

## **BOARD OF DIRECTORS' REPORT**

### **Dear Shareholders,**

On behalf of the Board of Directors of Muscat City Desalination Company SAOG ("MCDC" or the "Company"), I am pleased to present the Directors' Report together with the unaudited financial statements of the Company for the six-month period ended 30 June 2019.

### **Health, Safety and Environment (HSE)**

The HSE performance of the Company to date has been satisfactory, with no Lost Time Accidents ("LTA"). The operator entity, Muscat City Desalination Operations and Maintenance Company LLC ("MCDOMC") has completed 1218 days without any LTA since the plant's commercial operations commenced on 19 February 2016. Similarly, there were no environmental incidents for the same period.

### **Operations**

The plant successfully passed its annual performance test for the 5<sup>th</sup> Contract Year under the Water Purchase Agreement ("WPA") with Oman Power and Water Procurement Company SAOC ("OPWP") by achieving the Guaranteed Contracted Water Capacity of 7955 m<sup>3</sup>/hour.

During the first six months of 2019, the Company achieved a lower availability of 90.6%, compared with 96.6% during the same period in 2018 mainly due to planned maintenance activities conducted during the period. The water dispatch during the first half of 2019 was 31,205,260 m<sup>3</sup>, an increase of 6.9% compared with 29,176,536 m<sup>3</sup> during the same period in 2018. During the current quarter, the plant once again experienced algae events, which impacted the plant's pre-treatment system. This resulted in the plant experiencing algae bloom related forced outages equivalent to a loss capacity of 96,982 m<sup>3</sup> during this quarter. However, the impact of the recent algae bloom events to the operations of the plant was mitigated by the Dissolved Air Flotation ("DAF") system at the plant. The total forced outage rate for the six-month period ending on 30 June 2019 is 1.05% (30 June 2018: 1.21%).

### **Financial Results**

Revenue for the first six months of 2019 was RO 8.252 million whilst the direct operating cost was RO 5.207 million. Accordingly, the gross profit for the period was RO 3.045 million, which is 5.1% lower compared with the same period in the previous year mainly due to the one-off adjustment of additional electricity reimbursement during the same period last year. General and administrative expenses for the first six months of 2019 was

RO 0.436 million, which is higher by 2.6% compared with the same period last year mainly due to the higher staff costs. Finance costs for the first six months of 2019 were RO 1.553 million, which is 6.6% lower than the finance costs incurred for same period last year. The Company recorded profit before tax (PBT) of RO 1.056 million which is 5.7% lower than the PBT for the same period last year. Overall, the Company achieved profit after tax of RO 0.715 million for the period compared with profit after tax of RO 0.670 million for the same period last year.

As at 30 June 2019, the share price of MCDC was 107 Baiza (30 June 2018:145 Baiza).

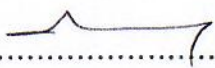
### **Corporate Governance**

The new Commercial Companies Law (New CCL) was announced and came into effect on 13 February 2019. The Company's legal advisor is in the process of aligning the Company's constitutional documents and applicable policies with the New CCL. The Company will make the necessary announcements on the Muscat Securities Market (MSM) in this regard in the near future. The Company's internal auditor resigned recently due to personal reasons and the Company is looking for a suitable replacement. Meanwhile, in the interim, the Company has appointed an external accountancy firm, Grant Thornton to provide internal audit services.

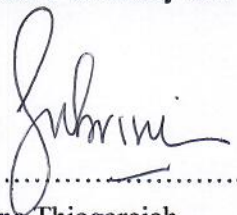
### **Future Outlook**

All reasonable and prudent measures have been and will continue to be taken by the Company to ensure high standards of health, safety and environmental compliance, and to sustain and improve reliability and availability going forward.

On behalf of the Board of Directors, I would like to extend our utmost appreciation and gratitude to His Majesty Sultan Qaboos Bin Said and His Government for their continued support and encouragement to the private sector by creating an environment that allows the Company to participate effectively in the growth of the Sultanate's economy and to contribute in the building of a strong nation.

  
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Ahmad Fuaad bin Mohd  
Kenali  
Chairman of the Board

  
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Board Member

  
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Subrina Thiagarajah  
Chief Executive Officer