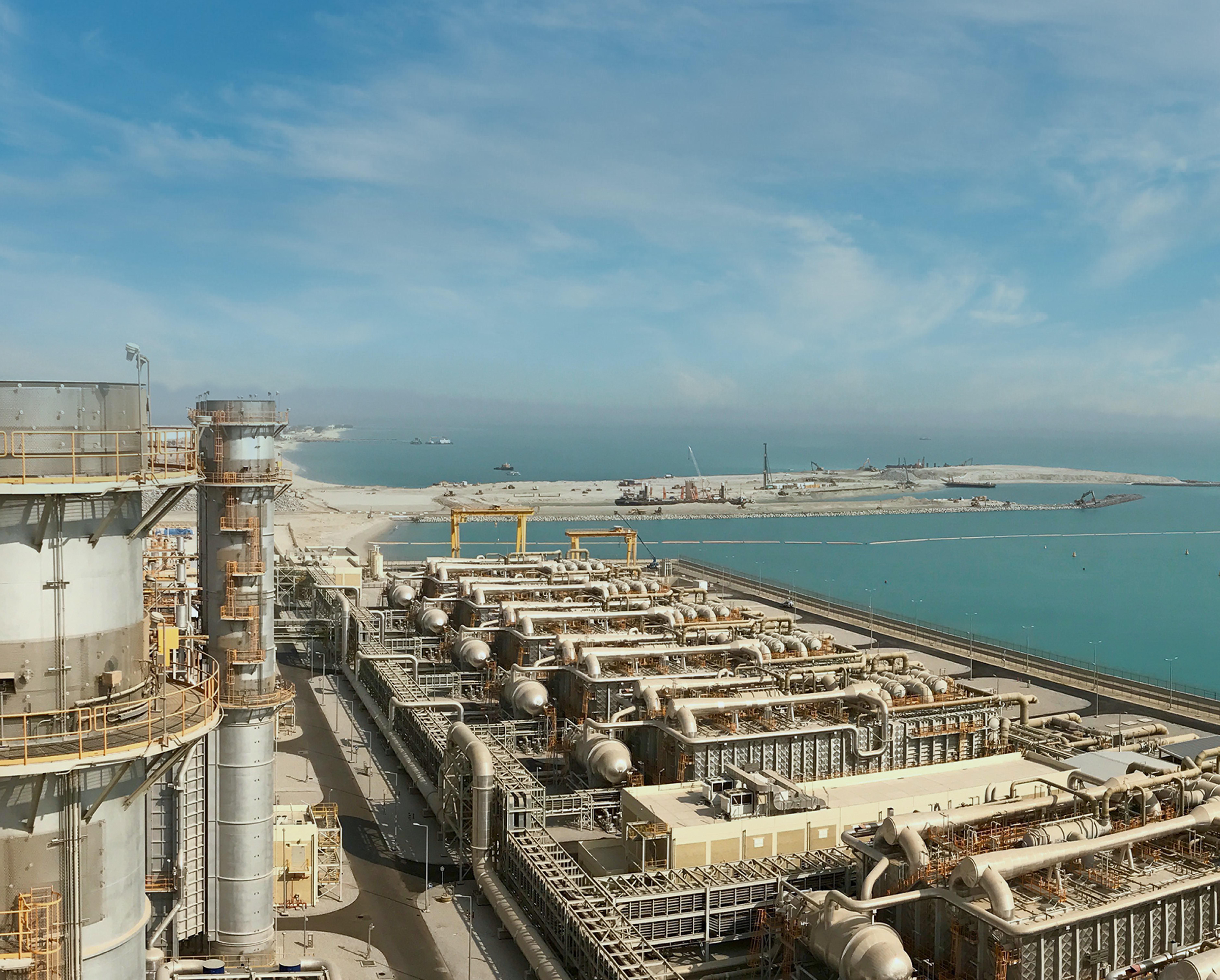
Shamal Az-Zour Al-Oula Power and Water Company (Public)

Financial Statements and Independent Auditor's Report for the year ended 31 December 2019



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Shamal Az-Zour Al-Oula K.S.C.
Directors' report for the year ended 31 December 2019

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 2019.

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.

Following the successful share distribution in the fourth quarter of the year, the Company is now 50% owned by Kuwaiti citizens, 5% by the Kuwait Investment Authority and 5% by the Public Institution for Social Security. 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 2019, the plant completed its third contract year of commercial operation from 26 November 2018 to 26 November 2019.

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 has been 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 12.3 million. A resolution concerning the payment of the Company's first dividend will be proposed at the Annual General Meeting.

3. Corporate governance

The Company has a Board of Directors with five members. The Board of Directors held eight meetings during 2019. None of the Directors received any remuneration from the Company during the year.

The day to day 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 AlSabah, (replaced by Mr Adel Mohammad AlBader in March then later by Mr Hani Mohammad AlJazzaf in October)

Dr David Barlow, Vice-Chairman (replaced by Mr Alexander Katon as Vice-Chairman in March)

Mr Quentin des Cressonnieres 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 2020, the Company's shares will be listed on the Boursa Kuwait.

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:

Alexander Katon
Vice Chairman, Shamal Az-Zour Al-Oula KSC
Date: 10 February 2020

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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 Power and Water Company KSC (Public) ("the Company"), which comprise the statement of financial position as at 31 December 2019, 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 2019, 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 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.

KPMG

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.

- 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, as amended. 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, as amended, during the year ended 31 December 2019 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: 10 February 2020

Statement of financial position
as at 31 December 2019

	Notes	2019 KD	2018 KD
Assets			
Current assets			
Cash and bank balances	4	46,169,749	45,853,198
Trade and other receivables	5	16,563,899	10,830,698
Due from related parties	9	16,791	35,218
Finance lease receivable	6	11,864,936	11,027,221
		74,615,375	67,746,335
Non- current assets			
Finance lease receivable	6	468,889,860	480,042,573
Property, plant and equipment	7	482,999	424,641
		469,372,859	480,467,214
Total assets		543,988,234	548,213,549
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables	8	3,715,187	5,514,140
Due to related parties	9	5,263,957	4,898,277
Term loans	10	15,645,888	14,621,995
Derivative financial liabilities	20	9,710,943	6,564,374
		34,335,975	31,598,786
Non-current liabilities			
Provision for staff indemnities		26,272	38,762
Term loans	10	359,681,483	374,771,336
Derivative financial liabilities	20	73,327,978	55,301,618
		433,035,733	430,111,716
Total liabilities		467,371,708	461,710,502
Equity			
Share capital	11	110,000,000	110,000,000
Statutory reserve	12	4,651,561	3,421,438
Retained earnings		41,781,803	30,710,698
Foreign currency translation reserve		3,352,400	3,228,895
Hedge reserve		(83,169,238)	(60,857,984)
Total equity		76,616,526	86,503,047
Total liabilities and equity		543,988,234	548,213,549

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

Alexander Katon
Vice 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 2019

	Notes	2019	2018
		KD	KD
Revenue	*13*	51,069,160	51,180,829
Operating costs	*9 &14*	(14,803,316)	(14,242,235)
Gross profit		36,265,844	36,938,594
Finance and other income		1,087,465	762,167
Finance costs		(22,642,692)	(23,259,020)
Staff costs and related expenses		(703,068)	(761,127)
General and administrative expenses		(1,468,199)	(1,465,166)
Provision for doubtful debts	*19(i)(a)*	-	80,058
Profit before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") and Zakat		12,539,350	12,295,506
KFAS	*15*	(112,854)	(110,660)
Zakat	*16*	(125,268)	(121,418)
Profit for the year		12,301,228	12,063,428
Other comprehensive (loss) / income:			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		123,505	301,843
Change in fair value of cash flow hedge	*20*	(21,073,934)	17,847,648
Total other comprehensive (loss) / income		(20,950,429)	18,149,491
Total comprehensive (loss) / income for the year		(8,649,201)	30,212,919
Earnings per share (basic and diluted) (fils)	*17*	11.18	10.97

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

Statement of changes in equity
for the year ended 31 December 2019

	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 2018	110,000,000	2,215,095	2,215,095	17,638,518	2,927,052	(78,705,632)	56,290,128
Total comprehensive income for the year							
Profit for the year	-	-	-	12,063,428	-	-	12,063,428
Change in fair value	-	-	-	-	-	17,847,648	17,847,648
Change in foreign currency translation differences	-	-	-	-	301,843	-	301,843
Total comprehensive income for the year	-	-	-	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
Total comprehensive income / (loss) for the year							
Profit for the year	-	-	-	12,301,228	-	-	12,301,228
Change in fair value	-	-	-	-	-	(21,073,934)	(21,073,934)
Change in foreign currency translation differences	-	-	-	-	123,505	-	123,505
Total comprehensive income / (loss) for the year	-	-	-	12,301,228	123,505	(21,073,934)	(8,649,201)
Reclassification	-	-	-	-	-	(1,237,320)	(1,237,320)
Transfer to reserve	-	1,230,123	-	(1,230,123)	-	-	-
Balance as at 31 December 2019	110,000,000	4,651,561	-	41,781,803	3,352,400	(83,169,238)	76,616,526

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 2019

	Note	2019	2018
		KD	KD
Cash flows from operating activities			
Profit before contribution to KFAS and Zakat		12,539,350	12,295,506
Adjustments for:			
Depreciation	7	74,846	61,859
Finance costs		22,642,692	23,259,020
Provision for doubtful debts	19(i)(a)	-	(80,058)
Trade and other receivables		(6,970,521)	6,881,371
Due from related parties		18,427	184,196
Finance lease receivable	6	10,314,998	8,493,071
Trade and other payables		(1,944,331)	(2,460,185)
Due to related parties		365,680	503,270
Provision for staff indemnities		18,371	19,756
Payment of staff indemnities		(30,909)	(13,154)
Net cash from operating activities		37,028,603	49,144,652
Cash flows from investing activities			
Acquisition of property, plant and equipment	7	(132,556)	(385,430)
Proceeds from disposal of property, plant and equipment		-	72
Net cash used in investing activities		(132,556)	(385,358)
Cash flows from financing activities			
Term loans	10	(14,065,960)	(10,566,468)
Payment of finance costs		(22,735,436)	(23,244,098)
Net cash used in financing activities		(36,801,396)	(33,810,566)
Increase in foreign currency translation reserve		221,900	503,722
Net increase in cash and cash equivalents		316,551	15,452,450
Cash and cash equivalents			
at beginning of the year		45,853,198	30,400,748
at end of the year	4	46,169,749	45,853,198

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

1. Reporting Entity

Shamal Az-Zour Al-Oula Power and Water Company KSC (Public) ("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, Khalid Ibn 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 partially owned 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") contract 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 MW 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 power generation plant and a 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 (BOT) systems 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. Before the adoption of IFRS 16 *Leases* ("IFRS 16"), the Company determined that the ECWPA conveys a right to use the Plant by MEW and accordingly classified the ECWPA as a finance lease in accordance with guidelines issued by the International Financial Reporting Interpretation Committee (IFRIC) 4 *Determining whether an arrangement contains a Lease*. The impact of adoption of the IFRS 16 is disclosed in Note 2 (e).

On 19 June 2019, the shareholders approved the audited financial statements of the Company as at and for the year ended 31 December 2018 in the Annual General Meeting. No dividends have been declared by the Company.

On 29 November 2019, one of the significant shareholders of the Company holding a 50% stake in the Company, distributed its entire holding to Kuwaiti citizens. During the first quarter of 2020, the Company expects that the process to list the Company's shares on the Boursa Kuwait will be completed.

These financial statements were approved for issue by the Board of Directors on 10 February 2020 and are subject to approval of shareholders at the 2020 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.

This is the first set of the Company's annual financial statements in which IFRS 16 has 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 United States Dollars ("USD") which is the functional currency of the Company. The Company's functional currency is not the currency of the country in which it is domiciled as the majority of the transactions of the Company are denominated in USD. These financial statements are presented in Kuwaiti Dinar ("KD") for purpose of submission to the Ministry of Commerce and Industry, in the State of Kuwait.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires 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 in 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

In 2019, the Company applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of whether a contract entered into before the date of initial application was, or contained, a lease under IFRIC 4, rather than reassess based on the new definition of a lease under IFRS 16. Contracts previously identified as leases were recognized and measured in accordance with IFRS 16. Therefore, IFRS 16 did not have an impact for the Plant where the Company is the lessor. Where the Company is a lessee, it applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The management concluded based on its assessment that the impact of adopting IFRS 16 was not material to the financial statements as at 1 January 2019.

Several other amendments and interpretations apply for the first time in 2019, but also do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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 Note 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 and subsequently measured at amortised cost.

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 amounts due from 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, 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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 at amortised cost are subsequently measured using the effective interest rate ("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 include amounts due from related parties, trade and other receivables and cash at bank.

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 right to receive cash flows from the asset has expired, or

- The Company has transferred its right 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 right 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.

ii) 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 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.

The Company recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the customer, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on a significant increase in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward looking information considered includes the future prospects of the industries in which the Company's customer operates.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments from the customer are more than six months past due, unless the Company has reasonable and supportable information that demonstrates otherwise. Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying a significant increase in credit risk before the amount becomes past due.

Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet the following criteria are generally not recoverable.

- Information developed internally or obtained from external sources indicates that the customer is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company); or
- A breach of contract by the counterparty.

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than six months past due from MEW unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The Company determined no default event occurred during the year in respect of amounts receivable from MEW.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or past due event; or
- it is becoming probable that the debtor will enter bankruptcy.

Write-off policy

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed in liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the asset's gross carrying amount at the reporting date. For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

iii) 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 trade and other payables, amounts due to related parties, term loans and derivative financial instruments.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in 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 derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

iv) 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.

b) Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its interest rate risk exposure. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives embedded in hybrid contracts that contain financial asset hosts are within the scope of IFRS 9 and are not separated. The entire hybrid contract is classified and subsequently measured in its entirety at either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value 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 the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

At the inception of the hedging, the Company documents the economic relationship between hedging instruments and the hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of the hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. Any gain or loss relating to any ineffective portion is recognised immediately in profit or loss within other income or other expense, as appropriate.

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.

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 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.

c) Property and equipment

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

The cost of an item of property and equipment comprises its acquisition cost, 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 and equipment for current and comparative periods is computed on the straight line method based on the estimated useful lives of assets as follows:

	Useful life
Buildings and improvements	25
IT equipment	3
Vehicles	3
Furniture and fixtures	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 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 profit or loss. The carrying amount of property and equipment is derecognised on disposal.

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

d) 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 the 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 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

e) 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.

f) Revenue recognition

Revenue is measured based on the transaction prices specified in a contract with a customer and comprises the following:

- Capacity payments for power and water consisting of a fixed capital component and a fixed operation and maintenance component ("fixed O&M").
- Electrical and water output payments consisting of a fuel adjustment component and a variable operation and maintenance component.

Finance lease income

Capacity payments reflect the availability of the Plant to deliver output. The customer pays for capacity at an amount representative of the availability of the asset for the defined time period. 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 income for the fixed capital component is recognized in the statement of profit or loss as part of the minimum lease payment and is recognized as disclosed in Note 3(g).

Operation and maintenance services

Revenue from rendering services is recognised based on the ECWPA contract. The Company recognises revenue from O&M services over time because the customer simultaneously receives and consumes the benefits provided to them.

The fixed O&M revenue is recognised based on the tariffs in the ECWPA contract and upon performance of the relevant services.

The variable revenue is recognised based on the tariffs in the ECWPA contract and the actual units of electricity and water delivered during the year. The Company uses an output method in measuring the variable revenue based on the value of the services provided.

The fuel adjustment fees are recognised based on the tariffs in the ECWPA contract and the actual operating efficiency during the period, subject to the MEW's approval. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

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.

g) Leases

Policy applicable from 1 January 2019

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

i. Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.
Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If the ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

ii. Company as a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract. The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Policy applicable before 1 January 2019

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 as the lessee and a finance receivable is recognized to reflect the financing deemed to be granted by the Company.

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.

h) Provisions for liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented profit or loss net of any reimbursement.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

i) 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.

j) Foreign currencies transactions

Foreign currency transactions are translated into US Dollars at the rates prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at the rates of exchange ruling at the financial position date. Resultant gains or losses are taken to the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting the KD financial statements, the assets and liabilities of the Company 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.

k) 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.

l) 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 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. 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.

m) Critical accounting judgements and estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, management has made judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Company's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are shown below with respect to the judgements/estimates involved.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

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 IFRS 16 and has been classified as a finance lease, 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.

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.

Significant increase in credit risk

As explained in Note 3(a)(ii), expected credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Company takes into account qualitative and quantitative reasonable and supportable forward looking information.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are shown below.

Fair value of derivatives

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt. The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating rate cash flows are based on quoted swap rates, future prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Company and of the counterparty.

n) Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are shown below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

4. Cash and bank balances

	2019 KD	2018 KD
Cash in hand	506	860
Cash with banks	52,400	4,514,510
Deposits	46,116,843	41,337,828
Cash and cash equivalents as per statement of cash flows	46,169,749	45,853,198

The short-term deposits are denominated in USD and placed with a foreign bank at effective interest rates ranging from 1.47% to 2.66% per annum (2018: 2.37% to 2.60% per annum).

5. Trade and other receivables

	2019 KD	2018 KD
Trade receivables	10,466,817	4,223,060
Contract assets	5,353,508	4,524,445
Prepaid expenses	351,061	334,437
Warranty claim receivable	290,099	268,585
Deferred tax asset	-	1,237,320
Advance lease rent to MEW	87,903	90,356
Other receivables	14,511	152,495
	16,563,899	10,830,698

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

As of 31 December 2019, trade receivables of KD 10,466,817 (2018: KD 4,213,529) were neither past due nor impaired. Trade receivables amounting to KD nil (2018: KD 9,531) were past due but not impaired, ageing less than three months. 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 19 to these financial statements.

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 IFRS 16 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
	2019	2019
	KD	KD
Amounts receivable under finance lease		
Within one year	38,014,226	11,864,936
Year 2 to 5 inclusive	150,847,531	53,146,233
After year 5	639,890,392	415,743,627
Undiscounted future minimum lease payments	828,752,149	480,754,796
Unearned finance income	(347,997,353)	-
Net investment in finance lease at 31 December 2019	480,754,796	480,754,796

	Minimum lease receipts	Present value of minimum lease receipts
	2018	2018
	KD	KD
Amounts receivable under finance lease		
Within one year	37,771,342	11,027,221
Year 2 to 5 included	150,885,841	50,490,938
After year 5	676,638,537	429,551,635
Undiscounted future minimum lease payments	865,295,720	491,069,794
Unearned finance income	(374,225,926)	-
Net investment in finance lease at 31 December 2018	491,069,794	491,069,794

Included in the statement of financial position:

	2019	2018
	KD	KD
Current portion	11,864,936	11,027,221
Non-current portion	468,889,860	480,042,573
	480,754,796	491,069,794

The interest rate implicit in the finance lease is 5.5% (2018: 5.5%) per annum.

8. Trade and other payables

	2019 KD	2018 KD
Accounts payable	3,375	6,261
Retentions payable	598,652	631,028
Accruals and other payables	3,113,160	4,876,851
	3,715,187	5,514,140

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 considers 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:

	2019 KD	2018 KD
Statement of financial position		
Due from related parties	16,791	35,218
Due to related parties	5,263,957	4,898,277
Statement of profit or loss		
Operating costs	14,454,258	14,242,235
Finance costs	37,944	33,536
General and administrative expenses	250,146	304,636

General and administrative expenses include remuneration of key management employees.

10. Term loans

	2019 KD	2018 KD
Current portion	15,645,888	14,621,995
Non-current portion	359,681,483	374,771,336
	375,327,371	389,393,331

	2019 KD	2018 KD
USD 645 million facility from Japan Bank for International Cooperation that bears a floating interest rate of Libor plus 1.25% per annum.	168,897,316	175,226,998
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 1.10% - 1.30% per annum.	74,127,155	76,905,183
USD 505 million facility from various lenders under the Commercial facilities agreement that bears a floating interest rate of Libor plus 1.70% - 2.55% per annum.	132,302,900	137,261,150
	375,327,371	389,393,331

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.

The Company is required to set up a debt service reserve account to maintain a certain level of cash to service its debt for a period of six months. Certain related parties of the Company issued letters of credit in favor of the lenders of USD 17.62 million (2018: USD 17.59 million) to contribute to the amount required.

As at 31 December 2019, the Company has undrawn working capital facilities amounting to USD 14.27 million (2018: USD 14.26 million).

11. Share capital

The Company's authorized and issued share capital comprises 1,100,000,000 shares of 100 Kuwaiti fils, KD 110,000,000 (2018: 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 the 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. Revenue

	2019 KD	2018 KD
Revenue from contact with customer		
Fixed operation and maintenance income	11,920,570	12,453,938
Electrical and water output income	5,729,725	3,071,398
Supplemental receipts and service income	6,644,221	8,424,945
	24,294,516	23,950,281
Finance lease income		
Interest income	26,774,644	27,230,548
	51,069,160	51,180,829

14. Operating costs

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

15. 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 and other adjustments

16. 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.

17. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no outstanding dilutive instruments, the basic and diluted earnings per share are identical.

	2019	2018
Profit for the period (KD)	12,301,228	12,063,428
Weighted average number of ordinary shares outstanding during the year	1,100,000,000	1,100,000,000
Earnings per share (fils)	11.18	10.97

18. Operating segment

The Company produces water and electricity in the State of Kuwait on behalf of MEW from which it earns revenue and incurs expenses, the results of which are regularly reviewed by the Board of Directors of the Company. Accordingly, the Company has only one reportable segment and information relating to the reporting segment is set out in the statements of financial position and profit or loss and other comprehensive income.

19. Financial risk management

The Company has exposure to the following risks arising from financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

i. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(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 parties 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, contract assets and finance lease receivable is very low as these are receivable from MEW.

Exposure to credit risk

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

	2019 KD	2018 KD
Cash and bank balances	46,169,243	45,852,338
Trade and other receivables	16,124,935	9,168,585
Due from related parties	16,791	35,218
Finance lease receivable	480,754,796	491,069,794
	543,065,765	546,125,935

The movement in the expected credit loss were as follows:

	2019 KD	2018 KD
Balance at beginning of the year	-	160,000
Write off of uncollectible bad debts	-	(79,942)
Reversal of provision for impairment	-	(80,058)
Balance at end of the year	-	-

Cash and bank balances

Bank balances and deposits are held with banks 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 the probability of default. The cash and cash equivalents are held with banks 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 receivables, contract assets and finance lease receivable arise on dealing with only one customer, MEW of the State of Kuwait. Credit risk with respect to trade receivables, contract assets and finance lease receivable are considered very low as they relate to sovereign risk. The Company computed the 12-month ECL on trade receivables, contract assets and finance lease receivable using the probability of default derived from the country risk and other relevant macro-economic factors. The financial impact of ECL was insignificant to the overall financial statements.

Amounts due from related parties

Transactions with related parties are carried out on a negotiated contract basis. The related parties have high credit ratings and repute in the market. Impairment of the amounts due from related parties has been measured on the basis of lifetime expected credit losses. The Company considers that these have low credit risk based on historical experience. At 31 December 2019, 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.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate funding reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

The following are the undiscounted contractual maturities of financial liabilities:

		Contractual cash flows			
	Carrying amount	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	USD	**USD**	**USD**	**USD**	**USD**
2019					
Trade and other payables	3,715,187	3,715,187	-	-	-
Due to related parties	5,263,957	5,263,957	-	-	-
Term loans	375,327,371	28,026,599	57,040,631	83,727,321	327,601,299
Derivative financial liabilities	83,038,921	9,804,114	8,498,108	25,260,500	48,778,560
	467,345,436	46,809,857	65,538,739	108,987,821	376,379,859
2018					
Trade and other payables	5,514,140	5,514,140	-	-	-
Due to related parties	4,898,277	4,898,277	-	-	-
Term loans	389,393,331	30,456,715	61,914,557	91,622,860	370,435,939
Derivative financial liabilities	61,865,992	7,758,443	14,653,834	19,151,892	31,555,331
	461,671,740	48,627,575	76,568,391	110,774,752	401,991,270

(c) Market risk

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

The Company uses derivatives to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors of the Company. Generally, the Company seeks to apply hedge accounting to manage volatility in profit or loss.

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the method of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates.

As a result of these uncertainties, significant accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the variability of foreign exchange and interest rate risk due to expected changes in IBORs continue to qualify for hedge accounting as at 31 December 2019. IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. The Company believes the current market structure supports the continuation of hedge accounting as at 31 December 2019.

Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. At the reporting date, the Company is not significantly exposed to currency risk.

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.

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 exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. 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 the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements.

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

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.

At 31 December 2019, 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 254,064 (2018: KD 174,153).

ii. Fair value of financial instruments

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. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The Company uses the level 2 hierarchy inputs to measure the fair value of derivative financial instruments. 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. The carrying values are not materially different from their fair values.

20. 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 values 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 2019 amounting to KD 21,073,934 (2018: decrease of KD 17,847,648) has been taken to other comprehensive income and classified as hedge reserve in equity.

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.

Derivatives held for hedging:

	2019 KD	2018 KD
Cash flow hedges – Interest rate swaps		
Notional amount:		
At 31 December	361,419,187	374,963,916
Negative fair value:		
Short term	(9,710,943)	(6,564,374)
Long term	(73,327,978)	(55,301,618)
	(83,038,921)	(61,865,992)
Deferred tax asset	-	1,237,320
Foreign exchange translation differences	(130,317)	(229,312)
	(83,169,238)	(60,857,984)

21. 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.

22. 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.

	2019 KD	2018 KD
Total borrowings (Note 10)	375,327,371	389,393,331
Less: cash and cash equivalents	(46,169,749)	(45,853,198)
Net debt	329,157,622	343,540,133
Total equity (excluding hedge reserve)	159,785,764	147,361,031
Total capital	488,943,386	490,901,164
Gearing ratio	67%	70%

23. 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;

	2019 KD	2018 KD
Within one year	14,645,644	14,190,080
Year 2 to 5 inclusive	60,970,794	73,300,158
After year 5	313,650,409	297,736,215
	389,266,847	385,226,453

24. 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 2019 (2018: nil).