

PHNOM PENH WATER SUPPLY AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

PHNOM PENH WATER SUPPLY AUTHORITY

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

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KINGDOM OF CAMBODIA

NATION RELIGION KING

PHNOM PENH WATER SUPPLY AUTHORITY "PPWSA"

N^o

Date, 25 March 2015

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors (the Directors) are pleased to submit their report together with the audited financial statements of the Phnom Penh Water Supply Authority (PPWSA) for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The main activities of the PPWSA are processing and supplying water to Phnom Penh and surrounding areas, including Takmao, and carrying out other water supply related activities.

FINANCIAL PERFORMANCE

The financial performance for the year ended 31 December 2014 is set out in the statement of profit or loss and other comprehensive income on page 7.

ASSETS

At the date of this report, the Directors are not aware of any circumstances that would render the values attributed to the assets in the financial statements of the PPWSA misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances that have arisen that would render adherence to the existing methods of valuation of assets and liabilities in the financial statements of the PPWSA misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report there does not exist:

- (a) any charge on the assets of the PPWSA that has arisen since the end of the year which secures the liabilities of any other person, or
- (b) any contingent liability in respect of the PPWSA that has arisen since the end of the year.

No contingent or other liability of the PPWSA has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the year, that, in the opinion of the Directors, will or may have a material effect on the ability of the PPWSA to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the PPWSA that would render any amounts stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The financial performance of the PPWSA for the year ended 31 December 2014 was not, in the opinion of the Directors, materially affected by any items, transactions or events of a material and unusual nature.

EVENTS AFTER THE REPORTING DATE

Other than those events disclosed in the notes to the financial statements, there has not arisen in the interval between the end of 2014 and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the financial performance of the PPWSA for the current year, in which this report is made.

BOARD OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for ensuring that the financial statements are properly drawn up so as to present fairly, in all material respects, the financial position of the PPWSA as at 31 December 2014 and its financial performance and cash flows for the year then ended. In preparing these financial statements, the Directors are required to:

- i) adopt appropriate accounting policies in accordance with Cambodian International Financial Reporting Standards (CIFRS), which are supported by reasonable and prudent judgements and estimates, and then apply them consistently
- ii) comply with the disclosure requirements of CIFRS or, if there has been any departure from such standards, in the interest of true and fair presentation, ensure that this has been appropriately disclosed, explained and quantified in the financial statements
- iii) maintain adequate accounting records that enable the PPWSA to prepare the financial statements under CIFRS and an effective system of internal controls
- iv) prepare the financial statements on a going-concern basis unless it is inappropriate to assume that the PPWSA will continue operations in the foreseeable future, and
- v) effectively control and direct the PPWSA and be involved in all material decisions affecting its operations and performance, and ascertain that such matters have been properly reflected in the financial statements.

The Directors confirm that the PPWSA has complied with the above requirements in preparing the financial statements.

As at the date of this report, the Board of Directors of the PPWSA consists of:

| | |
|---------------------|--|
| H.E. Soem Nara, | representative from the Ministry of Industry and Handicraft |
| H.E. Mei Van, | representative from the Ministry of Economy and Finance |
| H.E. Khuong Sreng, | representative from the Phnom Penh Municipality |
| H.E. Sim Sitha, | General Director of Phnom Penh Water Supply Authority |
| Ms. Ngin Chantrea, | representative of Phnom Penh Water Supply Authority employees |
| Mr. Om Sengbora, | Independent director |
| Mr. Zhang Yun Feng, | Non-executive director representing public investors |

STATEMENT BY THE BOARD OF DIRECTORS

On behalf of the Board of Directors of Phnom Penh Water Supply Authority, we do hereby affirm that the accompanying financial statements, together with the notes thereto, present fairly, in all material respects, the financial position of the PPWSA as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards.

On behalf of the Board of Directors,



H.E. Soem Nara
Chairman of the Board of Directors



H.E. Sim Sitha
General Director



Ros Kimleang
Deputy General Director and
Head of Accounting and Finance Department

Phnom Penh, Kingdom of Cambodia
Date: 25 March 2015



Independent auditor's report

To the shareholders of the Phnom Penh Water Supply Authority

We have audited the accompanying financial statements of the Phnom Penh Water Supply Authority, which comprise the statement of financial position as at 31 December 2014 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 Cambodian International Financial Reporting Standards, and for such internal controls as management determines 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 Cambodian International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 the auditor's judgement, including assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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 audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Phnom Penh Water Supply Authority as at 31 December 2014, and its financial performance and cash flows for the year then ended, in accordance with Cambodian International Financial Reporting Standards.

For PricewaterhouseCoopers (Cambodia) Ltd.



By Kuy Lim
Partner

Phnom Penh, Kingdom of Cambodia
Date: 25 March 2015

PHNOM PENH WATER SUPPLY AUTHORITY

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014**

| | | 31 December 2014 | 31 December 2013 |
|--|-------------|-----------------------------|-----------------------------|
| | Note | KHR'000 | KHR'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 874,742,665 | 835,552,690 |
| Intangible assets | 7 | 2,857,617 | 3,292,331 |
| Loan to Pursat Water Supply | 9 | 492,540 | 578,324 |
| Loans to employees | 10 | - | 7,015,013 |
| | | <u>878,092,822</u> | <u>846,438,358</u> |
| Current assets | | | |
| Inventories | 11 | 40,501,860 | 35,083,363 |
| Trade and other receivables | 12 | 30,624,905 | 29,771,083 |
| Loan to Pursat Water Supply | 9 | 97,365 | 81,475 |
| Loans to employees | 10 | 5,440,649 | - |
| Income tax receivable | 13 | - | 2,755,704 |
| Short-term investments | 14 | 196,331,331 | 174,278,018 |
| Cash and cash equivalents | 15 | 14,962,141 | 10,568,715 |
| | | <u>287,958,251</u> | <u>252,538,358</u> |
| Total assets | | <u>1,166,051,073</u> | <u>1,098,976,716</u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to shareholders | | | |
| Share capital | 16 | 541,227,282 | 541,227,282 |
| Reserves | 17 | 149,193,437 | 115,866,320 |
| Retained earnings | | 45,747,909 | 38,088,028 |
| Total equity | | <u>736,168,628</u> | <u>695,181,630</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Retirement benefit obligation | 18 | 30,246,160 | 28,362,224 |
| Deferred income tax liabilities | 19 | 25,572,968 | 24,472,827 |
| Borrowings | 20 | 251,256,517 | 228,262,247 |
| Refundable water deposits | | 36,283,845 | 31,215,173 |
| Performance guarantee | | 695,530 | - |
| Deferred government and other grants | 21 | 32,570,918 | 34,930,890 |
| | | <u>376,625,938</u> | <u>347,243,361</u> |
| Current liabilities | | | |
| Borrowings | 20 | 28,837,249 | 26,691,817 |
| Current income tax liabilities | 13 | 2,909,288 | - |
| Trade and other payables | 22 | 21,509,970 | 29,859,908 |
| | | <u>53,256,507</u> | <u>56,551,725</u> |
| Total liabilities | | <u>429,882,445</u> | <u>403,795,086</u> |
| Total equity and liabilities | | <u>1,166,051,073</u> | <u>1,098,976,716</u> |

The accompanying notes on pages 10 to 52 form an integral part of these financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014**

| | Notes | 2014 KHR'000 | 2013 KHR'000 |
|--|--------------|-------------------------|-------------------------|
| REVENUES | | | |
| Sales | 23 | 146,857,348 | 136,399,843 |
| Construction service fee | 24 | 200,631 | 7,249,392 |
| Other income | 21 | 9,484,870 | 7,930,972 |
| | | <u>156,542,849</u> | <u>151,580,207</u> |
| EXPENSES | | | |
| Depreciation and amortisation charges | | (34,043,756) | (24,523,863) |
| Electricity costs | | (28,647,334) | (27,406,397) |
| Salaries, wages and related expenses | 25 | (24,570,300) | (19,847,886) |
| Raw materials for water treatment | 26 | (4,691,063) | (3,318,097) |
| Raw materials for household water connections | 27 | (6,829,865) | (5,668,838) |
| Repairs and maintenance | | (4,536,708) | (4,693,128) |
| Construction service expenses | | (94,034) | (6,649,568) |
| Other expenses | | (10,626,010) | (6,649,967) |
| Foreign exchange gains/(losses) - net | 28 | 2,147,799 | (1,289,533) |
| | | <u>(111,891,271)</u> | <u>(100,047,277)</u> |
| Operating profit | | 44,651,578 | 51,532,930 |
| Finance income | | 23,067,802 | 8,592,122 |
| Finance costs | | <u>(11,663,042)</u> | <u>(12,038,249)</u> |
| Finance income/(costs) - net | 29 | 11,404,760 | (3,446,127) |
| Profit before income tax | | 56,056,338 | 48,086,803 |
| Income tax expense | 30 | <u>(10,051,811)</u> | <u>(9,341,274)</u> |
| Profit for the year | | 46,004,527 | 38,745,529 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Actuarial loss on retirement benefit obligation | | <u>(256,616)</u> | <u>(657,499)</u> |
| Total comprehensive income for the year | | <u>45,747,911</u> | <u>38,088,030</u> |
| Profit attributable to shareholders | | <u>46,004,527</u> | <u>38,745,529</u> |
| Total comprehensive income attributable to shareholders | | <u>45,747,911</u> | <u>38,088,030</u> |

The earnings per share (expressed in KHR) attributable to shareholders of the PPWSA during the year are as follows:

| | | | |
|----------------------------|----|--------|--------|
| Basic earnings per share | 31 | 526.00 | 437.93 |
| Diluted earnings per share | 31 | 526.00 | 437.93 |

The accompanying notes on pages 10 to 52 form an integral part of these financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

| | Notes | Attributable to shareholders | | | Total KHR'000 |
|--|-------|------------------------------|---------------------|---------------------------------|--------------------|
| | | Share capital KHR'000 | Reserves KHR'000 | Retained earnings KHR'000 | |
| Balance at 01 January 2013 | | <u>541,227,282</u> | <u>83,854,514</u> | <u>34,420,961</u> | <u>659,502,757</u> |
| Profit for the year | | - | - | 38,745,529 | 38,745,529 |
| Actuarial loss on retirement benefit obligation | | - | - | (657,499) | (657,499) |
| Total comprehensive income | | <u>-</u> | <u>-</u> | <u>38,088,030</u> | <u>38,088,030</u> |
| Transfer to reserves | 17 | - | 32,011,806 | (32,011,806) | - |
| Dividends paid | 17 | - | - | (2,409,157) | (2,409,157) |
| Balance as at 31 December 2013 | | <u>541,227,282</u> | <u>115,866,320</u> | <u>38,088,028</u> | <u>695,181,630</u> |
| Balance at 01 January 2014 | | <u>541,227,282</u> | <u>115,866,320</u> | <u>38,088,028</u> | <u>695,181,630</u> |
| Profit for the year | | - | - | 46,004,527 | 46,004,527 |
| Actuarial loss on retirement benefit obligation | | - | - | (256,616) | (256,616) |
| Total comprehensive income | | <u>-</u> | <u>-</u> | <u>45,747,911</u> | <u>45,747,911</u> |
| Transfer to reserves | 17 | - | 33,327,117 | (33,327,117) | - |
| Dividends paid | 17 | - | - | (4,760,913) | (4,760,913) |
| Balance as at 31 December 2014 | | <u>541,227,282</u> | <u>149,193,437</u> | <u>45,747,909</u> | <u>736,168,628</u> |

The accompanying notes on pages 10 to 52 form an integral part of these financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014**

| | Note | 2014 KHR'000 | 2013 KHR'000 |
|---|-------------|-------------------------|-------------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 32 | 88,357,804 | 82,341,671 |
| Income tax paid | 13 | (3,286,678) | (6,811,375) |
| Retirement benefit obligation paid | 18 | (866,648) | (689,801) |
| Net cash generated from operating activities | | <u>84,204,478</u> | <u>74,840,495</u> |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | 6 | (86,569,181) | (86,937,865) |
| Interest capitalisation on qualifying assets | 6 | (367,649) | (3,176,682) |
| Purchases of intangible assets | 7 | (849,995) | (2,483,002) |
| Proceeds from loan repayments from Pursat Water Supply | | 82,384 | 36,091 |
| Short-term investments | 14 | (22,053,313) | (26,269,399) |
| Interest received | | <u>8,669,949</u> | <u>6,785,912</u> |
| Net cash used in investing activities | | <u>(101,087,805)</u> | <u>(112,044,945)</u> |
| Cash flows from financing activities | | | |
| Dividends paid | | (4,760,913) | (2,409,157) |
| Proceeds from borrowings | | 62,585,766 | 55,452,880 |
| Finance cost paid | | (12,526,207) | (5,667,194) |
| Repayments of borrowings | | <u>(24,021,893)</u> | <u>(13,579,401)</u> |
| Net cash generated from financing activities | | <u>21,276,753</u> | <u>33,797,128</u> |
| Net increase/(decrease) in cash and cash equivalents | | 4,393,426 | (3,407,322) |
| Cash and cash equivalents, beginning of the year | | <u>10,568,715</u> | <u>13,976,037</u> |
| Cash and cash equivalents, end of the year | 15 | <u>14,962,141</u> | <u>10,568,715</u> |

The accompanying notes on pages 10 to 52 form an integral part of these financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. BACKGROUND INFORMATION

The Phnom Penh Water Supply Authority (PPWSA) is under the technical supervision of the Ministry of Industry and Handicraft (MIH) and the financial supervision of the Ministry of Economy and Finance (MoEF), and has its headquarters in Phnom Penh. The PPWSA was acknowledged as having the economic characteristics of a public enterprise by the Ministry of Commerce under registration number Co.0839 Et/2012 dated 27 March 2012 and listed on the Cambodia Securities Exchange (CSX) on 18 April 2012, with securities listing certificate number 001 CSX/SC.

The mission of the PPWSA is to process and distribute water for general use by the public in Phnom Penh and surrounding areas. The objectives of the PPWSA are to:

- invest in, build, enlarge, operate, repair and maintain the means of water sanitation and distribution
- manage the devices to increase water production, and improve services and water quality to meet demand
- operate the business, services and related duties for water supply in accordance with the Board of Director's resolutions and the law of Cambodia
- cooperate with local and external development partners on technology, trade and finance in order to improve and develop the PPWSA in accordance with government policy, and
- ensure sustainable production processes, business and finance for the public interest.

In order to fulfil this mission, the PPWSA is allowed to carry out operational activities on property, plant and equipment as well as necessary commercial and financial operations, such as:

- the production and overall distribution of water within the city of Phnom Penh and its suburbs
- the expansion, improvement and renovation of the production systems and distribution networks, and
- doing business with existing and future water distribution networks.

The registered office of the PPWSA is Office 45, St. 106, Sangkat Srah Chork, Khan Daun Penh, Phnom Penh, the Kingdom of Cambodia.

The financial statements were approved for issue by the Board of Directors on 25 March 2015.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements of the PPWSA, which are expressed in Khmer Riel (KHR or Riel), have been prepared in accordance with Cambodian International Financial Reporting Standards (CIFRS).

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with CIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.2 New and amended accounting standards and interpretations

(a) New standards, amendments and interpretations issued and effective for period beginning on 1 January 2014 and adopted by the PPWSA:

- The PPWSA adopted all applicable CIFRS standards, amendments, and interpretations to the extent that they are effective for the financial statements for the financial year beginning on 1 January 2014. There are no standards, amendments, or interpretations that have a significant impact on the PPWSA.

(b) New standards, amendments and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the PPWSA, except the following set out below:

- CIFRS 7, 'Financial instruments: Disclosures' – There are two amendments:
 - Servicing contracts – If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, CIFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The standard provides guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. There is a consequential amendment to CIFRS 1 to give the same relief to first time adopters.
 - Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to CIFRS 7, 'Disclosure – offsetting financial assets and financial liabilities' is not specifically required for all interim periods unless required by CIAS 34. This amendment is retrospective.

The PPWSA has not assessed CIFRS 7's full impact.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New and amended accounting standards and interpretations (continued)

- (b) New standards, amendments and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the PPWSA, except the following set out below: (continued)
- CIAS 19, 'Employee benefits' – The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented. The PPWSA has not assessed CIAS 19's full impact.
 - CIAS 34, 'Interim financial reporting' – the amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment also amends CIAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective. The PPWSA has not assessed CIAS 34's full impact.
 - CIFRS 9 - Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. CIFRS 9 was issued in November 2009 and October 2010. It replaces the parts of CIAS 39 Financial Instruments: Recognition and Measurement that relate to the classification and measurement of financial instruments. CIFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination of the applicable category is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the CIAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a change to the fair value due to an entity's own credit risk is recorded in other comprehensive income, rather than the profit or loss, unless this creates an accounting mismatch. Management is currently assessing the impact of the adoption of this standard on the financial statements.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources to and assessing the performance of the operating segments, has been identified as the management team (including the director general and all deputy director generals), which makes strategic decisions.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of the PPWSA are measured using the currency of the primary economic environment in which the PPWSA operates (the functional currency). The PPWSA maintains its accounting records and its financial statements in Khmer Riel (KHR or Riel), the PPWSA's functional currency. The financial statements are presented in Riel, which is the PPWSA's presentation currency.

(b) *Transactions and balances*

Transactions in currencies other than Riel are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than Riel are recognised in the statement of profit or loss and other comprehensive income. Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings are presented in the statement of profit or loss and other comprehensive income within 'Foreign exchange loss-net' and 'finance income and costs' respectively.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost or agreed initial amounts (as at the date they were transferred from the Royal Government of Cambodia) less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, if appropriate, only when it is probable that future economic benefits associated with the item will flow to the PPWSA and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance expenses are charged to the statement of profit or loss and other comprehensive income in the financial year in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

| | |
|--------------------------------|-------------------------|
| Building on freehold land | 50 years |
| Machinery | 10, 15 and 20 years |
| Fluid equipment | 15, 35, 40 and 50 years |
| Office furniture and equipment | 7 years |
| Laboratory equipment | 7 years |
| Valves and tools | 7 years |
| Motor vehicles | 7 years |
| Electricity equipment | 7 years |
| Water meters | 5 years |

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss and other comprehensive income.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

2.6 Intangible assets

Intangible assets consist of accounting software and network software and are stated at historical cost less accumulated amortisation and accumulated impairment losses, if any. They are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Intangible assets are amortised using the straight-line method over their estimated useful life of seven years.

2.7 Impairment of non-financial assets

The carrying amounts of the PPWSA's assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses are recognised in the statement of profit or loss and other comprehensive income. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

Classification: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. PPWSA's loans and receivables comprise 'loan receivables', 'trade receivable', and 'cash and cash equivalents' in the statement of financial position (notes 2.9, 2.11, and 2.12).

2.9 Loans receivable

Loans receivable are recognised initially at fair value, net of transaction costs incurred, if any, and are subsequently measured at amortised cost using the effective interest method, less provision for impairments.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Inventories

Inventories are stated at the lower of cost (costs of purchase and other costs incurred in bringing the inventories to their present location and condition) and the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Inventories include raw materials, consumables, spare parts and other water supply related inventories and are valued at the actual cost of bringing the inventory to its intended purpose less allowances for damaged, obsolete and slow-moving items using the weighted average basis. Spare parts and water supply-related inventories with a useful life of more than one year are capitalised as property, plant and equipment upon being put into use.

2.11 Trade receivables

Trade receivables are amounts due from local households, businesses and government departments. If collection is expected within one year, they are classified as current. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairments.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term, highly-liquid investments with original maturities of three months or less.

The PPWSA assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, probability that they will enter bankruptcy or other financial reorganisation, or where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of financial assets (continued)

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of profit or loss and other comprehensive income.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the PPWSA has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Refundable water deposits

Deposits are collected from customers based on the size of the water meter prior to connection and are recorded at the received amount as refundable water deposits under non-current liabilities.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the statement of financial position date in Cambodia, where the PPWSA generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulations are subject to interpretation. It establishes provisions where appropriate based on the amounts expected to be paid to the General Department of Taxation (GDT).

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.20 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave, expected to be settled within 12 months after the end of the period in which the employees rendered the related service, in respect of employee services rendered up to the end of the reporting period are recognised and measured at the amounts expected to be paid when the liabilities are settled. The liabilities for short-term benefits are recognised in other payables.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits (continued)

(ii) Retirement benefit obligations

The PPWSA operates a pension scheme, which is a defined benefit plan whereby both the PPWSA and the employees pay fixed contributions into an internal cash account in the name of the PPWSA:

- The employees' contribution is 7% of their monthly salary (6% prior to October 2007).
- The PPWSA's contribution is 5% of the employees' monthly salary and a further 2% of profit for the year.
- Effective from 2011, the PPWSA transfers an additional amount to the internal cash account so that the total funds transferred to the internal cash account reserved for retirement benefit payment equals the total amount of all expenses recognised in the statement of profit or loss and other comprehensive income during the year.

Payments are made to eligible employees in accordance with the following terms and conditions:

- a. Staff who have worked between 10 and 19 years and up to their retirement age will receive a one-time lump sum retirement benefit payment of 200% of their portion of accumulated contribution.
- b. Staff who have worked for more than 20 years and up to their retirement age will receive a monthly retirement benefit of 29% of their final salary plus an additional 1% of their final salary for every year worked from the 21st year onwards each month until they die.
- c. Staff who resign before their retirement age will receive a one-time lump sum payment as follows:
 - i) For staff who have worked for the PPWSA for ten years, 120% of their accumulated contributions and an additional 1% of the accumulated contributions for every year worked from the 11th year to the 20th year.
 - ii) For staff who have worked for the PPWSA for 21 years, 135% of their accumulated contributions and an additional 1% of the accumulated contributions for every year from the 22nd year to the 30th year.
 - iii) For staff who have worked for the PPWSA for 31 years, 155% of their accumulated contributions and an additional 1% of the accumulated contributions for every year after the 31st year.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits (continued)

(ii) Retirement benefit obligations (continued)

The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the average deposit rate of the funds deposited at banks reserved for retirement benefit payments at the valuation date, as there is no deep high-quality corporate bond market nor government bonds in Cambodia.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the statement of profit or loss and other comprehensive income.

(iii) Bonus plan

The PPWSA recognises a liability and an expense for bonuses based on the following formula, which takes into consideration the profit attributable to the PPWSA for each year:

- One month's salary for all employees if the net profit is between 5% and 10% of operating expenses.
- Two months' salary for all employees if the net profit is more than 10% to 20% of operating expenses.
- Three months' salary for all employees if the net profit is more than 20% of operating expenses.

The payment is normally made in April or May of the following year.

2.21 Provisions and contingent liabilities

Provisions are recognised when the PPWSA has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the amount of expenditure expected to be required to settle the obligation. If the time value of money is material, provisions will be measured at their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increases in provisions due to the passage of time are recognised as interest expenses.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Provisions and contingent liabilities (continued)

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the PPWSA. It can also be a present obligation arising from past events that is not recognised because it is not probable that the outflow of economic resources will be required or the amount of the obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value-added taxes. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the PPWSA and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of water

Revenue from the supply of water is stated net of discounts, allowances and credits and is recognised on the amount of water supplied to recognised customers of the PPWSA.

Household water connection revenue

Revenue from household water connections is recognised when the connection is completed.

Water meter replacement charge

An amount of KHR50 per 1 mm of water meter is charged for water meter maintenance each month during the billing cycle. This charge is used to cover the cost of the replacement of meters upon utilisation. The cost of replacement is charged to the statement of profit or loss and other comprehensive income.

Construction service fee

Revenue from construction service fees is recognised based on the percentage of completion of the services provided under the construction contract commensurate with the services rendered.

2.23 Finance income

Finance income is recognised in the statement of profit or loss and other comprehensive income on a time-proportion basis using the effective interest method.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Deferred grants and amortisation

Grants from the government and other development agencies are recognised at a nominal amount where there is reasonable assurance that the grant will be received and the PPWSA will comply with all attached conditions. Grants are deferred and recognised in the statement of profit or loss and other comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Deferred grants relating to the cost of property, plant and equipment granted by donors are recognised at cost upon receipt. Deferred grants are included in non-current liabilities and are credited to the statement of profit or loss and other comprehensive income on a straight-line basis to match the expected lives of the related assets.

The benefit of a government loan at a below-market foreign exchange rate, i.e., favourable fluctuations between the value of the currency of the loan (Special Drawing Rights [SDR]) and the currency of its repayment by the PPWSA (KHR), is treated as a government grant.

2.25 Dividend distribution

Dividend distribution to the PPWSA's shareholders is recognised as a liability in the PPWSA's financial statements in the period in which the dividends are approved by the Board of Directors.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The PPWSA is exposed to interest rate risk, credit risk, foreign exchange risk and liquidity risk. The PPWSA manages and assumes such risks by monitoring the market interest rates, the credit history of its counter-parties, foreign exchange rates and cash flows. The PPWSA does not currently use derivative instruments to hedge its interest rate and foreign exchange risk exposure.

a. Interest rate risk

The interest rate risk is the risk that future movements in market interest rates will affect the results of the PPWSA's operations and its cash flows. Its exposure to interest rate risk relates primarily to borrowings, its loan to Pursat Water Supply, and short-term investments.

The PPWSA has interest rate risk arising from long-term borrowings. Borrowings obtained at variable rates expose the PPWSA to cash-flow interest rate risk. Borrowings obtained at fixed rates expose the PPWSA to fair value interest rate risk.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

a. Interest rate risk (continued)

The primary exposure of the PPWSA's borrowings to cash-flow interest rate risk is through the loan from Agence Française de Développement (AfD) No. CKH 1075 03S (variable interest rate) and the primary source of fair value interest rate risk is through the loan from AfD No. CKH6000 01G and loans from the MoEF, which are funded through loans from the Japan International Cooperation Agency (JICA), and Asian Development Bank (ADB) (fixed interest rates) (Note 20).

No interest rate swaps or other hedges have been made since management believes that interest rate risks will not result in significant exposure.

PPWSA has considered movements in the interest rates over the last three years and has concluded that a 1% movement is a reasonable benchmark.

If interest rates on variable-interest borrowings had been 1% higher or lower, with all other variables held constant, the post-tax profit for the year would have been KHR530,301,372 lower or higher (2013: KHR680,999,848).

The PPWSA maintained fixed interest rates on short-term investments and the loan to Pursat Water Supply. This is consistent with the loans from the MoEF and AfD (No. CKH6000 01G), which are based on fixed rates.

b. Foreign exchange risk

The PPWSA is exposed to the risk of changes in foreign currency exchange rates, primarily with the Euro (EUR) and US dollar (US\$), since it borrows from AfD in euros and JICA in US\$ and makes certain payments in US\$, but maintains its accounting records in Riel, its functional currency. To protect the PPWSA from severe exposure to foreign exchange risk, management converts part of its cash and cash equivalents into US\$ (a widely used currency in Cambodia) and maintains the rest in Riel for financing its working capital needs.

Below shows PPWSA's sensitivity to foreign exchange rates on its US dollar and Euro financial instruments. These two currencies are the major currencies in which PPWSA's financial instruments are denominated. PPWSA has considered movements in these currencies over the last three years and has concluded that a 5% and 3% movement in Euro and US Dollar rates respectively is a reasonable benchmark.

If the Euro had weakened/strengthened by 5% against Riel, the post-tax profit for the year would have been KHR5.5 billion higher or lower (2013: KHR 4.9 billion) mainly due to foreign exchange gains/losses on the translation of euro-denominated borrowings.

If the US\$ had weakened/strengthened by 3% against Riel, post-tax profit for the year would have been KHR2.7 billion higher or lower (2013: KHR2.4 billion) as a result of foreign exchange gains/losses on the translation of US\$-denominated borrowings.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

c. Credit risk

The PPWSA is exposed to credit risk primarily from trade receivables, cash at banks, short-term investments, loan to Pursat Water Supply (PWS), and loans to employees.

To manage the risk on trade receivables, the PPWSA requires a deposit before the water meter connection is made. No deposit is required for government departments as the PPWSA believes that it can collect from those departments through the MoEF (the source of finance for those departments), which is the PPWSA's financial supervisor and shareholder.

A deposit deduction policy is applied to customers who have not settled their debts in accordance with credit terms and conditions.

The PPWSA's maximum exposure to credit risk on trade receivables is limited to the carrying amount of receivables less provisions for impairment based on a review of all outstanding amounts at year-end and refundable water deposits. The collection period for households and businesses is one month, and for governmental departments the collection period is one year.

To minimise credit risk on cash at banks and short-term investments (bank fixed deposits), the PPWSA has diversified its deposits with different banks using a few large and well-known local banks operating in Cambodia.

PWS is a related party of the PPWSA and the amount of the loan is not material. Therefore, the impact from default, if any, is insignificant.

The PPWSA's maximum exposure on loans to employees, the employee share option scheme, is limited to the loan amount owed by each employee.

d. Liquidity risk

The PPWSA's exposure to liquidity risk arises from the general funding of its business activities. It includes the risk of being unable to fund business activities in a timely manner.

The PPWSA's policy is to maintain sufficient cash and cash equivalents for its operations, and it uses credit facilities together with its own funds to pay for capital investments.

The table below categorises the PPWSA's financial liabilities into maturity categories based on the remaining period at the statement of financial position date until the maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

d. Liquidity risk (continued)

| | Less than 1 year KHR'000 | Between 1 and 2 years KHR'000 | Between 2 and 5 years KHR'000 | Over 5 years KHR'000 | No contractual term KHR'000 |
|-------------------------------|---|--|--|-------------------------------------|--|
| As at 31 December 2014 | | | | | |
| Borrowings | 33,426,372 | 36,004,294 | 82,074,827 | 196,371,704 | - |
| Refundable water deposits | - | - | - | - | 36,283,845 |
| Trade and other payables | 22,209,924 | - | - | - | - |
| | <u>55,636,296</u> | <u>36,004,294</u> | <u>82,074,827</u> | <u>196,371,704</u> | <u>36,283,845</u> |
| As at 31 December 2013 | | | | | |
| Borrowings | 30,390,364 | 37,083,785 | 106,334,849 | 159,586,385 | - |
| Refundable water deposits | - | - | - | - | 31,215,173 |
| Trade and other payables | 29,772,394 | - | - | - | - |
| | <u>60,162,758</u> | <u>37,083,785</u> | <u>106,334,849</u> | <u>159,586,385</u> | <u>31,215,173</u> |

3.2 Capital risk management

The PPWSA's objectives when managing its capital are to safeguard the PPWSA's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The PPWSA does not maintain a specific policy on gearing ratio. The PPWSA's policy is to maintain sufficient cash and cash equivalents for its operations, and it uses credit facilities to pay for capital investments. The PPWSA monitors its capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the statement of financial position) less cash and cash equivalents and short-term investments. Total capital is calculated as equity, as shown in the statement of financial position, plus net debts. Gearing ratios are as follows:

| | 2014 KHR'000 | 2013 KHR'000 |
|--|-------------------------|-------------------------|
| Total borrowings | 280,093,766 | 254,954,064 |
| Less: cash and cash equivalents and short-term investments | <u>(211,293,472)</u> | <u>(184,846,733)</u> |
| Net debt | <u>68,800,294</u> | <u>70,107,331</u> |
| Total equity | <u>736,168,628</u> | <u>695,181,630</u> |
| Total capital | <u>804,968,922</u> | <u>765,288,961</u> |
| Gearing ratio | 8.55% | 9.16% |

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

- (a) *Cash and cash equivalents and short-term investments* – The carrying values of these amounts approximate fair values due to their short-term nature.
- (b) *Accounts receivable and payable* – The carrying amounts less impairment provision approximate fair value because these are subject to normal credit terms and are short-term in nature.
- (c) *Borrowings* – The fair value of borrowings is estimated by discounting the future contractual cash flows using a borrowing rate at year-end.

4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The PPWSA makes estimates, assumptions and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Taxes*

Taxes are calculated on the basis of the current interpretation of the tax regulations. However, these regulations are susceptible to varying interpretations and the ultimate determination of tax expense will be made following inspection by the GDT.

Management believes that it has adequately provided for tax liabilities based on its interpretation of the tax legislation. However, the relevant authorities may have different interpretations and the effects could be significant.

(b) *Property, plant and equipment*

Accounting for property, plant and equipment involves the use of estimates to determine the expected useful lives and residual values of these assets. The determination of the useful lives and residual values of the assets is based on management's judgement. In making this judgement, the PPWSA evaluates, among other factors, the expected usage of the asset; expected physical wear and tear, which depends on operational and environmental factors; and, technical or commercial obsolescence arising from changes or improvements in technology.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

(c) Retirement benefit obligation

The present value of the retirement benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The main assumptions used in determining the net cost of pensions include the discount rate, salary growth rates, mortality rates and withdrawal rates. Any changes in these assumptions will impact the carrying amount of the pension obligation.

In the absence of a bond market and government bonds in Cambodia, the PPWSA uses the average deposit rate of the funds deposited at banks reserved for retirement benefit payment as a discount rate to determine the present value of the estimated future cash outflows expected to be required to settle the retirement benefit obligation.

Additional information is disclosed in Note 18.

Where the discount rate used differs by 10% of the current rate from management's estimates, the carrying amount of the retirement benefit obligation would be changed approximately as below:

| Change in discount rate | Effect on retirement benefit obligation higher/(lower) | |
|-----------------------------------|--|-----------------|
| | 2014 KHR'000 | 2013 KHR'000 |
| Lower by 10% of the current rate | 1,730,667 | 1,811,579 |
| Higher by 10% of the current rate | (1,746,963) | (1,654,435) |

(d) Accrued water revenue

Accrued water revenue is recognised based on the water volume produced, the water volume billed, the average water loss and the average tariff by type of customers. Management uses statistics on the water loss rate and the average tariff based on past experience, which may not properly reflect the actual rates and the current situation.

5. SEGMENT INFORMATION

The PPWSA treats water for supply to residents in Phnom Penh and surrounding areas. To support its water distribution business, it needs to provide water meter connection as a supporting service. Revenue from water meter connection (a supporting service for water sales) accounts for less than 10% of the total revenue, while water sales account for approximately 88% of the total revenue of the PPWSA.

The PPWSA has one reportable segment, namely, water sales. The chief operating decision-maker (the management team) reviews the internal management report, which reports the performance of the water sales segment as a whole, to assess performance and allocate resources. The chief operating decision-maker assesses the performance of the reportable segment by measuring gross revenue, profit before tax and net profit compared to prior periods.

All revenues are derived from external customers. The PPWSA is domiciled in Phnom Penh and all sales originate from Phnom Penh and the surrounding areas.

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

6. PROPERTY, PLANT AND EQUIPMENT

| | Land KHR'000 | Buildings on freehold land KHR'000 | Machinery KHR'000 | Fluid equipment KHR'000 | Laboratory equipment KHR'000 | Office furniture and equipment KHR'000 | Electricity equipment KHR'000 | Motor vehicles KHR'000 | Valves and tools KHR'000 | Water meters KHR'000 | Work in progress KHR'000 | Total KHR'000 |
|------------------------------------|-------------------|--|----------------------|-------------------------------|------------------------------------|---|-------------------------------------|------------------------------|--------------------------------|----------------------------|--------------------------------|--------------------|
| At 01 January 2013 | | | | | | | | | | | | |
| Cost | 73,643,184 | 156,744,022 | 58,800,927 | 335,524,531 | 913,118 | 7,634,785 | 60,270,952 | 16,467,533 | 8,600,827 | 4,181,565 | 235,384,216 | 958,165,660 |
| Accumulated depreciation | - | (32,740,006) | (28,098,373) | (86,994,998) | (815,404) | (4,875,984) | (48,999,710) | (7,726,860) | (2,648,746) | (3,604,530) | - | (216,504,611) |
| Net book amount (restated) | <u>73,643,184</u> | <u>124,004,016</u> | <u>30,702,554</u> | <u>248,529,533</u> | <u>97,714</u> | <u>2,758,801</u> | <u>11,271,242</u> | <u>8,740,673</u> | <u>5,952,081</u> | <u>577,035</u> | <u>235,384,216</u> | <u>741,661,049</u> |
| Year ended 31 December 2013 | | | | | | | | | | | | |
| Opening net book amount | 73,643,184 | 124,004,016 | 30,702,554 | 248,529,533 | 97,714 | 2,758,801 | 11,271,242 | 8,740,673 | 5,952,081 | 577,035 | 235,384,216 | 741,661,049 |
| Additions | - | 719,002 | 651,002 | - | - | 2,034,654 | 5,457 | 4,183,522 | 794,331 | 336,826 | 109,320,361 | 118,045,155 |
| Transfers | - | 78,649,351 | 11,144,830 | 112,015,344 | - | 1,019,660 | 66,629,920 | - | 3,446,152 | 18,767 | (272,924,024) | - |
| Disposals | - | (70,700) | - | - | - | (19,785) | - | - | (115) | (3,662) | - | (94,262) |
| Depreciation charges | - | (4,133,899) | (3,164,482) | (8,962,187) | (34,564) | (869,636) | (3,693,386) | (2,084,378) | (875,303) | (241,417) | - | (24,059,252) |
| Closing net book amount | <u>73,643,184</u> | <u>199,167,770</u> | <u>39,333,904</u> | <u>351,582,690</u> | <u>63,150</u> | <u>4,923,694</u> | <u>74,213,233</u> | <u>10,839,817</u> | <u>9,317,146</u> | <u>687,549</u> | <u>71,780,553</u> | <u>835,552,690</u> |
| At 31 December 2013 | | | | | | | | | | | | |
| Cost | 73,643,184 | 236,041,675 | 70,596,759 | 447,539,875 | 913,118 | 10,669,314 | 126,906,329 | 20,651,055 | 12,841,195 | 4,533,496 | 71,780,553 | 1,076,116,553 |
| Accumulated depreciation | - | (36,873,905) | (31,262,855) | (95,957,185) | (849,968) | (5,745,620) | (52,693,096) | (9,811,238) | (3,524,049) | (3,845,947) | - | (240,563,863) |
| Net book amount | <u>73,643,184</u> | <u>199,167,770</u> | <u>39,333,904</u> | <u>351,582,690</u> | <u>63,150</u> | <u>4,923,694</u> | <u>74,213,233</u> | <u>10,839,817</u> | <u>9,317,146</u> | <u>687,549</u> | <u>71,780,553</u> | <u>835,552,690</u> |
| Year ended 31 December 2014 | | | | | | | | | | | | |
| Opening net book amount | 73,643,184 | 199,167,770 | 39,333,904 | 351,582,690 | 63,150 | 4,923,694 | 74,213,233 | 10,839,817 | 9,317,146 | 687,549 | 71,780,553 | 835,552,690 |
| Additions | - | - | 951,307 | - | - | 1,167,217 | - | 2,372,820 | 1,451,255 | 130,420 | 70,898,411 | 76,971,430 |
| Transfers | - | 3,018,589 | 142,975 | 44,147,479 | - | 212,188 | - | 1,702,329 | 67,994 | 50,391 | (49,341,945) | - |
| Disposals | - | (286,012) | (1,357) | (1,795,974) | - | (2,297) | - | - | - | (14,059) | - | (2,099,699) |
| Write off | - | - | - | - | - | - | - | - | - | - | (2,922,711) | (2,922,711) |
| Depreciation charges | - | (6,292,456) | (3,783,500) | (11,599,039) | (30,553) | (1,034,440) | (6,182,420) | (2,444,848) | (1,124,622) | (267,167) | - | (32,759,045) |
| Closing net book amount | <u>73,643,184</u> | <u>195,607,891</u> | <u>36,643,329</u> | <u>382,335,156</u> | <u>32,597</u> | <u>5,266,362</u> | <u>68,030,813</u> | <u>12,470,118</u> | <u>9,711,773</u> | <u>587,134</u> | <u>90,414,308</u> | <u>874,742,665</u> |
| At 31 December 2014 | | | | | | | | | | | | |
| Cost | 73,643,184 | 238,774,252 | 71,689,684 | 489,891,380 | 913,118 | 12,046,422 | 126,906,329 | 24,726,204 | 14,360,444 | 4,700,248 | 90,414,308 | 1,148,065,573 |
| Accumulated depreciation | - | (43,166,361) | (35,046,355) | (107,556,224) | (880,521) | (6,780,060) | (58,875,516) | (12,256,086) | (4,648,671) | (4,113,114) | - | (273,322,908) |
| Net book amount | <u>73,643,184</u> | <u>195,607,891</u> | <u>36,643,329</u> | <u>382,335,156</u> | <u>32,597</u> | <u>5,266,362</u> | <u>68,030,813</u> | <u>12,470,118</u> | <u>9,711,773</u> | <u>587,134</u> | <u>90,414,308</u> | <u>874,742,665</u> |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

6. PROPERTY, PLANT AND EQUIPMENT (continued)

The reconciliation of the additions of property, plant and equipment to cash flows is as follows:

| | 2014 | 2013 |
|---|--------------------------|--------------------------|
| | KHR'000 | KHR'000 |
| Additions | 76,971,430 | 118,045,155 |
| Increase in payables to suppliers and performance guarantee | <u>9,965,400</u> | <u>1,654,192</u> |
| Cash used for purchases of property, plant and equipment | 86,936,830 | 119,699,347 |
| Less: | | |
| Interest capitalisation on qualifying assets | (367,649) | (3,176,682) |
| Deferred government and other grants | <u>-</u> | <u>(29,584,800)</u> |
| Purchases of property, plant and equipment (per cash flows) | <u><u>86,569,181</u></u> | <u><u>86,937,865</u></u> |

7. INTANGIBLE ASSETS

| | 2014 | 2013 |
|-------------------------------|-------------------------|-------------------------|
| | KHR'000 | KHR'000 |
| At 01 January | | |
| Cost | 4,816,591 | 2,346,724 |
| Accumulated amortisation | <u>(1,524,260)</u> | <u>(1,064,269)</u> |
| Net book value | <u><u>3,292,331</u></u> | <u><u>1,282,455</u></u> |
| Year ended 31 December | | |
| Opening balance | 3,292,331 | 1,282,455 |
| Additions | 849,995 | 2,483,002 |
| Disposals | - | (8,514) |
| Amortisation charges | <u>(1,284,709)</u> | <u>(464,612)</u> |
| Net book value | <u><u>2,857,617</u></u> | <u><u>3,292,331</u></u> |
| As at 31 December | | |
| Cost | 5,666,586 | 4,816,591 |
| Accumulated amortisation | <u>(2,808,969)</u> | <u>(1,524,260)</u> |
| Net book value | <u><u>2,857,617</u></u> | <u><u>3,292,331</u></u> |

The intangible assets consist of accounting software and network which its remaining amortisation period of 5 years.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

8. FINANCIAL INSTRUMENTS

(a) Financial instruments by category

| | 31 December 2014 KHR'000 | 31 December 2013 KHR'000 |
|---|---|---|
| Assets as per statement of financial position | | |
| Financial assets | | |
| Short-term investments | 196,331,331 | 174,278,018 |
| Trade and other receivables | 30,271,129 | 29,185,711 |
| Cash and cash equivalents | 14,962,141 | 10,568,715 |
| Loans to employees | 5,440,649 | 7,015,013 |
| Loan to Pursat Water Supply | 589,905 | 659,799 |
| | <u>247,595,155</u> | <u>221,707,256</u> |
| Liabilities as per statement of financial position | | |
| Other financial liabilities at amortised cost | | |
| Borrowings | 280,093,766 | 254,954,064 |
| Trade and other payables | 22,209,924 | 29,772,394 |
| Refundable water deposits | 36,283,845 | 31,215,173 |
| | <u>338,587,535</u> | <u>315,941,631</u> |

(b) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

| | 2014 KHR'000 | 2013 KHR'000 |
|-------------------------------|-------------------------|-------------------------|
| Trade receivables | | |
| Group 1 | 5,222,336 | 4,574,148 |
| Group 2 | 917,874 | 1,243,627 |
| | <u>6,140,210</u> | <u>5,817,775</u> |
| Short-term investments | | |
| No rating** | 196,331,331 | 174,278,018 |
| | <u>196,331,331</u> | <u>174,278,018</u> |
| Cash at banks | | |
| No rating** | 11,821,839 | 9,211,749 |
| D* | 1,679,702 | 777,952 |
| | <u>13,501,541</u> | <u>9,989,701</u> |

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

8. FINANCIAL INSTRUMENTS (continued)

Group 1 – Water sales to new and existing customers (outstanding less than one month). They are customers other than government bodies that are not credit rated by any national or international agency.

| | 2014 | 2013 |
|------------------------|------------------|------------------|
| | KHR'000 | KHR'000 |
| Household receivables | 2,881,692 | 2,576,278 |
| Commercial receivables | 2,333,076 | 1,994,009 |
| Water wholesalers | 7,568 | 3,861 |
| | <u>5,222,336</u> | <u>4,574,148</u> |

Group 2 - Water sales to existing customers (outstanding less than one year) with no defaults in the past. They are government bodies that are not credit rated by any national or international agency.

D* - This balance is the cash deposited at ACLEDA Bank Plc. The ACLEDA Bank Plc. was assigned a D rating by Standard & Poor's on 31 October 2011. The D rating was assigned based on the Bank Fundamental Strength Rating of the local currency, Khmer Riel.

No rating** - For the other local banks at which the PPWSA deposits its cash, there were no ratings assigned by any agency.

9. LOAN TO PURSAT WATER SUPPLY

| | 2014 | 2013 |
|-----------------------------------|----------------|----------------|
| | KHR'000 | KHR'000 |
| Current portion | 97,365 | 81,475 |
| Non-current portion, due: | | |
| • within one to two years | 111,126 | 95,454 |
| • within two to five years | 381,414 | 358,882 |
| • after five years | - | 123,988 |
| | <u>492,540</u> | <u>578,324</u> |
| Total loan to Pursat Water Supply | <u>589,905</u> | <u>659,799</u> |

The loan to Pursat Water Supply was made in US\$ in accordance with the loan agreement signed between the PPWSA and Pursat Water Supply dated 04 June 2008, amounting to KHR1,156 million (US\$283,192). The purpose of the loan was to finance the construction of the main water supply network in Kandiang district, Pursat province, which was constructed and completed by the PPWSA in April 2009. The loan is unsecured and subject to interest at the rate of 5% per annum.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

9. LOAN TO PURSAT WATER SUPPLY (continued)

The loan is being repaid by Pursat Water Supply in 120 monthly instalments in accordance with the repayment schedule set out in Article G of the loan agreement. However, based on request letter No. 05 IME.WS.PS, dated 09 January 2013, from Pursat Water, the repayment schedule was amended to 126 monthly instalments by deferring the principal repayments scheduled for January to June 2013 (resuming repayment from July 2013). Interest is still due for payment on a monthly basis. This proposed letter was approved by the PPWSA on 24 January 2013.

The fair values of the non-current portion of the loan to Pursat Water Supply are as follows:

| | <u>2014</u> <u>KHR'000</u> | <u>2013</u> <u>KHR'000</u> |
|----------------|-------------------------------|-------------------------------|
| Carrying value | 589,905 | 659,799 |
| Fair value | 498,911 | 568,867 |

The fair values of the loan are based on cash flows discounted using a borrowing rate of 8.50% (2013: 8.50%).

10. LOANS TO EMPLOYEES

On 15 February 2012, the Board of Directors approved the motion that 10% of the floating shares be reserved for the PPWSA's staff. The number of shares to be allotted to each employee was finalised on 03 April 2012. This date is therefore regarded as the grant date for the employee share option plan. The total loans, paid on 06 April 2012, amounted to KHR8,218 million. The PPWSA provided interest-free loans with a term of three years to employees and senior officers to purchase these shares. On the due date, the loans must be repaid in full to the PPWSA. According to the minutes of the Board of Directors meeting dated 20 December 2012, the employees are allowed to trade their shares if the loans have been repaid.

The fair values of the loans to employees are based on cash flows discounted using a weighted average interest rate of 14.40% p.a. Management assessed that the 14.40% interest rate is a reasonable rate, being equivalent to the rate at which the employees could obtain loans from commercial banks in Riel currency for a period of three years. There is no change of this rate at the commercial banks.

On the grant date, the fair value adjustment to the loan balance of KHR2,729 million was recognised in salaries, wages and related expenses. This was because the fair value of the loans has been reduced through a preferential rate (interest-free) and a benefit was provided to the employees.

This loan is due in April 2015. However, the share prices have been dropped. Management has decided to make provision for impairment amounting to KHR2,609 millions in the financial statements for the year ended 31 December 2014 to the level of the share price as at 31 December 2014 as at least management expect that the employees can sell and settle the loan.

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

11. INVENTORIES

| | 2014 | 2013 |
|---------------------------------|-------------------|-------------------|
| | KHR'000 | KHR'000 |
| Distribution pipes and fittings | 29,952,721 | 23,880,257 |
| Water meters | 3,196,036 | 7,532,282 |
| Spare parts and tools | 1,581,890 | 1,877,109 |
| Chemicals | 836,712 | 203,895 |
| Drums and other packages | 100,216 | 100,216 |
| Inventories in transit (*) | 1,910,507 | - |
| Other materials | 2,923,778 | 1,489,604 |
| | <u>40,501,860</u> | <u>35,083,363</u> |

The cost of inventories recognised as an expense of KHR2,896 million and KHR KHR10,354 million for the years ended 31 December 2014 and 31 December 2013, respectively.

The PPWSA booked an allowance of KHR652 million in 2014 for slow moving items in the statement of profit or loss and other comprehensive income.

(*) Inventories in transit are main pipes which arrived at the port of Cambodia.

12. TRADE AND OTHER RECEIVABLES

| | 2014 | 2013 |
|---------------------------------------|-------------------|-------------------|
| | KHR'000 | KHR'000 |
| Household receivables | 2,881,692 | 2,576,278 |
| Commercial receivables | 2,333,076 | 1,994,009 |
| Public administration receivables (a) | 917,874 | 1,243,627 |
| Construction service receivable | - | 695,509 |
| Water wholesalers | 7,568 | 3,861 |
| Trade receivables | <u>6,140,210</u> | <u>6,513,284</u> |
| Accrued water revenue (b) | 18,239,927 | 18,767,026 |
| Interest receivable | 4,432,486 | 3,642,503 |
| Advances to suppliers | 1,620 | 9,053 |
| VAT receivable – net | 310,877 | 573,509 |
| Other receivables | 1,499,785 | 265,708 |
| | <u>24,484,695</u> | <u>23,257,799</u> |
| | <u>30,624,905</u> | <u>29,771,083</u> |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

12. TRADE AND OTHER RECEIVABLES (continued)

Customers of the PPWSA are local households, businesses and government departments. The collection period for households and businesses is one month, and for government departments is one year. Management believes that receivables are recoverable.

Because of the short-term nature of these receivables, their fair values approximate the carrying value less allowance. All trade receivable carrying amounts are denominated in Riel and other receivable carrying amounts are mainly denominated in Riel.

The maximum exposure to credit risk at the reporting date is the carrying value of each receivable mentioned above less refundable water deposits obtained from customers before connection of water meters.

- (a) Public administrative receivables were past due but not impaired. Their age is within one year. These related to receivables from government departments with whom there is no recent history of default.
- (b) The accrued water revenue represents water supplied to customers but not yet billed at year end.

13. INCOME TAX (PAYABLE)/RECEIVABLE

| | 2014 | 2013 |
|-------------------------------|--------------------|------------------|
| | KHR'000 | KHR'000 |
| As at 01 January | 2,755,704 | (893,817) |
| Current income tax (Note 30) | (8,951,670) | (3,161,854) |
| Payments made during the year | <u>3,286,678</u> | <u>6,811,375</u> |
| As at 31 December | <u>(2,909,288)</u> | <u>2,755,704</u> |

Payments of income tax are made for tax on profit for the prior year and other taxes for the year.

14. SHORT-TERM INVESTMENTS

This represents fixed deposits placed with financial institutions for a period of between four and twelve months, earning interest at rates of between 4.00% and 5.00% (2013: between 4.00% and 5.00%) per annum.

The short-term investments include deposits amounting to KHR18 billion (2013: KHR16 billion) set up specifically for the purpose of paying retirement benefits to retirees who are entitled to retirement benefits under the pension scheme. There is no restriction to PPWSA to use these short-term investments for other purposes.

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

15. CASH AND CASH EQUIVALENTS

| | 2014 | 2013 |
|---------------|-------------------|-------------------|
| | KHR'000 | KHR'000 |
| Cash on hand | 1,460,600 | 579,014 |
| Cash at banks | <u>13,501,541</u> | <u>9,989,701</u> |
| | <u>14,962,141</u> | <u>10,568,715</u> |

Cash and cash equivalents include cash and cash equivalents amounting to KHR519 million (2013: KHR198 million) set up specifically for the purpose of paying those retirees who are entitled to retirement benefits under the pension scheme. There is no restriction to PPWSA to use this cash and cash equivalents for other purposes.

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

16. SHARE CAPITAL

| | Number of ordinary shares Thousands | Number of class A shares Thousands | Ordinary shares KHR'000 | Share premium KHR'000 | Class A shares KHR'000 | Capital KHR'000 | Total KHR'000 |
|------------------------|--|---|--|--------------------------------------|---------------------------------------|----------------------------|--------------------------|
| As at 31 December 2013 | 86,973 | 391,101 | 86,973,162 | 63,153,178 | 391,100,942 | - | 541,227,282 |
| As at 31 December 2014 | 86,973 | 391,101 | 86,973,162 | 63,153,178 | 391,100,942 | - | 541,227,282 |

- (a) On 15 February 2012, the Board of Directors approved the split of the existing capital of KHR465,028,129,000 into 73,927,187 ordinary shares and 391,100,942 Class A shares with a par value of KHR1,000 per share. Class A shares are not eligible for interest or dividend and have rights and conditions as detailed in article 12.2 of the Articles of Incorporation dated 27 June 2012.
- (b) On 18 April 2012, the PPWSA was successfully listed on the CSX. It is the first company on the CSX. The total number of ordinary shares is 86,973,162 shares with a par value of KHR 1,000 per share. The costs of issuing 13,045,975 new shares amounting to KHR6,000 million have been offset with the share premium. All issued ordinary shares are fully paid. The details of ordinary shares are as follows:

| Shareholders | Number of shares | % |
|---|-----------------------------|-------------|
| MoEF (one-year lock-up) | 73,927,187 | 85% |
| Other shareholders | 11,741,606 | 14% |
| Employee share option scheme (three-year lock-up) (a) | 1,304,369 | 1% |
| | <u>86,973,162</u> | <u>100%</u> |

- (a) Based on the minutes of the Board of Directors meeting dated 20 December 2012, the employees are allowed to trade their shares if the corresponding loans have been repaid.

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

17. RESERVES

| | Capital reserve KHR'000 | Legal reserve KHR'000 | General reserve KHR'000 | Development reserve KHR'000 | Total KHR'000 |
|-------------------------------|--|--------------------------------------|--|--|--------------------------|
| As at 01 January 2013 | 1,648,435 | 9,478,087 | 9,478,087 | 63,249,905 | 83,854,514 |
| Additions | - | 1,721,049 | 1,721,049 | 28,569,708 | 32,011,806 |
| As at 31 December 2013 | <u>1,648,435</u> | <u>11,199,136</u> | <u>11,199,136</u> | <u>91,819,613</u> | <u>115,866,320</u> |
| As at 01 January 2014 | 1,648,435 | 11,199,136 | 11,199,136 | 91,819,613 | 115,866,320 |
| Additions | - | 1,904,401 | 1,904,401 | 29,518,315 | 33,327,117 |
| As at 31 December 2014 | <u>1,648,435</u> | <u>13,103,537</u> | <u>13,103,537</u> | <u>121,337,928</u> | <u>149,193,437</u> |

In accordance with the PPWSA's statute dated 22 February 1999, article 29, the PPWSA's profit, after offsetting with losses carried forward (if any), can be used as follows:

- for management and staff bonuses
- for legal reserve - 5%
- for general reserve - 5%, and
- the remaining balance for development reserve.

- (a) Effective from the year ended 31 December 2007 onward, the MoEF accepted the proposed 10% annual profit distribution from the PPWSA in its letter No. 2254, dated 02 May 2008. However, from 2012 onward, after the listing of the PPWSA, the distribution of dividends will be in accordance with the new statute of the PPWSA, dated 27 June 2012. The distribution of dividends shall be as follows:

The dividend policy shall be determined in line with the following criteria for profit allocation:

1. Compensation for losses incurred in previous years
2. After the compensation for losses, the remaining profit, if any, shall be distributed as follows:
 - i. Reward to management and employees as follows:
 - One month's salary for all employees if the net profit is between 5% and 10% of operating expenses.
 - Two months' salary for all employees if the net profit is between 10% and 20% of operating expenses.
 - Three months' salary for all employees if the net profit is more than 20% of operating expenses.
 - ii. 2% for retirement benefits and disability benefits
 - iii. 5% for legal reserve
 - iv. 5% for general reserve
 - v. 5% for social fund, which shall be recorded as an expense in the year of the transaction

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

17. RESERVES (continued)

3. The remaining amount after the above allocations shall be allocated to:
- i. Reserve for future investments (retained earnings) subject to the Board of Directors' approval
 - ii. The remaining balance after investment reserve is allocated to the MoEF and public investors at the ratio of 85% and 15%, respectively

A dividend in respect of the year ended 31 December 2013 of KHR 54.74 per share, amounting to a total dividend of KHR 4,761 million, was approved during the Board of Directors meeting on 20 March 2014 and paid already in May 2014.

- (b) The use of reserves to pay for corporate social responsibility is in accordance with letter No. 284 from the Ministry of the Council of Ministers, dated 11 March 2010. Corporate social responsibility represents the development of a water supply system for military teams in several provinces. The work extended into 2011 in accordance with the letter of the Deputy Prime Minister Keat Chhon No. 2210 MEF, dated 22 April 2011.

18. RETIREMENT BENEFIT OBLIGATION

The amounts recognised in the statement of financial position are determined as follows:

| | 2014 | 2013 |
|---|-------------------|-------------------|
| | KHR'000 | KHR'000 |
| Present value of defined benefit obligation | 30,246,160 | 28,362,224 |
| Fair value of plan assets | - | - |
| Unfunded status | 30,246,160 | 28,362,224 |
| Net liability recognised in statement of financial position | <u>30,246,160</u> | <u>28,362,224</u> |

The movement in the defined benefit obligation over the year is as follows:

| | 2014 | 2013 |
|----------------------|-------------------|-------------------|
| | KHR'000 | KHR'000 |
| As at 01 January | 28,362,224 | 26,165,235 |
| Current service cost | 1,177,150 | 1,081,547 |
| Interest cost | 1,316,818 | 1,147,744 |
| Benefits paid | (866,648) | (689,801) |
| Actuarial loss | 256,616 | 657,499 |
| At 31 December | <u>30,246,160</u> | <u>28,362,224</u> |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

18. RETIREMENT BENEFIT OBLIGATION (continued)

The amounts recognised in the statement of profit or loss and other comprehensive income are as follows:

| | 2014 | 2013 |
|--|------------------|------------------|
| | KHR'000 | KHR'000 |
| Current service cost | 1,177,150 | 1,081,547 |
| Interest cost | 1,316,818 | 1,147,744 |
| Total, included in salaries, wages and related expenses (Note 25) | <u>2,493,968</u> | <u>2,229,291</u> |

The amounts anticipated to be paid within 12 months of the years ended 31 December 2014 and 31 December 2013 were KHR1,070 million and KHR867 million, respectively.

The principal actuarial assumptions are as follows:

| | 2014 | 2013 |
|---------------------------------------|---|-------------|
| Average expected future working years | 20 | 18 |
| Discount rates | 4.64% | 4.64% |
| Salary growth rates | According to the policy of PPWSA (a) | |
| Mortality rates | (b) | |

(a) Salary growth rates

Staff are categorised into 11 classes; each class has 25 steps. Each member of staff is expected to be promoted to the next step annually. The salary increment is derived from the average index change per respective class multiplied by the salary amount per index.

The salary amount per index is KHR5,583 (2013: KHR5,583). Below is the average index change in each of the classes.

| Class | Average index change per class |
|-------|--------------------------------|
| 1 | 5 |
| 2 | 7 |
| 3 | 8 |
| 4 | 10 |
| 5 | 12 |
| 6 | 13 |
| 7 | 14 |
| 8 | 15 |
| 9 | 16 |
| 10 | 17 |
| 11 | 18 |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

18. RETIREMENT BENEFIT OBLIGATION (continued)

(b) Mortality rates

In the absence of published mortality rates in Cambodia, the PPWSA used the 2008 Thailand mortality life expectancy table modified to fit the Cambodian life expectancy. The 2008 Thailand mortality table is the latest published mortality table in Thailand.

The table below shows sample rates from the mortality table used by the PPWSA:

| Age | Mortality rates (% per annum) | |
|-----|-------------------------------|-------|
| | Females | Males |
| 20 | 0.582 | 0.664 |
| 30 | 0.598 | 0.705 |
| 40 | 0.618 | 0.759 |
| 50 | 0.742 | 1.008 |
| 60 | 1.113 | 1.589 |

19. DEFERRED INCOME TAX LIABILITIES

| | 2014 | 2013 |
|---|---------------------|--------------------|
| | KHR'000 | KHR'000 |
| Deferred income tax assets: | | |
| Deferred income tax assets to be recovered after more than 12 months | (9,079,800) | (6,604,270) |
| Deferred income tax assets to be recovered within 12 months | (1,042,369) | (771,196) |
| | <u>(10,122,169)</u> | <u>(7,375,466)</u> |
| Deferred income tax liabilities | | |
| Deferred income tax liabilities to be recovered after more than 12 months | 35,695,137 | 31,848,293 |
| Deferred income tax liabilities to be recovered within 12 months | - | - |
| | <u>35,695,137</u> | <u>31,848,293</u> |
| Deferred income tax liabilities (net) | <u>25,572,968</u> | <u>24,472,827</u> |

The movement of the deferred tax account is as follows:

| | 2014 | 2013 |
|---|-------------------|-------------------|
| | KHR'000 | KHR'000 |
| As at 01 January | 24,472,827 | 18,293,407 |
| Charged to statement of profit or loss and other comprehensive income (Note 30) | 1,100,141 | 6,179,420 |
| As at 31 December | <u>25,572,968</u> | <u>24,472,827</u> |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

19. DEFERRED INCOME TAX LIABILITIES (continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets:

| | Retirement benefit obligation KHR'000 | Allowance for inventory obsolescence KHR'000 | Allowance for doubtful debts KHR'000 | Bonus KHR'000 | Unrealised exchange (gain)/loss KHR'000 | Total KHR'000 |
|---|--|---|---|--------------------------|--|--------------------------|
| As at 01 January 2013 | 5,201,563 | 65,056 | 1,111 | 430,800 | 399,498 | 6,098,028 |
| Credited to profit and loss in the statement of profit or loss and other comprehensive income | 453,549 | 82,437 | - | 33,684 | 707,768 | 1,277,438 |
| As at 31 December 2014 | 5,655,112 | 147,493 | 1,111 | 464,484 | 1,107,266 | 7,375,466 |
| Credited/(charged) to profit and loss in the statement of profit or loss and other comprehensive income | 394,120 | (117,000) | 521,747 | 149,463 | 1,798,373 | 2,746,703 |
| As at 31 December 2014 | 6,049,232 | 30,493 | 522,858 | 613,947 | 2,905,639 | 10,122,169 |

Deferred tax liabilities:

| | Accelerated tax depreciation KHR'000 |
|--|---|
| As at 01 January 2013 | 24,391,435 |
| Charged to profit and loss in the statement of profit or loss and other comprehensive income | 7,456,858 |
| As at 31 December 2013 | 31,848,293 |
| Charged to profit and loss in the statement of profit or loss and other comprehensive income | 3,846,844 |
| As at 31 December 2014 | 35,695,137 |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

20. BORROWINGS

| | 2014 | 2013 |
|----------------------------|--------------------|--------------------|
| | KHR'000 | KHR'000 |
| Borrowings from: | | |
| AfD – Credit No. 1075 03 S | 64,719,905 | 83,111,694 |
| MoEF – JICA | 112,000,290 | 99,000,951 |
| AfD – Credit No. 6000 01 G | 25,228,717 | 35,195,851 |
| MoEF – ADB | 34,502,635 | 37,645,568 |
| AfD – Credit No. 1121 01F | 43,642,219 | - |
| | <u>280,093,766</u> | <u>254,954,064</u> |

The maturity dates of these borrowings are as follows:

| | 2014 | 2013 |
|------------------------------|--------------------|--------------------|
| | KHR'000 | KHR'000 |
| Current | | |
| Due within one year | 28,837,249 | 26,691,817 |
| Non-current | | |
| Due within one to two years | 27,101,361 | 27,481,597 |
| Due within two to five years | 88,592,619 | 82,444,790 |
| Due after five years | 135,562,537 | 118,335,860 |
| | <u>251,256,517</u> | <u>228,262,247</u> |
| | <u>280,093,766</u> | <u>254,954,064</u> |

The carrying amounts and fair values of the non-current borrowings are as follows:

| | 2014 | 2013 |
|----------------|----------------|----------------|
| | KHR'000 | KHR'000 |
| Carrying value | 251,256,517 | 228,262,247 |
| Fair value | 236,127,544 | 186,975,639 |

The fair values of the loans are based on cash flows discounted using a borrowing rate of 8.50% for 2014 (2013: 8.50%).

Borrowings denominated in other currencies are as follows:

| | 2014 | 2013 |
|------|--------------------|--------------------|
| | KHR'000 | KHR'000 |
| EUR | 133,590,841 | 118,307,545 |
| US\$ | 112,000,290 | 99,000,951 |
| | <u>245,591,131</u> | <u>217,308,496</u> |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

20. BORROWINGS (continued)

| LOAN TERMS | LOAN FROM MoEF (ADB) | LOAN FROM AfD UNDER CREDIT AGREEMENT NO. CKH6000 01G | LOAN FROM AfD UNDER CREDIT AGREEMENT NO. CKH 1075 03S | LOAN FROM MoEF (JICA CREDIT CP-P9) | LOAN FROM AfD UNDER CREDIT AGREEMENT NO. CKH 1121 01F |
|-------------------|--|---|--|--|--|
| Agreement date | 5 May 1997 | 30 November 2006, amended on 25 March 2009 and 2 July 2010 | 8 May 2009 | 18 May 2010 | 11 March 2013 |
| Project | Provincial and Peri-urban Water and Sanitation Project | Extension of Chrouy Changwar Water Treatment Plant (Phase II) and Extension of PPWSA's Distribution Network Project | Construction of the first tranche of a new water production facility in Niroth and extension of transmission and distribution network corresponding to the additional water production (Sub-package A). | Design and construction of the water treatment plant and transmission in Niroth (Sub-package B). | Construction of the second tranche of the water production facility in Niroth and for the extension and optimisation of the Phnom Penh transmission and distribution system. |
| Interest | 6.5% per annum | EURIBOR minus 1.35%. In no case is the rate to be less than 0.25% nor to exceed 5.21%. The floating rate was converted to a fixed rate at the end of the disbursement period of 1.49% starting from 1 January 2011. | EURIBOR minus 1.35%. In no case is the rate to be less than 0.25% nor to exceed 5.21%. The floating rate will be converted to a fixed rate at the end of the disbursement period of 0.88% starting from 1 December 2013. | 7.35% per annum | EURIBOR six-month rate minus 0.59% per annum (capped at 5.19% per annum and with a minimum of 0.25% per annum) |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

20. BORROWINGS (continued)

| LOAN TERMS | LOAN FROM MoEF (ADB) | LOAN FROM AfD UNDER CREDIT AGREEMENT NO. CKH6000 01G | LOAN FROM AfD UNDER CREDIT AGREEMENT NO. CKH 1075 03S | LOAN FROM MoEF (JICA CREDIT CP-P9) | LOAN FROM AfD UNDER CREDIT AGREEMENT NO. CKH 1121 01F |
|--------------------|---|---|--|---|--|
| Security | None | Comfort letters from MoEF and MIH | Comfort letters from MoEF and MIH | None | None |
| Repayment schedule | Semi-annual instalments on 15 January and 15 July of each year, commencing from 2012. | 17 equal half-yearly instalments commencing on 31 December 2010 and ending on 31 December 2018. | 16 equal half-yearly instalments commencing on 30 November 2013 and ending on 31 May 2021. | 24 half-yearly instalments commencing on 20 September 2014 and ending on 20 March 2026. | 24 equally half-yearly (including a grace period of 4 years) |
| Available facility | Nil | Nil | Nil | Maximum amount of KHR 105,894 million | Maximum amount of KHR 10,742 million |
| Other information | The foreign exchange risk resulting from any fluctuations between the value of the currency of the loan (SDR) and the currency used for repayment by the PPWSA (KHR) shall be borne in full by the MoEF. The exchange rate (KHR/SDR) is fixed at the contract date. | All transactions are carried out in euros (both withdrawals and repayments). | All transactions are carried out in euros (both withdrawals and repayments). | All transactions are carried out in US\$ (both withdrawals and repayments). | All transactions are carried out in euros (both withdrawals and repayments). |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

21. OTHER INCOME

Other income includes:

| | 2014 | 2013 |
|---------------------------------|------------------|------------------|
| | KHR'000 | KHR'000 |
| Government and other grants (a) | 2,359,972 | 2,817,687 |
| Spare parts and meter sales | 5,578,424 | 3,744,125 |
| Penalty revenues | 288,712 | 188,498 |
| Other revenues | 1,257,762 | 1,180,662 |
| | <u>9,484,870</u> | <u>7,930,972</u> |

(a) Government and other grants

| | Government grant | AfD grant | JICA grant | Other grants | Total |
|---------------------------|-----------------------------|----------------------|-----------------------|-------------------------|--------------------|
| | KHR'000 | KHR'000 | KHR'000 | KHR'000 | KHR'000 |
| As at 01 January 2013 | 5,769,980 | 413,601 | - | 930,447 | 7,114,028 |
| Additions | - | 1,049,749 | 29,584,800 | - | 30,634,549 |
| Amortisation | <u>(224,226)</u> | <u>(1,463,350)</u> | <u>(1,054,340)</u> | <u>(75,771)</u> | <u>(2,817,687)</u> |
| As at 31 December 2013 | <u>5,545,754</u> | <u>-</u> | <u>28,530,460</u> | <u>854,676</u> | <u>34,930,890</u> |
| As at 01 January 2014 (*) | 5,545,754 | - | 28,530,460 | 854,676 | 34,930,890 |
| Amortisation | <u>(226,899)</u> | <u>-</u> | <u>(2,108,679)</u> | <u>(24,394)</u> | <u>(2,359,972)</u> |
| As at 31 December 2014 | <u>5,318,855</u> | <u>-</u> | <u>26,421,781</u> | <u>830,282</u> | <u>32,570,918</u> |

Amortisation of deferred government and other grants is recognised as other income in the statement of profit or loss and other comprehensive income.

Government grant

(*) The government grant represents the gain arising from a favourable difference in rates used for a fixed conversion (KHR/SDR) under the Subsidy Loan Agreement between the MoEF and the PPWSA on 5 May 1997 at the sum of SDR9,695,000 from the ADB. The PPWSA has decided to keep the gain on the PPWSA's books as a grant (no refund requirement on the gain) and the gain is to be amortised using the same policy as other deferred grants.

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

21. OTHER INCOME (continued)

(a) Government and other grants (continued)

AfD grant

Pursuant to the Convention signed by the MoEF and the AfD dated 24 June 2003, the MoEF and the PPWSA entered into a grant agreement on 24 June 2003. The MoEF has made available to the PPWSA a subvention up to a limit of EUR4,000,000 (approximately KHR23,314 million) to finance the extension of the drinking water supply network on the periphery of Phnom Penh, and related components.

JICA grants

JICA grants represent the project for introduction of clean energy by solar electricity generation system.

Other grants

Other grants represent donations of property, plant and equipment from the Association Internationale des Maires Francophones (AIMF) and KUBOTA Construction Col., Ltd.

22. TRADE AND OTHER PAYABLES

| | 2014 | 2013 |
|---------------------------------------|-------------------|-------------------|
| | KHR'000 | KHR'000 |
| Trade payables | 11,176,434 | 6,722,650 |
| Performance guarantee | 227,999 | 15,044,930 |
| Accrued staff incentive | 3,797,399 | 3,300,840 |
| Amount due to Phnom Penh Municipality | 3,732,133 | 2,849,597 |
| Unearned income (a) | 871,434 | 21,266 |
| Deferred income (b) | 5,278 | 99,124 |
| Other taxes payable | 167,284 | 158,499 |
| Other payables | 1,532,009 | 1,663,002 |
| | <u>21,509,970</u> | <u>29,859,908</u> |

(a) This is the cash received in advance for the construction services provided in relation to the expansion of the water distribution system to a construction company at Kampong Cham and Battambang provinces.

(b) This is the cash received in advance from the World Bank (WB) and Maries de Paris for new household connections for the poor.

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

23. SALES

| | 2014 | 2013 |
|--|--------------------|--------------------|
| | KHR'000 | KHR'000 |
| Water sales – households | 68,805,868 | 64,292,014 |
| Water sales – commercial | 61,559,620 | 56,845,020 |
| Water sales – public administration institutions | 6,805,631 | 6,231,222 |
| Water sales – autonomous state authorities | 362,665 | 336,895 |
| Water sales – wholesalers | 179,287 | 167,145 |
| Rounding difference on water sale revenues | 32,693 | 31,743 |
| <u>Less: Invoice cancellations</u> | <u>(727,701)</u> | <u>(457,952)</u> |
| | <u>137,018,063</u> | <u>127,446,087</u> |
| | | |
| Water connection revenues | 7,160,850 | 6,397,988 |
| Water meter replacement charges | 2,430,499 | 2,245,095 |
| Spare parts and meter sales | <u>247,936</u> | <u>310,673</u> |
| | <u>146,857,348</u> | <u>136,399,843</u> |

24. CONSTRUCTION SERVICE FEE

This represents the fees from construction services provided in relation to the replacement and expansion of the water distribution system to a construction company.

25. SALARIES, WAGES AND RELATED EXPENSES

| | 2014 | 2013 |
|------------------------------------|-------------------|-------------------|
| | KHR'000 | KHR'000 |
| Employee salaries | 10,106,353 | 8,119,464 |
| Incentives | 5,164,774 | 4,141,503 |
| Bonuses | 3,069,733 | 2,580,465 |
| Retirement benefit costs (Note 18) | 2,493,968 | 2,229,291 |
| Wages for contractors | 924,572 | 582,333 |
| Other employee-related expenses | <u>2,810,900</u> | <u>2,194,830</u> |
| | <u>24,570,300</u> | <u>19,847,886</u> |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
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26. RAW MATERIALS FOR WATER TREATMENT

| | 2014 | 2013 |
|-------------------------|------------------|------------------|
| | KHR'000 | KHR'000 |
| Chlorine | 2,412,130 | 1,664,479 |
| Poly Aluminium Chloride | 2,056,756 | 1,386,045 |
| Alum | 16,813 | 154,510 |
| Lime | 1,392 | 1,155 |
| Other materials | 203,972 | 111,908 |
| | <u>4,691,063</u> | <u>3,318,097</u> |

27. RAW MATERIALS FOR HOUSEHOLD WATER CONNECTIONS

| | 2014 | 2013 |
|----------------------------------|------------------|------------------|
| | KHR'000 | KHR'000 |
| Materials for house connections | 3,778,776 | 3,354,844 |
| Consumer water meter replacement | 2,434,008 | 1,596,920 |
| Pipe costs | 154,098 | 204,094 |
| Other costs | 462,983 | 512,980 |
| | <u>6,829,865</u> | <u>5,668,838</u> |

28. FOREIGN EXCHANGE GAINS/(LOSSES) - NET

| | 2014 | 2013 |
|---------------------------------------|------------------|--------------------|
| | KHR'000 | KHR'000 |
| Foreign exchange gains | 4,856,918 | 654,357 |
| Foreign exchange losses | (2,709,119) | (1,943,890) |
| Foreign exchange gains/(losses) - net | <u>2,147,799</u> | <u>(1,289,533)</u> |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

29. FINANCE INCOME/(COSTS) - NET

| | 2014 | 2013 |
|--|---------------------|---------------------|
| | KHR'000 | KHR'000 |
| Finance income: | | |
| - Interest income on bank deposits (a) | 9,441,231 | 7,615,663 |
| - Unwind concessional loan discount to employees | 1,034,374 | 941,745 |
| - Net foreign exchange gains on borrowings | 12,561,006 | - |
| - Interest income on loan to Pursat Water Supply | 31,191 | 34,714 |
| | <u>23,067,802</u> | <u>8,592,122</u> |
| Finance costs: | | |
| - Interest expenses on borrowings (b) | (12,030,691) | (9,801,353) |
| - Net foreign exchange losses on borrowings | - | (5,413,578) |
| - Interest expenses capitalised on qualifying assets | 367,649 | 3,176,682 |
| | <u>(11,663,042)</u> | <u>(12,038,249)</u> |
| Finance income/(costs) - net | <u>11,404,760</u> | <u>(3,446,127)</u> |

(a) Interest income represents interest earned from savings and deposit accounts held at local banks during the year.

(b) Interest expenses represent the interest charges on the loan obtained from AfD and the subsidiary loans obtained from the MoEF, which are funded through loans obtained from the WB, ADB and JICA.

30. INCOME TAX EXPENSE

(a) Income tax expense

| | 2014 | 2013 |
|-------------------------------|-------------------|------------------|
| | KHR'000 | KHR'000 |
| Current income tax (Note 13) | 8,951,670 | 3,161,854 |
| Deferred income tax (Note 19) | 1,100,141 | 6,179,420 |
| | <u>10,051,811</u> | <u>9,341,274</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
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30. INCOME TAX EXPENSE (continued)

(b) Reconciliation between income tax and accounting profit

| | 2014 | 2013 |
|---------------------------------------|--------------------------|-------------------------|
| | KHR'000 | KHR'000 |
| Accounting profit before income tax | <u>56,056,338</u> | <u>48,086,803</u> |
| Income tax expense at 18% (2013: 18%) | 10,090,141 | 8,655,625 |
| Change in tax rate (*) | (165,721) | 632,736 |
| Tax amount of non-deductible expenses | <u>127,391</u> | <u>52,913</u> |
| Income tax expense | <u><u>10,051,811</u></u> | <u><u>9,341,274</u></u> |

Under the Law on Taxation, the PPWSA has an obligation to pay Tax on Profit at 18% (2013: 18%) of taxable profit or minimum tax at 1% of total turnover, whichever is higher. The reduction of 2% to the applicable tax rate is an incentive given by the Securities Exchange Commission of Cambodia for entities listing on the stock exchange for three years. The rate will revert to 20% from financial year 2015 onward.

Tax on Profit is calculated on the basis of the current interpretation of the tax regulations. However, these regulations are subject to periodic variation and the ultimate determination of the Tax on Profit will be made following an inspection by the General Department of Taxation (GDT).

(*) Change in tax rate is computed based on the temporary differences between accounting and tax bases for deferred tax assets and liabilities that are expected to be realised and settled after the tax incentive period. Tax will be applied at the rate of 20%.

31. EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the PPWSA by the weighted average number of ordinary shares in issue during the year.

| | 2014 | 2013 |
|---|----------------------|----------------------|
| Profit attributable to shareholders (KHR'000) | 45,747,911 | 38,088,030 |
| Weighted average number of shares | <u>86,973,162</u> | <u>86,973,162</u> |
| Basic earnings per share (KHR) | <u><u>526.00</u></u> | <u><u>437.93</u></u> |

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**NOTES TO THE FINANCIAL STATEMENTS
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31. EARNINGS PER SHARE (continued)

(ii) Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The PPWSA had no dilutive potential ordinary shares as at the statement of financial position date. As such, the diluted earnings per share were equivalent to the basic earnings per share.

32. CASH GENERATED FROM OPERATIONS

| | Note | 2014 KHR'000 | 2013 KHR'000 |
|---|-------------|-------------------------|-------------------------|
| Profit before income tax | | 56,056,338 | 48,086,803 |
| Adjustments for: | | | |
| Depreciation charges | 6 | 32,759,045 | 24,059,252 |
| Amortisation charges on intangible assets | 7 | 1,284,709 | 464,612 |
| Amortisation of deferred government and other grants | 21 | (2,359,972) | (2,817,687) |
| Loss on disposals of property, plant and equipment and intangible assets and write off | | 5,022,410 | 102,776 |
| Retirement benefit obligation expenses | 18 | 2,493,968 | 2,229,291 |
| Finance costs | 29 | 11,663,042 | 12,038,249 |
| Finance income | 29 | (23,067,802) | (8,592,122) |
| Impairment on loans to employees | | 2,608,738 | - |
| Changes in working capital: | | | |
| Inventories | | (5,418,497) | 24,629,468 |
| Trade and other receivables | | (63,839) | (635,537) |
| Trade and other payables | | 2,310,992 | (21,701,369) |
| Proceeds from deferred government and other grants | | - | 1,049,749 |
| Refundable water deposits | | 5,068,672 | 3,428,186 |
| Cash generated from operations | | <u>88,357,804</u> | <u>82,341,671</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
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33. CAPITAL COMMITMENTS

Capital expenditure contracted at the end of the reporting period but not yet incurred is as follows:

| | 2014 | 2013 |
|--|-------------------|----------------|
| | KHR'000 | KHR'000 |
| Construction of water treatment plant | 80,541,737 | - |
| Consultation services | 4,214,150 | 1,497 |
| Ductile iron pipes, fittings and accessories | 342,175 | - |
| Construction of intake | 6,519 | 6,498 |
| | <u>85,104,581</u> | <u>7,995</u> |

34. RELATED PARTY TRANSACTIONS

i) Significant related-party balances

Pursat Water Supply and the PPWSA are under the financial supervision of the MoEF. Transactions with Pursat Water Supply are therefore regarded as related-party transactions.

| | 2014 | 2013 |
|-----------------------------|----------------|----------------|
| | KHR'000 | KHR'000 |
| Borrowings from the MoEF | 146,502,925 | 136,646,519 |
| Loans to employees | 5,440,649 | 7,015,013 |
| Loan to Pursat Water Supply | 589,905 | 659,799 |

ii) Significant transactions with related parties

| | 2014 | 2013 |
|---|----------------|----------------|
| | KHR'000 | KHR'000 |
| Interest on borrowings from the MoEF | 10,454,365 | 5,996,412 |
| Interest on loan to Pursat Water Supply | 31,191 | 34,714 |

iii) Compensation

Key management compensation for the year ended 31 December is as follows:

| | 2014 | 2013 |
|---|------------------|------------------|
| | KHR'000 | KHR'000 |
| Salaries and other short-term employee benefits | 1,915,600 | 1,851,182 |
| Retirement benefits | 475,123 | 215,515 |
| | <u>2,390,723</u> | <u>2,066,697</u> |

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
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35. EVENTS AFTER THE REPORTING DATE

Taxation

On 8 January 2015, Sub-decree no. 01.ANR.BK has been released and stated that the current and future publicly listed companies will be granted a 50% reduction on all corporate income taxes for a period of three years applicable from the date that they were listed. Management is assessing the impact and may record tax credit in year 2015, if any.

Dividend

A dividend of KHR 105.20 per share, amounting to a total dividend of KHR 9,149 million, was proposed and approved during the Board of Directors meeting on 25 March 2015. These financial statements do not reflect this dividend payable.