



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 Annual Report of the Company for the year ended 31 December 2017.

The Company, incorporated in 2011, owns and operates the 2000 MW Sur Independent Power Plant (“the Plant”), located in the Sur industrial area, approximately 175km south-east of Muscat. Phoenix Power currently generates its revenues pursuant to a 15-year term Power Purchase Agreement (“PPA”) with Oman Power and Water Procurement Company SAOC (“OPWP”) and purchases gas from the Ministry of Oil and Gas (“MoG”) under a 15-year Natural Gas Sales Agreement (“NGSA”). The operations and maintenance of the plant is subcontracted to Phoenix Operation and Maintenance Company LLC (“POMCo” or “the Operator”) under a 15-year Operation and Maintenance Agreement.

Health, Safety and Environment

Ensuring high standards of Health, Safety and Environmental performance continues to be given a high priority by the Company and its Operator, POMCo and during the year there were no Lost Time Accidents (“LTA”) or environmental incidents occurring. As at 31st December 2017, the Company has achieved 1117 days without an LTA. As part of an annual review process, the health, safety, environmental and quality processes of both the Company and the Operator were carefully audited by an independent third party and both businesses retained accreditation to OHSAS 18001, ISO 14001 and ISO 9001 standards. In addition, during 2017 both PPC and POMCo were recognized by the UK’s Royal Society for the Prevention of Accidents (RoSPA) with a gold award.

Corporate Governance

PPC has a comprehensive system of internal controls in place with clear structures, delegated authority levels and accountability.

During 2017, the Company continue to carry out a review of key internal policies and procedures in order to ensure highest standards of corporate governance and to ensure compliance with the Code of Corporate Governance as issued by the Capital Market Authority. Through the Audit Committee, the Board has implemented a programme of internal audits of different aspects of the Company’s business.

The Corporate Code of Governance also requires that the shareholders appoint an independent third party to carry out an evaluation of the Board. The AGM of March 2017 appointed MGI Vision to carry out this assessment and a summary of their findings has been included in the Corporate Governance Report.



Operations

During the year 2017, I am pleased to report that the Company has achieved an excellent operational performance with the Sur Power Plant demonstrating a commercial availability of 99.39%, the key parameter to be considered when assessing the revenues generated during the period. This figure compares to 98.83% in 2016.

The Plant dispatched an aggregated net power volume of 7809.78 GWhrs (6424.01 GWhrs in 2016) which represents a load factor of 44.81% when averaged over the year (compared to a load factor of 36.68% in 2016).

Financial Results

The company generated revenues of RO 128.40 million in 2017 which were higher than the RO 117.30 million generated in 2016 mainly due to improved availability and increased dispatch. The Net Profit of the Company was RO 9.98 million in 2017 which was lower than RO 18.46 million earned in 2016 mainly due to the recognition of liquidated damages and the impact by the amendment to the corporate income tax law in the Sultanate of Oman by virtue of Royal Decree 9/2017 issued on 19 February 2017 and published in the Official Gazette on 26 February 2017. Liquidated damages were retained by the Company, under the terms of the EPC Contract, as a consequence of delays to the commercial operation date of the plant. Liquidated damages of RO 5.35 million have been recognized in 2017 compared with RO 10.12 million recognized in 2016. The impact which have been recognized in 2017 by the change of tax law on the deferred tax liability for the prior years is RO 5.19 million.

The Costs in 2017 were RO 92.89 million which were higher than the RO 80.99 million spent in 2016 mainly due to higher dispatch resulting in higher fuel costs.

The Company paid a dividend of Bzs 7.9 per share in 2017 compared to Bzs 6.0 per share in 2016.

The share price ended the year at Bzs 138.

Corporate Social Responsibility

The Company fully recognizes its role as responsible corporate citizen with support focusing on the local community at Sur in the areas of education, health and safety and environmental care. During 2017, the Company provided RO 30,760 of funding, support and sponsorship to various community causes. These included provision of support to local schools in Sur, contributions to the local Royal Oman Police ("ROP") traffic week, providing child car seats to promote safety as well as provision of medical equipment for the Sur Ministry of Health.



People and Employment

There has been no changes to the key personnel of the Company during the year. The Company is committed to the ongoing development of Omani personnel and the Omanisation level at the end of 2017 is 67%.

Claims with EPC Contractor

Regarding the Claims position with the EPC Contractor, Daewoo Engineering & Construction ("DEC" or "Daewoo" or the "EPC Contractor"), the Final Power Dispute was settled on 31 May 2017 with the Company agreeing a cash payment to the EPC Contractor. This payment concludes all outstanding claims with the EPC Contractor and will impact on future dividend payments.

Future Outlook

All reasonable measures will be taken by the management of the Company to ensure that the high standards of health, safety, environmental compliance, reliability and availability achieved in 2017 are maintained.

The settlement of the Final Power Claim with the EPC Contractor will have an impact on future dividends.

In Conclusion

As Chairman of the Board, I would like to thank our shareholders, not only for their confidence, but also for their continued support and for the expertise they bring to the Company. On behalf of the Board of Directors, I express my gratitude to OPWP, the Authority for Electricity Regulation ("AER"), the CMA and other governmental and non-governmental bodies for their guidance and support. I also give thanks to the operations and maintenance staff in the power plant as well as the employees of the Company for their dedication and commitment during 2017. Thanks to their contribution, the Company was able to achieve its goals and objectives.

Finally, on behalf of the Board of Directors, I would like to extend our deep appreciation and gratitude to His Majesty Sultan Qaboos Bin Said and His Government for their continued support and encouragement to the private sector by creating an environment that allows us to participate effectively in the growth of the Sultanate's economy and to dedicate our achievements to the building of a strong nation.



Khalid Jolo

Chairman of the Board