الشرقية لتحلية المياه
Sharqiyah Desalination

2015 ANNUAL REPORT

Water is life.

His Majesty **Sultan Qaboos Bin Said**

Acknowledgement

The Board of Directors of the Sharqiyah Desalination Company SAOG ("SDC") takes this opportunity to **wish His Majesty Sultan Qaboos Bin Said long life, good health and prosperity.**

The Board wishes to express its **gratitude** to the **Government of Oman** for their continued support and encouragement to the private sector in creating an environment that allows participating effectively in the growth of the economy and dedicating our humble achievements towards the building of strong Oman.

CONTENT

OUR VISION, OUR MISSION

VISION

Improve people's life through the continuous access of potable water in the Sharqiyah region today and for the next generations.

In delivering effective, sustainable solutions that address local needs; SDC demonstrates its uniquely holistic approach in the Sultanate of Oman. Through a mixture of pragmatism, entrepreneurial spirit and innovative capabilities, performance is supported by the leveraging of economies of scale, the strength and flexibility of the company and the resilience of its vision.

MISSION

SDC **desalinates** and **produces potable water securely** and **cost-effectively** for the benefits of the local communities in the Sharqiyah region.

Our mission is expressed through our environmental approach and performance, and the daily commitment, achievements of the women and men who work for Sharqiyah Desalination Company.

BOARD OF DIRECTORS

SDC's Board of Directors comprises seven respected businessmen with vast regional and international experience, and solid reputations.

Patrice Fonlladosa
Chairman

Chander Kant Khanna
Vice Chairman

Xavier Joseph
Director

Ali Khamis Mubarik Al Alawi
Director

Mustafa Ahmed Salman
Director

Padmanabhan Ananthan
Director

Jean-Francois Roberge
Director

BOARD OF DIRECTORS' REPORT & MANAGEMENT DISCUSSIONS

Dear Shareholders,
The members of the Board of Directors are honoured and privileged to present the Annual Report and Audited Financial Statements of the Sharqiyah Desalination Company SAOG ("SDC") for the year-ended 31st December 2015.

120 million m3 produced: a significant milestone reached!

As a result of the continuous effort to maintain excellent plant availability levels over the years, the total cumulated water production since the inception of the Company reached 120 million m3 in the month of July 2015. It is worth noting that from the commencement of operations, no forced outages have been noted to date.

The Company and its partners reiterate their commitment to ensure continuous delivery of drinking water to the 375,000 inhabitants of the Sharqiyah region through the on-going expansion project.

The expansion project: on a good way towards successful completion

Further completion of the term loan refinancing and raising additional debt during the first quarter 2015, the Company now focuses on the construction of the new plant and meeting the construction schedule.

The overall progress of the project is above 70% at the end of the year 2015 which is in line with the construction schedule.

Update on the operations

The Company has increased its production volumes of water with a total water delivery of 27,462,520 m3 as at December 2015 against 25,801,810 m3 in the previous year i.e. an increase of more than 6.4%.

The average delivery for year represented 91% of the overall plant capacity.

The average plant availability for the period reached 98.3%. This remarkable availability is the result of a strict maintenance program followed and implemented by the Operation & Maintenance team.

Quality Label Awards: QHSE is a perpetual commitment

Drinking water is a precious element and SDC is committed to serve the population of Sultanate of Oman and its Client with the best service and operating standards.

Thanks to our Plant Operation & Maintenance contractor Bahwan Veolia Water (BVW) we are internationally recognized for our management system and certified for:
- The Quality Management with ISO 9001,
- The Health & Safety Management with OHSAS 18001,
- The Environment Management with ISO 14001

It is a direct evidence of our financial and ethical commitment to provide high quality, safe service and to demonstrate to our customers the effectiveness of our quality and environmental efforts.

We would like to go further by demonstrating our technical edge and our ability to produce precise and accurate tests and calibration data.

Therefore we are committed in an implementation of an ISO/IEC 17025 laboratory management system.

Outlook for 2016

All measures will be taken by the Management of the Company to maintain excellent plant availability levels over next year.

Besides customer's satisfaction, the Company is focusing on the construction of the new plant to meet the construction schedule to reach commercial operation date by September 2016.

Internal Control and Corporate Governance

The Management believes in a strong internal control system, in compliance with SOX guidelines.

The Company has in place high standards of corporate governance which are compliant with the code of corporate governance promulgated by the Capital Market Authority.

Acknowledgement

The Board of Directors wishes to thank SDC's valued shareholders for their continued support for their trust and confidence. Finally, the Board of Directors would like to thank all the personnel associated with the operation and maintenance of the Sur plant and the staff of the Company for their dedication and commitment in ensuring that it achieves its goals and objectives.

Financial highlights

The increase in water production during 2015 has led to an **increase in revenue** as compared to 2014 by almost **2.4% (RO 239K)**.

On the cost side **(O&M charges and electricity)**, there is an **increase by 21.2% (RO 924K)** driven by the increase in production of water & maintenance expenses. Therefore the gross profit has decreased by 12.5% (RO 685K).

Administrative and **general expenses** have **increased by 22.7%** as compared to previous year (RO 97K). **Finance expenses** have increased by **12.6%** (RO 284K) due to the new debt raising to finance the new plant.

Although the profit for the year has decreased by 38.3% (RO 940K) as compared to the previous year, the Company has succeeded to sustain a **net profit margin of 15%.**

The Earnings per Share (EPS) for the year 2015 stood at 155 baizas as compared to 251 baizas in the previous year (as restated further to the share capital increase).

OPERATIONAL HIGHLIGHTS

Operational Highlights

Continuous increase of water supply

As expected, the year 2015 confirmed the significant increase of water demand within the Sharqiyah region, in line with the several connection works and improvement of water access to the population by the Public Authority of Electricity and Water (PAEW).

Therefore and for the past 6 years, the water quantity produced and supplied by SUR Desalination Plant is increasing, by an average of 6% this year with up to 17% increase of water demand during summer as compared to 2014 (see Figure 1 Below).

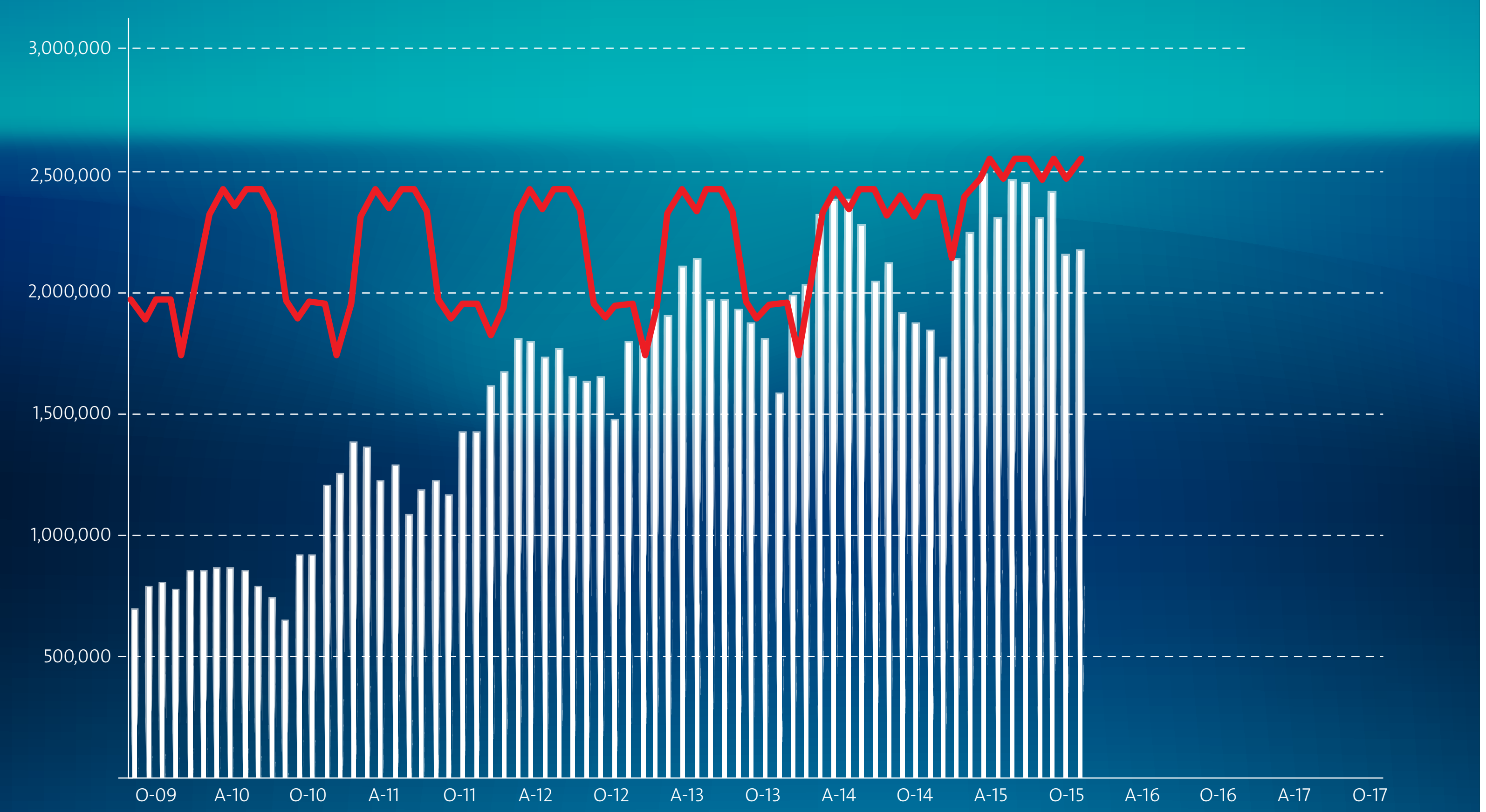

Figure1: Water Delivery & Plant load factor of SUR Desalination Plant from October 2009 to December 2013

The plant reached 96% of the plant production capacity in the month of May 2015. The variation of demand between winter and summer was only 8% in 2015 (13% in 2014).

High standards of commitment on asset management

To comply with the high plant availability requirements imposed by the Water Purchase Agreement ('WPA') (95% of the contractual capacity over the year), the Asset Management strategy has been fully audited with the support of Veolia Headquarter in Paris in order to increase it to the level of requirements of the newly approved ISO 55000:2014. The main outcomes of this study will be integrated in the continual improvement action plan, in order to be implemented.

Committed to reliability

In 2015, the plant has been able to honoured 100% of the scheduled availability and therefore to supply OPWP with no water shortage all year long. This remarkable availability is the result of a stringent maintenance program followed and implemented by the Operation & Maintenance team.

Removal of the 2nd Reverse Osmosis Pass

In agreement with PAEW and OPWP, the 2nd pass of Reverse Osmosis train has been bypassed during 2015, following the change in the Omani and International regulation on boron standard concentration in Potable Water. This design change made it possible for SDC to increase the maximum production capacity of the plant from 80,178 m3/day to 83,648 m3/day (+4.3%), supporting therefore the increasing water demand in the Sharqiyah Regions.

Water Quality at the best level

In line with the availability achievement, the plant delivered potable water complying with the Water Purchase Agreement requirements and the Omani Standards with no single non-conformity for the full year 2015.

In addition, more than 17,000 water parameters have been successfully analysed in 2015 into the plant internal

laboratory facilities, including 7,300 tests on potable water following the contractual and legal requirements.

Optimized RO membranes performances

The Reverse Osmosis membranes are the heart of SUR Desalination Plant process. These very sensitive and expensive membranes require a strong monitoring and permanent follow-up to ascertain their lifespan and guarantee optimized and continuous fresh water production.

With about 7,300 Reverse Osmosis membranes unit installed on site, this asset is by far the most critical one.

In 2015, the close monitoring, process parameters and membranes autopsies showed very positive sign of lifespan extension. Therefore, the replacement of the Reverse Osmosis membranes program, initially planned in 2012, has been shifted to early 2017. The Operation and maintenance company is of course focusing in initiating such heavy replacement program whenever requires to guarantee a stable and compliant water production.

Control Room

With more than 2,000 pieces of equipment connected on a Centralized Supervisory Control and Data Acquisition system ('SCADA') hosted in our control room, our operation team is permanently monitoring the performance of the plant 24/7 and all year long.

In 2015, an Omani engineer has been hired to oversee the SCADA system with the support of Veolia Headquarters, to implement the latest improvement to the system, and

to bring it to the level of requirements of the Authority for Electrical Regulation (AER) regarding cyber-security.

To ensure the equipment used within the plant functions at optimum capacity, maintenance and asset management play a major role in the plant activity. A dedicated Computerized Maintenance Management System ('CMMS') has been implemented to plan, follow-up, record and guide our maintenance team on their daily assignments.

Remote control tablets connected with the CMMS makes sure that all maintenance engineers and technicians have access to the required information as well as instruction to perform an efficient maintenance task.

Finally, a long-term renewal plan of all assets based on criticality and risk assessments has been implemented to better plan the required investments.

Saftey Week

As initiated by Veolia, one of the main Company's shareholders, and with the valuable input of the Royal Oman Police, an awareness lecture on fire fighting has been addressed to the staff on site. This event was part of the global occupational Health and Safety Week that has been established by Veolia and locally adapted by the Company from September 21 to September 25, 2015.

In addition to underscoring the wholehearted commitment by the Company and its managers to promote a culture of risk prevention, this dedicated week is intended to allow each and every employee, to review and clarify the safety rules currently in effect, to improve the dissemination of best practices, and give the employees opportunities to progress even more.

Laboratory

Every day, more than 100 parameters are analysed in our laboratory following the international standard procedures of analyses. The water is analyzed at each step of the process to secure its compliancy with the operating conditions as well as with the Omani Standard for potable water.

DESCRIPTION OF THE COMPANY

Description of the Company

Background

On 7 January 2006, the Ministry of National Economy issued to potential bidders a request for proposal for the development of desalination facilities at Sur in the Sharqiyah region of the Sultanate of Oman on a build, own and operate (BOO) basis (the Project). The proposal included the purchase of the Existing Plant already at the location (with a capacity of about 2.66 MIGD) and construction of a new desalination plant, with aggregate capacity of 17.66 MIGD (the New Plant) using the reverse osmosis technology for desalination.

The consortium comprising Veolia Eau-Compagnie Generale des Eaux, National Power and Water LLC and Veolia Water AMI (the Original Founders) have been awarded and on 14 January 2007 they incorporated Sharqiyah Desalination Company to implement the Project.

On 17 January 2007, the Ministry of Housing Electricity and Water ('MHEW') and the Company entered into a Water Purchase Agreement ('WPA') and a Water Connection Agreement ('WCA'). Pursuant to Royal Decree 92/2007, the functions and assets of the MHEW in relation to the electricity and water related sector and other water related functions (including the right to sign contracts necessary for the management of the water sector) were transferred to the PAEW. The WPA and WCA required the Company to purchase the Existing Plant and construct the New Plant, operate and maintain these facilities, make available the capacity of the facilities and sell its desalinated water output exclusively to the PAEW.

The Project Founder Agreement requires the Founders to float the Shares on the Muscat Securities Market ('MSM') through an IPO offering 35% of the share capital of the Company to the public. Following the IPO the Company converted from an SAOC to an SAOG.

In 2013, the Company entered into sole negotiation with Oman Power and Water Procurement Company ('OPWP') for a potential expansion of the plant capacity by 10.6 MIGD as allowed under the Water Purchase Agreement.

This was a unique opportunity to expand the Company's operations and enhance its business. The bid was successful and led to the signature of the amended and restated WPA on 10 July 2014, and subsequently to the financial closing related to the expansion project on 25 March 2015.

Key Dates

7 January 2006	Bid award of the Initial Project to the Original Founder
14 January 2007	Incorporation of SDC
17 January 2007	Execution of the Existing WPA between SDC and MHEW
15 May 2007	Financial Close of the Initial Project
8 October 2009	Commercial Operation Date of the Initial Project
30 June 2013	Listing on Muscat Securities Market (MSM)
10 July 2014	Signature of the amended and restated WPA
16 December 2014	Increase of Share Capital and distribution of bonus shares
25 December 2014	Signature of all the expansion project documents
25 March 2015	Financial closing related to the expansion project

The listing of SDC on the MSM was an important milestone in the SDC project life.

Pre IPO	
Azaliya S.A.S	**55.00%**
National Power & Water (NPW)	**45.00%**
Veolia Eau	**1 share**

Post IPO	
Veolia Middle East S.A.S (VME)	**35.75%**
National Power & Water (NPW)	**29.25%**
Veolia Eau	**1 share**
Public	**35.00%**

Main Organization of the Company

THE EXPANSION PROJECT AT A GLANCE

The Expansion Project at a Glance

Background

In 2013, the Company entered into sole negotiation with Oman Power and Water Procurement Company ('OPWP') for the expansion of the plant capacity from 17.66 MIGD to a total aggregated capacity of 29 MIGD as allowed under the Water Purchase Agreement.

This negotiation successfully resulted in July 2014 to the signature of the amended and restated WPA, further to which the Company has successfully refinanced its existing debt of USD 120.8 Million (RO 46.5 Million) and in March 2015. The Company also raised new debt of USD 42.7 Million (RO 16.4 Million) for funding its expansion project comprising the 10.6 MIGD reverse osmosis water desalination facility.

The refinancing involved taking over the loans from the existing lenders by a consortium of international banks. From a shareholder perspective and as committed, the Company did not request any further equity commitment from its shareholders, and has issued bonus shares on 16 December 2014.

Progress

The construction of the Extension is proceeding as scheduled and in December 2015 we were able to connect the new plant to the existing plant. The Plant was energized in February 2016 and is in line for a full connection to the Sharqiyah Region Power Grid by the middle of March 2016. The Plant is on target for its Commercial Operation Date of 15 September 2016 and when completed will greatly assist the projected demand for potable water for the 375,000 inhabitants of the Sharqiyah Region.

Main Milestones in 2015

- Civil Construction Works running on time and on budget
- On target for Commissioning Milestones
- Connection to the Existing Plant successfully achieved in December 2015
- Granting of a license from the Authority for Electricity Regulation in Oman
- All necessary permits successfully obtained
- Compliance with the Equator Principles

Environmental matters

The Company complies with the Equator Principles, which is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental risk in projects.

The Company puts a lot of effort into reducing the environmental impact of the desalination process and tackling to the utmost the environmental challenges.

As the potential of the existing beach wells is saturated, the Company undertook a comprehensive review of environmental factors influencing sea water intake. To determine the impact of the increased quantity of effluent discharged during the operation phase and to assess compliance with the standards specified in MD 159/2005, a modelling study was conducted. The outcomes of this study enabled to comprehensively address the outfall dispersion and recirculation to ensure optimal salt levels surrounding the discharge point.

70% Project Completed

1,200,000 Safe Man Hours

IN-COUNTRY VALUE ("ICV")

In-Country Value (ICV)

Legal Framework in Oman

The Company is committed to fully comply with all aspects of the Omani legal regulations.

This includes, but is not limited to the Royal Decrees' articles related to employment omanisation, and to allocate a portion of the awarded contract to Omani content.

ICV targets

Maximizing the In-Country Value (ICV)

IN-COUNTRY VALUE

MEANS	Capital Invested	Procurement	Human Resources	Local Development
OBJECTIVE	Maximize local investments	Maximize the procurement of local goods & services with quality & price compliance constraints	Identify, recruit, train & develop local talents	Maximize the impact on local communities through a wide range of actions
TOOLS	• Investments in fixed assets • Develop local source of investments	• Local sourcing of goods & subcontracted services • Development of national suppliers	• Implement adapted HR procedures, & diverse programs	• Development of national training, education and R&D institutions

1. Capital invested

- The Company has already invested $ 170 million in the past years, and will invest more than $ 87.2 million for the expansion project.
- Partnership with National Power and Water LLC which was holding 45% of the Company's share capital at inception and is holding now 29.25%.
- For the existing plant financing, 37% of the funding came from Omani banks.
- 35% of the share capital of the Company was floated in Muscat Securities Market in June 2013 in favor of individual resident in Oman as well as Omani companies.
- Further to the IPO, 64.25% of the Company's share capital is currently mainly held by Omani resident and companies.

2. Procurement

The purchase policy exclusively targets the Omani market, provided that the products are available in Oman and comply with the international standards selected by the Company.

Beyond the legal duty, the management of the company demonstrates a genuine determination to be part of the local economy by adding value through capital investment and a wise procurement policy.

3. Human Resources

Maximize the local Human Resources by recruiting, training, and managing the career of local workforce.

The Company takes the following commitments in regards to the recruitment on its existing and future projects:

A. Recruitment Policy

Omanisation in the Work Force
The Company overreaches the Omanisation objective defined by contractual commitments.

Omanisation is not only an objective; the Company considers it as a process to be organized, anticipated and planned.

B. Training of Omani nationals

The Company deploys an ambitious training policy and action in line with its experience in Oman to maintain and develop the competences mobilized across the years.

There are employees among the staff that are regularly trained as trainers to enable onsite training.

Two employees of the staff at least are trained as mentors to enable and support knowledge transfer.

Training Budget
The Company contributes to National training and knowledge transfer in partnership with local training providers and local vocational training centers.

Many of the Company's initiatives are targeting Omani students: organization of conferences, visits of plants, free-of-charge summer camps in France for Omani students...

Training structure
The training delivered is structured as per the following categories: Technical training, QHSE training, Support function training and Personal development training.

Schools relations
The Company releases internship opportunities for students for specific needs of its projects and operations. As per 2015, 8 trainees have joined the Company for limited periods from 1 to 8 months.

The Company participates, on an annual basis, in the organization of events in Oman universities schools on topics related to water and environmental issues.

4. Local development

Since its creation, the Company has undertaken several actions in order to contribute to local development, as detailed in the CSR section.

Acting in the best interests of the local development and making a positive contribution to the Omani society, is not only an ethical duty for the Company but it is part of its development strategy. The management of the Company sees its involvement in community matters as an investment rather than a cost.

CORPORATE RESPONSIBILITY & SUSTAINABILITY

Corporate Responsibility and Sustainability

Our commitment as local actor

Following the launch of the Corporate Social Responsibility plan in December 2013, Sharqiyah Desalination Company has strengthened its commitment to the Sultanate of Oman as a determined player in the green economy.

In harmony with the vision of his majesty Sultan Qaboos Bin Said, running a responsible business is the way in which we fulfill the obligations we have to our stakeholders in the Sultanate of Oman; including our employees, customers, communities and government bodies.

Access to basic services and equitable resource distribution remain crucial issues today as the Omani society undergo profound transformations.

For Sharqiyah Desalination Company, access to water is the very core of our expertise. And, because the area we serve depends on us, we strive for continuous improvement in providing this service. In this context, sustainable development forms an integral part of our day-to-day operations. Our commitments can be defined as follows:

- continue to develop access to efficient water services
- support economic and social development
- develop transparent and constructive relationships with our stakeholders

Our corporate responsibility and sustainability approach are a proof of our sustainable integration in Oman, showing our willingness to continuously improve our business performance for local benefits, preserve the environment and support the talents development.

Developing access to resources and reducing our environmental impact Sharqiyah Desalination Company aims to supply the greatest possible number of people with the water resources needed to ensure their wellbeing.

Today, the plant produces more than 83,648 m3/day of desalinated drinking water; through a reverse osmosis process provides 375,000 inhabitants of the Sharqiyah region with clean drinking water. Soon, the additional water capacity of 48,000 m3/day produced by the expansion project will help in meeting the expected demand for potable water in the region.

Monitoring the environmental impact

The Sur Desalination Plant puts a lot of effort into reducing the environmental impact of the desalination process. Two outstanding aspects are:

- Energy recuperation and re-use due to Energy Recovery Devices (ERD) reduces the impact of the operations on the environment and also operating expenses
- Innovative water intake based on beach wells allows a lighter pre-treatment (thanks to natural sand filtration) and allows a better water quality
- Biodiversity survey

To ensure the local marine environment is protected to the full extent possible, and any potential impacts the desalination plant may be having can be quantified correctly the Company had a team on site to conduct a Marine Environmental Impact Assessment. Sampling, testing and Surveying the area surrounding the brine outfall system; a quantifiable report has been produced to explain the extent of impact on the environment. The team also produced a Marine monitoring plan to ensure the Company keeps a close eye on the condition of the environment and can take any required actions should be found any alteration to the environment as a result of the workings of the plant.

Contribute to people's wellbeing and their development

Sharqiyah Desalination Company and Bahwan Veolia (the operation and maintenance company) develop deep roots in local communities through the services they provide and play a direct role in people's everyday live.

Charity during the month of Ramadan

A tent hosting daily Iftar

In partnership with Bahwan Veolia Water, the Company successfully hosted a daily charity Iftar at a tent settled for the occasion during the holy month of Ramadan. The event was held for the benefit of more than 3,000 underprivileged people. The activity allowed the guests to partake to a meal composed of traditional Ramadan delicacies, and Arabic and international desserts along with wholesome atmosphere.

The Company intends to always be at the forefront in supporting philanthropic activities designed to bring meaningful improvement in the lives of the less fortunate members of the society.

Ramadan food vouchers distribution

For many people, the month of Ramadan is a time for meditation and prayer, and the gathering of loved ones at sunset to break the daily fast. However, for many needy people, Ramadan represents additional costs they can ill afford.

Therefore, partnering with the Ministry of Development and Bahwan Veolia Water to support local Omani communities during the holy month of Ramadan, the Company distributed food vouchers on June 23, 2015 to local disadvantaged families in Sur. Thanks to these vouchers the beneficiary families were provided with packages of essential items such as rice, flour, sugar and oil.

Dialogue with stakeholders and education

The Company maintains open dialogue with its internal and external stakeholders. This dialogue is a prerequisite for ensuring efficient, transparent and legitimate operations.

Internally, Sharqiyah Desalination Company pays close attention to dialogue between management and employees at all levels. The company implements measures to improve the quality of this dialogue and encourages the creation of discussion forums.

Dialogue with non-contractual external stakeholders is based on a clear managerial determination and tools designed to support its deployment and ensure high-quality content.

CORPORATE GOVERNANCE REPORT

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P.C. 112
Sultanate of Oman

Tel 968 24709181
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Report to the Shareholders of Sharqiyah Desalination Company SAOG ("the Company") of Factual Findings in Connection with Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with the Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Company ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007 and the Executive Regulation of the Capital Market Law issued under the Decision No. 1/2009 dated 18 March 2009. The Report is set out on pages 1 to 12.

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist you in evaluating the Company's compliance with the Code as issued by the CMA.

We found the Report reflects, in all material respects, the Company's application of the provisions of the Code and is free from any material misrepresentation.

Because the Procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Company's annual report for the year ended 31 December 2015 and does not extend to the financial statements or any other reports of the Company, taken as a whole.

24 February 2016

Paul Callaghan

C.R. No. 1/30936/6

Corporate Governance Report

In accordance with the Capital Market Authority ("CMA") guidelines, we are pleased to present the third Corporate Governance Report ("the Corporate Governance Report") of Sharqiyah Desalination Company SAOG ("the Company") for the year ended 31st December 2015.

1. Company philosophy

The philosophy of the Company in respect to corporate governance is to observe, in letter and spirit, the rules and regulations framed by the CMA.

Indeed corporate governance at the Company envisages its commitments towards the attainment of high levels of transparency, accountability and business priority with the ultimate objective of increasing long-term shareholders value, keeping in mind the needs and interests of all other stakeholders.

The Company follows the stipulations of the "International Financial Reporting Standards" (IFRS) in preparation of accounts and financial statements.

2. Composition of the Board of Directors (the "Board")

Five of the current Board of Directors members were elected by the Shareholders in the meeting (Ordinary General Meeting "OGM") held on 21st July 2013 for a term of 3 years. Two of the Directors (Mr. Ali Khamis Mubarik Al Alawi and Mr. Mustafa Ahmed Salman) were elected in the annual general meeting ("AGM") held on 17th March 2014 to fill the two vacant seats.

The Members of the Board are having professional and practical experience in their respective corporate fields, ensuring proper direction and control of the Company's activities.

Name	Representative of a Juristic person/ In personal capacity	Executive/ Non-Executive	Independent/ Not independent	Shareholder/ Non-shareholder
Patrice Fonlladosa	Representative of Veolia Middle East SAS	Non-Executive	Not independent	Non-shareholder
Xavier Joseph	In personal capacity	Executive	Not independent	Non-shareholder
Chander Kant Khanna	Representative of National Power and Water Co. LLC	Non-Executive	Not independent	Non-shareholder
Padmanabhan Ananthan	In personal capacity	Non-Executive	Independent	Non-shareholder
Jean Francois Roberge	In personal capacity	Non-Executive	Independent	Non-Shareholder
Ali Khamis Mubarik Al Alawi	In personal capacity	Non-Executive	Independent	Non-shareholder
Mustafa Ahmed Salman	In personal capacity	Non-Executive	Independent	Non-Shareholder

Directorship / membership in other public Companies (SAOG) in Oman held during the year:

Name	Position held	Name of the company
Patrice Fonlladosa	None	-
Xavier Joseph	None	-
Chander Kant Khanna	None	-
Padmanabhan Ananthan	Director / Deputy Chairman	Al Batinah Power Company SAOG
Jean Francois Roberge	None	-
Ali Khamis Mubarik Al Alawi	None	-
Mustafa Ahmed Salman	Director Audit committee member	Oman United Insurance Company SAOG Majan Glass Company SAOG

3. Functions of the Board

The Company in general complies with the functions of the Board as per the CMA Code of Corporate Governance. With respect to the selection of the managing Directors and other key executives, a selection process is applied within the Company.

In order to facilitate proper governance, the following information, among others, is provided to the Board:

a. Review of operating plans, budget and budget updates.

b. Quarterly/annual results of the company & its business segments.

c. Directors' fees, remuneration to C.E.O. and key executives

d. Minutes of audit and Executive committees

e. Senior management changes

f. Policies/Procedures as are deemed important to be placed before the board

g. Related party transactions. Prior to the same being brought before the general meeting of the company

h. Assessing major risks facing the company and reviewing options to mitigate them

Directors' attendance record and directorship held during the financial year 2015:

			25-01-2015	23-02-2015	29-04-2015	15-07-2015	26-10-2015
Name of Directors	Position	Sitting fee (OMR)	Attendance	Attendance	Attendance	Attendance	Attendance
Patrice Fonlladosa	Chairman	1,500	Present	Proxy	Present	Present	Proxy
Chander Kant Khanna	Vice Chairman	2,500	Present	Present	Proxy	Present + Proxy	Present
Xavier Jospeh	Member	3,500	Present	Present + Proxy	Present	Present	Present + Proxy
Jean Francois Roberge	Member	2,000	Present	Present	Present	Proxy	Present
Padmanabhan Ananthan	Member	3,000	Present	Present	Present + Proxy	Present	Present
Ali Khamis Mubarik Al Alawi	Member	2,500	Present	Present	Present	Present	Present
Mustafa Ahmed Salman	Member	2,500	Present	Present	Present	Present	Present
	TOTAL	17,500					

4. Nomination process of the Directors

In nomination of candidates, the Company looks for professionalism, integrity and leadership skills. Proven track record, industry knowledge and strategic vision are the key characteristics. The Company follows the provisions of the Commercial Companies Law in respect of nomination of the members of the Board of Directors.

The five directors above mentioned have been elected by the Shareholders during the Annual General Meeting (AGM) dated 21st July 2013. As two seats remained vacant, the Shareholders elected two additional Board members in the AGM held on 17th March 2014.

5. Remuneration of the Directors

The meeting attendance fees were paid as per the remuneration fixed by the Board of Directors and approved by the Shareholders. The aggregate directors sitting fees for the year was **OMR 17,500** (2014: OMR 14,500).

6. Audit Committee

The Audit Committee (AC) is a sub-committee of the Board of Directors, comprising of the following Non-Executive Directors:

i. Jean Francois Roberge — AC Chairman
ii. Padmanabhan Ananthan — AC Member
iii. Xavier Joseph — AC Member

All the members are experienced and have fundamental knowledge of accounts and finance.
The terms of reference of the Audit Committee are in accordance with the guidelines given by CMA. The major areas covered by the Audit Committee are:

i. Consideration and recommendations for appointment of Internal and Statutory Auditors,

ii. Reviewing of audit plans and audit reports;

iii. Overseeing internal audit functions to comply with all the requirements of internal audit as per Code of Corporate Governance and ensuring of adequacy of internal control systems and financial statements,

iv. Checking financial frauds,

v. Reviewing annual and quarterly statements and qualifications, if any, before issue,

vi. Reviewing of non-compliance of IAS and disclosure requirements prescribed by CMA,

vii. Reviewing risk management policies and related party transactions and

viii. Serving as a channel between internal and external auditors and the Board.

The Audit committee held the following meetings during the period from 1st January 2015 to 31st December 2015:

			25-01-2015	23-02-2015	29-04-2015	15-07-2015	26-10-2015
Name of Directors	Position	Sitting fee (OMR)	Attendance	Attendance	Attendance	Attendance	Attendance
Jean Francois Roberge	Chairman	1,600	Present	Present	Present	Present	Present
Xavier Jospeh	Member	2,400	Present	Present	Present + Proxy	Present	Present
Padmanabhan Ananthan	Member	2,000	Present	Present	Present	Present	Present
	TOTAL	6,000					

The Audit Committee received remuneration for their services for the period from 1st January 2015 to 31st December 2015, an amount of **OMR 6,000** (2014: OMR 3,600).

The AC meetings mainly focused on reviewing financial policies followed by the Company to affirm conformity with IFRS, in addition to providing the Board of Directors with a clear picture of the Company's financial position and risk management.

Responsibilities of the Audit Committee
The responsibilities and duties of the Audit Committee of the Company consist in reviewing:

a. The financial reports, including annual and quarterly financial statements, management letters, auditors' report, recommendations and conclusions, as well as reviewing the annual budget prepared by the management before submission to the Board of Directors;
b. The financial reporting process and improvements;
c. The ethical, regulatory and legal compliance

7. Brief Profile of the Directors

Patrice Fonlladosa

After several international assignments for Bouygues and Matra for ten years in the eighties, Patrice Fonlladosa has developed his experience and expertise within the Veolia group since 1994; first in the Executive Committee of the Transportation Division, leading the international development along with Antoine Frérot; and from 2003 to 2010, at Veolia Water, as Senior Executive Vice President and member of the Executive Committee.

Among his recent missions:

- For four years, CEO of Veolia Water North America, including sell out of US FILTERS activities to SIEMENS and re-engineering of VWNA on the American Continent.
- President and CEO of Veolia Water AMI (Africa, Middle East and India subcontinent), including the water, sanitation and electricity concession contracts in Gabon, Niger and Morocco as well as in India and in many countries in the Middle East (Saudi Arabia, UAE, Oman, etc.).

He led the successful opening of VW AMI equity to prestigious first ranked minority shareholders, IFC (World Bank) and Proparco (AFD Group), and the first Group's joint venture creation with the UAE development company Mubadala for Middle East and North Africa in 2008. Within a few years, he contributed to the presence of the group in six additional countries and to winning numerous contracts (concessions, BOT, etc.).

In 2011, he joined the CEO's Office of the Veolia group, where he has been conducting the relationships with financial bankers and running the Strategic Partnerships Unit (Ex: Qatari Diar). In addition, he has managed the defeasance structure of the Group. He led the "Headquarters Transformation" mission within the Convergence Plan set-up to re-engineer the Group.

In July 2014, he was appointed President and CEO of Veolia group, in charge of the business activity in Africa and the Middle East with the aim of driving the zone to emerge as the third leading position within the Group.

Graduated in 1981 from the Institut Français de Gestion, Patrice Fonlladosa is a French citizen; living in Paris, he has four children.

Xavier Joseph

Now leading Veolia's activities in the Gulf Countries, Xavier was most recently appointed as Veolia's Chief Operating Officer for Veolia in the Middle East. Xavier is an Environmental Engineer by background, with over 20 years of experience in the water industry acquired from both developing and developed countries. Xavier arrived in Dubai in 2012 from Morocco where he had been Veolia Water Morocco Deputy Chief Executive Officer for 4 years. Before that, Xavier had essentially a French carrier; he was Managing director for Nice area in his last position.

Xavier is currently seating, as a representative of Veolia, in the Board of Directors of several companies (in France, Qatar and the UAE). His portfolio of achievements, in his past and present areas of responsibilities, includes, organization of project financing for water utilities, operations & maintenance projects for water treatment plants and water utilities, and the management of companies selling Veolia unique portfolio of water services.

Xavier was born in France in 1966 where he completed his Bachelor and Master degrees in Engineering with specialization on Electricity in the Ecole Nationale Supérieure des Ingénieurs Electriciens de Grenoble. He completed a Master in Business Administration at Ecole Supérieure de Commerce de Paris with 6 months spent in University of California in Berkeley. Xavier is the happy father of 3 children.

Chander Kant Khanna

He is a Mechanical Engineer with Post Graduation in Management and has a high profile career of over 35 years. He started his career with the TATA Group, one of the largest conglomerates of India, and is currently the General Manager-Corporate of Bahwan Engineering Group (BEG) - heading the overall operations of Products Business Group and the Development of Muscat International Airport Project.

BEG is the flagship company of Suhail Bahwan Group, employs more than 14,000 employees (both nationals and expats) and undertakes mega projects like LNG, Energy & Water Sector projects, Petrochemicals, Hospitals, Commercial Complexes, Airport projects, etc. and continues to make significant contribution to the economic, social and cultural development of Sultanate of Oman.

He is a Board Member of Bechtel-Enka-Bahwan Consortium, who are responsible for the construction of Muscat International Airport Terminal Building. He was a Member of the Board of Oman Society of Contractors and Board Member of Oman American Business Council.

He was involved from concept stage to construction of the Sharqiyah Desalination project and responsible as a management representative of Bahwan Engineering Group on the OTV-BEC Consortium Management Board for construction of the project.

Padmanabhan Ananthan

He is a Chartered Accountant from the Institute of Chartered Accountants of India. He has 30 years of professional experience and is presently the Chief Financial Officer of Bahwan Engineering Group.

He has vast financial experience in manufacturing and construction industries and has worked closely in developing new business ventures in the power and water sector for Bahwan Engineering Group. His areas of specialization are finance, taxation, budgeting and development of privately owned infrastructure and other projects.

He serves on the Board of a listed company (SAOG Company) in the Sultanate of Oman.

Jean-Francois Roberge

Jean-François is well known for his extensive international experience in UAE, South America, Oman, Algeria and Canada, Mr. Jean-Francois Roberge has been based in Abu Dhabi, UAE for the past 13 years.

Since September 2014, he is Vice-President Business Development and Strategy at Farah Lesiure, a company based in Abu Dhabi that specializes in managing theme parks. Before this responsibility, Jean Francois was a Senior Manager of Mubadala Development Company having joined Mubadala in 2005.

Having previously worked with SNC Lavalin in Canada, Mr. Roberge has wide experience of large infrastructure project developments including working on 6 Independent Power Project developments. He was actively involved in the privatization of RPC and development of SMN Barka.

Jean Francois was a director on the board of Shariket Kahraba Hadjret En Nouss S.p.A. Power Companies (Algeria), SMN Barka (Oman) and RPC (Oman). He has also served on the boards of Torresol Energy (Spain - Solar CSP Developer) and Azaliya (Abu Dhabi – Water Concession Enterprise).

He graduated from the Polytechnic School, University of Montreal, Canada in Mechanical Engineering (1987), and he is also member of the Chartered Order of Engineers of Quebec.

Ali Khamis Mubarik Al Alawi

Ali Khamis Mubarik Al Alawi's extensive experience in the legal field is well known in the Sultanate of Oman as it has been consolidated by the legal company that he founded and which he is now leading: Al Alawi & Co. His company is now considered as one of the leading lawyer companies in the Sultanate.

Ali Khamis holds a bachelor degree in Sharia and Law from Al Azhar University (Cairo, Egypt), he is a commercial arbitrator with a long experience in international arbitration besides his experience in the field of intellectual property.

Ali Khamis chaired many prestigious centers in the field of law and the last was the Commercial Arbitration Center of GCC.

Mustafa Ahmed Salman

Mustafa Ahmed Salman is the chairman and CEO of United Securities LLC. A leading investment services company in the Sultanate of Oman. He founded the company in 1994 and it grew to hold the largest market share in the Sultanate as per official records.

Earlier in his career, Mustafa Salman served on the board of Oman Chamber of Commerce and Industry. He was a director of Muscat Securities Market and the vice chairman of Muscat Clearing and Depository Company. He also served as a board member of the Oman Olympic Committee and the Oman Handball Association and was a director of National Pharmaceutical Company.

Today, he is the honorary consul of the Australian Government to the Sultanate of Oman where he plays a valuable role in strengthening the ties between both countries and serves as the deputy chairman of the Banking, Finance and Insurance Committee of Oman Chamber of Commerce and Industry. He also serves as a director and audit committee member of publicly listed companies such as Oman United Insurance Company and Majan Glass Company SAOG and is a director of Salman Stores LLC. Currently he is a committee member of Oman Kuwait Investment Company. Mustafa Salman has also expanded his expertise into the construction sector where he is an owner and founder of his construction company Mustafa Ahmed Salman Trading Enterprises (MASTE).

Mustafa Holds an Advanced Diploma in Accounting, and is a holder of the 'International Capital Markets Qualification' from the Securities Institute of London. He is also a registered broker with advisory license from MSM.

8. Management

The Managers of the Company are appointed with proper contracts clearly defining the terms of reference. The Chief Executive Officer, under the supervision, direction and control of the Board of Directors, manages the Company.

9. Related party transactions

All the related party transactions are carried out at arm's length basis in the normal course of business and are disclosed in the accounts.

10. Means of communication with the Shareholders and investors

The notice to the Shareholders for the AGM including the details of the related party transactions is filed with CMA and mailed to the Shareholders along with Directors' report and audited accounts.

The quarterly results of the Company as per CMA format are prepared by the management for every quarter, reviewed by external auditors, then reviewed by the Audit Committee and subsequently recommended to the Board which approve accordingly, uploaded on the website of Muscat Securities Market (MSM) and finally published in the newspapers as per the directives of CMA.

Important Board of Directors decisions are disclosed to the investors through MSM from time to time. The company maintains its official website, **http://sharqiyahdesalination.com** for its investors. The website is updated periodically. The Management Discussion and Analysis Report form part of the Annual Report.

11. Compliance with Rules and Regulations

The Company has been compliant with all the applicable rules and regulations issued by MSM, CMA and those stipulated in the Commercial Companies Law 1974 as amended. No penalties have been imposed by CMA or MSM or any other statutory bodies on the Company.

12. Audit and internal control

In consultation with the Audit Committee, the Board of Directors recommends the appointment of external auditors to the AGM.

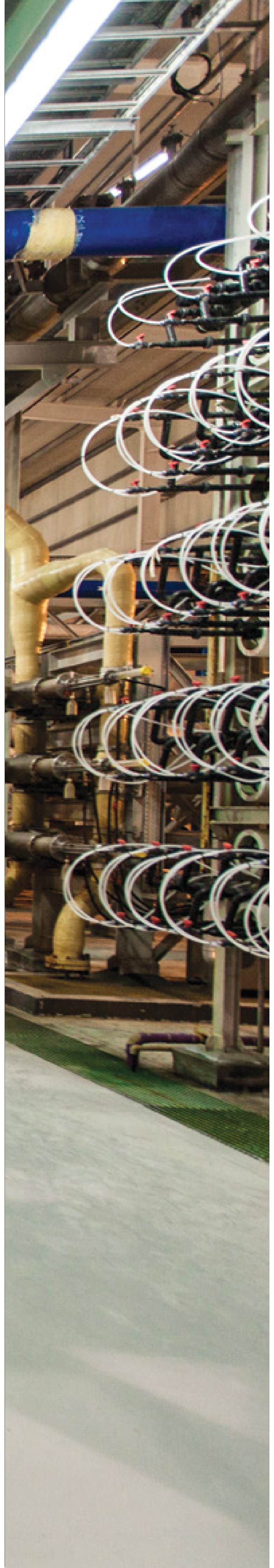
The present audit firm KPMG provides audit services to the Company. In accordance with the Corporate Governance Code, the services of KPMG are not used where a conflict of interest might occur.

The Audit Committee initiates the review, on behalf of the Board, of the effectiveness of internal controls by meeting the internal auditor, the review of the internal audit reports and recommendations and meeting the external auditor, the review of audit findings and the management letter.

As a publicly traded company on the Muscat Securities Market (MSM), it is crucial that SDC maintains the highest levels of internal controls and corporate governance.

SDC is proud of the fact that it remains in full compliance with the Code of Corporate Governance.

These will keep on being monitored, confirmed and verified by internal and external audits throughout the business cycle.



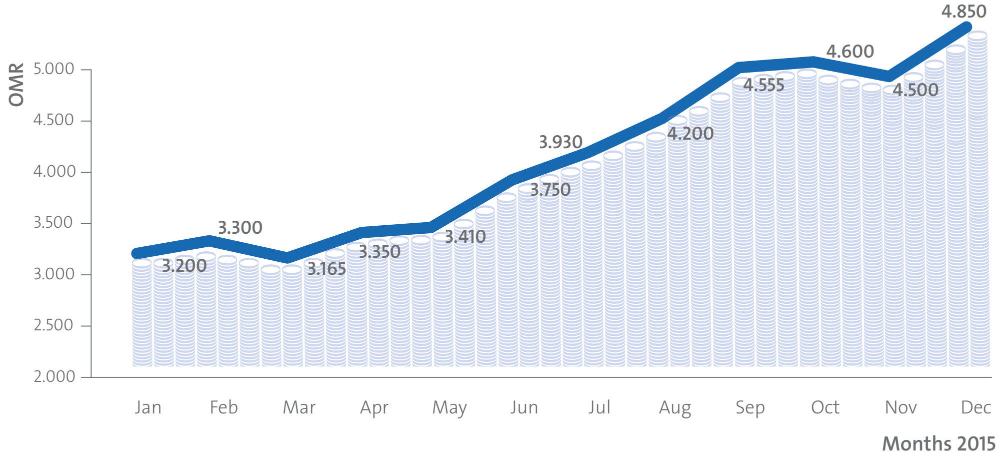
13. Market price data

a. The annual high and low share price of the Company in 2015 was as follows:

The share market price was OMR 4.850 per share as of 31st December 2015. The opening price on 1st January 2015 was OMR 3.400 per share.

The highest share price was of OMR 4.850 (29th December 2015) and the lowest share price was of OMR 3.150 (19th January 2015).

b. The Company Share Price movements from 1st January to 31st December 2015



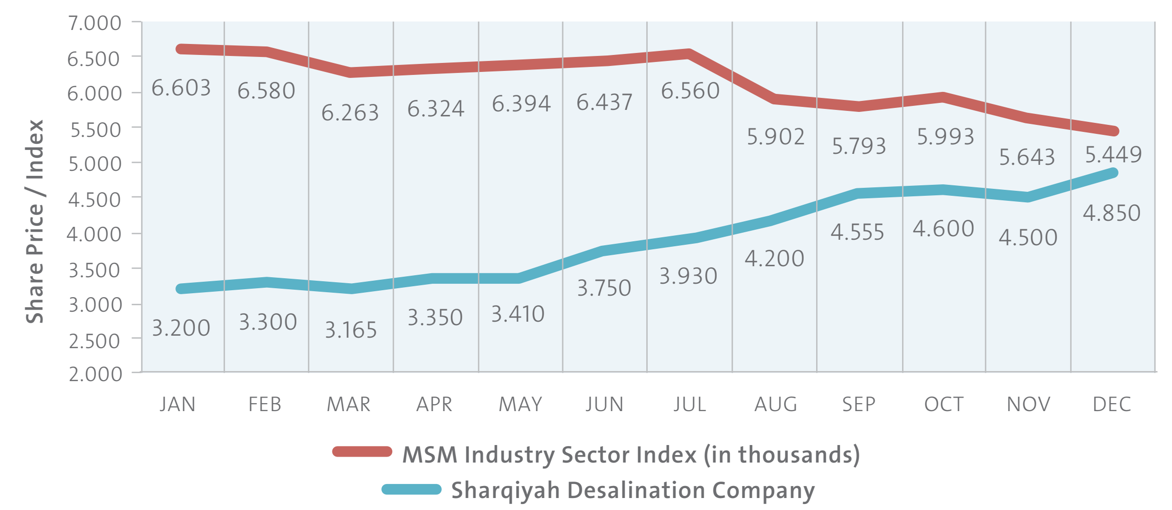
c. The Company's performance compared to Muscat Securities Market ('MSM') Industry Sector Index for the year 2015

The index of MSM Industry Sector Index includes a sample of the top 6 industrial companies. The objective of this index is to reflect, objectively and fairly, the prices movement of the listed shares in the market.

As per the table and chart below, we compare the Company's share price performance with the MSM Industry Sector Index performance to allow our shareholders to gauge how well the Company performed, in the context of the Omani industrial sector.

DATE	Sharqiyah Desalination Company Market Price (high)	MSM Industry Sector Index [1] Market Price (high)
JAN 27, 2015	3.200	6,602.98
FEB 25, 2015	3.300	6,579.56
MAR 31, 2015	3.165	6,263.23
APR 28, 2015	3.350	6,324.05
MAY 31, 2015	3.410	6,394.34
JUN 10, 2015	3.750	6,437.01
JUL 28, 2015	3.950	6,560.49
AUG 25, 2015	4.200	5,901.51
SEP 30, 2015	4.555	5,793.47
OCT 29, 2015	4.600	5,934.88
NOV 29, 2015	4.500	5,642.93
DEC 31, 2015	4.850	5,448.54
JAN vs. DEC 2015	**+52%**	**-17%**

1 Source: the Muscat Securities Market website https://msm.gov.om/



14. Share Capital composition

The authorized share capital comprises 10,500,000 ordinary shares of OMR 1 each.

The issued and fully-paid share capital of the Company as of 31st December 2015 is OMR 9,780,216 as follows:

	2015		2014	
	No of shares	%	No of shares	%
Veolia Eau-Compagnie Générale 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%
TOTAL	9,780,216	100%	9,780,216	100%

15. Financial instruments and prospective impact on shareholders' equity

The Company has not issued any financial instruments which would have an impact on earnings per share when exercised.

For more information on the financial instruments, please refer to the Notes 14 and 16 of the audited financial statement as at 31st December 2015.

16. Professional profile of the statutory auditor

The shareholders of the Company appointed KPMG as the Company's auditors for the year 2015. KPMG is a leading Audit, Tax and Advisory firm in Oman and is a part of KPMG Lower Gulf that was established in 1974. KPMG in Oman employs more than 180 people, amongst whom are 4 Partners, 7 Directors and 21 Managers, including Omani nationals. KPMG is a global network of professional firms providing Audit, Tax and Advisory services. KPMG operates in over 150 countries and has around 174,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOGs).

During the year 2015, KPMG billed an amount of RO OMR 24,415 (2014: OMR 14,250) towards professional services rendered to the Company (OMR 15,165 for audit and OMR 9,250 for other services).

17. Details of non-compliance by the Company

To date, MSM/CMA or any other statutory authority has not imposed any penalties on any matter related to capital markets to the Company. However a member of the Audit Committee held an executive position in the Company during 2015.

18. Acknowledgement by Board of Directors

The Board of Directors is responsible for ensuring that the financial statements are in accordance with the applicable standards and rules.
There are no material circumstances that effect the continuation of the Company and its ability to continue its production operations during the next financial year.

The Board of Directors, through the Audit Committee's consideration of the results of the internal audit and discussions with the external auditors, together with their examination of periodic management information and discussions with the management, have reviewed the operation of internal controls during the year ended 31st December 2015. The Board of Directors has concluded based on this that, internal controls are effectively being put in place.

Patrice Fonlladosa
Chairman

Jean Francois Roberge
Chairman of the Audit Committee

REPORT OF THE AUDITORS ON FINANCIAL STATEMENTS

Report of the Auditors on Financial Statements

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SHARQIYAH DESALINATION COMPANY SAOG

Report on the financial statements

We have audited the financial statements of Sharqiyah Desalination Company SAOG ("the Company"), set out on pages 2 to 25, which comprise the statement of financial position as at 31 December 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on legal and regulatory requirements

In our opinion, the financial statements of the Company as at and for the year ended 31 December 2015, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

Paul Callaghan

24 February 2016

C.R. No. 1/30936/6

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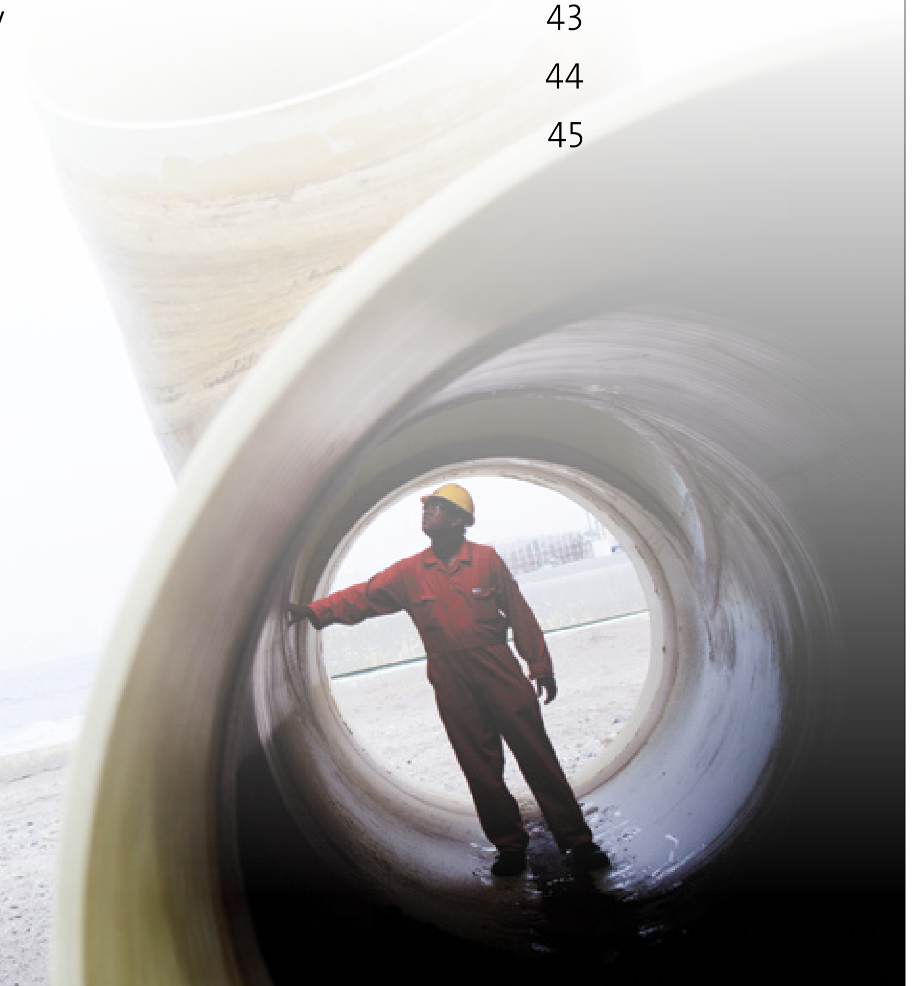
FINANCIAL STATEMENTS

SHARQIYAH DESALINATION COMPANY SAOG

FINANCIAL STATEMENTS

31 December 2015

CONTENT



Registered office

P. O. Box 685

Postal Code 114, Jibroo

Sultanate of Oman

Principal place of business

Sharqiyah Region

Sultanate of Oman

Page 2

SHARQIYAH DESALINATION COMPANY SAOG

Statement of financial position

as at 31 December

	Notes	2015 RO	2014 RO
Assets			
Property and equipment	9	90,484	90,302
Finance asset receivable	10	48,665,623	51,661,156
Deferred tax asset	18	834,868	839,690
Plant Expansion- Work in Progress		29,721,672	2,350,146
Total non-current assets		79,312,647	54,941,294
Trade and other receivables	11	1,360,081	2,289,420
Amount due from related parties	20	21,367	5,028
Income tax receivable	18	-	125,332
Cash in hand and at bank	12	2,323,661	4,694,162
Total current assets		3,705,109	7,113,942
Total assets		83,017,756	62,055,236
Equity and liabilities			
Share capital	13	9,780,216	9,780,216
Legal reserve	13	1,928,344	1,776,669
Retained earnings		5,504,677	4,726,413
Hedging deficit	14	(6,122,362)	(6,157,725)
Total equity		11,090,875	10,125,573
Liabilities			
Hedging deficit	14	6,957,230	6,997,415
Long term loan (non-current portion)	15	60,524,086	37,942,681
Deferred swap income (non-current portion)	16	-	247,413
Total non-current liabilities		67,481,316	45,187,509
Trade and other payables	17	329,079	768,107
Long term loan (current portion)	15	-	3,159,072
Amount due to related parties	20	2,379,244	934,204
Deferred swap income (current portion)	16	-	36,355
Deferred tax liability	18	1,571,375	1,533,336
Tax payable	18	165,867	311,080
Total current liabilities		4,445,565	6,742,154
Total liabilities		71,926,881	51,929,663
Total equity and liabilities		83,017,756	62,055,236
Net asset value per share	22	1.134	1.035

The financial statements were approved and authorised for issue by the Board of Directors on 24 February 2016 and signed on their behalf by:

Chairman

Chief Financial Officer

The notes on pages 6 to 25 form an integral part of these financial statements.

The report of the Auditors is set forth on page 1.

Statement of profit or loss & other comprehensive income
for the year ended 31 December

	Notes	2015 RO	2014 RO
Revenue	5	**10,055,141**	9,816,464
Cost of sales	6	**(5,273,855)**	(4,350,245)
Gross profit		**4,781,286**	5,466,219
Administrative and general expenses	7	**(522,059)**	(425,365)
Finance charges – net	8	**(2,536,280)**	(2,252,193)
Profit before tax		**1,722,947**	2,788,661
Taxation	18	**(206,195)**	(332,139)
Profit for the year		**1,516,752**	2,456,522
Other comprehensive income: ***Items that are or may be reclassified subsequently to profit or loss***			
Fair value adjustment	14	**40,185**	(961,743)
Deferred tax on fair value adjustment	18	**(4,822)**	115,409
Total comprehensive income for the year		**1,552,115**	1,610,188
Basic earnings per share	23	**0.155**	0.251

The notes on pages 46 to 64 form an integral part of these financial statements.

The report of the Auditors is set forth on page 40.

Statement of changes in equity
for the year ended 31 December

	Share capital RO	Legal reserve RO	Retained earnings RO	Hedging deficit RO	Total RO
1 January 2014	6,520,144	1,531,017	6,773,196	(5,311,391)	9,512,966
Transactions with shareholders, recorded directly in equity					
Transfer to legal reserve	-	245,652	(245,652)	-	-
Dividend paid	-	-	(997,581)	-	(997,581)
Bonus shares issued	3,260,072	-	(3,260,072)	-	4,150,224
Other comprehensive income					
Fair value adjustment	-	-	-	(961,743)	(961,743)
Deferred tax	-	-	-	115,409	115,409
Net profit for the year	-	-	2,456,522	-	2,456,522
31 December 2014	9,780,216	1,776,669	4,726,413	(6,157,725)	10,125,573
1 January 2015	**9,780,216**	**1,776,669**	**4,726,413**	**(6,157,725)**	**10,125,573**
Transactions with shareholders, recorded directly in equity					
Transfer to legal reserve	**-**	**151,675**	**(151,675)**	**-**	**-**
Dividend paid	**-**	**-**	**(586,813)**	**-**	**(586,813)**
Other comprehensive income:					
Fair value adjustment	**-**	**-**	**-**	**40,185**	**40,185**
Deferred tax	**-**	**-**	**-**	**(4,822)**	**(4,822)**
Net profit for the year	**-**	**-**	**1,516,752**	**-**	**1,516,752**
31 December 2015	**9,780,216**	**1,928,344**	**5,504,677**	**(6,122,362)**	**11,090,875**

The notes on pages 46 to 64 form an integral part of these financial statements.

The report of the Auditor is set forth on page 40.

Statement of cash flows
for the year ended 31 December

	2015 RO	2014 RO
OPERATING ACTIVITIES		
Profit before income tax Adjustments for:	**1,722,947**	2,788,661
Amortization	**2,995,533**	3,499,773
Depreciation	**19,554**	26,365
Net changes in accruals	**(24,865)**	38,032
Gain on disposal of old assets	**-**	(33)
Deferred swap income	**(283,768)**	(39,007)
Finance costs	**2,820,048**	2,291,200
	7,249,449	8,604,991
Working capital changes:		
Trade and other receivables	**929,339**	(13,507)
Trade and other payables	**34,458**	(3,216)
Due from related parties	**(16,339)**	840,477
Due to related parties	**886,645**	(112,926)
Cash from operations	**9,083,552**	9,315,819
Finance costs paid	**(2,820,048)**	(2,291,200)
Tax paid	**(311,080)**	(246,905)
Income tax refund received	**123,043**	-
Net cash from operating activities	**6,075,467**	6,777,714
INVESTING ACTIVITIES		
Plant expansion	**(27,371,526)**	(2,268,887)
Purchase of equipment	**(19,736)**	(42,348)
Trade and other payables (expansion WIP)	**(448,621)**	517,505
Due to related parties (expansion WIP)	**558,395**	404,355
Net cash used in investing activities	**(27,281,488)**	(1,389,375)
FINANCING ACTIVITIES		
Repayment of term loans	**-**	(3,718,937)
Dividend paid	**(586,813)**	(997,581)
Drawdown from lenders	**19,422,333**	-
Net cash generated from / (used in) financing activities	**18,835,520**	(4,716,518)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(2,370,501)**	671,821
Cash and cash equivalents at 1 January	**4,694,162**	4,022,341
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**2,323,661**	4,694,162

The notes on pages 6 to 25 form an integral part of these financial statements.

The report of the Auditor is set forth on page 1.

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 Public Authority for Electricity & Water (PAEW)]. 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 COD of the new plant.
All Terms and conditions of WPA dated 17 January 2007 still applied.

(iii) Novation Agreement dated 25 December 2014

A Novation agreement was signed & 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 Cost of EPC centred 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.

(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 judgments

The preparation of financial statements requires Management to make judgments, 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 judgments, 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).

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.

(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:

Building	7 years
Office equipment	7 years
Office furniture	3 years
Computer accessories	7 years
Plant equipment	7 years

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.

(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.

(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.

(iii) Employee benefits

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

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 recognized 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.

Notes

(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 recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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 realization 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 recognized 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 utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(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 31 December 2014, 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: 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 standard is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. Management are still considering what impact this standard will have on the Company's financial statements.

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 recognize revenue when (or as) the entity satisfies a performance obligation. The standard is effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted. Management have assessed that these standards will not have significant impact on the financial statements of the Company.

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.

5. Revenue

	2015 RO	2014 RO
Water capacity operation and maintenance charges	**2,614,816**	2,988,611
Water output operation and maintenance charges	**784,894**	788,171
Electricity charges	**1,968,913**	1,838,941
Financial income	**4,166,128**	4,427,508
Water capacity investment charge	**527,927**	(194,167)
Water quality standard reduction	**(7,537)**	(32,600)
	10,055,141	9,816,464

6. Cost of sales

	2015 RO	2014 RO
Operation and maintenance fixed charges	**2,334,157**	1,288,206
Operation and maintenance variable charges	**784,894**	788,171
Electricity charges	**1,999,908**	1,975,621
Operation and maintenance – other costs	**7,508**	85,711
Plant expansion costs	**147,388**	212,536
	5,273,855	4,350,245

7. Administrative and general expenses

	2015 RO	2014 RO
Employee related costs (see below)	**146,047**	176,174
Depreciation	**19,554**	26,365
Legal and professional expenses	**35,292**	47,016
Sitting fee	**23,500**	18,100
Board remuneration	**71,592**	-
Travelling expenses	**28,871**	18,817
Insurance	**40,154**	28,077
Others	**157,049**	110,816
	522,059	425,365

Employee related expenses are as follows:

	2015 RO	2014 RO
Salaries, wages and other benefits	**138,296**	171,040
Contributions to Omani Social Insurance Scheme	**3,932**	2,572
Obligation for defined benefit plan	**3,819**	2,562
	146,047	176,174

8. Finance charges - net

	2015 RO	2014 RO
Interest on term loans	**958,917**	564,573
Hedging charges	**1,729,822**	1,663,158
Deferred swap income	**(283,768)**	(39,007)
Interest earned on call accounts	**(850)**	(11,751)
Performance bond commission	**10,039**	50,870
Commitment fee	**73,048**	-
Refinancing fee	**11,648**	-
Agency fee and role fee	**34,066**	22,775
Others	**3,358**	1,575
	2,536,280	2,252,193

9. Fixed Assets

	Buildings	Plant and equipment RO	Office equipment RO	Furniture & fixtures RO	Computer & accessories RO	Total RO
Cost						
1 January 2015	61,312	-	20,938	46,844	46,186	175,280
Additions	4,975	7,020	1,400	2,403	3,938	19,736
31 December 2015	66,287	7,020	22,338	49,247	50,124	195,016
Depreciation						
1 January 2015	10,773	-	9,195	46,460	18,550	84,978
Charge for the year	9,694	351	3,210	522	5,777	19,554
31 December 2015	20,467	351	12,405	46,982	24,327	104,532
Net book value						
31 December 2015	45,820	6,669	9,933	2,265	25,797	90,484
31 December 2014	50,539	-	11,743	384	27,636	90,302

10. Finance asset receivable

	2015 RO	2014 RO
At 1 January	**51,661,156**	55,160,929
Less: amortization	**(2,995,533)**	(3,499,773)
At 31 December	**48,665,623**	51,661,156

11. Trade and other receivables

	2015 RO	2014 RO
Receivable from PAEW	-	1,944,279
Receivable from OPWP	1,091,944	252,637
Prepayments	99,377	84,644
Other receivables	168,760	7,860
	1,360,081	2,289,420

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 167,757, being estimated costs that will be recharged to related parties.

12. Cash in hand and at bank

	2015 RO	2014 RO
Cash in hand	5,616	4,212
Bank balances / deposits	2,318,045	4,689,950
	2,323,661	4,694,162

Cash at bank earns no interest (2014: 0.25% and 0.5% per annum).

13. Share capital and reserves

Share capital

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

Renewal of authorized 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 (2014: RO 9,780,216) as follows:

	2015 No of shares	2015 %	2014 No of shares	2014 %
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%
	9,780,216	100%	9,780,216	100%

Legal reserve

In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of the net profit for the year 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.

Bonus Shares Issue

At the Ordinary General Meeting held on 16 December 2014, the shareholders approved the distribution of one bonus share for every two shares held. The distribution of the bonus shares 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.

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). The COD is expected to be achieved on 15 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 utilised 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 utilised 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 31 December 2015, 6 month US LIBOR was approximately 0.84615% (2014: 0.36280%) Based on the interest rates gap, over the life of the ISDA, the indicative losses were assessed at approximately RO 6.96 million (2014: RO 7.00 million) by the counter parties to the ISDA. In case the Company terminates the ISDA at 31 December 2015, it may incur losses to the extent of approximately RO 6.96 million (USD 18.07 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 31 December 2015 in the amount of approximately RO 6.12 million (2014: RO 6.16 million), net of deferred tax asset, has been recorded within equity and the gross deficit in the amount of RO 6.96 million (2014: RO 7.0 million) is recorded under long term liabilities.

15. Long term loan

	2015 RO	2014 RO
Term loan (syndicated)	60,524,086	41,101,753
Current portion	-	(3,159,072)
	60,524,086	37,942,681

Loan agreement dated 15 May 2007

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%.

Loan agreement dated 26 March 2015

An amended and 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 63 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 6 month US LIBOR plus applicable margin of 1.75%. 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 in amended and restated facilities agreement). As per the amended and restated facilities agreement, the loan repayment commences from 31 December 2016.

The Company is currently financing its expansion activities through bank loan. The borrowing will continue till COD, as defined in the Amended & Restated WPA (i.e. 15 September 2016). On achievement of COD, Company will start to repay the loan.

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.

During the current year, the Company has closed out the previous hedging instrument and the deferred gain of RO 283,768 has been recognised in profit or loss and other comprehensive income. This amount is included in finance charges - net.

17. Trade and other payables

	2015 RO	2014 RO
Payables	**166,712**	132,254
CAPEX payables	**68,884**	517,505
Accruals	**93,483**	118,348
	329,079	768,107

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

18. Income tax

The taxation charges for the year comprise:

	2015 RO	2014 RO
Current taxation charge:		
Current year	**165,867**	311,080
Prior year	**2,289**	-
	168,156	311,080
Deferred taxation:		
For the year	**38,039**	21,059
	38,039	21,059
	206,195	332,139

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.

	2015 RO	2014 RO
Profit before taxation	**1,722,947**	2,788,661
Tax on accounting profit	**203,154**	331,039
Add tax effect of:		
Tax impact on disallowable expense	**752**	1,104
Prior year tax	**2,289**	-
Tax on disposal of assets	**-**	(4)
Tax charge for the year	**206,195**	332,139

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12% (2013: 12%). Deferred tax (assets) and liabilities and deferred tax charge / (credit) in the statement of profit or loss and other comprehensive income are attributable to the following items:

	1 January 2015 RO	Recognized in income RO	Recognized in equity RO	31 December 2015 RO
Property, plant and equipment	1,533,336	38,039	-	**1,571,375**
Hedging deficit	(839,690)	-	4,822	**(834,868)**
Net deferred tax liability	693,646	38,039	4,822	**736,507**

With effect from 1 January 2016, Management expects that the Company will be subject to income tax at a rate of 15% (2015: 12%). This will impact on income tax and deferred tax.

19. Commitments and contingencies

	2015 RO	2014 RO
Usufruct right fee	13,000	14,000
Usufruct right fee – related to expansion	49,907	-

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:

	2015 RO	2014 RO
Amounts due from related parties		
Bahwan Veolia Water LLC	431	-
Veolia Middle East SAS	484	(1,762)
Veolia LLC	800	2,818
Veolia Eau – Oman Branch	12,076	3,820
Seureca Muscat LLC	-	152
OTV SA & Partners LLC	7,576	-
	21,367	5,028
Amounts due to related parties		
Bahwan Veolia Water LLC	1,248,466	402,994
SIDEM- CAPEX payables	577,650	404,355
OTV SA & Partners LLC - CAPEX payables	385,100	-
Veolia Eau Compagnie Generale des Eaux	55,164	99,172
Veolia Eau – Oman Branch	75,337	-
Veolia LLC	-	125
Veolia Middle East SAS	37,527	27,558
	2,379,244	934,204
Compensation of key Management personnel		
Board of Directors sitting fees	17,500	14,500
Audit committee sitting fees	6,000	3,600
Board remuneration	71,592	-
Key management remuneration	136,043	138,212
Transactions with related parties during the year are as under:		
Veolia Eau Compagnie Générale des Eaux		
Services incurred	61,251	179,219
Payments made to them	(105,259)	(161,135)
Services rendered	-	-
Cash received from them	-	786,118

20. Related party transactions and balances (cont'd)

Bahwan Veolia Water LLC		
Operation & Maintenance service received	3,409,278	2,335,030
Other services incurred	11,677	10,179
Payments made to them	(2,575,483)	(2,462,652)
Services rendered	(58,464)	(25,833)
Cash received from them	58,033	26,223
National Power & Water Co. LLC		
Services incurred	219,827	36,470
Payments made to them	(219,827)	(36,470)
Services rendered	-	-
Cash received from them	-	53,322
SIDEM		
Services rendered	15,652,390	1,290,085
Payments made to them	(15,479,095)	(885,730)
OTV SA & Partners LLC		
Services incurred	8,072,851	-
Payments made to them	(7,687,751)	-
Services rendered	(12,398)	-
Cash received from them	4,822	-
Veolia LLC		
Services incurred	434	265
Payments made to them	(559)	(140)
Services delivered/rendered	(32,927)	(30,597)
Cash received from them	34,945	27,834
Veolia Water – Oman Branch		
Services incurred	106,797	25,265
Payments made to them	(31,460)	(25,265)
Services rendered	(52,325)	(19,641)
Cash received from them	44,069	21,645
Seureca Muscat LLC		
Services incurred	10,049	-
Payments made to them	(10,049)	-
Services rendered	(36,790)	(32,357)
Cash received from them	36,942	32,205
Veolia Water Middle East SAS		
Services incurred	359,292	27,558
Payments made to them	(349,323)	(41,249)
Services rendered	(2,835)	(17,013)
Cash received from them	589	18,775

Notes

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:

	2015 RO	2014 RO
Finance asset receivable	**48,665,623**	51,661,156
Trade and other receivables (excluding prepayments)	**1,260,704**	2,204,776
Amount due from related parties	**21,367**	5,028

(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:

	Carrying amount RO	Contractual cash flows RO	Up to 1 year RO	1 year and Above RO
31 December 2015				
Non-derivative financial liabilities				
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)	-
	63,232,409	(66,907,574)	(2,708,323)	(64,199,251)
Derivative-financial instrument				
Cash flow hedging deficit (refer note 14)	6,957,230	6,957,230		
31 December 2014				
Non-derivative financial liabilities				
Term loan (refer note 15)	41,101,753	(46,760,431)	(3,740,834)	(43,019,597)
Trade and other payables	768,107	(768,107)	(768,107)	-
Amounts due to related parties	934,204	(934,204)	(934,204)	-
	43,804,064	(48,462,742)	(5,443,145)	(43,019,597)
Derivative-financial instrument				
Cash flow hedging deficit (refer note 14)	6,997,415	6,997,415		

(iii) 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).

A decrease / increase of 100 basis points in interest rates during the year would result in increase / decrease in profit before tax by RO 95,892 (2014: RO 56,457).

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.

(iv) Fair value estimation

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

(v) 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

	2015 RO	2014 RO
Net assets (RO)	**11,090,875**	10,125,573
Number of outstanding shares at the end of the period (Nos.)	**9,780,216**	9,780,216
Net asset value per share (RO)	**1.134**	1.035

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:

	2015 RO	2014 RO
Net profit for the period (RO)	**1,516,752**	2,456,522
Weighted average number of shares (nos.)	**9,780,216**	9,780,216
Basic profit per share (RO)	**0.251**	0.241

24. Comparatives

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

This document was prepared by Sharqiyah Desalination Company & Veolia's Communication Department. Februrary 2016.
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