



**GENERATING FOR
GENERATIONS**





His Majesty Sultan Qaboos Bin Said

Contents

Board of Directors and Key Executive Officers.....	5
Chairman's (Board of Directors') Report.....	6
Operational Highlights.....	10
Description of the Business	13
Description of the Sur Power Plant.....	16
Profile of the Founders	20
Management Discussion and Analysis Report	23
Corporate Governance Report	30
Report of the Auditors on Financial Statements	40
Audited Financial Statements	41



Board of Directors and Key Executive Officers

Board of Directors		Representing
Mr. Khalid Jolo	Chairman	Qatar Electricity and Water Company Q.S.C
Mr. Neil Cave	Deputy Chairman	
Mr. Peter Kevin Jones	Executive Managing Director	
Mr. Kazuaki Shibuya	Director	Axia Power Holdings B.V.
Mr. Hiromi Sakakibara	Director	Chubu Electric Power Sur B.V.
Mr. Masamitsu Suda	Director	

Key Executive Officers	
Mr. Peter Kevin Jones	Executive Managing Director
Mr. Kenji Yugeta	Chief Financial Officer
Mr. Khalid Al Maawali	Commercial Manager



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 2015.

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.

The Plant has been in commercial operation since 11 December 2014, thus 2015 represents the first full year of operation. During the year, the Health, Safety and Environmental performance has been excellent with no Lost Time Accidents ("LTA") or

environmental incidents occurring. The health, safety, environmental and quality processes of both the Company and the Operator were carefully audited by an independent third party resulting, in December 2015, in the successful accreditation to OHSAS 18001, ISO 14001 and ISO 9001 standards.

Corporate Governance

During 2015, important changes to the Company structure took place. Further to a request made by the Capital Markets Authority ("CMA"), the shareholders of the Company approved, during the Extraordinary General Meeting (the "EGM") held on 16 April 2015, a split of the nominal value of the Company's shares from RO 1 per share to Bzs 100 per share.

In March 2015, the shareholders approved the offering of 35% of the issued share capital of the Company to the public. Consequently the Company launched its Initial Public Offering ("IPO") which was completed successfully in June 2015 with a listing on the Muscat Securities Market ("MSM").

Significant time and effort has been given to reviewing corporate structures, policies and

processes in line with the new SAOG status in order to ensure the highest standards of corporate governance in compliance with local regulatory requirements as well as with international principles and best practice. This work will continue during 2016.

Operations

During the year 2015, the Company has achieved an excellent operational performance with the Sur Power Plant demonstrating a commercial availability of 98.07%, the key parameter to be considered when assessing the revenues generated during the period.

The Plant dispatched an aggregated net power volume of 4390 GWhrs.

Financial Results

The Company generated a net profit of RO 28.77 million for the year 2015. Net revenues for the year were RO 101.87 million and costs were RO 65.09 million, the largest of which is the purchase of fuel gas for the power plant. It should be noted that the financial results of 2015 are not comparable with the previous year, 2014, as the Company has only commenced commercial operations from 11 December 2014.

The Company paid a dividend of Bzs 1.7 per share in 2015.

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 2015 are maintained.

Regarding the Claims position with the EPC Contractor, Daewoo Engineering & Construction ("DEC" or "Daewoo" or the "EPC Contractor"), on 21 December 2015, PPC and the EPC Contractor agreed to settle the Early Power Dispute. The Final Power Dispute has also been the subject of a contractual claim from the EPC Contractor and this continues to be evaluated.

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 2015. Thanks to their contribution, the Company was able to achieve its goals and objectives.

A special word of gratitude is also expressed to the Public Authority for Electricity and Water ("PAEW") for their support during the organization of the official inauguration of the Plant by H.H Hamed bin Thuwaini Al Saeed which took place on 27 April 2015.

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





Operational Highlights

Health, Safety & Environmental Performance

Health and safety performance is of paramount importance both within PPC and its Operator, POMCo. The health and safety of our employees, colleagues and all those who may be impacted by our activities is given uppermost priority.

The overall health, safety and environmental performance in 2015 was strong. Our ultimate aim is zero harm and zero environmental incidents based on our adopted principle that:

"Nothing is so urgent or important that it cannot be done safely"

During 2015, and since commercial operation, both health and safety and environmental goals have been achieved with the Sur plant completing 385 days without a Lost Time Accident or an environmental incident as at the 31 December 2015.

Both the Company and the Operator have achieved accreditation to OHS 18001, ISO 14001 and ISO 9001 and a number of proactive actions have been taken to both continuously develop and improve safety culture as well as target delivery of a safe and environmentally compliant site. Such actions include:

- A focus on encouraging reporting and investigating near misses through initiation of safety awards and staff recognition.
- A training programme including a comprehensive site induction process and ongoing HSE development.
- A bonus scheme for all employees that includes an element related to overall health and safety performance.
- A behavioural based safety observation system with reporting and close out of analysis and findings.

- Development of leading HSE key performance indicators and the implementation of Intellex software for action tracking and reporting.

The management of HSE risk is taken extremely seriously and any near miss or incident is investigated and the key learning points used to continually reinforce the need for a constant focus on health, safety and environmental aspects.

Capacity

The capacity of a plant is defined as the total electrical power (MW) which can be delivered by the plant at reference conditions.

The contractual capacity of the Sur Power Plant under the PPA applicable from May 2015 to April 2016 is 1991.60 MW. The Annual Performance Tests conducted in April 2015 demonstrated that the plant met these contractual requirements.

Reliability

The reliability of the Plant is a measure of its availability to deliver the declared capacity as per the PPA. During 2015, the Sur Plant achieved a reliability of 98.07% experiencing a forced outage rate of 1.93%.

During the year, the Plant exported a total of 4390 GWhrs of electrical energy with a utilization factor averaging 25.1%.

Plant Efficiency (Heat Rate)

The efficiency of the Plant is measured in terms of the amount of heat required to produce one unit of electrical energy. Based on the running regime experienced during the year, the actual efficiency for 2015 met the contractual requirements under the PPA.

Maintenance

Maintenance of the Plant was undertaken in accordance with Original Equipment Manufacturers recommendations and as per the operations and maintenance manuals. The Gas Turbines are serviced under the terms of a Long Term Service Agreement with the supplier, Siemens, and scheduled minor inspections were progressed in line with the terms of that Agreement.

Warranty

The warranty for the majority of the Plant expired in December 2015. The EPC Contractor has made progress in resolving warranty claims rectification and completing the outstanding punch list items.

EPC Contract Claims

PPC has withheld or been paid liquidated damages by the EPC Contractor, Daewoo under the EPC Contract in relation to delays in achieving (i) the Actual Early Power Completion Date and (ii) the Scheduled Plant Completion Date and Daewoo have contested PPCs entitlement to these liquidated damages.

With regard to the position with each of those disputes (i) on 21 December 2015, PPC and the EPC Contractor agreed to settle the Early Power Dispute; and (ii) the Final Power Dispute, which has also been the subject of a contractual claim from the EPC Contractor, continues to be evaluated.



Description of the Business



Overview

Phoenix Power's core business activity is to develop, own and operate the Sur independent power plant, a gas-fired combined cycle power generation plant with a contracted power capacity of 2000 MW, located in the Sur Industrial Estate between the Oman LNG terminal and Oman India Fertilizer Company plant, approximately 175km south-east of Muscat in Oman. The Plant comprises three blocks, (2*800 MW) and (1*400 MW) and has been in full commercial operation since 11 December 2014.

The following diagram displays the approximate location of the Plant:



Phoenix Power currently generates its revenues pursuant to a 15-year term PPA with OPWP, which is indirectly wholly owned by the Government. The power produced from the Plant is fully contracted to OPWP and used to meet the growing power demand of the Main Interconnected System ("MIS") during the term of the PPA and beyond. As the largest power plant in Oman, the contracted Plant's power capacity of c.2000 MW represents c.28.1% of the MIS total currently contracted capacity of approximately 7116 MW as per OPWP's 7 year statement (2015-2021).

The Plant's contracted power capacity is sold exclusively to OPWP in accordance with the terms of the PPA. Natural gas, supplied by the MoG, is the primary fuel with distillate fuel oil (diesel) as back-up. Phoenix Power has a long-term agreement with the MoG securing supply of fuel over the contracted PPA period. The power is evacuated to Oman Electricity Transmission Company SAOC (OETC)'s grid.

The Operator of the Plant (pursuant to a 15-year agreement) is POMCo.

History and Background

The Government invited proposals for the development of an IPP (Tender No 281/2010) on the following basis:

- The IPP was proposed to be located at Sur with a minimum capacity of 1500MW.
- The Project involved the design, financing, construction, ownership, operation and maintenance of a high efficiency gas fired power generation facility, on a BOO basis, and the capacity of the Plant would be dedicated to, and sell the entirety of its output to OPWP under the PPA.

Following a competitive bidding process run by OPWP in 2011, the founding shareholders were awarded the contract to build the Plant. The founding shareholders incorporated Phoenix Power Company SAOC for the purpose of building the Plant.

Phoenix Power was incorporated with the commercial registration number 1113916 for an unlimited duration and registered as a SAOC on 25 June 2011. At an EGM held on 26 June 2014, it was resolved to transform Phoenix Power into an SAOG. Currently the legal and commercial name is Phoenix Power Company SAOG and its registered office is located at P.O. Box 96, Postal Code 102, Qurum, Sultanate of Oman.

The Plant has been established under a BOO scheme, which enables it to be operated beyond the PPA term of 15 years, either by extending the PPA (if agreed to by OPWP), or by selling the power into an electricity pool which may exist at that time or to eligible customers.

The EPC Contractor for the Project was Daewoo. The Plant is based on gas turbine combined cycle technology. It has dual fuel capability with natural gas as the primary fuel and diesel as a back-up fuel. The Plant is the largest power plant in Oman.

The combined cycle power generation technology employed in the Plant is a proven technology that has been implemented globally on numerous projects. The Plant is mainly comprised of 5 state-of-the-art SGT5-4000F gas turbines supplied by Siemens, 3 steam turbines supplied by Fuji Electric and 5 HRSG's supplied by Nooter Eriksen.

The Plant's total capital cost as of the Commercial Operation Date ("COD") was RO 632.53 million, which included EPC and non-EPC costs.

The Power Plant entered into full commercial operation on 11 December 2014.

The Plant was officially inaugurated on 27 April 2015.

The Project Founders Agreement ("PFA") required that the founding shareholders float 35% of the Shares on the MSM through an IPO. In June 2015, this IPO was completed and PPC transformed from an SAOC into an SAOG.



Description of the Sur Power Plant

Overview

The following pictures display the Plant's power facility in operation:

The Plant consists of five Siemens AG SGT5-4000F gas turbines ("GT"), five Nooter Eriksen triple pressure heat recovery steam generators ("HRSG") and three Fuji Electric steam turbines ("ST"). The condenser is cooled via a once through seawater system. Seawater is extracted by

a submerged pipe intake and discharged through a seal-pit and diffusers. The gas turbines are fitted with by-pass stacks to enable the operation in open cycle. Although capable of open cycle operation, the normal operating mode of the Plant is in combined cycle ("CCGT") for higher thermal efficiency. At site reference conditions of 50°C ambient temperature and 30% relative humidity, the Plant has a net power capacity of approximately 2000 MW at COD.



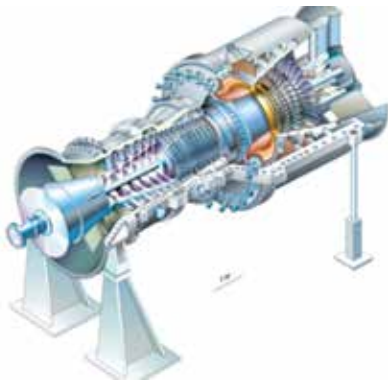
With this technology, the energy for electricity generation is obtained from the combustion of natural gas. Hot combustion gases formed by the combustion of natural gas drive a gas turbine, which, in turn, rotates an alternator to produce electricity. After driving the gas turbine, the exhaust gases are still hot enough to produce steam in a heat recovery boiler. The steam generated in the heat recovery boiler drives a steam turbine, which rotates another alternator to produce additional electricity. The CCGT technology is well proven

and more efficient than conventional power plant technology.

The Plant is connected to the gas transmission infrastructure owned by MoG. Gas used by the Plant comes from central Oman gas fields and is carried through the 48 inch Oman LNG gas line. The Plant is designed for black start operation by means of black start diesel generators which are capable of starting the plant.

The auxiliary power for the Plant is derived from the Plant's internal electrical system with back up from the grid. The equipment and facilities required for the operation, testing, maintenance and repair of the equipment (for example control room, laboratory, stores, workshop, etc.) are available on site.

Gas Turbines



Each gas turbine consists of an air compressor, a combustor, a turbine and an exhaust. Air is drawn in from the atmosphere and compressed before it is fed into the combustor. Gas fuel, which is drawn from gas pipelines, burns in the combustor in the presence of the compressed air from the compressor. The gases produced in the combustor, a mixture of high temperature and high pressure hot gases, drive the turbine. The rotational energy of the turbine rotates the alternator, which produces electricity. The voltage level is stepped up through a transformer before it is fed to the grid.

The SGT5-4000F gas turbine concept builds on more than 40 years' experience with heavy-duty gas turbines at Siemens and Siemens-Westinghouse. The model of SGT5-4000F has been adopted from previous gas turbine models, including the following features:

- 15-stage high-efficiency compressor;
- annular combustion chamber with 24 hybrid burners for uniform flow and temperature distribution, including a full ceramic heat shield to minimize cooling air requirements and allow for higher temperatures;

- improved turbine blade design to withstand high thermal stresses using a heat resistant alloy and an additional ceramic coating. They are cooled internally through a complex array of air channels and externally by film cooling. These measures combine to ensure a long blade service life;
- fail-safe hydraulic turbine blade tip clearance control for optimized radial clearances and hence maximum performance; and
- easy-to-service design thanks to an annular walk-in combustion chamber, which enables inspection of hot-gas-path parts without cover lift.

This combustion system combines all the advantages of optimal combustion, including:

- high thermal efficiency;
- low NO_x and CO emissions;
- low pressure drop; and
- high operating flexibility.

Heat Recovery Steam Generators

Hot exhaust gases from the individual gas turbines are directed into naturally circulated HRSGs, which generate steam at three pressure levels. The high pressure steam from each of the heat recovery steam generators is combined in a common header before passing to the steam turbine. The same configuration exists for the intermediate pressure and for the low pressure steam, allowing maximum operational flexibility. A condensate pre-heater is integrated in the HRSG. This arrangement enables higher efficiencies of the combined cycle power plant, by using the exhaust gas energy to preheat the condensate before it passes to the feedwater pump and into the LP-system.

Steam Turbine

The steam generated in the heat recovery boilers is used to generate additional electricity through a steam turbine and a separate alternator. The steam turbine consists of a combined high/intermediate pressure and low pressure turbine. The steam turbine blades provide high efficiency due to an advanced blading technology.

Generators

The gas turbine and steam turbine generators are of two-pole type, with direct radial hydrogen cooling for the rotor winding and indirect hydrogen-cooling for the stator winding.

The hydrogen filled generator casing is a pressure-resistant and gas-tight construction and is equipped with end shields at each end. The hydrogen cooler is subdivided into four sections. Two sections are arranged at each generator end.

The Plant Inauguration

The plant was officially inaugurated on 27 April 2015 by H.H. Hamed bin Thuwaini Al Saeed and was attended by officials from the PAEW, government and municipality and senior representatives of the founding shareholders and other stakeholders.



The Initial Public Offering (IPO)

The Government has embarked upon an extensive program to enable international investors to participate in infrastructure projects in Oman. It has also been the Government's intention that Omani investors should be able to participate in strategic projects of this nature. As part of the tendering process for the Project, each of the founding shareholders entered into the PFA with Electricity Holding Company SAOC ("EHC") on 13 July 2011, which required them to provide certain warranties and undertakings to EHC in respect of Phoenix Power, which was the project company formed by the founding shareholders for the purposes of entering into the PPA and undertaking the development, ownership and operation of the Project.

The PFA requires the founding shareholders, within four years from the incorporation of Phoenix Power, to offer 35 per cent of the shares of Phoenix Power to the public. Accordingly, the Selling Shareholders offered 511,910,511 Shares, equivalent to 35 per cent of the Issued and Paid-Up Share Capital of Phoenix Power. Phoenix Power obtained the requisite approvals to offer 35 per cent of Issued and Paid-Up Share Capital, including approval from PAEW pursuant to Article 13 of the Sector Law. Phoenix Power also obtained the approval of AER to proceed with the sale of 35 per cent of the Issued and Paid-Up Share Capital through an IPO.

The Founding Shareholders of the Company completed the IPO by 22 June 2015 to comply with their obligations under the PFA.



Profile of the Founders

- **Axia Power**

Axia Power Holdings B.V. is an entity that is 100% owned by Marubeni, which serves as an overseas investment vehicle for Marubeni's investments into power projects.

Marubeni, acting as the lead member of the consortium, was established in 1858 and grew to become one of the leading Japanese trading houses. It oversees a range of operations that encompass the domestic market, export-import, and offshore trade, with total assets of around USD 63 billion (as of September 2015). As of 1st April 2015, Marubeni had 5 business groups directly under the president and several committees, covering Food & Consumer Products Group, Chemical & Forest Products Group, Energy & Metals Group, Transportation & Industrial Machinery Group, and Power Projects & Plant Group. Power Projects & Plant Group consists of Power Projects Division, Energy & Environment Infrastructure Division, and Plant Division, and is one of the core groups within Marubeni.

Marubeni is very active in the industry, having participated in 48 I(W)PP projects with a total gross capacity of 35,536 MW and a total net capacity of 10,255 MW (as of December 2015) in overseas markets. Marubeni's role in the IPP business includes development, financing, equity participation as well as engineering, procurement and construction ("EPC") and O&M. Marubeni operates I(W)PP projects in many countries around the world, including Oman, Saudi Arabia, Qatar, U.A.E., Tunisia, Turkey, Portugal, United Kingdom, Jamaica, Trinidad and Tobago, Australia, U.S.A., Canada, the Philippines, Taiwan, Pakistan, India, Indonesia, Cambodia, Singapore and Korea. In addition, Marubeni is an active player in the EPC business and has built over 103,095 MW of power plants worldwide. The power division's vision is to establish itself in the top position in the comprehensive power business in Japan and abroad.

In addition to the power business, Marubeni has a variety of experiences in non-recourse project

financing such as LNG related business and ship transportation business. Marubeni has an outstanding record in project financing in emerging markets, and has arranged for funds from various export credit agencies, multilateral institutions, international commercial banks, institutional investors and local banks.

Further information about Marubeni is available at: www.marubeni.com.

- **Chubu Electric**

Chubu Electric is a wholly owned subsidiary of CEPCo, established to hold shares in and manage Phoenix Power and the operation and maintenance company for the Project.

Chubu Electric's wholly owned parent company, CEPCo, listed on the Tokyo Stock Exchange, is one of the largest among 9 regional power utilities in Japan, operating its own power plants, transmission and distribution systems. With its approximately 34,000 MW generating capacity, CEPCo serves approximately 39,000 km² and 16 million people and a significantly manufacturing focused area with companies such as Toyota Motors based in the region. CEPCo has vast experience over the years of power business and operation since its foundation in 1951.

CEPCo also has an established international business focused on power generation and related businesses in Middle East, Asia and North America, and is involved in a number of independent power projects as shareholder, developer and operator comprising net capacity of approximately 3,260 MW. In terms of having business experience in the Middle East area, CEPCo is participating in 3 IPP/IWPP projects as a shareholder in Qatar and is engaged in technical partnership scheme with the local power sector there.

Further information about CEPCo is available at: <http://www.chuden.co.jp/english/>

- **QEWG**

Qatar Electricity & Water Company, Q.S.C (QEWG), a Qatari Shareholding Company, was established in 1990, with the Government of Qatar as a major shareholder. QEWG has since been successfully meeting Qatar's ever-increasing demand for electricity and water. It is one of the major companies in Qatar and the GCC region and owns and operates a vast network of power generation and water desalination stations in Qatar. The company has increased by several folds its production capacity in the past 10 years. Outside Qatar, the company has stakes in Jordan and Oman. QEWG's current total equity portfolio includes over 6,761 MW of power generation and 412 MIGD of water desalination capacity (including projects under construction) of which QEWG solely owns and operates 7 stations with total production capacity of 2,049 MW of power and 237 MIGD of water.

- **Multitech**

Multitech is part of the Suhail Bahwan Group, a leading business house in the Sultanate of Oman.

Multitech is the investment arm of the Suhail Bahwan Group for participation in power and water privatisation projects in the Sultanate of Oman. Multitech is the founding shareholder in:

- a. ACWA Power Barka SAOG (Barka-1 IWPP);
- b. Al Suwadi Power Company SAOG (Barka-3 IPP);
- c. Al Batinah Power Company SAOG (Sohar-2 IPP); and
- d. Phoenix Power Company SAOG (Sur IPP).

Multitech also engages in the trading of welding products, electrical products, water treatment & oilfield chemicals and cranes.

Multitech is under the day to day management of Bahwan Engineering Company LLC, the flagship company of Suhail Bahwan Group.

For further information please visit
www.suhailbahwangroup.com and
www.bahwanengineering.com



Management Discussion and Analysis Report

Industry Overview

On 1 August 2004, the Sector Law was issued with the objective of regulating the management and privatization of the electricity and water sector. The Sector Law is applicable to all the companies and establishments operating in the sector of electricity and water, including Phoenix Power.

Following the implementation of the Sector Law, each of the functions of electricity generation, transmission, distribution and supply is subject to regulation. A “Single buyer” market structure has been adopted (with OPWP as the central buyer) and a system of non-discriminatory access to license transmission and distribution systems established. To follow their objectives, a single procurement company, OPWP has been established as well as a holding company, EHC. AER is established pursuant to the Sector Law, and is competent to regulate the electricity and related water sector. AER is an administratively and financially independent entity.

OPWP is the single buyer of power and water for all IPP / IWPP projects within Oman. OPWP is responsible for ensuring that there is sufficient electricity and water production capacity available at the lowest cost to meet growing demands in Oman. OPWP undertakes long-term generation planning and publishes an annual seven-year statement, which identifies new IPP/IWPP projects

to be competitively tendered and developed by private sector entities, in order to meet the future power generation and water desalination requirements of Oman. Article 74 of the Sector Law specifies the functions and duties of OPWP, including but not limited to:

Securing production capacity and output to meet demand for electricity in the MIS and Salalah System, in coordination with RAECO;

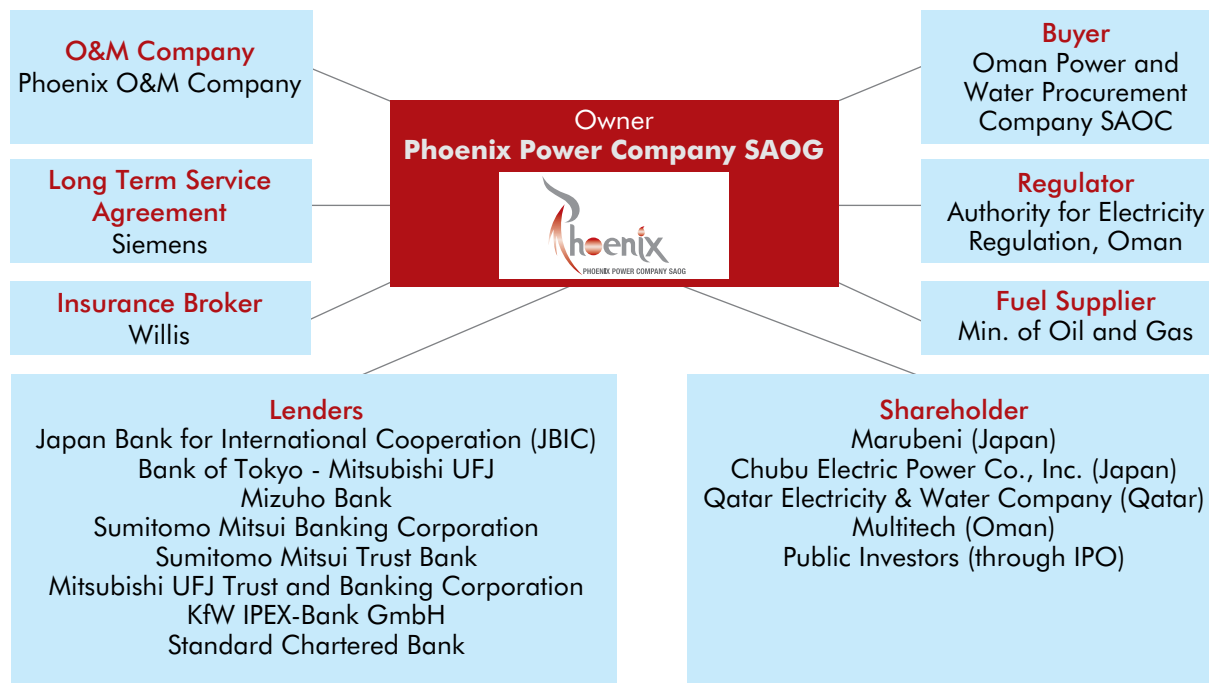
Securing production capacity and output to meet demand for desalinated water in Oman;

Meeting requirements for new electricity and desalinated water capacity in Oman, with new projects to be designed, constructed, financed, owned and operated by local and foreign investors; and

The purchase, procurement, and management of production capacity and output, ancillary services and all goods and other services on the basis of economic purchase.

In January 2014, OPWP announced its intention to introduce new power and water procurement arrangements for the MIS. Whilst OPWP will retain its role as the Single Buyer for electricity, its proposals include the introduction of a “Spot Market” and more flexible processes for awarding new or extending existing PPAs.

The Business Model



Power Purchase Agreement (PPA)

Phoenix Power has entered into the PPA with OPWP who is the sole purchaser for a 15 year period until 31 March 2029. Under the PPA, Phoenix Power is obliged to exclusively sell electrical energy output to OPWP and in return, receive from OPWP capacity charges, electrical energy charges and fuel charges. Capacity charges are designed to cover fixed costs (including debt service and return on capital); electrical energy charges are designed to cover variable operating costs of generation (excluding fuel costs). The fuel charge is the amount payable to compensate Phoenix Power for the total fuel demand required for the production of electrical energy to be delivered in accordance with the terms of the PPA.

The PPA is resilient to changes in gas prices and power demand.

Natural Gas Sales Agreement (NGSA)

The NGSA was entered into between MoG and Phoenix Power. It establishes the terms upon which Phoenix Power purchases natural gas as feedstock for the Plant from the MoG. The NGSA

term is linked to the PPA term and, therefore expires on 31 March 2029. The NGSA term will automatically be extended to reflect any extensions to the term of the PPA.

In accordance with the NGSA, natural gas will be supplied up to the gas delivery point of the Plant. Phoenix Power has no obligation to pay the MoG for any natural gas delivered and accepted until Phoenix Power has received the amount of the PPA payment from OPWP.

Financial Arrangement

The Company has entered into financing agreements with a consortium of international banks and export credit agencies, for an aggregate amount of approximately RO 459 million. The Company senior debt is hedged in compliance with the requirement of the financing agreements through entering into interest rate swap agreements which further improves the predictability of cash-flows available to shareholders.

Operation and Maintenance

The technical risk is considered low as the Plant uses proven technology from renowned international suppliers. POMCo is the operator and maintainer of the Plant through the O&M Agreement with the Company. In addition, the maintenance of the gas turbines, which is a specialized activity, has been contracted on a long-term basis to the original equipment manufacturer, Siemens,

whose capabilities in this area are among the best globally.

Discussion on Operational and Financial Performance

Operating Highlights

Please refer to Section "Operational Highlights" for the operational performance of the Company.

Financial Highlights

All figures in RO Millions		2015	2014
Revenues	1	101.87	2.27
Net Profit	2	28.77	11.31
Net Profit before Finance Costs	3	51.83	12.56
Total Assets	4	636.25	654.82
Capital (Paid-up)	5	146.26	146.26
Shareholders' Fund (Net Assets)	6	137.20	118.13
Term Loans ^	7	412.97	435.94
Weighted average number of shares*	8	1,462.60	1,098.2
Actual number of shares outstanding*	9	1,462.60	1,462.60
Ordinary Dividends	10	6.59	Nil

Key Financial indicators		2015	2014
Net Profit margin	2/1	28.24%	498.24%
Return on Capital (Paid-up)	2/5	19.67%	7.73%
Return on Capital Employed	3/(6+7)	9.42%	2.27%
Debt Equity ratio	7 : 6	75.1 : 24.9	78.7 : 21.3
Net assets per share (Baizas)	6/8	93.8	107.6
Basic earnings per share (Baizas)	2/8	19.67	10.30
Dividends per share (Baizas)	10/9	4.51	Nil

^ Excluding unamortised transaction cost

* Nominal value per share in 2014 was RO 1 but for comparison purposes 100 Baiza per share is assumed

Analysis of Profit and Loss

2015 is the first full year of operation as the Company entered Commercial Operation on 11 December 2014 and therefore only saw 22 days of operation during the year. Accordingly, a meaningful comparison cannot be made between 2015 and 2014 profit & loss. A brief analysis is provided in the ensuing paragraph.

Revenues of RO 101.87 million in 2015 were higher when compared to RO 2.27 million in 2014.

The Net Profit of RO 28.77 million in 2015 is higher than the RO 11.31 million in 2014 mainly due to the fact that in 2014 only 22 days of revenue associated with the commercial operation was achievable. In addition, liquidated damages of RO 23.51 million were recognized in 2015 compared with RO 22.30 million being recognized in 2014 under the EPC Contract.

Analysis of Balance Sheet

Total Assets of the Company stood at RO 636.25 million as on December 31, 2015 as compared to RO 654.82 million in 2014. This was mainly due to a full year's depreciation being charged for the year.

The cash and cash equivalents stand at RO 20.57 million as at December 31, 2015 as compared to RO 14.74 million at the same date in 2014.

The Shareholders' Funds (Net Assets) at RO 137.20 million as of December 31, 2015 were lower when compared to RO 118.13 million at the same date in 2014 due to dividend distribution in line with the net profit for the year.

Hedging Reserve (net of Deferred Tax) reducing Equity by RO 43.32 million reflects the fair value of the seven interest rate swaps and three currency swaps as at the balance sheet date and does not impact the Company's capability to distribute dividends to the shareholders.

Term Loans (including non-current and current balances) reduced to RO 412.97 million as a result of scheduled repayments in accordance with financing agreements.

The Company continues to make adequate provision for asset retirement obligations to enable it to fulfil its legal obligation to remove the plant at the end of its useful life and restore the land.

Dividend Distribution

The Company follows a balanced dividend pay-out policy, subject to debt repayments, working capital and operational expenditure obligations. The Company's dividend distribution in 2015 was RO 2.49 million (translating to 1.7 Baizas per share) and paid out of the audited retained earnings for the year ended 31 December 2014.

Dispute with EPC Contractor

Phoenix Power has withheld or been paid a total of US\$ 179.7 million of LDs by the EPC Contractor under the EPC Contract in relation to delays in achieving the Early Power Completion Date ("EPCD") beyond the Scheduled Early Power Completion Date (US\$ 29.5 million) and in achieving the COD beyond the Scheduled COD (US\$ 150.2 million).

Phoenix Power's entitlement to LDs is contested by the EPC Contractor, who has so far submitted:

a claim for recovery of all the LDs in respect of the delay in achievement of the EPCD, as well as associated increased costs and other relief (the Early Power Claim); and

a claim for recovery of LDs in respect of the delay in achievement of the COD, as well as associated increased costs and other relief (the Final Power Claim),

in each case because, the EPC Contractor alleges, the relevant delays were the responsibility of Phoenix Power.

During 2015,

(i) Early Power Claim

The Early Power Claim has been settled with the EPC Contractor.

(ii) Final Power Claim

According to the EPC Contractor, the Final Power Claim relates to events concerning the Omani electricity grid which, if the EPC Contractor is correct, may be the responsibility of OPWP under the PPA. The EPC Contractor has, therefore, exercised its right under the EPC Contract requiring Phoenix Power to make a claim against OPWP under the PPA equivalent to the Final Power Claim. Discussions in relation to the Final Power Claim are on-going.

Omanisation

The Ministry of Manpower has issued a Ministerial Decision No 248/2014 (the “MD”), published in the Official Gazette on 14th September 2014, and effective on the day following its publication, by means of which the Ministry has determined the Omanisation percentage to be achieved in private sector enterprises operating in the electricity and water sectors.

Endeavours to achieve the Omanisation requirements are ongoing and based on an holistic human resources approach which includes attracting the necessary talent, developing that talent through training and expertise transfer, consideration of a balanced approach to remuneration and reward as well as creating a positive working environment and culture.

Outlook

All reasonable and prudent measures will be taken by the Management of the Company to ensure high standards of health, safety, environmental compliance reliability and availability are maintained over 2016.

Discussion and analysis of the EPC Contractor Claim in relation to Final Power will continue.

Internal Control System

The Board of Directors and management of the Company believes in the importance of the internal control system. Since before conversion to an SAOG, and in recognition of the need to continually focus on controls, the company has appointed a full-time internal auditor in December 2013. An internal audit plan was developed for 2015 and implemented with recommendations being provided to the Audit Committee who meet once per quarter.

The management of the Company is fully committed to implementing the agreed recommendations arising in the internal audit reports.



Report of Factual Findings on the corporate governance reporting of Phoenix Power Company SAOG and its application of the corporate governance practices in accordance with the CMA code of corporate governance

TO THE SHAREHOLDERS OF PHOENIX POWER COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of Phoenix Power Company SAOG ('the company') and its application of corporate governance practices in accordance with the CMA code of corporate governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the company's compliance with the code as issued by the CMA.

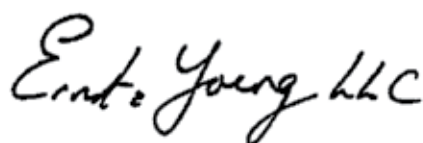
We report our findings below:

We found that the company's corporate governance report fairly reflects the company's application of the provisions of the code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of the company to be included in its annual report for the year ended 31 December 2015 and does not extend to any financial statements of the Phoenix Power Company SAOG, taken as a whole.



29 February 2016
Muscat

Corporate Governance Report

In accordance with the guidelines issued by the Capital Market Authority ("CMA") vide circular 1/2003 ("Code of Corporate Governance" or the "Code"), the Board of Directors and Management of the Company hereby present their Corporate Governance Report for the year ended 31 December 2015.

Company's Philosophy

The Company's philosophy of corporate governance is based on four main components: to enhance Shareholder value through continuous improvement of the business process; to display the highest ethical standards at all Company levels; to observe compliance with laws, permits and regulations; and to ensure full transparency on all financial and corporate matters towards internal and external stakeholders.

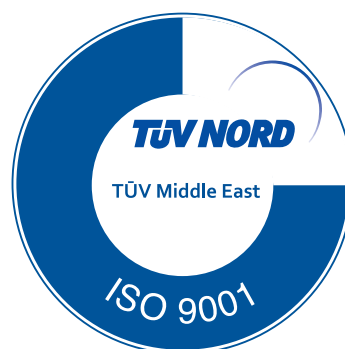
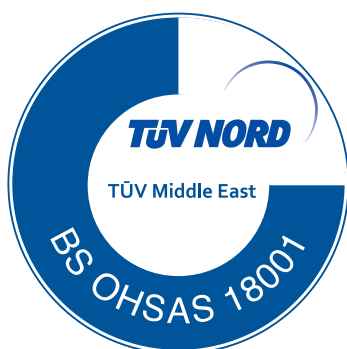
The current Board of Directors was elected on 18 June 2014, and its members' term of office shall remain in force for a period of three years and until the third annual general meeting of the Company. The composition of the Board of Directors is to ensure reliable and effective operation of the Company. The executive management of the Company was appointed by the Board of Directors. Simultaneously, an Audit Committee was established in 2014 and is currently composed of four Non-Executive Directors with a high level of experience in financial matters.

The Company is operated in line with a robust business framework comprising detailed policies and procedures. These are regularly reviewed and kept up to date for optimal control. Material information is transparently disclosed to the Muscat Securities Market in a timely manner which can be accessed by the relevant stakeholders.

After conversion from Closed Joint Stock Company ("SAOC") to Public Joint Stock Company ("SAOG") on 22 June 2015, the Company has undertaken the following steps;

- Reorganisation of the Audit Committee members in line with CMA requirements
- Implementation of the revised Audit Committee Charter in line with CMA requirements
- Implementation of the new Articles of Association in line with CMA requirements
- Appointment of the Disclosure Officer and implementation of the Material Information Disclosure Policy for the Company
- Implementation of the Insider Trading Guidelines for the Company

At the end of 2015, the Company and its Operator, Phoenix Operation and Maintenance Company LLC ("POMCo"), achieved certification to OHSAS 18001, ISO 14001 and ISO 9001 following an independent third party audit process demonstrating commitment to high-standards and continuing improvement in the areas of health, safety, environment and quality.



Board of Directors

The current composition of the Board of Directors as elected on 18 June 2014 in accordance with Article 18 of the Articles of Association along with the meeting details is as follows (all held during 2015).

Name of Directors	Capacity	Category#	BM	BM	BM	BM	BM	BM	EGM	AGM	EGM
			15 Feb	9 Mar	23 Apr	8 Jun	29 Jul	27 Oct	9 Mar	30 Mar	16 Apr
Mr. Khalid Jolo	Non-Executive	Independent	✓	✓	✓	P	✓	✓	✓	-	-
Mr. Neil Cave	Non-Executive	Non-independent	✓	P	✓	✓	✓	✓		✓	✓
Mr. Peter Jones	Executive	Non-independent	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Kazuaki Shibuya	Non-Executive	Independent	✓	✓	✓	P	P	P	✓	-	-
Mr. Hiromi Sakakibara (**)	Non-Executive	Independent	-	✓	✓	P	P	P	✓	-	-
Mr. Masamitsu Suda (**)	Non-Executive	Independent	-	✓	✓	✓	✓	✓	✓	-	-
Mr. Mitsuhiro Kojima (*)	Non-Executive	Independent	✓	-	-	-	-	-	-	-	-
Mr. Kimitsugu Kozasa (*)	Non-Executive	Independent	✓	-	-	-	-	-	-	-	-

✓ : Attend, P : Proxy, - : not in seat

(*) : resigned during the year, (**) : appointed during the year

#The above classification as Non-independent/ Independent director is as per the definition that existed prior to the CMA amendment on 24 October 2012.

On 9 March 2015, Board of Directors accepted the resignation of Mr. Mitsuhiro Kojima and Mr. Kimitsugu Kozasa and appointed Mr. Hiromi Sakakibara and Mr. Masamitsu Suda as a Director.

Directorship / membership in other public companies (SAOG companies) in Oman as of 31 December 2015;

Name of Directors	Position held	Name of the Company
Mr. Khalid Jolo	None	None
Mr. Neil Cave	None	None
Mr. Peter Jones	None	None
Mr. Kazuaki Shibuya	None	None
Mr. Hiromi Sakakibara	None	None
Mr. Masamitsu Suda	None	None

The profile of the Directors and management team is included as an annexure to the Corporate Governance Report.

Audit Committee

The primary purpose of the Audit Committee is to assist the Board of Directors and the management of the Company in fulfilling their responsibilities, which include;

- Maintaining the integrity of the Company's financial statements;
- Ensuring the Company's compliance with legal and regulatory requirements;
- Performance of the Company's internal audit, external audit and Government Audit functions.

Consistent with the function above, the Audit Committee encourages management to engage in continuous improvement of the Company's policies and procedures. The Audit Committee

has an open channel of communication among internal auditor, external auditors, financial and senior management and other Board of Directors.

The latest Audit Committee Charter has been issued in June 2015 which is in line with the latest Code of Corporate Governance.

The Audit Committee comprises of 4 Directors appointed by the Board of Directors and meets at least four times annually, reporting to the Board of Directors. All members of the Audit Committee are non-executive.

The current composition of the Audit Committee members after the Initial Public Offering is as follows.

Name of Directors	Category	29 Jul 2015	27 Oct 2015
Mr. Masamitsu Suda	Chairman	✓	✓
Mr. Khalid Jolo	Member	✓	✓
Mr. Neil Cave	Member	✓	✓
Mr. Kazuaki Shibuya	Member	X	X

✓ : Attended, P : Proxy, X : not attended

Process of nomination of Directors

Directors are nominated and elected as per the Commercial Company Law and the Article of Association. The term of office of the Directors shall be for a maximum period of 3 years, subject to re-election where 3 years for this purpose is the period ending on the date of the third Annual General Meeting. The current term will expire at the Annual General Meeting in 2017. If the office of a Director becomes vacant in the period between two Ordinary General Meetings, the Board of Directors may appoint an Interim Director who satisfies the requirements specified in Company's Articles of Associations to assume his/her office until the next Annual General Meeting.

Remuneration matters

a) Directors and Audit Committee members

There is no individual sitting fees for the Board of Directors and Audit Committee members.

b) Top 3 key management personnel

The Company paid to its top 3 key management

personnel an aggregate amount of RO 243,000 which includes salaries, performance related discretionary bonus and other benefits.

Details of non-compliance by the Company

There were no penalties levied on the Company by CMA, MSM or any other statutory authority on any matter related to capital markets in 2015.

Means of communication with the shareholders and investors

The Company communicates with the shareholders and investors in both English and Arabic mainly through the MSM website and the Company's website. Material information is disclosed immediately, and financial information such as initial quarterly or annual un-audited financial results, un-audited interim financial statements, and audited annual financial statements are disclosed within the regulatory deadlines. The Company's executive management is also available to meet its shareholders and analysts as and when required.

Market Price Data

a) High/low share price and performance comparison during each month in 2015.

Month	Price (Baiza)			MSM Service Sector
	High	Low	Average	
June	155	145	149	3,468.000
July	160	149	155	3,525.420
August	157	144	149	3,259.790
September	152	147	150	3,225.490
October	160	150	153	3,277.940
November	153	141	149	3,130.560
December	145	142	143	3,055.620

* The Company was listed on MSM from 22 June 2015.

b) Distribution of shareholding as of 31 December 2015:

Category	Number of shareholders	Number of shares held	Share capital %
5% and above	3	903,156,403	61.75%
Less than 5%	12,311	559,445,057	38.25%
Total	12,314	1,462,601,460	100%

Professional Profile of the Statutory Auditor

Ernst & Young ("EY") is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in

the region since 1923 and employs over 5,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEA practice, with over 4,000 partners and 100,000 professionals. Globally, EY operates in more than 150 countries and employs 212,000 professionals in 728 offices. Please visit ey.com for more information about EY.

Remuneration of the Statutory Auditor

The professional fees paid/due during the year 2015 are as follows:

Particulars	RO
Audit fees	9,500
Others	245
Total	9,745

Acknowledgement by the Board of Directors

The Board of Directors confirm their responsibility for the preparation of the financial statements in line with International Financial Reporting Standards ("IFRS"), the disclosures requirements of the CMA and the Commercial Companies Law of 1974, as amended. The Board of Directors confirms that it has reviewed the efficiency and adequacy of the internal control systems of the Company,

and is pleased to inform the shareholders that adequate and appropriate internal controls are in place, which are in compliance with the relevant rules and regulations. The Board of Directors confirms that there are no material matters that would affect the continuity of the Company, and its ability to continue its operations during the next financial year.

Brief Profiles of the Directors

Name:	Mr. Khalid Jolo
Position:	Chairman
Education:	Mr. Khalid Jolo holds a degree in Mechanical Engineering from the Faculty of Engineering, Qatar University.
Experience:	Mr. Khalid Jolo has more than 17 years of experience in various capacities like Senior Project Engineer, Project Director, and Business Development Manager. Immediately after his engineering studies, he joined with Ministry of Electricity, Qatar in the mid-1990s. Later, he joined Qatar Electricity & Water Co, Q.S.C. ("QEW") as Senior Project Engineer in 1997. QEW is considered as one of the first private sector companies that operates in the field of power generation and water production in the region, owning and operating power generation and water desalination stations using the most up to-date technologies in the world. He has headed the QEW Business Development team in the recent past, which was very successful in garnering a few of the recent prestigious projects in Qatar. At present, Mr. Jolo, is the Chief Executive Officer for Nebras Power Co.
List of Other Directorships:	In addition to Phoenix Power Company SAOG, Mr. Jolo is also a Director of Ras Girtas Power Company, Qatar and Ras Laffan Power Co., Qatar.

Name:	Mr. Neil Cave		
Position:	Deputy Chairman		
Education:	Mr. Cave holds a degree in Mechanical Engineering, a Masters degree in electrical Power Systems a Masters degree in business and administration.		
Experience:	Mr. Cave is a professional engineer and has 30 years’ of experience in the power industry. After 10 years with turbine manufacturers in construction and commissioning, he spent 5 years in operations management with China Light & Power in Hong Kong. Mr. Cave has worked for Marubeni Europower since 2000 and for Marubeni Power Asset Management Limited since 2011 in various senior roles in business development, operations, construction and management in executive director roles.		
List of Other Directorships:	In addition to Phoenix Power Company SAOG, Mr. Cave is also a director of the following companies:		
	Managing Director	Asia Gulf Power Holding Company	UAE
	Non-Executive Director	Emirates CMS Power Company	UAE
	Non-Executive Director	Ruwais Power Company	UAE
	Non-Executive Director	Fujairah Asia Power Company	UAE
	Non-Executive Director	Mesaieed Power Company	Qatar
	Non-Executive Director	Rabigh Arabian Water and Electricity Company	KSA
	Non-Executive Director	Power Cogeneration Power Company	KSA

Brief Profiles of the Directors (continued)

Name:	Mr. Peter Jones
Position:	Director
Education:	BA degree in Instrumentation and Electronics and a Diploma in Management Studies from IMD (Lausanne, Switzerland) General Management Programme.
Experience:	A career path with a demonstrable track record of success within the UK and International power sectors, covering oil, nuclear, coal, renewable and predominantly CCGT power generation in both merchant and contracted environments. Mr. Jones joined Phoenix Power Company SAOG with a background of over 30 years experience within the electricity supply industry including 12 years spent with PowerGen (both in the UK and internationally) encompassing roles leading to Plant Manager of an oil fired power station in the UK and culminating in Plant Director for a CCGT plant in Budapest, Hungary. This was followed by a period of 10 years with the Swiss Energy Company, Alpiq, where he was Director of Operations and Maintenance for their European power assets, based in Prague, Czech Republic. Immediately prior to joining Phoenix, Mr Jones was Managing Director of Alpiq Power Generation, France, with responsibility for a CCGT business in the central region of the country.
List of Other Directorships:	Mr. Jones does not have any directorship other than Phoenix Power Company SAOG.

Name:	Mr. Kazuaki Shibuya
Position:	Director
Education:	Mr. Shibuya holds a bachelor degree in English Literature.
Experience:	<p>Mr. Shibuya has 21 years of experience in the power generation industry.</p> <p>He is Vice President of Marubeni Middle East & Africa Power responsible for IPP/IWPPs development and management in Middle East and Africa.</p> <p>In 1994, he started his career in Marubeni Corporation as a Commercial Manager and was involved in engineering, procurement and construction contract and IPP development in Southwest Asia for 18 years. During this period, he was stationed in India for execution of EPC Contract of PPN project and marketing, as representative from April 2000 till May 2005. Subsequently, he started IPP/IWPPs development and management in Southwest Asia, Middle East and Africa. Until April 2015, Mr. Shibuya was working as the General Manager of Power Investment Team II, Overseas Power Project Department – IV in Tokyo, in which he was involved in the budget management.</p>
List of Other Directorships:	In addition to Phoenix Power Company SAOG, Mr. Shibuya is also on the board of directors of PPN Power Generating Company.

Brief Profiles of the Directors (continued)

Name:	Mr. Hiromi Sakakibara
Position:	Director
Education:	Mr. Sakakibara holds a Masters degree in Electrical Engineering.
Experience:	<p>Mr. Sakakibara is the General Manager and the Group Manager of the Operations Group, International Business Department of CEPCo, the parent company of Chubu Electric. In this position, he is responsible for IPP/IWPPs operation and management of CEPCo's overseas portfolio.</p> <p>Mr. Sakakibara started his career in CEPCo in 1988 as an Electrical Engineer and has been involved in operation, construction, maintenance and performance management of various thermal power plants of CEPCo and he has served as the head of operation of CEPCo's entire thermal power plants between 2010 and 2012. He has been engaged in overseas consulting, IPP/IWPPs development and operations for more than 10 years.</p>
List of Other Directorships:	Mr. Sakakibara also has directorships in IPP/IWPP projects such as Ratchaburi Power Company (Thailand), CGV (Mexico), MT Falcon (Mexico), Goreway (Canada), and Chubu TT Energy (USA).

Name:	Mr. Masamitsu Suda
Position:	Director
Education:	Mr. Suda holds a Masters degree in Mechanical Engineering
Experience:	<p>Mr. Suda is a Senior Manager of the Operations Group, International Business Department of CEPCo. In this position, he is responsible for the operation and management of IPP/IWPPs in the Middle East area.</p> <p>Mr. Suda started his career in CEPCo in 1991 as a Mechanical Engineer and has been involved in construction, maintenance and performance management of various thermal power plants of CEPCo for more than 8 years. Subsequently, he has been engaged in overseas consulting, IPP/IWPPs development and operations over the last 8 years.</p>
List of Other Directorships:	In addition to Phoenix Power Company SAOG, Mr. Suda also has directorships in Q Power (Qatar), Mesaieed Power Company (Qatar) and a manager position in POMCo.

Brief Profiles of the Key Executive Officers

Name:	Mr. Peter Kevin Jones
Position:	Executive Managing Director
Year of Joining:	2014
Education:	BA degree in Instrumentation and Electronics and a Diploma in Management Studies. IMD (Lausanne, Switzerland) General Management Programme.
Experience:	A career path with a demonstrable track record of success within the UK and international power sectors, covering oil, nuclear, coal, renewable and predominantly CCGT power generation in both merchant and contracted environments. Mr. Jones joined Phoenix Power Company SAOG with a background of over 30 years experience within the electricity supply industry including 12 years spent with PowerGen (both in the UK and internationally) encompassing roles leading to Plant Manager of an oil fired power station in the UK and culminating in Plant Director for a CCGT plant in Budapest, Hungary. This was followed by a period of 10 years with the Swiss Energy Company, Alpiq, where he was Director of Operations and Maintenance for their European power assets, based in Prague, Czech Republic. Immediately prior to joining Phoenix, Mr Jones was Managing Director of Alpiq Power Generation, France, with responsibility for a CCGT business in the central region of the country.

Name:	Mr. Kenji Yugeta
Position:	Chief Financial Officer
Year of Joining:	2015
Education:	Master Degree
Experience:	Mr. Yugeta started his career in 2010 working for Marubeni Corporation and has been involved in the development phase of Sur IPP since the summer of 2010, mainly working on negotiating the project documents and finance agreements. In June 2015, he was appointed as Chief Financial Officer of Phoenix Power Company SAOG.

Name:	Mr. Khalid Al Maawali
Position:	Commercial Manager
Year of Joining:	2014
Education:	Bachelor's Degree in process operation and maintenance engineering from Caledonian Collage of Engineering.
Experience:	Mr. Khalid has over 15 years' experience in power sector, and he has in depth experience in combined cycle power plant. He worked 14 years in operation department as shift charge engineer in BARKA II power plant. He joined Phoenix Power Company SAOG in 2014 as a Commercial Manager. His responsibilities include monitoring the plant performance against approved short and long term business plan, reporting on variances against agreed performance parameters and targets, and ensuring that all statutory and regulatory obligations are met on assigned areas.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PHOENIX POWER COMPANY SAOG

Report on the financial statements

We have audited the accompanying financial statements of Phoenix Power Company SAOG ("the Company"), which comprise the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

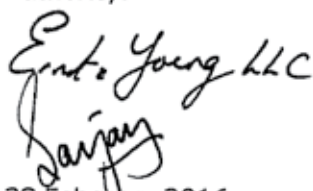
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority.



29 February 2016
Muscat



**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	2015 RO'000	2015 US\$'000	2014 RO'000	2014 US\$'000
Operating revenue	4	101,866	264,931	2,274	5,915
Operating costs	5	(65,094)	(169,295)	(2,272)	(5,907)
Operating profit		36,772	95,636	2	8
Other income	6	23,511	61,147	22,298	57,993
General and administrative expenses	7	(2,057)	(5,348)	(316)	(824)
Finance costs	8	(23,055)	(59,960)	(1,248)	(3,246)
Profit before tax		35,171	91,475	20,736	53,931
Income tax	9	(6,399)	(16,645)	(9,424)	(24,508)
PROFIT FOR THE YEAR		28,772	74,830	11,312	29,423
OTHER COMPREHENSIVE EXPENSE, NET OF TAX					
Items that may be reclassified to profit and loss in subsequent periods:					
Net movement in fair value of cash flow hedges	19	(3,538)	(9,201)	(17,231)	(44,813)
Income tax effect	9	425	1,104	2,068	5,378
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX		(3,113)	(8,097)	(15,163)	(39,435)
TOTAL COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR		25,659	66,733	(3,851)	(10,012)
BASIC EARNINGS PER SHARE (RO/US\$)	10	0.020	0.05	0.010	0.03

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015

	Notes	2015 RO'000	2015 US\$'000	2014 RO'000	2014 US\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	11	600,562	1,561,930	615,745	1,601,417
Current assets					
Trade and other receivables	12	4,303	11,193	13,487	35,076
Inventories	13	10,809	28,112	10,850	28,220
Bank balances	14	20,573	53,507	14,737	38,327
		35,685	92,812	39,074	101,623
TOTAL ASSETS		636,247	1,654,742	654,819	1,703,040
EQUITY AND LIABILITIES					
Equity					
Share capital	15	146,260	380,390	146,260	380,390
Legal reserve	16	4,085	10,624	1,208	3,141
Cumulative changes in fair values	19	(43,324)	(112,675)	(40,211)	(104,578)
Retained earnings		30,182	78,499	10,868	28,270
Total equity		137,203	356,838	118,125	307,223
Non-current liabilities					
Interest bearing loans and borrowings	18	380,112	988,588	402,900	1,047,854
Fair value of derivative financial instruments	19	38,138	99,186	32,874	85,497
Provision for asset retirement obligation	20	4,634	12,051	4,413	11,477
Deferred tax liability	9	9,915	25,788	3,941	10,247
Employees' end of service benefits	21	40	104	23	59
		432,839	1,125,717	444,151	1,155,134
Current liabilities					
Interest bearing loans and borrowings	18	24,048	62,544	22,964	59,725
Dividend payable	17	4,095	10,651	-	-
Accounts payable and accruals	21	26,968	70,138	56,759	147,616
Fair value of derivative financial instruments	19	11,094	28,854	12,820	33,342
		66,205	172,187	92,543	240,683
Total liabilities		499,044	1,297,904	536,694	1,395,817
TOTAL EQUITY AND LIABILITIES		636,247	1,654,742	654,819	1,703,040
Net assets per share (RO/US\$)	22	0.094	0.24	0.081	0.21

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 29 February 2016.

Director

Director

The attached notes 1 to 28 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	Share capital	Legal reserve	Cumulative changes in fair values	Retained earnings	Total
		RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2014		500	77	(25,048)	687	(23,784)
Profit for the year		-	-	-	11,312	11,312
Other comprehensive expense		-	-	(15,163)	-	(15,163)
Total comprehensive expense		-	-	(15,163)	11,312	(3,851)
Transfer to legal reserve	16	-	1,131	-	(1,131)	-
Increase in share capital	15	145,760	-	-	-	145,760
Balance at 31 December 2014		<u>146,260</u>	<u>1,208</u>	<u>(40,211)</u>	<u>10,868</u>	<u>118,125</u>
Balance at 1 January 2015		146,260	1,208	(40,211)	10,868	118,125
Profit for the year		-	-	-	28,772	28,772
Other comprehensive expense		-	-	(3,113)	-	(3,113)
Total comprehensive expense		-	-	(3,113)	28,772	25,659
Dividend paid - 2014	17	-	-	-	(2,486)	(2,486)
Dividend payable - 2014	17	-	-	-	(4,095)	(4,095)
Transfer to legal reserve	16	-	2,877	-	(2,877)	-
Balance at 31 December 2015		<u>146,260</u>	<u>4,085</u>	<u>(43,324)</u>	<u>30,182</u>	<u>137,203</u>

The attached notes 1 to 28 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	Share capital	Legal reserve	Cumulative changes in fair values	Retained earnings	Total
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2014		1,300	199	(65,143)	1,789	(61,855)
Profit for the year		-	-	-	29,423	29,423
Other comprehensive expense		-	-	(39,435)	-	(39,435)
Total comprehensive expense		-	-	(39,435)	29,423	(10,012)
Transfer to legal reserve	16	-	2,942	-	(2,942)	-
Increase in share capital	15	379,090	-	-	-	379,090
Balance at 31 December 2014		<u>380,390</u>	<u>3,141</u>	<u>(104,578)</u>	<u>28,270</u>	<u>307,223</u>
Balance at 1 January 2015		380,390	3,141	(104,578)	28,270	307,223
Profit for the year		-	-	-	74,830	74,830
Other comprehensive expense		-	-	(8,097)	-	(8,097)
Total comprehensive expense		-	-	(8,097)	74,830	66,733
Dividend paid - 2014	17	-	-	-	(6,467)	(6,467)
Dividend payable - 2014	17	-	-	-	(10,651)	(10,651)
Transfer to legal reserve	16	-	7,483	-	(7,483)	-
Balance at 31 December 2015		<u>380,390</u>	<u>10,624</u>	<u>(112,675)</u>	<u>78,499</u>	<u>356,838</u>

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 RO'000	2015 US\$'000	2014 RO'000	2014 US\$'000
Operating Activities					
Profit before tax		35,171	91,475	20,735	53,931
Adjustments for :					
Depreciation	11	15,903	41,360	934	2,428
Interest – term loans and swap settlements		21,235	55,227	1,110	2,887
Amortisation of deferred finance costs	8	1,260	3,278	107	278
Asset retirement obligation - unwinding of discount	8	221	574	12	32
Accruals for employees' end of service benefits	21	17	45	12	31
		73,807	191,959	22,910	59,587
Working capital changes:					
Trade and other receivables		9,184	23,883	(13,204)	(34,344)
Accounts payable and accruals		(29,791)	(77,478)	36,037	93,727
Inventories		41	108	(10,850)	(28,220)
Cash generated from operations		53,241	138,472	34,893	90,750
Interest – term loans and swap settlements		(21,235)	(55,227)	(1,110)	(2,887)
Income tax paid		-	-	(100)	(261)
Employees' end of service benefits paid	21	-	-	(16)	(42)
Cash generated from operating activities		32,006	83,245	33,667	87,560
Investing Activities					
Additions to property, plant and equipment		(720)	(1,873)	(45,828)	(119,190)
Net cash used in investing activities		(720)	(1,873)	(45,828)	(119,190)
Financing Activities					
Increase in share capital	15	-	-	145,760	379,090
Dividend paid	17	(2,486)	(6,467)	-	-
Repayment/proceeds from interest bearing loans and borrowings	18	(22,964)	(59,725)	24,476	63,657
Repayment of equity bridge loan		-	-	(145,760)	(379,090)
Net cash (used in)/from financing activities		(25,450)	(66,192)	24,476	63,657
Increase In Cash And Cash Equivalents					
Cash and cash equivalents at 1 January		14,737	38,327	2,422	6,300
Cash And Cash Equivalents At 31 December	14	20,573	53,507	14,737	38,327

The attached notes 1 to 28 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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.

2.2 Accounting policies

For the year ended 31 December 2015, the Company has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for year beginning on 1 January 2015.

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements 2010-2012 Cycle
 - IFRS 2 Share-based Payment
 - IFRS 3 Business Combinations
 - IFRS 8 Operating Segments
 - IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
 - IAS 24 Related Party Disclosures
- Annual Improvements 2011-2013 Cycle
 - IFRS 3 Business Combinations
 - IFRS 13 Fair Value Measurement
 - IAS 40 Investment Property

The adoption of these standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current year.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies adopted by the Company are as follows :

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Revenue comprises tariffs for power capacity, electrical energy and fuel charges. Tariffs are calculated in accordance with the PPA. Capacity charge payable to the Company for each hour during which the plant is available for power generation. Capacity charges income is recognised on a straight line basis over the lease term. Energy charge revenue which compensates the Company for the fuel and variable cost of power is recognised based on the supply of generated power. The operating revenue is recognised by the Company on an accrual basis of accounting. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

2.4 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the profit or loss on a straight line basis over the lease term.

2.5 Interest income

Interest income is recognised in the profit or loss as it accrues, taking into account the effective yield on the asset.

2.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

2.7 Deferred financing costs

The cost of obtaining long-term financing is deferred and amortised over the period of the long term loan using the effective interest rate method. Deferred financing costs less accumulated amortisation are offset against the amount of the term loans. The amortisation of the deferred financing costs is charged to the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Income tax

Taxation is provided for in accordance with Omani fiscal regulations.

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Income tax relating to items recognised directly in equity is recognised in equity and not in the profit or loss.

2.9 Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Capital work in progress is recorded at cost less impairment, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs for long-term construction projects if the recognition criteria are met.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss, when the asset is derecognised.

Depreciation is calculated using the straight-line method to allocate the cost less its residual value so as to write off items of property, plant and equipment over their estimated useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of an item is depreciated separately. The estimated useful lives are as follows:

	Years
Plant and machinery	40
Plant building	40
Strategic spares	15
Other assets	5

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Plant and equipment (continued)

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

Spare parts that are major components of plant and machinery are recorded as capital spares upon purchase and depreciated over the useful life of related plant and equipment.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if applicable.

2.10 Trade receivable

Trade receivables are stated at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise purchase cost, and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances and short term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

2.13 Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income.

2.14 Dividend

The Board of Directors takes into account appropriate parameters including the requirements of the Capital Market Authority while recommending the dividend. Dividends on ordinary shares are recognised when they are approved for payment.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method (EIR).

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the profit or loss.

2.16 Derivative financial instruments

The Company enters into derivative instruments mainly interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

The Company also uses forward exchange contracts to hedge its risk associated primarily with foreign currency fluctuations relating to services to be received from contractor under long term supply and services contract for gas turbines. These are included in the statement of financial position at fair value and any resultant gain or loss is recognised in the statement of changes in equity and subsequently adjusted against the cost of services received.

The fair values of derivative instruments are included in other receivables in case of favourable contracts and other payables in case of unfavourable contracts.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting years for which they were designated.

Cash flow hedges are those which hedge exposure to variability in cash flows of a recognised asset or liability or a forecast transaction.

The fair value of interest rate swap contracts is calculated based on discounted cash flows using current forward interest rate for items with the same maturity. The fair value of forward contracts is estimated based on observable market inputs for such contracts as on the reporting date.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Derivative financial instruments (continued)

Amounts taken to equity are transferred to the profit or loss when the hedged transaction affects the profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the profit or loss for the year.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

2.17 Asset retirement obligation

The provision for asset retirement obligation arose on assets constructed on land under usufruct contracts with Public Establishment for Industrial Estate. A corresponding asset is recognised in property, plant and equipment. The asset retirement obligation is provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre tax rate that reflects the risks specific to the asset retirement obligation. The unwinding of the discount is expensed as incurred and recognised in the statement of income as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

2.18 Account payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

2.19 Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

2.20 Employees' end of service benefits

The Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period and is payable under the Omani Labor Law issued under Royal Decree.

Obligations for contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as an expense in the statement of profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts and;
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

2.22 Impairment and un-collectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Impairment and un-collectability of financial assets (continued)

Impairment is determined as follows:

- a. For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the profit or loss;
- b. For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- c. For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

2.23 Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised earlier.

2.24 Fair Values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

**NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2015**

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Fair Values (continued)

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. The fair value of unquoted derivatives is determined by reference to broker/dealer price.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable quotations.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.25 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic decisions maker. The Company's operating activities are disclosed in note 1 to the financial statements. The strategic business unit offers similar products and services and is managed as one segment. For the strategic business unit, the Executive Managing Director reviews internal management reports on a monthly basis. Performance is measured based on the profit before income tax, as included in the internal management reports. The Executive Managing Director considers the business of the Company as one operating segment and monitors accordingly.

2.26 Critical accounting judgments and key sources of estimation uncertainty

The presentation of financial statements, in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, incomes and expenditures. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Critical accounting judgments and key sources of estimation uncertainty (continued)

The following are the significant estimates used in the preparation of the financial statements:

a) Useful lives of property, plant and equipment

Depreciation is charged so as to write-off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating life, the maintenance programs, and normal wear and tear using its best estimates.

b) Asset retirement obligation

Asset retirement obligation costs are based on management's technical assessment of the probable future costs to be incurred in respect of the decommissioning of the plant facilities.

c) Impairment of plant spares

The carrying amounts of the Company's plant and spares are reviewed at each reporting date to determine whether there is any indication of impairment. Based on management assessment, there is no indicator of impairment of plant spares as at the reporting date.

d) Liquidated damages

The Company has made certain assumption to record liquidated damages, which are explained in notes 21 and 6.

e) Deferred taxation

Deferred tax asset amounting to US\$ 23.64 million (2014: US\$ nil) has not been recognised in profit or loss relating to the carried forward losses amounting to US\$ 197 million, which are expected to expire within a period of five years from the year of origination of taxable loss. The Company has accounted for a deferred tax asset only for the carried forward losses which are expected to be utilised against the taxable profits to be generated in future. The related details are set out in note 9.

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2015 and may impact the Company:

IFRS 9: Financial Instruments

IFRS 9: In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but comparative information is not compulsory. The Company has performed a high-level impact assessment of all three aspects of IFRS 9 and expects no significant impact on its balance sheet and equity. The Company plans to adopt the new standard on the required effective date.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15: IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plan to adopt the new standard on the required effective date. The Company is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

IFRS 16 Leases

The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The Company will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.

4 OPERATING REVENUE

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Capacity charges	64,492	167,730	1,415	3,681
Energy charges	37,374	97,201	859	2,234
	101,866	264,931	2,274	5,915

5 OPERATING COSTS

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Gas consumption	35,243	91,660	772	2,008
Depreciation (note 11)	15,896	41,343	929	2,415
Operation and maintenance cost	6,566	17,078	230	599
Contractual services maintenance cost	5,141	13,370	208	541
Insurance	869	2,259	46	120
Other direct costs	840	2,185	55	141
Connection and license fee	539	1,400	32	83
	65,094	169,295	2,272	5,907

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

6 OTHER INCOME

In accordance with the PPA, the scheduled early power commencement date (EPCD) was due on 1 April 2013, and the Scheduled PCOD was due on 1 April 2014. The Company's EPC Contractor did not achieve the Early Power Commencement Date during the 6 months of early power period and the Commercial Operation Date was delayed until 10 December 2014.

For the year ended 31 December 2015, other income includes:

- US\$ 2.648 million (RO 1.018 million) pertaining to the liquidated damages (LD) invoiced to EPC Contractor for the remaining period of EPCD after adjusting settlement reached pertaining to EPCD in December 2015 (2014: LD invoiced to EPC Contractor for EPCD for the period between 1 May and 31 July 2013 amounting to US\$ 18.261 million (RO 7.021 million); and
- US\$ 58.498 million (RO 22.493 million) towards LD for the period between 1 June 2014 to 5 August 2014 for delay to the PCOD which Company considers to be reasonably certain based on Company's assessment of the developments with regard to claims till date and in consultation with the Company's legal counsel (2014: LD invoiced to EPC Contractor for the period of 1 April 2014 to 31 May 2014 for the delay to the PCOD amounting to US\$ 39.732 million (RO 15.277 million).

7 GENERAL AND ADMINISTRATIVE EXPENSES

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Staff costs and other benefits	728	1,894	133	345
Legal and professional charges	646	1,679	96	250
Other expenses	636	1,654	57	151
Office rent	40	104	25	65
Depreciation (note 11)	7	17	5	13
	2,057	5,348	316	824

8 FINANCE COSTS

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Interest – term loans and swap settlements	21,235	55,227	1,110	2,887
Amortisation of deferred finance cost	1,260	3,278	107	278
Asset retirement obligation - unwinding of discount (note 20)	221	574	12	32
Debt service commission	45	116	-	-
Exchange loss	294	764	19	49
	23,055	59,960	1,248	3,246

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2015

9 INCOME TAX

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
a) Recognised in the income statement in the current year Deferred tax expense	<u>(6,399)</u>	<u>(16,645)</u>	<u>9,424</u>	<u>24,508</u>

b) Deferred tax asset (liability)

Recognised deferred tax asset and liabilities are attributable to the following items:

	As at 1 January 2015 RO'000	Recognised in profit or loss RO'000	Recognised in other comprehensive expense RO'000	As at 31 December 2015 RO'000
Property, plant and equipment	(9,953)	(6,595)	-	(16,548)
Provision for asset retirement obligation	529	27	-	556
Losses carried forward	-	169	-	169
Fair value adjustment of derivatives through equity	<u>5,483</u>	<u>-</u>	<u>425</u>	<u>5,908</u>
Net deferred tax asset (liability)	<u>(3,941)</u>	<u>(6,399)</u>	<u>425</u>	<u>(9,915)</u>

	As at 1 January 2015 US\$'000	Recognised in profit or loss US\$'000	Recognised in other comprehensive expense US\$'000	As at 31 December 2015 US\$'000
Property, plant and equipment	(25,885)	(17,154)	-	(43,039)
Provision for asset retirement obligation	1,377	69	-	1446
Losses carried forward	-	440	-	440
Fair value adjustment of derivatives through equity	<u>14,261</u>	<u>-</u>	<u>1,104</u>	<u>15,365</u>
Net deferred tax asset (liability)	<u>(10,247)</u>	<u>(16,645)</u>	<u>1,104</u>	<u>(25,788)</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

9 INCOME TAX (continued)

	As at 1 January 2014 RO'000	Recognised in profit or loss RO'000	Recognised in other comprehensive expense RO'000	As at 31 December 2014 RO'000
Property, plant and equipment	-	(9,953)	-	(9,953)
Provision for asset retirement obligation	-	529	-	529
Fair value adjustment of derivatives through equity	3,415	-	2,068	5,483
Net deferred tax asset (liability)	<u>3,415</u>	<u>(9,424)</u>	<u>2,068</u>	<u>(3,941)</u>

	As at 1 January 2014 US\$'000	Recognised in profit or loss US\$'000	Recognised in other comprehensive expense US\$'000	As at 31 December 2014 US\$'000
Property, plant and equipment	-	(25,885)	-	(25,885)
Provision for asset retirement obligation	-	1,377	-	1,377
Fair value adjustment of derivatives through equity	8,883	-	5,378	14,261
Net deferred tax asset (liability)	<u>8,883</u>	<u>(24,508)</u>	<u>5,378</u>	<u>(10,247)</u>

Reconciliation of income tax expense

The tax rate applicable to the Company is 12% (2014: 12%). For the purpose of determining the taxable results for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

The Company has incurred a tax loss during the year. Therefore the applicable tax rate is nil. The average tax rate cannot be determined in view of the tax loss.

As of 31 December 2015, none of the Company's tax assessments have been completed by the Omani taxation authorities.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

10 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Profit attributable to ordinary shareholders of the Company for basic earnings per share	28,772	74,830	11,312	29,423
Weighted average number of shares (in 000's)	1,462,601	1,462,601	1,098,200	1,098,200
Basic earnings per share (RO)	0.020	-	0.010	-
Basic earnings per share (US\$)	-	0.05	-	0.03

Since the shares were split during 2015 without consideration, for the purpose of calculating earnings per share, the split is treated as if it had occurred at the beginning of 2015.

11 PROPERTY, PLANT AND EQUIPMENT

	Plant building	Plant and equipment	Strategic spares	Asset retirement	Other assets	Total
Cost	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2015	83,876	517,486	10,809	4,401	107	616,679
Additions during the year	-	601	-	-	119	720
At 31 December 2015	83,876	518,087	10,809	4,401	226	617,399

Accumulated depreciation

At 1 January 2015	121	744	42	6	21	934
Charge during the year	2,097	12,950	721	110	25	15,903
At 31 December 2015	2,218	13,694	763	116	46	16,837

Net book value

At 31 December 2015	81,658	504,393	10,046	4,285	180	600,562
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NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	Plant building	Plant and equipment	Strategic spares	Asset retirement	Other assets	Total
Cost	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Transfer from capital work in progress (refer note below)	83,876	517,486	10,809	-	107	612,278
Additions during the year	-	-	-	4,401	-	4,401
At 31 December 2014	83,876	517,486	10,809	4,401	107	616,679
Accumulated depreciation						
Charge during the year	121	744	42	6	21	934
At 31 December 2014	121	744	42	6	21	934
Net book value						
At 31 December 2014	83,755	516,742	10,767	4,395	86	615,745

The Company had achieved the commercial operation date on 11 December 2014 and commenced depreciating its assets from that date. Depreciation amounting to US\$ 41,343 thousands (RO 15,896 thousands) and US\$ 17 thousands (RO 7 thousands) is included under operating costs and general and administrative expenses respectively.

Borrowing costs amounting to US\$ 131,533 thousands (RO 50,574 thousands) incurred during the plant construction period is capitalised.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2015

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	Plant building	Plant and equipment	Strategic spares	Asset retirement	Other assets	Total
Cost	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2015	218,142	1,345,868	28,113	11,445	277	1,603,845
Additions during the year	-	1,564	-	-	309	1,873
At 31 December 2015	218,142	1,347,432	28,113	11,445	586	1,605,718
Accumulated depreciation						
At 1 January 2015	314	1,936	108	16	54	2,428
Charge during the year	5,453	33,681	1,874	286	66	41,360
At 31 December 2015	5,767	35,617	1,982	302	120	43,788
Net book value						
At 31 December 2015	212,375	1,311,815	26,131	11,143	466	1,561,930

	Plant building	Plant and equipment	Strategic spares	Asset retirement	Other assets	Total
Cost	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Transfer from capital work in progress (refer note below)	218,142	1,345,868	28,113	-	277	1,592,400
Additions during the year	-	-	-	11,445	-	11,445
At 31 December 2014	218,142	1,345,868	28,113	11,445	277	1,603,845
Accumulated depreciation						
Charge during the year	314	1,936	108	16	54	2,428
At 31 December 2014	314	1,936	108	16	54	2,428
Net book value						
At 31 December 2014	217,828	1,343,932	28,005	11,429	223	1,601,417

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

11 PROPERTY, PLANT AND EQUIPMENT (continued)

Capital work in progress

	2014	2014
	RO'000	US\$'000
Opening balance	566,450	1,473,210
Additions during the year	66,861	173,892
Transferred	(633,311)	(1,647,102)
Closing balance	-	-
Transferred to:		
Plant building	(83,876)	(218,142)
Plant and machinery	(517,486)	(1,345,868)
Strategic spares	(10,809)	(28,113)
Other assets	(107)	(277)
Property, plant and equipment	(612,278)	(1,592,400)
Inventories	(10,854)	(28,229)
Unamortised transaction costs	(10,179)	(26,473)
	(633,311)	(1,647,102)

Capital work in progress included US\$ 26.4 million (RO 10.2 million) towards deferred finance charges. These were in the nature of directly attributable transaction costs for interest bearing loans and borrowings. In 2014, these were adjusted against loans as loans were fully drawn down during 2014 and are amortised accordingly.

12 TRADE AND OTHER RECEIVABLES

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Trade receivables	3,842	9,993	2,770	7,203
Other receivables	397	1,033	12	30
Prepayments	64	167	67	175
Receivable from EPC contractor	-	-	10,638	27,668
	4,303	11,193	13,487	35,076

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

13 INVENTORIES

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Fuel oil inventory	5,545	14,422	5,675	14,760
Maintenance spares	5,264	13,690	5,175	13,460
	<u>10,809</u>	<u>28,112</u>	<u>10,850</u>	<u>28,220</u>

14 BANK BALANCES

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Bank balances	20,573	53,507	14,737	38,327
	<u>20,573</u>	<u>53,507</u>	<u>14,737</u>	<u>38,327</u>

15 SHARE CAPITAL

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Authorised, issued and fully paid up share capital of 1,462,601,460 shares of 100 Baiza (US\$ 0.26) each (2014 – 146,260,146 shares of RO 1 each)	<u>146,260</u>	<u>380,390</u>	<u>146,260</u>	<u>380,390</u>

During 2014, the shareholders resolved to increase the Company's share capital from US\$ 1,300 thousands (RO 500 thousands) to US\$ 380,390 thousands (RO 146,260 thousands).

In the Company's extra ordinary shareholders' meeting held on 16 April 2015, the shareholders unanimously approved amendment to Articles of Association resulting in split of nominal value of the Company's shares from RO 1 per share to 100 Baiza per share. As a result number of shares increased from 146,260,146 to 1,462,601,460 during the year.

16 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.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

17 DIVIDEND PAID, PAYABLE AND PROPOSED

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.

Subject to approval of the shareholders at the Annual General Meeting ("AGM"), the Board of Directors in their meeting held on 29 February 2016 proposed a 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.

18 INTEREST BEARING LOANS AND BORROWINGS

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Secured term loan from commercial banks	121,139	315,055	127,875	332,574
Secured term loan from Japan Bank for International Cooperation	231,264	601,468	244,124	634,914
Secured term loan under NEXI facilities	60,569	157,527	63,937	166,287
	412,972	1,074,050	435,936	1,133,775
Less : Deferred finance costs	(8,812)	(22,918)	(10,072)	(26,196)
	404,160	1,051,132	425,864	1,107,579
Less : Current portion of loans	(24,048)	(62,544)	(22,964)	(59,725)
Non-current portion of loans	380,112	988,588	402,900	1,047,854

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

18 INTEREST BEARING LOANS AND BORROWINGS (continued)

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 Company in order to manage its interest rate risk has entered into certain interest rate swap arrangements, the details of which are set out in note 20.

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.

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Cumulative changes in fair value:				
Interest rate swap agreements	36,824	95,770	39,450	102,600
Forward foreign exchange contracts	12,408	32,270	6,244	16,239
Fair value of derivatives	49,232	128,040	45,694	118,839
Less : Income tax effect (note 9)	(5,908)	(15,365)	(5,483)	(14,261)
	43,324	112,675	40,211	104,578

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

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Non-current portion	38,138	99,186	32,874	85,497
Current portion	11,094	28,854	12,820	33,342
	49,232	128,040	45,694	118,839

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swap agreements (continued)

In accordance with the requirements of its Commercial facilities, NEXI facilities and Term Loan facilities agreement with Japan Bank for International Corporation ("Secured Term Loan agreements"), the Company has entered into seven interest rate hedging agreements with a view to cap the Company's exposure to fluctuating interest rates. The maximum loan amount covered during the tenure is US\$ 1,152 million. Under the hedging agreements, the Company pays a fixed interest rate between 3.102 % to 3.75 % per annum as per the respective swap agreement and receives a floating interest rate based on US\$ LIBOR with effective dates starting from 28 February 2013/28 March 2013 till 28 December 2028. As at 31 December 2015, an unrealised loss of US\$ 95.77 million (2014: US\$ 102.6 million) relating to measuring the financial instrument at fair value is included in equity in respect of these contracts.

The table below shows the negative fair value of the derivative financial instrument relating to secured term loan agreements, which is equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31 December 2015		Notional amounts by term to maturity			
	Fair value of derivatives	Notional amount	1 - 12 Months	More than 1 up to 5 years	Over 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000
Interest rate swaps	36,824	392,267	22,842	102,402	267,023
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Interest rate swaps	95,770	1,020,200	59,408	266,324	694,468

31 December 2014		Notional amounts by term to maturity			
	Fair value of derivatives	Notional amount	1 - 12 Months	More than 1 up to 5 years	Over 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000
Interest rate swaps	39,450	414,082	21,815	97,348	294,919
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Interest rate swaps	102,600	1,076,937	56,737	253,182	767,018

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

All of these interest rate swaps are designated as effective cash flow hedges and the fair value thereof has been dealt with in equity.

Forward foreign exchange contracts

In order to reduce its exposure to foreign exchange rates fluctuations relating to payments to be made to contractor for services rendered under long term supply and services contract for gas turbines, the Company has entered into a foreign exchange swap agreement with a bank for the foreign exchange amounts which are required to be paid in future. As at 31 December 2015, an unrealised loss of US\$ 32.27 million (2014 : US\$ 16.239 million) relating to measuring the financial instrument at fair value is included in equity in respect of these contracts. The related details are set out below:

31 December 2015		Notional amounts by term to maturity			
	Fair value of derivatives	Notional amount	1 - 12 months	More than 1 up to 5 years	Over 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000
Forward foreign exchange contracts	<u>12,408</u>	<u>76,171</u>	<u>5,879</u>	<u>23,446</u>	<u>46,846</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Forward foreign exchange contracts	<u>32,270</u>	<u>198,103</u>	<u>15,289</u>	<u>60,977</u>	<u>121,837</u>
31 December 2014		Notional amounts by term to maturity			
	Fair value of derivatives	Notional amount	1 - 12 Months	More than 1 up to 5 years	Over 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000
Forward foreign exchange contracts	<u>6,244</u>	<u>82,046</u>	<u>5,875</u>	<u>23,454</u>	<u>52,717</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Forward foreign exchange contracts	<u>16,239</u>	<u>213,383</u>	<u>15,280</u>	<u>60,999</u>	<u>137,104</u>

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

20 PROVISION FOR ASSET RETIREMENT OBLIGATION

Under the Usufruct Agreement, the Company has a legal obligation to remove the plant at the end of its useful life and restore the land. The Company shall at its sole cost and expense dismantle, demobilise, safeguard and transport the assets, eliminate soil and ground water contamination, fill all excavation and return the surface to grade of the designated areas. The fair value of asset retirement obligation (ARO) provision has been calculated using an expected present value technique. This technique reflects assumptions such as costs, plant useful life, inflation and profit margin that third parties would consider to assume the settlement of the obligation.

The movement in ARO provision is as follows:

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
As at 1 January	4,413	11,477	-	-
Additions	-	-	4,401	11,445
Unwinding of discount (note 8)	221	574	12	32
As at 31 December	4,634	12,051	4,413	11,477

21 ACCOUNTS PAYABLE AND ACCRUALS

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Trade accounts payable	1,620	4,213	5,993	15,586
Amounts due to related parties (note 24)	588	1,530	330	858
Accrued expenses	3,902	10,150	4,313	11,216
Other payables	20,898	54,349	46,146	120,015
	27,008	70,242	56,782	147,675
Less: employees' end of service benefits included in accruals	(40)	(104)	(23)	(59)
	26,968	70,138	56,759	147,616

- i) The liquidated damages amounting to USD 179.704 million (RO 69.096 million) (2014: USD 179.704 million (RO 69.096 million)) were levied by the Company to date and either they have been withheld from progress payments to be made by the Company or paid in cash by the EPC Contractor. As of 31 December 2015, The following balances are included in other payables:

- Liquidated damages amounting to USD nil (RO nil) [2014 : USD 8.648 million (RO 3.325 million)] pertaining to EPCD.
- Liquidated damages amounting to USD 52.014 million (RO 20 million) [2014 : USD 110.512 million (RO 42.492 million)] pertaining to PCOD.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

21 ACCOUNTS PAYABLE AND ACCRUALS (continued)

ii) Employees' end of service benefits

	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
As at 1 January	23	59	27	70
Charge for the year	17	45	12	31
Paid during the year	-	-	(16)	(42)
As at 31 December	40	104	23	59

22 NET ASSETS PER SHARE

Net assets per share is calculated by dividing the equity attributable to the shareholders of the Company at the reporting date by the number of shares outstanding as follows:

	2015	2015	2014	2014
	RO	US\$	RO	US\$
Net assets (RO '000s/US\$ '000s)	137,203	356,838	118,125	307,223
Number of shares outstanding at 31 December (in 000's)	1,462,601	1,462,601	1,462,601	1,462,601
Net assets per share (RO)	0.094	-	0.081	-
Net assets per share (US\$)	-	0.24	-	0.21

Since the shares were split during 2015 without consideration, for the purpose of calculating net assets per share, the split is treated as if it had occurred at the beginning of 2015.

23 CONTINGENCIES

(a) Guarantees

At 31 December 2015, the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to USD nil (RO nil) [2014 : US\$ 130 million (RO 50 million)].

(b) Claims

i) For the Early Power, the EPC Contractor submitted to the Company a Claim totaling USD 69.1 million (RO 26.6 million) corresponding to an extension of time relating to delay in supply of gas and 220kV back-feed. The Company rejected this Claim, therefore the Claim was subsequently progressed through an Expert determination process, and in May 2014, the Expert made a decision that the EPC Contractor is not entitled to any relief, and therefore, the Company is entitled to retain the liquidated damages deducted for the entirety of the early power period. Consequently, in July 2014, the EPC Contractor raised the matter to the arbitration. During 2015, the EPC Contractor requested the suspension of the arbitration process and an amicable settlement was negotiated with a final settlement agreement being signed between the two parties in December 2015 with the arbitration proceedings then being terminated. As a result this matter is fully resolved as of 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

23 CONTINGENCIES (continued)

- ii) A second Claim for delays to Final Power (PCOD) was submitted by the EPC Contractor in September 2014, with the EPC Contractor requesting for a time extension. This Claim was subsequently revised by the Contractor and resubmitted in mid 2015, the amount claimed by the EPC Contractor was approximately US \$63M corresponding to an extension of time of 86 days relating mainly to the grid restriction during the commissioning and construction period. Following discussions between the EPC Contractor and the Company, the number of days in dispute has been reduced to 77 days. Although EPC Contractor is yet to issue a revised monetary value, the Company believes that corresponding claim amount will reduce. Currently, the Company continues to evaluate the Final Power dispute and subject to EPC Contractor's ability to demonstrate it is entitled to an extension of time, the Company remains of the view that the EPC Contractor was delayed in its own works. In case the result shows otherwise, the Company will in such case forward the Claim to OPWP and keep its neutral position. Accordingly management believes that no provision is required in the financial statement as at 31 December 2015.

24 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	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Other related party - Phoenix Operation and Maintenance Company LLC	588	1,530	330	558
Income statement transactions	2015	2015	2014	2014
	RO'000	US\$'000	RO'000	US\$'000
Management fees charged by shareholders:				
Axia Power Holdings	41	107	2	6
Chubu Electric Power	25	64	2	4
Qatar Electricity and Water Company	12	32	1	2
Bahwan Multitec LLC	4	11	-	1
	82	214	5	13
Operation and maintenance costs				
Phoenix Operation and Maintenance Company LLC	5,997	15,598	230	599
Other related parties	68	178	14	36
	6,065	15,776	244	635
Key management compensation :				
Short-term benefits	237	616	25	64
Employees' end of service benefits	6	15	-	-
	243	631	25	64

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

25 COMMITMENTS

(a) EPC and other project related commitments

The Company entered into an EPC contract with Daewoo Engineering and Construction Co. Ltd. in accordance with the terms of the contract, the Company has paid US \$ 1,235 million for the engineering, procurement and construction of the Sur IPP Project. As at 31 December 2015, an amount of US\$ nil (2014: US\$ 11.1 million) is committed to be paid in future in accordance with the dates set out in the agreement.

(b) Other 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.

26 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including interest rate risk, liquidity risk and credit risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by the management under policies approved by the Board of Directors.

Financial risk factors

(a) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. To manage this, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. The details of Company's interest rate swap agreements are set out in note 19.

(b) Liquidity risk

The Company maintains sufficient and approved bank credit limits to meet its obligations as they fall due for payment and is therefore not subjected to significant liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2015

26 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

The table below summarises the maturities of the Company's financial liabilities at 31 December 2015.

	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
2015	RO'000	RO'000	RO'000	RO'000	RO'000
Trade and other accounts payable	26,380	-	-	-	26,380
Amounts due to related parties	588	-	-	-	588
Interest bearing loans and borrowings	-	44,211	175,827	342,904	562,942
	26,968	44,211	175,827	342,904	589,910
	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
2014					
Trade and other accounts payable	56,430	-	-	-	56,430
Amounts due to related parties	330	-	-	-	330
Interest bearing loans and borrowings	-	44,164	220,038	342,904	607,106
	56,760	44,164	220,038	342,904	663,866

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2015

26 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

	Less than 3 months US\$'000	3 to 12 Months US\$'000	1 to 5 years US\$'000	More than 5 years US\$'000	Total US\$'000
2015					
Trade and other accounts payable	68,608	-	-	-	68,608
Amounts due to related parties	1530	-	-	-	1530
Interest bearing loans and borrowings	-	114,984	457,287	891,819	1,464,090
	70,138	114,984	457,287	891,819	1,534,228
	Less than 3 months US\$'000	3 to 12 Months US\$'000	1 to 5 years US\$'000	More than 5 years US\$'000	Total US\$'000
2014					
Trade and other accounts payable	146,759	-	-	-	146,759
Amounts due to related parties	858	-	-	-	858
Interest bearing loans and borrowings	-	114,860	572,271	891,819	1,578,950
	<u>147,617</u>	<u>114,860</u>	<u>572,271</u>	<u>891,819</u>	<u>1,726,567</u>

(c) Currency risk

The Company's majority of foreign currency transactions are denominated in Rial Omani and Euro. As the Rial Omani is pegged to the US Dollar the transactions are not expected to have any significant currency risk. The Company has entered into forward foreign exchange contracts to hedge its Euro exchange risk arising on certain payments to be made in Euro as per its agreement with Siemens. The details of which are set out in note 19. The Company's certain bank balances are denominated in Euro. The Company's bank balance denominated in Euro as of 31 December 2015 amounted to US\$ 2,169 thousands (RO 834 thousands) [2014: US\$ 1,032 thousands (RO 397 thousands)]. Should the exchange rate between Euro and RO fluctuate by $\pm 5\%$, the impact on the Company's results will be US\$ 109 thousands (2014: RO 52 thousands).

**NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2015**

26 FINANCIAL RISK MANAGEMENT (continued)

(d) Capital risk management

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2015.

27 FAIR VALUE FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets, financial liabilities and derivatives.

Financial assets consist of cash and bank balances and other receivables. Financial liabilities consist of interest bearing loans and borrowings and payables. Derivatives consist of interest rate swap arrangements and forward foreign exchange currency contracts.

The fair values of financial instruments are not materially different from their carrying values. The derivatives are fair valued using level 2 technique with reference to broker/dealer price quotation.

28 COMPARATIVE FIGURES

Certain of the corresponding figures for 2014 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit or shareholder's equity.