NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2018

1 ACTIVITIES

Phoenix Power Company SAOG ("the Company") is registered under the Commercial laws of the Sultanate of Oman as a Public Joint Stock Company and principal activities of the Company are to develop, finance, design, construct, operate, maintain, insure and own a power generating station and associated gas interconnection facilities and other relevant infrastructure.

The Company's registered address is P O Box 96, Postal Code 102, Muscat, Sultanate of Oman. The Company's principal place of business is located at Sur, Sultanate of Oman.

During the year 2015, Company proceeded with initial public offering (IPO). The promoting shareholders at the Company's Extraordinary General Meeting held on 9 March 2015 approved the conversion of the Company from a Closed Joint Stock Company (SAOC) to a Public Joint Stock Company (SAOG) by offering their 511,910,511 shares for the public subscription. The Company closed its IPO on 8 June 2015 and its shares were listed on the Muscat Securities Market on 22 June 2015. The IPO proceeds and the related share issue expenses pertains to the promoting shareholders.

The Company has entered into following significant agreements:

i. Power Purchase Agreement (PPA) with Oman Power and Water Procurement Company SAOC (OPWP) granting the Company the right to generate electricity in Sur for a period of fifteen years commencing from the scheduled commercial operations date based on a tariff structure.
ii. Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas of the Government of the Sultanate of Oman (MOG) for the purchase of natural gas for fifteen years at a pre-determined price.
iii. Usufruct Agreement with the Government of the Sultanate of Oman for grant of Usufruct rights over the plant site for twenty five years.
iv. Agreement with local and international banks for long-term loan facilities and interest rate hedge arrangements.
v. Agreement with Siemens LLC Oman for long term service contract for maintenance service of the gas turbines.
vi. Agreement with Siemens Aktiengesellschaft for long term supply contract for supplying the spare parts of gas turbines.
vii. Agreement with Phoenix Operation and Maintenance Company LLC for the operation and maintenance of the Sur IPP Project.
viii. Agreement with Daewoo Engineering and Construction Co. Ltd for engineering, procurement and construction of the Sur IPP Project.
ix. Project Founders' Agreement dated 13 July 2011 made between Electricity Holding Company SAOG, Marubeni Corporation; Chubu Electric Power Co; Qatar Electricity and Water Company (Q.S.C.); and Multitech LLC.
x. Shareholders' Agreement dated 13 July 2011, amended and restated dated 28 November 2011 made between Electricity Holding Company SAOG, Axia Power Holdings B.V; Chubu Electric Power Sur B.V; Qatar Electricity and Water Company (Q.S.C.); and Multitech LLC.

2 Changes in significant accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the financial statements as at and for the year ended 31 December 2017.

The Company has initially applied IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material impact on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards as it does not have material impact on the financial statements.

2.1 IFRS 9 *Financial Instruments*

The Company has adopted IFRS 9 'Financial Instruments' as issued by the IASB. The Company applied IFRS 9 with date of initial application as 1 January 2018.

This has resulted in a change in accounting policies of the Company. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

The Company adopted IFRS 9 without restating the comparative financial statements. As the adoption of IFRS 9 is not material to the financial statements, the Company has not made any adjustments to the statement of financial position as at 1 January 2018. The impact on the financial statements on the date of adoption of IFRS 9 application (1 January 2018) is not material to these financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Company has adopted IFRS 9 retrospectively, with the practical expedients permitted under the standards.

The adoption of IFRS 9 "Financial Instruments" from 1 January 2018 resulted in changes in accounting policies but no adjustments to the amounts recognised in the financial statements as no major difference arised due to change in accounting policies.

Management has assessed which business models apply to the financial assets held by the Company into the appropriate IFRS 9 categories. The main effects resulting from this reclassification is the classification of 'trade receivables', 'related party balance' and 'cash at bank' as financial assets measured at amortised cost. The Company's financial assets that are subject to IFRS 9's new expected credit loss model include trade receivables, related party balances and cash at bank.

The Company has determined the impact of application of IFRS 9's impairment requirements on remaining financial assets, which has resulted in no material impact on the opening balances as of 1 January 2018. Accordingly, related impact of impairment based on the expected credit loss model has not been considered in these financial statements.

IFRS 9 Financial Instruments introduces principle-based requirements for the classification of financial assets. The Standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments*

The classification of financial assets under IFRS 9 is generally based on the business model in which the financial asset is managed and contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. The principal financial instruments of the Company include trade and other receivables, cash and cash equivalents, related party balances and trade and other payables.

Initial recognition

Financial assets

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

On initial recognition, a financial asset is classified as measured at amortised cost; fair value through other comprehensive income – debt instruments; fair value through other comprehensive income – equity instruments; or fair value through profit or loss.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other comprehensive income

Equity instruments which are not held for trading or issued as contingent consideration in business combination, and for which the company has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss. This election is made on an investment-by-investment basis.

Debt instruments where the contractual cash flows are solely principal and interest and the objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets.

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments (continued)*

Initial recognition *(continued)*

Financial assets *(continued)*

Financial assets at fair value through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Financial assets, at initial recognition, may be designated at fair value through profit or loss, if the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss account. A financial liability is classified as at fair value through profit or loss account if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities, at initial recognition, may be designated at fair value through profit or loss if the following criteria are met:

a) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;

b) The liabilities are part of a Company of financial liabilities which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or

c) The financial liability contains an embedded derivative that would otherwise need to be separately recorded.

Financial liabilities at fair value through profit or loss account are measured at fair value and net gains and losses, including any interest expense, are recognised in the profit or loss account.

Financial assets

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised

cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the profit or loss account. Any gain or loss on derecognition is recognised in the profit or loss account.

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments* (continued)

Subsequent measurement and gain or losses

Financial assets at fair value through other comprehensive income

a) Debt instruments

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the profit or loss account. Other net gains and losses are recognised in the statement of other comprehensive income. On derecognition, gains and losses accumulated in the statement of other comprehensive income are reclassified to the profit or loss account.

b) Equity instruments

These assets are subsequently measured at fair value. Dividends are recognised as income in the profit or loss account unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in the statement of other comprehensive income and are never reclassified to the profit or loss account.

Financial assets at fair value through profit or loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the statement of profit or loss.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest method, if applicable. The effective interest method is the method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss account. Any gain or loss on derecognition is also recognised in the profit or loss account.

Reclassification

Financial assets

The Company only reclassify financial assets if, and only if, the objective of the business model for managing those financial assets is changed. Such changes are expected to be very infrequent as these changes must be significant to the Company's operations and demonstrable to external parties.

The Company determines that its business model has changed in a way that is significant to its operations, than it reclassifies all affected assets prospectively from the first day of the next reporting period (the reclassification date). Prior periods are not restated.

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments (continued)*

Financial liabilities

The Company determines the classification of financial liabilities on initial recognition. Subsequent reclassification is not allowed.

Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the profit or loss account.

Financial liabilities

If the terms of a financial liability are modified and the cash flows of the modified liability are substantially different then, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the profit or loss account.

Derecognition

Financial assets

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

a) The rights to receive cash flows from the asset have expired; or

b) The Company retains the right to receive cash flows from the asset, but assumes an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

c) The Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in the statement of other comprehensive income is recognised in the profit or loss account.

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments* (continued)

Derecognition *(continued)*

Financial assets *(continued)*

From 1 January 2018, any cumulative gain/loss recognised in the statement of other comprehensive income in respect of equity instrument designated as fair value through other comprehensive is not recognised in the profit or loss account on derecognition of such instrument. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

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 the profit or loss account.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial asset

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. This requires considerable judgement about how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis.

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost.

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments* *(continued)*

Measurement of loss allowances

The Company measures loss allowances on either of the following bases:

The financial assets at amortized cost consist of trade receivables and cash and cash equivalents. Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances for trade receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since the initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

The Company assumes that the credit risk on a financial asset has significantly increased since initial recognition and while estimating expected credit loss, when there is objective evidence or indicator for the financial assets. Examples of such indicators include:

- Significant financial difficulty of the borrower or issuer;
- Delinquency by borrower;
- Restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a borrower or issuer will enter bankruptcy;
- The disappearance of an active market for a security (if any); or
- If it past due for more than 25 days.

IFRS 9 does not define the term 'default', but instead requires each entity to do so. The definition has to be consistent with that used for internal credit risk management purposes for the relevant financial instrument, and has to consider qualitative indicators – e.g. breaches of covenants – when appropriate.

The Company considers a financial asset to be in default when the counter party is unlikely to pay its credit obligations to the Company in full (based on indicator above), without recourse by the Company to actions such as realising security (if any is held); or the financial asset is more than 90 days past due.

Lifetime expected credit losses: These losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, if there is significant increase in credit risk or under simplified approach 12-month expected credit losses: These losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments* (continued)

Measurement of loss allowances *(continued)*

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Company is exposed to credit risk. An asset is credit-impaired if one or more events have actually occurred and have a detrimental impact on the estimated future cash flows of the asset.

The term 'significant increase in credit risk' is not defined in IFRS 9. An entity decides how to define it in the context of its specific types of instruments. An entity assesses at each reporting date whether the credit risk on a financial instrument has increased significantly since initial recognition. To make the assessment, an entity considers changes in the risk of default instead of changes in the amount of expected credit losses.

An entity assesses whether there has been a significant increase in credit risk at each reporting date. The impairment model in IFRS 9 is symmetrical, and assets can move into and out of the lifetime expected credit losses category.

To be 'significant', a larger absolute increase in the risk of default is required for an asset with a higher risk of default on initial recognition than for an asset with a lower risk of default on initial recognition.

Expected credit losses are a probability-weighted estimate of credit losses.

Financial assets that are not credit-impaired at the reporting date

Measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

Financial assets that are credit-impaired at the reporting date

Measured as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in the profit or loss account as an impairment gain or loss.

Presentation of expected credit losses

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets and is charged to the statement of profit or loss.

Write - off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments* *(continued)*

Derivative financial instruments and hedging

The Company uses derivative financial instruments as trading investments to hedge its risks associated with interest rate, foreign currency, commodity price fluctuations and also to satisfy the requirements of its customers. 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. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the profit or loss account.

The Company applies hedge accounting only if all of the following conditions are met:

- There is formal designation and written documentation at the inception of the hedge;
- There is 'an economic relationship' between the hedged item and the hedging instrument;
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

For the purpose of hedge accounting, hedges are classified as:

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

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. The documentation also includes the hedge ratio and potential sources of ineffectiveness.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss account over the period to maturity.

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments* *(continued)*

Derivative financial instruments and hedging *(continued)*

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss account.

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss account.

The Company entered into a derivative financial instrument to manage its exposure to interest rate risk, which include interest rate swaps. Further details of derivative financial instruments are disclosed in note 19.

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by companying together all assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments* (continued)

Accounting policies applied until 31 December 2017

Impairment

The carrying amount of the Company's assets other than inventories and deferred tax asset are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate.

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

All impairment losses are recognized in the profit or loss and reflected in allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets excluding inventory and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or cash generating unit is higher than its recoverable amount. Recoverable amount is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments* (continued)

Accounting policies applied until 31 December 2017 *(continued)*

Impairment *(continued)*

An assessment is made at each reporting date to determine whether there is an objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of profit or loss. 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 statement of profit or loss;

(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

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

i. *Financial assets:*

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

- the rights to receive cash flows from the asset have expired; or
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

ii. *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.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, amounts due from related parties, cash and cash equivalents, loans and borrowings, and trade and other payables. Cash and cash equivalents comprise cash balances and deposits with original maturity not greater than three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

2. Changes in significant accounting policies *(continued)*

2.1 IFRS 9 *Financial Instruments* (continued)

Accounting policies applied until 31 December 2017 *(continued)*

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

2.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

Revenue

Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgment.

In accordance with the transition provisions in IFRS 15, the Company has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

As the application of IFRS 15 has no material impact on the financial statements, the Company has not made any adjustments to the statement of financial position as at 1 January 2018.

The Company applies IFRS 15 with effect from 1 January 2018. As a result, the Company has applied the following accounting policy in the preparation of its financial statements.

For contracts determined to be within the scope of revenue recognition, the Company is required to apply a five-step model to determine when to recognise revenue, and at what amount.

The Company recognises revenue from contracts with customers based on the five step model set out in IFRS 15:

Step 1 Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

***Step 2 Identify the performance obligations in the contract*:** A performance obligation is a unit of account and a promise in a contract with a customer to transfer a good or service to the customer.

Step 3 Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4 Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Company will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

2. Changes in significant accounting policies *(continued)*

2.2 IFRS 15 Revenue from Contracts with Customers *(continued)*

Step 5 Recognise revenue when (or as) the entity satisfies a performance obligation.

The Company satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the Company's performance as and when the Company performs; or
2. The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

Variable consideration

Variable consideration amount are estimated at either their expected value or most likely amount and included in revenue to the extent that it is highly probable that the revenue will not reverse

Significant financing component

Company evaluates significant financing component, if the period between customer payment and the transfer of goods/ services (both for advance payments or payments in arrears) is more than one year. Company adjusts the promised amount of consideration for the time value of money using an appropriate interest rate reflecting the credit risk.

Contract modification

A contract modification occurs when the Company and the customer approve a change in the contract that either creates new enforceable rights and obligations or changes the existing enforceable rights and obligations. Revenue related to a modification is not recognised until it is approved. Approval can be in writing, oral, or implied by customary business practices.

Company treats the contract modification as a separate contract if it results in the addition of a separate performance obligation and the price reflects the standalone selling price of that performance obligation. Otherwise, a modification (including those that only affect the transaction price) is accounted for as an adjustment to the original contract, either prospectively or through a cumulative catch-up adjustment.

Company accounts for a modification prospectively if the goods or services in the modification are distinct from those transferred before the modification. Conversely, the Company accounts for a modification through a cumulative catch-up adjustment if the goods or services in the modification are not distinct and are part of a single performance obligation that is only partially satisfied when the contract is modified.

Cost of obtainment and fulfilment

Company capitalises incremental costs to obtain a contract with a customer except if the amortisation period for such costs is less than one year.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2018

2. Changes in significant accounting policies *(continued)*

2.2 IFRS 15 Revenue from Contracts with Customers *(continued)*

Cost of obtainment and fulfilment *(continued)*

If the costs incurred in fulfilling a contract with a customer are not in the scope of other guidance - e.g. inventory, intangibles, or property, plant and equipment - then the Company recognises an asset only if the fulfilment costs meet the following criteria:

- Relate directly to an existing contract or specific anticipated contract;
- Generate or enhance resources that will be used to satisfy performance obligations in the future; and
- Are expected to be recovered.

If the costs incurred to fulfil a contract are in the scope of other guidance, then Company accounts for such costs using the other guidance.

Company amortises the asset recognised for the costs to obtain and/or fulfil a contract on a systematic basis, consistent with the pattern of transfer of the good or service to which the asset relates. In the case of an impairment, Company recognises these losses to the extent that the carrying amount of the asset exceeds the recoverable amount.

Revenue recognition

The Company recognises revenue from the following major sources

- Capacity charge
- Energy charge/variable charge

Capacity charge

Capacity charge include investment charge and fixed O&M charge. Investment charge is treated as revenue under operating lease and recognized on straight line basis over the lease term. Fixed O&M charge is recognized based on the capacity made available in accordance with contractual terms stipulated in PPA.

Variable charge

Energy charge and fuel charge are recognised when electricity are delivered; which is taken to be over time when the customer has accepted the deliveries, the control of utilities have been transferred to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the utilities.

The Company has a long term agreement with OPWP which determines performance obligation, transaction price and allocates the transaction price to each of the separate performance obligations. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

The Company does not adjust any of the transaction prices for time value of money as the period between the transfer of the promised goods or services to the customer and payment by the customer does not exceed one year and the sales are made with agreed credit terms which is in line with the industry practice.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2018

2. Changes in significant accounting policies *(continued)*

2.2 IFRS 15 Revenue from Contracts with Customers *(continued)*

Accounting policies applied until 31 December 2017

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.

These policies are considered to be appropriate after adoption of IFRS 15

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 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.

A number of new relevant standards, amendments to standards and interpretations are not yet effective for the year 2018, and have not been applied in preparing the financial statements. Those which may be relevant to the Company are set out below.

3.2 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Standards issued but not yet effective *(continued)*

IFRS 16 *Leases* (Effective from 1 January 2019)

Management is in the process of assessing the impact of these standards, amendments and interpretations on the financial statements of the Company and does not expect a significant impact on the financial statements of the Company except for the current usufruct agreement in place.

Based on the information currently available the Company estimates that the impact would be material to the financial statements of usufruct agreement, at transition date 1 January 2019, the Company expects to recognize Right of use of asset and lease liability of approximately RO1.178 million. There may be additional impact of unwinding of discount.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

There are no other IFRSs that are not yet effective that would be expected to have a material impact to the Company.

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

3.3 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.

3.4 Interest income

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

3.5 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6 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.

3.7 Income tax

Taxation is provided for in accordance with Omani fiscal regulations.

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

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

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

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

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

3.8 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.8 Property, plant and equipment *(continued)*

The estimated useful lives are as follows:

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

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

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

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

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

3.9 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.

3.10 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.

3.11 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.12 Interest bearing loans and borrowings

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

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

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

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

3.13 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.13 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.

3.14 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.

3.15 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.

3.16 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.

3.17 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.18 Fair values

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

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

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

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

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

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

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

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

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

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

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.

3.19 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.19 Segment information *(continued)*

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.

3.20 Critical accounting judgments and key sources of estimation uncertainty

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

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

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

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) Deferred taxation

Deferred tax asset amounting to US$ 39.37 million (2017: US$ 38.86 million) has not been recognised in profit or loss relating to the carried forward losses amounting to US$ 262.47 million (2017: US$ 259.08 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.

4 OPERATING REVENUE

	2018 *RO'000*	*2018* *US$'000*	*2017* *RO'000*	*2017* *US$'000*
Capacity charges	**65,723**	**170,931**	65,723	170,932
Energy charges	**68,870**	**179,116**	62,678	163,013
	134,593	**350,047**	128,401	333,945

In line with IFRS 15, all revenue is recognised over time and not at a point in time, since the following conditions to recognise the revenue over time are met:

1. The customer simultaneously receives and consumes the benefits provided by the Company's performance as and when the Company performs; or
2. The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

Revenue is generated only in the Sultanate of Oman and the Company has only one Customer, Oman Power and Water Procurement Company SAOC (OPWP).

5 OPERATING COSTS

	2018 *RO'000*	*2018* *US$'000*	*2017* *RO'000*	*2017* *US$'000*
Gas consumption	**66,231**	**172,253**	59,857	155,676
Depreciation (note 11)	**15,908**	**41,372**	15,908	41,372
Operation and maintenance cost	**7,843**	**20,398**	8,012	20,837
Contractual services maintenance cost	**7,096**	**18,454**	6,999	18,202
Insurance	**557**	**1,449**	733	1,907
Other direct costs	**547**	**1,422**	843	2,193
Connection and license fee	**518**	**1,347**	534	1,389
	98,700	**256,695**	92,886	241,576

6 OTHER INCOME

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

7 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 *RO'000*	*2018* *US$'000*	*2017* *RO'000*	*2017* *US$'000*
Staff costs and other benefits	**609**	**1,583**	566	1,473
Legal and professional charges	**67**	**175**	241	627
Other expenses	**440**	**1,144**	465	1,210
Office rent	**38**	**98**	40	103
Depreciation (note 11)	**19**	**49**	17	45
	1,173	**3,049**	1,329	3,458

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2018

8 FINANCE COSTS (NET)

	2018 RO'000	**2018 US$'000**	*2017 RO'000*	*2017 US$'000*
Interest – term loans and swap settlements	**17,773**	**46,223**	19,233	50,021
Amortisation of deferred finance cost	**1,047**	**2,724**	1,120	2,913
Asset retirement obligation - unwinding of discount (note 20)	**255**	**664**	242	632
Debt service commission	**162**	**422**	184	479
Exchange loss	**(109)**	**(283)**	(76)	(198)
Interest Income	**(158)**	**(410)**	(75)	(192)
	18,970	**49,340**	20,628	53,655

9 INCOME TAX

	2018 RO'000	**2018 US$'000**	*2017 RO'000*	*2017 US$'000*
Recognised in the income statement in the current year				
Deferred tax expense				
Current year	**(2,830)**	**(7,360)**	(3,735)	(9,715)
Prior year	**-**	**-**	(5,187)	(13,490)
	(2,830)	**(7,360)**	(8,922)	(23,205)

a) Reconciliation of income tax expense

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

	2018 RO'000	**2018 US$'000**	*2017 RO'000*	*2017 US$'000*
Profit before tax	**15,750**	**40,963**	18,906	49,164
Income tax at the rate mentioned above	**(2,362)**	**(6,143)**	(2,836)	(7,375)
Deferred tax not recognized during the year	**(468)**	**(1,217)**	(899)	(2,339)
Deferred tax due to change in the rate from prior year	**-**	**-**	(5,187)	(13,491)
	(2,830)	**(7,360)**	(8,922)	(23,205)

As of 31 December 2018, 2011 and 2012 of the Company's tax assessments have been completed by the Omani taxation authorities. The Company's assessment for the tax years 2013 to 2017 have not yet been finalised with the Secretariat General for Taxation at the Ministry of Finance. Management of the Company believes that additional taxes, if any, in respect of open tax years, would not be significant to the Company's financial position as at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2018

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 RO'000	*Recognised in profit or loss RO'000*	*Recognised in other comprehensive income/ (expense) RO'000*	*As at 31 December RO'000*
31 December 2018				
Property, plant and equipment	**(32,835)**	**(4,332)**	**-**	**(37,167)**
Provision for asset retirement obligation	**767**	**38**	**-**	**805**
Losses carried forward	**2,396**	**1,464**	**-**	**3,860**
Fair value adjustment of derivatives through equity	**4,061**	**-**	**(1,128)**	**2,933**
Net deferred tax asset (liability)	**(25,611)**	**(2,830)**	**(1,128)**	**(29,569)**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Property, plant and equipment	**(85,395)**	**(11,265)**	**-**	**(96,660)**
Provision for asset retirement obligation	**1,993**	**100**	**-**	**2,093**
Losses carried forward	**6,232**	**3,805**	**-**	**10,037**
Fair value adjustment of derivatives through equity	**10,561**	**-**	**(2,934)**	**7,627**
Net deferred tax asset (liability)	**(66,609)**	**(7,360)**	**(2,934)**	**(76,903)**
	RO'000	*RO'000*	*RO'000*	*RO'000*
31 December 2017				
Property, plant and equipment	(21,925)	(10,910)	-	(32,835)
Provision for asset retirement obligation	584	183	-	767
Losses carried forward	591	1,805	-	2,396
Fair value adjustment of derivatives through equity	4,658	-	(597)	4,061
Net deferred tax (liability)	(16,092)	(8,922)	(597)	(25,611)
	US$'000	*US$'000*	*US$'000*	*US$'000*
Property, plant and equipment	(57,021)	(28,374)	-	(85,395)
Provision for asset retirement obligation	1,518	475	-	1,993
Losses carried forward	1,537	4,694	-	6,231
Fair value adjustment of derivatives through equity	12,113	-	(1,552)	10,561
Net deferred tax asset (liability)	(41,853)	(23,205)	(1,552)	(66,609)

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.

	2018 RO'000	**2018 US$'000**	2017 RO'000	2017 US$'000
Profit attributable to ordinary shareholders of the Company for basic earnings per share	**12,920**	**33,603**	9,984	25,959
Weighted average number of shares (in 000's)	**1,462,601,460**	**1,462,601,460**	1,462,601	1,462,601
Basic earnings per share (RO)	**0.009**	**-**	0.007	-
Basic earnings per share (US$)	**-**	**0.02**	-	0.02

11 PROPERTY, PLANT AND EQUIPMENT

Cost	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
At 1 January 2018	**83,876**	**518,087**	**10,809**	**4,401**	**226**	**617,399**
Additions during the year	**-**	**-**	**-**	**-**	**25**	**25**
At 31 December 2018	**83,876**	**518,087**	**10,809**	**4,401**	**251**	**617,424**
Accumulated depreciation						
At 1 January 2018	**6,412**	**39,598**	**2,205**	**336**	**136**	**48,687**
Charge during the year	**2,097**	**12,952**	**721**	**110**	**47**	**15,927**
At 31 December 2018	**8,509**	**52,550**	**2,926**	**446**	**183**	**64,614**
Net book value						
At 31 December 2018	**75,367**	**465,537**	**7,883**	**3,955**	**68**	**552,810**
At 31 December 2017	**77,464**	**478,489**	**8,604**	**4,065**	**90**	**568,712**

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

11 PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Plant building US$'000	*Plant and equipment US$'000*	*Strategic spares US$'000*	*Asset retirement US$'000*	*Other assets US$'000*	*Total US$'000*
Cost						
At 1 January 2018	218,142	1,347,432	28,113	11,445	586	1,605,718
Additional during the year	-	-	-	-	65	65
At 31 December 2018	218,142	1,347,432	28,113	11,445	651	1,605,783
Accumulated depreciation						
At 1 January 2018	16,674	102,989	5,731	875	353	126,622
Charge during the year	5,454	33,686	1,874	286	121	41,421
At 31 December 2018	22,128	136,675	7,605	1,161	474	168,043
Net book value						
At 31 December 2018	196,014	1,210,757	20,508	10,284	177	1,437,740
At 31 December 2017	201,468	1,244,443	22,382	10,570	233	1,479,096

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

(i) Land, on which the power station's buildings and auxiliaries are constructed, has been leased from the Government of the Sultanate of Oman for a period of 25 years, extendable for another 25 years. Lease rent is paid at the rate of RO 105,000 per annum.

12 TRADE AND OTHER RECEIVABLES

	2018 RO'000	2018 US$'000	2017 RO'000	2017 US$'000
Trade receivables	6,919	17,995	4,651	12,097
Other receivables	424	1,104	13	34
Prepayments	68	178	73	190
	7,411	19,277	4,737	12,321

None of the Company's trade receivable balances were past due or impaired. Accordingly, the expected credit loss was considered to be immaterial to the financial statements.

13 INVENTORIES

	2018 RO'000	2018 US$'000	2017 RO'000	2017 US$'000
Fuel oil inventory	5,555	14,447	5,454	14,185
Maintenance spares	5,526	14,372	5,331	13,866
	11,081	28,819	10,785	28,051

14 BANK BALANCES

	2018 RO'000	2018 US$'000	2017 RO'000	2017 US$'000
Bank balances	13,769	35,810	12,207	31,748
Short Term Deposits	-	-	1,923	5,000
	13,769	35,810	14,130	36,748

The company has made a placement in the amount of USD 5 million (RO 1.92 million) in 2017.

None of the Company's bank balances were impaired. Accordingly, the expected credit loss was considered to be immaterial to the financial statements.

15 SHARE CAPITAL

	2018 RO'000	2018 US$'000	2017 RO'000	2017 US$'000
Authorised, issued and fully paid up share capital of 1,462,601,460 shares of 100 Baiza (US $ 0.26) each (2017 – 1,462,601,460 shares of 100 Baiza (US $ 0.26) each)	146,260	380,390	146,260	380,390

16 LEGAL RESERVE

As required by the Commercial Companies Law of the Sultanate of Oman, 10% of annual profit of the Company is required to be transferred to legal reserve until the reserve is equal to one third of the issued share capital of the Company. The reserve is not available for distribution.

17 DIVIDEND PAID, PAYABLE AND PROPOSED

Pursuant to shareholders' resolution dated 21 March 2018, the Board of Directors in their meetings held on 24 April 2018 and 30 October 2018 announced cash dividend of 2.0 baizas per share and 1.6 baizas per share, respectively for the year ended 31 December 2018. Accordingly dividend amounting to US$ 7.608 million (RO 2.925. million) was paid in July 2018 and US$ 6.086 million (RO 2.340 million) is payable as of 31 December 2018 which was paid subsequently in January 2019.

Subject to approval of the shareholders at the Annual General Meeting ("AGM"), the Board of Directors in their meeting held on 26 February 2019 proposed a cash dividend to the shareholders of the Company which will be paid in July 2019 and January 2020 for the year ended 31 December 2018, provided that the aggregate amount of such dividend shall not exceed 5.4% of the paid up share capital of the Company as of 31 December 2018.

18 INTEREST BEARING LOANS AND BORROWINGS

	2018	***2018***	*2017*	*2017*
	RO'000	***US$'000***	*RO'000*	*US$'000*
Secured term loan from commercial banks	**99,256**	**258,142**	106,903	278,030
Secured term loan from Japan Bank for International Cooperation	**189,488**	**492,816**	204,086	530,784
Secured term loan under NEXI facilities	**49,628**	**129,071**	53,452	139,015
	338,372	**880,029**	364,441	947,829
Less : Deferred finance costs	**(5,453)**	**(14,182)**	(6,501)	(16,906)
	332,919	**865,847**	357,940	930,923
Less : Current portion of loans	**(27,888)**	**(72,530)**	(26,069)	(67,799)
Non-current portion of loans	**305,031**	**793,317**	331,871	863,124

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

	2018	***2018***	*2017*	*2017*
	RO'000	***US$'000***	*RO'000*	*US$'000*
Gross loan as at 1 January	**364,441**	**947,829**	388,925	1,011,507
Paid during the year	**(26,069)**	**(67,800)**	(24,484)	(63,678)
Gross loan as at 31 December	**338,372**	**880,029**	364,441	947,829

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

The Company started drawdowns in 2012. The Company has fully drawn down the facility in 2014. The loans will be repayable in instalments of several denominations, every sixth month from 28 December 2014, the final instalment will be due on 28 December 2028. The Company in order to manage its interest rate risk has entered into certain interest rate swap arrangements, the details of which are set out in note 19.

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

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2018 RO'000	**2018 US$'000**	*2017 RO'000*	*2017 US$'000*
Cumulative changes in fair value:				
Interest rate swap agreements	**12,632**	**32,852**	21,640	56,281
Forward foreign exchange contracts	**6,919**	**17,995**	5,433	14,129
Fair value of derivatives	**19,551**	**50,847**	27,073	70,410
Less : Income tax effect (note 9)	**(2,933)**	**(7,628)**	(4,061)	(10,562)
	16,618	**43,219**	23,012	59,848

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

	2018 RO'000	**2018 US$'000**	*2017 RO'000*	*2017 US$'000*
Non-current portion	**15,838**	**41,191**	20,929	54,433
Current portion	**3,713**	**9,656**	6,144	15,977
	19,551	**50,847**	27,073	70,410

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 2018, an unrealised loss of US $ 32.852 million (2017: US $ 56.281 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.

19 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

31 December 2018		**Notional amounts by term to maturity**			
	Fair value of derivatives RO'000	***Notional amount RO'000***	***1 - 12 Months RO'000***	***More than 1 up to 5 years RO'000***	***Over 5 years RO'000***
Interest rate swaps	**12,632**	**321,407**	**26,489**	**118,450**	**176,468**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Interest rate swaps	**32,852**	**835,910**	**68,892**	**308,063**	**458,955**

31 December 2017		Notional amounts by term to maturity			
	Fair value of derivatives RO'000	*Notional amount RO'000*	*1 - 12 Months RO'000*	*More than 1 up to 5 years RO'000*	*Over 5 years RO'000*
Interest rate swaps	21,640	346,171	24,763	112,403	209,005
	US$'000	US$'000	US$'000	US$'000	US$'000
Interest rate swaps	56,281	900,314	64,404	292,336	543,574

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 2018, an unrealised loss of US $ 17.995 million (2017: US $ 14.129 million) relating to measuring the financial instrument at fair value is included in equity in respect of these contracts.

19 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Forward foreign exchange contracts (continued)

The related details are set out below:

31 December 2018		**Notional amounts by term to maturity**			
	Fair value of derivatives RO'000	***Notional amount RO'000***	***1 - 12 months RO'000***	***More than 1 up to 5 years RO'000***	***Over 5 years RO'000***
Forward foreign exchange contracts	**6,919**	**58,567**	**5,851**	**23,441**	**29,276**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Forward foreign exchange contracts	**17,995**	**152,321**	**15,216**	**60,964**	**76,141**

31 December 2017		Notional amounts by term to maturity			
	Fair value of derivatives RO'000	*Notional amount RO'000*	*1 - 12 months RO'000*	*More than 1 up to 5 years RO'000*	*Over 5 years RO'000*
Forward foreign exchange contracts	5,433	64,429	5,861	23,441	35,127
	US$'000	US$'000	US$'000	US$'000	US$'000
Forward foreign exchange contracts	14,129	167,565	15,244	60,966	91,355

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:

	2018 RO'000	***2018 US$'000***	*2017 RO'000*	*2017 US$'000*
As at 1 January	**5,108**	**13,286**	4,866	12,654
Unwinding of discount (note 8)	**256**	**665**	242	632
As at 31 December	**5,364**	**13,951**	5,108	13,286

21 ACCOUNTS PAYABLE AND ACCRUALS

	2018 RO'000	***2018 US$'000***	*2017 RO'000*	*2017 US$'000*
Trade accounts payable	**5,666**	**14,737**	4,986	12,967
Amounts due to related parties (note 24)	**2,530**	**6,581**	2,362	6,142
Accrued expenses	**7,748**	**20,155**	5,561	14,466
	15,944	**41,473**	12,909	33,575
Less: employees' end of service benefits included in accruals	**(68)**	**(177)**	(74)	(192)
	15,876	**41,296**	12,835	33,383

i) Employees' end of service benefits

	2018 RO'000	***2018 US$'000***	*2017 RO'000*	*2017 US$'000*
As at 1 January	**74**	**192**	48	126
Charge for the year	**21**	**55**	26	66
Paid during the year	**(27)**	**(70)**	-	-
As at 31 December	**68**	**177**	74	192

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:

	2018 RO	***2018 US$***	*2017 RO*	*2017 US$*
Net assets (RO '000s/US$'000s)	**179,384**	**466,539**	165,335	430,001
Number of shares outstanding at 31 December (in 000's)	**1,462,601**	**1,462,601**	1,462,601	1,462,601
Net assets per share (RO)	**0.123**	**-**	0.113	-
Net assets per share (US$)	**-**	**0.319**	-	0.294

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 2018, 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 [2017 : US$ nil (RO nil)].

(b) Claims

A Claim for delays to Final Power (PCOD) was submitted by the EPC Contractor in September 2014, with the EPC Contractor requesting for a time extension. During the year 2017, an agreement to settle the Claim has been reached between the two parties and the settlement agreement obliges the Company to pay a settlement sum of $11.8M to the EPC Contractor.

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	***2018*** ***RO'000***	***2018*** ***US$'000***	*2017* *RO'000*	*2017* *US$'000*
Other related party - Phoenix Operation and Maintenance Company LLC	**2,530**	**6,581**	2,362	6,142

Income statement transactions	***2018*** ***RO'000***	***2018*** ***US$'000***	*2017* *RO'000*	*2017* *US$'000*
Consulting Service fee charged:				
Axia Power Holdings	41	107	41	107
JERA Co. Inc.	25	64	25	64
Nebras Power	12	32	12	32
Bahwan Multitec LLC	4	11	4	11
	82	**214**	82	214
Operation and maintenance costs				
Phoenix Operation and Maintenance Company LLC ("POMCO")	**7,843**	**20,398**	8,012	20,837
	7,843	**20,398**	8,012	20,837
Key management compensation:				
Short term benefits	**252**	**656**	245	638
Employee's end of service benefits	**14**	**37**	18	48
	266	**693**	263	686

25 COMMITMENTS

(a) Operation and maintenance commitments

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

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

	2018	***2018***	*2017*	*2017*
	RO'000	***US$'000***	*RO'000*	*US$'000*
Within one year	**1,730**	**4,500**	1,730	4,500
Between two and five years	**6,921**	**18,000**	6,921	1,800
After five years	**9,078**	**23,610**	10,809	28,110
	17,729	**46,110**	19,460	50,610

(b) Land lease commitments

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

	2018	***2018***	*2017*	*2017*
	RO'000	***US$'000***	*RO'000*	*US$'000*
Within one year	**105**	**272**	105	272
Between two and five years	**418**	**1,087**	418	1,087
After five years	**1,214**	**3,159**	1,319	3,431
	1,737	**4,518**	1,842	4,790

Other commitments

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

25 COMMITMENTS *(continued)*

Operating lease agreement for which the Company acts as a lessor

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

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

	2018	***2018***	*2017*	*2017*
	RO'000	***US$'000***	*RO'000*	*US$'000*
Within one year	**65,438**	**170,331**	65,492	170,331
Between two and five years	**261,797**	**680,876**	261,806	680,901
After five years	**334,732**	**870,565**	400,161	1,040,730
	661,967	**1,721,772**	727,459	1,891,962

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.

26 FINANCIAL RISK MANAGEMENT *(continued)*

(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.

The table below summarises the maturities of the Company's financial liabilities at 31 December 2018.

2018	***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	**13,415**	-	-	-	**13,415**
Amounts due to related parties	**2,530**	-	-	-	**2,530**
Interest bearing loans and borrowings	-	**44,250**	**175,798**	**211,483**	**431,531**
	15,945	**44,250**	**175,798**	**211,483**	**447,476**

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

2018	***Less than 3 months US$'000***	***3 to 12 months US$'000***	***1 to 5 years US$'000***	***More than 5 years US$'000***	***Total US$'000***
Trade and other accounts payable	**34,890**	-	-	-	**34,890**
Amounts due to related parties	**6,581**	-	-	-	**6,581**
Interest bearing loans and borrowings	-	**115,084**	**457,212**	**550,021**	**1,122,317**
	41,471	**115,084**	**457,212**	**550,021**	**1,163,788**

2017	Less than 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	More than 5 years US$'000	Total US$'000
Trade and other accounts payable	27,433	-	-	-	27,433
Amounts due to related parties	6,142	-	-	-	6,142
Interest bearing loans and borrowings	-	113,928	455,991	666,327	1,236,246
	33,575	113,928	455,991	666,327	1,269,821

26 FINANCIAL RISK MANAGEMENT *(continued)*

(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 2018 amounted to US$ 22.4 thousands (RO 8.6 thousands) [(2017: US$ 1,981 thousands (RO 762 thousands)]. Should the exchange rate between Euro and RO fluctuate by ± 5%, the impact on the Company's results will be US$ 1 thousands (RO 0.4 thousands) [2017: US$ 99 thousands (RO 38 thousands)].

(d) Capital risk management

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2018.

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.

27 FAIR VALUE FINANCIAL INSTRUMENTS *(continued)*

Embedded derivatives

The following agreements contain embedded derivatives:

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

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

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

These embedded derivatives are not separated from the host contract, the PPA, the O&M agreement, and LTSA and is not accounted for as a standalone derivative under IFRS 9, as the Management believes that the economic characteristics and risks associated with the embedded derivatives are closely related to those of the host contracts.

Capital management

The Company aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development and growth of its businesses, while at the same time maintaining an appropriate dividend policy to reward shareholders.