

**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 2021**

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

<i>Contents</i>	<i>Page</i>
Independent auditor's report on review of condensed interim financial information	1 – 2
Condensed statement of financial position	3
Condensed statement of profit or loss and other comprehensive income	4
Condensed statement of changes in equity	5
Condensed statement of cash flows	6
Notes to the condensed interim financial information	7 - 16



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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 2021 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 2021, the condensed statements of profit or loss and other comprehensive income for the three month and nine month periods ended 30 September 2021, the condensed statements of changes in equity and cash flows for the nine months 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 2021 condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



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, of the Law No 7 of 2010 concerning the Capital Markets Authority, and its related regulations, or of the Company's Memorandum and Articles of Association, as amended, during the nine months period ended 30 September 2021 that might have had 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:3 November 2021

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

Condensed statement of financial position

as at 30 September 2021

	Note	30 September 2021	31 December 2020	30 September 2020
		KD	KD	KD
			(Audited)	
Assets				
Current assets				
Cash and bank balances	5	29,722,561	36,774,152	57,751,413
Trade and other receivables		12,210,316	11,135,681	12,152,890
Due from related parties	7	149,223	169,732	165,466
Finance lease receivable	6	12,441,009	12,085,218	12,060,126
		<u>54,523,109</u>	<u>60,164,783</u>	<u>82,129,895</u>
Non-current assets				
Finance lease receivable	6	444,190,840	456,032,817	462,157,150
Property, plant and equipment		503,740	442,886	444,291
		<u>444,694,580</u>	<u>456,475,703</u>	<u>462,601,441</u>
Total assets		<u>499,217,689</u>	<u>516,640,486</u>	<u>544,731,336</u>
Liabilities and Equity				
Liabilities				
Current liabilities				
Trade and other payables		5,234,615	4,382,870	4,196,521
Due to related parties	7	4,038,035	3,918,882	5,261,415
Dividends payable	10	4,541,558	4,989,699	27,500,000
Term loans	8	17,116,989	16,471,840	16,271,008
Derivative financial liabilities	9	12,924,839	13,013,518	13,562,472
		<u>43,856,036</u>	<u>42,776,809</u>	<u>66,791,416</u>
Non-current liabilities				
Provision for staff indemnities		30,068	28,571	26,393
Term loans	8	327,702,740	342,617,580	348,992,092
Derivative financial liabilities	9	65,603,904	90,693,200	102,091,151
		<u>393,336,712</u>	<u>433,339,351</u>	<u>451,109,636</u>
Total liabilities		<u>437,192,748</u>	<u>476,116,160</u>	<u>517,901,052</u>
Equity				
Share capital	10	110,000,000	110,000,000	110,000,000
Statutory reserve		5,996,023	5,996,023	4,733,287
Retained earnings		22,227,553	25,207,521	23,744,967
Foreign currency translation reserve		3,329,013	3,493,815	3,817,592
Hedge reserve	9	(79,527,648)	(104,173,033)	(115,465,562)
Total equity		<u>62,024,941</u>	<u>40,524,326</u>	<u>26,830,284</u>
Total liabilities and equity		<u>499,217,689</u>	<u>516,640,486</u>	<u>544,731,336</u>

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

Eng. Ahmad Othman AlMujalham
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 periods ended 30 September 2021

	Note	Three months period ended 30 September		Nine months period ended 30 September	
		2021	2020	2021	2020
		KD	KD	KD	KD
Revenue	11	12,905,225	13,260,644	37,455,313	38,640,371
Operating costs	7	(3,712,361)	(3,900,724)	(11,029,224)	(11,287,525)
Gross profit		9,192,864	9,359,920	26,426,089	27,352,846
Finance and other income		2,904	26,556	22,053	403,081
Finance costs		(4,636,839)	(5,414,522)	(13,985,602)	(16,457,939)
Staff costs and related expenses		(143,838)	(155,029)	(481,428)	(449,299)
General and administrative expenses		(446,085)	(131,816)	(1,271,017)	(1,072,240)
Profit for the period before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), National Labour Support Tax (“NLST”) and Zakat		3,969,006	3,685,109	10,710,095	9,776,449
NLST		(99,239)	(45,882)	(273,271)	(45,807)
KFAS		(35,722)	(33,166)	(108,247)	(87,988)
Zakat		(39,696)	(38,941)	(108,545)	(97,764)
Profit for the period		<u>3,794,349</u>	<u>3,567,120</u>	<u>10,220,032</u>	<u>9,544,890</u>
Other comprehensive income / (loss):					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Foreign currency translation differences		141,612	(437,823)	(164,802)	465,192
Change in fair value of cash flow hedge		5,552,790	6,966,133	24,645,385	(32,296,324)
<i>Total other comprehensive income / (loss)</i>		<u>5,694,402</u>	<u>6,528,310</u>	<u>24,480,583</u>	<u>(31,831,132)</u>
Total comprehensive income / (loss) for the period		<u>9,488,751</u>	<u>10,095,430</u>	<u>34,700,615</u>	<u>(22,286,242)</u>
Earnings per share (basic and diluted) (fils)	12	3.45	3.24	9.29	8.68

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 months period ended 30 September 2021

	Share capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Hedge reserve	Total
	KD	KD	KD	KD	KD	KD
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 of cash flow hedge (Note 9)	-	-	-	-	(32,296,324)	(32,296,324)
Change in foreign currency translation differences	-	-	-	465,192	-	465,192
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)	-	-	-
Dividends (Note 10)	-	-	(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
Balance as at 1 January 2021	110,000,000	5,996,023	25,207,521	3,493,815	(104,173,033)	40,524,326
Total comprehensive income / (loss) for the period						
Profit for the period	-	-	10,220,032	-	-	10,220,032
Change in fair value of cash flow hedge (Note 9)	-	-	-	-	24,645,385	24,645,385
Change in foreign currency translation differences	-	-	-	(164,802)	-	(164,802)
Total comprehensive income / (loss) for the period	-	-	10,220,032	(164,802)	24,645,385	34,700,615
Dividends (Note 10)	-	-	(13,200,000)	-	-	(13,200,000)
Balance as at 30 September 2021	110,000,000	5,996,023	22,227,553	3,329,013	(79,527,648)	62,024,941

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 months period ended 30 September 2021

	Note	2021	2020
		KD	KD
Cash flows from operating activities			
Profit before contribution to KFAS, NLST and Zakat		10,710,095	9,776,449
<i>Adjustments for:</i>			
Depreciation		20,032	42,818
Finance costs		13,985,602	16,457,939
Net loss from disposal of property, plant and equipment		268	-
Trade and other receivables		(1,134,059)	4,411,009
Due from related parties		19,626	(148,675)
Finance lease receivable		9,021,645	6,537,520
Trade and other payables		820,234	339,245
Due to related parties		139,913	(2,542)
Provision for staff indemnities		4,122	9,449
Payment of staff indemnities		(2,474)	(9,461)
<i>Net cash from operating activities</i>		<u>33,585,004</u>	<u>37,413,751</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(83,543)	(1,511)
Proceeds from disposal of property, plant and equipment		15	-
<i>Net cash used in investing activities</i>		<u>(83,528)</u>	<u>(1,511)</u>
Cash flows from financing activities			
Term loans		(12,382,394)	(10,064,271)
Payment of finance costs		(13,998,447)	(16,547,409)
Payment of dividends		(13,648,141)	-
<i>Net cash used in financing activities</i>		<u>(40,028,982)</u>	<u>(26,611,680)</u>
Net foreign exchange differences		<u>(75,944)</u>	<u>781,104</u>
Net (decrease) / increase in cash and cash equivalents		(6,603,450)	11,581,664
Cash and cash equivalents			
at beginning of the period		<u>31,784,453</u>	<u>46,169,749</u>
at end of the period	5	<u>25,181,003</u>	<u>57,751,413</u>

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

Notes to the condensed interim financial information

for the nine months period ended 30 September 2021

1. Reporting Entity

Shamal Az-Zour Al-Oula Power and Water Company KSC (Public) (“the Company”) is a Public 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 shares of the Company were listed on Boursa Kuwait on 16 August 2020.

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 realisation 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 specialised 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.

Notes to the condensed interim financial information

for the nine months period ended 30 September 2021

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 specialised 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 12 April 2021, 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 2020.

These condensed interim financial information were authorised for issue by the Company's board of directors on 3 November 2021.

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 2020 ("last annual financial statements"). It does not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("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.

These condensed interim financial information are presented in Kuwait Dinar ("KD"). The Company's functional currency is not the currency of the country in which it is domiciled as the majority of the transactions of the Company are denominated in USD. This condensed interim financial information is presented in KD for the purpose of submission to the Capitals Market Authority and Boursa Kuwait, State of Kuwait.

Operating results for the nine months period ended 30 September 2021 are not necessarily indicative of the results that may be expected for the year ending 31 December 2021.

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.

Notes to the condensed interim financial information

for the nine months period ended 30 September 2021

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.

4. Significant accounting policies

The accounting policies used in the preparation of this condensed interim financial information are consistent with those used in the preparation of the last annual financial statements for the year ended 31 December 2020, except for the amendments to IFRS which are effective for annual accounting period starting from 1 January 2021.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (“IBOR”) is replaced with an alternative nearly risk-free interest rate (“RFR”).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest,
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the condensed interim financial information of the Company and the management is in the process of identifying the possible impact of the above amendment for future periods.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted. The Company has not early adopted any of the forthcoming new or amended standards in preparing this condensed interim financial information.

5. Cash and cash equivalents

	30 September 2021	31 December 2020	30 September 2020
	KD	KD	KD
		(Audited)	
Cash in hand	5	1,523	3,002
Cash with banks	6,193,856	5,683,439	45,867,661
Short-term deposits with original maturity of less than three months	23,528,700	31,089,190	11,880,750
Total cash and bank balances	29,722,561	36,774,152	57,751,413
<i>Less:</i> Restricted balance for dividends payable	(4,541,558)	(4,989,699)	-
Total cash and cash equivalents	25,181,003	31,784,453	57,751,413

Short-term deposits are denominated in USD and are placed with a foreign bank at interest rates ranging from 0.07% to 0.08% (31 December 2020: from 0.09% to 0.16% and 30 September 2020: from 0.15% to 0.20%) per annum.

Notes to the condensed interim financial information
for the nine months period ended 30 September 2021

6. 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 recognised a finance lease receivable as follows:

	30 September 2021	
	Minimum lease receipts	Present value of minimum lease receipts
	KD	KD
Amounts receivable under finance lease		
Within one year	37,258,163	12,441,009
Year 2 to 5 inclusive	150,209,969	58,523,618
After year 5	569,730,334	385,667,222
Undiscounted future minimum lease payments	757,198,466	456,631,849
Unearned finance income	(300,566,617)	-
Net investment in finance lease at 30 September 2021	<u>456,631,849</u>	<u>456,631,849</u>
	31 December 2020	
	Minimum lease receipts	Present value of minimum lease receipts
	KD	KD
	(Audited)	(Audited)
Amounts receivable under finance lease		
Within one year	37,539,834	12,085,218
Year 2 to 5 included	149,851,686	56,219,417
After year 5	601,135,041	399,813,400
Undiscounted future minimum lease payments	788,526,561	468,118,035
Unearned finance income	(320,408,526)	-
Net investment in finance lease at 31 December 2020	<u>468,118,035</u>	<u>468,118,035</u>
	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>

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

Notes to the condensed interim financial information for the nine months period ended 30 September 2021

Included in the statement of financial position:

	30 September 2021	31 December 2020	30 September 2020
	KD	KD	KD
		(Audited)	
Current portion	12,441,009	12,085,218	12,060,126
Non-current portion	444,190,840	456,032,817	462,157,150
	<u>456,631,849</u>	<u>468,118,035</u>	<u>474,217,276</u>

The interest rate implicit in the finance lease is 5.5% (31 December 2020: 5.5% and 30 September 2020: 5.5%) per annum.

7. 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 / from related parties are interest free and have no agreed repayment schedule. Accordingly, these balances are considered receivable/payable on demand.

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

	30 September 2021	31 December 2020	30 September 2020
	KD	KD	KD
		(Audited)	
Statement of financial position			
Due from related parties	149,223	169,732	165,466
Due to related parties	4,038,035	3,918,882	5,261,415
	Three months period ended 30 September	Nine months period ended 30 September	
	2021	2020	2021
	KD	KD	KD
Statement of profit or loss and other comprehensive income			
Operating costs	3,712,361	3,885,667	11,029,224
Finance costs	12,493	13,003	25,885
General and administrative expenses	-	-	29,476
	<u>-</u>	<u>-</u>	<u>28,696</u>

Notes to the condensed interim financial information
for the nine months period ended 30 September 2021

Key management compensation

Key management personnel comprise the Board of Directors and members of management having authority and responsibility for planning, directing and controlling the activities of the Company. The management compensation related to key management personnel was as follows:

	Three months period ended		Nine months period ended	
	30 September		30 September	
	2021	2020	2021	2020
	KD	KD	KD	KD
Secondment fees of key management included in "staff costs and related expenses"	53,883	55,519	175,724	166,284

8. Term loans

	30 September	31 December	30 September
	2021	2020	2020
	KD	KD	KD
		(Audited)	
Current portion	17,116,989	16,471,840	16,271,008
Non-current portion	327,702,740	342,617,580	348,992,092
	344,819,729	359,089,420	365,263,100
		(Audited)	
USD 645 million facility from Japan Bank for International Cooperation that bears a floating interest rate of Libor plus 1.25% per annum.	155,168,877	161,590,238	164,368,394
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.	68,101,895	70,920,160	72,139,461
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.	121,548,957	126,579,022	128,755,245
	344,819,729	359,089,420	365,263,100

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

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

Notes to the condensed interim financial information

for the nine months period ended 30 September 2021

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 KD 16.86 million (31 December 2020: KD 17.14 million and 30 September 2020: KD 17.17 million) to contribute to the amount required.

As at 30 September 2021, the Company has undrawn working capital facilities with a commercial bank in Kuwait amounting to KD 13.9 million (31 December 2020: KD 13.9 million and 30 September 2020: KD 13.9 million).

9. 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 interest rate swaps starting 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 decrease in the fair value of the outstanding interest rate swaps as of 30 September 2021 amounting to KD 24,645,385 (31 December 2020: increase of KD 21,003,795 and 30 September 2020: increase of KD 32,296,324) 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 analysed 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.

Notes to the condensed interim financial information
for the nine months period ended 30 September 2021

Derivatives held for hedging:

	<u>30 September</u> <u>2021</u> <u>KD</u>	<u>31 December</u> <u>2020</u> <u>KD</u> (Audited)	<u>30 September</u> <u>2020</u> <u>KD</u>
<i>Cash flow hedges – Interest rate swaps</i>			
Notional amount:	327,578,939	341,135,109	351,727,860
Negative fair value:			
Short term	(12,924,839)	(13,013,518)	(13,562,472)
Long term	(65,603,904)	(90,693,200)	(102,091,151)
	<u>(78,528,743)</u>	<u>(103,706,718)</u>	<u>(115,653,623)</u>
Foreign exchange translation differences	(998,905)	(466,315)	188,061
	<u>(79,527,648)</u>	<u>(104,173,033)</u>	<u>(115,465,562)</u>

10. Share capital

The Company's authorised and issued share capital comprises 1,100,000,000 shares of 100 Kuwaiti fils (31 December 2020: 1,100,000,000 shares and 30 September 2020: 1,100,000,000 shares of 100 Kuwaiti fils) each, fully paid up in cash.

Dividends

On 7 March 2021, the Board of Directors proposed cash dividends of 12 fils per share amounting to KD 13,200,000 in total for the year ended 31 December 2020 (31 December 2019: 25 fils per share amounting to KD 27,500,000), which was subject to approval of the shareholders at the Annual General Assembly meeting. On 12 April 2021, the Annual General Assembly meeting of the shareholders approved the cash dividend of 12 fils per share.

Dividends payable as at 30 September 2021 amounting to KD 4,541,558 (31 December 2020: KD 4,989,699 and 30 September 2020: KD 27,500,000) are recorded within "Dividends payable" in the statement of financial position.

11. Revenue

	<u>Three months period ended</u> <u>30 September</u>		<u>Nine months period ended</u> <u>30 September</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<u>KD</u>	<u>KD</u>	<u>KD</u>	<u>KD</u>
<i>Revenue from contact with customer</i>				
Fixed operation and maintenance income	3,444,767	3,406,756	9,784,187	9,790,940
Electrical and water output income	1,079,362	1,163,108	2,950,146	3,923,647
Supplemental receipts and service income	2,088,850	2,108,356	5,653,372	5,084,338
	<u>6,612,979</u>	<u>6,678,220</u>	<u>18,387,705</u>	<u>18,798,925</u>
<i>Finance lease income</i>				
Interest income	6,292,246	6,582,424	19,067,608	19,841,446
	<u>12,905,225</u>	<u>13,260,644</u>	<u>37,455,313</u>	<u>38,640,371</u>

Notes to the condensed interim financial information

for the nine months period ended 30 September 2021

12. 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.

	Three months period ended		Nine months period ended 30	
	30 September		September	
	2021	2020	2021	2020
	KD	KD	KD	KD
Profit for the period (KD)	3,794,349	3,567,120	10,220,032	9,544,890
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)	3.45	3.24	9.29	8.68

13. 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.

14. 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.

15. 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 2020.

Notes to the condensed interim financial information

for the nine months period ended 30 September 2021

16. Commitments and contingent liabilities

Operation and maintenance commitments

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

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

	30 September 2021	31 December 2020	30 September 2020
	KD	KD	KD
		(Audited)	
Within one year	15,140,485	14,918,153	14,971,710
Year 2 to 5 inclusive	79,008,527	78,712,658	62,568,984
After year 5	265,391,938	282,993,183	305,365,911
	<u>359,540,950</u>	<u>376,623,994</u>	<u>382,906,605</u>

17. Covid-19 update

The World Health Organisation 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 Board of Directors and Company's management believes that Covid-19 has had no material effect on the Company's reported financial results for the period ended 30 September 2021.

The Board of Directors and Company's management continue to monitor the situation and its impact on the Company's operation and financial position. As at the reporting date, the Board of Directors and management does not expect that the impact of Covid-19 will result in a material uncertainty in the Company's business.

18. Subsequent events

The Board of Directors in their meeting held on 3 November 2021, proposed interim cash dividends of 9 fils per share amounting to KD 9,900,000 which is subject to approval of the shareholders.