

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2020

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 SAOC, 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 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 2019. These financials includes unaudited figures for 30th September 2020 and 2019 are unaudited.

2.2 Accounting policies

The significant accounting policies applied by the Company in these unaudited financial statements are consistent with those applied by the Company in its financial statements as at and for the year ended 31 December 2019.

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3 OPERATING REVENUE

	30 SEPTEMBER 2020 RO'000	30 SEPTEMBER 2020 US\$'000	30 SEPTEMBER 2019 RO'000	30 SEPTEMBER 2019 US\$'000
Capacity charges	58,742	152,775	57,950	150,714
Energy charges	56,034	145,732	52,368	136,198
	<u>114,776</u>	<u>298,507</u>	<u>110,318</u>	<u>286,912</u>

4 OPERATING COSTS

	30 SEPTEMBER 2020 RO'000	30 SEPTEMBER 2020 US\$'000	30 SEPTEMBER 2019 RO'000	30 SEPTEMBER 2019 US\$'000
Gas consumption	53,888	140,150	50,156	130,44
Depreciation (note 8 a,b)	12,097	31,462	11,961	31,107
Operation and maintenance cost	6,998	18,201	5,896	15,333
Long term services agreement	4,919	12,793	5,283	13,740
Insurance and other cost	582	1,514	722	1,879
Connection and license fee	78	203	384	998
	<u>78,562</u>	<u>204,323</u>	<u>74,402</u>	<u>193,502</u>

5 GENERAL AND ADMINISTRATIVE EXPENSES

	30 SEPTEMBER 2020 RO'000	30 SEPTEMBER 2020 US\$'000	30 SEPTEMBER 2019 RO'000	30 SEPTEMBER 2019 US\$'000
Staff costs and other benefits	429	1,115	447	1,163
Legal and professional charges	107	278	119	310
Other expenses	272	708	316	822
Office rent	22	56	20	53
Depreciation (note 8)	7	17	10	27
	<u>837</u>	<u>2,174</u>	<u>912</u>	<u>2,375</u>

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6 FINANCE COSTS (NET)

	30 SEPTEMBER 2020 RO'000	30 SEPTEMBER 2020 US\$'000	30 SEPTEMBER 2019 RO'000	30 SEPTEMBER 2019 US\$'000
Interest and swap settlements	11,364	29,556	12,333	32,075
Amortisation of deferred finance cost	671	1,745	733	1,907
Asset retirement obligation - unwinding of discount	166	431	201	523
Interest expense for lease liability	308	801	64	167
DSRA LC Commission & WC fee	127	329	99	257
Exchange (Gain) / loss	178	462	223	580
Interest Income	(8)	(20)	(54)	(141)
	<u>12,806</u>	<u>33,304</u>	<u>13,599</u>	<u>35,368</u>

7 INCOME TAX

Income tax represents deferred tax expense for the period.

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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 2020	83,876	518,087	10,809	3,249	246	616,267
Additions during the period	-	-	-	-	-	-
Transfer/Reclassification during the period	-	-	-	-	-	-
At 30 September 2020	<u>83,876</u>	<u>518,087</u>	<u>10,809</u>	<u>3,249</u>	<u>246</u>	<u>616,267</u>
Accumulated depreciation						
At 1 January 2020	10,606	65,502	3,647	536	211	80,502
Charge during the period	1,573	9,714	541	68	20	11,916
Transfer/Reclassification during the period	-	-	-	-	-	-
At 30 September 2020	<u>12,179</u>	<u>75,216</u>	<u>4,188</u>	<u>604</u>	<u>231</u>	<u>92,418</u>
Net book value						
At 30 September 2020	<u>71,697</u>	<u>442,871</u>	<u>6,621</u>	<u>2,645</u>	<u>15</u>	<u>523,849</u>
At 31 December 2019	<u>73,270</u>	<u>452,585</u>	<u>7,162</u>	<u>2,713</u>	<u>35</u>	<u>535,765</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 2020	218,142	1,347,432	28,113	8,450	637	1,602,774
Additions during the period	-	-	-	-	-	-
Transfer/Reclassification during the period	-	-	-	-	-	-
At 30 September 2020	<u>218,142</u>	<u>1,347,432</u>	<u>28,113</u>	<u>8,450</u>	<u>637</u>	<u>1,602,774</u>
Accumulated depreciation						
At 1 January 2020	27,581	170,361	9,479	1,396	547	209,364
Charge during the period	4,091	25,264	1,406	176	35	30,988
Transfer/Reclassification during the period	-	-	-	-	-	-
At 30 September 2020	<u>31,672</u>	<u>195,625</u>	<u>10,885</u>	<u>1,572</u>	<u>582</u>	<u>240,352</u>
Net book value						
At 30 September 2020	<u>186,470</u>	<u>1,151,807</u>	<u>17,228</u>	<u>6,878</u>	<u>39</u>	<u>1,362,422</u>
At 31 December 2019	<u>190,561</u>	<u>1,177,071</u>	<u>18,634</u>	<u>7,054</u>	<u>90</u>	<u>1,393,410</u>

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9 RIGHT TO USE ASSETS

Cost	Land Lease RO '000	Connection Fee RO '000	Total RO '000
Opening balance / Reclassification	1,814	6,995	8,809
Additions during the period	-	-	-
At 30 September 2020	<u>1,814</u>	<u>6,995</u>	<u>8,809</u>
Accumulated depreciation			
Opening balance / Reclassification	52	200	252
Charge during the period	39	150	189
At 30 September 2020	<u>91</u>	<u>350</u>	<u>441</u>
Net book value			
At 30 September 2020	<u>1,723</u>	<u>6,645</u>	<u>8,368</u>
At 31 December 2019	<u>1,762</u>	<u>6,795</u>	<u>8,557</u>

9 RIGHT TO USE ASSETS

Cost	Land Lease US\$'000	Connection Fee US\$'000	Total US\$'000
Opening balance / Reclassification	4,718	18,193	22,911
Additions during the period	-	-	-
At 30 September 2020	<u>4,718</u>	<u>18,193</u>	<u>22,911</u>
Accumulated depreciation			
Opening balance / Reclassification	135	521	656
Charge during the period	101	390	491
At 30 September 2020	<u>236</u>	<u>911</u>	<u>1,147</u>
Net book value			
At 30 September 2020	<u>4,482</u>	<u>17,282</u>	<u>21,764</u>
At 31 December 2019	<u>4,583</u>	<u>17,672</u>	<u>22,255</u>

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10 TRADE AND OTHER RECEIVABLES

	2020 RO'000	2020 US\$'000	2019 RO'000	2019 US\$'000
Trade receivables	112,866	293,539	53,632	139,485
Other receivables	13	35	21	55
Prepayments	222	577	266	692
	<u>113,101</u>	<u>294,151</u>	<u>53,919</u>	<u>140,232</u>

11 BANK BALANCES

	2020 RO'000	2020 US\$'000	2019 RO'000	2019 US\$'000
Cash and Bank balances	11,184	29,087	7,530	19,585
Short Term Deposits	8,613	22,400	-	-
	<u>19,797</u>	<u>51,487</u>	<u>7,530</u>	<u>19,585</u>

12 SHARE CAPITAL

	2020 RO'000	2020 US\$'000	2019 RO'000	2019 US\$'000
Issued and fully paid up share capital	146,260	380,390	146,260	380,390

Dividend

Pursuant to shareholders' resolution dated 19 March 2019, the Board of Directors in their meetings held on 23 April 2019 and 29 October 2019 announced cash dividend of 2.15 baizas per share and 2.0 baizas per share, respectively for the year ended 31 December 2018. Accordingly dividend amounting to US\$ 8.178 million (RO 3.144 million) was paid in July 2019 and US\$ 7.608 million (RO 2.925 million) is payable as of 31 December 2019 which was paid subsequently in January 2020.

Shareholders at the Annual General Meeting ("AGM"), on 20 May 2020 authorized the Board of Directors to determine and distribute cash dividend to the shareholders of the Company which will be paid in July 2020 and January 2021 for the year ended 31 December 2019, provided that the aggregate amount of such dividend shall not exceed 4.15 baizas per share.

The board of directors was resolved on 23rd June 2020 to distribute cash dividend of Baizas 2.75 per share, out of the retained earnings as per the audited financial statements for the financial year ended 31 December 2019 to the shareholders of the Company who are registered in the Company's shareholders' register with the Muscat Clearing & Depository Company SAOC as on 21 July 2020.

13 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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14 INTEREST BEARING LOANS AND BORROWINGS

	2020 RO'000	2020 US\$'000	2019 RO'000	2019 US\$'000
Secured term loan from commercial banks	86,848	225,872	91,075	236,867
Secured term loan from Japan Bank for International Cooperation	165,800	431,209	173,871	452,200
Secured term loan under NEXI facilities	43,424	112,936	45,537	118,433
	<u>296,072</u>	<u>770,017</u>	<u>310,483</u>	<u>807,500</u>
Less : Deferred finance cost	(3,813)	(9,918)	(4,484)	(11,663)
	<u>292,259</u>	<u>760,099</u>	<u>305,999</u>	<u>795,837</u>
Less : Current portion of loans	(29,757)	(77,391)	(29,367)	(76,376)
Non-current portion of loans	<u>262,502</u>	<u>682,708</u>	<u>276,632</u>	<u>719,461</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.

15 DERIVATIVE FINANCIAL INSTRUMENTS

	2020 RO'000	2020 US\$'000	2019 RO'000	2019 US\$'000
Cumulative changes in fair value:				
Interest rate swap agreements	39,453	102,333	23,683	61,595
Forward foreign exchange contracts	8,453	21,985	8,506	22,123
Fair value of derivatives	<u>47,800</u>	<u>124,318</u>	<u>32,189</u>	<u>83,718</u>
Less : Income tax effect	(7,170)	(18,648)	(4,829)	(12,558)
	<u>40,630</u>	<u>105,670</u>	<u>27,360</u>	<u>71,160</u>

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

	2020 RO'000	2020 US\$'000	2019 RO'000	2019 US\$'000
Non-current portion	38,156	99,236	27,001	70,224
Current portion	9,644	25,082	5,188	13,494
	<u>47,800</u>	<u>124,318</u>	<u>32,189</u>	<u>83,718</u>

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16 ACCOUNTS PAYABLE AND ACCRUALS

	2020 RO'000	2020 US\$'000	2019 RO'000	2019 US\$'000
Trade accounts payable	98,287	255,623	46,664	121,362
Amounts due to related parties (note 16)	2,380	6,191	2,700	7,023
Accrued expenses	12,416	32,298	6,197	16,118
	<u>113,083</u>	<u>294,112</u>	<u>55,561</u>	<u>144,503</u>
Less: employees' end of service benefits included in accruals	<u>(40)</u>	<u>(105)</u>	<u>(55)</u>	<u>(142)</u>
	<u><u>113,043</u></u>	<u><u>294,007</u></u>	<u><u>55,506</u></u>	<u><u>144,361</u></u>

17 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

	2020 RO'000	2020 US\$'000	2019 RO'000	2019 US\$'000
Phoenix Operation and Maintenance Company LLC (POMCo)	<u>2,380</u>	<u>6,191</u>	<u>2,700</u>	<u>7,023</u>

Income statement transactions

	2020 RO'000	2020 US\$'000	2019 RO'000	2019 US\$'000
Shareholders	<u>52</u>	<u>137</u>	<u>62</u>	<u>161</u>
Other related parties :				
Operation and Maintenance Cost (POMCo)	<u>6,998</u>	<u>18,201</u>	<u>5,896</u>	<u>15,333</u>

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18 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.

19 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 2019.

20 COMPARATIVE FIGURES

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