

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2019

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. 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.
- x. Shareholders’ Agreement dated 13 July 2011, amended and restated dated 28 November 2011 made between 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 2018. These financials includes unaudited figures for 30th June 2019 and 2018 are unaudited.

2.2 Accounting policies

The significant accounting policies applied by the Company in these unaudited financial statements are consistent with those applied by the Company in its financial statements as at and for the year ended 31 December 2018. From 1 January 2019, the Company has adopted IFRS 16 'Leases'. On adoption of IFRS 16, the company recognised lease liability in relation to lease which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. This liability was measured at the present value of the remaining lease payments, discounted using the Company's weighted average cost of capital.

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3 OPERATING REVENUE

	30 JUNE 2019 RO'000	30 JUNE 2019 US\$'000	30 JUNE 2018 RO'000	30 JUNE 2018 US\$'000
Capacity charges	32,330	84,083	32,689	85,017
Energy charges	29,866	77,676	28,840	75,006
	<u>62,196</u>	<u>161,759</u>	<u>61,529</u>	<u>160,023</u>

4 OPERATING COSTS

	30 JUNE 2019 RO'000	30 JUNE 2019 US\$'000	30 JUNE 2018 RO'000	30 JUNE 2018 US\$'000
Gas consumption	28,529	74,198	27,674	71,974
Depreciation (note 8 a,b)	7,975	20,741	7,954	20,686
Operation and maintenance cost	4,108	10,683	3,963	10,306
Long term services agreement	3,053	7,940	3,173	8,251
Insurance	281	730	327	851
Other direct costs	266	691	256	666
Connection and license fee	258	670	257	669
	<u>44,470</u>	<u>115,653</u>	<u>43,604</u>	<u>113,403</u>

5 GENERAL AND ADMINISTRATIVE EXPENSES

	30 JUNE 2019 RO'000	30 JUNE 2019 US\$'000	30 JUNE 2018 RO'000	30 JUNE 2018 US\$'000
Staff costs and other benefits	306	796	313	815
Legal and professional charges	69	179	95	246
Other expenses	215	560	273	711
Office rent	16	42	20	51
Depreciation (note 8 a,b)	6	16	9	23
	<u>612</u>	<u>1,593</u>	<u>710</u>	<u>1,846</u>

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6 FINANCE COSTS (NET)

	30 JUNE 2019 RO'000	30 JUNE 2019 US\$'000	30 JUNE 2018 RO'000	30 JUNE 2018 US\$'000
Interest and swap settlements	8,249	21,454	9,033	23,494
Amortisation of deferred finance cost	494	1,286	533	1,386
Asset retirement obligation - unwinding of discount	133	349	128	332
Interest expense for lease liability	43	111	-	-
DSRA LC Commission & WC fee	53	139	111	288
Exchange (Gain) / loss	199	518	(4)	(10)
Interest Income	(43)	(112)	(19)	(50)
	<u>9,128</u>	<u>23,745</u>	<u>9,782</u>	<u>25,440</u>

7 INCOME TAX

Income tax represents deferred tax expense for the period.

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NOTES TO THE FINANCIAL STATEMENTS

AT 30 JUNE 2019

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 2019	83,876	518,087	10,809	4,401	251	617,424
Additions during the period	-	-	-	-	-	-
Transfer/Reclassification during the period	-	-	-	(4,401)	-	(4,401)
At 30 June 2019	<u>83,876</u>	<u>518,087</u>	<u>10,809</u>	<u>-</u>	<u>251</u>	<u>613,023</u>
Accumulated depreciation						
At 1 January 2019	8,509	52,550	2,926	446	183	64,614
Charge during the period	1,049	6,476	360	-	15	7,900
Transfer/Reclassification during the period	-	-	-	(446)	-	(446)
At 31 March 2019	<u>9,558</u>	<u>59,026</u>	<u>3,286</u>	<u>-</u>	<u>198</u>	<u>72,068</u>
Net book value						
At 30 June 2019	<u>74,318</u>	<u>459,061</u>	<u>7,523</u>	<u>-</u>	<u>53</u>	<u>540,955</u>
At 31 December 2018	<u>75,367</u>	<u>465,537</u>	<u>7,883</u>	<u>3,955</u>	<u>68</u>	<u>552,810</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 2019	218,142	1,347,432	28,113	11,445	651	1,605,783
Additions during the period	-	-	-	-	-	-
Transfer/Reclassification during the period	-	-	-	(11,445)	-	(11,445)
At 30 June 2019	<u>218,142</u>	<u>1,347,432</u>	<u>28,113</u>	<u>-</u>	<u>651</u>	<u>1,594,338</u>
Accumulated depreciation						
At 1 January 2019	22,128	136,675	7,605	1,161	474	168,043
Charge during the period	2,727	16,843	937	-	40	20,547
Transfer/Reclassification during the period	-	-	-	(1,161)	-	(1,161)
At 30 June 2019	<u>24,855</u>	<u>153,518</u>	<u>8,542</u>	<u>-</u>	<u>514</u>	<u>187,429</u>
Net book value						
At 30 June 2019	<u>193,287</u>	<u>1,193,914</u>	<u>19,571</u>	<u>-</u>	<u>137</u>	<u>1,406,909</u>
At 31 December 2018	<u>196,014</u>	<u>1,210,757</u>	<u>20,508</u>	<u>10,284</u>	<u>177</u>	<u>1,437,740</u>

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9 RIGHT TO USE ASSETS

Cost	Asset Retirement RO '000	Land Lease RO '000	Total RO '000
Opening balance / Reclassification	4,401	1,814	6,215
Additions during the period	-	-	-
At 30 June 2019	<u>4,401</u>	<u>1,814</u>	<u>6,215</u>
Accumulated depreciation			
Opening balance / Reclassification	446	-	446
Charge during the period	55	26	81
At 30 June 2019	<u>501</u>	<u>26</u>	<u>527</u>
Net book value			
At 30 June 2019	<u>3,900</u>	<u>1,788</u>	<u>5,688</u>
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>

9 RIGHT TO USE ASSETS

Cost	Asset Retirement US\$'000	Land Lease US\$'000	Total US\$'000
Opening balance / Reclassification	11,445	4,718	16,163
Additions during the period	-	-	-
At 30 June 2019	<u>11,445</u>	<u>4,718</u>	<u>16,163</u>
Accumulated depreciation			
Opening balance / Reclassification	1,161	-	1,161
Charge during the period	143	68	211
At 30 June 2019	<u>1,304</u>	<u>68</u>	<u>1,372</u>
Net book value			
At 30 June 2019	<u>10,141</u>	<u>4,650</u>	<u>14,791</u>
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2019

10 TRADE AND OTHER RECEIVABLES

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Trade receivables	24,870	64,682	6,919	17,995
Other receivables	16	42	424	1,104
Prepayments	596	1,550	68	178
	<u>25,482</u>	<u>66,274</u>	<u>7,411</u>	<u>19,277</u>

11 BANK BALANCES

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Cash and Bank balances	9,742	25,336	13,769	35,810
Short Term Deposits	-	-	-	-
	<u>9,742</u>	<u>25,336</u>	<u>13,769</u>	<u>35,810</u>

12 SHARE CAPITAL

	2018 RO'000	2018 US\$'000	2017 RO'000	2017 US\$'000
Issued and fully paid up share capital	146,260	380,390	146,260	380,390

Dividend

Pursuant to shareholders' resolution dated 19 March 2018, the Board of Directors in their meetings held on 24 April 2018 and 30 October 2018 announced cash dividend of 2.0 baizas per share and 1.6 baizas per share, respectively for the year ended 31 December 2017. Accordingly dividend amounting to US\$ 7.608 million (RO 2.925. million) was paid in July 2018 and US\$ 6.086 million (RO 2.340 million) was paid in January 2019.

Shareholders at the Annual General Meeting ("AGM"), on 19 March 2019 authorized the Board of Directors to determine and distribute cash dividend to the shareholders of the Company which will be paid in July 2019 and January 2020 for the year ended 31 December 2018, provided that the aggregate amount of such dividend shall not exceed 5.4% of the paid up share capital of the Company as of 31 December 2018.

In the most recent board of directors meeting it was resolved to distribute cash dividend of Baizas 2.15 per share, out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2018 to the shareholders of the Company who are registered in the Company's shareholders' register with the Muscat Clearing & Depository Company SAOC as on 21 July 2019.

13 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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14 INTEREST BEARING LOANS AND BORROWINGS

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Secured term loan from commercial banks	95,239	247,697	99,256	258,142
Secured term loan from Japan Bank for International Cooperation	181,821	472,876	189,488	492,816
Secured term loan under NEXI facilities	47,620	123,849	49,628	129,071
	<u>324,680</u>	<u>844,422</u>	<u>338,372</u>	<u>880,029</u>
Less : Deferred finance cost	<u>(4,959)</u>	<u>(12,896)</u>	<u>(5,453)</u>	<u>(14,182)</u>
	<u>319,721</u>	<u>831,526</u>	<u>332,919</u>	<u>865,847</u>
Less : Current portion of loans	<u>(28,609)</u>	<u>(74,405)</u>	<u>(27,888)</u>	<u>(72,530)</u>
Non-current portion of loans	<u>291,112</u>	<u>757,121</u>	<u>305,031</u>	<u>793,317</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.

15 DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Cumulative changes in fair value:				
Interest rate swap agreements	24,903	64,766	12,632	32,852
Forward foreign exchange contracts	7,660	19,922	6,919	17,995
Fair value of derivatives	<u>32,563</u>	<u>84,688</u>	<u>19,551</u>	<u>50,847</u>
Less : Income tax effect	<u>(4,884)</u>	<u>(12,703)</u>	<u>(2,933)</u>	<u>(7,628)</u>
	<u>27,679</u>	<u>71,985</u>	<u>16,618</u>	<u>43,219</u>

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

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Non-current portion	27,858	72,453	15,838	41,191
Current portion	4,704	12,235	3,713	9,656
	<u>32,562</u>	<u>84,688</u>	<u>19,551</u>	<u>50,847</u>

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16 ACCOUNTS PAYABLE AND ACCRUALS

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Trade accounts payable	6,864	17,852	5,666	14,737
Amounts due to related parties (note 16)	1,253	3,259	2,530	6,581
Accrued expenses	11,241	29,235	7,748	20,155
	<u>19,358</u>	<u>50,346</u>	<u>15,944</u>	<u>41,473</u>
Less: employees' end of service benefits included in accruals	(76)	(198)	(68)	(177)
	<u>19,282</u>	<u>50,148</u>	<u>15,876</u>	<u>41,296</u>

17 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

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Phoenix Operation and Maintenance Company LLC (POMCo)	1,253	3,259	2,530	6,581

Income statement transactions

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Shareholders	41	107	41	107
Other related parties :				
Operation and Maintenance Cost (POMCo)	4,108	10,683	3,963	10,306

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18 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.

19 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 2018.

20 COMPARATIVE FIGURES

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