CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Board of Directors, I have the pleasure to present the Annual Report and the audited financial statements of the Company for the year 2017.

Excellent performance over the years

Al Kamil Power Company SAOG was incorporated in the year 2000 and became a publicly listed company after a successful IPO in the year 2004. Since then the company has regularly distributed cash dividends and with a capital of RO 9.625 million (US$ 25.025 million), has accumulated free reserves of RO 17.198 million (US$ 44.7 million) at the end of the year 2017, thereby giving a net asset value of RO 0.312 (US$ 0.81) per share.

Al Kamil Power Company's Market Capitalisation as at 31 December, 2017 equates to RO 30.03 million (US$ 78.078 million).

Summarised Financial and Operational Results

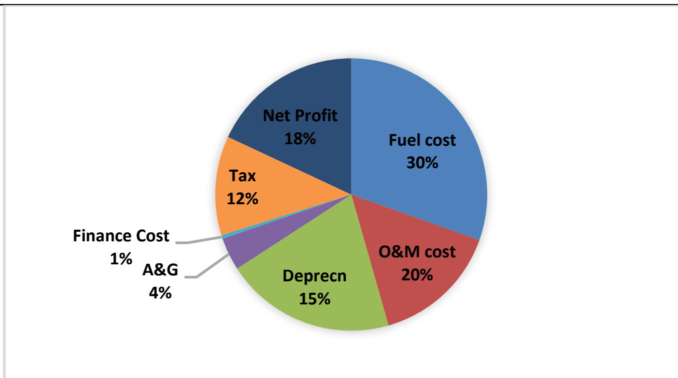
Operational Highlights

Since 2015, the load profile of the plant changed dramatically, shifting from base load operation to a peaking plant and 2017 was further lower. The plant was mainly utilised to cover the demand at the peak hours in the summer and hence saw increased number of start and stop cycles during 2017, which was slightly higher compared to 2016. Nevertheless the plant performance was excellent, with commercial availability of 99.9%, delivering 214 GWh to the Omani grid. The company is proud of its continued commitment towards health, safety and environment. The company completed full PPA without Lost Time Accident and clocked 5,279 days without LTA upto the end of 2017. This is reflective of our continued internal focus on Health, Safety, Environment and Quality Management. We acknowledge the excellent performance of our dedicated and diligent Operation and Maintenance team.

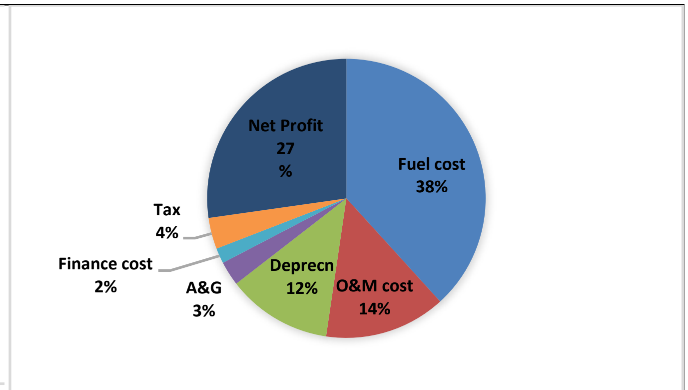
Financial Highlights

The company posted a net profit of RO 1.862 million, after restating its deferred tax liabilities, due to the increase in the income tax rate (which had a one-off impact of RO 0.760 million in 2017). Excluding the negative effect from the income tax rate, the net profit showed a decrease of 30% compared to the prior year due to the new tariffs in the PPA extension effective from May 2017, partially offset by lower interest cost as the loans were fully repaid in 2017.

The following graph explains the costs as percentage of the total revenue. Ratio of Fuel cost to total revenue was lower due to lower revenue. Finance cost was lower than the previous year due to full repayment of the project loan and subordinate loan during 2017. Taxation was higher due to (a) restatement of Deferred tax Liability at the new tax rate and (b) higher tax rate.



2017



2016

Consequently, the earnings per share decreased from Baiza 39 in 2016 to Baiza 19 in 2017.

Power Sector in Oman

AKPC's entire output generated is purchased by Oman Power and Water Procurement Company SAOC (OPWP) pursuant to the Power Purchase Agreement between OPWP and AKPC.

Suite of Project Agreements

❖ The Power Purchase Agreement (PPA) sets out the terms for the generation and supply of power exclusively to OPWP, a closed joint stock company owned by the Government of Oman. The Agreement covered a fifteen year period from 1 May 2002 and has been extended for 4 years and 8 months upto Dec 2021.

❖ The Generation Licence is granted by the Authority for Electricity Regulation, a state regulatory body established under the Sector Law.

❖ The Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas (MOG) for the purchase of natural gas from MOG for a period of fifteen years (extended upto December 2021) at a pre-determined price. However starting from Jan 2015, the gas price was increased and is subject to increase every year by minimum 3%.The NGSA was amended to reflect the change in gas price. The gas cost is pass-through and hence there is no material impact on the net profit of the Company. A side letter Agreement was signed to PPA to eliminate any impact on the company.

❖ Electricity Connection Agreement (ECA) with Oman Electricity Transmission Company SAOC (OETC) for establishing a framework between OETC and the Company to provide connection of the power station to the transmission system and enforcement of the Grid Code between OETC and the Company.

❖ The Operation & Maintenance Agreement (OMA) with Al Kamil Construction & Services LLC (AKCS). Pursuant to OMA, AKCS is responsible for the operations and maintenance of the plant in return for a fixed, as well as a variable, fee. The

Agreement covered a fifteen year period from 1 May 2002 and has been extended upto December 2021.

Future Outlook

- The Power Purchase Agreement (PPA) with OPWP has been extended upto December 2021 with revised tariff and capacity. The Natural Gas Sales Agreement has also been extended for the same period with same terms and conditions. The company is participating in the Power Procurement process 2022, which was initiated by OPWP in 2017. The process will give an opportunity to the company to extend the PPA beyond its current expiry.

- The interpretation by the Oman's Secretariat General for Taxation of Royal Decree 54/2000 granting tax exemption to the Company compelled the company to shell out a huge tax demand of RO 1.358 million (US$ 3.53 million) for the tax years 2011-2013 and was paid in 2014. The Royal Decree 54/2000 was issued granting 5 years' tax exemption to the Company that would also allow the Company to carry forward tax losses incurred during the tax exempt period to be set-off against future profits. The stand taken by the tax department has effectively denied a substantial tax benefit to the company. The Company sought a rightful redress through the tax appellate process prescribed under the Omani tax laws. The Income Tax Committee rejected the appeal that the company had filed against SGT decision. The company pursued to claim its right through the legal process. Consequent to the adverse decision from the Primary Court and the Appeals Court the company has filed a case in the Supreme Court.

  In parallel, the company also filed Government Risk Notice with OPWP as defined in PPA. Both parties agreed to put the matter on hold until the final decision of the court is issued.

- The company fully repaid the project loan and subordinate loan during 2017. Being debt-free in the current extended tenure of the PPA will give the company more flexibility in terms of dividend payment to its shareholders.

- The management is optimistic about the future of AKPC. Recognising that the long-term future of AKPC depends upon its high reliability, management will continue to focus on ensuring high levels of plant availability whilst closely controlling overhead costs.

Dividends

The Directors believe that the company, being debt-free and having achieved PPA extension upto 2021, is in a position to disburse dividend in excess of the net profit for the year 2017. The Directors recommend a cash dividend of upto 25% for 2017 out of the retained earnings as at 31 December 2017, upto 15% to be paid in July 2018 and upto 10% to be paid in December 2018.

Our dividend policy of distributing available cash is conditional upon reserves being available after bank covenants are met and provision has been made for forecasted loan repayments, operating expenses and potential emergency plant breakdown situation. Consistent with the Company's declared policy and in accordance with Capital Market Authority regulations - the Directors have in the past declared and paid an interim and final dividend.

The following is a table of dividends paid by the Company in the last five years:

Year	Dividend %
2012	12%
2013	18%
2014	10%
2016	7%
2017	10%

Board Appraisal

The appraisal of the Board was conducted during the year 2017 by Keynote Services LLC, independent consultants appointed at the AGM held on 15th March 2017. The appraisal was done for the Board as a whole and for each individual member of the Board by self assessment. The appraisal was conducted based on the criteria approved at the AGM held on 15th March 2017. The policy and procedure for Board Appraisal was approved by the Board in its meeting held on 25th July 2017. The report of the consultant was received by the Chairman of the Board. The appraisal concluded that the performance of the Board during the year was "Very Satisfactory" and was effective in meeting its objectives. Certain improvements were recommended and action on these is being considered by the Board.

Other Matters

- There is a continuous process for identifying, evaluating and managing the key risks faced by the company. The internal audit plan is framed to appraise any identifiable high-risk areas. The report of the internal auditor is reviewed and any necessary actions taken. During the year, the Company identified various risks and finalised mitigation plans to deal with these.

- The auditors have given an unqualified audit report on the financial results of the Company for the year 2017.

Conclusion

Finally, the Sultanate under the wise leadership of His Majesty Sultan Qaboos bin Said stands today as an enviable model for sound economic policies aimed at spurring growth while ensuring stability. I wish His Majesty good health. I would like to take this opportunity to extend our sincere gratitude to His Majesty Sultan Qaboos bin Said and

His Government for the encouragement and support they continue to provide to private sector investors.

I would like to extend my personal thanks to the Directors, management staff and all personnel associated with the operation of the Al Kamil power plant for their hard work and dedication, as well as to those others such as our contractors, whose expertise has assisted us in achieving these excellent results.

On behalf of the Board of Directors,

Manuel Colcombet
Chairman