MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Description of the Company and Business

Muscat City Desalination Company S.A.O.G. (hereinafter referred to as **MCDC** or the **Company**) was incorporated as an S.A.O.C. with the commercial registration number 1163374 for an unlimited duration on 19 January 2013.

The Company underwent an Initial Public Offering (**IPO**) exercise in late 2017 and was subsequently listed on the Muscat Stock Exchange (**MSX**) on 2 January 2018.

The Company's core business activity is to develop, own and operate the Al Ghubrah Independent Water Plant, a Sea Water Reverse Osmosis (**SWRO**) desalination plant, with a contracted capacity of 191,000 cubic meter per day (42 Million Imperial Gallons per Day), located in North Ghubrah, Muscat Governorate, Sultanate of Oman (**Plant**). Commercial operation date (**COD**) was achieved on 19 February 2016.

The Company generates its revenues from the sale of desalinated water pursuant to a Water Purchase Agreement (**WPA**) with the Nama Power and Water Procurement (**PWP**). The desalinated water from the Plant is fully contracted to PWP to meet the growing water demand of the Main Interconnected Zone (Northern Region of Oman) during the term of the WPA. The contracted water capacity of the Plant represents approximately 26% of the total contracted capacity in Muscat Zone in accordance with PWP's 7-year statement (2023-2029).

The potable water is delivered to the Oman Water and Wastewater Services Company SAOC (**Nama Water Services**) reservoirs located adjacent to the Plant.

Electricity is supplied to the Plant by Nama Electricity Supply Company SAOC (**NESC**) formerly known as Muscat Electricity Distribution Company (**MEDC**) pursuant to an Electricity Supply Agreement (**ESA**). The Company as System User has entered into the Electricity Connection Agreement (**ECA**) with Oman Electricity Transmission Company SAOC (**OETC**) to secure connection to the Transmission System over the contracted WPA period.

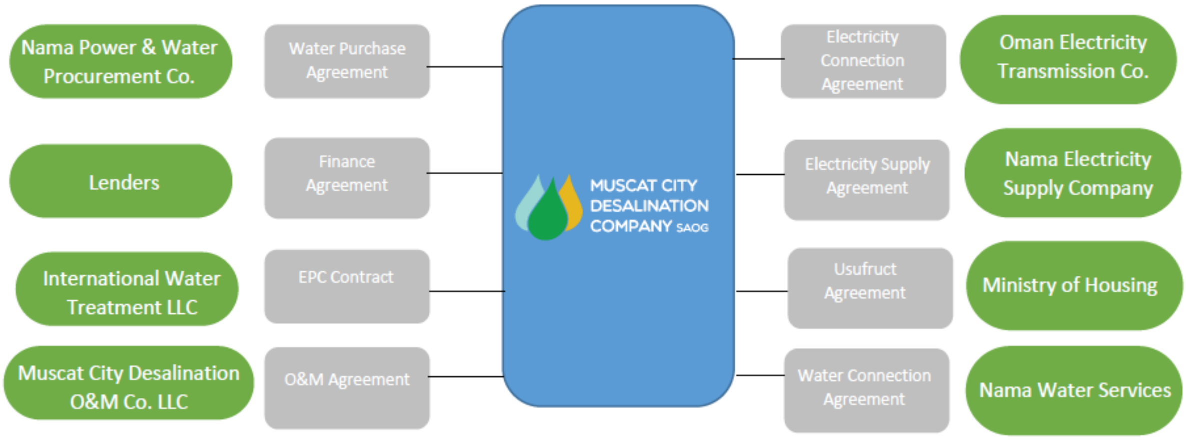
Competitive Strengths

The Company's competitive strengths include the following:

- One of the largest operating SWRO desalination plant at a single location in Muscat, Oman.
- Well-established contractual framework with long term WPA, ensuring cash flow protection against adverse events such as buyer risk events and force majeure.
- Stable and predictable cash flows, resilient to potential shocks in electricity prices and water demand during the term of the WPA.
- Proven, long-term and reliable SWRO desalination technology.
- Experienced Project Founders with an established track record being able to transfer skills and know-how.
- Fully operational Plant operated by experienced and skilled personnel complying fully with the highest levels of Omanisation requirements.

Contractual Framework

MCDC's contractual framework is as shown below.



Water Purchase Agreement

The WPA was executed between the Company and PWP on 11 February 2013. The WPA details the commercial terms agreed between the Company and PWP and sets out standard representations and warranties that the Company is required to provide.

The WPA sets out a number of obligations of the Company throughout the tenure of the agreement. Among other things, the Company must, acting as a reasonable and prudent operator, operate and maintain the Plant in such manner so as to ensure that the Plant is capable of operating and maintaining water production on a continuous and reliable basis.

Under the WPA, the Company is also obliged to exclusively sell water output to PWP and in return, receives from PWP, payment for Water Capacity Charges and Water Output Charges. The Water Capacity Charges are designed to cover fixed costs such as debt service, return on capital, tax payments as well as fixed costs to operate and maintain the Plant (such as manpower, spare parts, maintenance and insurance). The Water Output Charges compensates the Company for variable operation and maintenance costs (such as chemicals, SWRO membranes, cartridge filters, consumables, spare parts) and the electricity charges for the water output delivered.

Electricity charges are calculated on the contracted specific power consumption of the Plant.

The Water Capacity Charges are also adjusted for scheduled unavailability, forced outages, derating of the Plant and also to take into consideration inflation and exchange rate movements. The Water Output Charges are adjusted for changes in the exchange rate, US Producer Price Index (US PPI) and the Omani CPI.

The WPA also outlines various buyer risk events and the relief that the Company will receive should certain specified events occur that will hinder the Company from performing its obligations under the WPA. If a relevant buyer risk event is established in accordance with the terms set out in the WPA, the Company will not be liable for any failure to perform or any delay in its performance and will continue to be entitled to be paid capacity charges during the relevant period in accordance with the terms of the WPA. In the event that it is determined that a material adverse change has occurred and such material adverse change was caused by a buyer risk event or events which constitute a material adverse change, PWP shall propose a mechanism to the Company in order to adjust the Water Capacity Charges and/or the Water

Output Charges, as appropriate, or reimburse the Company by an agreed reimbursement mechanism.

The WPA also provides for relief to the Company if various force majeure events hinder the Company from performing its obligations under the WPA. If it can be established that a force majeure event has occurred, or will occur, and that it could not have been mitigated by the Company, acting as a reasonable and prudent operator, the Company will be relieved from liability for any failure to perform its obligations under the WPA for the duration of the force majeure event and the term of the WPA will be extended by the period for which the force majeure event hindered the Company from performing its obligations.

Subject to certain force majeure, buyer risk events and termination provisions contained therein, the term of the WPA which commenced on 11 February 2013 shall expire on 11 October 2034.

Electricity Supply Agreement (ESA)

The ESA was entered into between NESC and the Company on 11 February 2013 for the supply of electricity up to a maximum of 40MVA in accordance with the Permitted Tariffs in the ESA for operating the Plant. Both MEDC and the Company have the right to terminate the ESA by giving at least thirty days prior written notice to the other party.

Electricity Connection Agreement (ECA)

The ECA was entered into between the Company and OETC, a wholly owned Government company established in 2003, on 11 February 2013. The ECA sets out the terms and conditions for the connection to the Transmission System. It establishes a framework to provide for, amongst others:

i. the payment by the Company to OETC of the connection fee; and

ii. enforcement of the Grid Code between OETC and the Company.

The ECA became effective from the date of its execution and shall remain in force for an initial period of 25 years (**Initial Term**) and will continue in force beyond the expiry of the Initial Term unless and until either party terminates the ECA on six months prior notice to the other, provided that no such notice, shall take effect before the expiry of the Initial Term.

Usufruct Agreements (UAS)

The UAS was executed between the Ministry of Housing and Urban Planning (**MoHUP**) and the Company on 11 February 2013. The UAS relates to the site on which the Plant is located (**Site**). It has a term of 25 years from the date of ratification of the UAS by the Government, subject to a further extension of 25 years at the option of the Company. The Company is under the obligation to only use the Site for the stated purpose as described in the UAS.

In accordance with the UAS, MoHUP has provided the Site to the Company free and clear of any right adverse to the usufruct right so granted including, but not limited to, any third-party claim that may be made relating to the Site. MoHUP also ensures that the Company has undisturbed enjoyment of the Site throughout the term of the UAS.

Operations and Maintenance Agreement (O&M Agreement)

The O&M Agreement was entered into between the Company and Muscat City Desalination Operations and Maintenance Company LLC (herein referred to as **MCDOMC** or the **Operator**) on 27 November 2013. It provides for the provision of O&M services by the Operator. The O&M Agreement requires the Operator to operate and maintain the Plant until 11 October 2034, being 20 years after the Scheduled Commercial Operations Date (SCOD) of 11 October 2014.

The terms of the O&M Agreement may be modified to reflect any extension of the term of the WPA as may be determined between the Company and PWP in accordance with the terms of the WPA. The O&M Agreement was amended in 2017, 2018, and 2021 mainly to revise the water capacity O&M charge due to the non-requirement of the second pass Reverse Osmosis sub-system of the Plant and to provide clarity on the sharing of the savings on the electricity consumption charges with the Operator.

Under the O&M Agreement, the Operator is responsible, amongst others, for:

- operating the Plant during the operation period in accordance with the scheduling requirements and the dispatch instructions issued to the Company by PWP from time to time;
- maintaining the Plant to ensure that the Plant operates at the requisite capacity;
- recruiting, employing and training sufficient staff to operate and maintain the Plant;
- programming and carrying out such performance tests as may be required by the Company or PWP from time to time and any additional performance tests as the Company or PWP may propose in accordance with the testing procedures and restrictions under the WPA;
- performing all operation and maintenance works and procure all resources and materials to comply with the Omanisation Plan specified in the O&M Agreement;
- satisfying all of the Company's operation and maintenance related obligations under the Project Agreements;
- affording all reasonable assistance and co-operation in relation to the performance of the Company's obligations under the Project Agreements; and
- not undertaking any action or failing to take any action which would cause the Company to be in breach of any of its obligations under the Project Agreements.

The fees payable under the O&M Agreement consist of fixed and variable components.

EPC (Engineering, Procurement, and Construction) Contract

The EPC Contract was executed between the Company and International Water Treatment Company (**IWT, or EPC Contractor**) on 10 April 2013. It established the terms upon which IWT was to design, engineer, manufacture, supply, procure, transport, erect, construct, install, test and commission the Plant and to warrant such works and remedy any defects or non-compliances therein.

In consideration of these works, the Company was to pay IWT the contract price in accordance with the milestone payment schedule.

The EPC Contract sets out the obligations of IWT. Amongst others, IWT was to ensure that the works and materials used in the construction were free from charges or liens and defects in title, design or workmanship and that the works would meet all environmental requirements and all applicable laws. IWT was obliged to attain Taking Over of the Plant on or before the Time for Completion, matching the Scheduled Commercial Operations Date (**SCOD**). The EPC Contract contains provisions for warranties as well as punch list items of the Works (as defined under the EPC Contract) noted by the Company as requiring rectification by IWT within twenty-four months from Taking Over date. The Taking Over date was 19 February 2016.

If the EPC Contractor repairs, replace or renews all or any part of the Plant or works, then the Defects Liability Period shall apply to the part of the Plant or the Works so repaired, replaced or renewed until the expiration of 24 months from the date of such repair, replacement or renewal, provided that the defects liability period shall not be greater than 48 months from Taking Over Date. As a result, IWT was responsible for carrying out at its cost all works of redesign, repair, reconstruction, rectification, renewal and replacement for the purpose of making good of Defects (as defined under the EPC Contract) or damage to the Plant or any part of the Works which might appear as a result of a Defect and for which IWT was responsible pursuant to the terms of the EPC Contract. During the defects liability period, a total of 133 warranty items had been raised, which have all been closed or commercially settled with the EPC Contractor in 2020.

Risk Management

MCDC affirms its commitment towards ensuring and maintaining a sound internal control system which encompasses good governance, risk management and control processes. In light of this, the Company confirms that there is a proper risk management assurance process in place to identify, evaluate and manage significant risks impacting on the Company's achievement of its objectives. The Company also acknowledges the presence of a sound system of internal control in safeguarding shareholders' investments, the Company's assets and other stakeholders' interests as well as ensuring compliance with applicable laws and regulations.

MCDC's risk management objectives are:

- Creating the right awareness and understanding of risk at all levels of the organisation.
- Instilling a culture of risk management and risk ownership as everyone's responsibility.
- Identifying risks and managing them well within the risk appetite of the organisation.
- Embedding risk management in the way the business is run.
- Developing a common risk language.
- Complying with appropriate risk management practises in terms of corporate governance guidelines.

Financial Arrangement

The Company has entered into financing agreements with a consortium of international banks, for an aggregate amount of OMR 81.25 million (US$211.30 million). Senior debts are hedged in compliance with the requirement of the financing agreements via interest rate swap agreements. This further improves the predictability of the cashflows of the Company.

<u>Operation and Maintenance</u>

The Plant is operated and maintained during the term of the WPA by the Operator, through the O&M Agreement with the Company. The Operator is primarily responsible for the Plant's availability and efficiency, meeting dispatch instructions, operational cost control and most importantly, the Health, Safety & Environment (**HSE**) compliance. The Operator is also responsible for ensuring adequate spare parts are available and that its employees are properly qualified and trained.

The maintenance of the Plant was undertaken in accordance with the Original Equipment Manufacturer (**OEM**) recommendations and in accordance with the O&M manuals. The maintenance schedule is maintained in the Computerized Maintenance Management System (**CMMS**).

<u>Corporate Governance</u>

The Board of Directors and Management of the Company and the Operator are committed to ensuring that the highest standards of corporate governance are practiced in the Company and the Operator. This is practiced as a fundamental part of their respective responsibilities in managing the businesses and affairs, protecting and enhancing stakeholders' values as well as financial performance while promoting the highest standards of integrity, transparency and accountability.

<u>Environmental, Social and Governance (ESG)</u>

The Board of Directors and Management of the Company are committed to ensuring compliance with the ESG disclosures as prescribed by MSX. The Management is also committed in upholding the Company's policy which prohibits the employment of forced and child labor.

<u>Discussion on Operational Highlights and Financial Performance</u>

Health, Safety and Environment (HSE)

The HSE Policy commits the Company and the Operator in creating a safe, secure and healthy working environment and the elimination of all work-related incidents and injuries. The Company and its Operator have HSE policies in place to conduct all operations in a manner that protects the HSE of employees, sub-contractors and the public while complying with all applicable legal and other requirements.

All employees and contractors are required to perform their work in accordance with the implemented HSE policy, which is carried out through the following practices:

- communicating the HSE policy to all interested parties;
- providing the necessary resources to prevent ill health and injury of all working personal and to minimize pollution and environmental impact associated with activities;
- ensuring employees and contractors are provided with adequate training and supervision for the safe performance of the work;
- making all employees and contractors responsible and accountable for health, safety and environment in their daily work activities;

- establishing, maintaining, rehearsing and reviewing with concerned groups all emergency response plans to prevent injury and accidental environmental impact while minimising any damage to company property and the community; and

- seeking continual improvement in HSE performance through periodic monitoring and reviewing of policy, objective and targets.

During the year, there were neither Lost Time Incidents (**LTI**) nor environmental incidents. As at 31 December 2023, the Company achieved 3,229 days without an LTI since its COD. The total man-hour is 69,975 hours.

In April 2017, the Operator was awarded with ISO 14001:2004 Environmental Management System, which was migrated to ISO14001:2015 in September 2018, and ISO 45001:2018 Occupational Health and Safety Management System. Both ISO Certificates have been re-certified in July 2023, and the annual surveillance audit was conducted in September 2024. It is worth noting that the Operator has been awarded ISO 22301:2019 Business Continuity Management System certification since March 2022.

Capacity

The capacity of the Plant is defined by the total capacity of water (m^3/day or MIGD) which can be delivered by the plant into the Nama Water Services' water transmission system.

The contracted capacity of the Al Ghubrah Independent Water Plant under the WPA is 42 MIGD applicable from April 2024 to March 2025, following the Annual Performance Tests conducted in March 2024 which demonstrated that the plant met the contractual requirements under the WPA.

Plant Availability & Output

The reliability of the Plant is a measure of its availability to deliver the declared capacity in accordance with the WPA. For the financial year 2024 (FY 2024), the Company achieved higher availability of 96.55% after scheduled and forced outages compared to 95.20% in 2023.

During the year, the Plant experienced minimal algae bloom events, and the operations and availability of the Plant was adequately controlled with the incorporation of the Dissolved Air Flotation (**DAF**) system adopted at the Plant. Consequently, the Plant did not experience any forced outages due to the algae bloom events. In addition, the Plant did not experience any material infestation of jellyfish during this year.

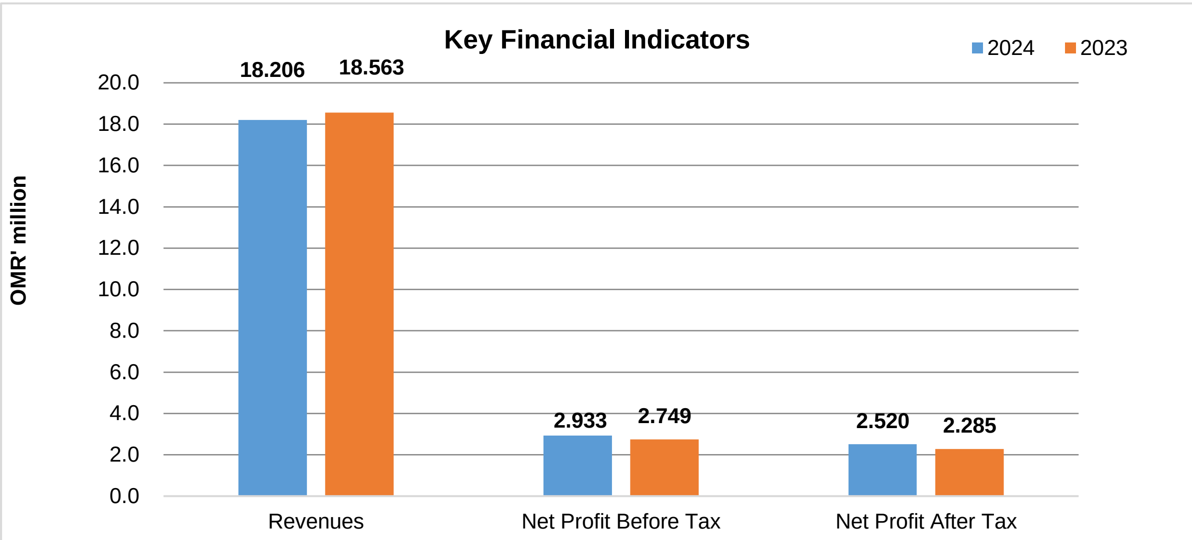
Overall, total forced outages in 2024 were 0.11% against 0.23% for 2023.

Notwithstanding the above, during FY2024, the Plant produced a total of 63,780,348m^3 of potable water with a utilization factor averaging 91.28% of total plant capacity. Plant production is determined by the daily dispatch instruction issued by Nama Water Services.

Financial Highlights

All figures in OMR million		2024	2023
Revenues	1	**18.206**	18.563
Net Profit After tax	2	**2.520**	2.285
Net Profit before Finance Costs	3	**5.180**	5.091
Total Assets	4	**83.811**	85.124
Capital (Paid-up)	5	**15.555**	15.555
Shareholder's Fund (Net Assets)	6	**24.675**	22.614
Term Loan (*1)	7	**43.340**	47.125
Weighted average number of shares	8	**155,550,400**	155,550,400
Actual number of shares outstanding	9	**155,550,400**	155,550,400
Ordinary dividends	10	**0.750**	1.000

(*1) Excluding unamortized transaction costs



Key Financial Indicators		2024	2023
Net Profit Margin	= 2/1	**13.84%**	12.31%
Return on Capital (Paid-up)	= 2/5	**16.20%**	14.69%
Return on Capital Employed	=3/(6+7)	**7.62%**	7.30%
Debt Equity Ratio	= 7:6	**64:36**	68:32
Net assets per share (RO)	= 6/8	**0.159**	0.145
Basic Earnings Per Share (RO)	= 2/8	**0.016**	0.015
Dividend per share (Baiza)	= 10/9	**4.822**	6.429

Analysis of Profit and Loss

The Company managed to generate operating revenue of OMR 18.206 million in FY2024, 1.9% lower than OMR18.563 million in FY2023. This decrease is mainly due to lower indexation in FY2024.

The profit before tax for FY2024 was OMR 2.933 million, higher compared to OMR 2.749 million in FY2023. The net profit after tax was also higher in FY2024 OMR 2.520 million compared to OMR 2.285 million in FY2023.

Analysis of Balance Sheet

Total assets of the Company stood at OMR 83.811 million as at 31 December 2024 compared to OMR 85.124 million in FY2023. The decrease in the total assets was mainly due to depreciation charge for the period in FY2024.

The cash and cash equivalents as at 31 December 2024 was OMR 2.286 million compared to OMR 1.969 million as at 31 December 2023.

The shareholders' funds as at 31 December 2024 was OMR 24.675 million compared to OMR 22.614 million as at 31 December 2023. The increase in the shareholders' funds was mainly contributed by the higher profit during the year and further increase by higher Hedging Reserve in FY2024 as compared to FY2023.

Term loans (including non-current and current balances) were reduced to OMR 43.340 million as a result of scheduled repayments made in accordance with finance agreements.

The Company continues to make adequate provision for asset retirement obligations to fulfil its legal responsibilities to remove the Plant at the end of its useful life and restore the site to its original state, prior to handing over.

Dividend Distribution

Pursuant to the authority granted by the shareholders at the Annual General Meeting held on 25 March 2024, the Board of Directors, at its meeting held on 24 April 2024, have resolved the distribution of cash dividends of 2.411 baizas 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. The dividend was paid in May 2024.

Moreover, the Board of Directors, at its meeting held on 23 October 2024, have resolved the distribution of cash dividends of 2.411 baizas per share out of the retained profits for the period ended 31 December 2023, pursuant to the authority granted by the shareholders at the Annual General Meeting held on 25 March 2024, to the shareholders who are registered in the Company's register as at 15 November 2024 and was paid in November 2024.

The Board of Directors, at its meeting held on 13 February 2025, have resolved distribution of cash dividends of a total value not exceeding 5.143 Baizas per share to the shareholders of the Company, who are registered in the Company's shareholders register with the Muscat Clearing & Depository Company SAOC as at a date to be determined by the Board, in May 2025 and December 2025 out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2024, which are subject to shareholders' approval at the Annual General Meeting proposed to be held on 23 March 2025 and in compliance with the Commercial Companies Law (RD 18/2019), other applicable Omani legislation and also certain covenants stipulated in term loan facilities agreements.

Employees, Training and Omanisation

MCDC and its Operator takes Omanisation as a responsibility to assist in the building of Omani expertise in the water desalination sector. Together, the Company and its Operator employ a total of 51 employees, of which 42 employees are Omani citizens. The Project had achieved an overall Omanisation ratio of 82% as at 31 December 2024.

Training is conducted frequently, with strong emphasis on HSE, operational improvements and personal development. The employees are encouraged to attend the continuous education programmes and seminars from time to time to keep themselves abreast with the latest developments as well as to further enhance their competency and professionalism in discharging their duties.

Internal Control Systems

The management acknowledges the importance of sound Internal Control Systems which require effective frequent interactions among the Board, its committees and auditors.

MCDC also has a comprehensive system of internal controls in place, comprising a well-defined governance structure, clearly outlined delegated levels of authority, annual budgets and plans to deliver the Company's strategy, supported by regular reporting of these plans and budgets to the Board of Directors. The management has periodically carried out comprehensive reviews of its key internal policies and procedures in order to ensure its compliance.

Information Security

The Company has developed information technology ("IT") and security policy and procedures pursuant to the Financial Services Authority Circular No. E/1/2022 on Information Security Guidelines for Public Listed Companies. All enhancements to the Company's IT systems and controls which were recommended by consultants have been implemented, whereas some longer-term enhancement projects are being implemented.

During the financial year, assessments of the policy, procedure and IT infrastructures were conducted by consultants who are accredited by the relevant authorities in Oman to ensure that the Company's information security measures are compliant with regulations and effectively protect against potential threats and vulnerabilities.

Outlook

The Company will endeavor to ensure that it continues to take reasonable and prudent measures to improve its performance for FY2025, by improving the Plant's reliability and availability, without compromising on HSE matters.