

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2015

1 ACTIVITIES

Phoenix Power Company SAOG ("the Company") is a Omani Public Joint Stock Company. It was incorporated as a closely held joint stock Company in the Sultanate of Oman on 25 June 2011 under a trade license issued by the Ministry of Commerce & Industry. The Company's registered address is at P.O. Box 96, Postal Code 102, Muscat, Sultanate of Oman.

The 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 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 SAOC, 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 SAOC, 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 applicable requirements of the Commercial Companies Law 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 2014. The figures for 30 September 2014 and 2015 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 2014.

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NOTES TO THE FINANCIAL STATEMENTS

AT 30 SEPTEMBER 2015

3 OPERATING REVENUE

	30 SEPTEMBER 2015 RO'000	30 SEPTEMBER 2015 US\$'000	30 SEPTEMBER 2014 RO'000	30 SEPTEMBER 2014 US\$'000
Capacity charges	57,975	150,781	-	-
Energy charges	31,860	82,861	-	-
	<u>89,835</u>	<u>233,642</u>	<u>-</u>	<u>-</u>

4 OPERATING COSTS

	30 SEPTEMBER 2015 RO'000	30 SEPTEMBER 2015 US\$'000	30 SEPTEMBER 2014 RO'000	30 SEPTEMBER 2014 US\$'000
Gas consumption	30,016	78,066	-	-
Depreciation (note 7)	11,931	31,029	-	-
Operation and maintenance cost	4,211	10,952	-	-
Long term services agreement	4,346	11,303	-	-
Insurance	655	1,703	-	-
Other direct costs	649	1,689	-	-
Connection and license fee	399	1,039	-	-
	<u>52,207</u>	<u>135,781</u>	<u>-</u>	<u>-</u>

5 GENERAL AND ADMINISTRATIVE EXPENSES

	30 SEPTEMBER 2015 RO'000	30 SEPTEMBER 2015 US\$'000	30 SEPTEMBER 2014 RO'000	30 SEPTEMBER 2014 US\$'000
Staff costs and other benefits	559	1,455	70	182
Legal and professional charges	631	1,640	-	-
Other expenses	375	975	21	54
Office rent	31	80	21	54
Depreciation (note 7)	5	12	-	-
	<u>1,601</u>	<u>4,162</u>	<u>112</u>	<u>290</u>

6 FINANCE COSTS

	30 SEPTEMBER 2015 RO'000	30 SEPTEMBER 2015 US\$'000	30 SEPTEMBER 2014 RO'000	30 SEPTEMBER 2014 US\$'000
Interest and swap settlements	15,911	41,382	-	-
Amortisation of deferred finance cost	951	2,473	-	-
Asset retirement obligation - unwinding of discount	165	430	-	-
DSRA LC Commission	35	90	-	-
Exchange loss	257	669	-	-
	<u>17,319</u>	<u>45,044</u>	<u>-</u>	<u>-</u>

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**NOTES TO THE FINANCIAL STATEMENTS
AT 30 SEPTEMBER 2015**

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 2015	83,876	517,486	10,809	4,401	107	616,679
Additions during the period	-	584	-	-	17	601
At 30 September 2015	83,876	518,070	10,809	4,401	124	617,280
Accumulated depreciation						
At 1 January 2015	121	744	42	6	21	934
Charge during the period	1,573	9,722	540	83	17	11,935
At 30 September 2015	1,694	10,466	582	89	38	12,869
Net book value						
At 30 September 2015	82,182	507,604	10,227	4,312	86	604,411
At 31 December 2014	83,755	516,742	10,767	4,395	86	615,745

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**NOTES TO THE FINANCIAL STATEMENTS
AT 30 SEPTEMBER 2015**

7 PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	Plant building US\$'000	Plant and equipment US\$'000	Strategic spares US\$'000	Asset retirement US\$'000	Other assets US\$'000	Total US\$'000
At 1 January 2015	218,142	1,345,868	28,113	11,445	277	1,603,845
Additions during the period	-	1,519	-	-	45	1,564
At 30 September 2015	218,142	1,347,387	28,113	11,445	322	1,605,409
Accumulated Depreciation						
At 1 January 2015	314	1,936	108	16	54	2,428
Charge during the period	4,090	25,286	1,405	215	45	31,041
At 30 September 2015	4,404	27,222	1,513	231	99	33,469
Net book value						
At 30 September 2015	213,738	1,320,165	26,600	11,214	223	1,571,940
At 31 December 2014	217,828	1,343,932	28,005	11,429	223	1,601,417

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8 CAPITAL WORK IN PROGRESS

	2015 RO'000	2015 US\$'000	2014 RO'000	2014 US\$'000
Opening balance	-	-	566,450	1,473,210
Additions during the year	-	-	66,861	173,892
Transferred	-	-	(633,311)	(1,647,102)
Closing balance	-	-	-	-
Transferred to:				
Plant building	-	-	(83,876)	(218,142)
Plant and Machinery	-	-	(517,486)	(1,345,868)
Strategic spares	-	-	(10,809)	(28,113)
Other assets	-	-	(107)	(277)
Property plant and equipment	-	-	(612,278)	(1,592,400)
Inventory	-	-	(10,854)	(28,229)
Unamortised transaction costs	-	-	(10,179)	(26,473)
	-	-	(633,311)	(1,647,102)

9 TRADE AND OTHER RECEIVABLES

	2015 RO'000	2015 US\$'000	2014 RO'000	2014 US\$'000
Trade receivables	10,564	27,475	2,770	7,203
Prepayments	332	864	67	175
Other receivables	427	1,114	10,650	27,698
	11,323	29,453	13,487	35,076

10 BANK BALANCES

	2015 RO'000	2015 US\$'000	2014 RO'000	2014 US\$'000
Cash and Bank balances	38,653	100,527	14,737	38,327
	38,653	100,527	14,737	38,327

11 SHARE CAPITAL

	2015 RO'000	2015 US\$'000	2014 RO'000	2014 US\$'000
Issued and fully paid up share capital	146,260	380,390	146,260	380,390

During 2014 the shareholders have resolved to increase the Company's share capital from RO 500 thousands (US\$ 1,300 thousands) to RO 146,260 thousands (US\$ 380,390 thousands).

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.

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11 SHARE CAPITAL (continued)

Dividend

Pursuant to shareholders resolution of 30 March, 2015 the Board of Directors, in the meetings held on 8 June 2015 approved cash dividends of 1.7 baizas per share, respectively from the audited accounts of the Company as of 31 December 2014 to the shareholders of the Company who are registered in the Company shareholders' register with Muscat Clearing and Depository Company SAOC. The cut off dates for entitlement to receive dividends were 15 June 2015.

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.

13 INTEREST BEARING LOANS AND BORROWINGS

	2015 RO'000	2015 US\$'000	2014 RO'000	2014 US\$'000
Secured term loan from commercial banks	124,566	323,969	127,875	332,574
Secured term loan from Japan Bank for International Cooperation	237,808	618,486	244,124	634,914
Secured term loan under NEXI facilities	62,283	161,984	63,937	166,287
	<u>415,536</u>	<u>1,080,716</u>	<u>425,864</u>	<u>1,107,579</u>
Less : Deferred finance cost	(9,121)	(23,723)	(10,072)	(26,196)
	<u>415,536</u>	<u>1,080,716</u>	<u>425,864</u>	<u>1,107,579</u>
Less : Current portion of loans	(23,501)	(61,122)	(22,964)	(59,725)
	<u>392,035</u>	<u>1,019,594</u>	<u>402,900</u>	<u>1,047,854</u>
Non-current portion of loans	<u>392,035</u>	<u>1,019,594</u>	<u>402,900</u>	<u>1,047,854</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.

The Company had entered into four equity bridge loan agreements with Commercial Banks of US \$ 379 million with sponsor guarantee from Marubeni Corporation, Chubu Electric Power Co. Inc., Qatar Electricity and Water Company and Suhail Bahwan Group (Holding) LLC. On 1 April 2014, the shareholders repaid the equity bridge loan on behalf of the Company.

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14 DERIVATIVE FINANCIAL INSTRUMENTS

	2015 RO'000	2015 US\$'000	2014 RO'000	2014 US\$'000
Cumulative changes in fair value:				
Interest rate swap agreements	48,573	126,327	39,450	102,600
Forward foreign exchange contracts	12,078	31,412	6,244	16,239
Fair value of derivatives	60,651	157,739	45,694	118,839
Less : Income tax effect	(7,278)	(18,929)	(5,483)	(14,261)
	<u>53,373</u>	<u>138,810</u>	<u>40,211</u>	<u>104,578</u>

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

	2015 RO'000	2015 US\$'000	2014 RO'000	2014 US\$'000
Non-current portion	43,634	113,483	32,874	85,497
Current portion	17,016	44,256	12,820	33,342
	<u>60,650</u>	<u>157,739</u>	<u>45,694</u>	<u>118,839</u>

15 ACCOUNTS PAYABLE AND ACCRUALS

	2015 RO'000	2015 US\$'000	2014 RO'000	2014 US\$'000
Trade accounts payable	3,802	9,889	5,993	15,586
Amounts due to related parties (note 16)	541	1,406	330	858
Accrued expenses	11,288	29,360	4,313	11,216
Other payable	45,955	119,520	46,146	120,015
	<u>61,586</u>	<u>160,175</u>	<u>56,782</u>	<u>147,675</u>
Less: employees' end of service benefits included in accruals	(35)	(91)	(23)	(59)
	<u>61,551</u>	<u>160,084</u>	<u>56,759</u>	<u>147,616</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:

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16 RELATED PARTY TRANSACTIONS (continued)

Due to related parties	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Phoenix Operation and Maintenance Company LLC (POMCo)	<u>541</u>	<u>1,406</u>	<u>330</u>	<u>558</u>
Income statement transactions				
	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Shareholders	<u>122</u>	<u>316</u>	<u>19</u>	<u>49</u>
Other related parties :				
Operation and Maintenance Cost (POMCo)	<u>4,211</u>	<u>10,952</u>	<u>230</u>	<u>599</u>
Key management compensation	<u>160</u>	<u>415</u>	<u>25</u>	<u>64</u>
Total	<u>4,493</u>	<u>11,683</u>	<u>274</u>	<u>712</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.

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 2014.

19 COMPARATIVE FIGURES

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