Notes to the financial statements for the year ended 31 December 2023

1. Legal status and principal activities

Muscat City Desalination Company SAOG (the "Company") is a public joint stock company registered in the Sultanate of Oman. The Company was incorporated on 19 January 2013. The Company's principal activity is the sale of desalinated water. The Company commenced commercial production of potable water on 19 February 2016. The Company was listed on the Muscat Stock Exchange on 2 January 2018. The registered address of the Company is at PO Box 1935,PC 114, Muscat, Sultanate of Oman .

1.1 Key agreements

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

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

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

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

2.1 New and revised IFRSs that are effective for the current year

a) New standards or amendments for 2023 and forthcoming requirements

A number of new standards, amendments to standards and interpretations are effective for the periods beginning on or after 1 January 2023. Those, which are relevant to the Company, are set out below.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12.
- IFRS 17 Insurance Contracts
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimate - Amendments to IAS 8
- Pillar two model rules - Amendments to IAS 12

The above standards and amendments do not have any material impact on the financial statements except as a result of the amendment to IAS 1, only the material accounting policies have been disclosed.

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

2.2 New and revised IFRS standards and interpretations but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- Amendments to IAS 1, Classification of liabilities as current or non current and non current liabilities with covenants. Effective date of this amendment is for annual periods beginning on or after 1 January 2024;
- Amendment to IAS 7 and IFRS 7, Supplier Finance Arrangements. Effective date of this amendment is for annual periods beginning on or after 1 January 2024; and
- Amendments to IFRS 16, Lease liability in a sale and leaseback. Effective date of this standard is annual periods beginning on or after 1 January 2024.
- Amendments to IAS 21, Lack of exchangeability. Effective date of this standard is annual periods beginning on or after 1 January 2025.

There are no other IFRS standards, amendments or interpretations that are expected to have a material impact on the Company.

2.3 Change in material accounting policies

The Comapny has adopted *Defered Tax related to Assets and Liabilities arising from a single transaction (Amendments to IAS 12)* from 1 January 2023. The amendments narrow the scope of initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. For leases and decommissioning liabilities, an entity is required to recognise the associated deffered tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, an entity applies the amendments to transactions that occur on or after the beginning of the earliest period presented.

The company previously accounted for deferred tax on leases and decommissioning liabilities by applying applying 'integrally linked' approach , resulting in a similar outcome as under the amendments, except that the deferred tax asset or liability was recognized on a net basis. Following the amendments, the company has recognized a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its right of use assets. However,there was no impact on statemenet of financial position because the balances qualify for offset under paragraph 74 of IAS 12 . There was also no impact on the opening retained earnings as at 1 January 2022 as a result of the change. They key impact for the company relates to disclosure of the deferred tax assets and liabilities recognized.

3. Summary of Material accounting policies

Statement of compliance

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

3. Summary of significant accounting policies (continued)

Going Concern

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

As at 31 December 2023, the Company's current liabilities exceeded current assets by RO 2,685 (RO'000) (2022 - RO 2,603 (RO'000)). The net liability position is mainly due to fact that the Company's current assets mainly consists of trade receivable for one month whereas current liabilities includes term loan that will be paid over a period of 1 year from 31 December 2023. The management believes that these liabilities will be settled, through receipts from revenue contract from customer. Further, the management believes Company have adequate resources to continue in operational existence. For the year ended 31 December 2023, the Company has generated an operating cash flow of RO 7,870 (RO'000) (2022 – RO 7,882 (RO'000)). Accordingly, the management believe that the Company will continue to operate as a going concern for the foreseeable future and these financial statements are prepared on a going concern basis.

Basis of preparation

The financial statements are prepared under the historical cost convention except for derivative financial instruments measured at fair value. The financial statements have been presented in Rial Omani ("RO") which is also the functional currency of the Company and rounded to the nearest thousand unless stated otherwise.

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

Functional and presentation currency

These financial statements are presented in Omani Rial, which is the Company's functional currency.

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

Foreign currencies

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

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

Cash and cash equivalents

Cash and cash equivalents comprise bank balances, short-term deposits with an original maturity of three months or less.

3. Summary of significant accounting policies (continued)

Property, plant and equipment

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

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

The cost of self-constructed assets includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of overheads and any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and renewals are charged to profit or loss when the expense is incurred.

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

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

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

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

	Years
Civil and structural works	35 - 40
Plant and machinery	35 - 40
Pipelines	35 - 40
Decommissioning asset	40
Spares	40
Furniture, fixtures and office equipment	4
Motor vehicles	4

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

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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

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

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

Impairment

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

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

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss unless it reverses a previous revaluation that was credited to equity, in which case it is charged to equity.

The recoverable amount of the cash generating unit is the greater of its value in use and its fair value less cost 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 plant.

3. Summary of significant accounting policies (continued)

Impairment (continued)

Non-financial assets (continued)

The management determines whether there are any indications of impairment to carrying value of property, plant and equipment on an annual basis because of the difference between the duration of the contracted cash flows and accounting deprecation of assets. This requires an estimation of the value in use of the cash generating unit. Estimating the value in use requires the Company to make an estimate of the residual value of the cash generating unit at the end of the term of the WPA considering the expected future cash flows for the period beyond the term of the WPA and also a suitable discount rate in order to calculate the present value of those cash flows.

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 assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

Employees' end of service benefits

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

Provisions

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

Provision for decommissioning obligation

The provision for asset retirement obligation is recognised when there is a present obligation as a result of assets constructed on land under usufruct contracts with the Ministry of Housing, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of provision can be measured reliably. The estimated future obligations include the costs of removing the facilities and restoring the affected areas. A corresponding asset is recognised as part of plant and machinery in property, plant and equipment and depreciated accordingly.

3. Summary of significant accounting policies (continued)

Provision for decommissioning obligation (continued)

The provision for decommissioning obligation is a best estimate of the present value of expected costs required to settle the obligation, at the reporting date based on the current requirements of the Usufruct agreement, using estimated cash flows. The cash flows are discounted at a current pre tax rate that reflects the risks specific to the asset retirement obligation. The unwinding of the discount is expensed as incurred and recognised in the statement of profit or loss and other comprehensive income as a finance cost.

The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset recorded as property, plant and equipment. If there is an indication that the new carrying amount of the asset is not fully recoverable, the asset is tested for impairment and an impairment loss is recognised where necessary.

Equity

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

Revenue

The Company's revenue stream comprises water capacity investment charge, water capacity operation and maintenance charge, water output operation and maintenance charge and electricity charges calculated in accordance with the agreement with Oman Power and Water Procurement Company SAOC for sale of desalinated water.

Water capacity charge includes water capacity investment charge and water capacity operations and maintenance charge.

The Water Purchase Agreement provides that the company will make available and sell to OPWP a guaranteed water capacity for which the company will receive payment that will compensate for the investments made and the operating costs.

Water capacity investment charge is recognized based on the capacity made available in accordance with contractual terms stipulated in WPA. Fixed O&M charge is recognized based on the capacity made available in accordance with contractual terms stipulated in WPA. Revenue from sale of water to OPWP is recognized in the accounting period in which the actual production and sale of water take place and the capacity is made available as per the contract. The Company has a long-term agreement with OPWP which determines performance obligation, transaction price and allocates the transaction price to each of the separate performance obligations. The Company does not adjust any of the transaction prices for time value of money as the period between the transfer of the promised output to the customer and payment by the customer does not exceed one month and the sales are made with agreed credit terms which is in line with the industry practice.

The revenue disclosed in note 18 is based on actual invoiced amount.

3. Summary of significant accounting policies (continued)

Finance expenses

Finance costs comprise interest on borrowings. Borrowing costs, net of interest income, which are directly attributable to the acquisition or construction of qualifying assets such as items of property, plant and equipment are capitalised as part of the cost of property, plant and equipment. All other interest expenses are recognised as an expense in profit or loss using the effective interest rate method.

Deferred financing costs

The cost of obtaining senior facility loan is deferred and amortised over the term of the respective loans using the effective interest rate method. Deferred financing costs less accumulated amortisation are offset against the drawn amount of senior facility loan.

Financial instruments

i) Non-derivative financial instruments

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

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

ii) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

3. Summary of significant accounting policies (continued)

ii) Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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

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

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

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

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI and accumulated in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss and other comprehensive income. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item’s cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

3. Summary of significant accounting policies (continued)

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 in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses,unused tax credits and deductable temporary differences to extent that it is probable that future taxable profits will be available against which they can be used.Further, taxable profits are determined based on the reversal of relevant taxable temporary differences.If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then the future taxable profits,adjusted for reversals of existing temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The measurement of deferred tax reflects the tax consequences that would flow from manner in which the company expects,at the reporting date,to recover or settle the carrying amounts of its assets and liabilities.
Deferred tax assets and liabilities are offset only if certain criteria are met.

Dividend

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

Dividends on ordinary shares are recognised when they are approved by shareholders in Annual general meeting for payment.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic decisions maker.

The Company's operating activities are disclosed in note 1 to the financial statements. The strategic business unit offers similar products and services and is managed as one segment. Performance is measured based on the profit before income tax, as included in the internal management reports. The management considers the business of the Company as one operating segment and monitors accordingly.

3. Summary of significant accounting policies (continued)

Leases

The Company as a lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the interest rate implicit in the lease or, if that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- Uses a build-up approach that starts with a risk-free interest rate; and
- Makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives; and
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is presented as a separate line item in the statement of financial position.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

3. Summary of significant accounting policies (continued)

Leases (continued)

Lease liability (continued)

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

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

Right-of-use asset

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

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

The right-of-use assets are presented as a separate note line item in the property, plant and equipment. The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any Identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Operating expenses" in the statement of profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement- The Company has not used this practical expedient.

3. Summary of significant accounting policies (continued)

Leases (continued)

The Company as lessor

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

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

Directors' remuneration

Directors' remuneration has been computed in accordance with the Commercial Companies Law and as per the requirements of Capital Market Authority.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders.

Basic and diluted earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Net assets per share

Net assets per share is calculated by dividing the net assets attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding during the period. Net assets for the purpose is defined as net equity.

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Critical judgements

Management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Lease classification
The Company has entered into the Water Purchase Agreement (“WPA”) with Oman Power and Water Procurement Company SAOC (“OPWP”) to make available the guaranteed contracted capacity of desalinated water from its Plant.

Management believes that IFRIC 12 is not applicable to the arrangement as the residual interest is borne by the Company and not OPWP. The estimated useful life of the plant of 40 years takes into account the Company’s right to extend the land lease under a Usufruct Agreement for an additional term of 25 years. Furthermore, the residual value of the assets will have substantial value at the conclusion of the WPA and the Company will be able to continue to generate revenue through supply of desalinated water.

Management considers the requirements of IFRS 16 Leases, which sets out guidelines to determine when an arrangement might contain a lease. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

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

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

Key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty (continued)

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

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

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

Effectiveness of hedge relationship
At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging instrument. Management has further updated the hedge document after LIBOR reform. (Note 10).

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

Notes to the financial statements
for the year ended 31 December 2023 (continued)

5. Property, plant and equipment

	Civil and structural works RO'000s	Plant and machinery RO'000s	Pipelines RO'000s	Decommissioning asset RO'000s	Spares RO'000s	Furniture, fixtures and office equipment RO'000s	Motor vehicles RO'000s	Capital work-in-progress RO'000s	Total RO'000s
Cost									
1 January 2022	31,340	46,584	19,920	316	655	93	43	-	98,951
Additions	-	26	-	-	-	6	-	150	182
Adjustments	-	-	-	(147)	-	-	-	-	(147)
31 December 2022	31,340	46,610	19,920	169	655	99	43	150	98,986
1 January 2023	**31,340**	**46,610**	**19,920**	**169**	**655**	**99**	**43**	**150**	**98,986**
Additions	**7**	**149**	**31**	-	-	**53**	-	-	**240**
Disposal	-	-	-	-	-	**(2)**			**(2)**
Transfer	-	**150**	-	-	-	-	-	**(150)**	-
Adjustments	-	-	-	**(36)**	-	-	-	-	**(36)**
31 December 2023	**31,347**	**46,909**	**19,951**	**133**	**655**	**150**	**43**	**-**	**99,188**
Accumulated depreciation									
1 January 2022	4,592	6,802	2,920	49	93	47	17	-	14,520
Charge for the year	784	1,166	498	3	17	17	8	-	2,493
31 December 2022	5,376	7,968	3,418	52	110	64	25	-	17,013
1 January 2023	**5,376**	**7,968**	**3,418**	**52**	**110**	**64**	**25**	**-**	**17,013**
Charge for the year	**784**	**1,190**	**498**	**2**	**17**	**19**	**9**	**-**	**2,518**
Disposal	-	-	-	-	-	**(2)**	-	-	**(2)**
31 December 2023	**6,160**	**9,158**	**3,916**	**54**	**127z**	**81**	**33**	**-**	**19,529**
Carrying value									
31 December 2023	**25,187**	**37,751**	**16,035**	**79**	**528**	**69**	**10**	**-**	**79,659**
31 December 2022	25,964	38,642	16,502	117	545	35	18	150	81,973

5. Property, plant and equipment (continued)

Depreciation charge for the period is recognised as follows:

	2023 RO'000s	2022 RO'000s
Cost of sales (note 19)	**2,491**	2,468
Administrative and general expenses (note 20)	**27**	25
	2,518	2,493

The above assets consisting of civil and structural work, plant and machinery and pipeline are subject to operating lease as per Water Purchase Agreement ("WPA") dated 11 February 2013 with Oman Power and Water Procurement Company ("OPWP") for a period 20 years.

The long term loan facilities are secured by a comprehensive legal and commercial mortgage on Property, plant and equipment of the Company (note 11).

As explained in note 1.1, the WPA for plant 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.Accordingly, the management has identified this as an impairment indicator for its plant and performed an impairment assessment.The Company carried out an impairment testing for the plant using the discounted cash flow method in which the Company considered the present value of the net cash flows expected to be generated from the plant facility, taking into account the budgeted EBITDA and budgeted maintenance expenditure. The expected net cash flows are discounted using a risk adjusted discount rate of 8.8%. Based upon impairment testing, no impairment loss recognized as non-financial assets of company have lower carrying value as compared the recoverable amount."

6. Right-of-use asset

The land on which the plant is constructed has been leased from the Government of the Sultanate of Oman (represented by the Ministry of Housing) for a period of 25 years from 11 February 2013. The lease term can be extended by an additional 25 years at the request of the Company. Considering useful life of plant and machinery, management has decided to incorporate an additional 15 years to account for this extension in lease liability computation. The management has not yet opted to exercise the option. Lease rentals are paid at the rate of RO 15,045 per annum.

Details of right-of-use asset (ROU) of usufruct contract is as under:

	2023 RO'000s	2022 RO'000s
Cost		
As at 1 January and 31 December	**264**	264
As at 31 December	**264**	264
Depreciation		
As at 1 January	**28**	21
Charge for the year (Note 19)	**7**	7
As at 31 December	**35**	28
Carrying value		
As at 31 December	**229**	236

6. Right-of-use asset (continued)

The above right-of-use assets are not part of the assets which are secured against the comprehensive legal and commercial mortgages for the term loan facilities (note 11).

7. Trade and other receivables

	2023	2022
	RO'000s	RO'000s
Trade receivables	**1,450**	1,510
Prepayments and other receivables	**75**	72
Deposits	**3**	3
	1,528	1,585

The Company has one customer OPWP which is included in the trade receivables balance as at 31 December 2023 and 31 December 2022. The average credit period on the invoice raised to OPWP on sale of water is within 25 days. No interest is charged on outstanding trade receivables.

The trade receivables as on 31 December 2023 is in the not due category.

Management assessment of expected credit loss on the trade and other receivables refer note 28.

8. Cash and cash equivalents

	2023	2022
	RO'000s	RO'000s
Cash at bank	**123**	1,307
Short term deposits *(maturity within 3 months)*	**1,846**	1,131
	1,969	2,438

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. The management believes that the ECL is immaterial to the financial statements as a whole.

9. Capital and reserves

9.1 Share capital

	Authorised 2023 RO'000s	2022 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 2023	2022	Country of incorporation
Summit Water Middle East Company	**32.5**	32.5	Cayman Islands
Malakoff Oman Desalination Company Limited	**32.5**	32.5	British Virgin Islands
Others	**35.0**	35.0	Others
	100.0	100.0	

9.2 Legal reserve

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

The Company had used the share premium received on the issue of share capital during 2014 and 2015 to increase the legal reserve. Further during the year, the Company has transferred an amount equal to RO 228,477 (2022: RO 244,198) from its retained earnings being 10% of its net profit.

9. Capital and reserves (continued)

9.3 Dividend

Pursuant to the authority granted by the shareholders at the Annual General Meeting held on 23 March 2023, the Board of Directors has resolved the distribution of cash dividends of the retained profits for the year ended 31 December 2022 as below:

a) At its meeting held on 18 April 2023, the distribution of cash dividends of value 3.210 baizas per share to the shareholders who are registered in the Company's register as at 15 May 2023. The dividend was paid amounting RO 499,317 in May 2023.

b) At its meeting held on 25 October 2023, the distribution of cash dividends of value 3.220 baizas per share to the shareholders who are registered in the Company's register as at 1 November 2023 and was paid ampunting RO 500,872 in November 2023.

The Board of Directors, at its meeting held on 14 February 2024, resolved the distribution of cash dividends in May and November 2024, to the Company's Shareholders who are registered in the Company's register as at the dates to be determined by the Board, out of retained earnings of the Company as reflected in the Company's audited financial statements for the financial year ended 31 December 2023, provided that the aggregate amount of the dividends shall not exceed Baiza 4.822 per share. The dividend distribution is subject to Shareholders' approval at the Annual General Meeting to be held on 25 March 2024 and in compliance with the Commercial Companies Law, other applicable Omani legislation and also certain covenants stipulated in term loan facilities agreements.

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 39,832,554 (USD 103,595,718) (31 December 2022: RO 42,909,094 (USD 111,597,124)) was covered under this agreement for the term loans.

In order to comply with IFRS 9 "Financial Instruments: Recognition and Measurement" this hedge is being tested for its effectiveness and, consequently, ineffective and effective portions are being recognised in the statement of profit or loss and other comprehensive income, respectively. The fair value of the hedge instruments' indicative (loss)/gain at 31 December 2023 is approximately RO (0.4) million *(31 December 2022: RO 5.2 million)*, net of deferred tax asset, has been recorded in other comprehensive income, net of deferred tax and the gross gain in the amount of RO 1.7 million *(31 December 2022: RO* 2.2 *million)* is recorded under assets.

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.

10. Derivative financial instruments (continued)

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 effective as at 31 December 2023 (For the year ended 31 December 2022: highly effective).

In a process of Libor transition to new benchmark, the Company entered into revised IRS Confirmation Agreements in 2023, by which, the Company changed the reference rate from Libor to Daily Cumulative Compounded Secured Overnight Financing Rate (SOFR) with the adjustment of International Swaps and Derivatives Association (ISDA) fallback Credit Adjustment Spread.

After the transition, the interest rate swaps have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount .

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:

	2023 **RO'000s**	2022 RO'000s
Current Assets -Less than 1 year	**240**	160
1 to 5 years	**563**	778
More than 5 years	**936**	1,292
Non Current Assets -Total more than 1 year	**1,499**	2,070
Cumulative changes in fair value	**1,739**	2,230

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

			Notional amounts by term to maturity		
	Fair value RO'000s	**Notional amount RO'000s**	**1 - 12 month RO'000s**	**More than 1 up to 5 years RO'000s**	**More than 5 years RO'000s**
31 December 2023					
Interest rate swaps	**1,739**	**39,833**	**5,495**	**12,903**	**21,435**
31 December 2022					
Interest rate swaps	2,230	42,909	3,077	14,965	24,867

Cumulative changes in fair value are recognised as follows:

	2023 **RO'000s**	2022 RO'000s
Cumulative changes in fair value	**1,739**	2,230
Related deferred tax liability (Note 23)	**(261)**	(335)
Cumulative changes in fair value, net of deferred tax	**1,478**	1,895

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

11. Term loans

	2023 RO'000s	2022 RO'000s
Term loans	**47,125**	50,756
Less: deferred finance charges	**(779)**	(855)
	46,346	49,901
Less: current portion of term loans and deferred finance charges	**(3,709)**	(3,555)
Non-current portion of term loans	**42,637**	46,346

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. On 28 June 2023, the Company entered into rate switch amendment agreements, for loan facilities and interest rate swap derivatives with the lenders and hedging providers respectively, which are to provide for the transition from USD LIBOR to the secured overnight financing rate (SOFR) administered by the Federal Reserve Bank of New York

Facilities drawn down

At 31 December 2023, the total drawn down amount of the facilties amounted to RO 81,244,505 (USD 211,299,102) (31 December 2022: RO 81,244,505 (USD 211,299,102)) and the remaining undrawn amount has been cancelled.

Facilities repayments

The term loans are due for repayment in 76 quarterly instalments. Four instalments totalling RO 3,630,324 (31 December 2022: RO 3,462,817) were paid during the year.

Interest

The term loans bear interest at three-months USD Libor plus margin until 11 July 2023. Effective from 12 July 2023, the term loans bear interest at cumulative compounded SOFR plus credit adjustment spread and margin. The effective interest rate for the period was 5.18% (31 December 2022: 4.65%).

Security

The term loans are secured by a commercial mortgage over the Company's Property plant and equipment and a legal mortgage over the Company's rights, title and interest in the Usufruct Agreement dated 11 February 2013.

Covenants

The facilities agreements contain certain covenants relating to liquidity. These include restrictions on the debt / equity ratio, the debt service coverage ratio and the loan life cover ratio. The company satisfied with these covenants for the interest period in 2023.

11. Term loans (continued)

Reconciliation of financing cash flows

A reconciliation between opening and closing balances in the statement of financial position for liabilities that result in financing cash flows is presented below:

Borrowings	**At 1 January RO'000**	**Repayments during the year RO'000**	**Non-cash changes RO'000**	**At 31 December RO'000**
2023				
Shareholders bridge loan	**7,676**	**(730)**	**-**	**6,946**
Term loans	**49,901**	**(3,631)**	**76**	**46,346**
Interest on term loans	**568**	**(2,564)**	**2551**	**555**
Interest on Shareholders bridge loan	**42**	**(159)**	**154**	**37**
Shareholders stand-by equity loan	**754**	**-**	**-**	**754**
	58,940	**(7,084)**	**2,781**	**54,638**
2022				
Shareholders bridge loan	**8,405**	**(729)**	**-**	**7,676**
Term loans	**53,287**	**(3,463)**	**76**	**49,901**
Interest on term loans	**534**	**(2,421)**	**2455**	**568**
Interest on Shareholders bridge loan	**42**	**(170)**	**170**	**42**
Shareholders stand-by equity loan	**754**	**-**	**-**	**754**
	63,022	**(6,783)**	**2,701**	**58,940**

12. Provision for decommissioning obligation

	2023 RO'000s	2022 RO'000s
As at 1 January	**254**	384
Change during the period	**(36)**	(147)
Unwinding of interest on decommissioning cost provision	**16**	17
As at 31 December 2023	**234**	254

In accordance with the Usufruct Agreement, the Company is required to restore the plant site to its original condition before the expiry of the Usufruct term. The initial term is for 25 years from 11 February 2013 and is subject to renewal for further period of 25 years.

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the cost that will be incurred. The Company has assumed that the site will be restored using technology and materials that are currently available. The Company has been provided with a range of reasonably possible outcomes for the total cost, reflecting different assumptions about pricing of individual components of the costs. The estimate has been made on the basis of an independent report by a professional consultant.

The estimate has been made on the basis of an independent report by a professional consultant as RO 2,393,897 will incurred to remove assets. This amount discounted at 7.50% (2022: 7.00%) to its present value over the plant's estimated remaining useful life of 34 years. During the current year, the change is on account of the change in interest rate.

13. Shareholders' bridge loans

	2023 RO'000s	2022 RO'000s
Summit Water Middle East Company	**1,344**	1,709
Malakoff Oman Desalination Company Limited	**1,344**	1,709
Sumitomo Corporation	**2,129**	2,129
Malakoff International Limited	**2,129**	2,129
Interest accrued	**36**	42
	6,982	7,718
Less: current portion of Shareholders' bridge loans	**(509)**	(730)
Non-current portion of Shareholders' bridge loans	**6,473**	6,988

Facilities

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

Facilities repayments

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

The Shareholders' loan will be repaid in line with the projections in IPO prospectus and waterfall mechanism. An amount of RO 730,000 (31 December 2022: RO 729,000) were paid during the year. An amount of RO 509,000 will be repaid within the next 12 months.

Interest

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

Security

The Shareholders' loans are unsecured.

14. Shareholders' stand–by equity loans

	2023 RO'000s	2022 RO'000s
Summit Water Middle East Company	**377**	377
Malakoff Oman Desalination Company Limited	**377**	377
	754	754

The Shareholders' stand–by equity loans of RO 837,031 (USD 2,176,932) were provided in November 2015.

Facilities repayments

The Shareholders' stand–by equity loans are due subject to the consent of the term loan lenders which is dependent on cash flows.

Interest

The Shareholders' stand–by equity loans are interest free.

Security

The Shareholders' stand–by equity loans are unsecured.

15. Lease liability

The Company adopted IFRS 16 from 1 January 2019 for a plot of land on which the plant is built has been leased from the Government of the Sultanate of Oman (represented by the Ministry of Housing) for a period of 25 years from 11 February 2013. The lease term can be extended by an additional 25 years at the request of the Company. Lease rental is paid at the rate of RO 15,045 per annum. A discount rate of 4.64%is employed to discount future lease payments.

At 31 December 2023, future minimum lease commitments under non-cancellable operating leases are as follows:

	2023 RO'000s	2022 RO'000s
Gross lease liability related to right-of-use assets	**481**	496
Future finance charges on finance leases	**(233)**	(244)
Present value of lease liabilities	**248**	252
The maturity of finance lease liabilities is as follows:		
Not later than 1 year	**3**	3
Later than 1 year	**245**	249
	248	252

15. Lease liability

	2023	2022
	RO'000	RO'000
At the beginning of the year	252	255
Additions	-	-
Finance cost	12	12
Less: lease rentals paid	(15)	(15)
At the end of the year	248	252

16. End of service benefits

	2023	2022
	RO'000s	RO'000s
1 January	21	12
Provided during the year	25	9
Paid during the year	(10)	-
31 December 2021	36	21

17. Trade and other payables

	2023	2022
	RO'000s	RO'000s
Trade payables	1,288	1,399
Other payables	913	1,099
	2,201	2,498

Trade and other payables include an amount of RO 1,053,559 (31 December 2022: RO 1,129,511), due to Muscat City Desalination Operation and Maintenance Company LLC, a related party.

18. Revenue

	2023	2022
	RO'000s	RO'000s
Water capacity charges	10,470	10,388
Electricity charges	4,741	4,961
Water Output O&M Charges	3,352	3,295
	18,563	18,644

19. Cost of sales

	2023 RO'000s	2022 RO'000s
Operation and maintenance cost	**4,919**	4,823
Electricity charges	**4,630**	4,748
Amortisation of right-of-use asset	**7**	7
Depreciation	**2,491**	2,468
	12,047	12,046

20. Administrative and general expenses

	2023 RO'000s	2022 RO'000s
Employee costs	**401**	371
Insurance	**204**	195
Legal and professional expenses*	**126**	122
Depreciation	**27**	25
Directors' sitting fees	**45**	39
Others	**162**	154
	965	906

*** Professional Services**

This includes audit fee paid to auditors' for the year 2023, which amounts to RO 18,500 for audit services and RO 9,250 for non-assurance services, which includes audit related services amounting to RO 100 for Arabic translation and RO 400 for agreed-upon procedures, and RO 8,750 for tax-related services.

Employee costs are as follows:

	2023 RO'000	2022 RO'000
Salaries, wages, and other benefits	**365**	352
End of service benefit	**25**	9
Contributions to Omani Social Insurance Scheme	**11**	10
	401	371

21. Finance costs

	2023 RO'000s	2022 RO'000s
Interest expense on term loans and interest swaps	**2,551**	2,455
Interest expense on Shareholders' loan	**154**	170
Amortisation of deferred finance cost	**76**	76
Other finance cost	**66**	61
	2,847	2,762

22. Finance income

	2023 RO'000s	2022 RO'000s
Interest income on term deposits	**41**	36
	41	36

23. Income tax

The Company is liable to income tax at the rate of 15% (31 December 2022: 15%). No provision for income tax has been made for the year ended 31 December 2023 in view of the taxable losses for the year.

Recognised in the statement of comprehensive income

	Recognised in profit or loss 2023 RO'000	Recognised in profit or loss 2022 RO'000
Current tax		
- Current period	**-**	-
Deferred tax		
- Current period	**464**	540
- Prior period		
	464	540

Tax reconciliation

The reconciliation of income tax expense is as follows:

	2023 RO'000s	2022 RO'000s
Profit for the year	**2,749**	2,981
Income tax @15%	**412**	447
Tax effect on non-deductible expenses	**25**	27
Deferred tax not recognised on losses for the year	**32**	53
Deferred tax asset recognised on carry forward losses	**(5)**	13
	464	540

23. Income tax (continued)

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

31 December 2023	Asset / (liability) as at 1 January RO'000s	Recognised in profit or loss RO'000s	Recognised in other comprehensive income RO'000s	Asset / (liability) as at 31 December RO'000s
Property, plant and equipment	(5,577)	(466)		(6,044)
Carried forward business losses	552	**5**	**-**	**557**
Provision for decommissioning obligation	39	**(3)**	**-**	**36**
Provision for land lease	3	**-**	**-**	**3**
Derivative financial instrument	(3,35)	**-**	**74**	(261)
Net deferred tax liability	(5,318)	**464**	**74**	**(5,709)**
31 December 2022				
Property, plant and equipment	(5,070)	(507)		(5,577)
Carried forward business losses	565	(13)		552
Provision for decommissioning obligation	58	(19)		39
Provision for land lease	2	1		3
Derivative financial instrument	600		(935)	(3,35)
Net deferred tax liability	(3,845)	(538)	(935)	(5,318)

Status of tax returns

An assessment of the Company has been completed up to the tax year 2020 by the tax authorities. The tax returns for the year 2021 to 2023 have not yet been assessed by the Secretariat General of Taxation at the Ministry of Finance.

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. The Company has recognized deferred tax asset of RO 300,842 (Tax year-2020) & 171,187 (Tax year-2021), 53,706 (Tax year-2022) & 32,286 (Tax year-2023) on tax losses of RO 2,005,616 (Tax year-2020) & 1,141,248 (Tax year-2021) & 358,040 Tax year-2022 & 215,245 (Tax year-2023).A deferred tax asset of RO 428,717 on tax loss of RO 2,858,114 was not recognized for tax year 2019 which will expire on 2024.

Government of Oman declared Economic Stimulus Plan (ESP) allowing to carry forward the losses of 2020 for unlimited period except for taxable losses after 2020 which will expire after 5 years from each taxable year. The Company considers it is probable that future taxable profits would be available against which such losses can be used and therefore, the related deferred tax asset can be realised.

24. Related party transactions

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

Significant related party transactions during the year are as follows:

	Relationship	2023 RO'000s	2022 RO'000s
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC	**Other related party***	**4,919**	4,823
Electricity bonus transferred to Operation and Maintenance Company LLC	**Other related party***	**142**	174
Other cost to Muscat City Desalination Operation and Maintenance Company LLC	**Other related party***	**365**	211
Interest expense on Shareholders' loans	***Entity exercising significant influence over the company***	**154**	170
Key management compensation**		**310**	290

Subsidiary of entity exercising significant influence over the company.
***** It includes Director's sitting fee amounting RO 45,000 (2022: 38,700).***

Key Management benefits

Key management personnel are those having authority for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise).

Total compensation paid to the key management personnel for the year ended 31 December are as follows:

	2023 RO'000	2022 RO'000
Key management benefits		
Short term employee benefits	**289**	282
Post employment benefits	**19**	6
Termination benefits	**2**	2

Notes to the financial statements
for the year ended 31 December 2023 (continued)

24. Related party transactions (continued)

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

	Relationship	2023 RO'000s	2022 RO'000s
Amount due to related parties			
Muscat City Desalination Operation and Maintenance Company LLC	**Other related party***	**1,054**	1,130
Summit Water Middle East Company	Associate	**1,728**	2,095
Malakoff Oman Desalination Company Limited	Associate	**1,728**	2,095
Malakoff International Limited	Associate	**2,140**	2,140
Sumitomo Corporation	Associate	**2,140**	2,140

****Subsidiary of entity exercising significant influence over the company.***

25. Earnings per share

	2023	2022
Profit for the year (RO in '000)	**2,285**	2,442
Weighted average number of shares outstanding during the year (in thousands)	**155,550**	155,550
Earnings per share (basic and diluted) (RO)	**0.015**	0.016

26. Net assets per share

Net assets per share is calculated by dividing the equity attributable to the shareholders of the Company at the reporting date by the number of shares outstanding as follows:

	2023	2022
Net assets (RO in '000)	**22,614**	21,746
Number of shares outstanding at year end (in thousands)	**155,550**	155,550
Net assets per share (RO)	**0.145**	0.140
Net assets per share excluding hedging reserve (RO)	**0.136**	0.128

27. Commitments

Operation and maintenance commitment

As per the O&M Agreement, Muscat City Desalination Operation and Maintenance Co LLC will operate and maintain the Company's plant until 11 October 2034. Under the O&M agreement, the Company has to pay the fixed operating fee subject to availability.

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

	2023	2022
	RO'000s	RO'000s
Due within one year	**1,285**	1,281
One to two years	**1,281**	1,285
Two to three years	**1,281**	1,281
Three to four years	**1,281**	1,281
Four to five years	**1,285**	1,281
Due after five years	**7,475**	8,760
	13,888	15,170

28. Financial instruments

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

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

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

Credit risk

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

As at reporting date, the Company's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

The Company has significant concentration of credit risk with the Government of the Sultanate of Oman represented by OPWP. Under the terms of the WPA, the Company's water sales are billed wholly to OPWP (indirectly owned wholly by the Government). Therefore, the Company's credit risk on receivables from OPWP is limited.

28. Financial instruments (continued)

Credit risk (continued)

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

	2023 RO'000s	2022 RO'000s
Cash at bank and deposits	**1,969**	2,438
Trade receivables	**1,450**	1,510
Non Current portion of fair value of derivative financial instruments	**1,499**	2,070
Current portion of fair value of derivative financial instruments	**240**	160
	5,158	6,178

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

	Rating	**2023 RO'000s**	2022 RO'000s
Oman Power and Water Procurement Co. SOAC	**Ba1**	**1,450**	1,510

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL using the simplified approach. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has not accounted for ECL against OPWP because these are government and/or government owned entities and taking into account the historical default experience and the current credit ratings of the Government, the management of the Company have assessed that there is no significant impairment loss.

Age analysis of trade receivables as at 31 December was:

	2023 RO'000	2022 RO'000
Not past due	**1,450**	1,510
Past due 0 < 3 months	**-**	-
Past due > 3 months and < 1 year	**-**	-
	1,450	1,510

28. Financial instruments (continued)

Credit risk (continued)

The table below shows the balances with banks categorized by short-term credit ratings as published by Moody' Service at the reporting date:

	Rating	2023 RO'000	2022 RO'000
Bank			
Bank balances:			
Oman Arab Bank	**Ba3**	**111**	647
SMBC Bank International	**A1**	**12**	660
		-	-
		123	1,307
Short term deposits			
SMBC Bank International	**A1**	**1,846**	1,131

Balances with bank are assessed to have low credit risk of default since these banks are highly regulated by the central banks of the respective countries. Accordingly, the management of the Company estimates the loss allowance on balances with bank at the end of the reporting period at an amount equal to 12-month ECL. The management of the Company have assessed that there is no significant impairment loss.

Market risk

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

Currency risk

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

Interest rate risk

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

At the end of the reporting period the interest rate profile of the Company's interest-bearing financial instruments was:

28. Financial instruments (continued)

Interest rate risk (continued)

	Interest rate %	2023 RO'000	2022 RO'000
Floating rate instruments			
Long term loans	SOFR + margins	**46,346**	49,901
Fixed rate instruments			
Shareholders' bridge loan		**6,982**	7,718
		6,982	7,718

The Company's borrowings with floating interest rate are exposed to changes in market interest rates. The Company has hedged this interest rate risk through interest rate swaps. The percentage of interest charges hedged is presented below:

Period	**Average % of Cover**
30 September 2015 – 12 October 2019	88
12 October 2019 – 12 October 2024	85
12 October 2024 – 12 January 2025	79
From 12 January 2025	79

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

The Company has hedged this interest rate at as stated above through interest rate swaps contracts in accordance with the Common Terms Agreement with its lenders. Therefore, changes in interest rates during the year will not significantly affect the Company's cashflow and profit or loss.

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

28. Financial instruments (continued)

Cash flow sensitivity analysis for variable rate instruments (continued)

31 December 2023	Impact in P&L (100 bp increase) RO'000s	Impact in P&L (100 bp decrease) RO'000s
Term Loans	**363**	(363)
31 December 2022		
Term Loans	499	(499)

31 December 2023	Impact in OCI (100 bp increase) RO'000s	Impact in OCI (100 bp decrease) RO'000s
Fair value of derivative financial instruments	**17**	**(17)**
31 December 2022		
Fair value of derivative financial instruments	22	(22)

Liquidity risk

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

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

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

31 December 2023	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
Financial liabilities					
Term loans	**47,125**	**61,136**	**3,143**	**23,619**	**34,374**
Shareholders' stand - by equity loans	**754**	**754**	**-**	**754**	**-**
Shareholders' bridge loans	**6,982**	**8,860**	**674**	**2,902**	**5,284**
Lease liabilities	**248**	**481**	**15**	**60**	**406**
Trade and other payables	**2,201**	**2,201**	**2,201**	**-**	**-**
	57,310	**73,432**	**6,033**	**27,335**	**40,064**

28. Financial instruments (continued)

Liquidity risk (continued)

31 December 2022	Carrying amount	Total	Less than 1 year	1 to 5 Years	More than 5 years
		Contractual Cash flows			
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
Financial liabilities					
Term loans	50,756	67,250	6,185	23,887	37,178
Shareholders' stand - by equity loans	754	754	-	754	-
Shareholders' bridge loans	7,718	8,448	878	3,558	4,012
Lease liabilities	252	497	15	60	422
Trade and other payables	2,498	2,498	2,498	-	-
	61,978	79,447	9,576	28,259	41,612

Capital risk management

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business.

The Company is not subject to externally imposed capital requirements except those under the Commercial Companies Law of 2019.

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

Gearing ratio

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

	2023	2022
	RO'000s	RO'000s
Debt (Term loans, Shareholder's bridge and shareholders stand–by equity loans net of transaction costs)	**54,082**	58,373
Cash and bank balances	**(1,969)**	(2,438)
Net debt	**52,113**	55,935
Equity	**22,614**	21,746
Net debt to equity ratio	**2.30**	2.57

28. Financial instruments (continued)

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.

	2023	2022
	RO'000s	RO'000s
Notional amounts – Level 2	**39,833**	42,909

The Company had no financial instruments in level 1 or level 3. During the year ended 31 December 2023 and 31 December 2022, there were no transfers of financial instruments between the levels for fair value measurement.

Valuation approach of interest rate swaps

The fair value of the interest rate swaps is determined using quoted interest rates at the reporting date and present value calculations at a rate that reflects the credit risk of various counterparties.

29. Capital Commitments

At 31 December 2023, the Company had capital commitments amounting to RO nil (RO'000) (2022 – 5 (RO'000).

30. Approval of financial statements

The financial statements were approved by the Board and authorized for issue on 14th February 2024.