

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 MARCH 2017

1 ACTIVITIES

Phoenix Power Company SAOG (“the Company”) is registered under the Commercial laws of the Sultanate of Oman as a Public Joint Stock Company and principal activities of the Company are to develop, finance, design, construct, operate, maintain, insure and own a power generating station and associated gas interconnection facilities and other relevant infrastructure.

The Company’s registered address is P O Box 96, Postal Code 102, Muscat, Sultanate of Oman. The Company’s principal place of business is located at Sur, Sultanate of Oman.

The Company has entered into following significant agreements:

- i. Power Purchase Agreement (PPA) with Oman Power and Water Procurement Company SAOC (OPWP) granting the Company the right to generate electricity in Sur for a period of fifteen years commencing from the scheduled commercial operations date based on a tariff structure.
- ii. Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas of the Government of the Sultanate of Oman (MOG) for the purchase of natural gas for fifteen years at a pre-determined price.
- iii. Usufruct Agreement with the Government of the Sultanate of Oman for grant of Usufruct rights over the plant site for twenty five years.
- iv. Agreement with local and international banks for long-term loan facilities and interest rate hedge arrangements.
- v. Agreement with Siemens LLC Oman for long term service contract for maintenance service of the gas turbines.
- vi. Agreement with Siemens Aktiengesellschaft for long term supply contract for supplying the spare parts of gas turbines.
- vii. Agreement with Phoenix Operation and Maintenance Company LLC for the operation and maintenance of the Sur IPP Project.
- viii. Agreement with Daewoo Engineering and Construction Co. Ltd for engineering, procurement and construction of the Sur IPP Project.
- ix. Agreement with Oman Oil Marketing Company SAOG for supply of automotive diesel.
- x. Project Founders’ Agreement dated 13 July 2011 made between Electricity Holding Company SAOG, Marubeni Corporation; Chubu Electric Power Co; Qatar Electricity and Water Company (Q.S.C.); and Multitech LLC.
- xi. Shareholders’ Agreement dated 13 July 2011, amended and restated dated 28 November 2011 made between Electricity Holding Company SAOG, Axia Power Holdings B.V; Chubu Electric Power Sur B.V; Qatar Electricity and Water Company (Q.S.C.); and Multitech LLC.

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2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority of the Sultanate of Oman.

Items included in the financial statements of the Company are measured and presented in US Dollars (US \$) being the currency of the primary economic environment in which the Company operates.

These financial statements are presented in US Dollars and Rial Omani (RO), rounded to the nearest thousand. The RO amounts shown in the financial statement have been translated using exchange rate of US \$ 1 = RO 0.3845 and are shown for the convenience of the reader.

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of derivative financial instruments.

These financials includes audited figures for 31st December 2016. These financials includes unaudited figures for 31st March 2017 and 2016 are unaudited.

2.2 Accounting policies

The accounting policies applied by the Company in these financial statements are consistent with those applied by the Company in its financial statements as at and for the year ended 31 December 2016.

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3 OPERATING REVENUE

	31 MARCH 2017 RO'000	31 MARCH 2017 US\$'000	31 MARCH 2016 RO'000	31 MARCH 2016 US\$'000
Capacity charges	7,428	19,318	8,318	21,632
Energy charges	10,966	28,521	5,084	13,222
	<u>18,394</u>	<u>47,839</u>	<u>13,402</u>	<u>34,854</u>

4 OPERATING COSTS

	31 MARCH 2017 RO'000	31 MARCH 2017 US\$'000	31 MARCH 2016 RO'000	31 MARCH 2016 US\$'000
Gas consumption	10,420	27,101	4,742	12,334
Depreciation (note 8)	3,977	10,343	3,977	10,343
Operation and maintenance cost	2,405	6,254	1,561	4,060
Long term services agreement	1,341	3,488	893	2,322
Insurance	176	459	191	497
Other direct costs	134	349	158	411
Connection and license fee	132	343	132	343
	<u>18,585</u>	<u>48,337</u>	<u>11,654</u>	<u>30,310</u>

5 GENERAL AND ADMINISTRATIVE EXPENSES

	31 MARCH 2017 RO'000	31 MARCH 2017 US\$'000	31 MARCH 2016 RO'000	31 MARCH 2016 US\$'000
Staff costs and other benefits	140	363	160	417
Legal and professional charges	98	256	171	445
Other expenses	199	517	198	516
Office rent	10	27	11	29
Depreciation (note 8)	4	11	4	11
	<u>451</u>	<u>1,174</u>	<u>544</u>	<u>1,418</u>

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6 FINANCE COSTS

	31 MARCH 2017 RO'000	31 MARCH 2017 US\$'000	31 MARCH 2016 RO'000	31 MARCH 2016 US\$'000
Interest and swap settlements	4,802	12,488	5,114	13,300
Amortisation of deferred finance cost	286	744	304	790
Asset retirement obligation - unwinding of discount	61	158	58	151
DSRA LC Commission & WC fee	12	30	12	30
Exchange loss	60	157	119	309
	<u>5,221</u>	<u>13,577</u>	<u>5,607</u>	<u>14,580</u>

7 INCOME TAX

Royal Decree 9/2017 was issued on 19th February 2017 and published in the Official Gazette on 26th February 2017. The impact of this change on deferred tax liability for the prior years is RO 5.187 M (USD 13.491 M).

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AT 31 MARCH 2017

8 PROPERTY, PLANT AND EQUIPMENT

	Plant Building RO'000	Plant and Equipment RO'000	Strategic spares RO'000	Asset Retirement RO'000	Other Assets RO'000	Total RO'000
Cost						
At 1 January 2017	83,876	518,087	10,809	4,401	226	617,399
Additions during the period	-	-	-	-	-	-
At 31 March 2017	<u>83,876</u>	<u>518,087</u>	<u>10,809</u>	<u>4,401</u>	<u>226</u>	<u>617,399</u>
Accumulated depreciation						
At 1 January 2017	4,315	26,646	1,484	226	91	32,762
Charge during the period	524	3,238	180	28	11	3,981
At 31 March 2017	<u>4,839</u>	<u>29,884</u>	<u>1,664</u>	<u>254</u>	<u>102</u>	<u>36,743</u>
Net book value						
At 31 March 2017	<u>79,037</u>	<u>488,203</u>	<u>9,145</u>	<u>4,147</u>	<u>124</u>	<u>580,656</u>
At 31 December 2016	<u>79,561</u>	<u>491,441</u>	<u>9,325</u>	<u>4,175</u>	<u>135</u>	<u>584,637</u>

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8 PROPERTY, PLANT AND EQUIPMENT (continued)

	Plant building US\$'000	Plant and equipment US\$'000	Strategic spares US\$'000	Asset retirement US\$'000	Other assets US\$'000	Total US\$'000
Cost						
At 1 January 2017	218,142	1,347,432	28,113	11,445	586	1,605,718
Additions during the period	-	-	-	-	-	-
At 31 March 2017	<u>218,142</u>	<u>1,347,432</u>	<u>28,113</u>	<u>11,445</u>	<u>586</u>	<u>1,605,718</u>
Accumulated depreciation						
At 1 January 2017	11,221	69,303	3,856	588	237	85,205
Charge during the period	1,363	8,422	469	72	29	10,355
At 31 March 2017	<u>12,584</u>	<u>77,725</u>	<u>4,325</u>	<u>660</u>	<u>266</u>	<u>95,560</u>
Net book value						
At 31 March 2017	<u>205,558</u>	<u>1,269,707</u>	<u>23,788</u>	<u>10,785</u>	<u>320</u>	<u>1,510,158</u>
At 31 December 2016	<u>206,921</u>	<u>1,278,129</u>	<u>24,257</u>	<u>10,857</u>	<u>349</u>	<u>1,520,513</u>

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9 TRADE AND OTHER RECEIVABLES

	2017 RO'000	2017 US\$'000	2016 RO'000	2016 US\$'000
Trade receivables	6,910	17,972	6,178	16,067
Prepayments	967	2,515	98	254
Other receivables	57	147	35	91
	<u>7,934</u>	<u>20,634</u>	<u>6,311</u>	<u>16,412</u>

10 BANK BALANCES

	2017 RO'000	2017 US\$'000	2016 RO'000	2016 US\$'000
Cash and Bank balances	15,278	39,735	22,489	58,490
	<u>15,278</u>	<u>39,735</u>	<u>22,489</u>	<u>58,490</u>

11 SHARE CAPITAL

	2017 RO'000	2017 US\$'000	2016 RO'000	2016 US\$'000
Issued and fully paid up share capital	146,260	380,390	146,260	380,390

Dividend

Pursuant to shareholders' resolution dated 31 March 2016, the Board of Directors in their meetings held on July 2016 and January 2017 announced cash dividend of 3.2 baizas per share and 4.7 baizas per share, respectively for the year ended 31 December 2015. Accordingly dividend amounting to US\$ 12.173 million (RO 4.681 million) was paid in July 2016 and US\$ 17.878 million (RO 6.874 million) is payable as of 31 December 2016 which was paid subsequently in January 2017.

Shareholders at the Annual General Meeting ("AGM") held on 21 March 2017 authorised the Board of Directors to determine and distribute cash dividends to the Shareholders of the Company in July 2017 and January 2018 out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2016, provided that the aggregate amount shall not exceed 7.9% of the paid up share capital of the Company (i.e., 7.9 Baizas per share).

12 LEGAL RESERVE

As required by the Commercial Companies Law of the Sultanate of Oman, 10% of annual profit of the Company is required to be transferred to legal reserve until the reserve is equal to one third of the issued share capital of the Company. The reserve is not available for distribution.

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13 INTEREST BEARING LOANS AND BORROWINGS

	2017 RO'000	2017 US\$'000	2016 RO'000	2016 US\$'000
Secured term loan from commercial banks	114,085	296,709	114,085	296,709
Secured term loan from Japan Bank for International Cooperation	217,798	566,444	217,798	566,444
Secured term loan under NEXI facilities	57,042	148,354	57,042	148,354
	<u>388,925</u>	<u>1,011,507</u>	<u>388,925</u>	<u>1,011,507</u>
Less : Deferred finance cost	(7,334)	(19,075)	(7,620)	(19,819)
	<u>381,591</u>	<u>992,432</u>	<u>381,305</u>	<u>991,688</u>
Less : Current portion of loans	(24,484)	(63,678)	(24,484)	(63,678)
Non-current portion of loans	<u>357,107</u>	<u>928,754</u>	<u>356,821</u>	<u>928,010</u>

The Company had entered into secured term loan agreements in relation to the Sur IPP Project. The total amount of the term loan is US\$ 1,194 million with stand by facility of US\$ 38 million at LIBOR + applicable margin.

The Company started drawdowns in 2012. The Company has fully drawn down the facility in 2014. The loans will be repayable in instalments of several denominations, every sixth month from 28 December 2014, the final instalment will be due on 28 December 2028.

The loan agreements contain certain restrictive covenants, which include, amongst other restrictions over debt service, pattern of shareholding, payment of dividends, asset sales/transfers, amendment to significant agreements entered by the Company and creation of additional security under charge.

14 DERIVATIVE FINANCIAL INSTRUMENTS

	2017 RO'000	2017 US\$'000	2016 RO'000	2016 US\$'000
Cumulative changes in fair value:				
Interest rate swap agreements	27,968	72,738	27,010	70,248
Forward foreign exchange contracts	11,352	29,523	11,803	30,695
Fair value of derivatives	39,320	102,261	38,813	100,943
Less : Income tax effect	(5,898)	(15,339)	(4,658)	(12,113)
	<u>33,422</u>	<u>86,922</u>	<u>34,155</u>	<u>88,830</u>

The current and noncurrent portion of fair value of derivatives is as follows:

	2017 RO'000	2017 US\$'000	2016 RO'000	2016 US\$'000
Non-current portion	29,948	77,886	29,853	77,642
Current portion	9,372	24,375	8,960	23,301
	<u>39,320</u>	<u>102,261</u>	<u>38,813</u>	<u>100,943</u>

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15 ACCOUNTS PAYABLE AND ACCRUALS

	2017 RO'000	2017 US\$'000	2016 RO'000	2016 US\$'000
Trade accounts payable	2,987	7,768	4,133	10,749
Amounts due to related parties (note 16)	645	1,677	2,014	5,239
Accrued expenses	12,031	31,284	6,664	17,327
Other payable	9,884	25,708	9,884	25,708
	<u>25,547</u>	<u>66,437</u>	<u>22,695</u>	<u>59,023</u>
Less: employees' end of service benefits included in accruals	(53)	(137)	(48)	(126)
	<u>25,494</u>	<u>66,300</u>	<u>22,647</u>	<u>58,897</u>

16 RELATED PARTY TRANSACTIONS

Related parties comprise the shareholders, directors, key management personnel and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The Company maintains balances with these related parties which arise in the normal course of business from the commercial transactions, and are entered into at terms and conditions which the management consider to be comparable with those adopted for arm's length transactions with third parties. Transactions with related parties are as follows:

Due to related parties

	2017 RO'000	2017 US\$'000	2016 RO'000	2016 US\$'000
Phoenix Operation and Maintenance Company LLC (POMCo)	<u>645</u>	<u>1,677</u>	<u>2,014</u>	<u>5,239</u>

Income statement transactions

	2017 RO'000	2017 US\$'000	2016 RO'000	2016 US\$'000
Shareholders	<u>21</u>	<u>54</u>	<u>21</u>	<u>54</u>
Other related parties :				
Operation and Maintenance Cost (POMCo)	<u>2,405</u>	<u>6,254</u>	<u>1,561</u>	<u>4,060</u>

17 COMMITMENTS

The Company has entered into agreements for purchase of natural gas with the Ministry of Oil and Gas, Usufruct rights over plant site with the Government of Sultanate of Oman, long term supply of spare parts of gas turbines with Siemens Aktiengesellschaft, maintenance service of gas turbines with Siemens LLC Oman, operation and maintenance of the Sur IPP Project with Phoenix Operation and Maintenance Company LLC.

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18 FINANCIAL RISK MANAGEMENT

The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2016.

19 COMPARATIVE FIGURES

Certain comparative figures have been reclassified where necessary to conform to the current period presentation.