

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PHOENIX POWER COMPANY SAOG

### Report on the audit of the financial statements

#### *Opinion*

We have audited the financial statements of Phoenix Power Company SAOG (the "Company"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PHOENIX POWER COMPANY SAOG (CONTINUED)

### *Key audit matters (continued)*

#### 1. Other income

As disclosed in notes 6 and 21 to the financial statements, due to contractor delays in completing the scheduled early power commencement date and project commercial operation date, the Company levied liquidated damages of USD 179.704 million (RO 69.096 million) and either they have been withheld from progress payments to be made to contractor or paid in cash by the contractor. The contractor has filed claims to the Company and the related details of these claims are disclosed in note 23 to the financial statements.

The Company, based on its internal assessments and external legal advice, has cumulatively recognised US\$ 153.996 (RO 59.212 million) as other income from total amount levied, including US\$ 26.307 million (RO 10.115 million) recognised in 2016 (note 6 to the financial statements). Retained liquidated damages amount to USD 25.708 million (RO 9.885 million) as of 31 December 2016 (note 21 to the financial statements).

We considered the amount of liquidated damages recognised as other income in 2016 as a key audit matter due to use by management of judgements and assumptions, supporting calculation of the other income amount.

We performed the following procedures, amongst others:

- We obtained an independent confirmation from the Company's external legal counsel to understand the Company's position as supported by its external lawyer.
- We reviewed and challenged the assumptions and judgments used by the management for the calculation of other income recognition.
- We checked the calculation made by the management to arrive at the amount of other income to be recognised in the current year.
- We have assessed the appropriateness of the relevant disclosures in the financial statements in accordance with IFRS.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PHOENIX POWER COMPANY SAOG (CONTINUED)

### *Key audit matters (continued)*

#### 2. Fair value and hedge effectiveness of derivative financial instruments

In accordance with the requirements of the Company's secured term loan agreements, the Company has entered into interest rate hedging agreements with total notional value amounting to US\$ 961 million (RO 369 million) as of 31 December 2016, with a view to cap the Company's exposure to fluctuating interest rates. The Company's accounting policy relating to derivative financial instruments is set out in note 2.16 and the relevant disclosures of the interest rate swap hedging agreements are set out in note 19 of the financial statements.

We considered fair value and hedge effectiveness of derivative financial instruments as a key audit matter, because of the complexity involved in the assessment of hedge effectiveness and the valuation of interest rate swaps. Furthermore, the amount involved is also significant to the financial statements.

We have involved internal specialists to test the hedge effectiveness of the interest rate swaps and to verify the valuation of the derivative financial instruments. We assessed the appropriateness of the assumptions and valuation techniques used to calculate the fair value. We have also obtained independent confirmations from banks (swap counter parties) and agreed the fair value of the interest rate swaps with the Company's accounting records. We have also assessed the appropriateness of the disclosures in the financial statements in accordance with IFRS.

#### *Other information included in the Company's 2016 Annual Report*

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Company's 2016 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2016 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PHOENIX POWER COMPANY SAOG (CONTINUED)

### *Other information included in the Company's 2016 Annual Report (continued)*

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of management and those charged with governance for the financial statements*

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PHOENIX POWER COMPANY SAOG (CONTINUED)

### *Auditor's responsibilities for the audit of the financial statements (continued)*

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
PHOENIX POWER COMPANY SAOG (CONTINUED)**

*Auditor's responsibilities for the audit of the financial statements (continued)*

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory requirements**

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

*Ernst & Young LLC*

*Sanjay*

Sanjay Kawatra  
Muscat  
28 February 2017

