

Unaudited notes to the condensed financial information *for the three-month period ended 31 March 2024 (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 Stock Exchange 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 2023.

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 2023. In addition, results for the three months period ended 31 March 2024 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2024.

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Unaudited notes to the condensed financial information for the three-month period ended 31 March 2024 (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 2024	31,347	46,909	19,951	133	655	150	43	-	99,188
Additions	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-
31 March 2024	31,347	46,909	19,951	133	655	150	43	-	99,188
Accumulated depreciation									
1 January 2024	6,160	9,158	3,916	54	127	81	33	-	19,529
Charge for the period	196	299	125	1	4	7	2	-	634
31 March 2024	6,356	9,457	4,041	55	131	88	35	-	20,163
Carrying value									
31 March 2024	24,991	37,452	15,910	78	524	62	8	-	79,025

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Unaudited notes to the condensed financial information for the three-month period ended 31 March 2024 (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 2023	31,340	46,610	19,920	169	655	99	43	150	98,986
Additions	7	149	31		-	53	-		240
Transfers		150		(36)		(2)	-	(150)	(38)
31 December 2023	31,347	46,909	19,951	133	655	150	43	-	99,188
Accumulated depreciation									
1 January 2023	5,376	7,968	3,418	52	110	64	25	-	17,013
Charge for the year	784	1,190	498	2	17	17	8	-	2,516
31 December 2023	6,160	9,158	3,916	54	127	81	33	-	19,529
Carrying value									
31 December 2023	25,187	37,751	16,035	79	528	69	10	-	79,659

Unaudited notes to the condensed financial information
for the three-month period ended 31 March 2024 (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 31 March 2024 RO'000	Unaudited 31 March 2023 RO'000
Operating costs (note 15)	627	622
Administrative and general expenses (note 16)	9	6
	<u>636</u>	<u>628</u>

Operating costs include depreciation on right-of-use asset of RO 1,781.

5. Trade and other receivables

	Unaudited 31 March 2024 RO'000	Audited 31 December 2023 RO'000
Trade receivables	1,470	1,450
Prepayments and other receivables	44	75
Deposits	3	3
	<u>1,517</u>	<u>1,528</u>

6. Cash and cash equivalents

	Unaudited 31 March 2024 RO'000	Audited 31 December 2023 RO'000
Cash in hand	-	-
Cash at bank	1,165	123
Short term deposits	1,154	1,846
	<u>2,319</u>	<u>1,969</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 three-month period ended 31 March 2024 (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 31 March 2024		Audited 31 December 2023	
	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
	155,550,400	100	155,550,400	100

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 31st March 2024.

(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

During the Annual General Meeting held on 25 March 2024 ("AGM"), it was resolved that the distribution of cash dividends in May and November 2024, to the Company's Shareholders who are registered in the Company's register as at the dates to be determined by the Board, out of retained earnings of the Company as reflected in the Company's audited financial statements for the financial year ended 31 December 2023, provided that the aggregate amount of the dividends shall not exceed Baiza 4.822 per share totaling circa RO 750,000.

Pursuant to the authority granted by the shareholders at the above-mentioned AGM, the Board of Directors, at its meeting held on 24 April 2024, has resolved the distribution of cash dividends of value Baiza 2.411 per share out of the retained profits for the period ended 31 December 2023 to the shareholders who are registered in the Company's register as at 15 May 2024 amounting to circa RO 375,000.

8. Term loans

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Unaudited notes to the condensed financial information for the three-month period ended 31 March 2024 (continued)

	Unaudited 31 March 2024 RO'000	Audited 31 December 2023 RO'000
Term loans	46,187	47,126
Less: deferred finance charges	(760)	(780)
	<hr/> 45,427	<hr/> 46,346
Less: current portion of term loans	(3,714)	(3,709)
	<hr/> 41,713	<hr/> 42,637
Non-current portion of term loans	<hr/> <hr/> 41,713	<hr/> <hr/> 42,637

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. On 28 June 2023, the Company entered into rate switch amendment agreements, for loan facilities and interest rate swap derivatives with the lenders and hedging providers respectively, which are to provide for the transition from USD LIBOR to the secured overnight financing rate (SOFR) administered by the Federal Reserve Bank of New York.

Interest

The term loans bear interest at three-month USD LIBOR plus margin until 11 July 2023. Effective from 12 July 2023, the term loans bear interest at cumulative compounded SOFR plus credit adjustment spread and margin. The effective interest rate for the period was 5.24% (31 December 2023: 5.18%).

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 2024.

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 31st March 2024 (For the year ended 31 December 2023: highly effective).

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Unaudited notes to the condensed financial information for the three-month period ended 31 March 2024 (continued)

9. Hedging Reserve (continued)

In a process of Libor transition to new benchmark, the Company entered into revised IRS Confirmation Agreements in 2023, by which, the Company changed the reference rate from Libor to Daily Cumulative Compounded Secured Overnight Financing Rate (SOFR) with the adjustment of International Swaps and Derivatives Association (ISDA) fallback Credit Adjustment Spread. After the transition, the interest rate swaps have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount.

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 31 March 2024 RO'000	Audited 31 December 2023 RO'000
Current portion	321	240
Non-current portion	1,974	1,499
	<hr/>	<hr/>
Cumulative changes in fair value	2,295	1,739
	<hr/> <hr/>	<hr/> <hr/>
<i>Cumulative changes in fair value are recognised as follows:</i>		
Cumulative changes in fair value	2,295	1,739
Related deferred tax liability / asset	(345)	(261)
	<hr/>	<hr/>
Cumulative changes in fair value, net of deferred tax	1,950	1,478
	<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 7.50% to its present value over the plant's estimated remaining useful life of 40 years.

11. Shareholders' bridge loans

	Unaudited 31 March 2024 RO'000	Audited 31 December 2023 RO'000
Summit Water Middle East Company	1,344	1,344
Malakoff Oman Desalination Company Limited	1,344	1,344
Sumitomo Corporation	2,129	2,129
Malakoff International Limited	2,129	2,129
Interest accrued	72	36
	<hr/>	<hr/>
	7,018	6,982
Less: current portion of Shareholders' bridge loans	(509)	(509)
	<hr/> <hr/>	<hr/> <hr/>
Non-current portion of Shareholders' bridge loans	6,509	6,473
	<hr/> <hr/>	<hr/> <hr/>

Unaudited notes to the condensed financial information
for the three-month period ended 31 March 2024 (continued)

11. Shareholders' bridge loans (continued)

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.

The Shareholders' loans are due for repayment subject to the consent of the term loan lenders which is dependent on cash flows.

The Shareholders' loan will be repaid in line with the projections in IPO prospectus and waterfall mechanism. An amount of RO 730,000 was paid in November 2023. An amount of RO 509,000 will be repaid within the next 12 months.

12. Shareholders' stand – by equity loans

	Unaudited 31 March 2024 RO'000	Audited 31 December 2023 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 Cadagua Al Ghubrah UK Limited were repaid.

13. Accruals and other payables

	Unaudited 31 March 2024 RO'000	Audited 31 December 2023 RO'000
Trade payables	1,241	1,288
Other payables	851	913
	<u>2,092</u>	<u>2,201</u>

Trade and other payables include an amount of RO 989,575 (31 December 2023: RO 1,053,559), due to Muscat City Desalination Operation and Maintenance Company LLC, a related party.

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Unaudited notes to the condensed financial information for the three-month period ended 31 March 2024 (continued)

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 31 March 2024 RO'000	Unaudited 31 March 2023 RO'000
Operation and maintenance cost to Muscat City Desalination Operation and Maintenance Company LLC	1,206	1,239
Other cost to Muscat City Desalination Operation and Maintenance Company LLC	13	9
Electricity bonus transferred	45	17
Interest expense on Shareholders' loans	35	38
Key management compensation	57	55
Director sitting fees and Allowances	9	21

15. Operating costs

	Unaudited 31 March 2024 RO'000	Unaudited 31 March 2023 RO'000
Operation and maintenance cost	1,148	1,179
Electricity charges	792	828
Depreciation (note 4)	627	622
	2,567	2,629

16. Administrative and general expenses

	Unaudited 31 March 2024 RO'000	Unaudited 31 March 2023 RO'000
Employee costs	102	95
Insurance	55	52
Legal and professional expenses	12	9
Depreciation (note 4)	9	6
Others	57	70
	235	232

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Unaudited notes to the condensed financial information for the three-month period ended 31 March 2024 (continued)

17. Finance costs (net)

	Unaudited 31 March 2024 RO'000	Unaudited 31 March 2023 RO'000
Interest expense on term loans and interest swaps	613	636
Interest expense on Shareholders' bridge loan	35	38
Amortisation of deferred finance cost	19	19
Interest income on term deposits	(7)	(7)
Other finance cost	18	17
	<u>678</u>	<u>703</u>

18. Income tax

No provision for income tax has been made for the period ended 31 March 2024 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 31 March 2024	Unaudited 31 March 2023
Profit for the period (RO in '000s)	<u>578</u>	<u>544</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>0.004</u>	<u>0.003</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:

	Unaudited 31 March 2024	Audited 31 March 2023
Net assets (RO in '000)	<u>23,664</u>	<u>22,614</u>
Number of shares outstanding at period end (in thousands)	<u>155,550</u>	<u>155,550</u>
Net assets per share (RO)	<u>0.152</u>	<u>0.145</u>
Net assets per share excluding hedging reserve (RO)	<u>0.140</u>	<u>0.136</u>

Unaudited notes to the condensed financial information
for the three-month period ended 31 March 2024 (continued)

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 2023.