



Board of Directors' Report

Dear Shareholders,

It is my greatest pleasure, on behalf of the Board of Directors, to report on the performance of your company, Dhofar Generating Company SAOG ('DGC' or 'Company'), at the end of an immensely successful year.

During the year, the Company's performance has been outstanding with completion of the construction of the new 445MW plant on time and within budget, with Commercial Operation Date ('COD') being achieved on 1 January 2018. Without a doubt, a key achievement was the completion of all construction activities alongside a fully operational plant with a Zero Lost Time safety record and no environmental exceedances. The reliability of both the 273MW Original Plant and 445 New Plant has been exceptional with availability factors of close to 100%.

The excellent operational performance has enabled the business to fulfil its financial obligations by meeting bottom line results and timely debt service to the project lenders.

An important event in the life cycle of the Company was the listing of its shares on the Muscat Securities Market on 5 September 2018, in line with its obligations under the Project Founders Agreement with the NAMA Group. The directors convened all necessary meetings during the year, along with Audit Committee and Nomination and Remuneration Committee meetings, as required.

Strategic positioning

DGC is one of two independent power plants owners in the Dhofar region, with a 62% share in the southern power grid of the Sultanate of Oman (from 1 January 2018). It owns and operates two power plants: a 273MW Open Cycle Gas Turbine ('OCGT') power plant ('Original Plant') and a 445MW Combined Cycle Gas Turbine ('CCGT') Power Plant ('New Plant')

The Company has one customer, the Oman Power and Water Procurement Company ("OPWP"), and one supplier for the primary fuel (natural gas), the Ministry of Oil and Gas. The EPC Contractor for the New Plant is SEPCO III Electric Power Construction Corporation, a leading power construction contractor from China with extensive international and regional experience. Plant operations and maintenance for both plants has been contracted to Dhofar O&M Company LLC and further sub-contracted to the First National Company for Operation and Maintenance Services LLC ('NOMAC Oman') with an agreement that is co-terminus with the Power Purchase Agreement ('PPA').

Construction – setting new standards

The Company has proved its mettle in the construction initiative by completing all activities for completion of the New Plant ahead of schedule on 27 December 2017. The plant underwent a comprehensive testing regime including 417 start-up tests and 11 performance tests as prescribed by OPWP. Each test was witnessed by OPWP and their on-site consultant engineer. DGC subsequently applied for Commercial Operation Date effective from 1 January 2018 under the terms of the Power Purchase Agreement ("PPA") entered into between the Company and OPWP.

Completion of this critical milestone was a landmark achievement, accomplished through the diligent efforts of the DGC project team and the EPC Contractor who had received extensive guidance and support from the sponsors through a healthy framework of oversight established by the Board of Directors. Both Dhofar O&M and NOMAC Oman participated in the commissioning and testing activities to ensure a smooth and effective takeover of the New Plant. To-date, a major portion of the punch list items open at the time of COD have also been closed out.

DGC will continue to monitor the performance of the plant to identify any warranty issues.



Operational performance

During the year, the NOMAC Oman team has operated and maintained the Original Plant and the New Plant in a prudent manner, following the prescribed good industry practices. In 2018, the Original Plant achieved a reliability of 99.7% (2017: 99.7%), whereas the New Plant, also delivered a reliability factor of 99.7% (2017: N/A). These high reliability factors demonstrate a world class performance of the power plants.

The reliable operations of the power plants bring stability to the Dhofar grid, which is your Company's top priority. Such performance is the primary driver in building strong relationships with our key stakeholders which include the shareholders, OPWP, OETC, AER, the lenders and, most importantly, the local community. A large part of the credit for this excellent operational performance is due to the operator's efforts. NOMAC Oman has operated the plant in a safe, reliable and prudent manner with adequate reporting disclosures to the satisfaction of the Company. The O&M team has proved its mettle and flexibility by taking over the New Plant immediately after commissioning and operating a plant based on different technology.

Financial Performance

The financial performance of the Company for 2018 is in line with expectations, with a profit after tax of OMR 0.4m (2017: Loss after tax OMR 0.5m). Under its dividend distribution policy, the Company seeks to distribute the available cash flows as dividends to its shareholders, after meeting the debt service and other operational needs and subject to the applicable local regulations. There have been no dividend payments in the past 5 years. Since acquisition in June 2015, opening cash balances and internally generated cash from the 273MW Original Plant were applied to the construction of the New Plant.

The Company believes in a strong control environment and accordingly endeavors to maintain best in class financial controls and reporting standards. Your Company continues to achieve these standards and this is periodically confirmed by timely, accurate reporting as well as rigorous auditing processes and procedures. Your Company remains in compliance with the Code of Corporate Governance of the Capital Market Authority.

Our human assets

The success of the year has been driven by the diligence and zeal of all the people involved in the management and operations of the Company.

The directors of your Company are a set of diverse individuals with vast financial, operational, technical and market-oriented experience. They have provided a robust and empowering framework to develop a positive work culture and ethic. The management of the company, under the guidance of the Board, have worked diligently and creatively to implement the vision of the Board and to bring excellence to the business. The directors and management of your Company have demonstrated their business acumen and strategy of looking after all stakeholders' interests and generating value for everyone through innovative solutions implemented throughout the year.

I, along with the Board, would like to extend my gratitude to the team at DGC, which includes the operations and maintenance people of NOMAC Oman, who have worked meticulously throughout the year to deliver such excellent results. We reaffirm our commitment towards the development of Omani talent.

Social Responsibility

Your Company strongly believes in the importance of being a good corporate citizen while conducting business and fulfilling its social responsibilities. To this end, the Company has participated in various initiatives since the acquisition in 2015. During 2018, the Company has helped sponsor two events in the Dhofar region which include the Geographic Information System Conference in Salalah and the



Salalah Cardiovascular Conference. The amount contributed by the Company towards social responsibility initiatives during 2018 totaled OMR 4,000.

As part of a training initiative for local talent, the Company provided about two months' training to 15 local fresh engineers from the universities and colleges and hosted 24 electrical engineers from Salalah College of Technology for a one-day visit.

Looking forwards - 2019

In 2019, the Company will be focused towards the reliable operation of the two power plants in order to meet its obligations to all stakeholders. The team will work to close remaining punch list items and monitor warranty issues, if any. NOMAC Oman, with Dhofar O&M's guidance, will be responsible for the operations and maintenance of the entire plant as envisioned in the O&M Agreements.

Our foremost commitment remains to provide safe, clean and reliable power to the people of the Sultanate of Oman.

Acknowledgements

We appreciate the support of all our key stakeholders especially our customer (the Oman Power and Water Procurement Company), our fuel supplier (Ministry of Oil and Gas), the Public Authority of Electricity and Water, the Authority of Electricity Regulation and the Ministry of Commerce and Industry.

Finally, on behalf of the Board of Directors, I would like to take the opportunity to express our gratitude to His Majesty Sultan Qaboos Bin Said and His Government for their vision, guidance, wisdom and continued support to Dhofar Generating Company SAOG and the entire private sector. His progressive and enlightened vision continues to be a model for others to emulate and without it, the success being achieved by many would not have been possible.

John Clark

Chairman Board of Directors