



## **Chairman’s (Board of Directors’) Report**

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 2018.

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 no Lost Time Accidents (“LTA”) or environmental incidents occurred. As at 31<sup>st</sup> December 2018, the Company has achieved 1482 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 2018 both PPC and POMCo were recognised for the second year in succession 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 2018, the Company continued 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 to monitor compliance and drive best practice.



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 2018 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 2018, I am pleased to report that the Company has achieved an excellent operational performance with the Sur Power Plant demonstrating a commercial availability of 99.70%, the key parameter to be considered when assessing the revenues generated during the period. This figure compares to 99.39% in 2017.

The Plant dispatched an aggregated net power volume of 8453.80 GWhrs (an increase of 8.2% on the 7809.78 GWhrs dispatched in 2017) which represents a load factor of 48.56% when averaged over the year (compared to a load factor of 44.81% in 2017).

### **Financial Results**

The company generated revenues of RO 134.59 million in 2018 which were higher than the RO 128.40 million generated in 2017 mainly due to improved availability and increased dispatch. Costs in 2018 were RO 98.70 million which were higher than the RO 92.89 million spent in 2017 mainly due to higher dispatch resulting in higher fuel costs.

The Net Profit of the Company was RO 12.92 million in 2018 which was higher than RO 9.98 million earned in 2017 mainly due to lower tax expense. Tax expense was RO 2.83 million in 2018 which is lower than RO 8.92 million in 2017 (noting a one-off impact in the change of tax law (deferred tax liability for prior year's) amounting to RO 5.19 million was recognized in 2017).

The Company paid a dividend of Bzs 3.6 per share in 2018 compared to Bzs 7.9 per share in 2017.

The share price ended the year at Bzs 103.

### **Corporate Social Responsibility**

The Company fully recognizes its role as a responsible corporate citizen with support focusing on the local community at Sur in the areas of education, health & safety and environmental care. During 2018, the Company provided RO 30,000 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 safety campaign, providing child car seats to promote safety, provision of medical equipment for the Sur Ministry of Health as well as supporting environmental improvement initiatives, such as beach cleaning.



## **People and Employment**

There have been a number of changes to the key personnel of the Company during the year. The CEO Mr. Peter Jones left the Company and was replaced by Mr. Paul Atkinson in March. The CFO Mr. Kenji Yugeta left the Company and was replaced by Mr. Koichi Matsumoto in December. The Company is committed to the ongoing development of Omani personnel and the Omanisation level at the end of 2018 is 67%.

## **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 2018 are maintained.

## **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 2018. 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.

A handwritten signature in blue ink, appearing to be 'KJ', is written over a horizontal line.

**Khalid Jolo**

**Chairman of the Board**