

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

1 ACTIVITIES

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

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

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

The Company has entered into following significant agreements:

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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

2.2 Standards, amendments and interpretation effective in 2017:

For the year ended 31 December 2017, the Company has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for year beginning on 1 January 2017.

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

2.3 Revenue

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

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

2.4 Leases

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

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

2.5 Interest income

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

2.6 Borrowing costs

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

2.7 Deferred financing costs

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

**NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017**

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Income tax

Taxation is provided for in accordance with Omani fiscal regulations.

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

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

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

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

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

2.9 Property, plant and equipment

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017**

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Plant and equipment *(continued)*

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

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

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

2.10 Trade receivable

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

2.11 Inventories

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

2.12 Cash and cash equivalents

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

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

2.13 Foreign currencies

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

2.14 Dividend

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Interest bearing loans and borrowings

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

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

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

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

2.16 Derivative financial instruments

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017**

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Derivative financial instruments *(continued)*

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

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

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

2.17 Asset retirement obligation

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

2.18 Account payable and accruals

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

2.19 Provisions

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

2.20 Employees' end of service benefits

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

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

**NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Derecognition of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

Offsetting of financial instruments

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

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

2.22 Impairment and un-collectability of financial assets

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

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

Impairment is determined as follows:

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Impairment of non-financial assets

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

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

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

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

2.24 Fair values

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.24 Fair values *(continued)*

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

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

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

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

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

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

2.25 Segment information

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

2.26 Critical accounting judgments and key sources of estimation uncertainty

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017**

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

a) Useful lives of property, plant and equipment

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

b) Asset retirement obligation

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

c) Impairment of plant and spares

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

d) Deferred taxation

Deferred tax asset amounting to US\$ 38.862 million (2016: US\$ 29.22 million) has not been recognised in profit or loss relating to the carried forward losses amounting to US\$ 259.08 million (2016: US\$ 243.49 million), which are expected to expire within a period of five years from the year of origination of taxable loss. The Company has accounted for a deferred tax asset only for the carried forward losses which are expected to be utilised against the taxable profits to be generated in future. The related details are set out in note 9.

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2017 and may impact the Company:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but comparative information is not compulsory. The Company has assessed and concluded that is not likely to have any material impact on the financial statements. However, additional disclosures with regard to the Company's risk management activities may be required.

**NOTES TO THE FINANCIAL STATEMENTS
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3 STANDARDS ISSUED BUT NOT YET EFFECTIVE *(continued)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company has assessed and concluded that there is not likely to be a material impact as the contract has a single performance obligation and the Company continues to recognise revenue over time as the customer simultaneously receives and consumes all the benefits provided by the Company.

IFRS 16 Leases

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

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

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

4 OPERATING REVENUE

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

5 OPERATING COSTS

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

**NOTES TO THE FINANCIAL STATEMENTS
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6 OTHER INCOME

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

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

7 GENERAL AND ADMINISTRATIVE EXPENSES

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

8 FINANCE COSTS (NET)

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

**NOTES TO THE FINANCIAL STATEMENTS
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9 INCOME TAX

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

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.

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

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

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

9 INCOME TAX (continued)

b) Deferred tax (liability) / asset

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

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

**NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2017**

10 EARNINGS PER SHARE

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

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

11 PROPERTY, PLANT AND EQUIPMENT

Cost	<i>Plant building</i> <i>RO'000</i>	<i>Plant and equipment</i> <i>RO'000</i>	<i>Strategic spares</i> <i>RO'000</i>	<i>Asset retirement</i> <i>RO'000</i>	<i>Other assets</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
At 1 January 2017	<u>83,876</u>	<u>518,087</u>	<u>10,809</u>	<u>4,401</u>	<u>226</u>	<u>617,399</u>
At 31 December 2017	<u>83,876</u>	<u>518,087</u>	<u>10,809</u>	<u>4,401</u>	<u>226</u>	<u>617,399</u>

Accumulated depreciation

At 1 January 2017	<u>4,315</u>	<u>26,646</u>	<u>1,484</u>	<u>226</u>	<u>91</u>	<u>32,762</u>
Charge during the year	<u>2,097</u>	<u>12,952</u>	<u>721</u>	<u>110</u>	<u>45</u>	<u>15,925</u>
At 31 December 2017	<u>6,412</u>	<u>39,598</u>	<u>2,205</u>	<u>336</u>	<u>136</u>	<u>48,687</u>

Net book value

At 31 December 2017	<u>77,464</u>	<u>478,489</u>	<u>8,604</u>	<u>4,065</u>	<u>90</u>	<u>568,712</u>
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Cost	<i>Plant building</i> <i>RO'000</i>	<i>Plant and equipment</i> <i>RO'000</i>	<i>Strategic spares</i> <i>RO'000</i>	<i>Asset retirement</i> <i>RO'000</i>	<i>Other assets</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
At 1 January 2016	<u>83,876</u>	<u>518,087</u>	<u>10,809</u>	<u>4,401</u>	<u>226</u>	<u>617,399</u>
At 31 December 2016	<u>83,876</u>	<u>518,087</u>	<u>10,809</u>	<u>4,401</u>	<u>226</u>	<u>617,399</u>

Accumulated depreciation

At 1 January 2016	<u>2,218</u>	<u>13,694</u>	<u>763</u>	<u>116</u>	<u>46</u>	<u>16,837</u>
Charge during the year	<u>2,097</u>	<u>12,952</u>	<u>721</u>	<u>110</u>	<u>45</u>	<u>15,925</u>
At 31 December 2016	<u>4,315</u>	<u>26,646</u>	<u>1,484</u>	<u>226</u>	<u>91</u>	<u>32,762</u>

Net book value

At 31 December 2016	<u>79,561</u>	<u>491,441</u>	<u>9,325</u>	<u>4,175</u>	<u>135</u>	<u>584,637</u>
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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

11 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Cost	<i>Plant building US\$'000</i>	<i>Plant and equipment US\$'000</i>	<i>Strategic spares US\$'000</i>	<i>Asset retirement US\$'000</i>	<i>Other assets US\$'000</i>	<i>Total US\$'000</i>
At 1 January 2017	<u>218,142</u>	<u>1,347,432</u>	<u>28,113</u>	<u>11,445</u>	<u>586</u>	<u>1,605,718</u>
At 31 December 2017	<u>218,142</u>	<u>1,347,432</u>	<u>28,113</u>	<u>11,445</u>	<u>586</u>	<u>1,605,718</u>

Accumulated depreciation

At 1 January 2017	<u>11,221</u>	<u>69,303</u>	<u>3,856</u>	<u>588</u>	<u>237</u>	<u>85,205</u>
Charge during the year	<u>5,453</u>	<u>33,686</u>	<u>1,875</u>	<u>287</u>	<u>116</u>	<u>41,417</u>
At 31 December 2017	<u>16,674</u>	<u>102,989</u>	<u>5,731</u>	<u>875</u>	<u>353</u>	<u>126,622</u>

Net book value

At 31 December 2017	<u>201,468</u>	<u>1,244,443</u>	<u>22,382</u>	<u>10,570</u>	<u>233</u>	<u>1,479,096</u>
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Cost	<i>Plant building US\$'000</i>	<i>Plant and equipment US\$'000</i>	<i>Strategic spares US\$'000</i>	<i>Asset retirement US\$'000</i>	<i>Other assets US\$'000</i>	<i>Total US\$'000</i>
At 1 January 2016	<u>218,142</u>	<u>1,347,432</u>	<u>28,113</u>	<u>11,445</u>	<u>586</u>	<u>1,605,718</u>
At 31 December 2016	<u>218,142</u>	<u>1,347,432</u>	<u>28,113</u>	<u>11,445</u>	<u>586</u>	<u>1,605,718</u>

Accumulated depreciation

At 1 January 2016	<u>5,767</u>	<u>35,617</u>	<u>1,982</u>	<u>302</u>	<u>120</u>	<u>43,788</u>
Charge during the year	<u>5,454</u>	<u>33,686</u>	<u>1,874</u>	<u>286</u>	<u>117</u>	<u>41,417</u>
At 31 December 2016	<u>11,221</u>	<u>69,303</u>	<u>3,856</u>	<u>588</u>	<u>237</u>	<u>85,205</u>

Net book value

At 31 December 2016	<u>206,921</u>	<u>1,278,129</u>	<u>24,257</u>	<u>10,857</u>	<u>349</u>	<u>1,520,513</u>
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PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

12 TRADE AND OTHER RECEIVABLES

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

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

13 INVENTORIES

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

14 BANK BALANCES

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

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

15 SHARE CAPITAL

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

16 LEGAL RESERVE

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

17 DIVIDEND PAID, PAYABLE AND PROPOSED

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

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

18 INTEREST BEARING LOANS AND BORROWINGS

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

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

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

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

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.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

19 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

19 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Interest rate swap agreements

In accordance with the requirements of its Commercial facilities, NEXI facilities and Term Loan facilities agreement with Japan Bank for International Corporation ("Secured Term Loan agreements"), the Company has entered into seven interest rate hedging agreements with a view to cap the Company's exposure to fluctuating interest rates. The maximum loan amount covered during the tenure is US \$ 1,152 million. Under the hedging agreements, the Company pays a fixed interest rate between 3.102 % to 3.75 % per annum as per the respective swap agreement and receives a floating interest rate based on US \$ LIBOR with effective dates starting from 28 February 2013/28 March 2013 till 28 December 2028. As at 31 December 2017, an unrealised loss of US \$ 56.281 million (2016: US \$ 70.248 million) relating to measuring the financial instrument at fair value is included in equity in respect of these contracts.

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

31 December 2017

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

31 December 2016

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swap agreements (continued)

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

Forward foreign exchange contracts

In order to reduce its exposure to foreign exchange rates fluctuations relating to payments to be made to contractor for services rendered under long term supply and services contract for gas turbines, the Company has entered into a foreign exchange swap agreement with a bank for the foreign exchange amounts which are required to be paid in future. As at 31 December 2017, an unrealised loss of US \$ 14.129 million (2016: US \$ 30.695 million) relating to measuring the financial instrument at fair value is included in equity in respect of these contracts. The related details are set out below:

	Notional amounts by term to maturity				
	<i>Fair value of derivatives RO'000</i>	<i>Notional amount RO'000</i>	<i>1 - 12 months RO'000</i>	<i>More than 1 up to 5 years RO'000</i>	<i>Over 5 years RO'000</i>
31 December 2017					
Forward foreign exchange contracts	<u>5,433</u>	<u>64,429</u>	<u>5,861</u>	<u>23,441</u>	<u>35,127</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Forward foreign exchange contracts	<u>14,129</u>	<u>167,565</u>	<u>15,244</u>	<u>60,966</u>	<u>91,355</u>
31 December 2016					
Forward foreign exchange contracts	<u>11,803</u>	<u>70,292</u>	<u>5,864</u>	<u>23,441</u>	<u>40,987</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Forward foreign exchange contracts	<u>30,695</u>	<u>182,815</u>	<u>15,250</u>	<u>60,965</u>	<u>106,600</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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:

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

21 ACCOUNTS PAYABLE AND ACCRUALS

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

i) The liquidated damages amounting to USD 179.704 million (RO 69.096 million) were levied by the Company to date and either they have been withheld from progress payments to be made by the Company or paid in cash by the EPC Contractor. As of 31 December 2017 liquidated damages amounting to USD Nil million (RO Nil million) [2016: USD 25.708 million (RO 9.88 million)] pertaining to PCOD are included in other payables. Further, details are set out in note 23.

ii) Employees' end of service benefits

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

22 NET ASSETS PER SHARE

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

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

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

23 CONTINGENCIES

(a) Guarantees

At 31 December 2017, the Company had no contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise [2016 : US\$ nil (RO nil)].

(b) Claims

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

24 RELATED PARTY TRANSACTIONS

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

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

Due to related parties	2017	2017	2016	2016
	RO'000	US\$'000	RO'000	US\$'000
Other related party - Phoenix Operation and Maintenance Company LLC	2,362	6,142	2,014	5,239
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Transactions with related parties	2017	2017	2016	2016
	RO'000	US\$'000	RO'000	US\$'000
Consulting Service fee charged:				
Axia Power Holdings	41	107	41	107
Chubu Electric Power	-	-	13	32
JERA Co. Inc.	25	64	12	32
Qatar Electricity and Water Company	-	-	12	32
Nebras Power	12	32	-	-
Bahwan Multitec LLC	4	11	4	11
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	82	214	82	214
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operation and maintenance costs				
Phoenix Operation and Maintenance Company LLC ("POMCO")	8,012	20,837	7,840	20,389
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	8,012	20,837	7,840	20,389
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Key management compensation:				
Short term benefits	245	638	231	601
Employee's end of service benefits	18	48	13	34
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	263	686	244	635
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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:

	<i>2017</i> <i>RO'000</i>	<i>2017</i> <i>US\$'000</i>	<i>2016</i> <i>RO'000</i>	<i>2016</i> <i>US\$'000</i>
Within one year	1,730	4,500	1,730	4,500
Between two and five years	6,921	1,800	6,921	18,000
After five years	10,809	28,110	12,539	32,610
	<u>19,460</u>	<u>50,610</u>	<u>21,190</u>	<u>55,110</u>

(b) Land lease commitments

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

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

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.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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:

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

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.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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 2017.

	<i>Less than 3 months RO'000</i>	<i>3 to 12 months RO'000</i>	<i>1 to 5 years RO'000</i>	<i>More than 5 years RO'000</i>	<i>Total RO'000</i>
2017					
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
	<i>Less than 3 months RO'000</i>	<i>3 to 12 months RO'000</i>	<i>1 to 5 years RO'000</i>	<i>More than 5 years RO'000</i>	<i>Total RO'000</i>
2016					
Trade and other accounts payable	20,682	-	-	-	20,682
Amounts due to related parties	2,014	-	-	-	2,014
Interest bearing loans and borrowings	-	43,395	175,327	300,010	518,732
	22,696	43,395	175,327	300,010	541,428
	<i>Less than 3 months US\$'000</i>	<i>3 to 12 months US\$'000</i>	<i>1 to 5 years US\$'000</i>	<i>More than 5 years US\$'000</i>	<i>Total US\$'000</i>
2017					
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
	<i>Less than 3 months US\$'000</i>	<i>3 to 12 months US\$'000</i>	<i>1 to 5 years US\$'000</i>	<i>More than 5 years US\$'000</i>	<i>Total US\$'000</i>
2016					
Trade and other accounts payable	53,784	-	-	-	53,784
Amounts due to related parties	5,239	-	-	-	5,239
Interest bearing loans and borrowings	-	112,860	455,986	780,260	1,349,106
	59,023	112,860	455,986	780,260	1,408,129

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

(d) Capital risk management

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2017.

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.

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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 IAS 39, as the Management believes that the economic characteristics and risks associated with the embedded derivatives are closely related to those of the host contracts.

28 COMPARATIVE FIGURES

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