

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 nine-month period ended 30 September 2018.

Health, Safety and Environment (HSE)

The HSE performance of the Company year to date has been commendable with no Lost Time Accidents ("LTA") recorded. The Operator, Muscat City Desalination Operations and Maintenance Company LLC ("MCDOMC") has completed 945 days without any LTA since the start of the plant's commercial operations on 19 February 2016. Similarly, there have been no environmental incidents for the same period.

Operations

During the first nine months of 2018, the Company recorded significant improvement in its operational performance of the plant by achieving 95.9% availability compared with 91.9% during the same period in 2017. The water dispatch for the period was 43,854,736 cubic metres, an increase of 3.6% compared with 42,324,952 cubic metres for the same period in 2017.

Unfortunately, in the Gulf of Oman from which the plant's seawater intake was located experienced an intense algae bloom phenomenon during the last 24 days of September 2018, which caused the plant to record a forced outage of 14.5% for the month. Nonetheless, the impact of the intense algae bloom on the plant could have been more severe if it is not for the incorporation of the Dissolved Air Flotation ("DAF") system adopted at the plant. The total forced outage rate for the nine-month period is 2.43%, which is an improvement of 0.42% compared with 2.85% for the same period in 2017.

Financial Results

The Company's revenue for the nine-month period ended 30 September 2018 is RO 12.09 million whilst the direct operating cost is RO 7.41 million. Accordingly, the gross profit for the period is RO 4.68 million, which is 2.0% higher compared with the same period last year. General and administrative expenses for the period is RO 0.59 million, which is 10.0% lower compared with the same period last year. Finance costs for the period declined to RO 2.53 million or 5.7% lower compared with finance costs for same period

last year.

The Company recorded improved profit before tax ("PBT") of RO 1.56 million for the period or 24.9% higher than PBT for the same period last year. The Company's profit after tax for the period of RO 0.88 million is a significant improvement from the loss after tax of RO 0.54 million for the same period last year.

As at 30 September 2018, the share price of MCDC is 132 Baizas.

Corporate Governance

Following the listing of MCDC on MSM, it has made substantial progress on the implementation of the SAOG Code of Corporate Governance ("Code"). The Company's policies and procedures have been reviewed and updated to ensure due compliance with the Code.

Future Outlook

The Company has taken and will continue to take all reasonable and prudent measures to ensure full compliance with health, safety and environmental standards, and to sustain and improve reliability and availability of the plant 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.



Ahmad Fuaad Mohd Kenali
Chairman of the Board