

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 financial period of three months ended 31 March 2019.

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 1,127 days without a LTA since the plant's commercial operation. Similarly there have been no environmental incidents at the plant.

Operations

During the current quarter ended 31 March 2019, the Company achieved an availability of 86.8%, compared with 98.8% during the corresponding quarter ended 31 March 2018. The water dispatch during the current quarter was 14,737,572 m³, lower by 7% compared with 15,864,224 m³ during the corresponding quarter in 2018 mainly due to the execution of the planned maintenance activities at the plant. Although the plant experienced certain algae events during the current quarter, the plant managed to operate at full production during this period.

Financial Results

Total revenue registered by the Company for the current quarter ended 31 March 2019 was RO 3.81 million whilst the direct operating cost was RO 2.28 million. Accordingly, the gross profit registered for the current quarter was RO 1.53 million, which was 7.8% lower compared with the corresponding quarter in 2018 mainly due to the one-off adjustment of additional electricity reimbursement during the same period last year. General and administrative expenses for the current quarter was RO 0.24 million, which was 4.8% lower compared with the corresponding quarter last year. Finance costs for the current quarter of 2019 was RO 0.75 million, which was 9.4% lower compared with the corresponding quarter last year. The Company achieved

profit before tax of RO 0.54 million, which is 6.7% lower compared with the corresponding quarter last year. Net deferred tax expenses of RO 0.17 million for the current quarter of 2019 was recognised due to the temporary difference between tax and accounting depreciation net of deferred tax asset on carryforward business losses. Overall, MCDC recorded profit after tax of RO 0.37 million for the current quarter ended 31 March 2019, which is higher by 3.4% when compared with profit after tax of RO 0.35 million for the corresponding quarter ended 31 March 2018.

The share price of MCDC was 122 Baiza at the close of the current quarter ended 31 March 2019.

Corporate Governance

The new Commercial Companies Law was announced on 13 February 2019 and will become effective from mid-April 2019 ("New CCL"). The Company's legal advisor is now in the process of reviewing our Articles of Association ("AoA") to recommend the necessary amendments to ensure alignment with the new CCL. A shareholders' general meeting will be convened at an appropriate time to obtain shareholders' approval on the amendments to be made to the AoA.

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 of the plant are maintained in 2019.

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