

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 MARCH 2016

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.

During the year 2015, Company proceeded with initial public offering (IPO). The promoting shareholders at the Company’s Extraordinary General Meeting held on 9 March 2015 approved the conversion of the Company from a Closed Joint Stock Company (SAOC) to a Public Joint Stock Company (SAOG) by offering their 511,910,511 shares for the public subscription. The Company closed its IPO on 8 June 2015 and its shares were listed on the Muscat Securities Market on 22 June 2015. The IPO proceeds and the related share issue expenses pertains to the promoting shareholders

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 SAOG, 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 SAOG, Axia Power Holding B.V; Chubu Electric Power Sur B.V; Qatar Electricity and Water Company (Q.S.C.); and Multitech LLC.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

AT 31 MARCH 2016

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.

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 2015. The figures for 31 March 2015 and 2016 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 2015.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 MARCH 2016

3 OPERATING REVENUE

	31 MARCH 2016 RO'000	31 MARCH 2016 US\$'000	31 MARCH 2015 RO'000	31 MARCH 2015 US\$'000
Capacity charges	8,318	21,632	7,432	19,330
Energy charges	5,084	13,222	8,671	22,551
	<u>13,402</u>	<u>34,854</u>	<u>16,103</u>	<u>41,881</u>

4 OPERATING COSTS

	31 MARCH 2016 RO'000	31 MARCH 2016 US\$'000	31 MARCH 2015 RO'000	31 MARCH 2015 US\$'000
Gas consumption	4,742	12,334	8,133	21,153
Depreciation (note 7)	3,977	10,343	3,970	10,326
Operation and maintenance cost	1,561	4,060	1,185	3,081
Long term services agreement	893	2,322	1,304	3,391
Insurance	191	497	218	566
Other direct costs	158	411	128	334
Connection and license fee	132	343	134	349
	<u>11,654</u>	<u>30,310</u>	<u>15,072</u>	<u>39,200</u>

5 GENERAL AND ADMINISTRATIVE EXPENSES

	31 MARCH 2016 RO'000	31 MARCH 2016 US\$'000	31 MARCH 2015 RO'000	31 MARCH 2015 US\$'000
Staff costs and other benefits	160	417	183	475
Legal and professional charges	171	445	122	317
Other expenses	198	516	61	159
Office rent	11	29	9	24
Depreciation (note 7)	4	11	2	4
	<u>544</u>	<u>1,418</u>	<u>377</u>	<u>979</u>

6 FINANCE COSTS

	31 MARCH 2016 RO'000	31 MARCH 2016 US\$'000	31 MARCH 2015 RO'000	31 MARCH 2015 US\$'000
Interest and swap settlements	5,114	13,300	5,355	13,927
Amortisation of deferred finance cost	304	790	321	834
Asset retirement obligation - unwinding of discount	58	151	55	143
DSRA LC Commission	12	30	12	30
Exchange loss	119	309	34	89
	<u>5,607</u>	<u>14,580</u>	<u>5,777</u>	<u>15,023</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

AT 31 MARCH 2016

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 2016	83,876	518,087	10,809	4,401	226	617,399
Additions during the period	-	-	-	-	-	-
At 31 March 2016	<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 2016	2,218	13,694	763	116	46	16,837
Charge during the period	524	3,238	180	28	11	3,981
At 31 March 2016	<u>2,742</u>	<u>16,932</u>	<u>943</u>	<u>144</u>	<u>57</u>	<u>20,818</u>
Net book value						
At 31 March 2016	<u>81,134</u>	<u>501,155</u>	<u>9,866</u>	<u>4,257</u>	<u>169</u>	<u>596,581</u>
At 31 December 2015	<u>81,658</u>	<u>504,393</u>	<u>10,046</u>	<u>4,285</u>	<u>180</u>	<u>600,562</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

AT 31 MARCH 2016

7 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 2016	218,142	1,347,432	28,113	11,445	586	1,605,718
Additions during the period	-	-	-	-	-	-
At 31 March 2016	<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 2016	5,767	35,617	1,982	302	120	43,788
Charge during the period	1,364	8,422	469	72	29	10,356
At 31 March 2016	<u>7,131</u>	<u>44,039</u>	<u>2,451</u>	<u>374</u>	<u>149</u>	<u>54,144</u>
Net book value						
At 31 March 2016	<u>211,011</u>	<u>1,303,393</u>	<u>25,662</u>	<u>11,071</u>	<u>437</u>	<u>1,551,574</u>
At 31 December 2015	<u>212,375</u>	<u>1,311,815</u>	<u>26,131</u>	<u>11,143</u>	<u>466</u>	<u>1,561,930</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 MARCH 2016

8 TRADE AND OTHER RECEIVABLES

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Trade receivables	8,728	22,699	3,842	9,993
Prepayments	986	2,565	397	167
Other receivables	13	37	64	1,033
	<u>9,727</u>	<u>25,301</u>	<u>4,303</u>	<u>11,193</u>

9 BANK BALANCES

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Cash and Bank balances	15,751	40,966	20,573	53,507
	<u>15,751</u>	<u>40,966</u>	<u>20,573</u>	<u>53,507</u>

10 SHARE CAPITAL

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Issued and fully paid up share capital	146,260	380,390	146,260	380,390

During 2015, 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.

Dividend

Pursuant to shareholders' resolution dated 30 March 2015, the Board of Directors in their meetings held on 8 June 2015 and 12 January 2016 announced cash dividend of 1.7 baizas per share and 2.8 baizas per share, respectively for the year ended 31 December 2014. Accordingly dividend amounting to US\$ 6.467 million (RO 2.486 million) was paid in June 2015 and US\$ 10.651 million (RO 4.095 million) is payable as of 31 December 2015 which was paid subsequently in January 2016.

Shareholders at the Annual General Meeting ("AGM") held on 31st March 2016 authorised the board of directors to determine and distribute cash dividend to the shareholders of the Company which will be paid in July 2016 and January 2017 for the year ended 31 December 2015, provided that the aggregate amount of such dividend shall not exceed 7.9% of the paid up share capital of the Company as of 31 December 2015.

11 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.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 MARCH 2016

12 INTEREST BEARING LOANS AND BORROWINGS

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Secured term loan from commercial banks	121,139	315,055	121,139	315,055
Secured term loan from Japan Bank for International Cooperation	231,264	601,468	231,264	601,468
Secured term loan under NEXI facilities	60,569	157,527	60,569	157,527
	<u>412,972</u>	<u>1,074,050</u>	412,972	1,074,050
Less : Deferred finance cost	<u>(8,508)</u>	<u>(22,128)</u>	(8,812)	(22,918)
	<u>404,464</u>	<u>1,051,922</u>	404,160	1,051,132
Less : Current portion of loans	<u>(24,048)</u>	<u>(62,544)</u>	(24,048)	(62,544)
Non-current portion of loans	<u>380,416</u>	<u>989,378</u>	380,112	988,588

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.

13 DERIVATIVE FINANCIAL INSTRUMENTS

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Cumulative changes in fair value:				
Interest rate swap agreements	52,319	136,070	36,824	95,770
Forward foreign exchange contracts	10,142	26,378	12,408	32,270
Fair value of derivatives	62,461	162,448	49,232	128,040
Less : Income tax effect	<u>(7,495)</u>	<u>(19,494)</u>	(5,908)	(15,365)
	<u>54,966</u>	<u>142,954</u>	43,324	112,675

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

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Non-current portion	50,355	130,963	38,138	99,186
Current portion	12,106	31,485	11,094	28,854
	<u>62,461</u>	<u>162,448</u>	49,232	128,040

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 MARCH 2016

14 ACCOUNTS PAYABLE AND ACCRUALS

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Trade accounts payable	1,451	3,775	1,620	4,213
Amounts due to related parties (note 15)	582	1,514	588	1,530
Accrued expenses	9,673	25,157	3,902	10,150
Other payable	19,999	52,014	20,898	54,349
	<u>31,705</u>	<u>82,460</u>	<u>27,008</u>	<u>70,242</u>
Less: employees' end of service benefits included in accruals	(45)	(116)	(40)	(104)
	<u>31,660</u>	<u>82,344</u>	<u>26,968</u>	<u>70,138</u>

15 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

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Phoenix Operation and Maintenance Company LLC (POMCo)	<u>582</u>	<u>1,514</u>	<u>588</u>	<u>1,530</u>

Income statement transactions

	2016 RO'000	2016 US\$'000	2015 RO'000	2015 US\$'000
Shareholders	<u>21</u>	<u>54</u>	<u>21</u>	<u>54</u>
Other related parties :				
Operation and Maintenance Cost (POMCo)	<u>1,561</u>	<u>4,060</u>	<u>1,144</u>	<u>2,975</u>

16 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.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 MARCH 2016

17 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 2015.

18 COMPARATIVE FIGURES

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