

## **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 2019.

### **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 1310 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 2019, the Company achieved a lower availability of 92.8%, compared with 95.9% during the same period in 2018 mainly due to higher planned maintenance activities conducted during the period compared to last year. The water dispatch for the period was 48,357,892 cubic metres, an increase of 10.3% compared with 43,854,736 cubic metres for the same period in 2018.

Unfortunately, during the current quarter especially in the months of August and September 2019, the Gulf of Oman, from which the plant's seawater intake was located, experienced an extraordinary phenomenon of jelly fish infestation. This resulted in a forced outage of 66,995 m<sup>3</sup> and 146,362 m<sup>3</sup> respectively. The jelly fish bloom, which drifted with the sea currents clogs the sea water intake screens and reduces the amount of seawater into the intake pipes. This reduction of sea water intake directly affects the amount of potable water produced by the plant, thus causing the forced outages. The total forced outage rate for the nine-month period is 1.20%, which is an improvement of 1.23% compared with 2.43% for the same period in 2018 which was mainly caused by the algae bloom. The plant's operation team is now exploring the potential solutions to minimize future forced outages due to jelly fish infestation.

## **Financial Results**

The Company's revenue for the nine-month period ended 30 September 2019 is RO 12.760 million whilst the direct operating cost is RO 8.167 million. Accordingly, the gross profit for the period is RO 4.593 million, which is 1.8% lower compared with the same period last year mainly due to the one-off adjustment of additional electricity reimbursement during the same period last year. Other income of RO 0.028 million was recognized for reimbursement of expenses. General and administrative expenses for the period is RO 0.610 million, which is 3.0% higher compared with the same period last year, mainly due to higher staff cost. Finance costs for the period declined to RO 2.359 million, which is 6.7% lower compared with finance costs incurred for same period last year. The Company recorded a profit before tax (PBT) of RO 1.652 million which is 6.2% higher than the PBT for the same period last year. Overall, the Company achieved profit after tax of RO 1.149 million for the period compared with profit after tax of RO 0.880 million for the same period last year.

As at 30 September 2019, the share price of MCDC was 113 Baizas. (30 September 2018: 134 Baiza).

## **Corporate Governance**

Following the listing of MCDC on Muscat Security Market in January 2018, it has made substantial progress on the implementation of the SAOG Code of Corporate Governance. As disclosed earlier, the Company's internal auditor resigned in July 2019 and the Company continues to search for a suitable replacement. Meanwhile, Grant Thornton continues to provide internal audit services to the Company. The Company is also working on aligning its internal policies with the new Commercial Companies Law promulgated earlier this year pursuant to Sultani Decree 18/2019.

## **Corporate Social Responsibility**

The Company continues to provide support in the areas of welfare and education in line with the CSR plan.

## **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

## **Independent auditor's report to the shareholders of Muscat City Desalination Company SAOG**

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### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of **Muscat City Desalination Company SAOG** (“the Company”), which comprise the statement of financial position as at 30 September 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and notes to the financial statements, including summary of significant accounting policies as set out on pages 5 to 39.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 30 September 2019, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards (IFRSs).

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the Company's financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Emphasis of matter – restriction on distribution and use**

These financial statements are prepared solely for submission to the Capital Market Authority in lieu of the entity declaring dividends. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Company and the Capital Market Authority and should not be distributed to or used by parties other than the Company and the Capital Market Authority. Our opinion is not modified in respect of this matter.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## Independent auditor's report to the shareholders of Muscat City Desalination Company SAOG (continued)

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### Key audit matters (continued)

#### Key audit matter

#### How the matter was addressed in the audit

##### Valuation of derivatives

Refer to note 10 of the financial statements for disclosures applicable to this matter.

Our response to the key audit matter included performing the following audit procedures:

At 30 September 2019, derivatives represented 6.1% of total liabilities. All derivatives are classified as level 2 in the fair value hierarchy as prescribed by IFRS 13 Fair Value Measurement.

- Obtained an understanding of the process to determine the fair value of derivatives, the risk management policies and the accounting policies adopted by management.
- We assessed the controls over the valuation of derivatives to determine if they had been appropriately designed and implemented.
- We reconciled the carrying value of derivative financial instruments in the financial statements to external third party confirmations;
- We evaluated the independence, qualifications and competence of the specialist engaged by the Company to determine the fair value of derivatives.
- We recalculated the fair value of derivative financial instruments with independently obtained and externally available market data using support from our financial risk management specialists; and
- We evaluated the disclosures contained in the financial statement in relation to derivative financial instruments to determine if they met the requirements of IFRSs

Financial instruments that are classified as level 2 in the fair value hierarchy will have some element of estimation uncertainty inherent in their value.

Derivative financial instruments are used to manage and hedge interest rate risk. These instruments are designated as cash flow hedges. Valuation of the derivatives is based on valuation models using observable input data.

As the determination of the fair value of derivatives is a key source of estimation uncertainty, is subject to significant judgement and represents a material balance, this matter was considered to be a key audit matter in our audit of the financial statements.

#### Other matter

The financial statements of the Company for the period ended 30 September 2018 and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 18 November 2018 and on 18 February 2019 respectively.

## **Independent auditor's report to the shareholders of Muscat City Desalination Company SAOG (continued)**

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### **Responsibilities of Board of Directors and those charged with governance for the financial statements**

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Commercial Companies Law of 2019 and the disclosure requirement of issued by the Capital Market Authority of Sultanate of Oman (the "CMA"), and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

## Independent auditor's report to the shareholders of Muscat City Desalination Company SAOG (continued)

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### Auditors' responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with relevant disclosure requirements of the Commercial Companies Law of 2019, as amended and the disclosure requirements issued by the CMA.

*Deloitte - Touche*

Deloitte & Touche (M.E.) & Co. LLC  
Muscat, Sultanate of Oman  
17 November 2019

Signed by  
Mark Dunn  
Partner

