

**SHARQIYAH DESALINATION COMPANY SAOG**

**UNAUDITED INTERIM FINANCIAL STATEMENTS**

**30 SEPTEMBER 2016**

**Registered office:**

P. O. Box 685  
Postal Code 114, Jibroo  
Sultanate of Oman

**Principal place of business:**

Sur  
Sharqiyah Region  
Sultanate of Oman

# SHARQIYAH DESALINATION COMPANY SAOG

## Unaudited interim financial statements

30 September 2016

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**SHARQIYAH DESALINATION COMPANY SAOG**  
**Unaudited interim statement of financial position**  
*as at 30 September*

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	Notes	Unaudited 30 September 2016 RO	Unaudited 30 September 2015 RO	Audited 31 December 2015 RO
<b>Assets</b>				
Property, plant and equipment	9	74,619	93,360	90,484
Finance asset receivable	10	46,127,625	49,461,925	48,665,623
Deferred tax asset	18	1,130,689	1,017,906	834,868
Plant Expansion- Work in Progress		34,992,195	23,923,408	29,721,672
<b>Total non-current assets</b>		<b>82,325,128</b>	<b>74,496,599</b>	<b>79,312,647</b>
Trade and other receivables	11	2,040,234	1,303,451	1,360,081
Amount due from related parties	20	126,283	54,491	21,367
Cash in hand and at bank	12	2,140,565	758,526	2,323,661
<b>Total current assets</b>		<b>4,307,082</b>	<b>2,116,468</b>	<b>3,705,109</b>
<b>Total assets</b>		<b>86,632,210</b>	<b>76,613,067</b>	<b>83,017,756</b>
<b>Equity and liabilities</b>				
Share capital	13	9,780,216	9,780,216	9,780,216
Legal reserve	13	1,967,508	1,888,830	1,928,344
Retained earnings		5,857,150	5,149,053	5,504,677
Hedging deficit	14	(8,291,718)	(7,464,646)	(6,122,362)
<b>Total equity</b>		<b>9,313,156</b>	<b>9,353,453</b>	<b>11,090,875</b>
<b>Liabilities:</b>				
Hedging deficit	14	9,422,407	8,482,552	6,957,230
Long term loan (non-current portion)	15	60,204,703	54,555,036	60,524,086
Deferred swap income	16	-	222,088	-
<b>Total non-current liabilities</b>		<b>69,627,110</b>	<b>63,259,676</b>	<b>67,481,316</b>
Trade and other payables	17	1,557,761	1,462,864	329,079
Long term loan (current portion)	15	3,801,998	-	-
Amount due to related parties	20	711,488	819,749	2,379,244
Deferred swap income	16	-	34,326	-
Deferred tax liability	18	1,536,123	1,567,441	1,571,375
Tax payable	18	84,574	115,558	165,867
<b>Total current liabilities</b>		<b>7,691,944</b>	<b>3,999,938</b>	<b>4,445,565</b>
<b>Total liabilities</b>		<b>77,319,054</b>	<b>67,259,614</b>	<b>71,926,881</b>
<b>Total equity and liabilities</b>		<b>86,632,210</b>	<b>76,613,067</b>	<b>83,017,756</b>
Net asset value per share	22	0.952	0.956	1.134

The unaudited interim financial statements were approved and authorized for issue by the Board of Directors on 27 October 2016 and signed on their behalf by:

Chairman

Chief Financial Officer

The notes on pages 6 to 25 form an integral part of these interim financial statements.  
The review report of the Auditors is set forth on page 1.

# SHARQIYAH DESALINATION COMPANY SAOG

## Unaudited interim statement of profit or losses and comprehensive income

for the period ended 30 September

		Unaudited 3 months ended 30 September 2016 RO	Unaudited 3 months ended 30 September 2015 RO	Unaudited 9 months ended 30 September 2016 RO	Unaudited 9 months ended 30 September 2015 RO
Revenue	5	2,551,398	2,520,230	7,288,648	7,594,429
Cost of sales	6	(1,268,877)	(1,325,577)	(3,985,699)	(4,010,770)
<b>Gross profit</b>		<b>1,282,521</b>	<b>1,194,653</b>	<b>3,302,949</b>	<b>3,583,659</b>
Other Income		(69)	740	9,847	-
		<b>1,282,452</b>	<b>1,195,393</b>	<b>3,312,796</b>	<b>3,583,659</b>
Administrative and general expenses	7	(124,734)	(204,116)	(329,230)	(490,133)
Finance charges – net	8	(855,257)	(610,334)	(2,542,608)	(1,819,960)
<b>Profit before tax</b>		<b>302,461</b>	<b>380,943</b>	<b>440,958</b>	<b>1,273,566</b>
Taxation	18	(36,364)	(45,795)	(49,321)	(151,952)
<b>Profit for the period</b>		<b>266,097</b>	<b>335,148</b>	<b>391,637</b>	<b>1,121,614</b>
<b>Basic Earnings per share</b>	23	<b>0.027</b>	<b>0.034</b>	<b>0.040</b>	<b>0.115</b>
<b>Other comprehensive income / (loss):</b>					
Fair value adjustment	14	733,453	(1,979,776)	(2,465,177)	(1,485,137)
Deferred tax on fair value adjustment	18	(88,014)	237,573	295,821	178,216
<b>Total comprehensive income / (loss) for the period</b>		<b>911,536</b>	<b>(1,407,055)</b>	<b>(1,777,719)</b>	<b>(185,307)</b>

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# SHARQIYAH DESALINATION COMPANY SAOG

## Unaudited interim statement of changes in equity

for the period ended 30 September

	Share capital RO	Legal reserve RO	Retained earnings RO	Hedging deficit RO	Total RO
1 January 2015	9,780,216	1,776,669	4,726,413	(6,157,725)	10,125,573
<i>Transactions with shareholders, recorded directly in equity</i>					
Transfer to legal reserve	-	151,675	(151,675)	-	-
Dividend Paid	-	-	(586,813)	-	(586,813)
<i>Other comprehensive income</i>					
Fair value adjustment	-	-	-	40,185	40,185
Deferred tax	-	-	-	(4,822)	(4,822)
<i>Net profit for the year</i>	-	-	1,516,752	-	1,516,752
31 December 2015	<u>9,780,216</u>	<u>1,928,344</u>	<u>5,504,677</u>	<u>(6,122,362)</u>	<u>11,090,875</u>
1 January 2016	9,780,216	1,928,344	5,504,677	(6,122,362)	11,090,875
<i>Transactions with shareholders, recorded directly in equity</i>					
Transfer to legal reserve	-	39,164	(39,164)	-	-
<i>Other comprehensive income</i>					
Fair value adjustment	-	-	-	(2,465,177)	(2,465,177)
Deferred tax	-	-	-	295,821	295,821
<i>Net profit for the period</i>	-	-	391,637	-	391,637
30 September 2016	<u>9,780,216</u>	<u>1,967,508</u>	<u>5,857,150</u>	<u>(8,291,718)</u>	<u>9,313,156</u>

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# SHARQIYAH DESALINATION COMPANY SAOG

## Unaudited interim statement of cash flows

for the period ended 30 September

PARTICULARS	Unaudited 30 September 2016 RO	Unaudited 30 September 2015 RO
<b>OPERATING ACTIVITIES</b>		
Profit before income tax	440,958	1,273,566
<b>Adjustments for:</b>		
Amortization	2,537,998	2,199,231
Depreciation	15,866	14,253
Net changes in accruals	494,700	118,695
Fair value gain / loss	(1,371)	-
Deferred swap income	-	(27,352)
Finance costs	2,542,608	1,819,960
	<hr/>	<hr/>
<b>Operating profit before working capital changes</b>	<b>6,030,759</b>	<b>5,398,353</b>
<b>Working capital changes:</b>		
Trade and other receivables	(680,153)	985,969
Trade and other payables	(57,855)	616,689
Due from related parties	(104,916)	(49,463)
Due to related parties	(883,692)	289,900
	<hr/>	<hr/>
<b>Cash from operations</b>	<b>4,304,143</b>	<b>7,241,448</b>
Finance costs paid	(1,697,715)	(1,357,843)
Tax refund received	-	123,044
Tax paid	(165,867)	(311,080)
	<hr/>	<hr/>
<b>Net cash from operating activities</b>	<b>2,440,561</b>	<b>5,695,569</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	-	(17,311)
Plant expansion	(5,270,523)	(21,573,262)
Trade and other payables (Expansion WIP)	(51,685)	(502,747)
Due to related parties (Expansion WIP)	(784,064)	(404,355)
	<hr/>	<hr/>
<b>Net cash (used in) investing activities</b>	<b>(6,106,272)</b>	<b>(22,497,675)</b>
<b>FINANCING ACTIVITIES</b>		
Draw-down from lenders	3,482,615	13,453,283
Dividend paid	-	(586,813)
	<hr/>	<hr/>
<b>Net cash generated from financing activities</b>	<b>3,482,615</b>	<b>12,866,470</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		
	<b>(183,096)</b>	<b>(3,935,636)</b>
Cash and cash equivalents at 1 January	2,323,661	4,694,162
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>2,140,565</b>	<b>758,526</b>
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The review report of the Auditors is set forth on page 1.

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 1 Legal status and principal activities

Sharqiyah Desalination Company SAOG ("the Company") was registered and incorporated as a closed joint stock company in the Sultanate of Oman on 14 January 2007. The Company has been established to acquire, operate and maintain an existing water desalination plant of 2.66 million imperial gallons per day ("MIGD") capacity at Sur and to build, operate and maintain a new 17.66 Million MIGD capacity water desalination plant at Sur in the Sharqiyah region, Sultanate of Oman.

During 2009 Veolia Eau Compagnie Generale des Eaux has transferred ownership of its water and waste water activities and interests in the Middle East and North Africa to a company incorporated in France, Azaliya SAS. Subsequently, Azaliya SAS owns 55% of the Company's share capital. During 2013 Azaliya SAS has changed its name from Azaliya SAS to Veolia Water Middle East SAS. During 2015, Veolia Water Middle East SAS renamed to Veolia Middle East SAS.

On June 2013, the shareholders offered 35% of the Company shares to the public through an initial public offering ("IPO") on Muscat Security Market. Subsequent to the IPO, the Company became a listed public joint stock company ("SAOG").

### 2 Significant agreements

The Company has entered into the following significant agreements:

(i) *Water Purchase Agreement ("WPA") dated 17 January 2007*

The WPA is between the Company and the Ministry of Housing, Electricity and Water (MHEW) (now the PAEW – see (iii) below). The WPA commences from its Effective Date which is 17 January 2007.

The key elements of the WPA are as follows:

- The Company will make available and sell to PAEW a guaranteed water capacity;
- The Company's consideration for the above supply consists of a water capacity charge and water output charge which are fixed under Schedule (B) of the WPA;
- The plant capacity is determined by an annual performance test to be conducted by the Company under the supervision of PAEW;
- Invoices will be raised by the Company on a monthly basis which are due for payment within 25 days;
- The Company shall pay to PAEW liquidated damages of RO 15,000 for each day by which the provisional commercial operation date occurs after the scheduled commercial operation date of 11 January 2009;
- PAEW have confirmed the Commercial Operation Date (COD) as being 8 October 2009 and the Term of the contract shall expire on 7 October 2029.

(ii) *Amended & Restated Water Purchase Agreement dated 10 July 2014*

The Amended & Restated WPA is between the Company and Oman Power and Water Procurement Company SAOC ("OPWP"). The amended agreement will facilitate plant expansion. Post plant expansion the combined capacity of the plant should increase from 17.66 MIGD to 29 MIGD. The term of the amended & restated WPA will be extended by 20 years starting from Commercial Operation Date ("COD") of the new plant. All Terms and conditions of WPA dated 17 January 2007 still applied.

## SHARQIYAH DESALINATION COMPANY SAOG

### Notes to the unaudited interim financial statements

for the period ended 30 September 2016

#### 2 Significant agreements (continued)

##### (iii) Novation Agreement dated 25 December 2014

A Novation agreement was signed and executed between the Company, PAEW and OPWP on 25 December 2014. As per Novation Agreement the parties have consented to and acknowledged that, with effect from 25 December 2014, PAEW transferred its rights, title and interest and novated all of its duties, obligations, liabilities and responsibilities under WPA to OPWP. Going forward, the Company will continue to have one customer, OPWP.

##### (iv) Engineering, Procurement and Construction (EPC) contract dated 17 May 2007

The above agreement was entered into with the consortium of OTV SA, Bahwan Engineering Company LLC and OTV SA & Partners LLC for constructing the Water Desalination Plant at Sur in the Sharqiyah region of the Sultanate of Oman for a total value of RO 58.45 million. The Construction work was completed during the year ended December 2009.

##### (v) Limited Notice to Proceed (LNTP) letter dated 10 July 2014

The LNTP was entered into with OTV SA & Partners LLC and SIDEM S.A. for procurement of long lead items, advance engineering, surveys and civil engineering works for the proposed Engineering, Procurement and Construction Contract in respect of the Sur Independent Water Expansion Project. The total price of LNTP will be RO 1.29 million.

##### (vi) Engineering, Procurement and Construction (EPC) contract dated 23 March 2015

The above agreement was entered into with OTV SA & Partner LLC and Societe Internationale Dessalement ("SIDEM") for a total value of RO 28.75 million to facilitate expansion of the Company's desalination facilities at Sur in the Sharqiyah region of the Sultanate of Oman.

##### (vii) Usufruct agreement dated 17 January 2007

The above agreement was entered into with the PAEW for a grant of usufruct rights in respect of use of land for 25 years, with the option of an extension for a further period of 25 years.

##### (viii) Amendment to the usufruct agreement dated 25 December 2014

Certain provisions of the Original Site Usufruct Agreement to permit expansion were amended. The initial term of 25 years now stands extended to 31 years from the WPA effective date.

##### (ix) Operation and Maintenance (O&M) contract dated 15 May 2007

The O&M contract, which runs for 22 years from 17 January 2007, was entered into by the Company with Bahwan Veolia Water LLC ("BVW"), a related party, a company registered in the Sultanate of Oman, for operation and maintenance of the existing and new plant. Under the O&M contract:

- BVW shall be responsible for maintaining the existing and new plant;
- BVW shall, on behalf of the Company, carry out the Company's obligations with respect to the annual performance test in accordance with the requirements of the WPA;
- BVW's consideration for the services under the O&M Contract is fixed under Appendix (F) of the O&M contract;
- Invoices will be raised by BVW on a monthly basis within 10 days of each month; and
- BVW has commenced operation of the New Plant from the COD – 8 October 2009 and the O&M contract shall expire on 7 October 2029.



# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 2 Significant agreements (continued)

- (x) *Amendment agreement to original Operation and Maintenance (O&M) contract dated 22 March 2015*

The amendment agreement was entered into by the Company with BVW, a related party, a company registered in the Sultanate of Oman, to record the parties' obligations with respect to the expansion of the existing plant in accordance with amended and restated WPA.

- (xi) *Loan agreement dated 15 May 2007*

The above agreement was entered into with various banks and financial institutions through four mandated lead arrangers: the Royal Bank of Scotland PLC; Societe Generale; Natixis; and Bank Muscat SAOG, for the purpose of financing the project (see note 15).

- (xii) *Loan agreement dated 26 March 2015*

An amended & restated agreement was entered into with various banks and financial institutions through four mandated lead arrangers: the KFW, Natixis, Sumitomo Mitsui Banking Corporation ("SMBC") and The Bank of Tokyo – Mitsubishi UFJ Ltd, for the purpose of refinancing the existing debt and financing the expansion activities. Consequently the previous loan agreement is no longer in force. (see note 15)

### 3 Basis of preparation

- (a) *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) and the requirements of the Commercial Companies Law of 1974, as amended.

- (b) *Basis of measurement*

The financial statements have been prepared on the historical cost basis except for derivative financial instruments and finance lease assets (see below).

- (c) *Functional currency*

These financial statements are presented in Rial Omani (RO), which is the Company's functional currency.

- (d) *Use of estimates and judgements*

The preparation of financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, estimates that involve uncertainties and judgements which have a significant effect on the financial statements include:

- (i) assessment of impairment of assets;
- (ii) determination of effective interest rate implicit in finance lease;
- (iii) fair value of derivative financial instruments;
- (iv) deferred tax asset or liability;
- (v) finance income; and
- (vi) financial asset receivable (finance lease receivable).

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 4 Significant accounting policies

The accounting policies set out below has been applied consistently to all periods presented in these financial statements.

#### (a) Finance leases

Contracts falling within the scope of IFRIC 4 involve services generally rendered to industrial / private customers. Services include the financing of the construction of a specific asset / installation on behalf of the customer and the operation of the asset concerned. Revenue relating to the construction of the asset is recognised in accordance with the provisions of IAS 11. Revenue is recognised on a completion basis at each period end, based on actual and expected costs. Revenue relating to the operation of the asset is recognised on delivery of the goods or performance of the service depending on the operating activity.

IFRIC 4 seeks to identify the contractual terms and conditions of agreements which, without taking the legal form of a lease, convey a right to use a group of assets in return for payments included in the overall contract remuneration. It identifies such agreements as a lease contract which is then analysed and accounted for in accordance with the criteria laid down in IAS 17, based on the allocation of the risks and rewards of ownership.

Where the lease transfers the risks and rewards of ownership of the asset in accordance with IAS 17 criteria, the Company recognises a finance lease.

Initially, at commencement of a finance lease the lessor records a finance lease receivable (finance asset receivable) at the amount of its net investment, which comprises the present value of the minimum lease payments and any unguaranteed residual accruing to the lessor. The present value is determined by discounting the minimum lease payments due using the interest rate implicit in the lease. Initial direct costs are included in the calculation of the finance asset receivable. Where the Company is constructing the asset subject to the finance lease, prior to completion of construction, which is deemed to be the commencement date of the finance lease (unless the lease agreement only entitles the lessee to exercise its right to use the leased asset at a later date), the cost of construction is recognised within net investment in finance leases.

Over the lease term, being the period from commencement of the lease to the end of the lease agreement, interest income is accrued on the net investment in finance lease (finance asset receivable) using the interest rate implicit in the lease. The calculation of the interest rate implicit in the lease also takes into consideration initial direct costs incurred.

Receipts under the finance lease are allocated between reducing the net investment and recognising finance income, so as to produce a constant rate of return on the net investment.

#### (b) Revenue

For revenue recognition on net investment in finance leases, please refer accounting policy 4(a) above.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 4 Significant accounting policies (continued)

#### (c) Foreign currency transactions

Transactions in foreign currencies are translated to Rial Omani at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Rial Omani at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on translation are recognized in the statement of profit or loss and other comprehensive income.

#### (d) Property and equipment

##### Recognition and measurement

Items of property and equipment are stated at cost, less accumulated depreciation (see below) and impairment losses [see accounting policy 4(h)], if any.

Costs include expenditures that are directly attributable to the acquisition of the asset and any other costs that are directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

##### Subsequent expenditure

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of an item if it is probable that future economic benefits embodied within the part will flow to the Company and the cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in the statement of comprehensive income as incurred.

##### Depreciation

Depreciation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	<i>Years</i>
Building	7
Office equipment	7
Office furniture	3
Computer accessories	7
Plant equipment's	7

**SHARQIYAH DESALINATION COMPANY SAOG****Notes to the unaudited interim financial statements***for the period ended 30 September 2016***4 Significant accounting policies (continued)***(d) Property and equipment (continued)*

Management reassess the useful lives, residual values and depreciation methods for property and equipment annually.

*(e) Financial instruments**Non - derivative financial instruments*

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs.

*Derivative financial instruments*

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure arising from financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Derivatives, other than effective cash flow hedges, are initially recognized at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes there in are accounted for as follows:

*Cash flow hedge*

Changes in the fair value of an effective cash flow hedge instrument which qualifies for hedge accounting are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in the statement of profit or loss and other comprehensive income.

*(f) Trade receivables*

Trade and other receivables are stated at their amortized cost less impairment losses [refer accounting policy 4(h)].

*(g) Cash and cash equivalents*

Cash and cash equivalents comprise cash and bank balances. Bank borrowings that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**SHARQIYAH DESALINATION COMPANY SAOG****Notes to the unaudited interim financial statements**

for the period ended 30 September 2016

**4 Significant accounting policies (continued)****(h) Impairment**

The carrying amount of the Company's assets other than deferred tax assets [refer accounting policy 4(m)] are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

**(i) Financial assets**

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in the statement of profit or loss and other comprehensive income.

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

**(ii) Non-financial assets**

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

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

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

**(i) Employee benefits**

Contributions to a defined contribution retirement plan for Omani employees, made in accordance with the Oman Social Insurance Law, are recognised as an expense in the statement of profit or loss and other as incurred.

**SHARQIYAH DESALINATION COMPANY SAOG****Notes to the unaudited interim financial statements***for the period ended 30 September 2016***4 Significant accounting policies (continued)****(i) Employee benefits (continued)**

The Company's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods.

**(j) Trade and other payable**

Trade and other payables are stated at amortized cost.

**(k) Provisions**

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**(l) Finance income / charges**

Finance income comprises interest income on bank deposits. Finance charges comprise interest payable on term loan, interest on shareholders loan, late payment charges to EPC contractors, hedging charges and similar expenses. Finance charges are recognized in the statement of comprehensive income in the period in which they are incurred. Finance income is recognized in the statement of profit or loss and other comprehensive income as it accrues. For finance income in respect of finance asset receivable refer note 4 (a) above.

**(m) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the Balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 4 Significant accounting policies (continued)

#### (n) Directors' remuneration

The Directors' remuneration is governed as set out by the Commercial Companies Law and the rules prescribed by the Capital Market Authority.

The Annual General Meeting shall approve the remuneration and the sitting fees for the Board of Directors provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders. Such fees shall not exceed RO 200,000 in one year. The sitting fees for each Director shall not exceed RO 10,000 in one year.

#### (o) Standards, amendments and interpretations issued that are not yet effective (and which have not yet been adopted) that are relevant for the Company's operations

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 September 2016, and have not been applied in preparing these financial statements as follows:

IFRS 9 Financial Instruments, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The Standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of *held to maturity, available for sale and loans and receivables*. The standard is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

IFRS 15 Revenue from contracts with customers, published on 28 May 2014. The standard supersedes IAS 18 'Revenue', IAS 11 'Construction Contracts' and a number of revenue-related interpretations. The new standard provides a single, principles based five-step model to be applied to all contracts with customers. The five steps are: identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contracts and recognise revenue when (or as) the entity satisfies a performance obligation. The standard is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

IFRS 16 Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. 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. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

Management is still considering what impact these standards will have on the Company's financial statements.

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements for the period ended 30 September 2016

5	Revenue	Unaudited 30 September 2016 RO	Unaudited 30 September 2015 RO
	Water capacity operation and maintenance charges	1,913,878	1,982,002
	Water output operation and maintenance charges	569,460	594,279
	Electricity charge	1,514,183	1,469,579
	Financial income	2,944,560	3,139,514
	Water capacity investment charge	346,567	416,590
	Water quality standard reduction	-	(7,535)
		<u>7,288,648</u>	<u>7,594,429</u>
6	Cost of sales		
	Operation and maintenance fixed charges	1,686,959	1,732,189
	Operation and maintenance variable charges	567,428	630,903
	Electricity charges	1,385,356	1,482,698
	Operation and maintenance – other costs	5,348	(6,522)
	Plant expansion costs	340,608	171,502
		<u>3,985,699</u>	<u>4,010,770</u>
7	Administrative and general expenses		
	Employee related costs (see below)	119,339	110,099
	Depreciation	15,865	14,253
	Legal and professional expenses	30,747	35,775
	Director's sitting fee	14,100	14,100
	Director's remuneration	-	71,592
	Travelling expenses	9,787	20,492
	Insurance	31,187	117,607
	Others	108,205	106,215
		<u>329,230</u>	<u>490,133</u>
	<b>Employee related expenses are as follows:</b>		
	Salaries, wages and other benefits	111,905	105,200
	Contributions to Omani Social Insurance Scheme	3,180	2,894
	Obligation for defined benefit plan	4,254	2,005
		<u>119,339</u>	<u>110,099</u>
8	Finance charges – net		
	Interest on term loans	1,232,467	478,131
	Hedging charges	1,262,910	1,245,366
	Interest earned on call accounts	-	(850)
	Performance bond commission & guarantee	5,680	6,061
	Refinancing breakage cost	-	14,748
	Commitment fee	11,317	46,014
	Agency fee and role fee	26,842	26,060
	Others	3,392	4,430
		<u>2,542,608</u>	<u>1,819,960</u>



# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 9 Property, plant and equipment

	Building RO	Plant and Equipment RO	Office equipment RO	Furniture and fixtures RO	Computer and accessories RO	Total RO
<b>Cost</b>						
1 January 2016	66,286	7,020	22,338	49,247	50,125	195,016
<b>30 September 2016</b>	<b>66,286</b>	<b>7,020</b>	<b>22,338</b>	<b>49,247</b>	<b>50,125</b>	<b>195,016</b>
<b>Depreciation</b>						
1 January 2016	20,467	351	12,404	46,982	24,327	104,531
Charge for the period	7,457	790	2,464	751	4,404	15,866
<b>30 September 2016</b>	<b>27,924</b>	<b>1,141</b>	<b>14,868</b>	<b>47,733</b>	<b>28,731</b>	<b>120,397</b>
<b>Net book value</b>						
<b>30 September 2016</b>	<b>38,362</b>	<b>5,879</b>	<b>7,470</b>	<b>1,514</b>	<b>21,394</b>	<b>74,619</b>
31 December 2015	45,820	6,669	9,933	2,265	25,797	90,484

### 10 Finance asset receivable

	Unaudited 30 September 2016 RO	Audited 31 December 2015 RO
At January 1,	48,665,623	51,661,156
less: amortization	(2,537,998)	(2,995,533)
	<b>46,127,625</b>	<b>48,665,623</b>

### 11 Trade and other receivables

Receivable from OPWP	1,815,806	1,091,944
Prepayments	113,024	99,377
Other receivables	111,404	168,760
	<b>2,040,234</b>	<b>1,360,081</b>

The Company has adopted a common share cost principle since 2011 and, accordingly, other receivables include common share cost receivable from related parties in the amount of RO 110,956, being estimated costs that will be recharged to related parties.

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 12 Cash in hand and at bank

	Unaudited 30 September 2016 RO	Audited 31 December 2015 RO
Cash in hand	3,643	5,616
Bank deposits	2,136,922	2,318,045
	<u>2,140,565</u>	<u>2,323,661</u>

Cash at bank earns no interest.

### 13 Share capital and reserves

#### *Share capital*

Authorised share capital comprises 10,500,000 ordinary shares of RO 1 each.

#### *Renewal of authorised capital*

Authorised share capital comprising 10,500,000 ordinary shares of RO 1 each was renewed at an Extraordinary General Meeting (EGM) held on 16 December 2014.

#### *Issued and fully-paid shares*

During December 2014, the Company distributed one bonus share for every two shares held, to finance the equity requirement for Sur independent water project expansion activity. This has resulted in the issued share capital of the Company increasing from 6,520,144 (Six Million Five Hundred and Twenty Thousand and One Hundred and Forty Four) shares to 9,780,216 (Nine Million Seven Hundred and Eighty Thousand Two Hundred and Sixteen) shares.

Issued and fully-paid share capital of the Company is RO 9,780,216 (2015: RO 9,780,216) as follows:

	30 September 2016		31 December 2015	
	No of shares	%	No of shares	%
Veolia Eau-Compagnie Generale des Eaux	1	-	1	-
National Power and Water Co. LLC	2,860,713	29.25%	2,860,713	29.25%
Veolia Middle East SAS	3,496,425	35.75%	3,496,425	35.75%
Public	3,423,077	35.00%	3,423,077	35.00%
	<u>9,780,216</u>	<u>100%</u>	<u>9,780,216</u>	<u>100%</u>

#### *Legal reserve*

In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of the net profit for the period are transferred to this reserve until such time as the legal reserve amounts to at least one third of the Company's share capital. The legal reserve is not available for distribution.

#### *Proposed dividend*

As per amended and restated facilities agreement, the Company cannot distribute dividends till it achieves COD for the plant expansion, as defined in the Amended & Restated WPA (see 2 above).

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 14 Hedging deficit

The long-term loan facilities of the Company bear interest at US LIBOR plus applicable margins. In accordance with the facilities agreement, the Company has fixed the rate of interest with four hedge providers through International Swap Dealers Association Inc. Master Agreement ("ISDA"- Hedge Agreement) at: (i) during the period prior to the first anniversary of the Scheduled Commercial Operation Date, for no less than 75 percent of the utilized amounts under the Term Facilities as at the last day of each Interest Period; and (ii) at all times on and after the first anniversary of the Scheduled Commercial Operation Date until the End Date, for no less than 90 percent of the utilized amounts under the Term Facilities. The corresponding maximum hedged notional amount is approximately RO 43 million (USD 111.5 million) at a fixed interest rate of 5.55% per annum for the novated swaps and in the range of 2.645% to 2.675% for the top-up swaps.

At 30 September 2016, 6 month US LIBOR was approximately 1.23972% (31 December 2015: 0.84615%, September 2015: 0.5340%), whereas the Company has fixed interest on its borrowings as described above. Based on the interest rates gap, over the life of the ISDA, the indicative losses were assessed at approximately RO 9.42 million (31 December 2015: RO 6.96 million) by the counter parties to the ISDA. In case the Company terminates the ISDA at 30 September 2016, it may incur losses to the extent of approximately RO 9.42 million (USD 24.46 million). However, under the term of facilities agreements, the Company is not permitted to terminate the ISDA agreements.

In order to comply with International Financial Reporting Standard 39 "Financial Instruments: Recognition and Measurement" this hedge is being tested at least quarterly for its effectiveness and, consequently, effective and ineffective portions are being recognized in equity or statement of profit or loss and other comprehensive income, respectively. The fair value of the hedge instruments indicative losses at 30 September 2016 in the amount of approximately RO 8.29 million (31 Dec 2015: RO 6.12 million), net of deferred tax asset, has been recorded within equity and the gross deficit in the amount of RO 9.42 million (31 December 2015: RO 6.96 million) is recorded under long term liabilities.

### 15 Long term loan

	Unaudited 30 September 2016 RO	Audited 31 December 2015 RO
Term loan (syndicated)	64,006,701	60,524,086
Current portion	(3,801,998)	-
	<u>60,204,703</u>	<u>60,524,086</u>

#### *Syndicate facility*

The Company has entered into an agreement dated 15 May 2007 to obtain term loan facilities up to RO 65.47 million (US\$ 170 million) through a facility agent, Royal Bank of Scotland. PLC and four mandated lead arrangers ("the Agreement"). The loan is repayable in 40 semi-annual equal instalments commencing from 31 December 2009.

The loan facilities bear interest at US LIBOR plus applicable margins ranging between 0.75% and 4.00%.

An amended & restated agreement was entered into on 26 March 2015 with various banks and financial institutions through four mandated lead arrangers: KFW, Natixis, Sumitomo Mitsui Banking Corporation ("SMBC") and The Bank of Tokyo – Mitsubishi UFJ Ltd, to obtain term loan facilities up to RO 62.88 million (US\$ 163.54 million), for the purpose of refinancing the existing debt and financing the expansion activities. Consequently the previous loan agreement is no longer in force. The loan facilities bear interest at US LIBOR plus applicable margins ranging between 1.75% and 2.40%. The credit facilities are secured by comprehensive legal and commercial mortgages on all the assets and project insurances of the Company, together with any other assets which are subject to the security constituted by any of the Security Documents (as defined).

#### *Loan Repayment*

As per the amended & restated facilities agreement, the loan repayment commences from 31<sup>st</sup> December 2016.

## SHARQIYAH DESALINATION COMPANY SAOG

### Notes to the unaudited interim financial statements

for the period ended 30 September 2016

#### 16 Swaption

The Company entered into a swaption to hedge the financing (see note 15) at an initial strike rate of 5.06% expiring on 2 May 2007. The premium amount of RO 0.42 million (USD 1.08 million) being the swap cost is charged off as an expense in the statement of comprehensive income. As the financial close was delayed, the swap was extended with an increase in strike rate, without incurring any additional cost.

The swap was traded on September 2007 at a strike rate of 5.1465%, with a condition to enter into a hedge arrangement with hedge providers at a fixed interest rate of 5.4% per annum. The swap net settlement of RO 0.59 million (USD 1.54 million), the intrinsic value of the swap, is recognized as deferred swap income in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and subsequently recognized in the statement of profit or loss and other comprehensive income over the duration of the interest rate swap agreement („ISDA" Master agreement).

On 26 March 2015, the swap agreement was novated from Royal Bank of Scotland PLC, Natixis and Societe Generale to KFW, Natixis, Sumitomo Mitsui Banking Corporation ("SMBC") and the Bank of Tokyo – Mitsubishi UFJ Ltd.

On 31<sup>st</sup> December 2015, the Company has closed out the previous hedging instrument and the deferred gain of RO 283,768 has been recognized in profit or loss and other comprehensive income of 2015.

#### 17 Trade and other payables

	Unaudited 30 September 2016 RO	Audited 31 December 2015 RO
Payables	108,857	166,712
CAPEX payables (Expansion WIP)	17,199	68,884
Accruals	1,431,705	93,483
	<u>1,557,761</u>	<u>329,079</u>

The above CAPEX payable does not include related party, refer to note 20.

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 18 Income tax

The taxation charges for the period comprise:

	Unaudited 30 September 2016 RO	Unaudited 30 September 2015 RO
<i>Current taxation:</i>		
Current year	84,573	115,558
Prior year	-	2,289
<i>Deferred taxation</i>		
For the period	(35,252)	34,105
	(35,252)	34,105
	49,321	151,952

The Company is exempt from income tax in accordance with Article 51 (bis) of the income tax law of the Sultanate of Oman for a period of five years from the inception of the project. From 2012 the Company is liable to income tax at 12% of taxable income in excess of RO 30,000.

The following is a reconciliation of income taxes calculated on accounting profits at the applicable tax rate with the income tax for the year.

	Unaudited 30 September 2016	Unaudited 30 September 2015
<b>Profit before taxation</b>	<b>440,958</b>	<b>1,273,566</b>
Tax on accounting profit	49,315	149,228
<b>Add/(less) tax effect of:</b>		
Tax impact on disallowable expense	6	435
Prior year tax	-	2,289
<b>Tax charge for the period</b>	<b>49,321</b>	<b>151,952</b>

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12% (2015: 12%). Deferred tax (assets) and liabilities and deferred tax charge / (credit) in the statement of comprehensive income are attributable to the following items:

	1 January 2016 RO	Recognised in income RO	Recognised in equity RO	30 September 2016 RO
Property, plant and equipment	1,571,375	(35,252)	-	1,536,123
Hedging deficit	(834,868)	-	(295,821)	(1,130,689)
Net deferred tax liability	736,507	(35,252)	(295,821)	405,434

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 18 Income tax (continued)

The tax calculation till 30<sup>th</sup> September 2016 is done at a rate of 12%, however, management expects increase in rate & the company will be subject to income tax at a rate of 15% in the futuer (2015: 12%).

This will have impact on income tax and deferred tax.

### 19 Commitments and contingencies

	Unaudited 30 September 2016 RO	Audited 31 December 2015 RO
Usufruct right fee	13,000	14,000

### 20 Related party transactions and balances

The Company has a related party relationship with its Parent Company, its Ultimate Parent Company, its Senior Management and entities over which the Board and Shareholders are able to exercise significant influence. In the ordinary course of business, such related parties provide goods and render services to the Company at agreed terms and conditions. Balances and transactions with related parties are as follows:

	Unaudited 30 September 2016 RO	Audited 31 December 2015 RO
<i>Amounts due from related parties</i>		
Bahwan Veolia Water LLC	70,006	431
Veolia Middle East SAS	-	484
National Power and Water LLC	3,741	-
Veolia LLC	13,112	4,890
Veolia Eau – Oman Branch	30,813	7,986
Seureca Muscat LLC	6,961	-
OTV SA & Partners LLC	1,650	7,576
	<u>126,283</u>	<u>21,367</u>
<i>Amounts due to related parties</i>		
Bahwan Veolia Water LLC	502,422	1,248,466
SIDEM - CAPEX payable	77,020	577,650
OTV SA & Partners LLC - CAPEX payable	101,666	385,100
Veolia Eau Compagnie Generale des Eaux	29,740	55,164
Veolia Eau – Oman Branch	421	75,337
Veolia Middle East SAS	219	37,527
	<u>711,488</u>	<u>2,379,244</u>
<i>Compensation of key Management personnel</i>		
Board of Directors sitting fees	10,500	10,500
Audit committee sitting fees	3,600	3,600
Board remuneration	-	71,592
Key management remuneration	63,969	57,241

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements for the period ended 30 September 2016

### 20 Related party transactions and balances (continued)

Transactions with related parties during the period are as under:

	Unaudited 30	Audited 31
	September 2016	December 2015
	RO	RO
<b><i>Veolia Eau Compagnie Générale des Eaux</i></b>		
Services incurred	29,740	61,251
Payments made to them	(55,164)	(105,259)
Services rendered	-	-
Cash received from them	-	-
<b><i>Bahwan Veolia Water LLC</i></b>		
Operation & Maintenance services incurred	2,084,959	3,409,278
Other services incurred	6,741	11,677
Payments made to them	(2,837,744)	(2,575,483)
Services rendered	(73,963)	(58,464)
Cash received from them	4,388	58,033
<b><i>National Power &amp; Water Co. LLC</i></b>		
Services incurred	2,585	219,827
Payments made to them	(2,585)	(219,827)
Services rendered	(3,741)	-
Cash received from them	-	-
<b><i>SIDEM</i></b>		
Services incurred	2,312,526	15,652,390
Payments made to them	(2,813,156)	(15,479,095)
<b><i>OTV SA &amp; Partners LLC</i></b>		
Services incurred	1,491,870	8,072,851
Payments made to them	(1,775,304)	(7,687,751)
Services rendered	(10,093)	(12,398)
Cash received from them	16,019	4,822
<b><i>Veolia LLC</i></b>		
Services incurred	-	434
Payments made to them	-	(559)
Services rendered	(13,580)	(32,927)
Cash received from them	5,358	34,945
<b><i>Veolia EAU – Oman Branch</i></b>		
Services incurred	94,280	106,797
Payments made to them	(169,196)	(31,460)
Services rendered	(35,930)	(52,325)
Cash received from them	13,103	44,069
<b><i>Seureca Muscat LLC</i></b>		
Services incurred	79,785	10,049
Payments made to them	(79,785)	(10,049)
Services rendered	(28,846)	(36,790)
Cash received from them	21,885	36,942
<b><i>Veolia Middle East SAS</i></b>		
Services incurred	219	359,292
Payments made to them	(37,527)	(349,323)
Services rendered	-	(2,835)
Cash received from them	484	589

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 21 Financial instruments and financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk

Risk Management activities are based on the management rules detailed in a related party's internal manual "Rules governing financing/treasury management and related risks". These rules are based on the principles of security, transparency and effectiveness.

#### (i) Credit risk

Credit risk results from the potential inability of customers to respect their payment obligations. The Company has only one domestic customer and debtor, OPWP. Maximum credit exposure is considered to be equal to the nominal value of unimpaired financial assets at the reporting date, not yet due, as under:

	<b>Unaudited</b>	Audited
	<b>30 September</b>	31 December
	<b>2016</b>	2015
	<b>RO</b>	RO
Finance asset receivable	<b>46,127,625</b>	48,665,623
Trade and other receivables	<b>1,927,210</b>	1,260,704
Amount due from related parties	<b>126,283</b>	21,367
	<u><u>          </u></u>	<u><u>          </u></u>

#### (ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The operational management of liquidity and short-term financing is managed by the Treasury and Financing Department of a related party. A liquidity report is prepared monthly and reviewed by the Executive Management of a related party. Management believe that sufficient bank facilities are in place to meet the Company's liquidity needs for the foreseeable future, the Company's bankers will continue to meet their obligations and provide facilities (see note 15) and OPWP will meet its obligations under the WPA to purchase water from the Company at prices determined therein.

The Management's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following table presents undiscounted contractual flows of financial liabilities, comprising principal payments and interest flows:



# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### 21 Financial instruments and financial risk management (continued)

#### Liquidity risk (continued)

The following table presents undiscounted contractual flows of financial liabilities, comprising principal payments and interest flows:

#### 30 September 2016

	Carrying amount RO	Contractual cash flows RO	Up to 1 year RO	1 year and Above RO
<i>Non-derivative financial liabilities</i>				
Term loan (refer note 15)	64,006,701	(64,199,251)	(3,801,998)	(60,397,253)
Trade and other payables	1,557,761	(1,557,761)	(1,557,761)	-
Amounts due to related parties	711,488	(711,488)	(711,488)	-
	<u>66,275,950</u>	<u>(66,468,500)</u>	<u>(6,071,247)</u>	<u>(60,397,253)</u>
<i>Derivative-financial instrument</i>				
Cash flow hedging deficit (refer note 14)	9,422,407	9,422,407		
	<u>9,422,407</u>	<u>9,422,407</u>		
 31 December 2015				
<i>Non-derivative financial liabilities</i>				
Term loan (refer note 15)	60,524,086	(64,199,251)	-	(64,199,251)
Trade and other payables	329,079	(329,079)	(329,079)	-
Amounts due to related parties	2,379,244	(2,379,244)	(2,379,244)	-
	<u>63,232,409</u>	<u>(66,907,574)</u>	<u>(2,708,323)</u>	<u>(64,199,251)</u>
<i>Derivative-financial instrument</i>				
Cash flow hedging deficit (refer note 14)	6,957,230	6,957,230		
	<u>6,957,230</u>	<u>6,957,230</u>		

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate and equity price will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

#### Interest rate risk

The Management has managed its exposure to interest rate risk on the term loan by entering into an interest rate swap (note 14).

#### Currency risk

The Company is exposed to foreign currency risk on borrowings, financial assets and revenue that are denominated in a currency other than Rial Omani. The currency giving rise to this risk is primarily US Dollar which is effectively pegged to the Omani Rial and, therefore, Management believes that the Company is not significantly exposed to foreign currency risk.

#### Equity price risk

The Company does not have investments in securities and is not exposed to market price risk.

# SHARQIYAH DESALINATION COMPANY SAOG

## Notes to the unaudited interim financial statements

for the period ended 30 September 2016

### Fair value estimation

The carrying amounts of the financial assets and liabilities approximate to their fair values at the statement of financial position date.

### Capital management

The capital of the Company comprises paid-up capital, accumulated losses and hedging deficit. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support future development of the business and maximize shareholder value. Capital requirements are prescribed by the Commercial Companies Law of 1974, as amended and the loan agreement dated 26 March 2015 (refer note 15).

### 22 Net assets value per share

The calculation of net asset value per share is based on net assets and the number of ordinary shares at the end of the period as follows:

	Unaudited 30 September 2016 RO	Audited 31 December 2015 RO
Net assets (RO)	9,313,156	11,090,875
Number of outstanding shares at the end of the period (Nos.)	9,780,216	9,780,216
Net asset value per share (RO)	<u>0.952</u>	<u>1.134</u>

### 23 Earnings per share

The calculation of basic earnings per share is based on net profit attributable to ordinary shareholders and the weighted average ordinary number of shares outstanding during the year as follows:

	Unaudited 30 September 2016 RO	Unaudited 30 September 2015 RO
Net profit for the period (RO)	391,637	1,121,614
Weighted average number of shares (nos.)	9,780,216	9,780,216
Basic earnings per share (RO)	<u>0.040</u>	<u>0.115</u>

### 24 Comparatives

The comparative figures for the previous year have been reclassified, where necessary, in order to conform to the current year's presentation.