

Board of Directors' Report

Dear Shareholders,

On behalf of the Board of Directors of Muscat City Desalination Company (the **Company**), I am pleased to present to you the Annual Report of the Company for the year ended 31 December 2018.

The Company was incorporated on 19 January 2013 as a Closed Joint Stock company. In 2017, the Company underwent an Initial Public Offering pursuant to its obligations under the Project Founder's Agreement and was subsequently listed on the Muscat Securities Market (**MSM**) on 2 January 2018.

Operational Highlights

The Company owns and operates the 42 Million Imperial Gallons per Day (191,000 m³/day) Al Ghubrah Independent Water Plant (the **Plant**). The Plant is located in North Ghubrah, Muscat Governorate, Sultanate of Oman and was developed under a Build, Own, Operate (**BOO**) scheme. The Plant achieved its commercial operation date (**COD**) on 19 February 2016.

The Company currently generates its revenue through the sale of potable water pursuant to a Water Purchase Agreement (**WPA**) with Oman Power and Water Procurement Company (**OPWP**). The potable water from the Plant is fully contracted to OPWP. Electricity, which is the main energy source, is procured from Muscat Electricity Distribution Company (**MEDC**) pursuant to the Electricity Supply Agreement with MEDC. The Operations and Maintenance ("O&M") of the plant is contracted to Muscat City Desalination Operation and Maintenance Company LLC (**MCDOMC** or the "**Operator**") through a 20 year Operations and Maintenance Contract (**O&M Contract**).

During the year 2018, the Company achieved a potable water production of 59,929,864m³ with plant availability of 96% (including planned maintenance) compared with the total water production of 57,162,655m³ with average plant availability of 92% in 2017.

Financial Results

In 2018, operating revenue increased by 3% to RO16.1 million as a result of improved operating performance compared with RO15.6 million in 2017. Operating costs in 2018 increased to RO9.8 million compared with RO9.4 million in 2017. Accordingly, the Company recorded profit before tax of RO 2.1 million, which is 24% higher compared with RO1.7 million in 2017.

As approved by the shareholders, the Board of Directors at its meeting on 8 February 2018 resolved to distribute cash dividends of Baizas 2.9268 per share to the shareholders who are registered in the Company's register as at 28 February 2018.

Subsequently, the shareholders at the Annual General Meeting (**AGM**) held on 27 March 2018 authorised the Board of Directors to determine and distribute cash dividends to the shareholders of the Company in November/December 2018 out of the retained earning in accordance with the audited financial statements for the period ended 30 September 2018, provided that the aggregate amount shall not exceed 6.4% of the paid up share capital of the Company (i.e. 6.4 Baizas per share).

The Board of Directors at its meeting held on 13 November 2018 resolved to distribute cash dividend of 6.3966 Baizas per share out of the retained earnings in accordance with the audited financial statements for the financial period ended 30 September 2018 to the shareholders who were registered in the Company's shareholders' register with the Muscat Clearing & Depository Company S.A.O.C. as at 29 November 2018.

Health, Safety and Environment

Ensuring full compliance with Health, Safety and Environmental (HSE) standards continues to be a high priority of the Company and its Operator. This is evidenced by the fact that there were no Lost Time Incidents ("LTI") or environmental incidents for 2018. As at 31 December 2018, the Company achieved 1037 days without LTI since its COD. In April 2017, the Operator was awarded with ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System. In September 2018, the Operator successfully migrated its ISO 14001:2004 to ISO 14001:2015.

Corporate Governance

The Board of Directors and Management of the Company believe in the importance of the internal control system. The Company has a comprehensive system of internal controls in place. The Company had carried out a comprehensive review of its key internal policies and procedures in order to ensure its compliance. The Company has appointed a full time in-house internal auditor and engaged an external audit firm for a period of one year to support the Company's internal auditor. An internal audit plan was developed for 2018 and approved by the Audit Committee, which was fully implemented during the year.

There were no significant findings identified for the year ended 31 December 2018. The Management is fully committed to implementing the recommendations arising from the findings of the internal auditor.

In accordance with the CMA Code of Corporate Governance, the Company has also appointed a consultant to evaluate the performance of the Board. Please refer to the Company's corporate governance report for further information on the Company's corporate governance structure.

Corporate Social Responsibility (CSR)

Our CSR initiatives and programmes are reflective of our commitment to keeping the local Omani community at the forefront of our business. Accordingly, our CSR activities during 2018 have sought to build and strengthen our outreach to key sections of the Omani community, represented most notably by the educational and higher learning sector.

During the year, MCDC launched the Primary Education Programme and the Technical Trainee Programme. The Primary Education Programme targeted Omani schools operating in the vicinity of our water desalination complex in Al Ghubrah whereby 80 Omani schoolchildren and their teachers were given an opportunity to visit the facility and were briefed on the production process of potable water using reverse osmosis technology. Meanwhile the Technical Trainee Programme, was for Omani students who were close to completing their technical diploma or degree programme. As a part of this programme, 17 students from various technical institutes, colleges and universities have undergone internships with our O&M team during the year.

Employment

By the end of 2018, the Omanisation level in both the Company and its Operator is 72%. This is one of the highest levels achieved in the power and water industry.

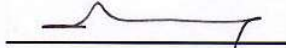
Future Outlook

The Company will continue its efforts in providing reliable supply of water which meets the required quality of potable water whilst at the same time ensuring full compliance in HSE standards.

Conclusion

On behalf of the Board, I would like to thank our shareholders for their confidence and continued support. I would also like to express my utmost appreciation and gratitude to OPWP, the Authority for Electricity Regulation, the Capital Market Authority and other governmental and non-governmental bodies for their encouragement, guidance and support. Our special thanks to all our employees of the Company and the Operator for their unwavering dedication and commitment. As a result of their contribution, the Company was able to achieve its goals and objectives.

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



Ahmad Fuaad Kenali
Chairman of the Board