

PHNOM PENH WATER SUPPLY AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

PHNOM PENH WATER SUPPLY AUTHORITY

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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KINGDOM OF CAMBODIA
NATION RELIGION KING

PHNOM PENH
WATER SUPPLY AUTHORITY
"PPWSA"

N^o

Date, *21 March 2013*

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 2012.

PRINCIPAL ACTIVITIES

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

FINANCIAL PERFORMANCE

The financial performance for the year ended 31 December 2012 is set out in the statement of 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 2012 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 2012 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 2012 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:

Ministry of Industry, Mines and Energy	one representative
Ministry of Economy and Finance	one representative
Phnom Penh Municipality	one representative
General Director of Phnom Penh Water Supply Authority	one representative
Employees of Phnom Penh Water Supply Authority	one representative
Independent director	one representative
Non-executive director representing public investors	one representative

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 2012 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,



Meng Sak Theara
Chairman of the Board of Directors



Sim Sitha
Director General



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



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 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 2012, and its financial performance and cash flows for the year then ended, in accordance with Cambodian International Financial Reporting Standards.

For PricewaterhouseCoopers (Cambodia) Ltd.


A blue circular stamp of PricewaterhouseCoopers (Cambodia) Ltd. is positioned to the right of the signature. The stamp contains the company name in Khmer and English, along with a star symbol.

By Khoy Kimleng
Director

Phnom Penh, Kingdom of Cambodia
Date: 29 March 2013

PHNOM PENH WATER SUPPLY AUTHORITY

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

		31 December 2012	31 December 2011	01 January 2011
	Note	KHR'000	KHR'000	KHR'000
ASSETS				
Non-current assets				
Property, plant and equipment	7	740,650,872	632,385,744	541,321,047
Intangible assets	8	1,282,455	1,033,905	996,801
Loan to Pursat Water Supply	10	620,759	703,161	768,266
Loans to employees	11	6,073,268	-	-
		<u>748,627,354</u>	<u>634,122,810</u>	<u>543,086,114</u>
Current assets				
Inventories	12	60,723,008	28,088,571	20,176,810
Trade and other receivables	13	28,271,470	40,095,235	44,376,504
Loan to Pursat Water Supply	10	74,742	62,452	50,149
Income tax receivable	14	-	-	1,643,818
Short-term investments	15	148,008,619	151,799,927	129,697,135
Deferred IPO cost		-	3,620,793	-
Cash and cash equivalents	16	13,976,037	7,460,821	7,066,752
		<u>251,053,876</u>	<u>231,127,799</u>	<u>203,011,168</u>
Total assets		<u>999,681,230</u>	<u>865,250,609</u>	<u>746,097,282</u>
EQUITY AND LIABILITIES				
Equity attributable to shareholders				
Share capital	17	541,227,282	465,028,129	456,000,264
Reserves	18	83,854,514	55,410,445	29,060,957
Retained earnings		34,420,961	31,989,907	30,506,352
Total equity		<u>659,502,757</u>	<u>552,428,481</u>	<u>515,567,573</u>
LIABILITIES				
Non-current liabilities				
Retirement benefit obligation	19	26,165,235	24,601,028	20,347,816
Deferred income tax liabilities	20	18,293,407	16,935,710	15,279,480
Borrowings	21	192,171,324	182,847,463	129,255,377
Refundable water deposits		27,786,987	24,602,071	21,854,738
Performance guarantee		7,871,868	7,192,923	206,781
Deferred government and other grants	22	7,114,028	7,535,667	16,775,584
		<u>279,402,849</u>	<u>263,714,862</u>	<u>203,719,776</u>
Current liabilities				
Borrowings	21	14,538,206	15,019,945	11,155,238
Income tax payable	14	893,817	437,665	-
Accrual for IPO fee		-	3,215,717	-
Trade and other payables	23	45,343,601	30,433,939	15,654,695
		<u>60,775,624</u>	<u>49,107,266</u>	<u>26,809,933</u>
Total liabilities		<u>340,178,473</u>	<u>312,822,128</u>	<u>230,529,709</u>
Total equity and liabilities		<u>999,681,230</u>	<u>865,250,609</u>	<u>746,097,282</u>

The accompanying notes on pages 10 to 56 form an integral part of these financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 KHR'000	2011 KHR'000
REVENUES			
Sales	24	126,430,283	113,343,349
Construction service fee	25	6,661,202	-
Other income	22	2,028,033	1,736,982
		<u>135,119,518</u>	<u>115,080,331</u>
EXPENSES			
Depreciation and amortisation charges	7 & 8	(21,366,678)	(21,239,491)
Electricity cost		(25,489,322)	(22,809,698)
Salaries, wages and related expenses	26	(20,896,767)	(18,971,337)
Raw materials for water treatment	27	(3,786,880)	(4,462,250)
Raw materials for household water connections	28	(4,891,092)	(5,126,863)
Repairs and maintenance		(3,861,025)	(2,484,760)
Construction service expenses		(5,976,412)	-
Other expenses		(4,486,112)	(3,131,512)
Foreign exchange losses - net	29	(1,673,543)	(218,202)
		<u>(92,427,831)</u>	<u>(78,444,113)</u>
Operating profit		42,691,687	36,636,218
Finance income		6,728,848	9,021,034
Finance costs		(6,528,582)	(5,600,458)
Finance income - net	30	200,266	3,420,576
Profit before income tax		42,891,953	40,056,794
Income tax expense	31	(8,470,992)	(8,066,887)
Profit for the year		34,420,961	31,989,907
Other comprehensive income		-	-
Total comprehensive income for the year		<u>34,420,961</u>	<u>31,989,907</u>
Profit attributable to shareholders		<u>34,420,961</u>	<u>31,989,907</u>
Total comprehensive income attributable to shareholders		<u>34,420,961</u>	<u>31,989,907</u>

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

Basic earnings per share	32	414.09	432.72
Diluted earnings per share	32	414.09	432.72

The accompanying notes on pages 10 to 56 form an integral part of these financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Attributable to shareholders			Total KHR'000
		Share capital KHR'000	Reserves KHR'000	Retained earnings KHR'000	
Balance as at 01 January 2011		456,000,264	29,060,957	30,506,352	515,567,573
Profit for the year		-	-	31,989,907	31,989,907
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	31,989,907	31,989,907
Transfer to share capital	17 & 22	9,027,865	-	-	9,027,865
Transfer to reserves	18	-	30,506,352	(30,506,352)	-
Profit remitted to the Royal Government of Cambodia	18	-	(3,050,635)	-	(3,050,635)
Distribution of reserves for corporate social responsibility	18	-	(1,106,229)	-	(1,106,229)
Balance as at 31 December 2011		465,028,129	55,410,445	31,989,907	552,428,481
Balance at 01 January 2012		465,028,129	55,410,445	31,989,907	552,428,481
Profit for the year		-	-	34,420,961	34,420,961
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	34,420,961	34,420,961
Proceeds from shares issued	17	76,199,153	-	-	76,199,153
Transfer to reserves	18	-	31,989,907	(31,989,907)	-
Profit remitted to the Royal Government of Cambodia	18	-	(3,198,991)	-	(3,198,991)
Distribution of reserves for corporate social responsibility	18	-	(346,847)	-	(346,847)
Balance as at 31 December 2012		541,227,282	83,854,514	34,420,961	659,502,757

The accompanying notes on pages 10 to 56 form an integral part of these financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 KHR'000	2011 KHR'000
Cash flows from operating activities			
Cash generated from operations	33	43,993,435	45,105,295
Taxation paid	14	(6,657,143)	(4,329,174)
Retirement benefit obligation paid	19	(537,448)	(486,680)
Net cash generated from operating activities		<u>36,798,844</u>	<u>40,289,441</u>
Cash flows from investing activities			
Purchases of property, plant and equipment	7	(101,785,730)	(72,959,501)
Interest capitalisation on qualifying assets	7	(4,229,203)	(2,998,170)
Purchases of intangible assets	8	(533,588)	(271,815)
Proceeds from sale of property, plant and equipment		-	323,510
Loan repaid from Pursat Water Supply		70,112	52,802
Loans granted to employees	11	(8,217,525)	-
Short-term investments	15	3,791,308	(22,102,792)
Interest received		<u>6,875,306</u>	<u>9,241,943</u>
Net cash used in investing activities		<u>(104,029,320)</u>	<u>(88,714,023)</u>
Cash flows from financing activities			
Proceeds from shares issued	17	76,199,153	-
Profit remitted to the Royal Government of Cambodia	18	(3,198,991)	(3,050,635)
Distribution of reserves for corporate social responsibility	18	(346,847)	(1,106,229)
Proceeds from borrowings		101,596,900	67,313,940
Finance cost paid		(8,970,907)	(3,362,100)
Repayments of borrowings		<u>(91,533,616)</u>	<u>(10,976,325)</u>
Net cash generated from financing activities		<u>73,745,692</u>	<u>48,818,651</u>
Net increase in cash and cash equivalents		6,515,216	394,069
Cash and cash equivalents, beginning of the year		<u>7,460,821</u>	<u>7,066,752</u>
Cash and cash equivalents, end of the year	16	<u>13,976,037</u>	<u>7,460,821</u>

The accompanying notes on pages 10 to 56 form an integral part of these financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. BACKGROUND INFORMATION

The Phnom Penh Water Supply Authority (PPWSA) is under the technical supervision of the Ministry of Industry, Mines and Energy (MIME) 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 the city of Phnom Penh. 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, Kingdom of Cambodia.

The financial statements were approved for issue by the Board of Directors on 21 March 2013.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

This is the first set of financial statements prepared by the PPWSA in accordance with Cambodian International Financial Reporting Standards (CIFRS) published by the MoEF, Prakas No. 068BK MEF dated 08 January 2009, and the National Accounting Council, Announcement No. 097/09 MEF dated 28 August 2009. 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 CIFRS.

The PPWSA's financial statements for the year ended 31 December 2011 were prepared in accordance with Cambodian Accounting Standards (CAS). CAS differs in certain material respects from CIFRS. Reconciliations and descriptions of the effect of the transition from CAS to CIFRS on the PPWSA's equity and total comprehensive income are given in Note 5.

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

New standards, amendments and interpretations issued and effective for financial statements beginning on or after 01 January 2013 but not yet early adopted by the PPWSA are as follows:

- CIAS 19 - Employee benefits was amended in June 2011

The amendment is effective for annual accounting periods beginning on or after 01 January 2013. Early adoption is permitted. The amendment eliminates the option to choose the policy for recognition of actuarial gains and losses and requires that all actuarial gains and losses are recognised in other comprehensive income (OCI) as they occur; requires that all past service costs be immediately recognised; and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. The PPWSA is currently assessing the full impact of this amendment on its financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and interpretations issued and effective for financial statements beginning on or after 01 January 2013 but not yet early adopted by the PPWSA are as follows (continued):

- Amendment to CIAS 16 - Property, plant and equipment

The amendment makes clear that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.

The previous wording of CIAS 16 indicated that servicing equipment should be classified as inventory, even if it was used for more than one period. Following the amendment, this equipment, if used for more than one period, is classified as property, plant and equipment. This amendment applies retrospectively for annual periods beginning on or after 01 January 2013. Early adoption is permitted. The PPWSA has not assessed the full impact of the amendment and intends to adopt the amended CIAS 16 no later than the accounting period beginning on 01 January 2013.

- Amendment to CIAS 34 - Interim financial reporting

The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements. The amendment brings CIAS 34 into line with the requirements of IFRS 8 - Operating Segments. A measure of total assets and liabilities is required for an operating segment in the interim financial statements if such information is regularly provided to the chief operating decision-maker and there has been a material change in those measures since the last annual financial statements. This amendment applies retrospectively for annual periods beginning on or after 01 January 2013. Early adoption is permitted. The PPWSA has not assessed the full impact of this amendment and intends to adopt the amended CIAS 34 no later than the accounting period beginning on 01 January 2013.

- Amendment to CIFRS 7 - Financial instruments: Disclosures, regarding asset and liability offsetting

This amendment includes new disclosures to facilitate comparison between those entities that prepare CIFRS financial statements and those that prepare financial statements in accordance with US GAAP. This amendment applies retrospectively for annual periods beginning on or after 01 January 2013. The PPWSA has not assessed the full impact of this amendment and intends to adopt this amended no later than the accounting period beginning on 01 January 2013.

- CIFRS 13 - Fair value measurement

This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across CIFRS. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within CIFRS. The PPWSA has not assessed the full impact of CIFRS 13 and intends to adopt it for the accounting period beginning on 01 January 2013, its effective date.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards, amendments and interpretations (continued)

New standards, amendments and interpretations issued and effective for financial statements beginning on or after 01 January 2013 but not yet early adopted by the PPWSA are as follows (continued):

- Amendment to CIAS 32 - Financial Instruments: Presentation, regarding asset and liability offsetting

This is an amendment to the application guidance in CIAS 32 - Financial instruments: Presentation, and clarifies some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. This amendment is effective for the accounting period beginning on 01 January 2014. Management is currently assessing the impact of the adoption of this standard on the financial statements.

- CIFRS 9 - Financial instruments

CIFRS 9 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 income statement, unless this creates an accounting mismatch. The PPWSA has not assessed CIFRS 9's full impact and intends to adopt CIFRS 9 for the accounting period beginning on 01 January 2015, its effective date.

There are no other CIFRS or CIFIC interpretations that are not yet effective that would be expected to have a material impact on the financial statements of the PPWSA.

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 2012

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 functional currency is the riel because of the significant influence of the riel on its operations. 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 comprehensive income. Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within 'finance income and costs'.

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 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

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

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of 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 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 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 provisions for impairment.

2.9 Inventories

Inventories are stated at the lower of the cost (costs of purchase and other costs incurred in bringing the inventories to their present location and condition) and the net realisable value.

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.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 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 provisions for impairment.

2.11 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.

2.12 Impairment of financial assets

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.

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 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 comprehensive income.

2.13 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.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 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.

2.15 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 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.

2.16 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 comprehensive income in the period in which they are incurred.

2.17 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.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of 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).

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Current and deferred income tax (continued)

Deferred income tax is provided in full, using the liability method, 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.

2.19 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.

(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 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 accumulated retirement 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.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits (continued)

(ii) Retirement benefit obligations

- 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.

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, together with adjustments for unrecognised past-service costs. 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 profit and loss in the statement of comprehensive income in the period in which they arise. The cost associated with providing these benefits is charged to the statement of comprehensive income so as to spread the cost over the period of employment in which the entitlement to the benefit is earned.

Past-service costs are recognised immediately in the statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits (continued)

(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.

2.20 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.

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.

2.21 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:

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Revenue recognition (continued)

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 comprehensive income.

Interest income

Interest income is recognised in the statement of comprehensive income on a time-proportion basis using the effective interest method.

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.

2.22 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 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 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.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 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.

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 subsidiary 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 21).

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

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 KHR556,749,623 lower or higher (2011: KHR162,095,600).

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.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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.

If the euro had weakened/strengthened by 5% against the riel, the post-tax profit for the year would have been KHR4.4 billion higher or lower (2011: KHR 2.7 billion) mainly due to foreign exchange gains/losses on the translation of euro-denominated borrowings.

If the US\$ had weakened/strengthened by 3% against the riel, post-tax profit for the year would have been KHR1.4 billion higher or lower (2011: KHR1.4 billion) as a result of foreign exchange gains/losses on the translation of US\$-denominated borrowings.

c. Credit risk

The PPWSA is exposed to credit risk primarily from trade receivables, cash at banks, short-term investments, loans 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.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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.

	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 2012					
Borrowings	21,959,386	26,094,587	82,385,285	145,754,029	-
Refundable water deposits	-	-	-	-	27,786,987
Trade and other payables	44,661,330	7,871,868	-	-	-
	<u>66,620,716</u>	<u>33,966,455</u>	<u>82,385,285</u>	<u>145,754,029</u>	<u>27,786,987</u>
As at 31 December 2011					
Borrowings	21,843,213	22,568,475	79,558,618	152,973,909	-
Refundable water deposits	-	-	-	-	24,602,071
Accrued IPO cost	3,215,717	-	-	-	-
Trade and other payables	33,079,944	7,192,922	-	-	-
	<u>58,138,874</u>	<u>29,761,397</u>	<u>79,558,618</u>	<u>152,973,909</u>	<u>24,602,071</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 ratios. 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:

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management (continued)

	<u>2012</u> KHR'000	<u>2011</u> KHR'000
Total borrowings	206,709,530	197,867,408
Less: cash and cash equivalents and short-term investments	<u>(161,984,656)</u>	<u>(159,260,748)</u>
Net debt	<u>44,724,874</u>	<u>38,606,660</u>
Total equity	<u>659,502,757</u>	<u>552,428,481</u>
Total capital	<u>704,227,631</u>	<u>591,035,141</u>
Gearing ratio	6.35%	6.53%

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.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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.

(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 19.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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

(c) Retirement benefit obligation (continued)

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)	
	2012 KHR'000	2011 KHR'000
Lower by 10% of the current rate	1,622,567	1,494,605
Higher by 10% of the current rate	(1,485,468)	(1,371,965)

(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. TRANSITION TO CIFRS

The PPWSA's financial statements for the year ended 31 December 2012 are the first annual financial statements prepared in accordance with CIFRS.

The PPWSA's CIFRS accounting policies presented in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2011, the comparative information, and the opening statement of financial position.

The effect of the PPWSA's transition to CIFRS is summarised as follows:

i) Transition elections

Upon transition, CIFRS 1 permits certain exemptions from full retrospective application. The PPWSA has elected not to take any of the optional exemptions available under CIFRS 1, except for 'Day One' profits as discussed below. In addition, none of the mandatory exceptions are applicable to the PPWSA.

There is an exemption for the recognition of 'Day One' profits to be applied prospectively for transactions, such as loans obtained at an interest below market rate, entered into after the date of transition to CIFRS.

ii) Reconciliation of equity and comprehensive income previously reported under CAS to CIFRS

The PPWSA implemented early adoption of some accounting standards (CIAS 19 – Employee benefits, CIAS 23 – Borrowing costs and CIAS 34 – Interim financial reporting) in previous years, although the financial statements for those years were prepared under CAS. As a result, there are no significant differences in the equity reconciliation for the transition.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

5. TRANSITION TO CIFRS (continued)

- ii) Reconciliation of equity and comprehensive income previously reported under CAS to CIFRS (continued)

The reconciliation of equity is as follows:

EQUITY	31 December 2011 KHR'000	01 January 2011 KHR'000
Equity as reported under CAS	552,428,481	515,567,573
Adjustment	-	-
Equity as reported under CIFRS	<u>552,428,481</u>	<u>515,567,573</u>

The reconciliation of comprehensive income is as follows:

TOTAL COMPREHENSIVE INCOME	Year ended 31 December 2011 KHR'000
Total comprehensive income as reported under CAS	31,989,907
Adjustment	-
Total comprehensive income as reported under CIFRS	<u>31,989,907</u>

- iii) Adjustments to the statement of cash flows

There were no significant differences between the CAS and CIFRS treatment of individual line items within operating, investing and financing cash flows.

6. 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 85% 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 2012

7. 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 2011												
Deemed cost	73,643,184	154,465,734	58,535,359	320,499,996	927,603	8,646,100	59,119,771	9,687,307	7,368,723	3,957,104	24,219,490	721,065,371
Accumulated depreciation	-	(26,064,875)	(23,100,769)	(69,724,213)	(713,859)	(5,999,779)	(42,734,852)	(6,953,627)	(1,242,919)	(3,309,431)	-	(179,744,324)
Net book amount	73,643,184	128,400,859	35,434,590	250,775,783	213,744	2,746,321	16,384,919	2,733,680	6,120,804	647,673	24,219,490	541,321,047
Year ended 31 December 2011												
Opening net book amount	73,643,184	128,400,859	35,434,590	250,775,783	213,744	2,746,321	16,384,919	2,733,680	6,120,804	647,673	24,219,490	541,321,047
Additions	-	-	318,635	-	4,794	695,342	-	4,039,062	323,174	79,136	106,704,527	112,164,670
Transfers	-	565,964	-	5,384,962	-	-	-	-	42,199	233,617	(6,226,742)	-
Disposals	-	-	(78,161)	-	-	(17,032)	-	-	-	-	-	(95,193)
Depreciation charges	-	(3,361,927)	(3,078,497)	(8,324,618)	(61,004)	(718,672)	(3,484,142)	(1,018,460)	(737,353)	(220,107)	-	(21,004,790)
Closing net book amount	73,643,184	125,604,896	32,596,567	247,836,127	157,534	2,705,959	12,900,777	5,754,282	5,748,824	740,319	124,697,275	632,385,744
At 31 December 2011												
Cost	73,643,184	155,031,698	58,483,285	325,864,958	913,119	6,989,986	59,119,771	12,897,140	7,729,096	4,269,857	124,697,275	829,659,369
Accumulated depreciation	-	(29,426,802)	(25,886,718)	(78,048,831)	(756,585)	(4,284,027)	(46,216,994)	(7,142,858)	(1,980,272)	(3,529,538)	-	(197,273,625)
Net book amount	73,643,184	125,604,896	32,596,567	247,836,127	157,534	2,705,959	12,900,777	5,754,282	5,748,824	740,319	124,697,275	632,385,744
Year ended 31 December 2012												
Opening net book amount	73,643,184	125,604,896	32,596,567	247,836,127	157,534	2,705,959	12,900,777	5,754,282	5,748,824	740,319	124,697,275	632,385,744
Additions (a)	-	-	1,197,033	-	-	860,292	402,388	4,529,203	632,526	25,253	121,912,187	129,558,882
Transfers	-	1,947,580	-	9,199,975	-	-	-	-	31,131	46,560	(11,225,246)	-
Disposals	-	(108,553)	(67,294)	-	-	(26,947)	(3,842)	-	(1,280)	(4,198)	-	(212,114)
Depreciation charges	-	(3,439,907)	(3,023,752)	(8,506,569)	(59,820)	(780,503)	(2,823,015)	(1,542,812)	(674,363)	(230,899)	-	(21,091,640)
Closing net book amount	73,643,184	124,004,016	30,702,554	248,529,533	97,714	2,756,801	10,476,308	8,740,673	5,736,838	577,035	235,384,216	740,650,872
At 31 December 2012												
Cost	73,643,184	156,744,022	58,800,927	335,524,531	913,118	7,634,785	59,476,016	16,467,533	8,385,584	4,181,565	235,384,216	957,155,483
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	73,643,184	124,004,016	30,702,554	248,529,533	97,714	2,756,801	10,476,308	8,740,673	5,736,838	577,035	235,384,216	740,650,872

(a) The additions mainly related to the construction of the water treatment plant at Niroth and the water distribution network, which is in progress.

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

7. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2012	2011
	KHR'000	KHR'000
Additions	129,558,882	112,164,670
Increase in payables to suppliers and performance guarantee	<u>(7,162,207)</u>	<u>(31,105,182)</u>
	122,396,675	81,059,488
Decrease in advances to suppliers	<u>(16,381,742)</u>	<u>(5,101,817)</u>
Cash used for purchases of property, plant and equipment	106,014,933	75,957,671
Less: Interest capitalisation on qualifying assets (a)	<u>(4,229,203)</u>	<u>(2,998,170)</u>
Purchases of property, plant and equipment (per cash flow)	<u>101,785,730</u>	<u>72,959,501</u>

(a) The interest rates capitalised on qualifying assets obtained from AfD under credit agreement no. CKH 1075 03S and JICA are 0.25% and 7.35%, respectively.

8. INTANGIBLE ASSETS

	Software
	KHR'000
At 01 January 2011	
Cost	1,541,322
Accumulated amortisation	<u>(544,521)</u>
Net book value	<u>996,801</u>
Year ended 31 December 2011	
Opening balance	996,801
Additions	271,815
Amortisation charges	<u>(234,711)</u>
Net book value	<u>1,033,905</u>
As at 31 December 2011	
Cost	1,813,136
Accumulated depreciation	<u>(779,231)</u>
Net book value	<u>1,033,905</u>

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

8. INTANGIBLE ASSETS (continued)

	Software KHR'000
Year ended 31 December 2012	
Opening balance	1,033,905
Additions	533,588
Amortisation charges	<u>(285,038)</u>
Net book value	<u>1,282,455</u>
As at 31 December 2012	
Cost	2,346,724
Accumulated amortisation	<u>(1,064,269)</u>
Net book value	<u>1,282,455</u>

9. FINANCIAL INSTRUMENTS

(a) Financial instruments by category

	31 December 2012 KHR'000	31 December 2011 KHR'000
Assets as per statement of financial position		
Loans and receivables		
Short-term investments	148,008,619	151,799,927
Trade and other receivables	27,539,452	23,472,483
Cash and cash equivalents	13,976,037	7,460,821
Loans to employees	6,073,268	-
Loan to Pursat Water Supply	695,501	765,613
	<u>196,292,877</u>	<u>183,498,844</u>
Liabilities as per statement of financial position		
Other financial liabilities at amortised cost		
Borrowings	206,709,530	197,867,408
Trade and other payables	44,661,331	29,564,412
Refundable water deposits	27,786,987	24,602,071
Accrual for IPO fee	-	3,215,717
	<u>279,157,848</u>	<u>255,249,608</u>

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

9. FINANCIAL INSTRUMENTS (continued)

(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:

	2012 KHR'000	2011 KHR'000
Trade receivables		
Group 1	4,094,757	3,062,884
Group 2	1,716,865	2,278,965
	<u>5,811,622</u>	<u>5,341,849</u>
Short-term investments		
No rating**	148,008,619	151,799,927
	<u>148,008,619</u>	<u>151,799,927</u>
Cash at banks		
No rating**	11,996,631	6,819,959
D*	924,861	282,647
	<u>12,921,492</u>	<u>7,102,606</u>

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.

	2012 KHR'000	2011 KHR'000
Household receivables	2,240,794	1,752,048
Commercial receivables	1,847,064	1,304,842
Water wholesalers	6,899	5,994
	<u>4,094,757</u>	<u>3,062,884</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.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

10. LOAN TO PURSAT WATER SUPPLY

	2012 KHR'000	2011 KHR'000
Current portion	74,742	62,452
Non-current portion, due:		
• within one to two years	88,377	75,566
• within two to five years	349,004	308,567
• after five years	183,378	319,028
	<u>620,759</u>	<u>703,161</u>
Total loan to Pursat Water Supply	<u>695,501</u>	<u>765,613</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.

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:

	2012 KHR'000	2011 KHR'000
Carrying value	620,759	703,161
Fair value	524,301	584,018

The fair values of the loan are based on cash flows discounted using a borrowing rate of 8.50% (2011: 8.50%).

PHNOM PENH WATER SUPPLY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

11. 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 able to trade the shares if the loans have been repaid.

	2012
	KHR'000
Carrying value	6,073,268
Fair value	6,073,268

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.

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.

12. INVENTORIES

	2012	2011
	KHR'000	KHR'000
Distribution pipes and fittings (a)	53,016,651	21,349,418
Water meters	3,313,033	2,146,304
Spare parts and tools	2,166,605	2,454,880
Chemicals	545,061	175,736
Drums and other packages	370,193	100,216
Other materials	1,311,465	1,862,017
	<u>60,723,008</u>	<u>28,088,571</u>

(a) The increase in the ending balance as at 31 December 2012 mainly relates to the purchase of distribution pipes and fittings for the construction of the water treatment plant at Niroth and expansion of the water distribution network.

The cost of inventories recognised as an expense of KHR9,758 million and KHR10,106 million for the years ended 31 December 2012 and 31 December 2011, respectively.

The PPWSA booked an allowance of KHR256 million in 2012 in expenses in profit and loss in the statement of comprehensive income.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

13. TRADE AND OTHER RECEIVABLES

	2012 KHR'000	2011 KHR'000
Household receivables	2,240,794	1,752,048
Construction service receivable	2,195,666	-
Commercial receivables	1,847,064	1,304,842
Public administration receivables (a)	1,716,865	2,278,965
Water wholesalers	6,899	5,994
<u>Less: Allowance for doubtful receivables</u>	<u>(5,554)</u>	<u>(12,240)</u>
Trade receivables – net	<u>8,001,734</u>	<u>5,329,609</u>
Accrued water revenue (b)	16,457,229	14,406,169
Interest receivable	2,778,427	3,509,536
Advances to suppliers	571,111	16,405,105
VAT receivable - net	160,906	217,647
Other receivables	<u>302,063</u>	<u>227,169</u>
	<u>20,269,736</u>	<u>34,765,626</u>
	<u>28,271,470</u>	<u>40,095,235</u>

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 it is one year. Management believes that its customers are fully performing, except for those customers for which an allowance has already been provided.

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. 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

14. INCOME TAX PAYABLE

	2012 KHR'000	2011 KHR'000
As at 01 January	437,665	(1,643,818)
Current income tax (Note 31)	7,113,295	6,410,657
Payments made during the year	(6,657,143)	(4,329,174)
	<u>893,817</u>	<u>437,665</u>

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

15. 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 3.75% and 5.00% (2011: between 3.75% and 6.00%) per annum.

The short-term investments include deposits amounting to KHR14.4 billion (2011: KHR10.5 billion) set up specifically for the purpose of paying retirement benefits to retirees who are entitled to retirement benefits under the pension scheme.

16. CASH AND CASH EQUIVALENTS

	2012 KHR'000	2011 KHR'000
Cash on hand	1,054,545	358,215
Cash at banks	12,921,492	7,102,606
	<u>13,976,037</u>	<u>7,460,821</u>

Cash and cash equivalents include cash and cash equivalents amounting to KHR593 million (2011: KHR123 million) set up specifically for the purpose of paying those retirees who are entitled to retirement benefits under the pension scheme.

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NOTES TO THE FINANCIAL STATEMENTS
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17. SHARE CAPITAL

	Number of ordinary shares		Number of class A shares	Ordinary shares	Share premium	Class A shares	Capital	Total
	Thousands	Thousands						
As at 1 January 2011	-	-	-	-	-	-	456,000,264	456,000,264
Transfer to capital (a)	-	-	-	-	-	-	9,027,865	9,027,865
As at 31 December 2011	-	-	-	-	-	-	465,028,129	465,028,129
Conversion of capital to shares (b)	73,927	391,101	73,927,187	-	391,100,942	(465,028,129)	-	-
Proceeds from shares issued (c)	13,046	-	13,045,975	63,153,178	-	-	-	76,199,153
As at 31 December 2012 (c)	86,973	391,101	86,973,162	63,153,178	391,100,942	-	541,227,282	541,227,282

(a) In accordance with letter No. 3066 SHV TR issued by the MoEF, which was also a shareholder in the PPWSA, dated 26 May 2011, approval was granted for the transfer of deferred government and other grants of KHR9 billion to the capital of the PPWSA (Note 22).

(b) 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.

(c) On 18 April 2012, the PPWSA was successfully listed on the CSX. It is the first and only 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:

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NOTES TO THE FINANCIAL STATEMENTS
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17. SHARE CAPITAL (continued)

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 able to trade their shares if the corresponding loans have been repaid.

18. RESERVES

	Capital reserve KHR'000	Legal reserve KHR'000	General reserve KHR'000	Development reserve KHR'000	Total KHR'000
As at 01 January 2011	1,648,435	6,353,275	6,353,275	14,705,972	29,060,957
Additions	-	1,525,317	1,525,317	27,455,718	30,506,352
Profit remitted to Royal Government of Cambodia (a)	-	-	-	(3,050,635)	(3,050,635)
Paid for corporate social responsibility (b)	-	-	-	(1,106,229)	(1,106,229)
As at 31 December 2011	<u>1,648,435</u>	<u>7,878,592</u>	<u>7,878,592</u>	<u>38,004,826</u>	<u>55,410,445</u>
As at 01 January 2012	1,648,435	7,878,592	7,878,592	38,004,826	55,410,445
Additions	-	1,599,495	1,599,495	28,790,917	31,989,907
Profit remitted to Royal Government of Cambodia (a)	-	-	-	(3,198,991)	(3,198,991)
Paid for corporate social responsibility (b)	-	-	-	(346,847)	(346,847)
As at 31 December 2012	<u>1,648,435</u>	<u>9,478,087</u>	<u>9,478,087</u>	<u>63,249,905</u>	<u>83,854,514</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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

18. RESERVES (continued)

- (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
 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
- (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.

Profit remitted to the Royal Government of Cambodia in 2012 and 2011 was KHR3,199 million (KHR43.27 per share) and KHR3,051 million (KHR41.27 per share), respectively.

A dividend in respect of the year ended 31 December 2012 of KHR 27.70 per share, amounting to a total dividend of KHR 2,409 million, was proposed and approved during the Board of Directors meeting on 21 March 2013. These financial statements do not reflect this dividend payable.

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NOTES TO THE FINANCIAL STATEMENTS
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19. RETIREMENT BENEFIT OBLIGATION

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

	2012 KHR'000	2011 KHR'000	2010 KHR'000	2009 KHR'000	2008 KHR'000
Present value of defined benefit obligation	26,165,235	24,601,028	20,347,816	16,363,022	14,923,944
Fair value of plan assets	-	-	-	-	-
Unfunded status	26,165,235	24,601,028	20,347,816	16,363,022	14,923,944
Net liability recognised in statement of financial position	<u>26,165,235</u>	<u>24,601,028</u>	<u>20,347,816</u>	<u>16,363,022</u>	<u>14,923,944</u>

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

	2012 KHR'000	2011 KHR'000
As at 01 January	24,601,028	20,347,816
Current service cost	1,034,883	976,960
Interest cost	1,101,114	993,728
Benefits paid	(537,448)	(486,680)
Actuarial (gain)/loss	<u>(34,342)</u>	<u>2,769,204</u>
At 31 December	<u>26,165,235</u>	<u>24,601,028</u>

The amounts recognised in the statement of comprehensive income are as follows:

	2012 KHR'000	2011 KHR'000
Current service cost	1,034,883	976,960
Interest cost	1,101,114	993,728
Actuarial (gain)/loss	<u>(34,342)</u>	<u>2,769,204</u>
Total, included in salaries, wages and related expenses (Note 26)	<u>2,101,655</u>	<u>4,739,892</u>

The amounts anticipated to be paid within 12 months of the years ending 31 December 2012 and 31 December 2011 were KHR704 million and KHR537 million, respectively.

The principal actuarial assumptions are as follows:

	2012	2011
Average expected future working years	19	20
Discount rates	4.48%	4.38%
Salary growth rates	According to the policy of PPWSA (a)	
Mortality rates	(b)	

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

19. RETIREMENT BENEFIT OBLIGATION (continued)

(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 KHR5,075 (2011: KHR5,075). 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

(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

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NOTES TO THE FINANCIAL STATEMENTS
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20. DEFERRED INCOME TAX LIABILITIES

	2012 KHR'000	2011 KHR'000
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than 12 months	(5,520,040)	(4,262,778)
Deferred income tax assets to be recovered within 12 months	(577,988)	(536,366)
	<u>(6,098,028)</u>	<u>(4,799,144)</u>
Deferred income tax liabilities		
Deferred income tax liabilities to be recovered after more than 12 months	24,391,435	21,734,854
Deferred income tax liabilities to be recovered within 12 months	-	-
	<u>24,391,435</u>	<u>21,734,854</u>
Deferred income tax liabilities (net)	<u>18,293,407</u>	<u>16,935,710</u>

The movement of the deferred income tax account is as follows:

	2012 KHR'000	2011 KHR'000
As at 01 January	16,935,710	15,279,480
Charged to statement of comprehensive income (Note 31)	<u>1,357,697</u>	<u>1,656,230</u>
As at 31 December	<u>18,293,407</u>	<u>16,935,710</u>

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

Deferred income 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 2011	4,069,564	12,877	2,149	368,081	(697,974)	3,754,697
Credited to profit and loss in the statement of comprehensive income	<u>850,642</u>	<u>947</u>	<u>299</u>	<u>30,674</u>	<u>161,885</u>	<u>1,044,447</u>
As at 31 December 2011	4,920,206	13,824	2,448	398,755	(536,089)	4,799,144
Credited/(charged) to profit and loss in the statement of comprehensive income	<u>281,357</u>	<u>51,232</u>	<u>(1,337)</u>	<u>32,045</u>	<u>935,587</u>	<u>1,298,884</u>
As at 31 December 2012	<u>5,201,563</u>	<u>65,056</u>	<u>1,111</u>	<u>430,800</u>	<u>399,498</u>	<u>6,098,028</u>

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

20. DEFERRED INCOME TAX LIABILITIES (continued)

Deferred income tax liabilities:

	Accelerated tax depreciation KHR'000
As at 01 January 2011	19,034,177
Charged to profit and loss in the statement of comprehensive income	<u>2,700,677</u>
As at 31 December 2011	21,734,854
Charged to profit and loss in the statement of comprehensive income	<u>2,656,581</u>
As at 31 December 2012	<u><u>24,391,435</u></u>

21. BORROWINGS

	2012 KHR'000	2011 KHR'000
Borrowings from:		
AfD – Credit No. 1075 03 S	67,913,698	20,279,173
MoEF – JICA	59,637,406	57,466,965
AfD – Credit No. 6000 01 G	40,168,373	46,375,498
MoEF – ADB	38,990,053	40,334,537
MoEF – WB – Credit No. 3746 KH	-	33,411,235
	<u>206,709,530</u>	<u>197,867,408</u>

The maturity dates of these borrowings are as follows:

	2012 KHR'000	2011 KHR'000
Current		
Due within one year	<u>14,538,206</u>	<u>15,019,945</u>
Non-current		
Due within one to two years	18,924,372	12,770,785
Due within two to five years	64,084,167	53,858,697
Due after five years	<u>109,162,785</u>	<u>116,217,981</u>
	<u>192,171,324</u>	<u>182,847,463</u>
	<u><u>206,709,530</u></u>	<u><u>197,867,408</u></u>

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NOTES TO THE FINANCIAL STATEMENTS
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21. BORROWINGS (continued)

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

	<u>2012</u> KHR'000	<u>2011</u> KHR'000
Carrying value	192,171,324	182,847,463
Fair value	174,615,839	144,731,457

The fair values of the loans are based on cash flows discounted using a borrowing rate of 8.50% for 2012 (2011: 8.50%).

Borrowings denominated in other currencies are as follows:

	<u>2012</u> KHR'000	<u>2011</u> KHR'000
EUR	108,082,071	66,654,671
US\$	<u>59,637,406</u>	<u>57,466,965</u>
	<u>167,719,477</u>	<u>124,121,636</u>

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NOTES TO THE FINANCIAL STATEMENTS
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21. BORROWINGS (continued)

LOAN TERMS	LOAN FROM MoEF (WB – CREDIT NO. 3746 KH AND GRANT NO. H034 KH)	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)
Agreement date	29 October 2003, amended on 8 July 2010	5 May 1997	30 November 2006, amended on 25 March 2009 and 2 July 2010	8 May 2009	18 May 2010
Project	Provincial and Peri-urban Water and Sanitation 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 Niroteh 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 Niroteh (Sub-package B).

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

21. BORROWINGS (continued)

LOAN TERMS	LOAN FROM MoEF (WB – CREDIT NO. 3746 KH AND GRANT NO. H034 KH)	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)
Interest	8.5% per annum	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.	7.35% per annum
Security	None	None	Comfort letters from MoEF and MIME	Comfort letters from MoEF and MIME	None
Repayment schedule	24 equal instalments payable on 15 January and 15 July of each calendar year, commencing on 15 January 2009.	Semi-annual instalments on 15 July and 15 January of each year, of approximately KHR1,271,424,939 (as per annex 1 to the agreement), 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.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
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21. BORROWINGS (continued)

LOAN TERMS	LOAN FROM MoEF (WB – CREDIT NO. 3746 KH AND GRANT NO. H034 KH)	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)
Available facility	Agreement date 29 October 2003: Loan: SDR 3,440,000 Grant: SDR 200,000	SDR 9,605,000	Maximum amount of EUR11,100,000	Maximum amount of EUR16,000,000	Maximum amount of JPY 3,513,000,000
Other information	Following the amendment on 8 July 2010, the facility was restructured as follows: Loan: SDR 8,030,893 Grant: SDR 500,000	The foreign exchange risk resulting from any fluctuations between the value of the currency of the loan (US\$) and the currency used for repayment by the PPWSA (KHR) shall be borne in full by the MoEF.	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).

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

22. OTHER INCOME

Other income includes:

	2012 KHR'000	2011 KHR'000
Deferred government and other grants (a)	679,070	212,052
Other income	1,348,963	1,524,930
	<u>2,028,033</u>	<u>1,736,982</u>

(a) Deferred government and other grants

	Government grant KHR'000	AfD grant KHR'000	Other grants KHR'000	Total KHR'000
As at 01 January 2011	6,073,544	8,516,210	2,185,830	16,775,584
Amortisation	17,441	(43,698)	(185,795)	(212,052)
Transferred to capital (Note 17)	-	(8,058,911)	(968,954)	(9,027,865)
As at 31 December 2011	<u>6,090,985</u>	<u>413,601</u>	<u>1,031,081</u>	<u>7,535,667</u>
As at 01 January 2012 (i)	6,090,985	413,601	1,031,081	7,535,667
Addition (ii)	257,431	-	-	257,431
Amortisation	(578,436)	-	(100,634)	(679,070)
As at 31 December 2012	<u>5,769,980</u>	<u>413,601</u>	<u>930,447</u>	<u>7,114,028</u>

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

Government grant

- (i) 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.
- (ii) The addition is the grant received for the consulting service under the main grant provided by AFD to the Royal Government of Cambodia under grant number FERC CKH 1111 dated 29 December 2011. The service is related to the master plan update, feasibility study and environmental impact assessment.

PHNOM PENH WATER SUPPLY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

22. OTHER INCOME (continued)

(a) Deferred government and other grants

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.

Other grants

Other grants represent donations of fixed assets from the Japan International Cooperation Agency and KUBOTA Construction Col., Ltd.

23. TRADE AND OTHER PAYABLES

	2012 KHR'000	2011 KHR'000
Trade payables	29,718,603	25,022,568
Performance guarantee	7,914,554	57,137
Accrued staff incentive	2,736,582	2,378,551
Amount due to Phnom Penh Municipality	2,409,572	1,843,026
Deferred income (a)	441,880	645,045
Other taxes payable	217,486	209,465
Other payables	1,904,924	278,147
	<u>45,343,601</u>	<u>30,433,939</u>

(a) 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 2012

24. SALES

	2012 KHR'000	2011 KHR'000
Water sales – households	64,200,901	52,493,303
Water sales – commercial	44,221,967	43,664,567
Water sales – public administration institutions	5,594,138	5,509,233
Water sales – autonomous state authorities	261,773	311,992
Water sales – wholesalers	177,917	210,503
Rounding difference on water sale revenues	28,238	26,405
<u>Less: Invoice cancellations</u>	<u>(328,401)</u>	<u>(175,223)</u>
	114,156,533	102,040,780
Water connection revenues	9,675,741	8,772,842
Water meter replacement charges	2,076,561	1,933,423
Spare parts and meter sales	521,448	596,304
	<u>126,430,283</u>	<u>113,343,349</u>

25. CONSTRUCTION SERVICE FEE

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

26. SALARIES, WAGES AND RELATED EXPENSES

	2012 KHR'000	2011 KHR'000
Employee salaries	7,834,094	6,773,934
Incentives	3,902,543	3,494,109
Fair value adjustment on loans to employees (Note 11)	2,728,907	-
Bonuses	2,393,334	1,993,775
Retirement benefit costs (Note 19)	2,101,655	4,739,892
Wages for contractors	265,240	242,374
Other employee-related expenses	1,670,994	1,727,253
	<u>20,896,767</u>	<u>18,971,337</u>

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NOTES TO THE FINANCIAL STATEMENTS
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27. RAW MATERIALS FOR WATER TREATMENT

	<u>2012</u> KHR'000	<u>2011</u> KHR'000
Alum	1,490,906	3,087,772
Chlorine	1,117,581	894,845
Poly Aluminium Chloride	1,008,898	-
Lime	122,214	376,861
Other materials	47,281	102,772
	<u>3,786,880</u>	<u>4,462,250</u>

From 2012, the PPWSA uses Poly Aluminium Chloride in its water treatment process instead of alum.

28. RAW MATERIALS FOR HOUSEHOLD WATER CONNECTIONS

	<u>2012</u> KHR'000	<u>2011</u> KHR'000
Materials for house connections	3,130,732	3,593,562
Consumer water meter replacement	1,049,740	783,595
Pipe costs	176,143	156,829
Other costs	534,477	592,877
	<u>4,891,092</u>	<u>5,126,863</u>

29. FOREIGN EXCHANGE LOSSES - NET

	<u>2012</u> KHR'000	<u>2011</u> KHR'000
Foreign exchange gains	3,965,070	3,799,008
Foreign exchange losses	<u>(5,638,613)</u>	<u>(4,017,210)</u>
Foreign exchange losses - net	<u>(1,673,543)</u>	<u>(218,202)</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCE INCOME - NET

	2012 KHR'000	2011 KHR'000
Finance income:		
- Interest income on bank deposits (a)	6,107,596	6,422,204
- Unwind concessional loan discount to employees	584,651	-
- Net foreign exchange gains on borrowings	-	2,559,014
- Interest income on loan to Pursat Water Supply	36,601	39,816
	<u>6,728,848</u>	<u>9,021,034</u>
Finance costs:		
- Interest expenses on borrowings (b)	(8,662,580)	(8,598,628)
- Net foreign exchange losses on borrowings	(2,095,205)	-
- Interest expenses capitalised on qualifying assets	4,229,203	2,998,170
	<u>(6,528,582)</u>	<u>(5,600,458)</u>
Finance income - net	<u>200,266</u>	<u>3,420,576</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.

31. INCOME TAX EXPENSE

(a) Income tax expense

	2012 KHR'000	2011 KHR'000
Current tax on profit for the year	6,592,816	6,410,657
Adjustments in respect of prior years as a result of tax reassessment	520,479	-
Total current tax (Note 14)	<u>7,113,295</u>	<u>6,410,657</u>
Deferred income tax (Note 20)	<u>1,357,697</u>	<u>1,656,230</u>
	<u>8,470,992</u>	<u>8,066,887</u>

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

(b) Reconciliation between income tax and accounting profit

	2012 KHR'000	2011 KHR'000
Accounting profit before income tax	42,891,953	40,056,794
Tax expense at 18% (2011: 20%)	7,720,552	8,011,359
Adjustments in respect of prior years (a)	520,479	-
Change in tax rate (b)	195,847	-
Tax amount of non-deductible expenses	34,114	55,528
Income tax expense	8,470,992	8,066,887

Under the Law on Taxation, the PPWSA has an obligation to pay Tax on Profit at 18% (2011: 20%) 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).

- (a) The adjustments are mainly related to the under-payment of tax due to different interpretations of deductible expenses. The tax assessment by the GDT covered the period from 2005 to 2009. No assessment has been performed for 2010 onward.
- (b) 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%.

32. 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.

	2012	2011
Profit attributable to shareholders (KHR'000)	34,420,961	31,989,907
Weighted average number of shares	83,123,530	73,927,187
Basic earnings per share (KHR)	414.09	432.72

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**NOTES TO THE FINANCIAL STATEMENTS
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32. 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.

33. CASH GENERATED FROM OPERATIONS

	<u>Note</u>	<u>2012 KHR'000</u>	<u>2011 KHR'000</u>
Profit before taxation		42,891,953	40,056,794
Adjustments for:			
Depreciation charges	7	21,081,640	21,004,780
Amortisation charges on intangible assets	8	285,038	234,711
Amortisation of deferred government and other grants	22	(679,070)	(212,052)
Loss/(gain) on disposal of property, plant and equipment		212,114	(228,317)
Retirement benefit obligation expenses	19	2,101,655	4,739,892
Interest income	30	(6,728,848)	(9,021,034)
Interest expenses	30	6,528,582	5,600,458
Fair value adjustment on loans to employees		2,728,907	-
Changes in working capital:			
Inventories		(32,634,437)	(7,911,761)
Trade and other receivables		(5,289,085)	(1,041,457)
Deferred cost related to IPO		405,076	(405,076)
Refundable water deposits		3,184,917	2,747,333
Proceeds from deferred government and other grants		257,431	-
Performance guarantee		678,945	6,986,142
Trade and other payables		8,968,617	(17,445,118)
Cash generated from operations		<u>43,993,435</u>	<u>45,105,295</u>

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NOTES TO THE FINANCIAL STATEMENTS
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34. CAPITAL COMMITMENTS

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

	2012 KHR'000	2011 KHR'000
Construction of water treatment plant	23,859,731	90,891,415
Construction of intake	4,738,791	17,919,544
Consultation services	2,933,664	3,062,284
Ductile iron pipes, fittings and accessories	46,100	19,572,812
	<u>31,578,286</u>	<u>131,446,055</u>

35. 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.

	2012 KHR'000	2011 KHR'000
Borrowings from the MoEF	98,627,459	131,212,737
Loans to employees	6,073,268	-
Loans to Pursat Water Supply	695,501	765,613

ii) Significant transactions with related parties

	2012 KHR'000	2011 KHR'000
Interest on borrowings from the MoEF	7,755,160	7,700,317
Interest on loans to Pursat Water Supply	36,601	39,743

iii) Compensation

Key management compensation for the year ended 31 December 2012 is as follows:

	2012 KHR'000	2011 KHR'000
Salaries and other short-term employee benefits	1,369,835	869,993
Loans to key management	1,067,472	-
Retirement benefits	335,775	130,194
	<u>2,773,082</u>	<u>1,000,187</u>

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

The PPWSA entered into borrowing agreement no CKH 1121 01 F, dated 11 March 2013, with AFD for a total loan facility of EUR30 million. The term for repayment of the principal is 12 years (including a grace period of 4 years). The loan has a floating interest rate of the EURIBOR six-month rate less 0.59% per annum (capped at 5.19% per annum and with a minimum of 0.25% per annum). The loan is for the 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.