

## Unaudited notes to the condensed financial information for the six months period ended 30 June 2019

### 1. Legal status and principal activities

Muscat City Desalination Company SAOG (the “Company”) is a public joint stock company registered in the Sultanate of Oman. The Company was incorporated on 19 January 2013. The Company’s principal activity is the sale of desalinated water. The Company commenced commercial production of potable water on 19 February 2016. The Company was listed on the Muscat Securities Market on 2 January 2018. Shareholding of the Company is disclosed in note 7.

#### 1.1 Key agreements

##### *Water Purchase Agreement*

On 11 February 2013 the Company signed a long term Water Purchase Agreement (WPA) with Oman Power and Water Procurement Company SAOC for the supply of 42 million imperial gallons of water per day. The agreement expires 20 years after the Scheduled Commercial Operation Date of 12 October 2014, subject to any extension period or early termination arising under the terms of the agreement.

##### *Engineering, Procurement and Construction Contract*

The Company entered into an agreement for the construction of a desalination plant with a capacity of 42 million imperial gallons of water per day with International Water Treatment LLC (“the EPC Contractor”) on a turnkey basis which was completed during 2016.

### 2. Application of new and revised International Financial Reporting Standards (“IFRS”)

#### 2.1 New and revised IFRSs applied with no material effect on the condensed interim financial information Effective for annual periods beginning on or after 1 January 2019

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures
- Annual Improvements to IFRSs 2015-2017 *Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*
- Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*
- IFRIC 23 *Uncertainty over Income Tax Treatments*

#### 2.2 New and revised IFRS standards and interpretations but not yet effective

Effective for annual periods beginning after 1 January 2020 and beyond

IFRS 17: *Insurance Contracts* relating to providing a more uniform measurement and presentation approach for all insurance contracts.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

**Unaudited notes to the condensed financial information**  
*for the six months period ended 30 June 2019 (continued)***3. Summary of significant accounting policies**

This condensed interim financial information is presented in Rials Omani (RO) since that is the currency in which majority of the Company's transactions are denominated and all values are rounded to the nearest thousand (RO'000) except when otherwise stated.

**Basis of preparation and statement of compliance**

The interim condensed interim financial information of the Company is prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the condensed interim financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018.

The condensed interim financial information do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the Company's annual financial statements as at 31 December 2018. In addition, results for the six months period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

This is the first set of the Company's financial information where IFRS 16 has been applied. Changes to significant accounting policies are described in Note 3.

The Company has adopted IFRS 16 'Leases' as issued by the IASB in January 2016 and effective for the period beginning on 1 January 2019, which resulted in a change in accounting policy. The Company did not adopt early, any requirement of IFRS 16 in the previous period.

Except IFRS 16, below accounting policies applied in this interim financial information are same as those applied in the Company's financial statements as at and for the year ended 31 December 2018.

The changes in the accounting policies are also expected to be reflected in the Company's financial statements as at and for the year ended 31 December 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-to-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. The Company has adopted IFRS 16 from 1 January 2019 and as a result the Company has recorded a lease asset (right-of-use assets) of RO 195,919 and lease obligation of RO 195,919 as on 01 Jan 2019.

The land which the plant occupies has been leased from the Government of the Sultanate of Oman (represented by the Ministry of Housing) for a period of 25 years from 11 February 2013. The lease term can be extended by an additional 25 years at the request of the Company. Lease rental is paid at the rate of RO 15,045 per annum.

The land lease becomes an on-balance sheet liability that attracts interest, together with new asset on the other side of the balance sheet.

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### Unaudited notes to the condensed financial information for the six months period ended 30 June 2019 (continued)

#### 4. Property, plant and equipment

	Civil and structural works RO'000	Plant and machinery RO'000	Pipelines RO'000	Decommissioning asset RO'000	Spares RO'000	Furniture, fixtures and office equipment RO'000	Motor vehicles RO'000	Total RO'000
<b>Cost</b>								
1 January 2019	31,326	46,369	19,908	334	655	31	39	98,662
Additions	5	-	-	-	-	-	-	5
<b>30 June 2019</b>	<b>31,331</b>	<b>46,369</b>	<b>19,908</b>	<b>334</b>	<b>655</b>	<b>31</b>	<b>39</b>	<b>98,667</b>
<b>Accumulated depreciation</b>								
1 January 2019	2,242	3,319	1,426	23	42	26	39	7,117
Charge for the period	392	579	249	4	8	1	-	1,233
<b>30 June 2019</b>	<b>2,634</b>	<b>3,898</b>	<b>1,675</b>	<b>27</b>	<b>50</b>	<b>27</b>	<b>39</b>	<b>8,350</b>
<b>Carrying value</b>								
<b>30 June 2019</b>	<b>28,697</b>	<b>42,471</b>	<b>18,233</b>	<b>307</b>	<b>605</b>	<b>4</b>	<b>-</b>	<b>90,317</b>

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### Unaudited notes to the condensed financial information for the six months period ended 30 June 2019 (continued)

#### 4. Property, plant and equipment (continued)

	Civil and structural works RO'000	Plant and machinery RO'000	Pipelines RO'000	Decommissioning asset RO'000	Spares RO'000	Furniture, fixtures and office equipment RO'000	Motor vehicles RO'000	Total RO'000
Cost								
1 January 2018	31,326	46,369	19,908	330	576	26	39	98,575
Additions	-	-	-	-	79	5	-	84
Adjustment	-	-	-	4	-	-	-	4
31 December 2018	31,326	46,369	19,908	334	655	31	39	98,662
Accumulated depreciation								
1 January 2018	1,459	2,160	928	50	26	24	39	4,686
Adjustment	-	-	-	(27)	-	-	-	(27)
Charge for the year	783	1,159	498	-	16	2	-	2,458
31 December 2018	2,242	3,319	1,426	23	42	26	39	7,117
Carrying value								
31 December 2018	29,084	43,050	18,482	311	613	5	-	91,545

**Unaudited notes to the condensed financial information**  
*for the six months period ended 30 June 2019 (continued)*

**4. Property, plant and equipment (continued)**

Property, plant and equipment are mortgaged as security for the borrowings of the Company (note 8).

Depreciation charge for the period is recognised as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2019</b> <b>RO'000</b>	Unaudited 30 June 2018 RO'000
Operating costs (note 15)	<b>1,238</b>	1,232
Administrative and general expenses (note 16)	<b>1</b>	-
	<u><b>1,239</b></u>	<u>1,232</u>

Operating costs include depreciation on right-of-use asset of RO 5,442.

**5. Trade and other receivables**

	<b>Unaudited</b> <b>30 June</b> <b>2019</b> <b>RO'000</b>	Audited 31 December 2018 RO'000
Trade receivables	<b>3,234</b>	1,329
Prepayments and other receivables	<b>36</b>	53
Deposits	<b>2</b>	3
	<u><b>3,272</b></u>	<u>1,385</u>

**6. Cash and cash equivalents**

Cash at bank	<b>251</b>	1,127
Short term deposits	<b>900</b>	693
	<u><b>1,151</b></u>	<u>1,820</u>

The short term deposits are denominated in US Dollars and are with Sumitomo Mitsui Banking Corporation Limited in London with maturities of less than one month. These deposits yield interest at an insignificant rate.

**Unaudited notes to the condensed financial information**  
*for the six months period ended 30 June 2019 (continued)*

**7. Capital and reserves**

*(a) Share capital*

The authorised share capital comprises of 250,000,000 (2018: 250,000,000) ordinary shares of 100 baiza each and the issued share capital comprises 155,550,400 (2017: 15,555,040) fully paid up shares of 100 baiza each.

The Shareholders of the Company are:

	Unaudited 30 June 2019		Audited 31 December 2018	
	Number of shares	%	Number of shares	%
Summit Water Middle East Company	<b>50,553,880</b>	<b>32.5</b>	50,553,880	32.5
Malakoff Oman Desalination Company Limited	<b>50,553,880</b>	<b>32.5</b>	50,553,880	32.5
Others	<b>54,442,640</b>	<b>35</b>	54,442,640	35
	<b>155,550,400</b>	<b>100</b>	155,550,400	100

The two main shareholding companies are registered in Cayman Islands and British Virgin Islands respectively. None of the other ordinary shareholders owns 10% or more of the Company's paid-up share capital as at 30 June 2019.

*(b) Legal reserve*

Article 154 of the Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable statutory reserve until the amount of the statutory reserve becomes equal to at least one-third of the Company's paid up share capital.

*(c) Dividend*

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 baiza per share out of the retained profits for the year ended 31 December 2018 to the Shareholders who are registered in the Company's register as at a date determined by the Board; and
- in November 2019 of a value not exceeding 6.429 baiza per share out of the retained profits for the period ended 30 September 2019 (subject to availability of adequate distributable retained profits) to the Shareholders who are registered in the Company's register as at a date to be determined by the Board.

In the board of directors meeting held on 29<sup>th</sup> April 2019, it was resolved to distribute cash dividend of Baizas 1.626 per share, out of the retained earnings as per the audited financial statements for the financial period ended 31 December 2018 to the shareholders of the Company who are registered in the Company's shareholders' register with the Muscat Clearing & Depository Company SAOC as at 15 May 2019.

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## Unaudited notes to the condensed financial information for the six months period ended 30 June 2019 (continued)

### 8. Term loans

	<b>Unaudited 30 June 2019 RO'000</b>	Audited 31 December 2018 RO'000
Term loans	<b>62,307</b>	63,825
Less: deferred finance charges	<b>(1,119)</b>	(1,157)
	<b>61,188</b>	62,668
Less: current portion of term loans	<b>(3,141)</b>	(3,106)
Non-current portion of term loans	<b>58,047</b>	59,562

#### Facilities

On 25 July 2013, the Company entered into a long-term financing agreement for loan facilities (“the term loans”) in the aggregate maximum amount of RO 81,451,616 (USD 211,837,752) with a consortium of international banks.

#### Interest

The term loans bear interest at three month USD Libor plus margin. The effective interest rate for the period was 4.69% (31 December 2018: 4.64%).

#### Security

The term loans are secured by a commercial mortgage over the Company’s assets and a legal mortgage over the Company’s rights, title and interest in the Usufruct Agreement dated 11 February 2013. In addition, a charge has been created over all of the Company’s shares.

#### Covenants

The facilities agreements contain certain covenants relating to liquidity. These include restrictions on the debt/equity ratio, the debt service coverage ratio and the loan life cover ratio. The Company satisfied with these covenants for the interest period in 2019.

### 9. Derivative financial instruments

In accordance with the Common Terms Agreement, the Company is required to enter into interest rate hedging agreements to cap the Company’s exposure to fluctuating interest rates. This requirement covers the term loans.

The hedging arrangement obliges the Company to pay fixed interest at the rate of 2.86% per annum on a quarterly basis for the term loans. These cash flow hedges were assessed as highly effective as at 30 June 2019 (For the year ended 31 December 2018: highly effective).

**Unaudited notes to the condensed financial information**  
*for the six months period ended 30 June 2019 (continued)*

**9. Derivative financial instruments (continued)**

The classification of the fair values of the derivative financial instruments based on the remaining period to maturity from the reporting date is as follows:

	<b>Unaudited</b> <b>30 June 2019</b> <b>RO'000</b>	Audited 31 December 2018 RO'000
Current portion	(384)	(77)
Non-current portion	(3,264)	(657)
<b>Cumulative changes in fair value</b>	<b>(3,648)</b>	<b>(734)</b>
<i>Cumulative changes in fair value are recognised as follows:</i>		
Cumulative changes in fair value	(3,648)	(734)
Related deferred tax liability / asset	547	110
Cumulative changes in fair value, net of deferred tax	(3,101)	(624)

**10. Provision for decommissioning obligation**

The decommissioning cost represents the present value of management's best estimate of the future cost to remove the facilities and restore the affected area at the Company's leased site to its original condition. The estimate has been made on the basis of an independent report by a professional consultant, discounted at 4.60% to its present value, over the plant's estimated useful life of 40 years.

**11. Shareholders' bridge loans**

	<b>Unaudited</b> <b>30 June</b> <b>2019</b> <b>RO'000</b>	Audited 31 December 2018 RO'000
Summit Water Middle East Company	2,073	2,073
Malakoff Oman Desalination Company Limited	2,073	2,073
Sumitomo Corporation	2,129	2,129
Malakoff International Limited	2,129	2,129
Interest accrued	449	450
Non-current portion of Shareholders' bridge loans	<b>8,853</b>	8,854

**Facilities**

The Shareholders' loans of RO 1,691,800 (USD 4,400,000) were provided in October 2015. Further Shareholders' loans of RO 4,037,250 (USD 10,500,000) were provided during the year ended 31 December 2016. Further, amount due to related parties (ultimate shareholders) of RO 4,257,842 (USD 11,073,711) were converted into shareholders' loan in July 2017.



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## Unaudited notes to the condensed financial information for the six months period ended 30 June 2019 (continued)

In April 2018, the Shareholders' loans of RO 1,583,000 (USD 4,117,035) provided by Summit Water Middle East Company and Malakoff Oman Desalination Company Limited were repaid.

### 12. Shareholders' stand – by equity loans

	<b>Unaudited 30 June 2019 RO'000</b>	Audited 31 December 2018 RO'000
Summit Water Middle East Company	377	377
Malakoff Oman Desalination Company Limited	377	377
	<u>754</u>	<u>754</u>

#### Facilities

The Shareholders' stand-by equity loans of RO 837,031 (USD 2,176,932) were provided in November 2015. In March 2018, the Shareholders' stand-by equity loans of RO 83,703 (USD 217,693) provided by Cadagua Al Ghubrah UK Limited were repaid.

### 13. Accruals and other payables

	<b>Unaudited 30 June 2019 RO'000</b>	Audited 31 December 2018 RO'000
Accruals and other payables	<u>2,377</u>	<u>1,724</u>

### 14. Related party transactions

Related parties comprise the shareholders, directors, key management personnel and any business entities in which these parties have the ability to control or exercise significant influence. The Company maintains significant balances with these related parties which arise in the normal course of business. The terms and conditions of related party transactions are mutually agreed.

	<b>Unaudited 30 June 2019 RO'000</b>	Unaudited 30 June 2018 RO'000
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC	<u>2,050</u>	<u>1,965</u>
Interest expense on Shareholders' loans	<u>85</u>	<u>93</u>
Key management compensation	<u>101</u>	<u>95</u>
Director's Sitting Fee	<u>7</u>	<u>3</u>

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## Unaudited notes to the condensed financial information for the six months period ended 30 June 2019 (continued)

### 15. Operating costs

	Unaudited 30 June 2019 RO'000	Unaudited 30 June 2018 RO'000
Operation and maintenance cost	2,055	1,935
Electricity charges	1,914	1,630
Depreciation (note 4.2)	1,238	1,232
	<hr/> <b>5,207</b> <hr/>	<hr/> <b>4,797</b> <hr/>

### 16. Administrative and general expenses

Employee costs	154	121
Insurance	95	107
Legal and professional expenses	65	71
Depreciation (note 4.2)	1	-
Others	121	126
	<hr/> <b>436</b> <hr/>	<hr/> <b>425</b> <hr/>

### 17. Finance costs (net)

Interest expense on term loans and interest swaps	1,425	1,531
Interest expense on Shareholders' bridge loan	85	93
Amortisation of deferred finance cost	38	38
Interest income on term deposits	(8)	(5)
Other finance cost	13	6
	<hr/> <b>1,553</b> <hr/>	<hr/> <b>1,663</b> <hr/>

### 18. Income tax

The Company is liable to income tax at the rate of 15% (30 June 2018: 15%). No provision for income tax has been made for the period ended 30 June 2019 in view of the taxable losses for the period.

Deferred tax arises on account of tax losses and temporary differences between the tax base of assets and liabilities and their carrying values in the statement of financial position. Deferred tax asset on losses has been recognised to the extent of future taxable income as management consider it probable that sufficient taxable income may arise prior to their expiry to obtain the benefits therefrom.

**Unaudited notes to the condensed financial information**  
*for the six months period ended 30 June 2019 (continued)*

**19. Earnings per share**

	<b>Unaudited 30 June 2019</b>	Unaudited 30 June 2018
Net Profit for the period (RO'000s)	<u>715</u>	<u>670</u>
Weighted average number of shares outstanding during the period	<u>155,550,400</u>	<u>155,550,400</u>
Earnings per share (basic and diluted)	<u><u>0.005</u></u>	<u><u>0.004</u></u>

**20. Lease commitments**

The land which the plant occupies has been leased from the Government of the Sultanate of Oman (represented by the Ministry of Housing) for a period of 25 years from 11 February 2013. The lease term can be extended by an additional 25 years at the request of the Company. Lease rental is paid at the rate of RO 15,045 per annum.

**21. Financial instruments**

The Company's financial risk management objective and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2018.