

## CORPORATE GOVERNANCE REPORT

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### Company's philosophy

Muscat City Desalination Company S.A.O.G (Company) is a purpose driven organisation. The Company has a strong business foundation due to its core values.

Corporate governance is a framework of principles, criteria and procedures, which a company adopts to achieve organisational discipline, ensure accountability, transparency and fairness.

Following its Initial Public Offering on 2 January 2018, the Company is required to comply with the Capital Market Authority's (CMA) Code of Corporate Governance (Code) and other rules and guidelines issued by the CMA from time to time.

As a step towards good corporate governance, the Board of Directors (the Board) has undertaken the necessary measures to implement the Code and applicable rules. The Board oversees the executive management's functions and safeguards the long-term interests of the Company. The Board is fully committed to apply the highest possible standards of corporate governance.

### Board of Directors

All members of the Board are non-executive in accordance with the requirement of the Code. During the financial year ended 31 December 2019, the Board consisted of the following Directors:

No.	Name of Director	Date of Appointment	Independent / Non independent	Mode of Representation
1.	Ahmad Fuaad bin Mohd Kenali	27 March 2019	Non-independent	Shareholder representative
2.	Tamer Cankardes	27 March 2019	Non-independent	Shareholder representative
3.	Ruswati binti Othman	27 March 2019	Non-independent	Personal capacity
4.	Kei Nakamura**	27 March 2019	Non-independent	Personal capacity
5.	Sultan Obaid Said Al Ghaithi*	27 March 2019	Independent	Personal capacity
6.	Ajeev Gopinathan	27 March 2019	Independent	Personal capacity
7.	Vishwanath Sankaranarayanan*	27 March 2018	Independent	Personal capacity

\* Vishwanath Sankaranarayanan's term ended on 27 March 2019.

\* Pursuant to Board elections conducted at the Annual General Meeting on 27 March 2019, the shareholders elected the new Board consisting of members from 1-6 mentioned in the above table.

Board meetings / shareholders meetings and attendance in 2019

No	Name of Director	Position	Attendance							
			Board Meetings							Shareholders Meeting
			Feb 18	Mar 27	Apr 29	Jul 28	Oct 28	Nov 17	Total	AGM Mar 27
1	Ahmad Fuaad bin Mohd Kenali	Chairman (Shareholder Representative)	●	●	●	●	●	●	6	●
2	Tamer Cankardes	Deputy Chairman (Shareholder Representative)	●	●	●	P	●	●	6	●
3	Ruswati binti Othman	Member	●	●	●	●	●	P	6	●
4	Kei Nakamura**	Member	●	●	●	●	●	●	6	●
5	Sultan Obaid Said Al Ghaithi*	Member	●	●	●	●	●	●	6	●
6	Ajeev Gopinathan	Member from 27 Mar 2019	-	●	●	●	●	●	5	●
7	Vishwanath Sankaranarayanan*	Member until 27 Mar 2019	●	-	-	-	-	-	1	-

● : Attended, P: Proxy

\* Vishwanath Sankaranarayanan's term ended on 27 March 2019.

\* Pursuant to Board elections conducted at the Annual General Meeting on 27 March 2019, the shareholders elected the new Board consisting of members from 1-6 mentioned in the above table.

#### Performance Appraisal for the Board of Directors

Dentons & Co Oman Branch had conducted the Board evaluation based on the criteria approved by the shareholders at the Company's Annual General Meeting held on 27 March 2019. The evaluation report will be presented at the forthcoming Annual General Meeting on 19 March 2020.

#### Board Audit Committee

The roles of the Board Audit Committee are as follows:

- To consider the auditor in the context of their independence (particularly with reference to any other non-audit services), fee and terms of engagement, and recommending the auditors to the Board and shareholders for appointment.
- To review the audit plan and results of the audit.
- To implement appropriate systems to check financial fraud and ensure the fairness of financial statements;
- Ensure oversight of the internal audit function.
- Ensure oversight of the adequacy of the internal control systems.

- (f) Ensure oversight of financial statements in general including the review of annual and quarterly financial statements before issue, qualifications contained in draft financial statements, and discussions of accounting principles therein and changes in accounting standards adopted by the Company.
- (g) Serve as a channel of communication for the Board with the external and internal auditors.
- (h) Review risk management policies.
- (i) Review all related party transactions and provide recommendations to the Board, in relation to the transactions.

The Board Audit Committee comprises the following members during the financial year 2019:

No.	Name of the Audit Committee Member	Position	Dates of Board Audit Committee Meetings				
			Feb 18	Apr 29	Jul 28	Oct 28	Nov 17
1	Sultan Obaid Said Al Ghaithi*	Chairman from 27 Mar 2019	●	●	●	●	●
2	Ajeev Gopinathan	Member	-	●	●	●	●
3	Ruswati binti Othman	Member	●	●	●	●	●
4	Vishwanath Sankaranarayanan*	Chairman until 27 Mar 2019	●	-	-	-	-

● : Attended, P: Proxy

\* Vishwanath Sankaranarayanan's term ended on 27 March 2019.

#### Board Nomination and Remuneration Committee (BNRC)

With the aim of adopting a transparent nomination policy, and to attract directors and key executives with high competence, the Board in accordance with the requirements of the Code established the BNRC.

The primary purpose of the BNRC is to review and approve the Directors' selection criteria and relevant procedures for the appointment of the Chief Executive Office, senior management and other key positions as may be required from time to time. Another important task of the BNRC is to ensure that proper succession planning is implemented.

The BNRC comprises the following members:

No.	Name of the BNRC Member	Position	Dates of BNRC Meetings		
			Feb 18	Oct 28	Nov 17
1	Ahmad Fuaad bin Mohd Kenali	Chairman	●	●	●
2	Tamer Cankardes	Member	●	●	●
3	Kei Nakamura	Member from 27 March 2019	-	●	●
4	Sultan Obaid Said Al Ghaithi*	Member until 27 March 2019	●	-	-

## Procedure for Nomination of Directors

Directors are nominated and elected in accordance with the applicable statutory provisions including but not limited to the rules prescribed by the CMA and the Articles of Association of the Company. Directors have a three year term, subject to re-election.

If the office of a director becomes vacant in the period between two ordinary general meetings, the Board may appoint a temporary director in accordance with the Commercial Companies Law promulgated by Sultani Decree 18/19 and the Company's Articles of Association.

## Remuneration

### a) Sitting Fees to Members of Board and Its Committees

A total amount of RO 11,200 is expensed as sitting fees for the financial year ended 31 December 2019. The Board Audit Committee and BNRC have also accrued sitting fees of RO 3,000 and RO 1,800 respectively. The sitting fees for each Director did not exceed RO 10,000 per Director as per the guidelines issued by the CMA. This will be tabled for shareholders' approval at the upcoming Annual General Meeting on 19 March 2020.

### b) Remuneration of Board Members

The total remuneration proposed to be paid to the Board members is RO 16,000 for the financial year ended 31 December 2019 for their invaluable contribution to the Company. This will be tabled for the shareholders' approval at the Annual General Meeting on 19 March 2020.

(\*) The provision for remuneration of RO 6,800 recognised in 2018 was reversed in financial statements 2019.

### c) Other Payments to Directors

There were no other payments to the Directors other than their sitting fees and remuneration as stated above.

### d) Key Executives of the Company

The Executive Management (as defined in the Commercial Companies Law (SD 18/19)) of the Company received an aggregate amount of RO 241,982 for the financial year ended on 31 December 2019. This includes salaries, bonus and other benefits. The remuneration paid to these key executives commensurate with their key performance indicators established for the financial year.

## Internal Auditor

The Company's internal auditor left the organisation in July 2019 and the Company is in process of identifying for suitable candidate to fill the vacancy. The Company has engaged Grant Thornton for its internal audit services until a suitable candidate has been found.

## Details of Non-Compliance by The Company During the Last Three Years

There were no penalties levied on the Company by the CMA, Muscat Securities Market (MSM) or any other statutory authority on any matter for the past 3 years up to 31 December 2019.

## Means of Communication with The Shareholders and Investors

The Company's means of communication and disclosures are in accordance with the regulatory requirements. The Company discloses its annual un-audited financial results, un-audited interim financial statements, and audited annual financial statements on the MSM website within the regulatory deadlines. The Company also publishes relevant financial information in two local newspapers. Communication with the shareholders is undertaken in both English and Arabic languages.

## Market Price Data

a) High/low share price and performance comparison during each month in 2019.

Month	Price (Baizas)				MSM Index (Service sector)	
	High	Low	Closing	Change from 1 January 2019	Closing	Change from 1 January 2019
January	0.135	0.126	0.132	1.54%	2142.44	-6.46%
February	0.128	0.120	0.124	-4.62%	2079.39	-9.21%
March	0.130	0.118	0.122	-6.15%	1979.61	-13.57%
April	0.120	0.109	0.110	-15.38%	2034.26	-11.18%
May	0.110	0.106	0.106	-18.46%	1975.07	-13.77%
June	0.114	0.101	0.107	-17.69%	1915.80	-16.35%
July	0.110	0.100	0.101	-22.31%	1838.60	-19.72%
August	0.115	0.101	0.103	-20.77%	1873.58	-18.20%
September	0.120	0.102	0.113	-13.08%	1950.53	-14.84%
October	0.126	0.102	0.103	-20.77%	1909.84	-16.61%
November	0.113	0.100	0.106	-18.46%	1954.94	-14.64%
December	0.106	0.100	0.102	-21.54%	1896.58	-17.19%

b) Distribution of shareholdings as at 31 December 2019

Category	Number of Shareholders	Number of Shares Held	Share Capital %
5 % and above	4	120,651,629	77.56%
Less than 5%	2,695	34,898,771	22.44%
<b>Total</b>	<b>2,699</b>	<b>155,550,400</b>	<b>100.00%</b>

## Professional Profile of Statutory Auditor

### About Deloitte

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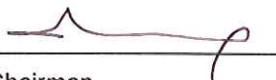
During the year 2019, Deloitte total fees amounted to RO 21,560 in relation to professional services rendered to the Company (RO 12,500 for audit, RO 7,000 for quarterly review and RO 2,060 for other services).

#### **Specific areas of Non-Compliance of Corporate Governance**

There were no penalties levied on the Company by any statutory authority on any matter related to corporate governance in 2019.

#### **Board Acknowledgement**

The Board accepts responsibility for the preparation of the financial statements in line with International Financial Reporting Standards (IFRS), the disclosure requirements of the CMA and the Commercial Companies Law of 2019. The Board confirms that it has reviewed the efficiency and adequacy of the internal control systems of the Company, and is pleased to inform the shareholders that adequate and appropriate internal controls are in place, which are in compliance with the relevant rules and regulations. The Board also confirms that there are no material matters that would affect its sustainability and ability to continue its operations up to the end of the next financial year.

  
Chairman