Management Discussion and Analysis Report

The management of Al Kamil Power Company SAOG (AKPC) is pleased to present its report on the Company's performance, its future outlook, business structure and other matters of importance to shareholders.

Business Overview

Al Kamil Power Company SAOG (AKPC) is contracted under a Power Purchase Agreement (PPA) to supply electricity into the Main Interconnected Transmission System (MIS). AKPC owns a 285 MW electricity generating plant near Al Kamil in the Sharqiyaregion of Oman and is the first private sector power plant in this region.

The Company operates within agreed project documentation with different Government agencies and the Oman Power and Water Procurement Company SAOC (OPWP), a closed joint stock company held by the Government of Oman.

The Government of Oman stands behind the financial obligations of OPWP.The PPA with OPWP and the Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas (MOG) are valid until 31December 2021.

Under the PPA, OPWP commits to pay AKPC Capacity Charges and Energy Charges in return for AKPC making available the electrical generating capacity and selling the electrical energy produced. The project agreements provide both revenue and cost assurance to the Company and its investors.A major source of revenue for the Company is the Capacity Charge, which is payable for all times the plant is available, based on minimum availability levels as defined under the PPA. AKPC is safeguarded under the PPA against RO/US$ exchange rate movements and also against inflation. The actual level of power generation has no direct effect on the Company's net income.

Natural gas is received at the plant and burned in the gas turbines to produce power. It is supplied by pipeline from the gas fields. This energy drives the generator and electricity is produced. The electricity is then transformed up to 132 KV and supplied to the grid.

MOG is responsible for the supply of gas to the plant. In the case of non-availability of gas or gas not conforming to specifications, AKPC has to run the plant on fuel oil as required under the PPA and the NGSA. Under such circumstances, AKPC would be reimbursed by MOG for the capacity shortfall, heat rate and price differential due to use of fuel oil instead of fuel gas.

Al Kamil Construction & Services LLC (AKCS) is contracted to operate and maintain the power plant. AKCS, a company whose major shareholder is ENGIE has an Operation and Maintenance Agreement with AKPC until the end of the current PPA extension which is 31 Dec 2021. The operations and maintenance standards of the plant are based on international best practice, guided by ENGIE's policies and principles which in turn are derived from its experience in operating power generation plants worldwide.

Al Kamil power plant comprises three General Electric Frame 9171E gas turbines in open cycle configuration, together with related ancillary equipment required for fully independent operation. These turbines are designed to run on both natural gas and distillate fuel oil.

The maintenance team of AKCS comprises mechanical, electrical, control and instrumentation engineers, including technicians trained to undertake day-to-day activities on the plant. The routine maintenance of the plant and related apparatus is carried out in accordance with recommendations from the Original Equipment Manufacturer and/or best industrial practices. “Maximo” maintenance management software tools have been installed in this regard.

Planned unit outages are arranged during the winter periods,according to the schedule agreed between AKPC and OETC (Oman Electricity Transmission Company),in order to maximise generation during summer months. Scheduled combustion inspections, hot gas path inspections and major inspections are all conducted during these planned outages as per the OEM guidance based on fired hours or fired starts

Operations Discussion

The operation profile during the year followed the typical pattern of such type of plant which serves mainly as a peak plant. The units were dispatched by Load Dispatch Center (LDC) at base load during peak demand period.

During the year a construction work for segregating the fiscal gas flow meters as per the second amendment of NGSA was completed.

As required by ISO certification, the plant is being annually audited by an external auditor. The observations raised by the auditor are being properly addressed.

The Company and its Operation and maintenance contractor are both committed to achieving the best possible health, safety, environmental and quality performance standards. The management focus is to emphasise a health and safety culture in every aspect of its operations. The Company believes that all workplace accidents and injuries are avoidable. As such, it encourages safe behaviour and the right attitude in order to deliver zero accidents and zero incidents. The periodic checking of lifting equipment, safety valves, measuring instruments were undertaken through external authorized agencies

Health Safety and Environment

HSE is considered a top priority at all levels including the operation and maintenance contractor. The plant is certified for OSHAS 18001-2007 in safety and ISO 14001 in environment.

We believe concentration on leading KPIs are necessary to prevent accidents and therefore lot of proactive measures such as training, safety walks, fresh eyes, review and auditing the management system, HSE observations, emergency safety and environmental mock drills are being taken up in the plant. The company derives synergy from being part of the Engie group to have lot of networking activities within the group to exchange knowledge and experience for continued improvement.

The company celebrated completion of 5000 days without LTA in May 2017 and informs with pride the completion of full PPA without LTA. As at December 2017, the plant completed 5,279 days of operation without a lost time accident.

Plant Celebrated 5000 LTA Free Days

The company has all the environmental permits which certify the plant is environmentally compliant. The company believes in sustainable efforts to protect the environment and therefore participated with an education activity in Oman Science Festival to educate the students on different types of renewable energy to convey the message of importance of renewable energy in protecting the environment. The company also plans to participate in 2018 in “top roof PV project” on top of a school which will present a practical example ofthe role of solar energy in sustaining our environment and serve as a model.

Cyber Security:

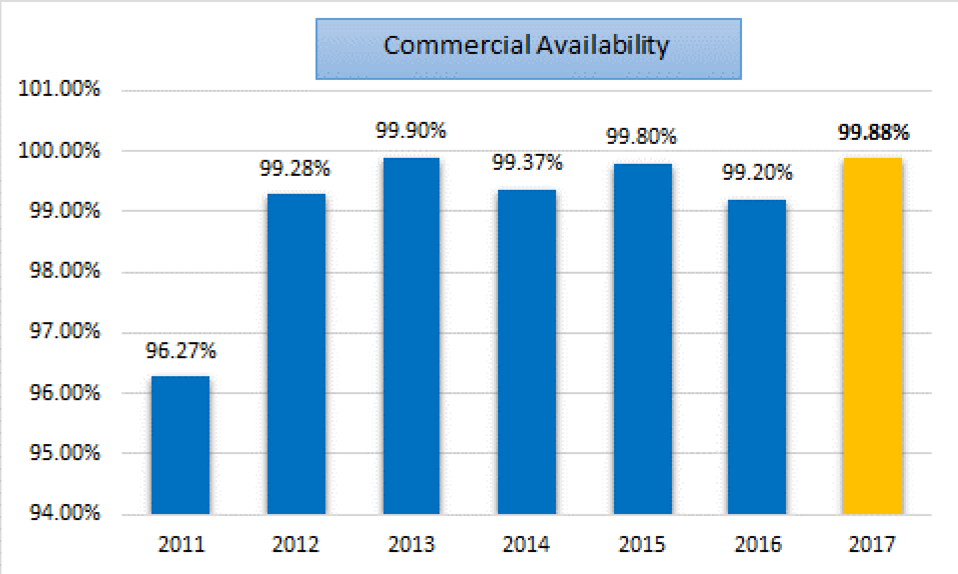
In today's world of IT advancements and the risks to global control systems including power plants, attention to cyber security has become critical. Therefore, the company assigned top priority to this matter. An independent expert appointed to study the information security situation at Al Kamil Power Plant, has made the necessary proposals to improve thecyber security. The company is working, based on those recommendations, to meet the requirements of Authority for Electricity Regulation.

Human Resources – training and career development

Training values established by the company are primarily aimed to ensure all the employees perform their tasks in the most efficient and safe manner. The Company is duty bound to empower qualified Omani Nationals acquire better-quality engineering and related skills and take up higher responsibilities in operating and maintaining the Plant. To this end, since inception, the strategy of the company has been to train and develop qualified Omani staff to take up responsibilities. A skill matrix is prepared for all disciplines in the Plant operation and maintenance for guiding the Omani staff for future assignments. Each employee is encouraged to discuss and put together his career development path. Annual performance review of each employee includes assessment of their career growth.

Plant Performance:

The plant operated well throughout the year in compliance with OETC instructions with a commercial availability of 99.9%. During the year, the annual performance test was carried out in the presence of OPWP and the guaranteed capacity for the year was successfully demonstrated. The following chart display the commercial availability of the Plant over the last seven years:

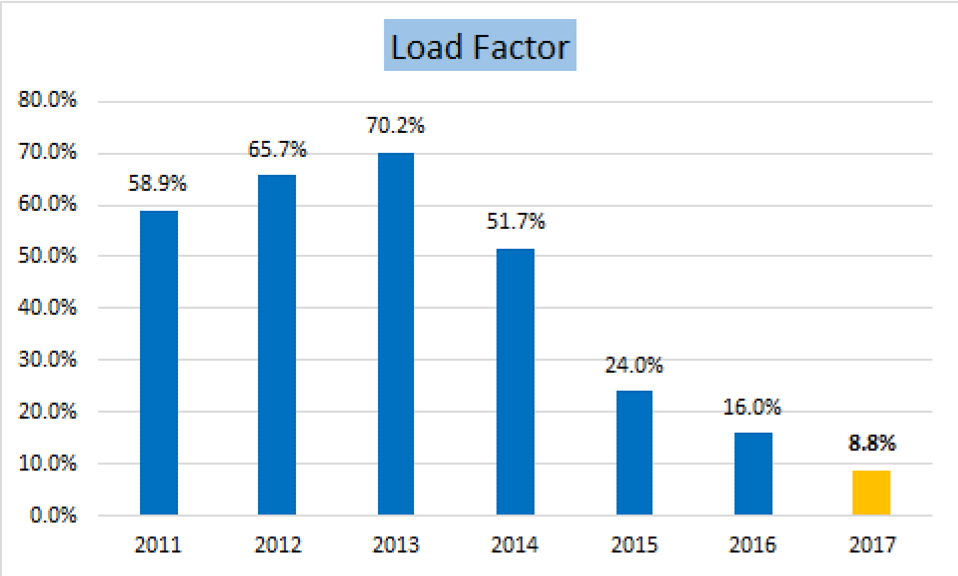


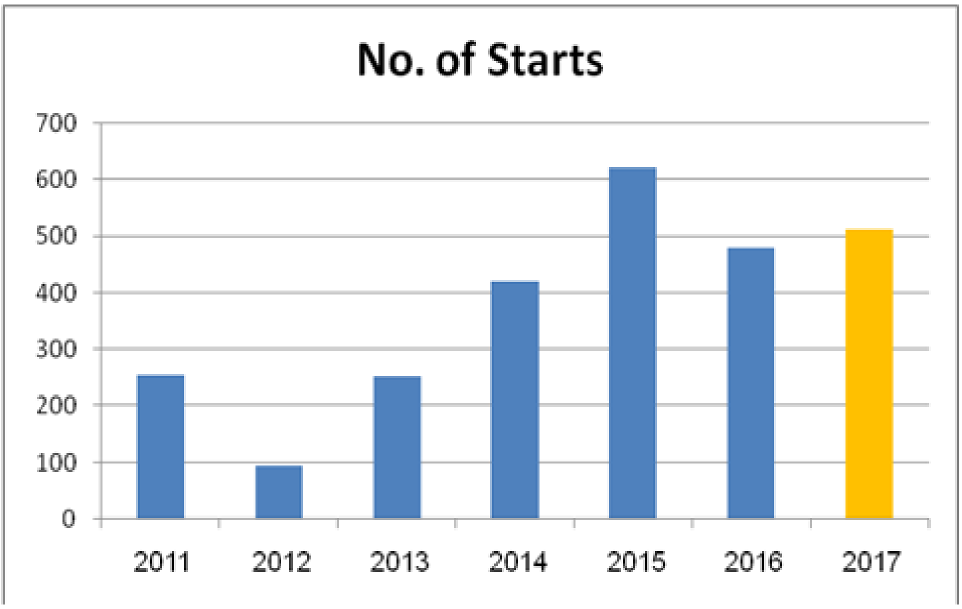
In the last few years the plant operation profile shifted from being a base load plant to a peak plant, due to the addition of new combined cycle plants to the grid. During the year 2017, the plant load factor was 8.8%, the plant's generation was 44% lesser than that of previous year. Consequently, running the plant to meet the peak demand has resulted in the frequent start and stop dispatch instructions. The number of dispatched starts was 513 compared to 481in previous year. This operation profile shows the necessity of the plant to cover the high peak demand of the grid and during emergency situations.

The energy charge element is a pass-through to O&M Company, hence lower generation and higher starts have no impact on the company's net result.

The following charts display the operation profile of the plant over the last seven years:

Operation Profile





Maintenance:

The following major preventive maintenance activities were undertaken in the plant during 2017:

- GT1A Generator Rotor Rewinding to resolve the issue of insulation migration, and at the same time doing the necessary inspections and tests for the stator.
- GT1A - Inlet air filters replaced, Make AAF
- Gas Fuel Water Bath Heater tube bundle replacement
- Hydraulic cylinders replaced for gas control valves of all gas turbines.
- Generator Rotor Boroscope inspection done - GT1A in Feb 2017
- GT1 B S2N inspection and replacement was done in Oct 2017

- Chemical analysis and condition monitoring of the transformer oil, results were determined to be satisfactory.
- Under the transformer monitoring programme, Infra-Red Survey test was carried out
- Electrical tests in respect of transformers and generators including RSO test were carried out.
- The 132 KV equipment insulators were regularly washed by demineralised water.
- The safety valves of pressure vessels were periodically tested.
- The turbine bearing oil analysis was done at suitable intervals and turbine and generator water quality was monitored through lab tests.
- Major maintenance of gas turbine battery charger system was carried out.
- The fire equipment was tested for availability and readiness on weekly basis. The emergency diesel generator set was tested on bi-weekly basis. Black Start capability was tested by starting one unit with Auxiliary supply fed from the DG set. All routine operational checks were done at every shift.
- Maintenance of the black start diesel generator (BSDG)
- GT1B Generator Rotor Boroscope Inspection carried out by external expert; very slight insulation migration were observed, which doesn't need repair at this stage, but it will be require to do regular inspection to observe the evolution
- The tariff energy flow meters were upgraded in Nov 2017 to record hourly readings, which will help the distribution company to invoice AKPC as per cost reflective tariff.
- Wet and Dry calibration of Ultrasonic Flow sensor for one stream of Gas Metering system completed and installed.

Future Outlook, Investment Opportunities and Obstacles

- ❖ The Power Purchase Agreement (PPA) with OPWP originally expired on 30 April 2017, was extended upto December 2021 with the revised tariff and capacity. Natural Gas Sales Agreement with Ministry of Gas and the Operation and Maintenance Agreement with Al Kamil Construction and Services, were also extended upto the same date.

- ❖ AKPC is participating in the Power Procurement process 2022, which was initiated by OPWP in 2017.The process will give opportunity to the company to extend the PPA beyond its current expiry.

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

- ❖ 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.

Risks and Concerns

Loss of Availability due to Mechanical Breakdown

The principal risk to AKPC is the plant being unavailable due to mechanical breakdown. In order to mitigate this risk, AKPC ensures that AKCS operates and maintains the plant in line with AKPC policies, principles, directives and best practices in the industry.

Loss of Availability due to Accidental Damage

In accordance with industry best practice, AKPC ensures that adequate insurance policies are in place to protect the business against any loss of property and loss of income arising from accidental damage.

OPWP Payments

OPWP has settled in full all invoices within the agreed credit period.

Expired PPA

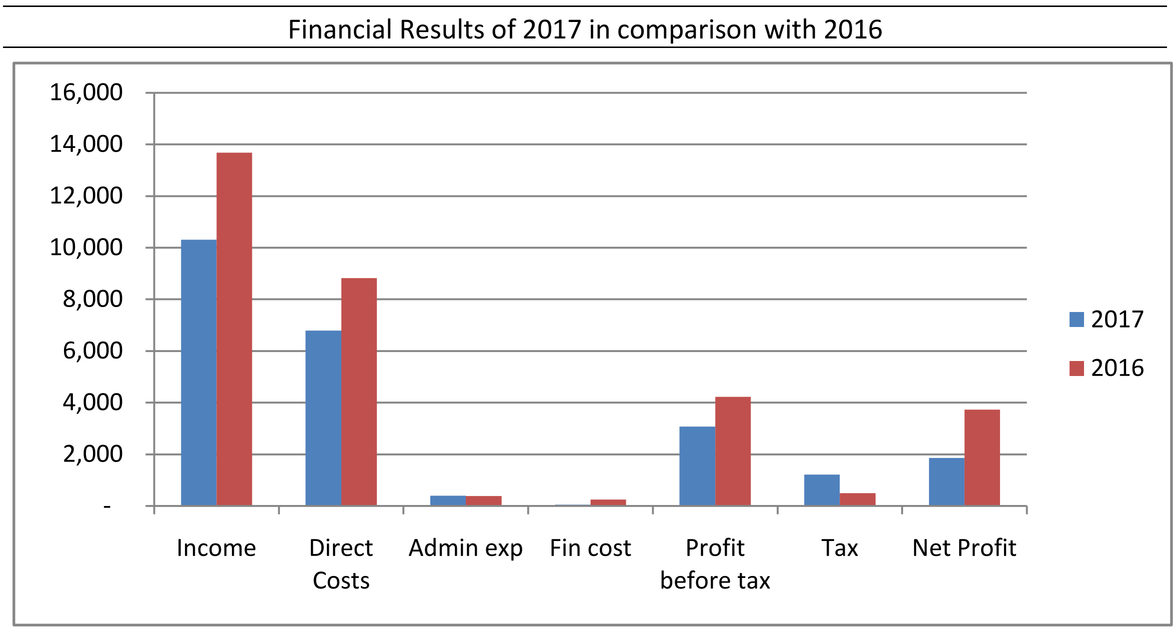
The current PPA extension will expire by end of 2021.The company is working closely and very actively in the process of Power Procurement Process 2022, in order to achieve extension of PPA beyond 2021.

Financial Performance

The financial performance indicators used by the Company address two key aspects of the business - its profitability and its cash generation. Power generation is a capital intensive business which necessitates the close monitoring of costs in order to achievetargeted profits. The ultimate goal is to provide a fair return for our shareholders.

Revenue and cost analysis for 2017 (as compared to 2016) are displayed in the following chart:

(Amounts in RO'000)



	Income	Direct Costs	Admin exp	Fin cost	Profit before tax	Tax	Net Profit
2017	10,317	6,793	402	44	3,078	1216	1,862
2016	13,684	8,830	387	243	4,224	496	3,728

The major operational matters having a bearing on the financial results of 2017, when compared with 2016, are highlighted below:

1. The fall in the gross income during 2017 of 25%, as compared to 2016 was mainly due to (a) lower capacity income due to the new PPA rates effective 01st May 2017 and (b) lower Energy Income. A 44% reduction in power generation during 2017, as compared to 2016, impacted Energy Income. However, as energy income is a pass-through income for the company, any decrease in the energy income has no impact on the net profit for the year.
2. The plant incurred forced outage of 37 hours, clocking a 99.88% commercial availability during the year 2017 as compared to 218 hours of forced outage and 99.20% commercial availability during 2016.
3. The finance costs were lower by 82% during 2017 as compared to 2016 due to the scheduled loan repayments during the year.
4. Consequently, the profit before tax was lower by 27% over the previous year.
5. Taxation was higher due to (a) restatement of Deferred tax Liability at the new tax rate and (b) higher tax rate
6. The resultant net income for the year was 50% lower as compared to the previous year.

Summarized Cash Flow:

(Amt RO '000)

	2017	2016
Cash from OPWP & others	10,678	13,527
Cash paid to suppliers and employees	-6,391	-6,952
Interest paid	-61	-251
Surplus from operating activities	4,226	6,324
Tax paid	-624	-573
Net cash from operating activities	3,602	5,751
Net cash used in investing activities	6	-270
Repayment of loan	-3,085	-3,797
Dividend payment	-963	-674
Net increase in cash and cash equivalents	-440	1,010
Cash and cash equivalents at the beginning of the year	1,342	332
Cash and cash equivalents at 31 December	902	1,342

The following are the highlights of cash flow for the year 2017:

1. For the year 2017, the surplus from operating activities was 33% lower than previous year.
2. The net cash from Operating activities was37% lower than the previous year.
3. Loans were fully paid up during the year.
4. The Company met all obligations under its bank covenants.

Finally, earnings per share (EPS) are a measure of the overall profitability of the Company. It is defined as the profit in Baiza attributable to each share in the company, based on the net profit for the year, after tax. The calculation for EPS is shown in Note 25 within the financial statements. The EPS for 2017 was Baiza 19 per equity share of face value of Baiza 100 as against previous year's EPS of Baiza39.

The Company conducts no other business in the Sultanate of Oman or outside and has no subsidiaries.