Water is life.

2013 ANNUAL REPORT

الشرقية لتحلية المياه
Sharqiyah Desalination
VEOLIA

Contents

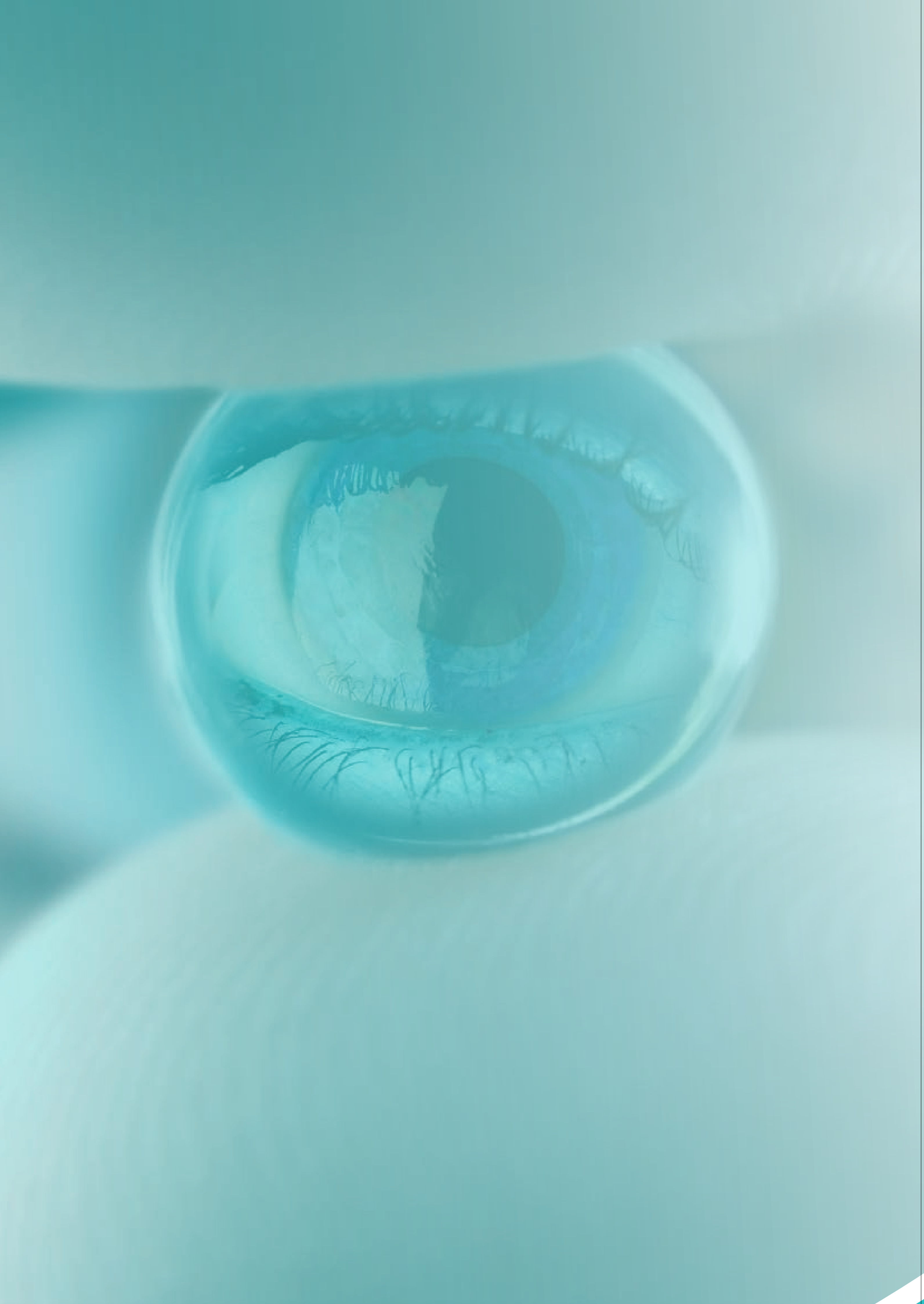
Acknowledgement

Acknowledgement

The Board of Directors of the Sharqiyah Desalination Company SAOG 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. We dedicate our humble achievements towards the building of strong Oman.

His Majesty
Sultan Qaboos Bin Said



Our vision, our mission !

Our vision, our mission

Vision

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

In delivering effective, sustainable solution 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 of the women and men who work for Sharqiyah Desalination Company.

Board of Directors

Board of Directors

SDC's Board of Directors comprises five respected professionals with vast regional and international experience and solid reputations.

Patrice Fonlladosa
Chairman

Xavier Joseph
Director

Padmanabhan Ananthan
Director

Chander Kant Khanna
Vice Chairman

Jean-Francois Roberge
Director

Board of Directors' report

Board of Directors' report

Dear Shareholders,

The members of the Board of Directors are honored and privileged to present the first Annual Report and Audited Financial Statements of the Sharqiyah Desalination Company SAOG ("SDC") for the period ending 31st December 2013.

General

The Company was incorporated in the Sultanate of Oman on 14 January 2007. The Company has been established to build, operate and maintain a new capacity water desalination plant at Sur in the Sharqiyah region, Sultanate of Oman.

On 30th 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').

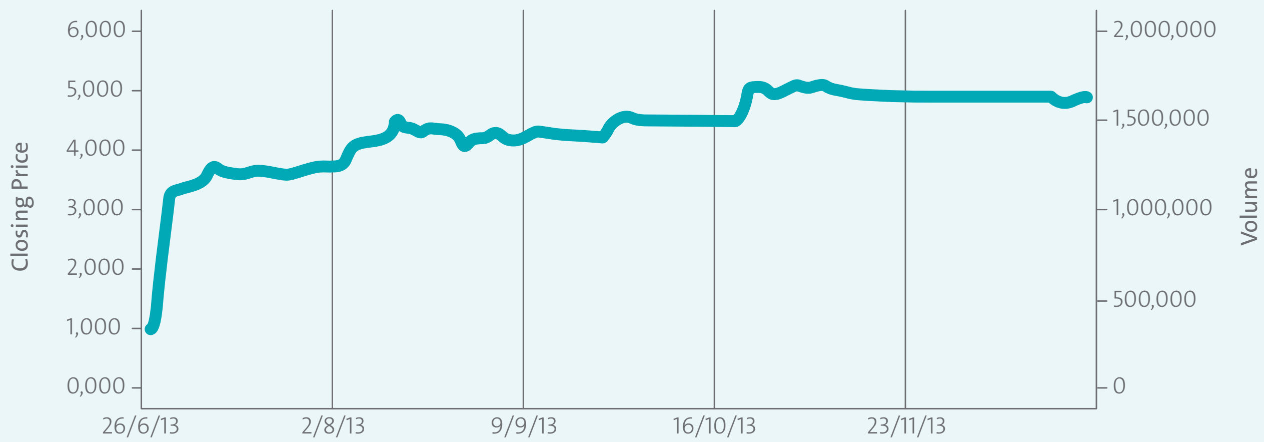
KEY ACCOMPLISHMENTS

The IPO

On 30th June 2013, SDC reached an important milestone by successfully listing 35% of its issued share capital on the Muscat Securities Market (MSM). Since the inception of the Sur Plant Project, it has been the objective of SDC to enable public investors to participate in its growth.

SDC is proud to play a vital role in empowering the future of Oman by delivering the "essential of life": potable water. With the critical size of SDC and its listing, also come new responsibilities and commitments to the shareholders. The Management of the Company has committed to continually respect the highest standards of Corporate Governance and to ensure compliance with the Code of Corporate Governance and Guidelines promulgated by the Capital Market Authority (CMA).

The IPO, which was offered to individual investors, only attracted overwhelming demand. The IPO has been a real success since it has evoked strong interest from investors. The total number of shares offered was 2,282,051 which were covered 13.1 times. The offer price to the public was RO 1.063 per share. The closing price as of 2013 year-end is RO 4.900 per share.



Operational excellence

SDC focus is on customer's satisfaction, which can be measured through plant availability. Thanks to our operator, the plant availability was 98% which is in progress compared to last year.

This important measure reflects the continuing commitment and dedication of the plant personnel as well as reflection of a well-constructed, maintained, and operated facility. There were no forced outages during the period.

During the month of March 2013, the total cumulated water production since the inception of the Company exceeded 60M m3.

Plant Expansion

During the year 2013, the Company entered into sole negotiation with OPWP for a potential expansion of our plant capacity by 10.6 MIGD allowed under the Water Purchase Agreement.

This is a unique opportunity to expand its operations and enhance its business. The Company would like to inform that, at this point of time, it is not in a position to confirm with any degree of certainty that its bid will be successful.

Quality Label Awards

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.

Financial Results

Without considering the extraordinary income during the year 2012, **the net profit for the year 2013 increased by 10%** compared to last year.

Thanks to the commitment of the entire management and a general effort of cost reduction, the administrative and general expenses decreased this year by RO 60k.

The earning per share stood at 361 baizas.

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.

Operational highlights

Operational highlights

Continuous increase of water supply

As expected, the year 2013 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 for the past 3 years, the water quantity produced and supplied by SUR Desalination Plant is increasing by an average of 9% per year with up to 15% increase of water demand during summer period between June to September (see Figure 1 Below).

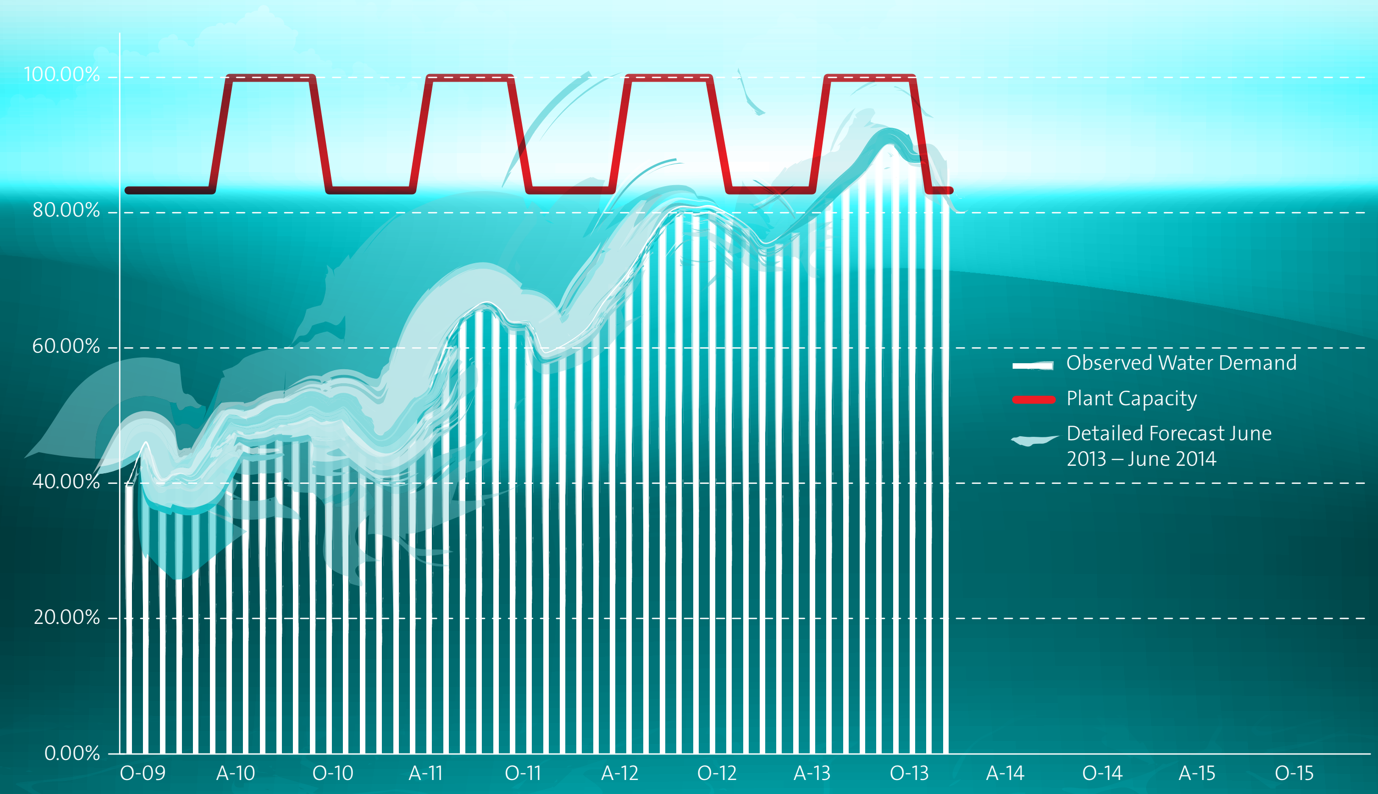


Figure1: Water Delivery & Plant load factor of SUR Desalination Plant from October 2009 to December 2013

Following such trend of water demand, the plant is expected to reach its maximum production capacity by 2015.

High standards of commitment on asset management

To comply with the high plant availability requirements imposed by the WPA, the Asset Management Plan has been fully reviewed and completed in 2013 based on the past four years of operation experience. The main outcomes of this study are the following:

- Confirming the asset register list.
- Updating the critical study of the plant to identify the plant critical equipment and focus the maintenance program on these particular assets.
- Updating the Maintenance Plan (preventive and corrective maintenance) including maintenance tasks scheduling.
- Updating the critical spare part list (update of the asset requirements, minimum and maximum number of critical spares to keep on site).
- Setting-up a long term investment program (renewal and/or overhauling of assets).

Committed to reliability

In 2013, the plant has been able to achieve 100% of the required output availability and therefore able to supply PAEW with **NO water outage all year long.** This remarkable availability is the result of a stringent maintenance programme followed and implemented by the Operation & Maintenance team.

A 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 2013.

In addition, more than 10,000 water parameters have been successfully analyzed in 2013 in the plant's internal laboratory facilities thereby aligning with the national frequency program of potable water monitoring.

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 regular follow-up to ascertain their lifespan and guarantee optimized and continuous fresh water production.

With more than 9000 Reverse Osmosis membranes units installed on site, this asset is by far the most critical one.

In 2013, the close monitoring of process parameters and membranes autopsies showed very positive sign of lifespan extension. Therefore, the starting of the Reverse Osmosis membranes replacement program, initially planned in 2012, has been shifted to early 2015. The Operation and maintenance company is of course focusing in initiating such heavy replacement program whenever required to guarantee a stable and compliant water production.

Description of the Project

Description of the Project

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) was awarded the bid 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 Company also entered into an "Asset Sale Agreement" dated 17 January 2007 with the RAEC to purchase the Existing Plant.

The Project Founder Agreement requires the Founders to float 35% of the Shares on the MSM through an IPO offering to the public. Following the IPO the Company will convert from an SAOC to an SAOG.

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)

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 Water Middle East (VWME)	**35.75%**
National Power & Water (NPW)	**29.25%**
Veolia Eau	**1 share**
Public	**35.00%**

Management discussion and analysis report

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Management discussion and analysis report

On October 6th, 2013 Sharqiyah Desalination Company SAOG has submitted a bid to the Tender Board in relation to the expansion of the Company's plant in Sur by 10.6 Million Gallons per Day (MiGD).

At the current time the Company is the sole bidder in respect of the expansion of Sur IWP Project as allowed under the Water Purchase Agreement entered into between the Company and the Public Authority for Electricity and Water in 2007.

In the event that the Company's bid is successful it will provide the Company an opportunity to expand its operations and enhance its business.

The Company would like to inform the shareholders that, at this point of time, it is not in a position to confirm with any degree of certainty that its bid will be successful.

Operations

The Company has increased its production volumes of water with a total water delivery of 24,130,420 m3 during 2013 against 21,208,910 m3 in the previous year i.e. an increase of 13.8%. The average delivery for the year represented 82% of the overall plant capacity and reached its peak at 89% during the month of August 2013. It is forecasted to reach full plant capacity by year 2015.

The overall commercial availability was 98% of the Demonstrated plant capacity (in progress compared to previous year). There were no forced outages during the period.

Outlook for 2014

All measures are taken by the Management of the Company to **maintain excellent plant availability levels** over the remaining years of the project.

Internal Control / 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.

Financial information

Despite an increase of the water production, the overall revenue during the year 2013 decreased by 0.91% (OMR 88K) which is mainly explained by the difference in the year days number (year 2012 was a leap year of 366 days) with an impact of OMR 34K. In addition to this, there is also a decrease on the tariffs in compliance with the new water quality standards, with pass through to O&M Subcontractor (OMR 62K).

Cost of sales globally remained stable. On the variable costs side, there is an increase of 8.6% driven by the increase in production of water, which is compensated on the other hand by a reduction in other operation and maintenance cost as a result of the new water quality standards, as previously mentioned.

Without considering the exceptional revenue of OMR 0.63 million during previous year (composed of exceptional insurance refunds, disposal of old obsolete equipment and a custom duty refund) the net profit increased by 10% compared to last year.

It is also to be noted, that thanks to a general effort of cost reduction, the administrative and general expenses decreased this year of OMR 60K.

The Earnings per Share (EPS) for the period stood at 361 baizas as compared to 424 baizas in the corresponding period of the previous year.

The net profit for the year 2013 was in line with the budget for the year 2013.

Corporate Governance

Corporate Governance

In accordance with the Capital Market Authority ("CMA") guidelines, we are pleased to present the first Corporate Governance Report ("the Corporate Governance Report") of Sharqiyah Desalination Company SAOG ("the Company") for the year ended 31st December 2013.

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 current Board of Directors was elected by the Shareholders in the meeting (Ordinary General Meeting "OGM") held on 21st July 2013 for a term of 3 years.

The Members of the Board are having professional and practical experience in their respective corporate fields, ensuring proper direction and control of 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 Water Middle East	Non-Executive	Not independent	Non-shareholder
Xavier Joseph	In personal capacity	Non-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

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	None	-
Jean Francois Roberge	Vice Chairman	SMN Power Holding 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 director ship held during the financial year 2013:

			18-03-2013	30-09-2013	30-10-2013	16-12-2013
Name of Directors	Position	Sitting fee (OMR)	Attendance	Attendance	Attendance	Attendance
Emmanuel Gayan	Chairman	1,000	Present+Proxy	N/A	N/A	N/A
Suresh Virmani	Vice Chairman	500	Present	N/A	N/A	N/A
Arnaud Leglise	Member	-	Proxy	N/A	N/A	N/A
Terrance Mah	Member	-	Proxy	N/A	N/A	N/A
Anil K Nahar	Member	1,000	Present+Proxy	N/A	N/A	N/A
Patrice Fonlladosa	Chairman	1,000	N/A	Proxy	Present	Present
Chander Kant Khanna	Vice Chairman	1,500	N/A	Present	Present	Present
Xavier Jospeh	Member	2,000	N/A	Present+Proxy	Present	Present
Jean Francois Roberge	Member	1,500	N/A	Present	Present	Present
Padmanabhan Ananthan	Member	1,500	N/A	Present	Present	Present
	TOTAL	10,000				

4. Process of nomination 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 remain vacant, the next AGM will focus, among other subjects of its agenda, on nominating and electing two additional Board members.

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 directors sitting fees for the year was of OMR 10,000 (2012: OMR 6,500).

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.

As the priority after the IPO was to meet the CMA requirement related to the SAOG status, the Audit Committee appointment has been resolved only in late December 2013. Thus, the Audit committee could not hold any meetings during the period from 1st January 2013 to 31st December 2013.

The next meeting will take place in 2014 and will focus on reviewing financial policies followed by the Company to affirm conformity to IFRS, in addition to providing the Board of Directors with a clear picture of the Company's financial position.

The Audit Committee did not receive any remuneration so far for their services for the period of 1st January 2013 to 31st December 2013.

Responsibilities of the Audit Committee

The responsibilities and duties of the Audit Committee of SDC 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 Environnement 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 but also 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 Group Veolia Environnement, where he has been conducting the relationships with financial backers 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 2013, 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 the Veolia Environnement's activities in the Gulf Countries, Xavier was most recently Veolia

Water Chief Operating Officer in the Middle East. Xavier is an Environmental Engineer by background, with over 20 years of experience in the water industry acquired in 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, Oman 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 is 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 professional with a high profile career of over 35 years and started his career in 1978 with the TATA Group, one of the largest conglomerates of India.

He is currently the General Manager-Corporate of Bahwan Engineering Group (BEG) and is heading overall operations of MEP & Mechanical Products of Bahwan Engineering Group.

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 was responsible from concept stage to construction and handing over of the Sharqiyah Desalination project and was also additionally responsible as a senior management representative of Bahwan Engineering Group on the OTV-BEC Consortium Management Board.

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

He has a Bachelor's Degree in Mechanical Engineering and Post Graduation in Marketing Management.

Padmanabhan Ananthan

He is a Chartered Accountant from the Institute of Chartered Accountants of India. He has 28 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 power and water infrastructure projects.

He serves on the Board of a closely held company (SAOC 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 10 years.

He is 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.

Today Jean Francois is 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.

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 the Audit Committee, approved by the Board, uploaded on the website of Muscat Securities Market (MSM) and also published in the Newspapers as per the directives of CMA.

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.
As mentioned above, the priority further to the IPO dated 30th June 2013 was to meet the CMA's requirements related to the SAOG status; therefore the Audit Committee member have been appointed only late in December 2013. Thus, the Audit committee could not hold any meetings during the period from 1st January 2013 to 31st December 2013.

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 forms part of the Annual Report.

Corporate Governance (cont'd)

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 will initiate the review in the early course of the year 2014, on behalf of the Board, of the effectiveness of internal controls by meeting internal auditor, review of the internal audit reports and recommendations and meeting the external auditor, review of audit findings and the management letter.

As this is the first year of the audit committee appointment further to the IPO in June 2013, an adequate and effective internal control system is currently being put in place.

As a publicly traded company on the Muscat Securities Market (MSM) and a subsidiary of Veolia Environnement, a global company traded on the New York Stock Exchange (NYSE), 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 of CMA, and conforms to the Sarbanes-Oxley Act, of the United States of America.

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

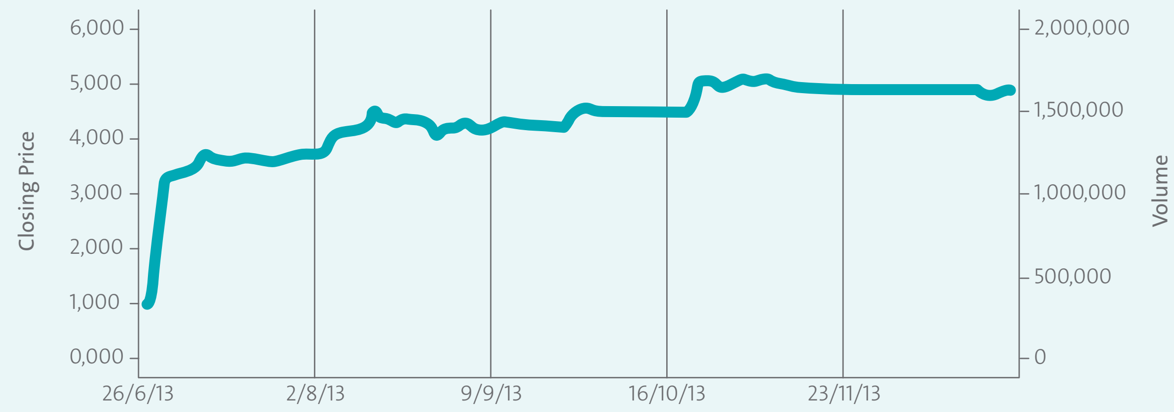
13. Market price data

a. The annual high and low share price of the Company in 2013 was as follows:

The offer price to the public was RO 1.063 per share. The opening price on 30th June 2013 was RO 3.127 per share.

52 Weeks		Last Price		Last Trade		
High	Low	Bid	Ask	Date	Price	Vol.
0.00	0.00	4.910	5.000	29/12/2013	4.910	100
Low		Turnover		Volume		
3.127		14,829,446.082		4,087,313		
Previous Close		Close		Change		
1.063		4.900		360.96% 3.837 ▲		

b. The Company Share Price movements during 2013



14. Share Capital composition

The share holding pattern as on 31st December 2013 is as given below:

	2013		2012	
	No of shares	%	No of shares	%
Veolia Eau-Compagnie Générale des Eaux	1	-	1	-
National Power and Water Co. LLC	1,907,142	29.25%	2,934,065	45%
Veolia Water Middle East	2,330,950	35.75%	3,586,078	55%
Public	2,282,051	35.00%	-	-
	6,520,144	100%	6,520,144	100%

15. Professional profile of the statutory auditor

The shareholders of the Company appointed KPMG as the Company's auditors for the year 2013. KPMG is a leading accounting firm in Oman and is a part of KPMG Lower Gulf that was established in 1974. KPMG in Oman employs more than 130 people, amongst who are 4 Partners, 5 Directors and 20 Managers, including Omani nationals and is a member of the KPMG network of independent firms affiliated with KPMG International Co-operative.

KPMG is a global network of independent firms providing Audit, Tax and Advisory services and has more than 155,000 people working together in 155 countries worldwide.

KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's). During the year 2013, the audit fees were OMR 11,145 towards audit services rendered to the Company.

16. Details of non-compliance by the Company

As previously mentioned, as SDC has lately become an SAOG through IPO in June 2013, and given the short notice between the appointment of Audit Committee members in December 2013 and year end, the Audit Committee was not able to hold any meeting during the period ended 2013.

To date, MSM/CMA or any statutory authority has not imposed any penalties on any matter related to capital markets on the Company.

17. 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 2013. The Board of Directors has concluded, based on this that, internal controls are effectively being put in place in order to be finalized no later than year-end of 2014.

Patrice Fonlladosa
Chairman

Jean Francois Roberge
Chairman – Audit Committee

Corporate Responsibility and Sustainability

Corporate Responsibility and Sustainability

Access to basic services and equitable resource distribution remain crucial issues today as societies undergo profound transformations. For Sharqiyah Desalination Company, **access** to **water**, **waste management**, and **energy** are the very core of our businesses and expertise. And, because the areas we serve depend on us, we strive for continuous improvement in providing those services. In this context, sustainable development forms an integral part of our day-to-day operations.

Over the year 2013, SDC has strengthened its commitment as a determined player in the green economy, more attentive than ever to all aspects of Corporate Social Responsibility in the Sultanate of Oman. In harmony with the vision of his majesty Sultan Qaboos Bin Said, running a responsible business is the way in which we fulfil the obligations we have to our stakeholders in the Sultanate of Oman; including our employees, customers, communities and government bodies. SDC Corporate Social Responsibility (CSR) program main goals are to be the best employer for everyone who works with us while promoting Omanisation & talent development, and to initiate actions that will bring value and benefit to the local communities through the support of our partners.

SDC made progress in incorporating the various aspects of sustainable development into its business activities by continuing to roll out tools and methods that meet the individual needs of the Sultanate of Oman:

In terms of Performance, relevant initiatives focus mainly on: improving management systems in areas of corporate social responsibility by developing innovative solutions that incorporate the three aspects of sustainable development.

In the workplace, SDC is committed to actively engage with the communities and local residents, through its employees, to further their opportunities and build relations. SDC also provides its employees with the opportunities, resources and environment to allow them to make an effective contribution to the business while creating value for Omani by Omani.

We also actively seek opportunities to reduce consumption of natural resources by optimizing efficiency, whilst protecting and enhancing the environment and the Planet.

Water is life, water is growth and as a sign of strong commitment to the corporate social enhancement, SDC and Bahwan Veolia Water have launched two main symbolic initiatives:

The first one and as a sharing and growth symbol, it was decided to harvest, collect and gift the dates grown from the few palm trees available on the site. The trees are watered with reuse and recycled soft water from the desalination process. These dates will be gifted to each employee family and will be served as host and welcome sign to each visitor coming into our site.

The second initiative is a symbol of life. It was decided late 2013 to show that life is always possible even in the most extreme ambient conditions. For that purpose more than 200 halophyte trees have been planted. Those trees have the particularity to require seawater by-product and few quantity of water to grow. This tree planting was organised on December 2013 by the team. All employee children have joined this operation.

Our corporate responsibility and sustainability 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.

Collaboration and cooperation between communities, stakeholders and SDC is the way that will lead to the success of our CSR program in playing the desired role in comprehensive development and achieving its short and long-term goals to serve the present and future generations in Oman and especially in the region of Sharqiyah.

Water is life, water is growth and as a sign of strong commitment to the corporate social enhancement, SDC and Bahwan Veolia Water have launched **two** main symbolic **initiatives:**

1 SHARING AND GROWTH SYMBOL: harvest, collect and gift the dates grown from the few palm trees available on the site.

2 SYMBOL OF LIFE: halophyte trees.

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 2013, and the statements of 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 2013, 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 2013, 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

27 February 2014

C.R. No. 1/30936/8

Financial Statements

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SHARQIYAH DESALINATION COMPANY SAOG

FINANCIAL STATEMENTS

31 December 2013

Contents

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	2013 RO	2012 RO
Assets			
Property and equipment	9	74,285	50,538
Finance asset receivable	10	55,160,929	58,629,614
Deferred tax asset	18	724,280	1,222,307
Plant Expansion- Work in Progress		81,259	-
Total non-current assets		56,040,753	59,902,459
Trade and other receivables	11	2,275,913	1,175,747
Amount due from related parties	20	845,505	1,256,331
Income tax receivable	18	125,332	125,332
Cash in hand and at bank	12	4,022,341	2,780,955
Total current assets		7,269,091	5,338,365
Total assets		63,309,844	65,240,824
Equity and liabilities			
Share capital	13	6,520,144	6,520,144
Legal reserve	13	1,531,017	1,295,776
Retained earnings		6,773,196	4,656,027
Hedging deficit	14	(5,311,391)	(8,963,588)
Total equity		9,512,966	3,508,359
Liabilities:			
Hedging deficit	14	6,035,672	10,185,895
Long term loan (non-current portion)	15	41,101,753	44,822,785
Deferred swap income (non-current portion)	16	283,768	323,081
Total non-current liabilities		47,421,193	55,331,761
Trade and other payables	17	215,785	618,662
Long term loan (current portion)	15	3,718,937	3,588,654
Amount due to related parties	20	642,774	560,511
Deferred swap income (current portion)	16	39,007	42,055
Deferred tax liability	18	1,512,277	1,427,643
Tax payable	18	246,905	163,179
Total current liabilities		6,375,685	6,400,704
Total liabilities		53,796,878	61,732,465
Total equity and liabilities		63,309,844	65,240,824
Net asset value per share	22	1.459	0.538

The financial statements were approved and authorised for issue by the Board of Directors on 27 February 2014 and signed on their behalf by:

P.O. Box 685
P.C: 114, Jibroo
C.R.: 1011277

for 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 comprehensive income

for the year ended 31 December

	Notes	2013 RO	2012 RO
Revenue	5	9,542,979	9,630,307
Cost of sales	6	(4,024,973)	(4,017,081)
Gross profit		5,518,006	5,613,226
Other income		13,000	635,591
		5,531,006	6,248,817
Administrative and general expenses	7	(421,865)	(481,007)
Finance charges – net	8	(2,391,135)	(2,624,258)
Profit before tax		2,718,006	3,143,552
Taxation	18	(365,596)	(378,678)
Profit for the year		2,352,410	2,764,874
Other comprehensive income:			
Fair value adjustment	14	4,150,224	63,541
Deferred tax as fair value adjustment	18	(498,027)	(7,625)
Total comprehensive income/(loss) for the year		6,004,607	2,820,790
Earnings per share	23	0.361	0.424

The notes form an integral part of these financial statements.

The report of the Auditors is set forth on page 51.

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 2012	6,520,144	1,019,289	4,967,640	(9,019,504)	3,487,569
Transactions with shareholders, recorded directly in equity					
Dividend paid	-	-	(2,800,000)	-	(2,800,000)
Transfer to legal reserve	-	276,487	(276,487)	-	-
Other comprehensive income					
Fair value adjustment	-	-	-	63,541	63,541
Deferred tax	-	-	-	(7,625)	(7,625)
Net profit for the year	-	-	2,764,874	-	2,764,874
31 December 2012	6,520,144	1,295,776	4,656,027	(8,963,588)	3,508,359
1 January 2013	6,520,144	1,295,776	4,656,027	(8,963,588)	3,508,359
Transactions with shareholders, recorded directly in equity					
Dividend paid	-	-	-	-	-
Transfer to legal reserve	-	235,241	(235,241)	-	-
Other comprehensive income					
Fair value adjustment	-			4,150,224	4,150,224
Deferred tax	-			(498,027)	(498,027)
Net profit for the year	-		2,352,410	-	2,352,410
31 December 2013	6,520,144	1,531,017	6,773,196	(5,311,391)	9,512,966

The notes form an integral part of these financial statements.

The report of the Auditor is set forth on page 51.

Statement of cash flows
for the year ended 31 December

	2013 RO	2012 RO
OPERATING ACTIVITIES		
Profit before income tax Adjustments for:	2,718,006	3,143,552
Amortization of financial assets	3,468,685	3,216,224
Depreciation	25,469	22,205
Fair value (Gain) / Loss on Derivative	-	(24,261)
Deferred swap income	(42,361)	(45,216)
Finance Costs	2,433,496	2,669,472
Net change in accruals	83,901	
	8,683,611	8,981,976
Working capital changes:		
Trade and other receivables	(1,100,166)	974,101
Trade and other payables	(516,504)	259,649
Due from related parties	410,826	(426,757)
Due to related parties	115,575	88,815
Cash from operations	7,593,342	9,877,784
Finance costs paid	(2,432,496)	(2,669,472)
Tax paid	(197,235)	-
Net cash from operating activities	4,962,611	7,208,312
INVESTING ACTIVITIES		
Purchase of equipment	(49,217)	(14,415)
IWP Expansion Sur - WIP	(81,259)	-
Net cash used in investing activities	(130,476)	(14,415)
FINANCING ACTIVITIES		
Repayment of term loans	(3,590,749)	(3,386,774)
Dividend paid	-	(2,800,000)
Net cash used in financing activities	(3,590,749)	(6,186,774)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,241,387	1,007,123
Cash and cash equivalents at 1 January	2,780,955	1,773,832
CASH AND CASH EQUIVALENTS AT ENDING	4,022,341	2,780,955

The notes form an integral part of these financial statements.

The report of the Auditors is set forth on page 51.

Notes

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, Veolia Water Middle East SAS. Subsequently, Veolia Water Middle East SAS owns 55% of the Company's share capital. Azaliya SAS has changed its name from Azaliya SAS to Veolia Water Middle East SAS. Update of SDC's shareholder name has been completed within MCDC during 2013.

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').

The Company has one customer, the Public Authority for Electricity and Water ("PAEW") (formerly: Ministry of Housing, Electricity and Water) [see 2 (i) below].

2. Significant agreements

The Company has entered into the following significant agreements:

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

The WPA is between the Company and the Ministry of Housing, Electricity and Water (MHEW) [now the PAEW-see 1 above]. 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) 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.

(iii) 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.

(iv) 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.

(v) 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).

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).

Notes

4. Significant accounting policies

(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 recognized in accordance with the provisions of IAS 11. Revenue is recognized on a completion basis at each period end, based on actual and expected costs. Revenue relating to the operation of the asset is recognized 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 analyzed 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 recognizes a finance lease.

Initially, at commencement of 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 lease to exercise its right to use the leased asset at a later date), the cost of construction is recognized 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 recognizing 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 recognized 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.

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. Construction contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognized in profit or loss in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

(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 comprehensive income.

(d) Property, plant and equipment

Recognition and measurement

Items of property, plant 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, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent expenditure

The cost of replacing part of an item of property, plant 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, plant and equipment are recognized in the statement of comprehensive income as incurred.

Depreciation

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

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

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

(e) Financial Instruments

Non - derivative financial instruments

Non-derivative financial instruments are recognized 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 comprehensive income.

(f) Trade receivables

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

(g) Cash and cash equivalents

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

(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.

- 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 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 comprehensive income.

- 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.

4. Significant accounting policies (cont'd)

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

(i) Employee benefits

Contributions to a defined contribution retirement plan for Omani employees, made in accordance with the Oman Social Insurance Law, are recognized as an expense in the statement of comprehensive income 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.

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

A deferred tax asset is 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 utilised.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(n) 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 2013, and have not been applied in preparing these financial statements as follows:

IFRS 9 Financial Instruments, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The Standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. The standard is effective for annual periods beginning on or after 1 January 2015. Earlier application is permitted. Management are still considering what impact this standard will have on the Company's financial statements.

5. Revenue

	2013 RO	2012 RO
Water capacity operation and maintenance charges	2,943,287	3,013,322
Water output operation and maintenance charges	733,979	645,216
Electricity charge	1,663,767	1,433,693
Financial income	4,724,196	4,999,090
Water capacity investment charge	(459,767)	(461,014)
Water quality standard reduction	(62,483)	-
	9,542,979	9,630,307

6. Cost of sales

	2013 RO	2012 RO
Operation and maintenance fixed charges	1,256,885	1,265,663
Operation and maintenance variable charges	733,979	645,216
Electricity charges – net of recovery	1,790,843	1,570,372
Operation and maintenance – other costs	158,386	535,830
IWP Plant Expansion Costs – Sur	84,880	-
	4,024,973	4,017,081

7. Administrative and general expenses

	2013 RO	2012 RO
Employee related costs (see below)	176,506	195,181
Depreciation	25,469	22,205
Legal and professional expenses	75,138	56,311
Travelling expenses	14,317	30,148
Insurance	28,032	34,180
IPO Expenses	-	36,035
Others	102,403	106,947
	421,865	481,007

Employee related expenses are as follows:

	2013 RO	2012 RO
Salaries, wages and other benefits	172,921	191,931
Contributions to Omani Social Insurance Scheme	1,516	1,461
Obligation for defined benefit plan	2,069	1,789
	176,506	195,181

8. Finance charges - net

	2013 RO	2012 RO
Interest on term loans	673,012	884,552
Hedging charges	1,705,187	1,722,172
Interest earned on call accounts (incurred on overdraft)	(14,165)	(6,299)
Performance bond commission	3,200	3,085
Agency fee	22,047	47,232
Others	1,855	(26,486)
	2,391,135	2,624,256

9. Fixed Assets

	Buildings	Office equipment RO	Furniture & fixtures RO	Computer & accessories RO	Total RO
Cost					
1 January 2013	-	21,898	70,145	18,805	110,848
Additions	40,127	175	600	8,315	49,217
31 December 2013	40,127	22,073	70,745	27,120	160,065
Depreciation					
1 January 2013	-	3,876	45,174	11,261	60,311
Charge for the year	3,375	3,300	15,777	3,017	25,469
31 December 2013	3,375	7,176	60,951	14,278	85,780
Net book value					
31 December 2013	36,752	14,897	9,794	12,842	74,285
31 December 2012	-	18,022	24,970	7,546	50,538

10. Finance asset receivable

	2013 RO	2012 RO
At January 1,	58,629,614	61,845,838
Existing desalination plant cost	-	-
New plant (construction cost to date)	-	-
Project development cost	-	-
	58,629,614	61,845,838
Add: appreciation of finance asset	-	-
At December 31,	58,629,614	61,845,838
Add (less): appreciation / (amortization)	(3,468,685)	(3,216,224)
	55,160,929	58,629,614

11. Trade and other receivables

	2013 RO	2012 RO
Receivable from PAEW	2,201,706	1,115,858
Prepayments	72,403	42,918
Other receivables	1,804	16,971
	2,275,913	1,175,747

12. Cash in hand and at bank

	2013 RO	2012 RO
Cash in hand	775	6,211
Bank balances/deposits	4,021,566	2,774,744
	4,022,341	2,780,955

Cash at bank earns interest at rates ranging between 0.25% and 0.75% per annum (2012: 0.15% and 0.75% per annum).

13. Share capital and reserves

Share capital

Authorized share capital comprises 10,500,000 ordinary shares of RO 1 each.
Issued and fully paid share capital of the Company is RO 6,520,144/- (2012: RO 6,520,144) as follows:

	2013 No of shares	2013 %	2012 No of shares	2012 %
Veolia Eau-Compagnie Générale des Eaux	1	-	1	-
National Power and Water Co. LLC	1,907,142	29.25%	2,934,065	45%
Veolia Water Middle East	2,330,950	35.75%	3,586,078	55%
Public	2,282,051	35.00%	-	-
	6,520,144	100%	6,520,144	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.

Proposed dividend

The Board of Directors at the meeting held on 27 February 2014 has proposed to distribute cash dividend for an amount of RO 1,000,000 for the year 2013.

A resolution to this effect will be presented to the shareholders at the Annual General Meeting.

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 three hedge providers through International Swap Dealers Association Inc. Master Agreement ('ISDA'- Hedge Agreement), prior to financial close for at least 50% of scheduled outstanding advances under the "Base Facility" for the period from financial close until commercial operation date (as defined by WPA) and, subsequently, the interest rate swap will increase to at least 75% of the scheduled outstanding advances under the "Base Facility", until the date on which all the "Base Facility" loans have been repaid. The corresponding maximum-hedged notional amount is approximately RO 39 million (USD 102 million) at a fixed interest rate of 5.4% per annum.

At 31 December 2013, 6 month US LIBOR was approximately 0.2466% (2012: 0.2953 %), whereas the Company has fixed interest on its borrowings as described above. Based on the interest rates gap, over the life of the ISDA, the indicative losses were assessed at approximately RO 6.04 million (2012: RO 10.19 million) by the counter parties to the ISDA. In case the Company terminates the ISDA at 31 December 2013, it may incur losses to the extent of approximately RO 6.04 million (USD 15.673 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 comprehensive income, respectively. The fair value of the hedge instruments' indicative losses at 31 December 2013 in the amount of approximately RO 5.31 million (2012: RO 8.96 million), net of deferred tax asset, has been recorded within equity and the gross deficit in the amount of RO 6.04 million (2012: RO 10.19 million) is recorded under long term liabilities.

15. Long term loan

	2013 RO	2012 RO
Term loan (syndicated)	44,822,785	48,411,439
Current portion	(3,718,937)	(3,588,654)
Realized Forex (Gain)/Loss	(2,095)	-
	41,101,753	44,822,785

Syndicate facility

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

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

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 by the Agreement).

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 comprehensive income over the duration of the interest rate swap agreement ('ISDA' Master agreement).

17. Trade and other payables

	2013 RO	2012 RO
Payables	135,469	343,273
Accruals	80,316	275,389
	215,785	618,662

18. Income tax

The taxation charges for the year comprise:

	2013 RO	2012 RO
Current taxation charge:		
Current year	246,905	163,179
Prior year	34,057	-
	280,962	163,179
Deferred taxation:		
For the year	76,320	168,293
Prior year	8,314	47,206
	84,634	215,499
	365,596	378,678

18. Income tax (cont'd)

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.

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.

	2013 RO	2012 RO
Profit before taxation	2,718,006	3,143,552
Tax on accounting profit	322,561	373,626
Add/(less) tax effect of:		
Effect of exempt income	-	(163,241)
Tax impact on disallowable expense	664	
Prior year tax	34,057	
Deferred Tax in relation to prior year	8,314	
Deferred tax expense on difference between financial asset model and fixed asset model		168,293
Tax charge for the year	365,596	378,678

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12% (2012: 12%). Deferred tax (assets) and liabilities and deferred tax charge / (credit) in the statement of comprehensive income are attributable to the following items:

	1 January 2013 RO	Recognized in income RO	Recognized in equity RO	31 December 2013 RO
Carry forward tax losses	-	-	-	-
Property, plant and equipment	1,427,643	84,634	-	1,512,277
Hedging deficit	(1,222,307)	-	498,027	(724,280)
Net deferred tax (asset) / liability	205,336	84,634	498,027	787,997

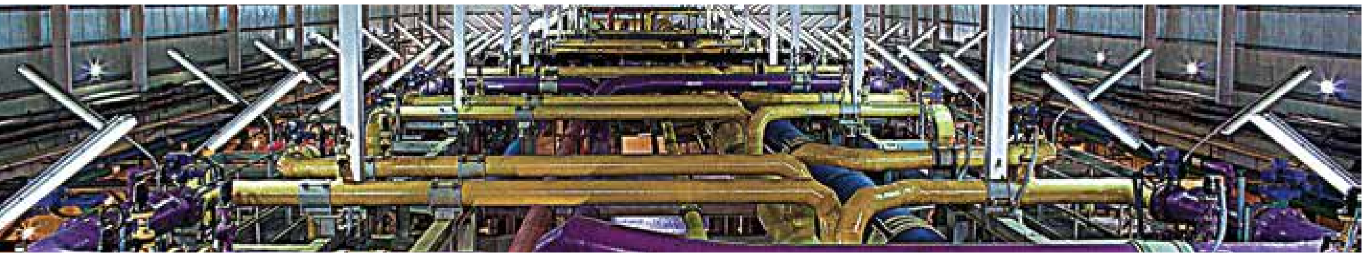
19. Commitments and contingencies

	2013 RO	2012 RO
Usufruct right fee	1,000	1,000

20. Related party transactions and balances

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

	2013 RO	2012 RO
Amounts due from related parties		
Bahwan Veolia Water LLC	390	1,251
Veolia Eau-Compagnie Generale des Eaux	785,914	784,161
OTV SA International	-	457,199
Azaliya Water Services LLC	55	954
Veolia Eau – Oman Branch	5,824	2,148
Seureca Muscat LLC	-	10,618
National Power & Water LLC	53,322	-
	845,505	1,256,331
Amounts due to related parties		
Bahwan Veolia Water LLC	520,437	505,800
National Power & Water	-	448
Veolia Eau-Compagnie Generale des Eaux	81,088	34,815
Veolia Eau – Oman Branch	-	19,340
Azaliya Water Services LLC	-	108
Veolia Water Middle East	41,249	-
	642,774	560,511
Compensation of key Management personnel Board of Directors sitting fees	10,000	6,500



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

Transactions with related parties during the year are as under:

Veolia Eau Compagnie Générale des Eaux		
Secondment charges – staff	88,658	65,169
Payments made on behalf of the Company	102,807	32,911
Payments made by the Company on their behalf	(30,226)	-
Bahwan Veolia Water LLC - Associate Co.		
Operation & Maintenance service received	2,037,451	1,956,716
Payments made on behalf of the Company	66,027	26,448
Payments made by the Company on their behalf	(34,397)	(22,149)
National Power & Water Co. LLC		
Secondment charges – staff	-	19,571
Payments made on behalf of the Company	2,578	40,369
Payments made by the Company on their behalf	(53,322)	-
OTV SA International		
Claims accrued	-	457,199
Azaliya Water Services LLC		
Payments made on behalf of the Company	2,604	445
Payments made by the Company on their behalf	(9,534)	(12,758)
Veolia Water – Oman Branch		
Payments made on behalf of the Company	48,593	20,991
Payments made by the Company on their behalf	(21,700)	(35,392)
Seureca Muscat LLC		
Payments made by the Company on their behalf	(31,481)	(43,132)
Veolia Water Middle East (ex. Azaliya SAS)		
Payments made on behalf of the Company	65,441	38,881
Payments made by the Company on their behalf	(65,171)	-

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, PAEW. 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:

	2013 RO	2012 RO
Finance asset receivable	55,160,929	58,629,614
Trade and other receivables	2,275,913	1,175,747
Amount due from related parties	845,504	1,256,331

(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 PAEW 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.

21. Financial instruments and financial risk management (cont'd)

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

31 December 2013	Carrying amount RO	Contractual cash flows RO	Up to 1 year RO	1 year and Above RO
Non-derivative financial liabilities				
Term loan (refer note 15)	44,822,785	(50,991,372)	(4,067,549)	(46,923,823)
Trade and other payables	215,785	(215,785)	(215,785)	-
Amounts due to related parties	642,774	(642,774)	(642,774)	-
	45,681,344	(51,849,931)	(4,926,108)	(46,923,823)
Derivative-financial instrument				
Cash flow hedging deficit (refer note 14)	6,035,672	6,035,672		
31 December 2012				
Non-derivative financial liabilities				
Term loan (refer note 15)	48,411,439	(55,073,902)	(4,393,210)	(50,680,692)
Trade and other payables	618,662	(618,662)	(618,662)	-
Amounts due to related parties	560,511	(560,511)	(560,511)	-
	49,590,612	(56,253,075)	(5,572,383)	(50,680,692)
Derivative-financial instrument				
Cash flow hedging deficit (refer note 14)	6,035,672	6,035,672		

(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 494,429 (2012: RO 512,692).

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 15 May 2007 (refer note 15).

22. Net assets value per share

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

	2013 RO	2012 RO
Net assets (RO)	9,512,966	3,508,359
Number of outstanding shares at the end of the period (Nos.)	6,520,144	6,520,144
Net asset value per share (RO)	1.459	0.538

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:

	2013 RO	2012 RO
Net profit for the period (RO)	2,352,410	2,764,874
Weighted average number of shares (nos.)	6,520,144	6,520,144
Basic profit per share (RO)	0.361	0.424

24. Comparatives

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

Registered office

P. O. Box 685

Postal Code 114, Jibroo

Sultanate of Oman

Principal place of business

Sharqiyah Region

Sultanate of Oman

الشرقية لتحلية المياه

Sharqiyah Desalination

VEOLIA