الشرقية لتحلية المياه
Sharqiyah Desalination

Annual Report 2019

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Sharqiyah Desalination

Annual Report 2019

Condolences on the sad demise of His Majesty Sultan Qaboos Bin Said

His Majesty Sultan Haitham Bin Tarik

TABLE OF CONTENTS

Acknowledgement

The Board of Directors of the Sharqiyah Desalination Company SAOG ("SDC") takes this opportunity to wish His Majesty Sultan Haitham Bin Tarik long life, good health and prosperity.

The Board wishes to express its gratitude to the Government of Oman for its continued support and encouragement to the private sector in creating an environment that allows participating effectively in the growth of the economy and dedicating our humble achievements towards the building of strong Oman.

BOARD OF DIRECTORS

SEBASTIEN CHAUVIN
Chairman of the Board

SUHAIB ABU DAYYEH
- *Deputy Chairman of the Board*
- *Member of the Nomination and Remuneration Committee*

ERWAN ROUXEL
- *Member of the Board*
- *Member of the Nomination and Remuneration Committee*

ALI KHAMIS MUBARIK AL ALAWI
- *Vice Chairman of the Board*
- *Chairman of the Nomination and Remuneration Committee*

MUSTAFA AHMED SALMAN
- *Member of the Board*
- *Member of the Audit-Committee*

NITIN BAJAJ
- *Member of the Board*
- *Member of the Audit-Committee*

JEAN-FRANCOIS ROBERGE
- *Member of the Board*
- *Chairman of the Audit-Committee*

ABDULLAH AL HASHMI
- *Member of the Board*

THE EXECUTIVE MANAGEMENT

PHILLIPPE PAULISSEN
- *Chief Executive Officer (CEO)*

EMAD MOUSTAFA HAMED
- *Chief Financial Officer (CFO)*
- *Company Secretary*

BOARD OF DIRECTORS REPORT

Dear Shareholders,

On behalf of the Board of Directors of Sharqiyah Desalination Company SAOG (the "Company"), I am pleased to present the Annual Board of Directors' Report and the Annual Audited Financial Statements of the Company for the year ended 31st December 2019.

Operational Highlights

The Sur Independent Water Plant ('the Plant') has increased its production volumes of water with a total water delivery to the Public Authority for Water ('PAW') of 36,562,763 m3 compared to 34,848,252 m3 in the previous year (i.e. an increase of almost 4.92%).

The average scheduled plant availability for the year reached 97.7%. This consistently high availability is the result of a strict maintenance program followed and implemented by the operation & maintenance team, as well as improved coordination with PAW. The Company continues to maintain its excellent reputation as a provider of potable water to the Sharqiyah region.

On March 13, 2019, the Plant successfully completed the Annual Performance Test for the contractual year 11 (CY11). The total production during the 24 hours of the test was 133,336 m3 (101% of the Guaranteed Water Capacity). Therefore, the Demonstrated Water Capacity for CY11 is maintained at the level of the Guaranteed Water Capacity, 5,493.225 m3/hour.

Financial information

Revenue has decreased by (RO 833K) 5.7% as compared to the previous year . This is mainly due to the exceptional amount received in respect of the COD settlement in 2018 and decrease in contractual water capacity charge compared to last year.

The cost of sales has decreased by (RO 1,234K) 13.1% as compared to the previous year . This is mainly due to the applicability of the decrease in COD capacity tariff and decrease in O&M capacity charge rate. Previous year includes RO 268K paid to the O&M contractor for their share in COD dispute amicable settlement.

Finance expenses have decreased by (RO 195K) 5.8% as compared to the previous year . This is mainly due to the impact of the decrease in finance charges and interest received on cash balances.

Decrease in withholding tax by RO 554K - The client – OPWP accepted Company's claim for Material Adverse Change Claim due to changes in the withholding tax and started reimbursing the Company for withholding taxes paid on interest paid to foreign lenders.
Profit before tax has increased by (RO 1,015K) 88.5%, as compared to the previous year.

Current year profit before tax represents 15.6% of the revenue.

Current year profit after tax represents (RO1,892K) 13.6% of the revenue.

Based on the financial results, the Board proposes to the AGM to consider and approve a distribution of cash dividends of 16.75% of the share capital.

Internal Control and Corporate Governance

The Management of the Company believes in a strong internal control system, overseen by our Internal Auditor in compliance with SOX guidelines.

The Company has in place high standards of corporate governance, which are compliant with the Code of Corporate Governance promulgated by the Capital Market Authority.

Acknowledgements

As Chairman of the Board, I would like to thank our shareholders, not only for their confidence, but also for their continued support and for the expertise they bring to the Company.

The Board of Directors expresses its gratitude to OPWP, PAW, the Authority for Electricity Regulation, Muscat Clearing and Depository, the Capital Market Authority and the Government of Oman for their tremendous support in regulating and developing the water sector, and for their assistance, which comforts the smooth functioning of our operations.

Finally, On behalf of the Board of Directors and the management, I wish to express our good wishes to His Majesty Sultan Haitham bin Tareq bin Taimour for being sworn in as "HIS MAJESTY" and to continue the legacy and vision of the Late His Majesty Sultan Qaboos bin Said.

Thank you and kind regards,

P.O. Box : 685
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C.R :1011277
SULTANATE OF OMAN
1
Sharqiyah Desalination Co. SAOG

Sebastien Chauvin
Chairman

OPERATIONAL HIGHLIGHTS

Continuous increase of water supply

As expected, the year 2019 confirmed the significant increase of water demand within the Sharqiyah region, in line with the several connection works and improvement of water access to the population by the Public Authority for Water (PAW).

The percentage increase of water supplied for the 2019 year is 5%. This is consistent with the steady growth in demand for potable water over the past 9 years, which has a demonstrated year-on-year average of 12% (see Figure 1 Below).

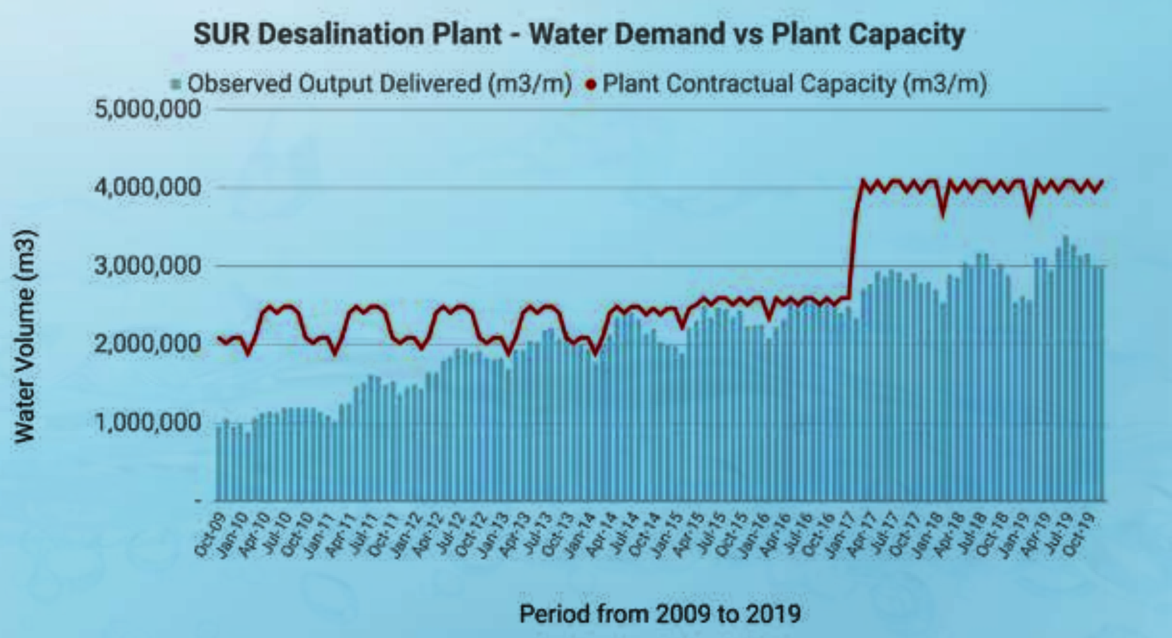

Figure 1 - Water Delivery & Plant load factor of SUR Desalination Plant from October 2009 to December 2019

In 2019, the average load on the plant was 76% of the maximum capacity (it was 72.4% in 2018). The variation between low and high delivery period went up to 30% (it was 25% in 2018)(see Figure 2 Below).

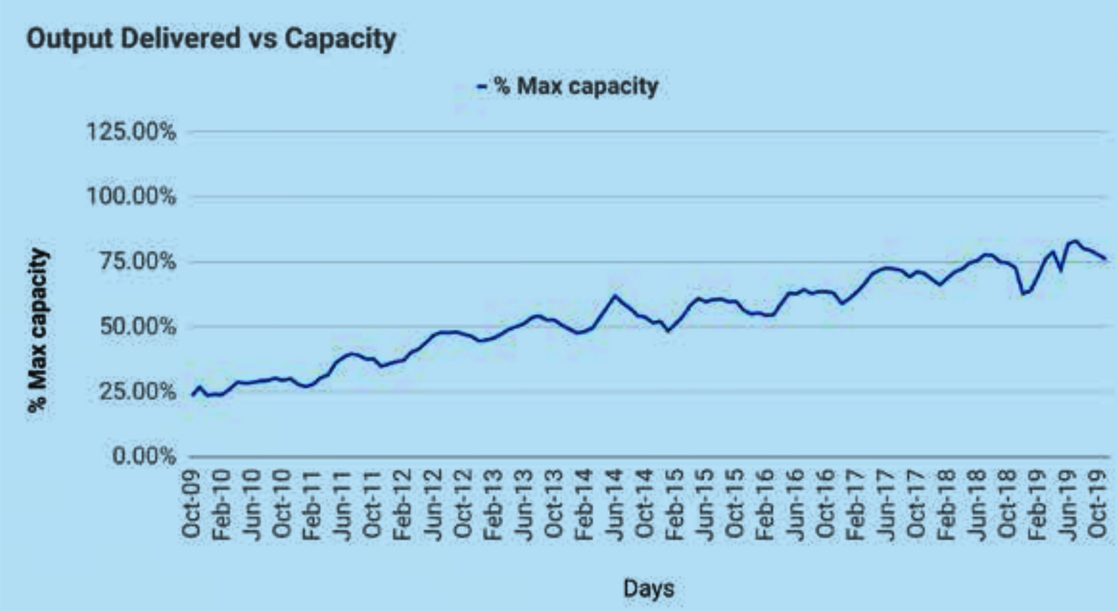

Figure 2 - Plant load factor of SUR Desalination Plant until December 2019

Occupational Health and Safety

In 2019, the Severity Rate (12 month running) and the Frequency Rate (with day off – 12 month running) remained nil. This is the illustration of the management commitment towards Health and Safety of everyone at the Plant.

In September, a full week was dedicated to Health and Safety. This event was part of the global Occupational Health and Safety Week that has been established by Veolia and locally adapted by the Company from September 15 to September 19, 2019.

In addition to underscoring the wholehearted commitment by the Company and its managers to promote a culture of risk prevention, this dedicated week is intended to allow each and every employee the time and space to review and clarify the safety rules which are integral to operational performance.

All employees are encouraged to improve the dissemination of best practices and participate with management about risk prevention strategies and process improvement.

High standards commitment on asset management

To comply with the high plant availability requirements imposed by the Water Purchase Agreement ('WPA') (95% of the contractual capacity over the year), the Asset Management strategy has been aligned with the support of Veolia Headquarter in Paris in order to increase it to the level of requirements of the ISO 55000:2014.

Water Quality at the best level

In line with the availability achievement, the plant delivered potable water complying with the Water Purchase Agreement requirements and the Omani Standards.

In addition, more than 17,000 water parameters have been successfully analysed in 2019 into the plant internal laboratory facilities, including tests on potable water following the contractual and legal requirements.

Digitalisation

With more than 2,000 pieces of equipment connected on a Centralized Supervisory Control and Data Acquisition system ('SCADA') hosted in our control room, our operations team is permanently monitoring the performance of the Plant 24/7 and all year long.

To ensure the equipment used within the Plant functions at optimum capacity, maintenance and asset management play a major role in the Plant activity. A dedicated Computerized Maintenance Management System ('CMMS') is implemented to plan, follow-up, record and guide our maintenance team in their daily assignments.

Remote control tablets connected with the CMMS makes sure that all maintenance engineers and technicians have access to the required information as well as instructions to perform an efficient maintenance task.

DESCRIPTION OF THE COMPANY

Background

On 7 January 2006, the Ministry of National Economy issued to potential bidders a request for a proposal for the development of desalination facilities at Sur in the Sharqiyah region of the Sultanate of Oman on a build, own and operate (BOO) basis (the Project). The proposal included the purchase of the Existing Plant already at the location (with a capacity of about 2.66 MIGD) and construction of a new desalination plant, with aggregate capacity of 17.66 MIGD (the New Plant) using the reverse osmosis technology for desalination.

A consortium comprising Veolia Eau-Compagnie Generale des Eaux, National Power and Water LLC and Veolia Water AMI (the Original Founders) were awarded the Project and on 14 January 2007, Sharqiyah Desalination Company was incorporated. On 17 January 2007, the Ministry of Housing Electricity and Water ('MHEW') and the Company entered into a Water Purchase Agreement ('WPA') and a Water Connection Agreement ('WCA'). Pursuant to Royal Decree 92/2007, the functions and assets of the MHEW in relation to the electricity and water related sector and other water related functions (including the right to sign contracts necessary for the management of the water sector) were transferred to the Public Authority for Water ('PAW'). The WPA and WCA required the Company to purchase the Existing Plant and construct the New Plant, operate and maintain these facilities, make available the capacity of the facilities and sell its desalinated water output exclusively to PAW.

The Project Founder Agreement required the Founders to float the Shares on the Muscat Securities Market ('MSM') through an IPO offering 35% of the share capital of the Company to the public. Following the IPO the Company converted from an SAOC to an SAOG. Shortly thereafter, the AWPA was novated and OPWP assumed the role of Buyer under the contract from PAW.

On 10 July 2014, the Company entered into an Amended Water Purchase Agreement with Oman Power and Water Procurement Company ('OPWP') to build an extension to the plant which increased the plant capacity from 17.66 MIGD to a total aggregated capacity of 29 MIGD. The Sur IWP is a gloabal leader in cutting edge reverse osmosis technology and world class environmental standards. It recycles over 97% of its mechanical energy and saves up to 40% more energy than a conventional Reverse Osmosis (RO) plant and is dedicated to preserving the unique geological and marine environment of Oman. Each day, it now delivers more than 83,500 m^3/day to over 375,000 residents in the Sharqiyah Regtion. The Sur IWP contains the worlds' largest beachwell catchment water area. Since its inception in 2007, it has operated without interruption and has delivered millions of potable water.

100% Production Reliability

Key Dates	
7 January 2006	Bid award of the Initial Project to the Original Founder
14 January 2007	Incorporation of SDC
17 January 2007	Execution of the Existing WPA between SDC and MHEW
15 May 2007	Financial Close of the Initial Project
8 October 2009	Commercial Operation Date of the Initial Project
30 June 2013	Listing on Muscat Securities Market ('MSM')
10 July 2014	Signature of the amended and restated WPA
16 December 2014	Increase of Share Capital and distribution of bonus shares
25 December 2014	Signature of the Ancilliary Contract
25 March 2015	Financial closing related to the expansion project
7 February 2017	COD of the Expansion Project

The listing of SDC on the MSM was an important milestone in the SDC project life.

Pre IPO	
Azaliya SAS	55.00%
National Power & Water (NPW)	45.00%
Veolia Eau	1 share

Post IPO	
Veolia Middle East S.A.S (VME) – *formerly named Azaliya SAS*	35.75%
Middle East Investment (MEI)	29.25%
Veolia Eau	1 share
Public	20.53%
Pension Fund of the Civil Service's Employees [Oman]	14.47%

Main Organization of the Company

The Company puts a lot of effort into reducing the environmental impact of the desalination process and tackling the environmental challenges of our business.

Sharqiyah Desalilation Company continues to assiduously protect its environmental KPIs, particularly with respect to preserving the surrounding marine environment.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry Structure And Development

The core business of SDC is to own and operate the Sur Independent Water Plant (the ' Plant'), which is located next to the Sur Industrial Estate, within 300km of Muscat. The Sur IWP uses Water Reverse Osmosis ('SWRO') technology to desalinate in excess of 5,000m3 of water per hour. All water produced by the Plant is contracted to Oman Power and Water Procurement Company ('OPWP'), a wholly owned government entity which is the single buyer of all water projects in the Sultanate of Oman. The terms of our commitment to deliver water to OPWP is governed by the Amended and Restated Sur IWP Water Purchase Agreement 2014 ('the AWPA'), which sets out various obligations upon SDC regarding water production standards, as well as the commercial terms for the sale of water. Our business is governed by a Desalination License of a Special Nature, granted by the Authority for Electricity Regulation Oman ('AER'), which must be observed for the 20 year duration of the AWPA.

Opportunities And Threats

SDC benefits from a guaranteed long term income stream and a low risk profile.

The AWPA secures a guaranteed water purchase at fixed rates from OPWP, so the Company is protected from the risk of falling demand, commodity prices and market fluctuations.

Payments under the AWPA are based on a dual payment system – one part representing a capacity payment for the availability of the Plant and the second upon the amount of water delivered to the Public Authority for Water ('PAW').

Building on the installation of new beach wells last year, the Company has had a solid year with outstanding performance reliability. There has been a marked increase in demand for potable water in the Sharqiyah region, which has been managed by the smooth operational performance of the Plant. With demand for potable water expected to increase between 5-7% annually for the the foreseeable future, the Company is working hard to ensure that it can match increased production levels in the most economically and environmentally effective ways.

In 2019 the Company has worked hard to increase training programs and professional development initiatives for its employees. The Sur IWP is a key employer in Sur and so employee satisfaction is a priority for the Company. In line with this objective, SDC believes in delivering international service by utilizing local resources and encouraging capability building with our Omani staff. Development opportunities for local employees are a key feature of our Omanisation program.

Our O&M Company has associated with a local institute to train young local engineers and technicians through a dedicated apprenticeship program which is spanned over 11 months. Designed with a combination of classroom, practical and on the job training, this program will help these young engineers to enhance their competence level in the long run.

The Company has also been working hard to implement its enhanced digitization program, to improve performance and the reliability of the Plant.

Financial Information

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Finance expenses have decreased by (RO 195K) 5.8% as compared to the previous year . This is mainly due to the impact of the decrease in finance charges and interest received on cash balances.

There has been a decrease in withholding tax of RO 554K as OPWP accepted the Company's claim for Material Adverse Change Claim due to changes in the withholding tax and started reimbursing the Company for withholding taxes paid on interest paid to foreign lenders.

Profit before tax has increased by (RO 1,015K) 88.5%, as compared to the previous year. Current year profit before tax represents 15.6% of the revenue.

Current year profit after tax represents (RO1,892K) 13.6% of the revenue.

Based on the financial results, the board proposes to the AGM to consider and approve a distribution of cash dividends of 16.75% of the share capital.

Outlook For 2020

SDC will continue working diligently to meet its commitment to OPWP and the people of Sharqiyah to provide enough potable water to meet the demands of this growing community. The Company has plans to undertake a review of its energy optimisation strategies, with a view to ensuring sustainability is a key priority for the next decade. SDC will strive to continue to be an employer of choice in the Sharqiyah region and we thank the community of Sur, our shareholders, partners and employees for their continued support.

PH. PAULISSEN

CEO - Philippe Paulissen

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Sharqiyah Desalination Co. SAOG

IN COUNTRY VALUE

Local Initiatives

The Company is committed to full compliance with all aspects of the Omani legal regulations.

This includes, but is not limited to, the Royal Decrees related to employment Omanisation, and to allocate a portion of the awarded contract to Omani content.

ICV Targets

MAXIMISING THE IN-COUNTRY VALUE (ICV)

Capital Invested

Maximise Local Investments

- Investments in fixed assets
- Develop local source of investments

Procurement

Maximise the procurement of local goods & services with quality & price compliance constraints

- Local sourcing of goods & subcontracted services
- Development of national suppliers

Human Resources

Identify, recruit, train & develop local talents

- Implement adapted HR procedures & diverse programs

Local Development

Maximise the impact on local communities through a wide range of actions

- Development of national training, education and R&D institutions

1. Capital invested

- The Company has already invested USD 170 million (RO 65.5 million) in the past years, and invested more than USD 92.8 million (RO 35.7 million) for the expansion project.
- Partnership with Middle East Investment LLC, a leading investment company in Oman.
- For the existing plant financing, 37% of the funding came from Omani banks.
- 35% of the share capital of the Company was floated in Muscat Securities Market in June 2013 in favor of individuals resident in Oman as well as Omani companies.
- Further to the IPO, 62.16% of the Company's share capital is currently mainly held by Omani residents and companies.

2. Procurement

The purchase policy exclusively targets the Omani market, provided that the products are available in Oman and comply with the international standards selected by the Company.

Beyond the legal duty, the management of the company demonstrates a genuine determination to be part of the local economy by adding value through capital investment and a wise procurement policy.

3. Human Resources

The Company aims to maximize the local Human Resources by recruiting, training, and managing the careers of local employees.

The Company takes the following commitments with regard to recruitment on its existing and future projects:

A. Recruitment Policy

Omanisation in the Work Force

The Company exceeds its contractual commitments to Omanisation.

Omanisation is not only an objective; the Company considers it a goal to be prioritised and carefully planned.

B. Training of Omani nationals

The Company deploys an ambitious training policy and action in line with its experience in Oman to maintain and develop the competencies mobilized across the years.

There are Omani employees among the staff that are regularly trained as trainers to enable onsite training.

Several Omani staff members are trained as mentors to enable and support knowledge transfer.

Acting in the best interests of local development and making a positive contribution to the Omani society is not only an ethical duty for the Company, but part of its development strategy. The management of the Company sees its involvement in community matters as an investment rather than a cost.

Training Budget

The Company contributes to national training and knowledge transfer in partnership with local training providers and local vocational training centers.

Many of the Company's initiatives are targeting Omani students: organization of conferences and visits to the Plants.

Training structure

The training delivered is structured as per the following categories: Technical training, QHSE training, Support function training and Personal development training.

4. Local development

Since its creation, the Company has undertaken several actions in order to contribute to local development, as detailed in the Corporate Social Responsibility ('CSR') section.

الشرقية لتحلية المياه
Sharqiyah Desalination

CORPORATE RESPONSIBILITY & SUSTAINABILITY

TOGETHER FOR A SUSTAINABLE FUTURE
2019

Word of SDC CSR Manager

This report is clear evidence of Veolia's firm and serious commitment to prioritise sustainability in all activities and practices we perform. This comes from our belief that we can be a driving force in beneficial change to the economies and communities where we work. Our responsibility is not limited to achieving financial benefits, but goes beyond profits, to inculcating a culture of sustainability in all our operations and for all our stakeholders.

In 2019, SDC has determined five components for sustainability: Effective Governance – Crisis Management – Developing Talents – Creating Positive Social Effect – Serving The Community for a Better Future, along with Innovation and Excellence of Initiatives. These components are the compass of our future plans and the basis of day-to-day activities to support our various objectives and achievements. Veolia is committed to maintaining our CSR pioneering and leading position across all companies in the Sultanate of Oman.

17	11	29	1,284,000	9
Media	Locations	Governmental	Beneficiaries	Projects

الشرقية لتحلية المياه تدعم المتضررين من «كيار»

تسليم دعم لـ ٦٠ أسرة متأثرة بالأجواء المناخية بجنوب الشرقية

ندوة الاستدامة والشراكة الاجتماعية بجنوب الشرقية

LOCAL NEWS WEDNESDAY 4 December 2019

ندوة الاستدامة والشراكة الاجتماعية بجنوب الشرقية

CSR

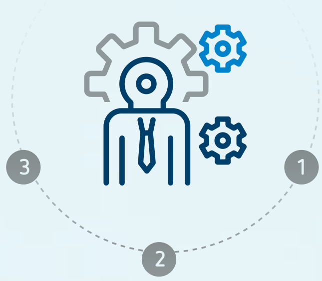
Honor

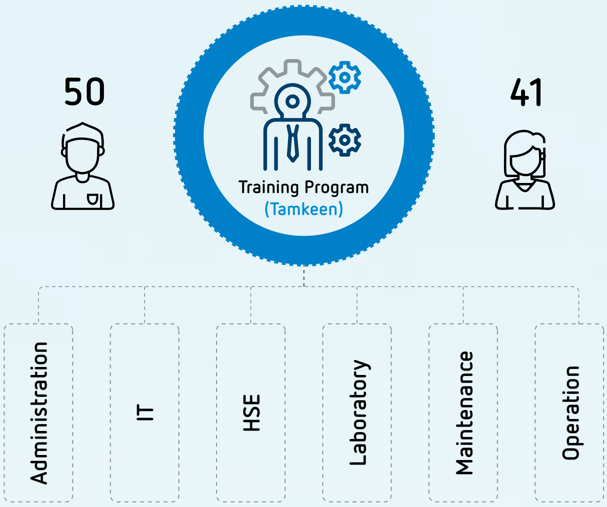
SDC Honored By H.E. Sheikh Abdullah Bin Mustahail Bin Salim Shammas, Governor Of Ash Sharqiyah South Governorate.

TAMKEEN

Firmly believing that young people are the future, SDC developed a scientific vision and strategy themed (Tamkeen).

To prepare young men and women for labor market, and through emphasizing professional and educational qualification for a large segment of them, this program has introduced a lot of training courses that provided youth with tools and skills enabling them to shape their future and enhance their talents, thus in cooperation with competent associations and certain bodies across regions of the Sultanate.





Tamkeen Program

Youth and Sport Support Initiative (Ramadan Tournament)

SDC continues its repeated successes of organizing football tournaments that achieved unprecedented success and won the admiration of all events' attendants inside and outside SDC. SDC and the project operator Bahwan Veolia Water are known for organizing football tournaments among SDC's Departments to raise the level of team spirit and to enhance social links between the staff to be reflected positively on the community. This is in fulfillment of the social commitment, the approach adopted by SDC and the new perspective in the corporate social responsibility program.

Community Services

Community Service Wilayat Sur Showcase at Salalah Tourism Festival

The purpose of this support is to clarify the role of culture and civilization to the local community where we operate (Wilayat Sur) through annual Salalah Tourism Festival held in Dhofar Governorate in fall season from July 15 – August 31 of each year, with approximately 189.000 visitors. SDC lends critical support to the representation of Sur at this event, due to its utmost importance for the economic, tourism and social sectors.

Participation in Omani Women's Day Initiative

SDC initiates Participation in Omani Women's Day Initiative on March 8 every year. This participation was represented in organizing a private symposium for women at SDC in coordination with the Omani Women Association in Ash Sharqiyah South. The symposium included a number of main components on SDC's effective and important role in providing safe potable water for the community and contributing to its development through social responsibility initiatives, as Helene Coulon presented a working paper explaining such components in detail.

Iftar Tent 3rd Initiative

SDC initiated the Iftar Tent 3rd Initiative in the holy month of Ramadan in cooperation with Royal Oman Police, the Wali of Sur office and the Department of Social Development in Ash Sharqiyah South. This initiative is held for the third year in a row, as it was preceded by The Iftar Tent 2nd Initiative.

The holy month of Ramadan is a month of good and blessing, especially the collective Iftar organized by SDC for its administrative staff and technicians working at the plant to promote social ties between employees in these blessed days; reflecting SDC's belief that social responsibility starts from the inside, i.e. applies to the staff in the first place to be centered on a solid foundation.

CSR

Governance Program

Working Paper Participation Initiative in Sustainable Development Symposium with Oman Charitable Organization located in Ash Sharqiyah South Governorate

SDC believes that Corporate Social Responsibility Program is a joint venture among the company, the government and community, which is a great value, a successful investment opportunity and a strong motivation for achieving success and sustainable development. Accordingly, we participated by a working paper containing four components; the concept of corporate social responsibility, status of social responsibility for companies in the Sultanate of Oman, social responsibility facts newly recognized by companies and promotion of social responsibility in the Sultanate.

Sur Health City Project Support Initiative

Healthy City Programme is one of WHO programmes in the Sultanate under the supervision of Ministry of Health. It is a health-enhancing preventive program based on activating community participation in order to improve urban community health to improve social, economic and environmental aspects of life. Sur is one of the first cities which adopted health city programmes in the West Mediterranean developed by WHO and is considered a real partnership among the Ministry, companies and community. Until now, 80 standards have been met as WHO recognized Sur as the first health city in Oman. SDC played a prominent role in contributing to this success. In the first place, SDC produced approximately 130 thousand m3 of potable water daily and thanks to the real partnership by CSR Department at SDC, and working together with Sur Health City Initiative team which led to this great success.

Crisis Management Program

Initiative to Support 60 Families Affected by Climate Changes (Food Basket)

The Crisis Management pillar of SDC's CSR program was called upon in 2019 due to the impacts of Cyclone Kiar on the city of Sur. This highly unusual and devastating weather pattern wreaked havoc on our local community and SDC was pleased to be able to support 60 local families whose homes and livelihoods were impacted by the disastrous effects of climate change, with the provision of food baskets.

Initiative to Support those affected by Kiar Hurricane (Electronic Devices)

CSR initiatives could not be effective and successful without the availability of real feelings and sympathy towards emergencies or problems. Based on this belief, SDC vision focuses primarily on the human side and their support in case of any emergency. The SDC CSR team also played a significant role in standing with our families affected by Cyclone Kiar Hurricane at Ras al Hadd, through an integrated program that involved visiting affected families and providing emergency support, electronic appliances and furniture. SDC is a strong believer in the human side of crisis management and is proud of its sympathetic and generous response to the Sharqiyah community in its time of need.

CSR

REPORT OF THE AUDITORS ON CORPORATE GOVERNANCE

EY
Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

REPORT OF FACTUAL FINDING

TO THE SHAREHOLDERS OF SHARQIYAH DESALINATION COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Sharqiyah Desalination Company SAOG (the "Company") as at and for the year ended 31 December 2019 and its application of the corporate governance practices in accordance with amendments to CMA's Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarised as follows:

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

2) We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2019. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Sharqiyah Desalination Company SAOG to be included in its annual report for the year ended 31 December 2019 and does not extend to any financial statements of Sharqiyah Desalination Company SAOG, taken as a whole.

Ernst & Young LLC

Muscat
12 February 2020

إرنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢ ، سلطنة عمان
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

A member firm of Ernst & Young Global Limited

CORPORATE GOVERNANCE REPORT

REPORT ON CORPORATE GOVERNANCE FOR THE YEAR ENDED 31ST DECEMBER 2019

In accordance with the Capital Market Authority ("CMA") guidelines, we are pleased to present the seventh Corporate Governance Report ("the Corporate Governance Report") of Sharqiyah Desalination Company SAOG ("the Company") for the year ended 31st December 2019.

1. Company philosophy

The philosophy of the Company in respect to corporate governance is to observe, in letter and spirit, the rules and regulations framed by the CMA and in particular the Code of Corporate Governance.

Indeed corporate governance at the Company envisages its commitments towards the attainment of high levels of transparency, accountability and business priority with the ultimate objective of increasing long-term Shareholders value, keeping in mind the needs and interests of all other stakeholders.

The Company follows the stipulations of the "International Financial Reporting Standards" (IFRS) in preparation of accounts and financial statements.

2. Composition of the Board of Directors (the "Board")

All below Board of Directors members were elected by the Shareholders in the meeting (Ordinary General Meeting "OGM") held on 7th March 2019 for a term of 3 years.

Name	Representative of a Juristic person/ In personal capacity	Executive/ Non Executive	Independent/ Not independent	Shareholder/Non-shareholder
Sebastien Chauvin	Representative of Veolia Middle East	Non-Executive	Not independent	Non-shareholder
Suhaib Abu Dayyeh	Representative of Middle East Investment LLC	Non-Executive	Not independent	Non-shareholder
Abdullah Al Hashmi	Representative of the Pension Fund of civil services employees	Non-Executive	Not independent	Non-shareholder
Erwan Rouxel	In personal capacity	Non-Executive	Not Independent	Non-shareholder
Nitin Bajaj	In personal capacity	Non-Executive	Not Independent	Non-shareholder
Jean Francois Roberge	In personal capacity	Non-Executive	Independent	Non- shareholder
Ali Khamis Mubarik Al Alawi	In personal capacity	Non-Executive	Independent	Non- shareholder
Mustafa Ahmed Salman	In personal capacity	Non-Executive	Independent	Non- shareholder

The members of the Board have professional and practical experience in their respective corporate fields, ensuring proper direction and control of the Company's activities. Their professional and ethical profile complies with the 2nd principle of the Code of Corporate Governance for Public Listed Companies effective as from July 2015 and updated in December, 2016.

Directorship / membership in other public Companies (SAOG) in Oman held during the year:

Name	Position held	Name of the company
Sebastien Chauvin	None	-
Suhaib Abu Dayyeh	Director	Phoenix Power
Abdullah Al Hashmi	None	-
Erwan Rouxel	None	-
Nitin Bajaj	None	-
Jean Francois Roberge	None	-
Ali Khamis Mubarik Al Alawi	None	-
Mustafa Ahmed Salman	Director	Oman United Insurance SAOG

3. Functions of the Board

The Board in general complies with the functions stated in the Code of Corporate Governance. With respect to the selection of the Board members and other key executives, a selection process is applied within the Company, which is overseen as from July 2015 by the Nomination and Remuneration Committee.

In order to facilitate proper governance, the following information, among others, is provided to the Board:

- Estimated capital and operating budget and any updates;
- Quarterly results of the Company;
- Minutes of the board committees;
- Information on recruitment, resignation, removal and remuneration of key personnel;
- Material notices of penalties, fines and causes;
- Material default in financial obligations to or by the Company;
- Matters pertaining to possible public suits or product liability claims of substantial nature;
- Problems arising from industrial and commercial relations, including new wage agreement;
- Sale of investment and assets which are not in the normal course of the Company's business;
- Statement of compliance, or not thereof, with any regulatory requirement;
- Details pertaining to the possibility of the company's exposure to risks of fluctuations in foreign currency exchange rates, and steps taken to hedge such risks.

As regularly followed up by the Chairman of the Board, all Board Members are aware of the Code of Corporate Governance and its requirements.

As per the 7th principle of the Code of Corporate Governance, the Board shall draft an internal code for ethics and professional conduct, such as those set out in the Code of Corporate Governance annexure (2), to be adopted and implemented by the directors and executives. The Board shall adopt and disseminate the aforementioned code of conduct, and ensure that directors and executives have read it or have access to it. In 2020, the Board will draft, adopt and implement such code.

Board members' attendance record and position held during the financial year 2019:

			14-02-2019	07-03-2019	29-04-2019	21-07-2019	23-10-2019
Name of Directors	Position	Sitting fee (OMR)	Attendance	Attendance	Attendance	Attendance	Attendance
Sebastien Chauvin	Chairman	2,750	Present	Absent	Present	Present + Proxy	Present
Suhaib Abudayyeh	Vice Chairman	2,750	Present	Present	Present	Absent	Present
Erwan Rouxel	Member	3,500	Present	Present	Present	Absent	Present
Nitin Bajaj	Member	4,250	Present	Present	Present	Present + Proxy	Present
Jean Francois Roberge	Member	1,250	Present	Absent	Absent	Absent	Present
Abdullah Al Hashmi	Member	2,250	-	Present	Present	Present	Absent
Ali Khamis Mubarik Al Alawi	Member	2,750	Present	Present	Absent	Present	Present
Mustafa Ahmed Salman	Member	4,250	Present	Absent	Present + Proxy	Present + Proxy	Present
	TOTAL	23,750					

All of the above meetings were physically held, and some of the Directors attended via conference calls.

4. Nomination process of the Board members

In nomination of candidates, the Nomination and Remuneration Committee looks for professionalism, integrity and leadership skills in compliance with the 2nd principle of the Code of Corporate Governance. Proven track record, industry knowledge and strategic vision are the key characteristics. The Committee also follows the provisions of the Commercial Companies Law.

The opinion of the Nomination and Remuneration Committee shall be taken into consideration when electing directors to ensure that elected directors possess the following skills and abilities:

(a) Strategic insight; and ability to direct, encourage innovation and continuously drive the company to consolidate its vision.

(b) Required expertise in financial accounting and corporate finance.

(c) Understanding of management trends in general and the respective industry in particular.

(d) Ability to deal with crises, both short term and prolonged.

(e) Proper and relevant experience in the nature of the company's business.

(f) Commercial experience in global markets, if the company has international operations.

Eight Board members above mentioned have been elected by the Shareholders during the Annual General Meeting (AGM) dated 7th March 2019.

As per the Code of Corporate Governance, the General Meeting has the authority to remove one or all the Board members.

5. Remuneration of the Board members

The meeting sitting fees were paid as per the amount fixed by the Board of Directors and approved by the Shareholders. The aggregate board members' sitting fees for the year was OMR 23,750
(2018: OMR 15,500).

No other remuneration has been paid to the Board members as of 31st December 2019.

6. Board and sub-committees' performance evaluation

As per the 4th principle of the Code of Corporate Governance, the Chairman of the Board should appraise the performance of the Board impartially and independently by a third party appointed by the AGM in accordance with a benchmark and standards set by the Board.

The evaluation report was prepared by a third-party and presented to the shareholders during the AGM meeting held on 7th March 2019.

As per the 3rd principle of the Code of Corporate Governance, the Board should evaluate, at least one time during the board term, the performance of specialized sub-committees and key executive officers.

7. Company Secretary

As per the 5th principle of the Code of Corporate Governance, the Board shall, at the inception of each term, appoint an experienced and qualified Secretary who is able to assist the Board in complying with the provisions of the Code and the applicable laws and regulations in the Sultanate as well as directives issued by other regulators and competent authorities.

The current term of the Board members being elected as from 7th March 2019.

The Company Secretary has been appointed based on the following perquisites:

(a) To have knowledge background in accounting, audit and company secretariat;

(b) To have practical experience in business administration and executive management;

(c) To have no related parties' inhibitions stipulated in the Code of Corporate Governance.

8. Audit Committee

The Audit Committee (AC) is a sub-committee of the Board of Directors, comprising of the following board members:

1.	Jean Francois Roberge	AC Chairman
2.	Nitin Bajaj	AC Member
3.	Mustafa Ahmed Salman	AC Member

All the above members are experienced and have fundamental knowledge of accounts and finance. The Chairman of the Audit Committee is independent, and is not a member of any other board's sub-committees. The majority of the above members are independent.

The terms of reference of the Audit Committee are in accordance with the guidelines given in the 10th principle of the Code of Corporate Governance.

The Audit Committee has to assist the Board in the following tasks:

a. Validating and verifying the overall efficiency of the executive management in implementing the operational directives and guidelines set up by the Board;

b. Evaluating and monitoring the adequacy of internal control systems and their efficiency;

c. Creating policies for safeguarding the Company's human, material and intellectual resources and assets.

Among other competences stated in the Code of Corporate Governance principle, the Audit Committee enjoys the following competences:

a. Consideration and review of the internal audit system, and consequently submitting an annual written report outlining its opinion and recommendations;

b. Consideration of the internal audit reports and follow up remedial action with regard to the comments therein;

c. Providing recommendations to the Board vis-à-vis the appointment and removal of external auditors as well as specifying their fees;

d. Following up the work of the external auditors and approving any non-audit services which they are assigned during the audit process;

e. Consideration of the audit plan in conjunction with the external auditor and comment thereon;

f. Consideration and follow up of the comments of the external auditor on the financial statements;

g. Consideration of financial statements prior to their presentation to the Board, providing opinion and recommendations;

h. Consideration of the adopted accounting policy, providing opinion and recommendations thereon to the Board;

i. Determining the adequacy and sufficiency of the internal control systems, either through examining the regular reports of internal and external auditors or appointment of external consultants;

j. Overseeing the preparation of financial statements;

k. Serving as a communication channel between the Board, external auditors and the internal auditor;

l. Reviewing the details of all proposed RPTs, and providing appropriate recommendations to the Board;

m. Setting and reviewing the Company policies pertaining to risk management, taking into account the company's business, changes in market conditions and the company's investment and expansion tendencies and approach.

The Audit Committee held the following meetings during the period from 1st January 2019 to 31st December 2019:

			14-02-2019	29-04-2019	21-07-2019	23-10-2019
Name of Members	Position	Sitting fee (OMR)	Attendance	Attendance	Attendance	Attendance
Jean Francois Roberge	Chairman	900	Present	Absent	Absent	Present
Nitin Bajaj	Member	2,000	Present	Present	Present	Present
Mustafa Ahmed Salman	Member	2,900	Present	Present + Proxy	Present + Proxy	Present
	TOTAL	5,800				

The Audit Committee received sitting fees for their attendance for the period from 1st January 2019 to 31st December 2019, for an amount of OMR 5,800 (2018: OMR 4,400).

The AC meetings mainly focused on reviewing financial policies followed by the Company and financial statements to affirm conformity with IFRS, in addition to providing the Board with a clear picture of the Company's financial position and risk management.

9. Nomination and Remuneration Committee

The Nomination and Remuneration Committee is a sub-committee of the Board, comprising of the following board members:

1.	Ali Khamis Mubarik Al Alawi	Chairman
2.	Suhaib Abudayyeh	Member
3.	Erwan Rouxel	Member

All the above members are experienced and have fundamental knowledge of human resources and law. The Chairman of the Nomination and Remuneration Committee is independent and is not a member of any other board's sub-committees.

The terms of reference of the Nomination and Remuneration Committee are in accordance with the guidelines given in the 11th principle of the Code of Corporate Governance.

The Nomination and Remuneration Committee assists the Company in adopting a transparent method in the nomination policy targeting directors of high competence and caliber, without prejudice to the right of any of the Shareholders to stand for election or to nominate whoever they see fit. The Nomination and Remuneration Committee intends to maintain a proper remuneration and incentives policy to attract competent executives with proper wages and remuneration.

The Nomination and Remuneration Committee held the following meetings during the period from 1st January 2019 to 31st December 2019:

			6-03-2019	23-10-2019
Name of Members	**Position**	**Sitting fee (OMR)**	**Attendance**	**Attendance**
Ali Khamis Mubarak Al Alawi	Chairman	1,000	Present	Present
Suhaib Abudayyeh	Member	500	Absent	Present
Erwan Rouxel	Member	1,000	Present	Present
	TOTAL	**2,500**		

In 2018 the Board approved a formal succession plan for executive management as proposed by the Nomination and Remuneration Committee.

10. Brief Profile of the Directors

Sebastien Chauvin, Chairman

Sebastien is an Engineer by background, with over 15 years of experience in the utility sector, mostly in the MENA region. Previously, Sebastien was President & CEO of Amanor, a 100% Veolia large company affiliate experts in water network management acting on municipal and industrial businesses all over Morocco. Before that, Sebastien was General Manager of Bahwan Veolia , an operation & maintenance company dedicated to desalination plants in the Sultanate of Oman.

His portfolio of achievements in his career include management of utility companies, experience in operation & maintenance of desalinations plants, technical expertise in the water sector & business development.

Sebastien is born in France, where he completed an Engineering degree in Operations Management at the Institut National des Sciences Appliquées, INSA. He also has a Master's degree in Mechanical Engineering from the University of Auckland.

Suhaib Abudayyeh, Deputy Chairman

Dr. Suhaib Abudayyeh holds an MBA degree in Engineering from the University of Manchester. He joined SOGEX Oman as a Business Development Manager in 2009.

He took over the charge of SOGEX Oman in 2014 and has been leading it successfully throughout. During the same year, under his able leadership the company won two prestigious projects viz., Masirah Power and Desalination project Masirah; and Majis Desalination Project, Sohar. In 2015 he led the company into Oil and Gas fields and won Daleel Power Plant project.

To diversify the company's business, he explored a new business area for the company and entered into facility management sector and formed a winning joint venture. To his credit, Sogex alliance won Salalah Airport contract in 2015 followed by one of the most prestigious project of Muscat International Airport in 2018. He is a member of the Board of Directors of the JV companies.

Erwan Rouxel, Director

Erwan has 20+ years of experience in the field of the Utility sector. He has done Master's Degree from Ecole Supérieure de Commerce of Brittany – Brest (France).

He started his career with Electricity De France EDF in 1998 as Finance Controller of a nuclear plant. He joined Veolia French Water Division in 2000, from 2000 to 2003 he was Management Controller of the Franche Comté region business unit.

Earlier in his career, Erwan was Deputy Finance Director for VEOLIA WATER AMI (Holding of Veolia Water for Africa, Middle East, and India).

Erwan was Finance Director from 2007 to 2012 for AMENDIS SA (Veolia group subsidiary) 350,000 subscribers for water, electricity and wastewater treatment In the Moroccan cities Tangiers and Tetouan.

From August 2013 he was Chief Financial Officer and Secretary General for Société d'Energie et d'Eau du Gabon - SEEG (Veolia group) - 300 000 electricity subscribers and 170 000 water subscribers in the Gabonese Republic.

Erwan is the Country Manager of Veolia Oman since May 2018 and the Chief Executive officer for Veolia LLC.

Jean-Francois Roberge, Director

Jean-François is well known for his extensive international experience in UAE, South America, Oman, Algeria and Canada, Mr. Jean-Francois Roberge has been based in Abu Dhabi, UAE for the past 13 years.

From 2005 to 2014 and from June 2017, Mr. Roberge has been working for Mubadala Investment Company as Head Business Development utility investments.

From September 2014 to June 2017, he was Vice-President Business Development and Strategy at Farah Lesiure, a company based in Abu Dhabi that specializes in managing theme parks. Before this responsibility, Jean Francois was a Senior Manager of Mubadala Development Company having joined Mubadala in 2005.

Having previously worked with SNC Lavalin in Canada, Mr. Roberge has wide experience of large infrastructure project developments including working on 6 Independent Power Project developments. He was actively involved in the privatization of RPC and development of SMN Barka.

Jean Francois was a director on the board of Shariket Kahraba Hadjret En Nouss S.p.A. Power Companies (Algeria), SMN Barka (Oman) and RPC (Oman). He has also served on the boards of Torresol Energy (Spain - Solar CSP Developer) and Azaliya (Abu Dhabi – Water Concession Enterprise).

He graduated from the Polytechnic School, University of Montreal, Canada in Mechanical Engineering (1987), and he is also a member of the Chartered Order of Engineers of Quebec.

Nitin Bajaj, Director

Nitin Bajaj has around two decades of experience managing investments across asset classes.

He has managed investments for prominent families in the United Arab Emirates and is presently the Deputy General Manager (Investments) at Suhail Bahwan Group, Muscat.

He is a CFA Charterholder, a Chartered Accountant and holds an MBA designation.

Ali Khamis Mubarik Al Alawi, Director

Ali Khamis Mubarik Al Alawi's extensive experience in the legal field is well known in the Sultanate of Oman as it has been consolidated by the legal company that he founded and which he is now leading: Al Alawi & Co. His company is now considered as one of the leading lawyer companies in the Sultanate.

Ali Khamis holds a bachelor degree in Sharia and Law from Al Azhar University (Cairo, Egypt), he is a commercial arbitrator with a long experience in international arbitration besides his experience in the field of intellectual property.

Ali Khamis chaired many prestigious centers in the field of law and the last was the Commercial Arbitration Center of GCC.

Mustafa Ahmed Salman, Director

Mustafa Ahmed Salman is the chairman and CEO of United Securities LLC. A leading investment services company in the Sultanate of Oman. He founded the company in 1994 and it grew to hold the largest market share in the Sultanate as per official records.

Earlier in his career, Mustafa Salman served on the board of Oman Chamber of Commerce and Industry. He was a director of Muscat Securities Market and the vice chairman of Muscat Clearing and Depository Company. He also served as a board member of the Oman Olympic Committee and the Oman Handball Association and was a director of National Pharmaceutical Company.

Today, he is the honorary consul of the Australian Government to the Sultanate of Oman where he plays a valuable role in strengthening the ties between both countries and serves as the deputy chairman of the Banking, Finance and Insurance Committee of Oman Chamber of Commerce and Industry. He also serves as a director and audit committee member of publicly listed companies such as Oman United Insurance Company and is a director of Salman Stores LLC. Currently he is a committee member of Oman Kuwait Investment Company. Mustafa Salman has also expanded his expertise into the construction sector where he is the owner and founder of his construction company Mustafa Ahmed Salman Trading Enterprises (MASTE).

Mustafa Holds an Advanced Diploma in Accounting, and is a holder of the 'International Capital Markets Qualification' from the Securities Institute of London. He is also a registered broker with an advisory license from MSM.

Abdullah Al Hashmi, Director

Abdullah Al Hashmi has around 18 years of Rich experience in Finance.

Currently he is working as Director of the Fund for the Department of Civil Service Employees Pension province of South East Before that, Abdullah Al Hashmi was ASSISTANT MANAGER OF FINANCE DEPARTMENT and HEAD OF BUDGET AND PLANNING.

He is holding a Master in Business Administration from Hull University, UK.

11. Executive management

The executive management of the Company is nominated with proper contracts clearly defining the terms of reference, in compliance with the Nomination and Remuneration Committee future policies.

As per the 6th principle of the Code of Corporate Governance, the executive management executes the Company's general policies in accordance with its strategy and plans; and implements the bylaws, resolutions and procedures adopted by the Board. The Chief Executive Officer ('CEO'), under the supervision, direction and control of the Board manages the Company. As the CEO of a listed company, he does not hold the same position at any of the Company's subsidiaries.

The executive management achieves high standards of professional conduct and abides by professional ethics while performing their duties.

12. Related party transactions

All the related party transactions are carried out at arm's length basis in the normal course of business and are disclosed in the financial statements.

In compliance with the 9th principle of the 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.

13. Means of communication with the Shareholders and investors

The notice to the Shareholders for the AGM including the details of the related party transactions is filed with CMA and mailed to the Shareholders along with Directors' report and audited accounts.

The quarterly results of the Company as per CMA format are prepared by the management for every quarter, reviewed by external auditors, then reviewed by the Audit Committee and subsequently recommended to the Board which approve accordingly, uploaded on the website of Muscat Securities Market (MSM) and finally published in the newspapers as per the directives of CMA.

Important Board of Directors decisions are disclosed to the investors through MSM from time to time. The company maintains its official website, http://sharqiyahdesalination.com for its investors. The website is updated periodically.

The Board's Report and Management Discussion form part of the Annual Report.

14. Compliance with Rules and Regulations

The Company has been compliant with all the applicable rules and regulations issued by MSM, CMA and those stipulated in the Commercial Companies Law 1974 as amended - New Commercial Companies law by royal decree No. 18/2019.

The Company is in the process of drafting a framework for information outside the routine and regular framework of a meeting.

The Company also complies with the principles of the Code of Corporate Governance effective as from July 2015 and updated December, 2016.

No penalties have been imposed by CMA or MSM or any other statutory bodies on the Company.

15. Audit and internal control

In consultation with the Audit Committee, the Board recommends the appointment of external auditors to the AGM.

The present audit firm EY provides audit services to the Company. In accordance with the Corporate Governance Code, the services of EY are not used where a conflict of interest might occur. The Audit Committee initiates the review, on behalf of the Board, of the effectiveness of internal controls by meeting the internal auditor, the review of the internal audit reports and recommendations and meeting the external auditor, the review of audit findings and the management letter.

As a publicly traded company on the MSM, it is crucial that the Company maintains the highest levels of internal controls and corporate governance.

The Company is proud of the fact that it remains in full compliance with the Code of Corporate Governance. These will keep on being monitored, confirmed and verified by internal and external audits throughout the business cycle.

16. Third Party Evaluation of the Internal Audit Function:

As per the CMA regulations clouse (24) states that the Company shall conduct a comprehensive external evaluation of the Internal Audit Unit's activities at least once every four (4) years through a specialized third party, other than the Company's external auditor, who meets the requirements and criteria set out in these controls provided the first evaluation shall be carried out within a period not exceeding one year from the date in which these controls entered into force.

The third party evaluation report was prepared by a third-party and will be presented to the Audit Committee during the next Audit Committee meeting which will be held on 12th February 2020.

17. Market price data

a) Split of Shares

Following the approval of Extra General Meeting ("EGM) was held on 7th November 2018, the issued share capital of the Company be 9,780,216 OMR (nine million seven hundred eighty thousand two hundred sixteen Omani Rials) divided into 97,802,160 (ninety seven million eight hundred and two thousand one sixty) ordinary shares with a nominal value of 100 Baisa (one hundred Baisa) from a nominal value of 1.000 OMR per share.

b) The high and low share price of the Company since January 2018 was as follows:

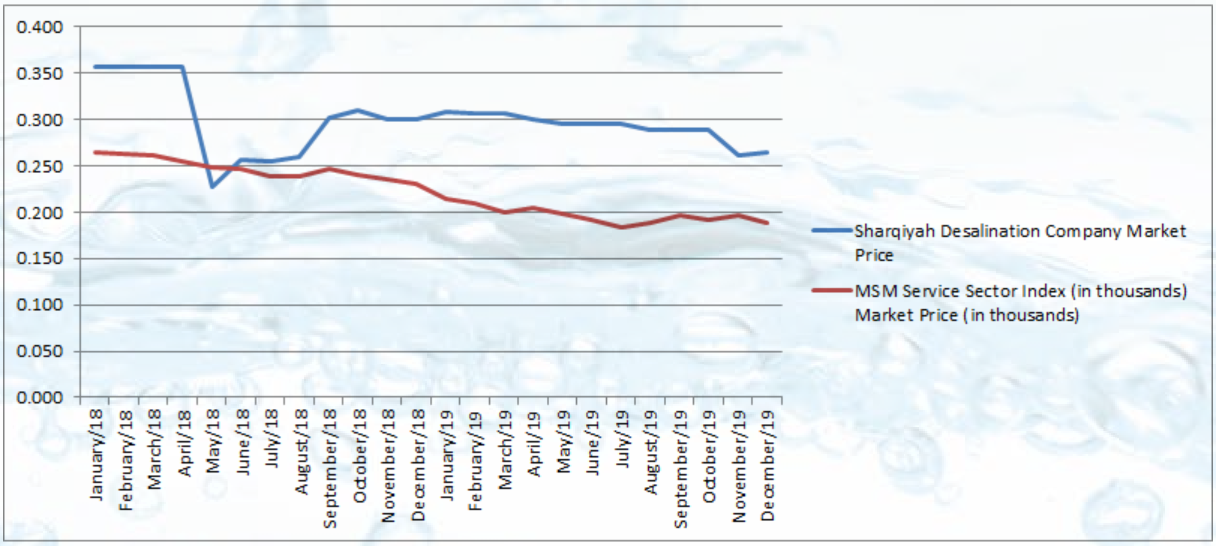
The closing share market price was OMR 0.265 per share as of 31st December 2019. The opening price on 1st January 2018 was OMR 0.396 (OMR 3.960 - Before the share split) per share.

The highest share price was of OMR 0.310 - (OMR 3.100 - Before the share split) (Oct 10, 2018) and the lowest share price was of OMR 0.227 - (OMR 2.275 - Before the share split) (10th May 2018).

c) The Company's performance compared to MSM Industry Sector Index

The index of MSM Service Sector includes a sample of the top 6 Service companies. The objective of this index is to reflect, objectively and fairly, the price movement of the listed shares in the market.

As per the table and chart below, we compare the Company's share price performance with the MSM Service Sector Index1 performance to allow our Shareholders to gauge how well the Company performed, in the context of the Omani service sector.



1 Source: the Muscat Securities Market website https://msm.gov.om/

18. Share Capital composition

The authorized share capital comprises 105,000,000 ordinary shares of OMR 0.100 each.

The issued and fully-paid share capital of the Company as of 31st December 2019 is OMR 9,780,216 as follows:

	2019		2018	
	No of shares	%	No of shares	%
Veolia Eau-Compagnie Générale des Eaux	10	-	10	-
Middle East Investment LLC	28,607,130	29.25%	28,607,130	29.25%
Veolia Middle East SAS	34,964,250	35.75%	34,964,250	35.75%
Pension Fund of the Civil Service's Employees	14,154,860	14.47	14,154,860	14.47
Public	20,075,910	20.53%	20,075,910	20.53%
TOTAL	**97,802,160**	**100.00%**	**97,802,160**	**100.00%**

19. Financial instruments and prospective impact on Shareholders' equity

The Company has not issued any financial instruments which would have an impact on earnings per share when exercised.

For more information on the financial instruments, please refer to the Note 15 the audited financial statement as at 31st December 2019.

20. Professional profile of the statutory auditor

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 7,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,889 partners and approximately 124,318 professionals. Globally, EY operates in more than 150 countries and employs 328,597 professionals in 700 offices. Please visit ey.com for more information about EY.

During the year 2019, EY billed an amount of RO 23,500 towards audit services rendered to the Company.

21. Details of non-compliance by the Company

No penalties have been imposed by CMA or MSM or any other statutory bodies on the company.

22. Acknowledgement by Board of Directors

The Board of Directors is responsible for ensuring that the financial statements are in accordance with the applicable standards and rules.

There are no material circumstances that affect the continuation of the Company and its ability to continue its production operations during the next financial year.

The Board of Directors, through the Audit Committee's consideration of the results of the internal audit and discussions with the external auditors, together with their examination of periodic management information and discussions with the management, have reviewed the operation of internal controls during the year ended 31st December 2019. The Board of Directors has concluded based on this that, internal controls are effectively being put in place.

Sebastien Chauvin
Chairman of the Board

Jean-Francois Roberge
Chairman of the Audit Committee

INDEPENDENT ENTITY REPORT ON PERFORMANCE OF BOARD OF DIRECTORS

Annexure 5

Sharqiyah Desalination Company SAOG

Independent Entity's Report on Evaluating the Performance of the Board of Directors and Individual Directors

31 December 2019

Overview

This report was drawn up by Nasser Al Habsi and Saif Al Mamari Law Firm in association with Addleshaw Goddard. The evaluation of the Board of Directors was conducted in accordance with the criteria and standards set out and approved at the Annual General Meeting (AGM) held in March 2019, namely:

- Professionalism and familiarity with governance systems;
- Standard practice of directorship;
- Integrity and independence of directorship;
- Integrity, transparency and avoidance of conflict of interests;
- Compliance with applicable rules and regulations.

Evaluation Mechanism

The Board of Directors was evaluated by sending a questionnaire to every director before drawing up a report on the findings and discussing the same with the Board of Directors during the meeting held on 12 February 2020.

Basis for Opinion

We have conducted our audit according to the criteria and standards set out at the last AGM. We confirm that, based on the ethics rules of the legal profession, we are independent of the Company and have assumed our responsibility as required to complete the job assigned to us. We believe that the information we have gathered based on our meeting and questions addressed to the Board of Directors are sufficient to provide a basis for our opinion.

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INDEPENDENT ENTITY REPORT ON PERFORMANCE OF BOARD OF DIRECTORS (CONTINUED)

Report Findings

Based on our discussion with the Board of Directors, the evaluation results, and information we have gathered, it appears to us that the Board of Directors of Sharqiyah Desalination Company SAOG meets the set criteria and is familiar with standard governance practices. The present Board of Directors fulfils the standards necessary for practising its functions with transparency and independence in accordance with the laws and regulations applicable in the Sultanate of Oman. Furthermore, we did not find in our evaluation anything that must be notified to the shareholders and found all directors to have met the aforementioned criteria.

Independent Entity's Recommendations

Whereas the Board of Directors meets the five key standards suggested at the last AGM, we recommend that the Board of Directors continue to carry out its functions based on such key standards and that the duties and obligations of the Board of Directors be continuously examined and reviewed pursuant to the Code of Corporate Governance for Publicly-listed Joint Stock Companies.

شركة مدنيه للمحاماة
رقم الترخيص: ٦٧ / ٢٠١٣
رقم السجل: ١٣٣٤٠٠٢
Licence No.: 67 / 2013
C.R. No.: 1334002
NASSER AL HABSI & SAIF AL MAMARI

Nasser Al Habsi and Saif Al Mamari Law Firm
in association with Addleshaw Goddard

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REPORT OF THE AUDITORS ON FINANCIAL STATEMENTS

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SHARQIYAH DESALINATION COMPANY SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sharqiyah Desalination Company SAOG (the "Company"), which comprise, the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International *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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SHARQIYAH DESALINATION COMPANY SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

1. Finance lease receivable and the related revenue	
As at 31 December 2019, the Company has significant balance of financial lease receivable representing 94.1% of total assets and the finance income representing 44% of the total revenue. The determination of expected credit loss (ECL) involves significant estimates and judgements. Given the finance lease receivable and finance income being the material component of total assets and total revenue, respectively, and inherent judgmental nature of determining ECL, we have considered this as a key audit matter. Details regarding the finance lease receivable are set out in notes 11 to the financial statements. The related accounting policy and estimates are set out in notes 4.1.4 and 3 (d) respectively to the financial statements.	As part of our audit procedures we have performed the following: • Obtained an understanding of the overall process relating to the finance lease receivable and the related amortisation schedule prepared by the Company. • Reviewed the finance lease amortisation schedule for mathematical accuracy and tested the underlying inputs used in the calculation of the finance lease amortisation schedule. • Ensured that the finance income is recognised based on the finance lease receivable balance using appropriate internal rate of return. • Assessed appropriateness of the Company's policy for estimating impairment provision on financial lease and assessed whether the calculation was in accordance with IFRS 9. We also assessed the appropriateness of the relevant accounting policies and the related disclosures, set out in note 4.1.4 and note 11, respectively to the financial statements are in accordance with IFRS.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SHARQIYAH DESALINATION COMPANY SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matters	*How our audit addressed the key audit matters*
2. Valuation of derivative financial instruments The Company has entered into interest rate swap agreements with international banks to hedge interest rate risks. Hedge accounting and the valuation of hedging instruments which is determined through the application of valuation techniques, often involve the exercise of management judgement and the use of assumptions and estimates. Due to the significance of derivative financial instruments and the related estimation uncertainty, this is considered a key audit matter. The Company's accounting policies on derivative financial instruments are disclosed in Note 4.1.2 to the financial statements.	Our audit procedures in this area included the following: • Assessed the overall process related to derivative instruments and hedge accounting including internal management policies and procedures; • Evaluated the appropriateness of management's hedge documentation and contracts; • Obtained confirmation of year end derivative financial instruments from counterparties to verify the existence: • Involved our valuation specialists to perform an independent valuation and compared the result with the management's valuation; These contracts are recorded at fair value and qualify for hedge accounting. These contracts give rise to derivative financial assets as disclosed in note 15 in the financial statements in accordance with IFRS.

Other information included in the Company's 2019 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Company's 2019 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2019 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

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

REPORT OF THE AUDITORS ON FINANCIAL STATEMENTS (CONTINUED)

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SHARQIYAH DESALINATION COMPANY SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Other information included in the Company's 2019 Annual Report (continued)
In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 on the other information obtained prior to the date of the auditor's report, 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
Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance 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, those charged with governance are 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 those charged with governance either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

REPORT OF THE AUDITORS ON FINANCIAL STATEMENTS
(CONTINUED)

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SHARQIYAH DESALINATION COMPANY SAOG (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

- 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 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 those charged with governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law and CMA of the Sultanate of Oman.

Ernst & Young LLC

B. Hindy

Bassam Moustafa Hindy
Muscat
12 February 2020

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س ت: ١٣٢٤٠١٣
ص ب: ١٧٥٠ روي ١١٢، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

الشرقية لتحلية المياه
Sharqiyah Desalination

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019 RO	2018 RO
ASSETS			
Property, plant and equipment	9	511,345	139,338
Finance lease receivable	11	65,273,446	68,012,107
Capital work-in-progress		-	436,614
Right-of-use assets	10	29,163	-
Total non-current assets		65,813,954	68,588,059
Trade and other receivables	12	1,394,104	1,536,736
Amount due from related parties	21	49,214	63,625
Finance lease receivable	11	2,738,661	3,040,064
Cash and bank balances	13	2,257,933	2,758,547
Total current assets		6,439,912	7,398,972
TOTAL ASSETS		72,253,866	75,987,031
EQUITY AND LIABILITIES			
Equity			
Share capital	14	9,780,216	9,780,216
Legal reserve	14	2,287,031	2,097,863
Retained earnings		6,634,547	6,888,083
Cumulative changes in fair values	15	(4,449,266)	(2,475,239)
Total equity		14,252,528	16,290,923
Liabilities			
Fair value of derivative financial instruments	15,22	4,850,358	2,629,263
Long term loan (non-current portion)	16	45,715,428	48,918,784
Deferred tax liability	19	2,018,430	2,095,158
Deferred revenue (non-current)		303,270	311,414
Employees' end of service benefit		74,198	52,595
Lease liabilities (non-current)	18	17,307	-
Total non-current liabilities		52,978,991	54,007,214
Fair value of derivative financial instruments	15,22	384,071	282,783
Trade and other payables	17	515,964	442,194
Long term loan (current portion)	16	3,306,261	3,807,016
Amount due to related parties	21	791,909	1,045,872
Withholding tax payable		-	103,576
Lease liabilities (current)	18	15,999	-
Deferred revenue (current)		8,143	7,453
Total current liabilities		5,022,347	5,688,894
Total liabilities		58,001,338	59,696,108
TOTAL EQUITY AND LIABILITIES		72,253,866	75,987,031
Net asset value per share		0.146	0.167

The financial statements were approved and authorised for issue by the Board of Directors on 12 February 2020 and signed on their behalf by:

Chairman

Chief Financial Officer

The attached notes 1 to 25 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RO	2018 RO
Revenue	5	**13,871,896**	14,705,095
Cost of sales	6	**(8,152,051)**	(9,385,993)
GROSS PROFIT		**5,719,845**	5,319,102
Administrative and general expenses	7	**(757,561)**	(623,624)
Finance expenses	8 (a)	**(3,158,582)**	(3,353,383)
Withholding tax	8 (b)	**359,602**	(194,229)
PROFIT BEFORE TAX		**2,163,304**	1,147,866
Taxation	19	**(271,629)**	(201,922)
PROFIT FOR THE YEAR		**1,891,675**	945,944
OTHER COMPREHENSIVE INCOME / (EXPENSE), NET OF TAX Items that may be reclassified to profit or loss in subsequent periods:			
Fair value adjustment on derivatives	15	**(2,322,384)**	1,781,337
Deferred tax on fair value adjustment	19	**348,357**	(267,201)
OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR, NET OF TAX		**(1,974,027)**	1,514,136
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR		**(82,352)**	2,460,080
BASIC AND DILUTED EARNINGS PER SHARE	24	**0.019**	0.010

The attached notes 1 to 25 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital	Legal reserve	Retained earnings	Cumulative changes in fair values	Total
	RO	RO	RO	RO	RO
1 January 2019	**9,780,216**	**2,097,863**	**6,888,083**	**(2,475,239)**	**16,290,923**
Profit for the period	**-**	**-**	**1,891,675**	**-**	**1,891,675**
Other comprehensive income	**-**	**-**	**-**	**(1,974,027)**	**(1,974,027)**
Total comprehensive income	**-**	**-**	**1,891,675**	**(1,974,027)**	**(82,352)**
Transfer to legal reserve	**-**	**189,168**	**(189,168)**	**-**	**-**
Dividend paid	**-**	**-**	**(1,956,043)**	**-**	**(1,956,043)**
31 December 2019	**9,780,216**	**2,287,031**	**6,634,547**	**(4,449,266)**	**14,252,528**

	Share capital	Legal reserve	Retained earnings	Cumulative changes in fair values	Total
	RO	RO	RO	RO	RO
1 January 2018	9,780,216	2,003,269	6,036,733	(3,989,375)	13,830,843
Profit for the year	-	-	945,944	-	945,944
Other comprehensive income	-	-	-	1,514,136	1,514,136
Total comprehensive income	-	-	945,944	1,514,136	2,460,080
Transfer to legal reserve	-	94,594	(94,594)	-	-
31 December 2018 (audited)	9,780,216	2,097,863	6,888,083	(2,475,239)	16,290,923

The attached notes 1 to 25 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RO	2018 RO
OPERATING ACTIVITIES			
Profit before income tax		2,163,304	1,147,866
Adjustments for:			
Depreciation of fixed assets	9	98,756	41,272
Depreciation of right of use assets	10	14,481	-
Finance cost	8	3,158,582	3,547,612
Interest income on finance lease	5	(6,107,368)	(6,466,514)
Operating profit before working capital changes		(672,245)	(1,729,764)
Working capital changes:			
Finance lease instalment received	11	9,147,432	10,770,365
Trade and other receivables		142,632	175,635
Trade and other payables		41,541	(1,182,634)
Accruals		32,229	(3,829)
Due from related parties		14,411	603,290
Due to related parties		(253,963)	(954)
Deferred revenue		(7,454)	318,867
Cash from operations		8,444,583	8,950,976
Finance costs paid		(3,018,881)	(3,211,103)
Withholding tax paid		(116,223)	(172,800)
Net cash from operating activities		5,309,479	5,567,073
INVESTING ACTIVITY			
Plant expansion and equipment addition		(34,149)	(478,776)
Net cash used in investing activity		(34,149)	(478,776)
FINANCING ACTIVITIES			
Repayment of loan	16	(3,807,016)	(4,160,111)
Dividend paid		(1,956,043)	-
Lease payments	18	(12,885)	-
Net cash used in financing activities		(5,775,944)	(4,160,111)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(500,614)	928,186
Cash and cash equivalents at 1 January	13	2,758,547	1,830,361
Cash and cash equivalents at 31 December	13	2,257,933	2,758,547

The attached notes 1 to 25 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Sharqiyah Desalination Company SAOG ("the Company") was registered and incorporated as a closed joint stock company in the Sultanate of Oman on 14 January 2007. The Company was established to acquire, operate and maintain an existing water desalination plant of 2.66 million imperial gallons per day ("MIGD") capacity at Sur and to build, operate and maintain a new 17.66 MIGD capacity water desalination plant at Sur in the Sharqiyah region, Sultanate of Oman.

During 2009, Veolia Eau Compagnie Generale des Eaux (the "Parent Company") has transferred ownership of its water and waste water activities and interests in the Middle East and North Africa to a company incorporated in France, Azaliya SAS. During 2013, Azaliya SAS has changed its name from Azaliya SAS to Veolia Water Middle East SAS. During 2015, Veolia Water Middle East SAS was renamed Veolia Middle East SAS.

On June 2013, the shareholders offered 35% of the Company's shares to the public through an initial public offering ("IPO") on Muscat Security Market. Subsequent to the IPO, the Company became a listed public joint stock company ('SAOG').

The Company's registered address is PO Box 685, Postal Code 114, Jibroo, Muscat, Sultanate of Oman. The Company's principal place of business is located at Sur, Sultanate of Oman.

2 SIGNIFICANT AGREEMENTS

The Company has entered into the following significant agreements:

(i) Water Purchase Agreement ("WPA") dated 17 January 2007

The WPA is between the Company and the Ministry of Housing, Electricity and Water (MHEW) (now the Public Authority for Electricity and Water - PAEW – see (iii) below). The WPA commences from its effective date, which is 17 January 2007.

The key elements of the WPA are as follows:

- The Company will make available and sell to PAEW a guaranteed water capacity;
- The Company's consideration for the above supply consists of a water capacity charge and water output charge which are fixed under Schedule (B) of the WPA;
- The plant capacity is determined by an annual performance test to be conducted by the Company under the supervision of PAEW;
- Invoices will be raised by the Company on a monthly basis which are due for payment within 25 days;
- The Company shall pay to PAEW liquidated damages of RO 15,000 for each day by which the provisional commercial operation date occurs after the scheduled commercial operation date;
- PAEW have confirmed the Commercial Operation Date (COD) as being 8 October 2009 and the term of the contract shall expire on 7 October 2029.

(ii) Novation Agreement dated 25 December 2014

A novation agreement was signed and executed between the Company, PAEW and Oman Power and Water Procurement Company ("OPWP") on 25 December 2014. As per the novation agreement the parties have consented to, and acknowledged that, with effect from 25 December 2014, PAEW transferred its rights, title and interest and novated all of its duties, obligations, liabilities and responsibilities under the WPA to OPWP. Going forward, the Company will continue to have one customer, OPWP.

2 SIGNIFICANT AGREEMENTS (continued)

(iii) Amended & Restated Water Purchase Agreement dated 10 July 2014

The Amended & Restated WPA is between the Company and OPWP. The amended agreement will facilitate plant expansion. Post plant expansion the combined capacity of the plant should increase from 17.66 MIGD to 29 MIGD. The term of the amended & restated WPA will be extended by 20 years starting from COD of the new plant. All Terms and conditions of WPA dated 17 January 2007 still will be applicable

(iv) Engineering, Procurement and Construction (EPC) contract dated 17 May 2007

The above agreement was entered into with the consortium of OTV SA, Bahwan Engineering Company LLC and OTV SA & Partners LLC (related parties) for constructing the water desalination plant at Sur in the Sharqiyah region of the Sultanate of Oman for a total value of RO 58.45 million. The Construction work was completed during 2009.

(v) Limited Notice to Proceed (LNTP) letter dated 10 July 2014

The LNTP was entered into with OTV SA & Partners LLC and Societe Internationale Dessalement ("SIDEM") (related parties). for procurement of long lead items, advance engineering, surveys and civil engineering works for the proposed EPC Contract in respect of the Sur Independent Water Expansion Project. The total price of LNTP will be RO 1.29 million.

(vi) EPC contract dated 23 March 2015

The above agreement was entered into with OTV SA & Partner LLC, a related party and SIDEM, a related party for a total value of RO 28.75 million to facilitate expansion of the Company's desalination facilities at Sur in the Sharqiyah region of the Sultanate of Oman.

(vii) Usufruct agreement dated 17 January 2007

The above agreement was entered into with the Ministry of Housing of the Government of the Sultanate of Oman for a grant of usufruct rights in respect of use of the land on which the plant is situated for 25 years, with the option of an extension for a further period of 25 years.

(viii) Amendment to the usufruct agreement dated 25 December 2014

Certain provisions of the Original Site Usufruct Agreement to permit expansion were amended. The initial term of 25 years now stands extended to 31 years from the WPA effective date.

(ix) Operation and Maintenance (O&M) contract dated 15 May 2007

The O&M contract, which runs for 22 years from 17 January 2007, was entered into by the Company with Bahwan Veolia Water LLC ("BVW"), a related party, a company registered in the Sultanate of Oman, for operation and maintenance of the existing and new plant. Under the O&M contract:

- BVW shall be responsible for maintaining the existing and new plant;
- BVW shall, on behalf of the Company, carry out the Company's obligations with respect to the annual performance test in accordance with the requirements of the WPA;
- BVW's consideration for the services under the O&M Contract is fixed under Appendix (F) of the O&M contract;
- Invoices will be raised by BVW on a monthly basis within 10 days of each month; and
- BVW has commenced operation of the New Plant from the COD – 8 October 2009 and the O&M contract shall expire on 7 October 2029.

2 SIGNIFICANT AGREEMENTS (continued)

(x) Amendment agreement to original Operation and Maintenance (O&M) contract dated 22 March 2015

The amendment agreement was entered into by the Company with BVW, a related party, a company registered in the Sultanate of Oman, to record the parties' obligations with respect to the expansion of the existing plant in accordance with the Amended and Restated WPA.

(xi) Loan agreement dated 15 May 2007

The above agreement was entered into with various banks and financial institutions through four mandated lead arrangers: the Royal Bank of Scotland PLC; Societe Generale; Natixis; and Bank Muscat SAOG, for the purpose of financing the project (see note 15).

(xii) Loan agreement dated 26 March 2015

An amended & restated agreement was entered into with various banks and financial institutions through four mandated lead arrangers: KFW, Natixis, Sumitomo Mitsui Banking Corporation ("SMBC") and The Bank of Tokyo – Mitsubishi UFJ Ltd, for the purpose of refinancing the existing debt and financing the expansion activities. Consequently, the previous loan agreement is no longer in force (see note 16).

(xiii) Short term loan agreement dated 11 June 2017

The Company entered into an agreement dated 11 June 2017 with Veolia Middle East, a related party to obtain short term loan facilities of RO 0.80 million (US$ 2.08 million). The loan was repayable in full by 30 November 2018. The loan facilities bear interest at GBP LIBOR 3M plus applicable annual margin of 0.6%.

In order to facilitate payment on behalf of the EPC Contractor, Veolia Middle East SAS (VME) agreed to waive its loan, which is to be used as a partial payment of the invoices issued by SDC to the EPC Contractor in respect of outstanding Liquidated Damages.

3 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) and the requirements of the Commercial Companies Law of the Sultanate of Oman, as amended and the Capital Market Authority.

The new Commercial Companies Law promulgated by the Royal Decree No. 18/2019 (the Commercial Companies Law of the Sultanate of Oman) was issued on 13 February 2019 which has replaced the Commercial Companies Law of 1974. As per the articles of the Royal Decree No. 18/2019, the new Commercial Companies Law became effective on 17 April 2019 and the companies should comply with the new law within 1 year from 17 April 2019.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis modified to include the measurement at fair value of derivative financial instruments.

(c) Functional currency

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

(d) Use of estimates and judgements

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected. In particular, estimates that involve uncertainties and judgements which have a significant effect on the financial statements include:

(i) Classification of financial assets and financial liabilities
(ii) assessment of impairment of assets;
(iii) determination of effective interest rate implicit in finance lease;
(iv) fair value of derivative financial instruments;
(v) deferred tax asset or liability;
(vi) recoverability of liquidated damages and lost revenue;
(vii) finance income; and
(viii) financial asset receivable (finance lease receivable).
(ix) IFRS 16 "Leases"

3.1 Change in the accounting policies

New and amended standards and interpretations to IFRS

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Company applies, for the first time, IFRS 16 Leases that requires restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

3.1 Change in the accounting policies (continued)

New and amended standards and interpretations to IFRS (continued)

(A) IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. Accordingly, the comparatives are not restated.

Nature of effect of adoption of IFRS 16:
Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The Company recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. For the leases previously classified as operating leases, the lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Practical expedients:
The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Impact on transition
The transition of IFRS 16 impacted to the financial statements on 1 January 2019 as follow.

Particulars	RO
Right of use assets	43,644
Lease liabilities	43,644
Impact on equity	-

In addition to IFRS 16 for the year ended 31 December 2019, the Company has adopted all of the following new and revised standards and interpretations issued by the Inter/national Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2019.

- IFRIC interpretation 23 Uncertainty over Tax Treatment
- IFRS 9 (amendments) Financial Instruments

The adoption of these standards and interpretations has not resulted in any major changes to the Company's accounting policies.

3.1 Change in the accounting policies (continued)

New and amended standards and interpretations to IFRS (continued)

Standards issued but not yet effective

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of the Company but are not yet effective for the year ended 31 December 2019:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material

Phase 1 Interest Rate Benchmark Reform (IBOR) Amendments to IFRS 9, IAS 39 and IFRS 7 were published by the IASB in September 2019, which includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. The Bank is assessing the impact of Phase 1 IBOR amendments which are effective for annual periods beginning on or after 1 January 2020.

The new Commercial Companies Law promulgated by the Royal Decree No. 18/2019 (the Commercial Companies Law of the Sultanate of Oman) was issued on 13 February 2019 which has replaced the Commercial Companies Law of 1974. As per the articles of the Royal Decree No. 18/2019, the new Commercial Companies Law became effective on 17 April 2019 and the companies should comply with the new law within 1 year from 17 April 2019.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below has been applied consistently to all periods presented in these financial statements.

4.1 Financial Instruments

Initial measurement of financial instruments
All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. On this date, financial assets are classified at amortized cost or fair value.

Subsequent measurement of financial assets
IFRS 9 divides all financial assets into two classifications - those measured at amortized cost and those measured at fair value. Where the Company measures financial assets at fair value, gains and losses are either recognized entirely in profit or loss (fair value through profit or loss, "FVTPL"), or recognized in other comprehensive income (fair value through other comprehensive income, "FVTOCI").

Subsequent measurement of financial liabilities
The Company categorizes its financial liabilities into two measurement categories: FVTPL and amortized cost. The Company's financial liabilities include accounts payable, due to related parties, fair value of derivatives and term loans.

Except for fair value of derivatives which is measured at fair value, all other financial liabilities of the Company are measured at amortised cost.

a) Classification of financial assets
To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The classification and measurement categories are :

(1) Financial assets carried at amortised cost;

(2) Financial assets carried at fair value through other comprehensive income (FVOCI); and

(3) Financial assets carried at fair value through profit or loss (FVTPL)

1) Financial assets at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

(a) The asset is held within a "business model" whose objective is to hold assets to collect contractual cash flows;

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPI) on the principal amount outstanding.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial Instruments (continued)

1) Financial assets at amortised cost (continued)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(b) SPPI test
As a second step of its classification process the Company assesses the contractual terms of financial asset to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

(2) Financial assets at fair value through other comprehensive income (FVOCI):

(i) Debt instruments at FVOCI
The Company applies the category of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Financing income and foreign exchange gains and losses and impairment losses are recognised in statement of comprehensive income. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from equity to profit or loss.

This category only includes debt instruments, which the Company intends to hold for the foreseeable future and which the Company has irrevocably elected to so classify upon initial recognition or transition. The Company classified its debt instruments at FVOCI. Debt instruments at FVOCI are not subject to an impairment assessment under IFRS 9.

ii) Equity instruments at FVOCI
Upon initial recognition, the Company may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

The Company have no equity instruments at FVOCI.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial Instruments (continued)

a) Classification of financial assets (continued)
b) SPPI test (continued)

(3) Financial assets at fair value through profit or loss (FVTPL)
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. The Company does not have financial assets at fair value through profit or loss.

b) Impairment of financial assets
The Company uses incurred loss approach with a forward-looking expected credit loss (ECL) for accounting for impairment losses. The Company to record an allowance for ECLs for all debt financial assets not held at FVTPL. The Company has applied the standard's general approach and has calculated ECLs based on lifetime expected credit losses for trade and other receivables and finance lease receivable.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full.

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial Instruments (continued)

4.1.1 Non - derivative financial instruments

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs.

4.1.2 Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure arising from financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value.

4.1.3 Cash flow hedge

Changes in the fair value of an effective cash flow hedge instrument which qualifies for hedge accounting are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the statement of comprehensive income.

4.1.4 Finance leases

The Company has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Company recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the full retrospective method of adoption, the Group applied IFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts.

4.1.5 Cash and cash equivalents

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

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial Instruments (continued)

4.1.6 Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognised where:

the rights to receive cash flows from the asset have expired; or

the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and

Either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

There is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.1.7 Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised earlier.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Foreign currency transactions and balances

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income.

4.3 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Capital work in progress is recorded at cost less impairment, if any.

Costs include expenditures that are directly attributable to the acquisition of the asset and any other costs that are directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of an item if it is probable that future economic benefits embodied within the part will flow to the Company and the cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the statement of comprehensive income as incurred.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years
Building	7
Plant and equipment	7
Office equipment	7
Furniture and fixtures	3
Computer and accessories	7

Management reassess the useful lives, residual values and depreciation methods for property, plant and equipment annually.

4.4 Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. The fair value of unquoted derivatives is determined by reference to broker/dealer price.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Fair values (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable quotations.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4.5 Employees' end of service benefits

Contributions to a defined contribution retirement plan for Omani employees, made in accordance with the Oman Social Insurance Law, are recognised as an expense in the statement of profit or loss and other as incurred.

The Company's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods.

4.6 Trade and other payable

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

4.7 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, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

4.8 Revenue from Contracts with Customers

Revenue stemming from WPA comprises of the following:

- Capacity charge covering the investment charge and the fixed operating and maintenance charge; and
- Water charge covering the fuel charge and variable operating and maintenance charge.

The WPA in Company is a finance lease arrangement and lease interest income recognised in the statement of comprehensive income is part of the minimum lease payment. Capacity charge covering the investment charge received under the WPA, are finance lease payments. Amounts received in relation to water charges (covering the fuel charge and variable operating and maintenance charge) are contingent rental receipts. Capacity charge covering fixed O&M charge is linked to making available the capacity to OPWP and is revenue for the Company.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Revenue from Contracts with Customers (continued)

Revenue from sale of water and making capacity available to OPWP is recognised 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 the right to bill the customer on an hourly basis. The contract with the Customer has two deliverables which are considered as separate performance obligations namely production/ supply of water and making available the designated capacity.

Where the contracts include multiple performance obligations, the transaction price is allocated based on stand-alone selling price of each performance obligation. Stand-alone selling price for each performance obligation of the Company is identified in the contract with customer separately.

A receivable is recognised when the water output is produced/ delivered or the capacity is made available over time and accordingly assessed that the consideration is unconditional because only the passage of time is required before the payment is due.

As the contract with the Customer includes provision of water and making available capacity based on a pre-determined rate, revenue is recognised for the amount to which the Company has a right to invoice for performance obligation satisfied in terms of WPA. Customer is invoiced on a monthly basis and consideration is payable when invoiced. 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 year and the sales are made with agreed credit terms which is in line with the industry practice.

4.9 Finance charges

Finance charges comprise interest payable on term loan, hedging charges and similar expenses. Finance charges are recognised in the statement of comprehensive income in the period in which they are incurred. Finance income is recognised in the statement of comprehensive income as it accrues. For finance income in respect of finance lease receivable refer note 4.4 above.

4.10 Income tax

Taxation is provided for in accordance with Omani fiscal regulations.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Directors' remuneration

The Directors' remuneration is governed as set out by the Commercial Companies Law of the Sultanate of Oman and the rules prescribed by the Capital Market Authority.

The annual general meeting shall approve the remuneration and the sitting fees for the Board of Directors provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders. Such fees shall not exceed RO 200,000 in one year. The sitting fees for each Director shall not exceed RO 10,000 in one year.

4.12 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer. The chief executive officer, 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.

4.13 Dividend

The Board of Directors takes into account appropriate parameters including the requirements of the Capital Market Authority while recommending the dividend. Dividends on ordinary shares are recognised when they are approved for payment in a general meeting prior to the reporting date.

4.14 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, which comprises convertible notes.

5 REVENUE

	2019	2018
	RO	RO
Revenue from contract with customer		
Water output operation and maintenance charges	**1,112,390**	1,058,749
Electricity charges	**3,276,524**	2,951,247
Desalination licence fee and connection fee – recoverable from OPWP	**18,404**	27,866
Disputed revenues related to OPWP	**-**	867,664
Deferred revenue – custom duty	**7,454**	12,564
	4,414,772	4,918,090
Revenue from lease contracts		
Interest income on finance lease	**6,107,368**	6,466,514
Investment charge revenue	**3,349,756**	3,320,491
	9,457,124	9,787,005
	13,871,896	14,705,095

6 COST OF SALES

	2019	2018
	RO	RO
Operation and maintenance fixed charges	**3,602,638**	4,685,036
Operation and maintenance variable charges	**1,112,390**	1,058,749
Operation and maintenance electricity charges	**229,512**	290,657
Electricity charges	**3,047,012**	2,660,590
Plant related operating costs	**75,510**	47,829
Depreciation	**59,997**	2,096
Desalination licence fee and connection fee	**24,992**	39,860
Adjustments to revenues related to EPC	**-**	601,176
	8,152,051	9,385,993

7 ADMINISTRATIVE AND GENERAL EXPENSES

	2019	2018
	RO	RO
Employee related costs (see below)	**407,752**	360,583
Legal and professional expenses	**105,858**	78,402
Directors' sitting fee	**60,100**	19,300
Insurance	**51,128**	54,947
Depreciation – fixed assets	**38,759**	39,176
Travelling expenses	**28,291**	22,265
Depreciation – right-of-use asset (note 10)	**14,481**	-
Others	**51,192**	48,951
	757,561	623,624

Employee related expenses are as follows:

	2019	2018
	RO	RO
Salaries, wages and other benefits	**380,461**	324,380
Increase in obligation for defined benefit plan	**21,602**	30,612
Contributions to Omani Social Insurance Scheme	**5,689**	5,591
	407,752	360,583

8 (a) FINANCE EXPENSES – NET

	2019	2018
	RO	RO
Finance cost		
Interest on long term loans	**2,314,983**	2,279,070
Hedging charges	**691,393**	944,613
Amortisation of deferred finance cost	**102,905**	112,449
Performance bond commission and guarantee	**37,379**	25,813
Agency fee and role fee	**31,246**	28,393
Interest on leases	**2,547**	-
Others	**2,516**	3,494
Total finance cost	**3,182,969**	3,393,832
Finance income		
Interest on short term loan	**-**	10,163
Interest revenue	**24,387**	30,286
Total finance income	**24,387**	40,449
Finance expenses- Net	**3,158,582**	3,353,383

	2019	2018
8 (b) Withholding tax on interest – gross up	**(359,602)**	194,229

During the current year, finance expenses include a reversal of provision for withholding tax for RO 359,602 as OPWP accepted the Company's claim for reimbursement of withholding tax (change of law). Provisions were passed in the financial year 2018 for RO 194,229 and in the financial year 2017 for RO 165,373.

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Office equipment	Furniture and fixtures	Computer and accessories	Total
	RO	RO	RO	RO	RO	RO
Cost						
1 January 2019	98,610	13,975	77,931	61,896	85,064	337,476
Addition	5,675	463,203	1,400	-	485	470,763
31 December 2019	**104,285**	**477,178**	**79,331**	**61,896**	**85,549**	**808,239**
Depreciation						
1 January 2019	57,574	5,422	35,986	53,589	45,567	198,138
Charge for the year	14,940	59,997	9,340	4,216	10,263	98,756
31 December 2019	**72,514**	**65,419**	**45,326**	**57,805**	**55,830**	**296,894**
Net book value						
31 December 2019	**31,771**	**411,759**	**34,005**	**4,091**	**29,719**	**511,345**

	Buildings	Plant and equipment	Office equipment	Furniture and fixtures	Computer and accessories	Total
	RO	RO	RO	RO	RO	RO
Cost						
1 January 2018	98,610	13,975	76,016	53,447	53,266	295,314
Addition	-	-	1,915	8,449	31,798	42,162
31 December 2018	**98,610**	**13,975**	**77,931**	**61,896**	**85,064**	**337,476**
Depreciation						
1 January 2018	42,783	3,326	25,228	49,933	35,596	156,866
Charge for the year	14,791	2,096	10,758	3,656	9,971	41,272
31 December 2018	**57,574**	**5,422**	**35,986**	**53,589**	**45,567**	**198,138**
Net book value						
31 December 2018	**41,036**	**8,553**	**41,945**	**8,307**	**39,497**	**139,338**

(i) Depreciation charges are included within cost of sales (note 6) and administrative and general expenses (note 7).

(ii) Land on which the plant has been constructed has been leased from Ministry of Housing of the Government of the Sultanate of Oman to the company for a period of 31 years expiring on 2038 under the term of the Usufruct agreement, which can be extended for additional 25 years. Lease rent is paid at the rate of RO 1,000 per annum (note 20)

(iii) The commercial mortgages on all the assets and project insurances of the Company, together with any other assets, are subject to the security constituted by any of the Security Documents (as defined in amended and restated facilities agreement) (note 16).

10 RIGHT OF USE ASSETS

	Vehicles	Total
	RO	RO
Cost		
1 January 2019 (as previously stated)	-	-
Adjustments for IFRS 16	72,404	72,404
At 1 January 2019 (adjusted)	72,404	72,404
Addition	-	-
31 December 2019	**72,404**	**72,404**
Depreciation		
1 January 2019 (as previously stated)	-	-
Adjustments for IFRS 16	28,760	28,760
At 1 January 2019 (as previously stated)	28,760	28,760
Charge for the year	14,481	14,481
31 December 2019	**43,241**	**43,241**
Net book value		
31 December 2019	**29,163**	**29,163**
31 December 2018	-	-

11 FINANCE LEASE RECEIVABLE

	2019	2018
	RO	RO
At 1 January	**71,052,171**	75,356,022
Less: instalment received net-off finance income	**(3,040,064)**	(4,303,851)
	68,012,107	71,052,171

The Company received COD confirmation for the new plant from OPWP and accordingly RO 34,105,087 was transferred from plant expansion WIP to finance lease receivable on 7 February 2017 and the related amortisation is performed based on the revised amortisation schedule.

The Company has entered in to the Amended and Restated Water Purchase Agreement ("AWPA") with OPWP. As per the terms of the agreement, the water generation is dependent on the Company's plant and OPWP, being the sole procurer of water generation in Oman, obtains entire amount of the water generated by the Company's plant. Accordingly, management has concluded that the agreement satisfies the requirements of IFRS 16 "Leases". Further, management has assessed the lease classification as per the requirements of IFRS 16 "Leases" and has concluded that the arrangement is a finance lease, as the term of agreement is for the major part of the remaining economic life of the Company's plant. Accordingly, a finance lease receivable has been recognised in the financial statements.

The commercial mortgages on all the assets and project insurances of the Company, together with any other assets are subject to the security constituted by any of the Security Documents (as defined in amended and restated facilities agreement) (note 16).

11 FINANCE LEASE RECEIVABLE (continued)

	2019	2018
	RO	RO
Non-current	**65,273,446**	68,012,107
Current	**2,738,661**	3,040,064
	68,012,107	71,052,171

The following table shows the maturity analysis of finance lease receivables:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	RO	RO	RO	RO	RO
31 December 2019					
Gross finance lease receivables	**8,616,291**	**8,616,291**	**25,848,874**	**75,666,972**	**118,748,428**
Less: unearned finance income	**(5,877,630)**	**(5,616,814)**	**(15,167,224)**	**(24,074,653)**	**(50,736,321)**
	2,738,661	**2,999,477**	**10,681,650**	**51,592,319**	**68,012,107**

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
		RO	RO	RO	RO
31 December 2018					
Gross finance lease receivables	9,147,432	8,616,291	25,848,874	84,283,263	127,895,860
Less: unearned finance income	(6,107,368)	(5,877,631)	(16,026,558)	(28,832,132)	(56,843,689)
	3,040,064	2,738,660	9,822,316	55,451,131	71,052,171

The Company assesses on a forward-looking basis the expected credit losses associated with its finance lease receivable, carried at amortized cost. The impairment provisions for financial lease receivable was assessed based on the "Expected Credit Loss" model, using assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the past history, existing market conditions as well as forward looking estimates at the end of each reporting period. The impairment impact was determined to be insignificant.

Note 22.i includes disclosure relating to the credit risk exposure

12 TRADE AND OTHER RECEIVABLES

	2019	2018
	RO	RO
Receivable from OPWP (note a)	**1,330,023**	1,481,844
Prepayments	**57,693**	54,445
Advance to suppliers	**5,941**	-
Other receivables (note b)	**447**	358,563
Less: provision	**-**	(358,116)
	1,394,104	1,536,736

Other receivables as at 31 December 2018 include RO 358,116 as reimbursement of withholding tax paid by the Company on behalf of lenders of the Company. A provision of RO 358,116 as at 31 December 2018 was recognised against this balance.

In 2019, OPWP accepted Company's claim for reimbursement of withholding tax accordingly invoices are submitted to OPWP and related provision is reversed.

Note 22.i includes disclosure relating to the credit risk exposure and analysis relating to the allowance for expected credit losses.

13 CASH AND CASH EQUIVALENTS

	2019	2018
	RO	RO
Cash in hand	**1,464**	1,175
Bank balances	**2,256,469**	2,757,372
	2,257,933	2,758,547

Cash at bank are also subject to the impairment requirements of IFRS 9, and were assessed as such and the identified impairment loss was immaterial.

14 SHARE CAPITAL AND RESERVES

Share capital

Authorised share capital comprises 105,000,000 ordinary shares of RO 0.100 each (2018: 105,000,000 ordinary shares of RO 0.100 each).

Stock Split

On 6 November 2018, an Extraordinary General Meeting was held to divide the nominal value of each share of the Company from RO 1 to 100 Baiza (therefore dividing one share into ten shares).

Issued and fully paid share capital of the Company is RO 9,780,216 (2018: RO 9,780,216) as follows:

		2019		2018
	No of shares	%	No of shares	%
Veolia Eau-Compagnie Generale des Eaux	**10**	**-**	10	-
Middle East Investment Company	**28,607,130**	**29.25%**	28,607,130	29.25%
Veolia Middle East SAS	**34,964,250**	**35.75%**	34,964,250	35.75%
Civil Services Employees' Pension Fund	**14,154,860**	**14.47%**	14,154,860	14.47%
General public	**20,075,910**	**20.53%**	20,075,910	20.53%
	97,802,160	**100%**	97,802,160	100%

(a) Transfer of shares

On 10 May 2018, National Power and Water Co LLC transferred its holding (2,860,713 shares) to Middle East Investment Company as part of their internal restructuring of businesses.

(b) Legal reserve

As required by the Commercial Companies Law of the Sultanate of Oman, 10% of annual profit of the Company is required to be transferred to legal reserve until the reserve equal to one third of the Company's issued share capital. The reserve is not available for distribution.

(c) Dividend distribution

In an Annual General Meeting held on 7 March 2019 the shareholders' approved distribution of a cash dividend at rate of 20% of the share capital (RO 1,956,043)

(d) Proposed dividend

The Board of Directors at the meeting held on 12 February 2020 has proposed to distribute cash dividend for an amount of RO 1,638,186 for the year 2019 (16.75% of the share capital of the company). A resolution to this effect will be presented to the shareholders at the Annual General Meeting scheduled to be held on 3rd March 2020.

15 DERIVATIVE FINANCIAL INSTRUMENTS

The long-term loan facilities of the Company bear interest at US LIBOR plus applicable margins. In accordance with the facilities agreement, the Company has fixed the rate of interest with four hedge providers through an International Swap Dealers Association Inc. Master Agreement ('ISDA'- Hedge Agreement) at: (i) during the period prior to the first anniversary of the Scheduled Commercial Operation Date, for no less than 75 percent of the utilised amounts under the Term Facilities as at the last day of each Interest Period; and (ii) at all times on and after the first anniversary of the Scheduled Commercial Operation Date until the end date, for no less than 90 percent of the utilised amounts under the Term Facilities of the amended and restated agreement. The corresponding maximum-hedged notional amount is approximately:

i. RO 19.97 million (USD 51.94 million) at a fixed interest rate of 5.55% per annum, and
ii. In the range of 2.645% to 2.675% for the top-up swaps amounting to RO 24.17 million (USD 62.86 million).

At 31 December 2019, 6 month US LIBOR was approximately 1.91213 % (31 December 2018: 2.87563%), whereas the Company has fixed interest on its borrowings as described above. Based on the interest rates gap, over the life of the ISDA, the indicative losses were assessed at approximately RO 5.23 million (31 December 2018: RO 2.91 million) by the counter parties to the ISDA. In case the Company terminates the ISDA at 31 December 2019, it may incur losses to the extent of approximately RO 5.23 million (USD 13.60 million). However, under the term of facilities agreements, the Company is not permitted to terminate the ISDA agreements.

In order to comply with International Financial Reporting Standard 39 "Financial Instruments: Recognition and Measurement" this hedge is being tested for its effectiveness and, consequently, effective and ineffective portions are being recognised in profit or loss and other comprehensive income, respectively. The fair value of the hedge instruments' indicative losses at 31 December 2019 in the amount of approximately RO 4.45 million (31 December 2018: RO 2.48 million), net of deferred tax asset, has been recorded within equity and the gross deficit in the amount of RO 5.23 million (31 December 2018: RO 2.91 million) is recorded under liabilities.

15 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below shows the negative fair value of the derivative financial instrument relating to secured term loan agreements, which is equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31 December 2019	Notional amounts by term to maturity				
	Negative fair value of derivatives	Notional amount	1 - 12 Months	More than 1 up to 5 years	Over 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000
Interest rate swaps	**5,234**	**44,213**	**3,244**	**22,348**	**18,621**

31 December 2018	Notional amounts by term to maturity				
	Negative fair value of derivatives	Notional amount	1 - 12 Months	More than 1 up to 5 years	Over 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000
Interest rate swaps	2,912	47,556	4,618	19,925	23,013

All of these interest rate swaps are designated as effective cash flow hedges and the fair value thereof has been recognised in other comprehensive income within equity.

16 Long term loan

	2019	2018
	RO	RO
Term loan (syndicated)	**50,383,572**	54,190,588
Less: deferred finance cost	**(1,361,883)**	(1,464,788)
31 December	**49,021,689**	52,725,800
Current	**3,306,261**	3,807,016
Non-current	**45,715,428**	48,918,784
	49,021,689	52,725,800

16 LONG TERM LOAN (continued)

Loan agreement dated 26 March 2015

An amended and restated agreement was entered into on 26 March 2015 with various banks and financial institutions through four mandated lead arrangers: KFW, Natixis, Sumitomo Mitsui Banking Corporation ("SMBC") and The Bank of Tokyo – Mitsubishi UFJ Ltd, to obtain term and contingency loan facilities up to RO 64.2 million (US$ 166.71 million), for the purpose of refinancing the existing debt and financing the expansion activities. Consequently, the previous loan agreement is no longer in force. The loan facilities bear interest at 6 month US LIBOR plus applicable margin of 1.75% for term facility and 1.85% for contingency facility.

The credit facilities are secured by comprehensive legal and commercial mortgages on all the assets and project insurances of the Company, together with any other assets which are subject to the security constituted by any of the Security Documents (as defined in amended and restated facilities agreement). As per the amended and restated facilities agreement, the loan repayment commenced from 31 December 2016.

17 TRADE AND OTHER PAYABLES

	2019	2018
	RO	RO
Trade payables	**221,335**	179,794
Accruals	**294,629**	262,400
	515,964	442,194

Related parties balances are set out in note 21.

18 LEASE LIABILITIES

	2019
	RO
Lease liability recognised in the current year as follows;	
At 1 January	**43,644**
Accrual of interest	**2,547**
Payments during the year	**(12,885)**
At 31 December	**33,306**
Current lease liabilities	**15,999**
Non-current lease liabilities	**17,307**
	33,306

19 INCOME TAX

The taxation charges for the year comprise:

	2019	2018
	RO	RO
Deferred taxation:		
Current year	**(271,629)**	(201,922)
	(271,629)	(201,922)

The total income tax for the current year tax can be reconciled to the accounting profits as follows;

	2019	2018
	RO	RO
Accounting profit before tax for the year	**2,163,304**	1,147,866
Tax at the rate of 15%	**324,496**	172,180
Add tax effect of:		
Reversal of withholding tax	**(53,940)**	29,134
Expenses not allowed in tax	**1,073**	608
Tax expense for the year	**271,629**	201,922

The tax rate applicable to the Company is 15% (2018: 15%). For the purpose of determining the taxable results for the period, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

19 INCOME TAX (continued)

The adjustments to accounting profit for the period has resulted in a taxable loss. Therefore, the applicable tax rate is nil (2018: nil). The average effective tax rate cannot be determined in view of the taxable loss (2018: nil).

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 15% (2018: 15%). Deferred tax (assets) and liabilities and deferred tax charge / (credit) in the statement of comprehensive income are attributable to the following items:

	1 January 2019	**Recognised in income**	**Recognised in equity**	**31 December 2019**
	RO	RO	RO	RO
Financial lease receivable	**2,647,720**	**395,739**	**-**	**3,043,459**
Carry forward taxable losses	**(115,756)**	**(124,110)**	**-**	**(239,866)**
Fair value of derivative financial instruments	**(436,806)**	**-**	**(348,357)**	**(785,163)**
Net deferred tax liability	**2,095,158**	**271,629**	**(348,357)**	**2,018,430**

	1 January 2018	Recognised in income	Recognised in equity	31 December 2018
	RO	RO	RO	RO
Financial lease receivable	2,330,042	317,678	-	2,647,720
Carry forward taxable losses	-	(115,756)	-	(115,756)
Fair value of derivative financial instruments	(704,007)	-	267,201	(436,806)
Net deferred tax liability	1,626,035	201,922	267,201	2,095,158

20 Commitments and contingencies

Usufruct right fees

	2019	2018
	RO	RO
Usufruct right fee	**19,000**	20,000

Usufruct right fees relates to the agreement entered into with the Ministry of Housing of the Government of the Sultanate of Oman for a grant of usufruct rights in respect of use of the land on which the plant is situated for 31 years, with the option of an extension for a further period of 25 years, currently treated as operating lease.

21 RELATED PARTY TRANSACTIONS AND BALANCES

The Company has related party relationship with its affiliates, its senior management and entities over which the Board and shareholders are able to exercise significant influence. In the ordinary course of business, such related parties provide goods and render services to the Company at agreed terms and conditions. Balances and transactions with related parties are as follows:

Amounts due from related parties	Nature of relationship	2019	2018
		RO	RO
Bahwan Veolia Water LLC	Other related party	**29,370**	37,154
Veolia LLC	Other related party	**16,344**	22,811
Seureca Muscat LLC	Other related party	**3,500**	3,660
		49,214	63,625

Amounts due from related parties	Nature of relationship	2019	2018
		RO	RO
Veolia LLC	Other related party	**2,636**	47,821
Bahwan Veolia Water LLC	Other related party	**779,221**	994,952
Enova Facilities Management Services LLC	Other related party	**2,011**	-
		791,909	1,045,872

Transactions with related parties during the year are as under:

	2019	2018
	RO	RO
Bahwan Veolia Water LLC		
Operation & Maintenance services incurred	**4,944,540**	6,034,442
Other services incurred	**48,298**	16,437
Payments made to them	**(5,208,569)**	(6,080,079)
Services rendered	**(254,246)**	(308,463)
Cash received from them	**262,030**	289,120
Veolia Arabia Company Ltd		
Payments made to them	-	(1,662)
National Power & Water Co. LLC		
Services incurred	-	26,213
Payments made to them	-	(28,896)
Services rendered	-	(1,500)
Cash received from them	-	1,500
SIDEM		
Amount written off as uncollectible	-	(601,176)
Amount set off against amount due to VME	-	(801,008)
Reversal of accruals related to Pre Cod Water	-	(35,260)
OTV SA & Partners LLC		
Services rendered	-	(4,000)
Cash received from them	-	4,000
Veolia LLC		
Services incurred	**238,825**	147,381
Payments made to them	**(284,010)**	(114,790)
Services rendered	**(141,728)**	(125,952)
Cash received from them	**148,195**	105,899

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

21 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Transactions with related parties during the year are as under (continued):

	2019	2018
	RO	RO
Veolia EAU – Oman Branch		
Services rendered	-	(36,348)
Cash received from them	-	39,298
Seureca Muscat LLC		
Services rendered	(14,265)	(15,526)
Cash received from them	14,425	18,826
Middle East Investment LLC		
Services incurred	18,140	-
Payments made to them	(18,140)	-
Veolia Eau Compagnie Generale Des Eaux		
Services incurred	28,692	-
Payments made to them	(23,750)	-
Enova Facilities Management Services LLC		
Services incurred	8,914	-
Payments made to them	(6,903)	-
Veolia Middle East SAS		
Short term loan waived through compromise agreement to partially offset against balance from SIDEM	-	(801,008)

	2019	2018
Particulars	RO	RO
Board of Directors sitting fees	27,000	12,000
Audit committee sitting fees	5,600	3,200
Remuneration committee sitting fees	2,500	1,600
Extraordinary meeting sitting fees	-	2,500
Directors remuneration – accrual	25,000	-
Key management remuneration	217,718	192,532

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

Risk management activities are based on the management rules detailed in an internal manual "Rules governing financing / treasury management and related risks". These rules are based on the principles of security, transparency and effectiveness.

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk

Credit risk results from the potential inability of customers to respect their payment obligations. The Company has only one domestic customer and debtor, OPWP, which is a government owned entity. The Company limits its credit risk with regard to bank balances by only dealing with reputed banks. Maximum credit exposure is considered to be equal to the nominal value of unimpaired financial assets at the reporting date, not yet due, as under:

	2019	2018
Particulars	RO	RO
Finance lesae receivable	**68,012,107**	71,052,171
Trade and other receivables	**1,394,104**	1,536,736
Amount due from related parties	**49,214**	63,625
Cash and bank balances	**2,257,933**	2,758,547
	71,713,358	75,411,079

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. A liquidity report is prepared monthly and reviewed by the Executive Management. Sufficient bank facilities are in place to meet the Company's liquidity needs for the foreseeable future, the Company's bankers will continue to meet their obligations and provide facilities (see note 15) and OPWP will meet its obligations under the WPA to purchase water from the Company at prices determined therein.

The management's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following table presents undiscounted contractual flows of financial liabilities.

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22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(ii) Liquidity risk (continued)

The following table presents undiscounted contractual flows of financial liabilities, comprising principal payments and interest flows:

31 December 2019	Carrying amount	Contractual cash flows	Up to 1 year	1 year and above
	RO	RO	RO	RO
Non-derivative financial liabilities				
Term loan (note 16)	**50,383,572**	**(64,365,000)**	**(5,188,879)**	**(59,176,121)**
Trade and other payables (note 17)	**515,964**	**(515,964)**	**(515,964)**	**-**
Amounts due to related parties (note 21)	**791,909**	**(791,909)**	**(791,909)**	**-**
	51,691,445	**(65,672,873)**	**(6,496,752)**	**(59,176,121)**
Derivative-financial instrument				
Cash flow hedging deficit (refer note 15)	**5,234,429**	**5,234,429**	**384,071**	**4,850,358**
31 December 2018				
Non-derivative financial liabilities				
Term loan (note 16)	54,190,588	(72,946,842)	(6,248,820)	(66,698,022)
Trade and other payables (note 17)	442,194	(442,194)	(442,194)	-
Amounts due to related parties (note 21)	1,045,872	(1,045,872)	(1,045,872)	-
	55,678,654	(74,434,908)	(7,736,886)	(66,698,022)
Derivative-financial instrument				
Cash flow hedging deficit (refer note 15)	2,912,046	2,912,046	282,783	2,629,263

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate and equity price 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 on risk.

Interest rate risk

The Management has managed its exposure to interest rate risk on the term loan by entering into an interest rate swap (note 15).

Currency risk

The Company is exposed to foreign currency risk mainly on borrowings that is denominated in a currency other than Rial Omani. The currency giving rise to this risk is primarily US Dollar which is effectively pegged to the Rial Omani and, therefore, Management believes that the Company is not significantly exposed to foreign currency risk.

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Equity price risk

The Company does not have investments in securities and is not exposed to market price risk.

(iv) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Financial instruments comprise financial asset, financial liabilities and derivatives. The carrying amount of the financial assets and liabilities reflected in the financial statements approximate their fair values."

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.

As at 31 December 2019, the Company held interest rate swap derivatives instruments measured at fair value. The fair values of the interest rate swaps arrangements are worked out using level 2 valuation technique and related details are included in note 15.

The fair values of other financial assets and liabilities carried at amortised cost approximate their carrying value and would qualify for level 2 classification in these financial statements.

(v) Capital management

The capital of the Company comprises paid-up capital, retained earnings and hedging deficit. The primary objective of the Company’s capital management is to ensure that it maintains a healthy capital ratio in order to support future development of the business and maximise shareholder value. Capital requirements are prescribed by the Commercial Companies Law of the Sultanate of Oman, the Capital Market Authority and the loan agreement dated 26 March 2015 (refer note 16).

23 NET ASSETS VALUE PER SHARE

The calculation of net asset value per share is based on net assets and the number of ordinary shares at the end of the year as follows:

	2019	2018
Net assets (RO)	**14,252,528**	16,290,923
Number of outstanding shares at the end of the year (Nos.)	**97,802,160**	97,802,160
Net asset value per share (RO)	**0.146**	0.167

24 BASIC EARNINGS PER SHARE

The calculation of basic earnings / (loss) per share is based on profit / (loss) attributable to ordinary shareholders and the weighted average ordinary number of shares outstanding as follows:

	2019	2018
Profit / (loss) for the period (RO)	**1,891,675**	945,944
Weighted average number of shares (nos.)	**97,802,160**	97,802,160
Basic earnings / (loss) per share (RO)	**0.019**	0.010

25 COMPARATIVES

The comparative figures for the previous year have been reclassified, where necessary, in order to conform to the current year's presentation and the impact is insignificant.