

**OMAN WASTEWATER SERVICES  
COMPANY SAOC**

**Report and financial statements  
for the year ended 31 December 2007**

**OMAN WASTEWATER SERVICES COMPANY SAOC**

**Report and financial statements  
for the year ended 31 December 2007**

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**Independent auditor's report  
to the Shareholders of  
Oman Wastewater Services Company SAOC**

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**Report on the financial statements**

We have audited the accompanying financial statements of **Oman Wastewater Services Company SAOC**, which comprise of the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 3 to 24.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgment, including the assessment 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Independent auditor's report  
to the Shareholders of  
Oman Wastewater Services Company SAOC (continued)**

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**Opinion**

In our opinion, the financial statements, present fairly in all material respects, the financial position of **Oman Wastewater Services Company SAOC** as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Deloitte & Touche (M.E.)  
Muscat, Sultanate of Oman  
18 March, 2008**

**OMAN WASTEWATER SERVICES COMPANY SAOC**

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**Balance sheet  
at 31 December 2007**

|  | Notes | 2007<br>RO        | 2006<br>RO  |
|--|-------|-------------------|-------------|
| <b>Assets</b>                          |       |                   |             |
| <b>Non-current assets</b>              |       |                   |             |
| Property, plant and equipment          | 6     | 55,289,628        | 32,050,217  |
| <b>Current assets</b>                  |       |                   |             |
| Inventories                            | 7     | 274,235           | 136,294     |
| Trade and other receivables            | 8     | 16,455,391        | 12,093,025  |
| Cash and bank balances                 | 9     | 3,456,200         | 5,235,632   |
| <b>Total current assets</b>            |       | <b>20,185,826</b> | 17,464,951  |
| <b>Total assets</b>                    |       | <b>75,475,454</b> | 49,515,168  |
| <b>Equity and liabilities</b>          |       |                   |             |
| <b>Equity</b>                          |       |                   |             |
| Share capital                          | 10    | 20,000,000        | 20,000,000  |
| Statutory reserve                      | 11    | 22,860            | 22,860      |
| Accumulated losses                     |       | (5,468,179)       | (2,419,521) |
| <b>Total equity</b>                    |       | <b>14,554,681</b> | 17,603,339  |
| <b>Non-current liabilities</b>         |       |                   |             |
| Loan from shareholder                  | 12    | 46,215,996        | 17,515,996  |
| Deferred income                        | 13    | 94,939            | 107,317     |
| Retentions payable                     | 14    | 3,075,037         | 176,359     |
| Provision for end of service indemnity | 15    | 183,788           | 74,250      |
| <b>Total non-current liabilities</b>   |       | <b>49,569,760</b> | 17,873,922  |
| <b>Current liabilities</b>             |       |                   |             |
| Trade and other payables               | 16    | 11,351,013        | 14,037,907  |
| <b>Total liabilities</b>               |       | <b>60,920,773</b> | 31,911,829  |
| <b>Total equity and liabilities</b>    |       | <b>75,475,454</b> | 49,515,168  |

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Chief Financial Officer

The accompanying notes form an integral part of these financial statements.

**OMAN WASTEWATER SERVICES COMPANY SAOC**

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**Income statement  
for the year ended 31 December 2007**

|                                     | Notes | 2007<br>RO         | 2006<br>RO       |
|-------------------------------------|-------|--------------------|------------------|
| Revenue                             | 17    | 5,616,745          | 5,201,780        |
| Operating cost                      | 18    | (1,683,337)        | (1,119,524)      |
| Employee cost                       | 19    | (3,958,398)        | (2,254,379)      |
| Depreciation                        | 6     | (761,844)          | (596,124)        |
| General and administrative expenses | 20    | (2,605,621)        | (1,382,985)      |
| <b>Operating loss</b>               |       | <b>(3,392,455)</b> | <b>(151,232)</b> |
| Other income                        | 21    | 343,797            | 379,829          |
| <b>(Loss) / profit for the year</b> |       | <b>(3,048,658)</b> | <b>228,597</b>   |

The accompanying notes form an integral part of these financial statements.

**OMAN WASTEWATER SERVICES COMPANY SAOC**

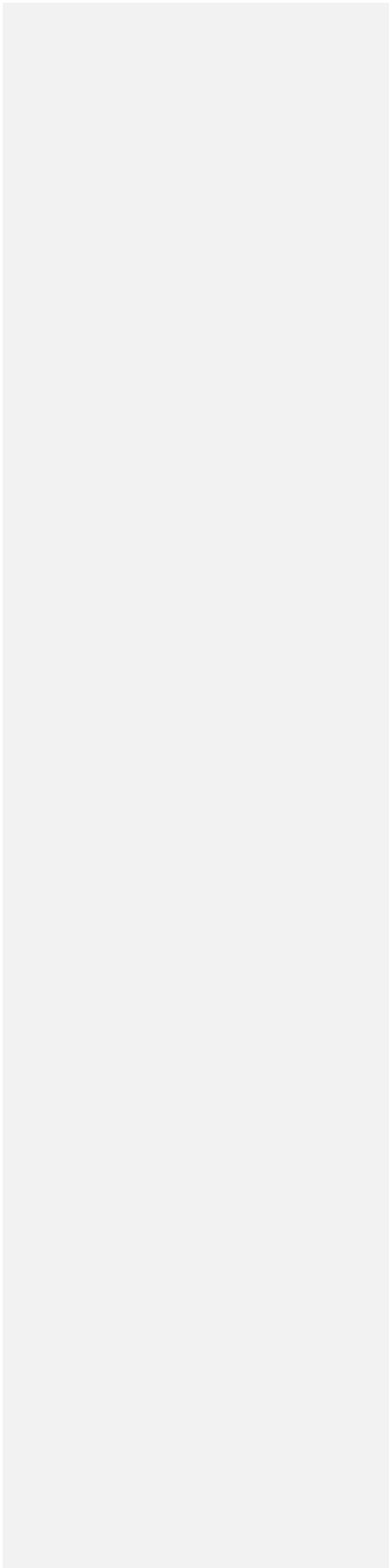
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**Statement of changes in equity  
for the year ended 31 December 2007**

|                                    | <b>Share<br/>capital<br/>RO</b> | <b>Statutory<br/>reserve<br/>RO</b> | <b>Accumulated<br/>losses<br/>RO</b> | <b>Total<br/>RO</b> |
|------------------------------------|---------------------------------|-------------------------------------|--------------------------------------|---------------------|
| Balance at 1 January 2006          | 10,000,000                      | -                                   | (2,625,258)                          | 7,374,742           |
| Capital contribution received      | 10,000,000                      | -                                   | -                                    | 10,000,000          |
| Profit for the year                | -                               | -                                   | 228,597                              | 228,597             |
| Transfer to statutory reserve      | -                               | 22,860                              | (22,860)                             | -                   |
| <b>Balance at 1 January 2007</b>   | <b>20,000,000</b>               | <b>22,860</b>                       | <b>(2,419,521)</b>                   | <b>17,603,339</b>   |
| Loss for the year                  | -                               | -                                   | (3,048,658)                          | (3,048,658)         |
| <b>Balance at 31 December 2007</b> | <b>20,000,000</b>               | <b>22,860</b>                       | <b>(5,468,179)</b>                   | <b>14,554,681</b>   |

**OMAN WASTEWATER SERVICES COMPANY SAOC**

The accompanying notes form an integral part of these financial statements.



**OMAN WASTEWATER SERVICES COMPANY SAOC**

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**Cash flow statement  
for the year ended 31 December 2007**

|   | <b>2007</b>         | 2006         |
|---|---------------------|--------------|
|   | <b>RO</b>           | RO           |
| <b>Operating activities</b>                                       |                     |              |
| (Loss) / profit for the year                                      | <b>(3,048,658)</b>  | 228,597      |
| Adjustments for:  |                     |              |
| Depreciation of property, plant and equipment                     | <b>761,844</b>      | 596,124      |
| Write off of property, plant and equipment                        | -                   | 127,055      |
| Profit on disposal of property, plant and equipment               | <b>(3,776)</b>      | -            |
| Net transfer to provision for employees' end of service indemnity | <b>99,660</b>       | 58,157       |
| Provision for doubtful debts                                      | <b>83,048</b>       | 12,145       |
| Interest income   | <b>(315,783)</b>    | (355,789)    |
|   | <hr/>               | <hr/>        |
| <b>Operating cash flows before movements in working capital</b>   | <b>(2,423,665)</b>  | 666,289      |
| Changes in working capital:                                       |                     |              |
| Inventories   | <b>(150,319)</b>    | (28,977)     |
| Trade and other receivables                                       | <b>(3,569,638)</b>  | (3,220,907)  |
| Trade and other payables  | <b>2,271,462</b>    | 1,294,525    |
|   | <hr/>               | <hr/>        |
| <b>Net cash used in operating activities</b>                      | <b>(3,872,160)</b>  | (1,289,070)  |
|   | <hr/>               | <hr/>        |
| <b>Investing activities</b>                                       |                     |              |
| Payments for property, plant and equipment                        | <b>(73,808)</b>     | (809,910)    |
| Proceeds from disposal of property, plant and equipment           | <b>5,990</b>        | -            |
| Advance to contractors  | <b>(875,776)</b>    | (841,075)    |
| Payments to contractors for capital work in progress              | <b>(25,979,461)</b> | (12,350,203) |
| Interest received   | <b>315,783</b>      | 377,968      |
|   | <hr/>               | <hr/>        |
| <b>Net cash used in investing activities</b>                      | <b>(26,607,272)</b> | (13,623,220) |
|   | <hr/>               | <hr/>        |
| <b>Financing activities</b>                                       |                     |              |
| Capital contribution  | -                   | 10,000,000   |
| Loan from shareholder   | <b>28,700,000</b>   | 3,690,000    |
|   | <hr/>               | <hr/>        |
| <b>Net cash from financing activities</b>                         | <b>28,700,000</b>   | 13,690,000   |
|   | <hr/>               | <hr/>        |
| <b>Net decrease in cash and cash equivalents</b>                  | <b>(1,779,432)</b>  | (1,222,290)  |
| Cash and cash equivalents at the beginning of the year            | <b>5,235,632</b>    | 6,457,922    |
|   | <hr/>               | <hr/>        |
| <b>Cash and cash equivalents at the end of the year</b>           | <b>3,456,200</b>    | 5,235,632    |
|   | <hr/> <hr/>         | <hr/> <hr/>  |

The accompanying notes form an integral part of these financial statements.

## OMAN WASTEWATER SERVICES COMPANY SAOC

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### Notes to the financial statements for the year ended 31 December 2007

#### 1. Establishment and operations

Oman Wastewater Services Company SAOC ("the Company") is registered as a closely held joint stock company having its postal address at P O Box 1047, Al Khuwair P C 133, Sultanate of Oman.

The Company was established by a Ministerial Decision number 31/2002 dated 17 December 2002 to design and manage the wastewater system in Muscat.

The Company is entirely owned by the Ministry of Finance.

The Company started commercial operations from 1 January 2006.

These financial statements are presented in Rials Omani (RO) since that is the currency of the country in which majority of the Company's transactions are denominated.

#### 2. Significant agreements

The Company has entered into the following significant agreements:

##### Concession agreement

The contract is awarded by the Government of the Sultanate of Oman represented by the Ministry of National Economy (the Government), for the development and operation of the Wastewater System in the Governorate of Muscat for a period of 30 years commencing from 1 January 2006.

##### Usufruct Agreement

The contract has been awarded by the Government of the Sultanate of Oman represented by the Ministry of Housing, Electricity and Water (the Government). Pursuant to Clause 3.3 of the Concession Agreement, the Government and the Company have agreed to execute this Usufruct Agreement to grant to the Company a right to benefit, under Royal Decree 5/81 (as amended) (issuing the Law Regulating the Use/Benefit of the Sultanate's Lands) and Royal Decree 88/82 (as amended) (issuing the implementing regulations for the Use/Benefit of the Sultanate's Lands), in the Usufruct Area and certain Rights of Way and Easements, so as to enable the Company to utilise property in the Usufruct Area for the construction of new facilities and the operation and maintenance of the Wastewater System and in general to enjoy its rights and to perform its obligations under the Concession Agreement.

##### Treated Effluent Sale and Purchase Agreement

The contract has been entered with the Government of the Sultanate of Oman represented by the Diwan of the Royal Court, Muscat Municipality (the Municipality), for the purchase of treated effluent.

## OMAN WASTEWATER SERVICES COMPANY SAOC

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### Notes to the financial statements for the year ended 31 December 2007 (continued)

#### 3. Adoption of new and revised International Financial Reporting Standards (IFRS)

For the year ended 31 December 2007, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2007.

The adoption of these standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current period.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

|   | <b>Effective for annual period beginning or after</b> |
|---|---|
| IFRIC 11 : IFRS 2: Group and Treasury Share Transactions  | 1 March 2007  |
| IFRIC 12 : Service Concession Arrangements  | 1 January 2008  |
| IFRIC 13 : Customer Loyalty Programmes  | 1 July 2008   |
| IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | 1 January 2008  |
| IFRS 2 : (Revised) Share-based Payment  | 1 January 2009  |
| IFRS 8 : Operating Segments   | 1 January 2009  |
| IAS 1 : (Revised) Presentation of Financial Statements  | 1 January 2009  |
| IAS 23 : (Revised) Borrowing Costs  | 1 January 2009  |
| IAS 32 : (Revised) Financial Instruments : Presentation   | 1 January 2009  |
| IFRS 3 : (Revised) Business Combinations  | 1 July 2009   |
| IAS 27 : (Revised) Consolidated and Separate Financial Statements   | 1 July 2009   |
| IAS 28 : (Revised) Investment in Associates   | 1 July 2009   |
| IAS 31 : (Revised) Interests in Joint Ventures  | 1 July 2009   |

The directors anticipate that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the Company.

#### 4. Summary of significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

A summary of significant accounting policies which have been adopted consistently is set out below:

##### **Basis of accounting**

The financial statements are prepared on the historical cost basis, except for certain financial assets that are measured at fair value.

**Notes to the financial statements  
for the year ended 31 December 2007 (continued)****4. Summary of significant accounting policies (continued)****Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method, as follows:

|                                   | <b>Years</b> |
|-----------------------------------|--------------|
| Buildings                         | 5 - 30       |
| Plant and machinery               | 2 - 10       |
| Furniture, fixtures and equipment | 5            |
| Motor vehicles                    | 4            |

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

All furniture, fixtures and equipment with a value less than RO 500 are expensed in the year of purchase.

**Impairment**

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and the carrying amount of the asset and is recognized immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognized as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized earlier.

**Capital work-in-progress**

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

**Notes to the financial statements  
for the year ended 31 December 2007 (continued)**

**4. Summary of significant accounting policies (continued)**

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Costs comprise direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to be incurred on marketing and distribution.

**Financial instruments**

Financial assets and financial liabilities are recognized on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade and other receivables are stated at their nominal value. Advance to contractors mainly include contract advances paid at the inception of respective contracts and proportionately adjusted against the contract progress bills.

Loans from shareholder is stated at proceeds received net of repayments. Trade and other payables are stated at their nominal value.

**Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Provision for end of service indemnity**

End of service indemnity for Omani employees is contributed in accordance with the terms of the Social Securities Law of 1991.

Provision for end of service indemnity for non-Omani employees' is made in accordance with the Oman labour laws, and is based on current remuneration and cumulative years of service at the balance sheet date.

**Provisions**

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable will result in an outflow of economic benefits that can be reasonably estimated.

**Notes to the financial statements  
for the year ended 31 December 2007 (continued)**

**4. Summary of significant accounting policies (continued)**

**Revenue recognition**

Revenue represents the value of services provided by the Company. Revenue from connection charges, monthly rental tariff, basic service tariff, tanker revenue and sale of treated effluent and other activities related to wastewater operations are accounted for on an accrual basis. Revenue from rendering services is recognised when services are rendered by reference to the stage of completion of the transaction at the balance sheet date. Revenue from sale of treated effluent is recognised when the significant risks and rewards of ownership are transferred to the buyer.

Interest income is recognised on an accrual basis.

**Government grant**

Non monetary Government grant is recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Non monetary Government grant related to inventory are presented in the balance sheet at fair value by setting up the grant as deferred income. The grant is recognised as income as and when the related inventory is consumed on a FIFO basis.

**Taxation**

Taxation is provided in accordance with the Sultanate of Oman's fiscal regulations.

**Deferred tax**

Provision for deferred income taxation arises on account of temporary differences between the tax base of property, plant and equipment and provision for doubtful debts and their carrying values in the balance sheet. Provision is made on the basis of balance sheet liability method using the current income tax rate as per tax laws of Sultanate of Oman.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised.

**Foreign currencies**

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. Gains and losses arising from foreign currency transactions are dealt with in the income statement.

**Cash and cash equivalents**

For the purpose of statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Notes to the financial statements  
for the year ended 31 December 2007 (continued)**

**4. Summary of significant accounting policies (continued)**

**Use of estimates**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value for the year. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated assets and liabilities.

**5. Financial risk management**

Financial instruments carried on the balance sheet comprise cash and cash equivalents, trade and other receivables and trade and other payables.

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted.

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**Financial risk factors**

**Overview**

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

- Credit risk
- Liquidity risk
- Market risk

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out under policies approved by the management. These policies identify, evaluate and hedges financial risks in close co-operation with the Company. The management provides written principles for overall risk management covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

**Notes to the financial statements  
for the year ended 31 December 2007 (continued)**

**5. Financial risk management (continued)**

**(i) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

**Trade and other receivables**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. All major customers are based in Sultanate of Oman.

The Company has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables.

In monitoring customer credit risk, customers are segmented according to their credit characteristics in the following categories:

- Private individual customers
- Corporate customers
- Government customers
- Other customers

The potential risk in respect of amounts receivable is limited to their carrying values as management regularly reviews these balances whose recoverability is in doubt. There is no credit risk in respect of receivable from Government customers.

The Company establishes a provision for impairment that represents its estimate of potential losses in respect of trade and other receivables. The main components of this loss are a specific loss component that relates to individual exposures.

**(ii) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition the Company has access to credit facilities.

**Notes to the financial statements  
for the year ended 31 December 2007 (continued)**

**5. Financial risk management (continued)**

**(iii) Market risk**

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

**Foreign currency risk**

The Company's functional and presentation currency is Rial Omani and the Company's performance is substantially independent of changes in foreign currency rates. There are no significant financial instruments denominated in foreign currency and consequently foreign currency risk is not significant.

**Interest rate risk**

The Company has short term bank deposits, which are interest bearing and exposed to changes in market interest rates. The Company adopts a policy of ensuring that all its borrowing are on a fixed rate basis.

**Capital management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and benefit other stake holders. The management's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

Management is confident of maintaining the current level of profitability by enhancing top line growth and prudent cost management. The Company is not subject to externally imposed capital requirements.

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Notes to the financial statements  
for the year ended 31 December 2007 (continued)

6. Property, plant and equipment

|                            | Buildings<br>RO | Plant and<br>machinery<br>RO | Furniture,<br>fixtures and<br>equipment<br>RO | Motor<br>vehicles<br>RO | Capital work-<br>in- progress<br>RO | Total<br>RO       |
|----------------------------|-----------------|------------------------------|---|-------------------------|-------------------------------------|-------------------|
| <b>Cost</b>                |                 |                              |   |                         |                                     |                   |
| At 1 January 2006          | -               | -                            | 110,197                                       | 83,420                  | 11,809,666                          | 12,003,283        |
| Additions                  | 38,014          | -                            | 523,946                                       | 247,950                 | 20,031,272                          | 20,841,182        |
| Transfers                  | -               | 1,949,140                    | 485,410                                       | -                       | (2,434,550)                         | -                 |
| Write off                  | -               | -                            | -   | -                       | (127,055)                           | (127,055)         |
|                            | <hr/>           | <hr/>                        | <hr/>   | <hr/>                   | <hr/>                               | <hr/>             |
| At 1 January 2007          | 38,014          | 1,949,140                    | 1,119,553                                     | 331,370                 | 29,279,333                          | 32,717,410        |
| Additions                  | -               | -                            | 73,808  | -                       | 23,929,661                          | 24,003,469        |
| Disposals                  | -               | -                            | -   | (9,525)                 | -                                   | (9,525)           |
| Transfers                  | 913,267         | 319,354                      | 395,092                                       | -                       | (1,627,713)                         | -                 |
|                            | <hr/>           | <hr/>                        | <hr/>   | <hr/>                   | <hr/>                               | <hr/>             |
| <b>At 31 December 2007</b> | <b>951,281</b>  | <b>2,268,494</b>             | <b>1,588,453</b>                              | <b>321,845</b>          | <b>51,581,281</b>                   | <b>56,711,354</b> |

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Notes to the financial statements  
for the year ended 31 December 2007 (continued)

6. Property, plant and equipment (continued)

|                                 | Buildings<br>RO | Plant and<br>machinery<br>RO | Furniture,<br>fixtures and<br>equipment<br>RO | Motor<br>vehicles<br>RO | Capital work-<br>in- progress<br>RO | Total<br>RO       |
|---------------------------------|-----------------|------------------------------|---|-------------------------|-------------------------------------|-------------------|
| <b>Accumulated depreciation</b> |                 |                              |   |                         |                                     |                   |
| At 1 January 2006               | -               | -                            | 38,501  | 32,568                  | -                                   | 71,069            |
| Charge for the year             | 4,219           | 300,591                      | 243,942                                       | 47,372                  | -                                   | 596,124           |
| At 1 January 2007               | 4,219           | 300,591                      | 282,443                                       | 79,940                  | -                                   | 667,193           |
| Charge for the year             | 28,552          | 317,236                      | 333,915                                       | 82,141                  | -                                   | 761,844           |
| Disposals                       | -               | -                            | -   | (7,311)                 | -                                   | (7,311)           |
| <b>At 31 December 2007</b>      | <b>32,771</b>   | <b>617,827</b>               | <b>616,358</b>                                | <b>154,770</b>          | <b>-</b>                            | <b>1,421,726</b>  |
| <b>Net book value</b>           |                 |                              |   |                         |                                     |                   |
| <b>At 31 December 2007</b>      | <b>918,510</b>  | <b>1,650,667</b>             | <b>972,095</b>                                | <b>167,075</b>          | <b>51,581,281</b>                   | <b>55,289,628</b> |
| At 31 December 2006             | 33,795          | 1,648,549                    | 837,110                                       | 251,430                 | 29,279,333                          | 32,050,217        |

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**Notes to the financial statements  
for the year ended 31 December 2007 (continued)****6. Property, plant and equipment (continued)**

- a. Plant and machinery include items transferred from Muscat Municipality for a purchase consideration of RO 1.
- b. Capital work-in-progress relates to the new projects initiated by the Company.

**7. Inventories**

|                        | <b>2007</b>    | 2006    |
|------------------------|----------------|---------|
|                        | <b>RO</b>      | RO      |
| Spares and consumables | <b>274,235</b> | 136,294 |

Inventories include items transferred by the Muscat Municipality at a nominal value of RO 1. The related asset and Government grant have been recorded at fair value (Note 13).

**8. Trade and other receivables**

|   | <b>2007</b>       | 2006       |
|---|-------------------|------------|
|   | <b>RO</b>         | RO         |
| Trade receivables                                       | <b>6,499,896</b>  | 3,169,556  |
| Less: Allowance for impairment of receivables (Note 24) | <b>(95,193)</b>   | (12,145)   |
|   | <b>6,404,703</b>  | 3,157,411  |
| Advances to contractors                                 | <b>9,709,064</b>  | 8,833,288  |
| Prepayments   | <b>69,907</b>     | 74,525     |
| Due from employees                                      | <b>56,967</b>     | 26,194     |
| Other receivables                                       | <b>214,750</b>    | 1,607      |
|   | <b>16,455,391</b> | 12,093,025 |

**9. Cash and bank balances**

|                       |                  |           |
|-----------------------|------------------|-----------|
| Cash on hand          | <b>298</b>       | 706       |
| Bank current accounts | <b>3,455,902</b> | 5,234,926 |
|                       | <b>3,456,200</b> | 5,235,632 |

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### Notes to the financial statements for the year ended 31 December 2007 (continued)

#### 10. Share capital

|   | <b>2007</b>       | 2006       |
|---|-------------------|------------|
|   | <b>RO</b>         | RO         |
| Authorized:                                       |                   |            |
| 20 million ordinary shares of RO 1 each           | <b>20,000,000</b> | 20,000,000 |
| Issued and paid up:                               |                   |            |
| Share capital at the beginning of the year        | <b>20,000,000</b> | 10,000,000 |
| Capital contribution received during the year     | -                 | 10,000,000 |
| Issued and paid up capital at the end of the year | <b>20,000,000</b> | 20,000,000 |

The entire share capital of the Company is held by Ministry of Finance.

#### 11. Statutory reserve

In accordance with Article 106 of the Commercial Companies Law of 1974, as amended, 10% of the Company's net profits after the deduction of taxes will be transferred to a non-distributable statutory reserve each year until the amount of such statutory reserve equals one-third of the Company's share capital. This reserve is not available for distribution to shareholders as dividends.

#### 12. Loan from shareholder

|                       | <b>2007</b>       | 2006       |
|-----------------------|-------------------|------------|
|                       | <b>RO</b>         | RO         |
| Loan from shareholder | <b>46,215,996</b> | 17,515,996 |

During the year, the Company has received an amount of RO 28,700,000 (2006 : RO 3,690,000) from the Ministry of Finance (MOF). The terms and conditions of the loan need to be agreed with MOF and will be specified in the Funding Agreement. The Funding Agreement will be entered within 36 months from the 1 January 2006 as defined in the concession agreement.

#### 13. Deferred income

Deferred income represents the non monetary Government grants related to inventory, measured at fair value, presented in the balance sheet by setting up the grant as deferred income (Note 7). The grant is recognised as income as and when the related inventory is consumed on a FIFO basis.

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**Notes to the financial statements  
for the year ended 31 December 2007 (continued)****13. Deferred income (continued)**

Movement in deferred income is as follows:

|  | <b>2007</b>     | 2006     |
|--|-----------------|----------|
|  | <b>RO</b>       | RO       |
| Balance at beginning of the year           | <b>107,317</b>  | 124,907  |
| Less: recognized as income during the year | <b>(12,378)</b> | (17,590) |
| Balance at end of the year                 | <b>94,939</b>   | 107,317  |

**14. Retentions payable**

Retentions payable comprise contract retentions. Retentions not payable within one year from balance sheet date are disclosed as non-current liability and retentions payable within one year are disclosed as a current liability.

**15. Provision for end of service indemnity**

|  | <b>2007</b>    | 2006    |
|--|----------------|---------|
|  | <b>RO</b>      | RO      |
| Balance at beginning of year                   | <b>74,250</b>  | 10,005  |
| Expense recognized in income statement         | <b>100,229</b> | 59,292  |
| Amount transferred to capital work-in-progress | <b>9,878</b>   | 6,088   |
| Paid during the year                           | <b>(569)</b>   | (1,135) |
| Balance at end of year                         | <b>183,788</b> | 74,250  |

**16. Trade and other payables**

|                              |                   |            |
|------------------------------|-------------------|------------|
| Trade payables               | <b>2,765,243</b>  | 808,360    |
| Capital accruals             | <b>6,773,436</b>  | 10,409,377 |
| Other accruals               | <b>1,457,009</b>  | 1,174,743  |
| Retentions payable (Note 14) | <b>238,963</b>    | 1,561,378  |
| Provision for staff benefits | <b>94,746</b>     | 78,557     |
| Due to employees             | <b>21,616</b>     | 5,492      |
|                              | <b>11,351,013</b> | 14,037,907 |

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**Notes to the financial statements  
for the year ended 31 December 2007 (continued)****17. Revenue**

|                                   | <b>2007</b>      | 2006      |
|-----------------------------------|------------------|-----------|
|                                   | <b>RO</b>        | RO        |
| Sale of treated effluent          | <b>2,998,240</b> | 2,817,050 |
| Tanker revenue                    | <b>1,448,502</b> | 1,246,482 |
| Operation and maintenance charges | <b>816,948</b>   | 790,052   |
| Assets usage monthly fees         | <b>353,055</b>   | 348,196   |
|                                   | <b>5,616,745</b> | 5,201,780 |

**18. Operating cost**

|                             |                  |           |
|-----------------------------|------------------|-----------|
| Electricity, water and rent | <b>362,310</b>   | 487,772   |
| Repairs and maintenance     | <b>915,381</b>   | 320,162   |
| Commission                  | <b>76,658</b>    | 86,935    |
| Skip loader charges         | <b>106,113</b>   | 83,036    |
| Insurance                   | <b>23,786</b>    | 27,036    |
| Chemicals and consumables   | <b>8</b>         | 17,697    |
| Others                      | <b>199,081</b>   | 96,886    |
|                             | <b>1,683,337</b> | 1,119,524 |

**19. Employee cost**

|                                   |                  |           |
|-----------------------------------|------------------|-----------|
| Salaries and wages                | <b>1,669,154</b> | 883,861   |
| Allowances and other benefits     | <b>984,926</b>   | 567,295   |
| Recruitment and training cost     | <b>400,052</b>   | 300,582   |
| Bonus and incentives              | <b>558,798</b>   | 270,138   |
| Employee end of service indemnity | <b>100,229</b>   | 59,292    |
| Social security insurance         | <b>81,574</b>    | 69,368    |
| Medical                           | <b>65,646</b>    | 38,862    |
| Traveling                         | <b>94,636</b>    | 63,950    |
| Others                            | <b>3,383</b>     | 1,031     |
|                                   | <b>3,958,398</b> | 2,254,379 |

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**Notes to the financial statements  
for the year ended 31 December 2007 (continued)****20. General and administrative expenses**

|  | <b>2007</b>             | 2006             |
|--|-------------------------|------------------|
|  | <b>RO</b>               | RO               |
| Consultancy charges                          | <b>1,385,532</b>        | 727,175          |
| Advertisement and publicity expenses         | <b>167,763</b>          | 152,482          |
| IT related expenses                          | <b>207,437</b>          | 176,820          |
| Legal and professional fees                  | <b>24,814</b>           | 51,336           |
| Rent   | <b>87,126</b>           | 64,831           |
| Repairs and maintenance                      | <b>197,639</b>          | 11,189           |
| Communication                                | <b>70,305</b>           | 33,707           |
| Water and electricity                        | <b>61,481</b>           | 31,310           |
| Printing and stationary                      | <b>26,727</b>           | 15,541           |
| Directors' sitting fees and meeting expenses | <b>22,900</b>           | 40,689           |
| Charge for impairment of receivables         | <b>83,048</b>           | 12,145           |
| Social charity - donation                    | <b>32,054</b>           | -                |
| Others                                       | <b>238,795</b>          | 65,760           |
|  | <b><u>2,605,621</u></b> | <u>1,382,985</u> |

**21. Other income**

|   |                       |                |
|---|-----------------------|----------------|
| Government grants                                   | <b>12,378</b>         | 17,590         |
| Interest on bank deposits                           | <b>315,783</b>        | 355,789        |
| Profit on disposal of property, plant and equipment | <b>3,776</b>          | -              |
| Miscellaneous income                                | <b>11,860</b>         | 6,450          |
|   | <b><u>343,797</u></b> | <u>379,829</u> |

**22. Income tax**

No provision has been made for income tax as the Company has sufficient accumulated taxable losses carried forward from previous years to set off against current year's taxable income.

**23. Related party transactions**

Related parties comprise the shareholders, directors and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions. At the balance sheet date, balances with related parties were as follows:

|   | <b>2007</b>              | 2006              |
|---|--------------------------|-------------------|
|   | <b>RO</b>                | RO                |
| Loan from Ministry of Finance (Note 12) | <b><u>46,215,996</u></b> | <u>17,515,996</u> |

## OMAN WASTEWATER SERVICES COMPANY SAOC

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### Notes to the financial statements for the year ended 31 December 2007 (continued)

#### 23. Related party transactions (continued)

The related party transactions were as follows :

|                               | 2007<br>RO | 2006<br>RO |
|-------------------------------|------------|------------|
| Capital contribution received | -          | 10,000,000 |

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise).

#### Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

|                         | 2007<br>RO     | 2006<br>RO     |
|-------------------------|----------------|----------------|
| Short term benefits     | 300,486        | 234,886        |
| End of service benefits | 38,982         | 7,089          |
|                         | <u>339,468</u> | <u>241,975</u> |
| Directors sitting fees  | <u>22,500</u>  | <u>36,400</u>  |

#### 24. Credit risk

##### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the balance sheet date was on account of:

|                           | 2007<br>RO        | 2006<br>RO        |
|---------------------------|-------------------|-------------------|
| Trade receivables         | 6,404,703         | 3,157,411         |
| Other receivables         | 10,050,688        | 8,935,614         |
| Cash and cash equivalents | 3,456,200         | 5,235,632         |
|                           | <u>19,911,591</u> | <u>17,328,657</u> |

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### Notes to the financial statements for the year ended 31 December 2007 (continued)

#### 24. Credit risk (continued)

The exposure to credit risk for trade receivables at the balance sheet date by type of customer was:

|  | 2007<br>RO       | 2006<br>RO       |
|--|------------------|------------------|
| Government customers (Muscat Municipality) | 6,249,781        | 2,896,418        |
| Other customers                            | 154,922          | 260,993          |
|  | <u>6,404,703</u> | <u>3,157,411</u> |

The age of trade receivables and related impairment loss at the balance sheet date was:

|                       | 2007             |                  | 2006             |                  |
|-----------------------|------------------|------------------|------------------|------------------|
|                       | Gross<br>RO      | Impairment<br>RO | Gross<br>RO      | Impairment<br>RO |
| Not past due          | 3,330,340        | -                | 3,039,819        | -                |
| Past due 0 - 365 days | -                | -                | 129,737          | 12,145           |
| 1 - 2 years           | 3,169,556        | 95,193           | -                | -                |
|                       | <u>6,499,896</u> | <u>95,193</u>    | <u>3,169,556</u> | <u>12,145</u>    |

(a) Included in the Company's trade receivable balance are debtors with a carrying amount of RO 3,074,363 which are past due at the balance sheet date for which the Company has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 385 days.

(b) The movement in allowance for impairment of receivables is as follows:

|                              | 2007<br>RO    | 2006<br>RO    |
|------------------------------|---------------|---------------|
| Brought forward balance      | 12,145        | -             |
| Charge for the year          | 83,048        | 12,145        |
| Written back during the year | -             | -             |
| Carried forward balance      | <u>95,193</u> | <u>12,145</u> |

The allowance account in respect of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at which point the amount considered irrecoverable is written off against allowance account.

**OMAN WASTEWATER SERVICES COMPANY SAOC**

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**Notes to the financial statements  
for the year ended 31 December 2007 (continued)**

**25. Liquidity risk**

**31 December 2007**

|                    | Carrying<br>amount<br>RO | less than 1<br>year<br>RO | 1 - 2<br>years<br>RO | More than<br>2 years<br>RO |
|--------------------|--------------------------|---------------------------|----------------------|----------------------------|
| Trade payables     | 2,765,243                | 2,765,243                 | -                    | -                          |
| Retention payables | 3,314,000                | 238,963                   | 1,662,653            | 1,412,384                  |
| Other payables     | 8,346,807                | 7,422,371                 | 889,186              | 35,250                     |
|                    | <u>14,426,050</u>        | <u>1,0426,577</u>         | <u>2,551,839</u>     | <u>1,447,634</u>           |

**31 December 2006**

|                    |                   |                   |                |                  |
|--------------------|-------------------|-------------------|----------------|------------------|
| Trade payables     | 808,360           | 808,360           | -              | -                |
| Retention payables | 1,737,737         | 176,359           | 33,035         | 1,528,343        |
| Other payables     | 11,668,169        | 10,585,397        | 316,769        | 766,003          |
|                    | <u>14,214,266</u> | <u>11,570,116</u> | <u>349,804</u> | <u>2,294,346</u> |

**26. Commitments**

|   | 2007<br>RO        | 2006<br>RO        |
|---|-------------------|-------------------|
| Commitments for acquisition of<br>property, plant and equipment | <u>67,099,676</u> | <u>86,004,359</u> |

**27. Approval of financial statements**

The financial statements were approved by the Board of Directors and authorized for issue on 18 March, 2008.

**28. Comparative figures**

Certain comparative figures have been reclassified and regrouped in order to conform to current year presentation.