

Unaudited notes to the condensed financial information for the nine-month period ended 30 September 2021 (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.

Operation and Maintenance (O&M) contract

The O&M contract, which runs for 20 years after the Scheduled Commercial Operation Date of 12 October 2014, was entered into by the Company on 27 November 2013 and amended on 21 October 2017 with Muscat City Desalination Operation and Maintenance Co LLC, a related party, a company registered in the Sultanate of Oman, for operation and maintenance of the plant.

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 2020.

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 2020. In addition, results for the nine months period ended 30 September 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

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Unaudited notes to the condensed financial information

for the nine-month period ended 30 September 2021 (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
Cost									
1 January 2021	31,340	46,409	19,908	334	655	47	39	198	98,930
Additions	-	175	12	233	-	43	34	(198)	299
Disposals	-	-	-	-	-	-	(30)	-	(30)
30 September 2021	31,340	46,584	19,920	567	655	90	43	-	99,199
Accumulated depreciation									
1 January 2021	3,808	5,638	2,422	41	76	31	39	-	12,055
Charge for the period	588	873	373	11	12	12	6	-	1,875
Disposals	-	-	-	-	-	-	(30)	-	(30)
30 September 2021	4,396	6,511	2,795	52	88	43	15	-	13,900
Carrying value									
30 September 2021	26,944	40,073	17,125	515	567	47	28	-	85,299

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for the nine-month period ended 30 September 2021 (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 2020	31,331	46,406	19,908	334	655	33	39	47	98,753
Additions	9	3	-	-	-	14	-	151	177
31 December 2020	31,340	46,409	19,908	334	655	47	39	198	98,930
Accumulated depreciation									
1 January 2020	3,025	4,478	1,924	32	59	28	39	-	9,585
Charge for the year	783	1,160	498	9	17	3	-	-	2,470
31 December 2020	3,808	5,638	2,422	41	76	31	39	-	12,055
Carrying value									
31 December 2020	27,532	40,771	17,486	293	579	16	-	198	86,875

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for the nine-month period ended 30 September 2021 (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:

	Unaudited 30 September 2021 RO'000	Unaudited 30 September 2020 RO'000
Operating costs (note 15)	1,863	1,858
Administrative and general expenses (note 16)	18	2
	<u>1,881</u>	<u>1,860</u>

Operating costs include depreciation on right-of-use asset of RO 5,343.

5. Trade and other receivables

	Unaudited 30 September 2021 RO'000	Audited 31 December 2020 RO'000
Trade receivables	1,747	1,230
Prepayments and other receivables	55	89
Deposits	3	3
	<u>1,805</u>	<u>1,322</u>

6. Cash and cash equivalents

	Unaudited 30 September 2021 RO'000	Audited 31 December 2020 RO'000
Cash at bank	2,855	1,248
Short term deposits	3,883	2,961
	<u>6,738</u>	<u>4,209</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 2021 (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 baisa each and the issued share capital comprises 155,550,400 (2019: 155,550,400) fully paid up shares of 100 baisa each.

The Shareholders of the Company are:

	Unaudited 30 September 2021		Audited 31 December 2020	
	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 2021.

(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

During the period ended 30 September 2021, no dividend was proposed for the Company in the Board meeting held on 26 October 2021 (2020).

8. Term loans

	Unaudited 30 September 2021 RO'000	Audited 31 December 2020 RO'000
Term loans	55,074	57,532
Less: deferred finance charges	(949)	(1,007)
	<u>54,125</u>	<u>56,525</u>
Less: current portion of term loans	(3,424)	(3,314)
	<u>50,701</u>	<u>53,211</u>

Unaudited notes to the condensed financial information
for the nine-month period ended 30 September 2021 (continued)

Term Loans (continued)

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 4.38% (31 December 2020: 4.42%).

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 2021.

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 2021 (For the year ended 31 December 2020: highly effective).

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:

	Unaudited 30 September 2021 RO’000	Audited 31 December 2020 RO’000
Current portion	(274)	(399)
Non-current portion	(4,125)	(6,518)
Cumulative changes in fair value	(4,399)	(6,917)
<i>Cumulative changes in fair value are recognised as follows:</i>		
Cumulative changes in fair value	(4,399)	(6,917)
Related deferred tax liability / asset	659	1,038
Cumulative changes in fair value, net of deferred tax	(3,740)	(5,879)

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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 3.94% to its present value, over the plant's estimated remaining useful life of 36 years.

11. Shareholders' bridge loans

	Unaudited 30 September 2021 RO'000	Audited 31 December 2020 RO'000
Summit Water Middle East Company	2,073	2,073
Malakoff Oman Desalination Company Limited	2,073	2,073
Sumitomo Corporation	2,129	2,129
Malakoff International Limited	2,129	2,129
Interest accrued	271	450
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Non-current portion of Shareholders' bridge loans	8,675	8,854
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Facilities

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.

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

	Unaudited 30 September 2021 RO'000	Audited 31 December 2020 RO'000
Summit Water Middle East Company	377	377
Malakoff Oman Desalination Company Limited	377	377
	<hr/>	<hr/>
	754	754
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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 Cadagua Al Ghubrah UK Limited were repaid.

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Unaudited notes to the condensed financial information for the nine-month period ended 30 September 2021 (continued)

13. Accruals and other payables

	Unaudited 30 September 2021 RO'000	Audited 31 December 2020 RO'000
Trade payables	2,871	1,119
Other payables	902	1,023
Duties and taxes	160	-
Others	13	70
	<u>3,946</u>	<u>2,212</u>

Trade and other payables include an amount of RO 1,126,774 (31 December 2020: RO 894,329), 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.

	Unaudited 30 September 2021 RO'000	Unaudited 30 September 2020 RO'000
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC	<u>3,573</u>	<u>3,313</u>
Interest expense on Shareholders' loans	<u>127</u>	<u>128</u>
Key management compensation	<u>147</u>	<u>150</u>
Director sitting fees and Allowances	<u>21</u>	<u>18</u>

15. Operating costs

	Unaudited 30 September 2021 RO'000	Unaudited 30 September 2020 RO'000
Operation and maintenance cost	3,278	3,138
Electricity charges	4,016	3,193
Depreciation (note 4)	1,863	1,858
	<u>9,157</u>	<u>8,189</u>

Unaudited notes to the condensed financial information
for the nine-month period ended 30 September 2021 (continued)

16. Administrative and general expenses

	Unaudited 30 September 2021 RO'000	Unaudited 30 September 2020 RO'000
Employee costs	216	214
Insurance	139	143
Legal and professional expenses	84	97
Depreciation (note 4)	18	2
Others	104	102
	<u>561</u>	<u>558</u>

17. Finance costs (net)

	Unaudited 30 September 2021 RO'000	Unaudited 30 September 2020 RO'000
Interest expense on term loans and interest swaps	1,859	2,010
Interest expense on Shareholders' bridge loan	127	128
Amortisation of deferred finance cost	57	57
Interest income on term deposits	(2)	(3)
Other finance cost	57	47
	<u>2,098</u>	<u>2,239</u>

18. Income tax

No provision for income tax has been made for the period ended 30 September 2021 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 it probable that sufficient taxable income may arise prior to their expiry to obtain the benefits therefrom.

19. Earnings per share

	Unaudited 30 September 2021	Unaudited 30 September 2020
Profit for the period (RO in '000s)	<u>1,839</u>	<u>1,419</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>0.012</u>	<u>0.009</u>

Unaudited notes to the condensed financial information
for the nine-month period ended 30 September 2021 (continued)

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:

	Unaudited 30 September 2021	Audited 31 December 2020
Net assets (RO in '000)	<u>17,607</u>	<u>13,629</u>
Number of shares outstanding at period end (in thousands)	<u>155,550</u>	<u>155,550</u>
Net assets per share (RO)	<u>0.113</u>	<u>0.088</u>
Net assets per share excluding hedging reserve (RO)	<u>0.137</u>	<u>0.125</u>

21. Lease commitments

The Company adopted IFRS 16 from 1 January 2019 for a plot of land on which the plant is built 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.

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 2020.