Management Discussion and Analysis Report 2018

Main objects and business

The principal activities of Dhofar Generating Company SAOG (the 'Company' or 'DGC') are to develop, finance, design, construct, operate, maintain, insure and own a net 718 MW power generating station and other relevant infrastructure. The Company comprises of an 273MW Open Cycle Gas Turbine ('OCGT') Power Plant ('Original Plant') with commercial operations in May 2003 and a 445MW Combined Cycle Gas Turbine ('CCGT') Power Plant ('New Plant') with commercial operation date ('COD') on 1 January 2018. The Company is located at Raysut, Salalah and has no subsidiaries as of 31 December 2018.

The Company's business is regulated by project agreements with various government entities and financing agreements with project lenders. These project agreements provide an assurance both over revenue and cost elements of the business.

The principal agreement is the 15 year Power Purchase Agreement ('PPA') with the Oman Power and Water Procurement Company ('OPWP') which requires the Company to make the power facilities available and deliver electrical energy as per contractual terms. The PPA expires on 1 January 2033 i.e. 15 years from the COD of the New Plant. The Company has a fuel supply agreement with the Ministry of Oil and Gas, the term being co-terminus with the PPA term.

The Company has been granted a Generation License by the Authority of Electricity Regulation for a period of 25 years effective 1 January 2014. This license was modified by the Authority on 26 January 2017 to include the additional power capacity available through the New Plant.

The Company has contracted out the operation and maintenance activities to Dhofar O&M Company LLC ('Dhofar O&M' or 'Operator') effective from 4 June 2015. The term of the O&M Agreement is co-terminus with the term of the PPA. Dhofar O&M is an Omani company wholly owned by ACWA Power, Mitsui & Co., Ltd and DIDIC. The Operator has sub-contracted the entire scope of the O&M Agreement to First National Company For Operation & Maintenance Services LLC ('NOMAC Oman'). NOMAC Oman is a subsidiary of First National Operation and Maintenance Company ('NOMAC') which is a wholly owned subsidiary of ACWA Power. The term of the sub-contract O&M agreement is co-terminus with the O&M Agreement.

Risks faced by the company

The main risks faced by the Company include loss of availability due to breakdowns, accidental damage and default in payment by the off-taker. The Company has been able to transfer its operations and maintenance risk as per the O&M Agreement to its Operator after implementing the agreement in 2015.

The Operator has maintained almost perfect reliability since taking over the operations and maintenance function of the plant by implementing robust predictive, proactive and preventive procedures which are well aligned with best international power sector practices.

Financial obligations of the OPWP are secured under the PPA. Additionally, adequate insurance policies are in place to protect the business against property damage, business interruption, public liability and sabotage and terrorism risks. The PPA protects the Company against inflation and the Rial Omani/US Dollar exchange rate movement, if any. Fuel cost is pre-determined in the fuel supply agreement over the period of the PPA. As per the terms of the PPA, reliability of the power plant is the key element relating to the profitability of the Company. The load factor has a limited impact on the profits mainly to the extent of any heat rate loss.

Interest on the Dollar portion of the long-term loan, which reflects 58% of the total outstanding loan, is hedged through interest rate swap agreements.

The long-term agreements noted above with best in class service providers and government entities provide a high degree of confidence in continuity of operations with minimal disruptions. The management will continue to actively perform risk analyses to identify and mitigate potential challenges.

Operational & Organizational Highlights

Operational performance during 2018 has been remarkable. Commercial availability factor for both Original and New Plant was 99.7%. Unplanned outages during the year were negligible.

The success and reputation of the business is dependent on operational results. NOMAC Oman has played an integral role in achieving these top decile results. The performance reflects NOMAC Oman's worth as an operations and maintenance expert.

NOMAC Oman is a mature and diverse organization with a blend of a highly specialized and talented human resources. NOMAC Oman maintenance philosophy places special emphasis on proactive and predictive maintenance throughout the plant to ensure reliability. Risk management is a core principle of how the team approaches operations and maintenance.

DGC has closely monitored NOMAC Oman's performance and provided guidance where necessary by developing strong communication channels.

Power Generation

273MW Original Plant

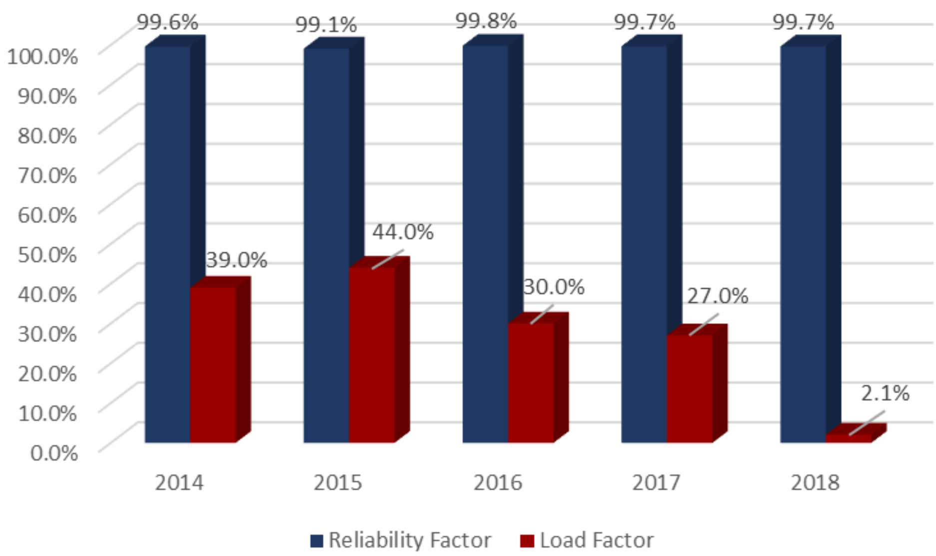
The Original Plant delivered an outstanding power reliability factor in 2018 of 99.7%, which is consistent with prior years.

The plant exported 49 GWh during 2018 (2017: 653 GWh). The load factor, which is 2% for 2018 (2017: 27%), is dependent on the demand for power by the national grid. The load factor of the plant has dropped significantly in 2018 compared to 2017 due to commencement of commercial operations of the new 445MW power plant from 1 January 2018.

The following table reflects the reliability factor, load factor and energy export trend for the last five years.

Year	Energy Exported (GWH)	Load Factor	Reliability Factor
2018	49	2%	99.7%
2017	653	27%	99.7%
2016	1,465	30%	99.8%
2015	1,066	44%	99.1%
2014	941	39%	99.6%

A graphical comparison of reliability factor vs load factor for the last five years is shown below.



445MW New Plant

The New Plant has performed exceptionally well from its COD on 1 January 2018 with a world class power reliability factor of 99.7%.

The plant exported 1,625 GWh during 2018 (2017: Nil). The load factor, which is 41.7% for 2018 (2017: Nil), is dependent on the demand for power by the national grid. The high reliability factor in the first year of operations has provided the team further evidence on the construction quality.

Plant Maintenance Philosophy

The 273MW Plant consists of eight 6B.03 open-cycle gas turbines (GT), i.e. six General Electric PG6581 B gas turbines, one General Electric LM2500 aero-derivative gas turbine and one General Electric PG6561 B gas turbine. GTs 1 to 6 were commissioned in May 2003. Subsequently, GTs 7 and 8, which were in operation by the Ministry of Electricity & Water since 1995 and 1998 respectively, were taken over by the company and integrated with GTs 1 to 6 in 2007.

The 445MW Plant consists of two blocks with a net capacity of 222.65MW per block. Each block includes two GE 6FA.03 gas turbines, two triple pressure HRSGs and one steam turbine from Skoda.

The Company, alongwith the Operator and NOMAC Oman, has developed a robust strategy to ensure that the machines remain in pristine condition with the ability to provide sustained results. The team believes in a risk based approach towards maintenance to create a viable balance between predictive, proactive and scheduled maintenance. Maintenance has been performed on all machines in line with Original Equipment Manufacturer ('OEM') recommendations. NOMAC Oman has entered into a long term services agreement for the maintenance services to the gas turbines of the New Plant with General Electric International (GE). The term of this agreement is sized to continue till the maturity of the PPA. This ensures that the Company has adequate access to the spare parts, technological upgrades so as to minimize risk of unplanned outages, with long term price risk largely passed on to GE. In accordance with this agreement, GE has supplied initial spare parts and will provide diagnostic support and periodic inspections, repair and replacement of parts and repair of physical damage due to defects or equipment failure.

The power plant is required to be 100% available in the summer months due to peak summer demand while in winter period there is an outage allowance of 15% to cater to planned maintenance. All planned outages were performed in the winter period without effecting the revenue stream. The planned outages were in line with recommendations of the OEM. NOMAC Oman performed routine preventive and predictive maintenance activities along with corrective maintenance to ensure sustained healthiness and reliability of all machines and equipment. Major maintenance activities for 2018 included the Hot Gas Pipe Inspection of GT 3 in early January of the Original Plant.

Health, Safety and Environment

Occupational health, safety and environment is the highest priority for the business and its people.

The team is very proud of its zero LTI safety record since acquisition despite the inherent hazards of construction. NOMAC Oman has completed all maintenance activities in a safe environment. Sub-contractors are expected to conform to the organization's safety standards and they are trained in this respect as by the team. NOMAC Oman celebrated their annual Occupational Health, Safety and Environment Day on 21 May 2018. NOMAC Oman has reached One Million LTI Free Man hours at the end of December 2018.

NOMAC Oman continues to maintain the OSHAS 18001:2007 certification for Occupational Health and Safety and ISO 14001:2004 for its Environmental Management System. We are also pleased to inform that were no environmental non-conformances during the reporting period. The team is committed to fight complacency and sustain its HSE goals.

Omanisation

Omanisation is a key principle in the human resources strategy of the Company. Key business leaders of DGC and NOMAC Oman are from the local talent pool, which has set a high standard in the local IWPP and IPP sector. This is a result of sustained and focused policy of identifying and grooming people so that the Company remains in line with or ahead of contractual obligations.

NOMAC Oman has a practice of hiring fresh talent from Omani universities and colleges and providing long term training programs leading to employment. Short term summer internships are provided to various students. During 2018, 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.

The Company also actively hires experienced local talent to fulfill resourcing requirements when required.

Social responsibility

As part of corporate social responsibility, the Company and NOMAC Oman have jointly reached out to the local community through various methods by sponsoring various official events of local importance.

Financial Highlights

	OMR in MM's				
Income Statement	2018	2017	2016	2015	2014
Revenue	39.4	15.4	16.1	21.9	14.9
Operating costs	(28.1)	(14.0)	(14.9)	(18.2)	(9.6)
Gross profit	11.3	1.4	1.2	3.7	5.3
Admin, financial and tax costs	(10.9)	(1.9)	(1.4)	(1.3)	(23.8)
Profit/(loss) after tax	0.4	(0.5)	(0.2)	2.4	29.1
Gross profit margin	28.7%	9.3%	7.4%	16.9%	35.6%
Net profit/(loss) margin	0.8%	(3.1%)	(1.2%)	10.9%	195.3%

Revenues
The net revenues have increased by OMR 24m compared to the previous year. This is due to the COD of the new 445MW power plant on 1 January 2018 resulting in higher capacity revenue.

Operating Costs
There is a net increase of OMR 14.1m in 2018 compared to 2017 directly due to operations of the New Plant resulting in higher OMR 5.3m fuel cost and OMR 3.8m operation and maintenance costs. Depreciation for the year for the New Plant is OMR 3.8m. Certain costs which were capitalized during 2017 in the construction period, are charged to the income statement after COD. These include OMR 0.5m salaries and OMR 0.4m insurance.

Gross Profit
The RO.9.9m increase in gross profit in 2018 compared to the previous year is due to COD of the New Plant resulting in higher availability revenues after set off of operating expenses.

Other Costs
There is a net increase of OMR 9m in other costs due to OMR 6.4m net interest expense which was capitalized in 2017 during construction period and OMR 2.1m deferred tax charge on capitalization of the New Plant.

Net Profit after Tax
The increase of RO.0.9m in net profit after tax is mainly due to COD of the New Plant as explained above.

OMR in MM's					
Balance Sheet	2018	2017	2016	2015	2014
Total assets	233.1	217.0	154.7	100.6	69.2
Total shareholders' funds	51.4	47.9	28.70	29.10	28.90
Paid up capital	22.2	0.5	0.50	0.50	0.50
Net assets per share – OMR	0.231	95.747	57.392	58.209	57.760
Return on paid up capital (%)	1.6%	(95.7%)	(81.7%)	44.9%	481.9%
Debt equity ratio	3.1	3.1	3.0	1.2	1.1

Cash flows and Dividends
The Company has met its obligations to the lenders by the timely debt service of RO. 8.3m during the year. The final drawdown related to the 445MW New Plant occurred in March 2018 to make EPC related payments after achieving COD on 1 January 2018.

<u>Dividends</u>
No dividends were paid during the year. The Company follows a reasonable dividend payout policy, subject to debt repayments, working capital and operational expenditure obligations. The amount of annual dividends and the determination of whether to pay dividends in any year may be affected by a number of other factors , including but not limited to the business prospects, financial performance, free cash availability, covenants under the Finance Documents and the outlook for the sector.

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. Prior to September 2018, DGC was an SAOC company.

Brief History of the Project

The Company was incorporated with the commercial registration number 1668714 for an unlimited duration and registered as an SAOC on 28 February 2001. In 2001, DPC, DGC and the Ministry of Housing, Electricity and Water of Oman entered the Salalah Concession Agreement, a 20 year concession under which DPC became the sole electricity transmission, distribution and supply company within its concession area.

The Salalah Concession Agreement was terminated on 31 December 2013, and all generation activities and assets were transferred to DGC which became a stand-alone entity in which DPC's shares were purchased by EHC and MOF. The Government invited proposals for the acquisition of all shares in DGC and the development of the New Plant in an adjacent site on the following basis:

- The IPP was proposed to have a total aggregate capacity of 718 MW.
- The Project involved the ownership, operation and maintenance of the Original Plant and the design, financing, construction, ownership, operation and maintenance of the New Plant, on a BOO basis, and the capacity of the Plant would be dedicated to, and sell the entirety of its output to OPWP under the PPA.

Following a competitive bidding process run by OPWP, Mitsui & Co., Ltd., ACWA Power and DIDIC (the ‘Founders’) were awarded the contract to acquire DGC, operate the Original Plant and build the New Plant. EHC and MOF entered into a Share Purchase Agreement with the Founders for the sale of 100% of the shares in DGC on 19 April 2015. The sale and purchase was completed on 4 June 2015. The term of the PPA is 15 years from the COD of the New Plant.

The PFA required the Founders to float 40% of the Shares on the MSM through an IPO. Accordingly, the Company was listed on the Muscat Securities Market on 5 September 2018.

Acknowledgement

The management would like to acknowledge and appreciate the support of the Board under whose guidance 2018 has concluded on a successful note. Most importantly, the management would like to highlight and appreciate the diligent efforts of the entire team whose efforts have brought the year to a positive close.