

CORPORATE GOVERNANCE REPORT

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 rules, processes and practices by which a board ensures 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 Company's 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 protects 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 year 2018, the Board consisted of the following directors:

No.	Name of director	Date of appointment	Independent / non independent	Mode of representation
1.	Habib Bin Husin*	14 March 2016	Non-independent	Shareholder representative
2.	Tamer Cankardes	14 March 2016	Non-independent	Shareholder representative
3.	Takashi Ishizuka**	27 October 2016	Non-independent	Personal capacity
4.	Shinichi Hasegawa*	14 March 2016	Non-independent	Personal capacity
5.	Ruswati Othman	27 October 2016	Non-independent	Personal capacity
6.	Ahmad Fuaad bin Mohd Kenali	27 December 2017	Non-independent	Personal capacity
7.	Vishwanath Sankaranarayanan*	27 March 2018	Independent	Personal capacity
8.	Sultan Obaid Said Al Ghaithi*	27 March 2018	Independent	Personal capacity
9.	Kei Nakamura**	29 October 2018	Non-independent	Personal capacity

*Habib Bin Husin and Shinichi Hasegawa resigned on 8 February 2018. Vishwanath Sankaranarayanan and Sultan Obaid Said Al Ghaithi replaced them as temporary directors, and they were re-appointed by the shareholders at the Annual General Meeting on 27 March 2018.

** Kei Nakamura replaced Takashi Ishizuka on 29 October 2018 as a temporary director, and was re-appointed by the shareholders at the Ordinary General Meeting on 13 December 2018.

Board meetings / shareholders meetings and attendance in 2018

No.	Name of the director	Position	Attendance									
			Board Meetings							Shareholders Meetings		
			Feb 8	Mar 27	Apr 29	Jul 29	Oct 29	Nov 13	Total	AGM Mar 27	OGM Dec 13	
1	Habib Bin Husin*	Chairman until Feb 8, 2018	●	-	-	-	-	-	-	1	-	-
2	Tamer Cankardes	Deputy Chairman	●	●	P	●	P	●		6	●	-
3	Takashi Ishizuka**	Member until Oct 29, 2018	●	●	●	●	-	-		4	●	-
4	Shinichi Hasegawa*	Member until Feb 8, 2018	-	-	-	-	-	-		0		-
5	Ruswati Othman	Member	●	●	●	●	●	P		6	●	-
6	Ahmad Fuaad bin Mohd Kenali	Chairman as from Feb 8, 2018	●	●	●	●	●	●		6	●	●
7	Vishwanath Sankaranarayanan*	Member as from Feb 8, 2018	●	●	●	●	●	●		6	●	-
8	Sultan Obaid Said Al Ghaithi*	Member as from Feb 8, 2018	●	●	●	●	●	●		6	●	-
9	Kei Nakamura**	Member as from Oct 29, 2018	-	-	-	-	●	●		2	-	●

● : Attended, P: Proxy

*Habib Bin Husin and Shinichi Hasegawa resigned on 8 February 2018. Vishwanath Sankaranarayanan and Sultan Obaid Said Al Ghaithi replaced them as temporary directors, and they were re-appointed by the shareholders at the Annual General Meeting on 27 March 2018.

**Kei Nakamura replaced Takashi Ishizuka on 29 October 2018 as a temporary director, and was re-appointed by the shareholders at the Ordinary General Meeting on 13 December 2018.

Performance Appraisal for the Board of Directors

Dentons & Co Oman Branch conducted a board evaluation in based on the criteria approved by the shareholders at the Company's Annual General Meeting held on 27 March 2018. The evaluation report will be presented at the forthcoming Annual General Meeting on 27 March 2019.

Board Audit Committee

The role of the Board Audit Committee is 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 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.

- (e) 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 proposed related party transactions and making suitable recommendations to the Board.

The Board Audit Committee comprises the following members during the year 2018:

No.	Name of the Audit Committee Member	Position	Dates and number of audit committee meetings				
			Feb 7	Apr 29	Jul 29	Oct 29	Nov 13
1	Ruswati Othman	Chairman until 7 Feb 2018, Member from 8 Feb 2018	●	●	●	●	●
2	Takashi Ishizuka	Member until 7 Feb 2018	●	-	-	-	-
3	Shinichi Hasegawa	Member until 7 Feb 2018	-	-	-	-	-
4	Vishwanath Sankaranarayanan*	Chairman from 8 Feb 2018	-	●	●	●	●
5	Sultan Obaid Said Al Ghaithi*	Member from 8 Feb 2018	-	●	●	●	●

● : Attended, P: Proxy

Board Nomination and Remuneration Committee (BNRC)

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

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

The BNRC comprises the following members:

No.	Name of the BNRC Member	Position	Dates and number of BNRC meetings	
			Mar 27	Oct 29
1	Ahmad Fuaad bin Mohd Kenali	Chairman	●	●
2	Tamer Cankardes	Member	●	
3	Sultan Obaid Said Al Ghaithi	Member	●	●

Procedure for nomination of directors

Directors are nominated and elected in accordance with the applicable provisions of the Commercial Companies Law promulgated by Sultani Decree 4/74, as amended from time to time, 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 who meets the requirements of the Company's Articles of Association and the directives of the CMA. The nominees to the membership of the Board must:

- (a) be of a good conduct and sound reputation;
- (b) be at least 25 years old;
- (c) not be unable to settle their indebtedness to the Company;
- (d) not be declared insolvent or bankrupt unless the state of insolvency or bankruptcy has ceased pursuant to the law;
- (e) not be convicted of a felony or dishonourable crime unless rehabilitated in accordance with law;
- (f) not be a member or a representative of a juristic person in more than four public joint stock companies based in Oman once appointed to the Board in question;
- (g) be authorised to nominate himself for Board membership by the juristic person if he is nominated in such capacity;
- (h) not be Chairman of more than two public joint stock companies that have their principal place of business in Oman;
- (i) not be a member of the board of directors of a public or closed joint stock company, which is based in Oman and which is carrying out similar objects to that of the Company;
- (j) present an acknowledgement which contains a statement of the number of shares held by the nominee in the Company if he is a Shareholder and that he will not dispose of them to the extent that he will be deprived of his status as a Shareholder, throughout the term of his office; and
- (k) not participate in the management of a competing business except with the approval of the general meeting and such approval shall be renewed annually.

Remuneration

a) Sitting fees to members of Board and its committees

A total amount of RO 13,200 is expensed as sitting fees for the year ended 31 December 2018. The Board Audit Committee and BNRC have also accrued sitting fees of RO 2,800 and RO 1,000 respectively. The sitting fees for each director did not exceed RO 10,000 as per the guidelines issued by the CMA.

b) Remuneration of Board members

The total remuneration proposed to be paid to the independent board members is RO 6,800 for the financial year ended 31 December 2018 for their excellent contribution to the company. This will be presented for the shareholders' approval at the Annual General Meeting on 27 March 2019.

c) Other payments to directors

There were no other payment to the directors besides their sitting fees and remuneration as applicable.

d) Key executives of the Company

The key executives of the Company received an aggregate amount of RO 219,224 which includes salaries, bonus and other benefits during 2018. The remuneration paid to these key executives commensurate with their key performance indicators established for the financial year.

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 in 2018.

Means of communication with the shareholders and investors

The Company means of communication and disclosures are in accordance with regulatory requirements and international standards. 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 take place in both English and Arabic.

Market price data

a) High/low share price and performance comparison during each month in 2018

Month	Price (Baizas)				MSM Index (Service sector)
	High	Low	Closing	Change from 2 January 2018	Closing
January	0.166	0.152	0.163	4.49%	2,619.63
February	0.164	0.157	0.160	2.56%	2,631.57
March	0.160	0.144	0.147	-5.77%	2,605.70
April	0.156	0.142	0.146	-6.41%	2,525.35
May	0.146	0.138	0.146	-6.41%	2,475.72
June	0.150	0.144	0.145	-7.05%	2,474.99
July	0.140	0.133	0.133	-14.74%	2,377.80
August	0.136	0.130	0.135	-13.46%	2,375.71
September	0.140	0.131	0.134	-14.10%	2,465.71
October	0.133	0.129	0.130	-16.67%	2,390.21
November	0.130	0.121	0.130	-16.67%	2,353.80
December	0.134	0.120	0.130	-16.67%	2,290.34

b) Distribution of shareholdings as at 31 December 2018

Category	Number of shareholders	Number of shares held	Share capital %
5 % and above	3	111,059,387	71.40%
Less than 5%	2,946	44,491,013	28.60%
Total	2,949	155,550,400	100.00%

Professional profile of the statutory auditor

KPMG is a global network of professional firms providing audit, tax and advisory services across a wide range of industries, Government and not for profit organizations. KPMG provides a full range of services tailored to meet the unique needs of mid-sized, fast growing and family owned businesses. KPMG operates in 155 countries and employs more than 174,000 people working in member firms around the world. The KPMG network is coordinated by Swiss cooperative KPMG International (KPMGI). Please visit <https://home.kpmg.com/om/en/home.html> for more information about KPMG. KPMG in Oman was established in 1974 and consists of more than 100 personnel and four Partners based in Muscat who serve clients throughout the Sultanate and across all industry sectors. KPMG in Oman is accredited by the CMA to audit joint stock companies.

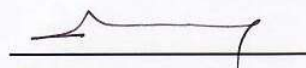
During the year 2018, KPMG billed an amount of RO 17,755 towards professional services rendered to the Company (RO 15,500 for audit, RO 1,500 for statutory tax and RO 3,575 for other tax services).

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 2018.

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 1974, as amended. 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 the continuity of the Company, and its ability to continue its operations during the next financial year.



Chairman