MUSCAT CITY DESALINATION COMPANY SAOG

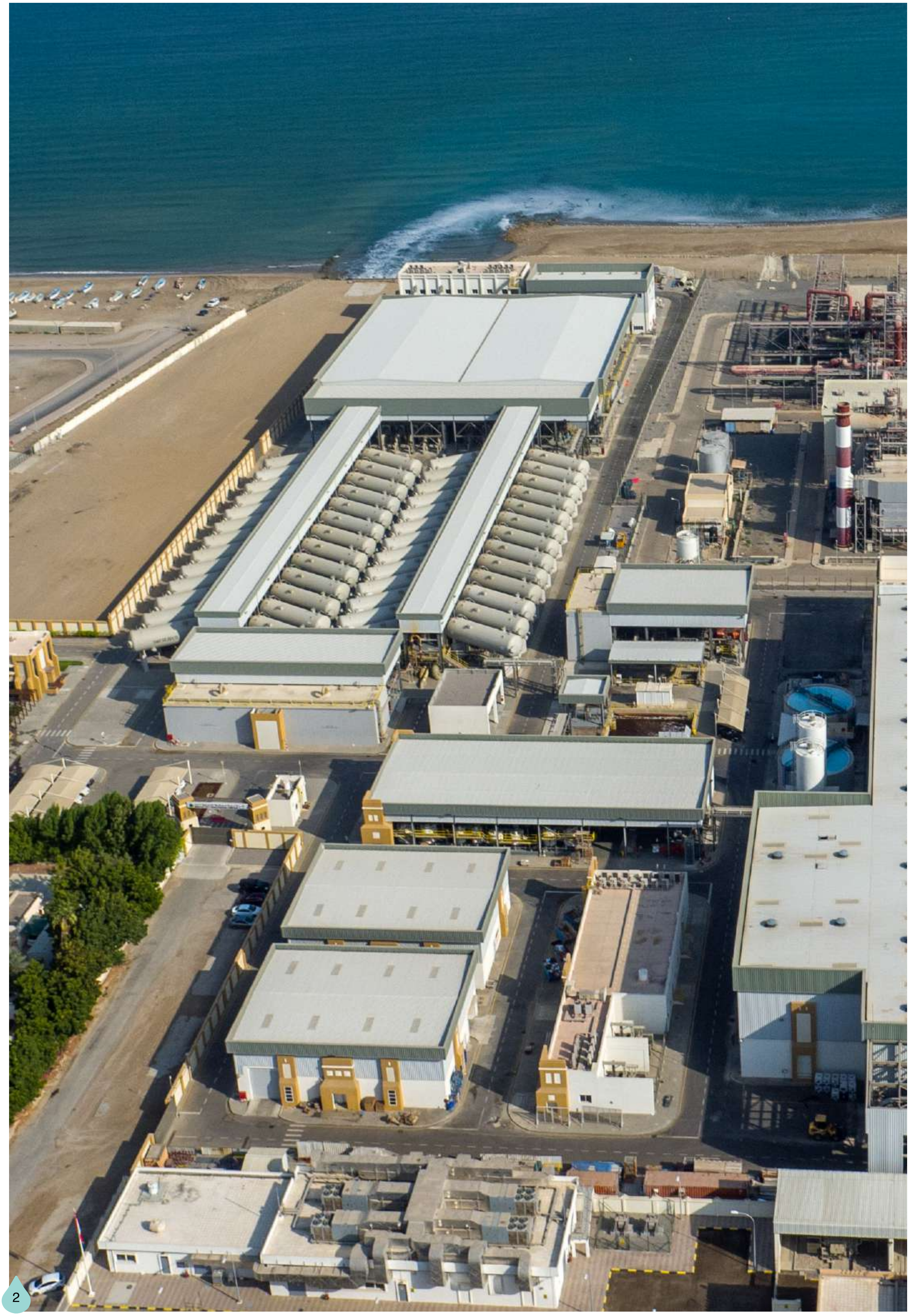
Annual Report 2023

DELIVERING THE
ESSENTIALS OF LIFE

With it (Water) We produce for you gardens of palm trees and grapevines, in which there are abundant fruits, and from which you may eat,

Surah Al-Mu'minun 23:19

His Majesty Sultan Haitham Bin Tarik



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BOARD OF DIRECTORS

Sitting from left to right:
Vishwanath Sankaranarayanan - Chairman of Audit Committee, **Anwar Syahrin bin Abdul Ajib** - Chairman of the Board, **Tamer Cankardes** - Vice Chairman of the Board.

Standing from left to right: **Mohd Nazersham bin Mansor** - Member, **Ajeev Gopinathan** - Member, **Katsushi Takiguchi** - Member, **Ashish Gupta** - Member

KEY EXECUTIVE OFFICERS

Sitting from left to right:

Kamarulzaman bin Sulaiman – CFO (1st January 2023 until 31st October 2023) - CEO (1st November until present),

Megumi Kikuta – CFO (from 1st November 2023 until present).

Standing from left to right: **Shamsa Al-Touqi** – Head of Internal Audit Unit,

Toshiro Baba - CEO (from 1st January 2023 until 31st October 2023).

Anwar Syahrin bin Abdul Ajib
Chairman

Board Of Directors' Report

Dear Shareholders,

On behalf of the Board of Directors of Muscat City Desalination Company SAOG (the Company), I am pleased to present to you the Annual Report of the Company for the year ended 31 December 2023.

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

Operational Highlights

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

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

During the financial year 2023, the Company achieved a lower Plant availability of 95.20%, compared with 97.39% during the same period in 2022, which was mainly due to the higher scheduled outage rate of 4.57% in 2023, compared with 2.38% for the same period in 2022. Further, the total forced outage rate for the financial year in 2023 was 0.23% which is similar to 2022.

During the year, the Plant experienced algae bloom events in the month of July 2023 and August 2023, and the operations and availability of the Plant was adequately controlled with the incorporation of the Dissolved Air Flotation (DAF) system adopted at the Plant. The impact of the algae bloom events was minimal. In addition, the Plant did not have the material infestation of jellyfish during this year.

This year, the Company achieved a potable water production of 66,593,073 m3 a reduction by 0.5% compared with the total water production of 66,926,208 m3 in 2022. This was mainly due to more scheduled outages.

Financial Results

In 2023, operating revenue decreased by 0.4% to RO 18.563 million as compared to RO 18.644 million in 2022, as a result of lower electricity price in 2023. Operating costs in 2023 was RO 12.047 million which is almost similar to 2022 result of RO 12.046 million. Accordingly, the Company recorded profit before tax of RO 2.749 million, which is 7.8% lower compared with RO 2.982 million in 2022.

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 amounting to circa RO 500,000. The dividend was paid 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 amounting to circa RO 501,000 and was paid 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 amounting to circa RO 750,000. 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.

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. As of 31 December 2023, the Company achieved 2,863 days without Lost Time Incident since its COD. In April 2017, the Operator was awarded with ISO 14001:2004 Environmental Management System and ISO 45001:2018 Occupational Health and Safety Management System. In September 2018, the Operator successfully migrated its ISO 14001:2004 to ISO 14001:2015, and both ISO Certificates have been re-certified in July 2023. It is worth noting that the Operator has been awarded ISO 22301:2019 Business Continuity Management System certification since March 2022.

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 to ensure its compliance.

The Company has established an in-house Internal Audit Unit since 2022. The Internal Audit Unit has developed an internal audit plan for 2023 which was approved by the Audit Committee, and fully implemented during the year.

There was no significant finding identified for the year ended 31 December 2023. The Management is fully committed to implement the recommendations arising from the findings of the Internal Auditor.

Al Busaidy Mansoor Jamal & Co ("AMJ") was appointed, to carry out appraisal for the performance of the Board during the financial year ending 31 December 2023, pursuant to the approval by the shareholders at the Company's AGM held on 23 March 2023.

AMJ conducted the Board evaluation based on the criteria approved by the shareholders and the evaluation report will be presented to the shareholders at the Company's AGM which will be held on 25 March 2024.

Information Security

The Company has developed information technology ("IT") and security policy and procedures pursuant to the Capital Market Authority ("CMA") Circular No. E/1/2022 on Information Security Guidelines for Public Listed Companies. Some enhancements to the Company's IT systems and controls have been implemented, whereas some longer-term enhancement projects are being implemented. The Internal Audit Unit reviewed the implementation of the enhancement projects with supervision by the Audit Committee.

During the financial year, assessments of the policy, procedure and IT infrastructures were conducted by consultants who are accredited by the relevant authorities in Oman to ensure that the Company's information security measures are compliant with regulations, and effectively protect against potential threats and vulnerabilities. There were no significant cyber security breaches identified for the year ended 31 December 2023.

Corporate Social Responsibility (CSR)

Since the outset of our operation, we've deeply committed to contribute toward the wellbeing of the Omani community at the forefront of our business. This philosophy has taken root throughout our day-to-day operation. Our CSR activities in the year 2023 are sought to build and strengthen our outreach to key areas of the local community, especially focused on the area of education, human development, and health and safety. CSR activities undertaken by the Company in 2023 are as below:

- **Donation of wheelchairs to Oman Association for Persons with Disabilities**
  On the ground of our CSR philosophy, we donated wheelchairs to Oman Association for Persons with Disabilities with our sincere intention and hope that these wheelchairs would be able to help communities with disabilities in the Sultanate of Oman.

- **Donation of special wheelchairs to Association for the Welfare of the Handicapped Children**
  The association serves children from the age of 6 to 14 through comprehensive programs of education, health, physical and academic services. The association is also specialised in providing therapies for children with Autism and Down Syndrome. We hope that these special wheelchairs will improve the wellbeing of these children.

- **Donation of sport equipment to three schools**
  The Company also donated sport equipment to the following schools as part of the CSR initiatives:
  - Thuraya Bint Mohammed Al-Busaeediya for girls;
  - Al-Khuwair Basic School for boys; and
  - Al-Ullaa Basic School.

  We hope this initiative will benefit these schools and their students.

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

- **Cash Donation to Al Noor Association for the Blinds**
  It is an NGO which serves the welfare interest of the blinds for their social, economic, education, health and training, including teaching of Braille. It is financed via donations from the public and corporate organisations. The Company believes the cash donation will benefit the association in achieving its objectives.

- **Plant tours for school students to learn the importance of water resources**
  We invited students from two Omani public schools to our Plant. During the Plant tours, students were given the opportunity to learn the importance of water resources and first-hand information about the process of seawater desalination process which is the

primary source of water in Muscat and essential for the life of citizens in the Sultanate of Oman. Students were from Thuraya Bint Mohammed Al-Busaeediya for girls, and Al-Khuwair Basic School for boys, both of which are in the vicinity of our Plant.

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

  In line with our commitment to supporting the human development of young Omanis especially who are aiming at working for industrial sectors, we accepted some young students for the on-the-job-training for the operation and maintenance of water desalination facilities at our Plant. During the year, we accepted, in total, 33 students from the following institutes:
  - Middle East Desalination Research Center (MEDRC);
  - University of Technology & Applied Sciences;
  - National University of Sciences & Technology;
  - International Maritime College Oman; and
  - Sultan Qaboos University.

  Furthermore, we provided 1-year training program for fresh graduates to have good working experiences with our Operation and Maintenance Contractor.

Employment

By the end of 2023, the Omanization level in both the Company and its Operator is 83%. The Company with its Operator has long-term plans to further improve Omanization level.

Future Outlook

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

Conclusion

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

Finally, on behalf of the Board of Directors, I would also like to extend our heartiest appreciation and gratitude to His Majesty Sultan Haitham bin Tariq bin Taimur Al Said and His Government for their continued support and encouragement to 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.

Anwar Syahrin bin Abdul Ajib
Chairman of the Board

DESCRIPTION OF THE COMPANY

Overview

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

The Company currently generates its revenues pursuant to a 20-year term Water Purchase Agreement (WPA) with OPWP, which is indirectly wholly-owned by the Government. The desalinated water from the Plant is fully contracted to OPWP and used to meet the growing water demand of the Muscat Zone during the term of the WPA. As of 2023, the contracted water capacity of the Plant represents approximately 26% of the operating capacity in the Muscat Zone as per OPWP's 7-year statement (2023-2029)

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

The following map displays the approximate location of the Plant:

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

Technology and Processes

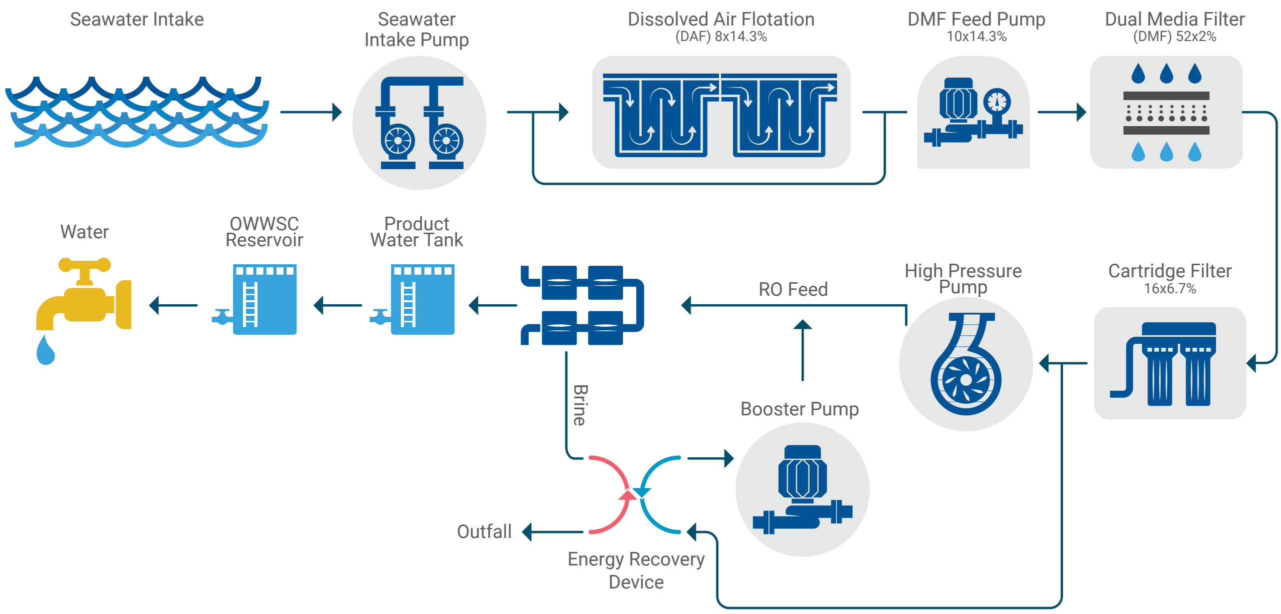
Description of the Plant

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

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

Desalination process

The desalination process followed by the Plant is shown below:

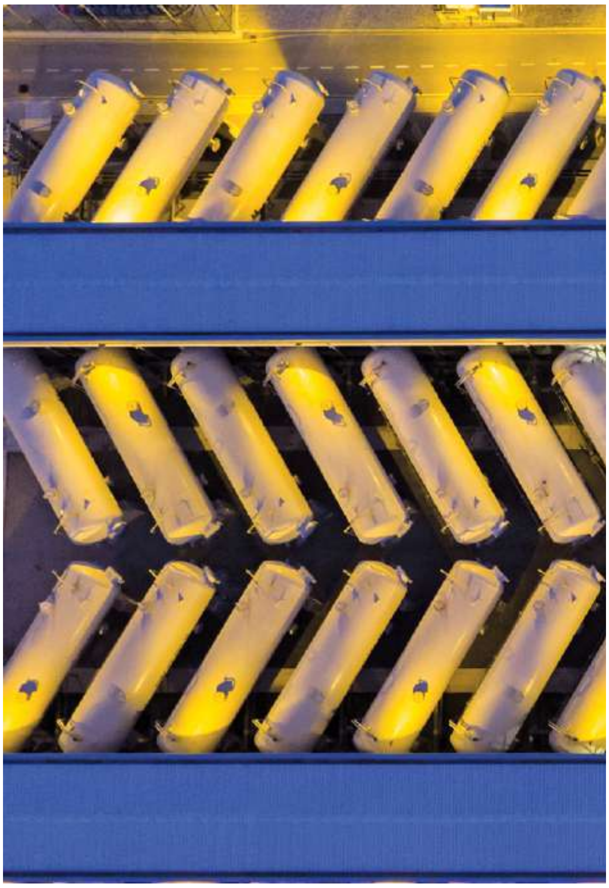


Seawater Intake

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

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

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



Pre-treatment System

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

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

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

RO system

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

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

Post-treatment System

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

Operation and Maintenance

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

Revenue Overview

During the term of the WPA

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

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

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

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


DMF-V

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Description of the Company and Business

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

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

The Company's core business activity is to develop, own and operate the Al Ghubrah Independent Water Plant, a Sea Water Reverse Osmosis (SWRO) desalination plant, with a contracted capacity of 191,000 cubic meter per day (42 Million Imperial Gallons per Day), located in North Ghubrah, Muscat Governorate, Sultanate of Oman (Plant). Commercial operation date (COD) was achieved on 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 Main Interconnected Zone (Northern Region of Oman) during the term of the WPA. The contracted water capacity of the Plant represents approximately 26% of the total contracted capacity in Muscat Zone in accordance with OPWP's 7-year statement (2023-2029).

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

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

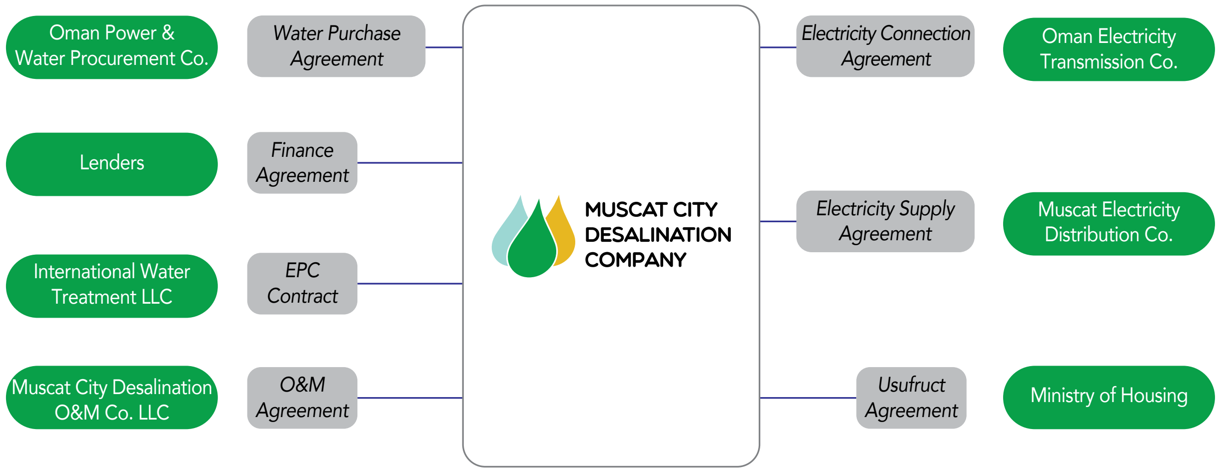
Competitive Strengths

The Company's competitive strengths include the following:

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

Contractual Framework

MCDC's contractual framework is as shown below.



Water Purchase Agreement

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

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

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

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

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

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

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

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

Electricity Supply Agreement (ESA)

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

Electricity Connection Agreement (ECA)

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

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

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

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

Usufruct Agreements (UAS)

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

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

Operations and Maintenance Agreement (O&M Agreement)

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

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

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

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

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

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

Risk Management

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

MCDC's risk management objectives are:

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

Financial Arrangement

The Company has entered into financing agreements with a consortium of international banks, for an aggregate amount of 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 the cashflows of the Company.

Operation and Maintenance

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

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

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

Corporate Governance

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

Discussion on Operational Highlights and Financial Performance

Health, Safety and Environment (HSE)

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

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

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

During the year, there were neither Lost Time Incidents (LTI) nor environmental incidents. As at 31 December 2023, the Company achieved 2,863 days without an LTI since its COD. The total man-hour is 68,587 hours.

In April 2017, the Operator was awarded with ISO 14001:2004 Environmental Management System, which was migrated to ISO14001:2015 in September 2018, and ISO 45001:2018 Occupational Health and Safety Management System. Both ISO Certificates have been re-certified in July 2023. It is worth noting that the Operator has been awarded ISO 22301:2019 Business Continuity Management System certification since March 2022.

Capacity

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

The contracted capacity of the Al Ghubrah Independent Water Plant under the WPA is 42 MIGD applicable from April 2023 to March 2024, following the Annual Performance Tests conducted in March 2023 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 2023 (FY 2023), the Company achieved a lower availability of 95.20% after scheduled and forced outages compared to 97.39% in 2022.

During the year, the Plant experienced algae bloom events in the month of July 2023 and August 2023, and the operations and availability of the Plant was adequately controlled with the incorporation of the Dissolved Air Flotation (DAF) system adopted at the Plant. The impact of the algae bloom events was minimal. In addition, the Plant did not have the material infestation of jellyfish during this year.

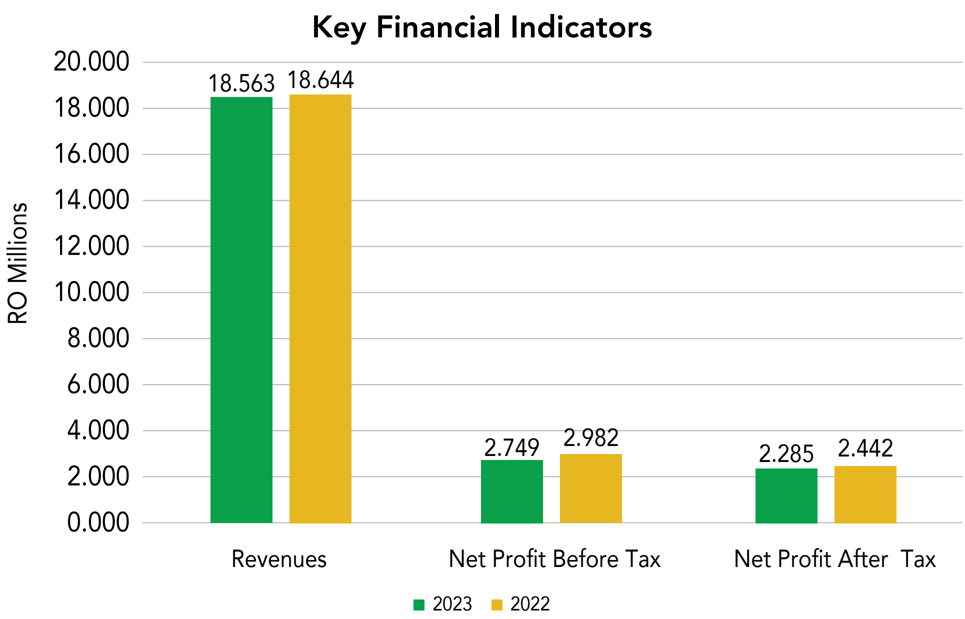
Overall, total forced outages in FY 2023 was 0.23% which is similar to FY 2022.

Notwithstanding the above, during FY2023, the Plant produced a total of 66,593,073m3 of potable water with a utilization factor averaging 95.56% of total plant capacity. Plant production is determined by the daily dispatch instruction issued by OWWSC.

Financial Highlights

All figures in RO million	Notes	2023	2022
Revenues	1	**18.563**	18.644
Net Profit After tax	2	**2.285**	2.442
Net Profit before Finance Costs	3	**5.091**	5.168
Total Assets	4	**85.124**	88.462
Capital (Paid-up)	5	**15.555**	15.555
Shareholder's Fund (Net Assets)	6	**22.614**	21.746
Term Loan (*1)	7	**47.125**	50.756
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	**1.000**	2.950

(*1) Excluding unamortized transaction costs



All figures in RO million	Notes	2023	2022
Net Profit Margin	= 2/1	**12.31%**	13.10%
Return on Capital (Paid-up)	= 2/5	**14.69%**	15.70%
Return on Capital Employed	=3/(6+7)	**7.30%**	7.13%
Debt Equity Ratio	= 7: 6	**68: 32**	70: 30
Net assets per share (RO)	= 6/8	**0.145**	0.140
Basic Earnings Per Share (RO)	= 2/8	**0.015**	0.016
Dividend per share (Baiza)	= 10/9	**6.429**	18.965

Analysis of Profit and Loss

The Company managed to generate operating revenue of OMR 18.563 million in FY2023, 0.4% lower than the OMR18.644 million in FY2022. This decrease is mainly due to lower electricity price in FY2023.

The profit before tax for FY2023 was OMR 2.749 million, lower compared to OMR 2.982 million in FY2022. The net profit after tax was also lower in FY2023 OMR 2.285 million compared to OMR 2.442 million in FY2022.

Analysis of Balance Sheet

Total assets of the Company stood at OMR 85.124 million as at 31 December 2023 compared to OMR 88.462 million in FY2022. The decrease in the total assets was mainly due to depreciation charge for the period in FY2023.

The cash and cash equivalents as at 31 December 2023 was OMR 1.969 million compared to OMR 2.438 million as at 31 December 2022.

The shareholders' funds as at 31 December 2023 was OMR 22.614 million compared to OMR 21.746 million as at 31 December 2022. The increase in the shareholders' funds was mainly contributed by the higher profit during the year and further offset by reduction in the Hedging Reserve in FY2023 as compared to FY2022.

Term loans (including non-current and current balances) reduced to OMR 47.125 million as a result of scheduled repayments made in accordance with finance agreements. The Financial Conduct Authority has announced the cessation of London Interbank Offered Rate ("LIBOR") benchmarks publication by ICE Benchmark Administration. After the end of June 2023, only synthetic 1-, 3- and 6-month USD LIBOR will be published until the end of September 2024. Therefore, the Company's loan facilities agreements have been amended to reflect the alternative benchmark called Secured Overnight Financing Rate ("SOFR"). Those agreements were executed in June 2023 and effective from 1 July 2023.

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

Pursuant to the authority granted by the shareholders at the Annual General Meeting held on 23 March 2023, the Board of Directors, at its meeting held on 18 April 2023, have resolved the distribution of cash dividends of value 3.210 baizas per share out of the retained profits for the period ended 31 December 2022 to the shareholders who are registered in the Company's register as at 15 May 2023. The dividend was paid in May 2023.

Moreover, the Board of Directors, at its meeting held on 25 October 2023, have resolved the distribution of cash dividends of value 3.220 baizas per share out of the retained profits for the period ended 31 December 2022, pursuant to the authority granted by the shareholders at the Annual General Meeting held on 23 March 2023, to the shareholders who are registered in the Company's register as at 1 November 2023 and was paid in November 2023.

The Board of Directors, at its meeting held on 14 February 2024, have resolved distribution of cash dividends of a total value not exceeding Baiza 4.822 per share to the Shareholders of the Company, who are registered in the Company's shareholders register with the Muscat Clearing & Depository Company SAOC as at a date to be determined by the Board, in May 2024 and December 2024 out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2023, which are subject to Shareholders' approval at the Annual General Meeting to be held on 25 March 2024 and in compliance with the Commercial Company Law (RD 18/2019), other applicable Omani legislation and also certain covenants stipulated in term loan facilities agreements.

Employees, Training and Omanisation

MCDC and its Operator takes Omanisation as a responsibility to assist in the building of Omani expertise in the water desalination sector. Together, the Company and its Operator employ a total of 52 employees, of which 43 employees are Omani citizens. The Project had achieved an overall Omanisation ratio of 83% as at 31 December 2023.

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

Internal control systems

The management acknowledges the importance of sound Internal Control Systems which requires effective frequent interactions among the Board, its committees and auditors.

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. The management has periodically carried out comprehensive reviews of its key internal policies and procedures in order to ensure its compliance.

Information Security

The Company has developed information technology ("IT") and security policy and procedures pursuant to the Capital Market Authority Circular No. E/1/2022 on Information Security Guidelines for Public Listed Companies. Some enhancements to the Company's IT systems and controls have been implemented, whereas some longer-term enhancement projects are being implemented.

During the financial year, assessments of the policy, procedure and IT infrastructures were conducted by consultants who are accredited by the relevant authorities in Oman to ensure that the Company's information security measures are compliant with regulations, and effectively protect against potential threats and vulnerabilities.

Achievement and Award

The Company has been awarded with Corporate Excellence Award 2023 under Small-Cap companies' category by Oman Economic Review Live Magazine based on Moore Global's Survey. The award was presented on 8 November 2023.

Outlook

The Company will endeavor to ensure that it continues to take reasonable and prudent measures to improve its performance for FY2024, by improving the Plant's reliability and availability, without compromising on HSE matters..


In the blessed era of
The building of
Boushar

Corporate Social Responsibility (CSR) Report

Since the outset of our operation, we've continuously committed to contribute toward the wellbeing of the Omani community at the vicinity of our business. This philosophy has taken root throughout our day-to-day operation. Our CSR activities in the year 2023 are sought to build and strengthen our outreach to key areas of the local community, especially focused on the area of education, human development, health and safety.

Donation of wheelchairs to Oman Association for Persons with Disabilities

Oman Association for Disabled was registered with the Ministry of Social Development in 1995 pursuant to the Ministerial Decision No. 19/91. It is a non-governmental organisation (NGO) which was established to provide support, education and recreational activities for people with disabilities. The association also works towards achieving a better understanding of the needs of people with disabilities in the wider community. On the ground of our CSR philosophy, we donated wheelchairs to Oman Association for Persons with Disabilities with our sincere intention and hope that these wheelchairs would be able to help communities with disabilities in the Sultanate of Oman.

Donation of special wheelchairs to Association for the Welfare of the Handicapped Children

The Association for the Welfare of Handicapped Children was registered with the Ministry of Social Development in 1991, pursuant to the Ministerial Decision No. 19/91. The association serves children from the age of 6 to 14 through comprehensive programs of education, health, physical and academic services. The association is also specialised in providing therapies for children with Autism and Down Syndrome. We hope that these special wheelchairs will improve the wellbeing of these children.

Donation of sport equipment to three schools

The Company also donated sport equipment to the following schools as part of the CSR initiatives:

- Thuraya Bint Mohammed Al-Busaeediya for girls;
- Al-Khuwair Basic School for boys; and
- Al-Ullaa Basic School.

We hope this initiative will benefit these schools and their students.

Cash Donation to Oman Charitable Organization

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

Cash Donation to Al Noor Association for the Blinds

Al Noor Association for the Blind was registered with the Ministry of Social Development in 1997. It is an NGO which serves the welfare interest of the blinds for their social, economic, education, health and training, including teaching of Braille. It is financed via donations from the public and corporate organisations. The Company believes the cash donation will benefit the association in achieving its objectives.

Plant tours for school students to learn the importance of water resources.

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

On-the-Job technical training for students

In line with our commitment to supporting the human development of young Omanis especially who are aiming at working for industrial sectors, we accepted some young students for the on-the-job-training for the operation and maintenance of water desalination facilities at our Plant. During the year, we accepted, in total, 33 students from the following institutes:

- Middle East Desalination Research Center (MEDRC);
- University of Technology & Applied Sciences;
- National University of Sciences & Technology;
- International Maritime College Oman; and
- Sultan Qaboos University.

Furthermore, we provided 1-year training program for fresh graduates to have good working experiences with our Operation and Maintenance Contractor.

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

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Tel. +968 24 749600, www.kpmg.com/om

Private and confidential
Our ref:

Agreed-upon procedures on Code of Corporate Governance ("the Code") of Muscat City DESALINATION COMPANY SAOG

To the Board of Directors of Muscat City Desalination Company SAOG

Purpose of this Agreed-Upon Procedures Report and Restriction on Use and Distribution

Our report is solely for the purpose of assisting Muscat City Desalination Company SAOG for submission of agreed upon procedures report on the compliance with the Code of Corporate Governance (the "Code") to Capital Market Authority ("CMA") to assist in compliance of requirements prescribed in the CMA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code") and may not be suitable for another purpose. This report is intended solely for the Muscat City Desalination Company SAOG and the intended users and should not be used by, or distributed to, any other parties.

Responsibilities of Muscat City Desalination Company SAOG

Muscat City Desalination Company SAOG has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

Muscat City Desalination Company SAOG (also the Responsible Party) is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioners' Responsibilities

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

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

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

CR No. 1358131
Tax Card No. 8063052

Practitioners' Responsibilities (continued)

Professional Ethics and Quality Control

We have complied with the relevant ethical requirements including independence requirements of International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) issued by the International Ethical Standards Board for Accountants.

Our firm applies International Standard on Quality Management *(ISQM) 1, Quality Management for Firms that perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with Muscat City Desalination Company SAOG in the terms of engagement dated 11 August 2023, on the compliance with the Code:

S. No	Procedures	Findings
(a)	We checked that the corporate governance report (the report) issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3	No exceptions noted.
(b)	We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2023. With respect to procedure above, we inquired from and obtained written representation from management and those charged with governance for non-compliance with the Code for the year ended 31 December 2023.	No non-compliance with the Code noted during the year.

This report relates only to the items specified above and does not extend to the Company's financial statements taken as a whole.

KPMG

Mobeen Chaudhri
Date:15 February 2024

KPMG LLC

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P O Box 641, PC 112
Sultanate of Oman
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CORPORATE GOVERNANCE REPORT

Company's philosophy

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

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

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

Board of Directors

All members of the Board are non-executive in accordance with the requirement of the Code. During the Financial Year ended 31 December 2023, the Board consisted of the following Directors:

No.	Name of director	Date of appointment	Independent / non independent	Mode of representation
1.	Anwar Syahrin bin Abdul Ajib	29 March 2022	Non-independent	Shareholder representative
2.	Tamer Cankardes	29 March 2022	Non-independent	Shareholder representative
3.	Mohd Nazersham bin Mansor	29 March 2022	Non-independent	Personal capacity
4.	Tsutomu Sakamoto*	29 March 2022	Non-independent	Personal capacity
5.	Ajeev Gopinathan	29 March 2022	Independent	Personal capacity
6.	Ashish Gupta	29 March 2022	Independent	Personal capacity
7.	Vishwanath Sankaranarayanan**	23 January 2023	Independent	Personal capacity
8.	Katsushi Takiguchi***	23 March 2023	Non-independent	Personal capacity

* Tsutomu Sakamoto resigned with effect from 14 February 2023.

** Vishwanath Sankaranarayanan was appointed as a temporary board member and Chairman of the Board Audit Committee on 23 January 2023 and elected as a member of the Board at the Company's Annual General Meeting ("AGM") held on 23 March 2023.

*** Katsushi Takiguchi was elected as a member of the Board at the Company's AGM held on 23 March 2023.

Board meetings / shareholders meetings and attendance in 2023

No.	Name of the director	Position	Attendance							
			Board Meetings							AGM
			Feb 14	Feb 21	Mar 23	Apr 18	Jul 25	Oct 25	Total	Mar 23
1	Tamer Cankardes	Chairman until 31 October 2023. Deputy Chairman from 1 November 2023.	•	•	•	•	•	•	6	•
2	Anwar Syahrin bin Abdul Ajib	Deputy Chairman until 31 October 2023. Chairman from 1 November 2023.	•	•	•	•	•	•	6	•
3	Mohd Nazersham bin Mansor	Member	•	•	•	•	•	•	6	•
4	Tsutomu Sakamoto	Member until 14 February 2023	•	-	-	-	-	-	1	-
5	Ajeev Gopinathan	Member	•	•	•	•	•	•	6	•
6	Ashish Gupta	Member	•	•	•	•	•	•	6	•
7	Vishwanath Sankaranarayanan*	Member	•	•	•	•	•	•	6	•
8	Katsushi Takiguchi**	Member	-	-	•	•	•	•	4	-

• Attended

* Vishwanath Sankaranarayanan was appointed as a temporary board member and Chairman of the Board Audit Committee on 23 January 2023 and elected as a member of the Board at the Company's AGM held on 23 March 2023.

** Katsushi Takiguchi was elected as a member of the Board at the Company's AGM held on 23 March 2023.

Performance Appraisal for the Board of Directors

The CMA has announced that the Board evaluation should be conducted once during the term of the Board. In light of this announcement and given that the current Board's term ends on 29 March 2025, Al Busaidy Mansoor Jamal & Co ("AMJ") was appointed to carry out appraisal for the performance of the Board during the financial year ending 31 December 2023, pursuant to the approval by the shareholders at the Company's AGM held on 23 March 2023.

AMJ conducted the Board evaluation based on the criteria approved by the shareholders and the evaluation report will be presented to the shareholders at the Company's AGM proposed to be held on 25 March 2024.

Board Audit Committee

The role of the Board Audit Committee includes the following:

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

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

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

(d) Ensure oversight of the internal audit function.

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

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

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

(h) Review risk management policies.

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

The Board Audit Committee comprises the following members during the Financial Year 2023:

No.	Name of the BAC Member	Position	Dates and number of audit committee meetings				
			14 Feb	21 Feb	18 Apr	25 Jul	25 Oct
1	Vishwanath Sankaranarayanan	Chairman	•	•	•	•	•
2	Ajeev Gopinathan	Member	•	•	•	•	•
3	Ashish Gupta	Member	•	•	•	•	•
4	Mohd Nazersham bin Mansor	Member	•	•	•	•	-

• Attended, P: Proxy

Board Nomination and Remuneration Committee (BNRC)

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

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

The BNRC comprises the following members during the Financial Year 2023:

No.	Name of the BNRC Member	Position	Dates of BNRC Meetings		
			14 Feb	25 Jul	25 Oct
1	Tamer Cankardes	Chairman until 31 October 2023. Member from 1 November 2023	•	•	•
2	Anwar Syahrin bin Abdul Ajib	Member until 31 October 2023. Chairman from 1 November 2023	•	•	•
3	Tsutomu Sakamoto*	Member until 14 February 2023	•	-	-
4	Katsushi Takiguchi**	Member from 23 March 2023	-	•	•

• Attended

* Tsutomu Sakamoto resigned with effect from 14 February 2023.
** Katsushi Takiguchi was elected as a member of the Board at the Company's AGM held on 23 March 2023.

Procedure for Nomination of Directors

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

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

Related Party transactions

All the related party transactions are mutually agreed in the normal course of business and are disclosed in the financial statements.

In compliance with the 9th principle of Code of Corporate Governance, the company adopts the highest degree of transparency and clarity when it comes to related party transactions. All such transactions are subject to review of the Audit Committee and approved by the board prior to execution.

Remuneration

(a) Sitting Fees to Members of the Board and Its Committees

A total amount of RO 45,000 is expensed as sitting fees for the Financial Year ended 31 December 2023. The Board Audit Committee and BNRC have also accrued sitting fees of RO 9,500 and RO 2,700 respectively. The aggregate sitting fee for each Director did not exceed RO 10,000 per Director as per the guidelines issued by the CMA. This will be tabled for shareholders' approval at the upcoming Annual General Meeting on 25 March 2024.

(b) Other Payments to Directors

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

(c) Key Executives of the Company

The Executive Management (as defined in the Companies Law) of the Company received an aggregate amount of RO 264,962 for the Financial Year ended on 31 December 2023. This includes salaries, bonus and other benefits. Bonuses and other incentives for Key Executives are determined by predefined key performance indicators, encompassing financial performance and other elements. The assessment and approval are carried out by the Board Nomination and Remuneration Committee based on actual performance.

(d) Employee contracts, notice periods and severance fee

The notice period and severance fees for employees are determined in accordance with Omani law and are appropriately contracted based on the employee's status.

Internal Auditor

The Board appointed a full-time internal auditor with effect from 2 January 2022.

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

There were no penalties levied on the Company by the CMA, Muscat Stock Exchange (MSX) or any other statutory authority on any matter for the past 3 years up to 31 December 2023.

Means of Communication with the Shareholders and Investors

The Company's means of communication and disclosures are in accordance with the regulatory requirements. The Company discloses its annual un-audited financial results, un-audited interim financial statements and audited annual financial statements on the MSX website within the regulatory deadlines. The Company has conducted an interactive discussion session with the investor community on 24 August 2023 to present its unaudited financial results for the period ended 30 June 2023. The Company also publishes relevant financial information in two local newspapers. Communication with the shareholders is undertaken in both English and Arabic languages. Annual report posted on the MSX website contain Board of directors' report, Corporate social responsibility (CSR) report and Management discussion and analysis report. All official press releases are uploaded on Company's official website, https://www.mcdcoman.com.

Market Price Data

a) High/low share price and performance comparison during each month in 2023.

Month	Price (Baizas)				MSX Index (Service sector)	
	High	Low	Closing	Change from 5 January 2023 Opening Price	Closing	Change from 2 January 2023 Opening MSX Index
January	101.00	96.00	99.00	0.00%	1681.7750	3.91%
February	101.00	97.00	98.00	-1.01%	1714.0440	5.91%
March	101.00	93.00	99.00	0.00%	1706.6390	5.45%
April	100.00	96.00	100.00	1.01%	1747.1830	7.95%
May	100.00	93.00	93.00	-6.06%	1701.6390	5.14%
June	99.00	85.00	99.00	0.00%	1695.2670	4.75%
July	93.00	0.00	91.00	-8.08%	1672.6330	3.35%
August	93.00	84.00	92.00	-7.07%	1662.9570	2.75%
September	93.00	0.00	82.00	-17.17%	1629.4940	0.68%
October	86.00	80.00	82.00	-17.17%	1590.8950	-1.70%
November	82.00	76.00	78.00	-21.21%	1594.1620	-1.50%
December	88.00	72.00	78.00	-21.21%	1565.5510	-3.27%

Source: MSX's website.

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

Month	Price (Baizas)				MSX Index (Service sector)	
	High	Low	Closing	Change from 2 January 2022 Opening Price	Closing	Change from 2 January 2022 Opening MSX Index
January	92.00	85.00	92.00	2.22%	1602.4450	-1.39%
February	124.00	87.00	122.00	35.56%	1643.9440	1.16%
March	120.00	107.00	117.00	30.00%	1617.5120	-0.46%
April	125.00	116.00	119.00	32.22%	1636.9600	0.73%
May	121.00	112.00	113.00	25.56%	1581.8890	-2.66%
June	120.00	110.00	113.00	25.56%	1566.5550	-3.60%
July	113.00	111.00	111.00	23.33%	1658.0780	2.03%
August	117.00	111.00	114.00	26.67%	1675.0970	3.08%
September	116.00	110.00	116.00	28.89%	1624.4080	-0.04%
October	116.00	110.00	110.00	22.22%	1529.5640	-5.88%
November	115.00	108.00	110.00	22.22%	1551.1030	-4.55%
December	118.00	98.00	98.00	8.89%	1616.5970	-0.52%

c) Distribution of shareholdings as at 31 December 2023

Category	Number of Shareholders	Number of Shares Held	Share Capital %
5 % and above	4	120,657,165	77.57%
Less than 5%	2,300	34,893,235	22.43%
Total	**2,304**	**155,550,400**	**100.00%**

Source: Muscat Clearing and Depository's Website.

Professional Profile of 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 is the brand under which the member firms of KPMG International Limited ("KPMG International"). KPMG operates in 143 countries and employs more than 270,000 people working in member firms around the world.

For more information, please visit https://kpmg.com/xx/en/home.html

The KPMG member firm in the UAE, along with the Oman member firm, form KPMG Lower Gulf which was established in 1973, KPMG Lower Gulf consists of 1,700 staff members, including about 190+ partners and directors. KPMG in Oman is accredited by the CMA to audit joint stock companies.

For more information, please visit https://kpmg.com/ae/en/home/about/who-we-are-new.html.

During the year 2023, KPMG total fees amounted to RO 27,750 in relation to professional services rendered to the Company (RO 18,500 for audit and RO 9,250 for other services).

Specific areas of Non-Compliance of Corporate Governance

There was no penalty levied on the Company by any statutory authority on any matter related to corporate governance in 2023.

Board Acknowledgement

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

Chairman

Muscat City Desalination Company SAOG

Report and financial statements
for the year ended 31 December 2023

Pages

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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"), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material 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 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 *International* Code of Ethics for Professional Accountants (*including International Independence Standards*) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

CR No. 1358131
Tax Card No. 8063052

Impairment testing of non-financial assets	
The Key Audit Matter	**How the matter was addressed in our audit**
As at 31 December 2023 the Company has non-financial assets with impairment indicators amounting to RO 79.888 million. Non-financial assets comprising the carrying value of property, plant and equipment and right of use assets as one cash generating unit (CGU). Where a review for impairment is conducted, the recoverable amount is determined based on the higher of 'value in use' or 'fair value less costs of disposal. The impairment testing of the non-financial assets of the Company is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgment required in determining the assumptions to be used to estimate the recoverable amount.. The recoverable amount of the CGU , which is based on higher of the value in use or fair value less costs of disposal, has been derived from discounted forecast cash flow model (value in use). These models use several key assumptions, including estimates of future fixed and variable income, operating costs and the weighted-average cost of capital (discount rate). Refer to note 3 (Summary of material accounting policies) and note 5 (Property plant and equipment) of the financial statements for further details.	Our audit procedures in this area included, among others: • Understanding the process for impairment assessment; • Evaluating the design and implementation of key internal controls over the impairment assessment; • Involving our own valuation specialist to assist in evaluating the appropriateness of the discount rates applied; • Evaluating the appropriateness of the assumptions applied to key inputs such as estimate of future fixed and variable income, operating costs, which included comparing these inputs with our own assessments based on our knowledge of the client and the industry; • Testing the mathematical accuracy of the discounted cash flow model; • Performing our own sensitivity analysis for key inputs, which included assessing the effect of reasonably possible reductions in forecast cash flows to evaluate the impact on the currently estimated recoverable amount; and • Evaluating the adequacy of the financial statement disclosures.-

Other Matter

The financial statements of the Company as at and for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 21 February 2023.

Other Information

Management is responsible for the other information. The other information comprises of the Chairman's report, Management discussion and Corporate Governance report .

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, 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 2019, 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:

Auditors’ Responsibilities for the Audit of the Financial Statements (continued)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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, actions taken to eliminate threats or safeguards applied.

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

Further, we report that financial statements of the Company as at and for the year ended 31 December 2023, comply, in all material respects, with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 2019.

KPMG

Mobeen Chaudhri
15 February 2024

KPMG LLC

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Sultanate of Oman
CR.No: 1358131

MUSCAT CITY DESALINATION COMPANY SAOG

Statement of financial position

as at 31 December 2023

	Notes	2023	2022
ASSETS		**RO'000s**	RO'000s
Non-current assets			
Property, plant and equipment	**5**	**79,659**	81,973
Right-of-use asset	**6**	**229**	236
Derivative financial instruments	**10**	**1,499**	2,070
Total non-current assets		**81,387**	84,279
Current assets			
Derivative financial instruments	**10**	**240**	160
Trade and other receivables	**7**	**1,528**	1,585
Cash and cash equivalents	**8**	**1,969**	2,438
Total current assets		**3,737**	4,183
Total assets		**85,124**	88,462
EQUITY AND LIABILITIES			
Equity			
Share capital	**9.1**	**15,555**	15,555
Legal reserve	**9.2**	**2,668**	2,440
Retained earnings		**2,913**	1,856
		21,136	19,851
Hedging reserve	**10**	**1,478**	1,895
Net equity		**22,614**	21,746
Non-current liabilities			
Term loans	**11**	**42,637**	46,346
Derivative financial instruments	**10**	**-**	-
Provision for decommissioning obligation	**12**	**234**	254
Shareholders' bridge loans	**13**	**6,473**	6,988
Shareholders' stand-by equity loans	**14**	**754**	754
Lease liability	**15**	**245**	249
End-of-service benefits	**16**	**36**	21
Deferred tax	**23**	**5,709**	5,318
Total non-current liabilities		**56,088**	59,930
Current liabilities			
Term loans	**11**	**3,709**	3,555
Derivative financial instruments	**10**	**-**	-
Shareholders' bridge loans	**13**	**509**	730
Lease liability	**15**	**3**	3
Trade and other payables	**17**	**2,201**	2,498
Total current liabilities		**6,422**	6,786
Total liabilities		**62,510**	66,716
Total equity and liabilities		**85,124**	88,462
Net assets per share (RO)	**26**	**0.145**	0.140

Chairman **Chief Executive Officer**

The accompanying notes form an integral part of these financial statements.
The independent auditor's report is set out on pages 35 to 39.

Statement of profit or loss and other comprehensive income

for year ended 31 December 2023

	Notes	2023	2022
		RO'000s	RO'000s
Revenue	18	18,563	18,644
Cost of sales	19	(12,047)	(12,046)
Gross profit		6,516	6,598
Other income		4	16
Administrative and general expenses	20	(965)	(906)
Operating profit		5,555	5,708
Finance income	21	41	36
Finance costs	22	(2,847)	(2,762)
Profit for the year before tax		2,749	2,982
Income tax	23	(464)	(540)
Profit for the year		2,285	2,442
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Changes in fair values of derivative financial instruments		(491)	6,228
Deferred tax on changes in fair values of derivative financial instruments	23	74	(935)
Other comprehensive income for the year net of income tax	10	(417)	5,293
Total comprehensive income for the year		1,868	7,735
Earnings per share – basic and diluted	25	0.015	0.016

The accompanying notes form an integral part of these financial statements.
The independent auditor's report is set out on pages 35 to 39.

Statement of changes in equity

for the year ended 31 December 2023

	Share capital	Legal reserve	Retained earnings	Hedging reserve	Total
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s
At 1 January 2022	15,555	2,196	2,608	(3,398)	16,961
Total comprehensive income for the year					
Profit for the year	-	-	2,442	-	2,442
Other comprehensive income net of deferred tax for the year	-	-	-	5,293	5,293
Total comprehensive income for the year	-	-	2,442	5,293	7,735
Transfer to legal reserve	-	244	(244)	-	-
Transactions with owners of company					
Dividend distributed (Note 9.3)	-	-	(2,950)	-	(2,950)
At 31 December 2022	15,555	2,440	1,856	1,895	21,746
At 1 January 2023	**15,555**	**2,440**	**1,856**	**1,895**	**21,746**
Total comprehensive income for the year					
Profit for the year	**-**	**-**	**2,285**	**-**	**2,285**
Other comprehensive income net of deferred tax for the year	**-**	**-**	**-**	**(417)**	**(417)**
Total comprehensive income for the year	**-**	**-**	**2,285**	**(417)**	**1,868**
Transfer to legal reserve	**-**	**228**	**(228)**	**-**	**-**
Transactions with owners of company	**-**	**-**	**-**	**-**	**-**
Dividend distributed (Note 9.3)	**-**	**-**	**(1000)**	**-**	**(1000)**
At 31 December 2023	**15,555**	**2,668**	**2,913**	**1,478**	**22,614**

The accompanying notes form an integral part of these financial statements.
The independent auditor's report is set out on pages 35 to 39.

Statement of cash flows

for the year ended 31 December 2023

	Notes	2023 RO'000s	2022 RO'000s
Cash flows from Operating activities			
Net profit for the year after tax		**2,285**	2,442
Adjustment for:			
Depreciation	5	**2,518**	2,493
Amortization of right-of-use assets	6	**7**	7
Provision for end of service benefits	16	**15**	9
Finance costs	21	**2,847**	2,762
Finance income	22	**(41)**	(36)
Tax expense	23	**464**	540
Cash flows from operating activities before working capital changes		**8,095**	8,217
Change in trade and other receivables	7	**57**	37
Change in trade and other payables	17	**(282)**	(372)
Net cash generated from operating activities		**7,870**	7,882
Cash flows from Investing activity			
Additions to property, plant and equipment	5	**(240)**	(182)
Disposal of property, plant and equipment	5	**-**	-
Net cash used in investing activity		**(240)**	(182)
Cash flows from Financing activities			
Long term loans – repaid		**(3,631)**	(3,463)
Finance cost paid	11	**(2,564)**	(2,421)
Repayment of lease liability		**(15)**	(15)
Repayment of shareholders bridge loan	15	**(730)**	(729)
Interest paid on shareholders bridge loan	13	**(159)**	(170)
Dividend distributed	13	**(1000)**	(2,950)
Net cash used in financing activities	9.3	**(8,099)**	(9,748)
Net change in cash and cash equivalents		**(469)**	(2,084)
Cash and equivalents at the beginning of the year		**2,438**	4,486
Cash and cash equivalents at the end of the year	8	**1,969**	2,438

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

The independent auditor's report is set out on pages 35 to 39.

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.

2.2 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;

Notes to the financial statements

for the year ended 31 December 2023 (continued)

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 (continued)

- 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 significant accounting policies

Statement of compliance

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

Going Concern

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

As at 31 December 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

Notes to the financial statements

for the year ended 31 December 2023 (continued)

3. Summary of significant accounting policies (continued)

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.

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.

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

3. Summary of significant accounting policies (continued)

Depreciation

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

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

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

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

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

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

Capital work-in-progress

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

Property, plant and equipment (continued)

Derecognisition of asset

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

Impairment

Financial assets

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

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

Notes to the financial statements

for the year ended 31 December 2023 (continued)

3. Summary of significant accounting policies (continued)

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.

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.

3. Summary of significant accounting policies (continued)

Provision for decommissioning obligation

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

Notes to the financial statements

for the year ended 31 December 2023 (continued)

3. Summary of significant accounting policies (continued)

Provision for decommissioning obligation (continued)

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.

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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

3. Summary of significant accounting policies (continued)

Financial instruments

i) Non-derivative financial instruments

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

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

ii) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

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

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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

3. Summary of significant accounting policies (continued)

Cash flow hedges (continued)

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

If 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.

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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

3. Summary of significant accounting policies (continued)

Dividend

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

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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

3. Summary of significant accounting policies (continued)

Lease liability (continued)

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:

- 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.

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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

3. Summary of significant accounting policies (continued)

The Company as lessor (continued)

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.

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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

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

Critical judgements (continued)

Lease classification (continued)

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:

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	Plant and machinery	Pipelines	Decommissioning asset	Spares	Furniture, fixtures and office equipment	Motor vehicles	Capital work-in-progress	Total
	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	RO'000s	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**	**127**	**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

Notes to the financial statements

for the year ended 31 December 2023 (continued)

5. Property, plant and equipment (continued)

Depreciation charge for the period is recognised as follows:

	2023	2022
	RO'000s	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	2022
	RO'000s	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

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).

Notes to the financial statements

for the year ended 31 December 2023 (continued)

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	2022
	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
	2023	2022	
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	

Notes to the financial statements

for the year ended 31 December 2023 (continued)

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.

9.3 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.

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).

Notes to the financial statements

for the year ended 31 December 2023 (continued)

10. Derivative financial instruments (continued)

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	2022
	RO'000s	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	**Notional amount**	**1 - 12 month**	**More than 1 up to 5 years**	**More than 5 years**
	RO'000s	**RO'000s**	**RO'000s**	**RO'000s**	**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	2022
	RO'000s	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	2022
	RO'000s	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

Notes to the financial statements

for the year ended 31 December 2023 (continued)

11. Term loans (continued)

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.

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'000s	Repayments during the year RO'000s	Non-cash changes RO'000s	At 31 December RO'000s
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

Notes to the financial statements

for the year ended 31 December 2023 (continued)

12. Provision for decommissioning obligation

	2023	2022
	RO'000s	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	2022
	RO'000s	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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

13. Shareholders' bridge loans (continued)

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
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

Notes to the financial statements

for the year ended 31 December 2023 (continued)

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	2022
	RO'000s	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	2022
	RO'000s	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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

20. Administrative and general expenses (continued)

Employee costs are as follows:

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

Notes to the financial statements

for the year ended 31 December 2023 (continued)

23. Income tax (continued)

Tax reconciliation

The reconciliation of income tax expense is as follows:

	2023	2022
	RO'000s	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

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

31 December 2023	**Asset / (liability) as at 1 January**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Asset / (liability) as at 31 December**
	RO'000s	**RO'000s**	**RO'000s**	**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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

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

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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

27. Financial instruments (continued)

Credit risk

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2023 (continued)

27. 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	2022
		RO'000s	RO'000s
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:

	Interest rate	2023	2022
	%	RO'000	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

Notes to the financial statements

for the year ended 31 December 2023 (continued)

27. Financial instruments (continued)

Interest rate risk (continued)

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.

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

	Impact in OCI (100 bp increase) RO'000s	Impact in OCI (100 bp decrease) RO'000s
31 December 2023		
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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

27. 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 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**

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.

Notes to the financial statements

for the year ended 31 December 2023 (continued)

27. Financial instruments (continued)

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

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
Interest rate swaps – 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.