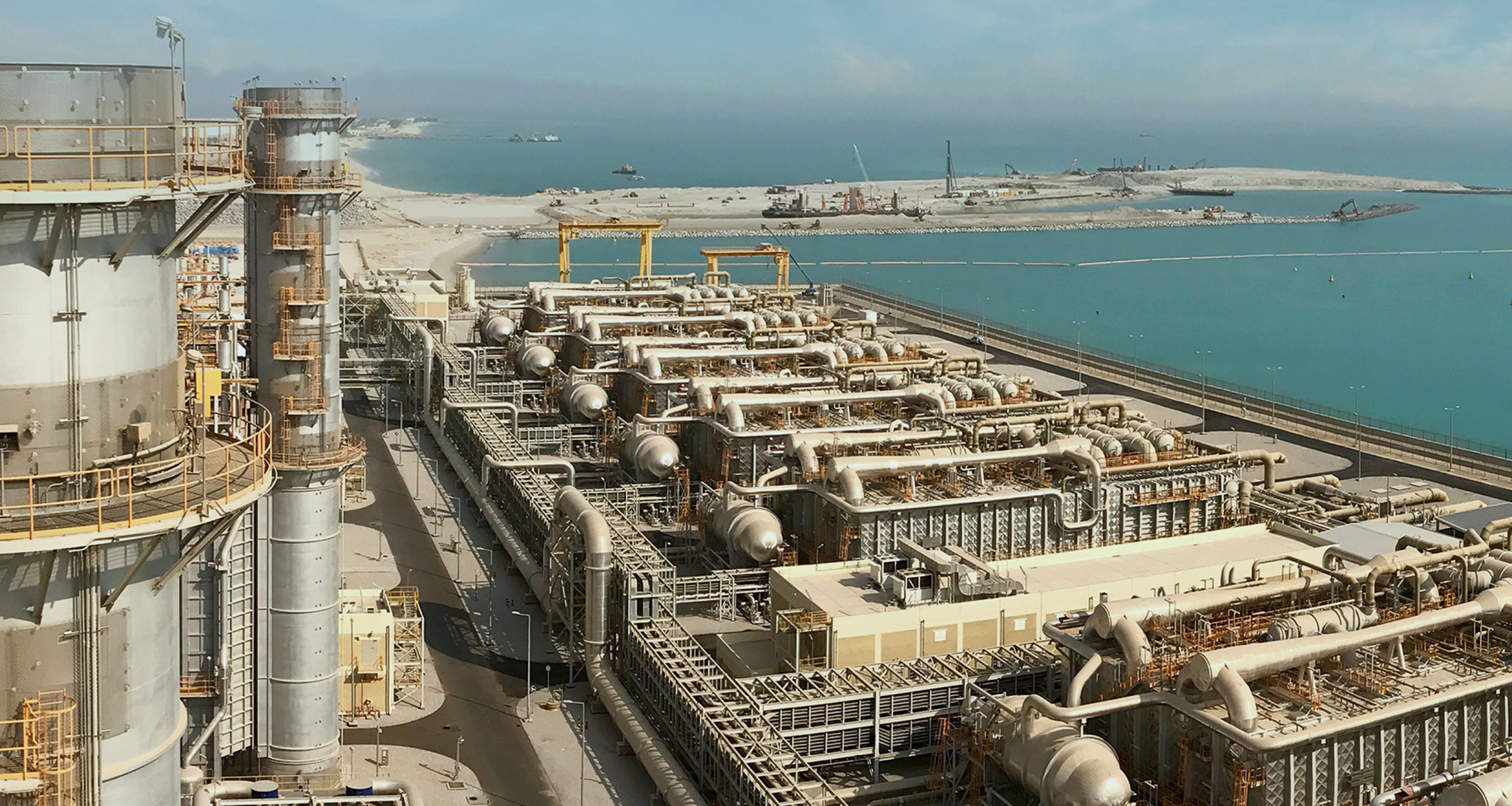
AL-OULA
SHAMAL AZZOUR
شمال الزور
الأولى

Shamal Az-Zour Al-Oula Power and Water Company KSC (Public)

(formerly known as “Shamal Az Zour Al Oula For The Building, Execution, Operation, Management, and Maintenance of The First Phase of Az-Zour Power Plant KSC (Public)”)

Financial Statements and Independent Auditor’s Report

For the year ended 31 December 2018



Contents

Shamal Az-Zour Al-Oula K.S.C.
Directors' Report for the year ended 31 December 2018

Dear Shareholders

On behalf of the Board of Directors of the Company, it gives me great pleasure to present the Board of Directors' Report for the year ended 31 December 2018.

1. Operational performance

Shamal Az-Zour Al-Oula K.S.C. is the owner of the power and water facility known as Az-Zour North Phase 1.

The primary service of the Company under the Energy Conversion and Water Purchase Agreement is to make available exclusively to the off-taker the Ministry of Electricity and Water (MEW) the capacity of the power and water plant and in return the Company will receive capacity payments based upon the demonstrated net dependable capacity. The secondary service of the Company is to sell to MEW (based upon its dispatch instructions) the electrical energy generated and water produced for a period of 40 years.

The Company is 60% owned by Kuwait public entities: 5% by the Kuwait Investment Authority, 5% by the Public Institution for Social Security and 50% by the Kuwait Authority for Partnership Projects. The remaining 40% is divided between the project sponsors; ENGIE (17.5%), Sumitomo Corporation (17.5%) and A.H. Al Sagar & Bros. (5%).

The operation and maintenance of the plant is carried out by an exclusive sub-contractor, AZN O&M Company (O&M Company) who took over the responsibility for plant operation and maintenance on the Plant Commercial Operation Date of 26 November 2016.

During 2018 the plant completed its second contract year of commercial operation from 26 November 2017 to 26 November 2018.

The plant has met its technical performance expectations in terms of available capacity and electricity generated and water produced.

The plant technical issues that have been found during early operation are being resolved via the Engineering, Procurement and Construction contract warranty process. The warranty expired in November 2018 but it is being extended for a small number of key plant items.

2. Financial performance

The Company generated a net profit, before transfers to reserves, of KD 12 million.

No dividends are proposed.

3. Corporate governance

The Company has a Board of Directors with five members. The Board of Directors held six meetings during 2018.None of the Directors received any remuneration from the Company during the year.

The day to management of the Company has been delegated to the Chief Executive Officer and the Chief Financial Officer.

4. Directors

The directors of the Company during the year were as follows:
Eng Yousef Mohammad Ali Alhajri – Chairman,

Sheikh Abdullah Jaber Al-Ahmad Al Sabah,

Dr David Barlow,

Mr Eric Maka (replaced by Mr Quentin des Cressonnieres in September) and

Mr Paul Frain – Chief Executive Officer.

5. Appointment of auditor

The financial statements have been audited by KPMG Safi Al-Mutawa & Partners. who retire and, being eligible, offer themselves for re-appointment.

6. Future plans

During 2019, the shares currently owned by the Kuwait Authority for Partnership Projects will be sold to Kuwaiti citizens.
The Company and the O&M Company will continue to operate the plant for the benefit of Kuwait in a responsible manner, with a focus on the health and safety of our employees and on minimizing our impact on the environment.

Signed by:

Yousef Mohammad Ali Alhajri
Chairman, Shamal Az-Zour Al-Oula KSC
Date: 18 February 2019

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Independent auditor's report

The Shareholders
Shamal Az-Zour Al-Oula Power and Water Company KSC (Public)
State of Kuwait

Opinion

We have audited the financial statements of Shamal Az-Zour Al-Oula Plant and Water Company KSC (Public) ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Company for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on 13 February 2018.

KPMG

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the Board of Directors report included in the Company's annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

KPMG

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Memorandum and Articles of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of accounts of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016,as amended and its Executive Regulations, or of the Company's Memorandum and Articles of Association, during the year ended 31 December 2018, that might have had a material effect on the business of the Company or on its financial position.

Safi A. Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 21 March 2019

Shamal Az-Zour Al-Oula Power and Water Company KSC (Public)

Statement of financial position
as at 31 December 2018

	Note	2018 KD	2017 KD
Assets			
Current assets			
Cash and bank balances	4	45,853,198	30,400,748
Trade and other receivables	5	10,830,698	17,992,097
Due from related parties	9	35,218	219,414
Finance lease receivable	6	11,027,221	10,171,603
		67,746,335	58,783,862
Non- current assets			
Finance lease receivable	6	480,042,573	489,391,262
Property, plant and equipment	7	424,641	99,620
		480,467,214	489,490,882
Total assets		548,213,549	548,274,744
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables	8	5,514,140	7,727,325
Due to related parties	9	4,898,277	4,395,007
Term loans	10	1,4621,995	11,897,457
Derivative financial liabilities	19	6,564,374	10,301,753
		31,598,786	34,321,542
Non-current liabilities			
Provision for staff indemnities		38,762	32,160
Term loans	10	374,771,336	388,062,342
Derivative financial liabilities	19	55,301,618	69,568,572
		430,111,716	457,663,074
Total liabilities		461,710,502	491,984,616
Equity			
Share capital	11	110,000,000	110,000,000
Statutory reserve	12	3,421,438	2,215,095
Voluntary reserve	13	-	2,215,095
Retained earnings		30,710,698	17,638,518
Foreign currency translation reserve		3,228,895	2,927,052
Hedge reserve		(60,857,984)	(78,705,632)
Total equity		86,503,047	56,290,128
Total liabilities and equity		548,213,549	548,274,744

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

Eng. Yousef Mohammad Ali Alhajri
Chairman

Andrew Paul Frain
Chief Executive Officer

Shamal Az-Zour Al-Oula Power and Water Company KSC (Public)

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2018

	Note	2018 KD	2017 KD
Revenue from contracts with customer	*14*	51,180,829	46,199,813
Operating costs	*9 &15*	(14,242,235)	(14,078,618)
Gross profit		36,938,594	32,121,195
Other income		762,167	646,290
Finance costs		(23,259,020)	(12,051,890)
Staff costs and related expenses		(761,127)	(778,647)
General and administrative expenses		(1,465,166)	(1,594,099)
Provision for doubtful debts	18a	80,058	(160,000)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") and Zakat		12,295,506	18,182,849
KFAS	*16*	(110,660)	(163,646)
Zakat	*17*	(121,418)	(183,412)
Profit for the year		12,063,428	17,835,791
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency gain/(loss)		301,843	(187,291)
Change in fair value of cash flow hedge	19	17,847,648	(382,129)
Total comprehensive income/(loss)		18,149,491	(569,420)
Total comprehensive income for the year		30,212,919	17,266,371

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

Statement of changes in equity
for the year ended 31 December 2018

	Share capital	Statutory reserve	Voluntary reserve	Retained earnings	Foreign currency translation reserve	Hedge reserve	Total
	KD	KD	KD	KD	KD	KD	KD
Balance as at 1 January 2017	110,000,000	431,516	431,516	3,369,885	3,114,343	(78,323,503)	39,023,757
Total comprehensive income attributable to shareholders	-	-	-	17,835,791	(187,291)	(382,129)	17,266,371
Transfer to reserves	-	1,783,579	1,783,579	(3,567,158)	-	-	-
Balance as at 31 December 2017	110,000,000	2,215,095	2,215,095	17,638,518	2,927,052	(78,705,632)	56,290,128
Total comprehensive income attributable to shareholders	-	-	-	12,063,428	301,843	17,847,648	30,212,919
Transfer from voluntary reserve	-	-	(2,215,095)	2,215,095	-	-	-
Transfer to reserve	-	1,206,343	-	(1,206,343)	-	-	-
Balance as at 31 December 2018	110,000,000	3,421,438	-	30,710,698	3,228,895	(60,857,984)	86,503,047

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

Shamal Az-Zour Al-Oula Power and Water Company KSC (Public)

Statement of cash flows
for the year ended 31 December 2018

	Note	2018	2017
		KD	KD
Cash flows from operating activities			
Profit before contribution to KFAS and Zakat		12,295,506	18,182,849
Adjustments for:			
Depreciation	7	61,859	24,913
Finance costs		23,259,020	12,051,890
Provision for doubtful debts	18a	(80,058)	160,000
Trade and other receivables		6,881,371	(9,876,369)
Due from related parties		184,196	-
Finance lease receivables	6	8,493,071	12,136,399
Trade and other payables		(2,460,185)	(15,423,976)
Due to related parties		503,270	222,473
Provision for staff indemnities		19,756	27,497
Payment of staff indemnities		(13,154)	(29,309)
Net cash resulted from operating activities		49,144,652	17,476,367
Cash flows from investing activities			
Acquisition of property, plant and equipment	7	(385,430)	(124,372)
Proceeds from disposal of property, plant and equipment		72	-
Decrease in term deposits		-	3,586,549
Net cash (used in) / generated from investing activities		(385,358)	3,462,177
Cash flows from financing activities			
Term loans	10	(10,566,468)	3,204,903
Payment of finance costs		(23,244,098)	(13,104,278)
Net cash used in financing activities		(33,810,566)	(9,899,375)
Increase/(decrease) foreign currency translation reserve		503,722	(187,291)
Net increase in cash and cash equivalents		15,452,450	10,851,878
Cash and cash equivalents			
at beginning of the year		30,400,748	19,548,870
at end of the year	4	45,853,198	30,400,748

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

1. Reporting Entity

Shamal Az-Zour Al-Oula For The Building, Execution, Operation, Management and Maintenance of The First Phase of Az-Zour Power Plant K.S.C.P ("the Company") is a Kuwaiti shareholding company incorporated on 19 August 2013, under trade license No. 349479 registered at the Ministry of Commerce and Industry on 23 October 2013.

The registered office of the Company is at 6th Floor, Mazaya Tower 2, Khaleed lbn Al Waleed Street, Block 3, Kuwait City, Kuwait.

The shareholders of the Company held an extraordinary general meeting on 13 February 2019 and approved changing the name of ("the Company") from Shamal Az-Zour Al-Oula For The Building, Execution, Operation, Management and Maintenance of The First Phase of Az-Zour Power Plant KSC (Public) to Shamal Az-Zour Al-Oula Power and Water Company KSC (Public). The legal formalities to effect the change of name of the Company were completed on 10 March 2019.

The Company is deemed to be a subsidiary of AZour North One Holding K.S.C.C ("the Parent Company") as the parent Company has the ability to direct the relevant activities of the Company, is exposed to variable returns from its involvement with the Company and has the ability to use its power over the Company to affect the amount of its returns.

In December 2013, the Company signed a Build, Operate and Transfer (BOT") arrangement ("the Arrangement") with Kuwait's Ministry of Electricity and Water (MEW) for the development, financing, procurement, construction, testing and commissioning of a green field power generation and water desalination plant of 1,500 MWPH of power generation capacity, and 102 to 107 Million Imperial Gallons Per Day ("MIGD") of water desalination capacity ("the Plant"), together with associated infrastructure and facilities for 40 years at Az-Zour North, Kuwait. MEW ("the Buyer") will purchase the entire output of the Plant under a 40- year long-term Energy Conversion and Water Purchase Agreement (ECWPA). The Plant was commissioned on 26 November 2016.

The objectives of the Company are the following:

1. To develop, finance, design, engineer and provide services and build, implement, operate and manage an electricity and power generation plant and a water plant including water desalination plant and related facilities including performing all work directly or indirectly related to or associated with its activities.

2. To carry on all works relating to the building works necessary for the Company to carry on its activity, including construction, purchase and lease of buildings, land, equipment and warehouses necessary for the realization of the objectives of the Company and all the facilities relating thereto.

3. To carry on all works of generation, production, transmission, making, development and sale of electricity and water, or any product relating to any such works in and outside the State of Kuwait.

4. To carry on chemical cleaning, hot oil cleaning works and disinfection for all heat exchangers, and to carry on electrical and civil works necessary for electricity and water sector works (power plants, pipeline and electricity projects for desalination units and petrochemicals), to carry on all maintenance works including those relating to power generation, water, pipeline installations and installation of relay stations and installation of all insulation items.

5. To import and install equipment at electricity and water locations for monitoring and measurement of air pollutants and to use skilled labor specialized in fighting pollution of the environment surrounding water and electricity plants.

6. To purchase materials and equipment and all movable properties and instruments necessary for the Company to realize its objectives, and to maintain the same by all modern means possible, and to import primary materials, equipment and instruments necessary for the Company's objectives.

7. To supply and install security and safety equipment relating to the objectives of the Company.

8. To import all necessary equipment to implement its objects, including but not limited to, install, supply and maintain all types of power cables, electrical cables, water pumps, instruments and equipment relating to the activities of the Company.
9. To register patents relating directly to the Company's experience.
10. To carry out technical research relating to the Company's business with the aim to improve and develop the Company's services in cooperation with specialized parties in and outside the State of Kuwait.
11. To directly participate in infrastructure zones and projects relevant to the objectives of the Company in Build, Operate and Transfer systems (BOT) or in other similar systems including those referred to in Law No. 39 of 2010 (and its amendments), and to manage the facilities established thereby.
12. To invest the Company's funds within the objects and percentages set out by the board of directors.

The Company may carry on the activities listed above in and outside the State of Kuwait, whether as a principal or agent.

The Company is permitted to participate in study, finance or implement any project or projects that have been tendered pursuant to Law No. 39 of 2010 (and its amendments) on Establishing Kuwaiti Joint Stock Companies Undertaking Building and Implementation of Electrical Power and Desalination Plants in Kuwait.

In accordance with the ECWPA signed between the Company and MEW on 12 December 2013, the Company is obliged to produce electricity and desalinated water using the Plant and MEW has the ability to restrict the access of others to the economic benefits of the Plant. Furthermore, the ECPWA provides for capacity payments in addition to output payments. Accordingly, the arrangement conveys a right to use the Plant and is classified as a finance lease in accordance with International Financial Reporting Interpretations Committee (IFRIC) Interpretation 4, with the Company as the lessor.

These financial statements were approved for issue by the Board of Directors on 18 Februray 2019 and are subject to approval of shareholders at the annual general meeting.

2. Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), the requirements of the Companies Law No. 1 of 2016, as amended and its Executive Regulations, the company's memorandum and articles of association and Ministerial Order No.18 of 1990.

The shareholders' annual general meeting held on 25 April 2018 approved the audited financial statements of the Company for the year ended 31 December 2017.

This is the first set of the Company's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 2 (e).

b) Basis of measurement

The financial statements have been prepared on the historical cost or amortised cost basis, except for derivative financial instruments which are measured at fair value.

c) Functional and presentation Currency

These financial statements are presented in Kuwait Dinar ("KD"). The Company's functional currency is not the currency of the country in which it is domiciled as majority of the transactions of the Company are denominated in US$. All financial information presented in KD has been rounded to the nearest thousands. Theses financial statements are presented in Kuwaiti Dinar ("KD") for purpose of submission to the Ministry of Commerce and Industry, State of Kuwait.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs require management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described below in Note 3(m).

e) Changes in accounting policies

The Company has adopted the following new standards and amendments to the standards effective current year:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ("IFRS 9") that replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project i.e. classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company has not restated comparative information for 2017 as permitted by the transitional provisions of the standard.

Classification of financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

(1) Debt instruments measured at amortised cost;

(2) Debt instruments measured at fair value through other comprehensive income (FVOCI) with gains or losses recycled to statement of profit or loss on de-recognition;
(3) Equity instruments at FVOCI with no recycling of gains or losses to statement of profit or loss on de-recognition; and
(4) Financial assets carried at fair value through profit or loss (FVTPL).

IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the statement of profit or loss.

The accounting for financial liabilities will be to large extent the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss, unless an accounting mismatch in profit or loss would arise.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. Application of IFRS 9 did not result in any material effect on the financial statements of the Company on the transition date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application from 1 January 2018.

The application of IFRS 15 did not result in any material effect on the financial statements of the Company on the transition date.

<u>*Other Standards*</u>

Other minor improvements and amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 are as below:

- Annual Improvements to IFRSs Standards 2014–2016 Cycle – various standards; and
- Disclosure Initiative (Amendments to IAS 7).

These improvements and amendments did not have any material impact on the accounting policies, financial position or performance of the Company.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except as disclosed in 2(e) above.

a) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI, or FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of deposits and due from a related parties that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments),
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments),
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments),
- Financial assets at FVTPL.

Financial assets at amortised cost (debt instruments)

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes amounts due from related parties, trade and other receivables and bank balances.

(a) Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(b) The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Income from loans and advances, foreign exchange gains and losses and impairment are recognised in the statement of profit or loss. Any gain or loss on derecognition is recognised in the statement of profit or loss.

Financial assets at FVOCI (debt instruments)

The Company measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Company does not carry any debt instruments at fair value through OCI.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment. The Company does not carry any equity instrument designated at fair value through OCI.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. The Company does not carry any financial assets at FVTPL.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include term loans, amounts due to related parties, trade and other payables and accruals and other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification: financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates its derivatives as hedges of a particular risk associated with a recognized asset or liability.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated as hedging instruments and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in equity. Any gain or loss relating to the ineffective portion is recognized immediately in the statement of profit or loss. The gains or losses accumulated in equity are reclassified to the income statement in the same period in which the hedged cash flows affects income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time, remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the statement of profit or loss.

The fair value of the derivative is the equivalent of the unrealized gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. This is the case primarily with contracts for the purchase or sale of non-financial assets, whose price is revised based on an index, the exchange rate of a foreign currency or the price of an asset other than the contract's underlying.

Embedded derivatives are separated from the host contract and accounted for as derivatives when:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability accounted for at fair value through profit or loss is not separated).

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

b) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Property under construction is stated at cost and subsequently transferred to assets when it is available for use and is stated at cost less any accumulated impairment loss. The cost of an item of property, plant and equipment comprises its acquisition costs, borrowing costs and all directly attributable costs of bringing the asset to the working condition for its intended use. The estimated useful lives of property, plant and equipment for current and comparative periods is computed on the staright- line method based on estimated useful lives of assets as follows:

	Useful life
Furniture and fixtures	3
Vehicles	3
IT equipment	3
Plant and Equipment	Unexpired term of the ECWPA

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each financial position date. The carrying amount of property, plant and equipment is reviewed at each financial position date to determine whether there is any indication of impairment. If any such indication exists, an impairment loss is recognized in the statement of profit or loss. The carrying amount of property, plant and equipment is derecognised on disposal.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of profit or loss.

c) Impairment of non-financial assets

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of the asset's fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific asset, or a group of similar assets, may be impaired. If such evidence exists, an impairment loss is recognised in the statement of profit or loss. Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) for the purpose of testing impairment.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

d) Cash and cash equivalents

Cash in hand, bank current accounts and short term deposits with an original maturity of three months or less from the date of placement are classified as cash and cash equivalents in the statement of cash flows.

e) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and comprises the following items:

- Capacity payments for power and water consisting of a fixed capital component and a fixed operation and maintenance component.

- Electrical and water output payments consisting of a fuel adjustment component and a variable operation and maintenance component.

The relevant revenues are:

- Finance income where the Company is the lessor and service income
- Income relating to operating and maintenance activities

Finance income where the Company is the lessor and service income

Capacity payments covering the fixed capital component are apportioned on the basis of their relative fair values between minimum lease payments (comprising capital repayments relating to the provision of the Plant and finance income) and service income. The finance lease interest income for fixed capital component recognized in the statement of profit or loss and other comprehensive income is part of the minimum lease payment and is recognized as disclosed in note 3(h). Service income is recognized in the period it is earned at the fair value of the Company's performance under the contract in each period.

Income relating to operating and maintenance activities

The revenue from capacity payments for power and water covering fixed operation and maintenance charges and from electrical and water output payments covering the fuel adjustment and variable operation and maintenance charges is recognized on an accrual basis of accounting when the services have been rendered and the control of services have been transferred.

Interest income

Interest income is accrued on effective yield basis, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

f) Provisions for liabilities

Provisions for liabilities are recognized when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present legal or constructive obligation and the amount can be reliably estimated.

g) Borrowing costs

The interest on borrowings specifically incurred to finance the construction of property, plant and equipment is capitalized as part of their cost during the period that is required to complete the construction. All other interest cost is recognized as an expense of the period in which it is incurred.

h) Leases

Accounting for arrangements that contain a lease

"IFRIC Interpretation 4: Determining whether an Arrangement contains a Lease" deals with the identification of services and take-or-pay sales or purchasing contracts that do not take the legal form of a lease but convey rights to customers/suppliers to use an asset or a group of assets in return for a payment or a series of fixed payments. Contracts meeting these criteria are identified as either operating leases or finance leases.

Where the Company determines a long term electricity conversion and water purchase agreement to be or to contain a lease and where the buyer has the principal risks and rewards incidental to the ownership of the related plant through its contractual arrangements with the Company, the arrangement is considered to be a finance lease where the Company is acting as lessor and its customer the lessee and a finance receivable is recognized to reflect the financing deemed to be granted by the Company.

As disclosed in note 3(e) capacity payments covering the fixed capital component are apportioned on the basis of their relative fair values between minimum lease payments (comprising capital repayments relating to the provision of the Plant and finance income) and service income representing those payments which are not included within minimum lease payments. The finance income is recognized as revenue using a market rate of interest to give a constant periodic rate of return on the net investment in each period.

Lease classification

Leases are classified as finance leases or operating leases. A finance lease is defined as a lease, which transfers substantially all the risks and rewards incidental to the ownership of the related asset to the lessee. All leases, which do not comply with the definition of a finance lease, are classified as operating leases. The main factors considered by the Company to assess if a lease transfers substantially all the risks and rewards incidental to ownership are whether the lessor transfers ownership of the asset to the lessee by the end of the lease term, the lessee has an option to purchase the asset and if so, the conditions applicable to exercising that option, the lease term is for the major part of the economic life of the asset, the asset is of a highly specialized nature and the present value of minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

Finance lease – where the Company is the lessor

At inception of the lease, a finance lease is recorded at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

Operating lease - where the Company is the lessee

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

i) Foreign currencies transactions

Transactions in foreign currencies are translated into USD at rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into USD at rates of exchange prevailing at the statement of financial position date. The resultant exchange differences are recorded in the statement of profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the statement of profit or loss.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group are expressed in KD using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

j) Employees' end of service benefits

Employees are entitled to an end of service indemnity payable under the Kuwait Labor Law based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. The expected costs of these benefits are accrued over the period of employment.

Kuwaiti employees

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Company's share of contributions to this scheme, which is a defined contribution scheme, are charged to the statement of profit or loss in the year to which they relate.

k) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1- inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 - inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and

Level 3 - unobservable inputs for the asset or liability.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

l) Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognized in the income statement except to the extent that it relates to items recognized directly within equity, in which case it is recognized within the statement of other comprehensive income

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the financial position date, and any adjustment to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other periods. This includes the effect of tax allowances and excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the financial position date and that are expected to apply in the period when the deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be used.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

m) Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that may affect amounts reported in these financial statements. Actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a high degree of judgment or areas where assumptions and estimates have the most significant effect on the amounts recognized in these financial statements are as follows:

Impairment of non-financial assets and financial assets

The Company reviews its assets to assess whether a provision for impairment should be recorded in the statement of profit or loss. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of any provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Fair value of derivatives

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Minimum lease payments

Minimum lease payments from the ECWPA are estimated based on projections of available net electricity and water capacity, US producer price indices and Kuwaiti consumer price indices over a period of twenty five years.

Determining whether an arrangement contains a lease and lease classification

Management has applied the guidance in IFRIC 4, 'Determining whether an arrangement contains a lease'. Based on management's evaluation, the ECWPA with MEW is considered as a lease within the context of IFRIC 4 and has been classified as a finance lease under IAS 17 since significant risks and rewards of ownership were transferred to MEW on the Project Commercial Operation Date which is the date of commencement of the lease term. The primary basis for this conclusion is that the ECWPA is for the substantial portion of the life of the Plant and the present value of minimum lease payments substantially equates to the fair value of the Plant at the inception of the lease

Measurement of ECLs

The measurement of ECLs on financial assets involves complex estimations. ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfalls represent the difference between cashflows due to the Company in accordance with the contract and the cashflows that the Company expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio.

The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise and expected drawdowns on committed facilities.

The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time.

n) Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019 and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below:
IFRS 16 Leases

The Company is required to adopt IFRS 16 *Leases* from 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives*, and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, if required, with no restatement of comparative information. The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

IFRS 16 is not expected to have a significant impact on amounts reported and disclosures made in the Company's financial statements in respect to the operating leases. Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the financial statements.

- IFRIC 23 Uncertainty over Tax Treatments.
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards

4. Cash and bank balances

	2018 KD	2017 KD
Cash in hand	860	889
Cash with banks	4,514,510	466,725
Deposits	41,337,828	29,933,134
Cash and cash equivalents as per statement of cash flows	45,853,198	30,400,748

The short-term deposits are denominated in USD and placed with a foreign bank at an effective interest ranging from 2.37% to 2.60% per annum (2017: 1.33% to 1.63% per annum).

5. Trade and other receivables

	2018 KD	2017 KD
Trade receivables	4,223,060	10,325,077
Provision for doubtful debts	-	(160,000)
	4,223,060	10,165,077
Contract assets	4,524,445	5,148,396
Deferred tax asset	1,237,320	1,597,406
Warranty claim receivable	268,585	642,442
Prepaid expenses	334,437	326,444
Advance lease rent to MEW	90,356	92,622
Other receivables	152,495	19,710
	10,830,698	17,992,097

The average credit period granted to the customer is 60 days. No interest is charged on the overdue trade receivables.

As of 31 December 2018, trade receivables of KD 4,213,529 (2017: KD 5,043,966) were neither past due nor impaired. Trade receivables amounting to KD 9,531 (2017: KD 5,121,111) were past due but not impaired, ageing less than three months. As at 31 December 2018, trade receivables amounting to KD nil (2017: KD 160,000) were impaired and fully provided. All the trade receivables are denominated in KWD and are located in the State of Kuwait. The maximum exposure to credit risk at the statement of financial position date is disclosed in note 18 to these financial statements.

The deferred tax release relating to current year is recognized in other comprehensive income.

The advance lease rent represents the total operating lease cost for the lease of the land on which the Plant is built and is being amortised over the lease period of forty years.

6. Finance lease receivable

Finance lease for which the Company acts as lessor.

This lease falls within the scope of the IFRIC 4 guidance on the interpretation of IAS 17 and applies to the ECWPA on the basis that it is an energy conversion and sale contract that conveys an exclusive right to use a production asset.

The Company has recognized a finance lease receivable as follows:

	Minimum lease receipts	Present value of minimum lease receipts
	2018	2018
	KD	KD
Amounts receivable under finance lease		
Within one year	37,771,342	36,659,531
Year 2 to 5 inclusive	150,885,841	127,929,755
After year 5	676,638,536	326,480,508
Undiscounted future minimum lease payments	865,295,719	491,069,794
Unearned finance income	(374,225,925)	-
Net investment in finance lease at 31 December 2018	491,069,794	491,069,794

	Minimum lease receipts	Present value of minimum lease receipts
	2017	2017
	KD	KD
Amounts receivable under finance lease		
Within one year	37,408,001	36,303,095
Year 2 to 5 included	150,292,570	120,293,463
After year 5	712,045,470	342,966,307
Undiscounted future minimum lease payments	899,746,041	499,562,865
Unearned finance income	(400,183,176)	-
Net investment in finance lease at 31 December 2017	499,562,865	499,562,865

Included in the statement of financial position:

	2018	2017
	KD	KD
Current portion	11,027,221	10,171,603
Non-current portion	480,042,573	489,391,262
	491,069,794	499,562,865

The interest rate implicit in the finance lease is 5.5% (2017: 5.5%) per annum.

7. Property, plant and equipment

	Plant and equipment KD	IT equipment KD	Vehicles KD	Furniture and fixtures KD	Total KD
Cost					
As at 1 January 2017	-	-	-	-	-
Additions for the year	-	1,926	122,446	-	124,372
Foreign currency translation	-	3	199	-	202
As at 31 December 2017	-	1,929	122,645	-	124,574
Additions for the year	341,099	1,049	42,822	460	385,430
Disposals during the year	-	(97)	-	-	(97)
Foreign currency translation	1,244	10	577	2	1,833
As at 31 December 2018	342,343	2,891	166,044	462	511,740
Accumulated depreciation and impairment loss					
As at 1 January 2017	-	-	-	-	-
Charge for the year	-	252	24,661	-	24,913
Foreign currency translation	-	-	41	-	41
As at 31 December 2017	-	252	24,702	-	24,954
Charge for the year	7,858	857	53,053	91	61,859
Disposals	-	(25)	-	-	(25)
Foreign currency translation	29	4	278	-	311
As at 31 December 2018	7,887	1,088	78,033	91	87,099
Carrying amount					
As at 31 December 2018	334,456	1,803	88,011	371	424,641
As at 31 December 2017	-	1,677	97,943	-	99,620

8. Trade and other payables

	2018 KD	2017 KD
Accounts payable	6,261	971,222
Retentions payable	631,028	615,803
Accruals and other payables	4,876,851	6,140,300
	5,514,140	7,727,325

9. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Company exercises significant influence, major shareholders, directors and key management personnel of the Company. The Company has a related party relationship with entities over which certain shareholders and directors are able to exercise significant influence. The Company ensures that prices and terms for these transactions are such that the Board of Directors of the Company would consider them comparable with those from unrelated third parties.

Amounts due to related parties are interest free and have no fixed maturity.

The related party transactions and balances included in these financial statements are as follows:

	2018 KD	2017 KD
Statement of financial position		
Due from related parties	35,218	219,414
Due to related parties	4,898,277	4,395,007
Statement of profit or loss		
Operating costs	14,242,235	14,101,490
General and administrative expenses	304,636	302,340

10. Term loans

	2018 KD	2017 KD
Current portion	14,621,995	11,897,457
Non-current portion	374,771,336	388,062,342
	389,393,331	399,959,799

	2018 KD	2017 KD
USD 645 million facility from Japan Bank for International Cooperation that bears a floating interest rate of Libor plus 1.25% per annum.	175,226,998	179,981,910
USD 283 million facility from various lenders under Nippon Export and Investment Insurance covered facilities agreement that bears a floating interest rate of Libor plus 1.1% - 1.3% per annum.	76,905,183	78,992,060
USD 505 million facility from various lenders under the Commercial facilities agreement that bears a floating interest rate of Libor plus 1.7% - 2.55% per annum.	137,261,150	140,985,829
	389,393,331	399,959,799

The loans are repayable in quarterly instalments with the final maturity in November 2036.

The loan agreements provide for the borrowings to be secured by assignment of receivables and residual rights under the ECWPA as well as the pledge of the Company's shares. Loan financial covenants include contribution of equity of at least 20% of the total project cost on the project commercial operation date and a debt service coverage ratio of 1.05:1 after that.

As at 31 December 2018, the Company has undrawn working capital facilities amounting to USD 47 million (2017: USD 47 million).

11. Share capital

The Company's authorized and issued share capital comprises of 1,100,000,000 shares of 100 Kuwaiti fils (2017: 1,100,000,000 shares of 100 Kuwaiti fils) (KD 110,000,000) each, fully paid up in cash.

12. Statutory reserve

In accordance with the Companies Law and the Company's Articles of Association, 10% of the net profit has been transferred to statutory reserve and must be done annually until the reserve reaches a minimum of 50% of the paid up share capital. This reserve can be utilized only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

13. Voluntary reserve

The annual general meeting of shareholders held on 25 April 2018 approved the transfer of the balance of the voluntary reserve to retained earnings and to discontinue any future transfers.

14. Revenue from contract with customer

	2018 KD	2017 KD
Finance lease interest income	27,230,548	27,729,526
Fixed operation and maintenance income	12,453,938	11,952,821
Electrical and water output income	3,071,398	984,544
Supplemental receipts and service income	8,424,945	5,532,922
	51,180,829	46,199,813

15. Operating costs

The principal operating costs are the operating and maintenance costs of the Plant.

16. Contribution to KFAS

This represents the contribution to the Kuwait Foundation for the Advancement of Science ("KFAS") computed at 1% of profit for the year after the transfer to statutory reserve.

17. Zakat

Zakat represents the tax payable to Kuwait's Ministry of Finance under Zakat Law No.46 of 2006, computed at 1% of profit for the year after the transfer to statutory reserve and other adjustments.

18. Financial instruments – fair value and risk management

Fair value

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The Company uses the level 2 hierarchy inputs to measure the fair value of derivative financial instruments and the level 3 hierarchy for determining and disclosing the fair values of financial instruments carried at amortized cost. The carrying values are not materially different from their fair values.

The carrying amounts of financial assets and financial liabilities that are liquid or have a short-term maturity are approximately equal to their fair value. This estimate is based on Level 3 inputs with the discount rate that reflects the credit risk of counterparties being the most significant input.

Financial risk factors

The Company's use of financial instruments exposes it to a variety of financial risks such as credit risk, liquidity risk and market risk. The Company continuously reviews its risk exposures and takes measures to limit them to acceptable levels. The significant risks that the Company is exposed to are discussed below:

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial assets, which potentially subject the Company to credit risk, consist principally of bank deposits, trade and other receivables, amounts due from related party and the finance lease receivable. The Company manages credit risk by placing funds with financial institutions of high credit rating and transacting its principal business with counterparties of repute. Credit risk with respect to trade receivables is limited as all the trade receivables are due from MEW.

Exposure to credit risk

The carrying amount of following financial assets represents the maximum credit exposure of the Company:

	2018 KD	2017 KD
Cash and bank balances	45,853,198	30,400,748
Trade and other receivables	10,830,698	17,992,097
Due from related parties	35,218	219,414
Finance lease receivable	491,069,794	499,562,865

As of 31 December 2018, assets amounting to KD nil (31 December 2017: KD 160,000) were impaired and fully provided for.

Reconciliation of provision for impairment is as follows:

	2018 KD	2017 KD
Opening balance – 1 January	160,000	-
Write off bad debts uncollectible	(79,942)	-
Reversal of provision for impairment	(80,058)	-
Charge for the year	-	160,000
Closing balance – 31 December	-	160,000

Bank balances and time deposits

Bank balances and deposits are held with bank and financial institution counterparties, which are highly rated. The Company considers that its bank balances have low credit risk based on the external credit ratings of the counterparties. The 12 month ECL has been computed on the bank balances and deposits using probability of default. The cash and cash equivalents are held with bank which are rated from A to A+, based on external credit ratings. The financial impact of ECL was insignificant to the overall financial statements.

Trade and other receivables and finance lease receivable

The trade receivable and finance lease receivable arise on dealing with only one customer, Ministry of Electricity and Water of State of Kuwait. Credit risk with respect to trade receivables and finance lease receivable are considered very low as they relate to sovereign risk. The Company computed 12 month ECL on trade receivables and finance lease receivable using probability of default derived from the contrary risk and other relevant macro-economic factors. The financial impact of ECL was insignificant to the overall financial statements.

Due from related parties

Transactions with related parties are carried out on a negotiated contract basis. The related parties are with high credit rating and repute in the market. Impairment on the due from a related party have been measured on the basis of lifetime expected credit losses. The Company considers that these have low credit risk based on historical experiences. At 31 December 2018, these are neither impaired nor due.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Liquidity is managed by periodically ensuring its availability in an amount sufficient to meet any futures commitments. The Company does not consider itself exposed to significant risks in relation to liquidity.

The following are the contractual maturities of financial liabilities:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	KD	KD	KD	KD
At 31 December 2018				
Trade and other payables	5,514,140	-	-	-
Due to related parties	4,898,277	-	-	-
Term loans	30,456,715	61,914,557	91,622,860	370,435,939
Derivative financial liabilities	7,758,443	14,653,834	19,151,892	31,555,331
	48,627,575	76,568,391	110,774,752	401,991,270
At 31 December 2017				
Trade and other payables	7,727,325	-	-	-
Due to related parties	4,395,007	-	-	-
Term loans	23,260,958	51,772,606	79,618,852	371,488,441
Derivative financial liabilities	11,979,744	9,814,090	21,680,640	49,339,300
	47,363,034	61,586,696	101,299,492	420,827,741

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risk comprises of three types of risk - currency risk, interest rate risk and other price risk.

(d) Foreign Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchanges rates.

(e) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk arises from short-term bank deposits and long term-borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. The Company's borrowings at variable rates are denominated mainly in US Dollars.

The Company manages this risk by hedging its long-term borrowings using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rate and therefore the exposure to cash flow interest rate risk is limited.

At 31 December 2018, if interest rates at that date had been 0.5% higher/lower with all other variables held constant, other comprehensive income would have been lower/higher by KD 2,049,607 (31 December 2017: KD 2,249,485).

(f) Other price risk

Other price risk is the risk that the value of the financial instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market. The Company is not exposed to this risk, as it has no equity investments.

19. Hedge reserve account and derivative financial liabilities

In the ordinary course of business, the Company uses derivative financial instruments in the form of interest rate swaps to manage its exposure to fluctuations in interest rates. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instruments, reference rates or indices. Interest rate swaps are contractual agreements between two parties to exchange interest based on notional value in a single currency for a fixed period.

In accordance with the Common Terms Agreement signed with the lenders, the Company is required to swap the floating rate interest due on its borrowings to fixed rate interest through interest rate swaps. Accordingly, the Company entered into a number of forward starting interest rate swaps from January 2014 to August 2036 to hedge variable rate interest payments on its outstanding debt and future debt issuances. These swaps have been classified as cash flow hedges. The increase in the fair value of the outstanding interest rate swaps as of 31 December 2018 amounting to KD 17,847,648 (2017: increase of KD 382,129) has been taken to other comprehensive income and classified as hedge reserve in equity net of the related deferred tax. This fair value decline will be released to the statement of profit or loss in the same periods during which the hedge item affects the statement of profit or loss.

The table below shows the fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity. Notional amounts represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

All derivative contracts are fair valued based on observable market data.

Derivatives held for hedging:

	2018	2017
	KD	KD
Cash flow hedges - Interest rate swaps		
Notional amount:		
At 31 December	374,963,916	399,306,592

	2018	2017
	KD	KD
Cash flow hedges - Interest rate swaps		
Negative fair value:		
Short term	(6,564,374)	(10,301,753)
Long term	(55,301,618)	(69,568,572)
	(61,865,992)	(79,870,325)
Deferred tax asset	1,237,320	1,597,406
Foreign exchange translation impact	(229,312)	(432,713)
	(60,857,984)	(78,705,632)

20. Capital management

The Company's objectives when managing capital are to safeguard its 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.

Consistent with others in the industry, the Company monitors capital based on the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, excluding the hedge reserve (as shown in the statement of financial position) plus net debt.

	2018 KD	2017 KD
Total borrowings	389,393,331	399,959,799
Less: cash and cash equivalents	(45,853,198)	(30,400,748)
Net debt	343,540,133	369,559,051
Total equity (excluding hedge reserve)	147,361,031	134,995,760
Total capital	490,901,164	504,554,811
Gearing ratio	70%	73%

Borrowings are defined as term loans and are disclosed in note 10.

21. Commitments and contingent liabilities

Operation and maintenance commitments

The Company has an operation and maintenance agreement (O&M) with AZN O&M Company W.L.L, which operates and maintains the Plant, for which the Company has agreed to pay fixed and variable operating fees, to be adjusted based on price indices.

Under the O&M, the minimum future payments due are as follows;

	2018 KD	2017 KD
Within one year	14,190,080	14,394,262
Year 2 to 5 inclusive	73,300,158	76,810,316
After year 5	297,736,215	338,399,731
	385,226,453	429,604,309

22. Embedded derivatives

The ECWPA and the O&M contain embedded derivatives in the form of price adjustments for inflation based on price indices.

These embedded derivatives are not separated from the host contracts and are not accounted for as stand-alone derivatives under IFRS 9, as management believes that the economic characteristics and risks associated with the embedded derivatives are closely related to those of the host contract.

23. Contingencies

Contingent assets are not recognised as an asset until realization becomes virtually certain. Contingent liabilities are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated.

The Company had no contingencies at 31 December 2018 (2017: nil).