

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 2020.

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, and 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 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 2020, the Company achieved a higher Plant availability at 95.00%, compared with 93.84% during the same period in 2019. This was mainly due to the lower scheduled outage rate at 3.64% for the financial year in 2020, compared with 5.07% for the same period in 2019. Further, the Company achieved a potable water production of 64,845,538 m³ compared with the total water production of 65,032,354 m³ in 2019. This was mainly due to the lower water output dispatch instructions issued by Public Authority for Water (**PAW**).

Financial Results

In 2020, operating revenue slightly dropped by 0.4% to OMR 16.74 million as compared to OMR 16.81 million in 2019, as a result of higher unscheduled outage rate in 2020. . The Company recorded profit before tax of OMR 2.36 million, which is 8.6% higher compared with OMR 2.17 million in 2019.

The Company has however, been unable to declare or pay any dividend in 2020 in line with the guidance provided by the Capital Market Authority based on Article 130(3) of the new Commercial Companies Law, promulgated pursuant to SD 18/2019 (**CCL**). Whilst the Company's audited financial statements for 2020 demonstrate that it has recorded a net profit of OMR 1.84 million after taxation, the Company sustains a loss in other comprehensive income of OMR 2.65 million due to changes in fair values of derivative financial instruments, which is featured as cumulative net change in the fair value of cash flow hedging instruments of OMR 5.88 million in its balance sheet and has resulted in the erosion of the total equity of OMR 13.63 million against the share capital of OMR 15.55 million. The loss in other comprehensive income, which is unrealized, is a direct result from the lower interest rates in the current market. Even though, such erosion in equity does not affect the Company's cashflow position, the Company has been advised that it cannot distribute dividends unless such erosion has been fully extinguished referring to the Article 130(3) of the CCL. The Company has been exploring possibilities to distribute dividends to its shareholders in a way which is fully compliant with the CCL and other applicable Omani legislation with utmost efforts.

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 2020. As at 31 December 2020, the Company achieved 1768 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 following procedures to prevent our employees, subcontractors on site and visitors from infection of COVID-19, providing a safe and healthy work environment and ensuring the total availability of the Plant and its drinking water production.

- 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 Board of Directors and Management of the Company have adopted a comprehensive system of internal controls. 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 Abu Timam Grant Thornton to undertake the Company's internal audit function until it is able to find a suitable candidate. An internal audit plan was developed for 2020 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 2020. The Management is fully committed to implementing the recommendations arising from the findings of the internal auditor.

In accordance with CMA's 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 programs are reflective of our commitment to keeping the local Omani community at the forefront of our business. Accordingly, our CSR activities during 2020 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.

This year, however, due to COVID-19 pandemic, most of our programs originally planned as a part of our CSR have been suspended to minimize physical contacts which has been essential to prevent from spread of the COVID-19. Nevertheless, during the beginning of the year before pandemic starts, MCDC continued with its Technical Trainee Program. The Technical Trainee Program was for Omani students who were close to completing their technical diploma or degree program. As a part of this program, 5

students from various technical institutes or colleges have undergone training with our O&M team. The Company has also started one-year internship program for fresh graduates to work with our O&M specialists at our plant. During the year, 5 trainees completed or have continued this program.

In addition, the Company had made the donations for the endowment fund of Ministry of Health in Oman for supporting medical services exerted against COVID-19.

Employment

By the end of 2020, the Omanization level in both the Company and its Operator has been 74%. This is one of the highest levels achieved in the power and water industry. The Company with its Operator has long-term plans to further improve its Omanization level.

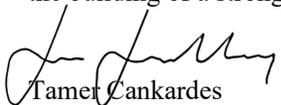
Future Outlook

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 as well as to the Authority for Public Services Regulation, the Capital Market Authority and other governmental and non-governmental bodies for their encouragement, guidance and support. Also, I like to convey 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.



Tamer Cankardes
Chairman of the Board