

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2017

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 SAOG, 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 Electricity Holding Company SAOG, 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 2016. These financials includes unaudited figures for 30th June 2017 and 2016 are unaudited.

2.2 Accounting policies

The accounting policies applied by the Company in these financial statements are consistent with those applied by the Company in its financial statements as at and for the year ended 31 December 2016.

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3 OPERATING REVENUE

| | 30 JUNE 2017 RO'000 | 30 JUNE 2017 US\$'000 | 30 JUNE 2016 RO'000 | 30 JUNE 2016 US\$'000 |
|------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|
| Capacity charges | 32,475 | 84,460 | 32,909 | 85,589 |
| Energy charges | 29,658 | 77,135 | 17,863 | 46,458 |
| | <u>62,133</u> | <u>161,595</u> | <u>50,772</u> | <u>132,047</u> |

4 OPERATING COSTS

| | 30 JUNE 2017 RO'000 | 30 JUNE 2017 US\$'000 | 30 JUNE 2016 RO'000 | 30 JUNE 2016 US\$'000 |
|-----------------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|
| Gas consumption | 28,294 | 73,586 | 16,855 | 43,835 |
| Depreciation (note 9) | 7,954 | 20,686 | 7,954 | 20,686 |
| Operation and maintenance cost | 4,418 | 11,489 | 3,176 | 8,260 |
| Long term services agreement | 3,490 | 9,078 | 2,415 | 6,282 |
| Insurance | 364 | 947 | 372 | 968 |
| Other direct costs | 274 | 713 | 830 | 2,159 |
| Connection and license fee | 265 | 690 | 262 | 682 |
| | <u>45,059</u> | <u>117,189</u> | <u>31,864</u> | <u>82,872</u> |

5 OTHER INCOME

For the period ended 30th June 2017, Company has recognized US\$ 13.908 million (RO 5.348 million) towards PCOD LD for delay to the PCOD after final settlement of PCOD claim with EPC contractor.

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6 GENERAL AND ADMINISTRATIVE EXPENSES

| | 30 JUNE 2017 RO'000 | 30 JUNE 2017 US\$'000 | 30 JUNE 2016 RO'000 | 30 JUNE 2016 US\$'000 |
|--------------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|
| Staff costs and other benefits | 284 | 739 | 321 | 834 |
| Legal and professional charges | 179 | 465 | 328 | 852 |
| Other expenses | 279 | 727 | 274 | 713 |
| Office rent | 20 | 51 | 19 | 50 |
| Depreciation (note 9) | 9 | 23 | 9 | 23 |
| | <u>771</u> | <u>2,005</u> | <u>951</u> | <u>2,472</u> |

7 FINANCE COSTS

| | 30 JUNE 2017 RO'000 | 30 JUNE 2017 US\$'000 | 30 JUNE 2016 RO'000 | 30 JUNE 2016 US\$'000 |
|--|---------------------------|-----------------------------|---------------------------|-----------------------------|
| Interest and swap settlements | 9,751 | 25,360 | 10,154 | 26,409 |
| Amortisation of deferred finance cost | 569 | 1,480 | 604 | 1,572 |
| Asset retirement obligation - unwinding of discount | 122 | 316 | 116 | 301 |
| DSRA LC Commission & WC fee | 100 | 259 | 38 | 100 |
| Exchange loss | 11 | 32 | 206 | 535 |
| | <u>10,553</u> | <u>27,447</u> | <u>11,118</u> | <u>28,917</u> |

8 INCOME TAX

Royal Decree 9/2017 was issued on 19th February 2017 and published in the Official Gazette on 26th February 2017. The impact of this change on deferred tax liability for the prior years is RO 5.187 M (USD 13.491 M).

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NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2017

9 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 2017 | 83,876 | 518,087 | 10,809 | 4,401 | 226 | 617,399 |
| Additions during the period | - | - | - | - | - | - |
| At 30 June 2017 | <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 2017 | 4,315 | 26,646 | 1,484 | 226 | 91 | 32,762 |
| 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 2017 | <u>5,364</u> | <u>33,122</u> | <u>1,844</u> | <u>281</u> | <u>113</u> | <u>40,724</u> |
| Net book value | | | | | | |
| At 30 June 2017 | <u>78,512</u> | <u>484,965</u> | <u>8,965</u> | <u>4,120</u> | <u>113</u> | <u>576,675</u> |
| At 31 December 2016 | <u>79,561</u> | <u>491,441</u> | <u>9,325</u> | <u>4,175</u> | <u>135</u> | <u>584,637</u> |

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AT 30 JUNE 2017**

9 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 2017 | 218,142 | 1,347,432 | 28,113 | 11,445 | 586 | 1,605,718 |
| Additions during the period | - | - | - | - | - | - |
| At 30 June 2017 | <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 2017 | 11,221 | 69,303 | 3,856 | 588 | 237 | 85,205 |
| Charge during the period | 2,727 | 16,843 | 937 | 143 | 58 | 20,708 |
| At 30 June 2017 | <u>13,948</u> | <u>86,146</u> | <u>4,793</u> | <u>731</u> | <u>295</u> | <u>105,913</u> |
| Net book value | | | | | | |
| At 30 June 2017 | <u>204,194</u> | <u>1,261,286</u> | <u>23,320</u> | <u>10,714</u> | <u>291</u> | <u>1,499,805</u> |
| At 31 December 2016 | <u>206,921</u> | <u>1,278,129</u> | <u>24,257</u> | <u>10,857</u> | <u>349</u> | <u>1,520,513</u> |

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10 TRADE AND OTHER RECEIVABLES

| | 2017 RO'000 | 2017 US\$'000 | 2016 RO'000 | 2016 US\$'000 |
|-------------------|----------------|------------------|----------------|------------------|
| Trade receivables | 17,148 | 44,599 | 6,178 | 16,067 |
| Prepayments | 697 | 1,814 | 98 | 254 |
| Other receivables | 10 | 25 | 35 | 91 |
| | <u>17,855</u> | <u>46,438</u> | <u>6,311</u> | <u>16,412</u> |

11 BANK BALANCES

| | 2017 RO'000 | 2017 US\$'000 | 2016 RO'000 | 2016 US\$'000 |
|------------------------|----------------|------------------|----------------|------------------|
| Cash and Bank balances | 16,964 | 44,120 | 22,489 | 58,490 |
| | <u>16,964</u> | <u>44,120</u> | <u>22,489</u> | <u>58,490</u> |

12 SHARE CAPITAL

| | 2017 RO'000 | 2017 US\$'000 | 2016 RO'000 | 2016 US\$'000 |
|--|----------------|------------------|----------------|------------------|
| Issued and fully paid up share capital | 146,260 | 380,390 | 146,260 | 380,390 |

Dividend

Pursuant to shareholders' resolution dated 31 March 2016, the Board of Directors in their meetings held on July 2016 and January 2017 announced cash dividend of 3.2 baizas per share and 4.7 baizas per share, respectively for the year ended 31 December 2015. Accordingly dividend amounting to US\$ 12.173 million (RO 4.681 million) was paid in July 2016 and US\$ 17.878 million (RO 6.874 million) is payable as of 31 December 2016 which was paid subsequently in January 2017.

Shareholders at the Annual General Meeting ("AGM") held on 21 March 2017 authorised the Board of Directors to determine and distribute cash dividends to the Shareholders of the Company in July 2017 and January 2018 out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2016, provided that the aggregate amount shall not exceed 7.9% of the paid up share capital of the Company (i.e., 7.9 Baizas per share).

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 31st December 2016 to the shareholders of the Company who are registered in the Company's shareholders' register with the Muscat Clearing & Depository Company SAOC as on 18th July 2017.

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

| | 2017 RO'000 | 2017 US\$'000 | 2016 RO'000 | 2016 US\$'000 |
|---|----------------|------------------|----------------|------------------|
| Secured term loan from commercial banks | 110,501 | 287,389 | 114,085 | 296,709 |
| Secured term loan from Japan Bank for International Cooperation | 210,956 | 548,651 | 217,798 | 566,444 |
| Secured term loan under NEXI facilities | 55,250 | 143,694 | 57,042 | 148,354 |
| | <u>376,707</u> | <u>979,734</u> | <u>388,925</u> | <u>1,011,507</u> |
| Less : Deferred finance cost | (7,051) | (18,339) | (7,620) | (19,819) |
| | <u>369,656</u> | <u>961,395</u> | <u>381,305</u> | <u>991,688</u> |
| Less : Current portion of loans | (24,847) | (64,622) | (24,484) | (63,678) |
| Non-current portion of loans | <u>344,809</u> | <u>896,773</u> | <u>356,821</u> | <u>928,010</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

| | 2017 RO'000 | 2017 US\$'000 | 2016 RO'000 | 2016 US\$'000 |
|------------------------------------|----------------|------------------|----------------|------------------|
| Cumulative changes in fair value: | | | | |
| Interest rate swap agreements | 28,240 | 73,446 | 27,010 | 70,248 |
| Forward foreign exchange contracts | 8,622 | 22,423 | 11,803 | 30,695 |
| Fair value of derivatives | <u>36,862</u> | <u>95,869</u> | <u>38,813</u> | <u>100,943</u> |
| Less : Income tax effect | (5,529) | (14,380) | (4,658) | (12,113) |
| | <u>31,333</u> | <u>81,489</u> | <u>34,155</u> | <u>88,830</u> |

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

| | 2017 RO'000 | 2017 US\$'000 | 2016 RO'000 | 2016 US\$'000 |
|---------------------|----------------|------------------|----------------|------------------|
| Non-current portion | 29,129 | 75,758 | 29,853 | 77,642 |
| Current portion | 7,733 | 20,111 | 8,960 | 23,301 |
| | <u>36,862</u> | <u>95,869</u> | <u>38,813</u> | <u>100,943</u> |

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16 ACCOUNTS PAYABLE AND ACCRUALS

| | 2017 RO'000 | 2017 US\$'000 | 2016 RO'000 | 2016 US\$'000 |
|---|----------------|------------------|----------------|------------------|
| Trade accounts payable | 6,600 | 17,165 | 4,133 | 10,749 |
| Amounts due to related parties (note 18) | 2,025 | 5,266 | 2,014 | 5,239 |
| Accrued expenses | 10,600 | 27,565 | 6,664 | 17,327 |
| Other payable | - | - | 9,884 | 25,708 |
| | <u>19,225</u> | <u>49,996</u> | <u>22,695</u> | <u>59,023</u> |
| Less: employees' end of service benefits included in accruals | (61) | (158) | (48) | (126) |
| | <u>19,164</u> | <u>49,838</u> | <u>22,647</u> | <u>58,897</u> |

17 SHORT TERM BORROWINGS

During the period company has availed Working Capital Facility with Oman Arab Bank SAOC amounting to US\$ 23.600 million (RO 9.074 million)

18 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 | 2017 RO'000 | 2017 US\$'000 | 2016 RO'000 | 2016 US\$'000 |
|---|----------------|------------------|----------------|------------------|
| Phoenix Operation and Maintenance Company LLC (POMCo) | <u>2,025</u> | <u>5,266</u> | <u>2,014</u> | <u>5,239</u> |
| Income statement transactions | | | | |
| | 2017 RO'000 | 2017 US\$'000 | 2016 RO'000 | 2016 US\$'000 |
| Shareholders | <u>41</u> | <u>107</u> | <u>41</u> | <u>107</u> |
| Other related parties : | | | | |
| Operation and Maintenance Cost (POMCo) | <u>4,418</u> | <u>11,489</u> | <u>3,176</u> | <u>8,260</u> |

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19 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.

20 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 2016.

21 COMPARATIVE FIGURES

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