

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 2018.

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 17.211 million (US\$ 44.8 million) at the end of the year 2018, 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, 2018 equates to RO 36.58 million (US\$ 95.10 million).

Summarised Financial and Operational Results

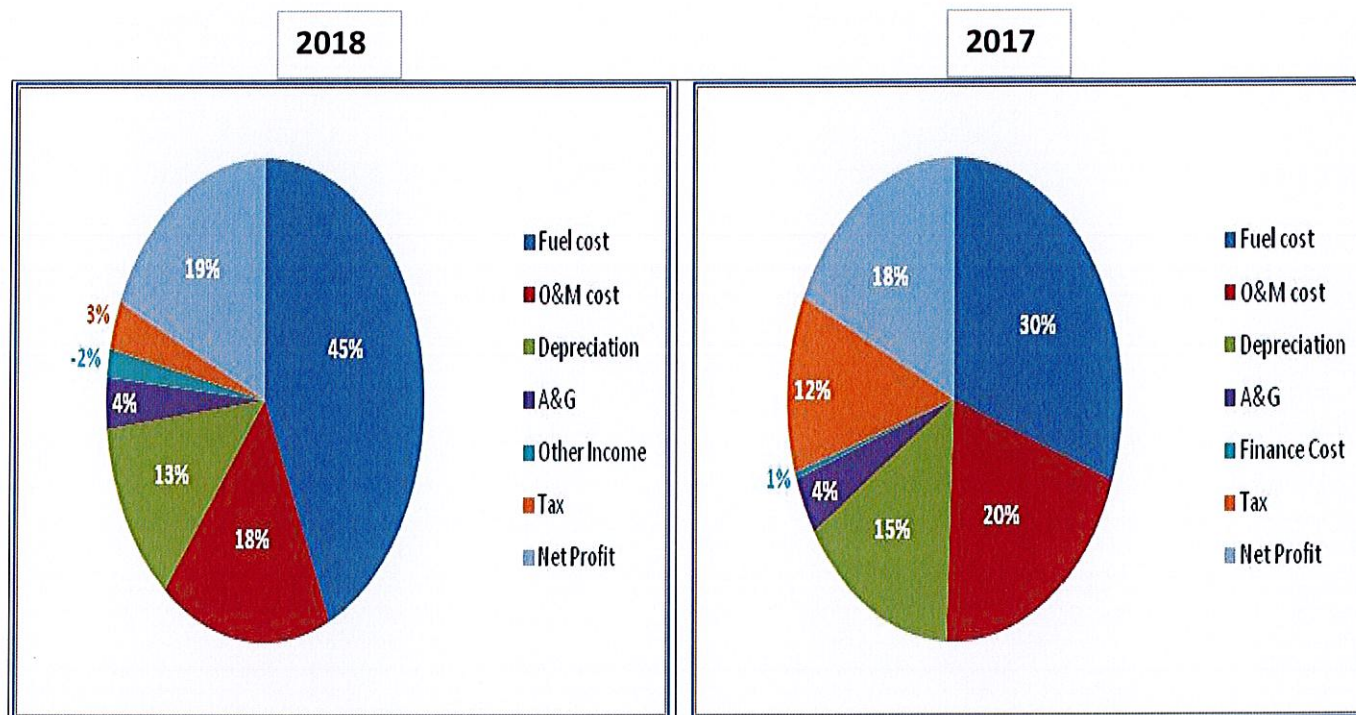
Operational Highlights

Over the last few years the load profile of the plant has changed from base load operation to a peaking plant. 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 2018, the number of starts were 648 starts which was 26% higher than 2017 and it was the highest throughout the history of the plant. Nevertheless the plant performance was excellent, with commercial availability of 99.95%, delivering 384GWhto the Omani grid. The company is proud of its continued commitment towards health, safety and environment. The company clocked 5,644 days without Lost Time Accident upto the end of 2018. 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 2.419 million, 30% higher than 2017. The increase in net profit was mainly due to the restatement in 2017 of Deferred tax liabilities due to increase in the income tax rate (which had a one-off impact of RO 0.760 million in 2017). Excluding this one-off tax charge in 2017, the net profit for the year showed a decrease of 8% compared to 2017 due to full year impact of new tariffs in the PPA extension effective from May 2017, partially offset by the Change of Law claim from OPWP (Other Income) for tax law amendment.

The following graph explains the costs as percentage of the total revenue. Ratio of Fuel cost to total revenue was higher due to higher energy revenue. Other income in 2018 represents Change of Law claim from OPWP for tax law amendment. Taxation was lower due to restatement in 2017 of Deferred tax Liability at the new tax rate.



Consequently, the earnings per share increased from Baiza19 in 2017 to Baiza 25 in 2018.

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 (further 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. AKPC 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.
- ❖ 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.

- ❖ 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.
- ❖ 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, having PPA extension upto 2021 and adequate reserves, is in a position to disburse dividend in excess of the net profit for the year 2018. The Directors recommend a cash dividend of upto 40% for 2018 out of the retained earnings as at 31 December 2018 - upto 20% to be paid in June 2019 and upto 20% to be paid in December 2019.

Our dividend policy of distributing available cash is conditional upon reserves being available and provision has been made for 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 %
2014	10%
2015	-
2016	7%
2017	10%
2018	25%

Board Appraisal

The appraisal of the Board was conducted during the year 2018 by Keynote Services LLC, independent consultants appointed at the AGM held on 19th March 2018. 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 19th March 2018. 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 2018.

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 others such as our contractors, whose expertise has assisted us in achieving these excellent results.

On behalf of the Board of Directors,



Frederic Claux
Chairman