



**PHOENIX POWER
COMPANY(SAOG)**

Dear Shareholders,

On behalf of the Board of Directors of Phoenix Power Company SAOG (“PPC” or the “Company”), I have the pleasure to present the Directors` Report together with the unaudited financial statements of the Company for the six month period ended 30th June 2017.

Health, Safety and Environment (HSE)

The health and safety performance to date has been excellent, with no Lost Time Accidents (LTAs). The Operations and Maintenance Contractor (“POMCo”) has completed 933 days without a Lost Time Accident since commercial operation of the power plant commenced. Similarly there have been no environmental incidents.

Operations

During the first six months of 2017, the Company has achieved a good level of operational performance with the Sur Power Plant demonstrating a commercial availability of 98.84%, the key parameter to be considered when assessing the revenues generated during the period. This is an improvement on the similar period of 2016 (98.28%) and remains in line with Company expectation.

The net power exported during the first six months of 2017 was 3662 GWhrs compared with 2138 GWhrs during the same period in 2016.

Financial Results

The Company generated a net profit of RO 4.04 million for the first six months of 2017. Net revenues for the period were RO 62.13 million and costs were RO 45.06 million, the largest of which is the purchase of fuel gas for the power plant. This figure includes the recognition of a deferred tax liability of RO 5.56 million as a consequence of the increase in corporate income tax as decreed through new Tax laws introduced in Oman through Royal Decree 9/2017 and which are effective from 1st January 2017. The financials results of the first six months of 2017 are therefore negative when compared with the similar period in 2016 where the net profit was RO 4.5 million.

The share price of PPC was 118 Baizas at the close of the first six months of the year.

Claim Position with EPC Contractor

With regard to the Claim initiated by Daewoo Engineering & Construction Co. Ltd. (the “EPC Contractor”) relating to the delay of Final Power (the “Claim”), the Company announced on 31st May that an agreement to settle the Claim has been reached between the two parties. The settlement agreement obliged the Company to pay a settlement sum of \$11.8M to the EPC Contractor.



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Corporate Governance

Significant effort continues to be placed on policy and process review to ensure the highest standards of corporate governance in compliance with local regulatory requirements as well as with international best practices.

Corporate Social Responsibility

The Company continues to support in the areas of health and safety, welfare and education, particularly in the local Sur community and in line with the CSR plan and budget for 2017.

Future 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 the remaining months of 2017.

In settling the Final Power Claim, the Company's ability to pay dividends to shareholders will be impacted from January 2018.

Whilst The settlement is not likely to have an adverse impact on the Company's profit and loss statement for 2017, the changes in the Tax laws as per Royal Decree 9/2017 will impact the Company's profit and loss statement for 2017 and onwards.

Finally, on behalf of the Board of Directors, I would like to extend our deep appreciation and gratitude to the visionary leader, His Majesty Sultan Qaboos Bin Said and His Government for their support and co-operation extended to Phoenix Power in achieving its highest goals.

Khalid Jolo
Chairman of the Board