PHOENIX POWER COMPANY SAOG

ANNUAL REPORT 2017

Generating for Generations

His Majesty Sultan Qaboos Bin Said

Contents

Board of Directors and Key Executive Officers

Board of Directors		Representing
Mr. Khalid Jolo	Chairman	Nebras Power Q.S.C
Mr. Neil Cave	Deputy Chairman	
Mr. Carlos Alcazar	Director	
Mr. Tomoki Nishino	Director	Axia Power Holdings B.V.
Mr. Wataru Motomiya	Director	Chubu Electric Power Sur B.V.
Mr. Masamitsu Suda	Director	

Key Executive Officers	
Mr. Peter Kevin Jones	Chief Executive Officer
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 2017.

The Company, incorporated in 2011, owns and operates the 2000 MW Sur Independent Power Plant ("the Plant"), located in the Sur industrial area, approximately 175km south-east of Muscat. Phoenix Power currently generates its revenues pursuant to a 15-year term Power Purchase Agreement ("PPA") with Oman Power and Water Procurement Company SAOC ("OPWP") and purchases gas from the Ministry of Oil and Gas ("MoG") under a 15-year Natural Gas Sales Agreement ("NGSA"). The operations and maintenance of the plant is subcontracted to Phoenix Operation and Maintenance Company LLC ("POMCo" or "the Operator") under a 15-year Operation and Maintenance Agreement.

Health, Safety and Environment

Ensuring high standards of Health, Safety and Environmental performance continues to be given a high priority by the Company and its Operator, POMCo and during the year there were no Lost Time Accidents ("LTA") or environmental incidents occurring. As at 31st December 2017, the Company has achieved 1117 days without an LTA. As part of an annual review process, the health, safety, environmental and quality processes of both the Company and the Operator were carefully audited by an independent third party and both businesses retained accreditation to OHSAS 18001, ISO 14001 and ISO 9001 standards. In addition, during 2017 both PPC and POMCo were recognized by the UK`s Royal Society for the Prevention of Accidents (RoSPA) with a gold award.

Corporate Governance

PPC has a comprehensive system of internal controls in place with clear structures, delegated authority levels and accountability.

During 2017, the Company continue to carry out a review of key internal policies and procedures in order to ensure highest standards of corporate governance and to ensure compliance with the Code of Corporate Governance as issued by the Capital Market Authority. Through the Audit Committee, the Board has implemented a programme of internal audits of different aspects of the Company's business.

The Corporate Code of Governance also requires that the shareholders appoint an independent third party to carry out an evaluation of the Board. The AGM of March 2017 appointed MGI Vision to carry out this assessment and a summary of their findings has been included in the Corporate Governance Report.

Operations

During the year 2017, I am pleased to report that the Company has achieved an excellent operational performance with the Sur Power Plant demonstrating a commercial availability of 99.39%, the key parameter to be considered when assessing the revenues generated during the period. This figure compares to 98.83% in 2016.

The Plant dispatched an aggregated net power volume of 7809.78 GWhrs (6424.01 GWhrs in 2016) which represents a load factor of 44.81% when averaged over the year (compared to a load factor of 36.68% in 2016).

Financial Results

The company generated revenues of RO 128.40 million in 2017 which were higher than the RO 117.30 million generated in 2016 mainly due to improved availability and increased dispatch. The Net Profit of the Company was RO 9.98 million in 2017 which was lower than RO 18.46 million earned in 2016 mainly due to the recognition of liquidated damages and the impact by the amendment to the corporate income tax law in the Sultanate of Oman by virtue of Royal Decree 9/2017 issued on 19 February 2017 and published in the Official Gazette on 26 February 2017. Liquidated damages were retained by the Company, under the terms of the EPC Contract, as a consequence of delays to the commercial operation date of the plant. Liquidated damages of RO 5.35 million have been recognized in 2017 compared with RO 10.12 million recognized in 2016. The impact which have been recognized in 2017 by the change of tax law on the deferred tax liability for the prior years is RO 5.19 million.

The Costs in 2017 were RO 92.89 million which were higher than the RO 80.99 million spent in 2016 mainly due to higher dispatch resulting in higher fuel costs.

The Company paid a dividend of Bzs 7.9 per share in 2017 compared to Bzs 6.0 per share in 2016.

The share price ended the year at Bzs 138.

Corporate Social Responsibility

The Company fully recognizes its role a responsible corporate citizen with support focusing on the local community at Sur in the areas of education, health and safety and environmental care. During 2017, the Company provided RO 30,760 of funding, support and sponsorship to various community causes. These included provision of support to local schools in Sur, contributions to the local Royal Oman Police ("ROP") traffic week, providing child car seats to promote safety as well as provision of medical equipment for the Sur Ministry of Health.

People and Employment

There has been no changes to the key personnel of the Company during the year. The Company is committed to the ongoing development of Omani personnel and the Omanisation level at the end of 2017 is 67%.

Claims with EPC Contractor

Regarding the Claims position with the EPC Contractor, Daewoo Engineering & Construction ("DEC" or "Daewoo" or the "EPC Contractor"), the Final Power Dispute was settled on 31 May 2017 with the Company agreeing a cash payment to the EPC Contractor. This payment concludes all outstanding claims with the EPC Contractor and will impact on future dividend payments.

Future Outlook

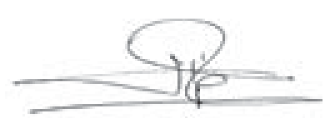
All reasonable measures will be taken by the management of the Company to ensure that the high standards of health, safety, environmental compliance, reliability and availability achieved in 2017 are maintained.

The settlement of the Final Power Claim with the EPC Contractor will have an impact on future dividends.

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 2017. Thanks to their contribution, the Company was able to achieve its goals and objectives.

Finally, on behalf of the Board of Directors, I would like to extend our deep appreciation and gratitude to His Majesty Sultan Qaboos Bin Said and His Government for their continued support and encouragement to the private sector by creating an environment that allows us to participate effectively in the growth of the Sultanate`s economy and to dedicate our achievements to the building of a strong nation.



Khalid Jolo
Chairman of the Board

Operational Highlights

Health, Safety & Environmental Performance

The health, safety and welfare of people continues to be of paramount importance both within PPC and its Operator, POMCo. The health and safety of our employees, contractors, visitors and all those who may be impacted by our activities, is given uppermost priority.

The overall health, safety and environmental performance in 2017 remained strong, building on the foundations established during the first years of commercial operation. 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 2017, and since commercial operation, both health and safety and environmental goals have been achieved with the Sur plant now having completed 1117 days without a Lost Time Accident or an environmental incident as at 31 December 2017.

Both the Company and the Operator have retained accreditation to OHSAS 18001 (2007), ISO 14001 (2015) and ISO 9001 (2015) with an annual surveillance audit having been completed with no major observations. In addition, and as a consequence of a goal to continually benchmark health and safety performance externally, both PPC and POMCo were recognized by the UK`s Royal Society for the Prevention of Accidents (RoSPA) with a Gold award, improving on the silver award achieved in 2016.

The Company achieved a key milestone of 1000 days without a Lost Time Accident on 5 September 2017 and that focus on preventing accidents continues. Proactive actions continue to have been taken to both develop and improve safety culture as well as target delivery of a safe, secure and environmentally compliant site. Such actions include:

- A continuing focus on employee and contractor engagement through a programme of behavioural based safety observation recording as well as investigating near misses through initiation of safety awards and staff recognition.
- A Point of Work Risk Assessment process was initiated during the year.
- A comprehensive internal audit programme was carried out covering both general safety and safety from the system.
- Improvements have been made to equipment and plant access and egress where deemed beneficial as well as continuing to enhance safety signage and notices.
- High quality education and training continues to be provided for both employees and contractors including a "managing safely" programme through the Institute of Occupational Health and Safety organization.

- Focus on employee health has also been high during 2017 with all employees undergoing a detailed annual medical check. In addition, the medical centre at Sur site was awarded as the best medical centre in the Sharqiya region by Ministry of Health.
- Development and implementation of leading HSE key performance indicators and the active utilization of Intelex software for action tracking and reporting continues.

Safety performance is reported and reviewed regularly by the management team and the Board of Directors. Any incident is comprehensively analysed and reviewed. Lessons learnt are shared with employees and actions taken to mitigate against re-occurrence.

Capacity

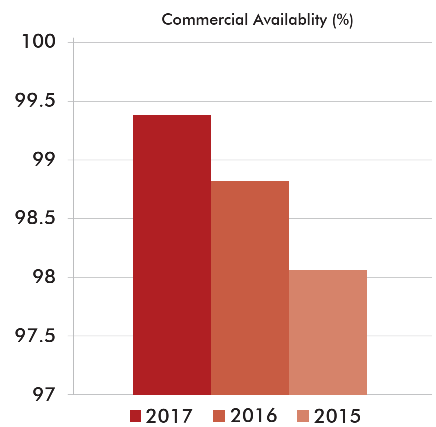
The capacity of a plant is defined as the total electrical power (MW) which can be delivered by the plant at reference conditions.

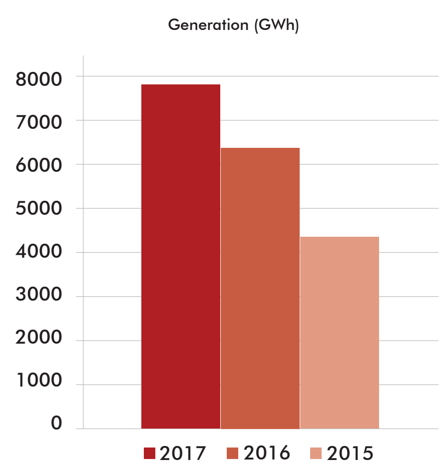
The contractual capacity of the Sur Power Plant under the PPA applicable from May 2017 to April 2018 is 1985.2 MW. The Annual Performance Tests conducted in April 2017 demonstrated that the plant met these contractual requirements.

Reliability

The reliability of the Plant is a measure of its availability to deliver the declared capacity as per the PPA. During 2017, the Sur Plant achieved a reliability of 99.39% experiencing a forced outage rate of just 0.61%.

During the year, the Plant exported a total of 7810 GWhrs of electrical energy with a utilization factor averaging 44.81%.





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 2017 met the contractual requirements under the PPA.

Maintenance

Maintenance of the Plant was undertaken in accordance with Original Equipment Manufacturers (OEM) 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.

Human Resources and Training

Development, motivation and retention of people remains a key focus. 2017 saw the continuing use of the comprehensive on site training centre, aimed at developing technical staff in operations and maintenance activity. Here, employees are encouraged to work through programmes utilizing online tailor made training packages as well as offline resources.

In addition, the training centre is used as a tool of benefit for external individuals and during the year was utilized by visitors from OPWP, Qatar and local Sur interns.

All employees benefit from a range of policies to support them in the workplace. The Company strives to maintain high standards of employment practices with an aim to give employees positive engagement with the business goals.

Omanisation plans are in place with a view to continuing to develop local staff in a manner which grows their skills and competency appropriately as well as ensuring safe and secure supply of power to the people of the Sultanate.

Description of the Business

Overview

Phoenix Power Company'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.29% of the MIS total currently contracted capacity of approximately 6897 MW as per OPWP's 7 year statement (2017-2023).

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 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 operation and maintenance agreement) is POMCo.

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 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.

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 during 2017 the plant has been supplied with gas from BPs Khazzan fields. Gas 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.

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

Profile of the Major Shareholders

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 and investment houses. It oversees a range of operations that encompass the domestic market, export-import, and offshore trade, with total assets of around USD 62 billion (as of March 2017). As of 1st April 2017, Marubeni has 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 Business & Plant Group. Power Business & Plant Group consists of Power Business Division and Plant Division, and is one of the core groups within Marubeni.

Marubeni is very active in the industry, having participated in 53 I(W)PP projects with the total gross capacity of 40,173 MW and the total net capacity of 11,826 MW (as of January 2018) in overseas. Marubeni's role in the I(W)PP 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, Chile, Australia, U.S.A, Canada, the Philippines, Taiwan, Pakistan, India, Indonesia, Cambodia, Singapore, Viet Nam and Korea. In addition, Marubeni is an active player in the EPC business and has built over 110,108 MW of power plants worldwide. The Power Business 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 Power Sur B.V. (CEP Sur)

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

CEP Sur's wholly owned parent company, JERA was established on April 30, 2015 based on the comprehensive alliance entered into between Chubu Electric Power Company and Tokyo Electric Power Company encompassing the entire energy supply chain from upstream fuel investment and fuel procurement through power generation. In July 2016, JERA succeeded its parent companies' fuel business and the overseas power generation business, and aims to become one of the world's leading energy firms.

JERA has an established international business primarily 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 over 7,000 MW (as of December 2017). In terms of having business experience in the Middle East area, JERA is participating in 4 IPP/IWPP projects in Qatar and 1 IWPP project in UAE as a shareholder.

Further information about JERA is available at: http://www.jera.co.jp/

Nebras Power

Nebras Power is an international power company established in March 2014 and headquartered in Doha, State of Qatar. The Company was established with an initial capital of USD one billion and with a mandate to invest in the conventional and renewable energy, water and utilities sectors globally, outside of the State of Qatar.

Nebras is a joint venture between Qatar Electricity and Water Company Q.S.C. (60%) and Qatar Holding LLC (40%).

Nebras Power is a dynamic energy company that aims to become one of the leading corporations in the power sector through investing in feasible and profitable large-scale power and water projects around the world. Nebras seeks to provide complete solutions in power and water, ranging from providing associated LNG Facilities, Water Treatment Plants, Fuel Sourcing and Supply Ventures, making us a significant player in the MENA region, South East Asia, Europe, and beyond. The company is driven by the confidence and experience of its team and support of its shareholders.

Nebras is committed to incorporate economic, social, safety, and environmental indicators and facets into its bottom line, which allows Nibras to ensure that the Society as a whole is a beneficiary of its progress and growth.

Since its inception in the mid of 2014, Nebras Power has built a power portfolio of approximately 1.1 GW of quality assets distributed over different countries - Oman, Jordan and Indonesia.

Multitech

Multitech LLC belongs to Bahwan Holding (BH), which is one of the foremost business houses in the Sultanate of Oman, and is under the management and control of Bahwan Engineering Company LLC (BEC).

Multitech's activities include trading in electrical products, welding products, water treatment, oilfield chemicals and cranes.

In addition, Multitech acts as the investment arm for BH's participation in the power and water privatization projects in Oman and is the founding shareholder in the following companies:

1. Al Suwadi Power Company SAOG (Barka 3 IPP - 745 MW Power Project)
2. Al Batinah Power Company SAOG (Sohar 2 IPP - 745 MW Power Project)
3. Phoenix Power Company SAOG (Sur IPP - 2000 MW Power Project)

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.

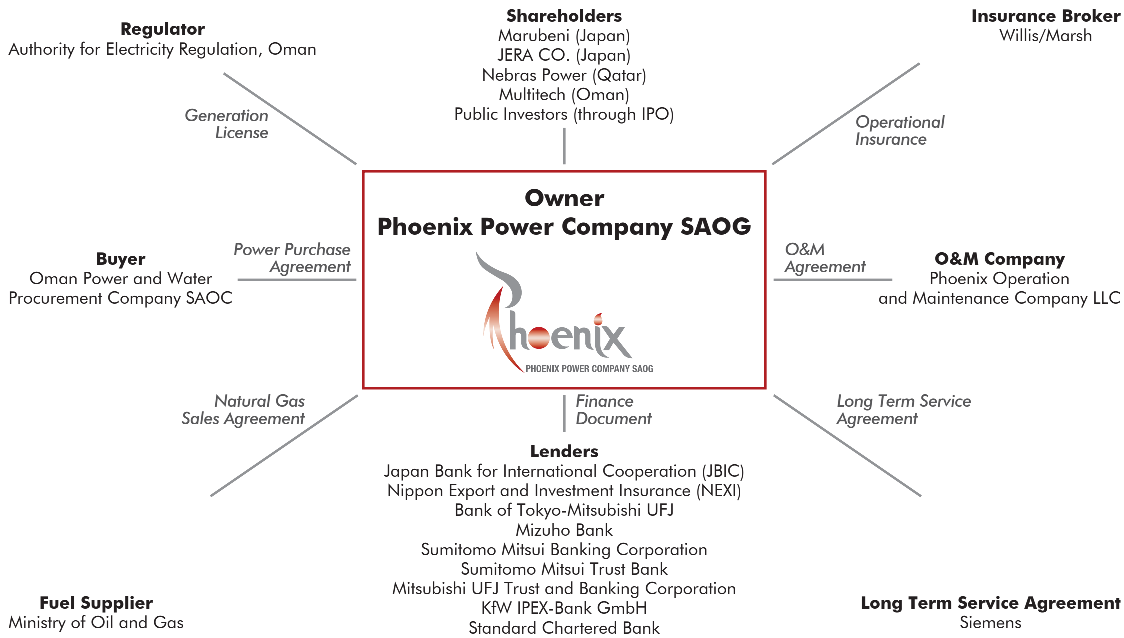
OPWP is the single buyer of power and water for all IPP / IWPP / IWP projects within Oman. OPWP is responsible for ensuring that there is sufficient electricity and water production capacity available at the lowest cost to meet growing demands in Oman. OPWP undertakes long-term generation planning and 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.

OPWP intends 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.

Risk Management

The Company has a well established contractual framework which mitigates commercial risk as shown below:



Risk Management Process

The Company has a comprehensive risk management framework in place aimed at identifying principal risks that threaten achievement of business objectives and enables assessment of their significance to be understood. Mitigating controls to manage identified risks to an acceptable level are then put in place.

All new and emerging risks are reviewed as well as any changes to existing risk levels. The risks are reviewed every quarter and reported to the Board of Directors.

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 Arrangements

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.

EPC Contract Claim

PPC has previously withheld or been paid liquidated damages by the EPC Contractor, Daewoo under the EPC Contract in relation to delays in achieving the Scheduled Plant Completion Date and Daewoo has contested PPCs entitlement to the liquidated damages (the “Final Power Dispute”).

On 31 May 2017, PPC and the EPC Contractor agreed to settle the Final Power Dispute with an outcome which resulted in a cash payment to the Contractor of RO 4.5 million.

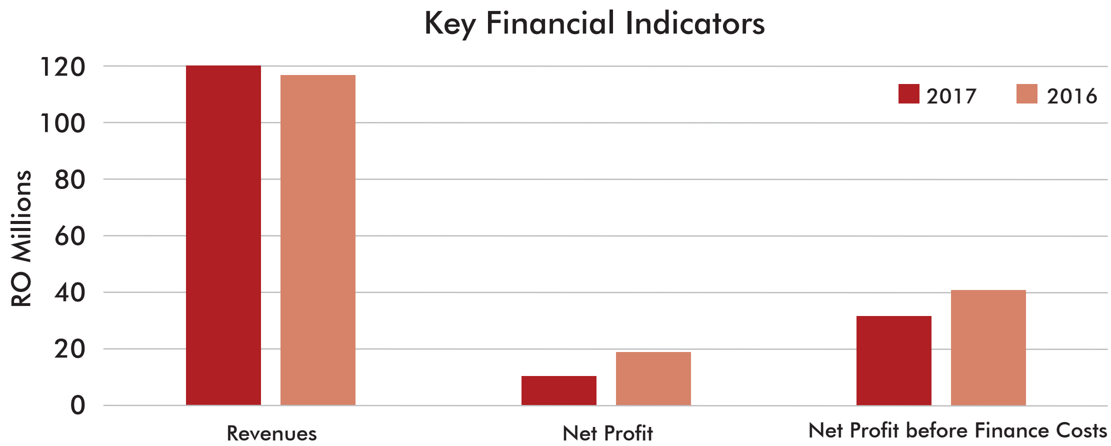
Discussion on Operational and Financial Performance

Operating Highlights

Please refer to Section “Operations Highlights” for the operational performance of the Company.

Financial Highlights

All figures in RO Millions		2017	2016
Revenues	1	128.40	117.30
Net Profit	2	9.98	18.46
Net Profit before Finance Costs	3	30.61	40.18
Total Assets	4	598.36	623.92
Capital (Paid-up)	5	146.26	146.26
Shareholders' Fund (Net Assets)	6	165.34	153.28
Term Loans ^	7	364.44	388.93
Weighted average number of shares	8	1,462.60	1,462.60
Actual number of shares outstanding	9	1,462.60	1,462.60
Ordinary Dividends	10	11.55	8.78



Key Financial indicators		2017	2016
Net Profit margin	2/1	7.77%	15.74%
Return on Capital (Paid-up)	2/5	6.82%	12.62%
Return on Capital Employed	3/(6+7)	5.78%	7.41%
Debt Equity ratio	7 : 6	68.8 : 31.2	71.7 : 28.3
Net assets per share (Baizas)	6/8	113.05	104.80
Basic earnings per share (Baizas)	2/8	6.82	12.62
Dividends per share (Baizas)	10/9	7.90	6.00

^ Excluding unamortised transaction cost

Analysis of Profit and Loss

Revenues of RO 128.40 million in 2017 were higher when compared to RO 117.30 million in 2016 mainly due to higher commercial availability and increased dispatch (pass-through) of the plant.

The Net Profit of RO 9.98 million in 2017 is lower than the RO 18.46 million in 2016 mainly due to the recognition of liquidated damages and the impact by the amendment to the corporate income tax law in the Sultanate of Oman by virtue of Royal Decree 9/2017 issued on 19 February 2017 and published in the Official Gazette on 26 February 2017. Liquidated damages were retained by the Company, under the terms of the EPC Contract, as a consequence of delays to the commercial operation date of the plant. Liquidated damages of RO 5.35 million have been recognized in 2017 compared with RO 10.12 million recognized in 2016. The impact which has been recognized in 2017 by the change of tax law on the deferred tax liability for the prior years is RO 5.19 million.

Analysis of Balance Sheet

Total Assets of the Company stood at RO 598.36 million as at 31 December 2017 as compared to RO 623.92 million in 2016. This was mainly due to a full year's depreciation being charged for the year.

The cash and cash equivalents stand at RO 14.13 million as at 31 December 2017 as compared to RO 22.49 million at the same date in 2016.

The Shareholders' Funds (Net Assets) at RO 165.34 million as at 31 December 2017 were higher when compared to RO 153.28 million at the same date in 2016 due to profit for the year being offset by the dividend distribution in line with the net profit for the year.

Hedging Reserve (net of Deferred Tax) reducing Equity by RO 23.01 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 364.44 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 2017 was RO 9.07 million (translating to 6.2 Baizas per share paid in July 2017 and January 2018) and paid out of the audited retained earnings for the year ended 31 December 2016.

Dispute with EPC Contractor

PPC has withheld or been paid liquidated damages by the EPC Contractor, Daewoo under the EPC Contract in relation to delays in achieving the Scheduled Plant Completion Date and Daewoo has contested PPCs entitlement to the liquidated damages (the "Final Power Dispute").

On 31 May 2017, PPC and the EPC Contractor agreed to settle the Final Power Dispute and an outcome resulted in a cash payment to the Contractor of RO 4.5 million.

Omanisation

Omanisation levels across the business approximate to 67%. Endeavours to achieve the Omanization 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 2018.

The settlement of the Final Power Claim with the EPC Contractor will have an impact on future dividends.

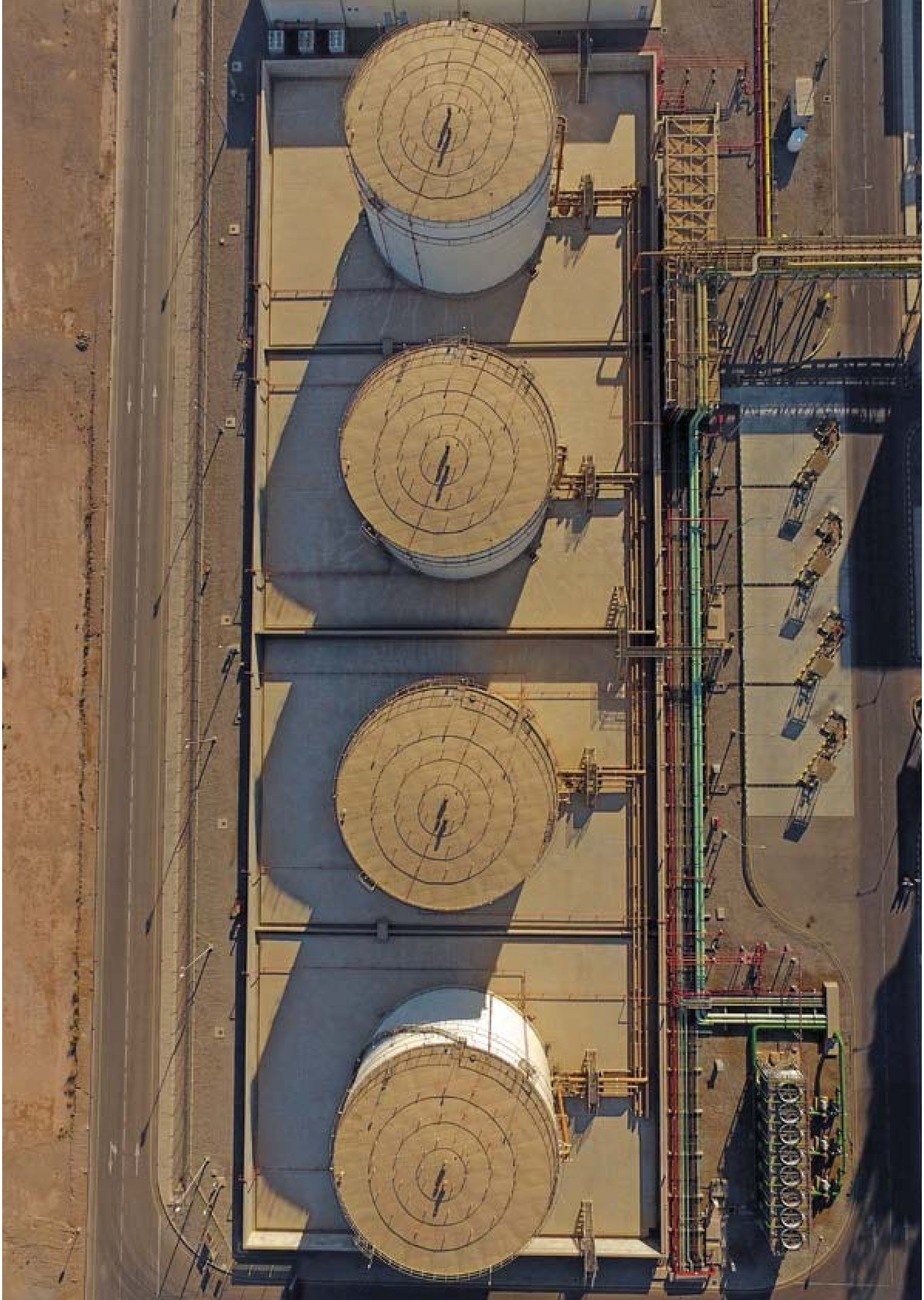
Internal Control System

The Board of Directors and management of the Company believes in the importance of the internal control system and PPC has a comprehensive system of internal controls in place, comprising:

- A well defined governance structure.
- Clearly defined delegated levels of authority.
- Documented key business processes.
- Plans and annual budgets which will deliver the Company strategy supported by regular reporting of these plans and budgets to the Board of Directors.

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. An internal audit plan was developed for 2017 and implemented with recommendations being provided to the Audit Committee who meet once per quarter. No significant failings or weaknesses have been identified in PPCs system of internal controls in the year ended 31 December 2017.

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



Corporate Social Responsibility

Looking after our people, neighbours and the wider environment is central to PPC's business strategy.

Corporate social responsibility is fully embedded within day to day business. Health, safety and environmental issues are the first items to be discussed at all meetings, from the Board down to site team meetings. Contributions from employees aimed at actively improving responsible performance are encouraged and staff are incentivized to focus on such issues as part of an annual bonus scheme.

A Health, Safety and Environment committee has been set up which provides feedback to management. PPC's internal processes are designed to ensure the Company meets all the requirements of the permits and licences that regulate the business and compliance is maintained. Externally, the promotion, within the local community, of awareness of the importance of keeping safe and looking after the environment, is important. To this end, employees of the businesses were engaged in the following activities during 2017:

- Support to ROP Traffic Week Sur including the provision of child vehicle safety seats.
- Financing the production of a series of short animated 3D films promoting a number of welfare and safety issues.
- Provision of books for libraries and iPads for local primary schools in Sur.
- Security camera installations at local schools in Sur.
- Provision of intern opportunities for Sur graduate engineering students.
- Participation in a traditional Omani heritage celebration managed by the Sur Ministry of Tourism.
- Financing medical equipment to support individuals through an initiative from the Ministry of Health (Sur).
- Support to the 47th National Day celebrations for the Association Welfare of Children with Disabilities, Sur.

Working and consulting with the local community at Sur is important for PPC. The Company, through its Operator, POMCo, is a member of the Social Affairs Committee at Sur and participates in discussions related to social development and infrastructure support.

KPMG

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman
Tel +968 24709181
Fax +968 24700839

Report to the Shareholders of Phoenix Power Company SAOG ("the Company") of Factual Findings in connection with the Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Company ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance issued under Circular No. 11/2002 dated 3 June 2002 and the revised CMA Code of Corporate Governance issued under CMA Circular 4/2015 dated 22 July 2015 (together the "Governance Code"). The Report is set out on pages 1 to 14.

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 the Shareholders in evaluating the Company's compliance with the Governance Code. The Procedures we performed were as follows:

1. Corroborated, as required, the matters disclosed in the Report by reference to: internal audit reports issued during the year ended 31 December 2017; Audit Committee and Board minutes of meetings held during the year ended 31 December 2017; and relevant supporting Company records.

2. Confirmed that the Report discloses matters discussed in the Chairman's report on review of the effectiveness of the Company's system of internal controls and that these matters were reported by Company's internal auditor to the Audit Committee during the year ended 31 December 2017.

3. Checked that the Report includes disclosures set out in Annexure 3 of the Governance Code.

4. Checked whether matters, if any, reported in the Auditors' report on the financial statements for the year ended 31 December 2017 relating to: Adequacy and efficacy of the internal control systems in place; going concern considerations; and the adequacy of policies and procedures set up by the Company were also included in the Auditor's presentation to the Audit Committee.

5. Read the Minutes of Board and Audit Committee meetings during the year ended 31 December 2017 to confirm that any matters of non-compliance with the Governance Code mentioned therein are also included in the Report.

KPMG

As a result of performing the Procedures, we have no exceptions to report.

Because the 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 Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of the 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. This report is solely for the purpose set forth in the second paragraph of this report, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Company's Corporate Governance Report included in the Company's annual report for the year ended 31 December 2017 and does not extend to any financial statements or any other reports of the Company, taken as a whole.

27 February 2018

Michael Collinson

Corporate Governance Report

In accordance with the guidelines issued by the Capital Market Authority ("CMA") vide circular 1/2003 and E/4/2015 ('"Code of Corporate Governance" or the "Code") which was amended vide circular E/4/2015 and became effective on 22 June 2016 ("New Code"), the Board of Directors and Management of the Company hereby present their Corporate Governance Report for the year ended 31 December 2017.

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 21 March 2017, 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 diverse and such as 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 three Non-Executive Directors with a high level of experience in financial matters. In addition, a Nomination and Remuneration Committee was established in 2016, comprising three Directors.

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.

Following the issuance of the New Code, the Company now has processes, procedures in place to ensure full compliance with the requirements of that New Code.

At the end of 2015, the Company and its Operator, Phoenix Operation and Maintenance Company LLC ("POMCo"), achieved certification to OHSAS 18001 (2007), ISO 14001 (2015) and ISO 9001 (2015) following an independent third party audit process demonstrating commitment to high-standards and continuing improvement in the areas of health, safety, environment and quality. An annual surveillance audit, carried out in 2017, confirmed that the Company remains compliant with those standards.

In addition, during the year 2017 the Company and its Operator have been awarded a Gold Award by the Royal Society for the Prevention of Accidents (RoSPA).

Corporate Governance Report (continued)

Board of Directors

The current composition of the Board of Directors are elected on 21 March 2017 (all members were re-elected) in accordance with Article 18 of the Articles of Association along with the meeting details is as follows (all held during 2017).

Name of Directors	Capacity	Category#	BM	AGM	BM	BM	BM
			28 Feb.	21 Mar.	25 Apr.	25 Jul.	24 Oct.
Mr. Khalid Jolo	Non-Executive	Independent (Representing Nebras Power QSC)	✓	✓	P	✓	✓
Mr. Neil Cave	Non-Executive	Independent	✓	✓	✓	✓	✓
Mr. Carlos Alcazar	Non-Executive	Independent	✓	✓	✓	✓	✓
Mr. Tomoki Nishino	Non-Executive	Non-Independent (Representing Axia Power Holdings B.V.)	✓	-	✓	✓	✓
Mr. Wataru Motomiya	Non-Executive	Non-Independent (Representing Chubu Electric Power Sur B.V.)	✓	-	✓	✓	✓
Mr. Masamitsu Suda	Non-Executive	Independent	✓	✓	✓	✓	✓

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

The above classification as Non-independent/ Independent director is as per the definition that existed in the New Code.

Directorship / membership in other public companies (SAOG companies) in Oman as of 31 December 2017;

Name of Directors	Position held	Name of the Company
Mr. Khalid Jolo	None	None
Mr. Neil Cave	None	None
Mr. Carlos Alcazar	None	None
Mr. Tomoki Nishino	None	None
Mr. Wataru Motomiya	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.

Performance Appraisal for the Board of Directors

The performance appraisal of the Board and each of its members was conducted for the year 2017 based on the criteria approved by the shareholders at the Company's Annual General Meeting held on 21 March 2017. The performance appraisal was conducted by MGI Vision Chartered Accountants, independent consultants, appointed at the Company's Annual General Meeting held on 21 March 2017. The Board's performance was satisfactory during the year 2017 and it is effective in meeting its objectives. Certain recommendations were made by the consultant and action on these will be considered by the Board.

Audit Committee

The Audit Committee meets with the external and internal auditors without the executive management of the business being present.

The primary purpose of the Committee is to ensure that internal and external audit processes are carried out in the best interests of all stakeholders and to assist the Board of Directors and the management of the Company in fulfilling their responsibilities, which include;

- Agreeing the nature and scope of audits and reviewing the audit plan;
- 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 is in line with the latest Code of Corporate Governance.

The Audit Committee comprises of 3 Directors appointed by the Board of Directors and meets at least four times annually, reporting to the Board of Directors. The current members were appointed by the Board of Directors on 25 April 2017 and all members of the Audit Committee are non- executive.

The composition of the Audit Committee members in 2017 is as follows.

Name of Directors	Category	28 Feb.	25 Apr.	25 Jul.	24 Oct.
Mr. Neil Cave	Chairman (*)	✓	✓	✓	✓
Mr. Masamitsu Suda	Member (*)	✓	✓	✓	✓
Mr. Tomoki Nishino	Member	✓	✓	✓	✓
Mr. Khalid Jolo	Member (**)	✓	-	-	-

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

(*) : Mr. Suda was a Chairman of the Audit Committee up until Audit Committee held on 28 February and Mr. Cave was appointed as a Chairman in the meeting to comply with the New Code.

(**) : Mr. Jolo was a member of the Audit Committee until the Audit Committee held on 28 February and stepped down to comply with the New Code.

Corporate Governance Report (continued)

Nomination and Remuneration Committee

A Nomination and Remuneration Committee has been established by the Board of Directors of the Company in accordance with the requirements of the new Corporate Code of Governance. The primary purpose of the Nomination and Remuneration Committee is to assist the general meeting of the shareholders in the nomination of proficient directors and election of the most fit for purpose candidates and the Board of Directors in selecting the appropriate and necessary executives for the executive management which the Company requires in order to achieve its strategic and operational objectives.

The Terms of Reference of the Nomination and Remuneration Committee has been issued in July 2016 which is in line with the New Code.

The Nomination and Remuneration Committee comprises 3 Directors appointed by the Board of Directors and meets at least two times annually, reporting to the Board of Directors. The current members were appointed by the Board of Directors on 25 April 2017 (all members were re-elected) and all members of the Nomination and Remuneration Committee are non- executive.

The composition of the Nomination and Remuneration Committee members in 2017 is as follows.

Name of Directors	Category	28 Feb.	24 Oct.
Mr. Carlos Alcazar	Chairman	✓	✓
Mr. Khalid Jolo	Member	✓	✓
Mr. Masamitsu Suda	Member	✓	✓

✓ : Attended, P : Proxy

Process of nomination of Directors

Directors are nominated and elected as per the Commercial Company Law and the Articles 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 2020. 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 263,973 which includes salaries, performance related discretionary bonus and other benefits.

c) **Details of performance based bonuses, awards and incentives**

Bonus payments for the key management personnel of Phoenix Power Company are based on both personal and business performance and are related to the achievement of business KPIs including health and safety targets, technical performance and financial delivery. The bonuses to be paid are based on recommendations from the Nomination and Remuneration Committee.

d) **Employment contracts**

The key management personnel have employment contracts with Phoenix Power Company and all have notice periods, under the terms of those contracts, of three months.

Corporate Governance Report (continued)

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 2017.

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.

Related Party Transactions

A detail of the related party transactions which the Company have carried out for the financial year ended 31 December 2017 is as follows;

1	Axia Power Holdings B.V.	Consulting Service Agreement	RO 41,142
2	JERA Co., Inc.	Consulting Service Agreement	RO 24,685
3	Nebras Power (Q.S.C.)	Consulting Service Agreement	RO 12,342
4	Multitech LLC.	Consulting Service Agreement	RO 4,114
5	Phoenix Operation and Maintenance Company LLC	O&M Fee and expense (as per O&M contract)	RO 8,011,751

Market Price Data

a) High/low share price and performance comparison during each month in 2017.

Month	Price (Baiza)			MSM Service Sector
	High	Low	Average	
January	152	144	148	5,776.17
February	147	142	145	5,780.03
March	146	145	143	5,550.60
April	143	141	138	5,513.52
May	140	136	134	5,421.95
June	135	132	124	5,118.31
July	125	124	120	5,024.24
August	122	121	118	5,052.55
September	125	122	120	5,137.35
October	135	135	131	5,010.66
November	138	137	135	5,109.62
December	138	135	135	5,099.28

Corporate Governance Report (continued)

b) Distribution of shareholding as of 31 December 2017 :

Category	Number of shareholders	Number of shares held	Share capital %
5% and above	4	1,002,363,415	68.53%
Less than 5%	8,273	460,238,045	31.47%
Total	8,277	1,462,601,460	100%

Professional Profile of the Statutory Auditor

The shareholders of the company appointed KPMG as its auditors for 2017. KPMG is a leading audit, tax and advisory firm in Oman and is part of KPMG Lower Gulf, established in 1973. KPMG in Oman employs more than 180 people, amongst whom are 4 partners, 5 directors and 30 managers, including Omani nationals. KPMG is a global network of professional firms providing audit, tax and advisory services. KPMG operates in 154 countries and has around 197,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Remuneration of the Statutory Auditor

The professional fees paid / due during the year 2017 are as follows:

Particulars	RO
Audit fees	9,000
Total	9,000

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.

Yours faithfully,

Chief Executive Officer

Chief Financial Officer

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 21 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. ("QEWC") as Senior Project Engineer in 1997. QEWC 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 QEWC 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 (1) Ras Girtas Power Company, Qatar; (2) Ras Laffan Power Co., Qatar; (3) Umm Al Houl Power Co., Qatar; (4) Nebras Power, Qatar (5) Shams Maan Power Generation, Jordan; (6) Nebras Power Netherlands B.V.; (7) IPM Indonesia Netherlands, B.V; (8) IPM Asia, Indonesia and (9) Paiton Energy, Indonesia.

Name:	**Mr. Neil Cave**
Position:	Deputy Chairman
Education:	Mr. Cave holds a Bachelors Degree in Mechanical Engineering, a Masters Degree in Electrical Power Systems and a Masters Degree in Business and Administration.
Experience:	Mr. Cave is a professional engineer and has 35 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 1997 and has been seconded to 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, Fujairah Asia Power Company, UAE Non-Executive Director, Mesaieed Power Company, Qatar Chairman, Rabigh Arabian Water and Electricity Company, KSA Non-Executive Director, Power Cogeneration Power Company, KSA Non-Executive Director, Taweelah Asia Power Company, UAE Chairman, A.R.C.H W.L.L., KSA

Brief Profiles of the Directors (continued)

Name:	**Mr. Carlos Alcazar**
Position:	Director
Education:	Mr. Alcazar holds a Masters Degree in Electrical Engineering and a Masters Degree in Business and Administration from IE Business School.
Experience:	Mr. Alcazar is a professional engineer and has over 24 years' of experience in the power industry. Having initially worked in consultancy for coal fired Stations and in Power project construction, he moved into operational roles working in different countries (Kenya, Spain, Taiwan, Switzerland, UAE) holding several management positions. Mr Alcazar worked in both merchant as well as in contracted environments and was Plant Manager in Stations in Spain and Taiwan before he moved into General Manager Generation position in Switzerland where he was responsible for a global fleet of CCGT plants for Alstom Power. Mr Alcazar joined Marubeni Power Asset Management in 2010 and is presently holding the position of Director of Operations and Maintenance for Middle East and Africa working for the fleet in the Region.
List of Other Directorships:	In addition to Phoenix Power Company SAOG, Mr. Alcazar is also a director of the following companies: Non-Executive Director, Ruwais Power Company, UAE Non-Executive Director, Asian Gulf Power Services, UAE Non-Executive Director, Fujairah II O&M Company, UAE Non-Executive Director, Chairman Taweelah A2 Operating, UAE Non-Executive Director, Chairman Ash Sharqiyah O&M Co, KSA Non-Executive Director, Emirates CMS Power Company, UAE

Name:	**Mr. Tomoki Nishino**
Position:	Director
Education:	Master of Business Administration (MBA) from Kellogg School of Management, Evanston, Illinois, USA-2006
Experience:	Mr. Nishino started his career in 1996 working for Hokkaido Electric Power Company Co., Inc.. In 2006 after finishing his MBA programme, Mr. Nishino was seconded to Japan Bank for International Cooperation until 2009. Mr. Nishino then joined Marubeni in 2009 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. From November 2011 to June 2015, Mr. Nishino worked as Chief Financial Officer of Phoenix Power, and after returning from Phoenix Power to Marubeni, Mr. Nishino continues to work for the development of IPP projects in the Middle East, Africa, and Southwest Asia.
List of Other Directorships:	In addition to Phoenix Power Company SAOG, Mr. Nishino is also a director of the following companies: Non-Executive Director, Power Cogeneration Power Company, KSA Non-Executive Director, A.R.C.H W.L.L., KSA.

Brief Profiles of the Directors (continued)

Name:	**Mr. Wataru Motomiya**
Position:	Director
Education:	Mr. Motomiya holds a master degree in mechanical engineering.
Experience:	Mr. Motomiya is the General Manager of the Overseas Power Business Unit 2, Energy Infrastructure Group of JERA Co's, he is responsible for IPP/IWPPs operation and management in the Middle East and South Asia area.
List of Other Directorships:	Mr. Motomiya started his career in TEPCO in 1990 as a mechanical engineer and has been involved in operation, construction, maintenance and performance management of various thermal power plants and nuclear power plant of TEPCO. He has been involved F class, H class, J class GTCC construction projects. He has been engaged in overseas consulting, IPP/IWPPs development and operations for more than 7 years.

Name:	**Mr. Masamitsu Suda**
Position:	Director
Education:	Mr. Suda holds a master degree in mechanical engineering
Experience:	Mr. Suda is the Deputy General Manager of the Overseas Power Business Unit 2, Energy Infrastructure Group of JERA Co's, he is responsible for IPP/IWPPs operation and management in the Middle East and South Asia area.
List of Other Directorships:	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 10 years.

Brief Profile of the Executive Officers

Name:	**Mr. Peter Kevin Jones**
Position:	Chief Executive Officer
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.

Brief Profile of the Executive Officers (continued)

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 16 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

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman
Tel +968 24709181
Fax +968 24700839

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PHOENIX POWER COMPANY SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Phoenix Power Company SAOG ("the Company") set out on pages 2 to 37, which comprise the statement of financial position as at 31 December 2017, the statements comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter – Hedge accounting

Refer to note 2.16 and 19 of the financial statements

The Company uses derivative financial instruments to hedge interest rate and foreign currency exposure on term loans and future cash flows in accordance with parameters approved by the Board. Rules on accounting for derivative instruments are complex and hedge accounting requirements, including documentation, can be complicated. Lack of compliance with documentation rules, hedge effectiveness rules, and probability criteria could lead to income statement volatility.

continued on page 2 (b)

Our response

We examined the nature of the hedge relationships that were entered into and whether these were in line with the Company's treasury strategy. For the derivatives outstanding at the year-end, we assessed their completeness and existence through obtaining external confirmations and their fair value through performing our own independent re-calculations;

We involved our specialists for assessing the Company's hedge accounting and for testing hedge effectiveness; and

We assessed adequacy of disclosure relating to hedge accounting.

Other Matter

The financial statements of the Company for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements dated 28 February 2017.

Other Information

Management is responsible for the other information. The other information comprises the chairman's report, the corporate governance report and the management discussion and analysis report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

continued on page 2 (c)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

continued on page 2 (d)

KPMG

Report on Other Legal and Regulatory requirements

We report that the financial statements of the Company as at and for the year ended 31 December 2017, in all material respects, comply with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 1974, as amended.

KPMG

27 February 2018

Michael Collinson

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Notes	2017 RO'000	2017 US$'000	2016 RO'000	2016 US$'000
Operating revenue	4	**128,401**	**333,945**	117,301	305,074
Operating costs	5	**(92,886)**	**(241,576)**	(80,993)	(210,644)
Operating profit		**35,515**	**92,369**	36,308	94,430
Other income	6	**5,348**	**13,908**	10,115	26,307
General and administrative expenses	7	**(1,329)**	**(3,458)**	(1,317)	(3,423)
Finance costs (net)	8	**(20,628)**	**(53,655)**	(21,721)	(56,490)
Profit before tax		**18,906**	**49,164**	23,385	60,824
Income tax	9	**(8,922)**	**(23,205)**	(4,927)	(12,813)
PROFIT FOR THE YEAR		**9,984**	**25,959**	18,458	48,011
OTHER COMPREHENSIVE INCOME (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	**11,740**	**30,534**	10,419	27,097
Income tax effect	9	**(597)**	**(1,552)**	(1,250)	(3,252)
OTHER COMPREHENSIVE INCOME		**11,143**	**28,982**	9,169	23,845
TOTAL COMPREHENSIVE INCOME		**21,127**	**54,941**	27,627	71,856
BASIC AND DILUTED EARNINGS PER SHARE (RO/US$)	10	**0.007**	**0.02**	0.013	0.03

The report of the Independent Auditors' is set forth on page 2(a) to 2(d).

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

STATEMENT OF FINANCIAL POSITION
At 31 DECEMBER 2017

	Notes	2017 RO'000	2017 US$'000	2016 RO'000	2016 US$'000
ASSETS					
Non-current asset					
Property, plant and equipment	11	**568,712**	**1,479,096**	584,637	1,520,513
Current assets					
Trade and other receivables	12	**4,737**	**12,321**	6,311	16,412
Inventories	13	**10,785**	**28,051**	10,484	27,268
Bank balances	14	**14,130**	**36,748**	22,489	58,490
		29,652	**77,120**	39,284	102,170
TOTAL ASSETS		**598,364**	**1,556,216**	623,921	1,622,683
EQUITY AND LIABILITIES					
Equity					
Share capital	15	**146,260**	**380,390**	146,260	380,390
Legal reserve	16	**6,929**	**18,021**	5,931	15,425
Cumulative changes in fair values	19	**(23,012)**	**(59,848)**	(34,155)	(88,830)
Retained earnings		**35,158**	**91,438**	35,240	91,659
Total equity		**165,335**	**430,001**	153,276	398,644
LIABILITIES					
Non-current liabilities					
Interest bearing loans and borrowings	18	**331,871**	**863,124**	356,821	928,010
Fair value of derivative financial instruments	19	**20,929**	**54,433**	29,853	77,642
Provision for asset retirement obligation	20	**5,108**	**13,286**	4,866	12,654
Deferred tax liability	9	**25,611**	**66,609**	16,092	41,853
Employees' end of service benefits	21	**74**	**192**	48	126
		383,593	**997,644**	407,680	1,060,285
Current liabilities					
Interest bearing loans and borrowings	18	**26,069**	**67,799**	24,484	63,678
Dividend payable	17	**4,388**	**11,412**	6,874	17,878
Accounts payable and accruals	21	**12,835**	**33,383**	22,647	58,897
Fair value of derivative financial instruments	19	**6,144**	**15,977**	8,960	23,301
		49,436	**128,571**	62,965	163,754
Total liabilities		**433,029**	**1,126,215**	470,645	1,224,039
TOTAL EQUITY AND LIABILITIES		**598,364**	**1,556,216**	623,921	1,622,683
Net assets per share (RO/US$)	22	**0.113**	**0.294**	0.105	0.273

The report of the Independent Auditors' is set forth on page 2(a) to 2(d).

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 27 February 2018.

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 2017

	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 2016		146,260	4,085	(43,324)	30,182	137,203
Profit for the year		-	-	-	18,458	18,458
Other comprehensive income		-	-	9,169	-	9,169
Total comprehensive income		-	-	9,169	18,458	27,627
Dividend paid – 2015	17	-	-	-	(4,680)	(4,680)
Dividend payable – 2015	17	-	-	-	(6,874)	(6,874)
Transfer to legal reserve		-	1,846	-	(1,846)	-
Balance at 31 December 2016		**146,260**	**5,931**	**(34,155)**	**35,240**	**153,276**
Profit for the year		**-**	**-**	**-**	**9,984**	**9,984**
Other comprehensive income		**-**	**-**	**11,143**	**-**	**11,143**
Total comprehensive income		**-**	**-**	**11,143**	**9,984**	**21,127**
Dividend paid – 2016	17	**-**	**-**	**-**	**(4,680)**	**(4,680)**
Dividend payable – 2016	17	**-**	**-**	**-**	**(4,388)**	**(4,388)**
Transfer to legal reserve	16	**-**	**998**	**-**	**(998)**	**-**
Balance at 31 December 2017		**146,260**	**6,929**	**(23,012)**	**35,158**	**165,335**

The report of the Independent Auditors' is set forth on page 2(a) to 2(d).
The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Share capital US$'000	Legal reserve US$'000	Cumulative changes in fair values US$'000	Retained earnings US$'000	Total US$'000
Balance at 1 January 2016		380,390	10,624	(112,675)	78,499	356,838
Profit for the year		-	-	-	48,011	48,011
Other comprehensive income		-	-	23,845	-	23,845
Total comprehensive income		-	-	23,845	48,011	71,856
Dividend paid – 2015	17	-	-	-	(12,172)	(12,172)
Dividend payable – 2015	17	-	-	-	(17,878)	(17,878)
Transfer to legal reserve		-	4,801	-	(4,801)	-
Balance at 31 December 2016		**380,390**	**15,425**	**(88,830)**	**91,659**	**398,644**
Profit for the year		**-**	**-**	**-**	**25,959**	**25,959**
Other comprehensive income		**-**	**-**	**28,982**	**-**	**28,982**
Total comprehensive income		**-**	**-**	**28,982**	**25,959**	**54,941**
Dividend paid – 2016	17	**-**	**-**	**-**	**(12,172)**	**(12,172)**
Dividend payable – 2016	17	**-**	**-**	**-**	**(11,412)**	**(11,412)**
Transfer to legal reserve	16	**-**	**2,596**	**-**	**(2,596)**	**-**
Balance at 31 December 2017		**380,390**	**18,021**	**(59,848)**	**91,438**	**430,001**

The report of the Independent Auditors' is set forth on page 2(a) to 2(d).
The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RO'000	2017 US$'000	2016 RO'000	2016 US$'000
OPERATING ACTIVITIES					
Profit before tax		**18,906**	**49,164**	23,385	60,824
Adjustments for :					
Depreciation	11	**15,925**	**41,417**	15,925	41,417
Interest – term loans and swap settlements	8	**19,233**	**50,021**	20,125	52,342
Amortisation of deferred finance costs	8	**1,120**	**2,913**	1,192	3,099
Asset retirement obligation - unwinding of discount	8	**242**	**632**	232	603
Accruals for employees' end of service benefits	21	**26**	**66**	17	43
		55,452	**144,213**	60,876	158,328
Working capital changes:					
Trade and other receivables		**1,574**	**4,091**	(2,008)	(5,219)
Accounts payable and accruals		**(9,868)**	**(25,658)**	(4,368)	(11,363)
Inventories		**(301)**	**(783)**	325	844
Cash generated from operations		**46,857**	**121,863**	54,825	142,590
Interest – term loans and swap settlements		**(19,178)**	**(49,877)**	(20,078)	(52,220)
Employees' end of service benefits paid	21	**-**	**-**	(9)	(21)
Net cash generated from operating activities		**27,679**	**71,986**	34,738	90,349
INVESTING ACTIVITY					
Investment in short term deposits	14	**(1,923)**	**(5,000)**	-	-
Net cash used in investing activities		**(1,923)**	**(5,000)**	-	-
FINANCING ACTIVITIES					
Dividend paid	17	**(11,554)**	**(30,050)**	(8,775)	(22,823)
Repayment of interest bearing loans and borrowings	18	**(24,484)**	**(63,678)**	(24,047)	(62,543)
Net cash used in financing activities		**(36,038)**	**(93,728)**	(32,822)	(85,366)
(Decrease) Increase in cash and cash equivalent		**(10,282)**	**(26,742)**	1,916	4,983
Cash and cash equivalents at 1 January		**22,489**	**58,490**	20,573	53,507
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14	**12,207**	**31,748**	22,489	58,490

The report of the Independent Auditors' is set forth on page 2(a) to 2(d).
The attached notes 1 to 28 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

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 2015, 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 scheduled commercial operations date based on a tariff structure.

ii. Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas of the Government of the Sultanate of Oman (MOG) for the purchase of natural gas for fifteen years at a pre-determined price.

iii. Usufruct Agreement with the Government of the Sultanate of Oman for grant of Usufruct rights over the plant site for twenty five years.

iv. Agreement with local and international banks for long-term loan facilities and interest rate hedge arrangements.

v. Agreement with Siemens LLC Oman for long term service contract for maintenance service of the gas turbines.

vi. Agreement with Siemens Aktiengesellschaft for long term supply contract for supplying the spare parts of gas turbines.

vii. Agreement with Phoenix Operation and Maintenance Company LLC for the operation and maintenance of the Sur IPP Project.

viii. Agreement with Daewoo Engineering and Construction Co. Ltd for engineering, procurement and construction of the Sur IPP Project.

ix. Project Founders' Agreement dated 13 July 2011 made between Electricity Holding Company SAOG, Marubeni Corporation; Chubu Electric Power Co; Qatar Electricity and Water Company (Q.S.C.); and Multitech LLC.

x. Shareholders' Agreement dated 13 July 2011, amended and restated dated 28 November 2011 made between Electricity Holding Company SAOG, Axia Power Holdings B.V; Chubu Electric Power Sur B.V; Qatar Electricity and Water Company (Q.S.C.); and Multitech LLC.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority of the Sultanate of Oman.

Items included in the financial statements of the Company are measured and presented in US Dollars (US $) being the currency of the primary economic environment in which the Company operates.

These financial statements are presented in US Dollars and Rial Omani (RO), rounded to the nearest thousand. The RO amounts shown in the financial statement have been translated using exchange rate of US $ 1 = RO 0.3845 and are shown for the convenience of the reader.

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of derivative financial instruments.

2.2 Standards, amendments and interpretation effective in 2017:

For the year ended 31 December 2017, 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 2017.

- Amendment to IAS 7 Disclosure Initiative
- Amendment to IAS 12 Recognition of Deferred Tax Assets for unrealized Losses
- Annual Improvements to IFRSs 2014–2016 Cycle –various standards (Amendments to IFRS 12)

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.

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 is 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.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Property, plant and equipment

Property, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Impairment of non-financial assets *(continued)*

The management determines whether there are any indications of impairment to carrying value of property, plant and equipment on an annual basis because of the difference between the duration of the contracted cash flows and accounting deprecation of assets. This requires an estimation of the value in use of the cash generating unit. Estimating the value in use requires the Company to make an estimate of the residual value of the cash generating unit at the end of the term of the PPA considering the expected future cash flows for the period beyond the term of the PPA and also a suitable discount rate in order to calculate the present value of those cash flows.

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.

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 categorised 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.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.24 Fair values (continued)

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 categorization (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 Chief Executive Officer 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 Chief Executive Officer 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.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the accounting policies of impairment of property, plant and equipment, financial valuation of derivative financial instruments, asset retirement obligation, impairment of financial assets and operating leases.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

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 and 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 and spares as at the reporting date.

d) Deferred taxation

Deferred tax asset amounting to US$ 38.862 million (2016: US$ 29.22 million) has not been recognised in profit or loss relating to the carried forward losses amounting to US$ 259.08 million (2016: US$ 243.49 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 2017 and may impact the Company:

IFRS 9 Financial Instruments

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 assessed and concluded that is not likely to have any material impact on the financial statements. However, additional disclosures with regard to the Company's risk management activities may be required.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE *(continued)*

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 has assessed and concluded that there is not likely to be a material impact as the contract has a single performance obligation and the Company continues to recognise revenue over time as the customer simultaneously receives and consumes all the benefits provided by the Company.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognized leases, but willhave the option not to recognize 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The company does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

4 OPERATING REVENUE

	2017	**2017**	2016	2016
	RO'000	**US$'000**	RO'000	US$'000
Capacity charges	**65,723**	**170,932**	65,989	171,622
Energy charges	**62,678**	**163,013**	51,312	133,452
	128,401	**333,945**	117,301	305,074

5 OPERATING COSTS

	2017	**2017**	2016	2016
	RO'000	**US$'000**	RO'000	US$'000
Gas consumption	**59,857**	**155,676**	48,892	127,158
Depreciation (note 11)	**15,908**	**41,372**	15,908	41,372
Operation and maintenance cost	**8,012**	**20,837**	7,840	20,389
Contractual services maintenance cost	**6,999**	**18,202**	6,006	15,620
Insurance	**733**	**1,907**	736	1,915
Other direct costs	**843**	**2,193**	1,070	2,783
Connection and license fee	**534**	**1,389**	541	1,407
	92,886	**241,576**	80,993	210,644

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

6 OTHER INCOME

In accordance with the PPA, the Scheduled Project Commercial Operation Date (PCOD) was due on 1 April 2014. The Company's EPC Contractor did not achieve the Commercial Operation Date and was delayed until 10 December 2014.

For the year ended 31 December 2017, other income includes US$ 13.9 million (RO 5.4 million) towards Liquidated Damages (LD) for delay to the PCOD which Company recognized after final settlement with EPC contractor (2016: US$ 26.3 million (RO 10.1 million).

7 GENERAL AND ADMINISTRATIVE EXPENSES

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Staff costs and other benefits	**566**	**1,473**	616	1,601
Legal and professional charges	**241**	**627**	189	492
Other expenses	**465**	**1,210**	453	1,177
Office rent	**40**	**103**	42	108
Depreciation (note 11)	**17**	**45**	17	45
	1,329	**3,458**	1,317	3,423

8 FINANCE COSTS (NET)

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Interest – term loans and swap settlements	**19,233**	**50,021**	20,125	52,342
Amortisation of deferred finance cost	**1,120**	**2,913**	1,192	3,099
Asset retirement obligation - unwinding of discount (note 20)	**242**	**632**	232	603
Debt service commission	**184**	**479**	77	200
Exchange loss	**(76)**	**(198)**	95	246
Interest Income	**(75)**	**(192)**	-	-
	20,628	**53,655**	21,721	56,490

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

9 INCOME TAX

	2017 RO'000	2017 US$'000	2016 RO'000	2016 US$'000
Recognised in the income statement in the current year				
Deferred tax expense				
Current year	**(3,735)**	**(9,715)**	(2,803)	(7,290)
Prior year	**(5,187)**	**(13,490)**	(2,124)	(5,523)
	(8,922)	**(23,205)**	(4,927)	(12,813)

a) Reconciliation of income tax expense

The following is the tax reconciliation of income taxes calculated at the applicable tax rate with the income tax expenses.

	2017 RO'000	2017 US$'000	*2016* RO'000	*2016* US$'000
Profit before tax	**18,906**	**(49,164)**	23,385	60,824
Income tax at the rate mentioned above	**(2,836)**	**(7,375)**	(2,803)	(7,290)
Deferred tax not recognized during the year	**(899)**	**(2,339)**	(2,124)	(5,523)
Deferred tax due to change in the rate from prior year	**(5,187)**	**(13,491)**	-	-
	(8,922)	**(23,205)**	(4,927)	(12,813)

As of 31 December 2017, 2011 and 2012 of the Company's tax assessments have been completed by the Omani taxation authorities. The Company's assessment for the tax years 2013 to 2016 have not yet been finalised with the Secretariat General for Taxation at the Ministry of Finance. Management of the Company believes that additional taxes, if any, in respect of open tax years, would not be significant to the Company's financial position as at 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

9 INCOME TAX *(continued)*

b) Deferred tax (liability) / asset

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

	As at 1 January	Recognised in profit or loss	Recognised in other comprehensive income/ (expense)	As at 31 December
	RO'000	**RO'000**	**RO'000**	**RO'000**
31 December 2017				
Property, plant and equipment	**(21,925)**	**(10,910)**	**-**	**(32,835)**
Provision for asset retirement obligation	**584**	**183**	**-**	**767**
Losses carried forward	**591**	**1,805**	**-**	**2,396**
Fair value adjustment of derivatives through equity	**4,658**	**-**	**(597)**	**4,061**
Net deferred tax asset (liability)	**(16,092)**	**(8,922)**	**(597)**	**(25,611)**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Property, plant and equipment	**(57,021)**	**(28,374)**	**-**	**(85,395)**
Provision for asset retirement obligation	**1,518**	**475**	**-**	**1,993**
Losses carried forward	**1,537**	**4,694**	**-**	**6,231**
Fair value adjustment of derivatives through equity	**12,113**	**-**	**(1,552)**	**10,561**
Net deferred tax asset (liability)	**(41,853)**	**(23,205)**	**(1,552)**	**(66,609)**
	RO'000	*RO'000*	*RO'000*	*RO'000*
31 December 2016				
Property, plant and equipment	(16,548)	(5,377)	-	(21,925)
Provision for asset retirement obligation	556	28	-	584
Losses carried forward	169	422	-	591
Fair value adjustment of derivatives through equity	5,908	-	(1,250)	4,658
Net deferred tax liability	(9,915)	(4,927)	(1,250)	(16,092)
	US$'000	US$'000	US$'000	US$'000
Property, plant and equipment	(43,039)	(13,982)	-	(57,021)
Provision for asset retirement obligation	1,446	72	-	1,518
Losses carried forward	440	1,097	-	1,537
Fair value adjustment of derivatives through equity	15,365	-	(3,252)	12,113
Net deferred tax asset (liability)	(25,788)	(12,813)	(3,252)	(41,853)

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

10 EARNINGS PER SHARE

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

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Profit attributable to ordinary shareholders of the Company for basic earnings per share	**9,984**	**25,959**	18,458	48,011
Weighted average number of shares"000"	**1,462,601**	**1,462,601**	1,462,601	1,462,601
Basic and diluted earnings per share (RO)	**0.007**	**-**	0.013	-
Basic and diluted earnings per share (US$)	**-**	**0.02**	-	0.03

11 PROPERTY, PLANT AND EQUIPMENT

Cost	**Plant building RO'000**	**Plant and equipment RO'000**	**Strategic spares RO'000**	**Asset retirement RO'000**	**Other assets RO'000**	**Total RO'000**
At 1 January 2017	**83,876**	**518,087**	**10,809**	**4,401**	**226**	**617,399**
At 31 December 2017	**83,876**	**518,087**	**10,809**	**4,401**	**226**	**617,399**
Accumulated depreciation						
At 1 January 2017	**4,315**	**26,646**	**1,484**	**226**	**91**	**32,762**
Charge during the year	**2,097**	**12,952**	**721**	**110**	**45**	**15,925**
At 31 December 2017	**6,412**	**39,598**	**2,205**	**336**	**136**	**48,687**
Net book value						
At 31 December 2017	**77,464**	**478,489**	**8,604**	**4,065**	**90**	**568,712**

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

11 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Cost	Plant building RO'000	Plant and equipment RO'000	Strategic spares RO'000	Asset retirement RO'000	Other assets RO'000	Total RO'000
At 1 January 2016	83,876	518,087	10,809	4,401	226	617,399
At 31 December 2016	83,876	518,087	10,809	4,401	226	617,399
Accumulated depreciation						
At 1 January 2016	2,218	13,694	763	116	46	16,837
Charge during the year	2,097	12,952	721	110	45	15,925
At 31 December 2016	4,315	26,646	1,484	226	91	32,762
Net book value						
At 31 December 2016	79,561	491,441	9,325	4,175	135	584,637

Cost	**Plant building US$'000**	**Plant and equipment US$'000**	**Strategic spares US$'000**	**Asset retirement US$'000**	**Other assets US$'000**	**Total US$'000**
At 1 January 2017	**218,142**	**1,347,432**	**28,113**	**11,445**	**586**	**1,605,718**
At 31 December 2017	**218,142**	**1,347,432**	**28,113**	**11,445**	**586**	**1,605,718**
Accumulated depreciation						
At 1 January 2017	**11,221**	**69,303**	**3,856**	**588**	**237**	**85,205**
Charge during the year	**5,453**	**33,686**	**1,875**	**287**	**116**	**41,417**
At 31 December 2017	**16,674**	**102,989**	**5,731**	**875**	**353**	**126,622**
Net book value						
At 31 December 2017	**201,468**	**1,244,443**	**22,382**	**10,570**	**233**	**1,479,096**

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

11 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Cost	Plant building US$'000	Plant and equipment US$'000	Strategic spares US$'000	Asset retirement US$'000	Other assets US$'000	Total US$'000
At 1 January 2016	218,142	1,347,432	28,113	11,445	586	1,605,718
At 31 December 2016	218,142	1,347,432	28,113	11,445	586	1,605,718
Accumulated depreciation						
At 1 January 2016	5,767	35,617	1,982	302	120	43,788
Charge during the year	5,454	33,686	1,874	286	117	41,417
At 31 December 2016	11,221	69,303	3,856	588	237	85,205
Net book value						
At 31 December 2016	206,921	1,278,129	24,257	10,857	349	1,520,513

12 TRADE AND OTHER RECEIVABLES

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Trade receivables	**4,651**	**12,097**	6,178	16,067
Other receivables	**13**	**34**	35	91
Prepayments	**73**	**190**	98	254
	4,737	**12,321**	6,311	16,412

None of the Company's trade receivable balances were past due or impaired.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

13 INVENTORIES

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Fuel oil inventory	**5,454**	**14,185**	5,449	14,172
Maintenance spares	**5,331**	**13,866**	5,035	13,096
	10,785	**28,051**	10,484	27,268

14 BANK BALANCES

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Bank balances	**12,207**	**31,748**	22,489	58,490
Short Term Deposits	**1,923**	**5,000**	-	-
	14,130	**36,748**	22,489	58,490

The company has made a placement in the amount of USD 5 million (RO 1.92 million) earning interest at 1.59% per annum maturing in January 2018.

15 SHARE CAPITAL

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Authorised, issued and fully paid up share capital of 1,462,601,460 shares of 100 Baiza (US $ 0.26) each (2016 – 1,462,601,460 shares of 100 Baiza (US $ 0.26) each)	**146,260**	**380,390**	146,260	380,390

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 2017

17 DIVIDEND PAID, PAYABLE AND PROPOSED

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

Subject to approval of the shareholders at the Annual General Meeting ("AGM"), the Board of Directors in their meeting held on 27 February 2018 proposed a cash dividend to the shareholders of the Company which will be paid in July 2018 and January 2019 for the year ended 31 December 2017, provided that the aggregate amount of such dividend shall not exceed 4.8% of the paid up share capital of the Company as of 31 December 2017.

18 INTEREST BEARING LOANS AND BORROWINGS

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Secured term loan from commercial banks	**106,903**	**278,030**	114,085	296,709
Secured term loan from Japan Bank for International Cooperation	**204,086**	**530,784**	217,798	566,444
Secured term loan under NEXI facilities	**53,452**	**139,015**	57,042	148,354
	364,441	**947,829**	388,925	1,011,507
Less : Deferred finance costs	**(6,501)**	**(16,906)**	(7,620)	(19,819)
	357,940	**930,923**	381,305	991,688
Less : Current portion of loans	**(26,069)**	**(67,799)**	(24,484)	(63,678)
Non-current portion of loans	**331,871**	**863,124**	356,821	928,010

Reconciliation of movement of liabilities to cash flows arising from financing activities

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Gross loan as at 1 January	**388,925**	**1,011,507**	412,972	1,074,050
Paid during the year	**(24,484)**	**(63,678)**	(24,047)	(62,543)
Gross loan as at 31 December	**364,441**	**947,829**	388,925	1,011,507

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 at LIBOR + applicable margin.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

18 INTEREST BEARING LOANS AND BORROWINGS *(continued)*

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 19.

The loan agreements contain certain restrictive covenants, which include, amongst other restrictions over debt service, pattern of shareholding, payment of dividends, asset sales/transfers, and amendment to significant agreements entered by the Company and creation of additional security under charge.

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Cumulative changes in fair value:				
Interest rate swap agreements	**21,640**	**56,281**	27,010	70,248
Forward foreign exchange contracts	**5,433**	**14,129**	11,803	30,695
Fair value of derivatives	**27,073**	**70,410**	38,813	100,943
Less : Income tax effect (note 9)	**(4,061)**	**(10,562)**	(4,658)	(12,113)
	23,012	**59,848**	34,155	88,830

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

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Non-current portion	**20,929**	**54,433**	29,853	77,642
Current portion	**6,144**	**15,977**	8,960	23,301
	27,073	**70,410**	38,813	100,943

Interest rate swap agreements

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 2017, an unrealised loss of US $ 56.281 million (2016: US $ 70.248 million) relating to measuring the financial instrument at fair value is included in equity in respect of these contracts.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

19 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Interest rate swap agreements *(continued)*

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 2017 — **Notional amounts by term to maturity**

	Fair value of derivatives RO'000	**Notional amount RO'000**	**1 - 12 Months RO'000**	**More than 1 up to 5 years RO'000**	**Over 5 years RO'000**
Interest rate swaps	**21,640**	**346,171**	**24,763**	**112,403**	**209,005**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Interest rate swaps	**56,281**	**900,314**	**64,404**	**292,336**	**543,574**

31 December 2016 — **Notional amounts by term to maturity**

	Fair value of derivatives RO'000	Notional amount RO'000	1 - 12 Months RO'000	More than 1 up to 5 years RO'000	Over 5 years RO'000
Interest rate swaps	27,010	369,425	23,254	107,059	239,112
	US$'000	US$'000	US$'000	US$'000	US$'000
Interest rate swaps	70,248	960,793	60,479	278,438	621,876

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 2017, an unrealised loss of US $ 14.129 million (2016: US $ 30.695 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:

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AT 31 DECEMBER 2017

19 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Interest rate swap agreements *(continued)*

31 December 2017			**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	**5,433**	**64,429**	**5,861**	**23,441**	**35,127**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Forward foreign exchange contracts	**14,129**	**167,565**	**15,244**	**60,966**	**91,355**

31 December 2016			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	11,803	70,292	5,864	23,441	40,987
	US$'000	US$'000	US$'000	US$'000	US$'000
Forward foreign exchange contracts	30,695	182,815	15,250	60,965	106,600

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.

20 PROVISION FOR ASSET RETIREMENT OBLIGATION *(continued)*

The movement in ARO provision is as follows:

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
As at 1 January	**4,866**	**12,654**	4,634	12,051
Unwinding of discount (note 8)	**242**	**632**	232	603
As at 31 December	**5,108**	**13,286**	4,866	12,654

21 ACCOUNTS PAYABLE AND ACCRUALS

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
Trade accounts payable	**4,986**	**12,967**	4,133	10,749
Amounts due to related parties (note 24)	**2,362**	**6,142**	2,014	5,239
Accrued expenses	**5,561**	**14,466**	6,664	17,327
Other payables	**-**	**-**	9,884	25,708
	12,909	**33,575**	22,695	59,023
Less: employees' end of service benefits included in accruals	**(74)**	**(192)**	(48)	(126)
	12,835	**33,383**	22,647	58,897

i) The liquidated damages amounting to 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 2017 liquidated damages amounting to USD Nil million (RO Nil million) [2016: USD 25.708 million (RO 9.88 million)] pertaining to PCOD are included in other payables. Further, details are set out in note 23.

ii) Employees' end of service benefits

	2017 RO'000	**2017 US$'000**	2016 RO'000	2016 US$'000
As at 1 January	**48**	**126**	40	104
Charge for the year	**26**	**66**	17	43
Paid during the year	**-**	**-**	(9)	(21)
As at 31 December	**74**	**192**	48	126

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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:

	2017	**2017**	2016	2016
Net assets (RO '000s)	**165,335**	**-**	153,276	-
Net assets (US$'000s)	**-**	**430,001**	-	398,644
Number of shares outstanding at 31 December (in 000's)	**1,462,601**	**1,462,601**	1,462,601	1,462,601
Net assets per share (RO)	**0.113**	**-**	0.105	-
Net assets per share (US$)	**-**	**0.294**	-	0.273

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 2017, the Company had no 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 [2016 : US$ nil (RO nil)].

b) Claims

A 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. During 2017, an agreement to settle the Claim has been reached between the two parties and the settlement agreement obliges the Company to pay a settlement sum of $11.8M to the EPC Contractor which the Company has paid during the year.

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. Balances and transactions with related parties are as follows:

NOTES TO THE FINANCIAL STATEMENTS
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24 RELATED PARTY TRANSACTIONS *(continued)*

Due to related parties	**2017**	**2017**	2016	2016
	RO'000	**US$'000**	RO'000	US$'000
Other related party - Phoenix Operation and Maintenance Company LLC	**2,362**	**6,142**	2,014	5,239

Transactions with related parties	**2017**	**2017**	2016	2016
	RO'000	**US$'000**	RO'000	US$'000
Consulting Service fee charged:				
Axia Power Holdings	**41**	**107**	41	107
Chubu Electric Power	**-**	**-**	13	32
JERA Co. Inc.	**25**	**64**	12	32
Qatar Electricity and Water Company	**-**	**-**	12	32
Nebras Power	**12**	**32**	-	-
Bahwan Multitec LLC	**4**	**11**	4	11
	82	**214**	82	214
Operation and maintenance costs				
Phoenix Operation and Maintenance Company LLC ("POMCO")	**8,012**	**20,837**	7,840	20,389
	8,012	**20,837**	7,840	20,389
Key management compensation:				
Short term benefits	**245**	**638**	231	601
Employee's end of service benefits	**18**	**48**	13	34
	263	**686**	244	635

NOTES TO THE FINANCIAL STATEMENTS
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25 COMMITMENTS

a) Operation and maintenance commitments

As per the O&M Agreement, POMCO is scheduled to operate and maintain the Plant until 31 March 2029. Under the O&M Agreement the Company has to pay the fixed fee which is subject to indexation based on Omani Price indices.

At 31 December the expected future payments under the O&M Agreement (excluding indexation) are as follows:

	2017	**2017**	2016	2016
	RO'000	**US$'000**	RO'000	US$'000
Within one year	**1,730**	**4,500**	1,730	4,500
Between two and five years	**6,921**	**18,000**	6,921	18,000
After five years	**10,809**	**28,110**	12,539	32,610
	19,460	**50,610**	21,190	55,110

b) Land lease commitments

At 31 December, the future lease payments under the Sub-Usufruct Agreement are as follows:

	2017	**2017**	2016	2016
	RO'000	**US$'000**	RO'000	US$'000
Within one year	**105**	**272**	105	272
Between two and five years	**418**	**1,087**	418	1,087
After five years	**1,319**	**3,431**	1,423	3,703
	1,842	**4,790**	1,946	5,062

Other commitments

The Company has entered into agreements for purchase of natural gas with the Ministry of Oil and Gas, 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.

Operating lease agreement for which the Company acts as a lessor

The Company has entered into a PPA with OPWP for a substantial element of the production of power with 100% "take-or-pay" clauses in favour of the Company.

NOTES TO THE FINANCIAL STATEMENTS
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25 COMMITMENTS *(continued)*

The Management has determined that the take-or-pay arrangement with OPWP under the PPA is subject to IFRIC 4 – Determining whether an arrangement conveys the right to use the asset. The Management further determined that such an arrangement in substance represents an operating lease. The lease commenced on 11 December 2014. The following is the total of minimum lease receipts expected to be received under the PPA, excluding indexation:

	2017	**2017**	2016	2016
	RO'000	**US$'000**	RO'000	US$'000
Within one year	**65,492**	**170,331**	65,556	170,498
Between two and five years	**261,806**	**680,901**	261,870	681,066
After five years	**400,161**	**1,040,730**	465,589	1,210,895
	727,459	**1,891,962**	793,015	2,062,459

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
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26 FINANCIAL RISK MANAGEMENT *(continued)*

The table below summarises the maturities of the Company's financial liabilities at 31 December 2017.

2017	**Less than 3 months RO'000**	**3 to 12 months RO'000**	**1 to 5 years RO'000**	**More than 5 years RO'000**	**Total RO'000**
Trade and other accounts payable	**10,547**	**-**	**-**	**-**	**10,547**
Amounts due to related parties	**2,362**	**-**	**-**	**-**	**2,362**
Interest bearing loans and borrowings	**-**	**43,805**	**175,329**	**256,203**	**475,337**
	12,909	**43,805**	**175,329**	**256,203**	**488,246**

2016	Less than 3months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	More than 5 years RO'000	Total RO'000
Trade and other accounts payable	20,682	-	-	-	20,682
Amounts due to related parties	2,014	-	-	-	2,014
Interest bearing loans and borrowings	-	43,395	175,327	300,010	518,732
	22,696	43,395	175,327	300,010	541,428

2017	**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**
Trade and other accounts payable	**27,433**	**-**	**-**	**-**	**27,433**
Amounts due to related parties	**6,142**	**-**	**-**	**-**	**6,142**
Interest bearing loans and borrowings	**-**	**113,928**	**455,991**	**666,327**	**1,236,246**
	33,575	**113,928**	**455,991**	**666,327**	**1,269,821**

26 FINANCIAL RISK MANAGEMENT *(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
2016					
Trade and other accounts payable	53,784	-	-	-	53,784
Amounts due to related parties	5,239	-	-	-	5,239
Interest bearing loans and borrowings	-	112,860	455,986	780,260	1,349,106
	59,023	112,860	455,986	780,260	1,408,129

(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 2017 amounted to US$ 1,981 thousands (RO 762 thousands) [(2016: US$ 1,861 thousands (RO 716 thousands)]. Should the exchange rate between Euro and RO fluctuate by ± 5%, the impact on the Company's results will be US$ 99 thousands (RO 38 thousands) [2016: US$ 93 thousands (RO 36 thousands)].

(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 2017.

NOTES TO THE FINANCIAL STATEMENTS
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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.

Embedded derivatives

The following agreements contain embedded derivatives:

(i) The PPA between the Company and OPWP contains embedded derivatives in the pricing formulae that adjusts the charge rates to reflect changes in USD / RO currency exchange rates and changes in US price index and the Oman price index.

(ii) The O&M Agreement contains embedded derivatives in the pricing formulae that adjust the payments to reflect changes in relevant inflation indices.

(iii) The LTSA between the Company and Siemens Aktiengesellschaft contains embedded derivatives in pricing the fixed monthly fee and variable monthly fee for provision of long term maintenance services. Percentages of the fixed monthly fee and variable monthly fee will be adjusted to reflect changes in Euro Material and Labour and Oman price indices.

These embedded derivatives are not separated from the host contract, the PPA, the O&M agreement, and LTSA and is not accounted for as a standalone derivative under IAS 39, as the Management believes that the economic characteristics and risks associated with the embedded derivatives are closely related to those of the host contracts.

28 COMPARATIVE FIGURES

Certain of the corresponding figures for 2016 have been reclassified in order to confirm with the presentation for the current year. Such reclassifications do not affect previously reported profit or shareholder's equity.