

## **Unaudited notes to the condensed financial information** *for the nine-month period ended 30 September 2020 (continued)*

### **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.

### **2. 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.

### **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 2019.

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 2019. In addition, results for the nine months period ended 30 September 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

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### Unaudited notes to the condensed financial information

for the nine-month period ended 30 September 2020 (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	Capital- work-in- process RO'000	Total RO'000
<b>Cost</b>									
1 January 2020	31,331	46,406	19,908	334	655	33	39	47	98,753
Additions	9	2	-	-	-	5	-	109	125
<b>30 September 2020</b>	<b>31,340</b>	<b>46,408</b>	<b>19,908</b>	<b>334</b>	<b>655</b>	<b>38</b>	<b>39</b>	<b>156</b>	<b>98,878</b>
<b>Accumulated depreciation</b>									
1 January 2020	3,025	4,478	1,924	32	59	28	39	-	9,585
Charge for the period	588	870	373	7	12	2	-	-	1,852
<b>30 September 2020</b>	<b>3,613</b>	<b>5,348</b>	<b>2,297</b>	<b>39</b>	<b>71</b>	<b>30</b>	<b>39</b>	<b>-</b>	<b>11,437</b>
<b>Carrying value</b>									
<b>30 September 2020</b>	<b>27,728</b>	<b>41,060</b>	<b>17,611</b>	<b>295</b>	<b>584</b>	<b>8</b>	<b>-</b>	<b>156</b>	<b>87,441</b>

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### Unaudited notes to the condensed financial information

for the nine-month period ended 30 September 2020 (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	Capital- work-in- progress RO'000	Total RO'000
Cost									
1 January 2019	31,326	46,369	19,908	334	655	31	39	-	98,662
Additions	5	37	-	-	-	2	-	47	91
31 December 2019	31,331	46,406	19,908	334	655	33	39	47	98,753
Accumulated depreciation									
1 January 2019	2,242	3,319	1,426	23	42	26	39	-	7,117
Charge for the year	783	1,159	498	9	17	2	-	-	2,468
31 December 2019	3,025	4,478	1,924	32	59	28	39	-	9,585
Carrying value									
31 December 2019	28,306	41,928	17,984	302	596	5	-	47	89,168

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## Unaudited notes to the condensed financial information for the nine-month period ended 30 September 2020 (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 30 September 2020 RO'000</b>	Unaudited 30 September 2019 RO'000
Operating costs (note 15)	1,858	1,857
Administrative and general expenses (note 16)	2	2
	<u>1,860</u>	<u>1859</u>

Operating costs include depreciation on right-of-use asset of RO 8,163.

### 5. Trade and other receivables

	<b>Unaudited 30 September 2020 RO'000</b>	Audited 31 December 2019 RO'000
Trade receivables	1,499	1,392
Prepayments and other receivables	118	87
Deposits	3	3
	<u>1,620</u>	<u>1,482</u>

### 6. Cash and cash equivalents

	<b>Unaudited 30 September 2020 RO'000</b>	Audited 31 December 2019 RO'000
Cash at bank	740	1,972
Short term deposits	3,114	1
	<u>3,854</u>	<u>1,973</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.

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*for the nine-month period ended 30 September 2020 (continued)*

**7. Capital and reserves**

*(a) Share capital*

The authorised share capital comprises of 250,000,000 (2019: 250,000,000) ordinary shares of 100 baiza each and the issued share capital comprises 155,550,400 (2019: 155,550,400) fully paid up shares of 100 baiza each.

The Shareholders of the Company are:

	Unaudited		Audited	
	30 September 2020		31 December 2019	
	Number of shares	%	Number of shares	%
Summit Water Middle East Company	50,553,880	32.5	50,553,880	32.5
Malakoff Oman Desalination Company Limited	50,553,880	32.5	50,553,880	32.5
Others	54,442,640	35	54,442,640	35
	<u>155,550,400</u>	<u>100</u>	<u>155,550,400</u>	<u>100</u>

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 September 2020.

*(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*

The Board of Directors of the company at its meeting held on 11 February 2020, had recommended the distribution of the following cash dividend to its shareholders: -

- in May 2020 of a value not exceeding 2.160 baiza per share out of the retained profits for the year ended 31 December 2019 to the Shareholders who are registered in the Company's register as at a date determined by the Board; and
- in November 2020 of a value not exceeding 7.168 baiza per share out of the retained profits for the period ended 30 September 2020 (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.

Following such disclosure, the draft notice and agenda for the AGM (including an item on dividend distribution) was presented to the Capital Market Authority (CMA) for its approval.

“The CMA has evaluated the Board's proposal to issue dividends in light of the new Commercial Companies Law (SD 18/19) (CCL) and has therefore advised the Company to remove these items from its AGM agenda for the time being. The Company continues to be in discussions with the CMA and its external auditors, and will provide an update to the Investor community as soon as there is an outcome on the matter.”

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*for the nine-month period ended 30 September 2020 (continued)*

**8. Term loans**

	<b>Unaudited 30 September 2020 RO'000</b>	Audited 31 December 2019 RO'000
Term loans	<b>58,352</b>	60,719
Less: deferred finance charges	<b>(1,024)</b>	(1,081)
	<b>57,328</b>	59,638
Less: current portion of term loans	<b>(3,278)</b>	(3,188)
Non-current portion of term loans	<b>54,050</b>	56,450

**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 4.46% (31 December 2019: 4.66%).

**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 2020.

**9. Hedging Reserve**

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cashflow hedging instruments related to hedge transactions that have not yet occurred. 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 September 2020 (For the year ended 31 December 2019: highly effective).

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*for the nine-month period ended 30 September 2020 (continued)*

**9. Hedging Reserve (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 September</b> <b>2020</b> <b>RO'000</b>	Audited 31 December 2019 RO'000
Current portion	<b>(454)</b>	(200)
Non-current portion	<b>(7,616)</b>	(3,592)
	<hr/>	<hr/>
<b>Cumulative changes in fair value</b>	<b>(8,070)</b>	(3,792)
	<hr/> <hr/>	<hr/> <hr/>
<i>Cumulative changes in fair value are recognised as follows:</i>		
	<b>Unaudited</b> <b>30 September</b> <b>2020</b> <b>RO'000</b>	Audited 31 December 2019 RO'000
Cumulative changes in fair value	<b>(8,070)</b>	(3,792)
Related deferred tax liability / asset	<b>1,210</b>	569
Cumulative changes in fair value, net of deferred tax	<b>(6,860)</b>	(3,223)
	<hr/> <hr/>	<hr/> <hr/>

**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 September</b> <b>2020</b> <b>RO'000</b>	Audited 31 December 2019 RO'000
Summit Water Middle East Company	<b>2,073</b>	2,073
Malakoff Oman Desalination Company Limited	<b>2,073</b>	2,073
Sumitomo Corporation	<b>2,129</b>	2,129
Malakoff International Limited	<b>2,129</b>	2,129
Interest accrued	<b>578</b>	450
	<hr/>	<hr/>
Non-current portion of Shareholders' bridge loans	<b>8,982</b>	8,854
	<hr/> <hr/>	<hr/> <hr/>
<b>Facilities</b>		

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 nine-month period ended 30 September 2020 (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 September 2020 RO'000</b>	Audited 31 December 2019 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 Cadagha Al Ghubrah UK Limited were repaid.

### 13. Accruals and other payables

	<b>Unaudited 30 September 2020 RO'000</b>	Audited 31 December 2019 RO'000
Trade payables	1,204	943
Other payables	1,059	602
Others	31	129
	<u>2,294</u>	<u>1,674</u>

Trade and other payables include an amount of RO 806,569 (31 December 2019: RO 688,630), due to Muscat City Desalination Operation and Maintenance Company LLC, a related party.

### 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 September 2020 RO'000</b>	Unaudited 30 September 2019 RO'000
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC	<u>3,155</u>	<u>3,169</u>
Interest expense on Shareholders' loans	<u>128</u>	<u>127</u>
Key management compensation	<u>150</u>	<u>158</u>



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## Unaudited notes to the condensed financial information for the nine-month period ended 30 September 2020 (continued)

Director sitting fees and Allowances	<b>18</b>	9
	<hr/>	<hr/>
<b>15. Operating costs</b>		
	<b>Unaudited 30 September 2020 RO'000</b>	<b>Unaudited 30 September 2019 RO'000</b>
Operation and maintenance cost	<b>3,138</b>	3,152
Electricity charges	<b>3,193</b>	3,158
Depreciation (note 4)	<b>1,858</b>	1,857
	<hr/> <b>8,189</b> <hr/>	<hr/> 8,167 <hr/>
<b>16. Administrative and general expenses</b>		
	<b>Unaudited 30 September 2020 RO'000</b>	<b>Unaudited 30 September 2019 RO'000</b>
Employee costs	<b>214</b>	226
Insurance	<b>143</b>	141
Legal and professional expenses	<b>97</b>	95
Depreciation (note 4)	<b>2</b>	2
Others	<b>102</b>	146
	<hr/> <b>558</b> <hr/>	<hr/> 610 <hr/>
<b>17. Finance costs (net)</b>		
	<b>Unaudited 30 September 2020 RO'000</b>	<b>Unaudited 30 September 2019 RO'000</b>
Interest expense on term loans and interest swaps	<b>2,010</b>	2,159
Interest expense on Shareholders' bridge loan	<b>128</b>	127
Amortisation of deferred finance cost	<b>57</b>	57
Interest income on term deposits	<b>(3)</b>	(13)
Other finance cost	<b>47</b>	29
	<hr/> <b>2,239</b> <hr/>	<hr/> 2,359 <hr/>
<b>18. Income tax</b>		

No provision for income tax has been made for the period ended 30 September 2020 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

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it probable that sufficient taxable income may arise prior to their expiry to obtain the benefits therefrom.

**19. Earnings per share**

	<b>Unaudited 30 September 2020</b>	Unaudited 30 September 2019
Profit for the period (RO in '000s)	<u>1,419</u>	<u>1,149</u>
Weighted average number of shares outstanding during the period (in thousands)	<u>155,550</u>	<u>155,550</u>
Earnings per share (basic and diluted) (RO)	<u>0.009</u>	<u>0.007</u>

**20. Net assets per share**

Net assets per share is calculated by dividing the equity attributable to the shareholders of the Company at the reporting date by the number of shares outstanding as follows:

	<b>Unaudited 30 September 2020</b>	<b>Audited 31 December 2019</b>
Net assets (RO in '000)	<u>12,227</u>	<u>14,445</u>
Number of shares outstanding at period end (in thousands)	<u>155,550</u>	<u>155,550</u>
Net assets per share (RO)	<u>0.079</u>	<u>0.093</u>

**21. 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.

From 1 January 2019 the Company has adopted IFRS 16, and as a result the Company has recorded a lease asset (right-of-use assets) and lease liability as on 1 January 2019.

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

**22. 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 2019.

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