



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 2016.

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 Supply 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, Phoenix Operation and Maintenance Company (POMCo) and during the year there were no Lost Time Accidents ("LTA") or environmental incidents occurring. As at 31st December 2016, the Company has achieved 752 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 2016 both PPC and POMCo were recognized by the UK's Royal Society for the Prevention of Accidents (RoSPA) with a silver award.

Corporate Governance

PPC has a comprehensive system of internal controls in place.

During 2016, the Company carried out a review of key internal policies, including its financial processes 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.



Operations

During the year 2016, the Company has achieved an excellent operational performance with the Sur Power Plant demonstrating a commercial availability of 98.83%, the key parameter to be considered when assessing the revenues generated during the period.

The Plant dispatched an aggregated net power volume of 6424.01 GWhrs which represents an increase of nearly 50% when compared to the generation figure for 2015. This increase is a consequence of the completion of the strengthening of the associated 400kV transmission network resulting in previous grid restrictions being lifted.

Financial Results

The company generated revenues of RO 117.30 million in 2016 which were higher than the RO 101.87 million generated in 2015 mainly due to improved availability and increased dispatch. The Net Profit of the Company was RO 18.46 million in 2016 which was lower than the RO 28.77 million earned in 2015 mainly due to the recognition of liquidated damages which 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 10.12 million have been recognized in 2016 compared with RO 23.51 million recognized in 2015.

The Costs in 2016 were RO 80.99 million which were higher than the RO 66.09 million spent in 2015 mainly due to higher dispatch resulting in higher fuel costs.

The Company paid a dividend of Bzs 6.0 per share in 2016 compared to Bzs 1.7 per share in 2015.

The share price ended the year at Bzs 147.

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. The Company was able to contribute to the promotion of awareness in these areas as well as providing support to the Sur Hospital and local educational facilities.

Employment

There has been no changes to the key personnel of the Company during the year. The Omanisation level at the end of 2016 is 67%.

Future Outlook

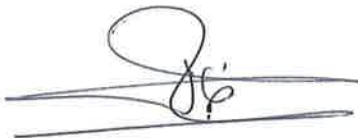
All reasonable measures will be taken by the management of the Company to ensure that the high standards of health, safety, environmental compliance, reliability and availability achieved in 2016 are maintained.

Regarding the Claims position with the EPC Contractor, Daewoo Engineering & Construction (“DEC” or “Daewoo” or the “EPC Contractor”), the Final Power Dispute remains open and continues to be evaluated. An outcome which results in a cash payment to the Contractor would impact on future dividend payments.

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 2016. 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