

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 2019.

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 financial year 2019, the Company achieved an availability of 93.84%, compared with 96% during the same period in 2018. This was due to the fact that most of the maintenance outages for the previous Contract Year was completed in the first quarter of 2019. (Contract Year is a defined period in the WPA from 1 April 2018 to 31 March 2019). As this has already been allowed for in the WPA, therefore, there is no financial impact of this lower availability for 2019 compared with 2018. Further, the total forced outage rate for the financial year in 2019 was lower at 1.09%, compared with 1.94% for the same period in 2018 mainly due to the reduction of period and intensity of the algae bloom phenomenon faced by the plant, this year.

This year, the Company achieved a potable water production of 65,032,354 cubic metres an increase of 8.5% compared with the total water production of 59,929,864 cubic metres in 2018.

Financial Results

In 2019, operating revenue increased by 4.6% to RO 16.810 million as a result of improved operating performance compared with RO 16.071 million in 2018. Operating costs in 2019 increased to RO 10.654 million compared with RO 9.776 million in 2018. Accordingly, the Company recorded profit before tax of RO 2.174 million, which is 5.9% higher compared with RO 2.053 million in 2018.

Shareholders at the Annual General Meeting (AGM) held on 27 March 2019 authorised the Board of Directors to determine and distribute cash dividends to the shareholders of the Company in May 2019 of a value not exceeding 1.626 Baizas per share out of the retained profits for the year ended 31 December 2018 and in November 2019 of a value not exceeding 6.429 Baizas per share out of the retained profits for the period ended 30 September 2019 .

Subsequently, the Board of Directors at its meeting held on 29 April 2019, resolved to distribute cash dividend of 1.626 Baizas per share out of the retained earnings in accordance with the audited financial

statements for the financial year ended 31 December 2018 to the shareholders who were registered in the Company' shareholders' register with the Muscat Clearing & Depository Company S.A.O.C. as at 15 May 2019.

The Board of Directors at its meeting held on 17 November 2019 resolved to distribute cash dividend of 6.429 Baizas per share out of the retained earnings in accordance with the audited financial statements for the financial period ended 30 September 2019 to the shareholders who were registered in the Company' shareholders' register with the Muscat Clearing & Depository Company S.A.O.C. as at 28 November 2019.

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 2019. As at 31 December 2019, the Company achieved 1402 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 engaged an accountancy firm Abu Timam Grant Thornton to undertake the Company's internal audit function for a period of one year. An internal audit plan was developed for 2019 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 2019. 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. For further details on the corporate governance framework please refer to the Company's Corporate Governance Report.

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 2019 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 continued with its 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 100 Omani school children with 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, 22 students from various technical institutes, colleges and universities have undergone training with our O&M team during the year.

This year, staff and families of the Company and the Operator also conducted a beach cleaning exercise at the Ghubrah beach, near the Plant. This was conducted in collaboration with the Muscat Municipality. This exercise created awareness about the importance of recycling waste and keeping Oman's beaches clean amongst the employees and their children.

Employment

By the end of 2019, the Omanisation level in both the Company and its Operator is 70%. This is one of the highest level achieved in the power and water industry.

Future Outlook


The Company will continue its efforts to provide 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.

On behalf of the Board of Directors, I would also like to extend our sincere condolences to the people of Oman on the recent loss of His Majesty Sultan Qaboos bin Said. All of us are deeply saddened by this great loss. The late Sultan Qaboos Bin Said was a man of great vision, wisdom and a pillar of strength upon which the Sultanate was built on. We pray to the Almighty to rest his Majesty's soul in eternal peace.

We also wish to also extend our heartiest congratulations and best wishes to the new Sultan of Oman, His Majesty Sultan Haitham bin Tariq bin Taimur Al Said as he leads Oman on its journey of development, growth and prosperity. I would also like to thank the Government of Oman 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