

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

1 ACTIVITIES

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

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

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

The Company has entered into following significant agreements:

- i. Power Purchase Agreement (PPA) with Oman Power and Water Procurement Company SAOC (OPWP) granting the Company the right to generate electricity in Sur for a period of fifteen years commencing from the commercial operations date based on a tariff structure.
- ii. Natural Gas Sales Agreement (NGSA) with the Ministry of Oil and Gas of the Government of the Sultanate of Oman (MOG) for the purchase of natural gas for fifteen years at a pre-determined price.
- iii. Usufruct Agreement with the Government of the Sultanate of Oman for grant of Usufruct rights over the plant site for 25 years.
- iv. Agreement with local and international banks for long-term loan facilities and interest rate hedge arrangements.
- v. Agreement with Siemens LLC Oman for long term service contract for maintenance service of the gas turbines.
- vi. Agreement with Siemens Aktiengesellschaft for long term supply contract for supplying the spare parts of gas turbines.
- vii. Agreement with Phoenix Operation and Maintenance Company LLC for the operation and maintenance of the Sur IPP Project.
- viii. Agreement with Daewoo Engineering and Construction Co. Ltd for engineering, procurement and construction of the Sur IPP Project.
- ix. Agreement with Oman Oil Marketing Company SAOG for supply of automotive diesel.
- x. Project Founders' Agreement dated 13 July 2011 made between Electricity Holding Company SAOG, Marubeni Corporation; Chubu Electric Power Co; Qatar Electricity and Water Company (Q.S.C.); and Multitech LLC.
- xi. Shareholders' Agreement dated 13 July 2011, amended and restated dated 28 November 2011 made between Electricity Holding Company SAOG, Axia Power Holdings B.V; Chubu Electric Power Sur B.V; Qatar Electricity and Water Company (Q.S.C.); and Multitech LLC.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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

2.2 Accounting policies

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

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.3 Revenue

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

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

2.4 Leases

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

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

2.5 Interest income

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

2.6 Borrowing costs

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

2.7 Deferred financing costs

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2.8 Income tax

Taxation is provided for in accordance with Omani fiscal regulations.

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

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

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

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

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

2.9 Plant and equipment

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

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

An item of property, plant and equipment and any significant part initially recognized 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 derecognized.

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.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Derivative financial instruments (continued)

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

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

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

2.17 Asset retirement obligation

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

2.18 Account payable and accruals

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

2.19 Provisions

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

2.20 Employees' end of service benefits

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Derecognition of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

Offsetting of financial instruments

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

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

2.22 Impairment and un-collectability of financial assets

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment is determined as follows:

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

2.23 Impairment of non-financial assets

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

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

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

2.24 Fair Values

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

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

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

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Fair Values (continued)

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing 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 Executive Managing Director reviews internal management reports on a monthly basis. Performance is measured based on the profit before income tax, as included in the internal management reports. The Executive Managing Director considers the business of the Company as one operating segment and monitors accordingly.

2.26 Critical accounting judgments and key sources of estimation uncertainty

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

a) Useful lives of property, plant and equipment

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

b) Asset retirement obligation

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

c) Impairment of plant spares

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

d) Liquidated damages

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

e) Deferred taxation

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

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9: Financial Instruments

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16 Leases

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

4 OPERATING REVENUE

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

5 OPERATING COSTS

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

6 OTHER INCOME

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

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

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

7 GENERAL AND ADMINISTRATIVE EXPENSES

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

8 FINANCE COSTS

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

9 INCOME TAX

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

b) Deferred tax asset (liability)

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

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

9 INCOME TAX (continued)

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

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

c) Reconciliation of income tax expense

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

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

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

10 EARNINGS PER SHARE

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

10 EARNINGS PER SHARE (continued)

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

11 PROPERTY, PLANT AND EQUIPMENT

Cost	Plant building RO'000	Plant and equipment RO'000	Strategic spares RO'000	Asset retirement RO'000	Other assets RO'000	Total RO'000
At 1 January 2015	83,876	517,486	10,809	4,401	107	616,679
Additions during the year	-	601	-	-	119	720
At 31 December 2015	83,876	518,087	10,809	4,401	226	617,399
Accumulated depreciation						
At 1 January 2015	121	744	42	6	21	934
Charge during the year	2,097	12,950	721	110	25	15,903
At 31 December 2015	2,218	13,694	763	116	46	16,837
Net book value						
At 31 December 2015	81,658	504,393	10,046	4,285	180	600,562

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
Transfer from capital work in progress (refer note below)	83,876	517,486	10,809	-	107	612,278
Additions during the year	-	-	-	4,401	-	4,401
At 31 December 2014	83,876	517,486	10,809	4,401	107	616,679
Accumulated depreciation						
Charge during the year	121	744	42	6	21	934
At 31 December 2014	121	744	42	6	21	934
Net book value						
At 31 December 2014	83,755	516,742	10,767	4,395	86	615,745

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

11 PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	Plant building US\$'000	Plant and equipment US\$'000	Strategic spares US\$'000	Asset retirement US\$'000	Other assets US\$'000	Total US\$'000
At 1 January 2015	218,142	1,345,868	28,113	11,445	277	1,603,845
Additions during the year	-	1,564	-	-	309	1,873
At 31 December 2015	<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 2015	314	1,936	108	16	54	2,428
Charge during the year	5,453	33,681	1,874	286	66	41,360
At 31 December 2015	<u>5,767</u>	<u>35,617</u>	<u>1,982</u>	<u>302</u>	<u>120</u>	<u>43,788</u>

Net book value

At 31 December 2015	<u>212,375</u>	<u>1,311,815</u>	<u>26,131</u>	<u>11,143</u>	<u>466</u>	<u>1,561,930</u>
---------------------	----------------	------------------	---------------	---------------	------------	------------------

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

11 PROPERTY, PLANT AND EQUIPMENT (continued)

Capital work in progress

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

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

12 TRADE AND OTHER RECEIVABLES

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

13 INVENTORIES

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

14 BANK BALANCES

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

15 SHARE CAPITAL

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

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

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

16 LEGAL RESERVE

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

17 DIVIDEND PAID, PAYABLE AND PROPOSED

Pursuant to shareholders' resolution dated 30 March 2015, the Board of Directors in their meetings held on 8 June 2015 and 12 January 2016 announced cash dividend of 1.7 baizas per share and 2.8 baizas per share, respectively for the year ended 31 December 2014. Accordingly dividend amounting to US\$ 6.467 million (RO 2.486 million) was paid in June 2015 and US\$ 10.651 million (RO 4.095 million) is payable as of 31 December 2015 which was paid subsequently in January 2016.

Subject to approval of the shareholders at the Annual General Meeting ("AGM"), the Board of Directors in their meeting held on 29 February 2016 proposed a cash dividend to the shareholders of the Company which will be paid in July 2016 and January 2017 for the year ended 31 December 2015, provided that the aggregate amount of such dividend shall not exceed 7.9% of the paid up share capital of the Company as of 31 December 2015.

18 INTEREST BEARING LOANS AND BORROWINGS

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

18 INTEREST BEARING LOANS AND BORROWINGS (continued)

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

The Company started drawdowns in 2012. The Company has fully drawn down the facility in 2014. The loans will be repayable in instalments of several denominations, every sixth month from 28 December 2014, the final instalment will be due on 28 December 2028. The Company in order to manage its interest rate risk has entered into certain interest rate swap arrangements, the details of which are set out in note 20.

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

19 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swap agreements (continued)

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

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

31 December 2015

	Fair value of derivatives RO'000	Notional amounts by term to maturity			
		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	<u>36,824</u>	<u>392,267</u>	<u>22,842</u>	<u>102,402</u>	<u>267,023</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Interest rate swaps	<u>95,770</u>	<u>1,020,200</u>	<u>59,408</u>	<u>266,324</u>	<u>694,468</u>

31 December 2014

	Fair value of derivatives RO'000	Notional amounts by term to maturity			
		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	<u>39,450</u>	<u>414,082</u>	<u>21,815</u>	<u>97,348</u>	<u>294,919</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Interest rate swaps	<u>102,600</u>	<u>1,076,937</u>	<u>56,737</u>	<u>253,182</u>	<u>767,018</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

Forward foreign exchange contracts

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

31 December 2015

Notional amounts by term to maturity

	Fair value of derivatives 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	<u>12,408</u>	<u>76,171</u>	<u>5,879</u>	<u>23,446</u>	<u>46,846</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Forward foreign exchange contracts	<u>32,270</u>	<u>198,103</u>	<u>15,289</u>	<u>60,977</u>	<u>121,837</u>

31 December 2014

Notional amounts by term to maturity

	Fair value of derivatives 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	<u>6,244</u>	<u>82,046</u>	<u>5,875</u>	<u>23,454</u>	<u>52,717</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Forward foreign exchange contracts	<u>16,239</u>	<u>213,383</u>	<u>15,280</u>	<u>60,999</u>	<u>137,104</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

20 PROVISION FOR ASSET RETIREMENT OBLIGATION

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

The movement in ARO provision is as follows:

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

21 ACCOUNTS PAYABLE AND ACCRUALS

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

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

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

ii) Employees' end of service benefits

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

22 NET ASSETS PER SHARE

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

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

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

23 CONTINGENCIES

(a) Guarantees

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

(b) Claims

- i) For the Early Power , the EPC Contractor submitted to the Company a Claim totaling USD 69.1 million (RO 26.6 million) corresponding to an extension of time relating to delay in supply of gas and 220kV back-feed. The Company rejected this Claim, therefore the Claim was subsequently progressed through an Expert determination process, and in May 2014, the Expert made a decision that the EPC Contractor is not entitled to any relief, and therefore, the Company is entitled to retain the liquidated damages deducted for the entirety of the early power period. Consequently, in July 2014, the EPC Contractor raised the matter to the arbitration. During 2015, the EPC Contractor requested the suspension of the arbitration process and an amicable settlement was negotiated with a final settlement agreement being signed between the two parties in December 2015 with the arbitration proceedings then being terminated. As a result this matter is fully resolved as of 31 December 2015.
- ii) A second Claim for delays to Final Power (PCOD) was submitted by the EPC Contractor in September 2014, with the EPC Contractor requesting for a time extension. This Claim was subsequently revised by the Contractor and resubmitted in mid 2015, the amount claimed by the EPC Contractor was approximately US \$63M corresponding to an extension of time of 86 days relating mainly to the grid restriction during the commissioning and construction period. Following discussions between the EPC Contractor and the Company, the number of days in dispute has been reduced to 77 days. Although EPC Contractor is yet to issue a revised monetary value, the Company believes that corresponding claim amount will reduce. Currently, the Company continues to evaluate the Final Power dispute and subject to EPC Contractor's ability to demonstrate it is entitled to an extension of time, the Company remains of the view that the EPC Contractor was delayed in its own works. In case the result shows otherwise, the Company will in such case forward the Claim to OPWP and keep its neutral position. Accordingly management believes that no provision is required in the financial statement as at 31 December 2015.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

24 RELATED PARTY TRANSACTIONS

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

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

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

25 COMMITMENTS

(a) EPC and other project related commitments

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

(b) Other commitments

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

26 FINANCIAL RISK MANAGEMENT

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

Financial risk factors

(a) Interest rate risk

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

(b) Liquidity risk

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

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

26 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

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

(c) Currency risk

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

(d) Capital risk management

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

27 FAIR VALUE FINANCIAL INSTRUMENTS

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

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

28 COMPARATIVE FIGURES

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