

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2016

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.

During the year 2015, Company proceeded with initial public offering (IPO). The promoting shareholders at the Company’s Extraordinary General Meeting held on 9 March 2015 approved the conversion of the Company from a Closed Joint Stock Company (SAOC) to a Public Joint Stock Company (SAOG) by offering their 511,910,511 shares for the public subscription. The Company closed its IPO on 8 June 2015 and its shares were listed on the Muscat Securities Market on 22 June 2015. The IPO proceeds and the related share issue expenses pertains to the promoting shareholders

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 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 25 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 Holding 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.

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 2015. The figures for 30 June 2015 and 2016 are unaudited.

2.2 Accounting policies

The accounting policies applied by the Company in these interim financial statements are consistent with those applied by the Company in its financial statements as at and for the year ended 31 December 2015.

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3 OPERATING REVENUE

	30 JUNE 2016 RO'000	30 JUNE 2016 US\$'000	30 JUNE 2015 RO'000	30 JUNE 2015 US\$'000
Capacity charges	32,909	85,589	32,280	83,952
Energy charges	17,863	46,458	19,917	51,800
	<u>50,772</u>	<u>132,047</u>	<u>52,197</u>	<u>135,752</u>

4 OPERATING COSTS

	30 JUNE 2016 RO'000	30 JUNE 2016 US\$'000	30 JUNE 2015 RO'000	30 JUNE 2015 US\$'000
Gas consumption	16,855	43,835	18,699	48,632
Depreciation (note 7)	7,954	20,686	7,941	20,652
Operation and maintenance cost	3,176	8,260	2,612	6,794
Long term services agreement	2,415	6,282	2,769	7,201
Insurance	372	968	436	1,133
Other direct costs	830	2,159	488	1,270
Connection and license fee	262	682	266	693
	<u>31,864</u>	<u>82,872</u>	<u>33,211</u>	<u>86,375</u>

5 GENERAL AND ADMINISTRATIVE EXPENSES

	30 JUNE 2016 RO'000	30 JUNE 2016 US\$'000	30 JUNE 2015 RO'000	30 JUNE 2015 US\$'000
Staff costs and other benefits	321	834	342	890
Legal and professional charges	328	852	300	780
Other expenses	274	713	286	745
Office rent	19	50	10	27
Depreciation (note 7)	9	23	3	8
	<u>951</u>	<u>2,472</u>	<u>941</u>	<u>2,450</u>

6 FINANCE COSTS

	30 JUNE 2016 RO'000	30 JUNE 2016 US\$'000	30 JUNE 2015 RO'000	30 JUNE 2015 US\$'000
Interest and swap settlements	10,154	26,409	10,666	27,740
Amortisation of deferred finance cost	604	1,572	638	1,660
Asset retirement obligation - unwinding of discount	116	301	110	287
DSRA LC Commission & WC fee	38	100	23	60
Exchange loss	206	535	218	566
	<u>11,118</u>	<u>28,917</u>	<u>11,655</u>	<u>30,313</u>

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7 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 2016	83,876	518,087	10,809	4,401	226	617,399
Additions during the period	-	-	-	-	-	-
At 30 June 2016	<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 2016	2,218	13,694	763	116	46	16,837
Charge during the period	<u>1,049</u>	<u>6,476</u>	<u>360</u>	<u>55</u>	<u>22</u>	<u>7,962</u>
At 30 June 2016	<u>3,267</u>	<u>20,170</u>	<u>1,123</u>	<u>171</u>	<u>68</u>	<u>24,799</u>
Net book value						
At 30 June 2016	<u>80,609</u>	<u>497,917</u>	<u>9,686</u>	<u>4,230</u>	<u>158</u>	<u>592,600</u>
At 31 December 2015	<u>81,658</u>	<u>504,393</u>	<u>10,046</u>	<u>4,285</u>	<u>180</u>	<u>600,562</u>

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7 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 2016	218,142	1,347,432	28,113	11,445	586	1,605,718
Additions during the period	-	-	-	-	-	-
At 30 June 2016	<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 2016	5,767	35,617	1,982	302	120	43,788
Charge during the period	<u>2,727</u>	<u>16,843</u>	<u>937</u>	<u>143</u>	<u>58</u>	<u>20,708</u>
At 30 June 2016	<u>8,494</u>	<u>52,460</u>	<u>2,919</u>	<u>445</u>	<u>178</u>	<u>64,496</u>
Net book value						
At 30 June 2016	<u>209,648</u>	<u>1,294,972</u>	<u>25,194</u>	<u>11,000</u>	<u>408</u>	<u>1,541,222</u>
At 31 December 2015	<u>212,375</u>	<u>1,311,815</u>	<u>26,131</u>	<u>11,143</u>	<u>466</u>	<u>1,561,930</u>

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8 TRADE AND OTHER RECEIVABLES

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Trade receivables	15,099	39,269	3,842	9,993
Prepayments	638	1,658	397	167
Other receivables	33	85	64	1,033
	<u>15,770</u>	<u>41,012</u>	<u>4,303</u>	<u>11,193</u>

9 BANK BALANCES

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Cash and Bank balances	16,272	42,320	20,573	53,507
	<u>16,272</u>	<u>42,320</u>	<u>20,573</u>	<u>53,507</u>

10 SHARE CAPITAL

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Issued and fully paid up share capital	146,260	380,390	146,260	380,390

During 2015, in the IPO, where the Founder Shareholders offered to sell 35% of their shares for public subscription, was finalised during the month of June 2015 and the Company was listed on the Muscat Securities Market on 22 June 2015.

Dividend

Pursuant to shareholders' resolution dated 30 March 2015, the Board of Directors in their meetings held on 8 June 2015 and 12 January 2016 announced cash dividend of 1.7 baizas per share and 2.8 baizas per share, respectively for the year ended 31 December 2014. Accordingly dividend amounting to US\$ 6.467 million (RO 2.486 million) was paid in June 2015 and US\$ 10.651 million (RO 4.095 million) is payable as of 31 December 2015 which was paid subsequently in January 2016.

Shareholders at the Annual General Meeting ("AGM") held on 31 March 2016 authorised the board of directors to determine and distribute cash dividend to the shareholders of the Company which will be paid in July 2016 and January 2017 for the year ended 31 December 2015, provided that the aggregate amount of such dividend shall not exceed 7.9% of the paid up share capital of the Company as of 31 December 2015.

In the most recent board of directors meeting it was resolved to distribute cash dividend of Baizas 3.2 per share, out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2015 to the shareholders of the Company who are registered in the Company's shareholders' register with the Muscat Clearing & Depository Company SAOC as on 17 July 2016.

11 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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12 INTEREST BEARING LOANS AND BORROWINGS

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Secured term loan from commercial banks	117,672	306,040	121,139	315,055
Secured term loan from Japan Bank for International Cooperation	224,647	584,257	231,264	601,468
Secured term loan under NEXI facilities	58,836	153,020	60,569	157,527
	<u>401,155</u>	<u>1,043,317</u>	412,972	1,074,050
Less : Deferred finance cost	<u>(8,208)</u>	<u>(21,346)</u>	<u>(8,812)</u>	<u>(22,918)</u>
	<u>392,947</u>	<u>1,021,971</u>	404,160	1,051,132
Less : Current portion of loans	<u>(24,448)</u>	<u>(63,583)</u>	<u>(24,048)</u>	<u>(62,544)</u>
Non-current portion of loans	<u>368,499</u>	<u>958,388</u>	<u>380,112</u>	<u>988,588</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.

13 DERIVATIVE FINANCIAL INSTRUMENTS

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Cumulative changes in fair value:				
Interest rate swap agreements	54,823	142,582	36,824	95,770
Forward foreign exchange contracts	11,942	31,058	12,408	32,270
Fair value of derivatives	66,765	173,640	49,232	128,040
Less : Income tax effect	<u>(8,012)</u>	<u>(20,837)</u>	<u>(5,908)</u>	<u>(15,365)</u>
	<u>58,753</u>	<u>152,803</u>	<u>43,324</u>	<u>112,675</u>

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

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Non-current portion	56,676	147,402	38,138	99,186
Current portion	10,089	26,238	11,094	28,854
	<u>66,765</u>	<u>173,640</u>	<u>49,232</u>	<u>128,040</u>

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14 ACCOUNTS PAYABLE AND ACCRUALS

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Trade accounts payable	4,586	11,927	1,620	4,213
Amounts due to related parties (note 15)	1,247	3,243	588	1,530
Accrued expenses	8,647	22,483	3,902	10,150
Other payable	19,999	52,014	20,898	54,349
	<u>34,479</u>	<u>89,667</u>	<u>27,008</u>	<u>70,242</u>
Less: employees' end of service benefits included in accruals	(49)	(127)	(40)	(104)
	<u>34,430</u>	<u>89,540</u>	<u>26,968</u>	<u>70,138</u>

15 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

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Phoenix Operation and Maintenance Company LLC (POMCo)	<u>1,247</u>	<u>3,243</u>	<u>588</u>	<u>1,530</u>

Income statement transactions

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Shareholders	<u>41</u>	<u>107</u>	<u>70</u>	<u>182</u>
Other related parties :				
Operation and Maintenance Cost (POMCo)	<u>3,176</u>	<u>8,260</u>	<u>2,612</u>	<u>6,794</u>

16 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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17 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 2015.

18 COMPARATIVE FIGURES

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