57
March	0.160	0.144	0.147	-5.77%	2,605.70
April	0.156	0.142	0.146	-6.41%	2,525.35
May	0.146	0.138	0.146	-6.41%	2,475.72
June	0.150	0.144	0.145	-7.05%	2,474.99
July	0.140	0.133	0.133	-14.74%	2,377.80
August	0.136	0.130	0.135	-13.46%	2,375.71
September	0.140	0.131	0.134	-14.10%	2,465.71
October	0.133	0.129	0.130	-16.67%	2,390.21
November	0.130	0.121	0.130	-16.67%	2,353.80
December	0.134	0.120	0.130	-16.67%	2,290.34

b) Distribution of shareholdings as at 31 December 2018

Category	Number of shareholders	Number of shares held	Share capital %
5 % and above	3	111,059,387	71.40%
Less than 5%	2,946	44,491,013	28.60%
Total	**2,949**	**155,550,400**	**100.00%**

Professional profile of the statutory auditor

KPMG is a global network of professional firms providing audit, tax and advisory services across a wide range of industries, Government and not for profit organizations. KPMG provides a full range of services tailored to meet the unique needs of mid-sized, fast growing and family owned businesses. KPMG operates in 155 countries and employs more than 174,000 people working in member firms around the world. The KPMG network is coordinated by Swiss cooperative KPMG International (KPMGI). Please visit https://home.kpmg.com/om/en/home.html for more information about KPMG.

KPMG in Oman was established in 1974 and consists of more than 100 personnel and four Partners based in Muscat who serve clients throughout the Sultanate and across all industry sectors. KPMG in Oman is accredited by the CMA to audit joint stock companies.

During the year 2018, KPMG billed an amount of RO 17,755 towards professional services rendered to the Company (RO 15,500 for audit, RO 1,500 for statutory tax and RO 3,575 for other tax 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 2018.

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 1974, as amended. 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 the continuity of the Company, and its ability to continue its operations during the next financial year.

Chairman of the Board

Report and Financial Statements

MUSCAT CITY DESALINATION COMPANY SAOG

Muscat City Desalination Company SAOG
Report and financial statements for the year ended 31 December 2018

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INDEPENDENT AUDITORS' 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) set out on pages 4 to 33, which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with 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 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.

Key audit matter – Valuation of derivatives

The Company has derivative financial liability carried at fair value in the amount of RO 624,000 as at 31 December 2018.

Derivative financial instruments are used to manage and hedge interest rate risk. These instruments are designed as cash flow hedges. Valuation of the derivatives is based on valuation models using observable input data.

We have focused on this area because of the level of judgement involved in their measurement, together with the complexity associated.

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Our response

We have performed, amongst other audit procedures, the following:

- Obtained an understanding of the risk management policies, as well as accounting policies for recognition and measurement of derivative financial instruments, applied by the Company;
- Reconciled derivative financial instruments recorded values and data to third party confirmations;
- Independently recalculated the fair value of derivative financial instruments with independent and externally available market data using support from our financial risk management specialists; and
- Considered the appropriateness of disclosures in relation to derivative financial instruments.

For further information on derivative financial instrument and hedge accounting please refer note 3 on page 15, note 10 on pages 24 and note 23 on pages 32.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' 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 auditors' 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.

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- 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 period and are therefore the key audit matters. We describe these matters in our auditors' 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

We report that the financial statements of the Company as at and for the year then ended 31 December 2018, in all material respects, comply with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 1974, as amended

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18 February 2019 — *Mobeen Chaudhri*

MUSCAT CITY DESALINATION COMPANY SAOG

Statement of financial position

as at 31 December

	Notes	2018	2017
Assets		**RO'000s**	RO'000s
Non-current assets			
Property, plant and equipment	5	**91,545**	93,888
Deferred tax	20	**162**	357
Total non-current assets		**91,707**	94,245
Current assets			
Trade and other receivables	6	**1,385**	1,289
Cash and cash equivalents	7	**1,820**	4,471
Total current assets		**3,205**	5,760
Total assets		**94,912**	100,005
Equity and Liabilities			
Capital and reserves			
Share capital	8	**15,555**	15,555
Legal reserve	8	**1,628**	1,513
Retained earnings		**254**	670
Cumulative changes in fair values of derivative financial instruments	10	**(624)**	(1,738)
Total equity		**16,813**	16,000
Non-current liabilities			
Non-current portion of term loans	9	**59,562**	62,788
Non-current portion of fair value of derivative financial instruments	10	**657**	1,952
Provision for decommissioning obligation	11	**349**	330
Deferred tax	20	**3,001**	2,094
Shareholders' bridge loans	13	**8,854**	8,811
End of service benefits	12	**15**	8
Total non-current liabilities		**72,438**	75,983
Current liabilities			
Current portion of term loans	9	**3,106**	3,024
Current portion of fair value of derivative financial instruments	10	**77**	93
Shareholders' stand – by equity loans	14	**754**	837
Current portion of Shareholders' bridge loans	13	**-**	1,583
Accruals and other payables	15	**1,724**	2,485
Total current liabilities		**5,661**	8,022
Total liabilities		**78,099**	84,005
Total equity and liabilities		**94,912**	100,005

The financial statements on pages 38 to 68 were approved by the Board of Directors on 18 February 2019 and were signed on their behalf by:

Chairman **Chief Executive Officer**

The report of the Independent Auditors is set forth on pages 35-37.

Statement of profit or loss and other comprehensive income
for the year ended 31 December

		2018	2017
		RO'000s	RO'000s
Revenue		**16,071**	15,593
Operating costs	17	**(9,776)**	(9,409)
Gross profit		**6,295**	6,184
Administrative expenses	18	**(885)**	(879)
Finance costs	19	**(3,357)**	(3,562)
Net profit for the year before tax		**2,053**	1,743
Income tax	20	**(904)**	(2,044)
Net Profit/(loss) for the year		**1,149**	(301)
Other comprehensive income that is or may be reclassified to profit or loss			
Changes in fair values of derivative financial instruments	10	**1,311**	1,117
Deferred tax on changes in fair values of derivative financial instruments		**(197)**	(73)
Other comprehensive income for the year		**1,114**	1,044
Total comprehensive income/(loss) for the year		**2,263**	743
Earning/(loss) per share – basic and diluted	21	**0.007**	(0.002)

The attached notes on pages 42 to 68 notes form an integral part of these financial statements.

The report of the Independent Auditors is set forth on pages 35-37.

MUSCAT CITY DESALINATION COMPANY SAOG

Statement of changes in equity
for the year ended 31 December

	Share capital	Legal reserve	(Accumulated losses) / retained earnings	Cumulative changes in fair values of derivative financial instruments	Total
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
At 1 January 2017	15,555	883	1,601	(2,782)	15,257
Total Comprehensive loss					
Loss for the year	-	-	(301)	-	(301)
Transfer to legal reserve	-	630	(630)	-	-
Other comprehensive loss net of deferred tax	-	-	-	1,044	1,044
At 31 December 2017- audited	15,555	1,513	670	(1,738)	16,000
At 1 January 2018	**15,555**	**1,513**	**670**	**(1,738)**	**16,000**
Total Comprehensive income					
Net profit for the year	**-**	**-**	**1,149**	**-**	**1,149**
Transfer to legal reserve	**-**	**115**	**(115)**	**-**	**-**
Dividend distributed	**-**	**-**	**(1,450)**	**-**	**(1,450)**
Other comprehensive income net of deferred tax	**-**	**-**	**-**	**1,114**	**1,114**
At 31 December 2018	**15,555**	**1,628**	**254**	**(624)**	**16,813**

The attached notes on pages 42 to 68 notes form an integral part of these financial statements.

The report of the Independent Auditors is set forth on pages 35-37.

Statement of cash flows
for the year ended 31 December

	Audited 2018 RO'000s	Audited 2017 RO'000s
Operating activities		
Net profit for the period before tax	**2,053**	1,743
Adjustment for:		
Depreciation	**2,431**	2,488
Provision for end of service benefits	**7**	8
Finance Costs	**3,357**	3,562
Cash flows from operating activities before working capital changes	**7,848**	7,801
Change in accruals and other payables	**(768)**	(182)
Change in trade and other receivables	**(96)**	153
End of service benefit paid	**-**	(19)
Net cash from operating activities	**6,984**	7,753
Investing activity		
Additions to property, plant and equipment	**(84)**	(11)
Net cash used in investing activity	**(84)**	(11)
Financing activities		
Payment of shareholders' loans	**(1,583)**	-
Amount due to related parties	**-**	(708)
Interest paid to shareholders' loans	**(137)**	-
Net repayment of term loans	**(3,218)**	(9,656)
Finance cost paid	**(3,080)**	(3,373)
Payment of shareholders' stand -by equity loans	**(83)**	-
Dividend distributed	**(1,450)**	-
Net cash used in financing activities	**(9,551)**	(13,737)
Net change in cash and cash equivalents	**(2,651)**	(5,995)
Cash and equivalents at the beginning of the year	**4,471**	10,466
Cash and cash equivalents at the end of the year	**1,820**	4,471

The attached notes on pages 42 to 68 notes form an integral part of these financial statements.

The report of the Independent Auditors is set forth on pages 34-37.

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

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 adopt early, 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:

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.

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

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 *(continued)*

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	New carrying amount under IFRS 9
			RO '000	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.

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.

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

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.

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.

3 Summary of significant accounting policies *(continued)*

Property, plant and equipment*(continued)*

Subsequent costs

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

Depreciation

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

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

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

	Years
Civil and structural works	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.

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.

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

3 Summary of significant accounting policies *(continued)*

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.

Employees' end of service benefits

With respect to its Omani employees, the Company makes contributions to the Public Authority for Social Insurance under Royal Decree 72/91 calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due. Provision for non-Omani employee terminal benefits under an unfunded defined benefit retirement plan, is made in accordance with Omani Labour Laws and is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods.

Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimated to settle the present obligation, the carrying amount is the present value of those cash flows.

3 Summary of significant accounting policies *(continued)*

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.

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.

3 Summary of significant accounting policies *(continued)*

Financial instruments *(continued)*

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.

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.

3 Summary of significant accounting policies *(continued)*

Segment reporting *(continued)*

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.

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.

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

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.

5 Property, plant and equipment

	Civil and structural works	Plant and machinery	Pipelines	Decommissioning asset	Spares	Furniture, fixtures & office equipment	Motor vehicles	Total
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	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**

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

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

5 Property, plant and equipment *(continued)*

	Civil and structural works	Plant and machinery	Pipelines	Decommissioning asset	Spares	Furniture, fixtures & office equipment	Motor vehicles	Total
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	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

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

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	31 December 2017
	RO'000s	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	31 December 2017
	RO'000s	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.

Notes to the financial statements
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8 Capital and reserves

	Authorized	
Share capital	**31 December 2018**	31 December 2017
	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
	2018	2017	
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.

8 Capital and reserves *(continued)*

Dividend *(continued)*

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).

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	31 December 2017
	RO'000s	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.

Notes to the financial statements
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9 Term loans (continued)

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.

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

10 Derivative financial instruments *(continued)*

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	31 December 2017
	RO'000s	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)

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	**Notional amount**	**1 - 12 month**	**More than 1 up to 5 years**	**More than 5 years**
31 December 2018	**RO'000s**	**RO'000s**	**RO'000s**	**RO'000s**	**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

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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	31 December 2017
	RO'000s	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

Notes to the financial statements
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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.

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

15 Accruals and other payables

	31 December 2018 RO'000s	31 December 2017 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 RO'000s	31 December 2017 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

	31 December 2018	31 December 2017
	RO'000s	RO'000s
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	31 December 2017
	RO'000s	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

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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

	31 December 2018	31 December 2017
	RO'000s	RO'000s
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

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**

20 Income tax (continued)

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

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

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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:

	31 December 2018	31 December 2017
	RO'000s	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.

23 Financial instruments *(continued)*

Liquidity risk *(continued)*

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**

31 December 2017	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	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

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23 Financial instruments *(continued)*

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**	**100 bp decrease**
	RO'000s	**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)

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.

23 Financial instruments *(continued)*

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	31 December 2017
	RO'000s	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.