

BOARD OF DIRECTOR'S 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 period of three months ended 31 March 2018.

Health, Safety and Environment (HSE)

The Health, Safety and Environment performance of the Company to date has been excellent, with no Lost Time Accidents (LTA). The Muscat City Desalination Operations and Maintenance Company LLC ("MCDOMC") has completed 762 days without a LTA since the plant's commercial operation. Similarly there have been no environmental incidents.

Operations

During the first quarter of 2018, the Company has achieved a good level of operational performance demonstrating an availability of 98.8%, compared with 89% during the same period in 2017. The water dispatch during the first quarter of 2018 was 15,846,224 m³ compared with 13,471,138 m³ during the same period in 2017, which is an increase of 17.6%.

Financial Results

Revenue for the first quarter of 2018 was RO 3.95 million whilst the direct operating cost was RO 2.30 million. Accordingly, the gross profit for the period was RO 1.65 million, which is 23.8% higher as compared with the same period in the previous year. General and administrative expenses for the first quarter was RO 0.25 million, which is an increase of 12.6% from the same period last year mainly due to the compliance costs incurred as a public listed company. The finance costs for the first quarter of 2018 was RO 0.83 million, which is lower by 7.2% compared with the same period last year. The Company achieved profit before tax of RO 0.58 million, which is 159% higher compared with the corresponding period last year. Deferred tax expenses of RO 0.23 million for the first quarter of 2018 was recognised due to the temporary difference between tax and accounting depreciation. Overall, MCDC recorded profit after tax of RO 0.35 million for the first quarter of 2018 compared with loss after tax of RO 1.05 million for the corresponding period last year.

The share price of MCDC was 147 Baiza at the close of the first quarter in 2018.

Corporate Governance

The Company's AGM was held on 29 March 2018 in Muscat. During the AGM, approval was given to

allow Dentons & Co Oman Branch, to develop a performance evaluation criteria for the Board of Directors and to carry out an appraisal of the Board by the end of 2018. Significant efforts have been put in place to review policies and processes to ensure that the Company operates at the highest standards of corporate governance.

Future Outlook

All reasonable and prudent measures will be taken by the Management of the Company to ensure high standards of health, safety and environmental compliance, and that the reliability and availability are maintained over the remaining months of 2018.

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 to the private sector by creating an environment that allows us to participate effectively in the growth of the Sultanate's economy and in the building of a strong nation.



Ahmad Fuaad bin Mohd Kenali

Chairman of the Board