

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

**Independent auditor's report on review of condensed interim
financial information for the nine months ended 30 September 2020**

<i>Contents</i>	<i>Page</i>
Board of directors' report	1 – 2
Independent auditor's report on review of condensed interim financial information	3 – 4
Condensed statement of financial position	5
Condensed statement of profit or loss and other comprehensive income	6
Condensed statement of changes in equity	7
Condensed statement of cash flows	8
Notes to the condensed interim financial information	9 - 17

Shamal Az-Zour Al-Oula K.S.C.
Directors' report for the nine months ended 30 September 2020

Dear Shareholders

On behalf of the Board of Directors of the Company, it gives me great pleasure to present the Board of Directors' Report for the nine months ended 30 September 2020.

1. Operational performance

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

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

Following the successful share distribution in the fourth quarter of 2019, the Company listed on Boursa Kuwait on 16 August 2020. 50% of the Company's shares are now traded on the market, 5% are held by the Kuwait Investment Authority and 5% by the Public Institution for Social Security. The remaining 40% is held by Azour North One Holding Company K. S. C. C. ("the Parent Company") and divided between the project sponsors as follows: Engie (17.5%), Sumitomo Corporation (17.5%) and A.H. Al Sagar & Bros. (5%).

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

The plant has generally met its technical performance expectations in terms of available capacity and electricity generated and water produced during the period, although an incident in February led to one of the gas turbines being out of production until early July 2020. The incident had a minor impact on the revenues of the Company as the majority of costs were covered by insurance. A lost time accident occurred in April when an employee required hospital treatment due to sustaining burns.

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

2. Financial performance

The Company generated a net profit for the nine month period ended 30 September 2020 of KD 9,544,890.

The shareholders of the Company approved the maiden dividend of 25 fils per share at the annual general meeting held on 17 September 2020.

3. Corporate governance

The Company has a Board of Directors with five members. The Board of Directors held five meetings during the period to 30 September 2020. None of the Directors received any remuneration from the Company during the period.

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

4. Directors

The directors of the Company during the period were as follows:

Eng Yousef Mohammad Ali Al Hajri – Chairman (replaced by Eng Husam Abdullah Al Roumi in February)

Mr Alexander Katon - Vice-Chairman

Mr Hani Mohammad Al Jazzaf (replaced by Mr. Ghazi Abdulrahman AlSanie in September)

Mr Quentin des Cressonnieres and

Mr Paul Frain – Chief Executive Officer.

5. Auditor

The financial statements have been reviewed by KPMG Safi Al-Mutawa & Partners.

6. Future plans

The Company and the O&M Company will continue to operate the plant for the benefit of Kuwait in a responsible manner, with a focus on the health and safety of our employees and on minimizing our impact on the environment.

Signed by:



Alexander Katon- Vice Chairman.

Shamal Az-Zour Al-Oula K.S.C.

10 November 2020



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Independent auditor's report on review of condensed interim financial information

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

Introduction

We have reviewed the accompanying 30 September 2020 condensed interim financial information of Shamal Az-Zour Al-Oula Power and Water Company KSC (Public) ("the Company"), which comprises the condensed statement of financial position as at 30 September 2020, the condensed statements of profit or loss and other comprehensive income for the three and nine month periods ended 30 September 2020, the condensed statements of changes in equity and cash flows for the nine month period then ended, and notes to the condensed interim financial information. Management is responsible for the preparation and presentation of these condensed interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2020 condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Other matters

We draw attention to the fact that we have not audited or reviewed the accompanying condensed statement of financial position as at 30 September 2019, the condensed statement of profit or loss and other comprehensive income for the three and nine month periods ended 30 September 2019, the condensed statements of changes in equity and cash flows for the nine month period ended 30 September 2019, or any of the related notes and accordingly, we do not express an opinion or a review conclusion on them.

Report on review of other legal and regulatory requirements

Furthermore, based on our review, the condensed interim financial information is in agreement with the books of account of the Company. We further report that, nothing has come to our attention that causes us to believe that there were any violations of the provisions of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, or of the Company's Memorandum and Articles of Association, as amended, during the nine month period ended 30 September 2020 that might have had material effect on the business of the Company or on its financial position.

We further report that, during the course of our review, we have not become aware of any violations of the provisions of Law No 7 of 2010 concerning the Capital Markets Authority and its related regulations during the nine months period ended 30 September 2020 that might have had a material effect on the business of the Company or on its financial position.

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

Kuwait: 10 November 2020

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

Condensed statement of financial position
as at 30 September 2020

		30 September 2020	31 December 2019	30 September 2019
	Notes	KD	KD (Audited)	KD
Assets				
Current assets				
Cash and bank balances		57,751,413	46,169,749	48,795,607
Trade and other receivables		12,152,890	16,563,899	13,699,440
Due from related parties	6	165,466	16,791	5,380
Finance lease receivable	5	12,060,126	11,864,936	11,758,731
		<u>82,129,895</u>	<u>74,615,375</u>	<u>74,259,158</u>
Non- current assets				
Finance lease receivable	5	462,157,150	468,889,860	471,499,030
Property, plant and equipment		444,291	482,999	499,569
		<u>462,601,441</u>	<u>469,372,859</u>	<u>471,998,599</u>
Total assets		<u>544,731,336</u>	<u>543,988,234</u>	<u>546,257,757</u>
Liabilities and Equity				
Liabilities				
Current liabilities				
Trade and other payables		31,696,521	3,715,187	3,610,262
Due to related parties	6	5,261,415	5,263,957	5,517,774
Term loans	8	16,271,008	15,645,888	15,416,241
Derivative financial liabilities	7	13,562,472	9,710,943	9,411,661
		<u>66,791,416</u>	<u>34,335,975</u>	<u>33,955,938</u>
Non-current liabilities				
Provision for staff indemnities		26,393	26,272	52,183
Term loans	8	348,992,092	359,681,483	363,169,388
Derivative financial liabilities	7	102,091,151	73,327,978	84,595,549
		<u>451,109,636</u>	<u>433,035,733</u>	<u>447,817,120</u>
Total liabilities		<u>517,901,052</u>	<u>467,371,708</u>	<u>481,773,058</u>
Equity				
Share capital		110,000,000	110,000,000	110,000,000
Statutory reserve		4,733,287	4,651,561	3,421,438
Retained earnings		23,744,967	41,781,803	40,072,185
Foreign currency translation reserve		3,817,592	3,352,400	3,306,619
Hedge reserve	7	(115,465,562)	(83,169,238)	(92,315,543)
Total equity		<u>26,830,284</u>	<u>76,616,526</u>	<u>64,484,699</u>
Total liabilities and equity		<u>544,731,336</u>	<u>543,988,234</u>	<u>546,257,757</u>

The accompanying notes form an integral part of the condensed interim financial information.


Alexander Katon
Vice Chairman


Andrew Paul Frain
Chief Executive Officer

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

Condensed statement of profit or loss and other comprehensive income
for the three and nine month period ended 30 September 2020

	Notes	Three month period ended 30 September		Nine month period ended 30 September	
		2020	2019	2020	2019
		KD	KD	KD	KD
Revenue	9	13,260,644	13,204,434	38,640,371	38,222,057
Operating costs		(3,900,724)	(3,597,873)	(11,287,525)	(10,873,618)
Gross profit		9,359,920	9,606,561	27,352,846	27,348,439
Finance and other income		26,556	321,738	403,081	841,494
Finance costs		(5,414,522)	(5,652,192)	(16,457,939)	(17,051,542)
Staff costs and related expenses		(155,029)	(150,245)	(449,299)	(498,708)
General and administrative expenses		(131,816)	(456,032)	(1,072,240)	(1,094,349)
Profit for the period before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST") and Zakat		3,685,109	3,669,830	9,776,449	9,545,334
KFAS		(33,166)	(33,722)	(87,988)	(87,088)
NLST		(45,882)	-	(45,807)	-
Zakat		(38,941)	(37,791)	(97,764)	(96,759)
Profit for the period		3,567,120	3,598,317	9,544,890	9,361,487
Other comprehensive income/ (loss):					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Foreign currency translation differences		(437,823)	(127,867)	465,192	77,724
Change in fair value of cash flow hedge		6,966,133	(10,549,609)	(32,296,324)	(31,457,559)
<i>Total other comprehensive income / (loss)</i>		6,528,310	(10,677,476)	(31,831,132)	(31,379,835)
Total comprehensive income / (loss) for the period		10,095,430	(7,079,159)	(22,286,242)	(22,018,348)
Earnings per share (basic and diluted) (fils)	10	3.24	3.27	8.68	8.51

The accompanying notes form an integral part of the condensed interim financial information.

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

**Condensed statement of changes in equity
for the nine month period ended 30 September 2020**

	Share Capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Hedge reserve	Total
	KD	KD	KD	KD	KD	KD
Balance as at 1 January 2019	110,000,000	3,421,438	30,710,698	3,228,895	(60,857,984)	86,503,047
Total comprehensive income / (loss) for the period						
Profit for the period	-	-	9,361,487	-	-	9,361,487
Change in fair value	-	-	-	-	(31,457,559)	(31,457,559)
Change in foreign currency translation differences	-	-	-	77,724	-	77,724
<i>Total other comprehensive income / (loss) for the period</i>				77,724	(31,457,559)	(31,379,835)
Total comprehensive income / (loss) for the period			9,361,487	77,724	(31,457,559)	(22,018,348)
Balance as at 30 September 2019	110,000,000	3,421,438	40,072,185	3,306,619	(92,315,543)	64,484,699
Balance as at 1 January 2020	110,000,000	4,651,561	41,781,803	3,352,400	(83,169,238)	76,616,526
Total comprehensive income / (loss) for the period						
Profit for the period	-	-	9,544,890	-	-	9,544,890
Change in fair value	-	-	-	-	(32,296,324)	(32,296,324)
Change in foreign currency translation differences	-	-	-	465,192	-	465,192
<i>Total other comprehensive income / (loss) for the period</i>				465,192	(32,296,324)	(31,831,132)
Total comprehensive income / (loss) for the period			9,544,890	465,192	(32,296,324)	(22,286,242)
Transfer to reserve relating to prior years	-	81,726	(81,726)	-	-	-
Dividend payable (Note 1)	-	-	(27,500,000)	-	-	(27,500,000)
Balance as at 30 September 2020	110,000,000	4,733,287	23,744,967	3,817,592	(115,465,562)	26,830,284

The accompanying notes form an integral part of the condensed interim financial information.

Shamal Az-Zour Al-Oula Power and Water Company KSC (Public)**Condensed statement of cash flows***for the nine month period ended 30 September 2020*

	2020	2019
	KD	KD
Cash flows from operating activities		
Profit before contribution to KFAS, NLST and Zakat	9,776,449	9,545,334
<i>Adjustments for:</i>		
Depreciation	42,818	55,829
Finance costs	16,457,939	17,051,542
Trade and other receivables	4,411,009	(2,868,742)
Due from related parties	(148,675)	31,954
Finance lease receivable	6,537,520	7,812,033
Trade and other payables	339,245	(1,957,091)
Due to related parties	(2,542)	617,381
Provision for staff indemnities	9,449	13,393
Payment of staff indemnities	(9,461)	-
<i>Net cash from operating activities</i>	<u>37,413,751</u>	<u>30,301,633</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(1,511)	(130,430)
<i>Net cash used in investing activities</i>	<u>(1,511)</u>	<u>(130,430)</u>
Cash flows from financing activities		
Term loans	(10,064,271)	(10,807,702)
Payment of finance costs	(16,547,409)	(17,182,176)
<i>Net cash used in financing activities</i>	<u>(26,611,680)</u>	<u>(27,989,878)</u>
Increase in foreign currency translation reserve	781,104	761,084
Net increase in cash and cash equivalents	11,581,664	2,942,409
Cash and cash equivalents		
at beginning of the period	46,169,749	45,853,198
at end of the period	<u>57,751,413</u>	<u>48,795,607</u>

The accompanying notes form an integral part of the condensed interim financial information.

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

Notes to the condensed interim financial information for the nine month period ended 30 September 2020

1. Reporting Entity

Shamal Az-Zour Al-Oula Power and Water Company KSC (Public) (“the Company”) is a Kuwaiti shareholding company incorporated on 19 August 2013, under trade license No. 349479 registered at the Ministry of Commerce and Industry on 23 October 2013.

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

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

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

The objectives of the Company are the following:

1. To develop, finance, design, engineer and provide services and build, implement, operate and manage an electricity power generation plant and a water desalination plant and related facilities including performing all work directly or indirectly related to or associated with its activities.
2. To carry on all works relating to the building works necessary for the Company to carry on its activity, including construction, purchase and lease of buildings, land, equipment and warehouses necessary for the realization of the objectives of the Company and all the facilities relating thereto.
3. To carry on all works of generation, production, transmission, making, development and sale of electricity and water, or any product relating to any such works in and outside the State of Kuwait.
4. To carry on chemical cleaning, hot oil cleaning works and disinfection for all heat exchangers, and to carry on electrical and civil works necessary for electricity and water sector works (power plants, pipeline and electricity projects for desalination units and petrochemicals), to carry on all maintenance works including those relating to power generation, water, pipeline installations and installation of relay stations and installation of all insulation items.
5. To import and install equipment at electricity and water locations for monitoring and measurement of air pollutants and to use skilled labor specialized in fighting pollution of the environment surrounding water and electricity plants.
6. To purchase materials and equipment and all movable properties and instruments necessary for the Company to realize its objectives, and to maintain the same by all modern means possible, and to import primary materials, equipment and instruments necessary for the Company's objectives.
7. To supply and install security and safety equipment relating to the objectives of the Company.
8. To import all necessary equipment to implement its objects, including but not limited to, install, supply and maintain all types of power cables, electrical cables, water pumps, instruments and equipment relating to the activities of the Company.
9. To register patents relating directly to the Company's experience.

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

Notes to the condensed interim financial information for the nine month period ended 30 September 2020

10. To carry out technical research relating to the Company's business with the aim to improve and develop the Company's services in cooperation with specialized parties in and outside the State of Kuwait.
11. To directly participate in infrastructure zones and projects relevant to the objectives of the Company in Build, Operate and Transfer (BOT) systems or in other similar systems including those referred to in Law No. 39 of 2010 (and its amendments), and to manage the facilities established thereby.
12. To invest the Company's funds within the objects and percentages set out by the board of directors.

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

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

In accordance with the ECWPA signed between the Company and MEW on 12 December 2013, the Company is obliged to produce electricity and desalinated water using the Plant and MEW has the ability to restrict the access of others to the economic benefits of the Plant. Furthermore, the ECPWA provides for capacity payments in addition to output payments. The Company determined that the ECWPA conveys a right to use the Plant by MEW and accordingly classified the ECWPA as a finance lease in accordance with the guidelines of IFRS 16 Leases.

On 13 February 2020, the Company filed an application with Boursa Kuwait Securities Company K.P.S.C. ("Boursa Kuwait") for listing of its shares. The CMA gave approval on 3 May 2020 and as a result, the shares of the Company were listed on Boursa Kuwait on 16 August 2020.

On 6 August 2020, the Board of Directors proposed cash dividends of 25 fils per share amounting to KD 27,500,000 in total for the year ended 31 December 2019, which was subject to approval of the shareholders at the Annual General Assembly meeting. On 17 September 2020, the Annual General Assembly meeting of the shareholders approved the audited financial statements of the Company as at and for the year ended 31 December 2019 and the cash dividend of 25 fils per share (2019: Nil). The cash dividend is recognized as a liability and included in trade and other payables in the statement of financial position as at 30 September 2020.

These condensed interim financial information were authorised for issue by the Company's board of directors on 10 November 2020.

2. Basis of accounting

This condensed interim financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Company's last annual financial statements as at and for the year ended 31 December 2019 ('last annual financial statements'). It does not include all of the information required for a complete set of financial statements prepared in accordance with IFRS. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements. Operating results for the nine month period ended 30 September 2020 are not necessarily indicative of the results that may be expected for the year ending 31 December 2020.

3. Judgements and estimates

In preparing this condensed interim financial information, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

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

Notes to the condensed interim financial information for the nine month period ended 30 September 2020

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

However, as explained in Note 15, the Company has reviewed the key sources of estimation uncertainties disclosed in the Company's last annual financial statements against the backdrop of the Covid-19 pandemic. Management believes that the sources of estimation uncertainty remain similar to those disclosed in the Company's last annual financial statements. Management will continue to monitor the situation and any changes required will be reflected in future reporting periods.

4. Significant accounting policies

The accounting policies used in the preparation of the condensed interim financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019, except for the adoption of the amendments and annual improvements to IFRS which are effective for annual reporting period starting from 1 January 2020. These changes did not result in any material impact on the accounting policies, financial position or performance of the Company.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted. However, the Company has not early adopted any of the forthcoming new or amended standards in preparing this condensed interim financial information.

5. Finance lease receivable

Finance lease for which the Company acts as lessor

The lease falls within the scope of the IFRS 16 and applies to the ECWPA on the basis that it is an energy conversion and sale contract that conveys an exclusive right to use a production asset. The Company has recognized a finance lease receivable as follows:

	30 September 2020	
	Minimum lease receipts	Present value of minimum lease receipts
	KD	KD
Amounts receivable under finance lease		
Within one year	37,853,042	12,060,126
Year 2 to 5 inclusive	151,730,672	55,778,958
After year 5	614,629,988	406,378,192
Undiscounted future minimum lease payments	804,213,702	474,217,276
Unearned finance income	(329,996,426)	-
Net investment in finance lease at 30 September 2020	<u>474,217,276</u>	<u>474,217,276</u>
	31 December 2019	
	Minimum lease receipts	Present value of minimum lease receipts
	KD	KD
	(Audited)	(Audited)
Amounts receivable under finance lease		
Within one year	38,014,226	11,864,936
Year 2 to 5 inclusive	150,847,531	53,146,233
After year 5	639,890,392	415,743,627
Undiscounted future minimum lease payments	828,752,149	480,754,796
Unearned finance income	(347,997,353)	-
Net investment in finance lease at 31 December 2019	<u>480,754,796</u>	<u>480,754,796</u>

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

Notes to the condensed interim financial information
for the nine month period ended 30 September 2020

	30 September 2019	
	Minimum lease receipts	Present value of minimum lease receipts
	KD	KD
Amounts receivable under finance lease		
Within one year	38,053,262	11,758,731
Year 2 to 5 included	150,799,803	52,438,870
After year 5	648,804,092	419,060,160
Undiscounted future minimum lease payments	837,657,157	483,257,761
Unearned finance income	(354,399,396)	-
Net investment in finance lease at 30 September 2019	483,257,761	483,257,761

Included in the statement of financial position:

	30 September 2020	31 December 2019	30 September 2019
	KD	KD	KD
	(Audited)		
Current portion	12,060,126	11,864,936	11,758,731
Non-current portion	462,157,150	468,889,860	471,499,030
	474,217,276	480,754,796	483,257,761

The interest rate implicit in the finance lease is 5.5% (31 December 2019: 5.5% and 30 September 2019: 5.5%) per annum.

6. Related party transactions

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

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

The related party transactions and balances included in this condensed interim financial information are as follows:

	30 September 2020	31 December 2019	30 September 2019
	KD	KD	KD
	(Audited)		
Statement of financial position			
Due from related parties	165,466	16,791	5,380
Due to related parties	5,261,415	5,263,957	5,517,774

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

Notes to the condensed interim financial information
for the nine month period ended 30 September 2020

	Three month period ended		Nine month period ended	
	30 September		30 September	
	2020	2019	2020	2019
	KD	KD	KD	KD
Statement of profit or loss				
Operating costs	3,885,667	3,574,040	11,207,979	10,567,033
Finance costs	13,003	9,563	41,602	28,379
General and administrative expenses	55,519	54,867	194,979	194,432

General and administrative expenses include remuneration of key management employees.

7. Hedge reserve account and derivative financial liabilities

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

In accordance with the Common Terms Agreement signed with the lenders, the Company is required to swap the floating rate interest due on its borrowings to fixed rate interest through interest rate swaps. Accordingly, the Company entered into a number of forward starting interest rate swaps from January 2014 to August 2036 to hedge variable rate interest payments on its outstanding debt and future debt issuances. These swaps have been classified as cash flow hedges. The increase in the fair value of the outstanding interest rate swaps as of 30 September 2020 amounting to KD 32,296,324 (31 December 2019: increase of KD 21,073,934 and 30 September 2019: increase of KD 31,457,559) has been taken to other comprehensive income and classified as hedge reserve in equity.

Fair value of derivatives

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

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

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

Notes to the condensed interim financial information
for the nine month period ended 30 September 2020

Derivatives held for hedging:

	30 September 2020	31 December 2019	30 September 2019
	KD	KD	KD
		(Audited)	
<i>Cash flow hedges – Interest rate swaps</i>			
Notional amount:	351,727,860	361,419,187	364,556,707
Negative fair value:			
Short term	(13,562,472)	(9,710,943)	(9,411,661)
Long term	(102,091,151)	(73,327,978)	(84,595,549)
	<u>(115,653,623)</u>	<u>(83,038,921)</u>	<u>(94,007,210)</u>
Deferred tax asset	-	-	1,880,144
Foreign exchange translation differences	188,061	(130,317)	(188,477)
	<u>(115,465,562)</u>	<u>(83,169,238)</u>	<u>(92,315,543)</u>

8. Term loans

	30 September 2020	31 December 2019	30 September 2019
	KD	KD	KD
		(Audited)	
Current portion	16,271,008	15,645,888	15,416,241
Non-current portion	348,992,092	359,681,483	363,169,388
	<u>365,263,100</u>	<u>375,327,371</u>	<u>378,585,629</u>
	30 September 2020	31 December 2019	30 September 2019
	KD	KD	KD
		(Audited)	
USD 645 million facility from Japan Bank for International Cooperation that bears a floating interest rate of Libor plus 1.25% per annum.	164,368,394	168,897,316	170,363,533
USD 283 million facility from various lenders under Nippon Export and Investment Insurance covered facilities agreement that bears a floating interest rate of Libor plus 1.10% - 1.30% per annum.	72,139,461	74,127,155	74,770,661
USD 505 million facility from various lenders under the Commercial facilities agreement that bears a floating interest rate of Libor plus 1.70% - 2.55% per annum.	128,755,245	132,302,900	133,451,435
	<u>365,263,100</u>	<u>375,327,371</u>	<u>378,585,629</u>

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

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

Notes to the condensed interim financial information for the nine month period ended 30 September 2020

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

The Company is required to set up a debt service reserve account to maintain a certain level of cash to service its debt for a period of six months. Certain related parties of the Company issued letters of credit in favor of the lenders of USD 56 million (31 December 2019: USD 58 million and 30 September 2019: USD 58 million) to contribute to the amount required.

As at 30 September 2020, the Company has undrawn working capital facilities amounting to KD 13.9 million (31 December 2019: KD 13.9 million and 30 September 2019: KD 13.9 million).

9. Revenue

	Three month period ended		Nine month period ended	
	30 September		30 September	
	2020	2019	2020	2019
	KD	KD	KD	KD
<i>Revenue from contact with customer</i>				
Fixed operation and maintenance income	3,406,756	3,170,034	9,790,940	8,863,800
Electrical and water output income	1,163,108	1,435,355	3,923,647	4,562,360
Supplemental receipts and service income	2,108,356	1,924,614	5,084,338	4,655,056
	<u>6,678,220</u>	<u>6,530,003</u>	<u>18,798,925</u>	<u>18,081,216</u>
<i>Finance lease income</i>				
Interest income	6,582,424	6,674,431	19,841,446	20,140,841
	<u>13,260,644</u>	<u>13,204,434</u>	<u>38,640,371</u>	<u>38,222,057</u>

In February 2020, a fire incident occurred, which resulted in damage to certain parts of a gas turbine auxiliary at the power generation and water desalination plant. The net cost of the incident after insurance recovery was approximately KD 308,125. The Company recorded the insurance proceeds received in revenue (30 September 2019: Nil).

10. Basic and diluted earnings per share

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

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

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

Notes to the condensed interim financial information
for the nine month period ended 30 September 2020

	Three month period ended 30 September		Nine month period ended 30 September	
	2020	2019	2020	2019
	KD	KD	KD	KD
Profit for the period (KD)	3,567,120	3,598,317	9,544,890	9,361,487
Weighted average number of ordinary shares outstanding during the year	1,100,000,000	1,100,000,000	1,100,000,000	1,100,000,000
Earnings per share (fils)	3.24	3.27	8.68	8.51

11. Operating segment

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

12. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The Company uses the level 2 hierarchy inputs to measure the fair value of derivative financial instruments. The carrying amounts of financial assets and financial liabilities that are liquid or have a short-term maturity are approximately equal to their fair value.

13. Financial risk management

All aspects of the Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements of the Company for the year ended 31 December 2019.

14. Commitments and contingent liabilities

Operation and maintenance commitments

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

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

Notes to the condensed interim financial information for the nine month period ended 30 September 2020

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

	30 September 2020	31 December 2019	30 September 2019
	KD	KD	KD
		(Audited)	
Within one year	14,971,710	14,645,644	14,586,803
Year 2 to 5 inclusive	62,568,984	60,970,794	60,675,883
After year 5	305,365,911	313,650,409	321,315,014
	<u>382,906,605</u>	<u>389,266,847</u>	<u>396,577,700</u>

15. Covid-19 update

The World Health Organization declared Covid-19 to be a pandemic on 11 March 2020. In response to the rapid global spread of Covid-19, the government of Kuwait enacted emergency measures to combat the spread of the virus. These measures included restrictions on business activity and travel, as well as requirements to isolate or quarantine, which could continue or expand. In response to the spread of the Covid-19, the Company's management has proactively assessed the impact on its operations and has taken a series of preventive measures to ensure the continuity of its business, including ensuring the health and safety of employees and the ability to continue supplying power and water to its customer. The Company's operations are considered essential and have continued uninterrupted to date. Based on these factors, the Company's management believes that Covid-19 has had no material effect on the Company's reported financial results for the nine-month period ended 30 September 2020. The Company continues to monitor the Covid-19 situation closely however at this time management is not aware of any factors that are expected to change the impact of the pandemic on the Company's operations during the remainder of 2020 or beyond.