Management Discussion and Analysis Report

Industry Overview

On 1 August 2004, Sector Law was issued with the objective of regulating the management and privatisation of the electricity and water sector. The Sector Law is applicable to all companies and establishments operating in the sector of electricity and water, including PPC.

Following the implementation of the Sector Law, each of the functions of electricity generation, transmission, distribution and supply is subject to regulation. A "single buyer" market structure has been adopted (with OPWP as the central buyer) and a system of non-discriminatory access to license transmission and distribution systems established. To follow their objectives, a single procurement company, OPWP has been established as well as a holding company. AER is established pursuant to the Sector Law, and is competent to regulate the electricity and related water sector. AER is an administratively and financially independent entity.

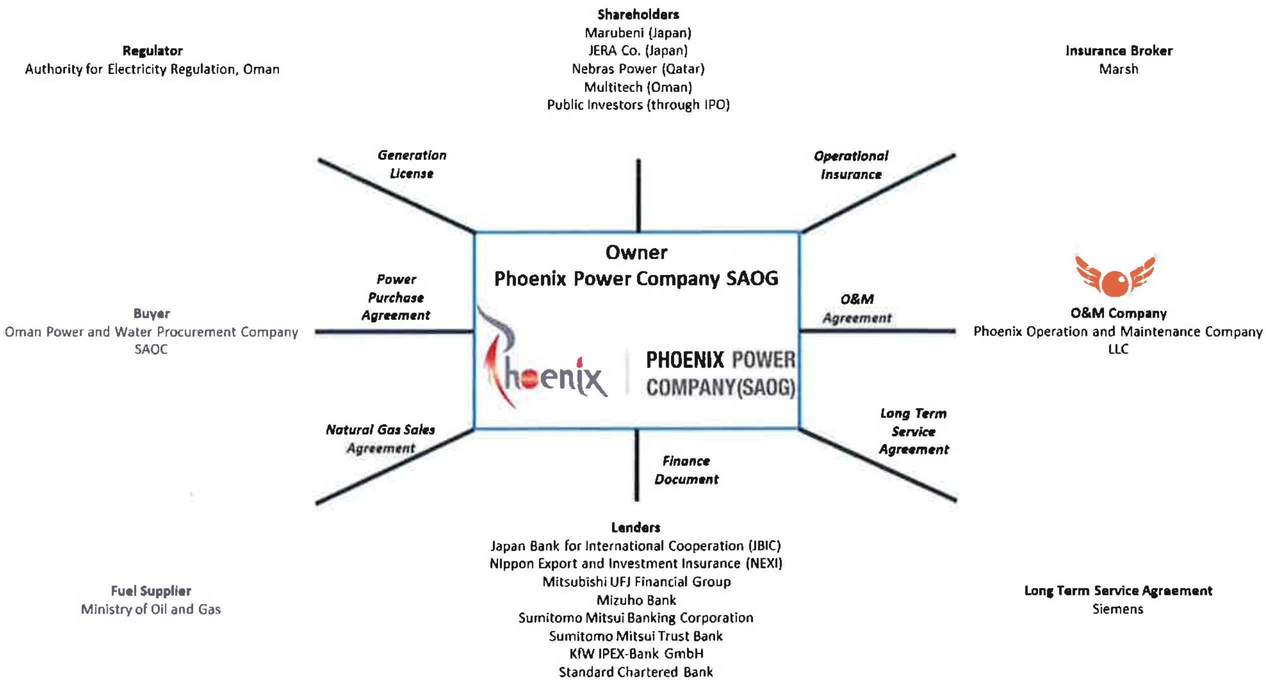
OPWP is the single buyer of power and water for all IPP / IWPP / IWP projects within Oman. OPWP is responsible for ensuring that there is sufficient electricity and water production capacity available at the lowest cost to meet growing demands in Oman. OPWP undertakes long-term generation planning and publishes an annual seven-year statement, which identifies new IPP/IWPP projects to be competitively tendered and developed by private sector entities, in order to meet the future power generation and water desalination requirements of Oman. 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 below:



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 has entered into financing agreements with a consortium of international banks and export credit agencies, for an aggregate 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

The technical risk 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, which is 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.

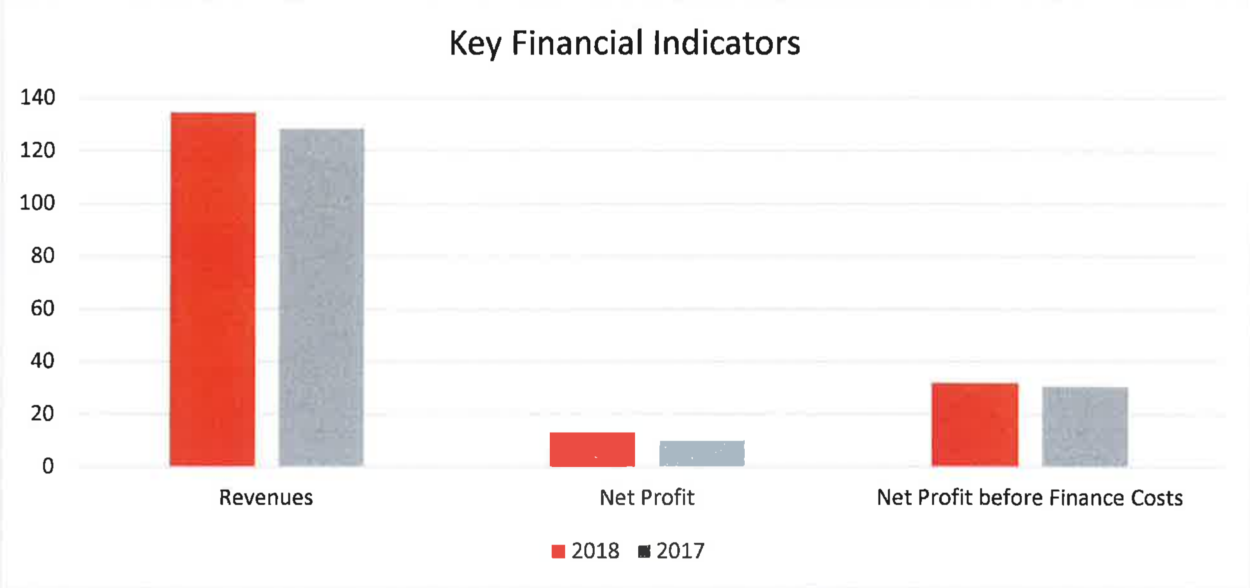
Discussion on Operational and Financial Performance

Operating Highlights

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

Financial Highlights

All figures in RO Millions		2018	2017
Revenues	1	134.59	128.40
Net Profit	2	12.92	9.98
Net Profit before Finance Costs	3	31.89	30.61
Total Assets	4	585.07	598.36
Capital (Paid-up)	5	146.26	146.26
Shareholders' Fund (Net Assets)	6	179.38	165.34
Term Loans (1)	7	338.37	364.44
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	7.31	11.55



Key Financial Indicators		2018	2017
Net Profit margin	2/1	9.60%	7.77%
Return on Capital (Paid-up)	2/5	8.83%	6.82%
Return on Capital Employed	3/(6+7)	6.16%	5.78%
Debt Equity ratio	7 : 6	65.4 : 34.6	68.8 : 31.2
Net assets per share (Baizas)	6/8	122.64	113.05
Basic earnings per share (Baizas)	2/8	8.83	6.82
Dividends per share (Baizas)	10/9	5.00	7.90

(1) Excluding unamortised transaction cost

Analysis of Profit and Loss

Revenues of RO 134.59 million in 2018 were higher than the RO 128.40 million generated in 2017 mainly due to improved availability and increased dispatch. Costs in 2018 were RO 98.70 million which were higher than the RO 92.89 million spent in 2017 mainly due to higher dispatch resulting in higher fuel costs.

The Net Profit of the Company was RO 12.92 million in 2018 which was higher than RO 9.98 million earned in 2017 mainly due to lower tax expense. Tax expense was RO 2.83 million in 2018 which is lower than RO 8.92 million in 2017 (noting a one-off impact in the change of tax law (deferred tax liability for prior year's) amounting to RO 5.19 million was recognized in 2017).

Analysis of Balance Sheet

Total Assets of the Company stood at RO 585.07 million as at 31 December 2018 as compared to RO 598.36 million in 2017. This was mainly due to a full year's depreciation being charged for the year.

The cash and cash equivalents stand at RO 13.77 million as at 31 December 2018 as compared to RO 14.13 million at the same date in 2017.

The Shareholders' Funds (Net Assets) at RO 179.38 million as at 31 December 2018 were higher when compared to RO 165.34 million at the same date in 2017 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 16.62 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 338.37 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.

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 2017 was RO 5.27 million (translating to 3.6 Baizas per share paid in July 2018 and January 2019) and paid out of the audited retained earnings for the year ended 31 December 2017.

Omanisation

Omanisation levels across PPC approximate to 67% in 2018 and to 69% for PPC and POMCo combined. Endeavours to achieve the Omanisation requirements are ongoing and based on an 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 2019.

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.

Since before conversion to an SAOG, and in recognition of the need to continually focus on controls, the company has appointed a full-time internal auditor. An internal audit plan was developed for 2018 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 2018.

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