PHNOM PENH WATER SUPPLY AUTHORITY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

PHNOM PENH WATER SUPPLY AUTHORITY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENTS

KINGDOM OF CAMBODIA

NATION RELIGION KING

PHNOM PENH
WATER SUPPLY AUTHORITY
"PPWSA"

Nº: 031 PPWSA...........

Date, April 06 2012

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 Phnom Penh Water Supply Authority ("the Authority") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The main activities of the Authority are processing and supplying water to Phnom Penh and Takmao residents, and carrying out other water supply-related activities.

FINANCIAL PERFORMANCE

The financial performance for the year ended 31 December 2011 is set out in the income statement 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 Authority 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 Authority 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 Authority 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 Authority that has arisen since the end of the year.

No contingent or other liability of the Authority 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 Authority 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 Authority that would render any amounts stated in the financial statements misleading.

ADDRESS : Nº45, Street 106, Sangkat Srah Chork, Khan Daun Penh, Tel : 855 (23) 724 046 Email: admin@ppwsa.com.kh

ITEMS OF AN UNUSUAL NATURE

The financial performance of the Authority for the year ended 31 December 2011 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 BALANCE SHEET DATE

Other than those events disclosed in the notes to the financial statements, there has not arisen in the interval between the end of the year 2011 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 Authority 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 Authority as at 31 December 2011 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 Accounting Standards ("CAS") as disclosed in Note 2 to the financial statements, which are supported by reasonable and prudent judgements and estimates, and then apply them consistently;
ii) comply with the disclosure requirements of CAS 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 Authority to prepare the financial statements under CAS 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 Authority will continue operations in the foreseeable future; and
v) effectively control and direct the Authority 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 Authority has complied with the above requirements in preparing the financial statements.

The Board of Directors of the Authority consists of:

Ministry of Economy and Finance	1 Representative
Ministry of Industry, Mines and Energy	1 Representative
Phnom Penh Municipality	1 Representative
Ministry of Interior	1 Representative
Ministry of Council of Ministers	1 Representative
Director General of Phnom Penh Water Supply Authority	1 Representative
Employees of Phnom Penh Water Supply Authority	1 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 Authority as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Cambodian Accounting Standards.

On behalf of the Board of Directors,

Meng Sak Theara
Chairman of the Board of Directors

Ek Sonn Chan
Director General

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

Phnom Penh, Kingdom of Cambodia
Date: 06 April 2012

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers (Cambodia) Ltd.
35, Sihanouk Boulevard, Chamkarmon
Phnom Penh, Kingdom of Cambodia
Telephone (855) 23 218 086
Facsimile (855) 23 211 594

Independent auditor's report

To the Shareholders of Phnom Penh Water Supply Authority

We have audited the accompanying financial statements of Phnom Penh Water Supply Authority ("the Authority"), which comprise the balance sheet as at 31 December 2011 and the income statement, statements of changes in equity and cash flows for the year then ended, and 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 Accounting 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.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Phnom Penh Water Supply Authority as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards.

For PricewaterhouseCoopers (Cambodia) Ltd.

By Kuy Lim
Director

Phnom Penh, Kingdom of Cambodia
Date: 06 April 2012

PHNOM PENH WATER SUPPLY AUTHORITY

BALANCE SHEET
AS AT 31 DECEMBER 2011

	Note	2011 KHR'000	2010 KHR'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	632,385,744	541,321,047
Intangible assets	6	1,033,905	996,801
Loan to Pursat Water Supply	8	703,161	768,266
		634,122,810	543,086,114
Current assets			
Inventories	10	28,088,571	20,176,810
Trade and other receivables	11	40,095,235	44,376,504
Loan to Pursat Water Supply	8	62,452	50,149
Income tax receivable	9	-	1,643,818
Short-term investments	12	151,799,927	129,697,135
Deferred IPO cost	14	3,620,793	-
Cash and cash equivalents	13	7,460,821	7,066,752
		231,127,799	203,011,168
Total assets		865,250,609	746,097,282
EQUITY AND LIABILITIES			
EQUITY			
Capital	15	465,028,129	456,000,264
Reserves	16	55,410,445	29,060,957
Retained earnings		31,989,907	30,506,352
Total equity		552,428,481	515,567,573
LIABILITIES			
Non-current liabilities			
Retirement benefit obligation	19	24,601,028	20,347,816
Deferred income tax liabilities	18	16,935,710	15,279,480
Borrowings	17	182,847,463	129,255,377
Refundable water deposits		24,602,071	21,854,738
Deferred government and other grants	20	7,535,667	16,775,584
		256,521,939	203,512,995
Current liabilities			
Borrowings	17	11,504,413	8,758,884
Income tax payable	9	437,665	-
Accrual for IPO fee	14	3,215,717	-
Trade and other payables	21	41,142,394	18,257,830
		56,300,189	27,016,714
Total liabilities		312,822,128	230,529,709
Total equity and liabilities		865,250,609	746,097,282

The accompanying notes on pages 10 to 58 form an integral part of these financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 KHR'000	2010 KHR'000
REVENUES			
Sales	22	114,868,279	105,543,540
Other income	20	212,052	722,373
		115,080,331	106,265,913
EXPENSES			
Depreciation and amortisation charges	5 & 6	(21,239,491)	(20,536,261)
Electricity cost		(22,809,698)	(21,223,301)
Salaries, wages and related expenses	23	(18,971,337)	(17,131,407)
Raw materials for water treatment	24	(4,462,250)	(4,111,934)
Raw materials for household water connections	25	(5,126,863)	(3,686,038)
Repairs and maintenance		(2,907,029)	(3,231,125)
Other operating expenses		(2,709,243)	(2,804,170)
Foreign exchange gain - net	26	2,340,812	2,687,783
		(75,885,099)	(70,036,453)
Operating profit		39,195,232	36,229,460
Finance income		6,462,020	6,550,400
Finance cost		(5,600,458)	(4,602,282)
Finance income – net	27	861,562	1,948,118
PROFIT BEFORE INCOME TAX		40,056,794	38,177,578
Income tax expense	28	(8,066,887)	(7,671,226)
NET PROFIT FOR THE YEAR		31,989,907	30,506,352

The accompanying notes on pages 10 to 58 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Capital KHR'000	Reserves KHR'000	Retained earnings KHR'000	Total KHR'000
2010					
As at 1 January 2010		456,000,264	5,397,331	26,933,730	488,331,325
Transfer to reserves	16	-	26,933,730	(26,933,730)	-
Profit remitted to the Royal Government of Cambodia	16	-	(2,693,373)	-	(2,693,373)
Distribution of reserves for corporate social activities	16	-	(576,731)	-	(576,731)
Net profit for the year		-	-	30,506,352	30,506,352
As at 31 December 2010		456,000,264	29,060,957	30,506,352	515,567,573
2011					
As at 1 January 2011		456,000,264	29,060,957	30,506,352	515,567,573
Transfer to capital	15 & 20	9,027,865	-	-	9,027,865
Transfer to reserves		-	30,506,352	(30,506,352)	-
Profit remitted to the Royal Government of Cambodia	16	-	(3,050,635)	-	(3,050,635)
Distribution of reserves for corporate social activities	16	-	(1,106,229)	-	(1,106,229)
Net profit for the year		-	-	31,989,907	31,989,907
As at 31 December 2011		465,028,129	55,410,445	31,989,907	552,428,481

The accompanying notes on pages 10 to 58 form an integral part of these financial statements.

PHNOM PENH WATER SUPPLY AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 KHR'000	2010 KHR'000
Cash flows from operating activities			
Cash generated from operations	29	84,990,488	40,102,202
Interest paid		(4,481,280)	(4,284,345)
Taxation paid		(4,329,174)	(5,911,147)
Retirement benefit obligation paid	19	(486,680)	(411,999)
Net cash generated from operating activities		75,693,354	29,494,711
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(112,164,670)	(23,475,573)
Purchases of intangible assets	6	(271,815)	(424,680)
Proceeds from sale of property, plant and equipment		323,510	-
Loan repayments received from Pursat Water Supply		52,802	62,758
Short-term investments	12	(22,102,792)	(28,381,013)
Interest received		6,682,929	6,420,920
Net cash used in investing activities		(127,480,036)	(45,797,588)
Cash flows from financing activities			
Profit remitted to the Royal Government of Cambodia	16	(3,050,635)	(2,693,373)
Distribution of reserves for corporate social activities	16	(1,106,229)	(576,731)
Proceeds from borrowings	17	67,313,940	29,167,439
Repayments of borrowings	17	(10,976,325)	(11,785,054)
Net cash generated from financing activities		52,180,751	14,112,281
Net decrease in cash and cash equivalents		394,069	(2,190,596)
Cash and cash equivalents, beginning of the year		7,066,752	9,257,348
Cash and cash equivalents, end of the year	13	7,460,821	7,066,752

Non-cash transactions

The principal non-cash transactions excluded from the statement of cash flows are as follows:

- Transfers of AfD and other grants to capital amounting to KHR 9,027,865,000 (2010: nil).
- The acquisition of property, plant and equipment under government grants amounting to nil (2010: KHR 611,533,000).

The accompanying notes on pages 10 to 58 form an integral part of these financial statements.

1. BACKGROUND INFORMATION

Phnom Penh Water Supply Authority ("the Authority") is a Public Autonomous Institution that was under the technical supervision of the Phnom Penh Municipality and is under the financial supervision of the Ministry of Economy and Finance ("MoEF"), with its headquarters in Phnom Penh. It has economic appendix status in accordance with Article 26 of Royal Kram 0696/03 dated 17 June 1996, giving it the general status of a public enterprise. Phnom Penh Water Supply Authority is a legal entity with an autonomous administration and financing. The Authority was established in accordance with the Sub-decree on the establishment of Phnom Penh Water Supply Authority signed and issued by the then two Prime Ministers of the Royal Government of Cambodia and a Senior Minister and Minister of Economy and Finance. The Sub-decree is dated 19 December 1996.

The Authority is now under the supervision of the Ministry of Industry, Mines and Energy ("MIME"), rather than the Phnom Penh Municipality, in accordance with Sub-decree No. 14 ANKR BK dated 24 May 2004.

According to the establishing Sub-decree, the mission of the Authority is to process and distribute water for general use by the public in the city of Phnom Penh. In order to fulfil this mission, the Authority is allowed to carry out operational activities on the property, plant and equipment as well as other necessary commercial and financial operations, such as:

- Production and overall distribution of water within the city of Phnom Penh and its suburbs;
- Expansion, improvement and rehabilitation of the production systems and distribution networks; and
- Doing business with existing and future water distribution networks.

In accordance with letter No. 802 URT.TS dated 30 November 2004, the MIME agreed to transfer the operations and assets of Takmao Water Authority to be managed by the Authority.

The Authority is recognised as a public enterprise having with economic characteristics by the Ministry of Commerce under registration number Co.0839 Et/2012 dated 27 March 2012.

The registered office of the Authority is office 45, St. 106, Sangkat Srah Chork, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia. The Authority had 614 employees in 2011 (2010: 600 employees).

The financial statements were approved for issue by the Board of Directors on 06 April 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of preparation

The financial statements of the Authority, which are expressed in Khmer Riel ("KHR" or "Riel"), have been prepared in accordance with Cambodian Accounting Standards ("CAS"), which consist of eighteen Cambodian Accounting Standards and two Cambodian Financial Reporting Standards ("CFRS"). They were issued by the MoEF under Prakas No. 221 dated 25 March 2008.

The Authority has elected to adopt early the following Cambodian International Financial Reporting Standards ("CIFRS"), which are effective for annual periods beginning on or after 1 January 2012:

- CIAS 19 - Employee Benefits from 1 January 2010
- CIAS 23 (Revised) - Borrowing Costs from 1 January 2010
- CIAS 34 - Interim Financial Reporting from 1 January 2011

Please refer to Note 2.b.1 for a discussion of the impact of the early adoption of the CIAS 34 for the year ended 31 December 2011.

The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are not intended to present the financial position, financial performance and cash flows in accordance with jurisdictions other than Cambodia. Consequently, these financial statements are addressed only to those who are informed about Cambodian accounting principles, procedures and practices.

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

The preparation of financial statements in accordance with CAS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Areas involving a higher degree of judgement or complexity, and areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. New and amended accounting standards and interpretations

b.1. New standards and amendments to existing standards issued which are effective from 1 January 2012 but were adopted early by the Authority from 1 January 2011

In accordance with Prakas No. 068BK MEF dated 8 January 2009 of the MoEF and Announcement No. 097/09 MEF dated 28 August 2009 of the National Accounting Council, Cambodia shall fully implement all International Financial Reporting Standards, including interpretations, published by the International Accounting Standards Board. The full standards will be called the Cambodian International Financial Reporting Standards ("CIFRS") and are mandatory for entities with public accountability for accounting periods beginning on or after 1 January 2012. The Authority is a publicly accountable entity as it is in the process of an initial public offering on the Cambodian Securities Exchange.

The CIFRS consist of improvements to the existing Cambodian Accounting Standards and Cambodian Financial Reporting Standards and new standards, and related interpretations. The Authority will fully adopt CIFRS for the accounting period beginning on 1 January 2012.

- CIAS 34, Interim Financial Reporting

The objective of this standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period.

The Authority adopted this standard for the accounting period beginning from 1 January 2011. There is no impact from the adoption of this standard other than the need for the preparation of interim financial information.

b.2. New standards and amendments to existing standards issued which are effective from 1 January 2012 and were not adopted early by the Authority

- CIAS 1 (Revised and Amended), Presentation of Financial Statements

CIAS 1 (Revised) prohibits the presentation of items of income and expense (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in other comprehensive income, but entities can choose whether to present one statement of comprehensive income or two statements (an income statement and a statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated statement of financial position as at the beginning comparative period in addition to the current requirement to present the statement of financial position at the end of the current period and comparative period. When adopting this standard from 1 January 2012, it is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. New and amended accounting standards and interpretations (continued)

b.2. New standards and amendments to existing standards issued which are effective from 1 January 2012 and were not adopted early by the Authority (continued)

- CIAS 1 (Revised and Amended), Presentation of Financial Statements (continued)

In addition, CIAS 1 (Revised) clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by the transfer of cash or other assets for at least 12 months after the accounting period), notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. It also clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. In addition, the amount of dividends recognised as distributions to owners during the period and the related amount per share are now disclosed either in the statement of changes in equity or in the notes and can no longer be presented in the income statement.

CIAS 1 (Amended), effective from 1 July 2012, requires the entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

Management is currently assessing the impact of the adoption of this standard on the financial statements.

- CIAS 12 (Amended), Income taxes

CIAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in CIAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The Authority has no investment property, therefore management is of the view that this amendment does not impact on the Authority's financial statements.

- CIAS 24 (Revised), Related Party Disclosures

The amendment (a) simplifies the definition of a related party, clarifies its intended meaning and eliminates inconsistencies from the definition; and (b) provides a partial exemption from the disclosure requirements for government-related entities. Management is currently assessing the impact of the adoption of this standard on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. *New and amended accounting standards and interpretations (continued)*

b.2. New standards and amendments to existing standards issued which are effective from 1 January 2012 and were not adopted early by the Authority (continued)

- CIAS 20, Accounting for Government Grants and Disclosure of Government Assistance

This standard provides guidance on accounting for and disclosure of government grants and on the disclosure of other forms of government assistance. A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attached to it, and that the grant will be received. The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with CIAS 39 Financial Instruments: Recognition and Measurement. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with CIAS 39 and the proceeds received. The benefit is accounted for in accordance with this standard. As disclosed in Note 2.b.2 – CIAS 39, CIFRS 1 allows the requirements for recognition of 'day one' profits to be applied prospectively for transactions entered into after the date of transition to CIFRS. The Authority intends to apply this exemption. Management is currently assessing the impact of the adoption of this standard on the financial statements.

- CIAS 32, Financial Instruments: Presentation

This standard establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It provides guidance on the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; classification of related interest, dividends, losses and gains; and circumstances in which financial assets and financial liabilities should be offset. In addition, it requires entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, as equity, provided the financial instruments have particular features and meet specific conditions. CIAS 32 will be adopted retrospectively. Management is currently assessing the impact of the adoption of this standard on the financial statements.

- CIAS 33, Earnings Per Share

This standard prescribes principles for the determination and presentation of earnings per share so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity. Even though earnings per share data have limitations because of the different accounting policies that may be used for determining 'earnings', a consistently determined denominator enhances financial reporting. The focus of this standard is on the denominator of the earnings per share calculation. Adoption of this standard will result in additional disclosures on the information of earnings per share in the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. *New and amended accounting standards and interpretations (continued)*

b.2. New standards and amendments to existing standards issued which are effective from 1 January 2012 and were not adopted early by the Authority (continued)

- CIAS 36, Impairment of Assets

This standard prescribes procedures that an entity shall apply to ensure that its non-financial assets are carried at no more than their recoverable amount. Under the terms of the standard, an asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the standard requires the entity to recognise an impairment loss. The standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

The Authority will apply CIAS 36 and provide the required disclosure where applicable for impairment tests from 1 January 2012. Management is assessing the impact on the financial statements.

- CIAS 38 (Amended), Intangible Assets

The following amendments were made to CIAS 38.

- A prepayment may only be recognised in the event that payment has been made in advance of obtaining the right of access to goods or receipt of services. This amendment will not result in a material impact on the Authority's financial statements.
- The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. Management is assessing the impact on the financial statements.
- The amendment clarifies guidance for measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if the assets have similar useful economic lives. The amendment will not have an impact on the Authority's financial statements because it is not relevant to the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. *New and amended accounting standards and interpretations (continued)*

b.2. New standards and amendments to existing standards issued which are effective from 1 January 2012 and were not adopted early by the Authority (continued)

- CIAS 39, Financial Instruments: Recognition and Measurement

This standard provides guidance on the recognition and measurement of financial instruments, including the categorisation of financial assets and liabilities, accounting for derivatives, and impairment.

- Categorisation of financial assets and liabilities

  Financial assets are to be categorised into four groups: 1) financial assets at fair value through profit and loss; 2) held-to-maturity investments; 3) loans and receivables; and 4) available-for-sale financial assets. The categorisation depends on the purpose for which the financial assets were acquired. Financial liabilities are either categorised as 1) financial liabilities at fair value through profit and loss or 2) financial liabilities carried at amortised cost.

- Recognition and measurement of financial instruments

  Financial assets in the form of loans and receivables and held-to-maturity investments and financial liabilities measured at amortised cost are to be initially recognised at fair value net of transaction costs and to be subsequently carried at amortised cost using the effective interest method and recognised through the income statement.

- Impairment of financial assets

  Assessment of financial assets should be made at each balance sheet date to determine whether there is any objective evidence that a financial asset or group of assets may be impaired. If such impairment evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

  From 1 January 2015, classification and measurement of financial instruments under CIAS 39 will be replaced by CIFRS 9.

  Adoption of CIAS 39 will impact the recognition and measurement of the Authority's borrowings. However, CIFRS 1 provides an optional exemption for an entity to recognise 'day one' profits prospectively for transactions entered into after the date of transition to CIFRS. The Authority intends to apply this exemption. Management is currently assessing the impact of the adoption of CIAS 39 on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. New and amended accounting standards and interpretations (continued)

b.2. New standards and amendments to existing standards issued which are effective from 1 January 2012 and were not adopted early by the Authority early (continued)

- CIFRS 1, First-time Adoption of Cambodian International Financial Reporting Standards

  The standard applies when an entity adopts CIFRS for the first-time by an explicit and unreserved statement of compliance with CIFRS.

  - In general, CIFRS 1 requires an entity to comply with each CIFRS effective at the end of its first CIFRS reporting period. In particular, the CIFRS requires an entity to do the following in the opening CIFRS statement of financial position that it prepares as a starting point for its accounting under CIFRS.

  - The standard grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. CIFRS 1 also prohibits retrospective application of CIFRS in some areas; particularly where retrospective application would require judgements by management about past conditions after the outcome of a particular transaction is already known.

  - CIFRS 1 requires disclosures that explain how the transition from previous accounting standards to CIFRS affected the entity's reported financial position, financial performance and cash flows.

    The Authority will adopt this standard for the accounting period beginning on 1 January 2012 and the transition date is 1 January 2011. The Authority has decided to elect the following:

  - The requirement for the recognition of 'day one' profits to be applied prospectively for transactions entered into after the date of transition to CIFRS. There is no impact on the Authority since there were no transactions entered into after the transition date.

- CIFRS 2 Share-based Payments

  This standard specifies the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and statement of financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

  This standard will impact the Authority because the Authority has decided to provide advances to employees to purchase the Authority's shares when the Authority becomes a listed entity in 2012. The Authority is assessing the impact of this standard on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. New and amended accounting standards and interpretations (continued)

b.2. New standards and amendments to existing standards issued which are effective from 1 January 2012 and were not adopted early by the Authority (continued)

- CIFRS 7 (Amended), Financial Instruments – Disclosures

The amendment requires the following:

- Disclosures about fair value measurement by level of a fair value measurement hierarchy and liquidity risk.
- Interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.
- Promotion of transparency in the reporting of transfer transactions and improvement of users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

This amendment will only result in additional disclosures.

- CIFRS 8, Operating Segments

This standard sets out the requirement for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It requires segment information to be reported based on the entity's operating segment. Operating segments are components of an enterprise in which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

The management of the Authority is in the process of assessing the impact of the standard on the financial statements.

- CIFRIC 10, Interim Financial Reporting and Impairment

An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The management of the Authority is in the process of assessing the impact of the standard on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. New and amended accounting standards and interpretations (continued)

b.2. New standards and amendments to existing standards issued which are effective from 1 January 2013 and were not adopted early by the Authority (continued)

- CIFRS 1 (Amended)

First-time adopters should classify all government loans as a financial liability or an equity instrument in accordance with CIAS 32. They should apply the CIAS 39 and CIAS 20 requirements prospectively to government loans existing at the date of transition to CIFRS; they should not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.

The amendment affects first-time adopters with government loans with a below-market rate of interest. It applies to annual periods beginning on or after 1 January 2013.

The Authority is assessing the impact of the standard on the financial statements.

- CIFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

For the purpose of this interpretation, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan. The interpretation addresses (i) when refunds or reductions in future contributions should be regarded as available; (ii) how a minimum funding requirement might affect the availability of reductions in future contributions; and (iii) when a minimum funding requirement might give rise to a liability. The management of the Authority is in the process of assessing the impact of this interpretation on the financial statements.

- CIAS 19 (Revised), Employee Benefits

The amendment requires an entity to recognise all changes in the net defined benefit liability/ (asset) in the period in which those changes occur, and to disaggregate and recognise the defined benefit cost. Furthermore, the main changes to the recognition requirements are (i) immediate recognition of actuarial gain or loss in other comprehensive income; (ii) immediate recognition of any past service cost in the income statement; and (iii) a redefining of the components of defined benefit cost.

Adoption of this amendment would result in a reclassification of actuarial gain or loss currently recognised in the income statement to other comprehensive income. The Authority is currently assessing the full impact of this amendment on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. *New and amended accounting standards and interpretations (continued)*

b.2. New standards and amendments to existing standards issued which are effective from 1 January 2013 and were not adopted early by the Authority (continued)

- CIFRS 13, Fair Value Measurement

This CIFRS (i) defines fair value; (ii) sets out in a single CIFRS a framework for measuring fair value; and (iii) requires disclosures about fair value measurements. Management is currently assessing the impact of this standard on the financial statements.

b.3. New standards and amendments to existing standards issued which are effective from 1 January 2015 and were not adopted early by the Authority

- CIFRS 9, Financial Instruments

CIFRS 9 establishes principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. CIFRS 9 will replace the classification and measurement guidance of CIAS 39 for financial assets and financial liabilities. CIFRS 9 specifies how an entity should classify and measure financial assets, including some hybrid contracts. It requires all financial assets to be: (a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset; (b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and (c) subsequently measured at amortised cost or fair value.

In December 2011, CIFRS 9 was amended and now requires entities to apply CIFRS 9 for annual periods beginning on or after 1 January 2015 instead of on or after 1 January 2013. Early application is permitted.

The Authority will apply CIFRS 9 from 1 January 2015. Management is currently assessing the impact of this standard on the financial statements.

c. *Foreign currency translation*

(i) Functional and presentation currency

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. *Foreign currency translation* (continued)

(ii) 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 income statement.

d. *Property, plant and equipment*

Property, plant and equipment are stated at historical cost or agreed initial amounts (when 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, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority 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 income statement during 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 balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. *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 to use the specific software. Intangible assets are amortised using the straight-line method over their estimated useful lives of seven years.

f. *Impairment of assets*

The carrying amounts of the Authority's assets that are subject to 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 income statement.

g. *Inventories*

Inventories are stated at the cost incurred in bringing each product to its present location and condition.

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.

h. *Trade receivables*

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

Trade receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off when identified.

i. *Cash and cash equivalents*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Loan to Pursat Water Supply

The loan to Pursat Water Supply ("PWS") is stated in the balance sheet at outstanding principal.

k. 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 or less. If not, they are presented as non-current liabilities.

Trade payables are recognised at original invoice amounts.

l. Borrowings

Borrowings are recognised initially at acquired amounts, which approximate fair value. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Authority has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Interest costs on borrowings are charged to the income statement. Borrowing costs that relate to qualifying assets are capitalised as part of the cost of the asset.

m. 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.

n. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date in Cambodia where the Authority 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 on the basis of amounts expected to be paid to the General Department of Taxation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. 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 by the balance sheet 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.

Deferred income tax is calculated using a tax rate of 20%.

o. Employee benefits

Retirement benefit obligation

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

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

Payments to eligible employees are based on the following terms and conditions:

a. Staff who have worked for 10 to 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 and an additional 1% of their final salary for every year worked from the 21st year for every month until they die.

c. Staff who have resigned before their retirement age will receive a one-time lump sum payment as follows:

   i) 120% of their accumulated contributions for staff who have worked for 10 years, and an additional 1% of the accumulated contributions for every year between the 11th year and the 20th year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. ***Employee benefits*** *(continued)*

ii) 135% of their accumulated contributions for staff who have worked for 21 years, and an additional 1% of the accumulated contributions for every year between the 22nd year and the 30th year.

iii) 155% of their accumulated contributions for staff who have worked for 31 years, and an additional 1% of the accumulated contributions for every year after the 31st year.

The liability recognised in the balance sheet 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, 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 the income statement in the period in which they arise. The cost associated with providing these benefits is charged to the income statement so as to spread the cost over the period of employment during which the entitlement to the benefit is earned.

Past-service costs are recognised immediately in the income statement, 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.

<u>Bonus plan</u>

The Authority recognises a liability and an expense for bonuses based on the following formula, which takes into consideration the profit attributable to the Authority 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 between 11% and 20% of operating expenses.
- Three months' salary for all employees if the net profit is more than 21% of operating expenses.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Provisions and contingent liabilities

Provisions are recognised when the Authority 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 Authority. 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 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.

q. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of water

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

Household water connection revenue

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

Water meter replacement charge

An amount of Riel 50 per 1 mm of water meter is charged for water meter maintenance every month during the billing cycle, and is recorded as income. This charge is used to cover the cost of the replacement of meters upon utilisation. The cost of replacement is charged to the income statement.

Interest income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Deferred grants and amortisation

Grants from the government are recognised at cost where there is reasonable assurance that the grant will be received and the Authority will comply with all attached conditions. Government grants are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Deferred grants relating to the costs 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 income statement 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 Authority (Riel), is treated as a government grant.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Authority is exposed to interest rate risk, credit risk, foreign exchange risk and liquidity risk. The Authority 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 Authority 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 Authority's operations and its cash flows. Its exposure to interest rate risk relates primarily to borrowings, loan to PWS, and short-term investments.

The Authority's interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Authority to cash-flow interest rate risk. Borrowings obtained at fixed rates expose the Authority to fair value interest rate risk.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

a. *Interest rate risk (continued)*

The primary exposure of the Authority'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 to 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 Japan International Cooperation Agency ("JICA"), World Bank ("WB") and Asian Development Bank ("ADB") (fixed interest rates) (Note 17).

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 KHR 162,095,600 lower or higher (2010: KHR 57,263,842).

The Authority maintained fixed interest rates on short-term investments and the loan to PWS. This is consistent with loans from the MoEF and AfD (No. CKH 1075 03S), which are based on fixed rates.

b. *Foreign exchange risk*

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

If the Euro currency had weakened/strengthened by 5% against the Riel, the post-tax profit for the year would have been KHR 2.7 billion higher or lower (2010: KHR 2.5 billion) mainly as a result of foreign exchange gains/losses on the translation of Euro-denominated borrowings.

If the US$ currency had weakened/strengthened by 3% against the Riel, post-tax profit for the year would have been KHR 1.4 billion higher or lower (2010: KHR 0.4 billion) as a result of foreign exchange gains/losses on the translation of US$-denominated borrowings.

c. *Credit risk*

The Authority is exposed to credit risk primarily with respect to trade receivables, cash at banks, short-term investments and the loan to PWS.

To manage the risk on trade receivables, the Authority requires a deposit before the connection is made. No deposit is required for governmental departments as the Authority believes that it can collect from those departments through the MoEF (the source of finance of those departments), which is the Authority'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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

c. ***Credit risk*** (continued)

The Authority's maximum exposure to credit risk on trade receivables is limited to the carrying amount of receivables less an estimate made for doubtful receivables based on a review of all outstanding amounts at year-end. The collection period for households and businesses is within one month and for governmental departments it is one year.

To minimise credit risk on cash at banks and short-term investments, the Authority has diversified deposits to different banks by using a few large and well-known local banks operating in Cambodia.

PWS is a related party of the Authority, the amount is not significant and the credit risk of default is minimal.

d. ***Liquidity risk***

The Authority'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 Authority'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 Authority's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to 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
At 31 December 2011				
Borrowings	11,504,413	12,770,785	53,858,697	116,217,981
Interest on borrowings	10,338,800	9,797,690	25,699,921	36,755,928
Refundable water deposits	-	-	-	24,602,071
Accrued IPO cost	3,215,717	-	-	-
Trade and other payables	40,272,866	-	-	-
	65,331,796	22,568,475	79,558,618	177,575,980
At 31 December 2010				
Borrowings	8,758,884	10,064,884	34,650,603	84,539,890
Interest on borrowings	6,258,407	5,971,213	15,721,327	38,332,658
Refundable water deposits	-	-	-	21,854,738
Trade and other payables	17,293,595	-	-	-
	32,310,886	16,036,097	50,371,930	144,727,286

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Authority's objectives when managing capital are to safeguard the Authority'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 Authority maintains no specific policy on gearing ratios. The Authority's policy is to maintain sufficient cash and cash equivalents for its operations, and it uses credit facilities to pay for capital investments. The Authority monitors 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 balance sheet) less cash and cash equivalents and short-term investments. Total capital is calculated as equity as shown in the balance sheet plus net debts. Gearing ratios are as follows:

	2011 KHR'000	2010 KHR'000
Total borrowings	194,351,876	138,014,261
Less: cash and cash equivalents and short-term investments	(159,260,748)	(136,763,887)
Net debt	35,091,128	1,250,374
Total equity	552,428,481	515,567,573
Total capital	587,519,609	516,817,947
Gearing ratio	5.97%	0.24%

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 the effective interest rate at year-end.

4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Authority 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 General Department of Taxation.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Tax on Profit and deferred tax provisions in the period in which such determination is made.

(b) Property, plant and equipment

Accounting for property, plant and equipment involves the use of estimates for determining 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 Authority 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 for pensions include the discount rate, salary growth rates, mortality rates and withdrawal rates. Any changes in these assumptions will impact the carrying amount of pension obligation.

In the absence of a bond market and government bonds in Cambodia, the Authority 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.

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

(c) Retirement benefit obligation (continued)

Where the discount rate used differs by 10% 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)	
	2011 KHR'000	2010 KHR'000
Lower by 10% of the current rate	1,494,605	1,367,860
Higher by 10% of the current rate	(1,371,965)	(1,244,252)

5. 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
Year ended 31 December 2010												
Opening balance	73,542,745	102,210,988	27,971,700	240,591,896	274,634	1,894,682	14,595,384	2,962,124	1,131,320	480,474	71,962,687	537,618,634
Additions	100,439	-	83,678	4,677	-	132,772	37,083	450,355	342,912	36,366	22,898,824	24,087,106
Transfers	-	29,126,942	10,130,964	18,146,861	-	1,719,666	6,180,194	-	5,021,494	315,900	(70,642,021)	-
Disposals	-	-	(8,446)	-	-	(15,194)	-	(1,284)	-	-	-	(24,924)
Depreciation charges	-	(2,937,071)	(2,743,306)	(7,967,651)	(60,890)	(985,605)	(4,427,742)	(677,515)	(374,922)	(185,067)	-	(20,359,769)
Net book value	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
At 31 December 2010												
Cost	73,643,184	154,465,734	58,535,359	320,499,996	927,603	8,646,100	59,119,771	9,687,307	7,363,723	3,957,104	24,219,490	721,065,371
Accumulated depreciation	-	(26,064,875)	(23,100,769)	(69,724,213)	(713,859)	(5,899,779)	(42,734,852)	(6,953,627)	(1,242,919)	(3,309,431)	-	(179,744,324)
Net book value	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 balance	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)	-	(21,004,780)
Net book value	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	325,884,958	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)	(755,585)	(4,284,027)	(46,218,994)	(7,142,858)	(1,980,272)	(3,529,538)	-	(197,273,625)
Net book value	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

The property, plant and equipment acquired under government grants amounting to nil (2010: KHR 611,533,000) are excluded from the statement of cash flows.

6. INTANGIBLE ASSETS

	Software KHR'000
Year ended 31 December 2010	
Opening balance	748,613
Additions	424,680
Amortisation charges	(176,492)
Net book value	996,801
As at 31 December 2010	
Cost	1,541,322
Accumulated depreciation	(544,521)
Net book value	996,801
Year ended 31 December 2011	
Opening balance	996,801
Additions	271,815
Amortisation charges	(234,711)
Net book value	1,033,905
As at 31 December 2011	
Cost	1,813,136
Accumulated amortisation	(779,231)
Net book value	1,033,905

7. FINANCIAL INSTRUMENTS BY CATEGORY

	2011 KHR'000	2010 KHR'000
Financial assets		
Trade and other receivables	23,469,673	20,875,999
Loan to Pursat Water Supply	765,613	818,415
Short-term investments	151,799,927	129,697,135
Cash and cash equivalents	7,460,821	7,066,752
	183,496,034	158,458,301
Financial liabilities		
Accrual for IPO fee	3,215,717	-
Trade and other payables	40,272,866	17,293,595
Borrowings	194,351,876	138,014,261
Refundable water deposits	24,602,071	21,854,738
	262,442,530	177,162,594

8. LOAN TO PURSAT WATER SUPPLY

	2011 KHR'000	2010 KHR'000
Current portion	62,452	50,149
Non-current portion, due:		
• within one to two years	75,566	62,668
• two to five years	308,567	269,688
• after five years	319,028	435,910
	703,161	768,266
Total loan to PWS	765,613	818,415

The loan to PWS was made in US$ in accordance with the loan agreement signed between the Authority and PWS dated 4 June 2008, amounting to Riel 1,156 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 Authority in April 2009. The loan is unsecured and subject to interest at the rate of 5% per annum.

The loan is being repaid by PWS in 120 monthly instalments in accordance with the repayment schedule set out in Article G of the loan agreement.

The fair values of the non-current portion of the loan to PWS are as follows:

	2011 KHR'000	2010 KHR'000
Carrying value	703,161	768,266
Fair value	643,470	654,847

The fair values of the loan are based on cash flows discounted using a short-term investment rate of 6% (2010: 7.5%).

9. INCOME TAX (PAYABLE)/RECEIVABLE

	2011 KHR'000	2010 KHR'000
As at 1 January	1,643,818	(136,290)
Current income tax (Note 28)	(6,410,657)	(4,131,039)
Payments made during the year	4,329,174	5,911,147
	(437,665)	1,643,818

10. INVENTORIES

	2011 KHR'000	2010 KHR'000
Distribution pipes and fittings	21,412,470	12,722,206
Water meters	2,146,304	3,203,618
Spare parts and tools	2,460,949	1,878,818
Chemicals	175,736	1,038,892
Drums and other packages	100,216	249,165
Other materials	1,862,017	1,148,496
Less: allowance for inventory obsolescence	(69,121)	(64,385)
	28,088,571	20,176,810

11. TRADE AND OTHER RECEIVABLES

	2011 KHR'000	2010 KHR'000
Public administration receivables (a)	2,278,965	2,330,742
Domestic receivables	1,752,048	1,353,516
Commercial receivables	1,304,842	1,025,733
Water wholesalers	5,994	9,693
Other receivables	227,169	515,513
Less: Allowance for doubtful receivables	(12,240)	(10,746)
Trade receivables – net	5,556,778	5,224,451
Advances to suppliers for the construction of property, plant and equipment	16,405,105	23,274,784
Accrued income (b)	14,406,169	11,923,927
Interest receivable	3,509,536	3,730,445
VAT receivable	217,647	222,897
Other receivables	34,538,457	39,152,053
	40,095,235	44,376,504

Customers of the Authority are local households, businesses and governmental departments. The collection period for households and businesses is less than one month and for governmental departments it is one year. Management believes that these customers are fully performing, except for those customers for which related allowance is already 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.

11. TRADE AND OTHER RECEIVABLES (continued)

(a) Public administrative receivables were past due but not impaired. These related to receivables from governmental departments with whom there is no recent history of default.

(b) The accrued income represents water sales accrued for the last 47 days (2010: 42 days) of the fiscal year.

12. SHORT-TERM INVESTMENTS

This represents fixed deposits placed with financial institutions for 12 month period, earning interest between 3.75% and 6% (2010: 5% and 7.5%) per annum.

Included in the short-term investments are deposits amounting to KHR 10.5 billion (2010: KHR 6.4 billion) set up specifically for the purpose of paying the retirement benefits to retirees who are entitled to receive them under the pension scheme.

13. CASH AND CASH EQUIVALENTS

	2011 KHR'000	2010 KHR'000
Cash on hand	358,215	319,391
Cash at banks	7,102,606	6,747,361
	7,460,821	7,066,752

Cash at banks consists of current accounts, savings accounts and term deposits with original maturity within three months or less at local banks. Savings accounts and term deposits bear interest at rates between 0.75% and 1.25% per annum.

Included in cash and cash equivalents are cash and cash equivalents amounting to KHR 123 million (2010: KHR 188 million) set up specifically for the purpose of paying those retirees who are entitled to retirement benefits under the pension scheme.

14. DEFERRED IPO COST/ACCRUAL FOR IPO FEE

These represent the costs relating to fees payable to advisors that provided services to the Authority relating to the initial public offering ("IPO") process. Deferred IPO costs are transaction costs which are incremental costs that are directly attributable to the IPO of the Authority. These costs represent fees payable to the underwriter and other professional advisors. Deferred IPO costs will be recorded as a reduction from proceeds from the IPO in equity.

15. CAPITAL

	2011 KHR'000	2010 KHR'000
Opening balance as at 1 January	456,000,264	456,000,264
Transfers from government and other grants - (Note 20)	9,027,865	-
Closing balance as at 31 December	465,028,129	456,000,264

Article 6 of the Sub-decree on the establishment of the Authority states that: "The initial capital of Phnom Penh Water Supply Authority shall be determined by the initial balance sheet which will be approved by the Ministry of Economy and Finance, the Phnom Penh Municipality and the Authority". Article 7 of the Authority's Statute states that capital contributions can be in the form of cash, equipment, reserves or loss contribution from the State. Capital contributions must be decided by the Board of Directors and agreed by the Minister of the MoEF. Accordingly, the Authority obtains approvals from the MoEF to transfer grants, reserves and other funds to capital as it considers necessary for the benefit of the operations.

16. RESERVES

	Capital reserve KHR'000	Legal reserve KHR'000	General reserve KHR'000	Development reserve KHR'000	Total KHR'000
As at 1 January 2010	1,648,435	5,006,588	5,006,588	(6,264,280)	5,397,331
Additions	-	1,346,687	1,346,687	24,240,356	26,933,730
Profit remitted to Royal Government of Cambodia (a)	-	-	-	(2,693,373)	(2,693,373)
Paid for corporate social activities (b)	-	-	-	(576,731)	(576,731)
As at 31 December 2010	1,648,435	6,353,275	6,353,275	14,705,972	29,060,957
As at 1 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 activities (b)	-	-	-	(1,106,229)	(1,106,229)
As at 31 December 2011	1,648,435	7,878,592	7,878,592	38,004,826	55,410,445

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

- for management and staff bonuses;
- for legal reserve - 5%;

16. RESERVES (continued)

- for general reserve - 5%; and
- the remaining balance for development reserve.

(a) Effective from the year ended 31 December 2007 onward, the MoEF accepted the proposed 10% annual profit distribution from the Authority through its letter No. 2254, dated 2 May 2008.

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

17. BORROWINGS

	2011 KHR'000	2010 KHR'000
Borrowings from:		
MoEF – JICA	56,386,681	17,752,666
AfD – Credit No. 6000 01 G	46,375,498	54,611,560
MoEF – ADB	39,167,667	39,167,667
MoEF – WB – Credit No. 3746 KH	32,160,080	19,324,388
AfD –Credit No. 1075 03 S	20,261,950	7,157,980
	194,351,876	138,014,261

The gross movement of borrowings is as follows:

Description	MoEF WB 3041 KHR'000	MoEF WB 3746 KHR'000	MoEF ADB KHR'000	AfD 6000 KHR'000	AfD 1075 KHR'000	MoEF JICA KHR'000	Total KHR'000
At 1 January 2010	6,663,684	18,904,474	39,167,667	55,896,051	-	-	120,631,876
Additions	-	2,163,752	-	2,093,041	7,157,980	17,752,666	29,167,439
Repayments	(6,663,684)	(1,743,838)	-	(3,377,532)	-	-	(11,785,054)
At 31 December 2010	-	19,324,388	39,167,667	54,611,560	7,157,980	17,752,666	138,014,261
At 1 January 2011	-	19,324,388	39,167,667	54,611,560	7,157,980	17,752,666	138,014,261
Additions	-	15,575,955	-	-	13,103,970	38,634,015	67,313,940
Repayments	-	(2,740,263)	-	(8,236,062)	-	-	(10,976,325)
At 31 December 2011	-	32,160,080	39,167,667	46,375,498	20,261,950	56,386,681	194,351,876

17. BORROWINGS (continued)

The maturity dates of these borrowings are as follows:

	2011 KHR'000	2010 KHR'000
Current		
Due within one year	11,504,413	8,758,884
Non-current		
Due within one to two years	12,770,785	10,064,884
Due within two to five years	53,858,697	34,650,603
Due after five years	116,217,981	84,539,890
	182,847,463	129,255,377
	194,351,876	138,014,261

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

	2011 KHR'000	2010 KHR'000
Carrying value	182,847,463	129,255,377
Fair value	144,731,457	113,693,613

The fair values of the loans are based on cash flows discounted using a borrowing rate of 8.5% for 2011 (2010: 8.5%).

Borrowings dominated in other currencies are as follows:

	2011 KHR'000	2010 KHR'000
EURO	66,637,448	61,769,540
US$	56,386,681	17,752,666
	123,024,129	79,522,206

17. BORROWINGS (continued)

LOAN TERMS	LOAN FROM MoEF (WB – CREDIT NO. 3041 KH)	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	20 March 1998	29 October 2003 and Amendment on 8 July 2010	5 May 1997	30 November 2006 Amendment on 25 March 2009 and amendment on 2 July 2010	8 May 2009	18 May 2010
Project	Main Urban Water Supply 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 the Authority's Distribution Network Project	Construction of the first tranche of a new water production facility in Niroth and extension of transmission and distribution network corresponding to the additional water production (Sub-package A).	Design and construction of the water treatment plant and transmission in Niroth (Sub-package B).

17. BORROWINGS (continued)

LOAN TERMS	LOAN FROM MoEF (WB – CREDIT NO. 3041 KH)	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	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 into a fixed rate at the end of the disbursement period, which is 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 into a fixed rate at the end of the disbursement period,	7.35% per annum
Security	None	None	None	Comfort letters from MoEF and MIME	Comfort letters from MoEF and MIME	None

17. BORROWINGS (continued)

LOAN TERMS	LOAN FROM MoEF (WB – CREDIT NO. 3041 KH)	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)
Repayment schedule	Thirty four (34) equal instalments on 15 March and 15 September of each fiscal year, commencing on 15 March 2003 and ending on 15 September 2019. However, on 17 March 2003, the MoEF accepted early repayments of loan principal. The loan balance was fully repaid during 2010.	24 equal instalments payable on 15 January and 15 July of each calendar year, commencing on 15 January 2009.	Semi-annual instalments as of 15 July and 15 January of each year, approximately Riel 1,271,424,939 (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.

17. BORROWINGS (continued)

LOAN TERMS	LOAN FROM MoEF (WB – CREDIT NO. 3041 KH)	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	Special Drawing Rights ("SDR") 18,950,000	Agreement date 29 October 2003: Loan: SDR 3,440,000 and Grant: SDR 200,000 Following the amendment on 8 July 2010, the facility was restructured as follows: Loan: SDR 8,030,893 and Grant: SDR 500,000	SDR 9,605,000	Maximum amount of Euro 11,100,000	Maximum amount of Euro 16,000,000	Maximum amount of Yen 3,513,000,000

17. BORROWINGS (continued)

LOAN TERMS	LOAN FROM MoEF (WB – CREDIT NO. 3041 KH)	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)
Other information	The foreign exchange risk resulting from any fluctuations between the value of the currency of the loan (US$) and the currency of its repayment by the Authority (Riel) shall be borne in full by the MoEF.	The foreign exchange risk resulting from any fluctuations between the value of the currency of the loan (US$) and the currency of its repayment by the Authority (Riel) shall be borne in full by the MoEF.	The foreign exchange risk resulting from any fluctuations between the value of the currency of the loan (SDR) and the currency of its repayment by the Authority (Riel) shall be borne in full by the MoEF. The exchange rate (Riel/SDR) is fixed at the contract date.	Transactions are carried out in Euros (both withdrawals and repayments).	Transactions are carried out in Euros (both withdrawals and repayments).	Transactions are carried out in US$ (both withdrawals and repayments).

18. DEFERRED INCOME TAX LIABILITIES

	2011 KHR'000	2010 KHR'000
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than 12 months	(4,262,778)	(3,135,979)
Deferred income tax assets to be recovered within 12 months	(536,366)	(618,718)
	(4,799,144)	(3,754,697)
Deferred income tax liabilities		
Deferred income tax liabilities to be recovered after more than 12 months	21,734,854	19,034,177
Deferred income tax liabilities to be recovered within 12 months	-	-
	21,734,854	19,034,177
Deferred income tax liabilities (net)	16,935,710	15,279,480

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

	2011 KHR'000	2010 KHR'000
Beginning of the year	15,279,480	11,739,293
Charged to income statement (Note 28)	1,656,230	3,540,187
End of the year	16,935,710	15,279,480

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 1 January 2010	3,272,605	13,277	2,149	390,833	520,944	4,199,808
Credited/(charged) to the income statement	796,959	(400)	-	(22,752)	(1,218,918)	(445,111)
As at 31 December 2010	4,069,564	12,877	2,149	368,081	(697,974)	3,754,697
Credited to the income statement	850,642	947	299	30,674	161,885	1,044,447
As at 31 December 2011	4,920,206	13,824	2,448	398,755	(536,089)	4,799,144

18. DEFERRED INCOME TAX LIABILITIES (continued)

Deferred income tax liabilities:

	Accelerated tax depreciation KHR'000
As at 1 January 2010	15,939,101
Charged to the income statement	3,095,076
As at 31 December 2010	19,034,177
Charged to the income statement	2,700,677
As at 31 December 2011	21,734,854

19. RETIREMENT BENEFIT OBLIGATION

The amounts recognised in the balance sheet are determined as follows:

	2011 KHR'000	2010 KHR'000
Present value of defined benefit obligation	24,601,028	20,347,816
Fair value of plan assets	-	-
Unfunded status	24,601,028	20,347,816
Net liability recognised in balance sheet	24,601,028	20,347,816

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

	2011 KHR'000	2010 KHR'000
As at 1 January	20,347,816	16,363,022
Current service cost	976,960	708,485
Interest cost	993,728	924,432
Benefits paid	(486,680)	(411,999)
Actuarial loss	2,769,204	2,763,876
As at 31 December	24,601,028	20,347,816

19. RETIREMENT BENEFIT OBLIGATION (continued)

The amounts recognised in the income statement are as follows:

	2011 KHR'000	2010 KHR'000
Current service cost	976,960	708,485
Interest cost	993,728	924,432
Actuarial loss	2,769,204	2,763,876
Total, included in salaries, wages and related expenses (Note 23)	4,739,892	4,396,793

The principal actuarial assumptions are as follows:

	2011	2010
Average expected future working years	20	20
Discount rates	4.38%	4.86%
Salary growth rates	According to the policy of the Authority (a)	
Mortality rates	(b)	

(a) Salary growth rates

Staff are categorised into 11 classes, with each class having 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 Riel 5,075 (2010: Riel 4,614). Below is the average index change in each of the respective 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

19. RETIREMENT BENEFIT OBLIGATION (continued)

(b) Mortality rates

In the absence of published mortality rates in Cambodia, the Authority 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 for the mortality table used by the Authority:

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

20. DEFERRED GOVERNMENT AND OTHER GRANTS

	AfD grant KHR'000	Government grant KHR'000	Other grants KHR'000	Total KHR'000
Year ended 31 December 2010				
Balance as at 1 January 2010	8,808,977	6,508,390	1,569,057	16,886,424
Additions during the year	-	-	611,533	611,533
Amortisation	(292,767)	(434,846)	5,240	(722,373)
Balance as at 31 December 2010	8,516,210	6,073,544	2,185,830	16,775,584
Year ended 31 December 2011				
Balance as at 1 January 2011	8,516,210	6,073,544	2,185,830	16,775,584
Amortisation	(43,698)	17,441	(185,795)	(212,052)
Transferred to capital (a)	(8,058,911)	-	(968,954)	(9,027,865)
Balance as at 31 December 2011	413,601	6,090,985	1,031,081	7,535,667

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

(a) In accordance with letter No. 3066 SHV TR issued by the MoEF, which is also the Authority's shareholder, dated 26 May 2011, approval was granted for the transfer of deferred government and other grants amounting to Riel 9 billion to the capital of the Authority (Note 15).

20. DEFERRED GOVERNMENT AND OTHER GRANTS (continued)

AfD grant

Pursuant to the Convention signed by the MoEF and the AfD dated 24 June 2003, the MoEF and the Authority entered into a grant agreement on 24 June 2003. The MoEF has made available to the Authority a subvention up to a limit of Euro 4,000,000 (approximately Riel 23,314 million) to finance the extension of the drinking water supply network on the periphery of Phnom Penh, and related components.

Government grant

The government grant represents the gain arising from a favourable difference in rates used from a fixed conversion (Riel/SDR) under the Subsidy Loan Agreement between the MoEF and the Authority on 5 May 1997 at the sum of SDR 9,695,000 from the ADB. The Authority has decided to keep the gain on the Authority's books as a grant (no refund requirement on the gain) and the gain is to be amortised based on the same policy as other deferred grants.

Other grants

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

21. TRADE AND OTHER PAYABLES

	2011 KHR'000	2010 KHR'000
Trade payables	25,022,568	7,267,774
Accrued staff incentive	2,378,551	2,100,267
Performance guarantee	7,250,059	2,736,534
Accrued interest payable	3,515,532	2,396,354
Amount due to Phnom Penh Municipality	1,843,026	1,489,783
Deferred income (a)	645,045	433,671
Materials for house connections	-	276,744
Other taxes payable	209,465	399,559
Other payables	278,148	1,157,144
	41,142,394	18,257,830

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

22. SALES

	2011 KHR'000	2010 KHR'000
Water sales – domestics	52,493,303	49,531,868
Water sales – commercials	43,664,567	39,870,567
Water sales – public administration institutions	5,509,233	6,333,564
Water sales – wholesalers	210,503	312,143
Water sales – autonomous state authorities	311,992	287,528
Upper charge on water sale revenues	26,405	25,586
Less: Invoice cancellations	(175,223)	(337,079)
	102,040,780	96,024,177
Household water connection revenues	6,089,550	4,465,553
Water meter replacement charges	1,933,423	1,804,612
Spare parts and meter sales	596,304	411,855
Penalty revenues	355,231	294,407
Other revenues	3,852,991	2,542,936
	114,868,279	105,543,540

23. SALARIES, WAGES AND RELATED EXPENSES

	2011 KHR'000	2010 KHR'000
Employee salaries	6,773,934	5,973,533
Retirement benefit costs (Note 19)	4,739,892	4,396,793
Incentives	3,494,109	3,256,067
Bonuses	1,993,775	1,840,405
Wages for contractors	242,374	187,327
Other employee-related expenses	1,727,253	1,477,282
	18,971,337	17,131,407

24. RAW MATERIALS FOR WATER TREATMENT

	2011 KHR'000	2010 KHR'000
Alum	3,087,772	2,665,377
Chlorine	894,845	1,104,449
Lime	376,861	247,617
Other materials	102,772	94,491
	4,462,250	4,111,934

25. RAW MATERIALS FOR HOUSEHOLD WATER CONNECTIONS

	2011 KHR'000	2010 KHR'000
Spare parts for house connections	3,593,562	2,305,554
Consumer water meter replacement	783,595	579,502
Pipe costs	156,829	116,047
Other costs	592,877	684,935
	5,126,863	3,686,038

26. FOREIGN EXCHANGE GAIN - NET

	2011 KHR'000	2010 KHR'000
Foreign exchange gain	14,329,093	7,128,475
Foreign exchange loss	(11,988,281)	(4,440,692)
Foreign exchange gain - net	2,340,812	2,687,783

27. FINANCE INCOME/(COST) - NET

	2011 KHR'000	2010 KHR'000
Finance income:		
- Interest income on bank deposits (a)	6,422,204	6,506,982
- Interest income on loan to PWS	39,816	43,418
	6,462,020	6,550,400
Finance costs:		
- Interest expenses on borrowings (b)	(8,598,628)	(5,191,191)
- Interest expenses capitalised on qualifying assets	2,998,170	588,909
	(5,600,458)	(4,602,282)
Finance income - net	861,562	1,948,118

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

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

28. INCOME TAX EXPENSE

Under the Law on Taxation, the Authority has an obligation to pay Tax on Profit at 20% of taxable profit or minimum tax at 1% of total turnover, whichever is higher.

(a) Income tax expense

	2011 KHR'000	2010 KHR'000
Current income tax	6,410,657	4,131,039
Deferred income tax (Note 18)	1,656,230	3,540,187
	8,066,887	7,671,226

(b) Reconciliation between income tax and accounting profit

	2011 KHR'000	2010 KHR'000
Accounting profit before income tax	40,056,794	38,177,578
Tax expense at 20%	8,011,359	7,635,516
Tax amount of non-deductible expenses	55,528	35,710
Income tax expense	8,066,887	7,671,226

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 inspection by the General Department of Taxation.

29. CASH GENERATED FROM OPERATIONS

	Note	2011 KHR'000	2010 KHR'000
Profit before taxation		40,056,794	38,177,578
Adjustments for:			
Depreciation charges	5	21,004,780	20,359,769
Amortisation charges of intangible assets	6	234,711	176,492
Amortisation of deferred government and other grants	20	(212,052)	(722,373)
(Gain)/loss on disposal of property, plant and equipment		(228,317)	24,924
Interest expenses	27	5,600,458	4,602,282
Interest income	27	(6,462,020)	(6,550,400)
Retirement benefit obligation expenses	19	4,739,892	4,396,793
Changes in working capital:			
Inventories		(7,911,761)	(1,449,582)
Trade and other receivables		4,060,360	(24,724,361)
Trade and other payables		21,765,386	3,716,523
Deferred IPO cost		(3,620,793)	-
Accrual for IPO fee		3,215,717	-
Refundable water deposits		2,747,333	2,094,557
Cash generated from operations		84,990,488	40,102,202

30. CAPITAL COMMITMENTS

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

	2011 KHR'000	2010 KHR'000
MoEF (WB credit No. 3746 KH)		
HDPE pipes	-	15,848,543
	-	15,848,543
MoEF (JICA)		
Water treatment plant (Niroth)	90,891,415	130,035,520
	90,891,415	130,035,520
AfD – credit		
Water treatment plant	37,492,356	30,458,230
Consultant services	3,062,284	5,198,926
	40,554,640	35,657,156
	131,446,055	181,541,219

31. RELATED PARTY TRANSACTIONS

The Authority is under the technical supervision of the MIME and the financial supervision of the MoEF. Transactions with these entities are considered to be related party transactions.

i) Related party balances as at year-end

Significant balances with the MoEF with respect to borrowings are disclosed in Note 17.

PWS is a related party of the Authority as it is also under the technical supervision of the MIME. Significant related party balances with PWS are disclosed in Note 8.

ii) Related party transactions for the year

(a) Interest expenses pertaining to the subsidiary loans obtained from MoEF, which are funded through loans obtained from the WB, ADB and JICA, for the year ended 31 December 2011 total KHR 7,700,316,523 (2010: KHR 4,714,597,649).

31. RELATED PARTY TRANSACTIONS (continued)

(a) Compensation to the Board of Directors and key management personnel is follows:

	2011 KHR'000	2010 KHR'000
Salary, fees and related expenses	869,993	786,776
Retirement benefits	130,194	16,213
	1,000,187	802,989

32. EVENTS AFTER THE BALANCE SHEET DATE

- The Authority is currently in the process of its initial public offering ("IPO") and plans to raise the necessary funds from the primary market by April 2012. On 15 December 2011, the Authority received approval for its application for listing eligibility from the Cambodia Securities Exchange. The Authority needs to fulfil certain requirements before it can finally be listed on the Cambodia Securities Exchange. The draft disclosure document to be submitted to the Securities and Exchange Commission of Cambodia ("SECC") was approved by the BoD on 15 February 2012. In accordance with the letter No. 012/12 SECC dated 23 March 2012, the SECC granted approval to the Authority for the public issuance of equity securities comprising 13,045,975 shares out of the total ordinary shares of 73,927,187 with a share price amounting to KHR 6,300 per share. Furthermore, the disclosure documents were also approved by and registered with the SECC.

- On 15 February 2012, the Board of Directors:

  a. approved the split of the existing capital of KHR 465,028,129,000 into 73,927,187 ordinary shares and 391,100,942 Class A shares with a par value of KHR 1,000 per share.

  b. approved the rights and conditions of each class of shares to be included in the Articles of Incorporation.

  c. approved the reserving of 10% of the IPO shares for the Authority's employees subject to the following conditions:

     i. Only employees who have served the Authority for more than 12 months have the right to purchase the shares, the selling prices of which are being considered;
     ii. The lock-up period is three years;
     iii. Employees at operational level can buy shares up to a value equivalent to 18 months' gross salary. Senior officers, from department heads up to directors, can buy shares up to a value equivalent to 30 months' gross salary.
     iv. The Authority will provide advances for employees and senior officers for purchasing these shares for three years without interest. On the due date, the advances must be repaid in full to the Authority.

32. EVENTS AFTER THE BALANCE SHEET DATE (continued)

d. resolved that 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 the 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 11% and 20% of operating expenses.
      - Three months' salary for all employees if the net profit is more than 21% of operating expenses.

   ii. 2% for retirement benefits and professional disability.
   iii. 5% for legal reserve.
   iv. 5% for general reserve.
   v. 5% for social fund which shall be recorded as expenses in the year of the transaction.
3. The remaining amount after the above allocation shall be allocated to:
   i. Reserve for future investments (retained earnings) which is subject to the BoD's approval.
   ii. The remaining balance after investment reserve is allocated at the ratio of 85% for the MoEF and 15% for the public investors.

- On 28 February 2012, a Firm Commitment Underwriting Agreement ("Underwriting Agreement") between the Authority and TONGYANG Securities (Cambodia) Plc. was signed. The underwriting fee is the greater of US$1,125,000 or the amount calculated from the parameters set forth in the table below:

Public Offering Size	Underwriting Commission Rate
Over US$ 40 million	6% of offering amount, under US$ 20 million +5% of offering amount, US$ 20 million - US$ 29.9 million +4% of offering amount, US$ 30 million - US$ 39.9 million +3% of offering amount, over US$ 40 million
US$ 30 million - US$ 39.9 million	6% of offering amount, under US$ 20 million +5% of offering amount, US$ 20 million - US$ 29.9 million +4% of offering amount, US$ 30 million - US$ 39.9 million
US$ 20 million - US$ 29.9 million	6% of offering amount, under US$ 20 million +5% of offering amount, US$ 20 million - US$ 29.9 million
Under US$ 20 million	Maximum (6% of offering amount; US$ 1.125 million)

An amendment to the Firm Commitment Underwriting Agreement was made on 22 March 2012 to reflect the public offering price of KHR 6,300 per share for the purchasable common shares of 13,045,975 agreed by the underwriter at the total purchase price of KHR 82,189,642,500.

32. EVENTS AFTER THE BALANCE SHEET DATE (continued)

- On 20 March 2012, the MEF issued the letter No. 1674 SHV to approve the request from the Authority with regards to the following matters:

  i. The split of capital into 73,927,187 ordinary shares and 391,100,942 Class A shares.

  ii. The use of proceed from the issuance of new shares to repay subsidiary loans from the MEF which are funded through the WB (No. 3746-KH) at the interest rate of 8.5% and loan from JICA (No. CP-P9) at the interest rate of 7.5%.

  iii. The dividend policy applied after IPO, which was approved by on 15 February 2012 and was disclosed under note 32 item d.

- On 22 March 2012, the Board of Directors:

  i. approved on the allocation of 2011 net profit of KHR 31,989,907,448 to :
     - legal reserve of 5% of KHR 1,599,495,372.
     - general reserve of 5% of KHR 1,599,495,372.
     - profit contribution of 10% to Royal Government of Cambodia of KHR 3,198,990,744.
     - Development reserve of KHR 25,591,925,960.

  ii. approved the creation of a new branch, Clean Water Service and Sanitation, under the Authority in order to provide the construction services on the main water grid internally and construction services in the field of clean water to external parties within and outside Cambodia.