

Notes to the unaudited interim condensed financial statements

1. Legal status and principal activities

Muscat City Desalination Company SAOG (the “Company”) is a public joint stock company registered in the Sultanate of Oman. The Company was incorporated on 19 January 2013. The Company’s principal activity is the sale of desalinated water. The Company commenced commercial production of potable water on 19 February 2016. The Company was listed on the Muscat Securities Market on 2 January 2018. Shareholding of the Company is disclosed in note 7.

1.1 Key agreements

Water Purchase Agreement

On 11 February 2013 the Company signed a long term Water Purchase Agreement (WPA) with Oman Power and Water Procurement Company SAOC for the supply of 42 million imperial gallons of water per day. The agreement expires 20 years after the Scheduled Commercial Operation Date of 12 October 2014, subject to any extension period or early termination arising under the terms of the agreement.

Engineering, Procurement and Construction Contract

The Company entered into an agreement for the construction of a desalination plant with a capacity of 42 million imperial gallons of water per day with International Water Treatment LLC (“the EPC Contractor”) on a turnkey basis which was completed during 2016.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

Statement of compliance

The interim condensed financial statements of the Muscat City Desalination Company SAOG are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018.

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the Company’s annual financial statements as at 31 December 2018. In addition, results for the three months period ended 31 March 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

This is the first set of the Company’s financial statements where IFRS 16 has been applied. Changes to significant accounting policies are described in Note 3.

3 Summary of change in significant accounting policies

Except as described below accounting policies applied in these interim financial statements are same as those applied in the Company’s financial statements as at and for the year ended 31 December 2018.

Notes to the unaudited interim condensed financial statements

3 Summary of change in significant accounting policies (continued)

The changes in the accounting policies are also expected to be reflected in the Company's financial statements as at and for the year ended 31 December 2019.

The Company initially adopted **IFRS 16 Leases** from 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. The Company has adopted IFRS 16 from 1 January 2019 and there is no significant impact on the adoption of IFRS 16 on its financial statements.

The land which the plant occupies has been leased from the Government of the Sultanate of Oman (represented by the Ministry of Housing) for a period of 25 years from 11 February 2013. The lease term can be extended by an additional 25 years at the request of the Company. Lease rental is paid at the rate of RO 15,045 per annum.

The land Lease becomes an on-balance sheet liability that attracts interest, together with new asset on the other side of the balance sheet.

MUSCAT CITY DESALINATION COMPANY SAOG

7

Notes to the unaudited interim condensed financial statements

4 Property, plant and equipment

	Civil and structural works RO'000s	Plant and machinery RO'000s	Pipelines RO'000s	Decommissio ning asset RO'000s	Spares RO'000s	Furniture, fixtures & office equipment RO'000s	Motor vehicles RO'000s	Total RO'000s
Cost								
1 January 2019	31,326	46,369	19,908	334	655	31	39	98,662
Additions	5	-	-	-	-	-	-	5
Adjustment	-	-	-	-	-	-	-	-
31 March 2019	31,331	46,369	19,908	334	655	31	39	98,667
Accumulated Depreciation								
1 January 2019	2,242	3,319	1,426	23	42	26	39	7,117
Charge for the period	196	289	124	2	4	1	-	616
31 March 2019	2,438	3,608	1,550	25	46	27	39	7,733
Carrying value 31 March 2019	28,893	42,761	18,358	309	609	4	-	90,934

MUSCAT CITY DESALINATION COMPANY SAOG

Notes to the unaudited interim condensed financial statements

4 Property, plant and equipment (continued)

	Civil and structural works RO'000s	Plant and machinery RO'000s	Pipelines RO'000s	Decommissioning asset RO'000s	Spares RO'000s	Furniture, fixtures & office equipment RO'000s	Motor vehicles RO'000s	Total RO'000s
Cost								
1 January 2018	31,326	46,369	19,908	330	576	26	39	98,575
Additions	-	-	-	-	79	5	-	84
Adjustment	-	-	-	4	-	-	-	4
31 December 2018	<u>31,326</u>	<u>46,369</u>	<u>19,908</u>	<u>334</u>	<u>655</u>	<u>31</u>	<u>39</u>	<u>98,662</u>
Accumulated Depreciation								
1 January 2018	1,459	2,160	928	50	26	24	39	4,686
Charge for the year	783	1,159	498	-27	16	2	-	2,431
31 December 2018	<u>2,242</u>	<u>3,319</u>	<u>1,426</u>	<u>23</u>	<u>42</u>	<u>26</u>	<u>39</u>	<u>7,117</u>
Carrying value								
31 December 2018	<u><u>29,084</u></u>	<u><u>43,050</u></u>	<u><u>18,482</u></u>	<u><u>311</u></u>	<u><u>613</u></u>	<u><u>5</u></u>	<u><u>-</u></u>	<u><u>91,545</u></u>

MUSCAT CITY DESALINATION COMPANY SAOG

9

Notes to the unaudited interim condensed financial statements

4 Property, plant and equipment *(continued)*

Property, plant and equipment are mortgaged as security for the borrowings of the Company (note 8).

Depreciation charge for the period is recognised as follows:

	Unaudited 31 March 2019 RO'000s	Unaudited 31 March 2018 RO'000s
Operating costs (note 15)	618	616
Administrative and general expenses	1	-
	<u>619</u>	<u>616</u>

5 Trade and other receivables

	Unaudited 31 March 2019 RO'000s	Audited 31 December 2018 RO'000s
Trade receivables	1,624	1,329
Prepayments and other receivables	20	53
Deposits	2	3
	<u>1,646</u>	<u>1,385</u>

6 Cash and cash equivalents

	Unaudited 31 March 2019 RO'000s	Audited 31 December 2018 RO'000s
Cash at bank	1,353	1,127
Short term deposits	769	693
	<u>2,122</u>	<u>1,820</u>

The short term deposits are denominated in US Dollars and are with Sumitomo Mitsui Banking Corporation Limited in London with maturities of less than one month. These deposits yield interest at an insignificant rate.

Notes to the unaudited interim condensed financial statements

7 Capital and reserves*(a) Share capital*

The authorised share capital comprises of 250,000,000 (2017: 250,000,000) ordinary shares of 100 baisa each and the issued share capital comprises 155,550,400 (2017: 15,555,040) fully paid up shares of 100 baisa each.

The Shareholders of the Company are:

	Unaudited 31 March 2019		Audited 31 December 2018	
	Number of shares	%	Number of shares	%
Summit Water Middle East Company	50,553,880	32.5	50,553,880	32.5
Malakoff Oman Desalination Company Limited	50,553,880	32.5	50,553,880	32.5
Others	54,442,640	35	54,442,640	35
	155,550,400	100	155,550,400	100

The two main shareholding companies are registered in Cayman Islands and British Virgin Islands respectively. None of the other ordinary shareholders owns 10% or more of the Company's paid-up share capital as at 31 March 2019.

(b) Legal reserve

Article 154 of the Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable statutory reserve until the amount of the statutory reserve becomes equal to at least one-third of the Company's paid up share capital.

(c) Dividend

Shareholders at the Annual General Meeting ("AGM") held on 27 March 2019 authorised the Board of Directors to determine and distribute cash dividends to the Shareholders of the Company:

- in May 2019 of a value not exceeding 1.626 baiza per share out of the retained profits for the period ended 31 December 2018 to the Shareholders who are registered in the Company's register as at a date determined by the Board; and
- in November 2019 of a value not exceeding 6.429 baiza per share out of the retained profits for the period ended 30 September 2019 (subject to availability of adequate distributable retained profits) to the Shareholders who are registered in the Company's register as at a date to be determined by the Board.

Notes to the unaudited interim condensed financial statements

8 Term loans

	Unaudited 31 March 2019 RO'000s	Audited 31 December 2018 RO'000s
Term loans	63,060	63,826
Less: deferred finance charges	(1,138)	(1,157)
	61,922	62,669
Less: current portion of term loans	(3,127)	(3,106)
	58,795	59,562

Facilities

On 25 July 2013, the Company entered into a long-term financing agreement for loan facilities ("the term loans") in the aggregate maximum amount of RO 81,451,616 (USD 211,837,752) with a consortium of international banks.

9 Derivative financial instruments

In accordance with the Common Terms Agreement, the Company is required to enter into interest rate hedging agreements to cap the Company's exposure to fluctuating interest rates. This requirement covers the term loans.

The hedging arrangement obliges the Company to pay fixed interest at the rate of 2.86% per annum on a quarterly basis for the term loans. These cash flow hedges were assessed as highly effective as at 31 March 2019 (For the year ended 31 December 2018: highly effective).

The classification of the fair values of the derivative financial instruments based on the remaining period to maturity from the reporting date is as follows:

	Unaudited 31 March 2019 RO'000s	Audited 31 December 2018 RO'000s
Current portion	(204)	(77)
Non-current portion	(1728)	(657)
Cumulative changes in fair value	(1932)	(734)

Cumulative changes in fair value are recognised as follows:

Cumulative changes in fair value	(1932)	(734)
Related deferred tax liability/ asset	289	110
Cumulative changes in fair value, net of deferred tax	(1643)	(624)

Notes to the unaudited interim condensed financial statements

10 Provision for decommissioning obligation

The decommissioning cost represents the present value of management's best estimate of the future cost to remove the facilities and restore the affected area at the Company's leased site to its original condition. The estimate has been made on the basis of an independent report by a professional consultant, discounted at 4.60% to its present value, over the plant's estimated useful life of 40 years.

11 Shareholders' loans

	Unaudited 31 March 2019 RO'000s	Audited 31 December 2018 RO'000s
Summit Water Middle East Company	2,073	2,073
Malakoff Oman Desalination Company Limited	2,073	2,073
Sumitomo Corporation	2,129	2,129
Malakoff International Limited	2,129	2,129
Interest accrued	492	450
	<hr/>	<hr/>
	8,896	8,854
Less: current portion of Shareholders' loans	-	-
	<hr/>	<hr/>
Non-current portion of Shareholder's loans	8,896	8,854
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Facilities

The Shareholders' loans of RO 1,691,800 (USD 4,400,000) were provided in October 2015. Further Shareholders' loans of RO 4,037,250 (USD 10,500,000) were provided during the year ended 31 December 2016. Further, amount due to related parties (ultimate shareholders) of RO 4,257,842 (USD 11,073,711) were converted into shareholders' loan in July 2017.

In April 2018, the Shareholders' loans of RO 1,583,000 (USD 4,117,035) provided by Summit Water Middle East Company and Malakoff Oman Desalination Company Limited were repaid.

12 Shareholders' stand – by equity loans

	Unaudited 31 March 2019 RO'000s	Audited 31 December 2018 RO'000s
Summit Water Middle East Company	377	377
Malakoff Oman Desalination Company Limited	377	377
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	754	754
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Notes to the unaudited interim condensed financial statements

12 Shareholders' stand – by equity loans (continued)**Facilities**

The Shareholders' stand-by equity loans of RO 837,031 (USD 2,176,932) were provided in November 2015. In March 2018, the Shareholders' stand-by equity loans of RO 83,703 (USD 217,693) provided by Cadagua Al Ghubrah UK Limited were repaid.

13 Accruals and other payables

	Unaudited 31 March 2019 RO'000s	Audited 31 December 2018 RO'000s
Accruals and other payables	<u>1,834</u>	<u>1,723</u>

14 Related party transactions

Related parties comprise the shareholders, directors, key management personnel and any business entities in which these parties have the ability to control or exercise significant influence. The Company maintains significant balances with these related parties which arise in the normal course of business. The terms and conditions of related party transactions are mutually agreed.

	Unaudited 31 March 2019 RO'000s	Unaudited 31 March 2018 RO'000s
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC	<u>994</u>	<u>1,035</u>
Interest expense on Shareholders' loans	<u>42</u>	<u>50</u>
Key management compensation	<u>54</u>	<u>38</u>
Director's sitting fees and allowances	<u>-</u>	<u>-</u>

15 Operating costs

	Unaudited 31 March 2019 RO'000s	Unaudited 31 March 2018 RO'000s
Operation and maintenance cost	<u>989</u>	<u>1,011</u>
Electricity charges	<u>675</u>	<u>670</u>
Depreciation	<u>618</u>	<u>616</u>
	<u>2,282</u>	<u>2,297</u>

MUSCAT CITY DESALINATION COMPANY SAOG

14

Notes to the unaudited interim condensed financial statements

16 Administrative and general expenses

	Unaudited 31 March 2019 RO'000s	Unaudited 31 March 2018 RO'000s
Employee costs	79	57
Insurance	46	56
Legal and professional expenses	37	35
Depreciation	1	-
Others	75	102
	<u>238</u>	<u>250</u>

17 Finance costs (net)

	Unaudited 31 March 2019 RO'000s	Unaudited 31 March 2018 RO'000s
Interest expense on term loans and interest swaps	686	761
Interest expense on Shareholders' bridge loan	42	50
Amortisation of deferred finance cost	19	19
Interest income on term deposits	(4)	(4)
Other finance cost	7	2
	<u>750</u>	<u>828</u>

18 Income tax

The Company is liable to income tax at the rate of 15% (31 March 2018: 15%). No provision for income tax has been made for the period ended 31 March 2019 in view of the taxable losses for the period.

Deferred tax arises on account of tax losses and temporary differences between the tax base of assets and liabilities and their carrying values in the statement of financial position. Deferred tax asset on losses has been recognised to the extent of future taxable income as management consider it probable that sufficient taxable income may arise prior to their expiry to obtain the benefits therefrom.

19 Earnings per share

	Unaudited 31 March 2019	Unaudited 31 March 2018
Net Profit for the period (RO'000s)	<u>365</u>	<u>353</u>
Weighted average number of shares outstanding during the period	<u>155,550,400</u>	<u>155,550,400</u>
Earnings per share (basic and diluted)	<u>0.002</u>	<u>0.002</u>

Notes to the unaudited interim condensed financial statements

20 Lease commitments

The land which the plant occupies has been leased from the Government of the Sultanate of Oman (represented by the Ministry of Housing) for a period of 25 years from 11 February 2013. The lease term can be extended by an additional 25 years at the request of the Company. Lease rental is paid at the rate of RO 15,045 per annum.

21 Financial instruments

The Company's financial risk management objective and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2018.

22 Comparative figures

Certain comparative figures for corresponding period have been reclassified to confirm to the presentation adopted in the current period.