

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 MARCH 2018

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 2017. These financials includes unaudited figures for 31st March 2018 and 2017 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 2017.

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3 OPERATING REVENUE

	31 MARCH 2018 RO'000	31 MARCH 2018 US\$'000	31 MARCH 2017 RO'000	31 MARCH 2017 US\$'000
Capacity charges	7,497	19,499	7,428	19,318
Energy charges	8,512	22,139	10,966	28,521
	<u>16,009</u>	<u>41,638</u>	<u>18,394</u>	<u>47,839</u>

4 OPERATING COSTS

	31 MARCH 2018 RO'000	31 MARCH 2018 US\$'000	31 MARCH 2017 RO'000	31 MARCH 2017 US\$'000
Gas consumption	8,084	21,026	10,420	27,101
Depreciation (note 8)	3,977	10,343	3,977	10,343
Operation and maintenance cost	2,284	5,941	2,405	6,254
Long term services agreement	1,074	2,793	1,341	3,488
Insurance	177	460	176	459
Other direct costs	94	245	134	349
Connection and license fee	128	333	132	343
	<u>15,818</u>	<u>41,141</u>	<u>18,585</u>	<u>48,337</u>

5 GENERAL AND ADMINISTRATIVE EXPENSES

	31 MARCH 2018 RO'000	31 MARCH 2018 US\$'000	31 MARCH 2017 RO'000	31 MARCH 2017 US\$'000
Staff costs and other benefits	160	415	140	363
Legal and professional charges	48	125	98	256
Other expenses	195	508	199	517
Office rent	10	27	10	27
Depreciation (note 8)	4	11	4	11
	<u>417</u>	<u>1,086</u>	<u>451</u>	<u>1,174</u>

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6 FINANCE COSTS (NET)

	31 MARCH 2018 RO'000	31 MARCH 2018 US\$'000	31 MARCH 2017 RO'000	31 MARCH 2017 US\$'000
Interest and swap settlements	4,491	11,679	4,802	12,488
Amortisation of deferred finance cost	268	697	286	744
Asset retirement obligation - unwinding of discount	64	166	61	158
DSRA LC Commission & WC fee	20	51	12	30
Exchange (Gain) / loss	(68)	(177)	60	157
Interest Income	(2)	(5)	-	-
	<u>4,773</u>	<u>12,411</u>	<u>5,221</u>	<u>13,577</u>

7 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) which was recognized in 2017.

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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 2018	83,876	518,087	10,809	4,401	226	617,399
Additions during the period	-	-	-	-	-	-
At 31 March 2018	<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 2018	6,412	39,598	2,205	336	136	48,687
Charge during the period	524	3,238	180	27	11	3,980
At 31 March 2018	<u>6,936</u>	<u>42,836</u>	<u>2,385</u>	<u>363</u>	<u>147</u>	<u>52,667</u>
Net book value						
At 31 March 2018	<u>76,940</u>	<u>475,251</u>	<u>8,424</u>	<u>4,038</u>	<u>79</u>	<u>564,732</u>
At 31 December 2017	<u>77,464</u>	<u>478,489</u>	<u>8,604</u>	<u>4,065</u>	<u>90</u>	<u>568,712</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 2018	218,142	1,347,432	28,113	11,445	586	1,605,718
Additions during the period	-	-	-	-	-	-
At 31 March 2018	<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 2018	16,674	102,989	5,731	875	353	126,622
Charge during the period	1,364	8,422	468	71	29	10,354
At 31 March 2018	<u>18,038</u>	<u>111,411</u>	<u>6,199</u>	<u>946</u>	<u>382</u>	<u>136,976</u>
Net book value						
At 31 March 2018	<u>200,104</u>	<u>1,236,021</u>	<u>21,914</u>	<u>10,499</u>	<u>204</u>	<u>1,468,742</u>
At 31 December 2017	<u>201,468</u>	<u>1,244,443</u>	<u>22,382</u>	<u>10,570</u>	<u>233</u>	<u>1,479,096</u>

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9 TRADE AND OTHER RECEIVABLES

	2018 RO'000	2018 US\$'000	2017 RO'000	2017 US\$'000
Trade receivables	6,534	16,993	4,651	12,097
Other receivables	12	30	13	34
Prepayments	490	1,276	73	190
	<u>7,036</u>	<u>18,299</u>	<u>4,737</u>	<u>12,321</u>

10 BANK BALANCES

	2018 RO'000	2018 US\$'000	2017 RO'000	2017 US\$'000
Cash and Bank balances	8,293	21,568	12,207	31,748
Short Term Deposits	1,538	4,000	1,923	5,000
	<u>9,831</u>	<u>25,568</u>	<u>14,130</u>	<u>36,748</u>

The company has made a placement in the amount of RO 1.54 million.

11 SHARE CAPITAL

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

Dividend

Pursuant to shareholders' resolution dated 21 March 2017, the Board of Directors in their meetings held on 25 April 2017 and 24 October 2017 approved cash dividend of 3.2 baizas per share and 3.0 baizas per share, respectively for the year ended 31 December 2016. Accordingly dividend amounting to US\$ 12.172 million (RO 4.680 million) was paid in July 2017 and US\$ 11.412 million (RO 4.388 million) is payable as of 31 December 2017 which was paid subsequently in January 2018.

Shareholders at the Annual General Meeting ("AGM") held on 19 March 2018 authorized the Board of Directors to determine and distribute cash dividends to the Shareholders of the Company in July 2018 and January 2019 out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2017, provided that the aggregate amount shall not exceed 4.8% of the paid up share capital of the Company (i.e., 4.8 Baizas per share)

12 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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13 INTEREST BEARING LOANS AND BORROWINGS

	2018 RO'000	2018 US\$'000	2017 RO'000	2017 US\$'000
Secured term loan from commercial banks	106,903	278,030	106,903	278,030
Secured term loan from Japan Bank for International Cooperation	204,086	530,784	204,086	530,784
Secured term loan under NEXI facilities	53,452	139,015	53,452	139,015
	<u>364,441</u>	<u>947,829</u>	<u>364,441</u>	<u>947,829</u>
Less : Deferred finance cost	(6,233)	(16,209)	(6,501)	(16,906)
	<u>358,208</u>	<u>931,620</u>	<u>357,940</u>	<u>930,923</u>
Less : Current portion of loans	(26,069)	(67,799)	(26,069)	(67,799)
Non-current portion of loans	<u>332,139</u>	<u>863,821</u>	<u>331,871</u>	<u>863,124</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.

14 DERIVATIVE FINANCIAL INSTRUMENTS

	2018 RO'000	2018 US\$'000	2017 RO'000	2017 US\$'000
Cumulative changes in fair value:				
Interest rate swap agreements	14,683	38,188	21,640	56,281
Forward foreign exchange contracts	3,287	8,548	5,433	14,129
Fair value of derivatives	<u>17,970</u>	<u>46,736</u>	<u>27,073</u>	<u>70,410</u>
Less : Income tax effect	(2,695)	(7,010)	(4,061)	(10,562)
	<u>15,275</u>	<u>39,726</u>	<u>23,012</u>	<u>59,848</u>

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

	2018 RO'000	2018 US\$'000	2017 RO'000	2017 US\$'000
Non-current portion	13,336	34,685	20,929	54,433
Current portion	4,634	12,051	6,144	15,977
	<u>17,970</u>	<u>46,736</u>	<u>27,073</u>	<u>70,410</u>

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15 ACCOUNTS PAYABLE AND ACCRUALS

	2018 RO'000	2018 US\$'000	2017 RO'000	2017 US\$'000
Trade accounts payable	3,037	7,898	4,986	12,967
Amounts due to related parties (note 16)	1,235	3,213	2,362	6,142
Accrued expenses	11,758	30,575	5,561	14,466
Other payable	-	-	-	-
	<u>16,030</u>	<u>41,686</u>	<u>12,909</u>	<u>33,575</u>
Less: employees' end of service benefits included in accruals	(82)	(212)	(74)	(192)
	<u>15,948</u>	<u>41,474</u>	<u>12,835</u>	<u>33,383</u>

16 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

	2018 RO'000	2018 US\$'000	2017 RO'000	2017 US\$'000
Phoenix Operation and Maintenance Company LLC (POMCo)	1,235	3,213	2,362	6,142

Income statement transactions

	2018 RO'000	2018 US\$'000	2017 RO'000	2017 US\$'000
Shareholders	21	54	21	54
Other related parties :				
Operation and Maintenance Cost (POMCo)	2,284	5,941	2,405	6,254

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17 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.

18 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 2017.

19 COMPARATIVE FIGURES

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