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 Sharqiya region 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 ENGIEhasan 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,guidedbyENGIE's policies and principles which in turn arederived 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 relatedancillary 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 theOriginal 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 yearfollowed 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.

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

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 planned maintenance were completed successfully during the winter outage program.

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 14001:2015 in environment and ISO 9001:2015 in system management quality. The plant operation also got Gold Award from ROSPA (The Royal Society for Prevention of Accidents)

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.

As at December 2018, the plant completed 5,644 days of operation without a lost time accident.

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 other Engie Group companies to build“top roof PV plant” on top of a school in Barka which will present a practical example of the role of solar energy in sustaining our environment and serve as a model. In the same manner the company installed street lights working with solar energy in Al Kamil Park.

Cyber Security:

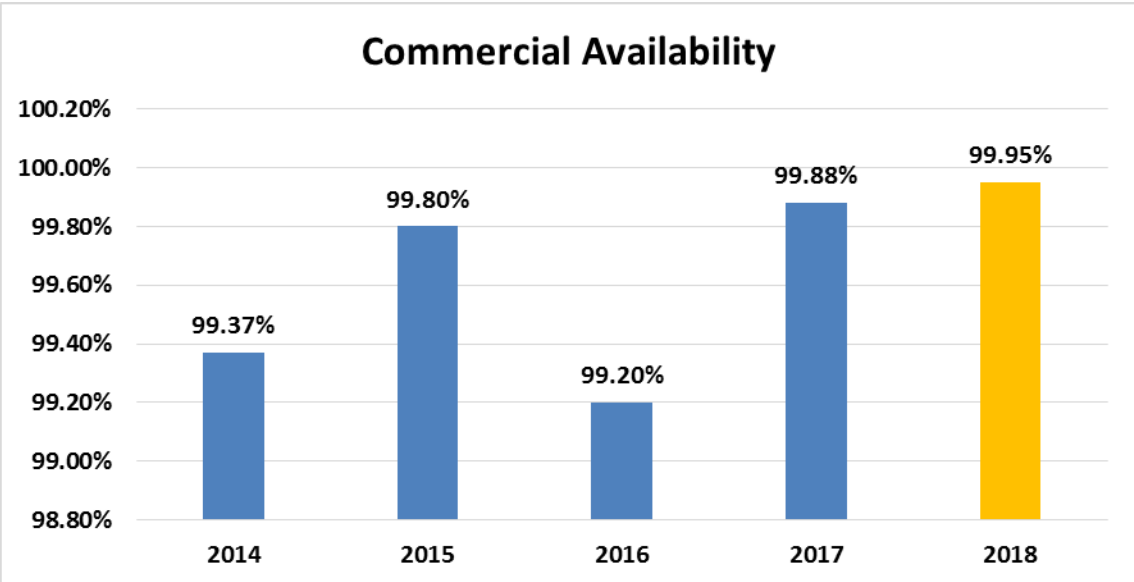
In today's world of IT advancements and the risks to global control systems including power plants, attention to cyber security has become critical. Therefore, the company assigned top priority to this matter.The company is working, based on recommendations from external consultants to meet the requirements of Authorityfor 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:

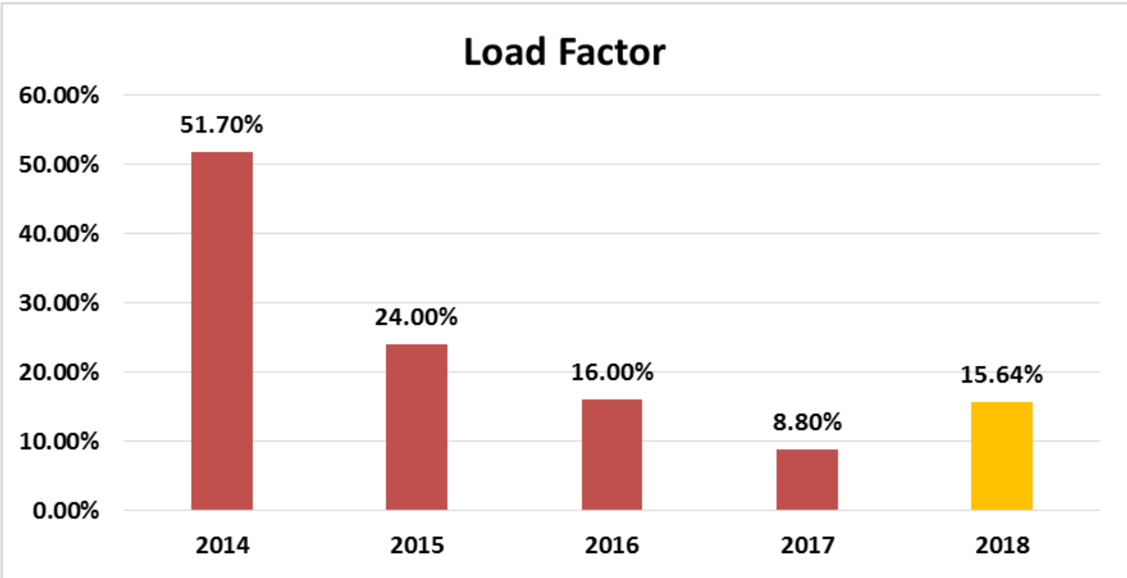
The plant operated well throughout the year in compliance with OETC instructions with a commercial availability of 99.95%. During the year, the annual performance test was carried out in the presence of OPWP and the guaranteed capacity for the year was successfully demonstrated. The following chart display the commercial availability of the Plant over the last seven years:

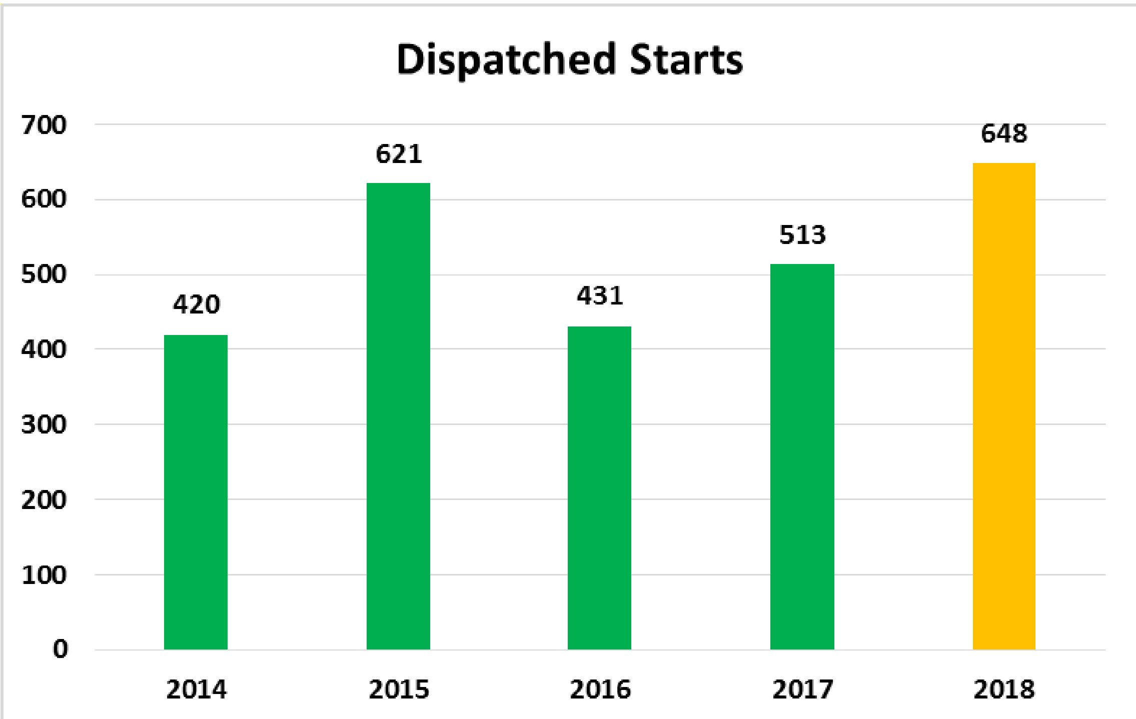


In the last few years the plant operation profile shifted from being a base load plant to a peak plant, due to the addition of new combined cycle plants to the grid.During the year 2018, the plant load factor was 15.64%, the plant's generation was 78% more than that of previous year. Consequently, running the plant to meet the peak demand has resulted in the frequent start and stop dispatch instructions. The number of dispatched starts was 648 compared to513 in previous year; this was the highest number of starts in the history of the plant. 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 five years:





Maintenance:

The following major preventive maintenance activities were undertaken in the plant during 2018:

- Upgraded Stage 2 Nozzle Replacement in GT1B: GT1B was facing issue of high wheel space temperature, as recommended by OEM this was upgraded successfully and solved the issue.
- Completed GT1A Generator rotor rewinding
- GT1C Combustion Inspection completedin March 2018
- Inlet Air Filter replacement in GT1C
- Exhaust repairing of GT1A, 1B & 1C completed.
- Minor maintenance of Black Start Diesel Generator (BSDG)
- DFO Tank Bottom Plate Inspection (Diesel Fuel Oil Tank)
- RSO test, PD test & Tan Delta test for Generator & GSU
- Plant UPS Servicing
- 132 KV Breaker Servicing
- PRIMS Installation in GT1B Generator to monitor closely healthiness of generator rotor
- Current Signature & Vibration analysis for Starting Motors
- GT1B Flame scanner Upgradation
- DCS & HMI Upgradation: as the DCS control system was old and obsolete it was necessary to upgrade.
- Siemens Fire System Upgradation (FEP 1 & FEP 2) due to control system obsolescence
- CEMS upgradation

Future Outlook, Investment Opportunities and Obstacles

❖ AKPC's current extended PPA expires in December 2021. The company is participating in the Power 2022 Procurement process initiated by OPWP.The process gives an opportunity to the company to extend the PPA beyond its current expiry.

- ❖ 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. The Supreme Court issued a decision rejecting the case for 2013.

  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 principalrisk 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 bestpractices 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.

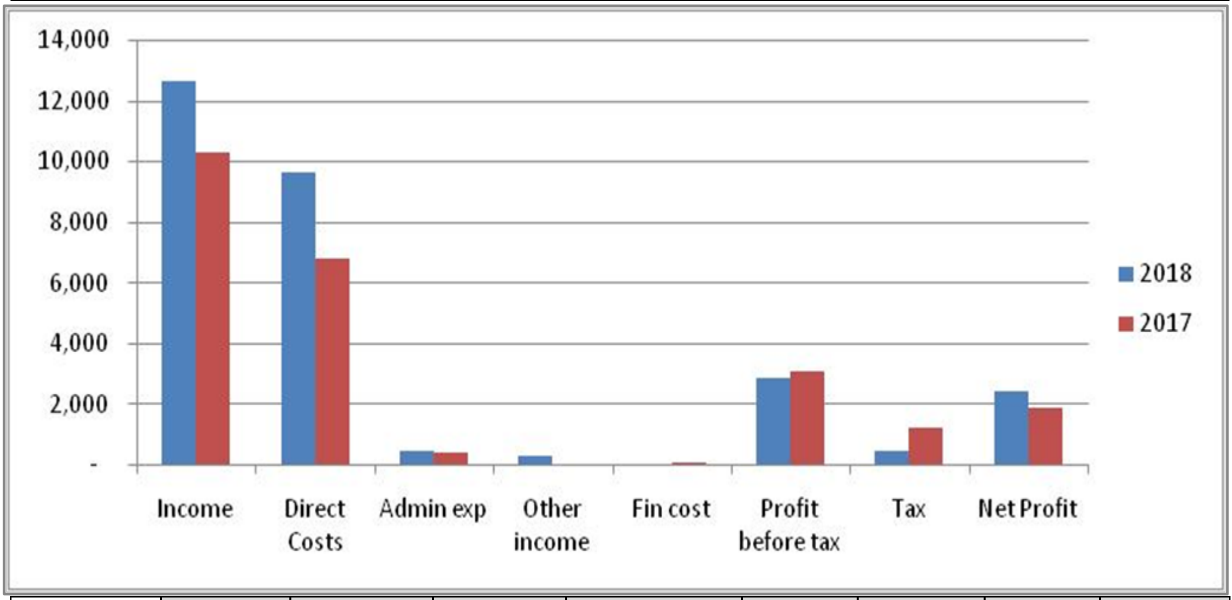
Financial Performance

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 2018(as compared to 2017) are displayed in the following chart:

(Amounts in RO'000)

Financial Results of 2018 in comparison with 2017



Year	Income	Direct Costs	Admin exp	Otherincome	Fin cost	Profit before tax	Tax	Net Profit
2018	12,708	9,655	456	251	-	2,848	429	2,419
2017	10,317	6,800	402	7	44	3,078	1,216	1,862

The major operational matters having a bearing on the financial results of 2018, when compared with 2017, are highlighted below:

1. The increase in the gross income during 2018 of 23%, as compared to 2017 was mainly due to the net effect of (a) higher energy income (a 79% increase in power generation during 2018 as compared to 2017, impacted Energy Income.However, as energy income is a pass-through income for the company, any increase in the energy income has no material impact on the net profit for the year) and (b) lower capacity income due to full year impact of the new PPA rates effective 01st May 2017.
2. The plant incurred forced outageof 14hours, clocking a 99.95% commercial availability during the year 2018 as compared to 37hours of forced outage and 99.88% commercial availability during 2017.
3. Other income representing Change of Law claim from OPWP for amendment to tax law, was recorded in 2018. The company received the COL claim for the year 2017 and accrued similar claim for the year 2018.
4. Administration and General expenses were higher by 13% in 2018 mainly due to higher professional fees relating to PPA extension, plant ageing study and tax cases.
5. Finance costwas NIL for 2018 since all loans were fully paid off during the year 2017.
6. Consequently, the profit before tax was lower by 7% over the previous year.
7. Taxation was lower due to (a) restatement of Deferred tax Liability in 2017 at the new tax rate and (b) lower PBT
8. The resultant net income for the year was30% higher as compared to 2017.

Summarized Cash Flow:

(Amt RO '000)

	2018	2017
Cash from OPWP & others	12,828	10,678
Cash paid to suppliers and employees	(9,114)	(6,391)
Interest paid	-	(61)
Surplus from operating activities	3,714	4,226
Tax paid	(618)	(624)
COL Claim from OPWP	251	-
Net cash from operating activities	3,347	3,602
Net cash used in investing activities	(368)	6
Repayment of loans	-	(3,085)
Dividend payment	(2,406)	(963)
Net increase in cash and cash equivalents	573	(440)
Cash and cash equivalents at the beginning of the year	902	1,342
Cash and cash equivalents at 31 December	1,475	902

The following are the highlights of cash flow for the year 2018:

1. For the year 2018, the surplus from operating activities was 12% lower than previous year.
2. The net cash from Operating activities was7% lower than the previous year.
3. Change of Law claim for the year 2017 was received from OPWP
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 24 within the financial statements. The EPS for 2018 was Baiza25 per equity share of face value of Baiza 100 as against previous year's EPS of Baiza 19.

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