شركة ظفار لتوليد الكهرباء
Dhofar Generating Company

Dhofar Generating Company SAOG
Board of Directors' Report

It gives us great pleasure to present the Board of Directors' Report related to the un-audited financial statements of Dhofar Generating Company SAOG (the "Company" or "DGC") for the period ended 30 September 2018.

The financial results of the period are summarized as under:

Rial Omani in Thousands

	Period Ended 30 September 2018
Gross Revenues	30,229
Gross Profit	9,082
Profit after tax	798
Basic earnings per share – Bz/share	9

Overview

The Company was listed on the Muscat Securities Market ("MSM") on 5 September 2018, a key milestone in the organization's life cycle. It reflects a culmination of diligent shareholder and management efforts in attaining critical milestones of commercial operations date, completion date under the loan agreement and initial public offer within prescribed timelines. The Company is grateful to the CMA, MSM, MCD and other authorities for their excellent support in completing the IPO process.

DGC includes two power plants of 273MW and 445MW, operating on open and combined cycle technologies respectively. We are delighted to report that performance of both plants during the quarter is world class, with reliability close to 100%. Strong operational results are essential as they form the backbone of the business's commercial success. The plants' performance is a direct result of the Operator's diligence under the supervision of the Company's management.

Occupational health, safety and environment is the highest priority for the business and its people. The board and management team are very proud of the Company's zero lost time incident ("LTI") safety record and zero environmental exceedance since acquisition by the founders in June 2015..

Plant performance during the period

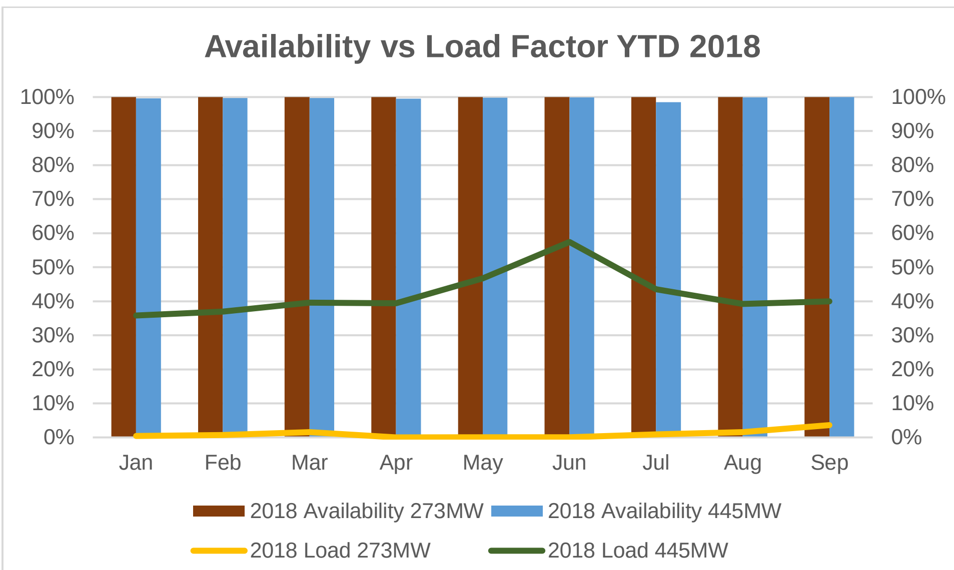
	273MW		445MW	
9 months ended	2017	2018	2017	2018
Reliability Factor	99.7%	99.7%	N/A	99.7%
Load Factor	27.0%	1.7%	N/A	42.1%
Energy Exported (GWh)	653.3	30.4	N/A	1,228.1

273MW OCGT Power Plant
The reliability factor for the first nine months of 2018 has continued to remain very high and similar to the same period of last year. The load factor of the plant was significantly lower in nine months ended 2018 compared to the nine months ended 2017 due to commencement of commercial operations of the new 445MW power plant from 1 January 2018.

445MW CCGT Power Plant
The new power plant, int its first year of commercial operations, has achieved a consistently high reliability factor of 99.7% for the nine month period of 2018. This performance is a testament to the sound construction of the asset. The load factor of the 445MW power plant during the first nine months of 2018 was 42.1%.

The top notch performance of the business is a reflection of timely and successful completion of all planned outages and implementation of well-established proactive and predictive O&M practices by the team.

A graphical presentation of the load and reliability factors for the nine months of 2018 is as below:



Load factor is dependent purely on grid demand as advised by the load despatch centre.

Maintenance activities during the period

The third quarter of the year includes 2 winter months (i.e. July and August) and one summer month (i.e. September). Under the Power Purchase Agrement between the Company and the offtaker, the plants are required to be 100% available during the summer months, while winter downtime of 15% is allowed for planned maintenance to ensure healthiness of the machines.

The main planned maintenance activities conducted during the period included:

273MW Plant

- Installation and commissioning of a Partial Discharge Monitoring System in all eight gas turbines of the existing plant to improve system reliability.
- Installation of new lighting arrestors and aviation alarm light fittings on all gas turbine ("GT") chimneys.
- Routine preventive and predictive maintenance including PM for the plant compressor, paint job for GT 3 and GT 7 compartment fan service.

445MW Plant

- Commencement of implementation of Efficiency Map Performance Monitoring System.
- Routine maintenance of all GTs and steam turbines ("STs") including review of diagnostic alarms, replacement of fuel nozzle for GT 11, updating the distributed control system cyber security patch, inspection of all air condensed cooling fans with the support of the Original Equipment Manufacturer ("OEM") alongwith necessary cleaning and replacement of Block 20 CCW fin fans gearbox lube oil.
- Routine preventive and predictive maintenance including preventive maintenance for the plant compressor, vibration analysis and Siemens PLC health check.
- Completion of certain punch list and warranty items by the EPC Contractor.

All activities were routine in nature and there was no major maintenance during the quarter.

Financial highlights

Income Statement in OMR '000	**Period Ended 30-Sep-18**	**Period Ended 30-Sep-17**
Total revenues	30,229	12,273
Operating costs	(21,147)	(11,338)
Gross profit	9,082	935
Other costs	(8,284)	(1,359)
Net profit / (loss) after tax	798	(424)
Earnings / (loss) per share – Bz/share*	9	(849)

**Comparative is for par value of OMR 1.000 per share*

Revenues

The total revenues for the Period ended 30 September 2018 are higher by OMR 18m as compared to the total revenues for the corresponding period of the previous year. The increase is primarily attributable to commencement of commercial operations of the new 445MW power plant resulting in OMR 14.3m higher capacity and OMR 3.7m fuel revenue.

Operating Costs

The increase of RO 9.8m in total operating costs for the period ended 30 September 2018 is also attributable to the commencement of commercial operations of the new 445MW power plant resulting in OMR 3.4m higher fuel charge and OMR 6.4m O&M and related costs.

Gross Profit

The OMR 8.1m increase in gross profit is due to the commencement of commercial operations of the new 445MW power plant on 1 January 2018.

Other Costs

Other costs are higher by OMR 6.9m for the period ended 30 September 2018 compared to the corresponding period. This is mainly due to OMR 5.6m higher finance cost which was capitalized in the prior period when the new 445MW power plant was under construction and is now charged to the income statement due to commencement of its commercial operations. Tax costs are higher by OMR 1.4m due to higher deferred tax consequent to capitalization of the new 445MW plant on 1 January 2018.

Net Profit after Tax

The OMR 1.2m increase in net profit is driven by the higher earnings after commercial operation date of the new 445MW power plant on 1 January 2018 as explained above.

Cash Flow Statement OMR ’000	**Period Ended 30 Sep 2018**	**Year Ended 2017**
Cash and cash equivalents at the end of the period	4,606	2,562

Balance Sheet OMR ’000	**Period Ended 30 Sep 2018**	**Year Ended 2017**
Total assets	236,025	216,988
Net shareholder’s equity	53,891	47,873
Paid up capital *	22,224	500
Current ratio	1.44	1.68
Gearing ratio	74:26	76:24
Net assets per share – Riyal Omani **	0.242	95.747

** Share capital increased on 20 March 2018*
*** Comparative is for par value of OMR 1.000 per share*

Cash flow and cash equivalents, at the end of the Period

Cash balances at December 2017 year end reflected drawdowns from senior lenders to pay EPC Contractor invoices, while cash balance as 30 September 2018 represent cash accumulation after nine months of operations. Debt service was performed on 31 July 2018 as scheduled and the company has met required financial covenants. The next debt service which includes principal repayment will be due on 31 January 2019.

Future outlook

The upcoming quarter includes one summer month under the PPA (i.e. October) and two winter months (i.e. November and December). The team will utilize the winter downtime to perform routine proactive boroscopic inspections of GTs 1, 2, 4, 7 and 8 of the 273 MW plant. Planned activities for the 445 MW plant include routine maintenance. In addition, the team will also closely monitor the EPC Contractor to ensure that punch list items are closed out to the extent possible to further improve overall operational reliability.

An important initiative being introduced by the Operator is to implement a Monitoring and Prediction Centre solution ("MPC") provided by General Electric (the OEM of all gas turbines in the Company). The MPC will enable the Company to improve availability and net heat rate, increase asset utilization, extend equipment life and reduce unscheduled equipment downtime. In addition, the MPC will improve RCA analysis, capture operating history seamlessly and result in overall continuous improvement of O&M competencies and skill set.

It is important to note that the contractual revenue is seasonal during the calendar year. Summer months include April, May, June, September and October. Accordingly, revenues increase during the summer months, but reduce in the winter months. The last quarter of the year will include one summer month and two winter months because of which the net profit for the overall year will reduce compared to the nine months results.

Acknowledgement

The Board would like to thank the entire team for its diligent efforts which has resulted in these excellent results. Finally, the Board of Directors would like to conclude by expressing their immense gratitude for the privilege of the vision, guidance, wisdom and crucial support of His Majesty Sultan Qaboos Bin Said and His Government.