

Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)

**Condensed Interim Financial Information and Independent Auditor's
Review Report for the three-month period ended 31 March 2023
(Unaudited)**

Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)
State of Kuwait

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KPMG Al-Qenae & Partners
Al Hamra Tower, 25th Floor
Abdulaziz Al Saqr Street
P.O Box 24, Safat 13001
State of Kuwait
+965 2228 7000

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

The Board of Directors
Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)
State of Kuwait

Introduction

We have reviewed the accompanying 31 March 2023 condensed interim financial information of Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public) (the "Company"), which comprises the condensed statement of financial position as at 31 March 2023, the condensed statements of profit or loss, other comprehensive income, changes in equity and cash flows for the three-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 31 March 2023 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 three-month period ended 31 March 2023 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 three-month period ended 31 March 2023 that might have had material effect on the business of the Company or on its financial position.


Dr. Rasheed M. Al-Qenae
License No. 130
of KPMG Al-Qenae & Partners
Member firm of KPMG International


Kuwait: 10 May 2023

Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)
State of Kuwait

Condensed statement of financial position (Unaudited)
as at 31 March 2023

		31 March 2023	31 December 2022	31 March 2022
	<i>Notes</i>	KD	KD	KD
		(Unaudited)	(Audited)	(Unaudited)
Assets				
Current assets				
Cash and bank balances	5	20,903,453	13,378,171	18,708,246
Trade and other receivables		5,816,464	12,096,993	16,106,269
Due from related parties	7	20,546	2,936	166,422
Finance lease receivable	6	14,009,343	13,940,177	13,298,586
Derivative financial assets	9	1,362,012	6,157,629	-
		42,111,818	45,575,906	48,279,523
Non-current assets				
Finance lease receivable	6	431,046,647	433,800,414	441,234,593
Property, plant and equipment		645,937	654,127	500,092
		431,692,584	434,454,541	441,734,685
Total assets		473,804,402	480,030,447	490,014,208
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables		4,789,982	5,255,346	3,946,350
Due to related parties	7	4,025,345	4,021,733	3,031,864
Dividends payable	10	9,680,171	5,549,381	4,784,308
Term loans	8	17,323,986	17,109,406	17,364,822
Derivative financial liabilities	9	-	-	6,750,460
		35,819,484	31,935,866	35,877,804
Non-current liabilities				
Provision for staff indemnities		38,730	37,376	35,098
Term loans	8	307,806,896	311,331,050	322,320,261
Derivative financial liabilities	9	20,637,644	19,764,545	44,302,410
		328,483,270	331,132,971	366,657,769
Total liabilities		364,302,754	363,068,837	402,535,573
Equity				
Share capital	10	110,000,000	110,000,000	110,000,000
Statutory reserve		8,934,307	8,934,307	7,417,562
Retained earnings		5,466,503	7,369,115	17,748,673
Foreign currency translation reserve		6,628,132	6,538,721	3,921,288
Hedge reserve	9	(21,527,294)	(15,880,533)	(51,608,888)
Total equity		109,501,648	116,961,610	87,478,635
Total liabilities and equity		473,804,402	480,030,447	490,014,208


 Eng. Ahmad Othman AlMujalham
 Chairman


 Andrew Paul Frain
 Chief Executive Officer

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

Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)
State of Kuwait

Condensed statement of profit or loss (Unaudited)
for the three-month period ended 31 March 2023

	<i>Notes</i>	Three-month period ended	
		31 March	
		2023	2022
		KD	KD
Revenue	<i>11</i>	12,274,682	12,741,572
Operating costs		(4,159,462)	(3,874,680)
Gross profit		8,115,220	8,866,892
Finance and other income		96,321	11,556
Finance costs		(4,896,001)	(4,463,681)
Staff costs and related expenses		(175,632)	(164,489)
General and administrative expenses		(527,528)	(561,737)
Profit for the period before contribution to Kuwait Foundation for the Advancement of Sciences (“KFAS”), National Labour Support Tax (“NLST”) and Zakat		2,612,380	3,688,541
KFAS		(23,512)	(33,197)
NLST		(65,343)	(92,274)
Zakat		(26,137)	(36,910)
Profit for the period		2,497,388	3,526,160
Earnings per share (basic and diluted) (fils)	<i>12</i>	2	3

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

Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)
State of Kuwait

Condensed statement other comprehensive income (Unaudited)
for the three-month period ended 31 March 2023

	<i>Notes</i>	Three-month period ended	
		31 March	
		2023	2022
		KD	KD
Profit for the period		2,497,388	3,526,160
Other comprehensive income:			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences		89,411	404,658
Change in fair value of cash flow hedge	9	(5,646,761)	25,144,180
<i>Total other comprehensive (loss) / income</i>		<u>(5,557,350)</u>	<u>25,548,838</u>
Total comprehensive (loss) / income for the period		<u>(3,059,962)</u>	<u>29,074,998</u>

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

Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)
State of Kuwait

Condensed statement of changes in equity (Unaudited)
for the three-month period ended 31 March 2023

	Share capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Hedge reserve	Total
	KD	KD	KD	KD	KD	KD
Balance as at 1 January 2022 (Audited)	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	-	-	3,526,160	-	-	3,526,160
Change in fair value of cash flow hedge (note 9)	-	-	-	-	25,144,180	25,144,180
Change in foreign currency translation differences	-	-	-	404,658	-	404,658
Total comprehensive income for the period	-	-	3,526,160	404,658	25,144,180	29,074,998
Balance as at 31 March 2022	110,000,000	7,417,562	17,748,673	3,921,288	(51,608,888)	87,478,635
Balance as at 1 January 2023 (Audited)	110,000,000	8,934,307	7,369,115	6,538,721	(15,880,533)	116,961,610
Total comprehensive loss for the period						
Profit for the period	-	-	2,497,388	-	-	2,497,388
Change in fair value of cash flow hedge (note 9)	-	-	-	-	(5,646,761)	(5,646,761)
Change in foreign currency translation differences	-	-	-	89,411	-	89,411
Total comprehensive loss for the period	-	-	2,497,388	89,411	(5,646,761)	(3,059,962)
Dividends (note 10)	-	-	(4,400,000)	-	-	(4,400,000)
Balance as at 31 March 2023	110,000,000	8,934,307	5,466,503	6,628,132	(21,527,294)	109,501,648

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

Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)
State of Kuwait

Condensed statement of cash flows (Unaudited)
for the three-month period ended 31 March 2023

	Note	Three-month period ended	
		31 March	
		2023	2022
		KD	KD
Cash flows from operating activities			
Profit before contribution to KFAS, NLST and Zakat		2,612,380	3,688,541
<i>Adjustments for:</i>			
Depreciation		8,857	5,737
Finance costs		4,896,001	4,463,681
Net gain from disposal of property, plant and equipment		(15)	(8,532)
Provision for staff indemnities		1,322	2,417
		<u>7,518,545</u>	<u>8,151,844</u>
<i>Changes in:</i>			
Trade and other receivables		6,278,339	677,962
Due from related parties		(17,575)	(11,690)
Finance lease receivable		3,044,192	2,465,560
Trade and other payables		(310,528)	(1,392,889)
Due to related parties		329	(341,277)
Net cash generated from operating activities		<u>16,513,302</u>	<u>9,549,510</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(150)	(2,609)
Proceeds from disposal of property, plant and equipment		15	8,532
Net cash (used in) / from investing activities		<u>(135)</u>	<u>5,923</u>
Cash flows from financing activities			
Term loans	8	(3,570,783)	(3,649,771)
Payment of finance costs		(4,896,001)	(4,261,695)
Payment of dividends		(273,215)	(303,608)
Net cash used in financing activities		<u>(8,739,999)</u>	<u>(8,215,074)</u>
Net foreign exchange differences		21,324	42,199
Net increase in cash and cash equivalents		7,794,492	1,382,558
Cash and cash equivalent at 1 January		7,828,790	12,541,380
Cash and cash equivalent at 31 March	5	<u>15,623,282</u>	<u>13,923,938</u>

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

Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)
State of Kuwait

Notes to the condensed interim financial information (Unaudited)
for the three-month period ended 31 March 2023

1. Reporting entity

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

The registered office of the Company is at 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 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:

- a) 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.
- b) To carry out all work 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.
- c) To carry out all work of generation, production, transmission, making, development and sale of electricity and water or any product relating to any such work in and outside the State of Kuwait.
- d) 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.
- e) 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.
- f) 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.
- g) To supply and install security and safety equipment relating to the objectives of the Company.
- h) 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.

Notes to the condensed interim financial information (Unaudited)

for the three-month period ended 31 March 2023

1. Reporting entity (continued)

- i) To register patents relating directly to the Company's experience.
- j) 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.
- k) To directly participate in infrastructure zones and projects relevant to the objectives of the Company in 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.
- l) 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 30 March 2023, 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 2022.

This condensed interim financial information was authorised for issue by the Company's Board of Directors on 10 May 2023.

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 2022 ("latest annual financial statements"). It does not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board ("IFRS Standards"). 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 Kuwaiti Dinar ("KD"). The Company's functional currency is not the currency of the country in which it is domiciled as 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 three-month period ended 31 March 2023 are not necessarily indicative of the results that may be expected for the year ending 31 December 2023.

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.

Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)
State of Kuwait

Notes to the condensed interim financial information (Unaudited)

for the three-month period ended 31 March 2023

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 2023. Several amendments apply for the first time in 2023, but do not have a material impact on the condensed interim financial information of the Company.

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

5. Cash and bank balances

	31 March 2023	31 December 2022	31 March 2022
	KD	KD	KD
	(Unaudited)	(Audited)	(Unaudited)
Cash in hand	1,155	1,297	590
Cash with banks	10,821,341	6,056,304	11,350,237
Short-term deposits with original maturities of less than three months	10,080,957	7,320,570	7,357,419
Total cash and bank balances	20,903,453	13,378,171	18,708,246
<i>Less:</i> Restricted balance for dividends payable (note 10)	(5,280,171)	(5,549,381)	(4,784,308)
Total cash and cash equivalents	15,623,282	7,828,790	13,923,938

Short-term deposits are denominated in USD and are placed with foreign financial institutions. The effective interest rate on short-term deposits ranges from 4.13% to 4.94% per annum (31 December 2022: from 4.32% to 4.57% per annum and 31 March 2022: from 0.24% to 0.68% 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:

	31 March 2023	
	Minimum lease receipts	Present value of minimum lease receipts
	KD	KD
	(Unaudited)	(Unaudited)
Amounts receivable under finance lease		
Within one year	38,120,279	14,009,343
Year 2 to 5 inclusive	152,592,695	64,507,310
After year 5	522,233,080	366,539,337
Undiscounted future minimum lease payments	712,946,054	445,055,990
Unearned finance income	(267,890,064)	-
Net investment in finance lease at 31 March 2023	445,055,990	445,055,990

Notes to the condensed interim financial information (Unaudited)
for the three-month period ended 31 March 2023

6. Finance lease receivable (continued)

	31 December 2022	
	Minimum lease receipts	Present value of minimum lease receipts
	KD	KD
	(Audited)	(Audited)
Amounts receivable under finance lease		
Within one year	38,223,507	13,940,177
Year 2 to 5 inclusive	152,317,359	63,426,992
After year 5	531,013,940	370,373,422
Undiscounted future minimum lease payments	721,554,806	447,740,591
Unearned finance income	(273,814,215)	-
Net investment in finance lease at 31 December 2022	<u>447,740,591</u>	<u>447,740,591</u>

	31 March 2022	
	Minimum lease receipts	Present value of minimum lease receipts
	KD	KD
	(Unaudited)	(Unaudited)
Amounts receivable under finance lease		
Within one year	37,950,393	13,298,586
Year 2 to 5 included	151,130,320	60,399,078
After year 5	555,678,538	380,835,515
Undiscounted future minimum lease payments	744,759,251	454,533,179
Unearned finance income	(290,226,072)	-
Net investment in finance lease at 31 March 2022	<u>454,533,179</u>	<u>454,533,179</u>

Included in the statement of financial position:

	31 March 2023	31 December 2022	31 March 2022
	KD	KD	KD
	(Unaudited)	(Audited)	(Unaudited)
Current portion	14,009,343	13,940,177	13,298,586
Non-current portion	431,046,647	433,800,414	441,234,593
	<u>445,055,990</u>	<u>447,740,591</u>	<u>454,533,179</u>

The interest rate implicit in the finance lease is 5.5% (31 December 2022 and 31 March 2022: 5.5%) per annum.

Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)
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Notes to the condensed interim financial information (Unaudited)

for the three-month period ended 31 March 2023

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 has control or joint control, 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:

	31 March 2023	31 December 2022	31 March 2022
	KD	KD	KD
	(Unaudited)	(Audited)	(Unaudited)
Statement of financial position			
Due from related parties	20,546	2,936	166,422
Due to related parties	4,025,345	4,021,733	3,031,864
			Three-month period ended
			31 March
			2023
			2022
			KD
			KD
			(Unaudited)
			(Unaudited)
Statement of profit or loss and other comprehensive income			
Operating costs		4,159,462	3,869,975
Finance costs		13,108	11,240
General and administrative expenses		7,536	6,987

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. Management compensation related to key management personnel was as follows:

	Three-month period ended	
	31 March	
	2023	2022
	KD	KD
	(Unaudited)	(Unaudited)
Secondment fees of key management included in “staff costs and related expenses”	62,251	54,711

Shamal Az-Zour Al-Oula Power and Water Company K.S.C. (Public)
State of Kuwait

Notes to the condensed interim financial information (Unaudited)
for the three-month period ended 31 March 2023

8. Term loans

	31 March 2023	31 December 2022	31 March 2022
	KD	KD	KD
	(Unaudited)	(Audited)	(Unaudited)
Current portion	17,323,986	17,109,406	17,364,822
Non-current portion	307,806,896	311,331,050	322,320,261
	325,130,882	328,440,456	339,685,083
	31 March 2023	31 December 2022	31 March 2022
	KD	KD	KD
	(Unaudited)	(Audited)	(Unaudited)
USD 645 million facility from Japan Bank for International Cooperation that bears a floating interest rate of LIBOR plus 1.25% per annum.	146,308,897	147,798,205	152,858,287
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.	64,213,347	64,866,987	67,087,802
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.	114,608,638	115,775,264	119,738,994
	325,130,882	328,440,456	339,685,083

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 a 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 the 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 19.0 million (USD 62.0 million) (31 December 2022: KD 18.9 million (USD 62.0 million) and 31 March 2022: KD 16.9 million (USD 55.6 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 31 March 2023 (31 December 2022 and 31 March 2022: nil).

As at 31 March 2023, the Company has undrawn working capital facilities with a commercial bank in Kuwait amounting to KD 13.9 million (31 December 2022 and 31 March 2022: KD 13.9 million).

Notes to the condensed interim financial information (Unaudited)

for the three-month period ended 31 March 2023

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 interest rate due on its borrowings to fixed interest rate 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. On 26 November 2020, the Company entered into two additional voluntary interest rate swaps to replace expiring swap coverage. These swaps have been classified as cash flow hedges. The increase in the fair value of the outstanding interest rate swaps as of 31 March 2023 amounting to KD 5,646,761 (31 December 2022: decrease of KD 63,219,020 and 31 March 2022: decrease of KD 25,144,180) 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:

	31 March 2023	31 December 2022	31 March 2022
	KD	KD	KD
	(Unaudited)	(Audited)	(Unaudited)
<i>Cash flow hedges – Interest rate swaps</i>			
Notional amount:	308,874,612	312,018,697	323,211,101
Positive / (negative) fair value:			
Short term	1,362,012	6,157,629	(6,750,460)
Long term	(20,637,644)	(19,764,545)	(44,302,410)
	(19,275,632)	(13,606,916)	(51,052,870)
Foreign exchange translation differences	(2,251,662)	(2,273,617)	(556,018)
	(21,527,294)	(15,880,533)	(51,608,888)

10. Share capital

The Company's authorised and issued share capital comprises 1,100,000,000 shares of 100 Kuwaiti fils (31 December 2022: 1,100,000,000 shares and 31 March 2022: 1,100,000,000 shares of 100 Kuwaiti fils) each, fully paid-up in cash.

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Notes to the condensed interim financial information (Unaudited)
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Dividends

On 1 March 2023, the Board of Directors proposed cash dividends of 4 fils per share amounting to KD 4,400,000 for the year ended 31 December 2022 (31 December 2021: 5 fils per share amounting to KD 5,500,000), which was approved by the shareholders at the Annual General Assembly meeting held on 30 March 2023.

As at 31 March 2023, the Company has recorded dividends payable to its shareholders amounting to KD 9,680,171 (31 December 2022: KD 5,549,381 and 31 March 2022: KD 4,784,308). Included within this balance is an amount of KD 5,280,171 which is held in a restricted bank account (note 5).

11. Revenue

	Three-month period ended	
	31 March	
	2023	2022
	KD	KD
<i>Revenue from contract with customer</i>		
Fixed operation and maintenance income	3,179,494	3,138,345
Electrical and water output income	1,523,994	1,321,259
Supplemental receipts and service income	1,435,346	2,039,467
	<u>6,138,834</u>	<u>6,499,071</u>
<i>Finance lease income</i>		
Interest income	6,135,848	6,242,501
	<u>12,274,682</u>	<u>12,741,572</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	
	31 March	
	2023	2022
	KD	KD
	(Unaudited)	(Unaudited)
Profit for the period	2,497,388	3,526,160
Weighted average number of ordinary shares outstanding during the year	1,100,000,000	1,100,000,000
Earnings per share (fils)	2	3

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 (Unaudited)

for the three-month period ended 31 March 2023

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 2022.

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:

	31 March 2023	31 December 2022	31 March 2022
	KD	KD	KD
	(Unaudited)	(Audited)	(Unaudited)
Within one year	16,889,451	16,670,641	15,303,966
Year 2 to 5 inclusive	89,018,161	88,546,128	80,331,967
After year 5	262,121,150	266,545,636	259,564,809
	368,028,762	371,762,405	355,200,742