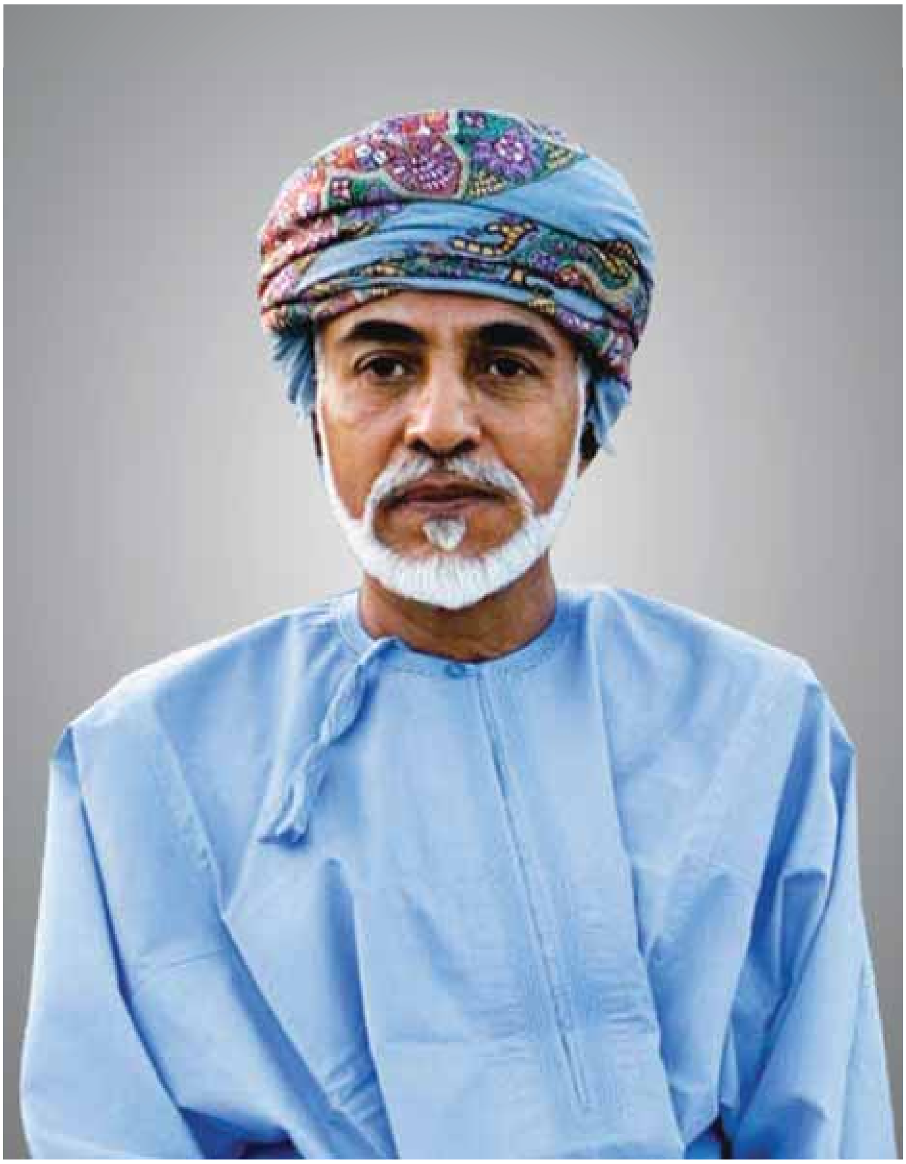
PHOENIX POWER COMPANY SAOG

ANNUAL REPORT 2016

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	Qatar Electricity and Water Company 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 2016.

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

Health, Safety and Environment

Ensuring high standards of Health, Safety and Environmental performance continues to be given a high priority by the Company and its operator, Phoenix Operation and Maintenance Company (POMCo) and during the year there were no Lost Time Accidents ("LTA") or environmental incidents occurring. As at 31st December 2016, the Company has achieved 752 days without an LTA. As part of an annual review process, the health, safety, environmental and quality processes of both the Company and the Operator were carefully audited by an independent third party and both businesses retained accreditation to OHSAS 18001, ISO 14001 and ISO 9001 standards. In addition, during 2016 both PPC and POMCo were recognized by the UK`s Royal Society for the Prevention of Accidents (RoSPA) with a silver award.

Corporate Governance

PPC has a comprehensive system of internal controls in place.

During 2016, the Company carried out a review of key internal policies, including its financial processes and procedures in order to ensure highest standards of corporate governance and to ensure compliance with the Code of Corporate Governance as issued by the Capital Market Authority.

Operations

During the year 2016, the Company has achieved an excellent operational performance with the

Sur Power Plant demonstrating a commercial availability of 98.83%, the key parameter to be considered when assessing the revenues generated during the period.

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

Financial Results

The company generated revenues of RO 117.30 million in 2016 which were higher than the RO 101.87 million generated in 2015 mainly due to improved availability and increased dispatch. The Net Profit of the Company was RO 18.46 million in 2016 which was lower than the RO 28.77 million earned in 2015 mainly due to the recognition of liquidated damages which were retained by the Company, under the terms of the EPC Contract, as a consequence of delays to the commercial operation date of the plant. Liquidated damages of RO 10.12 million have been recognized in 2016 compared with RO 23.51 million recognized in 2015.

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

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

The share price ended the year at Bzs 147.

Corporate Social Responsibility

The Company fully recognizes its role as responsible corporate citizen with support focusing on the local community at Sur in the areas of education, health and safety and environmental care. The Company was able to contribute to the promotion of awareness in these areas as well as providing support to the Sur Hospital and local educational facilities.

Employment

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

Future Outlook

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

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

In Conclusion

As Chairman of the Board, I would like to thank our shareholders, not only for their confidence, but also for their continued support and for the expertise they bring to the Company. On behalf of the Board of Directors, I express my gratitude to OPWP, the Authority for Electricity Regulation ("AER"), the CMA and other governmental and non-governmental bodies for their guidance and support. I also give thanks to the operations and maintenance staff in the power plant as well as the employees of the Company for their dedication and commitment during 2016. Thanks to their contribution, the Company was able to achieve its goals and objectives.

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

Khalid Jolo
Chairman of the Board

Operational Highlights

Health, Safety & Environmental Performance

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

The overall health, safety and environmental performance in 2016 remained strong, building on the foundations established during the first year of commercial operation in 2015. 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 2016, and since commercial operation, both health and safety and environmental goals have been achieved with the Sur plant now having completed 752 days without a Lost Time Accident or an environmental incident as at the 31 December 2016.

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 silver award.

Proactive actions continue to have been taken to both develop and improve safety culture as well as target delivery of a safe and environmentally compliant site. Such actions include:

- A focus on vigilance with regard to reporting behavioural based safety observations and investigating near misses through initiation of safety awards and staff recognition.
- A training programme including a comprehensive site induction process and ongoing HSE development.
- Frequent management reviews and safety walks.
- Summer awareness campaigns focusing on heat stress, food habits and managing impacts of working in hot temperatures supported by installation of rest shelters and water coolers.
- A bonus scheme for all employees that includes an element related to overall health and safety performance.
- Implementation of on-site visible improvements including a safety walkway for pedestrians, daily tool box talk implementation and improvements to signage and reporting methodology.
- Development and implementation of leading HSE key performance indicators and the active utilization of Intelex software for action tracking and reporting.

The Final Environmental Permit for Sur IPP was issued by the Ministry of Environment and Climate Affairs (MECA) on 21st June 2016.

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

Capacity

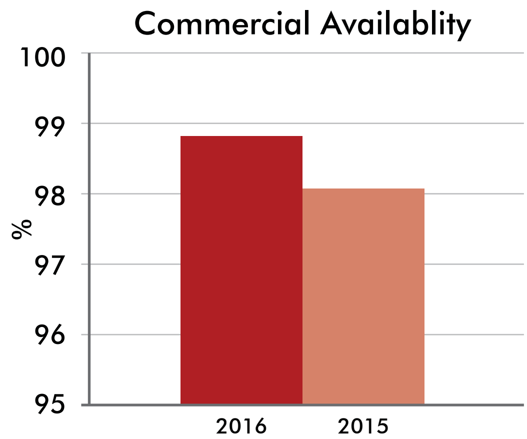
The capacity of a plant is defined as the total electrical power (MW) which can be delivered by the plant at reference conditions.

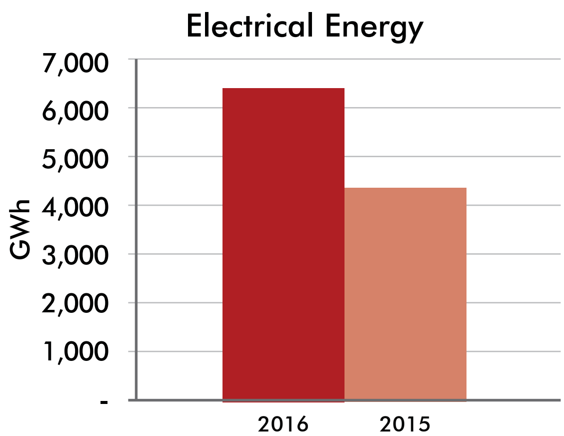
The contractual capacity of the Sur Power Plant under the PPA applicable from May 2016 to April 2017 is 1987.80 MW. The Annual Performance Tests conducted in April 2016 demonstrated that the plant met these contractual requirements.

Reliability

The reliability of the Plant is a measure of its availability to deliver the declared capacity as per the PPA. During 2016, the Sur Plant achieved a reliability of 98.83% experiencing a forced outage rate of 1.17%.

During the year, the Plant exported a total of 6424 GWhrs of electrical energy with a utilization factor averaging 36.68%.





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 2016 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

During 2016, a training centre, aimed at developing technical staff in operations and maintenance activity, was opened by Mr. Salim Saleem Al Ruzeiqi, Director General of Ministry of Manpower Al Sharqiya Region on 14 March 2016.

The training centre focuses on provision of web based training modules supplemented by both classroom based education and accompanied by on the job development and completion of task books related to specific activities.

Progression through the training programme and developing appropriate competencies forms a key element of employees individual performance review process.

Description of the Business

Overview

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

The following diagram displays the approximate location of the Plant:

Phoenix Power currently generates its revenues pursuant to a 15-year term PPA with OPWP, which is indirectly wholly owned by the Government. The power produced from the Plant is fully contracted to OPWP and used to meet the growing power demand of the Main Interconnected System ("MIS") during the term of the PPA and beyond. As the largest power plant in Oman, the contracted Plant's power capacity of c.2000 MW represents c.27.7% of the MIS total currently contracted capacity of approximately 7180 MW as per OPWP's 7 year statement (2016-2022).

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 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 at COD.

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

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

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

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 houses. It oversee a range of operations that encompass the domestic market, export-import, and offshore trade, with total assets of around USD 58 billion (as of September 2016). As of 1st April 2016, 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 Projects & Plant Group. Power Projects & Plant Group consists of Power Projects Division, Energy & Environment Infrastructure Division, and Plant Division, and is one of the core groups within Marubeni.

Marubeni is very active in the industry, having participated in 50 I(W)PP projects with the total gross capacity of 36,524 MW and the total net capacity of 10,533 MW (as of December 2016) in overseas. Marubeni's role in the IPP business includes development, financing, equity participation as well as engineering, procurement and construction ("EPC") and O&M. Marubeni operates I(W)PP projects in many countries around the world, including Oman, Saudi Arabia, Qatar, U.A.E., Tunisia, Botswana, Turkey, Portugal, United Kingdom, Jamaica, Trinidad and Tobago, Chile, Australia, U.S.A, Canada, the Philippines, Taiwan, Pakistan, India, Indonesia, Cambodia, Singapore and Korea. In addition, Marubeni is an active player in the EPC business and has built over 108,873 MW of power plants worldwide. The power division's vision is to establish itself in the top position in the comprehensive power business in Japan and abroad.

In addition to the power business, Marubeni has a variety of experiences in non-recourse project financing such as LNG related business and ship transportation business. Marubeni has an outstanding record in project financing in emerging markets, and has arranged for funds from various export credit agencies, multilateral institutions, international commercial banks, institutional investors and local banks.

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

Chubu Electric Power Sur B.V.

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 6,000 MW (as of December 2016). 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%), Qatar Holding LLC (20%), and Qatar Petroleum International Limited (20%).

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 our bottom line, which allows us to ensure that the Society as a whole is a beneficiary of our progress and growth.

Since its inception in the mid of 2014, Nebras Power has built a power portfolio of over 1.5 GW of quality assets distributed over different countries - UAE, Oman, Jordan, Indonesia, and Tunisia.

Multitech

Multitech is managed by Bahwan Engineering Co LLC, a leading and well known business name in the Sultanate of Oman.

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

a) ACWA Power Barka SAOG (Barka-1 IWPP);

b) Al Suwadi Power Company SAOG (Barka-3 IPP);

c) Al Batinah Power Company SAOG (Sohar-2 IPP); and

d) Phoenix Power Company SAOG (Sur IPP).

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

For futher information please visit www.bahwanengineering.com

Management Discussion and Analysis Report

Industry Overview

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

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

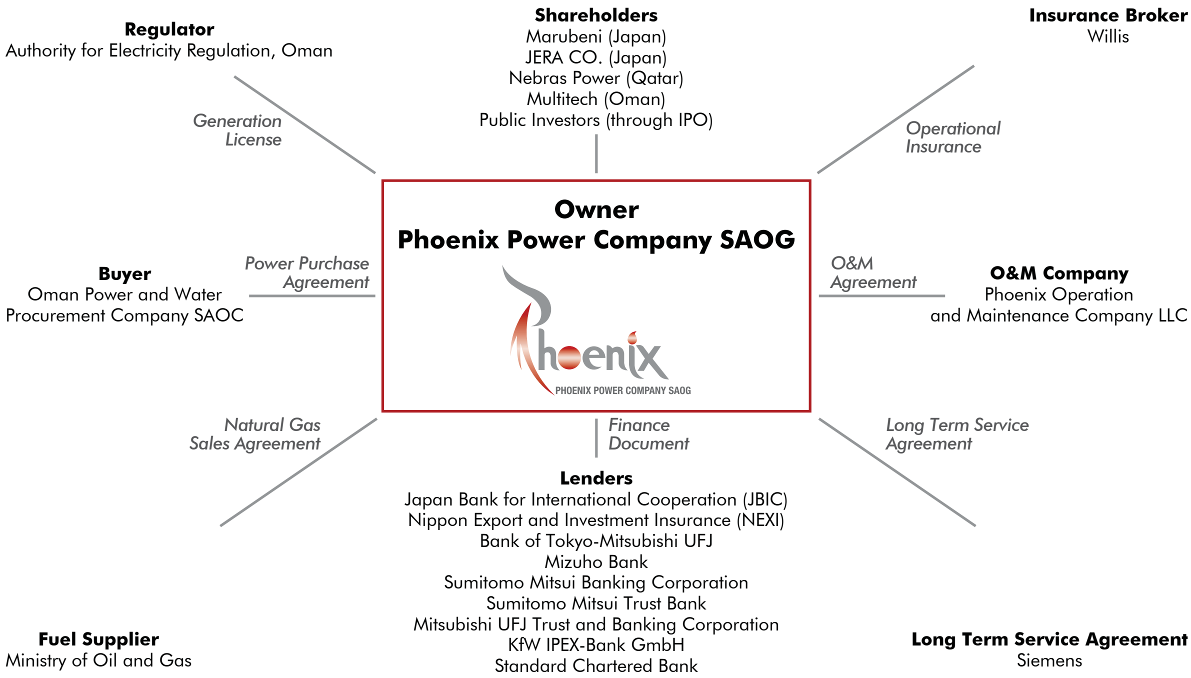
OPWP is the single buyer of power and water for all IPP / IWPP projects within Oman. OPWP is responsible for ensuring that there is sufficient electricity and water production capacity available at the lowest cost to meet growing demands in Oman. OPWP undertakes long-term generation planning and publishes an annual seven-year statement, which identifies new IPP/IWPP projects to be competitively tendered and developed by private sector entities, in order to meet the future power generation and water desalination requirements of Oman. Article 74 of the Sector Law specifies the functions and duties of OPWP, including but not limited to:

- Securing production capacity and output to meet demand for electricity in the MIS and Salalah System, in coordination with RAECO;
- Securing production capacity and output to meet demand for desalinated water in Oman;
- Meeting requirements for new electricity and desalinated water capacity in Oman, with new projects to be designed, constructed, financed, owned and operated by local and foreign investors; and
- The purchase, procurement, and management of production capacity and output, ancillary services and all goods and other services on the basis of economic purchase.

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:



(*) During 2016, two of the original founders, namely Chubu Electric Power Co., Inc. and Qatar Electricity and Water Co. QSC transferred their shares in the Company to their affiliate, JERA Co. and Nebras Power QSC, respectively.

Risk Management Process

Risk registers are maintained by the business with each business function having responsibility for maintaining such registers. These registers identify inherent risks, risk profiles prior to any mitigation, current controls, residual risk taking account mitigation measures and any further planned control measures.

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 Arrangement

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

Operation and Maintenance

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

EPC Contract Claim

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

With regard to the position with each of those disputes (i) on 21 December 2015, PPC and the EPC Contractor agreed to settle the Early Power Dispute; and (ii) the Final Power Dispute, which has also been the subject of a contractual claim from the EPC Contractor, continues to be evaluated. An outcome which results in a cash payment to the Contractor would impact on future dividend payments.

Discussion on Operational and Financial Performance

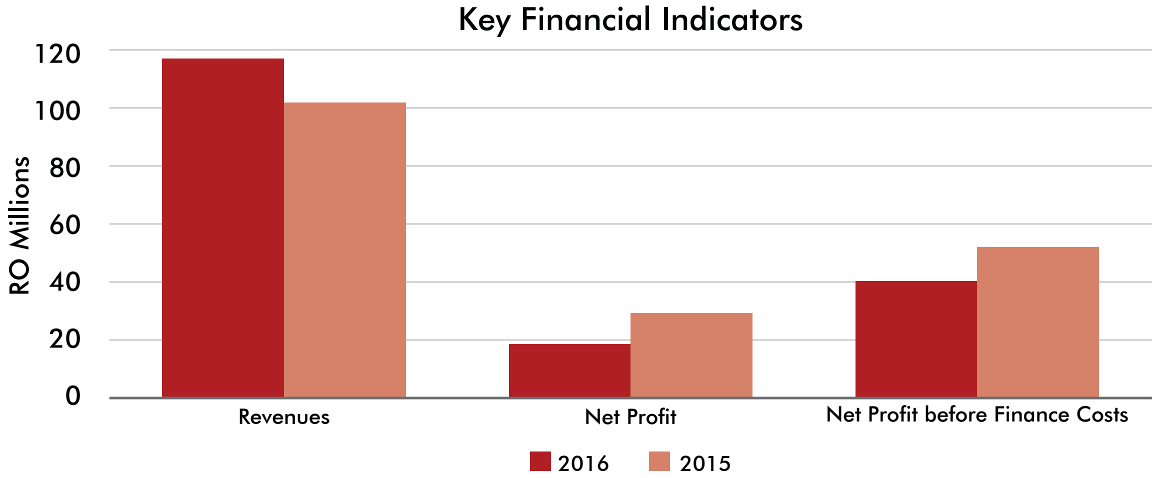
Operating Highlights

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

Financial Highlights

All figures in RO Millions		2016	2015
Revenues	1	**117.3**	101.87
Net Profit	2	**18.46**	28.77
Net Profit before Finance Costs	3	**40.18**	51.83
Total Assets	4	**623.92**	636.25
Capital (Paid-up)	5	**146.26**	146.26
Shareholders' Fund (Net Assets)	6	**153.28**	137.2
Term Loans ^	7	**388.93**	412.97
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	**8.78**	2.49

^ Excluding unamortised transaction cost



Key Financial indicators		2016	2015
Net Profit margin	2/1	15.74%	28.24%
Return on Capital (Paid-up)	2/5	12.62%	19.67%
Return on Capital Employed	3/(6+7)	7.41%	9.42%
Debt Equity ratio	7 : 6	71.7 : 28.3	75.1 : 24.9
Net assets per share (Baizas)	6/8	104.80	93.81
Basic earnings per share (Baizas)	2/8	12.62	19.67
Dividends per share (Baizas)	10/9	6.00	1.70

Analysis of Profit and Loss

Revenues of RO 117.30 million in 2016 were higher when compared to RO 101.87 million in 2015 mainly due to higher commercial availability and increased dispatch (pass-through) of the plant.

The Net Profit of RO 18.46 million in 2016 is lower than the RO 28.77 million in 2015 mainly due to liquidated damages of RO 10.12 million which have been recognized in 2016 compared with RO 23.51 million being recognized in 2015 under the EPC Contract.

Analysis of Balance Sheet

Total Assets of the Company stood at RO 623.92 million as on December 31, 2016 as compared to RO 636.25 million in 2015. This was mainly due to a full year's depreciation being charged for the year.

The cash and cash equivalents stand at RO 22.49 million as at December 31, 2016 as compared to RO 20.57 million at the same date in 2015.

The Shareholders' Funds (Net Assets) at RO 153.28 million as of December 31, 2016 were higher when compared to RO 137.20 million at the same date in 2015 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 34.16 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 388.93 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 2016 was RO 11.55 million (translating to 7.9 Baizas per share paid in July 2016 and January 2017) and paid out of the audited retained earnings for the year ended 31 December 2015.

Dispute with EPC Contractor

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

Phoenix Power's entitlement to LDs is contested by the EPC Contractor, who has submitted a claim for recovery of LDs in respect of the delay in achievement of the COD, as well as associated increased costs and other relief (the Final Power Claim). Discussions and evaluation of the Final Power Claim are on-going.

Omanisation

Omanisation levels within 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 2017.

Discussion and analysis of the EPC Contractor Claim in relation to Final Power will continue and the outcome remains a risk to future dividend payments.

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 2016 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 31st December 2016.

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


شركة العنقاء للتشغيل و الصيانة (ش.م.م)
Phoenix Operation and Maintenance Company LLC
السادس والأربعين المجيد
I ♥ OMAN

ER COMPANY (SADC)
العيد ال

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 2016:

- Waste clean up activity on Sur beach.
- Delivery of a sustainability, housekeeping, hygiene and safety presentation at a local primary school in Sur.
- Health and safety awareness presentation for kindergarten children at a school in Muscat
- Supporting the ROP at Sur during periods of heavy rain.

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.

Providing financial support to educational and welfare facilities has also been progressed through 2016, with the following:

- Donations of convertible chairs to the Sur Hospital
- Providing barriers for Sur ROP during their celebration day.
- Supporting local students in the practical elements of their training plans.
- Supporting PPC's customer in their internship programmes through the provision of training support.

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

REPORT OF FACTUAL FINDING

TO THE SHAREHOLDERS OF PHOENIX POWER COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Phoenix Power Company SAOG (the "Company") as at and for the year ended 31 December 2016 and its application of the corporate governance practices in accordance with amendments to CMA's Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarised as follows:

1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2) We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2016. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Phoenix Power Company SAOG to be included in its annual report for the year ended 31 December 2016 and does not extend to any financial statements of Phoenix Power Company SAOG, taken as a whole.

Ernst & Young LLC

Muscat
28 February 2017

ارنست ويونغ ش م م
س.ت : ١٢٢٤٠١٣
ص.ب : ١٧٥٠ روي - ١١٢ ، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

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"), the Board of Directors and Management of the Company hereby present their Corporate Governance Report for the year ended 31 December 2016.

Company's Philosophy

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

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

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

As the new Code of Corporate Governance vide circular E/4/2015 has been announced and become effective on 22nd June 2016 ("New Code"), during this year the Company mainly has undertaken the following actions to comply with the New Code ;

- Restructure of the Board of Directors
- Establishment of a Corporate Social Responsibility Charter
- Implementation of a new delegation of authority
- Appointment of an official spokesman
- Implementation of an Internal Code of Conduct
- Establishment of a Nomination and Remuneration Committee and implementation of its Terms of Reference

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 2016, confirmed that the Company remains compliant with those standards.

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


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RoSPA
Silver Award
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Board of Directors

The current composition of the Board of Directors as elected on 18 June 2014 in accordance with Article 18 of the Articles of Association along with the meeting details is as follows (all held during 2016).

Name of Directors	Capacity	Category#	BM	BM	AGM	BM	BM	BM
			12 Jan.	29 Feb.	31 Mar.	26 Apr.	26 Jul.	26 Oct.
Mr. Khalid Jolo	Non-Executive	Independent (Representing Qatar Electricity and Water Co. QSC)	✓	✓	-	✓	P	✓
Mr. Neil Cave	Non-Executive	Independent	✓	✓	✓	✓	✓	✓
Mr. Masamitsu Suda	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.)	-	-	-	-	P	✓
Mr. Peter Jones (*)	Executive	Non-Independent	✓	✓	✓	-	-	-
Mr. Kazuaki Shibuya (*)	Non-Executive	Non-Independent	✓	✓	-	-	-	-
Mr. Hiromi Sakakibara (*)	Non-Executive	Non-Independent	P	P	-	P	-	-

✓: Attended, P: Proxy, -: not in seat

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

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

On 26 April 2016, Board of Directors accepted the resignation of Mr. Peter Kevin Jones and Mr. Kazuaki Shibuya and appointed Mr. Carlos Alcazar and Mr. Tomoki Nishino as a Director.

On 26 July 2016, Board of Directors accepted the resignation of Mr. Hiromi Sakakibara and appointed Mr. Wataru Motomiya as a Director.

Directorship / membership in other public companies (SAOG companies) in Oman as of 31 December 2016;

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.

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

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

The composition of the Audit Committee members in 2016 is as follows.

Name of Directors	Category	29 Feb.	26 Apr.	26 Jul.	26 Oct.
Mr. Masamitsu Suda	Chairman	✓	✓	✓	✓
Mr. Khalid Jolo	Member	✓	P	P	✓
Mr. Neil Cave	Member	✓	✓	✓	✓
Mr. Tomoki Nishino (**)	Member	-	-	✓	✓
Mr. Kazuaki Shibuya (*)		✓	X	-	-

✓: Attended, P: Proxy, X: not attended
(*) : resigned during the year, (**) : appointed during the year

Nomination and Remuneration Committee

A Nomination and Remuneration Committee, as been establisehed 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. All members of the Nomination and Remuneration Committee are non- executive.

The composition of the Nomination and Remuneration Committee members in 2016 is as follows.

Name of Directors	Category	26 Apr.
Mr. Carlos Alcazar	Chairman	✓
Mr. Khalid Jolo	Member	X
Mr. Masamitsu Suda	Member	✓

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

Process of nomination of Directors

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

Remuneration matters

a) Directors and Audit Committee members

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

b) Top 3 key management personnel

The Company paid to its top 3 key management personnel an aggregate amount of RO 244,337 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.

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 2016.

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 2016 is as follows;

1	Axia Power Holdings B.V.	Consulting Service Agreement	RO 41,142
2	Chubu Electric Power Co., Inc.	Consulting Service Agreement	RO 12,342
3	JERA Co., Inc.	Consulting Service Agreement	RO 12,342
4	Qatar Electricity and Water Company (Q.S.C.)	Consulting Service Agreement	RO 12,342
5	Multitech LLC.	Consulting Service Agreement	RO 4,114
6	Phoenix Operation and Maintenance Company LLC	O&M Fee	RO 1,873,264
7	Phoenix Operation and Maintenance Company LLC	Expense reimbursement	RO 5,677,464
8	Phoenix Operation and Maintenance Company LLC	Incentive on fuel margin and availability	RO 288,769

Market Price Data

a) High/low share price and performance comparison during each month in 2016.

Month	Price (Baiza)			MSM Service Sector
	High	Low	Average	
January	145	126	137	5,179.36
February	145	135	143	5,395.11
March	149	148	146	5,467.42
April	153	151	150	5,942.72
May	157	155	153	5,810.96
June	160	159	156	5,777.31
July	163	162	158	5,843.78
August	155	154	151	5,735.00
September	149	148	146	5,726.20
October	146	145	143	5,481.44
November	144	140	140	5,487.68
December	152	148	147	5,782.71

b) Distribution of shareholding as of 31 December 2016 :

Category	Number of shareholders	Number of shares held	Share capital %
5% and above	3	904,448,665	61.84%
Less than 5%	9,233	558,152,795	38.16%
Total	9,236	1,462,601,460	100%

Professional Profile of the Statutory Auditor

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

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

Remuneration of the Statutory Auditor

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

Particulars	RO
Audit fees	8,500
Total	**8,500**

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,

Mr. Peter Kevin Jones
Chief Executive Officer

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

Brief Profiles of the Directors (continued)

Name:	**Mr. Carlos Alcazar**
Position:	Director
Education:	Mr. Alcazar holds a masters degree in electrical engineering and a masters degree in business and administration by IE Business School.
Experience:	Mr. Alcazar is a professional engineer and has over 23 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

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:	Mr. Nishino does not have any directorship other than Phoenix Power Company SAOG.

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 6 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 9 years.

Brief Profiles of the Key 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.

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

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PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S 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"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditor's 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 matters

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 period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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

Key audit matters (continued)

1. Other income

As disclosed in notes 6 and 21 to the financial statements, due to contractor delays in completing the scheduled early power commencement date and project commercial operation date, the Company levied liquidated damages of USD 179.704 million (RO 69.096 million) and either they have been withheld from progress payments to be made to contractor or paid in cash by the contractor. The contractor has filed claims to the Company and the related details of these claims are disclosed in note 23 to the financial statements.

The Company, based on its internal assessments and external legal advice, has cumulatively recognised US$ 153.996 (RO 59.212 million) as other income from total amount levied, including US$ 26.307 million (RO 10.115 million) recognised in 2016 (note 6 to the financial statements). Retained liquidated damages amount to USD 25.708 million (RO 9.885 million) as of 31 December 2016 (note 21 to the financial statements).

We considered the amount of liquidated damages recognised as other income in 2016 as a key audit matter due to use by management of judgements and assumptions, supporting calculation of the other income amount.

We performed the following procedures, amongst others:

- We obtained an independent confirmation from the Company's external legal counsel to understand the Company's position as supported by its external lawyer.
- We reviewed and challenged the assumptions and judgments used by the management for the calculation of other income recognition.
- We checked the calculation made by the management to arrive at the amount of other income to be recognised in the current year.
- We have assessed the appropriateness of the relevant disclosures in the financial statements in accordance with IFRS.

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

Key audit matters (continued)

2. Fair value and hedge effectiveness of derivative financial instruments

In accordance with the requirements of the Company's secured term loan agreements, the Company has entered into interest rate hedging agreements with total notional value amounting to US$ 961 million (RO 369 million) as of 31 December 2016, with a view to cap the Company's exposure to fluctuating interest rates. The Company's accounting policy relating to derivative financial instruments is set out in note 2.16 and the relevant disclosures of the interest rate swap hedging agreements are set out in note 19 of the financial statements.

We considered fair value and hedge effectiveness of derivative financial instruments as a key audit matter, because of the complexity involved in the assessment of hedge effectiveness and the valuation of interest rate swaps. Furthermore, the amount involved is also significant to the financial statements.

We have involved internal specialists to test the hedge effectiveness of the interest rate swaps and to verify the valuation of the derivative financial instruments. We assessed the appropriateness of the assumptions and valuation techniques used to calculate the fair value. We have also obtained independent confirmations from banks (swap counter parties) and agreed the fair value of the interest rate swaps with the Company's accounting records. We have also assessed the appropriateness of the disclosures in the financial statements in accordance with IFRS.

Other information included in the Company's 2016 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Company's 2016 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2016 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

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

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

Other information included in the Company's 2016 Annual Report (continued)
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 on the other information obtained prior to the date of the auditor's report, 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
Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance 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, those charged with governance are 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 those charged with governance 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.

Auditor's 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 auditor's 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.

Building a better working world

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

Auditor's responsibilities for the audit of the financial statements (continued)
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 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 those charged with governance'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 auditor's 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 auditor's 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Auditor's responsibilities for the audit of the financial statements (continued)

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 auditor's 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.

Report on other legal and regulatory requirements

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

Ernst & Young LLC

Sanjay

Sanjay Kawatra
Muscat
28 February 2017

إرنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢ ، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RO'000	2016 US$'000	2015 RO'000	2015 US$'000
Operating revenue	4	**117,301**	**305,074**	101,866	264,931
Operating costs	5	**(80,993)**	**(210,644)**	(65,094)	(169,295)
Operating profit		**36,308**	**94,430**	36,772	95,636
Other income	6	**10,115**	**26,307**	23,511	61,147
General and administrative expenses	7	**(1,317)**	**(3,423)**	(2,057)	(5,348)
Finance costs	8	**(21,721)**	**(56,490)**	(23,055)	(59,960)
Profit before tax		**23,385**	**60,824**	35,171	91,475
Income tax	9	**(4,927)**	**(12,813)**	(6,399)	(16,645)
PROFIT FOR THE YEAR		**18,458**	**48,011**	28,772	74,830
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	**10,419**	**27,097**	(3,538)	(9,201)
Income tax effect	9	**(1,250)**	**(3,252)**	425	1,104
OTHER COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR, NET OF TAX		**9,169**	**23,845**	(3,113)	(8,097)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**27,627**	**71,856**	25,659	66,733
BASIC EARNINGS PER SHARE (RO/US$)	10	**0.013**	**0.03**	0.020	0.05

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

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	Notes	2016 RO'000	2016 US$'000	2015 RO'000	2015 US$'000
ASSETS					
Non-current asset					
Property, plant and equipment	11	**584,637**	**1,520,513**	600,562	1,561,930
Current assets					
Trade and other receivables	12	**6,311**	**16,412**	4,303	11,193
Inventories	13	**10,484**	**27,268**	10,809	28,112
Bank balances	14	**22,489**	**58,490**	20,573	53,507
		39,284	**102,170**	35,685	92,812
TOTAL ASSETS		**623,921**	**1,622,683**	636,247	1,654,742
EQUITY AND LIABILITIES					
Equity					
Share capital	15	**146,260**	**380,390**	146,260	380,390
Legal reserve	16	**5,931**	**15,425**	4,085	10,624
Cumulative changes in fair values	19	**(34,155)**	**(88,830)**	(43,324)	(112,675)
Retained earnings		**35,240**	**91,659**	30,182	78,499
Total equity		**153,276**	**398,644**	137,203	356,838
LIABILITIES					
Non-current liabilities					
Interest bearing loans and borrowings	18	**356,821**	**928,010**	380,112	988,588
Fair value of derivative financial instruments	19	**29,853**	**77,642**	38,138	99,186
Provision for asset retirement obligation	20	**4,866**	**12,654**	4,634	12,051
Deferred tax liability	9	**16,092**	**41,853**	9,915	25,788
Employees' end of service benefits	21	**48**	**126**	40	104
		407,680	**1,060,285**	432,839	1,125,717
Current liabilities					
Interest bearing loans and borrowings	18	**24,484**	**63,678**	24,048	62,544
Dividend payable	17	**6,874**	**17,878**	4,095	10,651
Accounts payable and accruals	21	**22,647**	**58,897**	26,968	70,138
Fair value of derivative financial instruments	19	**8,960**	**23,301**	11,094	28,854
		62,965	**163,754**	66,205	172,187
Total liabilities		**470,645**	**1,224,039**	499,044	1,297,904
TOTAL EQUITY AND LIABILITIES		**623,921**	**1,622,683**	636,247	1,654,742
Net assets per share (RO/US$)	22	**0.105**	**0.273**	0.094	0.24

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2017.

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 2016

	Notes	Share capital RO'000	Legal reserve RO'000	Cumulative changes in fair values RO'000	Retained earnings RO'000	Total RO'000
Balance at 1 January 2015		146,260	1,208	(40,211)	10,868	118,125
Profit for the year		-	-	-	28,772	28,772
Other comprehensive expense		-	-	(3,113)	-	(3,113)
Total comprehensive income		-	-	(3,113)	28,772	25,659
Dividend paid – 2014	17	-	-	-	(2,486)	(2,486)
Dividend payable – 2014	17	-	-	-	(4,095)	(4,095)
Transfer to legal reserve		-	2,877	-	(2,877)	-
Balance at 31 December 2015		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	16	**-**	**1,846**	**-**	**(1,846)**	**-**
Balance at 31 December 2016		**146,260**	**5,931**	**(34,155)**	**35,240**	**153,276**

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

PHOENIX POWER COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	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 2015		380,390	3,141	(104,578)	28,270	307,223
Profit for the year		-	-	-	74,830	74,830
Other comprehensive expense		-	-	(8,097)	-	(8,097)
Total comprehensive income		-	-	(8,097)	74,830	66,733
Dividend paid – 2014	17	-	-	-	(6,467)	(6,467)
Dividend payable – 2014	17	-	-	-	(10,651)	(10,651)
Transfer to legal reserve		-	7,483	-	(7,483)	-
Balance at 31 December 2015		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	16	**-**	**4,801**	**-**	**(4,801)**	**-**
Balance at 31 December 2016		**380,390**	**15,425**	**(88,830)**	**91,659**	**398,644**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016 RO'000**	**2016 US$'000**	2015 RO'000	2015 US$'000
OPERATING ACTIVITIES					
Profit before tax		**23,385**	**60,824**	35,171	91,475
Adjustments for :					
Depreciation	11	**15,925**	**41,417**	15,903	41,360
Interest – term loans and swap settlements	8	**20,125**	**52,342**	21,235	55,227
Amortisation of deferred finance costs	8	**1,192**	**3,099**	1,260	3,278
Asset retirement obligation - unwinding of discount	8	**232**	**603**	221	574
Accruals for employees' end of service benefits	21	**17**	**43**	17	45
		60,876	**158,328**	73,807	191,959
Working capital changes:					
Trade and other receivables		**(2,008)**	**(5,219)**	9,184	23,883
Accounts payable and accruals		**(4,368)**	**(11,363)**	(29,791)	(77,478)
Inventories		**325**	**844**	41	108
Cash generated from operations		**54,825**	**142,590**	53,241	138,472
Interest – term loans and swap settlements		**(20,078)**	**(52,220)**	(21,235)	(55,227)
Employees' end of service benefits paid	21	**(9)**	**(21)**	-	-
Cash generated from operating activities		**34,738**	**90,349**	32,006	83,245
INVESTING ACTIVITIES					
Additions to property, plant and equipment		**-**	**-**	(720)	(1,873)
Net cash used in investing activities		**-**	**-**	(720)	(1,873)
FINANCING ACTIVITIES					
Dividend paid	17	**(8,775)**	**(22,823)**	(2,486)	(6,467)
Repayment of interest bearing loans and borrowings	18	**(24,047)**	**(62,543)**	(22,964)	(59,725)
Net cash used in financing activities		**(32,822)**	**(85,366)**	(25,450)	(66,192)
INCREASE IN CASH AND CASH EQUIVALENTS		**1,916**	**4,983**	5,836	15,180
Cash and cash equivalents at 1 January		**20,573**	**53,507**	14,737	38,327
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14	**22,489**	**58,490**	20,573	53,507

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

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

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. Agreement with Oman Oil Marketing Company SAOG for supply of automotive diesel.

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

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

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

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 2016:

For the year ended 31 December 2016, 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 2016.

- IFRS 14 Regulatory Deferral Accounts
- Amendment to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendment to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendment to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements 2012-2014 Cycle
    - IFRS 5 Non- current Assets Held for Sale and Discontinued Operations
    - IFRS 7 Financial Instruments: Disclosures

      (i) Servicing contracts

      (ii)Applicability of the amendments to IFRS 7 to condensed interim financial statements
    - IAS 19 Employee Benefits
    - IAS 34 Interim Financial Reporting
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities: Applying the consolidation Exception

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.3 Revenue

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

Revenue comprises tariffs for power capacity, electrical energy and fuel charges. Tariffs are calculated in accordance with the PPA. Capacity charge 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Income tax (continued)

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

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

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

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

2.9 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Plant and equipment (continued)

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

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

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

2.10 Trade receivable

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

2.11 Inventories

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

2.12 Cash and cash equivalents

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

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

2.13 Foreign currencies

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

2.14 Dividend

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

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).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Interest bearing loans and borrowings (Continued)

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

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

2.16 Derivative financial instruments

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Derivative financial instruments (Continued)

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

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

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

2.17 Asset retirement obligation

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

2.18 Account payable and accruals

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

2.19 Provisions

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

2.20 Employees’ end of service benefits

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Derecognition of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

Offsetting of financial instruments

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

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

2.22 Impairment and un-collectability of financial assets

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

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

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;

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

c. For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

2.23 Impairment of non-financial assets

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

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

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

2.24 Fair values

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

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

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

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Fair values (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

a) Useful lives of property, plant and equipment

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

b) Asset retirement obligation

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

c) Impairment of plant spares

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

d) Liquidated damages

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

e) Deferred taxation

Deferred tax asset amounting to US$ 29.22 million (2015: US$ 23.64 million) has not been recognised in profit or loss relating to the carried forward losses amounting to 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 2016 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 performed a high-level impact assessment of all three aspects of IFRS 9 and expects no significant impact on its balance sheet and equity. The Company plans to adopt the new standard on the required effective date.

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16 Leases

The IASB issued 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 will have 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.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Company is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Company is currently evaluating the impact.

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

4 OPERATING REVENUE

	2016	**2016**	2015	2015
	RO'000	**US$'000**	RO'000	US$'000
Capacity charges	**65,989**	**171,622**	64,492	167,730
Energy charges	**51,312**	**133,452**	37,374	97,201
	117,301	**305,074**	101,866	264,931

5 OPERATING COSTS

	2016	**2016**	2015	2015
	RO'000	**US$'000**	RO'000	US$'000
Gas consumption	**48,892**	**127,158**	35,243	91,660
Depreciation (note 11)	**15,908**	**41,372**	15,896	41,343
Operation and maintenance cost	**7,840**	**20,389**	6,566	17,078
Contractual services maintenance cost	**6,006**	**15,620**	5,141	13,370
Insurance	**736**	**1,915**	869	2,259
Other direct costs	**1,070**	**2,783**	840	2,185
Connection and license fee	**541**	**1,407**	539	1,400
	80,993	**210,644**	65,094	169,295

6 OTHER INCOME

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

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

6 OTHER INCOME (continued)

For the year ended 31 December 2016, other income includes:

US$ 26.3 million (RO 10.1 million) towards Liquidated Damages (LD) for delay to the PCOD which Company considers to be reasonably certain based on Company's assessment of the developments with regard to claims till date and in consultation with the Company's legal counsel (2015: LD invoiced to EPC Contractor for the period from 1 June 2014 to 05 August 2014 for the delay to the PCOD amounting to US$ 58.498 million (RO 22.493 million).

7 GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2016	2015	2015
	RO'000	US$'000	RO'000	US$'000
Staff costs and other benefits	616	1,601	728	1,894
Legal and professional charges	189	492	646	1,679
Other expenses	453	1,177	636	1,654
Office rent	42	108	40	104
Depreciation (note 11)	17	45	7	17
	1,317	3,423	2,057	5,348

8 FINANCE COSTS

	2016	2016	2015	2015
	RO'000	US$'000	RO'000	US$'000
Interest – term loans and swap settlements	20,125	52,342	21,235	55,227
Amortisation of deferred finance cost	1,192	3,099	1,260	3,278
Asset retirement obligation - unwinding of discount (note 20)	232	603	221	574
Debt service commission	77	200	45	117
Exchange loss	95	246	294	764
	21,721	56,490	23,055	59,960

9 INCOME TAX

	2016	2016	2015	2015
	RO'000	US$'000	RO'000	US$'000
a) Recognised in the income statement in the current year Deferred tax expense	(4,927)	(12,813)	(6,399)	(16,645)

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

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 2016 RO'000	Recognised in profit or loss RO'000	Recognised in other comprehensive income/ (expense) RO'000	As at 31 December 2016 RO'000
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 asset (liability)	(9,915)	(4,927)	(1,250)	(16,092)

	As at 1 January 2016 US$'000	Recognised in profit or loss US$'000	Recognised in other comprehensive income/ (expense) US$'000	As at 31 December 2016 US$'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 2016

9 INCOME TAX (continued)

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

	As at 1 January 2015 US$'000	Recognised in profit or loss US$'000	Recognised in other comprehensive expense US$'000	As at 31 December 2015 US$'000
Property, plant and equipment	(25,885)	(17,154)	-	(43,039)
Provision for asset retirement obligation	1,377	69	-	1,446
Losses carried forward	-	440	-	440
Fair value adjustment of derivatives through equity	14,261	-	1,104	15,365
Net deferred tax asset (liability)	(10,247)	(16,645)	1,104	(25,788)

c) Reconciliation of income tax expense

The tax rate applicable to the Company is 12% (2015: 12%). For the purpose of determining the taxable results for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

The Company has incurred a tax loss during the year. Therefore the applicable tax rate is nil. The average tax rate cannot be determined in view of the tax loss. As of 31 December 2016, none of the Company's tax assessments have been completed by the Omani taxation authorities.

On 20 February 2017, a Royal Decree was enacted amending the applicable tax rate from 12% to 15%. For deferred tax asset /liability computation, the Company has adopted an applicable tax rate of 12% being the rate applicable as of 31 December 2016. In accordance with the provisions of IAS 10, this event of tax rate amendment after the reporting date of 31 December 2016 is a non adjusting event, however the Company is required to disclose the effect of such event on future reporting periods. An early analysis of the additional deferred tax liability on the temporary tax differences at the amended tax rates applicable from 1 January 2017 onwards has been initially determined to be US$ 10,463 thousands (RO 4,023 thousands) relating to future periods.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

10 EARNINGS PER SHARE

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

	2016 RO'000	**2016 US$'000**	2015 RO'000	2015 US$'000
Profit attributable to ordinary shareholders of the Company for basic earnings per share	**18,458**	**48,011**	28,772	74,830
Weighted average number of shares (in 000's)	**1,462,601**	**1,462,601**	1,462,601	1,462,601
Basic earnings per share (RO)	**0.013**	**-**	0.020	-
Basic earnings per share (US$)	**-**	**0.03**	-	0.05

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

11 PROPERTY, PLANT AND EQUIPMENT

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						
At 1 January 2015	83,876	517,486	10,809	4,401	107	616,679
Additions during the year	-	601	-	-	119	720
At 31 December 2015	83,876	518,087	10,809	4,401	226	617,399
Accumulated depreciation						
At 1 January 2015	121	744	42	6	21	934
Charge during the year	2,097	12,950	721	110	25	15,903
At 31 December 2015	2,218	13,694	763	116	46	16,837
Net book value						
At 31 December 2015	81,658	504,393	10,046	4,285	180	600,562

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

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

12 TRADE AND OTHER RECEIVABLES

	2016 RO'000	**2016 US$'000**	2015 RO'000	2015 US$'000
Trade receivables	**6,178**	**16,067**	3,842	9,993
Other receivables	**35**	**91**	397	1,033
Prepayments	**98**	**254**	64	167
	6,311	**16,412**	4,303	11,193

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

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

13 INVENTORIES

	2016 RO'000	2016 US$'000	2015 RO'000	2015 US$'000
Fuel oil inventory	**5,449**	**14,172**	5,545	14,422
Maintenance spares	**5,035**	**13,096**	5,264	13,690
	10,484	**27,268**	10,809	28,112

14 BANK BALANCES

	2016 RO'000	2016 US$'000	2015 RO'000	2015 US$'000
Bank balances	**22,489**	**58,490**	20,573	53,507
	22,489	**58,490**	20,573	53,507

15 SHARE CAPITAL

	2016 RO'000	2016 US$'000	2015 RO'000	2015 US$'000
Authorised, issued and fully paid up share capital of 1,462,601,460 shares of 100 Baiza (US $ 0.26) each (2015 – 1,462,601,460 shares of 100 Baiza (US $ 0.26) each)	**146,260**	**380,390**	146,260	380,390

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

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.

17 DIVIDEND PAID, PAYABLE AND PROPOSED

Pursuant to shareholders' resolution dated 31 March 2016, the Board of Directors in their meetings held on 26 April 2016 and 26 October 2016 announced cash dividend of 3.2 baizas per share and 4.7 baizas per share, respectively for the year ended 31 December 2015. Accordingly dividend amounting to US$ 12.172 million (RO 4.680 million) was paid in July 2016 and US$ 17.878 million (RO 6.874 million) is payable as of 31 December 2016 which was paid subsequently in January 2017.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

17 DIVIDEND PAID, PAYABLE AND PROPOSED (continued)

Subject to approval of the shareholders at the Annual General Meeting ("AGM"), the Board of Directors in their meeting held on 28 February 2017 proposed a cash dividend to the shareholders of the Company which will be paid in July 2017 and January 2018 for the year ended 31 December 2016, provided that the aggregate amount of such dividend shall not exceed 7.9% of the paid up share capital of the Company as of 31 December 2016.

18 INTEREST BEARING LOANS AND BORROWINGS

	2016	**2016**	2015	2015
	RO'000	**US$'000**	RO'000	US$'000
Secured term loan from commercial banks	**114,085**	**296,709**	121,139	315,055
Secured term loan from Japan Bank for International Cooperation	**217,798**	**566,444**	231,264	601,468
Secured term loan under NEXI facilities	**57,042**	**148,354**	60,569	157,527
	388,925	**1,011,507**	412,972	1,074,050
Less : Deferred finance costs	**(7,620)**	**(19,819)**	(8,812)	(22,918)
	381,305	**991,688**	404,160	1,051,132
Less : Current portion of loans	**(24,484)**	**(63,678)**	(24,048)	(62,544)
Non-current portion of loans	**356,821**	**928,010**	380,112	988,588

The Company had entered into secured term loan agreements in relation to the Sur IPP Project. The total amount of the term loan is US$ 1,194 million with stand by facility of US$ 38 million at LIBOR + applicable margin.

The Company started drawdowns in 2012. The Company has fully drawn down the facility in 2014. The loans will be repayable in instalments of several denominations, every sixth month from 28 December 2014, the final instalment will be due on 28 December 2028. The Company in order to manage its interest rate risk has entered into certain interest rate swap arrangements, the details of which are set out in note 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.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2016	**2016**	2015	2015
	RO'000	**US$'000**	RO'000	US$'000
Cumulative changes in fair value:				
Interest rate swap agreements	**27,010**	**70,248**	36,824	95,770
Forward foreign exchange contracts	**11,803**	**30,695**	12,408	32,270
Fair value of derivatives	**38,813**	**100,943**	49,232	128,040
Less : Income tax effect (note 9)	**(4,658)**	**(12,113)**	(5,908)	(15,365)
	34,155	**88,830**	43,324	112,675

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

	2016	**2016**	2015	2015
	RO'000	**US$'000**	RO'000	US$'000
Non-current portion	**29,853**	**77,642**	38,138	99,186
Current portion	**8,960**	**23,301**	11,094	28,854
	38,813	**100,943**	49,232	128,040

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 2016, an unrealised loss of US $ 70.248 million (2015: US $ 95.77 million) relating to measuring the financial instrument at fair value is included in equity in respect of these contracts.

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

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swap agreements (continued)

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**
Interest rate swaps	**27,010**	**369,425**	**23,254**	**107,059**	**239,111**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Interest rate swaps	**70,248**	**960,793**	**60,479**	**278,438**	**621,876**

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

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swap agreements (continued)

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

Forward foreign exchange contracts

In order to reduce its exposure to foreign exchange rates fluctuations relating to payments to be made to contractor for services rendered under long term supply and services contract for gas turbines, the Company has entered into a foreign exchange swap agreement with a bank for the foreign exchange amounts which are required to be paid in future. As at 31 December 2016, an unrealised loss of US $ 30.695 million (2015: US $ 32.27 million) relating to measuring the financial instrument at fair value is included in equity in respect of these contracts. The related details are set out below:

31 December 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**	**40,988**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Forward foreign exchange contracts	**30,695**	**182,815**	**15,250**	**60,965**	**106,600**

31 December 2015		Notional amounts by term to maturity			
	Fair value of derivatives	Notional amount	1 - 12 months	More than 1 up to 5 years	Over 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000
Forward foreign exchange contracts	12,408	76,171	5,879	23,446	46,846
	US$'000	US$'000	US$'000	US$'000	US$'000
Forward foreign exchange contracts	32,270	198,103	15,289	60,977	121,837

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

20 PROVISION FOR ASSET RETIREMENT OBLIGATION

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

The movement in ARO provision is as follows:

	2016	**2016**	2015	2015
	RO'000	**US$'000**	RO'000	US$'000
As at 1 January	**4,634**	**12,051**	4,413	11,477
Unwinding of discount (note 8)	**232**	**603**	221	574
As at 31 December	**4,866**	**12,654**	4,634	12,051

21 ACCOUNTS PAYABLE AND ACCRUALS

	2016	**2016**	2015	2015
	RO'000	**US$'000**	RO'000	US$'000
Trade accounts payable	**4,133**	**10,749**	1,620	4,213
Amounts due to related parties (note 24)	**2,014**	**5,239**	588	1,530
Accrued expenses	**6,664**	**17,327**	3,902	10,150
Other payables	**9,884**	**25,708**	20,898	54,349
	22,695	**59,023**	27,008	70,242
Less: employees' end of service benefits included in accruals	**(48)**	**(126)**	(40)	(104)
	22,647	**58,897**	26,968	70,138

i) The liquidated damages amounting to USD 179.704 million (RO 69.096 million) (2015: 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 2016 liquidated damages amounting to USD 25.708 million (RO 9.88 million) [2015: USD 52.014 million (RO 20 million)] pertaining to PCOD are included in other payables. Further, details are set out in note 23.

ii) Employees' end of service benefits

	2016	**2016**	2015	2015
	RO'000	**US$'000**	RO'000	US$'000
As at 1 January	**40**	**104**	23	59
Charge for the year	**17**	**43**	17	45
Paid during the year	**(9)**	**(21)**	-	-
As at 31 December	**48**	**126**	40	104

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:

	2016	**2016**	2015	2015
	RO	**US$**	RO	US$
Net assets (RO '000s/US$'000s)	**153,276**	**398,644**	137,203	356,838
Number of shares outstanding at 31 December (in 000's)	**1,462,601**	**1,462,601**	1,462,601	1,462,601
Net assets per share (RO)	**0.105**	**-**	0.094	-
Net assets per share (US$)	**-**	**0.27**	-	0.24

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 2016, 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 [2015 : US$ nil (RO nil)].

b) Claims

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

A second Claim for delays to Final Power (PCOD) was submitted by the EPC Contractor in September 2014, with the EPC Contractor requesting for a time extension. This Claim was subsequently revised by the Contractor and resubmitted in mid of 2015, the amount claimed by the EPC Contractor was approximately US $63M corresponding to an extension of time of 86 days relating mainly to the grid restriction during the commissioning and construction period. Following discussions between the EPC Contractor and the Company, the number of days in dispute has been reduced to 77 days (2015: 77days) and accordingly reduced the amount to US $53M (2015: US$ 52M). Currently, the Company continues to evaluate the Final Power dispute and subject to EPC Contractor's ability to demonstrate it is entitled to an extension of time, the Company remains of the view that the EPC

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

23 CONTINGENCIES (continued)

b) Claims (continued)

Contractor was delayed in its own works and that the amount of the claim will reduce further. In case the result shows otherwise, the Company will in such case continues to consider to forward the Claim to OPWP and keep its neutral position. Accordingly management believes that no provision is required in the financial statement as at 31 December 2016

24 RELATED PARTY TRANSACTIONS

Related parties comprise the shareholders, directors, key management personnel and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The Company maintains balances with these related parties which arise in the normal course of business from the commercial transactions, and are entered into at terms and conditions which the management consider to be comparable with those adopted for arm's length transactions with third parties. Transactions with related parties are as follows:

Due to related parties	**2016 RO'000**	**2016 US$'000**	2015 RO'000	2015 US$'000
Other related party - Phoenix Operation and Maintenance Company LLC	**2,014**	**5,239**	588	1,530

Income statement transactions	**2016 RO'000**	**2016 US$'000**	2015 RO'000	2015 US$'000
Consulting Service fee charged:				
Axia Power Holdings	**41**	**107**	41	107
Chubu Electric Power	**13**	**32**	25	64
JERA Co. Inc.	**12**	**32**	-	-
Qatar Electricity and Water Company	**12**	**32**	12	11
Bahwan Multitec LLC	**4**	**11**	4	11
	82	**214**	82	214
Operation and maintenance costs				
Phoenix Operation and Maintenance Company LLC	**7,840**	**20,389**	5,997	15,598
Other related parties	**-**	**-**	68	178
	7,840	**20,389**	6,065	15,776
Key management compensation:				
Short term benefits	**231**	**601**	237	616
Employee's end of service benefits	**13**	**34**	6	15
	244	**635**	243	631

25 COMMITMENTS

Other commitments

The Company has entered into agreements for purchase of natural gas with the Ministry of Oil and Gas, Usufruct rights over plant site with the Government of Sultanate of Oman, long term supply of spare parts of gas turbines with Siemens Aktiengesellschaft, maintenance service of gas turbines with Siemens LLC Oman, operation and maintenance of the Sur IPP Project with Phoenix Operation and Maintenance Company LLC.

26 FINANCIAL RISK MANAGEMENT

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

Financial risk factors

(a) Interest rate risk

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

(b) Liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

26 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

The table below summarises the maturities of the Company's financial liabilities at 31 December 2016.

2016	**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	**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**

	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
2015					
Trade and other accounts payable	26,380	-	-	-	26,380
Amounts due to related parties	588	-	-	-	588
Interest bearing loans and borrowings	-	44,211	175,827	342,904	562,942
	26,968	44,211	175,827	342,904	589,910

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

26 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

	Less than 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	More than 5 years US$'000	Total US$'000
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**

	Less than 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	More than 5 years US$'000	Total US$'000
2015					
Trade and other accounts payable	68,608	-	-	-	68,608
Amounts due to related parties	1,530	-	-	-	1530
Interest bearing loans and borrowings	-	114,984	457,287	891,819	1,464,090
	70,138	114,984	457,287	891,819	1,534,228

(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 2016 amounted to US$ 1,861 thousands (RO 716 thousands) [(2015: US$ 2,169 thousands (RO 834 thousands)]. Should the exchange rate between Euro and RO fluctuate by ± 5%, the impact on the Company's results will be US$ 93 thousands (RO 36 thousands) [2015: US$ 109 thousands (RO 42 thousands)].

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2016

26 FINANCIAL RISK MANAGEMENT (continued)

(d) Capital risk management

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2016.

27 FAIR VALUE FINANCIAL INSTRUMENTS

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

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

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

28 COMPARATIVE FIGURES

Certain of the corresponding figures for 2015 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.