

**RABIGH ARABIAN WATER & ELECTRICITY COMPANY
(A LIMITED LIABILITY COMPANY)**

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 2022

**RABIGH ARABIAN WATER & ELECTRICITY COMPANY
(A LIMITED LIABILITY COMPANY)**

**INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF RABIGH ARABIAN WATER & ELECTRICITY COMPANY (A LIMITED LIABILITY COMPANY)

Opinion

We have audited the financial statements of Rabigh Arabian Water & Electricity Company (A Limited Liability Company) (the "Company"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss, statement of comprehensive income, statement of changes in Partners' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia that is relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants and the provisions of Companies' Law and the Company's Articles of Association, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE PARTNERS OF
RABIGH ARABIAN WATER & ELECTRICITY COMPANY (A LIMITED LIABILITY COMPANY) (continued)**

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young Professional Services



Yousef A. AIMubarak
Certified Public Accountant
Licence No. (427)

Jeddah: 26 March 2023G
04 Ramadhan 1444H



Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

		<i>2022</i>	<i>2021</i>
	<i>Note</i>	<i>SR</i>	<i>SR</i>
Revenue	9	1,154,174,956	1,166,491,055
Cost of revenue	8	(548,459,051)	(484,533,714)
GROSS PROFIT		605,715,905	681,957,341
EXPENSES			
General and administrative	7	(31,966,431)	(30,828,267)
OPERATING PROFIT		573,749,474	651,129,074
Finance costs		(190,612,646)	(174,410,377)
Income from bank deposits		12,453,450	258,689
Other income		92,545	5,164,211
Exchange loss – net		(1,336,602)	(3,791,034)
PROFIT BEFORE ZAKAT AND INCOME TAX		394,346,221	478,350,563
Zakat and income tax charge	25	(10,008,268)	(12,179,857)
Deferred tax charge	14	(150,243)	(200,911)
NET PROFIT FOR THE YEAR		384,187,710	465,969,795

The accompanying notes from 1 to 30 form an integral part of these financial statements.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Note</i>	2022 SR	2021 SR
Net profit for the year		384,187,710	465,969,795
Other comprehensive income			
<i>Items that will not be reclassified to statement of profit or loss in subsequent periods:</i>			
Re-measurement losses on defined benefit plans	23	(565,901)	(260,945)
<i>Items that may be reclassified to statement of profit or loss in subsequent periods:</i>			
Net gain on cash flow hedges	15	41,962,196	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		425,584,005	465,708,850

The accompanying notes from 1 to 30 form an integral part of these financial statements.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Note</i>	2022 SR	2021 SR
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	5,742,801,811	5,928,194,262
Capital work in progress	12	2,071,107	821,118
Intangible assets	13	10,605,050	11,623,136
Deferred tax asset	14	126,809	277,052
Fair value of derivatives- non current	15	23,866,532	-
Deferred cost- non current	16	203,865,992	-
TOTAL NON-CURRENT ASSETS		5,983,337,301	5,940,915,568
CURRENT ASSETS			
Inventories	17	147,919,067	140,962,481
Fair value of derivatives	15	18,095,664	-
Deferred cost	16	16,439,726	-
Accounts receivable, prepayments and other receivable	18	135,210,563	235,790,122
Cash and cash equivalents	19	311,849,459	115,655,992
TOTAL CURRENT ASSETS		629,514,479	492,408,595
TOTAL ASSETS		6,612,851,780	6,433,324,163
PARTNERS' EQUITY AND LIABILITIES			
PARTNERS' EQUITY			
Capital	20	1,000,000,000	1,757,446,095
Statutory reserve	21	242,766,455	204,347,684
Retained earnings		290,213,730	1,283,814,598
Cash flow hedge reserve	15	41,962,196	-
TOTAL EQUITY		1,574,942,381	3,245,608,377
NON-CURRENT LIABILITIES			
Bank loans	22	4,368,815,341	2,533,590,671
Employees' terminal benefits	23	2,224,066	1,879,125
TOTAL NON-CURRENT LIABILITIES		4,371,039,407	2,535,469,796
CURRENT LIABILITIES			
Accounts payable, accrued and other liabilities	24	256,194,890	315,782,721
Current portion of bank loans	22	410,675,102	336,463,269
TOTAL CURRENT LIABILITIES		666,869,992	652,245,990
TOTAL LIABILITIES		5,037,909,399	3,187,715,786
TOTAL PARTNERS' EQUITY AND LIABILITIES		6,612,851,780	6,433,324,163

The accompanying notes from 1 to 30 form an integral part of these financial statements.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

STATEMENT OF CHANGES IN PARTNERS' EQUITY

For the year ended 31 December 2022

	<i>Capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Cash flow hedge reserve SR</i>	<i>Total SR</i>
Balance at 1 January 2021	1,757,446,095	157,750,704	1,168,452,728	-	3,083,649,527
Net profit for the year	-	-	465,969,795	-	465,969,795
Other comprehensive loss for the year	-	-	(260,945)	-	(260,945)
Total comprehensive income for the year	-	-	465,708,850	-	465,708,850
Transfer to statutory reserve	-	46,596,980	(46,596,980)	-	-
Dividends (<i>note 21a</i>)	-	-	(303,750,000)	-	(303,750,000)
Balance at 31 December 2021	1,757,446,095	204,347,684	1,283,814,598	-	3,245,608,377
Net profit for the year	-	-	384,187,710	-	384,187,710
Other comprehensive loss for the year	-	-	(565,901)	41,962,196	41,396,295
Total comprehensive income for the year	-	-	383,621,809	41,962,196	425,584,005
Transfer to statutory reserve	-	38,418,771	(38,418,771)	-	-
Dividends (<i>note 21a</i>)	-	-	(1,338,803,906)	-	(1,338,803,906)
Capital reduction (<i>note 20</i>)	(757,446,095)	-	-	-	(757,446,095)
Balance at 31 December 2022	1,000,000,000	242,766,455	290,213,730	41,962,196	1,574,942,381

The accompanying notes from 1 to 30 form an integral part of these financial statements.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	<i>Note</i>	2022 SR	2021 SR
OPERATING ACTIVITIES			
Net profit for the year before zakat and income tax		394,346,221	478,350,563
Non-cash adjustments to reconcile net profit before zakat and income tax to net cash flows:			
Depreciation of property, plant and equipment	11	212,476,704	211,139,310
Amortization of intangible assets	13	1,018,086	1,018,088
Provision for employees' terminal benefits	23	524,768	489,145
Income from bank deposits		(12,453,450)	(258,689)
Gain on disposal of property, plant and equipment		-	(294,500)
Amortization of upfront fees	22	10,218,188	9,529
Finance costs		180,394,458	174,410,377
Allowance for slow moving and obsolete inventories		-	2,214,225
Amortisation of deferred cost	16	15,944,282	-
Operating cashflows before working capital adjustments		802,469,257	867,078,048
Working capital adjustments:			
Inventories		(6,956,586)	5,362,122
Accounts receivable, prepayments and other receivable		100,613,081	(108,301,893)
Accounts payable, accrued and other liabilities		752	6,035,024
Cash from operations		896,126,504	770,173,301
Zakat and income tax paid	25	(12,160,810)	(10,595,447)
Employees' terminal benefits paid	23	(465,291)	(820,320)
Net cash from operating activities		883,500,403	758,757,534
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	(27,084,253)	(24,084,843)
Addition to capital work in progress	12	(1,249,989)	(1,089,731)
Income from bank deposits		12,453,450	258,689
Proceeds from disposal of property, plant and equipment		-	294,500
Net cash used in investing activities		(15,880,792)	(24,621,385)
FINANCING ACTIVITIES			
Repayment of term loans		(398,460,782)	(3,215,132,844)
Receipt of bank loans		2,333,361,839	2,897,888,161
Upfront fees on loan paid	22	(22,322,029)	(27,843,750)
Transaction costs paid	22	(13,360,713)	-
Dividends paid	21a	(1,396,553,906)	(225,375,000)
Finance costs paid		(180,394,458)	(174,243,087)
Payment of deferred cost	16	(236,250,000)	-
Repayment of capital to the Partners	20	(757,446,095)	-
Net cash used in financing activities		(671,426,144)	(744,706,520)
NET INCREASE/ (DECREASE) IN BANK BALANCES AND CASH		196,193,467	(10,570,371)
Bank balances and cash at the beginning of the year		115,655,992	126,226,363
BANK BALANCES AND CASH AT THE END OF THE YEAR	19	311,849,459	115,655,992
MAJOR NON-CASH TRANSACTIONS			
Dividends payable	21a	108,750,000	166,500,000
Employees' terminal benefits transferred (to)/ from related party	22	(280,437)	220,483

The accompanying notes from 1 to 30 form an integral part of these financial statements.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

1. CORPORATE INFORMATION

Rabigh Arabian Water & Electricity Company (the “Company”) is a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number (CR) 4602006014 dated 7 Shaban 1426H corresponding to 10 September 2005, which was issued following the Company’s relocation of its head office from Jeddah to Rabigh, Kingdom of Saudi Arabia. The Company was earlier registered under CR no 4030157634 dated 7 Shaban 1426H corresponding to 10 September 2005, which was cancelled on 12 Rabi’ II 1436H corresponding to 1 February 2015.

The head office of the Company is situated in Rabigh, Kingdom of Saudi Arabia. The registered office of the Company is located at the following address:

P.O.Box 100
Rabigh 21911
Kingdom of Saudi Arabia

The objective of the Company was to develop on a build, own, operate and transfer basis, a plant that will utilise fuel oil, steam condensate and sea water to produce desalinated water, steam and electric power, to be supplied to Rabigh Refining & Petrochemical Company under a Water and Energy Conversion Agreement (the “WECA”) dated 7 August 2005 (as amended subsequently). As the project was capable of meeting off-taker requirements as of 1 June 2008, the Company became entitled to earn revenue as if it had entered commercial operations as of that date. The Company commenced its formal commercial operations on 10 May 2010.

On 1 January 2010, the Company entered into a Memorandum of Understanding with Rabigh Refining & Petrochemical Company to change the WECA (as amended) from a “Build, Own, Operate and Transfer” contract to a “Build, Own and Operate” contract.

The Company has entered into a Project Development Agreement dated 31 October 2012 in respect of the construction of Phase II of an industrial water, steam and power plant at the Rabigh project. The project is sponsored by Saudi Arabian Oil Company and Sumitomo Chemicals Company Limited. As the Phase II was capable of meeting off-taker requirements as of 22 June 2016, the Company became entitled to earn revenue for Phase II as if it had achieved the deemed commercial operations as on that date. The Company commenced its formal commercial operations of Phase II on 15 February 2018.

Effective 1 September 2014, as per the Operation and Maintenance agreement signed between the Company and Rabigh Power Company (RPC) (a related party), the operation and maintenance (O&M) services are provided by RPC to the Company for Phase I plant and in respect for Phase II, O&M services have been assumed by RPC effective 15 February 2018.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS’s) that are endorsed in the Kingdom of Saudi Arabia (KSA) and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants (SOCPA) (collectively referred to as “IFRS’s” endorsed in KSA).

2.2 Basis of measurement

The financial statements have been prepared on a historical cost basis using the accrual basis of accounting and going concern concept. For employees’ terminal benefits, actuarial present value calculations are used.

2.3 Functional and presentation currency

The financial statements are presented in Saudi Arabian Riyals (SR), which is the functional currency of the Company.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Company consistently in preparing its financial statements.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

Assets

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

Liabilities

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

Fair value measurement

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

The policies and procedures for both recurring fair value measurement and for non-recurring measurement are evaluated periodically.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from the sale of electricity, steam and water

Revenue from the sale of electricity, steam and water is recognised at the point in time when the services are provided to the customer in accordance with the terms of the Water and Energy Conversion Agreement (the “WECA”) dated 7 August 2005 (as amended subsequently).

Interest income

Earnings on time deposits are recognised on an accrual basis.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in statement of profit or loss as incurred.

Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease.

Depreciation is calculated on a straight-line basis over the useful lives of the assets as follows:

▪ Building	20 years	▪ Strategic spares	40 years
▪ Power and desalination plant	8-40 years	▪ Office furniture and equipment	5 years
▪ Leasehold improvements	5 years	▪ Mobile heavy equipment	5 years
▪ Motor vehicles	4 years	▪ Mechanical tools	5 years

When an inspection (turnaround/shutdown, planned or unplanned) is performed, its cost is directly charged to statement of profit or loss.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit and loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Capital work in progress

Capital work in progress represents plant under construction and improvements to the existing plant, recorded at cost less accumulated impairment losses if any. Such costs include cost of equipment, material and other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work in progress is not depreciated.

Cash dividend and non-cash distribution to partners

The Company recognises a liability to pay a dividend when the distribution is authorised and no longer at the discretion of the Company. As per the Articles of Association of the Company, a distribution is authorised when it is approved by the partners. A corresponding amount is recognised directly in partners’ equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in Partners equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in statement of profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Intangible assets represent the amount paid to secure contracts/license in respect of the delivery of limestone and are being amortised over the period of respective contracts. The amortization charge has been allocated to direct cost.

A summary of the policies applied to the Company's intangible assets is as follows:

	License
Useful lives	25 years
Amotisation method used	Straight line
Internally generated or acquired	Acquired

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs are capitalised up to stage when substantially all the activities necessary to prepare the qualifying assets for its intended use are completed and, thereafter, such cost are charged to statement of profit or loss.

Inventories

Inventories are stated at the lower of cost (i.e. historical purchase prices based on the weighted average principle plus directly attributable costs (primarily duty and transportation)) and net realisable value. Inventories include spare parts, consumables, and chemicals. Cost is determined using the weighted average cost method.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Spare parts held for use in the generation of electricity, water and steam are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the spare parts may be the best available measure of their net realisable value.

Consumable spare parts

Consumables are ancillary materials which are consumed in the production of electricity. Consumables may include engineering materials, and certain chemicals.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (continued)

Spare parts are the interchangeable parts of plant and equipment which are considered to be essential to support routine maintenance, repair and overhaul of plant and equipment or to be used in emergency situations for repairs. The Company maintains the following different types of spare parts:

- a) Stand-by equipment items acquired together with the plant/production line or purchased subsequently but related to a particular plant or production line and will rarely be required are critical to plant operation and must be available at stand-by at all times. These are capitalised as part of property, plant and equipment and depreciated from purchase date over a period which is shorter of the component's useful life or the remaining useful life of the plant in which it is to be utilised. These do not form part of inventory provided capitalization criteria under property, plant and equipment is met.
- b) Repairable items that are plant/production line specific with long lead times and will be replaced and refurbished frequently (mostly during turnarounds). These are capitalised as part of property, plant and equipment where the capitalization criteria are met. Depreciation is started from day of installation of these items in the plant, and the depreciation period is the shorter of the useful life of the component and the remaining useful life of the plant and equipment in which it is installed. These do not form part of inventory.
- c) General capital spares and other consumables items which are not of a critical nature and are of a general nature, i.e., not plant specific and which may be required at any time for facilitating plant operations. They are generally classified as 'consumables and spare parts' under inventory unless they exceed the threshold and have a useful life of more than one year, under which case they are recorded under property, plant and equipment (and depreciated similar to repairable items). Spares and consumables under inventories are subject to assessment for obsolescence provision and are charged to the statement of profit or loss upon their installation or use. The provision is based on a systematic consistent manner depending on management's estimates as well ageing, actual physical wear and tear, etc. Where such items meet criteria for capitalisation, their depreciation method is similar to repairable items as noted above.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks, on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

Foreign currency

Transactions in foreign currencies are initially recorded by the Company at the functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or statement of profit or loss are also recognised in OCI or statement of profit or loss, respectively).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and Income Tax

Zakat and income tax are provided for in accordance regulations of the Zakat, Tax and Customs Authority (ZATCA), and charged to the statement of profit or loss. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization.

Withholding tax

The Company withholds tax on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under the Saudi Arabian Tax Laws. Withholding tax related to foreign payments are recorded as liabilities.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- a) When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- a) When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged to the statement of profit or loss.

Deferred tax relating to items recognised outside statement of profit or loss is recognised outside statement of profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in Partners' equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Financial instruments — initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial assets

i) Initial recognition and measurement

Financial assets at initial recognition, are measured at their fair values. Subsequent measurement is dependent on its classification and is either at amortised cost or fair value through other comprehensive income (OCI) or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

a) Financial assets at fair value through statement of profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through statement of profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented in the statement of profit or loss as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

b) Financial assets at amortised cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

The Company's financial assets at amortised cost includes cash and cash equivalents, accounts receivable and other receivable.

This category generally applies to trade and other receivables and bank balances and cash.

c) Financial assets at fair value through OCI (debt instruments)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Currently, the Company does not have any debt instrument designated at fair value through OCI.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial assets (continued)

ii) Subsequent measurement (continued)

d) Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other operating income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Currently, the Company does not have any equity instrument designated at fair value through OCI.

iii) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

iv) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial liabilities

i) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

The Company's financial liabilities include bank loans, term loans, accounts payables, amount due to related parties, and other payables.

The Company's financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

ii) Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification.

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses as a result of unwinding of interest cost through EIR amortization process and on de-recognition of financial liabilities are recognized in the statement of profit or loss.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured for any changes in their fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

When the Company discontinues hedge accounting for a cash flow hedge, the amount that has been accumulated in the cash flow hedge reserve remains in other comprehensive income if the hedged future cash flows are still expected to occur, until such cash flows occur. If the hedged future cash flows are no longer expected to occur, that amount is immediately reclassified to profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument previously recognised in other comprehensive income is retained separately in other comprehensive income until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss previously recognised in other comprehensive income is transferred to profit or loss for the period.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses, if any, no longer exist or have decreased. If such indication exists, the Company estimates the asset's or cash generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves, air fare, child education allowance that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in OCI. The Company determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the statement of profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the statement of profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

In Saudi Arabia, for the liability for employees' terminal benefits, the actuarial valuation process takes into account the provisions of the Saudi Arabian Labor as well as Company policy.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right to use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Right-of-use assets are subject to impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of rented apartments for staff (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to lease of land that is considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Value added tax (“VAT”)

Assets and expenses are recognised net of amount of VAT, except when VAT incurred on a purchase of assets or services is not recoverable from the ZATCA, in which case, VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

The net amount of VAT recoverable from, or payable to, ZATCA is included as part of other receivables or other payables

Expenses

All expenses, except for cost of revenue, are classified as general and administrative expenses, due to the nature of the Company’s operations.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future period.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

a) Component parts of property, plant and equipment

The Company's assets, classified within property, plant and equipment, are depreciated on a straight-line basis over their economic useful lives. When determining the economic useful life of an asset, it is broken down into significant component parts such that each significant component part is depreciated separately. Judgement is required in ascertaining the significant components of a larger asset, and while defining the significance of a component, management considers quantitative materiality of the component part as well as qualitative factors such as difference in useful life as compared to mother asset, its pattern of consumption, and its replacement cycle/maintenance schedule.

b) Operating lease commitments – Company as lessor

The Company has entered into an agreement for the supply of desalinated water, steam and electric power, to Rabigh Refining & Petrochemical Company under a Water and Energy Conversion Agreement (the "WECA"). The Company has determined, based on the evaluation of the terms and conditions of the agreement that it retains all the significant risks and rewards of ownership of the properties and accounts for the agreement as an operating lease.

c) Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

a) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include possible restructuring activities that the Company may commit to or significant future investments that may enhance the asset's performance of the Cash Generating Unit ("CGU") being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

b) Long-term assumptions for employee benefits

Post-employment defined benefits represent obligations that will be settled in the future and require assumptions to project obligations, if any. The accounting requires management to make further assumptions regarding variables such as discount rates, rate of compensation increases, mortality rates and employment turnover. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

c) Impairment of inventories

Inventories are stated at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and an allowance applied according to the inventory type and the degree of ageing or obsolescence, based on expected realisable value.

d) Useful life of property, plant and equipment

The management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

e) Deferred taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

The Company has SR 219.9 million (2021: SR 220.0 million) of tax losses carried forward in relation to the non – Saudi partners of the Company. As the Company, based on projection of future profitability, believes that it would not have sufficient taxable profits in the future, therefore, the Company has recognized a deferred tax asset amounting to SR 1.3 million (2021: SR 1.4 million) relating to tax losses (note 14). However, unrecognised deferred tax assets would be re-assessed at each reporting date and would be recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Company applied for the first-time certain amendments, which are effective for annual periods beginning on or after 1 January 2022. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

5.1 Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable cost of meeting the obligations under the contract exceeds the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments had no impact on the financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

5.2 Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Company applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the financial statements of the Company as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the year.

5.3 Proceeds before Intended Use – Amendments to IAS 16 Property, Plant and Equipment

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the company applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the financial statements of the Company as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

5.4 IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the financial statements of the Company as it is not a first-time adopter.

5.5 IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Company applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Company as there were no modifications of the Company's financial instruments during the year.

5.6 IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the financial statements of the Company as it did not have assets in scope of IAS 41 as at the reporting date.

6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the reporting date of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

6.1 IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

6.2 Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments did not have a material impact on the Company as at the date of these financial statements.

6.3 Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have an impact on the Company.

6.4 Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company’s accounting policy disclosures.

6.5 Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Company is currently assessing the impact of the amendments.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

7 GENERAL AND ADMINISTRATIVE EXPENSES

	2022 SR	2021 SR
Employee costs	16,779,679	14,973,272
Insurance	3,567,118	2,304,293
Depreciation (note 11)	3,419,522	5,820,845
Legal and professional	3,412,862	3,686,078
IT related expenses	1,239,677	507,172
Telecommunications	540,109	485,795
Rent	418,075	1,031,016
Training and development	327,500	117,504
Governmental fees	187,566	192,947
Community relations	183,333	89,667
Vehicle and transportation	153,800	187,092
Travelling and lodging	146,800	37,292
Other	1,590,390	1,395,294
	<u>31,966,431</u>	<u>30,828,267</u>

8 COST OF REVENUE

	2022 SR	2021 SR
Operation and maintainance cost	330,891,283	268,555,436
Depreciation (note 11)	209,057,182	205,318,465
Corporate expenses	7,492,500	7,427,500
Amortisation (note 13)	1,018,086	1,018,088
Allowance for slow moving and obsolete inventories (note 17)	-	2,214,225
	<u>548,459,051</u>	<u>484,533,714</u>

9 REVENUE

	2022 SR	2021 SR
Sale of electricity	396,531,251	398,447,404
Sale of water	380,434,262	391,145,253
Sale of steam	393,153,725	376,898,398
Amortisation of deferred cost (note 16)	(15,944,282)	-
	<u>1,154,174,956</u>	<u>1,166,491,055</u>

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

10 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent partners and affiliates of the Company. The following is the detail of major related party transactions during the year:

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>	
		<i>2022</i> <i>SR</i>	<i>2021</i> <i>SR</i>
Rabigh Refining & Petrochemicals Company (PRC)	Operating revenue, net	1,154,174,956	1,166,491,055
	Term loans repaid during the year	-	3,215,132,844
	Borrowing costs on term loans	-	174,233,557
Arabian Company for Water and Power Projects Limited (ACWA Power)	Limestone fee expense	4,687,500	4,687,500
	Management fee expense	2,625,000	2,625,000
	Secondment fees	1,805,139	-
Rabigh Power Company	Operation and maintenance services	330,891,283	275,589,854
	Advance paid to RPC	13,905,358	10,887,399
	Employees' terminal benefits transferred to/from related party	280,437	220,483

The balances relating to the above transactions are included in note 9, 18, 23, and 24.

Terms and conditions of transactions with related parties:

The transactions with related parties are made on terms approved by the management. Outstanding balances at the year-end, other than the term loans are unsecured, interest free and settlement occurs in cash. There are no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2022, the Company has not recorded any impairment of receivables relating to amounts owed by related parties SR nil (2021: SR nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	<i>2022</i> <i>SR</i>	<i>2021</i> <i>SR</i>
Short-term benefits	1,507,931	3,805,712
Employees' terminal benefits	243,106	559,022

Rabigh Arabian Water & Electricity Company Limited
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 At 31 December 2022

11 PROPERTY, PLANT AND EQUIPMENT

	<i>Land SR</i>	<i>Building SR</i>	<i>Power and desalination plant SR</i>	<i>Leasehold improvements SR</i>	<i>Motor vehicles SR</i>	<i>Office furniture and equipment SR</i>	<i>Mobile heavy equipment SR</i>	<i>Mechanical tools SR</i>	<i>Strategic spares SR</i>	<i>Total SR</i>
Cost:										
As at 1 January 2022	752,339	7,200,684	8,115,321,653	8,956,429	5,711,502	38,087,397	2,952,600	17,435,008	97,558,311	8,293,975,923
Additions during the year	-	-	24,710,226	-	492,700	761,963	-	744,197	375,167	27,084,253
As at 31 December 2022	752,339	7,200,684	8,140,031,879	8,956,429	6,204,202	38,849,360	2,952,600	18,179,205	97,933,478	8,321,060,176
Depreciation:										
As at 1 January 2022	-	1,244,013	2,271,558,684	8,733,612	4,384,287	35,329,591	2,879,264	15,984,483	25,667,727	2,365,781,661
Charge for the year	-	360,034	206,653,546	80,400	588,136	1,608,626	34,500	747,826	2,403,636	212,476,704
As at 31 December 2022	-	1,604,047	2,478,212,230	8,814,012	4,972,423	36,938,217	2,913,764	16,732,309	28,071,363	2,578,258,365
Net book values at:										
31 December 2022	752,339	5,596,637	5,661,819,649	142,417	1,231,779	1,911,143	38,836	1,446,896	69,862,115	5,742,801,811

Rabigh Arabian Water & Electricity Company Limited
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 At 31 December 2022

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Land SR</i>	<i>Building SR</i>	<i>Power and desalination plant SR</i>	<i>Leasehold improvements SR</i>	<i>Motor vehicles SR</i>	<i>Office furniture and equipment SR</i>	<i>Mobile heavy equipment SR</i>	<i>Mechanical tools SR</i>	<i>Strategic spares SR</i>	Total SR
Cost:										
As at 1 January 2021	752,339	7,200,684	8,093,378,876	8,956,429	6,128,655	39,012,814	2,955,400	17,537,779	96,409,498	8,272,332,474
Additions during the year	-	-	21,674,164	-	646,597	615,120	-	149	1,148,813	24,084,843
Transferred from capital work in progress (note 12(a) and note12(c))	-	-	268,613	-	-	-	-	-	-	268,613
Disposals	-	-	-	-	(1,063,750)	-	-	-	-	(1,063,750)
Write offs	-	-	-	-	-	(1,540,537)	(2,800)	(102,920)	-	(1,646,257)
As at 31 December 2021	<u>752,339</u>	<u>7,200,684</u>	<u>8,115,321,653</u>	<u>8,956,429</u>	<u>5,711,502</u>	<u>38,087,397</u>	<u>2,952,600</u>	<u>17,435,008</u>	<u>97,558,311</u>	<u>8,293,975,923</u>
Depreciation:										
As at 1 January 2021	-	883,979	2,069,127,536	8,617,077	4,699,991	33,210,459	2,847,564	15,185,344	22,780,408	2,157,352,358
Charge for the year	-	360,034	202,431,148	116,535	748,046	3,659,669	34,500	902,059	2,887,319	211,139,310
Disposals	-	-	-	-	(1,063,750)	-	-	-	-	(1,063,750)
Write offs	-	-	-	-	-	(1,540,537)	(2,800)	(102,920)	-	(1,646,257)
As at 31 December 2021	<u>-</u>	<u>1,244,013</u>	<u>2,271,558,684</u>	<u>8,733,612</u>	<u>4,384,287</u>	<u>35,329,591</u>	<u>2,879,264</u>	<u>15,984,483</u>	<u>25,667,727</u>	<u>2,365,781,661</u>
Net book values at: 31 December 2021	<u>752,339</u>	<u>5,956,671</u>	<u>5,843,762,969</u>	<u>222,817</u>	<u>1,327,215</u>	<u>2,757,806</u>	<u>73,336</u>	<u>1,450,525</u>	<u>71,890,584</u>	<u>5,928,194,262</u>

Rabigh Arabian Water & Electricity Company Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

11 PROPERTY, PLANT AND EQUIPMENT (continued)

- a) Property, plant and equipment includes the power and desalination plants at a net book value of SR 5.6 billion (2021: SR 5.8 billion), which is currently being depreciated over 40 years period. The building and power and desalination plants are constructed on land leased by one of the partners of the Company for a period of 25 years. Management believes that the land lease would be extended for similar period(s).
- b) The depreciation charge has been allocated to the statement of profit or loss as follows:

	2022 SR	2021 SR
Charged to statement of profit or loss		
Cost of revenue	209,057,182	205,318,465
General and administrative expenses (note 7)	3,419,522	5,820,845
	<u>212,476,704</u>	<u>211,139,310</u>

12 CAPITAL WORK IN PROGRESS

Capital work in progress comprises of the following:

	2022 SR	2021 SR
Phase I (note (a) below)	821,118	821,118
Phase II (note (b) to note (c) below)	1,249,989	-
	<u>2,071,107</u>	<u>821,118</u>

- a) Movement in capital work in progress of Phase I as follows:

	2022 SR	2021 SR
At the beginning of the year	821,118	-
Additions during the year	-	821,118
At the end of the year	<u>821,118</u>	<u>821,118</u>

- b) Movement in capital work in progress of Phase II as follows:

	2022 SR	2021 SR
At the beginning of the year	-	-
Additions during the year	1,249,989	268,613
Transferred to property, plant and equipment	-	(268,613)
At the end of the year	<u>1,249,989</u>	<u>-</u>

- c) Capital work in progress relates to the development of Rabigh Industrial Water Steam and Power Plant (IWSPP) phase I and II.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

13 INTANGIBLE ASSETS

	2022 SR	2021 SR
Cost:		
At the beginning and the end of the year	<u>24,299,730</u>	<u>24,299,730</u>
Amortisation:		
At the beginning of the year	12,676,594	11,658,506
Charge for the year	<u>1,018,086</u>	<u>1,018,088</u>
At the end of the year	<u>13,694,680</u>	<u>12,676,594</u>
Net book value as at 31 December	<u><u>10,605,050</u></u>	<u><u>11,623,136</u></u>

Intangible assets represent the amount paid to secure contracts/license in respect of the delivery of limestone and are being amortised over the period of respective contracts. The amortization charge has been allocated to direct cost.

14 DEFERRED TAX

Deferred tax relates to the following:

	2022 SR	2021 SR
Difference in tax and accounting depreciation	1,224,069	1,128,419
Others	(3,037)	(2,954)
Losses available for offsetting against future taxable income (note (a) below)	<u>(1,347,841)</u>	<u>(1,402,517)</u>
Deferred tax asset	<u><u>(126,809)</u></u>	<u><u>(277,052)</u></u>

a) The Company has unabsorbed tax losses relating to non-Saudi partners amounting to SR 219.9 million (2021: SR 220.0 million) that are available indefinitely for offsetting against future taxable profits of the Company (note 4(e)). The Company has only recognized deferred tax asset against these losses based on the assesment made for the future taxable profits.

b) The movement in deferred tax balances is as follows:

	2022 SR	2021 SR
At the beginning of the year	(277,052)	(477,963)
Deferred tax charge during the year recognized in the statement of profit or loss	<u>150,243</u>	<u>200,911</u>
At the end of the year	<u><u>(126,809)</u></u>	<u><u>(277,052)</u></u>

Rabigh Arabian Water & Electricity Company Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

15 FAIR VALUE OF DERIVATIVES

During the year, the Company entered into interest rate swap arrangements with Arab National Bank (ANB) to hedge risk related to floating interest rate that is LIBOR rate on USD denominated loan borrowed from Alinma bank for total amount of USD 250 million (SR 937.5 million). Under this arrangement, Company has hedged variable interest rate to fixed interest rate.

The tables below show a summary of the hedged items, the hedging instruments, trading derivatives and their notional amounts and fair values for the Company. The notional amounts indicate the volume of transactions outstanding at the reporting date and are neither indicative of market risk nor credit risk.

		<i>Notional</i>		<i>Positive fair value</i>	
		<i>31 Dec 2022</i>	<i>31 Dec 2021</i>	<i>31 Dec 2022</i>	<i>31 Dec 2021</i>
<i>Hedged items</i>	<i>Hedging instruments</i>				
Interest payments on floating rate loan	Interest rate swaps	2,263,002,985	-	41,962,196	-
Less: Current portion				18,095,664	-
Non-current portion				23,866,532	-

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the rate underlying a derivative contract may have a significant impact on the income or equity of the Company.

Rabigh Arabian Water & Electricity Company Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

16 DEFERRED COST

During the year, the Company restructured its financing facilities. As per WECA agreement, any benefits resulting from such restructuring are to be shared with the off-taker (i.e. PRC). Accordingly, the Company has shared such benefits with PRC through a cash payment of SR 236.2 million during the year. Management has classified such payments as deferred cost and is amortizing such cash payment over the remaining period of the contract with PRC on a straight-line basis against revenue.

Movement of deferred cost during the year is as follows:

	2022 SR	2021 SR
Cash payment during the year	236,250,000	-
Amortization during the year	(15,944,282)	-
Balance at the end of the year	220,305,718	-
Current portion of dererred cost	16,439,726	-
Non-current portion of deferred cost	203,865,992	-

17 INVENTORIES

	2022 SR	2021 SR
Spare parts	132,762,209	125,030,021
Consumables	13,368,229	14,511,754
Chemicals	3,598,256	3,480,993
	149,728,694	143,022,768
Less: Allowance for inventory (note (a))	(1,809,627)	(2,060,287)
	147,919,067	140,962,481

During the year, the Company has recorded a provision of SR nil (2021: 2.2 million) against slow moving and obsolete inventory.

a) Movement in the allowance for inventory is as follows:

	2022 SR	2021 SR
Balance at 1 January	2,060,287	1,913,415
Charge during the year	-	2,214,225
Written-off during the year	(250,660)	(2,067,353)
Balance as at 31 December	1,809,627	2,060,287

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

18 ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES

	2022 SR	2021 SR
Trade accounts receivable from a shareholder	112,870,411	224,444,293
Advances to suppliers	5,308,316	1,499,523
Prepaid expenses	1,509,433	4,937,568
Advance income tax (note 25)	3,597,868	3,564,346
Unbilled receivable and other receivables	11,924,535	1,344,392
	<u>135,210,563</u>	<u>235,790,122</u>

As at 31 December, the ageing of unimpaired trade receivable is as follows:

	<i>Total</i> SR	<i>Neither past due nor impaired</i> SR	<i>Past due but not impaired</i> < 30 days SR
31 December 2022	112,870,411	112,870,411	-
31 December 2021	224,444,293	114,049,600	110,394,693

Trade receivables are non-interest bearing and are generally on terms of 30 days. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured.

19 CASH AND CASH EQUIVALENTS

	2022 SR	2021 SR
Cash in hand	45,000	45,000
Time deposits (note 19.1)	75,000,000	-
Cash at banks	236,804,459	115,610,992
	<u>311,849,459</u>	<u>115,655,992</u>

19.1 It represents deposits with original maturities of less than three months.

Rabigh Arabian Water & Electricity Company Limited
NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

20 CAPITAL

On 15 March 2018, the partners of the Company decided to increase the capital of the Company from SR 971,898,199 to SR 1,757,446,095 by transferring an amount of SR 785,547,896 from the contribution from partners (i.e. short term loans) towards equity. All legal formalities in this regard have been completed during the year ended 31 December 2018.

During the year 2019, one of the partner of the Company Marubeni Corporation transferred its shareholding to Arabian Company for Water and Power Projects Limited (ACWA Power). Furthermore, JGC – ITC Rabigh Utility Company Limited transferred its shareholding to Oasis Power One Conventional Energy and Water Company. All legal formalities have been completed in this regard.

During the year 2022, one of the partner of the Company Oasis Power One Conventional Energy and Water Company transferred its 6% shareholding to Arabian Company for Water and Power Projects Limited (ACWA Power). Furthermore, during the year, the shareholders resolved to reduce the Company's capital from SR 1,757,446,095 to SR 1,000,000,000. All legal formalities have been completed in this regard. As a result, the revised capital and shareholding of the Company, as at 31 December 2022, is as follows:

	<i>31 December 2022</i>		
	<i>Shares of SR 1 each</i>	<i>SR</i>	<i>Percentage of shareholding</i>
Arabian Company for Water and Power Projects Limited (ACWA Power)	799,999,996	799,999,996	80%
Oasis Power One Conventional Energy and Water Company	190,000,002	190,000,002	19%
Rabigh Refining & Petrochemicals Company (PRC)	10,000,002	10,000,002	1%
	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>100%</u>
	<i>31 December 2021</i>		
	<i>Shares of SR 1 each</i>	<i>SR</i>	<i>Percentage of shareholding</i>
Arabian Company for Water and Power Projects Limited (ACWA Power)	1,300,510,104	1,300,510,104	74%
Oasis Power One Conventional Energy and Water Company	439,361,526	439,361,526	25%
Rabigh Refining & Petrochemicals Company (PRC)	17,574,465	17,574,465	1%
	<u>1,757,446,095</u>	<u>1,757,446,095</u>	<u>100%</u>

21 STATUTORY RESERVE

In accordance with the Article of Association of the Company, a minimum of 10% of the annual net income (after deducting zakat, income tax and brought forward losses (if any)) is required to be transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the capital. The reserve is not available for distribution.

21(a) Dividends

The board of directors of the Company have approved dividend of SR 1,338.8 million (2021: 303.75 million), from which SR 1,230 million (2021: SR 137.25 million) has been paid in cash during the year. Further management has also paid an amount of SR 166.5 million (2021:SR 88.12 million) declared in prior year.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

22 BANK LOANS

During the prior year, Oasis Power One Conventional Energy and Water Company (the shareholder) entered into a Murabaha agreement with a local bank. This agreement was later novated to the Company on 30 December 2021. Loan was approved in two tranches. The loan is repayable in 16 bi-annual instalments starting in June 2022 and is secured a charge over plant and equipment of the Company

During the year, the Company entered into an agreement with APICORP and Arab National Bank. These loans are repayable in 16 bi-annual instalments starting in June 2022 and is secured by mortgage over all the assets of the Company the fixed assets of the plant. Details of the existing and new loan obtained during the year are as follows:

	2022 SR	2021 SR
Alinma Bank - Tranche A (note (a))	1,831,181,502	2,062,500,000
Alinma Bank - Tranche B (note (b))	832,355,228	937,500,000
Arab National Bank (note (c))	1,713,527,175	-
APICORP (note (d))	455,725,313	-
	<u>4,832,789,218</u>	<u>3,000,000,000</u>
Less: Upfront fee (note (e))	(50,156,250)	(27,834,221)
Less: Transaction costs (note (f))	(13,360,713)	-
Plus: Amortization of upfront fees (note (e))	10,218,188	-
Less: Undisbursed loan proceeds at reporting date (note (g))	-	(102,111,839)
	<u>4,779,490,443</u>	<u>2,870,053,940</u>
Less: current portion	(410,675,102)	(336,463,269)
Non-current portion	<u>4,368,815,341</u>	<u>2,533,590,671</u>

- a) The Company has refinancing loan Tranche A from a local bank during the year ended 31 December 2021 with value of SAR 2,062,500,000 semi-annually repayable from June 2022 with the final installment to be paid in June 2030. The margin on the loan is 1% above SIBOR for first three years and 1.10% till final maturity.
- b) The Company has refinancing loan Tranche B from a local bank during the year ended 31 December 2021 with value US\$ 250,000,000 equivalent to SAR 937,500,000 semi-annually repayable from June 2022 with the final installment to be paid in June 2030. The margin on the loan is 1.25% above LIBOR for first three years and 1.35% till final maturity.
- c) The Company has borrowed loan from APICORP during the period ended 30 September 2022 with value of SAR 468,750,000 semi-annually repayable from June 2022 with the final instalment to be paid in June 2034. The margin on the loan is 4% fixed rate throughout the tenure of loan term.
- d) The Company has borrowed loan from Arab National Bank during the year ended 31 December 2022 with value of SAR 1,762,500,000 semi-annually repayable from June 2022 with the final instalment to be paid in June 2034. The margin on the loan is 4% fixed rate along with administrative fee of 0.15% throughout the tenure of loan term
- e) The loan carries an upfront fee of SR 17,531,250 and SR 10,312,500 for Tranche A and Tranche B respectively for Alinma Bank and SR 4,687,500 and SR 17,625,000 for APICORP and Arab National Bank respectively that will be amortized over tenure of loan based on effective interest rate ("EIR").
- f) The loan carries transaction costs of SR 5,232,261 and SR 2,378,301 for Tranche A and Tranche B respectively for Alinma Bank and SR 1,189,151 and SR 4,471,206 for APICORP and Arab National Bank respectively that will be amortized over tenure of loan based on effective interest rate ("EIR").
- g) The total bank loan value was SR 3 billion in 2021. However, on the date of the the agreement, the bank disbursed SR 2,897,888,161 and the balance amount of SR 102,111,839 was disbursed subsequent during the year.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

23 EMPLOYEES' TERMINAL BENEFITS

General Description of the plan

The Company operates an unfunded employees' end of service benefits plan ("EOSB") for its employees as required by the Saudi Arabian Labour Law. The movement in EOSB for the year ended is as follows:

	2022	2021
	SR	SR
Defined benefits obligation at beginning of the year	1,879,125	1,728,872
Included in statement of profit or loss		
Current service cost	489,264	455,330
Interest cost	35,504	33,815
Included in statement of other comprehensive income		
Actuarial loss on the obligation	565,901	260,945
Transfer (to)/from related party	(280,437)	220,483
Benefits paid	(465,291)	(820,320)
Defined benefits obligation at the end of the year	<u>2,224,066</u>	<u>1,879,125</u>

The following is the breakup of the actuarial loss:

	2022	2021
	SR	SR
Actuarial loss - financial assumptions	105,740	44,777
Actuarial (gain) - demographic assumptions	(263,831)	-
Actuarial loss - experience adjustment	723,992	216,168
	<u>565,901</u>	<u>260,945</u>

Actuarial assumptions

The following were the principal actuarial assumptions applied at 31 December:

	2022	2021
Discount rate (%)	4.05	2.70
Future salary increases (%)	4.30	1.65
Retirement age (years)	60	60

The sensitivity of EOSB, as at 31 December 2022, to changes in the weighted principal assumptions is as follows:

	Change in assumption by	Impact on EOSB liability	
		Increase in rate	Decrease in rate
		SR	SR
Discount rate	1%	1,829,622	(1,960,092)
Future salary increases	1%	22,241	(22,241)

Rabigh Arabian Water & Electricity Company Limited
NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2022

23 EMPLOYEES' TERMINAL BENEFITS (continued)

The sensitivity of EOSB, as at 31 December 2021, to changes in the weighted principal assumptions was as follows:

	Change in assumption by	Impact on EOSB liability	
		Increase / (decrease)	
		Increase in rate	Decrease in rate
		SR	SR
Discount rate	1%	1,411,242	(1,704,745)
Future salary increases	1%	1,713,193	(1,401,710)

The end of service expense (current service cost and finance cost) has been allocated to general and administrative expenses.

24 ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	2022 SR	2021 SR
Accrued expenses and other payables	33,754,324	32,261,395
Due to a related party	93,829,996	90,660,297
Amounts due to partners	-	388,355
Zakat and income tax payable (note 25)	13,071,938	15,194,665
Trade accounts payable	486,697	2,068,223
Withholding tax payable	-	9,901
Other payable	6,301,935	8,699,885
Dividends payable	108,750,000	166,500,000
	<u>256,194,890</u>	<u>315,782,721</u>

25 ZAKAT AND INCOME TAX

Charge for the year

Zakat and income tax consists of the following:

	2021 SR	2021 SR
Zakat charge relating to Saudi partners (note below)	9,857,190	11,998,662
Income tax relating to non - Saudi partners	151,078	181,195
	<u>10,008,268</u>	<u>12,179,857</u>

Zakat and income tax payable/ (advance)

	2022 SR	2021 SR
Zakat (note a)	13,071,938	15,194,665
Income tax (note b)	(3,594,161)	(3,564,346)
At 31 December	<u>9,477,777</u>	<u>11,630,319</u>

Rabigh Arabian Water & Electricity Company Limited
NOTES TO THE FINANCIAL STATEMENTS (continued)
 At 31 December 2022

25 ZAKAT AND INCOME TAX (continued)

a) Zakat

The zakat provision is based on the following:

	2022 SR	2021 SR
Equity (Saudi partners' share)	1,045,873,701	2,740,230,907
Provisions and loans	206,280,452	157,066,339
Less: book value of long term assets (Saudi partners' share)	(6,115,718,169)	(6,019,887,327)
	<u>(4,863,564,016)</u>	<u>(3,122,590,081)</u>
Adjusted net income for the year (Saudi partners' share)	<u>394,287,594</u>	<u>479,944,896</u>
Zakat base	<u><u>394,287,594</u></u>	<u><u>479,944,896</u></u>

The differences between the financial and the zakatable results are due to certain adjustments in compliance with the relevant fiscal regulations.

Provision during the year

The movement in the zakat provision for the year was as follows:

	2022 SR	2021 SR
At the beginning of the year	15,194,665	13,791,450
Provided during the year	9,857,190	11,998,622
Payment during the year	(11,979,917)	(10,583,536)
Payment relating to prior period	-	(11,911)
At the end of the year	<u><u>13,071,938</u></u>	<u><u>15,194,665</u></u>

b) Income tax

For the year ended 31 December 2022, income tax relating to the non-Saudi partners of SR 0.15 million (2021: SR 0.18 million) consists of the charge for the year and has been provided for based on estimated taxable profit at the rate of 20%. Moreover, a deferred tax charge amounting to SR 0.15 million (2021: SR 0.2 million) was recognized during the year (note 14).

The movement in the current income tax provision for the year is as follows:

	2022 SR	2021 SR
At the beginning of the year	(3,564,346)	(3,745,541)
Provided during the year	151,078	181,195
Advance payments made during the year	(180,893)	-
Income tax advance	<u><u>(3,594,161)</u></u>	<u><u>(3,564,346)</u></u>

Rabigh Arabian Water & Electricity Company Limited
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 At 31 December 2022

25 ZAKAT AND INCOME TAX (continued)

b) Income tax (continued)

Reconciliation of tax expense and the accounting profit multiplied by Saudi's tax rate:

	2022 SR	2021 SR
Accounting profit before zakat and income tax	394,346,221	478,350,563
Income tax expense as per tax rate of 20% applicable in KSA	78,869,244	95,670,113
Saudi shareholding not subject to tax	(78,573,484)	(95,311,350)
Non-deductible expenses for tax purposes	(474,276)	(586,817)
Deductible expenses for tax purposes	7,981	34,930
Others	471,856	575,230
At the effective income tax rate of 0.08% (2021: 0.08%)	301,321	382,106
Income tax charged to statement of profit or loss	151,078	181,195
Deferred tax charged to statement of profit or loss	150,243	200,911
	301,321	382,106

Status of assessments – Zakat and income tax

Tax assessment for the period ended 31 December 2006 has been finalized and 31 December 2014 can be deemed final under the statute of limitation.

During November 2018, the ZATCA issued assessments for the years from 2007 to 2013, claiming additional tax, Zakat and withholding tax amounting to SR 10.7 million including delay penalties. The Company submitted its objection against the assessments on 22 January 2019, which was escalated to the General Secretariat of Tax Committees (“GSTC”) on 2 July 2019. The hearing with the Tax Violations and Dispute Resolution Committee (“TVDRC”) was held on 10 June 2021, wherein the TVDRC accepted the dispute on the tax and Zakat items, whilst rejected the dispute on the withholding tax and delay penalties. The formal TVDRC Resolution was issued on 1 August 2021, which was in accordance with the TVDRC hearing with the revised amount expected to be in the range of circa SR 1.85 million. The ZATCA appealed the TVDRC Resolution on the tax and Zakat items, to the Tax Violations and Dispute Appeal Committee (“TVDAC”) and escalated its objection on 25 August 2021. The Company also escalated its objection to the TVDAC, against the TVDRC’s Resolution on the withholding tax and delay penalty items. Both appeal escalations are registered under one GSTC/TVDAC case number and the objection case is under the TVDAC’s review. On December 1, 2022 the Company settled the withholding tax liability of SR0.67 million as a part of this assessment and took the advantage of ZATCA amnesty in eliminating the penalty.

During December 2018, the ZATCA issued an assessment for the year 2017, claiming additional tax and Zakat including delay penalties, amounting to SR 47.1 million. The Company filed an objection against the assessment for the entire amount on 21 February 2019. On 25 September 2019, the ZATCA issued a revised assessment claiming SR 2.5 million for tax and Zakat, including penalties. The Company registered the case with the GSTC on 22 November 2019. The case is still under review with The Saudi General Secretariat of Zakat, Tax, and Customs Committees (“GSZTCC”).

During April 2021, the ZATCA issued an assessment for the year ended 31 December 2015, claiming additional tax, Zakat and delay penalties amounting to SR 15.3 million. The claim mainly related to the disagreement on depreciation difference and incorrect shareholding percentages applied. The Company duly submitted its objection during June 2021, which the ZATCA rejected on 12 September 2021. Based on the rejection reasons provided by the ZATCA, we understand that the Authority has not understood the argument stated in the Company’s objection letter. Accordingly, the Company has registered the objection case with the GSTC on 10 October 2021. The hearing date is awaited. A hearing was held during the first week of December 2022, whereby the TVDRC accepted the major contesting item pertaining to the depreciation differences. The Company is awaiting TVDRC resolution for the year ended 31 December 2015. The management has not made any provision in this regard.

Rabigh Arabian Water & Electricity Company Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

25 ZAKAT AND INCOME TAX (continued)

Status of assessments – Zakat and income tax (continued)

During April 2022, the ZATCA issued an assessment for the year ended 31 December 2016, claiming additional tax, Zakat and delay penalties amounting to SR 23.6 million. The claim mainly related to the disagreement on depreciation difference and incorrect shareholding percentages applied. The Company duly submitted its objection during September 2022. The management has not made any provision in this regard.

The tax returns for the year 2016 and 2018 to 2021 have been submitted and are currently being reviewed by the ZATCA.

26 CONTINGENCIES AND COMMITMENTS

At 31 December 2022, the Company had capital expenditure commitments of SR 47.08 million (2021: SR 45.76 million).

Future minimum capacity receipts under non-cancellable operating leases are, as follows:

	2022 SR	2021 SR
Within one year	1,047,493,934	1,044,242,968
After one year but not more than five years	5,200,004,822	5,202,529,284
More than five years	8,511,307,908	9,556,277,380
	<u>14,758,806,664</u>	<u>15,803,049,632</u>

27 CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise partners' value.

The Company manages its capital structure and makes adjustments to it in light of changes in business condition. No changes were made in the objectives, policies or processes during the years ended 31 December 2022 and 31 December 2021. The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus debt. The Company includes within debt, current and non-current portion of long term payable.

	2022 SR	2021 SR
Debt – long term payable (including current portion)	4,779,490,443	2,870,053,940
Equity	1,574,942,381	3,245,608,377
Capital and debt	<u>6,354,432,824</u>	<u>6,115,662,317</u>
Gearing ratio	<u>75.22%</u>	<u>46.93%</u>

Rabigh Arabian Water & Electricity Company Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

28 FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company's principal financial instruments comprise bank loans, due to related parties and trade payables. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has financial assets such as receivables and cash and cash equivalents, which arise directly from its operations.

The main risks arising from the Company's financial instruments are market rate risk, liquidity risk and credit risk. The Company's management oversees the management of these risks. The management reviews and agrees policies for managing each of these risks which are summarised below:

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: (i) interest rate risk, (ii) currency risk and (iii) other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, and deposits. The Company is not exposed to other price risk such as equity risk and commodity risk as the Company is neither involved in investment in trading securities nor the commodities.

i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's short-term debt obligations and sub-ordinated loan from partners with floating interest rates.

The Company has exposure to LIBOR denominated financial instruments in respect of loan from bank, as mentioned in note 20. This exposure may have a potential impact of the rate transition from LIBOR to Risk Free Rate (under IBOR reforms), however, the impact is not yet known at the reporting date

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on bank and term loans. With all other variables held constant, the Company's profit before zakat and income tax is affected through impact on floating rate borrowings, as follows:

	<i>Increase/decrease in basis points</i>	<i>Effect on profit before zakat and income tax</i>
31 December 2022	+100	47,794,904
	-100	(47,794,904)
31 December 2021	+100	28,700,539
	-100	(28,700,539)

ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates to the transactions entered by the Company in currencies other than Saudi Riyal. The Company is subject to fluctuation in foreign currency rates in the normal course of its business. The Company manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates, on its financial position and cash flows, by setting limits on positions by currency. Positions are monitored regularly to ensure positions are maintained within established limits.

The Company did not undertake significant transactions in currencies other than Saudi Riyals and United States Dollars during the year. As the Saudi Riyal is pegged to the United States Dollar, the Company was not exposed to any significant currency risk.

Trade accounts payables includes amounts due in foreign currencies, mainly in British Pounds and Euros. As the amount of such transactions is not material, therefore the Company is not exposed to any significant currency risk.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

28 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

IBOR Reforms

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Company has established a project to manage the transition for any of its contracts that could be affected. The project is being led by senior representatives from functions across the Company including the lenders facing teams, Legal, Finance etc. The Company is confident that it has the capability to process the transitions to risk free rates ("RFR") for those interest rate benchmarks such as USD LIBOR that will cease to be available after 30 June 2023. IBOR reform exposes the Company to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with lenders due to the amendments required to existing contracts necessary to effect IBOR reform
- Financial risk to the Company that markets are disrupted due to IBOR reform giving rise to financial losses
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
- Accounting risk if the Company's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFR

The tables below show the Company's exposure to significant IBORs subject to reform that have yet to transition to RFRs as at the current year end and the prior year end:

	Floating rate financial liabilities SAR
<u>31 December 2022</u>	
USD LIBOR 06 months	832,355,228
<u>31 December 2021</u>	
USD LIBOR 06 months	937,500,000

Uncertainties and potential accounting risks associated with the IBOR reforms on the Company's financial statements are explained below.

a. *Effective interest rate method and liability derecognition*

IBOR reform Phase 2 requires, as a practical expedient that changes to the basis for determining contractual cash flows that are necessary as a direct consequence of IBOR reform are treated as a change to a floating rate of interest provided that the transition from IBOR to an RFR takes place on a basis that is 'economically equivalent'. To qualify as 'economically equivalent', the terms of the financial instrument must be the same before and after transition except for the changes required by IBOR reform.

For changes that are not required by IBOR reform, the Company will apply judgement to determine whether they result in the financial instrument being derecognised. Therefore, as financial instruments transition from IBOR to RFRs, the Company will apply judgment to assess whether the transition has taken place on an economically equivalent basis. In making this assessment, the Company will consider the extent of any changes to the contractual cash flows as a result of the transition and the factors that have given rise to the changes, with consideration of both quantitative and qualitative factors. Examples of changes that are economically equivalent include changing the reference interest rate from an IBOR to an RFR, changing the reset period for days between coupons to align with the RFR, adding a fallback to automatically transition to an RFR when the IBOR ceases, and adding a fixed credit adjustment spread based on that calculated by ISDA or which is implicit in market forward rates for the RFR.

The Company will derecognise financial liabilities in case of substantial modification of their terms and conditions. In the context of IBOR reform, many financial instruments will be amended in the future as they transition from IBORs to RFRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition. For financial instruments measured at amortised cost, the Company will first apply the practical expedient as described above, to reflect the change in the referenced interest rate from an IBOR to an RFR. Second, for any changes not covered by the practical expedient, the Company will apply judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Company will adjust the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

b. *Hedge Accounting*

The IBOR reform Phase 2 amendments provide temporary reliefs to enable the Company's hedge accounting to continue upon the replacement of an IBOR with an RFR.

Rabigh Arabian Water & Electricity Company (A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

28 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company limits its liquidity risk by ensuring that loan facilities are available.

The Company's terms of business require amounts to be received within 30 days. Trade payables are normally settled within 90 days of purchases.

The table below summarizes the maturities of the Company's undiscounted financial liabilities at 31 December based on contractual undiscounted payments:

2022	<i>Upto 12 months</i> SR	<i>1 to 5 years</i> SR	<i>Over 5 years</i> SR	<i>Total</i> SR
Accounts payables and accruals	256,194,890	-	-	256,194,890
Bank loan	410,675,102	2,080,210,439	2,341,903,676	4,832,789,217
Total	666,869,992	2,080,210,439	2,341,903,676	5,088,984,107
	<i>Upto 12</i> <i>months</i> SR	<i>1 to 5 years</i> SR	<i>Over 5 years</i> SR	<i>Total</i> SR
2021				
Accounts payables and accruals	315,782,721	-	-	315,782,721
Bank loan	368,402,168	1,422,688,419	1,367,326,379	3,158,416,966
Total	684,184,889	1,422,688,419	1,367,326,379	3,474,199,687

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is not exposed to significant credit risk from its operating activities, as 100% sales of the Company and resulting trade account receivables are due from a partner (note 18).

The Company seeks to manage its credit risk with respect to banks balances by only dealing with reputable banks. The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2022 and 2021 is the carrying amounts of such bank balances.

29 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities are as follows:

	<i>1 January 2022</i> SR	<i>Cash flows</i> SR	<i>31 December</i> 2022 SR
Bank loans – current	336,463,269	74,211,833	410,675,102
Bank loans – non-current	2,533,590,671	1,835,224,670	4,368,815,341
	2,870,053,940	1,909,436,503	4,779,490,443

Rabigh Arabian Water & Electricity Company Limited
NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2022

29 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

	<i>1 January 2021</i>	<i>Cash flows</i>	<i>31 December</i>
	<i>SR</i>	<i>SR</i>	<i>2021</i>
			<i>SR</i>
Terms loans – current	458,436,628	(458,436,628)	-
Terms loans – non-current	2,756,696,216	(2,756,696,216)	-
Bank loans – current	-	336,463,269	336,463,269
Bank loans – non-current	-	2,533,590,671	2,533,590,671
	<u>3,215,132,844</u>	<u>(345,078,904)</u>	<u>2,870,053,940</u>

The Company classifies interest paid as cash flows from financing activities.

30 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised to issue by the Board of Directors on 26 March 2023G, corresponding to 04 Ramadhan 1444H.