الشرقية لتحلية المياه
Sharqiyah Desalination

**By means of water,
we give life to everything**

Al-Anbiya - Al Aya "30"

Annual Report 2020

الشرقية لتحلية المياه
Sharqiyah Desalination

Annual Report 2020

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

Zahir Al Mahrooqi
- Member of the Board

Nasr Chouhaid
- Member of the Board

THE EXECUTIVE MANAGEMENT

PHILLIPPE PAULISSEN
- Chief Executive Officer (CEO)

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

الشرقية لتحلية المياه
Sharqiyah Desalination

Board of Directors Report and condensed Audited Financial Statements for the year ended 31st December2020

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 2020

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 36,614,033 m3 compared to 36,562,763 m3 in the previous year (i.e. an increase of almost 0.14%).

The average scheduled plant availability for the year reached 97.4%. 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 26, 2020, the Plant successfully completed the Annual Performance Test for the contractual year 12 (CY12). The total production during the 24 hours of the test was 131,504 m3 (99.75% of the Guaranteed Water Capacity).

Business Continuity

As the COVID-19 threat unfolded in 2020, it has created a challenge for the Company to overcome. While the global crisis caused a status of emergency, the Company continued to find solutions to this new unforeseen obstacle and ensured the safety of its employees as well as the smooth operation of the Plant, and subsequently, the continuous supply of desalinated water to the region as it always has.

Financial information

Revenue has decreased by 3.0% as compared to the previous year (RO 412K). This is mainly due to the decrease in annual contractual water capacity charge rate as per the contract signed back in July 2014.

The cost of sales has decreased marginally by 0.14% as compared to the previous year (RO 12K).

The administrative and general expenses have increased by 9% as compared to the previous year (RO 68K). This is mainly due to the inclusion of provision for expected credit loss (ECL) on outstanding financial asset receivable from client and year end bank balances as per IFRS 9 reporting standard.

Finance expenses have decreased by 7.9% as compared to the previous year (RO 250K). This is mainly due to the impact of the decrease in outstanding loans payable to lenders.

Current year profit before tax has decreased by (RO 578K), due to the above reasons, and as the previous year was positively impacted by a one off event which was the successful award following the Company's claim for Material Adverse Change Claim due to changes in the withholding tax - (RO 360K).

Profit before tax has decreased by 26.7%, as compared to the previous year (RO 578K).

Current year profit before tax represents 11.8% of the revenue.

Current year profit after tax represents 10% of the revenue.

Based on the financial results, the board proposes to the AGM to consider and approve a distribution of cash dividends of 13.77% 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 Public Services 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, we would like to extend our deep appreciation and gratitude to His Majesty Sultan Haitham bin Tareq bin Taimour for his wise leadership; we pray to Almighty to shower him with blessings, keep him in good health and give him a long life.

Thank you and kind regards,

Sebastien Chauvin
Chairman

OPERATIONAL HIGHLIGHTS

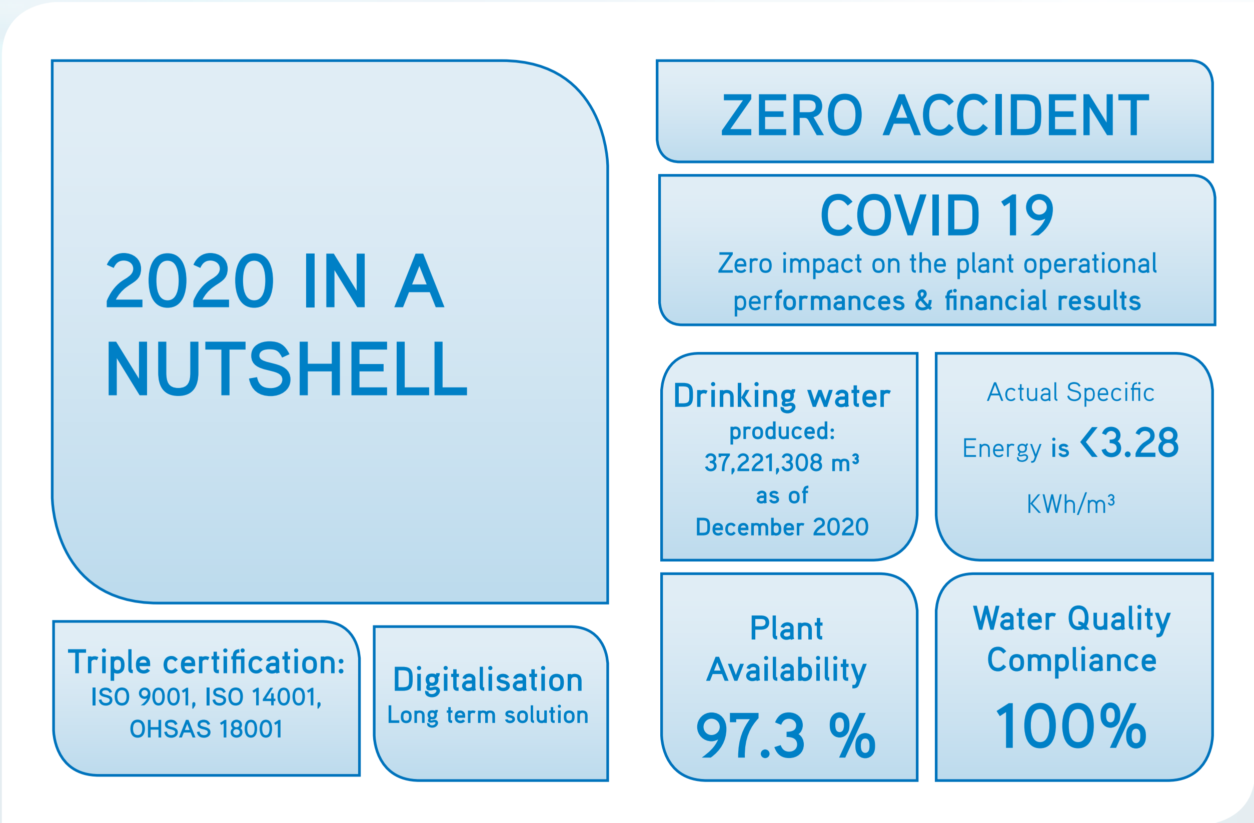

Figure 1 - Highlights of 2020

Continuous water supply

Total delivery of 36.6M³ of potable water was delivered during the year and the demand growth was observed to be 0.14% of 2019. The average load on the plant during the year was 76% and the variation between low and high delivery periods went up to 25%. Membrane performances are closely monitored and replacements were carried out as per renewal programs.

Operations team in a collaboration with Veolia Water Technologies has sought a digital solution to reduce the total cost of ownership of membranes and to better plan cleaning and replacement interventions. This paved the way for an innovative solution “Smart Membranes”, a module of Hubgrade Performance, and has been in operation since July 2020 on Sur Desalination plant. The smart membrane module relies on advanced analytics and machine learning algorithms to predict the evolution of strategic operational parameters and enable proactive and evidence-based decision making for the Sur operating team to unlock the full value of the available data.

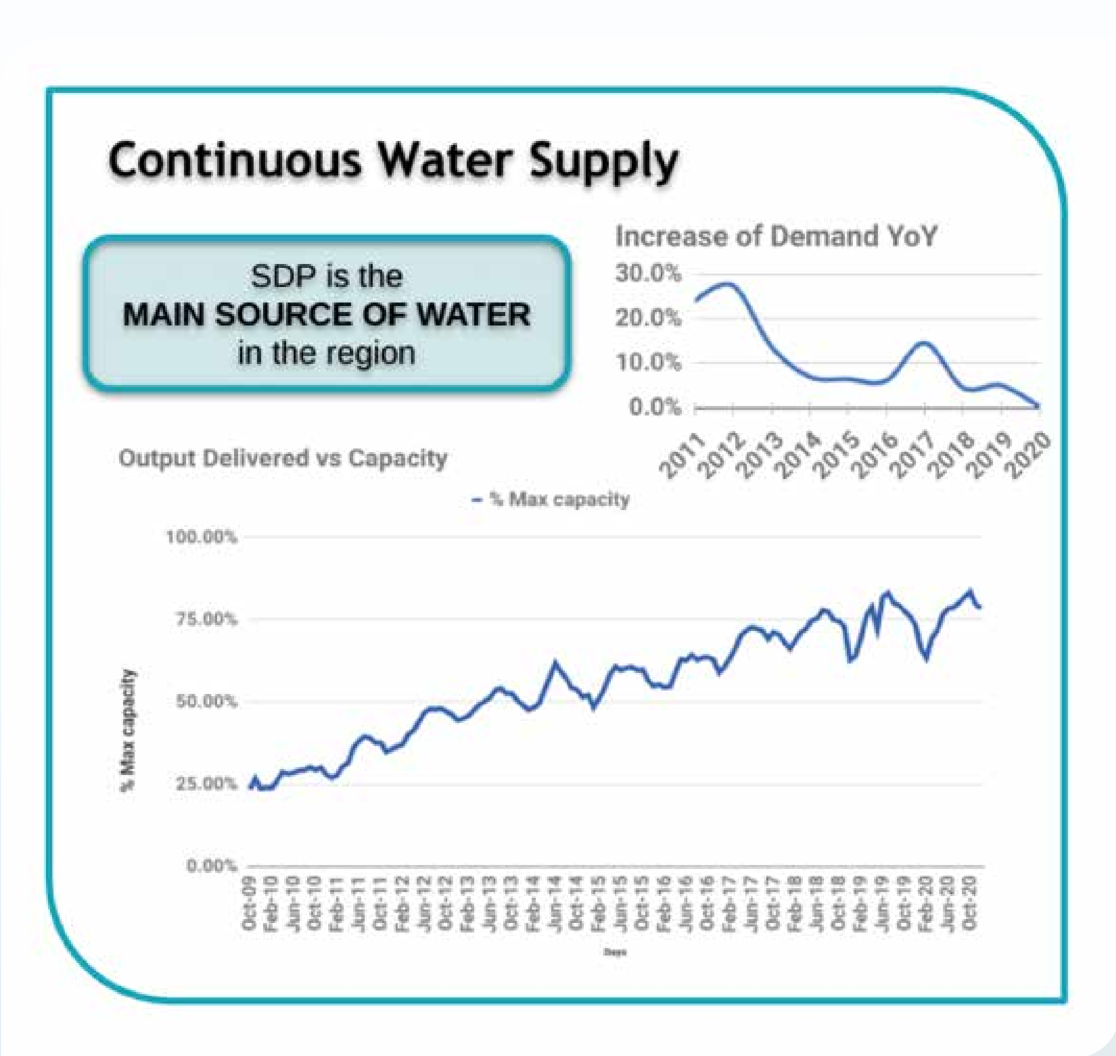

Figure 2 - Water Delivery & Plant load factor of SUR Desalination Plant from October 2009 to December 2020

Occupational Health and Safety

Occupational Health and Safety is a core value of SDC & BVW. Our highest duty is to ensure the health and safety of all. We continually challenge ourselves by setting objectives and targets to improve our performance and maintain the work site as a safe place to work and visit.

In 2020, the Severity Rate (12 months 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.

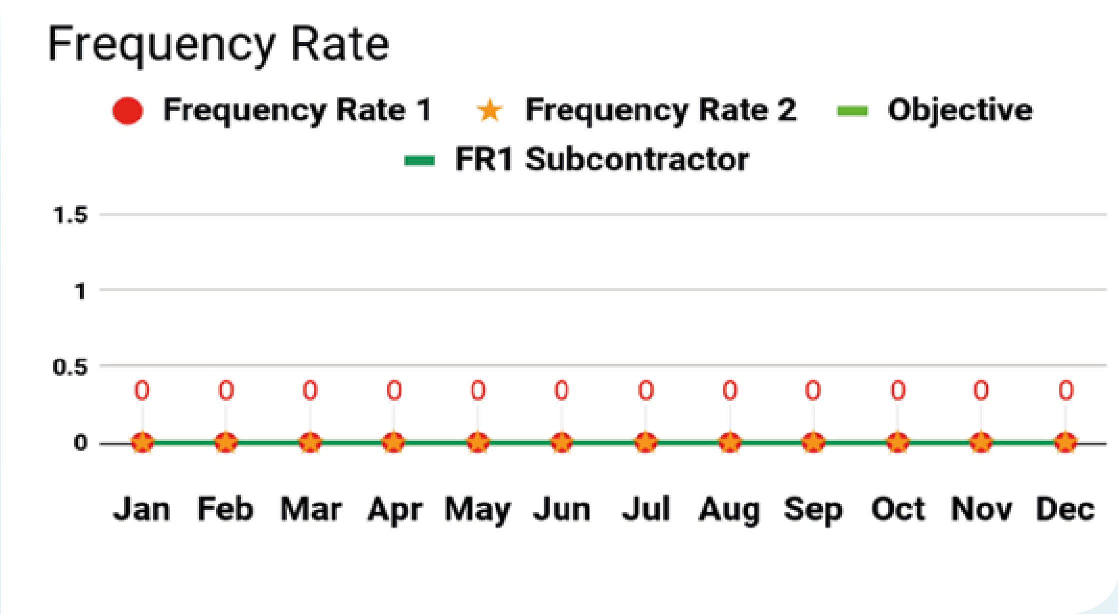

Figure 3:
Frequency Rate 1
[NB of accident (with days off) *1.000.000)/ Total working hours]
Frequency Rate 2
[(NB of accident (with and without days off) *1.000.000)/ Total working hours

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 13 to September 17, 2020.

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, to review and clarify the safety rules currently in effect, to improve the dissemination of best practices, and give the employees opportunities to progress even more.

High standards commitment to 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. Asset Risk Assessments & Condition assessments are carried out at regular intervals to plan maintenance programs and budget preparations.

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 with no single non-conformity for the full year 2020.

In addition, more than 17,000 water parameters have been successfully analysed in 2020 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.

Implementation of Smart RO, a Data-driven decision tool to meet the challenges faced by plant operators and managers such as finding the economical optimum to predict the fouling behaviour of the membranes using Artificial Intelligence (AI) technology. The tool is useful to proactively plan the maintenance schedule for membrane CIP (cleaning-in-place), membrane replacements and enhance the stock management of consumables.

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 the construction of a new desalination plant, with aggregate capacity of 17.66 MIGD ('the New Plant') using 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 the Royal Decree no. 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 global 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 m³/day to over 375,000 residents in the Sharqiyah Region. The Sur IWP contains the worlds' largest beachwell catchment water area. Since its inception in 2007, it has operated without interruption and has delivered 200 million m³ of potable water.

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	share 1

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 2014 Amended and Restated Sur IWP Water Purchase Agreement ('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 Public Services Regulation ('APSR'), formally, the Authority for Electricity Regulation Oman ('AER'), which is 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').

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.

The Company continues to work hard to implement its enhanced digitization program, to improve the performance and the reliability of the Plant.

BUSINESS CONTINUITY

During the year 2020, as the COVID-19 threat unfolded, it has created a challenge for the Company to overcome. While the global crisis caused a status of emergency, the Company continued to find solutions to this new unforeseen obstacle and ensured the safety of its employees as well as the smooth operation of the Plant, and subsequently, the continuous supply of desalinated water to the region as it always has.

The Company has been up-to-date with the safety precautions and measures that must be taken, in order to avoid the spread of the virus. It has been adhering to the instructions of the Supreme Committee to Tackle Developments of Coronavirus, and following closely the policies put forth in that regard.

This has reflected in the slight increase in the production during the year 2020, despite COVID-19, as the Plant has had production of 102,000 m3 per day, which represents 77% of the Maximum Capacity of the Plant.

FINANCIAL INFORMATION

Revenue has decreased by 3.0% as compared to the previous year (RO 412K). This is mainly due to the decrease in annual contractual water capacity charge rate as per the contract signed back in July 2014.

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OUTLOOK FOR 2021

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

شركة الشرقية لتحلية المياه ش.م.ع.ع
س.ت: ١٠١١٢٧٧
ص.ب: ٦٨٥
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SULTANATE OF OMAN
Sharqiyah Desalination Co. SAOG

CEO - Philippe Paulissen

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)

1

Capital Invested

Maximise Local Investments
- Investments in fixed assets
- Develop local source of investments

2

Procurement

Maximise the procurement of local goods & services with quality & price compliance constraints
- Local sourcing of goods & subcontracted services
- Development of national suppliers

3

Human Resources

Identify, recruit, train & develop local talents
- Implement adapted HR procedures & diverse programs

4

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.

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 2020

CSR

SOCIAL RESPONSIBILITY REPORT OF SHARQIYAH DESALINATION COMPANY

Message of social responsibility manager of Sharqiyah Desalination Company

Corporate social responsibility can't meet the requirements of safety and success without personal feeling towards any emergency event or certain problem, so it always requires initiative and cooperation within coherent community building. Consequently, the main purpose was to support the Ministry of Health and Community to encounter Covid-19 challenges.

Our vision: Corporate Social Responsibility is primarily based on the humanitarian framework and considering them in any emergency for which societies revived and progressed thanks to the pillars of correlation and integration of the same society members.

Dr. Saleh Hamed Al-Alawy

Achievements

7
Please

6
Projects

20
Governmental

50,000
Beneficiaries

Training and qualification program (Tamkeen)

Believing that youth are the future, management of Sharqiyah Desalination Company established scientific vision and strategy named (Tamkeen).

In endeavor to prepare youth and girls to labor market, and by focusing on professional and cognitive rehabilitation of broad range of them, this program delivered many training courses that contribute to enable youth to use tools and skills that help them make their future and enhance their talents, in cooperation with corporations and number of specialized authorities throughout the Sultanate.

1 This program represents the biggest weight of Tamkeen Program Works

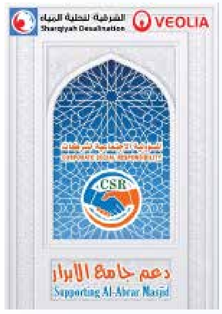
2 The program targets youth and girls who are most needy by effectuation of partnerships with the related organizations

3 Number of beneficiaries
2017-2020
209

Community Service Program

Support of 100 families in Ramadan

This initiative included delivery of 100 (food baskets) to needy families in Ramadan. The company focused on needy families who are registered in the social security register and in cooperation with the Labor Charity Organization



Supporting Al-Abrar Masjid

Corporate social responsibility is a very important pillar of sustainable development, provided it is effectuated by operation plans and strategies based on stakeholders such as the company, government and society, so the company provided material support to one of the largest mosques in Wilayat of Sur. It supported Al-Abrar Masjid to refurbish and purchase supplies and furniture.

Initiative for supply of medical devices

The initiative included finance of purchase and supply of medical devices to the initiative office of Sur Health City, from the perspective of corporate social responsibility, and to achieve the crisis management item in it.

Supporting Sur General Library

The initiative comes within Sharqiyah Desalination Strategy for social responsibility program 2020. The initiative includes use of support to quality and develop Sur General Library and provide scientific books to it.

Iftar Initiative 4

This initiative, which is launched for the fourth year through Iftar Initiative 4 Program and targets Muslim communities, in terms of sponsoring provision and delivery of Iftar meal to their residences in cooperation with Sur Health City in implementation of the supreme committee's resolutions.

Support of families affected by Covid 19

The company presented its third initiative in support of (100) families of those affected by Covid 19 Pandemic who are dismissed from their works, and day workers in cooperation with Sur Charity Team.

Media Activities 2020

11
E.Newspaper

6
Newspapers

40
News

5
Websites

11
Press interview

86
Newsletter in social media

Sharqiyah Desalination carried out number of media activities during 2020, which enabled the public to identify the key social initiatives undertaken by the company, and indicated to them the key strategic objectives of corporate social responsibility. .

REPORT OF THE AUDITORS ON CORPORATE GOVERNANCE

EY
Building a better working world

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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 2020 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 2020. 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 2020 and does not extend to any financial statements of Sharqiyah Desalination Company SAOG, taken as a whole.

Ernst & Young LLC

Muscat
9 February 2021

إرنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢ - سلطنة عمان
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A member firm of Ernst & Young Global Limited

Report on Corporate Governance for the year ended 31st December 2020

In accordance with the Capital Market Authority ("CMA") guidelines, we are pleased to present the eighth Corporate Governance Report ("the Corporate Governance Report") of Sharqiyah Desalination Company SAOG ("the Company") for the year ended 31st December 2020.

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 SAS	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 François 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

During the year, one additional seat on the board was created increasing the number of directors from 8 to 9 as per the recommendation of CMA. The seat was filled by a new member of the Board who was elected by the Shareholders in the AGM held on 3rd March 2020.

Chouhaid Nasr	In personal capacity	Non-Executive	Not Independent	Non- shareholder

The Director, Abdullah Al Hashmi, representing Pension Fund civil services employees had resigned and, accordingly, his replacement was appointed by the Board as a temporary Director.

Zaher Al Mahrooqi	Representative of the Pension Fund of civil services employees	Non-Executive	Not independent	Non-shareholder

The Director Erwan Rouxel has resigned from the Board on 13th of December 2020, and his replacement will be approved by the Shareholders in the next AGM, which will be held on 2nd March 2021.

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 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	-
Chouhaid Nasr	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 of 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 the Board Meeting, which was held on 12th February 2020, the Board has adopted and implemented such code.

Board members' attendance record and position held during the financial year 2020:

			12-02-2020	22-04-2020	20-07-2020	21-10-2020
Name of Directors	Position	Sitting fee (OMR)	Attendance	Attendance	Attendance	Attendance
Sebastien Chauvin	Chairman	3,750	Present +Proxy	Present	Present	Present
Suhaib Abudayyeh	Vice Chairman	3,000	Present	Present	Present	Present
Erwan Rouxel	Member	3,000	Present	Present	Present	Present
Nitin Bajaj	Member	3,000	Present	Present	Present	Present
Jean Francois Roberge	Member	2,250	Absent	Present	Present	Present
Abdullah Al Hashmi	Member	3,000	Present	Present	Present	Present
Ali Khamis Mubarik Al Alawi	Member	2,250	Absent	Present	Present	Present
Nasr Chouhaid	Member	1,500	-	Present	Absent	Present
Mustafa Ahmed Salman	Member	3,750	Present +Proxy	Present	Present	Present
	TOTAL	25,500				

All of the above meetings were held via conference calls due to Covid-19 ependamic.

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 the 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.

Nine Board members above mentioned have been elected by the Shareholders during the Annual General Meeting (AGM).

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 25,500** (2019: OMR 23,750).

The Board of Directors were paid a remuneration of RO 28,625 during the year for the financial year 2019 as approved by the Shareholders in an Annual General Meeting (AGM) held on 3rd March 2020.

6. 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.

7. 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 2020 to 31st December 2020:

			12-02-2020	22-04-2020	20-07-2020	21-10-2020
Name of Members	**Position**	**Sitting fee (OMR)**	Attendance	Attendance	Attendance	Attendance
Jean Francois Roberge	Chairman	1,500	Absent	Present	Present	Present
Nitin Bajaj	Member	2,000	Present	Present	Present	Present
Mustafa Ahmed Salman	Member	2,500	Present + Proxy	Present	Present	Present
	TOTAL	**6,000**				

The Audit Committee received sitting fees for their attendance for the period from 1st January 2020 to 31st December 2020, for an amount of **OMR 6,000** (2019: OMR 5,800).

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.

8. 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 2020 to 31st December 2020:

			02-03-2020	21-10-2020
Name of Members	**Position**	**Sitting fee (OMR)**	Attendance	Attendance
Ali Khamis Mubarak Al Alawi	Chairman	1,000	Present	Present
Suhaib Abudayyeh	Member	1,000	Present	Present
Erwan Rouxel	Member	1,000	Present	Present
	TOTAL	3,000		

In the year 2018, the Board approved a formal succession policy for executive management as proposed by the Nomination and Remuneration Committee and the next succession policy will be reviewed and approved in 2021.

9. 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 the 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 and 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 and maintenance of desalinations plants, technical expertise in the water sector and 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 the Daleel Power Plant project.

To diversify the company's business, he explored a new business area for the company and entered into the 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 projects of Muscat International Airport in 2018. He is a member of the Board of Directors of the JV companies.

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 Leisure, 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 six 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

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 the finance department and head of budget and planning.

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

Nasr chouhaid

Mr. Nasr Chouhaid has 21+ years in the utility sector.

He has PHD in BioPhysics from Université du Québec à Trois-Rivières, Canada and University of Notre Dame, USA.

He started his career with STMicroelectronics in 1999 and joined Veolia in 2010 .His current assignment is as CEO for Veolia Morocco.

Zaher Al Mahrooqi

Zaher Al Mahrooqi has around 13 years of experience working in the Civil Service Employees Pension Fund.

He holds a Bachelor's degree in accounting from Majan University College. Currently, he is holding the position of Al Sharqiya North Governorate Fund Department Manager.

10. 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. Market price data

a) The high and low share price of the Company since January 2019 was as follows:

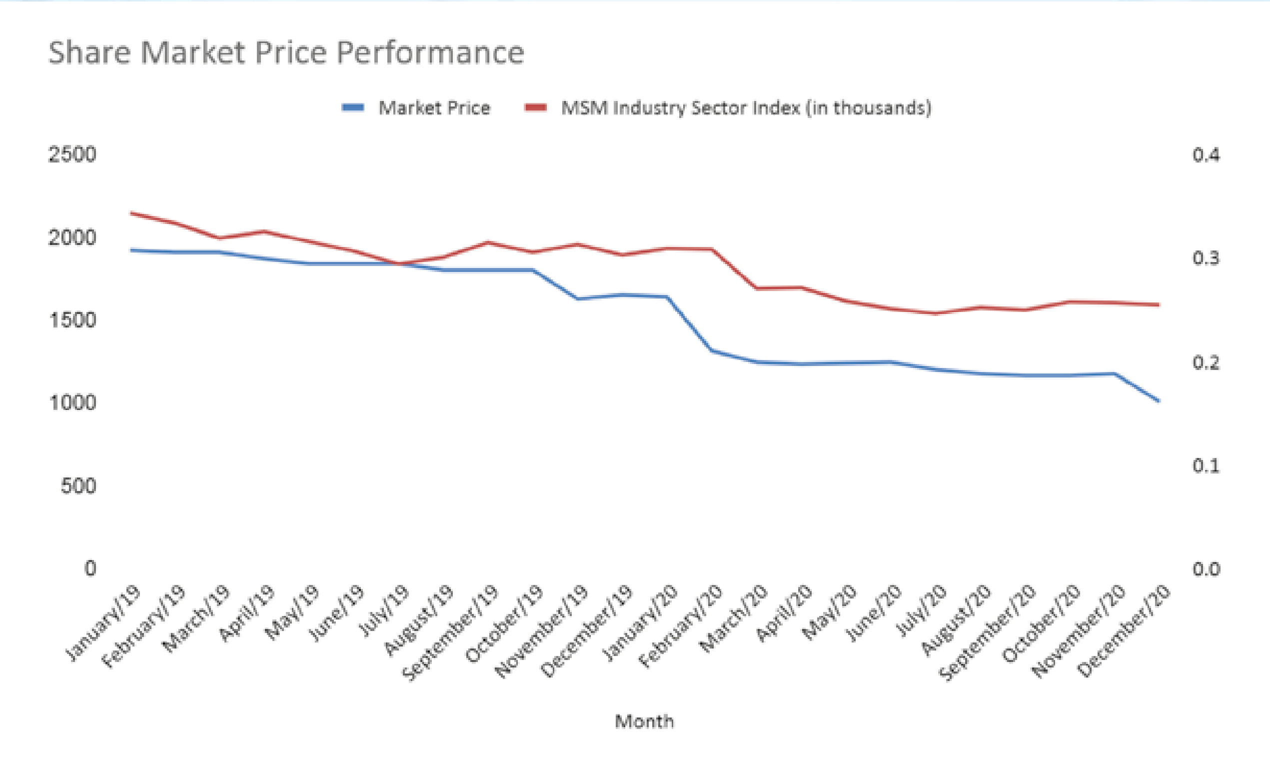
The closing share market price was OMR 0.162 per share as of 31st December 2020. The opening price on 1st January 2019 was OMR 0.308 per share.

The highest share price was of OMR 0.308 (January 10, 2019) and the lowest share price was of OMR 0.162 (9th December 2020).

b) 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/

16. 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 2020 is OMR 9,780,216 as follows:

	2020		2019	
	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%

17. 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 14 the audited financial statement as at 31st December 2020.

18. 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 EYdelivers 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 4,720 partners and approximately 127,444 professionals. Globally, EY operates in more than 150 countries and employs 334,012 professionals in 700 offices. Please visit ey.com for more information about EY.

During the year 2020, EY billed an amount of **RO 23,500** towards audit services rendered to the Company.

19. Details of non-compliance by the Company

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

20. 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 2020. The Board of Directors has concluded based on this that, internal controls are effectively being put in place.

Sharqiyah Desalination Co. SAOG
P.O. Box : 685
P.C.: 114, Jibroo
C.R :1011277
SULTANATE OF OMAN

Sebastien Chauvin
Chairman of the Board

Jean-Francois Roberge
Chairman of the Audit Committee

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 2020, 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 2020 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.

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)

Key audit matters (continued)

1. Finance lease receivable and the related revenue As at 31 December 2020, the Company has significant balance of financial lease receivable representing 94.2% of total assets and the finance income representing 43.7% of the total revenue. The determination of expected credit loss (ECL) involves significant estimates and judgements. In specific, the effects of Covid-19 global pandemic impacting the management's determination of unusually high level of judgement and estimation uncertainty, which may materially change the estimates in future periods. 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 4.4 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. In specific, we recomputed the Company's ECL by applying appropriate probability of default, loss given default, macro economic factors and scenario analysis. 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.

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)

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 internal valuation specialists to assist in with our audit of the valuation model, the price curves, and of unobservable inputs to the model and assessment of hedge effectiveness to ensure the accounting is in line to IFRS 9 financial instruments; 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 2020 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 2020 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 2020 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 2020 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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
9 February 2021

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

الشرقية لتحلية المياه
Sharqiyah Desalination

FINANCIAL STATEMENT

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	2020	2019
	RO	RO
ASSETS		
Property, plant and equipment	477,568	511,345
Finance lease receivable	62,168,988	65,273,446
Right-of-use assets	14,682	29,163
Total non-current assets	62,661,238	65,813,954
Trade and other receivables	1,361,735	1,394,104
Amount due from related parties	87,283	49,214
Finance lease receivable	2,999,477	2,738,661
Cash and bank balances	2,059,932	2,257,933
Total current assets	6,508,427	6,439,912
TOTAL ASSETS	69,169,665	72,253,866
EQUITY AND LIABILITIES		
Equity		
Share capital	9,780,216	9,780,216
Legal reserve	2,421,747	2,287,031
Retained earnings	6,208,806	6,634,547
Cumulative changes in fair values	(6,300,712)	(4,449,266)
Total equity	12,110,057	14,252,528
Liabilities		
Derivative financial instruments	6,634,155	4,850,358
Long term loan	42,755,333	45,715,428
Deferred tax liability	1,929,530	2,018,430
Deferred revenue	294,373	303,270
Employees' end of service benefit	88,948	74,198
Lease liabilities	6,145	17,307
Total non-current liabilities	51,708,484	52,978,991
Derivative financial instruments	778,446	384,071
Trade and other payables	521,207	515,964
Long term loan	3,049,464	3,306,261
Amount due to related parties	981,948	791,909
Lease liabilities	11,162	15,999
Deferred revenue	8,897	8,143
Total current liabilities	5,351,124	5,022,347
Total liabilities	57,059,608	58,001,338
TOTAL EQUITY AND LIABILITIES	69,169,665	72,253,866
Net asset value per share	0.124	0.146

The financial statements were approved and authorised for issue by the Board of Directors on 8 February 2021 and signed on their behalf by:

Chairman

Chief Financial Officer

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	2020 RO	2019 RO
Revenue	**13,459,810**	13,871,896
Cost of sales	**(8,140,372)**	(8,152,051)
GROSS PROFIT	**5,319,438**	5,719,845
Administrative and general expenses	**(826,024)**	(757,561)
Finance expenses	**(2,908,426)**	(3,158,582)
Withholding tax	**-**	**359,602**
PROFIT BEFORE TAX	**1,584,988**	2,163,304
Taxation	**(237,827)**	(271,629)
PROFIT FOR THE YEAR	**1,347,161**	1,891,675
OTHER COMPREHENSIVE INCOME / (EXPENSE), NET OF TAX Items that may be reclassified to profit or loss in subsequent periods:		
Fair value adjustment on derivatives	**(2,178,172)**	(2,322,384)
Deferred tax on fair value adjustment	**326,726**	348,357
OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR, NET OF TAX	**(1,851,446)**	(1,974,027)
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR	(504,285)	(82,352)
BASIC AND DILUTED EARNINGS PER SHARE	**0.014**	0.019

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	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 year	-	-	1,891,675	-	1,891,675
Other comprehensive income					
Fair value adjustment, net of tax	-	-	-	(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 (note 14 (c))	-	-	(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 2020	**9,780,216**	**2,287,031**	**6,634,547**	**(4,449,266)**	**14,252,528**
Profit for the period	**-**	**-**	**1,347,161**	**-**	**1,347,161**
Other comprehensive income					
Fair value adjustment, net of tax	**-**	**-**	**-**	**(1,851,446)**	**(1,851,446)**
Total comprehensive income	**-**	**-**	**1,347,161**	**(1,851,446)**	**504,285**
Transfer to legal reserve	**-**	**134,716**	**(134,716)**	**-**	**-**
Dividend paid (note 14 (c))	**-**	**-**	**(1,638,186)**	**-**	**(1,638,186)**
31 December 2020	**9,780,216**	**2,421,747**	**6,208,806**	**(6,300,712)**	**12,110,057**

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

	Notes	2020	2019
		RO	RO
OPERATING ACTIVITIES			
Profit before income tax		**1,584,988**	2,163,304
Adjustments for:			
Depreciation of fixed assets	9	**106,273**	98,756
Depreciation of right of use assets	10	**14,481**	14,481
Finance cost	8	**2,908,426**	3,158,582
Provision for expected credit loss	7 (a)	**116,981**	-
Transfer to provision for end of service benefits	7 (b)	**22,319**	21,602
Interest income on finance lease	5	**(5,877,631)**	(6,107,368)
Operating profit before working capital changes		**(1,124,163)**	(650,643)
Working capital changes:			
Receipt against finance lease recoverable		**8,616,292**	9,147,432
Trade and other receivables		**32,369**	142,632
Trade and other payables		**(1,670)**	41,541
Accruals		**6,913**	32,229
Due from related parties		**(38,069)**	14,411
Due to related parties		**190,039**	(253,963)
Deferred revenue	17 (b)	**(8,143)**	(7,454)
Cash from operations		**7,673,568**	8,466,186
Finance costs paid		**(2,826,091)**	(3,040,484)
End of service benefit paid	7 (b)	**(7,568)**	-
Withholding tax paid		**(3,219)**	(116,223)
Net cash from operating activities		**4,836,690**	5,309,479
INVESTING ACTIVITY			
Addition to property, plant and equipment	9	**(72,496)**	(34,149)
Net cash used in investing activity		**(72,496)**	(34,149)
FINANCING ACTIVITIES			
Dividend paid		**(1,638,186)**	(1,956,043)
Repayment of loan	16	**(3,306,261)**	(3,807,016)
Lease payments	18	**(17,748)**	(12,885)
Net cash used in financing activities		**(4,962,195)**	(5,775,944)
DECREASE IN CASH AND CASH EQUIVALENTS		**(198,001)**	(500,614)
Cash and cash equivalents at 1 January	13	**2,257,933**	2,758,547
Cash and cash equivalents at 31 December	13	**2,059,932**	2,257,933

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

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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).

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.

The Company has complied with the relevant requirements of the new Commercial Companies Law.

(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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3 BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses and the accompanying disclosures, and the disclosure of contingent liabilities.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The areas where accounting assumptions and estimates are significant to the financial statements are disclosed below and also in the relevant notes to the financial statements.

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

In particular, estimates that involve uncertainties and judgments which have a significant effect on the financial statements are as below:

(i) Assessment of impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset.

The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to right of use and property, plant and equipment recognised by the Company.

(ii) Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

The Company establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the company. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

(iii) Expected credit loss on finance lease receivable;

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 ECL model, using assumptions about probability of default and loss given default. 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 year.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3 BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

(iv) Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(v) Leases - Identification of lease and lease classification

Management considers the requirements of IFRS 16 (till 31 December 2018 : IFRIC 4 "Determining Whether an Arrangement Contains a Lease"), which sets out guidelines to determine when an arrangement might contain a lease.The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. As per the terms of WPA, the water desalination is dependent on the Company's plant and OPWP, being the sole procurer of water generation in Oman, obtains significant amount of the water generated by the Company's plant. Accordingly, management has concluded that the WPA satisfies the requirements of a lease.

Further, based on management's evaluation, the WPA with OPWP with respect to the plant has been classified as a finance lease since significant risks and rewards associated with the ownership of the plant are transferred to OPWP.

(vi) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. As per tax law in Oman, tax losses can be utilised within next 5 years and hence judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

(vii) Hedge accounting

The Company's hedge accounting policies include an element of judgement and estimation. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships.

The Company applies temporary reliefs which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. For the purpose of determining whether a forecast transaction is highly probable, the reliefs require to be assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

(e) Impact of COVID-19

The World Health Organization declared on 11 March 2020, the Novel Coronavirus (COVID-19) as a global pandemic. This event has caused widespread disruptions to business, with a consequential negative impact on economic activity. Whilst the COVID-19 vaccines distribution have started across the world, there are uncertainties on the duration of immunity and effectiveness against new mutations and on certain categories of individuals.

The Company's management continues to deal with the risks posed by COVID19 in a proactive and responsible manner. Taking all reasonable precautions, only essential staff is allowed entry inside the plant while operations and maintenance teams stay onsite on a shift rotation basis to minimise the risk of business disruption due to infection.

The financial key impact of COVID-19 on the Company is the increase in expected credit losses on financial lease receivable due to adverse changes in macro economic factors and weightage to downside scenerio. Further, the Company is also adversely impacted due to decrease in fair value of derivatives due to drop in US Libor forward curve, which is recorded fully in other comprehensive income. However, it is not possible to differentiate between impact due to COVID 19 and non COVID 19 impact.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3 BASIS OF PREPARATION (continued)

(e) Impact of COVID-19 (continued)

The implications of COVID-19 are ongoing and the ultimate outcome of this event is unknown and therefore the full impact on the Company for events and circumstances that arose after the reporting date cannot be reasonably quantified at the authorisation date of this financial statements. The effect of COVID-19 on the Company, when known, will be incorporated into the determination of the Company's estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities.

3.1 Change in the accounting policies

New and amended standards and interpretations to IFRS

Standards issued and effective

For the year ended 31 December 2020, the Company has adopted all of below mentioned new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2020:

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Company but may impact future periods should the Company enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

In July 2017, the United Kingdom Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), announced that the interest benchmark would cease after 2021. Alternative risk-free rates are being set up for the different currencies. For the US Dollar, the US Fed's Alternative Reference Rates Committee (ARRC) has recommended using the Secured Overnight Financing Rate (SOFR), which has been published since April 2019.

IBOR Transition (Phase 1 of transition project)

Effective 1 January 2020, the Company has adopted the amendment to IFRS 9 and IFRS 7 issued in September 2019 (referred as Phase 1 of IBOR transition project). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

The relief provided by the amendments that apply to the Company are:

- When considering the 'highly probable' requirement, the Company has assumed that the USD LIBOR interest rate on which hedged debts are based does not change as a result of reform.
- In assessing the hedge effectiveness on a forward-looking basis, it has assumed that USD LIBOR interest rate on which the cash flows of the hedged liability and the interest rate swap that hedges it are based are not altered by the reform.
- It will not discontinue hedge accounting during the period of uncertainty solely because the retrospective effectiveness falls outside the required 80–125% range.
- It has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

Disclosures related to the derivatives held for hedging purposes and it's carrying amount, notional amount and notional amounts by term to maturity are given in Note 15.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3 BASIS OF PREPARATION (continued)

3.1 Change in the accounting policies (continued)

New and amended standards and interpretations to IFRS (continued)

Standards issued and effective (continued)

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provided a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Company.

Conceptual Framework for Financial Reporting

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statement of the Company.

Standards issued but not yet effective

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

Amendments to IFRS 16 Covid-19 Related Rental Concession

On 28 May 2020, the IASB issued Covid-19-Related Rent Concession- amendment to IFRS 16 Leases. The amendment provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payment resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.
The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Company.

IBOR Transition (Interest Rate Benchmark Reforms Phase 2)

On 27 August 2020 the IASB published 'Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an Inter-Bank Offered Rate (an IBOR) with an alternative nearly risk-free interest rate (an RFR). The amendment is effective for annual reporting periods beginning on or after 1 January 2021 with earlier adoption permitted.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3 BASIS OF PREPARATION (continued)

3.1 Change in the accounting policies (continued)

Standards issued but not yet effective (continued)

IBOR Transition (Interest Rate Benchmark Reforms Phase 2) (continued)

The Company has not early adopted the standard and do not assess any impact on Company's financial statement if adopted.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3 BASIS OF PREPARATION (continued)

3.1 Change in the accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.
The amendments are not expected to have a material impact on the Company.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time Adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendment is not applicable to the Company.

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 amortised cost or fair value.

Subsequent measurement of financial assets
IFRS 9 divides all financial assets into two classifications - those measured at amortised cost and those measured at fair value. Where the Company measures financial assets at fair value, gains and losses are either recognised 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").

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial Instruments (continued)

1) Financial assets at amortised cost (continued)

Subsequent measurement of financial liabilities

The Company categorises 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)

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.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial Instruments (continued)

(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.

(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 recognises an allowance for Expected Credit Losses (ECLs) for all debt instruments not held at fair value through profit or loss. 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, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial Instruments (continued)

b) Impairment of financial assets (continued)

For trade receivables covered under IFRS 15, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. For finance lease receivable, the company applies general approach in calculating the ECL and is determined by using the probability of default (PD), exposure at default (EAD) and loss given default (LGD).

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.

4.1.1 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

All derivatives in scope of IFRS 9, including those linked to unquoted equity investments, are measured at fair value. Value changes are recognised in profit or loss unless the Company has elected to apply hedge accounting by designating the derivative as a hedging instrument in an eligible hedging relationship.

4.1.3 Cash flow hedge

The Company has elected to avail option under IFRS 9 para 7.2.21 for carry over of hedge accounting requirements of IAS 39 as its accounting policy for all its current and prior period hedging relationships. The said election shall not affect the amounts recognised and disclosures made in prior period financial statements.

The accounting policies being carried over from prior years are as follows:

The Company uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. In accordance with its policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised at fair value. Subsequent to initial recognition, derivative financial instruments are stated at their fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of a derivative is the equivalent to the unrealised gain or loss arising from marked to market valuation of the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included under non-current assets and their current portion in current assets and derivatives with negative market values (unrealised losses) are included under non-current liabilities and their current portion in current liabilities in the statement of financial position.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, the part of any gain or loss on the derivative financial instrument that qualifies as an effective hedge is recognised directly in equity, net of tax. The ineffective part of any gain or loss is recognised in the statement of profit or loss immediately.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial Instruments (continued)

4.1.3 Cash flow hedge (continued)

The relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions are documented at the inception of the hedging transaction. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in other comprehensive income and presented in hedging reserve in equity. Any in-effective portion is recognised immediately in profit and loss. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit and loss as they arise.

The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Company revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, then hedge accounting is discontinued prospectively. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

The Company has not entered into any new hedging relationships during the current period requiring adoption of hedging accounting requirements of IFRS 9.

4.1.4 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.

4.1.5 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial Instruments (continued)

4.1.5 Derecognition of financial assets and financial liabilities (continued)

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.

4.2 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use asset

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Motor vehicles	3 to 5 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Leases (continued)

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

4.5 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.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Employees' end of service benefits

The company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its Omani employees, the company makes contributions to the Public Authority of Social Insurance under Royal Decree No. 72/91 calculated as a percentage of the employees' salaries. The company's obligations are limited to these contributions, which are expensed when due.

4.7 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.

4.8 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.

4.9 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.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Revenue from Contracts with Customers (continued)

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.

4.10 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.

4.11 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.

4.12 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 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.

4.14 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.

4.15 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.

4.16 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5 REVENUE

	2020 RO	2019 RO
Revenue from contract with customer		
Water output operation and maintenance charges	1,110,818	1,112,390
Water capacity operation and maintenance charge	3,346,577	3,349,756
Deferred revenue – custom duty	8,143	7,454
	4,465,538	4,469,600
Revenue from lease contracts		
Interest income on finance lease	5,877,631	6,107,368
Electricity charges	3,097,757	3,276,524
Desalination licence fee and connection fee – recoverable from OPWP	18,884	18,404
	8,994,272	9,402,296
	13,459,810	13,871,896

6 COST OF SALES

	2020 RO	2019 RO
Operation and maintenance fixed charges	3,778,706	3,602,638
Operation and maintenance variable charges	1,110,818	1,112,390
Operation and maintenance electricity charges	176,804	229,512
Electricity charges	2,920,953	3,047,012
Plant related operating costs & connection fees	55,457	75,510
Depreciation	72,170	59,997
Desalination licence fee	25,464	24,992
	8,140,372	8,152,051

7 (a) ADMINISTRATIVE AND GENERAL EXPENSES

	2020 RO	2019 RO
Employee related costs (see below)	397,773	407,752
Legal and professional expenses	111,375	105,858
Directors' sitting fee	45,325	60,100
Insurance	62,014	51,128
Depreciation – fixed assets	34,103	38,759
Travelling expenses	11,156	28,291
Depreciation – right-of-use asset (note 10)	14,481	14,481
Others	32,816	51,192
Provision for Expected Credit Loss (note 11 and 13)	116,981	-
	826,024	757,561

NOTES TO THE AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2020

7 (a) ADMINISTRATIVE AND GENERAL EXPENSES (continued)

Employee related expenses are as follows:

	2020 RO	2019 RO
Salaries, wages and other benefits	378,493	380,461
End of service benefit	14,750	21,602
Contributions to Omani Social Insurance Scheme	4,530	5,689
	397,773	407,752

7 (b) Employee end of service benefit

Movement in the provision recognised in the statement of financial position is as follows:

	2020 RO	2019 RO
Balance as at 1 January	74,198	52,595
Accrued during the year	22,319	21,602
Paid during the year	(7,568)	-
Balance as at 31 December	88,948	74,198

8 (a) FINANCE EXPENSES – NET

	2020 RO	2019 RO
Finance cost		
Interest on long term loans	1,506,277	2,314,983
Hedging charges	1,246,974	691,393
Amortisation of deferred finance cost	89,369	102,905
Performance bond commission and guarantee	31,097	37,379
Agency fee and role fee	31,781	31,246
Interest on leases	1,749	2,547
Others	1,745	2,516
Total finance cost	2,908,992	3,182,969
Finance income		
Interest revenue	566	24,387
Total finance income	566	24,387
Finance expenses- Net	2,908,426	3,158,582
8 (b) Withholding tax on interest – gross up	-	(359,602)

During the prior year, reversal of provision for withholding tax for RO 359,602 was recognised as OPWP accepted the Company's claim for reimbursement of withholding tax (change of law). Provisions were recognised originally in the financial year 2018 for RO 194,229 and in the financial year 2017 for RO 165,373.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 2020	104,285	477,178	79,331	61,896	85,549	808,239
Addition	-	47,489	3,227	-	21,780	72,496
31 December 2020	104,285	524,667	82,558	61,896	107,329	880,735
Depreciation						
1 January 2020	72,514	65,419	45,326	57,805	55,830	296,894
Charge for the year	10,547	72,170	8,801	3,050	11,705	106,273
31 December 2020	83,061	137,589	54,127	60,855	67,535	403,167
Net book value						
31 December 2020	**21,224**	**387,078**	**28,431**	**1,041**	**39,794**	**477,568**

	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

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

(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).

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10 RIGHT OF USE ASSETS

	Vehicles	Total
	RO	RO
Cost		
At 1 January 2020	72,404	72,404
Addition	-	-
31 December 2020	72,404	72,404
Depreciation		
At 1 January 2020	43,241	43,241
Charge for the period	14,481	14,481
31 December 2020	57,722	57,722
Net book value 31 December 2020	14,682	14,682

	Vehicles	Total
	RO	RO
At 1 January 2019 (as previously reported)	-	-
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		
Adjustments for IFRS 16	28,760	28,760
At 1 January 2019 (adjusted)	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

11 FINANCE LEASE RECEIVABLE

	2020	2019
	RO	RO
At 1 January	68,012,107	71,052,171
Add: Finance income	5,877,631	6,107,369
Less: Lease instalments	(8,616,292)	(9,147,433)
Less: Provision for expected credit loss	(104,981)	-
	65,168,465	68,012,107

The Company calculated the expected credit loss on finance lease receivable and recorded a provision for expected credit loss in statement of comprehensive income of RO 104,981.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11 FINANCE LEASE RECEIVABLE (continued)

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).

	2020	2019
	RO	RO
Non-current	**62,168,988**	65,273,446
Current	**2,999,477**	2,738,661
	65,168,465	68,012,107

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 2020					
Gross finance lease receivables	**8,616,291**	**8,616,291**	**25,848,874**	**66,945,699**	**110,027,155**
Less: unearned finance income	**(5,616,814)**	**(5,350,092)**	**(14,217,381)**	**(19,674,403)**	**(44,858,690)**
	2,999,477	**3,266,199**	**11,631,493**	**47,271,296**	**65,168,465**

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
31 December 2019	RO	RO	RO	RO	RO
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

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.

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

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12 TRADE AND OTHER RECEIVABLES

	2020 RO	2019 RO
Receivable from OPWP	1,309,948	1,330,023
Prepayments	51,340	57,693
Advance to suppliers	-	5,941
Other receivables	447	447
	1,361,735	1,394,104

The Company calculated the expected credit loss on trade receivables and the amount assessed was insignificant.

13 CASH AND CASH EQUIVALENTS

	2020 RO	2019 RO
Cash in hand	974	1,464
Bank balances	2,070,958	2,256,469
Provision for expected credit loss	(12,000)	-
	2,059,932	2,257,933

The Company calculated the expected credit loss on bank balance and recorded a provision for expected credit loss in statement of comprehensive income of RO 12,000.

14 SHARE CAPITAL AND RESERVES

(a) Share capital

Authorised share capital comprises 105,000,000 ordinary shares (31 December 2019: 105,000,000 ordinary shares).

Issued and fully paid share capital of the Company is RO 9,780,216 (2019: RO 9,780,216) as follows:

	2020		2019	
	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%

Note – The percentages for the shareholding are rounded-off to the nearest number.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14 SHARE CAPITAL AND RESERVES (continued)

(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).

In an Annual General Meeting held on 3 March 2020 the shareholders' approved distribution of a cash dividend at rate of 16.75% of the share capital (RO 1,638,186).

(d) Proposed dividend

The Board of Directors at the meeting held on 8 February 2021 has proposed to distribute cash dividend for an amount of RO 1,347,161 for the year 2020 (13.77% 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 2 March 2021.

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 18.51 million (USD 48.13 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 22.74 million (USD 59.15 million).

At 31 December 2020, 6 month US LIBOR was approximately 0.25763% (31 December 2019: 1.91213 %), 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 7.41 million (31 December 2019: RO 5.23 million) by the counter parties to the ISDA.

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, ineffective and effective 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 2020 in the amount of approximately RO 6.30 million (31 December 2019: RO 4.45 million), net of deferred tax asset, has been recorded within equity and the gross deficit in the amount of RO 7.41million (31 December 2019: RO 5.23 million) is recorded under liabilities.

NOTES TO THE AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2020

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 2020			**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	**7,413**	**41,315**	**4,339**	**23,600**	**13,376**
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

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

	2020	2019
	RO	RO
Term loan (syndicated)	**47,077,311**	50,383,572
Less: deferred finance cost	**(1,272,514)**	(1,361,883)
31 December	**45,804,797**	49,021,689
Current	**3,049,464**	3,306,261
Non-current	**42,755,333**	45,715,428
	45,804,797	49,021,689

The movement in the loan balance of RO 3,306,261 represents the loan repayment made during the year. There has been no other movement in the loan balance during the year.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

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 (a) Trade and other payables

	2020 RO	2019 RO
Accruals	**491,892**	491,302
Trade payables	**29,315**	24,662
	521,207	515,964

Related parties balances are set out in note 21.

17 (b) Deferred revenue

	2020 RO	2019 RO
Balance as at 1 January	**311,413**	318,867
Recognised to profit or loss during the year	**(8,143)**	**(7,454)**
Balance as at 31 December	**303,270**	311,413
Non-current	**294,373**	303,271
Current	**8,897**	8,143

On the import of certain equipment for establishing the plant, custom duty was not applicable at the time of the approval of the WPA agreement. Later at the time of the import of the equipment, the government imposed customs duty on those equipment. The applicable customs duty was paid by the company and has been capitalised. Since the cost of customs duties is been amortised over the life of finance lease receivable, the amount reimbursed from OPWP is being amortised at the same IRR over the same duration.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18 Lease liabilities

	2020 RO	2019 RO
Lease liability recognised in the current year as follows;		
At 1 January	33,306	43,644
Accrual of interest	1,749	2,547
Payments during the year	(17,748)	(12,885)
At 31 December	17,307	33,306
Current lease liabilities	11,162	15,999
Non-current lease liabilities	6,145	17,307
	17,307	33,306

19 Income tax

The taxation charges for the year comprise:

	2020 RO	2019 RO
Deferred taxation:		
Current year	(237,827)	(271,629)
	(237,827)	(271,629)

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

	2020 RO	2019 RO
Accounting profit before tax for the year	1,584,988	2,163,304
Tax at the rate of 15%	237,748	324,496
Add tax effect of:		
Reversal of withholding tax	-	(53,940)
Expenses not allowed in tax	79	1,073
Tax expense for the year	237,827	271,629

The tax rate applicable to the Company is 15% (2019: 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.

The adjustments to accounting profit for the period has resulted in a taxable loss. Therefore, the applicable tax rate is nil (2019: nil). The average effective tax rate cannot be determined in view of the taxable loss (2019: nil).

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19 Income tax (continued)

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 15% (2019: 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 2020	Recognised in income	Recognised in equity	31 December 2020
	RO	RO	RO	RO
Financial lease receivable	**3,043,459**	**343,613**	**-**	**3,387,072**
Carry forward taxable losses	**(239,866)**	**(105,787)**	**-**	**(345,653)**
Fair value of derivative financial instruments	**(785,163)**	**-**	**(326,726)**	**(1,111,889)**
Net deferred tax liability	**2,018,430**	**237,827**	**(326,726)**	**1,929,530**

	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

20 Commitments and contingencies

Usufruct right fees

	2020	2019
	RO	RO
Usufruct right fee	**18,000**	19,000

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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	2020 RO	2019 RO
Bahwan Veolia Water LLC	Affiliate	33,090	29,370
Veolia LLC	Affiliate	49,883	16,344
Seureca Muscat LLC	Affiliate	4,310	3,500
		87,283	49,214

Amounts due to related parties	Nature of relationship	2020 RO	2019 RO
Veolia Eau Compagnie Generale des Eaux	Affiliate	15,089	8,041
Veolia LLC	Affiliate	50,340	2,636
Bahwan Veolia Water LLC	Affiliate	915,849	779,221
Enova Facilities Management Services LLC	Affiliate	670	2,011
		981,948	791,909

The Company calculated the expected credit loss on due from related party and the amount assessed was insignificant.

Transactions with related parties during the period are as below:

	2020 RO	2019 RO
Bahwan Veolia Water LLC		
Operation & Maintenance services incurred	5,066,328	4,944,540
Other services incurred	118,991	48,298
Payments made to them	(5,048,691)	(5,208,569)
Services rendered	(261,098)	(254,246)
Cash received from them	257,378	262,030
Veolia LLC		
Services incurred	340,873	238,825
Payments made to them	(293,169)	(284,010)
Services rendered	(238,293)	(141,728)
Cash received from them	204,754	148,195

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

21 Related party transactions and balances (continued)

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

	2020 RO	2019 RO
Seureca Muscat LLC		
Services rendered	(15,047)	(14,265)
Cash received from them	14,237	14,425
Middle East Investment LLC		
Services incurred	5,334	18,140
Payments made to them	(5,334)	(18,140)
Veolia Eau Compagnie Generale Des Eaux		
Services incurred	7,048	28,692
Payments made to them	-	(23,750)
Enova Facilities Management Services LLC		
Services incurred	9,406	8,914
Payments made to them	(10,747)	(6,903)

	2020	2019
Key management benefits	RO	RO
Board of Directors sitting fees	26,250	27,000
Audit committee sitting fees	6,000	5,600
Remuneration committee sitting fees	4,500	2,500
Directors remuneration – accrual	8,575	25,000
Key management remuneration	191,182	195,978

The above amount of directors' remuneration for the current year includes RO 3,625 which is the directors remuneration been approved in excess of the accrual, in the previous year's Annual General Meeting.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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.

(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:

Particulars	2020 RO	2019 RO
Finance lease receivable (note 11)	**65,168,465**	68,012,107
Trade and other receivables (note 12)	**1,361,735**	1,394,104
Amount due from related parties (note 21)	**87,283**	49,214
Bank balances (note 13)	**2,059,932**	2,257,933
	68,677,415	71,713,358

(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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 2020	Carrying amount RO	Contractual cash flows RO	Up to 1 year RO	1 year and above RO
Non-derivative financial liabilities				
Term loan (note 16)	**47,077,311**	**(59,176,122)**	**(4,809,249)**	**(54,366,873)**
Trade and other payables (note 17 (a))	**521,207**	**(521,207)**	**(521,207)**	**-**
Lease liability (note 18)	**17,307**	**(17,307)**	**(11,162)**	**(6,145)**
Amounts due to related parties (note 21)	**981,948**	**(981,948)**	**(981,948)**	**-**
	48,597,773	**(60,696,584)**	**(6,323,566)**	**(54,373,018)**
Derivative-financial instrument				
Cash flow hedging deficit (refer note 15)	**7,412,601**	**7,412,601**	**778,446**	**6,634,155**

31 December 2019				
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 (a))	515,964	(515,964)	(515,964)	-
Lease liability (note 18)	33,306	(33,306)	(15,999)	(17,307)
Amounts due to related parties (note 21)	791,909	(791,909)	(791,909)	-
	51,724,751	(65,706,179)	(6,512,751)	(59,193,428)
Derivative-financial instrument				
Cash flow hedging deficit (refer note 15)	5,234,429	5,234,429	384,071	4,850,358

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.

Equity price risk

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

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22 Financial instruments and financial risk management (continued)

(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.

There were no transfers between Level 1 and Level 2 during 2020.

As at 31 December 2020, 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 value is calculated as the present value of the estimated future cash flows. Estimates of future floating rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Company and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices."

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. The Company monitors capital using a gearing ratio, which is 'net debt' divided by total capital plus net debt. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and short-term deposits.

	2020	2019
	RO	RO
Term loans (note 16)	**45,804,797**	49,021,689
Lease liabilities (note 18)	**17,307**	33,306
Trade and other payables (note 17 (a))	**521,207**	515,964
Less: cash and short-term deposits (note 13)	**(2,059,932)**	(2,257,933)
Net debt	**44,283,379**	47,313,026
Equity	**12,110,057**	14,252,528
Capital and net debt	**56,393,436**	61,565,554
Gearing ratio	**79%**	**77%**

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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:

	2020	2019
Net assets (RO)	**12,110,057**	14,252,528
Number of outstanding shares at the end of the year (Nos.)	**97,802,160**	97,802,160
Net asset value per share (RO)	**0.124**	0.146

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:

	2020	2019
Profit for the period (RO)	**1,347,161**	1,891,675
Weighted average number of shares (nos.)	**97,802,160**	97,802,160
Basic earnings per share (RO)	0.014	0.019

25 Comparative figures

Certain corresponding figures for 2019 have been reclassified in order to conform to the presentation for the current year. Such reclassification do not affect previously reported profit or equity.