

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

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

<i>Contents</i>	<i>Page</i>
Independent auditor's report on review of condensed interim financial information	1 - 2
Condensed interim statement of financial position (Unaudited)	3
Condensed interim statement of profit or loss and other comprehensive income (Unaudited)	4
Condensed interim statement of changes in equity (Unaudited)	5
Condensed interim statement of cash flows (Unaudited)	6
Notes to the condensed interim financial information (Unaudited)	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 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 September 2022, the condensed statement of profit or loss and other comprehensive income for the three-month and nine-month periods ended 30 September 2022, 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 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 September 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 nine-month period ended 30 September 2022 that might have had 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 the Law No 7 of 2010, as amended, concerning the Capital Markets Authority, and its related regulations, during the nine-month period ended 30 September 2022 that might have had material effect on the business of the Company or on its financial position.

A handwritten signature in blue ink, appearing to read 'Safi A. Al-Mutawa', written over a horizontal line.


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


Kuwait: 2 November 2022

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

Condensed interim statement of financial position
as at 30 September 2022

	Notes	30 September 2022 KD (Reviewed)	31 December 2021 KD (Audited)	30 September 2021 KD (Reviewed)
Assets				
Current assets				
Cash and bank balances	5	16,024,140	17,629,296	29,722,561
Trade and other receivables		12,171,441	16,710,070	12,210,316
Due from related parties	7	161,325	153,964	149,223
Finance lease receivable	6	13,969,624	12,719,089	12,441,009
Derivative financial assets	9	1,356,049	-	-
		<u>43,682,579</u>	<u>47,212,419</u>	<u>54,523,109</u>
Non-current assets				
Finance lease receivable	6	443,694,936	442,185,862	444,190,840
Property, plant and equipment		<u>632,375</u>	<u>500,916</u>	<u>503,740</u>
		<u>444,327,311</u>	<u>442,686,778</u>	<u>444,694,580</u>
Total assets		<u>488,009,890</u>	<u>489,899,197</u>	<u>499,217,689</u>
Liabilities and Equity				
Liabilities				
Current liabilities				
Trade and other payables		5,355,156	5,282,404	5,234,615
Due to related parties	7	3,585,143	3,359,193	4,038,035
Dividends payable	10	5,268,669	5,087,916	4,541,558
Term loans	8	17,538,741	17,404,430	17,116,989
Derivative financial liabilities	9	-	11,803,677	12,924,839
		<u>31,747,709</u>	<u>42,937,620</u>	<u>43,856,036</u>
Non-current liabilities				
Provision for staff indemnities		42,827	32,520	30,068
Term loans	8	320,104,263	324,365,783	327,702,740
Derivative financial liabilities	9	<u>17,336,468</u>	<u>64,159,637</u>	<u>65,603,904</u>
		<u>337,483,558</u>	<u>388,557,940</u>	<u>393,336,712</u>
Total liabilities		<u>369,231,267</u>	<u>431,495,560</u>	<u>437,192,748</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		11,080,410	14,222,513	22,227,553
Foreign currency translation reserve		6,161,184	3,516,630	3,329,013
Hedge reserve	9	<u>(15,880,533)</u>	<u>(76,753,068)</u>	<u>(79,527,648)</u>
Total equity		<u>118,778,623</u>	<u>58,403,637</u>	<u>62,024,941</u>
Total liabilities and equity		<u>488,009,890</u>	<u>489,899,197</u>	<u>499,217,689</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 nine-month periods ended 30 September 2022

	Notes	Three-month period ended 30 September		Nine-month period ended 30 September	
		2022	2021	2022	2021
		KD	KD	KD	KD
Revenue	11	12,725,272	12,907,324	38,404,959	37,455,313
Operating costs	7	(4,544,819)	(3,712,541)	(12,309,903)	(11,029,224)
Gross profit		8,180,453	9,194,783	26,095,056	26,426,089
Finance and other income		41,695	2,882	64,808	22,053
Finance costs		(4,567,342)	(4,636,714)	(13,546,943)	(13,985,602)
Staff costs and related expenses		(148,212)	(143,755)	(454,011)	(481,428)
General and administrative expenses		(571,218)	(446,197)	(1,644,647)	(1,271,017)
Profit for the period before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST") and Zakat		2,935,376	3,970,999	10,514,263	10,710,095
NLST		(73,488)	(99,279)	(260,552)	(273,271)
KFAS		(26,432)	(35,720)	(98,682)	(108,247)
Zakat		(29,371)	(39,713)	(97,132)	(108,545)
Profit for the period		2,806,085	3,796,287	10,057,897	10,220,032
Other comprehensive income:					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Foreign currency translation differences		1,514,688	141,612	2,644,554	(164,802)
Change in fair value of cash flow hedge		16,728,012	5,539,492	60,872,535	24,645,385
<i>Total other comprehensive income</i>		<i>18,242,700</i>	<i>5,681,104</i>	<i>63,517,089</i>	<i>24,480,583</i>
Total comprehensive income for the period		21,048,785	9,477,391	73,574,986	34,700,615
Earnings per share (basic and diluted) (fils)	12	3	3	9	9

The accompanying notes 1 to 17 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 nine-month period ended 30 September 2022

	Share capital KD	Statutory reserve KD	Retained earnings KD	Foreign currency translation reserve KD	Hedge reserve KD	Total 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
Total comprehensive income 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 for the period	-	-	10,220,032	(164,802)	24,645,385	34,700,615
Dividends declared (Note 10)	-	-	(13,200,000)	-	-	(13,200,000)
Balance as at 30 September 2021	<u>110,000,000</u>	<u>5,996,023</u>	<u>22,227,553</u>	<u>3,329,013</u>	<u>(79,527,648)</u>	<u>62,024,941</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
Total comprehensive income for the period						
Profit for the period	-	-	10,057,897	-	-	10,057,897
Change in fair value of cash flow hedge (Note 9)	-	-	-	-	60,872,535	60,872,535
Change in foreign currency translation differences	-	-	-	2,644,554	-	2,644,554
Total comprehensive income for the period	-	-	10,057,897	2,644,554	60,872,535	73,574,986
Dividends (Note 10)	-	-	(13,200,000)	-	-	(13,200,000)
Balance as at 30 September 2022	<u>110,000,000</u>	<u>7,417,562</u>	<u>11,080,410</u>	<u>6,161,184</u>	<u>(15,880,533)</u>	<u>118,778,623</u>

The accompanying notes 1 to 17 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 nine-month period ended 30 September 2022

	<i>Note</i>	2022	2021
		KD	KD
Cash flows from operating activities			
Profit before contribution to KFAS, NLST and Zakat		10,514,263	10,710,095
<i>Adjustments for:</i>			
Depreciation		18,325	20,032
Finance costs		13,546,943	13,985,602
Net (gain)/ loss from disposal of property, plant and equipment		(8,627)	268
Provision for staff indemnities		9,234	4,122
		<u>24,080,138</u>	<u>24,720,119</u>
<i>Changes in:</i>			
Trade and other receivables		4,900,939	(1,134,059)
Due from related parties		(3,076)	19,626
Finance lease receivable		9,534,954	9,021,645
Trade and other payables		(575,021)	820,234
Due to related parties		131,205	139,913
Cash generated from operating activities		<u>38,069,139</u>	<u>33,587,478</u>
Payment of staff indemnities		-	(2,474)
Net cash generated from operating activities		<u>38,069,139</u>	<u>33,585,004</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(133,773)	(83,543)
Proceeds from disposal of property, plant and equipment		8,627	15
Net cash used in investing activities		<u>(125,146)</u>	<u>(83,528)</u>
Cash flows from financing activities			
Term loans	8	(13,244,772)	(12,382,394)
Payment of finance costs		(13,539,444)	(13,998,447)
Payment of dividends		(13,019,247)	(13,648,141)
Net cash used in financing activities		<u>(39,803,463)</u>	<u>(40,028,982)</u>
Net foreign exchange differences		73,561	(75,944)
Net decrease in cash and cash equivalents		(1,785,909)	(6,603,450)
Cash and cash equivalents as at 1 January		<u>12,541,380</u>	<u>31,784,453</u>
Cash and cash equivalents as at 30 September	5	<u>10,755,471</u>	<u>25,181,003</u>

The accompanying notes 1 to 17 form an integral part of the condensed interim financial information.

Notes to the condensed interim financial information
for the nine-month period ended 30 September 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.
- To supply and install security and safety equipment relating to the objectives of the Company.

Notes to the condensed interim financial information
for the nine-month period ended 30 September 2022

1. Reporting entity (continued)

- 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 2 November 2022.

2. Basis of preparation

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 audited 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 is presented in Kuwait Dinar ("KD"). The Company's functional currency is the US dollar which 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 regulatory authorities in the State of Kuwait.

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

Notes to the condensed interim financial information
for the nine-month period ended 30 September 2022

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 became 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 did not have a material impact on the condensed interim financial information of the Company.

5. Cash and cash equivalents

	30 September 2022	31 December 2021	30 September 2021
	KD	KD	KD
	(Reviewed)	(Audited)	(Reviewed)
Cash in hand	1,698	506	5
Balances with banks	5,610,642	8,594,325	6,193,856
Short-term deposits with original maturity of less than three months	10,411,800	9,034,465	23,528,700
Total cash and bank balances	16,024,140	17,629,296	29,722,561
Less: Restricted balance for dividends payable (Note 10)	(5,268,669)	(5,087,916)	(4,541,558)
Total cash and cash equivalents	10,755,471	12,541,380	25,181,003

Short term deposits are denominated in USD and are placed with foreign financial institutions. The effective interest rate on short term deposits ranges from 2.7% to 3.32% per annum (31 December 2021: from 0.09% to 0.14% per annum and 30 September 2021: from 0.07% to 0.08% per annum).

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 2022	
	Minimum lease receipts	Present value of minimum lease receipts
	KD	KD
Amounts receivable under finance lease		
Within one year	38,802,928	13,969,624
Year 2 to 5 inclusive	154,561,710	63,488,699
After year 5	548,413,743	380,206,237
Undiscounted future minimum lease payments	741,778,381	457,664,560
Unearned finance income	(284,113,821)	-
Net investment in finance lease	457,664,560	457,664,560

Notes to the condensed interim financial information
for the nine-month period ended 30 September 2022

	31 December 2021	
	Minimum	Present value
	lease receipts	of minimum
	KD	lease receipts
	(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	454,904,951	454,904,951
	30 September 2021	
	Minimum	Present value
	lease receipts	of minimum
	KD	lease receipts
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	456,631,849	456,631,849
Included in the statement of financial position:		
	30 September 2022	31 December 2021
	KD	KD
	(Reviewed)	(Audited)
		30 September 2021
		KD
		(Reviewed)
Current portion	13,969,624	12,719,089
Non-current portion	443,694,936	442,185,862
	457,664,560	454,904,951
		456,631,849

The interest rate implicit in the finance lease is 5.5% (31 December 2021: 5.5% and 30 September 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.

Notes to the condensed interim financial information
for the nine-month period ended 30 September 2022

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 2022	31 December 2021	30 September 2021
	KD	KD	KD
	(Reviewed)	(Audited)	(Reviewed)
Statement of financial position			
Due from related parties	161,325	153,964	149,223
Due to related parties	3,585,143	3,359,193	4,038,035

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2022	2021	2022	2021
	KD	KD	KD	KD
Statement of profit or loss and other comprehensive income				
Operating costs	4,544,819	3,712,541	12,309,903	11,029,224
Finance costs	(3,437)	-	19,603	25,885
General and administrative expenses	9,419	(49)	23,532	29,476

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 September		Nine-month period ended 30 September	
	2022	2021	2022	2021
	KD	KD	KD	KD
Secondment fees of key management included in "staff costs and related expenses"	57,993	41,219	167,891	175,724

8. Term loans

	30 September 2022	31 December 2021	30 September 2021
	KD	KD	KD
	(Reviewed)	(Audited)	(Reviewed)
Current portion	17,538,741	17,404,430	17,116,989
Non-current portion	320,104,263	324,365,783	327,702,740
	337,643,004	341,770,213	344,819,729

Notes to the condensed interim financial information
for the nine-month period ended 30 September 2022

	30 September 2022	31 December 2021	30 September 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.	151,939,351	153,796,596	155,168,877
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.	66,684,491	67,499,615	68,101,895
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.	119,019,162	120,474,002	121,548,957
	337,643,004	341,770,213	344,819,729

The loans are repayable in quarterly instalments with the final maturity in November 2036. During the period, the Company settled an amount of USD 43,451,431 (KD 13,244,772).

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 after taking into consideration any letter of credit issued. Certain related parties of the Company issued letters of credit in favor of the lenders of KD 19.3 million (31 December 2021: KD 16.91 million and 30 September 2021: KD 16.86 million) to contribute to the amount required resulting in no further cash deposit required to be maintained in the debt service reserve account as at 30 September 2022 (31 December 2021: KD 1.2 million and 30 September 2021: KD nil).

As at 30 September 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 September 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.

Notes to the condensed interim financial information
for the nine-month period ended 30 September 2022

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 September 2022 amounting to KD 60,872,535 (31 December 2021: increase of KD 27,419,965 and 30 September 2021: decrease of KD 24,645,385) 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.

Derivatives held for hedging:

	30 September 2022	31 December 2021	30 September 2021
	KD	KD	KD
	(Reviewed)	(Audited)	(Reviewed)
<i>Cash flow hedges – Interest rate swaps</i>			
Notional amount:	320,761,109	324,681,911	327,578,939
Fair value:			
Short term	1,356,049	(11,803,677)	(12,924,839)
Long term	(17,336,468)	(64,159,637)	(65,603,904)
	(15,980,419)	(75,963,314)	(78,528,743)
Foreign exchange translation differences	99,886	(789,754)	(998,905)
	(15,880,533)	(76,753,068)	(79,527,648)

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 September 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 approved by the shareholders at the Annual General Assembly meeting on 31 March 2022.

Notes to the condensed interim financial information
for the nine-month period ended 30 September 2022

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 September 2022, the Company has recorded dividends payable to its shareholders amounting to KD 5,268,669 relating to the dividend declared in prior periods (31 December 2021: KD 5,087,916 and 30 September 2021: KD 4,541,558).

11. Revenue

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2022	2021	2022	2021
	KD	KD	KD	KD
<i>Revenue from contract with customer</i>				
Fixed operation and maintenance income	3,499,246	3,445,683	10,075,904	9,784,187
Electrical and water output income	885,538	1,079,842	3,411,656	2,950,146
Supplemental receipts and service income	2,094,352	2,089,871	6,169,392	5,653,372
	<u>6,479,136</u>	<u>6,615,396</u>	<u>19,656,952</u>	<u>18,387,705</u>
<i>Finance lease income</i>				
Interest income	6,246,136	6,291,928	18,748,007	19,067,608
	<u>12,725,272</u>	<u>12,907,324</u>	<u>38,404,959</u>	<u>37,455,313</u>

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 September		Nine-month period ended 30 September	
	2022	2021	2022	2021
	KD	KD	KD	KD
Profit for the period	2,806,085	3,796,287	10,057,897	10,220,032
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	9	9

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 nine-month period ended 30 September 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 audited 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 September 2022	31 December 2021	30 September 2021
	KD	KD	KD
	(Reviewed)	(Audited)	(Reviewed)
Within one year	16,694,037	15,206,375	15,140,485
Year 2 to 5 inclusive	89,486,547	79,566,823	79,008,527
After year 5	275,096,328	262,569,554	265,391,938
	381,276,912	357,342,752	359,540,950

17. Subsequent event

The Board of Directors in their meeting held on 2 November 2022, proposed interim cash dividends of 6 fils per share amounting to KD 6,600,000, based on the authorisation given by shareholders to the Board of directors on the AGM that took place on 31 March 2022 to distribute dividends to the Company's shareholders on a quarterly or semi-annual basis as it deems appropriate during the financial year ending on 31 December 2022.