

**Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)**

FINANCIAL STATEMENTS

31 DECEMBER 2018

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)

Opinion

We have audited the financial statements of Shuqaiq Water and Electricity Company (A Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. 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 professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-Laws, 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.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Shuqaiq Water and Electricity Company

(A Saudi Closed Joint Stock Company) (continued)

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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

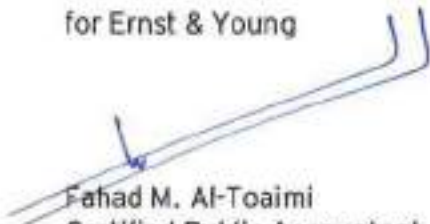
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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.

for Ernst & Young



Fahad M. Al-Toaimi
Certified Public Accountant
License No. 354



Riyadh: 17 Sha'aban 1440H
(22 April 2019)

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Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

		2018	2017
	Notes	SR'000	SR'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	5,388,981	5,553,958
Deferred tax assets	16	279	843
TOTAL NON-CURRENT ASSETS		5,389,260	5,554,801
CURRENT ASSETS			
Cash and cash equivalents	7	6,117	2,067
Account receivable, prepayments and other receivables	8	150,029	141,883
TOTAL CURRENT ASSETS		156,146	143,950
TOTAL ASSETS		5,545,406	5,698,751
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	1,120,000	1,120,000
Statutory reserve	11	53,468	34,514
Retained earnings		421,634	335,967
Equity before cash flow hedge reserve		1,595,102	1,490,481
Cash flow hedge reserve	12	(476,513)	(644,122)
TOTAL EQUITY		1,118,589	846,359
NON-CURRENT LIABILITIES			
Long term financing	13	3,405,308	3,661,338
Fair value of derivatives	12	404,591	545,873
Asset retirement obligation	6 (c)	130,500	126,375
Deferred tax liability	16	5,730	5,180
Employees' termination benefits	14	2,253	1,903
TOTAL NON-CURRENT LIABILITIES		3,948,382	4,340,669
CURRENT LIABILITIES			
Accounts payable, accruals and other liabilities	15	66,643	63,186
Current portion of long term financing	13	256,030	268,356
Short term financing	13	84,000	81,000
Fair value of derivatives	12	71,399	98,958
Zakat and income tax payable	16	363	223
TOTAL CURRENT LIABILITIES		478,435	511,723
TOTAL LIABILITIES		4,426,817	4,852,392
TOTAL EQUITY AND LIABILITIES		5,545,406	5,698,751

The attached notes 1 to 26 form an integral part of these financial statements.

Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

		2018	2017
	Notes	SR'000	SR'000
Revenue	17	798,700	775,916
Operating costs	18	(309,723)	(311,144)
GROSS PROFIT		488,977	464,772
EXPENSES			
General and administration expenses	19	(31,934)	(28,611)
OPERATING PROFIT		457,043	436,161
Interest income		1,689	1,159
Other income (expense)	20	794	(42)
Financial charges	13	(269,737)	(282,033)
PROFIT BEFORE ZAKAT AND TAX		189,789	155,245
Zakat and tax	16	(242)	(5,269)
NET PROFIT FOR THE YEAR		189,547	149,976
OTHER COMPREHENSIVE INCOME			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Net change in fair value of cash flow hedge reserve	12	168,841	119,223
Deferred tax in relation to cash flow hedge reserves		(1,232)	709
		167,609	119,932
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Re-measurement of defined benefit liability	14	74	(51)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		167,683	119,881
TOTAL COMPREHENSIVE INCOME		357,230	269,857
EARNINGS PER SHARE (in Saudi Riyals)	21	1.69	1.34

The attached notes 1 to 26 form an integral part of these financial statements.

Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital SR'000	Statutory reserve SR'000	Retained earnings SR'000	Cash flow hedge reserve SR'000	Total SR'000
Balance at 1 January 2017	1,120,000	19,516	331,040	(764,054)	706,502
Profit for the year	-	-	149,976	-	149,976
Other comprehensive income	-	-	(51)	119,932	119,881
Total comprehensive income for the year	-	-	149,925	119,932	269,857
Transfer to statutory reserve	-	14,998	(14,998)	-	-
Dividends (note 23)	-	-	(130,000)	-	(130,000)
Balance at 31 December 2017	1,120,000	34,514	335,967	(644,122)	846,359
Profit for the year	-	-	189,547	-	189,547
Other comprehensive income	-	-	74	167,609	167,683
Total comprehensive income for the year	-	-	189,621	167,609	357,230
Transfer to statutory reserve	-	18,954	(18,954)	-	-
Dividends (note 23)	-	-	(85,000)	-	(85,000)
Balance at 31 December 2018	1,120,000	53,468	421,634	(476,513)	1,118,589

The attached notes 1 to 26 form an integral part of these financial statements.

Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 SR'000	2017 SR'000
OPERATING ACTIVITIES			
Profit before zakat and income tax		189,789	155,245
Adjustments for:			
Depreciation	6	167,825	167,393
Financial charges	13	269,737	282,033
Provision for employees' terminal benefits	14	424	328
Write off of construction in progress	6	-	198
Loss on sale of property, plant and equipment	20	-	42
		<u>627,775</u>	<u>605,239</u>
Changes in operating assets and liabilities:			
Account receivable, prepayments and other receivables		(8,146)	7,335
Accounts payable, accruals and other liabilities		3,457	1,120
		<u>623,086</u>	<u>613,694</u>
Net cash from operations		623,086	613,694
Financial charges paid		(265,612)	(279,850)
Zakat and income tax paid	16	(220)	(1,489)
		<u>357,254</u>	<u>332,355</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	(2,848)	(4,952)
Proceeds from sale of property, plant and equipment		-	120
		<u>(2,848)</u>	<u>(4,832)</u>
Net cash used in investing activities		(2,848)	(4,832)
FINANCING ACTIVITIES			
Proceeds from short term financing		255,500	226,000
Repayment of short term financing		(252,500)	(190,000)
Repayment of long term financing		(268,356)	(250,635)
Dividends paid	23	(85,000)	(130,000)
		<u>(350,356)</u>	<u>(344,635)</u>
Net cash used in financing activities		(350,356)	(344,635)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		4,050	(17,112)
Cash and cash equivalents at the beginning of the year		2,067	19,179
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
		<u>6,117</u>	<u>2,067</u>
SIGNIFICANT NON-CASH TRANSACTIONS			
Net change in fair value of cash flow hedge reserve	12	168,841	119,223
Deferred tax in relation to cash flow hedge reserve		(1,232)	709
Re-measurement of defined benefit liability	14	74	(51)

The attached notes 1 to 26 form an integral part of these financial statements.

**Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)**

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

I. ACTIVITIES

Shuqaiq Water and Electricity Company (the "Company") is a Saudi closed joint stock company, established pursuant to Ministerial Resolution number 7/M dated 3 Safar 1428H (corresponding to 21 February 2007) under commercial registration number 5903012032 dated 6 Safar 1428H (corresponding to 24 February 2007).

The Company is engaged in development, construction, ownership, operations and maintenance of Shuqaiq II Water and Electricity Co-generation Project (the "Plant") in the Kingdom of Saudi Arabia and sale of desalinated water and electricity from the Plant.

The address of the Company's registered office is as follows:

P.O.Box 2576
Shuqaiq 45983, Jizan-45142
Kingdom of Saudi Arabia

On 28 February 2007, the Company entered into a Power and Wafer Purchase Agreement ("PWPA") with Water and Electricity Company ("WEC") pursuant to which the Company sells desalinated water and power for a period of 20 years from the Project Commercial Operation Date ("PCOD"). The PWPA is extendable for future periods, if mutually agreed upon. The PCOD was achieved on 1 May 2011, the date from which the PWPA was effective.

The Company has contracted First National Operation & Maintenance Company Limited ("NOMAC"), an affiliate, for operations and maintenance of its plant.

As at the reporting date, the Company's current liabilities are in excess of the current assets by SR 322 million (2017: SR 368 million). This is primarily due to the upcoming maturity of certain loans (note 13). Management is confident, based on the review of cashflow projections, that the loans will be paid from the cash to be generated from the normal operations of the Company. Accordingly, these financial statements are prepared on a going concern assumption.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

These financial statements are the statutory financial statements of the Company for the year ended 31 December 2018.

2.1 STATEMENT OF COMPLIANCE

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") ("IFRS as endorsed in KSA").

2.2 BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention except for derivative financial instruments which are measured at fair value. These financial statements are presented in Saudi Riyals (SR) which is the functional and presentation currency of the Company. All amounts in the financial statements are rounded to the nearest thousand (SR'000), except when otherwise indicated.

Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment

Property, plant and equipment, except land and work in progress, is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Capital work-in-progress (CWIP) are stated at cost less accumulated impairment loss, if any. CWIP represents all costs relating directly or indirectly to the projects in progress and will be accounted for under relevant category under noncurrent assets. Cost includes cost of equipment, material, professional fees, other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. When commissioned, CWIP is classified to the appropriate property, plant and equipment category and depreciated in accordance with the Company's policy.

The cost less estimated residual value of other items of property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognised. The residual value, useful lives and method of depreciation of property, plant and equipment are reviewed at each reporting date and adjusted prospectively.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Finance lease

Where the Company determines a long term power supply arrangement to be, or to contain, a lease and where the Company transfers substantially all the risks and benefits incidental to ownership of the leased item, the arrangement is considered as a finance lease. A finance lease is presented as net investment in finance lease and is recognized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments received are apportioned between finance income and the reduction of the net investment in finance lease so as to achieve a constant rate of commission on the remaining balance of the asset.

The amount of net investment in finance lease is recorded in the statement of financial position as an asset at the gross amount receivable under the finance lease less unearned finance income.

Operating lease

Arrangements which meet the criteria for operating leases are classified as such. Initial direct costs incurred in negotiating a lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

Financial instruments

Initial recognition

The Company records financial asset or a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument.

At initial recognition, financial assets or financial liabilities are measured at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. In the case of financial assets or financial liabilities not at fair value through profit or loss, its fair value including the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability is the initial recognition amount.

Classification

The Company classifies its financial assets under the following categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

These classifications are on the basis of business model of the Company for managing the financial assets, and contractual cash flow characteristics.

The Company measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Company classifies all non-derivative financial liabilities as subsequently measured at amortised cost using the effective interest rate method.

The Company designates a non-derivative financial liability at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistency or where a group of financial liabilities is managed and its performance is evaluated on a fair value basis.

Derecognition

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

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

At 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's 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.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. 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 the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount 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, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its cash flow exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

When the Company discontinues hedge accounting for a cash flow hedge, the amount that has been accumulated in the cash flow hedge reserve remains in equity if the hedged future cash flows are still expected to occur, until such cash flows occur. If the hedged future cash flows are no longer expected to occur, that amount is immediately reclassified to profit or loss.

Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Company discontinues hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after any rebalancing). This includes instances when the hedging instrument expires or is sold, terminated or exercised.

Current versus non-current classification

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

Dividends

Final dividends are recognised as a liability at the time of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consists of bank balances and cash on hand and bank deposits with original maturities of three months or less.

Accounts receivable

Accounts receivable are stated at amortised cost less allowance for any impairment for expected credit losses. The impairment allowance is charged to the statement of profit or loss and other comprehensive income and reported under "General and administration expenses". When a receivable is uncollectible, it is written-off against the impairment allowance. Any subsequent recoveries of amounts previously written-off are credited against "General and administration expenses" in the statement of profit or loss and other comprehensive income.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. If the effect of time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in the provision in the provision due to passage of time is recognised as finance costs.

Employees' benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Past-employment obligation

The Company operates a post-employment benefit scheme driven by the labour laws of the country in which it operates.

The post-employment benefit scheme is not funded. Valuation of the obligation under such scheme is carried out by an independent actuary based on the projected unit credit method. The costs relating to such scheme primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' benefits (continued)

Post-employment obligation (continued)

Current and past service costs related to post-employment benefits are recognised immediately as "employee costs" in the statement of profit or loss and other comprehensive income and unwinding of the liability at discount rates used are recorded as "financial charges" in the statement of profit or loss and other comprehensive income. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. Remeasurement gains and losses are not reclassified to profit or loss in subsequent periods.

Changes in the present value of the defined benefit obligation resulting from scheme amendments or curtailments are recognised immediately in the statement of profit or loss as past service costs.

Accounts payable and other liabilities

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. These are initially recognised at fair value and subsequently remeasured at amortised cost.

Statutory reserve

In accordance with the Company's by-laws and the requirements of Companies' Law, the Company must set aside 10% of its income after zakat and income tax in each year until it has built up a reserve equal to 30% of its capital. The reserve is not available for distribution.

Earnings per share

Earnings per share are calculated by dividing net profit for the year by the weighted average number of ordinary shares outstanding during the year.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Supply of desalinated water and power

Revenue from supply of desalinated water and power is recognised upon delivery of desalinated water and power to the customer on an accrual basis. Capacity charge income (excluding receipts for services provided, such as insurance and maintenance) under Power and Water Purchase Agreements ("PWPA") for each hour during which the plant is available for power generation and/or water desalination is recognised on a straight-line basis over the lease term or upon actual billing period as appropriate considering the terms of PWPA. The component of billed revenue related to goods/services not delivered or performed are recorded as deferred liability and reported in statement of financial position as deferred revenue.

Energy charge revenue which compensates the Company for the fuel and variable cost of power and water delivered is recognized based on the supply of generated power and desalinated water. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due and associated costs.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax

The Company is subject to the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accrual basis. Zakat charge is computed on the zakat base.

Income tax is computed on adjusted net income. Any difference in the estimate is recorded when the final assessment is approved. Differences if any resulting from final assessment are adjusted in the year of finalisation.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations

A number of new and amended standards and interpretations were applicable to the Company's financial statements for the first time during 2018. The Company has adopted all such new and amended standards and interpretations in the preparation of these financial statements. The nature and effect of the changes as a result of adoption of these standards and interpretations are described below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 "Construction Contracts", IAS 18 "Revenue" and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Management opted for a modified retrospective application of IFRS 15 which did not result in any significant adjustment to the financial statements of the Company as at 1 January 2018.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation did not have any impact on the Company's financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are not relevant to the Company's financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. These amendments are not relevant to the Company's financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Company's financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Company's financial statements.

New standards, amendments and interpretations issued but yet effective and not early adopted

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces 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". IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17. The Company has not yet carried out an impact assessment relating to the adoption of this new standard.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and interpretations issued but not yet effective and not early adopted (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 "Insurance Contracts" (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 "Insurance Contracts" (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Management believes that this standard is not applicable to the Company's financial statements as the Company has no insurance activities.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply the interpretation from its effective date. The management believes that the interpretation will not have any significant impact to the Company's financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. Management believes that these amendments have no significant impact on the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and interpretations issued but not yet effective and not early adopted (continued)

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Company will apply these amendments when they become effective.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to re-measure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to re-measure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Company does not have such long-term interests, the amendments will not have an impact on its financial statements.

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and interpretations issued but not yet effective and not early adopted (continued)

Annual Improvements

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re-measuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer re-measures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Company.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not re-measured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

4. SIGNIFICANT ACCOUNTING ESTIMATES

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Fair value of unquoted financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, the fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Company enters into derivative financial instruments with various counterparties, principally financial institutions. Derivatives include interest rate swaps which are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the interest rate curves.

Useful lives of property, plant and equipment

The Company's management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Decommissioning liability (Asset Retirement Obligation)

The Company assesses its Asset Retirement Obligation ("ARO") at each reporting date. Significant estimates and assumptions are made in determining the provision for ARO as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of decommissioning activities, inflation rates and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. Any provision at reporting date represents management's best estimate of the present value of the future costs required.

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Company's financial statements continue to be prepared on a going concern basis.

Defined benefit scheme (Employees' terminal benefits)

The cost of defined benefit scheme and the present value of such obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the respective countries. Further details about employees' terminal benefits obligations are provided in note 14.

5. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and benefit its stakeholders. Management's policy is to maintain a strong capital base to maintain creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments in light of changes in economic conditions.

The Company is not subject to significant externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the current and prior year. For the purpose of the Company's capital management, capital includes share capital, retained earnings and statutory reserve and amounts to SR 1,595,102 as at 31 December 2018 (31 December 2017: SR 1,490,481)

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Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

6. PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for calculation of depreciation are as follows:

Building	40 years	Furniture, fixtures and equipment	4 to 10 years
Plant and machinery	20 to 40 years	Motor vehicles	4 years
Capital spares	20 years		

	Building SR'000	Plant and machinery SR'000	Capital spares SR'000	Furniture, fixtures and equipment SR'000	Motor vehicles SR'000	Capital work in progress SR'000	Total 2018 SR'000
<i>For the year ended 31 December 2018</i>							
<i>Cost:</i>							
At beginning of the year	49,458	6,680,572	42,797	1,697	602	520	6,775,646
Additions during the year	49	-	2,712	87	-	-	2,848
<i>At end of the year</i>	<u>49,507</u>	<u>6,680,572</u>	<u>45,509</u>	<u>1,784</u>	<u>602</u>	<u>520</u>	<u>6,778,494</u>
<i>Accumulated depreciation:</i>							
At beginning of the year	11,652	1,196,836	12,431	607	162	-	1,221,688
Depreciation charge for the year	1,279	163,908	2,196	293	149	-	167,825
<i>At end of the year</i>	<u>12,931</u>	<u>1,360,744</u>	<u>14,627</u>	<u>900</u>	<u>311</u>	<u>-</u>	<u>1,389,513</u>
<i>Net book value:</i>							
At 31 December 2018	<u>36,576</u>	<u>5,319,828</u>	<u>30,882</u>	<u>884</u>	<u>291</u>	<u>520</u>	<u>5,388,981</u>

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

6. PROPERTY, PLANT AND EQUIPMENT (continued)

	Building SR'000	Plant and machinery SR'000	Capital spares SR'000	Furniture, fixtures and equipment SR'000	Motor vehicles SR'000	Capital work in progress SR'000	Total 2017 SR'000
<i>For the year ended 31 December 2017</i>							
<i>Cost:</i>							
At beginning of the year	48,565	6,680,572	39,697	2,458	2,550	718	6,774,560
Additions during the year	893	-	3,100	560	399	-	4,952
Disposals during the year	-	-	-	(1,321)	(2,347)	-	(3,668)
Write-offs during the year	-	-	-	-	-	(198)	(198)
<i>At end of the year</i>	<u>49,458</u>	<u>6,680,572</u>	<u>42,797</u>	<u>1,697</u>	<u>602</u>	<u>520</u>	<u>6,775,646</u>
<i>Accumulated depreciation:</i>							
At beginning of the year	10,388	1,033,178	10,381	1,677	2,177	-	1,057,801
Depreciation charge for the year	1,264	163,658	2,050	251	170	-	167,393
Relating to disposals during the year	-	-	-	(1,321)	(2,185)	-	(3,506)
<i>At end of the year</i>	<u>11,652</u>	<u>1,196,836</u>	<u>12,431</u>	<u>607</u>	<u>162</u>	<u>-</u>	<u>1,221,688</u>
<i>Net book value:</i>							
At 31 December 2017	<u>37,806</u>	<u>5,483,736</u>	<u>30,366</u>	<u>1,090</u>	<u>440</u>	<u>520</u>	<u>5,553,958</u>

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

6. PROPERTY, PLANT AND EQUIPMENT (continued)

a) *Collateralisation*

'Building' and 'Plant and machinery' are collateralised against long-term financing arrangements entered into by the Company for the purpose of financing the construction of the Plant (note 13).

b) *Leasehold land*

The project is constructed on land leased from Saline Water Conversion Corporation ("SWCC") at a nominal rent for an initial term of 20 years from the commencement of the commercial operations and is renewable for further periods subject to agreement of both parties.

c) *Asset Retirement Obligation*

The Company assesses its Asset Retirement Obligation ("ARO") at each reporting date. Significant estimates and assumptions are made in determining the provision for ARO, as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future costs.

During 2018, there was unwinding of the ARO aggregating to SR 4.1 million (31 December 2017: SR 3.4 million). As at 31 December 2018, the Company estimated an amount of SR 130.5 million (31 December 2017: SR 126.4 million) is required in respect of ARO for its Plant.

The depreciation charge has been allocated as follows:

	31 December 2018 SR'000	31 December 2017 SR'000
Operating costs (note 18)	166,104	165,708
General and administration expenses (note 19)	1,721	1,685
	<u>167,825</u>	<u>167,393</u>

7. CASH AND CASH EQUIVALENTS

	31 December 2018 SR'000	31 December 2017 SR'000
Cash at bank	6,103	2,061
Cash in hand	14	6
	<u>6,117</u>	<u>2,067</u>

The management has conducted a review as required under IFRS 9 and based on such assessment, management believes that there is no need for any significant impairment loss against the carrying value of cash equivalents.

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

8. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES

	<i>31 December 2018 SR'000</i>	<i>31 December 2017 SR'000</i>
Due from Water and Electricity Company ("WEC"), a related party (note 8.1)	138,410	134,409
Accrued revenue	3,103	4,476
Prepayments	6,433	2,160
Advances to contractors	1,632	306
Advances to employees	417	495
Due from other related parties (note 9)	1	3
Others	33	34
	<u>150,029</u>	<u>141,883</u>

The management has conducted a review as required under IFRS 9 and based on such assessment, management believes that there is no need for any significant impairment against the carrying values of accounts and other receivables.

8.1 WEC is a Government entity and is owned by Ministry of Finance.

9. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Company transacted with its related parties, the terms of which are approved by management of the company in the ordinary course of business. The following are the details of major related party transactions during the year:

<i>Related party</i>	<i>Nature of transactions</i>	<i>31 December 2018 SR'000</i>	<i>31 December 2017 SR'000</i>
<i>Affiliates</i>	Capacity and output invoices under PWPA (WEC) (note 17)	798,700	775,916
	Secondment and service costs	3,167	3,513
	Annual management fee (note 19)	3,750	3,750
	Operation and maintenance costs (note 18)	132,312	136,105
	Rent for lease of land	1,477	1,716
<i>Directors</i>	Remuneration and allowances	1,875	1,875
<i>Senior management</i>	Salaries and benefits	2,815	3,214

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

9. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The breakdown of amounts due from / to related parties at the reporting date are as follows:

	Relationships	Balance	
		31 December 2018 SR'000	31 December 2017 SR'000
<i>Due from related parties</i>			
WEC	Affiliate	138,410	134,409
ACWA Power Saudi Electricity and Water Development Co.	Affiliate	1	3
		<u>138,411</u>	<u>134,412</u>
<i>Due to related parties</i>			
First National Operation and Maintenance Co. Ltd.	Affiliate	25,314	24,204
Arabian Company for Water and Power Projects Limited	Affiliate	476	3,553
		<u>25,790</u>	<u>27,757</u>

The related party balances are unsecured, interest free and the settlement occurs in cash. The Company did not record any impairment against receivables from related parties during the current and prior year.

10. SHARE CAPITAL

The Company's authorised and fully paid up share capital consists of 112,000,000 shares of SR 10 each (31 December 2017: 112,000,000 shares of SR 10 each).

Shareholders

	Number of shares held		Percentage
	31 December 2018	31 December 2017	
Shuqaiq International Water and Electricity Company	67,200,000	67,200,000	60%
Water and Electricity Holding Company	35,840,000	35,840,000	32%
Saudi Electricity Company	8,960,000	8,960,000	8%
Total	<u>112,000,000</u>	<u>112,000,000</u>	<u>100%</u>

11. STATUTORY RESERVE

In accordance with the Company's By-Laws and the requirements of Companies' Law, the Company must set aside 10% of its income after zakat and income tax in each year until it has built up a reserve equal to 30% of its capital.

The statutory reserve is not available for distribution.

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

12. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives designated as hedging instruments

As at 31 December 2018, the Company held Interest Rate Swaps ("IRS") of a notional value of SR 3,754 million (31 December 2017: SR 4,014 million), in order to reduce its exposure to interest rate risks against long-term financing (see note 13). The table below shows the fair values of derivative financial instruments, recorded as liabilities, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

	31 December 2018		31 December 2017	
	SR'000		SR'000	
	<i>Liabilities</i>	<i>Notional amount</i>	<i>Liabilities</i>	<i>Notional amount</i>
<i>Cash flow hedges</i>				
Interest rate swaps	475,990	3,753,746	644,831	4,014,352

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the rate underlying a derivative contract may have a significant impact on the income or equity component of the Company.

Fair values of cash flow hedge amounting to SR 71.40 million and SR 404.59 million (31 December 2017: SR 98.96 million and SR 545.87 million) represents the current and non-current portion of the negative mark to market values of the interest rate swaps as of 31 December 2018 respectively. The cash flow hedge reserve represents the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss. Under the finance agreements, the hedges are required to be held until maturity of the loans.

13. TERM FINANCING

The Company has entered into the following long-term financing arrangements for the purpose of financing the construction of the project:

- a) The Syndicated commercial long-term facility bears an interest rate of LIBOR plus an agreed margin. The debt is repayable in semi-annual variable installments, which commenced on 31 May 2011 and will end on 31 May 2029.
- b) The Islamic syndicated facility in the form of Islamic leasing of certain assets is repayable in semi-annual variable installments, which commenced on 31 May 2011 and will end on 31 May 2029. The facility bears a special commission rate of LIBOR plus an agreed margin.
- c) The syndicated junior facility bears a special commission rate of LIBOR plus an agreed margin and is subject to commitment fee calculated on the unutilised balance of the facility. The debt is repayable in semi-annual variable installments ending on 31 May 2021.
- d) The Company has also obtained a short term working capital facility from a local bank. The facility is repayable within one year from the date of draw down. This carries interest at floating commercial rates.

Pursuant to a Common Terms Agreement ("CTA") between the Company and the arrangers of the facilities (except for short term working capital facility); the facilities are secured by a legal charge over the Company's interests in leases of land and any plant and equipment erected thereon constituting fixtures.

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

13. TERM FINANCING (continued)

The CTA includes certain covenants, which include charge over bank accounts, restriction on further debt acquisition other than the facilities as detailed above. The Company had the following outstanding in relation to the above facilities:

	31 December 2018 SR'000	31 December 2017 SR'000
Syndicated commercial long-term facility (a)	3,162,774	3,316,887
Islamic syndicated facility (b)	447,346	469,346
Syndicated Junior facility (c)	51,218	143,461
Working capital facility (d)	84,000	81,000
	<u>3,745,338</u>	<u>4,010,694</u>
Less: Current portion of long term financing	(256,030)	(268,356)
Working capital facility	(84,000)	(81,000)
	<u>3,405,308</u>	<u>3,661,338</u>

The above long-term financing is disclosed net of related unamortised upfront charges (including commitment fees) amounting to SR 54 million as at 31 December 2018 (31 December 2017: SR 60 million).

Financial charges recognised in profit or loss for the year are comprised of:

	31 December 2018 SR'000	31 December 2017 SR'000
Interest charges on cash flow hedges, net	116,246	156,265
Financing costs	149,366	122,393
Provision for asset retirement obligation (note 6c)	4,125	3,375
	<u>269,737</u>	<u>282,033</u>

14. EMPLOYEE BENEFITS

The movement of employee benefits (end of service) liability (unfunded) is as follows:

	31 December 2018 SR'000	31 December 2017 SR'000
At beginning of the year	1,903	1,524
Charge for the year (including actuarial gain/loss)	350	379
	<u>2,253</u>	<u>1,903</u>
At end of the year		

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

14 EMPLOYEE BENEFITS (continued)

Details of employees' end-of-service expense as presented on the statement of profit or loss and other comprehensive income is as follows:

	31 December 2018 SR'000	31 December 2017 SR'000
Interest cost	90	69
Current service cost	334	259
Actuarial (gain) loss – other comprehensive income	(74)	51
	<u>350</u>	<u>379</u>

Assumptions

The principal actuarial assumptions used are as follows:

	31 December 2018	31 December 2017
Discount rate	5.25%	4.25%
Increments	5.00%	5.00%
Resignation rate		
18 - 20 years old	22.50%	22.50%
21 - 25 years old	18.80%	18.80%
26 - 30 years old	15.00%	15.00%
31 - 50 years old	7.50%	7.50%
51 - 59 years old	3.80%	3.80%

Discount rate

IAS 19 requires the discount rate to be set based on the yields on high quality corporate bonds or government bonds of duration and currency consistent with the liabilities. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The discount rate has instead been based on US Corporate bonds yields. This is considered appropriate given that the Saudi Riyal is currently pegged to the US Dollar.

Further, a risk premium to a US discount rate to reflect a credit spread and the risk of the currency linkage being broken has also been used. The Company used a margin of 100bps above US bonds of duration consistent with that of the liabilities.

The assumptions have been determined based on the market conditions at each valuation date. The movement in the discount rate represents the movement of US Corporate Bond Yields between the valuation dates.

Increments

The assumption for future salary increases has been determined by the Company based on its long term expectations, reflecting both inflationary and promotional increases.

Resignation rates

The turnover assumption determines the rate at which individuals are assumed to resign from the Company before retirement.

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

14 EMPLOYEE BENEFITS (continued)

Sensitivity analysis

The table below shows the change in end of service liability based on a reasonable possible change in the base assumption value for discount and increment rates:

	Change (bps)	Increase (decrease) in EOSB liability	
		31 December 2018 SR'000	31 December 2017 SR'000
Discount rate	+ 100	(224)	(188)
	- 100	251	212
Increments	+ 100	250	220
	- 100	(227)	(198)

15. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	31 December 2018 SR'000	31 December 2017 SR'000
Due to related parties (note 9)	25,790	27,757
Accrued finance charges	22,247	23,001
VAT payable	5,840	-
Withholding tax payable	3,759	4,918
Accounts payable	2,058	2,115
Other liabilities	6,949	5,395
	<u>66,643</u>	<u>63,186</u>

16. ZAKAT AND TAX

Amounts recognised in profit or loss

	31 December 2018 SR'000	31 December 2017 SR'000
Zakat expense		
Current zakat	193	88
	<u>193</u>	<u>88</u>
Tax expense		
Current tax	167	135
Deferred tax	(118)	5,046
	<u>49</u>	<u>5,181</u>
Zakat and tax expense	<u>242</u>	<u>5,269</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

16. ZAKAT AND TAX (continued)

Zakat

The principal elements of the zakat base attributable to Saudi shareholders are as follows:

	31 December 2018 SR'000	31 December 2017 SR'000
Equity	1,337,876	1,218,817
Opening allowances and other adjustments	3,612,139	3,641,621
Book value of long term assets and other adjustments	(5,089,763)	(4,903,328)
	<u>(139,748)</u>	<u>(42,890)</u>
Zakatable results for the year	147,423	46,430
Zakat base	<u>7,675</u>	<u>3,540</u>
Zakat @ 2.5%	<u>193</u>	<u>88</u>

During the year, the zakat provision amounting to SR 193 thousand (2017: SR 88 thousand) was recorded by the Company. The difference between the financial and the zakatable results are mainly due to certain disallowances / claims made as per fiscal regulation.

Income tax

Saudi Arabian Oil Company (Saudi Aramco) directly holds 6.93% in the Saudi Electricity Company (SEC). Since 2017, such shareholding is considered as subject to tax in light of the Royal Decree No. M/131 dated 20 September 2017.

During 2017, Shuqaiq Arabian Water and Electricity Company (SAWEC) sold 13.33% of its shares in Shuqaiq International Water and Electricity Company (SIWEC) to Arab Petroleum Investments Corporation (APICORP) resulting in a 2.88% increase in non-Saudi shareholding.

Further, 1.62% non-Saudi shareholding is represented by International Finance Corporation (IFC). The General Authority for Zakat and Tax (GAZT) vide its letter no. 4954/16/1436 dated 16/7/1436H (5 May 2015) had advised that IFC is exempt from corporate tax. Accordingly, no corporate tax is applicable on such non-Saudi share of adjusted profits in the Company.

The difference between the financial and the taxable results are mainly due to certain disallowances / claims made as per fiscal regulations. Income tax has been provided for based on the estimated taxable profit at a rate of 20% (2017: 20%).

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

16. ZAKAT AND TAX (continued)

Deferred tax

Movement in deferred tax balances

The deferred tax asset/liability and deferred tax charge/credit in the statement of profit or loss and other comprehensive income are attributable to the following items:

	<i>Net balance at 1 January</i>	<i>Recognised in profit or loss</i>	<i>Recognised in OCI</i>	<i>Net balance at 31 December</i>	<i>Deferred tax assets</i>	<i>Deferred tax liabilities</i>
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
2018						
Property, plant and equipment	(5,180)	(27)	-	(5,207)	-	(5,207)
Employees' terminal benefits	2	1	-	3	3	-
Carry forward losses	132	-	-	132	132	-
Negative fair value of derivatives	709	-	(1,232)	(523)	-	(523)
Asset retirement obligation	-	144	-	144	144	-
	<u>(4,337)</u>	<u>118</u>	<u>(1,232)</u>	<u>(5,451)</u>	<u>279</u>	<u>(5,730)</u>
	<i>Net balance at 1 January</i>	<i>Recognised in profit or loss</i>	<i>Recognised in OCI</i>	<i>Net balance at 31 December</i>	<i>Deferred tax assets</i>	<i>Deferred tax liabilities</i>
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
2017						
Property, plant and equipment	-	(5,180)	-	(5,180)	-	(5,180)
Employees' terminal benefits	-	2	-	2	2	-
Carry forward losses	-	132	-	132	132	-
Negative fair value of derivatives	-	-	709	709	709	-
	<u>-</u>	<u>(5,046)</u>	<u>709</u>	<u>(4,337)</u>	<u>843</u>	<u>(5,180)</u>

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

16. ZAKAT AND TAX (continued)

Zakat and current tax provision for the year

The movement in zakat and tax provision for the year was as follows:

	Zakat SR'000	Company Tax SR'000	Total SR'000
31 December 2018			
At beginning of the year	88	135	223
Charge for the year	193	167	360
Payments during the year	(88)	(132)	(220)
At end of the year	<u>193</u>	<u>170</u>	<u>363</u>
31 December 2017			
At beginning of the year	1,489	-	1,489
Charge for the year	88	135	223
Payments during the year	(1,489)	-	(1,489)
At end of the year	<u>88</u>	<u>135</u>	<u>223</u>

Status of assessments

Zakat and income tax returns for all years up to 2017 have been filed with General Authority of Zakat and Tax ("GAZT"). However, final assessments have not been raised by GAZT.

17. REVENUE

This represents operating lease revenue and includes (i) Capacity payment for desalinated water and power, and (ii) Output payment for desalinated water and power. Capacity payments represent the major portion of the invoices issued during the year.

	31 December 2018 SR'000	31 December 2017 SR'000
Capacity payments	746,113	722,576
Output payments	50,457	51,210
Fuel payments	2,130	2,130
	<u>798,700</u>	<u>775,916</u>

Future minimum operating lease revenue by year are as follows:

	31 December 2018 SR'000	31 December 2017 SR'000
Within 1 year	795,380	802,984
1 – 5 years	3,126,920	3,210,470
Over 5 years	6,181,700	6,893,530
	<u>10,104,000</u>	<u>10,906,984</u>

The management has assumed certain reliability/availability factors to calculate the above mentioned future minimum lease operating revenue, which are determined from Capacity payments (excluding output payments). These future minimum lease payments are based upon current expectations, estimates and projections that are susceptible to risk and uncertainties which could cause actual results to differ from those anticipated by the management.

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

18. OPERATING COSTS

	31 December 2018 SR'000	31 December 2017 SR'000
Depreciation (note 6)	166,104	165,708
Operation and maintenance costs (note 9)	132,312	136,105
Insurance costs	9,164	9,331
Repair and maintenance	2,143	-
	<u>309,723</u>	<u>311,144</u>

19. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2018 SR'000	31 December 2017 SR'000
Employee costs	10,472	9,675
Training and seminar expenses	5,158	2,609
Annual management fee (note 9)	3,750	3,750
Withholding tax expense	3,050	2,463
Professional and consultancy fees	2,538	2,205
Board meeting expenses	2,033	1,723
Depreciation (note 6)	1,721	1,685
Rent expense	1,684	1,918
Travel expenses	364	580
Repairs and maintenance expenses	178	846
Other expenses	986	1,157
	<u>31,934</u>	<u>28,611</u>

20. OTHER INCOME (EXPENSE)

	31 December 2018 SR'000	31 December 2017 SR'000
Insurance claim	794	-
Loss on disposal of property, plant and equipment	-	(42)
	<u>794</u>	<u>(42)</u>

21. EARNINGS PER SHARE

Earnings per share have been computed by dividing net profit for the year by the weighted average number of ordinary shares of 112,000,000 (31 December 2017: 112,000,000) outstanding during the year (note 10). The weighted average number of ordinary shares outstanding during the year is the number of ordinary shares outstanding at the beginning of the year, adjusted by the number of ordinary shares issued during the year multiplied by a time-weighting factor. The time weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the year.

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

22. COMMITMENTS AND CONTINGENCIES

The Company has no contractual commitments for capital expenditure at the reporting date.

23. DIVIDENDS

During 2018, an interim dividend of SR 0.76 per share (31 December 2017: SR 1.16 per share) totaling SR 85 million (2017: SR 130 million) was declared and paid in full.

24. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by senior management. The most important types of risk are summarised below.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables.

The table below shows the Company's maximum exposure to credit risk for components of the statement of financial position.

	31 December 2018 SR'000	31 December 2017 SR'000
Bank balances	6,103	2,061
Due from WEC	138,410	134,409
Due from related parties	1	3
Other financial assets	5,185	5,311
	<u>149,699</u>	<u>141,784</u>

Bank balances

Credit risk on bank balances is limited as same are held with banks with sound credit ratings.

Trade receivables

The Company's exposure to credit risk on trade receivables is influenced mainly by the individual characteristics of each customer. The Company's only customer is a related party (WEC) and the sales revenue and receivable amount is set as per PWPA. The Company believes that the credit risk associated with this receivable is very low as management considers WEC as an entity related to the Government of Saudi Arabia.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

24. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Trade receivables (continued)

As of 31 December 2018, the ageing of trade receivables that were not impaired was as follows:

	31 December 2018 SR'000	31 December 2017 SR'000
Neither past due nor impaired	138,410	133,611
Past due 1-30 days	-	189
Past due 31-90 days	-	485
Past due 91-120 days	-	-
More than 120 days	-	124
	<u>138,410</u>	<u>134,409</u>

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behaviour and management's analysis of credit risk, including customers' credit ratings, where available.

Other financial assets

Other financial assets include accrued revenue, advances to employees and contractors and other receivables. There is no credit risk attached to advances to employees. Management believes that credit risk attached to other financial instruments is not significant and the Company expects to recover all such amounts fully at the stated carrying amounts.

Credit concentration

Except as disclosed above for trade receivables, no significant concentrations of credit risk were identified by the management as at the reporting date.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from Company's inability to sell a financial asset quickly at an amount close to its fair value. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Company's reputation. Accordingly, the Company ensures that sufficient bank facilities and funding from related parties are available at all times.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

24. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include contractual interest payments:

	Within 3 months SR'000	3 months to 1 year SR'000	1 to 5 years SR'000	More than 5 years SR'000	Total SR'000
31 December 2018					
<i>Non-derivative financial liabilities</i>					
Term financing*	81,300	412,149	1,713,050	2,603,933	4,810,432
Trade payables, accruals and other liabilities*	34,797	-	-	-	34,797
	<u>116,097</u>	<u>412,149</u>	<u>1,713,050</u>	<u>2,603,933</u>	<u>4,845,229</u>
<i>Derivative financial liabilities</i>					
Interest rate swaps used for hedging	-	90,213	251,304	315,485	657,002
	<u>-</u>	<u>90,213</u>	<u>251,304</u>	<u>315,485</u>	<u>657,002</u>
31 December 2017					
<i>Non-derivative financial liabilities</i>					
Term financing*	83,486	395,982	1,567,101	2,747,169	4,793,738
Trade payables, accruals and other liabilities*	35,143	124	-	-	35,267
	<u>118,629</u>	<u>396,106</u>	<u>1,567,101</u>	<u>2,747,169</u>	<u>4,829,005</u>
<i>Derivative financial liabilities</i>					
Interest rate swaps used for hedging	-	136,241	391,873	344,158	872,272
	<u>-</u>	<u>136,241</u>	<u>391,873</u>	<u>344,158</u>	<u>872,272</u>

*For the purpose of above disclosure, accrued finance charges are included within term financing.

The cash flows disclosed in the above table in respect of derivative represent contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed out before contractual maturity.

The interest payments on variable interest rate loans included in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rate changes.

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Company's income or cash flows. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

The Company uses derivatives to manage market risks. All such transactions are carried out in accordance with Company's policies and practices. Generally, the Company seeks to apply hedge accounting to manage volatility in profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

24. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company neither has monetary assets or liabilities nor did it undertake significant transactions in currencies other than Saudi Riyals and US Dollars. Since Saudi Riyal is on a fixed parity with the US Dollar, the management believes that the Company does not have any significant exposure to currency risk.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company is subject to interest rate risk on term loans. The Company hedges long term interest rate sensitivities through hedge strategies, including use of derivative financial instruments and regularly monitors market interest rates.

The interest rate profile of the Company's interest bearing financial instruments as reported to the management of the Company is as follows:

	31 December 2018 SR'000	31 December 2017 SR'000
<i>Variable rate instruments</i>		
Financial liabilities	3,745,338	4,010,694

The Company does not account for any fixed rate interest bearing financial assets or financial liabilities at fair value and therefore the Company is not exposed to any fair value interest rate risk.

Sensitivity analysis

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit or loss	
	100 bps increase	100 bps decrease
<i>31 December 2018</i>		
Variable rate financial liabilities	(37,992)	37,992
Interest rate swaps	37,537	(37,537)
Net sensitivity	(455)	455
<i>31 December 2017</i>		
Variable rate financial liabilities	(43,443)	43,443
Interest rate swaps	40,144	(40,144)
Net sensitivity	(3,299)	3,299

Shuqaiq Water and Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS (continued)

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24. FINANCIAL RISK MANAGEMENT (continued)

Derivative assets and liabilities designated as cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the carrying amounts of the related hedging instruments.

	Carrying amount SR'000	Total SR'000	Expected cash flows	
			12 months or less SR'000	More than one year SR'000
31 December 2018				
<i>Interest rate swaps</i>				
Liabilities	<u>475,990</u>	<u>657,002</u>	<u>90,213</u>	<u>566,789</u>
31 December 2017				
<i>Interest rate swaps</i>				
Liabilities	<u>644,831</u>	<u>872,272</u>	<u>136,241</u>	<u>736,031</u>

25. 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. 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.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized in to different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable input).

The following table shows an analysis of financial instruments measured at fair value by their level of fair value hierarchy:

	Carrying amount SR'000	Fair Value			Total SR'000
		Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	
As at 31 December 2018					
Fair value of derivatives	<u>475,990</u>	<u>-</u>	<u>475,990</u>	<u>-</u>	<u>475,990</u>
As at 31 December 2017					
Fair value of derivatives	<u>644,831</u>	<u>-</u>	<u>644,831</u>	<u>-</u>	<u>644,831</u>

Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value of other financial instruments has been assessed by management to be approximate to their carrying amounts due to frequent re-pricing and/or their short-term nature.

Derivatives are valued using discounted cash flows approach which is effectively a present value of expected payments or receipts discounted using the risk adjusted discount rate or the market discount rate applicable for a recent comparable transaction.

26. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 11 Rajab 1440H, corresponding to 18 March 2019.

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