Management Discussion and Analysis Report

Industry Overview

The electricity and water generation, transmission, distribution and supply sector is governed by the law for the Regulation and Privatisation of the Electricity and Related Water Sector (the Sector Law) promulgated by Royal Decree 78/2004 in August 2004. The Sector Law regulates all companies and establishments operating in the sector of electricity and water, including PPC.

Pursuant to the Sector Law, OPWP was established as the single buyer of electricity and water in Oman (a single procurement company) and a system of non-discriminatory access to license transmission and distribution systems was provided to generators. Pursuant to the Sector Law, AER was established and is competent to regulate the electricity and related water sector as an administratively and financially independent entity.

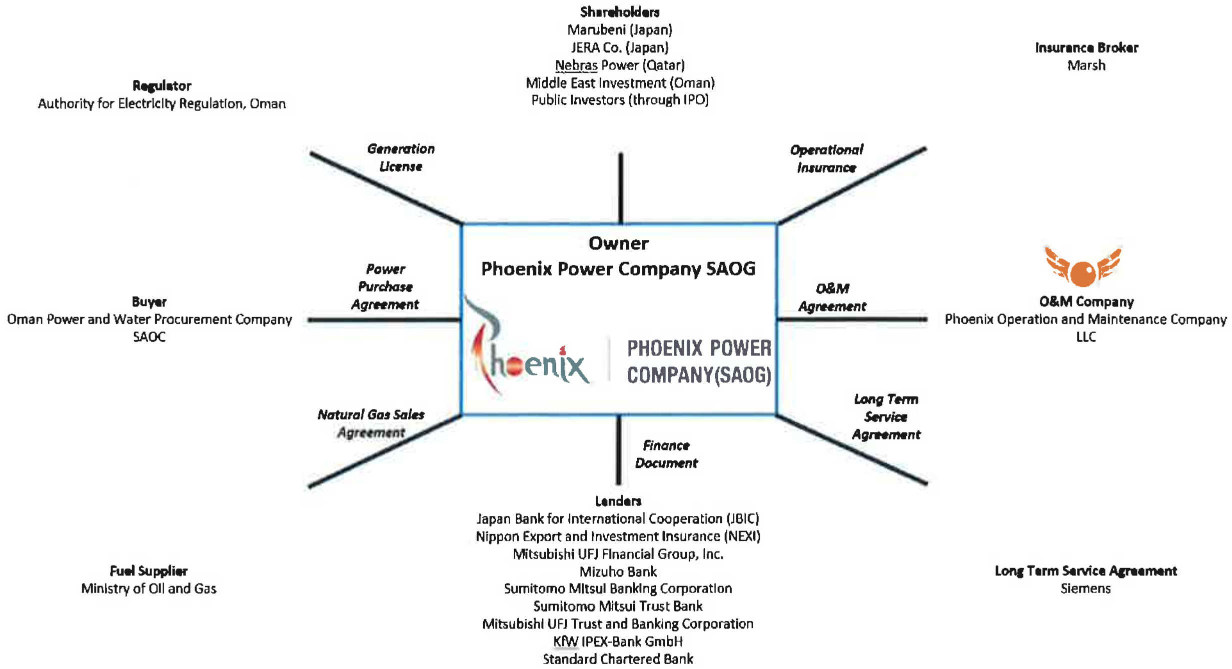
OPWP is responsible for ensuring that there is sufficient electricity and water production capacity available at the lowest cost to meet growing demands in Oman. OPWP undertakes long-term generation planning and publishes an annual seven-year statement that identifies the strategy to meet the future power generation and water desalination requirements. Article 74 of the Sector Law specifies the functions and duties of OPWP, including but not limited to:

- Securing production capacity and output to meet demand for electricity in the MIS and Salalah System, in coordination with RAECO;
- Securing production capacity and output to meet demand for desalinated water in Oman;
- Meeting requirements for new electricity and desalinated water capacity in Oman, with new projects to be designed, constructed, financed, owned and operated by local and foreign investors, and;
- The purchase, procurement, and management of production capacity and output, ancillary services and all goods and other services on the basis of economic purchase.

In 2018 AER amended the Company's Generation License to include the provision of a future electricity pool "spot market" that will allow power and water for the MIS to be commercially traded between OPWP and suppliers. This does not impact the existing 15 year PPA in place between the Company and OPWP but will provide a commercial market through which the Company can trade its generation output at the cessation of the existing PPA.

Risk Management

The Company has a well-established contractual framework which mitigates commercial risk as shown overleaf:



Risk Management Process

The Company has a comprehensive risk management framework in place aimed at identifying principal risks that threaten achievement of business objectives and enables assessment of their significance to be understood. Mitigating controls to manage identified risks to an acceptable level are then put in place.

All new and emerging risks are reviewed as well as any changes to existing risk levels. The risks are reviewed every quarter and reported to the Board of Directors.

Power Purchase Agreement (PPA)

The Company has entered into the PPA with OPWP who is the sole purchaser for a 15 year period until 31 March 2029. Under the PPA, PPC is obliged to exclusively sell electrical energy output to OPWP and in return, receive from OPWP capacity charges, electrical energy charges and fuel charges. Capacity charges are designed to cover fixed costs (including debt service and return on capital), electrical energy charges are designed to cover variable operating costs of generation (excluding fuel costs). The fuel charge is the amount payable to compensate PPC for the total fuel demand required for the production of electrical energy to be delivered in accordance with the terms of the PPA.

Natural Gas Sales Agreement (NGSA)

The NGSA was entered into between MOG and the Company. It establishes the terms upon which PPC purchases natural gas as feedstock for the Plant from the MOG. The NGSA term is linked to the PPA term and, therefore expires on 31 March 2029. The NGSA term will automatically be extended to reflect any extensions to the term of the PPA.

In accordance with the NGSA, natural gas will be supplied up to the gas delivery point of the Plant. Phoenix Power has no obligation to pay the MOG for any natural gas delivered and accepted until Phoenix Power has received the amount of the PPA payment from OPWP.

Financial Arrangement

The Company entered into financing agreements with a consortium of international banks and export credit agencies at project inception, for an original amount of approximately RO 459 million. The Company senior debt is hedged in compliance with the requirement of the financing agreements through entering into interest rate swap agreements which further improves the predictability of cash-flows available to shareholders.

Operation and Maintenance

Technical risk associated with Operations & Maintenance is considered low as the Plant uses proven technology from renowned international suppliers. POMCo is the operator and maintainer of the Plant through the O&M Agreement with the Company. In addition, the maintenance of the gas turbines, steam turbines and electrical generators, which is considered a specialised activity, has been contracted on a long-term basis to the original equipment manufacturer, Siemens, whose capabilities in this area are among the best globally.

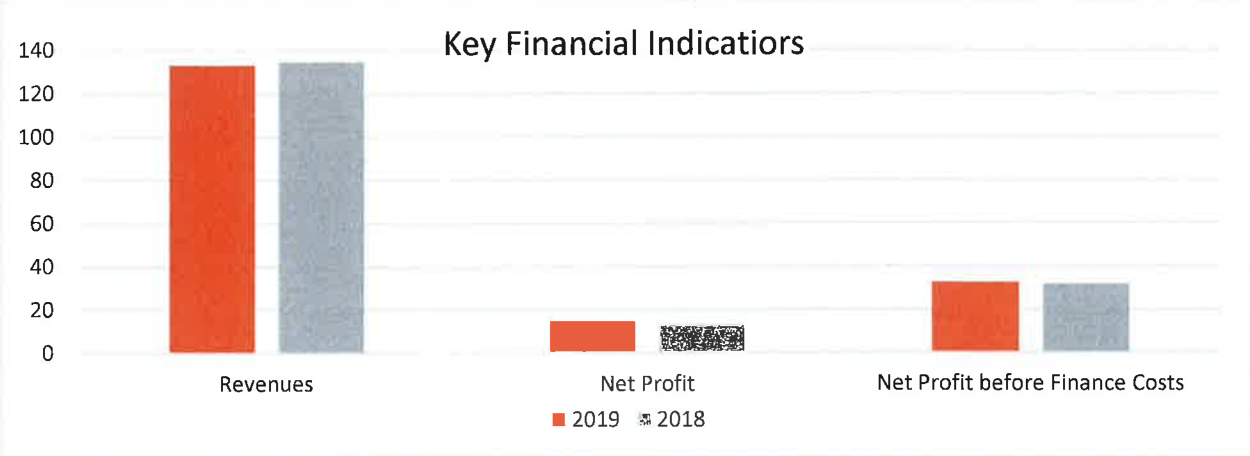
Discussion on Operational and Financial Performance

Operational Highlights

Please refer to Section "Operational Highlights" for the operational performance of the Company.

Financial Highlights

All figures in RO Millions		2019	2018
Revenues	1	132.96	134.59
Net Profit	2	14.51	12.92
Net Profit before Finance Costs	3	32.55	31.89
Total Assets	4	617.13	585.07
Capital (Paid-up)	5	146.26	146.26
Shareholders' Fund (Net Assets)	6	177.08	179.38
Term Loans (1)	7	310.48	338.37
Weighted average number of shares	8	1,462.60	1,462.60
Actual number of shares outstanding	9	1,462.60	1,462.60
Ordinary Dividends	10	5.48	7.31



Key Financial Indicators		2019	2018
Net Profit margin	2/1	10.91%	9.60%
Return on Capital (Paid-up)	2/5	9.92%	8.83%
Return on Capital Employed	3/(6+7)	6.68%	6.16%
Debt Equity ratio	7 : 6	63.7 : 36.3	65.4 : 34.6
Net assets per share (Baizas)	6/8	121.07	122.64
Basic earnings per share (Baizas)	2/8	9.92	8.83
Dividends per share (Baizas)	10/9	3.75	5.00

(1) Excluding unamortised transaction cost

Analysis of Profit and Loss

Revenues of RO 132.96 million in 2019 were lower than the RO 134.59 million generated in 2018 mainly due to lower dispatch. Costs in 2019 were RO 96.72 million which were lower than the RO 98.70 million spent in 2018 mainly due to lower dispatch resulting in lower fuel costs.

The Net Profit of the Company was RO 14.51 million in 2019 which was higher than RO 12.92 million earned in 2018 mainly due to lower finance cost. Finance cost was RO 18.04 million in 2019 which is lower than RO 18.97 million in 2018.

Analysis of Balance Sheet

Total Assets of the Company stood at RO 617.13 million as at 31 December 2019 as compared to RO 585.07 million in 2018. This was mainly due to increased receivables.

Cash and cash equivalents stand at RO 7.53 million as at 31 December 2019 as compared to RO 13.77 million at the same date in 2018.

Shareholders' Funds (Net Assets) stand at RO 177.08 million as at 31 December 2019 which is lower when compared to RO 179.38 million at the same date in 2018. This is due to profit for the year being offset by the dividend distribution in line with the net profit for the year.

Hedging Reserve (net of Deferred Tax) reducing Equity by RO 27.36 million reflects the fair value of the seven interest rate swaps and three currency swaps as at the balance sheet date and does not impact the Company's capability to distribute dividends to the shareholders.

Term Loans (including non-current and current balances) reduced to RO 310.48 million as a result of scheduled repayments in accordance with financing agreements.

The Company continues to make adequate provision for asset retirement obligations to enable it to fulfil its legal obligation to remove the plant at the end of its useful life and restore the land. During the year the company has reassessed the provision and the amount has been decreased as a result of that.

Dividend Distribution

The Company follows a balanced dividend pay-out policy, subject to debt repayments, working capital and operational expenditure obligations. The Company's dividend distribution in 2019 was RO 6.07 million (translating to 4.15 Baizas per share paid in July 2019 and January 2020) and paid out of the audited retained earnings for the year ended 31 December 2018.

Omanisation

Omanisation levels across PPC approximate to 73% in 2019 and to 77% for PPC and POMCo combined. Endeavours to achieve the Omanisation requirements are ongoing and based on a holistic human resources approach which includes attracting the necessary talent, developing that talent through training and expertise transfer, consideration of a balanced approach to remuneration and reward as well as creating a positive working environment and culture.

Outlook

All reasonable and prudent measures will be taken by the management of the Company to ensure high standards of health, safety, environmental compliance reliability and availability are maintained over 2020.

Internal Control System

The Board of Directors and management of the Company believes in the importance of the internal control system and PPC has a comprehensive system of internal controls in place, comprising:

- A well-defined governance structure.
- Clearly defined delegated levels of authority.
- Documented key business processes.
- Plans and annual budgets which will deliver the Company strategy supported by regular reporting of these plans and budgets to the Board of Directors.

In recognition of the need to continually focus on controls and to ensure compliance with Code of Corporate Governance as issued by the Capital Markets Authority, the Company has appointed a full-time internal auditor. An internal audit plan was developed for 2019 and implemented with recommendations being provided to the Audit Committee who meet once per quarter. No significant failings or weaknesses have been identified in PPCs system of internal controls in the year ended 31 December 2019.

The management of the Company is fully committed to implementing the agreed recommendations arising from the internal audit reports.