

Board of Directors' Report

Dear Shareholders,

On behalf of the Board of Directors of Muscat City Desalination Company SAOG (the **Company**), I am pleased to present to you the Annual Report of the Company for the year ended 31 December 2021.

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 of the plant is contracted to Muscat City Desalination Operation and Maintenance Company LLC (**MCDOMC** or the **Operator**) pursuant to a 20 year Operations and Maintenance Contract.

During the financial year 2021, the Company achieved a Plant availability of 94.88%, compared to 95.00% during the same period in 2020. This was mainly due to the higher scheduled outage rate at 4.66% for the financial year in 2021, compared to 3.64% for the same period in 2020. Further, the total forced outage rate for the financial year in 2021 was 0.46%, compared to 1.36% for the same period in 2020. This was mainly due to the reduction of forced outage during the annual maintenance in the financial year 2021 and lower jellyfish infestation faced by the Plant during the year.

This year, the Company achieved a potable water production of 66,188,180 m³, an increase of 2.07% compared with the total water production of 64,845,538 m³ in 2020. This was mainly due to the higher water output determined by the dispatch instruction issued by Oman Water and Wastewater Services Company.

Financial Results

In 2021, operating revenue increased by 7.9% to RO 18.068 million as compared to RO 16.750 million in 2020, as a result of lower unscheduled outage rate in 2021. Operating costs in 2021 increased to RO 11.813 million compared to RO 10.595 million in 2020. Accordingly, the Company recorded profit before tax of RO 2.637 million, which is 11.7% higher compared to RO 2.360 million in 2020.

At the Ordinary General Meeting of the Company held on 9 December 2021, the Shareholders approved the declaration of cash dividends of 9.644 Baizas per share (amounting to circa OMR 1.5 million) out of the retained earnings of the Company as reflected in the Company's audited financial statements for the nine-month period ended 30 September 2021. The dividend was paid in December 2021.

The Board of Directors, at its meeting held on 14 February 2022, have resolved distribution of cash dividends as below, subject to Shareholders' approval at the Annual General Meeting to be held on 29

March 2022 and in compliance with the Commercial Companies Law (RD 18/2019) and other applicable Omani legislation:

- a. cash dividend of 7.715 Baiza per share, out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2021 to the shareholders of the Company who are registered in the Company's shareholders register with the Muscat Clearing & Depository Company SAOC as at a date to be determined by the Board; and
- b. cash dividend not exceeding 11.250 Baiza per share, out of the retained earnings as per the audited financial statements for the financial period ended 30 September 2022 to the shareholders of the Company who are registered in the Company's shareholders register with the Muscat Clearing & Depository Company SAOC as at a date to be determined by the Board.

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 2021. As at 31 December 2021, the Company achieved 2133 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.

Furthermore, holding against the outbreak of COVID-19 pandemic, the Company has developed and implemented the following procedures to prevent its employees, subcontractors on site and visitors from the infection of COVID-19, providing a safe and healthy work environment and ensuring the total availability of the Plant and its drinking water production.

- Staff and visitors must be fully vaccinated in order to enter the office and plant;
- Temperature screening at the Plant entrance;
- Replacing face-to-face meetings with conference calls;
- Enforcement of facial mask usage in the Plant;
- Installation and distribution of sanitizers;
- Routine disinfection of meeting rooms and work stations;
- Installation of informative posters in the buildings;
- Splitting of teams (maintenance, operation and laboratory) to work in shifts to minimize interactions between employees.

Corporate Governance

The Company has a comprehensive system of internal controls in place. The Company engaged, Abu Timam Grant Thornton, to undertake the Company's internal audit function for the financial year 2021. An internal audit plan was developed for 2021 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 2021. The Management is fully committed to implementing the recommendations arising from the findings of the internal auditor.

Corporate Social Responsibility (CSR)

Since the outset of our operation, we have been committed to contribute towards the wellbeing of the Omani community at the forefront of our business. This philosophy has taken root throughout our day-to-day operations. Our CSR activities in the year 2021 are sought to build and strengthen our outreach to key areas of the local community, and were focused on the area of human development and health and safety. The Company undertook the following CSR initiatives despite the Covid-19 related restrictions.

- **Donation of Covid-19 preventive tools to 3 public schools**
The outbreak of Covid-19 has continued throughout 2021 which seriously threatened the health and the educational opportunities for young children. Some Covid-19 related preventive goods, such as touchless thermometers, hand-sanitizers, and its dispensers were donated to 3 public schools nearby our plant, i.e. Thuraya Bint Mohammed Al-Busaeediya School, Al-Ula Basic School, and Al-Khuwair Basic School.
- **Donation to Oman Charitable Organization's fund for those affected by cyclone Shaheen**
In October 2021, Tropical Cyclone Shaheen slammed into Oman with strong winds and heavy rain, flooding streets and houses, which caused enormous damage to people in Oman. With deep sympathy for those affected by the cyclone, the Company made a financial contribution to the Oman Charitable Organization's fund sincerely wishing for a swift recovery.
- **On-the-Job technical training for students**
In line with our commitment to supporting the human development of young Omanis especially who are aiming at working for technical sectors, we accepted some young students to provide on-the-job-training for the operation and maintenance of water desalination facilities at our plant. During the year, we accepted, in total, 4 internships from MEDRC (Middle East Desalination Research Center) and from Eidaad program sponsored by PDO (Petroleum Development Oman). In addition, we accepted 3 fresh-graduates to provide one-year training program for sufficient technical abilities and good working experiences with our Operator.

Employment

By the end of 2021, the Omanisation level in both the Company and its Operator was 78%. This is higher than last year's aggregate of 74%. The Company with its Operator has long-term plans to further improve the Omanisation level.

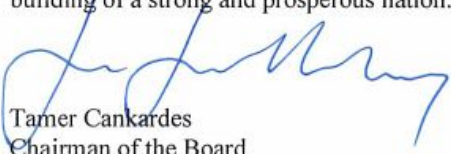
Future Outlook

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 Public Services Regulation, the CMA 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.

Finally, on behalf of the Board of Directors, I would also like to extend our heartiest appreciation and gratitude to His Majesty Sultan Haitham bin Tariq bin Taimur Al Said and His Government 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.

A handwritten signature in blue ink, appearing to read 'Tamer Cankardes', written in a cursive style.

Tamer Cankardes
Chairman of the Board