BARKA DESALINATION COMPANY SAOC

Report and financial statements for the year ended 31 December 2021

BARKA DESALINATION COMPANY SAOC

Report and financial statements
for the year ended 31 December 2021

	Pages
Directors' report	**1 - 2**
Independent auditor's report	**3 - 5**
Statement of financial position	**6**
Statement of profit or loss and other comprehensive income	**7**
Statement of changes in equity	**8**
Statement of cash flows	**9**
Notes to the financial statements	**10 - 42**

Board of Directors' Report

Dear Shareholders,

On behalf of the Board of Directors ("the Board") of **Barka Desalination Company SAOC** (the "Company"), I have the pleasure to present the audited financial statements for the year ended 31 December 2021.

Operational Highlights

The principal activity of the Company is to develop, finance, design, construct, own, operate and maintain a reverse osmosis desalination plant at Barka in the Sultanate of Oman with a capacity of 62 million imperial gallons per day (281,000 m^3 per day).

The Company achieved the commercial operation date of the plant on 13 June 2018. The Company commenced commercial operation at 12:00 am on 13 June 2018. Since then, the Company has been supplying potable water to Oman Power and Water Procurement Co in accordance with a Water Purchase Agreement. The Company has supplied over 17,959 million imperial gallons (81,644,644 m^3) of water during 2021.

Financial Highlights

Revenue has increased by 6.0% (by RO 1,030K) as compared to the previous year. This is mainly due to higher water demand and dispatch of water resulting into higher Water output charge and higher Electricity charge.

The cost of sales has increased by 13% (by RO 1,415K) as compared to the previous year. This is mainly due to higher Capacity payment to operator along with higher Electricity cost and variable fee for plant operation due to higher water demand and water dispatch.

The administrative and general expenses have increased by 6% (by RO 24K) as compared to the previous year.

Finance expenses have decreased by 13% (by RO 622K) as compared to the previous year. This is mainly due to the impact of the decrease in outstanding loans payable to lenders and shareholders along with hedge arrangement.

Current year profit before tax has increased by 20% (by RO 220K) as compared to the previous year, due to the above reasons.

Current year profit before tax represents 7% of the revenue.
Current year profit after tax represents 6% of the revenue.

Based on the financial results, the Board proposes to the AGM to approve authorizing the Board of Directors' to determine and distribute cash dividends to the Company's Shareholders in April 2022 and October 2022 out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2021, provided that the aggregate amount shall not exceed 12 Baisas per share.

Outlook for 2022

The Company will endeavor to ensure that it continues to take reasonable and prudent measures to improve its performance for FY2022, by improving the Plant's reliability and availability, without compromising on HSE matters.

Acknowledgement

I would like to extend my personal thanks to all personnel associated with the operation of the plant and the staff of the Company for their hard work and dedication, as well as to those others such as our contractors, whose expertise has assisted us in achieving these excellent results.

Finally, on behalf of the Board of Directors, I would like to extend our deep appreciation and gratitude to His Majesty Haitham Bin Tarik Al Said and His Government for their continued support and encouragement to the private sector by creating an environment that allows us to participate effectively in the growth of the Sultanate's economy and to dedicate our achievements to the building of a strong nation.

On behalf of the Board of Directors

Murtadha Ahmed Sultan
Chairman of the Board

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Independent auditor's report to the Shareholders of Barka Desalination Company SAOC

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of **Barka Desalination Company SAOC** (the "Company"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in 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.

Other information

Management is responsible for the other information. The other information comprises the Directors' report set out on pages 1 and 2.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, then 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 IFRSs and the relevant disclosure requirements 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, the 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 the 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.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISA's, we exercise professional judgement 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 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 the management.

- Conclude on the appropriateness of the 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 auditor's report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Deloitte.

Independent auditor's report
to the Shareholders of
Barka Desalination Company SAOC (continued)

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

- 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.

Report on other legal and regulatory requirements

We report that the financial statements of the Company as at and for the year ended 31 December 2021, in all material respects, comply with the applicable provisions of the Commercial Companies Law of 2019.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
24 February 2022

ديلويت آند توش (الشرق الأوسط) وشركاه ش.م.م
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Statement of financial position
as at 31 December 2021

	Notes	2021 RO'000	2020 RO'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	100,485	103,717
Right-of-use assets	6	588	593
Total non-current assets		101,073	104,310
Current assets			
Trade and other receivables	8	2,934	1,890
Cash and cash equivalents	9	2,180	2,347
Total current assets		5,114	4,237
Total assets		106,187	108,547
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	7,552	500
Legal reserve	11	282	167
Retained earnings		4,149	2,790
Hedging reserve	7	(1,003)	(3,744)
Shareholder loan reserve	13	571	892
Total equity		11,551	605
Non-current liabilities			
Long term loan	12	77,020	80,427
Shareholders' loan	13	4,960	10,002
Interest rate swap used for hedging	7	1,129	4,469
Lease liabilities	14	569	603
Provision for end of service benefits		18	13
Provision for decommissioning obligation	15	1,323	1,211
Deferred tax liability	21	2,560	1,875
Total non-current liabilities		87,579	98,600
Current liabilities			
Current portion of long-term loan	12	3,572	3,757
Current portion of Shareholders` loan	13	768	3,710
Current portion of lease liabilities	14	52	12
Current portion of interest rate swap used for hedging	7	56	-
Trade and other payables	16	2,609	1,863
Total current liabilities		7,057	9,342
Total liabilities		94,636	107,942
Total equity and liabilities		106,187	108,547

Chief Executive Officer

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Sultanate of Oman
BARKA DESALINATION COMPANY SAOC

Chief Financial Officer

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

Statement of profit or loss and other comprehensive income for the year ended 31 December 2021

	Notes	2021 RO'000	2020 RO'000
Revenue	17	**18,429**	17,399
Operating costs	18	**(12,680)**	(11,265)
Gross profit		**5,749**	6,134
General and administrative expenses	19	**(394)**	(370)
Other income	16.1	**852**	45
Other expenses	16.1	**(800)**	-
Profit from operations		**5,407**	5,809
Finance costs	20	**(4,062)**	(4,684)
Profit before tax		**1,345**	1,125
Income tax expense	21	**(192)**	(901)
Profit for the year		**1,153**	224
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of cash flow hedge	7	**2,741**	(2,302)
Total comprehensive profit / (loss) for the year		**3,894**	(2,078)

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

Statement of changes in equity
for the year ended 31 December 2021

	Share capital RO'000	Legal reserve RO'000	Retained earnings RO'000	Hedging reserve RO'000	Shareholder loan reserve RO'000	Total Equity RO'000
At 1 January 2020	500	167	2,566	(1,442)	(1,998)	(207)
Net profit for the year	-	-	224	-	-	224
Other comprehensive income, net of income tax						
Cash flow hedge – effective portion of changes in fair value	-	-	-	(2,302)	-	(2,302)
Total comprehensive income	-	-	224	(2,302)	-	(2,078)
Shareholder loan reserve	-	-	-	-	2,890	2,890
At 31 December 2020	500	167	2,790	(3,744)	892	605
At 1 January 2021	**500**	**167**	**2,790**	**(3,744)**	**892**	**605**
Net profit for the year	-	-	**1,153**	-	-	**1,153**
Other comprehensive income, net of income tax						
Cash flow hedge – effective portion of changes in fair value	-	-	-	**2,741**	-	**2,741**
Total comprehensive income	-	-	**1,153**	**2,741**	-	**3,894**
Increase in share capital (note 10)	**7,052**	-	-	-	-	**7,052**
Transfer to legal reserve	-	**115**	**(115)**	-	-	-
Transfer of shareholder loan reserve to retained earnings	-	-	**321**	-	**(321)**	-
At 31 December 2021	**7,552**	**282**	**4,149**	**(1,003)**	**571**	**11,551**

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

Statement of cash flows
for the year ended 31 December 2021

	2021 RO'000	2020 RO'000
Cash flows from operating activities		
Profit for the year before tax	**1,345**	1,125
Adjustments for:		
Provision for end of service benefits	**5**	5
Unwinding of interest on decommissioning cost	**112**	76
Depreciation on property, plant and equipment	**3,236**	3,237
Amortisation on right-of-use assets	**25**	26
Interest expense on lease liability	**35**	38
Amortisation of deferred finance cost	**164**	166
Interest on long term loan	**1,748**	2,452
Interest rate swap settlement	**1,341**	955
Interest on shareholder loan	**704**	938
Ineffective hedge portion	**(50)**	55
Operating cash flows before working capital changes	**8,665**	9,073
Working capital changes		
Trade and other receivables	**(1,044)**	869
Trade and other payables	**835**	(1,777)
Net cash from operating activities	**8,456**	8,165
Cash flows from investing activity		
Purchase of IT systems and office equipment	**(4)**	-
Cash flows from financing activities		
Long term loans – repaid	**(3,756)**	(3,757)
Interest on long term loans	**(1,786)**	(3,407)
Interest rate swap settlement	**(1,494)**	-
Shareholders loan – repaid	**(1,253)**	(1,939)
Interest on shareholder loans	**(278)**	-
Lease liability repayment	**(52)**	(54)
Net cash used in financing activities	**(8,619)**	(9,157)
Net change in cash and cash equivalents	**(167)**	(992)
Cash and cash equivalents at the beginning of the year	**2,347**	3,339
Cash and cash equivalents at the end of the year (note 9)	**2,180**	2,347

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

1. Legal status and principal activities

Barka Desalination Company SAOC (the "Company"/"BDC") is a closed Omani joint stock company established on 21 January 2016 under the Commercial Companies Law of Oman. The objectives of the Company are to acquire, develop, finance, design, construct, own, operate, maintain a desalination facility at Barka (the "Barka IWP") in the Sultanate of Oman. The registered address of the Company is at PO Box 252, Postal Code 103, Al Qurm, Bousher, Muscat, Sultanate of Oman.

Shareholders' of Barka Desalination Company SAOC has approved the conversion of Company from the closed joint stock company (SAOC) to a public joint stock company (SAOG) as per Extraordinary General Meeting held on 31st May 2021. Accordingly, the Company is in process of filing an application to the Capital Market Authority (CMA) for approval of the prospectus for issuing shares in public offering. As on 31st December 2021 necessary approvals from regulatory authorities for the conversion is awaited.

1.1 Significant agreements

Water purchase agreement
Water Purchase Agreement ("WPA") dated 2 March 2016 with Oman Power and Water Procurement Company ("OPWP") for a period 20 years from the scheduled Commercial Operation Date ("COD"), as defined in the WPA.

Obligation of BDC
BDC as per the WPA shall sell or deliver water produced at the Barka IWP plant only to OPWP. Further, OPWP shall pay BDC for the available water capacity and purchase the water output delivered.

During the construction period, BDC shall construct the seawater desalination facilities ("Plant"), in strict compliance with the terms of the WPA and comply with the applicable requirements during the construction period.

In addition, BDC shall not remove, decommission, dismantle, replace, change, amend or modify any part of the Plant that would affect its obligations under the WPA.

Termination
OPWP has the right to terminate the WPA by serving written notice to BDC in the event of insolvency of BDC, on a material default or on other terms as mentioned in the WPA.

Land agreement
Usufruct Agreement for the plant site dated 2 March 2016 was signed with the Ministry of Housing for grant of exclusive right to use and benefit from the site area for an initial period of 25 years from its execution date.

Engineering Procurement and Construction Contract
Turnkey Engineering Procurement and Construction Contract ("EPC Contract") dated 3 March 2016 was signed with Degremont SAS to perform the engineering, procurement and construction of the Barka IWP plant.

Operation and Maintenance Contract
Operation and Maintenance Contract ("O&M Contract") was signed dated 3 March 2016 with Degremont Middle East LLC for a period of 20 years from the scheduled COD of 1 April 2018.

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

2.1 New and amended IFRS applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these financial statements.

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2021
IFRS 9 Financial Instruments - Amendments regarding replacement issues in the context of the IBOR reform	1 January 2021
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Amendments regarding the definition of accounting estimates	1 January 2021

The application of above revised standards has not had impact on the amount reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

2.2 New and amended IFRSs in issue but not yet effective and not early adopted

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 16 Leases - Amendment to extend the exemption from assessing whether a COVID-19-related rent concession is a lease modification	1 April 2021
Amendment to IFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020 Cycle Amendments to:	1 January 2022
- IFRS 9 Financial Instruments,	1 January 2022
- IAS 41 Agriculture, and	1 January 2022
- IFRS 3 Business combination	No effective date is stated
- IFRS 16 Leases	
IFRS 3 Business Combinations - Amendments updating a reference to the Conceptual Framework	1 January 2022
Amendments to IAS 1 regarding:	
- Classification of Liabilities as Current or Non-current, and	1 January 2023
- Amendments regarding the disclosure of accounting policies	1 January 2023
Amendments regarding deferred tax on leases and decommissioning obligations	1 January 2023
IFRS 17 Insurance Contracts	1 January 2023
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

2.2 New and amended IFRSs in issue but not yet effective and not early adopted (continued)

The Directors anticipate that these new standards, interpretations and amendments will be adopted in the financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, may have no material impact on the financial statements of the Company in the period of initial application.

3. Summary of significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the relevant disclosure requirements of Commercial Companies Law of 2019.

Basis of preparation

These financial statements have been prepared on historical cost basis except for certain financials instrument which are measured at fair value.

These financial statements are presented in Rial Omani (RO) which is considered as the currency of the primary economic environment in which the Company operates ('the functional and presentation currency'). All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Going concern

As at 31 December 2021, the Company's current liabilities exceeded current assets by RO 1,943 (RO'000) (31 December 2020 - RO 5,105 (RO'000)). The net liability position is mainly due to fact that the Company's current assets mainly consists of trade receivable for one month whereas current liabilities includes term loan that will be paid over a period of 1 year from 31 December 2021. The management believes that these liabilities will be settled, if required, through receipts from revenue contract from customer and existing facilities from lenders or shareholders. Further, the management believes Company have adequate resources to continue in operational existence. These conditions do not cast any material uncertainty in relation to the Company's ability to continue as going concern. Accordingly, these financial statements are prepared on a going concern basis.

Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are summarized below. These policies have been consistent from last year presented, except for the change of accounting policy as set out below:

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any identified impairment loss. Cost includes the amount of cash and cash equivalents paid and the fair value of other consideration given to acquire an asset at the date of acquisition or construction. Each component of an item of property, plant and equipment with a cost that is significant in relation to the item's total cost is depreciated separately. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised.

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The cost of self-constructed assets includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of overheads and any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

Gains and losses on disposal of property, plant and equipment are determined as a difference between sales proceeds and carrying amount of the asset and is recognized in profit or loss. Repairs and renewals are charged to profit or loss when the expense is incurred.

Depreciation

Depreciation is calculated so as to write off the cost of property and equipment (other than capital work in progress) on a straight-line basis over their estimated useful lives after taken into consideration residual value of assets and is recognized in profit or loss. The estimated useful lives for this purpose are:

	Years
Civil and structural works	40
Plant and machinery	20 - 40
Pipelines	40
IT systems and office equipment	3
Furniture and fixtures	3
Transportation equipment	3

The useful lives, depreciation method, and residual values of property, plant and equipment are assessed by the management at reporting date and adjusted if appropriate. Membrane, cartridge filters and other tools were capitalised along with useful life of plant, as this will remain as a part of plant till the end of plant's life without any further cost.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits associated in the item of property and equipment. All other maintenance expenditure is recognized in profit and loss as an expense as and when incurred.

Capital work-in-progress

Capital work in progress is measured at cost and is not depreciated until it is transferred into one of the above categories, which occurs when the asset is ready for intended use.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

3. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

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

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

Right-of-use assets

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

The right-of-use assets are presented as a separate line item in the statement of financial position.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

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

Lease liability

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

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

3. Summary of significant accounting policies (continued)

Lease liability (continued)

The lease liability is presented as a line item in the statement of financial position. The lease liability, net of finance charge, are included in non-current and current liabilities. Each lease payment is allocated between the liability and finance cost so as to produce a constant periodic rate of interest on the remaining balance of liability. The finance cost is charged to profit or loss.

The Company as lessor

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

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

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

Financial instruments

Non-derivative financial instruments

Recognition and initial measurement of financial instruments
All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

1. Trade and other receivables;
2. Cash and cash equivalents;
3. Trade and other payables; and
4. Borrowings.

Initial recognition of financial assets
On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income – debt instruments; fair value through other comprehensive income – equity instruments; or fair value through profit or loss account.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Non-derivative financial instruments (continued)

Financial assets at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss account:

Business model test: The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes).

Cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets are classified as financial assets at amortized cost. The Company has no financial assets which are classified as financial assets measured at fair value through other comprehensive income or fair value through profit and loss.

Initial recognition of financial liabilities
Financial liabilities are classified as measured at amortised cost or fair value through profit or loss account. A financial liability is classified as at fair value through profit or loss account if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

The Company has no financial liabilities which are classified as at fair value through profit or loss.

Derecognition of financial liabilities
The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between the carrying amount of the liability before the modification; and the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Non-derivative financial instruments (continued)

Subsequent measurement and gain or losses of financial assets
These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the profit or loss. Any gain or loss on derecognition is recognised in the profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Subsequent measurement and gain or losses of financial liabilities
Financial liabilities are subsequently measured at amortised cost using the effective interest method, if applicable. The effective interest method is the method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in the profit or loss.

Impairment of financial assets
The expected credit loss impairment model applies to financial assets measured at amortized cost, contract assets receivables, lease receivables and debt investments at FVOCI, but not on investments in equity instruments. The Company's financial assets at amortized cost consist of trade receivables and cash and cash equivalents.

Under expected credit loss model, loss allowance are measured on either of the following bases:

- 12 month ECL: these are ECLs that result from possible default events within 12 months after the reporting date; and
- Lifetime ECL: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowance at an amount equal to lifetime ECLs, except for the following, which are measured as 12- month ECLs:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Finance assets for which credit risk (i.e., the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Non-derivative financial instruments (continued)

Simplified approach
The Company applies simplified approach to measuring credit losses, which mandates recognition of lifetime expected loss allowance for trade receivables without significant financing component.

Under simplified approach, there is no need to monitor for significant increases in credit risk and the Company will be required to measure lifetime expected credit losses at all times.

Derivative financial instruments

The Company holds derivative financial instruments to hedge its interest rate risk exposures. Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, as is any gain or loss on any hedging that exceeds 100% of the associated liability.

Amounts previously recognised and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds, other balances representing a residual interest in the Company's net asset are also presented within the equity.

3. Summary of significant accounting policies (continued)

Interest bearing loans and borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Deferred financing costs

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

Employee 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 incurred.

Provision for non-Omani employee terminal benefits under an unfunded defined benefit retirement plan, is made in accordance with Omani Labour Laws and is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value.

Provision for decommissioning obligation

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

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

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

3. Summary of significant accounting policies (continued)

Provisions

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

Revenue

Revenue stemming from Water Purchase Agreement (WPA) comprises of the following:

- Capacity charge covering the investment charge and the fixed operating and maintenance charge; and
- Water output charge covering the water output charge and electricity charge.

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

The WPA with Oman Power and Water Procurement Company (OPWP) is considered as a lease and has been classified as an operating lease under IFRS 16. Water capacity investment charge is recognized based on the capacity made available in accordance with contractual terms stipulated in WPA and treated as lease revenue under IFRS 16 and is recognized on a straight line basis. Fixed Operation & Maintenance charge is recognized based on the capacity made available in accordance with contractual terms stipulated in WPA.

Revenue from the water output charge and electricity charge is recognised in the accounting period in which the actual production and sale of water takes place and the capacity is made available as per the contract. The Company has the right to bill the customer on an hourly basis. The contract with the Customer has two deliverables which are considered as separate performance obligations namely production/ supply of water and making available the designated capacity. Where the contracts include multiple performance obligations, the transaction price is allocated based on stand-alone selling price of each performance obligation. Stand-alone selling price for each performance obligation of the Company is identified in the contract with customer separately.

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.

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

3. Summary of significant accounting policies (continued)

Revenue (continued)

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.

Taxation

Income tax comprises current and deferred tax. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

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. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Foreign currency

In preparing the financial statements, transactions in currencies other than the Company's respective functional currency are recorded at the exchange rates prevailing at the dates of the transactions.

At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing at the reporting date. Non-monetary items that are measured at historical cost in a foreign currency are not translated at the exchange rates prevailing at the reporting date.

Translation gains and losses related to monetary items are recognized in profit or loss in the period in which they arise, with the exception of those related to monetary items that qualify as hedging instruments in a cash flow hedge that are recognized initially in other comprehensive income to the extent that the hedge is effective.

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements

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

Classification of desalination plant as operating lease
Judgement is required to ascertain whether the WPA agreement with OPWP is a concession arrangement as per IFRIC 12: Service Concession Arrangements or contains a lease as per IFRS 16: Leases and if the agreement contains a lease, judgement is required to classify the lease as an operating lease or a finance lease as per IFRS 16 Leases. Management has evaluated the applicability of IFRIC12-Service Concession Arrangements and concluded that IFRIC12 is not applicable to the arrangement as the residual interest is borne by the Company and not OPWP. The estimated useful life of the plant of 40 years takes into account the Company's right to extend the land lease under a Usufruct Agreement for an additional term of 25 years. The arrangement was classified as an operating lease of desalination plant to OPWP.

Key estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment in the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful life and residual value of property, plant and equipment
The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful life and residual value of the desalination plant. The useful life of the plant has been determined by the management taken into account various consideration such as appropriate level of componentization, comprehensive maintenance and replacement program in place and technical assessment carried out by the consultant.

Decommissioning obligation
Site restoration costs are based on management's technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant facilities. The significant uncertainty in estimating the provision is the cost that will be incurred and the applicable discount rate. It has been assumed that the site will be restored using technology and material that are currently available. The expected cost of decommissioning has been determined on the basis of a study by an independent contractor and discounted over 40 years using risk free adjusted discount rate (Note 15).

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

Key estimates (continued)

Determining the lease term and discount rate for lease liability
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease payments are discounted using the Company's incremental borrowing rate ("IBR") at the commencement of lease determined by management using estimates as of that date (Note 14).

Effectiveness of hedge relationship
At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging instrument (Note 7).

Shareholders' loan
Carrying value of Shareholders' loan at a rate different than the-market rate of interest, is initially recognized at fair value using market interest rate and estimates of repayments as forecasted by the management based on its operating model as at the time of initial recognition. Any changes to this estimate of repayment will affect the amortisation of shareholders' loan in future periods (Note 13).

Notes to the financial statements
for the year ended 31 December 2021 (continued)

5. Property, plant and equipment

	Civil and structural works RO'000	Plant and machinery RO'000	Pipeline RO'000	IT systems and office equipment RO'000	Furniture and fixtures RO'000	Transportation equipment RO'000	Total RO'000
1 January 2021	**42,882**	**42,099**	**26,983**	**36**	**28**	**18**	**112,046**
Additions	-	-	-	**4**	-	-	**4**
Disposals	-	-	-	**(2)**	-	-	**(2)**
31 December 2021	**42,882**	**42,099**	**26,983**	**38**	**28**	**18**	**112,048**
Accumulated depreciation							
1 January 2021	**(2,713)**	**(3,828)**	**(1,706)**	**(36)**	**(28)**	**(18)**	**(8,329)**
Charge for the year	**(1,064)**	**(1,501)**	**(670)**	**(1)**	-	-	**(3,236)**
Disposal	-	-	-	**2**	-	-	**2**
31 December 2021	**(3,777)**	**(5,329)**	**(2,376)**	**(35)**	**(28)**	**(18)**	**(11,563)**
Net book value							
31 December 2021	**39,105**	**36,770**	**24,607**	**3**	-	-	**100,485**
1 January 2020	42,882	42,099	26,983	37	28	18	112,047
Disposals	-	-	-	(1)	-	-	(1)
31 December 2020	42,882	42,099	26,983	36	28	18	112,046
Accumulated depreciation							
1 January 2020	(1,649)	(2,326)	(1,038)	(34)	(28)	(18)	(5,093)
Charge for the year	(1,064)	(1,502)	(668)	(2)	-	-	(3,236)
31 December 2020	(2,713)	(3,828)	(1,706)	(36)	(28)	(18)	(8,329)
Net book value							
31 December 2020	40,169	38,271	25,277	-	-	-	103,717

5. Property, plant and equipment (continued)

	2021 RO'000	2020 RO'000
Depreciation for Civil and structural works, Plant & machinery and Pipeline form part of Operating cost (note 18)	**3,235**	3,234
Depreciation for IT systems and office equipment, Furniture and fixtures and Transportation equipment form part of General & administrative cost (note 19)	**1**	2
	3,236	3,236

6. Right-of-use assets

The land on which the plant is constructed has been leased from the Government of the Sultanate of Oman (represented by the Ministry of Housing) for a period of 25 years from 2 March 2016. The lease term can be extended by an additional 25 years at the request of the Company. Lease rentals are paid at the rate of RO 41,125 per annum.

Details of right-of-use assets (ROU) of usufruct contract and office rent is as under:

	2021 RO'000	2020 RO'000
1 January	**645**	645
Additions during the year	**20**	-
As at 31 December	**665**	645
Less: Amortisation		
1 January	**(52)**	(26)
Charge for the year (note 18)	**(25)**	(26)
As at 31 December	**(77)**	(52)
Carrying value		
As at 31 December	**588**	593

7. Interest rate swap used for hedging

	2021 RO'000	2020 RO'000
Fair value of interest rate swap liability (Effective portion)	**(1,180)**	(4,414)
Deferred tax asset	**177**	670
Hedging reserve	**(1,003)**	(3,744)

7. Interest rate swap used for hedging (continued)

The table below shows the fair values of the interest rate swaps, which are equivalent to the market values, together with the notional amounts analyzed by the term to maturity. Fair value of interest rate swap as at 31 December 2021 amounting to RO 1,185,000 (31 December 2020: RO 4,469,000) includes net reversal of RO 5,000 (31 December 2020: RO 55,000) which is pertaining to portion of cashflow hedge assessed as ineffective.

			Notional amounts by term to maturity		
	Fair value	Notional amount	1 - 12 month	More than 1 up to 5 years	More than 5 years
31 December 2021	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Interest rate swaps	**1,180**	**46,071**	**2,171**	**10,848**	**33,052**
31 December 2020					
Interest rate swaps	4,414	64,323	27,423	6,950	29,950

In accordance with the Facilities Agreement, the Company is required to enter into interest rate hedging agreements to cap the Company's exposure to fluctuating interest rates. This requirement covers the long-term loans – tranche A.

Long term loans – tranche A

The Company has entered on 3 March 2016 into an interest rate swap agreement with Credit Agricole Corporate and Investment Bank and Mitsubishi UFJ Securities International plc related to the long-term loan facility – tranche A at the rate of 2.24% per annum. The Company has additionally entered on 1 August 2018 into an interest rate swap agreement with Credit Agricole Corporate and Investment Bank and Mitsubishi UFJ Securities International plc related to the long-term loan facility – tranche A at the rate of 3.027% per annum which has expired on 30th September 2021.

The Company has additionally entered on 11 June 2020 into an interest rate swap agreement with Mitsubishi UFJ Securities International plc related to the long-term loan facility – tranche A at the rate of 1.1425% per annum.

Other information

As at the reporting date, 100% (2020: 100%) of the principal amount was covered under these agreements.

The fair value movement of Positive RO 2,741,000 (31 December 2020: Negative RO 2,302,000) has been included in other comprehensive income, net of deferred tax.

8. Trade and other receivables

	2021 RO'000	2020 RO'000
Trade receivables	2,370	1,399
Prepayments	114	137
Other receivables	450	354
	2,934	1,890

9. Cash and cash equivalents

	2021 RO'000	2020 RO'000
Cash at bank	95	822
Short term deposit	2,085	1,525
	2,180	2,347

10. Share capital

The Company's authorized, issued and paid-up capital consists of 75,522,000 (31 December 2020: authorized 2,000,000 and issued and paid up capital 500,000) shares of Baisa 100 (31 December 2020: RO 1) each. The details of the shareholders are as follows:

	Percentage of shareholding	Number of shares	2021 RO	Number of shares	2020 RO
I-Environment Investments Middle East Ltd	36	27,187,920	2,718,792	180,000	180,000
Suez International SAS	-	-	-	135,000	135,000
Suez Group	27	20,390,940	2,039,094	-	-
Kahrabel FZE	27	20,390,940	2,039,094	135,000	135,000
W J Towell & Co LLC	10	7,552,200	755,220	50,000	50,000
		75,522,000	7,552,200	500,000	500,000

On 25 February 2021, the Extra-ordinary General Meeting (EGM) of the Company approved the nominal value of the Company's shares to become Baisas 100 instead of one Omani Rial for each share and increasing the authorised capital from 2,000,000 to 7,552,200. EGM also approved increasing Company's issued share capital from OMR 500,000 to OMR 7,552,200, each share of a value of 100 Baisa by issuing new shares as a partial settlement of the Shareholders' loans given to the Company by conversion of OMR 7,052,200 received by the Company under the loans into shares in the Company. On 6th December 2021, Suez Group acquired 20,390,940 shares of the company from Suez International (refer note 13).

11. Legal reserve

The Commercial Companies Law requires that 10% of a Company's net profit to be transferred to a non-distributable legal reserve until the amount of the legal reserve becomes equal to one-third of the Company's fully-paid share capital.

12. Long term loan

	2021 RO'000	2020 RO'000
Long term loan – tranche A	**61,513**	64,330
Long term loan – tranche B	**20,504**	21,443
Less: un-amortised transaction costs	**(1,425)**	(1,589)
	80,592	84,184
Less: current portion	**(3,572)**	(3,757)
Non-current portion	**77,020**	80,427

The Company has entered into an agreement dated 3 March 2016 to obtain term loan facilities up to RO 96,569,734 (USD 251,156,655) composed of Tranche A with floating interest rate at a rate of USD LIBOR plus applicable margin, Tranche B with fixed interest rate of 2.21% per annum plus applicable margin and standby facility. The margin is in the range of 1.00% and 3.00%.

The above facilities are secured by comprehensive legal and commercial mortgages on all the assets of the Company.

The term loan facilities contain certain covenants pertaining to, amongst other things, liquidation and merger, entering into material new agreements, negative pledge, disposal of asset, granting of loan and guarantee, acquisition of capital assets, debt service coverage ratio, change of business, etc., which the Company is required to comply.

The term loan facilities are repayable in bi-annual installments due from 30 September 2018 until 30 September 2037.

The movement in unamortized transaction costs is as follows:

	2021 RO'000	2020 RO'000
At the beginning of the year	**1,589**	1,755
Amortised during the year	**(164)**	(166)
At the end of the year	**1,425**	1,589

12. Long term loan (continued)

Reconciliation of financing cash flows

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

Borrowings	**At 1 January RO'000**	**Repayments during the year RO'000**	**Non-cash changes RO'000**	**At 31 December RO'000**
2021				
Loan from shareholders	**13,712**	**(1,253)**	**(6,731)**	**5,728**
Senior facility loan	**84,184**	**(3,756)**	**164**	**80,592**
	97,896	**(5,009)**	**(6,567)**	**86,320**
2020				
Loan from shareholders	18,540	(1,938)	(2,890)	13,712
Senior facility loan	87,775	(3,757)	166	84,184
	106,315	(5,695)	(2,724)	97,896

13. Shareholders' loan

The Company has entered into an agreement with WJ Towell & Co LLC dated 3 March 2016 to obtain unsecured shareholder loan facility. The Company has also entered into agreements with I-Environment Investments Middle East Ltd, Suez International SAS and Kahrabel FZE on 9 September 2019 for unsecured shareholder loan facilities.

	2021 RO'000	2020 RO'000
Proceed from shareholders' loan (note 22)	**6,299**	14,604
Fair value adjustment	**(571)**	(892)
	5,728	13,712
Less: current portion	**(768)**	(3,710)
Non-current portion	**4,960**	10,002

These loans may be repaid in whole or in part by the Company at any time subject to the terms and conditions of the Financing Documents. Interest on the facilities is charged at a fixed rate of 2.68% until 30 September 2019. Interest is charged at 10% from 1 October 2019 until 30 March 2020 and 4.6% from 31 March 2020 onwards. Accumulated interest as at 31 December 2021 is RO 50,000 (2020: RO 114,000). The Company measures its shareholders' loan at fair value at initial recognition. The fair value differential, being the difference between the proceeds of shareholders' loan received and its fair value, is recognized as shareholder loan reserve within equity with a

13. Shareholders' loan (continued)

corresponding increase in shareholders' loan liability. Subsequently, these loans are amortized using market effective interest rate and the differential between contractual interest and markup charged to profit or loss is adjusted from shareholders loan reserve to retained earning within equity.

During the year 2020, the shareholder loan was amended whereby the interest rate was decreased from 10% to 4.6%. This change in term of the loan resulted in substantial modification of the loan liability. Consequently, the Company derecognized the original liability (with markup rate of 10%) and recognized the new liability (with markup rate of 4.6%) at present value of the amended estimated future cash flows discounted using original effective interest rate. The gain arising on modification was recognized in equity under shareholder loan reserve to be amortized to retained earnings over the tenure of loan. Further, during the current year the Company converted Shareholder's loan amounting to RO 7.05 million in to Share capital (refer note 10).

14. Lease liabilities

The Company has entered into a lease agreement with Ministry of Housing, on 2nd March 2016 in respect of the land used for the plant, which is valid for the period of 25 years (refer note 1.1). The lease term can be extended by an additional 25 years at the request of the Company. The Company has entered into a lease agreement on 1 June 2016 in respect of the office premise which is valid for the period of 5 years.

	2021 RO'000	2020 RO'000
Gross lease liability related to right-of-use assets	**1,544**	1,573
Future finance charges on finance leases	**(923)**	(958)
Present value of lease liabilities	**621**	615
The maturity of lease liabilities is as follows:		
Not later than one year	**52**	12
Later than one year	**569**	603

Present value of lease liabilities as at 31 December 2021 include lease liabilities for office rent RO 20,000 (2020: RO 5,000). Interest expense on lease liabilities (included in finance cost) as at 31 December 2021 was RO 35,000 (31 December 2020: RO 38,000).

	2021 RO'000	2020 RO'000
At the beginning of the year	**615**	631
Additions	**23**	-
Finance cost	**35**	38
Less: lease rentals paid	**(52)**	(54)
At the end of the year	**621**	615

15. Provision for decommissioning obligation

	2021	2020
	RO'000	RO'000
At the beginning of the year	**1,211**	1,135
Unwinding of interest on decommissioning cost provision	**112**	76
At the end of the year	**1,323**	1,211

In accordance with the Usufruct Agreement, the Company is required to restore the plant site to its original condition before the expiry of the Usufruct term. The initial term is for 25 years from 2 March 2016 and is subject to renewal for further period of 25 years.

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the cost that will be incurred. The Company has assumed that the site will be restored using technology and materials that are currently available. The Company has been provided with a range of reasonably possible outcomes for the total cost, reflecting different assumptions about pricing of individual components of the costs. The estimate has been made on the basis of an independent report by a professional consultant. The provision has been calculated using a discount rate of 6.5%.

16. Trade and other payables

	2021	2020
	RO'000	RO'000
Due to related parties (note 22)	**347**	417
Accrued interest on term loans	**423**	461
Other accrued expenses (note16.1)	**1,839**	985
	2,609	1,863

16.1 Other accrued expenses include a provision of RO 800,000 (31 December 2020: "Nil") pertaining to refund to Suez International (EPC) for the liquidated damages agreed to be received from OPWP. Pursuant to the terms of the WPA the Scheduled Commercial Operation Date of the Plant was scheduled to be achieved by 1 April 2018, however the Commercial Operation Date (COD) was delayed by 73 days, and the actual Plant COD was achieved on 13 June 2018. Pursuant to the terms of the WPA, OPWP levied delay liquidated damages on the Company. In turn, considering that the delayed COD arose due to delays in completion of the Plant, the Company withheld a payment due to the EPC Contractor. The Company's claim to levy liquidated damages was contested by the EPC Contractor. Following further negotiations on the matter, EPC agreed to set off the withheld amount and the Company agreed to pursue the Claim against OPWP and pass on the full benefit of the Claim to the EPC Contractor, if successful. The Company reached to a settlement agreement with OPWP on 29th Dec 2021 for sum of RO 800,000 as a full and final refund from the liquidated damages charged to the Company. The Company shall pass on the full benefit of the Claim to the EPC Contractor.

17. Revenue

	2021 RO'000	2020 RO'000
Revenue from a contract with a customer		
Operating and maintenance charge	**3,421**	3,303
Water Output charge	**1,075**	943
Electricity charge	**5,748**	5,077
Revenue from lease component	**10,244**	9,323
Investment charge income	**8,185**	8,076
	18,429	17,399

The Company has WPA with OPWP as disclosed in significant contracts (note 1.1) for supply of water and making available the capacity to OPWP.

- Capacity charge covering operating and maintenance charge and capacity investment charge is for making the capacity available to OPWP. Water output charges is for water output delivered and electricity charge is for electricity cost.
- The Company sells its entire output to OPWP in Oman, which is the only customer of the Company. The contracts with the customer give rise to performance obligations namely production/ supply of water and making available the capacity for production. Transaction prices for each performance obligation are identifiable in the named contracts with OPWP separately and are equal to stand-alone selling prices of each performance obligation under WPA.
- The Company satisfies performance obligations upon actual delivery of water output and by making capacity available.
- 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. Invoicing is per transaction price (tariff) based on contracts. The payment terms are for less than a month and accordingly, transaction price does not contain any significant financing component.
- The Company has not recognized any impairment losses on trade receivables arising from Company's contract with the customer.
- All the revenue of the Company accrues from contracts with the customer.

18. Operating costs

	2021 RO'000	2020 RO'000
Electricity cost	**5,682**	5,139
Capacity payment to operator	**2,370**	1,694
Contract variable fee for plant operation	**1,163**	934
Insurance plant related	**181**	213
Depreciation on property, plant and equipment (note 5)	**3,235**	3,234
Amortisation on right-of-use assets (note 26)	**25**	26
Other operating costs	**24**	25
	12,680	11,265

19. General and administrative expenses

	2021 RO'000	2020 RO'000
Professional and consultancy fees	45	47
Agency fees	22	20
Staff costs	274	264
Depreciation on property, plant and equipment (note 5)	1	2
Other general and administrative expenses	52	37
	394	370

20. Finance costs

	2021 RO'000	2020 RO'000
Interest on long term loans	1,748	2,452
Interest on shareholders' loan	704	938
Interest rate swap settlement	1,341	955
Amortization of deferred finance cost	164	166
Unwinding of interest on decommissioning cost	112	76
Others	8	4
Ineffective portion of hedge instrument	(50)	55
Interest expense on lease liability	35	38
	4,062	4,684

21. Taxation

Recognised in profit and loss

The Company is liable for income tax at the rate of 15% as per the Omani tax laws. For the purpose of determining the taxable result for the year, the accounting profit has been adjusted for tax purposes. Adjustment for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing tax laws, regulations and practices. The taxation charge for the period is comprised of:

Recognised in the statement of comprehensive income

	2021 RO'000	2020 RO'000
Deferred tax		
- Current period	785	901
- Prior period	(593)	-
	192	901

21. Taxation (continued)

The tax reconciliation is as follows:

	2021 RO'000	2020 RO'000
Profit before tax	**1,345**	1,125
Income tax @ 15%	**202**	169
Tax effect on non-deductible expenses	**123**	140
Unrecognised deferred tax asset	**460**	592
Prior period deferred tax	**(593)**	-
Tax at effective tax rate	**192**	901

Deferred tax

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

	Asset / (liability) as at 1 January 2021 RO'000	**Recognised in profit or loss and other comprehensive income during the year RO'000**	**Asset / (liability) as at 31 December 2021 RO'000**
Fair value adjustment of decommissioning cost	**30**	**16**	**46**
Carry forward tax losses	**-**	**593**	**593**
Property, plant and equipment	**(2,575)**	**(801)**	**(3,376)**
	(2,545)	**(192)**	**(2,737)**
Deferred tax assets directly recognized in equity			
Fair value adjustment of interest rate swap	**670**	**(493)**	**177**
	(1,875)	**(685)**	**(2,560)**

	Asset/ (liability) as at 1 January 2020 RO'000	Recognised in profit or loss and other comprehensive income during the year RO'000	Asset / (liability) as at 31 December 2020 RO'000
Fair value adjustment of decommissioning cost	18	12	30
Property, plant and equipment	(1,662)	(913)	(2,575)
	(1,644)	(901)	(2 545)
Deferred tax assets directly recognized in equity			
Fair value adjustment of interest rate swap	255	415	670
	(1,390)	(485)	(1,875)

21. Taxation (continued)

Status of tax returns

The tax returns for the year 2016 to 2020 have not yet been assessed by the Secretariat General of Taxation at the Ministry of Finance. The management is of the opinion that the final tax liability once assessed for the open tax year would not be material to the Company's financial position as at 31 December 2021.

22. Related parties

Related parties comprise the shareholders, directors, key management personnel and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The Company maintains significant balances with these related parties which arise in the normal course of business from commercial transactions and are entered into on mutually agreed terms and conditions.

	2021 RO'000	2020 RO'000
Balances		
Due to related parties (note 16)		
I-Environments Investments Middle East Ltd	**17**	41
Suez International SAS	**14**	31
Kahrabel FZE	**14**	31
W J Towell & Co	**5**	11
Suez LLC (O&M)	**297**	303
	347	417
Shareholders' loan (note 13)		
I-Environments Investments Middle East Ltd	**2,267**	5,258
Suez International SAS	**1,701**	3,943
Kahrabel FZE	**1,701**	3,943
W J Towell & Co	**630**	1,460
Fair value adjustment	**(571)**	(892)
	5,728	13,712

	2021 RO'000	2020 RO'000
Transactions		
I-Environments Investments Middle East Ltd		
Shareholder loan conversion to Equity	**2,539**	-
Shareholder loan repayment	**451**	698
Reimbursement of expenses	**146**	-
Interest accrued	**138**	339
	3,274	1,037
Itochu Corporation		
Reimbursement of expenses	**2**	2

22. Related parties (continued)

Transactions (continued)	2021 RO'000	2020 RO'000
Kahrabel FZE		
Shareholder loan conversion to Equity	**1,904**	-
Shareholder loan repayment	**338**	523
Reimbursement of expenses	**87**	-
Interest accrued	**103**	254
	2,432	777
International Power SA		
Reimbursement of expenses	**2**	7
Suez International SAS		
Shareholder loan conversion to Equity	**1,904**	-
Shareholder loan repayment	**338**	523
Reimbursement of expenses	**89**	1
Interest accrued	**103**	254
	2,434	778
Suez International SAS (EPC)		
Reimbursement of expenses	**65**	-
W J Towell & Co LLC		
Shareholder loan conversion to Equity	**705**	-
Shareholder loan repayment	**125**	194
Reimbursement of expenses	**33**	-
Interest accrued	**38**	93
	901	287
SMN Barka Power Company SAOC		
Reimbursement of expenses	**1**	1
Suez LLC		
Operating costs (capacity and variable operating fees including owners' risks)	**3,533**	2,628
Key management remuneration		
Employee salaries and benefits	**139**	145

23. Financial instruments

Other disclosures

Financial assets are assessed for impairment at each reporting date as disclosed in note 3.

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:

- Credit risk
- Liquidity risk
- Market risk

The Company's overall risk management focuses on the unpredictability of markets it is potentially exposed to and seeks to minimise potential adverse effects on the Company's financial performance. The Company's Board of Directors has overall responsibility for establishing and oversight of the Company's risk management framework.

Risk management is carried out in order to identify, evaluate, mitigate and monitor financial risks.

Credit risk

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

The potential risk in respect of amounts receivables is limited to their carrying values as management regularly reviews these balances whose recoverability is in doubt.

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

	2021 RO'000	2020 RO'000
Non-derivatives		
Trade and other receivables	**2,659**	1,591
Cash at bank	**2,180**	2,347
	4,839	3,938

The exposure to credit risk for trade receivables at the reporting date was due entirely from OPWP.

There is no impairment of receivables at the reporting date.

The allowance account in respect of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written-off against allowance account.

23. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's access to credit facilities is described in notes 12 and 13.

The following are the undiscounted maturities of the financial liabilities at reporting date:

31 December 2021	**Carrying amount**	**Contractual cash flows**	**Up to 1 year**	**1 to 5 year**	**Above 5 year**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Long term loan	**80,592**	**108,502**	**6,274**	**26,032**	**76,196**
Shareholders' loan	**5,728**	**9,339**	**1,048**	**2,754**	**5,537**
Lease liabilities	**621**	**1,544**	**52**	**208**	**1,284**
Trade and other payables	**2,609**	**2,609**	**2,609**	**-**	**-**
	89,550	**121,994**	**9,983**	**28,994**	**83,017**

31 December 2020	Carrying amount	Contractual cash flows	Up to 1 year	1 to 5 year	Above 5 year
	RO'000	RO'000	RO'000	RO'000	RO'000
Long term loan	84,184	116,217	7,036	31,903	77,278
Shareholders' loan	13,712	18,060	4,261	7,157	6,642
Lease liabilities	615	1,566	53	168	1,345
Trade and other payables	1,863	1,863	1,863	-	-
	100,374	137,706	13,213	39,228	85,265

Market risk

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

23. Financial instruments (continued)

Currency risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to the US Dollar. The foreign currency risk is minimal as the US Dollar is effectively pegged to the Rial Omani.

Interest rate risk

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

	2021 RO'000	2020 RO'000
Floating rate instruments		
Long term loans – tranche A	**61,513**	64,330
Fixed rate instruments		
Long term loans – tranche B	**20,504**	21,443
Shareholders' loan	**6,299**	14,604
	26,803	36,047

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

Interest on long term loans - tranche A

Period	% of Cover
3 March 2016 – 1 April 2019	90
1 April 2019 – 1 August 2019	70
1 August 2019 – 30 September 2021	100
30 September 2021 – 31 March 2026	82.5
From 1 April 2026	80

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

The Company has hedged this interest rate risk at 100% through interest rate swaps for the period from 1 August 2019 to 30 September 2021. Therefore, a change in interest rates at the reporting date would not have any significant effect on profit or loss.

23. Financial instruments (continued)

Fair value of financial instruments

The management believes that the fair value of the financial assets and liabilities are not significantly different from their carrying amounts as shown in the financial statements at the reporting date.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices).

fLevel 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2021	2020
Level 2	**RO'000**	RO'000
Interest rate swap used for hedging (liabilities)	**1,185**	4,469

There are no financial assets at fair value at the reporting date. Further, there were no transfers between Level 1, Level 2 and Level 3 during the period.

Embedded derivatives

The following agreements contain embedded derivatives:

The WPA between the Company and OPWP contains embedded derivatives in the pricing formula that adjusts the charge rates to reflect changes in USD / RO currency exchange rates and changes in US price index and the Oman price index.

The O&M Agreement contains embedded derivatives in the pricing formula that adjust the payments to reflect changes in USD / RO currency exchange rates and changes in US price index and the Oman price index.

These embedded derivatives are not separated from the host contract, the WPA and the O&M Agreement, and is not accounted for as a standalone derivative, as the management believes that the economic characteristics and risks associated with the embedded derivatives are closely related to those of the host contracts.

23. Financial instruments (continued)

Capital management

The capital of the Company comprises paid-up capital, retained earnings and hedging reserve. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and benefit other stakeholders. The management's policy is to maintain a strong capital base so as to sustain future development of the business. Capital requirements are prescribed by the Commercial Companies Law of Sultanate of Oman and the loan agreements.

24. Commitments

Operation and maintenance commitment

As per the O&M Agreement, Suez LLC will operate and maintain the Company's plant until 31 March 2038. Under the O&M agreement, the Company has to pay the fixed operating fee subject to availability.

The minimum future payments under the O&M agreement are as follow:

	2021	2020
	RO'000	RO'000
Due within one year	**2,621**	2,352
Due after one year but within five years	**10,993**	10,697
Due after five years	**36,754**	39,902
	50,368	52,951

25. Operating lease arrangement where the Company acts as a lessor

As disclosed in note 1 to these financial statements, the Company has entered into a WPA with OPWP for a substantial element of the production of water based on availability. As disclosed in note 4, management has determined that the WPA with OPWP is covered under IFRS 16 Leases and such arrangement in substance represents an operating lease under IFRS 16 Leases. The agreement expires 20 years after the Scheduled Commercial Operation Date of 1 April 2018.

The following is the total of future minimum lease receipts expected to be received under the WPA:

	2021	2020
	RO'000	RO'000
Due within one year	**11,716**	11,589
Due after one year but within five years	**47,417**	59,031
Due after five years	**148,455**	146,667
	207,588	217,287

26. Subsequent events

The Company received the administrative decision from Capital Market Authority (CMA) on 6th January 2022 approving the prospectus for Initial Public Offering (IPO) of the Company as Barka Desalination Company SAOG (under transformation). The Company is required to complete all the legal procedures for transformation by 12th June 2022. Accordingly, the Company has updated the legal status as SAOG with Ministry of Commerce, Industry and Investment Promotion on 11 January 2022 and commenced subscription of IPO on 30th January 2022. The Company is expecting to complete all the legal procedures for transformation by end of February 2022.

27. Dividend

The Board of Directors, at their meeting held on 22 February 2022 proposed a cash dividend of RO 0.012 per share (2020 - None) in April 2022 and October 2022 out of the retained earnings, which is subject to the approval of shareholders at the forthcoming Annual General Meeting.

28. Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue in their meeting held on 22 February 2022.