

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2 Changes in significant accounting policies

For the year ended 31 December 2019 the Company has adopted all of the 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 years beginning on or after 1 January 2019.

- IFRS 16 Leases
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*
- Annual IFRS Improvement Process
 - IAS 12 Income Taxes - *Income tax consequences of payments on financial instruments classified as equity*
 - IAS 23 Borrowing Costs - *Borrowing costs eligible for capitalisation*

The above standards, other than IFRS 16, do not have any significant impact on the financial statements of the Company.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Accordingly, the comparatives are not restated.

Nature of effect of adoption of IFRS 16:

Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The Company recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. For the leases previously classified as operating leases, the lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Practical expedients:

The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2 Changes in significant accounting policies (continued)

IFRS 16 Leases (continued)

Impact on transition

As at 1 January 2019, the Company recorded right-of-use assets of US \$ 4.718 million (RO 1.814 million) and lease liabilities of US \$ 4.718 million (RO 1.814 million). When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate of 5% at 1 January 2019.

Reconciliation with operating lease commitments

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	2019 RO'000	2019 US\$'000
Assets		
Operating lease commitments as at 31 December 2018 (note 26 (b))	1,737	4,518
Weighted average incremental borrowing rate as at 1 January 2019	5%	5%
Discounted operating lease commitments as at 1 January 2019	1,219	3,170
Add:		
Lease payments relating to land lease renewal periods	595	1,547
Lease payments relating to connection fee	6,995	18,192
Lease liabilities as at 1 January 2019 (note 22)	8,809	22,909

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) and the requirements of the Commercial Companies Law of the Sultanate of Oman, as amended and the Capital Market Authority.

The new Commercial Companies Law promulgated by the Royal Decree No. 18/2019 (the Commercial Companies Law of the Sultanate of Oman) was issued on 13 February 2019 which has replaced the Commercial Companies Law of 1974. As per the articles of the Royal Decree No. 18/2019, the new Commercial Companies Law became effective on 17 April 2019 and the companies should comply with the new law within 1 year from 17 April 2019.

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.1 Basis of preparation *(continued)*

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

A number of new relevant standards, amendments to standards and interpretations are not yet effective for the year 2019 and have not been applied in preparing the financial statements. Those which may be relevant to the Company are set out below.

3.2 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts *(not applicable to the Company)*

Amendments to IFRS 3: Definition of a Business *(not applicable to the Company)*

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

Amendments to IFRS 9

Phase 1 Interest Rate Benchmark Reform (IBOR) Amendments to IFRS 9, IAS 39 and IFRS 7 were published by the IASB in September 2019, which includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. The Company is assessing the impact of Phase 1 IBOR amendments which are effective for annual periods beginning on or after 1 January 2020.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

3.3 IFRS 9 *Financial Instruments*

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

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

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

Initial recognition

Financial assets

Recognition and initial measurement

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 IFRS 9 *Financial Instruments (continued)*

Recognition and Initial measurement (continued)

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

Financial assets at amortised cost

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

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

Financial assets at fair value through other comprehensive income

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

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

Financial assets at fair value through profit or loss

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

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

Financial liabilities

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 IFRS 9 *Financial Instruments (continued)*

Recognition and initial measurement (continued)

Financial liabilities (continued)

- b) The liabilities are part of a Company of financial liabilities which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or
- c) The financial liability contains an embedded derivative that would otherwise need to be separately recorded.

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

Subsequent measurement and gain or losses

Financial assets

Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the profit or loss account. Any gain or loss on derecognition is recognised in the profit or loss account.

Financial assets at fair value through other comprehensive income

a) *Debt instruments*

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

b) *Equity instruments*

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

Financial assets at fair value through profit or loss

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 IFRS 9 *Financial Instruments (continued)*

Subsequent measurement and gain or losses *(continued)*

Financial liabilities

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

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

Reclassification

Financial assets

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

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

Financial liabilities

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

Modifications of financial assets and financial liabilities

Financial assets

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 IFRS 9 *Financial Instruments (continued)*

Modifications of financial assets and financial liabilities *(continued)*

Financial liabilities

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

Derecognition

Financial assets

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

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

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

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

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 IFRS 9 *Financial Instruments (continued)*

Derecognition (continued)

Financial liabilities

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

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

Offsetting

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

Impairment of financial asset

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

The Company recognizes loss allowances for ECLs on financial assets measured at amortized cost.

Measurement of loss allowances

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

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

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

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 IFRS 9 *Financial Instruments (continued)*

Measurement of loss allowances *(continued)*

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

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

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

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

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

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

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

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

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 IFRS 9 *Financial Instruments (continued)*

Measurement of loss allowances *(continued)*.

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

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

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

Financial assets that are credit-impaired at the reporting date

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

Presentation of expected credit losses

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

Write - off

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

Derivative financial instruments and hedging

The Company uses derivative financial instruments as trading investments to hedge its risks associated with interest rate, foreign currency, commodity price fluctuations and also to satisfy the requirements of its customers. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

- There is formal designation and written documentation at the inception of the hedge;
 - There is 'an economic relationship' between the hedged item and the hedging instrument;
 - The effect of credit risk does not 'dominate the value changes' that result from that economic relationship;
- and

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 IFRS 9 *Financial Instruments (continued)*

Derivative financial instruments and hedging *(continued)*.

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

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

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

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The documentation also includes the hedge ratio and potential sources of ineffectiveness.

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

Fair value hedge

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

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

Cash flow hedge

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 IFRS 9 *Financial Instruments (continued)*

Derivative financial instruments and hedging *(continued)*.

Cash flow hedge (continued)

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

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

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

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

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

3.4 Revenue

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 standard establishes a five step model to account for revenue arising from contracts with customers. The Company's contract with its sole customer contains a lease, which is scoped out of IFRS 15.

The Company recognises revenue from the following major sources

- Capacity charge
- Energy charge/variable charge

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.4 Revenue *(continued)*

Capacity charge

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

Variable charge

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

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

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

3.5 Borrowing costs

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

3.6 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 utilized.

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Property, plant and equipment

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

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

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

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

The estimated useful lives are as follows:

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

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

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

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

3.8 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.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 Foreign currencies

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

3.10 Dividend

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

3.11 Asset retirement obligation

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

3.12 Account payable and accruals

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

3.13 Provisions

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

3.14 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 FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.15 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a. Right of use assets

The Company recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

Lease costs for the year ended 31 December 2019 relating to the right-of-use assets amounting to US \$ 0.656 million (RO 0.252 million) are included under depreciation expenses.

b. Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. a change in future payments resulting from a change in index or rate used to determine such lease payments) or a change in the assessment to purchase the underlying asset.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.15 Leases *(continued)*

c. Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an

asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.16 Fair values

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

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

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

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

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

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

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.16 Fair values *(continued)*

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

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

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

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

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

3.17 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.

3.18 Capital spares

Cost of capital spares includes all expenditure directly attributable to the acquisition of capital spares. Capital spares are tested for impairment annually.

Spare parts are recorded as capital spares upon purchase and depreciated over the useful life of related plant and equipment when it is put in use.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.19 Critical accounting judgments and key sources of estimation uncertainty

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

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

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

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

a) Useful lives of property, plant and equipment

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

b) Asset retirement obligation

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

c) Impairment of plant spares

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

d) Deferred taxation

Deferred tax asset amounting to US\$ 39.05 million (2018: US\$ 39.37 million) has not been recognised in profit or loss relating to the carried forward losses amounting to US\$ 260.32 million (2018: US\$ 262.47 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 utilized against the taxable profits to be generated in future. The related details are set out in note 9.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

e) Significant judgement in determining the lease term of contracts with renewal and termination options – Company as lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or to terminate (e.g., a change in business strategy, construction of significant leasehold improvements or significant customization to the leased asset).

f) Leases – Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the fund necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit ratings).

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4 OPERATING REVENUE

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Capacity charges	65,620	170,663	65,723	170,931
Energy charges	67,338	175,132	68,870	179,116
	<u>132,958</u>	<u>345,795</u>	<u>134,593</u>	<u>350,047</u>

Information regarding the Company's operating segments is set out below in accordance with IFRS 8 - Operating segments. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Company operates in one business segment that of generation of power. No geographical analysis has been disclosed as 100% of the Company's revenue is from its only customer Oman Power and Water Procurement Company SAOC (OPWP) based in the Sultanate of Oman.

5 OPERATING COSTS

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Gas consumption	64,468	167,668	66,231	172,253
Depreciation (note 10 and 11)	16,129	41,947	15,908	41,372
Operation and maintenance cost (note 25)	8,930	23,224	7,843	20,398
Contractual services maintenance cost	6,136	15,958	7,096	18,454
Insurance	576	1,498	557	1,449
Connection and license fee	98	256	518	1,347
Other direct costs	378	983	547	1,422
	<u>96,715</u>	<u>251,534</u>	<u>98,700</u>	<u>256,695</u>

6 GENERAL AND ADMINISTRATIVE EXPENSES

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Staff costs and other benefits	585	1,522	609	1,583
Legal and professional charges	115	298	67	175
Office rent	38	98	38	98
Depreciation (note 10)	13	34	19	49
Other expenses	383	997	440	1,144
	<u>1,134</u>	<u>2,949</u>	<u>1,173</u>	<u>3,049</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

7 FINANCE COSTS (NET)

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Interest – term loans and swap settlements	16,422	42,709	17,772	46,222
Amortisation of deferred finance cost	969	2,519	1,047	2,724
Asset retirement obligation - unwinding of discount (note 20)	211	548	256	665
Interest expense for lease liabilities	415	1,080	-	-
Debt service commission	67	174	162	422
Exchange loss	110	285	(109)	(283)
Interest Income	(155)	(404)	(158)	(410)
	<u>18,039</u>	<u>46,911</u>	<u>18,970</u>	<u>49,340</u>

8 INCOME TAX

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Recognised in the statement of comprehensive income in the current year				
Deferred tax expense:				
Current year	<u>(2,561)</u>	<u>(6,661)</u>	<u>(2,830)</u>	<u>(7,360)</u>
	<u>(2,561)</u>	<u>(6,661)</u>	<u>(2,830)</u>	<u>(7,360)</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.

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Profit before tax	<u>17,070</u>	<u>44,401</u>	<u>15,750</u>	<u>40,963</u>
Income tax at the rate mentioned above	2,561	6,661	(2,362)	(6,143)
Deferred tax not recognised during the year	-	-	(468)	(1,217)
	<u>2,561</u>	<u>6,661</u>	<u>(2,830)</u>	<u>(7,360)</u>

As of 31 December 2019, the Company's tax assessments for the year 2011 to 2013 have been completed by the Omani taxation authorities. The Company's assessment for the tax years 2014 to 2018 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 2019.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

8 INCOME TAX (continued)

b) Deferred tax liability

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 2019				
Property, plant and equipment	(37,166)	(4,515)	-	(41,681)
Provision for asset retirement obligation (note 20)	805	(141)	-	664
Liabilities for Finance Lease	-	1,308	-	1,308
Losses carried forward	3,859	787	-	4,646
Fair value adjustment of derivatives through equity	2,933	-	1,896	4,829
Net deferred tax liability	<u>(29,569)</u>	<u>(2,561)</u>	<u>1,896</u>	<u>(30,234)</u>
//	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Property, plant and equipment	(96,660)	(11,743)	-	(108,403)
Provision for asset retirement obligation (note 20)	2,093	(367)	-	1,726
Liabilities for Finance Lease	-	3,401	-	3,401
Losses carried forward	10,037	2,048	-	12,085
Fair value adjustment of derivatives through equity	7,627	-	4,930	12,557
Net deferred tax liability	<u>(76,903)</u>	<u>(6,661)</u>	<u>4,930</u>	<u>(78,634)</u>
31 December 2018	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Property, plant and equipment	(32,835)	(4,332)	-	(37,167)
Provision for asset retirement obligation (note 20)	767	38	-	805
Losses carried forward	2,396	1,464	-	3,860
Fair value adjustment of derivatives through equity	4,061	-	(1,128)	2,933
Net deferred tax liability	<u>(25,611)</u>	<u>(2,830)</u>	<u>(1,128)</u>	<u>(29,569)</u>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Property, plant and equipment	(85,395)	(11,265)	-	(96,660)
Provision for asset retirement obligation (note 20)	1,993	100	-	2,093
Losses carried forward	6,232	3,805	-	10,037
Fair value adjustment of derivatives through equity	10,561	-	(2,934)	7,627
Net deferred tax liability	<u>(66,609)</u>	<u>(7,360)</u>	<u>(2,934)</u>	<u>(76,903)</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

9 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.

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Profit attributable to ordinary shareholders of the Company for basic earnings per share	<u>14,509</u>	<u>37,740</u>	<u>12,920</u>	<u>33,603</u>
Weighted average number of shares (in 000's)	1,462,601	1,462,601	1,462,601	1,462,601
Basic earnings per share	<u>0.010</u>	<u>0.03</u>	<u>0.009</u>	<u>0.02</u>

10 PROPERTY, PLANT AND EQUIPMENT

	<i>Plant building</i> RO'000	<i>Plant and equipment</i> RO'000	<i>Strategic spares</i> RO'000	<i>Asset retirement</i> RO'000	<i>Other assets</i> RO'000	<i>Total</i> RO'000
Cost						
At 1 January 2019	83,876	518,087	10,809	4,401	251	617,424
Disposal	-	-	-	-	(5)	(5)
Change in estimate	-	-	-	(1,152)	-	(1,152)
At 31 December 2019	<u>83,876</u>	<u>518,087</u>	<u>10,809</u>	<u>3,249</u>	<u>246</u>	<u>616,267</u>
Accumulated depreciation						
At 1 January 2019	8,509	52,550	2,926	446	183	64,614
Charge for the year	2,097	12,952	721	90	30	15,890
Related to disposal	-	-	-	-	(2)	(2)
At 31 December 2019	<u>10,606</u>	<u>65,502</u>	<u>3,647</u>	<u>536</u>	<u>211</u>	<u>80,502</u>
Net book value						
At 31 December 2019	<u>73,270</u>	<u>452,585</u>	<u>7,162</u>	<u>2,713</u>	<u>35</u>	<u>535,765</u>

	<i>Plant building</i> RO'000	<i>Plant and equipment</i> RO'000	<i>Strategic spares</i> RO'000	<i>Asset retirement</i> RO'000	<i>Other assets</i> RO'000	<i>Total</i> RO'000
Cost						
At 1 January 2018	83,876	518,087	10,809	4,401	226	617,399
Additions	-	-	-	-	25	25
At 31 December 2018	<u>83,876</u>	<u>518,087</u>	<u>10,809</u>	<u>4,401</u>	<u>251</u>	<u>617,424</u>
Accumulated depreciation						
At 1 January 2018	6,412	39,598	2,205	336	136	48,687
Charge for the year	2,097	12,952	721	110	47	15,927
At 31 December 2018	<u>8,509</u>	<u>52,550</u>	<u>2,926</u>	<u>446</u>	<u>183</u>	<u>64,614</u>
Net book value						
At 31 December 2018	<u>75,367</u>	<u>465,537</u>	<u>7,883</u>	<u>3,955</u>	<u>68</u>	<u>552,810</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10 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 2019	218,142	1,347,432	28,113	11,445	651	1,605,783
Disposal	-	-	-	-	(14)	(14)
Change in estimate	-	-	-	(2,995)	-	(2,995)
At 31 December 2019	<u>218,142</u>	<u>1,347,432</u>	<u>28,113</u>	<u>8,450</u>	<u>637</u>	<u>1,602,774</u>
Accumulated depreciation						
At 1 January 2019	22,128	136,675	7,605	1,161	474	168,043
Charge for the year	5,453	33,686	1,874	235	77	41,325
Related to disposal	-	-	-	-	(4)	(4)
At 31 December 2019	<u>27,581</u>	<u>170,361</u>	<u>9,479</u>	<u>1,396</u>	<u>547</u>	<u>209,364</u>
Net book value						
At 31 December 2019	<u>190,561</u>	<u>1,177,071</u>	<u>18,634</u>	<u>7,054</u>	<u>90</u>	<u>1,393,410</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
At 1 January 2018	218,142	1,347,432	28,113	11,445	586	1,605,718
Additional	-	-	-	-	65	65
At 31 December 2018	<u>218,142</u>	<u>1,347,432</u>	<u>28,113</u>	<u>11,445</u>	<u>651</u>	<u>1,605,783</u>
Accumulated depreciation						
At 1 January 2018	16,674	102,989	5,731	875	353	126,622
Charge for the year	5,454	33,686	1,874	286	121	41,421
At 31 December 2018	<u>22,128</u>	<u>136,675</u>	<u>7,605</u>	<u>1,161</u>	<u>474</u>	<u>168,043</u>
Net book value						
At 31 December 2018	<u>196,014</u>	<u>1,210,757</u>	<u>20,508</u>	<u>10,284</u>	<u>177</u>	<u>1,437,740</u>

During the year the company has reassessed the estimate of asset retirement and the provision has decreased by US \$ 2.995 million (RO 1.152 million) and the asset retirement asset has decrease correspondingly.

The term loan facilities are secured by a comprehensive legal and commercial mortgage on all assets of the Company (note 18)

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11 RIGHT-OF-USE ASSETS

The Company has adopted IFRS 16 'Leases' from 1 January 2019. In line with IFRS 16 requirement, the Company recognized right of use assets. The Company has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard and therefore comparative information has not been presented.

The Company has lease contracts for land lease under the Sub-Usufruct Agreement and Connection fee for the transmission through the system to the connection point under the Electrical Connection Agreement.

Cost	<i>Land lease RO'000</i>	<i>Connection Fee RO'000</i>	<i>Total RO'000</i>
At 1 January 2019	<u>1,814</u>	<u>6,995</u>	<u>8,809</u>
At 31 December 2019	<u>1,814</u>	<u>6,995</u>	<u>8,809</u>
Accumulated depreciation			
At 1 January 2019	-	-	-
Charge for the year	<u>52</u>	<u>200</u>	<u>252</u>
At 31 December 2019	<u>52</u>	<u>200</u>	<u>252</u>
Net book value			
At 31 December 2019	<u>1,762</u>	<u>6,795</u>	<u>8,557</u>
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>

Cost	<i>Land lease US\$'000</i>	<i>Connection Fee US\$'000</i>	<i>Total US\$'000</i>
At 1 January 2019	<u>4,718</u>	<u>18,193</u>	<u>22,911</u>
At 31 December 2019	<u>4,718</u>	<u>18,193</u>	<u>22,911</u>
Accumulated depreciation			
At 1 January 2019	-	-	-
Charge for the year	<u>135</u>	<u>521</u>	<u>656</u>
At 31 December 2019	<u>135</u>	<u>521</u>	<u>656</u>
Net book value			
At 31 December 2019	<u>4,583</u>	<u>17,672</u>	<u>22,255</u>
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12 TRADE AND OTHER RECEIVABLES

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Trade receivables	53,632	139,485	6,919	17,995
Prepayments	266	692	68	178
Other receivables	21	55	424	1,104
	<u>53,919</u>	<u>140,232</u>	<u>7,411</u>	<u>19,277</u>

Trade receivables includes an amount of USD 132.45 million (RO 50.92 million) relating to Fuel component, from May 2019 to December 2019, not received from OPWP. Pursuant to the Natural Gas Sales Agreement signed with Ministry of Oil and Gas (MOG), the Company has accordingly not settled the corresponding Fuel payments to MOG as the Company is liable to pay to MOG only on receipt of the corresponding PPA payment relating to gas portion from OPWP (note 21 a). The impairment provision is assessed based on the "Expected Credit Loss" model under IFRS 9, which is considered to be immaterial.

13 INVENTORIES

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Fuel oil inventory	5,381	13,995	5,555	14,447
Maintenance spares	3,659	9,518	3,206	8,339
	<u>9,040</u>	<u>23,513</u>	<u>8,761</u>	<u>22,786</u>

14 BANK BALANCES

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Bank balances	7,530	19,585	13,769	35,810
	<u>7,530</u>	<u>19,585</u>	<u>13,769</u>	<u>35,810</u>

Bank balances and deposit accounts are placed with reputed financial institutions. Hence, management believes that the credit risk with respect to these balances is immaterial.

15 SHARE CAPITAL

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Authorised, issued and fully paid up share capital of 1,462,601,460 shares (2018 – 1,462,601,460 shares)	<u>146,260</u>	<u>380,390</u>	<u>146,260</u>	<u>380,390</u>

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 FOR THE YEAR ENDED 31 DECEMBER 2019

17 DIVIDEND PAID, PAYABLE AND PROPOSED

Pursuant to shareholders' resolution dated 19 March 2019, the Board of Directors in their meetings held on 24 April 2019 and 30 October 2019 announced cash dividend of 2.15 baizas per share and 2.0 baizas per share, respectively for the year ended 31 December 2018. Accordingly dividend amounting to US\$ 8.178 million (RO 3.144 million) was paid in July 2019 and US\$ 7.608 million (RO 2.925 million) is payable as of 31 December 2019 which was paid subsequently in January 2020.

Subject to approval of the shareholders at the Annual General Meeting ("AGM"), the Board of Directors in their meeting held on 25 February 2020 proposed a cash dividend to the shareholders of the Company which will be paid in July 2020 and January 2021 for the year ended 31 December 2019, provided that the aggregate amount of such dividend shall not exceed 4.15 baizas per share of the paid up share capital of the Company as of 31 December 2019.

18 INTEREST BEARING LOANS AND BORROWINGS

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Secured term loan from commercial banks	91,075	236,867	99,256	258,142
Secured term loan from Japan Bank for International Cooperation	173,871	452,200	189,488	492,816
Secured term loan under NEXI facilities	45,537	118,433	49,628	129,071
	<u>310,483</u>	<u>807,500</u>	<u>338,372</u>	<u>880,029</u>
Less : Deferred finance costs	(4,484)	(11,663)	(5,453)	(14,182)
	<u>305,999</u>	<u>795,837</u>	<u>332,919</u>	<u>865,847</u>
Less : Current portion of loans	(29,367)	(76,376)	(27,888)	(72,530)
Non-current portion of loans	<u>276,632</u>	<u>719,461</u>	<u>305,031</u>	<u>793,317</u>

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

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Gross loan as at 1 January	338,372	880,029	364,441	947,829
Paid during the year	(27,889)	(72,529)	(26,069)	(67,800)
Gross loan as at 31 December	<u>310,483</u>	<u>807,500</u>	<u>338,372</u>	<u>880,029</u>

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 above facilities are secured by comprehensive legal and commercial mortgages on all the assets, etc. of the Company. 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. The Company is in compliance with the covenants (note 10).

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Cumulative changes in fair value:				
Interest rate swap agreements	23,683	61,595	12,632	32,852
Forward foreign exchange contracts	8,506	22,123	6,919	17,995
Fair value of derivatives	<u>32,189</u>	<u>83,718</u>	<u>19,551</u>	<u>50,847</u>
Less : Income tax effect (note 8)	<u>(4,829)</u>	<u>(12,558)</u>	<u>(2,933)</u>	<u>(7,627)</u>
	<u>27,360</u>	<u>71,160</u>	<u>16,618</u>	<u>43,219</u>

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

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Non-current portion	27,001	70,224	15,838	41,191
Current portion	5,188	13,494	3,713	9,656
	<u>32,189</u>	<u>83,718</u>	<u>19,551</u>	<u>50,847</u>

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 2019, an unrealised loss of US \$ 61.595 million (RO 23.683 million) (2018: US \$ 32.852 million) (RO 12.632 million) relating to measuring the financial instrument at fair value is included in equity in respect of these contracts.

The following table 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.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

31 December 2019

	<i>Fair value of derivatives RO'000</i>	<i>Notional amounts by term to maturity</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>
Interest rate swaps	<u>23,683</u>	<u>294,918</u>	<u>27,895</u>	<u>124,846</u>	<u>142,177</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Interest rate swaps	<u>61,595</u>	<u>767,018</u>	<u>72,549</u>	<u>324,697</u>	<u>369,772</u>

31 December 2018

	<i>Fair value of derivatives RO'000</i>	<i>Notional amounts by term to maturity</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>
Interest rate swaps	<u>12,632</u>	<u>321,407</u>	<u>26,489</u>	<u>118,450</u>	<u>176,468</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Interest rate swaps	<u>32,852</u>	<u>835,910</u>	<u>68,892</u>	<u>308,063</u>	<u>458,955</u>

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 2019, an unrealised loss of US \$ 22.123 million (RO 8.506 million) ((2018: US \$ 17.995 million (RO 6.919 million)) relating to measuring the financial instrument at fair value is included in equity in respect of these contracts.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

19 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Forward foreign exchange contracts (continued)

The related details are set out below:

31 December 2019

	<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>
Forward foreign exchange contracts	<u>8,506</u>	<u>52,716</u>	<u>5,870</u>	<u>23,441</u>	<u>23,406</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Forward foreign exchange contracts	<u>22,123</u>	<u>137,104</u>	<u>15,267</u>	<u>60,964</u>	<u>60,873</u>

31 December 2018

	<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>
Forward foreign exchange contracts	<u>6,919</u>	<u>58,567</u>	<u>5,851</u>	<u>23,441</u>	<u>29,276</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Forward foreign exchange contracts	<u>17,995</u>	<u>152,321</u>	<u>15,216</u>	<u>60,964</u>	<u>76,141</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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. During the year the Company has reassessed the estimate of ARO and the provision has decreased by US \$ 2.995 million (RO 1.152 million) and the Asset retirement asset has decrease correspondingly Note (11).

The movement in ARO provision is as follows:

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
As at 1 January	5,364	13,951	5,108	13,286
Change in estimate	(1,152)	(2,995)	-	-
Unwinding of discount (note 7)	211	548	256	665
As at 31 December	<u>4,423</u>	<u>11,504</u>	<u>5,364</u>	<u>13,951</u>

21 ACCOUNTS PAYABLE AND ACCRUALS

(a) Accounts payable and accruals

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Trade accounts payable	46,664	121,362	5,666	14,737
Amounts due to related parties (note 25)	2,700	7,023	2,530	6,581
Accrued expenses	6,142	15,976	7,680	19,978
	<u>55,506</u>	<u>144,361</u>	<u>15,876</u>	<u>41,296</u>

(b) Employees' end of service benefits

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
As at 1 January	68	177	74	192
Charge for the year	13	33	21	55
Paid during the year	(26)	(68)	(27)	(70)
As at 31 December	<u>55</u>	<u>142</u>	<u>68</u>	<u>177</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

22 LEASE LIABILITIES

On adoption of IFRS 16, the Company recognised lease liabilities in relation to lease of land which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Land	1,795	4,669	-	-
Connection fee	6,922	18,003	-	-
As at 31 December	<u>8,717</u>	<u>22,672</u>	<u>-</u>	<u>-</u>

The movement of Right-of-use assets during the year is as follows;

	2019 RO'000	2019 US\$'000
At 1 January	8,809	22,911
Depreciation during the year (note 11)	(252)	(656)
At 31 December	<u>8,557</u>	<u>22,255</u>

Movement of lease liability recognised in the current year is as follows;

	2019 RO'000	2019 US\$'000
At 1 January (note 2)	8,809	22,911
Interest on finance lease (note 7)	415	1,080
Payments during the year	(507)	(1,319)
At 31 December	<u>8,717</u>	<u>22,672</u>

	2019 RO'000	2019 US\$'000
Non-current lease liabilities	8,210	21,353
Current lease liabilities	507	1,319
	<u>8,717</u>	<u>22,672</u>

The following are the amounts recognised in the statement of comprehensive income;

	2019 RO'000	2019 US\$'000
Depreciation of right-of-use assets (note 11)	252	656
Interest on finance lease (note 7)	415	1,080
	<u>667</u>	<u>1,736</u>

For leases where the Company is lessor, please refer note 26.

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

23 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:

	2019	2019	2018	2018
Net assets (RO '000s/US\$'000s)	177,081	460,553	179,384	466,539
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 '000s/US\$'000s)	0.121	0.315	0.123	0.319

24 CONTINGENCIES

At 31 December 2019, 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 [2018 : US\$ nil (RO nil)].

25 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	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Other related party - Phoenix Operation and Maintenance Company LLC	2,700	7,023	2,530	6,581
Statement of comprehensive income transactions				
Consulting Service fee charged:				
Axia Power Holdings	41	107	41	107
JERA Co. Inc.	25	64	25	64
Others	16	43	16	43
	<u>82</u>	<u>214</u>	<u>82</u>	<u>214</u>
Operation and maintenance costs:				
Phoenix Operation and Maintenance Company LLC ("POMCO") (note 5)	8,930	23,224	7,843	20,398
	<u>8,930</u>	<u>23,224</u>	<u>7,843</u>	<u>20,398</u>

PHOENIX POWER COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

25 RELATED PARTY TRANSACTIONS *(continued)*

Statement of comprehensive income transactions *(continued)*

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Key management compensation:				
Short term benefits	256	667	252	656
End of service benefits	11	29	14	37
	<u>267</u>	<u>696</u>	<u>266</u>	<u>693</u>

26 COMMITMENTS

(a) Operation and maintenance (O&M) 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:

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Within one year	1,730	4,500	1,730	4,500
Between two and five years	6,921	18,000	6,921	18,000
After five years	7,348	19,110	9,078	23,610
	<u>15,999</u>	<u>41,610</u>	<u>17,729</u>	<u>46,110</u>

(b) Land lease commitments

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

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Within one year	-	-	105	272
Between two and five years	-	-	418	1,087
After five years	-	-	1,214	3,159
	<u>-</u>	<u>-</u>	<u>1,737</u>	<u>4,518</u>

Refer to note 2 IFRS 16 Leases for the impact on transition.

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 FOR THE YEAR ENDED 31 DECEMBER 2019

26 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:

	2019 RO'000	2019 US\$'000	2018 RO'000	2018 US\$'000
Within one year	65,511	170,380	65,438	170,331
Between two and five years	261,797	680,876	261,797	680,876
After five years	269,221	700,185	334,732	870,565
	<u>596,529</u>	<u>1,551,441</u>	<u>661,967</u>	<u>1,721,772</u>

27 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 FOR THE YEAR ENDED 31 DECEMBER 2019

27 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 2019.

	<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>
2019					
Trade and other accounts payable	52,861	-	-	-	52,861
Amounts due to related parties	2,700	-	-	-	2,700
Interest bearing loans and borrowings	-	44,377	176,299	166,605	387,281
Lease Liabilities	507	-	2,029	15,192	17,728
	56,068	44,377	178,328	181,797	460,570
	<i>Less than 3months 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>
2018					
Trade and other accounts payable	13,415	-	-	-	13,415
Amounts due to related parties	2,530	-	-	-	2,530
Interest bearing loans and borrowings	-	44,250	175,798	211,483	431,531
	15,945	44,250	175,798	211,483	447,476
	<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>
2019					
Trade and other accounts payable	137,480	-	-	-	137,480
Amounts due to related parties	7,023	-	-	-	7,023
Interest bearing loans and borrowings	-	115,415	458,516	433,302	1,007,233
Lease Liabilities	1,319	-	5,278	39,510	46,107
	145,822	115,415	463,794	472,812	1,197,843
	<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>
2018					
Trade and other accounts payable	34,890	-	-	-	34,890
Amounts due to related parties	6,581	-	-	-	6,581
Interest bearing loans and borrowings	-	115,084	457,212	550,021	1,122,317
	41,471	115,084	457,212	550,021	1,163,788

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

27 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 2019 amounted to US\$ 26.5 thousands (RO 10.19 thousands) [(2018: US\$ 22.4 thousands (RO 8.6 thousands)]. Should the exchange rate between Euro and RO fluctuate by \pm 5%, the impact on the Company's results will be US\$ 1.3 thousands (RO 0.5 thousands) [2018: US\$ 1 thousands (RO 0.4 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 2019.

28 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.

There were no transfers between level 1 and level 2 during the year.

Measurement of fair values

<i>Type</i>	<i>Valuation technique</i>	<i>Significant un-observed inputs</i>
Derivative instrument (level 2)	Market comparison technique: fair value is calculated by the respective financial institutions	Not applicable
Other financial liabilities (level 2)	Discounted cash flows	Not applicable

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

28 FAIR VALUE FINANCIAL INSTRUMENTS *(continued)*

Embedded derivatives

The following agreements contain embedded derivatives:

- (i) The PPA between the Company and OPWP contains embedded derivatives in the pricing formulae that adjusts the charge rates to reflect changes in USD / RO currency exchange rates and changes in US price index and the Oman price index.
- (ii) The O&M Agreement contains embedded derivatives in the pricing formulae that adjust the payments to reflect changes in relevant inflation indices.
- (iii) The LTSA between the Company and Siemens Aktiengesellschaft contains embedded derivatives in pricing the fixed monthly fee and variable monthly fee for provision of long term maintenance services. Percentages of the fixed monthly fee and variable monthly fee will be adjusted to reflect changes in Euro Material and Labour and Oman price indices.

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

Capital management

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

29 COMPARATIVE FIGURES

The corresponding figures for the previous year have been reclassified in order to conform to the presentation for the current year. Such reclassifications do not affect previously reported profit or shareholders' equity.