

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

**Condensed Interim Financial Information and Independent Auditor's Review
Report for the six-month period ended 30 June 2022
(Unaudited)**

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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 June 2022 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 June 2022, the condensed statements of profit or loss and other comprehensive income for the three-month and six-month periods ended 30 June 2022, the condensed statements of changes in equity and cash flows for the six-month period then ended, and notes to the condensed interim financial information. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this 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 June 2022 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, and its Executive Regulations, or of the Company's Memorandum and Articles of Association, as amended, during the six-month period ended 30 June 2022 that might have had a material effect on the business of the Company or on its financial position.

We further report that, based on our review, nothing has come to our attention that causes us to believe that there were any violations of the provisions of Law No 7 of 2010, as amended, concerning the Capital Markets Authority, and its related regulations, during the six-month period ended 30 June 2022 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: 14 August 2022

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

Condensed interim statement of financial position
as at 30 June 2022

	Notes	30 June 2022	31 December 2021	30 June 2021
		KD	KD	KD
		(Reviewed)	(Audited)	(Reviewed)
Assets				
Current assets				
Cash and bank balances	5	12,588,628	17,629,296	22,399,770
Trade and other receivables		13,255,861	16,710,070	16,594,841
Due from related parties	7	165,147	153,964	154,945
Finance lease receivable	6	13,601,169	12,719,089	12,252,084
		<u>39,610,805</u>	<u>47,212,419</u>	<u>51,401,640</u>
Non-current assets				
Finance lease receivable	6	441,651,006	442,185,862	446,865,559
Property, plant and equipment		<u>628,413</u>	<u>500,916</u>	<u>508,599</u>
		<u>442,279,419</u>	<u>442,686,778</u>	<u>447,374,158</u>
Total assets		<u>481,890,224</u>	<u>489,899,197</u>	<u>498,775,798</u>
Liabilities and Equity				
Liabilities				
Current liabilities				
Trade and other payables		5,574,241	5,282,404	5,195,552
Due to related parties	7	3,288,795	3,359,193	4,155,202
Dividends payable	10	5,541,209	5,087,916	5,033,112
Term loans	8	17,453,728	17,404,430	16,832,568
Derivative financial liabilities	9	<u>4,007,690</u>	<u>11,803,677</u>	<u>12,956,174</u>
		<u>35,865,663</u>	<u>42,937,620</u>	<u>44,172,608</u>
Non-current liabilities				
Provision for staff indemnities		37,781	32,520	29,585
Term loans	8	319,812,162	324,365,783	331,052,808
Derivative financial liabilities	9	<u>28,444,780</u>	<u>64,159,637</u>	<u>70,973,247</u>
		<u>348,294,723</u>	<u>388,557,940</u>	<u>402,055,640</u>
Total liabilities		<u>384,160,386</u>	<u>431,495,560</u>	<u>446,228,248</u>
Equity				
Share capital	10	110,000,000	110,000,000	110,000,000
Statutory reserve		7,417,562	7,417,562	5,996,023
Retained earnings		8,274,325	14,222,513	18,431,266
Foreign currency translation reserve		4,646,496	3,516,630	3,187,401
Hedge reserve	9	<u>(32,608,545)</u>	<u>(76,753,068)</u>	<u>(85,067,140)</u>
Total equity		<u>97,729,838</u>	<u>58,403,637</u>	<u>52,547,550</u>
Total liabilities and equity		<u>481,890,224</u>	<u>489,899,197</u>	<u>498,775,798</u>

Eng. Ahmad Othman AlMujalham
Chairman

Andrew Paul Frain
Chief Executive Officer

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

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

Condensed interim statement of profit or loss and other comprehensive income
for the three and six-month periods ended 30 June 2022

		Three-month period ended 30 June		Six-month period ended 30 June	
	<i>Notes</i>	2022	2021	2022	2021
		KD	KD	KD	KD
Revenue	11	12,938,115	12,844,633	25,679,687	24,547,989
Operating costs	7	<u>(3,890,404)</u>	<u>(3,761,956)</u>	<u>(7,765,084)</u>	<u>(7,316,683)</u>
Gross profit		9,047,711	9,082,677	17,914,603	17,231,306
Finance and other income		11,557	6,545	23,113	19,171
Finance costs		(4,515,920)	(4,658,317)	(8,979,601)	(9,348,888)
Staff costs and related expenses		(141,310)	(148,158)	(305,799)	(337,673)
General and administrative expenses		<u>(511,692)</u>	<u>(461,354)</u>	<u>(1,073,429)</u>	<u>(824,820)</u>
Profit for the period before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), National Labour Support Tax (“NLST”) and Zakat		3,890,346	3,821,393	7,578,887	6,739,096
NLST		(94,790)	(100,968)	(187,064)	(173,992)
KFAS		(39,053)	(46,268)	(72,250)	(72,527)
Zakat		<u>(30,851)</u>	<u>(39,622)</u>	<u>(67,761)</u>	<u>(68,832)</u>
Profit for the period		3,725,652	3,634,535	7,251,812	6,423,745
Other comprehensive income:					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Foreign currency translation differences		725,208	(119,469)	1,129,866	(306,414)
Change in fair value of cash flow hedge		<u>19,000,344</u>	<u>(7,760,503)</u>	<u>44,144,523</u>	<u>19,105,893</u>
<i>Total other comprehensive income / (loss)</i>		<u>19,725,552</u>	<u>(7,879,972)</u>	<u>45,274,389</u>	<u>18,799,479</u>
Total comprehensive income / (loss) for the period		<u>23,451,204</u>	<u>(4,245,437)</u>	<u>52,526,201</u>	<u>25,223,224</u>
Earnings per share (basic and diluted) (fils)	12	3	3	7	6

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

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

Condensed interim statement of changes in equity
for the six-month period ended 30 June 2022

	Share capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Hedge reserve	Total
	KD	KD	KD	KD	KD	KD
Balance as at 1 January 2021	110,000,000	5,996,023	25,207,521	3,493,815	(104,173,033)	40,524,326
Profit for the period	-	-	6,423,745	-	-	6,423,745
Change in fair value of cash flow hedge (Note 9)	-	-	-	-	19,105,893	19,105,893
Change in foreign currency translation differences	-	-	-	(306,414)	-	(306,414)
Total comprehensive income for the period	-	-	6,423,745	(306,414)	19,105,893	25,223,224
Dividends (Note 10)	-	-	(13,200,000)	-	-	(13,200,000)
Balance as at 30 June 2021	<u>110,000,000</u>	<u>5,996,023</u>	<u>18,431,266</u>	<u>3,187,401</u>	<u>(85,067,140)</u>	<u>52,547,550</u>
Balance as at 1 January 2022	110,000,000	7,417,562	14,222,513	3,516,630	(76,753,068)	58,403,637
Profit for the period	-	-	7,251,812	-	-	7,251,812
Change in fair value of cash flow hedge (Note 9)	-	-	-	-	44,144,523	44,144,523
Change in foreign currency translation differences	-	-	-	1,129,866	-	1,129,866
Total comprehensive income for the period	-	-	7,251,812	1,129,866	44,144,523	52,526,201
Dividends (Note 10)	-	-	(13,200,000)	-	-	(13,200,000)
Balance as at 30 June 2022	<u>110,000,000</u>	<u>7,417,562</u>	<u>8,274,325</u>	<u>4,646,496</u>	<u>32,608,545</u>	<u>97,729,838</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)
State of Kuwait

Condensed interim statement of cash flows
for the six-month period ended 30 June 2022

	Note	2022	2021
		KD	KD
Cash flows from operating activities			
Profit before contribution to KFAS, NLST and Zakat		7,578,887	6,739,096
<i>Adjustments for:</i>			
Depreciation		11,529	14,178
Finance costs		8,979,601	9,348,888
Net (gain)/ loss from disposal of property, plant and		(8,569)	15
Trade and other receivables		3,651,395	(5,459,160)
Due from related parties		(8,959)	14,787
Finance lease receivable		5,912,416	5,628,156
Trade and other payables		(496,307)	575,386
Due to related parties		(115,931)	236,320
Provision for staff indemnities		4,765	3,704
Payment of staff indemnities		-	(2,478)
<i>Net cash generated from operating activities</i>		<u>25,508,827</u>	<u>17,098,892</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(130,932)	(83,682)
Proceeds from disposal of property, plant and equipment		<u>8,569</u>	<u>268</u>
<i>Net cash used in investing activities</i>		<u>(122,363)</u>	<u>(83,414)</u>
Cash flows from financing activities			
Term loans		(9,162,175)	(8,635,529)
Payment of finance costs		(8,972,976)	(9,426,943)
Payment of dividends		<u>(12,746,707)</u>	<u>(13,156,587)</u>
<i>Net cash used in financing activities</i>		<u>(30,881,858)</u>	<u>(31,219,059)</u>
Net foreign exchange differences		<u>1,433</u>	<u>(214,214)</u>
Net decrease in cash and cash equivalents		(5,493,961)	(14,417,795)
Cash and cash equivalents as at 1 January		12,541,380	31,784,453
Cash and cash equivalents as at 30 June	5	<u>7,047,419</u>	<u>17,366,658</u>

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

Notes to the condensed interim financial information
for the six-month period ended 30 June 2022

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 and registered with 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 6th Floor, Mazaya Tower 2, Khalid Ibn Al Waleed Street, Block 3, Kuwait City, State of 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 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.

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 ECWPA 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*.

The objectives of the Company are the following:

- 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.
- To carry out 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.
- To carry out 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.
- To carry out chemical cleaning, hot oil cleaning works and disinfection for all heat exchangers, and to carry out electrical and civil works necessary for electricity and water sector works (power plants, pipeline and electricity projects for desalination units and petrochemicals), to carry out all maintenance works including those relating to power generation, water, pipeline installations and installation of relay stations and installation of all insulation items.
- 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.
- To purchase materials and equipment and all movable properties and instruments necessary for the Company to realise 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.

Notes to the condensed interim financial information
for the six-month period ended 30 June 2022

1. Reporting entity (continued)

- To supply and install security and safety equipment relating to the objectives of the Company.
- 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.
- To register patents relating directly to the Company's experience.
- 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.
- 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.
- To invest the Company's funds within the objects and percentages set out by the Board of Directors.

The Company may carry out 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.

On 31 March 2022, 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 2021.

This condensed interim financial information was authorised for issue by the Company's Board of Directors on 14 August 2022.

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 latest annual financial statements as at and for the year ended 31 December 2021 ("latest 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 latest annual financial statements.

This 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 Capital Markets Authority in the State of Kuwait.

Operating results for the six-month period ended 30 June 2022 are not necessarily indicative of the results that may be expected for the year ending 31 December 2022.

Notes to the condensed interim financial information
for the six-month period ended 30 June 2022

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.

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 latest 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 latest annual financial statements, except for the new standards and interpretations which are effective as of 1 January 2022. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2022, but do not have a material impact on the condensed interim financial information of the Company.

5. Cash and cash equivalents

	30 June 2022	31 December 2021	30 June 2021
	KD	KD	KD
	(Reviewed)	(Audited)	(Reviewed)
Cash in hand	1,069	506	197
Cash with banks	6,186,730	8,594,325	6,805,183
Short-term deposits with original maturity of less than three months	6,400,829	9,034,465	15,594,390
Total cash and bank balances	12,588,628	17,629,296	22,399,770
Less: Restricted balance for dividends payable (Note 10)	(5,541,209)	(5,087,916)	(5,033,112)
Total cash and cash equivalents	7,047,419	12,541,380	17,366,658

Short term deposits are denominated in USD and are placed with foreign financial institutions. The effective interest rate on short term deposits ranges from 1.42% to 1.97% per annum (31 December 2021: from 0.09% to 0.14% per annum and 30 June 2021: from 0.03% to 0.10% per annum).

Notes to the condensed interim financial information
for the six-month period ended 30 June 2022

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 June 2022	
		Minimum lease receipts	Present value of minimum lease receipts
		KD	KD
Amounts receivable under finance lease			
Within one year		38,294,743	13,601,169
Year 2 to 5 inclusive		152,522,766	61,797,554
After year 5		551,043,183	379,853,452
Undiscounted future minimum lease payments		741,860,692	455,252,175
Unearned finance income		(286,608,517)	-
Net investment in finance lease at 30 June 2022		<u>455,252,175</u>	<u>455,252,175</u>
		31 December 2021	
		Minimum lease receipts	Present value of minimum lease receipts
		KD	KD
		(Audited)	(Audited)
Amounts receivable under finance lease			
Within one year		37,433,777	12,719,089
Year 2 to 5 included		150,601,766	59,467,838
After year 5		562,001,337	382,718,024
Undiscounted future minimum lease payments		750,036,880	454,904,951
Unearned finance income		(295,131,929)	-
Net investment in finance lease at 31 December 2021		<u>454,904,951</u>	<u>454,904,951</u>
		30 June 2021	
		Minimum lease receipts	Present value of minimum lease receipts
		KD	KD
Amounts receivable under finance lease			
Within one year		37,189,091	12,252,084
Year 2 to 5 inclusive		149,914,818	57,615,004
After year 5		578,279,382	389,250,555
Undiscounted future minimum lease payments		765,383,291	459,117,643
Unearned finance income		(306,265,648)	-
Net investment in finance lease at 30 June 2021		<u>459,117,643</u>	<u>459,117,643</u>

Notes to the condensed interim financial information
for the six-month period ended 30 June 2022

6. Finance lease receivable (continued)

Included in the statement of financial position:

	30 June 2022	31 December 2021	30 June 2021
	KD	KD	KD
	(Reviewed)	(Audited)	(Reviewed)
Current portion	13,601,169	12,719,089	12,252,084
Non-current portion	441,651,006	442,185,862	446,865,559
	<u>455,252,175</u>	<u>454,904,951</u>	<u>459,117,643</u>

The interest rate implicit in the finance lease is 5.5% (31 December 2021: 5.5% and 30 June 2021: 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. These transactions are on agreed terms basis.

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 June 2022	31 December 2021	30 June 2021
	KD	KD	KD
		(Audited)	
Statement of financial position			
Due from related parties	<u>165,147</u>	<u>153,964</u>	<u>154,945</u>
Due to related parties	<u>3,288,795</u>	<u>3,359,193</u>	<u>4,155,202</u>

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

Notes to the condensed interim financial information
for the six-month period ended 30 June 2022

7. Related party transactions (continued)

	Three-month period ended 30 June		Six-month period ended 30 June	
	2022	2021	2022	2021
	KD	KD	KD	KD
Statement of profit or loss and other comprehensive income				
Operating costs	<u>3,890,383</u>	<u>3,761,956</u>	<u>7,760,358</u>	<u>7,316,683</u>
Finance costs	<u>11,800</u>	<u>12,013</u>	<u>23,040</u>	<u>25,885</u>
General and administrative expenses	<u>7,126</u>	<u>(80)</u>	<u>14,113</u>	<u>29,525</u>

Key management compensation

Key management personnel comprise the Board of Directors and members of management who have 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-month period ended 30 June		Six-month period ended 30 June	
	2022	2021	2022	2021
	KD	KD	KD	KD
Secondment fees of key management included in “staff costs and related expenses”	<u>55,187</u>	<u>65,903</u>	<u>109,898</u>	<u>134,505</u>

8. Term loans

	30 June 2022 KD (Reviewed)	31 December 2021 KD (Audited)	30 June 2021 KD (Reviewed)
Current portion	17,453,728	17,404,430	16,832,568
Non-current portion	319,812,162	324,365,783	331,052,808
	<u>337,265,890</u>	<u>341,770,213</u>	<u>347,885,376</u>

Notes to the condensed interim financial information
for the six-month period ended 30 June 2022

8. Term loans (continued)

	30 June 2022	31 December 2021	30 June 2021
	KD	KD	KD
	(Reviewed)	(Audited)	(Reviewed)
USD 645 million facility from Japan Bank for International Cooperation that bears a floating interest rate of Libor plus 1.25% per annum.	151,769,650	153,796,596	156,548,419
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.	66,610,011	67,499,615	68,707,360
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.	118,886,228	120,474,002	122,629,597
	<u>337,265,889</u>	<u>341,770,213</u>	<u>347,885,376</u>

The loans are repayable in quarterly instalments with the final maturity in November 2036. During the period, the Company settled an amount of USD 30,158,320 (KD 9,162,175).

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 over the shares in the Company held by the Parent Company. 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.

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 17.1 million (31 December 2021: KD 16.91 million and 30 June 2021: KD 16.93 million) to contribute to the amount required.

As at 30 June 2022, the Company has undrawn working capital facilities with a commercial bank in Kuwait amounting to KD 13.9 million (31 December 2021: KD 13.9 million and 30 June 2021: 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 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 decrease in the fair value of the outstanding interest rate swaps as of 30 June 2022 amounting to KD 44,144,523 (31 December 2021: increase of KD 27,419,965 and 30 June 2021: increase of KD 19,105,893) has been taken to other comprehensive income and classified as hedge reserve in equity.

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for the six-month period ended 30 June 2022

9. Hedge reserve account and derivative financial liabilities (continued)

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.

Derivatives held for hedging:

	30 June 2022	31 December 2021	30 June 2021
	KD	KD	KD
	(Reviewed)	(Audited)	(Reviewed)
<i>Cash flow hedges – Interest rate swaps</i>			
Notional amount:	320,402,834	324,681,911	330,491,292
Negative fair value:			
Short term	(4,007,690)	(11,803,677)	(12,956,174)
Long term	(28,444,780)	(64,159,637)	(70,973,247)
	(32,452,470)	(75,963,314)	(83,929,421)
Foreign exchange translation differences	(156,075)	(789,754)	(1,137,719)
	(32,608,545)	(76,753,068)	(85,067,140)

10. Share capital

The Company's authorised and issued share capital comprises 1,100,000,000 shares of 100 Kuwaiti fils (31 December 2021: 1,100,000,000 shares and 30 June 2021: 1,100,000,000 shares of 100 Kuwaiti fils) each, fully paid up in cash.

Dividends

On 8 March 2022, the Board of Directors proposed cash dividends of 5 fils per share amounting to KD 5,500,000 in total for the year ended 31 December 2021 (31 December 2020: 12 fils per share amounting to KD 13,200,000), which was subject to approval of the shareholders at the Annual General Assembly meeting. On 31 March 2022, the Annual General Assembly meeting of the shareholders approved the cash dividend of 5 fils per share. On 11 May 2022, the Board of Directors proposed an interim cash dividends of 7 fils per share amounting to KD 7,700,000 in total for the year ending 31 December 2022 (31 December 2021: 9 fils per share amounting to KD 9,900,000), which was subsequently distributed to the shareholders on 20 June 2022.

As at 30 June 2022, the Company has recorded dividends payable to its shareholders amounting to KD 5,541,209 relating to the dividend declared in prior years (31 December 2021: KD 5,087,916 and 30 June 2021: KD 5,033,112).

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for the six-month period ended 30 June 2022

11. Revenue

	Three-month period ended 30 June		Six-month period ended 30 June	
	2022	2021	2022	2021
	KD	KD	KD	KD
<i>Revenue from contact with customer</i>				
Fixed operation and maintenance income	3,438,313	3,365,540	6,576,658	6,338,504
Electrical and water output income	1,204,859	1,054,667	2,526,118	1,870,304
Supplemental receipts and service income	2,035,573	2,071,141	4,075,040	3,563,501
	6,678,745	6,492,348	13,177,816	11,772,309
<i>Finance lease income</i>				
Interest income	6,259,370	6,352,285	12,501,871	12,775,680
	12,938,115	12,844,633	25,679,687	24,547,989

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-month period ended 30 June		Six-month period ended 30 June	
	2022	2021	2022	2021
	KD	KD	KD	KD
Profit for the period	3,725,652	3,634,535	7,251,812	6,423,745
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	3	7	6

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.

Notes to the condensed interim financial information
for the six-month period ended 30 June 2022

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 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 June 2022	31 December 2021	30 June 2021
	KD	KD	KD
	(Reviewed)	(Audited)	(Reviewed)
Within one year	15,503,292	15,206,375	14,985,831
Year 2 to 5 inclusive	81,432,645	79,566,823	78,725,858
After year 5	257,668,157	262,569,554	272,854,173
	<u>354,604,094</u>	<u>357,342,752</u>	<u>366,565,862</u>