

Unaudited notes to the condensed financial information *for the nine-month period ended 30 September 2022 (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 2021.

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 2021. In addition, results for the nine months period ended 30 September 2022 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

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Unaudited notes to the condensed financial information

for the nine-month period ended 30 September 2022 (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 2022	31,340	46,584	19,920	316	655	93	43	-	98,951
Additions	-	-	-	-	-	4	-	-	4
Transfers				(131)					(131)
30 September 2022	31,340	46,584	19,920	185	655	97	43	-	98,824
Accumulated depreciation									
1 January 2022	4,592	6,802	2,920	49	93	47	17	-	14,520
Charge for the period	588	874	374	3	12	13	6	-	1,870
30 September 2022	5,180	7,676	3,294	52	105	60	23	-	16,390
Carrying value									
30 September 2022	26,160	38,908	16,626	133	550	37	20	-	82,434

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Unaudited notes to the condensed financial information

for the nine-month period ended 30 September 2022 (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 2021	31,340	46,409	19,908	334	655	47	39	198	98,930
Additions	-	17	12		-	46	34		109
Transfers		158		(18)			(30)	(198)	(88)
31 December 2021	31,340	46,584	19,920	316	655	93	43	-	98,951
Accumulated depreciation									
1 January 2021	3,808	5,638	2,422	41	76	31	39	-	12,055
Charge for the year	784	1,164	498	8	17	16	(22)	-	2,465
31 December 2021	4,592	6,802	2,920	49	93	47	17	-	14,520
Carrying value									
31 December 2021	26,748	39,782	17,000	267	562	46	26	-	84,431

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Unaudited notes to the condensed financial information for the nine-month period ended 30 September 2022 (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 2022 RO'000	Unaudited 30 September 2021 RO'000
Operating costs (note 15)	1,856	1,852
Administrative and general expenses (note 16)	19	18
	<u>1,875</u>	<u>1,870</u>

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

5. Trade and other receivables

	Unaudited 30 September 2022 RO'000	Audited 31 December 2021 RO'000
Trade receivables	1,735	1,515
Prepayments and other receivables	117	104
Deposits	3	3
	<u>1,855</u>	<u>1,622</u>

6. Cash and cash equivalents

	Unaudited 30 September 2022 RO'000	Audited 31 December 2021 RO'000
Cash at bank	743	1,256
Short term deposits	3,768	3,230
	<u>4,511</u>	<u>4,486</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.

Unaudited notes to the condensed financial information
for the nine-month period ended 30 September 2022 (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		Audited	
	30 September 2022		31 December 2021	
	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 30th September 2022.

(b) Legal reserve

Article 132 of the Commercial Companies Law (promulgated by Royal Degree 18/2019) 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

Shareholders at the Annual General Meeting ("AGM") held on 29th March 2022 authorised the Board of Directors to determine and distribute cash dividends to the Shareholders of the Company. Cash dividend of Baiza 7.715 per share, totalling circa RO1.20 million out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2021. The dividend was paid to the shareholders of the Company in May 2022.

8. Term loans

	Unaudited	Audited
	30 September	31 December
	2022	2021
	RO'000	RO'000
Term loans	51,650	54,218
Less: deferred finance charges	(873)	(931)
	<u>50,777</u>	<u>53,287</u>
Less: current portion of term loans	(3,510)	(3,387)
	<u>47,267</u>	<u>49,900</u>

Unaudited notes to the condensed financial information
for the nine-month period ended 30 September 2022 (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 4.54% (31 December 2021: 4.38%).

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 2022.

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 2022 (For the year ended 31 December 2021: 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 2022 RO’000	Audited 31 December 2021 RO’000
Current portion	163	(255)
Non-current portion	2,184	(3,743)
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Cumulative changes in fair value	2,347	(3,998)
	<hr/> <hr/>	<hr/> <hr/>
<i>Cumulative changes in fair value are recognised as follows:</i>		
Cumulative changes in fair value	2,347	(3,998)
Related deferred tax liability / asset	(353)	600
Cumulative changes in fair value, net of deferred tax	1,994	(3,398)
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Unaudited notes to the condensed financial information for the nine-month period ended 30 September 2022 (continued)

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 6.80% to its present value over the plant's estimated remaining useful life of 40 years.

11. Shareholders' bridge loans

	Unaudited 30 September 2022 RO'000	Audited 31 December 2021 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	85	43
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Malakoff Oman Desalination Company Limited	8,489	8,447
Less: current portion of Shareholders' bridge loans	(729)	(729)
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Non-current portion of Shareholders' bridge loans	7,760	7,718
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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 2022 RO'000	Audited 31 December 2021 RO'000
Summit Water Middle East Company	377	377
Malakoff Oman Desalination Company Limited	377	377
	<hr/>	<hr/>
	754	754
	<hr/>	<hr/>

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 2022 (continued)

13. Accruals and other payables

	Unaudited 30 September 2022 RO'000	Audited 31 December 2021 RO'000
Trade payables	1,639	1,821
Other payables	1,169	1,018
	<u>2,808</u>	<u>2,839</u>

Trade and other payables include an amount of RO 1,105,799 (31 December 2021: RO 1,185,902), 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 2022 RO'000	Unaudited 30 September 2021 RO'000
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC	3,802	3,383
Other cost to M Muscat City Desalination Operation and Maintenance Company LLC	19	70
Electricity bonus transferred	292	120
Interest expense on Shareholders' loans	127	127
Key management compensation	163	147
Director sitting fees and Allowances	25	21

15. Operating costs

	Unaudited 30 September 2022 RO'000	Unaudited 30 September 2021 RO'000
Operation and maintenance cost	3,621	3,278
Electricity charges	4,065	4,016
Depreciation (note 4)	1,856	1,858
	<u>9,542</u>	<u>9,152</u>

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Unaudited notes to the condensed financial information for the nine-month period ended 30 September 2022 (continued)

16. Administrative and general expenses

	Unaudited 30 September 2022 RO'000	Unaudited 30 September 2021 RO'000
Employee costs	278	216
Insurance	148	139
Legal and professional expenses	67	84
Depreciation (note 4)	19	18
Others	155	104
	<u>667</u>	<u>561</u>

17. Finance costs (net)

	Unaudited 30 September 2022 RO'000	Unaudited 30 September 2021 RO'000
Interest expense on term loans and interest swaps	1,812	1,859
Interest expense on Shareholders' bridge loan	127	127
Amortisation of deferred finance cost	57	58
Interest income on term deposits	(16)	(2)
Other finance cost	45	53
	<u>2,025</u>	<u>2,095</u>

18. Income tax

No provision for income tax has been made for the period ended 30 September 2022 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 2022	Unaudited 30 September 2021
Profit for the period (RO in '000s)	<u>1,674</u>	<u>1,846</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>0.011</u>	<u>0.012</u>

Unaudited notes to the condensed financial information
for the nine-month period ended 30 September 2022 (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 2022	Audited 31 December 2021
Net assets (RO in '000)	<u>22,827</u>	<u>16,961</u>
Number of shares outstanding at period end (in thousands)	<u>155,550</u>	<u>155,550</u>
Net assets per share (RO)	<u>0.147</u>	<u>0.109</u>
Net assets per share excluding hedging reserve (RO)	<u>0.134</u>	<u>0.131</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 2021.