الشرقية لتحلية المياه
Sharqiyah Desalination

By means of water,
we give life to everything
Al-Anbiya - Al Aya "30"

Annual Report 2021

الشرقية لتحلية المياه
Sharqiyah Desalination

Annual Report 2021

His Majesty Sultan Qaboos Bin Said

His Majesty Sultan Haitham Bin Tarik

الشرقية لتحلية المياه
Sharqiyah Desalination

TABLE OF CONTENT

6.	Acknowledgement
7.	Board Of Directors
8 - 9.	Board Of Directors Report
10 - 13.	Operational Highlights
14 - 15.	Description Of The Company
16 - 17.	Management Discussion And Analysis Report
18 - 19.	In Country Value
20 - 25.	Corporate Responsibility & Sustainability
26 - 27.	Report Of The Auditors On Corporate Governance Report
28 - 39.	Corporate Governance Report
40 - 44.	Report Of The Auditors On Financial Statements
45 - 93.	Financial Statements
46.	Statement Of Financial Position
47.	Statement Of Comprehensive Income
48.	Statement Of Changes In Equity
49.	Statement Of Cash Flows
50 - 93.	Notes

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

PREETI KAUSHIK
- 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

Board of Directors Report and Audited Financial Statements for the year ended 31st December 2021

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 2021.

Operational Highlights

The Sur Independent Water Plant ('the Plant') has increased its production volumes of water with a total water delivery to Oman Water and Wastewater Services Company ('OWWSC'), previously known as Public Authority for Water ('PAW') of 41,195,065 m3 compared to 36,614,033 m3 in the previous year (i.e. an increase of almost 12.51%).

The average scheduled plant availability for the year reached 98.8%. 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 OWWSC. The Company continues to maintain its excellent reputation as a provider of potable water to the Sharqiyah region.

On March 18, 2021, the Plant successfully completed the Annual Performance Test for the contractual year 12 (CY13). The demonstrated water capacity during the test was equal to 5493.225 m3/h (100% of the Guaranteed Water Capacity).

Business Continuity

As the COVID-19 threat unfolded in 2020 and well-into 2021, 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 Increased by 2.4% as compared to the previous year (RO 317K). This is mainly due to the increase in annual contractual water capacity charge rate as per the contract signed back in July 2014.

The cost of sales has Increased by 12.3% as compared to the previous year (RO 999K).

The administrative and general expenses have decreased by 10.5% as compared to the previous year (RO 87K). This is mainly due to the reduction in provision for expected credit loss (ECL) on outstanding financial asset receivable from client and year end bank balances as per IFRS 9 reporting standard and the impact is partially offset due to increase in legal and professional fees.

Finance expenses have decreased by 8.1% as compared to the previous year (RO 237K). This is mainly due to the impact of the decrease in outstanding loans payable to lenders.

Current year profit before tax represents 9 % of the revenue.

Current year profit after tax represents 7% of the revenue.

Based on the financial results, the board proposes to the AGM to consider and approve a distribution of cash dividends of 15% 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 regulations prescribed by the Capital Market Authority (CMA) and The International Professional Practices Framework (IPPF).

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, OWWSC, 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

Digital & Innovation

- Implementation of **Alert Messaging System**
- Cloud based **Hubgrade Solutions**
- **DAF** Process Improvements

HSE Performance

- **NO LTI**
- **COVID 19** - *Zero impact on the plant operational performance & financial results*

Operational Performance

- Plant Availability **98.8%**
- Water Quality Compliance **100%**
- Specific Energy **3.23** *KWh/m3*
- Planned Maintenance **82%**

Figure 1 - Highlights of 2021

Continuous water supply

A significant increase of water demand was observed in 2021 within the Sharqiyah region, in line with the several connection works and improvement of water access to the population by the Public Authority of Electricity and Water (PAEW). For the past 12 years, the water quantity produced and supplied by Sur Desalination Plant has increased by an average of 11% YoY, (see Figure 5 below).

In 2021, the plant capacity availability was 98.8%, average load on the plant was 86% of the maximum capacity (it was 76% in 2020). The variation between low and high delivery periods went up to 21%. The average specific energy consumption was 3.23KWh/m^3, previous year it was 3.3KWh/m^3. Membrane renewals and timely CIPs have contributed for the control of specific energy within the range.

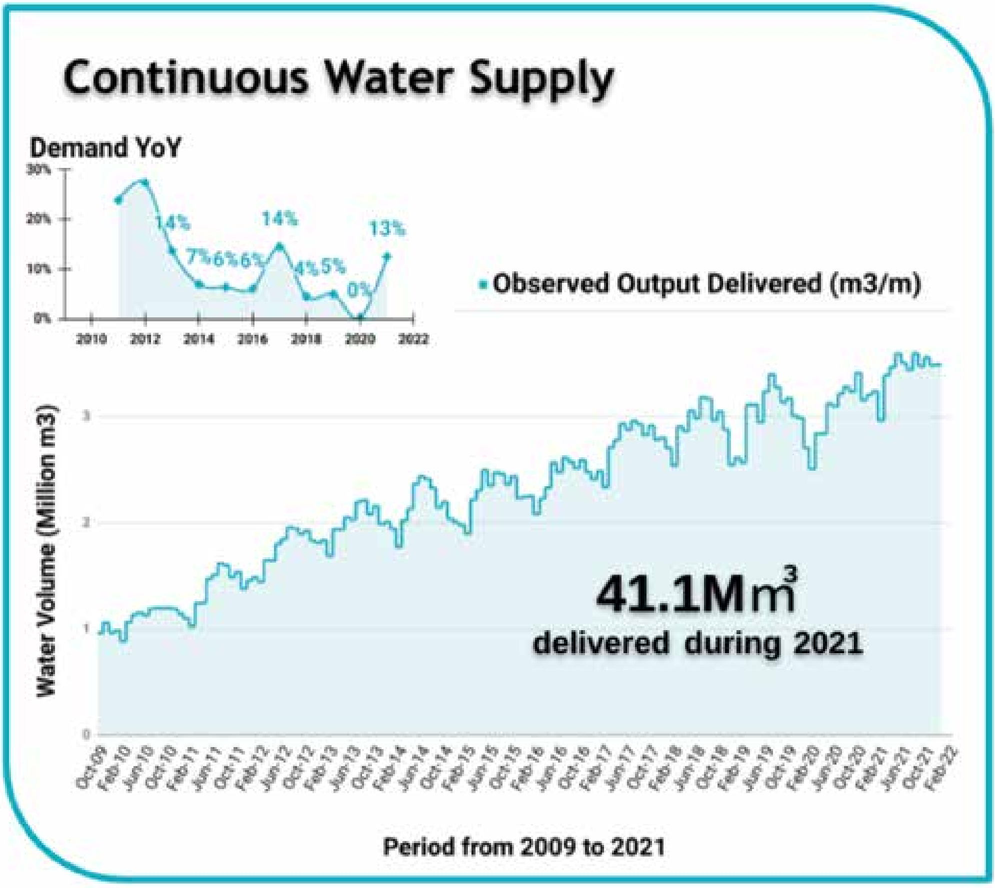


Figure 2 - Water Delivery & Plant load factor of SUR Desalination Plant from October 2009 to December 2021

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 2021, 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.

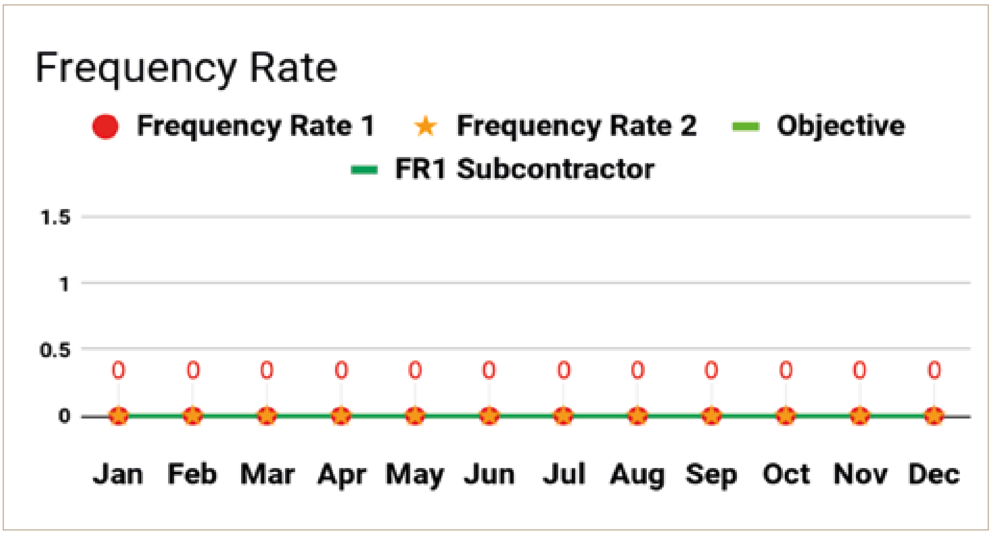


Figure 3:

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 Business Unit.

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 2021.

In addition, more than 17,000 water parameters have been successfully analysed in 2021 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.

Implementation of Alert Messaging System, a digital solution to alert the shift & on-call team on critical alarm for a quick intervention. A step forward towards achieving remote intervention of plant operations and keeping minimum operators during night shifts

Description of the company

100%

PRODUCTION RELIABILITY

Background

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

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

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

On 10 July 2014, the Company entered into an Amended Water Purchase Agreement with Oman Power and Water Procurement Company ('OPWP') to build an extension to the plant which increased the plant capacity from 17.66 MIGD to a total aggregated capacity of 29 MIGD. The Sur IWP is a gloabal leader in cutting edge reverse osmosis technology and world class environmental standards. It recycles over 97% of its mechanical energy and saves up to 40% more energy than a conventional Reverse Osmosis (RO) plant and is dedicated to preserving the unique geological and marine environment of Oman. Each day, it now delivers more than 83,500 m³/day to over 375,000 residents in the Sharqiyah Regtion. I 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

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

Post IPO

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

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.

100% Production Reliability

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, around 200km of Muscat. The Sur IWP uses 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'), previously known as, 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 Oman Water and Wastewater Services Company ('OWWSC'), previously known as 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.

The Company has been targeting opportunities to take initiatives towards serving the community in the form of Corporate Social Responsibility.

BUSINESS CONTINUITY

During the years 2020 and 2021, as the COVID-19 pandemic remains a threat, it has created a challenge for the Company to overcome. While the global crisis caused a status of emergency, the Company continues to find solutions to this new unforeseen obstacle and ensure the safety of its employees as well as the smooth operation of the Plant, and subsequently, the continuous supply of desalinated drinking 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 an out-break 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 increase in the production during the year 2021, despite COVID-19, as the Plant has had production of 114,300 m3 per day, which represents 87% of the Maximum Capacity of the Plant.

FINANCIAL INFORMATION

Revenue has Increased by 2.4% as compared to the previous year (RO 317K). This is mainly due to the increase in annual contractual water capacity charge rate as per the contract signed back in July 2014.

The cost of sales has Increased by 12.3% as compared to the previous year (RO 999K).

The administrative and general expenses have decreased by 10.5% as compared to the previous year (RO 87K). This is mainly due to the reduction in provision for expected credit loss (ECL) on outstanding financial asset receivable from client and year end bank balances as per IFRS 9 reporting standard and the impact is partially offset due to increase in legal and professional fees.

Finance expenses have decreased by 8.1% as compared to the previous year (RO 237K). This is mainly due to the impact of the decrease in outstanding loans payable to lenders.

Current year profit before tax represents 9 % of the revenue.

Current year profit after tax represents 7% of the revenue.

Based on the financial results, the board proposes to the AGM to consider and approve a distribution of cash dividends of **15% of the share capital**.

OUTLOOK FOR 2022

SDC will continue working diligently to meet its commitment to OPWP and the people of Sharqiyah to provide enough drinking 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

CEO - Philippe Paulissen

الشرقية لتحلية المياه
Sharqiyah Desalination

In country value

ICV Targets

Maximising the In-Country Value (ICV)

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.

01

Capital Invested

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

02

Procurement

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

03

Human Resources

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

04

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 Social Responsibility

Together For A Sustainable Future 2021

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

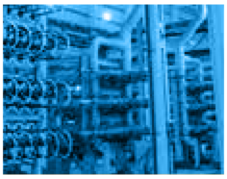
Achievements

7	Places
6	Projects
20	Governmental
51,500	Beneficiaries

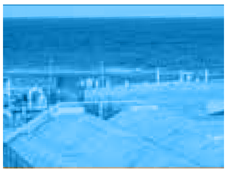
Training and qualification program (Tamkeen)

Tamkeen
Program
تمكين
TAMKEEN

In an effort by SDC to qualify, develop and train the Omani youth for the labor market and enhance their confidence in themselves through tools and skills that assist them to make their future and refine their talents.



IT HSE



ADMINISTRATION

MAINTENANCE

LABORATORY

OPERATION

Seeking to achieve the Oman Vision 2040, since the youth are the mainstay of the nation and its most valuable savings. With their efforts and hard work, we advance the country. (Tamkeen) is a pioneering project to develop and qualify the young talents.

01 Total number of beneficiaries since launch of the program is 212 beneficiaries.

02 Number of beneficiaries during this year is 40.

03 The program included the neediest segment of young men and girls by activating partnerships with the related societies.

Community Service Program

Cultivating 100 palm trees in Sur Province

Sharqiyah Desalination Company "SDC" implemented the initiative of cultivating 100 palm trees in Sur Province in support of the Oman Vision 2040 to expand the green patch.

Cooperating with Ministry of Agriculture and Fisheries

Cooperating with Municipality of Ash Sharqiyah South

Iftar Tent Initiative (5)

For the fifth consecutive year, SDC implemented Iftar Tent Initiative (5) that aims to provide an integrated breakfast meal for the needy.

In cooperation with Ministry of Labor

Supporting owners of small and medium enterprises.

Supporting the medical staff during the vaccination campaign.

SDC provided support for Ash Sharqiyah South Health Directorate as an initiative for the medical staff during the vaccination campaign throughout the period from 20/06/2021 AD to 20/08/2021 AD.

Cooperating with Ministry of Health to confront Coronavirus pandemic crisis.

Coronavirus Vaccination Campaign in Sur Ash Sharqiyah South Health Directorate

100 Food Baskets

SDC provided 100 food baskets in Ramadan month for the needy and families of laid off workers.

Providing 100 food baskets.

- Cooperating with Ministry of Social Development
- Cooperating with Oman Charitable Organization "OCO"
- Cooperating with Ministry of Labor.
- Supporting owners of small and medium enterprises.

Supporting Sur News Network

SDC supported Sur News Network, which ranks 1st place in Sur Province among social media news networks, and always publishes SDC's business in all social media sites.

Supporting Omani talents in all fields

Supporting Al-Bahjah Rehabilitation Center

SDC provided financial support for Al-Bahjah Rehabilitation Center that serves people of determination and autistic children.

Cooperating with Ministry of Social Development

Supporting Medical Centers

SDC provided support for the health centers by providing high-quality wheelchairs to facilitate the movement of patients and reduce the burden suffered by health facilities, in an effort to raise the efficiency of health services and enhance health security.

Providing high-quality wheelchairs
Ash Sharqiyah South Health Directorate
Sur Diabetes Center
Sur Health Cluster
Sur Health Center

Maintaining a Harbor

SDC provided support to maintain the Fishing Boat Harbor in Al Ayjah region to enhance the development projects.

Sur

Ministry of Agriculture and Fisheries

Construting a mountainous road for Tiwi Families

SDC provided support to the locals in mountainous areas in Tiwi by constructing a mountainous road in order to facilitate their movement.

Sur

Tiwi Municipality

Supporting those affected by Hajj depression

SDC provided financial support for those affected by Hajj depression in an effort to manage the local community's crises.

Cooperating with Ministry of Social Development during the adverse climate conditions

Sur

Ash Sharqiyah South Social Development Directorate

Supporting People with Disabilities

People with disabilities are an important component of our society. When we support develop and take care of them, the society integrates with all its segments and becomes a single unit. In this program, we support them in partnership with the government entities, by providing high quality wheelchairs.

Supporting Autism Centers

As part of the initiative adopted by SDC in cooperation with Ministry of Social Development, SDC was honored to support Al-Bahjah Rehabilitation Center by treating autism cases suffered by some children, helping, guiding and caring for their families. We hope that it will be a beacon in the field of autism treatment.

Initiatives Related to Coronavirus Pandemic

Coronavirus Pandemic invaded the world, and it disrupted development and hurted people. Therefore, the initiative of SDC was offered to help beneficiaries and health sectors.

Contributing to the vaccination campaign through supporting the medical staff.

KPMG LLC
Children's Public Library Building
4th Floor, Shatti Al Qurum
P O Box 641, PC 112
Sultanate of Oman
Tel. +968 24 749600, www.kpmg.com/om

Agreed upon procedures on Code of Corporate Governance ("the Code") of Sharqiyah Desalination Company SAOG

To the Board of Directors of Sharqiyah Desalination Company SAOG

Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting the Sharqiyah Desalination Company SAOG for submission of agreed upon procedures report on the compliance with the Code of Corporate Governance (the "Code") to Capital Market Authority ("CMA") to assist in compliance of requirements prescribed in the CMA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code") and may not be suitable for another purpose.

Responsibilities of the Sharqiyah Desalination Company SAOG

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

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

Practitioners' Responsibilities

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

KPMG

Practitioners' Responsibilities (continued)

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

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

Professional Ethics and Quality Control

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

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

Procedures and Findings

We have performed the procedures described below, which were agreed upon with Sharqiyah Desalination Company SAOG in the terms of engagement dated 8 February 2022, on the compliance with the Code:

S. No	Procedures	Findings
(a)	*We checked that the corporate governance report (the report) issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3*	No exception noted.
(b)	We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2021. With respect to procedure above, we inquired from and obtained written representation from management and those charged with governance for non-compliance with the Code for the year ended 31 December 2021.	No non-compliance with the Code noted during the year.

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

Kenneth Macfarlane,
9 February 2022

KPMG LLC

KPMG LLC
Children's Public Library Building
4th floor, Shatti Al Qurum
P O Box 641, PC 112
Sultanate of Oman
CR.No: 1358131

Page 2 of 2

CR No. 1358131
Tax Card No. 8063052

Report on Corporate Governance for the year ended 31st December 2021

In accordance with the Capital Market Authority ("CMA") guidelines, we are pleased to present the Corporate Governance Report ("the Corporate Governance Report") of Sharqiyah Desalination Company SAOG ("the Company") for the year ended 31st December 2021.

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 and the Commercial Companies Law.

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	Executive/ Non Executive	Independent/ Not independent	Shareholder/Non-shareholder
Sebastien Chauvin	Non-Executive	Not independent	Non-shareholder
Suhaib Abu Dayyeh	Non-Executive	Not independent	Non-shareholder
Abdullah Al Hashmi	Non-Executive	Not independent	Non-shareholder
Erwan Rouxel	Non-Executive	Not Independent	Non-shareholder
Nitin Bajaj	Non-Executive	Not Independent	Non-shareholder
Jean François Roberge	Non-Executive	Independent	Non- shareholder
Ali Khamis Mubarik Al Alawi	Non-Executive	Independent	Non- shareholder
Mustafa Ahmed Salman	Non-Executive	Independent	Non- shareholder

During the year 2020, 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	Non-Executive	Not Independent	Non- shareholder

Over the past year, two Directors had resigned, Abdullah Al Hashmi, representing Pension Fund civil services employees, and Erwan Rouxel.

Abdullah Al Hashmi	Non-Executive	Not independent	Non-shareholder
Erwan Rouxel	Non-Executive	Not Independent	Non-shareholder

Their replacements, Zaher Al Mahrooqi and Preeti Kaushik were approved by the Board and the Shareholders in the AGM held on 2nd March 2021 respectively.

Zaher Al Mahrooqi	Non-Executive	Not independent	Non-shareholder
Preeti Kaushik	Non-Executive	Not Independent	Non-shareholder

The members of the Board have professional and practical experience in their respective corporate fields, ensuring proper direction and control of the Company's activities. Their professional and ethical profile complies with the 2nd principle of the Code of Corporate Governance for Public Listed Companies effective 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
Nitin Bajaj	None	-
Jean Francois Roberge	None	-
Ali Khamis Mubarik Al Alawi	None	-
Chouhaid Nasr	None	-
Mustafa Ahmed Salman	Director	Oman United Insurance SAOG
Zaher Al Mahrooqi	None	-
Preeti Kaushik	None	-

The term of the Board members being elected as of March 2019 comes to its end as of March 2022.

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, an internal code for ethics and professional conduct, such as those set out in the Code of Corporate Governance annexure (2), to is adhered to and implemented by the directors and executives.

Board members' attendance record and position held during the financial year 2021:

Name of Directors	Position	Sitting fee (OMR)	Attendance			
			08-02-2021	21-04-2021	29-07-2021	25-10-2021
Sebastien Chauvin	Chairman	3,000	Present	Present	Present + Proxy	Provided Proxy
Suhaib Abudayyeh	Vice Chairman	3,750	Present	Present	Present	Present + Proxy
Preeti Kaushik	Member	3,000	Present	Present	Present	Present
Nitin Bajaj	Member	3,000	Present	Present	Present	Present
Jean Francois Roberge	Member	1,500	Present	Present	Provided Proxy	Provided Proxy
Zaher Al Mahroqi	Member	3,000	Present	Present	Present	Present
Ali Khamis Al Alawi	Member	3,000	Present	Present	Present	Present
Nasr Chouhaid	Member	3,000	Present	Present	Present	Present
Mustafa Ahmed Salman	Member	3,750	Present	Present	Present	Present + Proxy
	TOTAL	**27,000**				

The above meetings were held via conference calls due to Covid-19 pandemic, save for the Board Meeting held on 25 October 2021 which was convened with physical attendance with the option to attend virtually.

Board members' attendance record and position in relation to the AGM held on held on 2nd March 2021 :

Name of Directors	Position	Attendance
		02-03-2021
Sebastien Chauvin	Chairman	Present
Suhaib Abudayyeh	Vice Chairman	Present
Preeti Kaushik	Member	Present
Nitin Bajaj	Member	Present
Jean Francois Roberge	Member	Absent
Zaher Al Mahroqi	Member	Present
Ali Khamis Al Alawi	Member	Present
Nasr Chouhaid	Member	Absent
Mustafa Ahmed Salman	Member	Present

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:

- Strategic insight; and ability to direct, encourage innovation and continuously drive the company to consolidate its vision.
- Required expertise in financial accounting and corporate finance.
- Understanding of management trends in general and the respective industry in particular.
- Ability to deal with crises, both short term and prolonged.
- Proper and relevant experience in the nature of the company's business.
- 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 27,000 (2020: OMR 25,500).

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 Company Secretary has been appointed based on the following perquisites:

- To have knowledge background in accounting, audit and company secretariat;
- To have practical experience in business administration and executive management;
- 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:

- Consideration and review of the internal audit system, and consequently submitting an annual written report outlining its opinion and recommendations;
- Consideration of the internal audit reports and follow up remedial action with regard to the comments therein;
- Providing recommendations to the Board vis-à-vis the appointment and removal of external auditors as well as specifying their fees;
- Following up the work of the external auditors and approving any non-audit services which they are assigned during the audit process;
- Consideration of the audit plan in conjunction with the external auditor and comment thereon;
- Consideration and follow up of the comments of the external auditor on the financial statements;
- Consideration of financial statements prior to their presentation to the Board, providing opinion and recommendations;
- Consideration of the adopted accounting policy, providing opinion and recommendations thereon to the Board;
- 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;
- Overseeing the preparation of financial statements;
- Serving as a communication channel between the Board, external auditors and the internal auditor;
- Reviewing the details of all proposed RPTs, and providing appropriate recommendations to the Board;
- 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 2021 to 31st December 2021:

Name of Members	Position	Sitting fee (OMR)	Attendance			
			08-02-2021	21-04-2021	29-07-2021	25-10-2021
Jean Francois Roberge	Chairman	1,000	Present	Present	Provided Proxy	Provided Proxy
Nitin Bajaj	Member	2,000	Present	Present	Present	Present
Mustafa Ahmed Salman	Member	3,000	Present	Present	Present + Proxy	Present + Proxy
	TOTAL	**6,000**				

The Audit Committee received sitting fees for their attendance for the period from 1st January 2021 to 31st December 2021, for an amount of OMR 6,000 (2020: OMR 6,000).

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.	Preeti Kaushik	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 2021 to 31st December 2021:

Name of Members	Position	Sitting fee (OMR)	Attendance	
			08-02-2021	**22-12-2021**
Ali Khamis Al Alawi	Chairman	1,000	Present	Present
Suhaib Abudayyeh	Member	1,000	Present	Present
Erwan Rouxel	Former Member	-	Absent	- (Resigned)
Preeti Kaushik	Member	500	-	Present
	TOTAL	**2,500**		

In the year 2018, the Board approved a formal succession policy for executive management and Directors of the Board as proposed by the Nomination and Remuneration Committee and the next succession policy which was 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 was 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 15 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 MSX.

Nasr chouhaid

Mr. Nasr Chouhaid has over 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 14 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.

Preeti Kaushik

Ms. Preeti Kaushik has experience of 17 plus years, she has been working with Veolia Oman as organization development Manager since 2011.

She holds a Masters of Business Administration (MBA) obtained in 2004.

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 (MSX) and finally published in the newspapers as per the directives of CMA.

Important Board of Directors decisions are disclosed to the investors through MSX 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.

The Company has updated its disclosure policy which is subject to the review and approval of the Board of Directors.

13. Compliance with Rules and Regulations

The Company has been compliant with all the applicable rules and regulations issued by MSX, CMA and those stipulated in the Commercial Companies Law 1974 as amended - by Royal Decree No. 18/2019 as well as the Executive Regulation of the Commercial Companies Law and the Executive Regulations for Public Joint Companies.

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 MSX or any other statutory bodies on the Company in the past three years.

14. Audit and internal control

In consultation with the Audit Committee, the Board has appointed external auditors which was approved in the AGM 2nd March 2021.

The external audit firm KPMG provides audit services to the Company. In accordance with the Corporate Governance Code, the services of KPMG 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.

The Company has appointed BDO, a well-renowned audit firm, to improve the internal auditing function of the Company and train the junior auditor. As a publicly traded company on the MSX, 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 2020 was as follows:

The closing share market price was OMR 0.112 per share as of 31st December 2021. The opening price on 1st January 2020 was OMR 0.265 per share.

The highest share price was of OMR 0.263 (February 06, 2020) and the lowest share price was of OMR 0.112 (22nd December 2021).

b) The Company's performance compared to MSX Industry Sector Index

The index of MSX 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 MSX Service Sector Index[7] 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://msx.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 2021 is OMR 9,780,216 as follows:

	2021		2020	
	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 2021.

18. Professional profile of the statutory auditor

The shareholders of the Company appointed KPMG as its auditors for 2021. KPMG LLC in Oman was established in 1973 and is part of KPMG Lower Gulf Limited. KPMG in Oman employs more than 150 people, amongst whom are five partners and seven directors, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. It operates in 145 countries and territories and has 236,000 people working in member firms around the world. KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms.

19. Details of non-compliance by the Company

No penalties have been imposed by CMA or MSX or any other statutory bodies on the company in the past three years.

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 2021. The Board of Directors has concluded based on this that the internal controls are effectively in place.

Sebastien Chauvin
Chairman of the Board

Jean-Francois Roberge
Chairman of the Audit Committee

KPMG

KPMG LLC
Children's Public Library Building
4th Floor, Shatti Al Qurum
P O Box 641, PC 112
Sultanate of Oman
Tel. +968 24 749600, www.kpmg.com/om

Independent auditors' 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 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

KPMG

Key Audit Matters (continued)	
The Key audit matters (see note 11, 4.4 and 3(d) of the financial statements)	**How the matter was addressed in our audit**
1. Expected credit loss on finance lease receivable As of 31st December 2021, the Company has a significant balance of finance lease receivable representing 93.4 % of total assets. The determination of expected credit loss (ECL) involves significant estimates and judgements. The management's determination of ECL, results in an unusually high level of judgement and material uncertainty, which may materially change the estimates in future periods. Since the finance lease receivable is a material component of total assets and in view of the 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.	As part of our audit procedures, we have performed the following: • Obtained an understanding of the Company's process for estimating ECL and assessed the appropriateness of the ECL methodology and the accounting policy against the requirements of IFRS 9. • Identified and tested key controls over the ECL model. • Assessed the reasonableness of management's key assumptions and judgments made in determining the ECL allowances, including the selection of ECL models, segmenting of receivables and data sources. • We tested key inputs of the model, such as those used to calculate the likelihood of default and the subsequent loss on default, by comparing to historical data. We also assessed the reasonableness of forward-looking factors used by the Company by corroborating with publicly available information. We also assessed the appropriateness of the relevant accounting policies and the related disclosures, set out in note 3(d) and 4.4 and note 11, respectively to the financial statements are in accordance with IFRS.

Other Matters

The financial statements of the Company for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 9 February 2021.

Other Information

Management is responsible for the other information. The other information comprises of:

- Chairman's report
- Management discussion and Analysis report
- Corporate Governance report

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and their preparation in compliance with the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on Other Legal and Regulatory Requirements

We report that financial statements of the Company as at and for the year ended 31 December 2021 comply, in all material respects, with the:

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

Kenneth Macfarlane
9 February 2022

KPMG LLC
Children's Public Library Building
4th floor, Shatti Al Qurum
P O Box 641, PC 112
Sultanate of Oman
CR.No: 1358131

KPMG LLC

الشرقية لتحلية المياه
Sharqiyah Desalination

FINANCIAL STATEMENT

Statement of Financial Position	46
Comprehensivve Income	47
Statement of Changes in Equity	48
Statement of Cash Flows	49
Notes	50-93

الشرقية لتحلية المياه
Sharqiyah Desalination

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RO	2020 RO
ASSETS			
Property and equipment	9	**439,756**	477,568
Finance lease receivable	11	**58,932,127**	62,168,988
Right-of-use assets	10	**137,550**	14,682
Total non-current assets		**59,509,433**	62,661,238
Trade and other receivables	12	**1,659,727**	1,361,735
Amount due from related parties	21	**73,750**	87,283
Finance lease receivable	11	**3,266,199**	2,999,477
Cash and cash equivalents	13	**2,113,649**	2,059,932
Total current assets		**7,113,325**	6,508,427
TOTAL ASSETS		**66,622,758**	69,169,665
EQUITY AND LIABILITIES			
Equity			
Share capital	14	**9,780,216**	9,780,216
Legal reserve	14	**2,516,882**	2,421,747
Retained earnings		**5,718,283**	6,208,806
Cumulative changes in fair values	15	**(3,712,334)**	(6,300,712)
Total equity		**14,303,047**	12,110,057
Liabilities			
Derivative financial instruments	15,22	**3,893,164**	6,634,155
Long term loan	16	**39,691,997**	42,755,333
Deferred tax liability	19	**2,661,846**	1,929,530
Deferred revenue	17 (b)	**284,650**	294,373
Employees' end of service benefit	7(b)	**102,329**	88,948
Lease liabilities	18	**81,418**	6,145
Total non-current liabilities		**46,715,404**	51,708,484
Derivative financial instruments	15,22	**474,286**	778,446
Trade and other payables	17(a)	**917,620**	521,207
Long term loan	16	**3,145,763**	3,049,464
Amount due to related parties	21	**999,678**	981,948
Lease liabilities	18	**57,238**	11,162
Deferred revenue	17 (b)	**9,722**	8,897
Total current liabilities		**5,604,307**	5,351,124
Total liabilities		**52,319,711**	57,059,608
TOTAL EQUITY AND LIABILITIES		**66,622,758**	69,169,665
Net asset value per share	23	**0.146**	0.124

The financial statements were approved and authorised for issue by the Board of Directors on 8 February 2022 and signed on their behalf by:

Chairman

Chief Financial Officer

The attached notes 1 to 24 form an integral part of these financial statements.

Sharqiyah Desalination

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 RO	2020 RO
Revenue	5	**13,776,377**	13,459,810
Cost of sales	6	**(9,139,057)**	(8,140,372)
GROSS PROFIT		**4,637,320**	5,319,438
Administrative and general expenses	7 (a)	**(776,768)**	(709,043)
Finance expenses	8	**(2,671,668)**	(2,908,426)
Reversal / provision for Expected Credit Loss	11, 12, &13	**38,008**	(116,981)
PROFIT BEFORE TAX		**1,226,892**	1,584,988
Taxation	19	**(275,544)**	(237,827)
PROFIT FOR THE YEAR		**951,348**	1,347,161
OTHER COMPREHENSIVE INCOME / (EXPENSE), NET OF TAX			
Items that may be reclassified to profit or loss in subsequent periods:			
Fair value adjustment on derivatives	15	**3,045,150**	(2,178,172)
Deferred tax on fair value adjustment	19	**(456,773)**	326,726
OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR, NET OF TAX		**2,588,377**	(1,851,446)
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR		**3,539,725**	(504,285)
BASIC AND DILUTED EARNINGS PER SHARE	24	**0.010**	0.014

The attached notes 1 to 24 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital RO	Legal reserve RO	Retained earnings RO	Cumulative changes in fair values RO	Total RO
1 January 2021	**9,780,216**	**2,421,747**	**6,208,806**	**(6,300,712)**	**12,110,057**
Profit for the year	**-**	**-**	**951,348**	**-**	**951,348**
Other comprehensive income					
Fair value adjustment, net of tax	**-**	**-**	**-**	**2,588,377**	**2,588,377**
Total comprehensive income	**-**	**-**	**951,348**	**2,588,377**	**3,539,725**
Transfer to legal reserve	**-**	**95,135**	**(95,135)**	**-**	**-**
Dividend paid (note 14 (c))	**-**	**-**	**(1,346,735)**	**-**	**(1,346,735)**
31 December 2021	**9,780,216**	**2,516,882**	**5,718,284**	**(3,712,335)**	**14,303,047**

	Share capital RO	Legal reserve RO	Retained earnings RO	Cumulative changes in fair values RO	Total RO
1 January 2020	9,780,216	2,287,031	6,634,547	(4,449,266)	14,252,528
Profit for the year	-	-	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 24 form an integral part of these financial statements.

Sharqiyah Desalination
الشرقية لتحلية المياه

STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Notes	2021 RO	2020 RO
OPERATING ACTIVITIES			
Profit for the period		**951,348**	1,347,161
Adjustments for:			
Depreciation of fixed assets	9	**106,651**	106,273
Depreciation of right of use assets	10	**38,857**	14,481
Finance cost	8	**2,671,668**	2,908,426
(Reversal) / provision for expected credit loss	11,12 & 13	**(38,008)**	116,981
Transfer to provision for end of service benefits	7 (b)	**22,314**	22,319
Interest income on finance lease	5	**(5,616,814)**	(5,877,631)
Tax expense		**275,544**	237,827
Operating loss before working capital changes		**(1,588,440)**	(1,124,163)
Receipt against finance lease recoverable		**8,616,291**	8,616,292
Trade and other receivables		**(297,992)**	32,369
Trade and other payables		**203,998**	(1,670)
Accruals		**146,335**	6,913
Due from related parties		**13,533**	(38,069)
Due to related parties		**17,730**	190,039
Deferred revenue	17 (b)	**(8,898)**	(8,143)
Cash from operations		**7,102,557**	7,673,568
Finance costs paid		**(2,518,663)**	(2,826,091)
End of service benefit paid	7 (b)	**(8,933)**	(7,568)
Withholding tax paid		**(9,694)**	(3,219)
Net cash from operating activities		**4,565,267**	4,836,690
INVESTING ACTIVITY			
Addition to property and equipment	9	**(68,839)**	(72,496)
Net cash used in investing activity		**(68,839)**	(72,496)
FINANCING ACTIVITIES			
Dividend paid		**(1,346,736)**	(1,638,186)
Repayment of loan	16	**(3,049,464)**	(3,306,261)
Lease payments	18	**(46,511)**	(17,748)
Net cash used in financing activities		**(4,442,711)**	(4,962,195)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**53,717**	(198,001)
Cash and cash equivalents at 1 January	13	**2,059,932**	2,257,933
Cash and cash equivalents at 31 December	13	**2,113,649**	2,059,932

The attached notes 1 to 24 form an integral part of these financial statements.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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. 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').

On July 10, 2014, the Company signed the amended agreement will facilitate plant expansion. Post plant expansion the combined capacity of the plant increased from 17.66 MIGD to 29 MIGD. The term of the amended & restated WPA was 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.

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 acknowl

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2 SIGNIFICANT AGREEMENTS (continued)

(iii) Novation Agreement dated 25 December 2014

edged 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.

(iv) 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

(v) 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:

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

2 SIGNIFICANT AGREEMENTS (continued)

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

- 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.

(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) as issued by the International Accounting Standards Board (IASB) and the applicable requirements of the Commercial Companies Law of 2019.

(b) Basis of measurement

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

(c) Functional currency

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

(d) Use of judgement

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

3 BASIS OF PREPARATION (continued)

(d) Use of judgement (continued)

(i) 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, WPA with OPWP was considered as a lease within the context of IFRS 16 and has been classified as an finance lease since. The primary basis for this conclusion is because of the term of agreement is for the major part of the remaining economic life of the plant and the present value of minimum lease payments at inception amounts to substantially all of the fair value of the underlying asset.

(ii) Asset retirement obligation

Asset retirement obligation is based on management's assessment of the probable future costs to be incurred in respect of the decommissioning of the plant and restoration of the land.

The company has a usufruct agreement with the Ministry of Housing Oman from the COD of the plant that is valid for 25 years. As per clause 11 of the usufruct agreement, on the expiry date of the usufruct term, the Government may require the company either to remove all the structure or to sell and transfer the plant to the government at the mutually agreed price.

Management believes that there is no contractual obligation to remove the plant at the expiry of the usufruct, instead, it gives an option to the company that they may sell and transfer the plant to the Ministry of Housing at such price as is agreed between the two parties. The water plant is a strategic asset serving the Sur area and it is highly probable that government will not ask the company to remove this plant considering a significant amount of capital expenditure would be required to build a new plant to serve in the same area.

The management reassesses this judgment at each reporting date to ensure that there is no change in the outcome.

(e) Use of estimates

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:

3 BASIS OF PREPARATION (continued)

(e) Use of estimates (continued)

(i) Expected credit loss on finance lease receivable;

The Company assesses on a forward-looking basis the expected credit loss 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. Following

significant significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Please refer note 22 (i) for disclosure of expected credit loses of the company.

(i) 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.

(ii) 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.

(f) Impact of COVID-19

The novel coronavirus (COVID-19) pandemic developed rapidly in 2020, with a significant number of cases and had a substantial impact on economies and businesses. The Government of Oman established the Supreme Committee for COVID-19 so as to deal with the pandemic situation in the country and contain impact to the extent possible.

To date, the Company has not experienced any significant pandemic-related impact on its operating and financial performance. However, the Company has taken all possible measures to mitigate the risks arising from the COVID-19 situation such as safety and health measures for the employees (such as social distancing and working from home) and securing the supply of materials that are essential to the operations.

The Company is closely monitoring the developing situation of the pandemic at country, regional and global level and will continue to evaluate and assess the effects of pandemic. The Company will continue to follow the various government policies and advice and, in parallel, will do its utmost to continue its operations in the best and safest way possible without jeopardising the health of its employees.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

3 BASIS OF PREPARATION (continued)

(g) Change in the accounting policies

(i) New standards or amendments for 2021 and forthcoming requirements

A number of new standards, amendments to standards and interpretations are effective for the periods beginning on or after 1 January 2021. Those, which are relevant to the Company, are set out below.

New and revised IFRS in issue and effective

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) effective from 1 January 2021;
- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) effective from 1 April 2021.

These standards do not have any material impact on these financial statements

(ii) New and revised IFRS in issue but not yet effective

The following new or amended standards are not expected to have a significant impact on the Company's financial statements.

- Property and equipment: Proceeds before intended use - Amendments to IAS 16. Effective date of this amendment is for annual periods beginning on or after 1 January 2022;
- Reference to the Conceptual Framework - Amendments to IFRS 3. Effective date of this amendment is for annual periods beginning on or after 1 January 2022;
- Onerous Contracts - Cost of Fulfilling a Contract Amendments to IAS 37. Effective date of this amendment is for annual periods beginning on or after 1 January 2022;
- Annual Improvements to IFRS Standards 2018-2020. Effective date of this amendment is for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 1, Presentation of financial statements on classification of liabilities. Effective date of this amendment is for annual periods beginning on or after 1 January 2023;
- IFRS 17 Insurance contracts. Effective date of this standard is annual periods beginning on or after 1 January 2023; and
- Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28. the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial Instruments (continued)

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").

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)

(1) Financial assets carried at amortised cost;

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(1) Financial assets carried at amortised cost; (continued)

(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).

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

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.

(i) Debt instruments at FVOCI

The Company applies the category of debt instruments measured at FVOCI when both of the following conditions are met and is not designated through FVTPL

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

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

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

ii) Equity instruments at FVOCI

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

The Company have no equity instruments at FVOCI.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

a) 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).

For trade receivable 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 covered under IFRS 16, 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).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment, that includes forward-looking information.
The company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The company considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1.1 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.

4.1.2 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 statement of comprehensive income immediately.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1.2 Cash flow hedge (continued)

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.

In July 2017, the United Kingdom Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), announced that 6 month USD Libor would cease after June 2023. LIBOR is one of the most common series of benchmark interest rates. LIBOR reforms and expectation of cessation of LIBOR will impact the Company's current risk management strategy and possibly accounting for its financial liabilities.

As part of the Company's risk management strategy, the Company uses financial instruments to manage exposures arising from variation of interest rates that could affect profit or loss or other comprehensive income and applies hedge accounting to these instruments (note 11).

These financial instruments are referenced to Libor. Refer Note 11 to the financial statements for nominal value and details of derivative contracts under hedging arrangements.

The Company had adopted the Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7 issued in September 2019. 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 LIBOR reform should not generally cause hedge accounting to terminate.

4.1.3 Cash flow hedge

In calculating the change in fair value attributable to the hedged risk of term loan, the Company has made the following assumptions that reflect its current expectations:

- The floating-rate debt will move to the benchmark adopted during 2023, and the spread will be similar to the spread included in the interest rate swap used as the hedging instrument;
- No other changes to the terms of the term loan are anticipated; and
- the Company has incorporated the uncertainty over when the floating-rate debt will move to new adopted benchmark, the resulting adjustment to the spread, and the other aspects of the reform that have not yet been finalised by adding an additional spread to the discount rate used in the calculation.

The Company is assessing the impact and next steps to ensure a smooth transition from LIBOR to the new benchmark rates

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Property and equipment

Property 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. 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.

Any gain or loss on disposal of an item of Property and equipment is recognised in statement of comprehensive income.

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- Sea Wells	7
Equipment and machinery	7
Office equipment	7
Furniture and fixtures	3
Computer and accessories	7

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

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 from the commencement date over the shorter of the lease term and the estimated useful lives of the assets, as follows:

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Leases *(continued)*

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.

Company as a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Leases *(continued)*

Company as a lessor (continued)

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

At commencement, the company recognises a finance lease receivable at an amount equal to its net investment in the lease, which comprises the present value of the lease payments and any unguaranteed residual value accruing to the company. The present value is calculated by discounting the lease payments and any unguaranteed residual value, at the interest rate implicit in the lease. Initial direct costs are included in the measurement of the finance lease receivable, because the interest rate implicit in the lease, used for discounting the lease payments, takes initial direct costs incurred into consideration

The company derecognises the underlying asset and recognises the difference between the carrying amount of the underlying asset and the finance lease receivable in profit or loss when recognising the finance lease receivable. This gain or loss is presented in profit or loss in the same line item as that in which the company presents gains or losses from sales of similar assets. For a discussion of manufacturer or dealer company,

Over the lease term, the company accrues finance income on the net investment. The receipts under the lease are allocated between reducing the net investment and recognising finance income, to produce a constant rate of return on the net investment.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Fair values *(continued)*

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

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

4.6 Employees' end of service benefits

Obligations for contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Omani Social Insurance Scheme, are recognised as an expense in profit and loss as the related service is provided.

The Company's obligation in respect of non-Omani employees' end of service benefits is the amount of future benefit that such employees have earned in return for their service in the current and prior periods having regard to the employee contract and Oman Labour Law 2003, as amended.

In accordance with the provisions of IAS 19, Employee benefits, management carries an exercise to assess the present value of the Company's obligations as of reporting date, using the actuarial techniques, in respect of employees' end of service benefits payable under the Oman aforesaid Labour Law. Under this method, an assessment is made of an employee's expected service life with the Company and the expected basic salary at the date of leaving the service.

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 from sale of water and making capacity available to OPWP is recognised at point in time 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.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Revenue from Contracts with Customers *(continued)*

A receivable is recognised when the water output is produced/ delivered, or the capacity is made available over time.

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 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 and are recognised as an expense in the statement of comprehensive income.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

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 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Other balances representing a residual interest in the net assets of the Company are also presented in equity.

4.15 Legal reserve

In accordance with the Article 132 of the Commercial Companies Law of 2019, annual appropriations of 10% of the profit for the year are made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the Company's paid-up share capital. This reserve is not available for distribution.

4.16 Trade and other receivables

Trade and other are initially recognised when they are originated. All other financial assets are initially recognised when the company becomes a party to the contractual provisions of the instrument.

4.17 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.

4.18 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.

4.19 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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19 Impairment of non-financial assets (continued)

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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.

5 REVENUE

	2021 RO	2020 RO
Revenue from contract with customer		
Water output operation and maintenance charges	**1,242,933**	1,110,818
Water capacity operation and maintenance charge	**3,300,184**	3,346,577
Deferred revenue – custom duty	**8,898**	8,143
	4,552,015	4,465,538
Revenue from lease contracts		
Interest income on finance lease*	**5,616,814**	5,877,631
Desalination licence fee and connection fee – recoverable from OPWP	**16,692**	18,884
Electricity charges	**3,590,856**	3,097,757
	9,224,362	8,994,272
	13,776,377	13,459,810

Disaggregation of revenue

The revenue has been disaggregated based on the key drivers by which the Company receives and recognises its revenue. Accordingly, the disaggregated revenue line items do not represent or correspond to the operating segments as defined by IFRS 8 and explained in note 4.13.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

5 REVENUE (continued)

Allocation of transaction price to remaining performance obligation

The Company has no unsatisfied performance obligations with respect to billed revenue. The Company has right to invoice for every unit of output and making available the designated capacity. Actual invoicing for the delivered output is done at the end of every month.

The Company has recognized impairment losses on receivables arising from Company's contract with customer (note 12).

All the revenue of the Company accrues from contracts with customer.

6 COST OF SALES

	2021	2020
	RO	RO
Operation and maintenance fixed charges	**4,137,269**	3,778,706
Operation and maintenance variable charges	**1,242,934**	1,110,818
Operation and maintenance electricity charges	**269,037**	176,804
Electricity charges	**3,321,819**	2,920,953
Plant related operating costs & connection fees	**71,862**	55,457
Depreciation	**78,700**	72,170
Desalination licence fee	**17,436**	25,464
	9,139,057	8,140,372

7 (a) ADMINISTRATIVE AND GENERAL EXPENSES

	2021	2020
	RO	RO
Employee related costs (see below)	**396,042**	397,773
Legal and professional expenses	**184,902**	111,375
Directors' sitting fee	**30,050**	45,325
Insurance	**63,331**	62,014
Depreciation – fixed assets	**27,951**	34,103
Travelling expenses	**9,116**	11,156
Depreciation – right-of-use asset (note 10)	**38,857**	14,481
Others	**26,519**	32,816
	776,768	709,043

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

7 (a) ADMINISTRATIVE AND GENERAL EXPENSES (continued)

Employee related expenses are as follows:

	2021	2020
	RO	RO
Salaries, wages and other benefits	**379,320**	378,493
End of service benefit	**13,381**	14,750
Contributions to Omani Social Insurance Scheme	**3,341**	4,530
	396,042	397,773

7 (b) Employee end of service benefit

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

	2021	2020
	RO	RO
Balance as at 1 January	**88,948**	74,198
Accrued during the year	**22,314**	22,319
Paid during the year	**(8,933)**	(7,568)
Balance as at 31 December	**102,329**	88,948

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

8 FINANCE EXPENSES – NET

	2021	2020
	RO	RO
Finance cost		
Interest on long term loans	**971,279**	1,506,277
Hedging charges*	**1,538,159**	1,246,974
Amortisation of deferred finance cost	**82,428**	89,369
Performance bond commission and guarantee	**39,600**	31,097
Agency fee and role fee	**32,176**	31,781
Interest on leases	**6,135**	1,749
Others	**1,891**	1,745
Total finance cost	**2,671,668**	2,908,992
Finance income		
Interest revenue	**-**	566
Total finance income	**-**	566
Finance expenses- Net	**2,671,668**	2,908,426

*Interest rate expense on the interest rate swap is the effective portion of hedge

9 PROPERTY AND EQUIPMENT

	Buildings	**Plant and equipment**	**Office equipment**	**Furniture and fixtures**	**Computer and accessories**	**Total**
	RO	**RO**	**RO**	**RO**	**RO**	**RO**
Cost						
1 January 2021	**104,285**	**524,667**	**82,558**	**61,896**	**107,329**	**880,735**
Addition			**13,107**	**50,967**	**4,765**	**68,839**
31 December 2021	**104,285**	**524,667**	**95,665**	**112,863**	**112,094**	**949,574**
Depreciation						
1 January 2021	**83,061**	**137,589**	**54,127**	**60,855**	**67,535**	**403,167**
Charge for the year	**7,320**	**78,700**	**9,546**	**1,677**	**9,408**	**106,651**
31 December 2021	**90,381**	**216,289**	**63,673**	**62,532**	**76,943**	**509,818**
Net book value **31 December 2021**	**13,904**	**308,378**	**31,992**	**50,331**	**35,151**	**439,756**

	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

(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 (continued)

For the year ended 31 December 2021

10 RIGHT OF USE ASSETS**

	Office Lease*	Vehicles*	Total
Cost	**RO**	**RO**	**RO**
At 1 January 2021	**-**	**72,404**	**72,404**
Addition	**161,725**		**161,725**
31 December 2021	**161,725**	**72,404**	**234,129**
Depreciation			
At 1 January 2021	**-**	**57,722**	**57,722**
Charge for the year	**29,215**	**9,642**	**38,857**
31 December 2021	**29,215**	**67,364**	**96,579**
Net book value 31 December 2021	**132,510**	**5,040**	**137,550**

* Vehicle are obtained for the period of 5 years and office is leased for the period of 3 years

****** As further disclosed in note 20 of the Financial statement, the company is having a right to use the land owned by Ministry of Housing. The company is required to make a nominal payment of RO 1,000 each year.

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

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

11 FINANCE LEASE RECEIVABLE

	2021	2020
	RO	RO
At 1 January	65,273,446	68,012,107
Add: Finance income	5,616,814	5,877,631
Less: Lease instalments	(8,616,291)	(8,616,292)
Less: Provision for expected credit loss	(75,643)	(104,981)
	62,198,326	65,168,465

The Company calculated the expected credit loss on finance lease receivable and recorded a provision for expected credit loss in statement of financial position of RO 75,643.

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.

Refer to Note 1 Company has entered in to the Amended and Restated Water Purchase Agreement ("AWPA") with OPWP. 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).

	2021	2020
	RO	RO
Non-current	58,932,127	62,168,988
Current	3,266,199	2,999,477
	62,198,326	65,168,465

11 FINANCE LEASE RECEIVABLE (continued)

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

	2021	2020
	RO	RO
31 December 2021		
Less than one year	**8,616,291**	8,616,291
One to two years	**8,616,291**	8,616,291
Two to three years	**8,616,291**	8,616,291
Three to four years	**8,616,291**	8,616,291
Four to five years	**8,616,291**	8,616,291
More than five years	**58,434,389**	67,050,680
Total undiscounted lease receivables	**101,515,846**	110,027,155
Unearned finance income	**(39,317,520)**	(44,858,690)
Net investment in the lease	**62,198,326**	65,168,465

The Company assesses on a forward-looking basis the expected credit loss 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.

12 TRADE AND OTHER RECEIVABLES

	2021	2020
	RO	RO
Financial assets		
Receivable from OPWP	**1,489,798**	1,309,948
ECL Provision	**(1,691)**	-
Non-financial assets		
Prepayments	**47,090**	51,787
VAT due from tax authority	**124,530**	-
	1,659,727	1,361,735

The Company calculated the expected credit loss on trade and other receivables and recorded a provision for expected credit loss in statement of financial position of RO 1,691

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

13 CASH AND CASH EQUIVALENTS

	2021	2020
	RO	RO
Cash in hand	**504**	974
Bank balances	**2,114,734**	2,070,958
Provision for expected credit loss	**(1,589)**	(12,000)
	2,113,649	2,059,932

The Company calculated the expected credit loss on bank balance and recorded a provision for expected credit loss in statement of financial position of RO 1,589.

14 SHARE CAPITAL AND RESERVES

(a) Share capital

Authorised share capital comprises 105,000,000 ordinary shares *(31 December 2020: 105,000,000 ordinary shares).*

Issued and fully paid share capital of the Company is RO 9,780,216 *(2020: RO 9,780,216)* as follows:

	2021		2020	
	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.

(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 3 March 2020 the shareholders' approved distribution of a cash dividend at rate of 16.75% of the share capital (RO 1,638,186).

In an Annual General Meeting held on 10 March 2021 the shareholders' approved distribution of a cash dividend at rate of 13.77% of the share capital (RO 1,346,736).

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

14 SHARE CAPITAL AND RESERVES (continued)

(d) Proposed dividend

The Board of Directors at the meeting held on 8 February 2022 has proposed to distribute cash dividend for an amount of RO 1,467,032 for the year 2021 (15% 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 3 March 2022.

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 2021, 6 month US LIBOR was approximately 0.34325% (31 December 2020: 0.25763 %), 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 4.37 million (31 December 2020: RO 7.41 million) by the counter parties to the ISDA.

In order to comply with International Financial Reporting Standard 9 "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 2021 in the amount of approximately RO 3.7 million (31 December 2020: RO 6.3 million), net of deferred tax asset, has been recorded within equity and the gross deficit in the amount of RO 4.37 million (31 December 2020: RO 7.41 million) is recorded under liabilities.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

15 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

31 December 2021			**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	**4,367**	**38,639**	**4,015**	**26,146**	**6,814**

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

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

	2021	2020
	RO	RO
Term loan (syndicated)	**44,027,846**	47,077,311
Less: deferred finance cost	**(1,190,086)**	(1,272,514)
31 December	**42,837,760**	45,804,797
Current	**3,145,763**	3,049,464
Non-current	**39,691,997**	42,755,333
	42,837,760	45,804,797

The movement in the loan balance of RO 3,049,464 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 (continued)

For the year ended 31 December 2021

16 Long term loan (continued)

Loan agreement dated 26 March 2015. As per the agreement, the Company is required to make biannual repayment in June and December.

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% -1.85%, having maturity at 25 March 2033.

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

	2021	2020
	RO	RO
Accruals	**684,306**	491,892
Trade payables	**29,986**	29,315
VAT due to tax authority	**203,328**	-
	917,620	521,207

Related parties balances are set out in note 21.

17 (b) Deferred revenue

	2021	2020
	RO	RO
Balance as at 1 January	**303,270**	311,413
Recognised to profit or loss during the year	**(8,898)**	(8,143)
Balance as at 31 December	**294,372**	303,270
Non-current	**284,650**	294,373
Current	**9,722**	8,897

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

17 (b) Deferred revenue *(continued)*

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 that 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.

18 Lease liabilities

	2021	2020
	RO	RO
Lease liability recognised in the current year as follows;		
At 1 January	**17,307**	33,306
Addition During the Year	**161,725**	-
Accrual of interest	**6,135**	1,749
Payments during the year	**(46,511)**	(17,748)
At 31 December	**138,656**	17,307
Current lease liabilities	**57,238**	11,162
Non-current lease liabilities	**81,418**	6,145
	138,656	17,307

19 Income tax

The taxation charges for the year comprise:

	2021	2020
	RO	RO
Deferred taxation:		
Current year	**(275,544)**	(237,827)
	(275,544)	(237,827)

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

19 Income tax (continued)

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

	2021	2020
	RO	RO
Accounting profit before tax for the year	**1,226,892**	1,584,988
Tax at the rate of 15%	**184,034**	237,748
Add Disallowed expenses	**91,510**	-
Expenses not allowed in tax	**-**	79
Tax expense for the year	**275,544**	237,827

The tax rate applicable to the Company is 15% *(2020 15%)*. For the purpose of determining the taxable results, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income an d expense. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

The disallowed expenses include an amount of RO 90,407. This pertain to a tax assessment for the year 2018 where certain expenses amounting to RO 601,176 were disallowed.

These expenses pertain to waiver of loan from the affiliated company resulting in a disallowed tax expense of RO 90,407.

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 15% *(2020: 15%)*. Deferred tax (assets) and liabilities and deferred tax charge / (credit) in the statement of comprehensive income are attributable to the following items:

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

19 Income tax (continued)

	1 January 2021 RO	**Recognised in income RO**	**Recognised in equity RO**	**31 December 2021 RO**
Financial lease receivable	**3,387,072**	**225,558**	**-**	**3,612,630**
Carry forward taxable losses	**(345,653)**	**49,985**	**-**	**(295,668)**
Fair value of derivative financial instruments	**(1,111,889)**	**-**	**456,773**	**(655,116)**
Net deferred tax liability	**1,929,530**	**275,544**	**456,773**	**2,661,846**

	1 January 2020 RO	Recognised in income RO	Recognised in equity RO	31 December 2020 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

20 Commitments and contingencies

Usufruct right fees

	2021 RO	2020 RO
Usufruct right fee	**17,000**	18,000

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

21 Related party transactions and balances

The Company has related party relationship with its affiliates, its key management personnel 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**	**2021 RO**	2020 RO
Bahwan Veolia Water LLC	Affiliate	**31,384**	33,090
Veolia LLC	Affiliate	**32,496**	49,883
Seureca Muscat LLC	Affiliate	**9,870**	4,310
		73,750	87,283

Amounts due to related parties	**Nature of Relationship**	**2021 RO**	2020 RO
Veolia Eau Compagnie Generale des Eaux	Shareholder	**3,099**	15,089
Veolia LLC	Affiliate	**-**	50,340
Bahwan Veolia Water LLC	Affiliate	**995,909**	915,849
Enova Facilities Management Services LLC	Affiliate	**670**	670
		999,678	981,948

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

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

21 Related party transactions and balances (continued)

Transactions with related parties during the period are as below:

	2021 RO	2020 RO
Bahwan Veolia Water LLC		
Operation & Maintenance services incurred	**5,978,469**	5,066,328
Other services incurred	**100,478**	118,991
Payments made for the services	**(5,998,886)**	(5,048,691)
Services rendered	**(280,267)**	(261,098)
Cash received for services rendered	**281,973**	257,378
Veolia LLC		
Services incurred	**440,669**	340,873
Payments made for the services	**(491,009)**	(293,169)
Services rendered	**(294,644)**	(238,293)
Cash received for services rendered	**312,031**	204,754
Seureca Muscat LLC		
Services rendered	**(20,370)**	(15,047)
Cash received for services rendered	**14,810**	14,237
Middle East Investment LLC		
Services incurred	**-**	5,334
Payments made for the services	**-**	(5,334)
Veolia Eau Compagnie Generale Des Eaux		
Services incurred	**-**	7,048
Payments made for the services	**(11,990)**	-
Enova Facilities Management Services LLC		
Services incurred	**7,944**	9,406
Payments made for the services	**(7,944)**	(10,747)

21 Related party transactions and balances (continued)

Key management benefits	2021 RO	2020 RO
Short term employee benefits		
Board of Directors sitting fees	**27,000**	26,250
Audit committee sitting fees	**6,000**	6,000
Remuneration committee sitting fees	**3,500**	4,500
Directors remuneration – accrual	**9,750**	8,575
Key management remuneration	**182,687**	182,678
Post-employment benefits		
Employees' end of service benefit	**8,487**	8,503

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.

22 Financial instruments and financial risk management

Financial assets are assessed for impairment at each reporting date as disclosed below in credit risk.

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has entrusted the Management with the responsibility of developing and monitoring the Company's risk management policies and procedures and its compliance with them.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

22 Financial instruments and financial risk management (continued)

(i) Credit risk

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

	2021	2020
Particulars	**RO**	RO
Finance lease receivable (note 11)	**62,198,326**	65,168,465
Trade and other receivables (note 12)	**1,659,727**	1,361,735
Amount due from related parties (note 21)	**73,750**	87,283
Cash and cash equivalents (note 13)	**2,113,649**	2,059,932
	66,045,452	68,677,415

The table below shows the balances with banks categorised by short-term credit rating as published by Moody's investor's service at the reporting date.

Bank	**Rating**		
Bank balances		**31 December 2021**	31 December 2020
		RO	RO
Oman Arab Bank (OAB)	**Ba3**	**2,105,321**	2,037,906
SMBC Bank	**A1**	**9,413**	33,052
		2,114,734	2,070,958
Trade receivables			
OPWP	**Ba3**	**1,659,727**	1,361,735

Age analysis of trade and other receivables and finance lease receivables is as follows

	31 December 2021		31 December 2020	
	RO	**Allowance for impairment**	RO	Allowance for impairment
Not past dues	**1,489,798**	**1,691**	1,309,948	-
Lease receivables within 1 year	**3,266,199**		2,999,477	
Lease receivables within 2-5 year	**16,222,438**		14,897,692	
Lease receivables greater than 5 years	**42,785,332**	**75,643**	47,376,277	104,981
Cash and Cash equivalent	**2,113,649**	**1,589**	2,071,932	12,000
Allowance or impairment				
	65,877,416	**78,923**	68,655,326	116,981

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

22 Financial instruments and financial risk management (continued)

(i) Credit risk (continued)

The closing loss allowances for trade receivables, lease receivables and cash and cash equivalent as at 31 December 2021 reconcile to the opening loss allowances as follows:

	31 December 2021	31 December 2020
	RO	RO
Opening loss allowance as at 1 January calculated under IFRS 9	**116,981**	-
Account receivables	**1,691**	-
Lease receivables	**(29,338)**	104,981
Cash and Cash equivalent	**(10,411)**	12,000
At 31 December	**78,923**	116,981

(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 (continued)

For the year ended 31 December 2021

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:

			Cash flows		
	Carrying Amount	**Contractual cash flow**	**Less than 1 year**	**More than 1 to 5 years**	**More than 5 years**
31 December 2021	**RO**	**RO**	**RO**	**RO**	**RO**
Derivatives					
Interest rate swaps used for hedging (note 11)	**4,367,450**	**(4,367,450)**	**(474,286)**	**(3,088,281)**	**(804,884)**
Non-derivative financial liabilities					
Term loans (note 16)	**44,027,846**	**(52,073,723)**	**(4,493,708)**	**(22,836,022)**	**(24,743,992)**
Trade and other payables (note 16)	**917,620**	**(917,620)**	**(917,620)**	**-**	**-**
Amounts due to related parties (note 21)	**999,678**	**(999,678)**	**(999,678)**	**-**	**-**
Long term lease liability (note 18)	**138,656**	**(149,233)**	**(64,083)**	**(85,140)**	
	50,451,250	**(58,507,704)**	**(6,949,375)**	**(26,009,443)**	**(25,548,876)**

			Cash flows		
	Carrying Amount	Contractual cash flow	Less than 1 Year	More than 1 to 5 years	More than 5 years
31 December 2020	RO	RO	RO	RO	RO
Derivatives					
Interest rate swaps used for hedging (note 11)	7,412,601	(7,412,601)	(867,056)	(5,133,778)	(1,411,767)
Non-derivative financial liabilities					
Term loans (note 16)	47,077,311	(56,571,693)	(4,497,971)	(22,452,741)	(29,620,981)
Trade and other payables (note 16)	521,207	(521,207)	(521,207)	-	-
Amounts due to related parties (note 21)	981,948	(981,948)	(981,948)	-	-
Long term lease liability (note 18)	17,307	(18,614)	(12,071)	(6,543)	
	56,010,374	(65,506,063)	(6,880,253)	(27,593,062)	(31,032,748)

(iii) Market risk

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

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

22 Financial instruments and financial risk management (continued)

(iii) Market risk (continued)

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.

(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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

22 Financial instruments and financial risk management (continued)

(iv) Fair value of financial instruments (continued)

There were no transfers between Level 1 and Level 2 during 2021.

	Carrying amount				Fair value
	Fair value-hedging instrument	Financial assets at amortised cost	Other financial liabilities	Total	Level 2
			At amortised cost		
31 December 2021	**RO**	**RO**	**RO**	**RO**	**RO**
Financial assets not measured at fair value					
Trade and other receivables	-	1,659,727	-	1,659,727	-
Finance lease receivables	-	62,198,326	-	62,198,326	-
Due from Related parties	-	73,750	-	73,750	-
Cash and bank equivalents	-	2,113,649	-	2,113,649	-
	-	66,045,452	-	66,045,452	-
Financial liabilities measured at fair value					
Derivative instruments	(4,367,450)	-	-	(4,367,450)	(4,367,450)
Financial liabilities not measured at fair value					
Term loan	-	-	(42,837,760)	(42,837,760)	-
Amount due to related parties	-	-	(999,678)	(999,678)	-
Trade and other payables	-	-	(917,620)	(917,620)	-
	-	-	(44,755,058)	(44,755,058)	-

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

22 Financial instruments and financial risk management (continued)

(iv) Fair value of financial instruments (continued)

	Carrying amount				Fair value
	Fair value-hedging instrument	Financial assets at amortised cost	Other financial liabilities	Total	Level 2
				At amortised cost	
31 December 2021	**RO**	**RO**	**RO**	**RO**	**RO**
Due from Related parties	-	87,283	-	87,283	-
Cash and bank equivalents	-	2,059,932	-	2,059,932	-
Bank deposits					
	-	68,677,415	-	68,677,415	-
Financial liabilities measured at fair value					
Derivative instruments	(4,367,450)	-	-	(4,367,450)	(4,367,450)
Financial liabilities not measured at fair value					
Term loan	-	-	(45,804,797)	(45,804,797)	-
Amount due to related parties	-	-	(981,948)	(981,948)	-
Trade and other payables	-	-	(521,207)	(521,207)	-
	-	-	(47,307,952)	(47,307,952)	-

As at 31 December 2021, 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

22 Financial instruments and financial risk management (continued)

(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, less cash and short-term deposits.

	2021	2020
	RO	RO
Term loans (note 16)	**42,837,760**	45,804,797
Lease liabilities (note 18)	**138,656**	17,307
Less: cash and short-term deposits (note 13)	**(2,113,649)**	(2,059,932)
Net debt	**40,862,767**	43,762,172
Equity	**14,303,047**	12,110,057
Capital and net debt	**55,165,814**	55,872,229
Gearing ratio	**74%**	78%

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:

	2021	2020
Net assets (RO)	**14,303,047**	12,110,057
Number of outstanding shares at the end of the year (Nos.)	**97,802,160**	97,802,160
Net asset value per share (RO)	**0.146**	0.124

Net assets per share is not a defined performance measure in IFRS standards.

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

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:

	2021	2020
Profit for the period (RO)	**951,348**	1,347,161
Weighted average number of shares (nos.)	**97,802,160**	97,802,160
Basic earnings per share (RO)	**0.009**	0.014