

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2022
Together with the Independent Auditor's Report

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

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كي بي إم جي للاستشارات المهنية

وأجبة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

Independent Auditor's Report

To the Shareholders of Shuaibah Water and Electricity Company

Opinion

We have audited the financial statements of **Shuaibah Water and Electricity Company** ("the Company"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

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 its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued 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 Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the management and the Those charged with governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA, the applicable requirements of the Regulations for Companies, Company's By-Laws 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, the Board of Directors, are responsible for overseeing the Company's financial reporting process.

Independent Auditor's Report

To the Shareholders of Shuaibah Water and Electricity Company (continued)

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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism 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, then 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 the 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 of **Shuaibah Water and Electricity Company**.

KPMG Professional Services

Dr. Abdullah Hamad Al Fozan
License Number 348



Riyadh: 26 March 2023

Corresponding to: 4 Ramadan 1444H

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022
(Saudi Riyal in thousands)

	<i>Notes</i>	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>			
Property, plant and equipment	5	15,015	5,632,701
Net investment in finance lease	6	4,539,769	--
Fair value of derivative instruments	14	18,366	--
Deferred tax assets	19	2,129	34,401
Non-current assets		<u>4,575,279</u>	<u>5,667,102</u>
Trade receivable	8	207,177	187,111
Prepayments and other receivables	9	14,981	32,464
Net investment in finance lease	6	488,264	--
Fair value of derivative instruments	14	41,190	--
Cash and cash equivalents	7	496,142	173,606
Current assets		<u>1,247,754</u>	<u>393,181</u>
Total assets		<u>5,823,033</u>	<u>6,060,283</u>
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital	11	1,560,500	1,560,500
Statutory reserve	12	277,679	236,087
Other reserves	13	(3,413)	(71,965)
Retained earnings		876,561	823,236
Total equity		<u>2,711,327</u>	<u>2,547,858</u>
Liabilities			
Loans and borrowings	15	2,178,042	2,228,232
Fair value of derivatives	14	--	53,142
Asset retirement obligation	6	--	232,125
Employee benefits	16	4,061	3,701
Deferred tax liabilities	19	4,418	263,150
Non-current liabilities		<u>2,186,521</u>	<u>2,780,350</u>
Current portion of loans and borrowings	15	532,578	543,766
Fair value of derivative instruments	14	--	22,376
Trade payable	17	11,695	53,863
Accrued expenses and other liabilities	18	120,335	88,308
Zakat and income tax payable	19.3	260,577	23,762
Current liabilities		<u>925,185</u>	<u>732,075</u>
Total liabilities		<u>3,111,706</u>	<u>3,512,425</u>
Total equity and liabilities		<u>5,823,033</u>	<u>6,060,283</u>

The accompanying notes from 1 to 33 forms integral part of these financial statements.

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022
(Saudi Riyal in thousands)

	<i>Notes</i>	<u>2022</u>	<u>2021</u>
Revenue	20	827,725	1,089,771
Cost of sales	21	<u>(271,595)</u>	<u>(417,375)</u>
Gross profit		556,130	672,396
Administrative expenses	22	<u>(57,125)</u>	(70,382)
Special commission income on time deposits		<u>3,171</u>	193
Operating profit		502,176	602,207
Finance costs	24	<u>(95,437)</u>	(177,114)
Other income	23	<u>52,821</u>	2,989
Profit before zakat and income tax		459,560	428,082
Zakat and income tax expenses	19	<u>(43,643)</u>	<u>(34,041)</u>
Profit for the year		415,917	394,041
Other comprehensive income			
<u>Items that are or may be reclassified subsequently to profit or loss</u>			
Cash flow hedge reserve – effective portion of changes in fair value	13	135,075	115,549
Related deferred tax	18	<u>(8,104)</u>	(6,933)
Cash flow hedge reserve – reclassified to profit and loss	13	<u>(62,351)</u>	-
Related deferred tax	18	<u>3,741</u>	-
		68,361	108,616
<u>Items that will not be reclassified subsequently to profit or loss</u>			
Re-measurement gain/(loss) on defined benefit liability	16	<u>191</u>	<u>(276)</u>
Other comprehensive income for the year		68,552	108,340
Total comprehensive income for the year		484,469	502,381
Earnings per share			
Basic and diluted earnings per share (SR)	25	2.67	2.53

The accompanying notes from 1 to 33 forms integral part of these financial statements.

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022
(Saudi Riyal in thousands)

	<u>Notes</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Total</u>
Balance as at 1 January 2021		1,560,500	196,683	607,599	(180,305)	2,184,477
Profit for the year		-	-	394,041	-	394,041
Other comprehensive income	13	-	-	-	108,340	108,340
Total comprehensive income		-	-	394,041	108,340	502,381
Transfer to statutory reserve	12	-	39,404	(39,404)	-	-
Dividends paid net of zakat and tax recovered from shareholders		-	-	(139,000)	-	(139,000)
Balance as at 31 December 2021		1,560,500	236,087	823,236	(71,965)	2,547,858
Profit for the year		-	-	415,917	-	415,917
Other comprehensive income	13	-	-	-	68,552	68,552
Total comprehensive income		-	-	415,917	68,552	484,469
Transfer to statutory reserve	12	-	41,592	(41,592)	-	-
Dividends paid net of zakat and tax recovered from shareholders	27	-	-	(321,000)	-	(321,000)
Balance as at 31 December 2022		1,560,500	277,679	876,561	(3,413)	2,711,327

The accompanying notes from 1 to 33 forms integral part of these financial statements.

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022
(Saudi Riyal in thousands)

	<u>Notes</u>	2022	2021
Cash flows from operating activities			
Profit before zakat and tax		459,560	428,082
Adjustments for:			
Depreciation	5	144,445	304,110
(Gain) on disposal of property, plant and equipment	23	-	(67)
Finance costs	24	95,437	201,688
Finance lease income	20	(250,326)	-
Provision for employee benefits	16	712	954
		<u>449,828</u>	<u>934,767</u>
<i>Changes in:</i>			
Trade receivable		(20,066)	(40,165)
Prepayments and other receivables		17,483	(19,385)
Accrued expenses and other liabilities		54,133	(39,730)
Trade payable		(42,168)	16,456
Cash generated from operations		<u>459,210</u>	<u>851,943</u>
Employee benefits paid	16	(460)	(313)
Finance costs paid		(145,830)	(162,157)
Zakat and tax paid	19	(37,651)	(28,518)
Net cash from operating activities		<u>275,269</u>	<u>660,955</u>
Cash flow from investing activities			
Additions to property, plant and equipment	5	(36,274)	(52,919)
Recovery of net investment in finance lease	6	517,378	
Proceeds from disposal of property, plant and equipment		-	67
Net cash generated from / (used in) investing activities		<u>481,104</u>	<u>(52,852)</u>
Cash flow from financing activities			
Proceeds from loans and borrowings		464,049	-
Repayment of loans and borrowings		(576,886)	(450,398)
Dividends paid net of tax recovered	27	(321,000)	(139,000)
Net cash used in financing activities		<u>(433,837)</u>	<u>(589,398)</u>
Net change in cash and cash equivalents		<u>322,536</u>	<u>18,705</u>
Cash and cash equivalents at 1 January		173,606	154,901
Cash and cash equivalents at 31 December	7	<u>496,142</u>	<u>173,606</u>
Material non-cash transactions:			
Cash flow hedge reserve recycled to profit and loss		62,351	-
Change in effective portion of fair value of cash flow hedge reserve	13	126,971	108,616
Re-measurement gain/(loss) on defined benefit liability	16	191	(276)

The accompanying notes from 1 to 33 forms integral part of these financial statements.

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(Saudi Riyal in thousands)

1. COMPANY INFORMATION

Shuaibah Water and Electricity Company (the “Company”) is a Saudi closed joint stock company, established pursuant to Royal Decree number M/43 dated 11 Rajab 1426H (corresponding to 16 August 2005) and registered in the Kingdom of Saudi Arabia under commercial registration number 4030163258 dated 8 Rajab 1427H (corresponding to 2 August 2006). The Company is engaged in development, construction, ownership, operations and maintenance of an independent water and electricity co-generation plant (the “Plant”) in the Kingdom of Saudi Arabia, and sale of desalinated water and electricity and related business or activities.

On 15 November 2005, the Company entered into a Power and Water Purchase Agreement (“PWPA”) with Water and Electricity Company (“WEC”), now Saudi Water Partnership Company (“SWPC”), pursuant to which the Company sells desalinated water and power, based on the net dependable capacity for a period of 20 years from the Project Commercial Operation Date (“PCOD”). The PCOD was achieved on 14 January 2010. The PWPA is extendable for future periods, if mutually agreed upon.

The Company has contracted Saudi Malaysian Operations and Maintenance Company Limited (“SAMAOMCO”, “the Operator”) and Seqayah Operation and Maintenance Company (“SEQAYAH”; the “Sub - contractor”) for the operation and maintenance of the Plant.

On 26th May 2021, the Company received an Invitation For Proposal (IFP) pursuant to the Memorandum of Understanding (MOU) signed with Saudi Water Partnership Company, Saudi Malaysian Water and Electricity Company, Water and Electricity Holding Company and Saudi Electricity Company to consider restructuring of the existing PWPA. The development was an attempt by the stake holders to support the government initiative considering that the Government intended to stop supporting oil-fired plants.

On 20th June 2022, Company entered into an amended and restated PWPA according to which the plant shall be decommissioned on 20th May 2025. Company will continue to receive capacity payments and output payments from the off-taker up to decommissioning date and capacity payments from the date of decommissioning till the end of the term of amended and restated PWPA i.e. 14 January 2030. Pursuant to this amendment of PWPA, the plant having a net book value of SR 5.5 billion recognized as an operating lease was derecognized on amendment date and finance lease receivable was recognized with an amount of SR 5.2 billion. Refer to note 6 for further details.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by International Accounting Standards Board (“IASB”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements as issued by Saudi Organization for Chartered and Professional Accountants (“SOCPA”) (“here and after referred to as “IFRS as endorsed in KSA”) and in compliance with the applicable requirements of the Regulation of Companies in the Kingdom of Saudi Arabia.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost convention except for derivative financial instruments which are measured at fair value and employees’ end of service benefits measured using projected unit credit method, using the accrual basis of accounting and the going concern concept.

2.3 Functional and presentation currency

These financial statements are presented in Saudi Riyal which is also the Company’s functional and presentational currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(Saudi Riyal in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following significant accounting policies to all periods presented in these financial statements.

a) Property, Plant and Equipment

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses. The cost includes expenditures that are directly attributable to the acquisition of these assets, including the cost of purchase and any other costs directly attributable to bring the assets to a working condition for their intended use.

If significant parts of property, plant and equipment have different useful lives then these are accounted for as separate items (major components) of property, plant and equipment. Similarly, 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 profit or loss as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Subsequent expenditure is recognised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal of the asset is included in the profit or loss when the asset is derecognised.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their residual values, on a straight-line basis over the estimated useful lives and is generally recognized in profit or loss. The estimated useful lives of property, plant and equipment for current and comparative periods is as follows:

<u>Item</u>	<u>Depreciation</u>
Building	40 years
Plant and machinery	20-30 years
Capital spares	30 years
Furniture, fixtures and equipment	4-10 years
Motor vehicles	4 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

At each reporting date, the Company reviews the carrying amounts of the property plant and equipment to determine whether there is any indication of impairment. If any indication exists, then the assets recoverable amount is estimated. For impairment testing, assets are grouped together in the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of the other assets or cash generating units (CGUs). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost of disposal. Value in use is based on the estimated future cash flows. Discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(Saudi Riyal in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments

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.

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized in statement of financial position when, and only when, the Company becomes party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI) – debt investment;
- Fair value through other comprehensive income (FVOCI) – equity investment; or
- Amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

SHUAIBAH WATER AND ELECTRICITY COMPANY
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(Saudi Riyal in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Classification and subsequent measurement (continued)

Financial assets (continued)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

SHUAIBAH WATER AND ELECTRICITY COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(Saudi Riyal in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Classification and subsequent measurement (continued)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in statement of profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in statement of profit or loss. Any gain or loss on derecognition is recognised in statement of profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to statement of profit or loss.

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(Saudi Riyal in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Financial assets – Subsequent measurement and gains and losses (continued)

Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in statement of profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to statement of profit or loss.
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Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition of financial instruments

Financial assets

The Company derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
- substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Company neither transfers nor retains substantially all of the risks and rewards of ownership

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Interest rate benchmark reform

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, the Company updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Company first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Company applies the policies on accounting for modifications to the additional changes.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

The Company designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in interest rates.

At inception of designated hedging relationships, the Company documents the risk management objective and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

Hedges directly affected by interest rate benchmark reform

When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Company amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. For this purpose, the hedge designation is amended only to make one or more of the following changes:

- designating an alternative benchmark rate as the hedged risk;
- updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;
- updating the description of the hedging instrument; or
- updating the description of how the Company will assess hedge effectiveness.

The Company amends the description of the hedging instrument only if the following conditions are met:

- it makes a change required by IBOR reform by changing the basis for determining the contractual cash flows of the hedging instrument or using another approach that is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- the original hedging instrument is not derecognised.

The Company amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

If changes are made in addition to those changes required by IBOR reform described above, then the Company first considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Company amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

When the interest rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Company deems that the hedging reserve recognised in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges (continued)

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Current versus non-current classification

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

Impairment of financial assets

The Company recognizes loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortised cost. The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment, that includes forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when:

- the off taker is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Impairment of financial assets (continued)

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consists of bank balances and cash on hand and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Company without any restrictions.

d) 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. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-zakat rate that reflects current market assessments of the time value of money and the risks specific to liability. The increase in the provision due to the passage of time is recognised as interest expense

e) Employees' benefits

Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined benefit plans

The Company operates a post-employment benefit scheme driven by the labour laws of the Kingdom of Saudi Arabia.

The Company's net obligation in respect of defined benefit plan 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. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

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 on the net defined benefit liability 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, taking into account any changes in the net defined benefit liability 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 profit or loss.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. These are initially recognised at fair value and subsequently remeasured at amortised cost.

g) Foreign currencies

Transactions in foreign currencies are translated into functional currency of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- an investment in equity securities designated as at FVOCI (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective.

h) Zakat and Tax

Zakat and income tax is provided in accordance with the Regulations and requirements of the Zakat, Tax and Customs Authority (“ZATCA”) in the Kingdom of Saudi Arabia. Zakat is recognised in statement of profit and loss and other comprehensive income

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to the items recognised directly in equity or in OCI. The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Current tax assets and liabilities are offset only if certain criteria are met.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Zakat and Tax (continued)

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

i) Value-Added Tax ("VAT")

Revenues, expenses and assets are recognized net of the amount of VAT, except for:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- in case of receivables and payables that are stated with the amount of VAT included.

The net amount of VAT receivable from or payable to the tax authority is included under "Prepayments and other receivables" or "Accrued expenses", respectively, in the statement of financial position.

j) Lease

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

As a lessee

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - the Company has the right to operate the asset; or
 - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Lease (continued)

As a lessee (continued)

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

As a lessor

At inception or on modification of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. When the company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the company applies IFRS 15 to allocate the consideration in the contract.

A finance lease is presented as net investment in finance lease and is recognised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments received are apportioned between finance income and the reduction of the net investment in finance lease so as to achieve a constant rate of return on the remaining balance of the asset.

The amount of net investment in finance lease is recorded in the statement of financial position as an asset at the gross amount receivable under the finance lease less unearned finance income.

k) Statutory reserve

According to the Company's by laws, the Company set aside a statutory reserve by deducting 10% of the annual net profit until it reaches 30% of the capital. This reserve is not available for distribution to the shareholders of the Company.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Revenue recognition

The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the Company. The Company applies the following five-step approach of revenue recognition:

- Step 1: Identify the contract with the customer
- Step 2: Identify the separate performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to separate performance obligations
- Step 5: Recognize revenue when (or as) each performance obligation is satisfied.

The following specific recognition criteria must also be met before revenue is recognized:

Revenue from supply of desalinated water and power is recognised upon delivery of desalinated water and power to the customer on an accrual basis. Capacity charge income (excluding receipts for services provided, such as insurance and maintenance) under Power and Water Purchase Agreements (“PWPA”) for each hour during which the plant is available for power generation and/or water desalination is recognised on a straight-line basis over the lease term or upon actual billing period as appropriate considering the terms of PWPA. The component of billed revenue related to goods/services not delivered or performed are recorded as deferred liability and reported in statement of financial position as deferred revenue. Energy charge revenue which compensates the Company for the fuel and variable cost of power and water delivered is recognized based on the supply of generated power and desalinated water. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due and associated costs.

If an arrangement contains lease components, then the company applies IFRS 16 to allocate the consideration in the contract.

Where the company acts as a lessor, at the inception of the lease, the total unearned finance income i.e. the excess aggregate minimum lease payments plus residual value (guaranteed and unguaranteed), if any, over the cost of the leased assets, is amortised over the term of the lease, and finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the company’s net investment outstanding with respect to the lease.

Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for-sale, interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss and other comprehensive income.

m) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current / non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalents 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Current versus non-current classification (continued)

A liability is classified as 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.

n) Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of the assets. Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other borrowing cost are recognized in profit or loss in the period in which they are incurred. Borrowing costs consist of commission and other costs that an entity incurs in connection with the borrowing of funds.

o) Dividend

Final dividends are recognized as a liability at the time of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors as authorized.

p) Expenses

Administrative expenses include direct and indirect costs not specifically forming part of cost of sales.

Standards issued but not yet effective

- a) Following are the new standards and amendments to standards which are effective for annual periods beginning after 1 January 2023; the Company has not early adopted them in preparing these financial statements.

Effective date	New standards or amendments
1 January 2023	<i>Deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12)</i>
	<i>Classification of liabilities as current or non-current (amendments to IAS 1)</i>
	<i>IFRS 17 Insurance contracts</i>
	<i>Disclosure of accounting policies (amendments to IAS 1)</i>
	<i>Definition of accounting estimates (amendments to IAS 8)</i>
1 January 2024	<i>Classification of Liabilities as Current or Non-current (Amendments to IAS 1)</i>
	<i>Lease Liability in a sale and Leaseback (Amendments to IFRS 16)</i>
	<i>Non-current Liabilities with Covenants (Amendments to IAS 1)</i>
	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) – optional</i>

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Expenses (continued)

Standards issued but not yet effective (continued)

- b) Following are the new standards and amendments to standards which are effective for annual periods beginning after 1 January 2022, however the amendments do not have a significant effect of the Company's financial statements.

Effective date	New standards or amendments
1 January 2022	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
	<i>(Amendments to IAS 37)</i>
	<i>Annual Improvements to IFRS Standards 2018–2020</i>
	<i>Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)</i>

4. SIGNIFICANT ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of Company's financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements as endorsed by the Saudi Organization for Chartered and Professional Accountants require management to make judgments, estimates, and assumptions that affect the reported amounts of costs, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date.

The estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances., existing circumstances and assumptions about future developments 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. 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.

Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements, are as follows:

Fair value of derivative financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, the fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required

in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Company enters into derivative financial instruments with various counterparties, principally financial institutions. Derivatives include interest rate swaps which are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the interest rate.

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4. SIGNIFICANT ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

Hedge effectiveness

The Company determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, maturities and the notional amounts. The Company assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item.

Useful lives of property, plant and equipment

The Company's management determines the estimated useful lives of 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 useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Investment in finance lease

The following are critical assumptions that have been made in the process of applying the Company's accounting policies for the net investment in finance lease under IFRS 16 that have a significant effect on the amounts recognised in the financial statements:

- The lease has been classified as a finance lease as sale proceeds net of asset retirement obligation will be passed on to the off-taker upon decommissioning of the power plant. Additionally, the lease term is for the major part of the remaining economic life of the plant.

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5. PROPERTY, PLANT AND EQUIPMENT

	-----2022-----							
	<i>Freehold land</i>	<i>Buildings</i>	<i>Plant & machinery</i>	<i>Furniture fixtures and equipment</i>	<i>Motor vehicles</i>	<i>Capital spares</i>	<i>Capital work in progress</i>	<i>Total</i>
Cost								
At 1 January 2022	6,590	1,430,901	7,591,760	8,768	3,904	186,297	28,830	9,257,050
Additions during the year	--	--	--	--	--	--	36,274	36,274
Transfer to net investment in finance lease (note 6)	--	(1,419,039)	(7,591,760)	--	--	(186,297)	(65,095)	(9,262,191)
At 31 December 2022	6,590	11,862	--	8,768	3,904	--	9	31,133
Accumulated Depreciation								
At 1 January 2022	--	567,583	2,993,718	7,520	3,634	51,894	--	3,624,349
Depreciation charge for the year	--	21,640	118,675	630	204	3,296	--	144,445
Transfer to net investment in finance (note 6)	--	(585,093)	(3,112,393)	--	--	(55,190)	--	(3,752,676)
At 31 December 2022	--	4,130	--	8,150	3,838	--	--	16,118
Net book value as at 31 December 2022	6,590	7,732	--	618	66	--	9	15,015
	-----2021-----							
Cost								
At 1 January 2021	6,590	1,430,901	7,488,782	8,763	4,593	186,297	78,993	9,204,919
Additions during the year	--	--	--	--	--	--	52,919	52,919
Disposals during the year	--	--	--	--	(788)	--	-	(788)
Transfers during the year	--	--	102,978	5	99	--	(103,082)	(103,082)
At 31 December 2021	6,590	1,430,901	7,591,760	8,768	3,904	186,297	28,830	9,257,050
Accumulated Depreciation								
At 1 January 2021	--	522,218	2,742,895	6,816	4,183	44,915	--	3,321,027
Depreciation charge for the year Relating to disposals	--	45,365	250,823	704	239	6,979	--	304,110
	--	--	--	--	(788)	--	--	(788)
At 31 December 2021	--	567,583	2,993,718	7,520	3,634	51,894	--	3,624,349
Net book value as at 31 December 2021	6,590	863,318	4,598,042	1,248	270	134,403	28,830	5,632,701

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5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

a) Security

Building' and 'Plant and machinery' are collateralized against long-term financing arrangements entered into by the Company for the purpose of financing the construction of the Plant (note 15).

b) Leasehold land

The project is constructed on land leased from Saline Water Conversion Corporation ("SWCC"), at a nominal rent (SR 1,000 Per annum) for an initial term of 20 years from the commencement of the commercial operations.

6. NET INVESTMENT IN FINANCE LEASE

On 20 June 2022, the Company entered into an amended power and water purchase agreement (PWPA) with respect to its co-generation plant. As per the amended PWPA, sale proceeds net of asset retirement obligation will be passed on to the off-taker upon decommissioning of the power plant and the Company will continue to receive the capacity payments till the end of the tenure of the amended PWPA. This amendment to the PWPA has been accounted for as a lease modification and the plant recognized as an operating lease as PPE was derecognized. As impairment assessment was done under IAS 36 to assess impairment if any under the revised PWPA and it was noted the present value of future cash flows under the revised PWPA was more than the carrying value of the plant at the date of the amended PWPA. Under the amended PWPA the lease is considered to be a finance lease and accordingly finance lease receivable has been recognised from the effective date of the amended PWPA, i.e. 20 June 2022.

6.1 Finance lease receivable on the date of modification:

Finance lease receivable recognized (<i>note 6.1.a</i>)	5,295,085
Finance income for the period from 20 th June-31 st December	250,326
Capacity payments received	<u>(517,378)</u>
Finance lease receivable as on 31 st December 2022	<u><u>5,028,033</u></u>

6.1.a This is the finance lease recognized on modification of PWPA. The property plants and equipment recognized as an operating lease under the original PWPA was derecognized. Further the finance lease receivable included adjustment in respect of asset retirement obligation as of 20th June 2022 of SR 235.9 million and unamortized upfront fee of SR 21.6 million.

6.2 Net investment in finance lease as of 31st December 2022 consists of

	<u>2022</u>
Gross investment in finance lease	6,877,720
Less: Unearned finance income	<u>(1,849,687)</u>
At 31 December	<u><u>5,028,033</u></u>

6.3 Analysed as:

Net investment in finance lease, current	488,264
Net investment in finance lease, non-current	<u>4,539,769</u>
	<u><u>5,028,033</u></u>

6.4 The future minimum lease payments to be received consist of:

Within one year	931,317
After one year but not more than five years	4,869,896
Five years onwards	<u>1,076,507</u>
	<u><u>6,877,720</u></u>

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6. NET INVESTMENT IN FINANCE LEASE (CONTINUED)

	2022
6.5 The maturity of unearned finance income are as follows:	
Within one year	443,054
After one year but not more than five years	1,351,206
Five years onwards	55,427
	1,849,687

6.6 Finance income earned on the finance lease during the year was SR 250,326 (2021: Nil).

7 CASH AND CASH EQUIVALENTS

	2022	2021
Short term deposits	478,850	150,000
Balances with banks	17,262	23,581
Cash in hand	30	25
	496,142	173,606

Short term bank deposits represent time deposits with local banks with original maturities of 3 months or less and having an average rate of return of 4.5% per annum (2021: 2.21% per annum). Management has conducted a review as required under IFRS 9 and based on such assessment, management believes that there is no significant impairment against the carrying value of cash equivalents.

8 TRADE RECEIVABLE

	2022	2021
Due from SWPC, a related party (Note 10)	238,332	218,266
Less: Allowance for expected credit losses	(31,155)	(31,155)
	207,177	187,111

Movement in allowance for expected credit losses:

Balance at start of the year	31,155	16,329
Charge for the year	--	14,826
Balance at the end of the year	31,155	31,155

SWPC is a quasi-Government institution owned by Ministry of Finance (“MoF”). The balance is not yet overdue. The management has conducted an assessment as required under IFRS 9 and based on such assessment, the management believes that no significant impairment allowance was required against these receivables.

9 PREPAYMENTS AND OTHER RECEIVABLES

	2022	2021
Prepayments	4,508	15,147
Accrued interest on term deposits	2,137	122
Other receivables	7,278	16,369
Due from other related parties (note 10)	1,058	826
	14,981	32,464

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10 RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year:

		<u>2022</u>	<u>2021</u>
<i>Related party</i>	<i>Nature of Transaction</i>		
SWPC – <i>affiliate</i>	Revenue	827,725	1,089,771
Seqayah Operation and Maintenance Company – <i>affiliate</i>	Operating costs	103,830	106,078
	Plant improvement – capex	25,895	21,203
	Plant improvement – repair & maintenance	24,573	22,813
Shuaibah Expansion Project Company – <i>affiliate</i>	Management fee income	1,192	1,183
	Expenses incurred on behalf of affiliates	363	1,091
ACWA Power – <i>affiliate</i>	Expenses incurred by affiliates on behalf of the Company	2,826	2,902
<i>Key management personnel compensation*</i>			
<i>Directors</i>	Salaries & Benefits	2,833	2,618
	Remuneration and allowances	2,447	2,103

*This includes salaries and benefits for Executive Managing Officer (key management personnel) paid by ACWA Power Company (Affiliate) and recharged to the Company.

The breakdown of amounts due from / to related parties at the reporting date are as follows:

	<i>Relationships</i>	<u>2022</u>	<u>2021</u>
<i>Due from related parties</i>			
SWPC	<i>Affiliate</i>	207,177	187,111
Shuaibah Expansion Project Company	<i>Affiliate</i>	918	686
Shuaibah Expansion Holding Company	<i>Affiliate</i>	140	140
		<u>208,235</u>	<u>187,937</u>
<i>Due to related parties</i>			
First National Operations & Maintenance Co.	<i>Affiliate</i>	1,848	26,992
Seqayah Operation and Maintenance Company	<i>Affiliate</i>	6,270	1,742
Saudi Malaysia Water and Electricity Company	<i>Affiliate</i>	2,156	--
Shuaibah Two Water Projects Development Company	<i>Affiliate</i>	196	--
ACWA Power Company	<i>Affiliate</i>	1,151	229
		<u>11,621</u>	<u>28,963</u>

The related party balances are unsecured, interest free and the settlement occurs in cash. The Company did not record any impairment of receivables relating to amounts owed by related parties during the current and prior year.

Board and committees fees payable is disclosed in note 18 to these financial statements.

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11. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company is divided into 156,050,000 shares of SR 10 each (31 December 2021: 156,050,000 shares of SR 10 each). The shareholding details of the Company as of 31 December 2022 and 2021 is set out below:

<i>Shareholders</i>	<i>Number of shares held</i>		<i>Percentage</i>
	<u>2022</u>	<u>2021</u>	
Saudi Malaysian Water and Electricity Company	93,630,000	93,630,000	60%
Water and Electricity Holding Company	49,936,000	49,936,000	32%
Saudi Electricity Company	12,484,000	12,484,000	8%
	<u>156,050,000</u>	<u>156,050,000</u>	<u>100%</u>

12. STATUTORY RESERVE

In accordance with the Company's by-laws, the Company must set aside 10% of its profit after zakat and tax in each year until it has built up a reserve equal to 30% of its capital. The reserve is not available for distribution.

Statutory reserve as at 31 December 2022 amounted to SR 277.67 million (31 December 2021: SR 236.08 million).

13. OTHER RESERVES

Other reserves consist of the following:

	<i>Cash flow hedge reserve</i>	<i>Deferred tax in relation to cash flow hedge reserve</i>	<i>Actuarial loss on employee benefits obligations</i>	<i>Total</i>
Balance as at 1 January 2021	(191,067)	11,464	(702)	(180,305)
Other comprehensive income/ (loss) during the year	115,549	(6,933)	(276)	108,340
Balance as at 31 December 2021	(75,518)	4,531	(978)	(71,965)
Other comprehensive income/ (loss) during the year	135,075	(8,104)	191	127,162
Recycled to profit and loss (see note 15.1)	(62,351)	3,741	-	58,610
Balance as at 31 December 2022	<u>(2,794)</u>	<u>168</u>	<u>(787)</u>	<u>3,413</u>

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14. FAIR VALUE OF DERIVATIVE INSTRUMENTS

As at 31 December 2022, the Company held Interest Rate Swaps (“IRS”) of a notional value of SR 1,721 million (31 December 2021: SR 2,146 million), in order to reduce its exposure to interest rate risks against long-term financing (see note 15).

The table below shows the fair values of derivative financial instruments, recorded as assets, together with their notional amounts.

<i>Notional amount</i>	<u>2022</u>	<u>2021</u>
Interest rate swaps	<u>1,720,894</u>	<u>2,146,238</u>
<i>Fair value of IRSs</i>	<u>2022</u>	<u>2021</u>
Current portion	41,190	(22,376)
Non-current portion	<u>18,366</u>	<u>(53,142)</u>
Total	<u>59,556</u>	<u>(75,518)</u>

Derivatives 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 component of the Company.

The cash flow hedge reserve represents the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment, consistent with applicable accounting policy. Under the finance agreements, the hedges are required to be held until maturity of the loans.

15. LOANS AND BORROWINGS

The Company has entered into the following long-term financing arrangements for the purpose of financing the construction of the Plant:

<i>Type of Facilities</i>	<i>Facility agent</i>	<i>Notes</i>	<u>2022</u>	<u>2021</u>
Syndicated commercial	Riyadh Bank	15.2	1,196,321	1,599,610
Syndicated commercial	The Export - Import Bank of Korea	15.3	-	243,750
Syndicated commercial	The Royal Bank of Scotland N.V	15.4	-	212,030
Islamic – SAR	Al Rajhi Bank	15.5	284,973	334,378
Islamic – USD	Al Rajhi Bank	15.6	381,430	-
Islamic – Subordinated Debt	Al Rajhi Bank	15.7	<u>862,500</u>	431,993
			<u>2,725,224</u>	<u>2,821,761</u>
Less: Unamortised portion of financing fees			<u>(14,604)</u>	<u>(49,763)</u>
Financing at end of the year			<u>2,710,620</u>	<u>2,771,998</u>
Current portion			532,578	543,466
Long term portion			<u>2,178,042</u>	<u>2,228,232</u>
			<u>2,710,620</u>	<u>2,771,998</u>

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15. LOANS AND BORROWINGS (CONTINUED)

- 15.1** On 25 Oct 2022, Company entered into a refinancing agreement with its lenders, based on which certain facilities were discontinued, whereas principal, interest rates, counter party and terms of remaining facilities were amended. Under the refinancing arrangement the obligations to the lenders were extinguished and new obligations under the revised refinancing structure were established. As a result of the refinancing and amendments thereon, liabilities associated to old facilities prior to 25th October 2022 were derecognized and new facilities were recognized in line with the refinancing terms.

Original liabilities extinguished and derecognized

<i>Facility</i>	<i>Agent</i>	<i>Amount</i>
Syndicated commercial	The Royal Bank of Scotland N.V	1,343,672
Syndicated commercial	The Export - Import Bank of Korea	92,154
Syndicated commercial	The Royal Bank of Scotland N.V	121,875
Islamic – SAR	Riyadh Bank	284,973
Islamic – Subordinated Debt	Al Rajhi Bank	418,493
		2,261,167

New Liabilities established and recognized

<i>Facility</i>	<i>Agent</i>	<i>Amount</i>
Syndicated commercial	Riyad Bank	1,196,321
Islamic – SAR	Al Rajhi Bank	284,973
Islamic – USD	Al Rajhi Bank	381,430
Islamic – Subordinated Debt	Al Rajhi Bank	862,500
		2,725,224

Given that the old facilities were derecognized, therefore the associated hedge relationship was terminated and accordingly the cash flow reserve amounting to SR 58.6 million on account of Company's effective portion of mark to market of derivative instruments as of 25th October 2022 was recycled to statement of profit or loss. A new hedge relationship was established in accordance with the revised financing structure. Under the arrangement with the bank, the mark to market of SR 62.4 million of the derivatives as at the date of the refinancing were not settled in cash rather the mark to market of the derivative at the date of establishment of the new derivative were considered as an off-market transaction.

- 15.2** This represents a facility bearing an interest rate of SOFR (Secured Overnight Financing Rate) plus an agreed margin. The loan is repayable in semi-annual variable instalments payable each year.
- 15.3** This represents a facility bearing an interest rate of 5.58%. Facility has been discontinued after refinancing arrangement and outstanding amount has been settled.
- 15.4** This represents a facility bearing an interest rate of US LIBOR plus an agreed margin. Facility has been discontinued after refinancing arrangement and outstanding amount has been settled.
- 15.5** This represents a facility bearing an interest rate of SIBOR plus an agreed margin. The loan is repayable in semi-annual variable instalments payable each year.

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15. LOANS AND BORROWINGS (CONTINUED)

- 15.6** This represents a facility bearing an interest rate of SOFR plus an agreed margin. The loan is repayable in semi-annual variable instalments payable each year.
- 15.7** This represents a facility bearing an interest rate of SOFR plus an agreed margin. The loan is repayable in semi-annual variable instalments payable each year.

Pursuant to the Common Terms Agreement (“CTA”) between the Company and the arrangers of the facilities, the facilities set out in (14.2) to (14.6) above are secured by a legal charge over the Company’s interests in leases of land and any plant and equipment erected thereon constituting fixtures. Moreover, the facilities stated above, are secured by promissory notes from shareholders for the amounts drawn down. The CTA includes certain covenants, which include charge over all assets and restriction on further debt acquisition other than the above facilities.

16. EMPLOYEE BENEFITS

The movement of employee benefits (end of service) liability (unfunded) is as follows:

	<u>2022</u>	<u>2021</u>
At beginning of the year	3,701	2,784
Charge for the year	712	954
Obligation related to employees transferred from affiliate	299	-
Actuarial (gain)/loss – Other comprehensive income	(191)	276
Paid during the year	(460)	(313)
	<u>4,061</u>	<u>3,701</u>

Details of employees’ end-of-service expense as presented on the statement of profit or loss and other comprehensive income is as follows:

	<u>2022</u>	<u>2021</u>
Interest cost	94	66
Current service cost	618	888
Actuarial (gain) / loss – other comprehensive income	(191)	276
	<u>521</u>	<u>1,230</u>

Assumptions

The principal actuarial assumptions used are as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	4.05%	2.80%
Increments	4.30%	2.70%
Resignation rate		
21 - 25 years old	8.00%	18.80%
26 - 30 years old	17.00%	15.00%
31 - 50 years old	27.00%	7.50%
51 - 59 years old	32.00%	3.80%

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16. EMPLOYEE BENEFITS (CONTINUED)

Discount rate

IAS 19 requires the discount rate to be set based on the yields on high quality corporate bonds or government bonds of duration and currency consistent with the liabilities. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The discount rate has instead been based on US Corporate bonds yields. This is considered appropriate given that the Saudi Riyal is currently pegged to the US Dollar.

Further, a risk premium to a US discount rate to reflect a credit spread and the risk of the currency linkage being broken has also been used. The Company used a margin of 100bps above US bonds of duration consistent with that of the liabilities.

The assumptions have been determined based on the market conditions at each valuation date. The movement in the discount rate represents the movement of US Corporate Bond Yields between the valuation dates.

Increments

The assumption for future salary increases has been determined by the Company based on its long term expectations, reflecting both inflationary and promotional increases.

Resignation rates

The turnover assumption determines the rate at which individuals are assumed to resign from the Company before retirement.

Sensitivity analysis

The table below shows the change in end of service liability based on a reasonable possible change in the base assumption value for discount and increment rates:

	<i>Change (bps)</i>	<i>Increase (decrease) in EOSB liability</i>	
		2022	2021
Discount rate	+100	(134)	(358)
	-100	144	420
Increments	+100	162	434
	-100	(154)	(376)

17. TRADE PAYABLE

	2022	2021
Trade payable	5,425	25,129
Due to operation and maintenance contractors (note 10)	6,270	28,734
	11,695	53,863

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18. ACCRUALS AND OTHER LIABILITIES

	2022	2021
Accrued financing charges	32,132	54,238
VAT payable – net	9,709	8,707
Accrued salaries and benefits	4,625	4,022
Withholding tax payable	361	276
Due to other related parties (note 10)	5,351	229
Accrued winter period shortage adjustment	28,893	6,036
Board and committees fees payable	2,660	2,982
Other liabilities	36,604	11,818
	120,335	88,308

19. ZAKAT AND INCOME TAX

Amounts recognised in profit or loss

	2022	2021
Zakat expense	12,256	7,943
Tax expense		
Current tax	262,210	25,439
Deferred tax (income)/ charge	(234,564)	659
Deferred tax related to cash flow hedge reserve recycled to profit and loss. (see note 13)	3,741	-
	31,387	26,098
Zakat and tax expense	43,643	34,041

Amounts recognised in OCI

During the year the Company recognised the following tax related amounts in OCI:

	2022	2021
Deferred tax loss relating to net change in relation to fair value of derivatives	(8,104)	6,933

19.1 Zakat

Pursuant to the investment of foreign shareholders in the Company, the Company is assessed as a mixed entity in Saudi Arabia. As at 31 December 2022, the non-Saudi shareholder owns 30.00% (31 December 2021: 30.00%) of the Company's shares and the remaining 70.00% (31 December 2021: 70.00%) is owned by the Saudi shareholders

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19. ZAKAT AND INCOME TAX (CONTINUED)

19.1 Zakat (continued)

The principal elements of the zakat base attributable to Saudi shareholders are as follows:

	<u>2022</u>	<u>2021</u>
Equity	1,609,380	1,389,625
Loans	1,907,655	1,975,233
Opening allowances and other adjustments	21,452	169,703
Book value of long term assets	<u>(3,374,096)</u>	<u>(3,977,724)</u>
	164,391	(443,163)
Adjusted income for the year	<u>325,889</u>	315,720
Total	<u>490,280</u>	<u>(127,443)</u>
Saudi shareholders' share of Zakat base	<u>325,889</u>	315,720
Zakat @ 2.5%	<u>12,256</u>	<u>7,893</u>

19.2 Income tax

19.2.1 Current tax

Reconciliation of effective tax rate

	<u>2022</u>	<u>2021</u>
Profit before zakat and tax	459,560	428,082
Less: profit attributable to Saudi Shareholders	<u>(321,692)</u>	<u>(299,657)</u>
Profit attributable to foreign shareholders	137,868	128,425
Tax @ 20%	27,574	25,685
Tax effect of:		
Other non-deductible/(deductible) differences	<u>234,636</u>	<u>(246)</u>
Tax expense	<u>262,210</u>	<u>25,439</u>

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19. ZAKAT AND INCOME TAX (CONTINUED)

19.2 Income tax (continued)

19.2.2 Deferred tax

Movement in deferred tax balances

The deferred tax asset/ (liability) and deferred tax charge/credit in the statement of profit or loss and other comprehensive income are attributable to the following items:

2022	<i>Deferred tax assets / (liability as at 1 January 2022</i>	Recognised in profit or loss	Recognised in other comprehensive income	<i>Deferred tax assets / (liability as at 31 December 2022</i>
Property, plant and equipment	(263,150)	262,305	-	(845)
Employees' terminal benefits	221	23	-	244
Provision for doubtful debts	1,877	8	-	1,885
Unused tax losses carried forward	13,844	(13,844)	-	-
Asset retirement obligation	13,928	(13,928)	-	-
Fair value of derivatives	4,531	-	(8,104)	(3,573)
	(221,156)	234,564	(8,104)	(2,289)
2021	<i>Deferred tax assets / (liability as at 1 January 2021</i>	Recognised in profit or loss	Recognised in other comprehensiv e income	<i>Deferred tax assets / (liability as at 31 December 2021</i>
Property, plant and equipment	(270,941)	7,791	-	(263,150)
Employees' terminal benefits	166	55	-	221
Provision for doubtful debts	980	897	-	1,877
Unused tax losses carried forward	22,774	(8,930)	-	13,844
Asset retirement obligation	14,400	(472)	-	13,928
Fair value of derivatives	11,464	-	(6,933)	4,531
	(221,156)	(659)	(6,933)	(228,749)

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19. ZAKAT AND INCOME TAX (CONTINUED)

19.3 Zakat and current tax provision for the year

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

	<u>Zakat</u>	<u>Tax</u>	<u>Total</u>
31 December 2022			
At beginning of the year	13,779	9,983	23,762
Charge for the year	12,227	262,195	274,422
Under provision for prior year	29	15	44
Payments during the year	(7,922)	(29,729)	(37,651)
At end of the year	<u>18,113</u>	<u>242,464</u>	<u>260,577</u>
31 December 2021			
At beginning of the year	12,209	6,689	18,898
Charge for the year	7,893	26,064	33,957
Under / (over) provision for prior year	50	(625)	(575)
Payments during the year	(6,373)	(22,145)	(28,518)
At end of the year	<u>13,779</u>	<u>9,983</u>	<u>23,762</u>

19.4 Status of assessments

The Zakat, Tax and Customs Authority (“ZATCA”) issued and finalized the assessments for the years 2006 to 2018 and assessment for the years 2019 and 2020 under review.

The Company has filed its zakat and tax return up to 31 December 2021, which are currently being reviewed by the ZATCA.

20. REVENUE

Revenue under original PWPA

	<i>Notes</i>	<u>2022</u>	<u>2021</u>
Capacity payments	20.1	516,124	1,042,053
Output payments		23,811	47,718
		<u>539,935</u>	<u>1,089,771</u>

Revenue under amended PWPA

Capacity payments		12,462	-
Output payments	20.2	25,002	-
Finance lease income		250,326	-
		<u>287,790</u>	-
		<u>827,725</u>	<u>1,089,771</u>

20.1 This represents operating lease revenue and includes (i) Capacity payment for desalinated water and power, and (ii) Output payment for desalinated water and power.

20.2 This represents finance lease revenue and includes (i) Capacity payment for desalinated water, power, (ii) Output payment for desalinated water and power and (iii) finance lease income.

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21. OPERATING COSTS

	<u>2022</u>	<u>2021</u>
Operation and maintenance costs	123,841	109,997
Depreciation (note 5)	144,445	304,110
Other operating costs	3,309	3,268
	<u>271,595</u>	<u>417,375</u>

22. ADMINISTRATION EXPENSES

	<u>2022</u>	<u>2021</u>
Insurance cost	23,747	24,049
Employee costs	17,028	15,855
Legal and professional charges	9,298	9,658
Board committee fees and meeting expenses	2,447	2,103
Withholding tax on financing costs	437	662
Provision for doubtful debts	147	14,947
Office and other expenses	4,021	3,108
	<u>57,125</u>	<u>70,382</u>

23. OTHER INCOME

	<u>2022</u>	<u>2021</u>
Management fee income (note 10)	1,192	1,183
Insurance claim	49,125	--
Gain on disposal of property, plant and equipment	--	67
Others	2,504	1,739
	<u>52,821</u>	<u>2,989</u>

Insurance claim pertains to amount received from insurance company related to components of plant and machinery which were damaged and the claims had remained under approval until year 2022.

24. FINANCE COST

	<i>note</i>	<u>2022</u>	<u>2021</u>
Financing costs	24.1	47,923	76,661
Interest charges on cash flow hedges, net		13,750	75,879
Amortisation of finance charges	24.2	29,894	16,700
Unwinding of provision for asset retirement obligation		3,870	7,874
		<u>95,437</u>	<u>177,114</u>

24.1 Finance cost is net of SR 62 million pertaining to cash flow hedge reserve recycled to profit and loss (see note 13).

24.2 On 25 October 2022, the Company entered into a refinancing agreement with its lenders, based on which old liabilities were derecognized and new liabilities were recorded. Given that old liabilities were derecognized, unamortized portion of upfront fee amounting to SR 14.6 million associated to old liabilities was charged to profit and loss.

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25 EARNINGS PER SHARE

Earnings per share have been computed by dividing the profit for the year by the weighted average number of ordinary shares of 156,050,000 (31 December 2021: 156,050,000) ordinary shares (note 11). The weighted average number of ordinary shares outstanding during the year is the number of ordinary shares outstanding at the beginning of the year, adjusted by the number of ordinary shares issued during the year multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the year. Basic and diluted earnings per share for 2022 is SR 2.67 per share (2021: SR 2.53 per share).

The weighted average number of shares outstanding during the year are as follows:

	2022	2021
Weighted average number of ordinary shares outstanding during the year	156,050,000	156,050,000
Net profit for the year (SR 000)	415,917	394,041
Basic and diluted earnings per share (SR)	2.67	2.53

26. COMMITMENTS AND CONTINGENCIES

At 31 December 2022, the Company has contractual capital expenditure commitments of SR 4 million (31 December 2021: SR 27.2 million)

27. DIVIDENDS

During the year, the Company's Board of Directors paid dividends of SR 2.057 per share aggregating to SR 321 million including the proposed dividend of SR 30 million as at 31 December 2021 (2021: SR 0.8907 per share aggregating to SR 139 million including proposed dividend of SR 64 million as at 31 December 2020). The amount of dividends noted above are net of reimbursement of zakat and income tax from shareholders as mentioned below:

	2022	2021
Dividend	355,001	176,282
Less: Reimbursement of zakat and income tax from the shareholders*	(34,001)	(37,282)
Dividends paid net of zakat and tax recovery from shareholders	321,000	139,000

*Zakat and tax expense of SR 34 million pertaining to year 2021 is reimbursed in 2022 (SR 37.2 million pertaining to year 2020 was reimbursed in 2021)

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28. FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities are long term financing, derivatives, accounts payable and accrued expenses. The main objectives of these financial instruments are to raise the funding primarily for construction of the plant as well as for the working capital requirement of the Company.

The Company also has financial assets in the form of cash and cash equivalents, trade and other receivables, which are integral and directly derived out of its regular business.

The Company's financial operations are subject to the following risks:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. As at 31 December 2022, no significant concentrations of credit risk were identified by the management. The Company's maximum credit risk exposure is the carrying value of the financial assets as appearing on the statement of financial position.

The contractual maturities of the financial assets of the Company as at 31 December are as follows:

	<i>No fixed maturity</i>	<i>Within 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
31 December 2022						
<i>Non-derivative financial assets</i>						
Net investment in finance lease	-	71,214	417,050	3,518,690	1,021,079	5,028,033
Trade receivables	-	207,177	-	-	-	207,177
Due from a related party	-	1,058	-	-	-	1,058
Other financial assets	-	9,415	-	-	-	9,415
Bank Balances	496,112	-	-	-	-	496,112
	<u>496,112</u>	<u>288,864</u>	<u>417,050</u>	<u>3,518,690</u>	<u>1,021,079</u>	<u>5,741,795</u>
<i>Derivative financial assets</i>						
Interest rate swaps used for hedging	-	6,609	34,716	18,137	94	59,556

The cash flows disclosed in the above table in respect of derivatives represent contractual undiscounted cash flows relating to derivative financial assets held for risk management purposes and which are not usually closed out before contractual maturity.

	<i>No fixed maturity</i>	<i>Within 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
31 December 2021						
<i>Non-derivative financial assets</i>						
Trade receivables	-	187,111	-	-	-	187,111
Due from a related party	-	826	-	-	-	826
Other financial assets	-	16,491	-	-	-	16,491
Bank Balances	173,581	-	-	-	-	173,581
	<u>173,581</u>	<u>204,428</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>378,009</u>

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Net investment in finance lease

Finance lease receivable represent receivable of from the off-taker in accordance with the Power and Water Purchase Agreements (“PWPA”). Credit risk attached to the finance lease receivable is limited due to the strength of appropriate credit rating of off-taker.

Trade receivables

The Company’s exposure to credit risk on trade receivables is influenced mainly by the individual characteristics of customer. The Company’s only customer is a related party (SWPC) and the sales revenue and receivable amount is set as per PWPA. The Company believes that the credit risk associated with this receivable is very low as SWPC is a limited liability entity owned by ministry of finance.

Due from other related parties

Due from related parties includes expenses paid on behalf of affiliated companies. Credit risk attached to due from other related parties is not significant and the Company expects to recover these fully at their stated carrying amounts.

Other financial assets

Other financial assets includes accrued interest on term deposits, custom duty refundable, advances to employees and other receivables. There is no credit risk attached to advances to employees. Credit risk attached to other financial instruments is not considered significant and the Company expects to recover these fully at their stated carrying amounts.

Cash at bank and short term bank deposits

Credit risk on bank balances and short term bank deposits are limited as these are held with banks with sound credit ratings.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company’s approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Company’s reputation. Accordingly, the Company ensures that sufficient funding from related parties and bank facilities are available at all times.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include contractual interest payments:

	<i>Within 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
31 December 2022					
<i>Non-derivative financial liabilities</i>					
Long term financing	263,014	428,986	1,998,598	372,123	3,062,721
Accounts payable	11,695	-	-	-	11,695
Accrued expenses and other liabilities	120,335	-	-	-	120,335
	<u>395,044</u>	<u>428,986</u>	<u>1,998,598</u>	<u>372,123</u>	<u>3,194,751</u>
	<i>Within 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
31 December 2021					
<i>Non-derivative financial liabilities</i>					
Long term financing	308,208	315,368	2,180,116	-	2,803,692
Accounts payable	25,129	-	-	-	25,129
Accrued expenses and other liabilities	41,774	12,047	-	-	53,821
	<u>375,111</u>	<u>327,415</u>	<u>2,180,116</u>	<u>-</u>	<u>2,882,642</u>
<i>Derivative financial liabilities</i>					
Interest rate swaps used for hedging	23,829	18,532	33,157	-	75,518
	<u>398,940</u>	<u>345,947</u>	<u>2,213,273</u>	<u>-</u>	<u>2,958,160</u>

The cash flows disclosed in the above table in respect of derivatives represent contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed out before contractual maturity.

The interest payments on variable interest rate loans included in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rate changes.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Company's income or cash flow. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

The Company uses derivatives to manage market risks. All such transactions are carried out in accordance with Company policies and practices. Generally, the Company seek to apply hedge accounting to manage volatility in profit or loss.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. Since Saudi Riyal is currently on a fixed parity with the US Dollar, the management believes that the Company does not have any significant exposure to currency risk.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company is subject to interest rate risk on its interest bearing liabilities, which primarily comprise term loans with floating interest rates. The Company manages its interest rate risk by entering into hedging contracts for most of its floating rate long-term loans. At the year end, the Company has no significant exposure to interest rate risk as most of its floating cash flows on liabilities are hedged.

The interest rate profile of the Company's interest bearing financial instruments as reported to the management of the Company is as follows:

	2022	2021
<i>Fixed rate instruments</i>		
Financial liabilities		
Long-term financing	--	243,750
<i>Variable rate instruments</i>		
Financial liabilities		
Long-term financing	2,725,224	2,578,011
Interest rate swaps – notional amounts	(1,720,894)	(2,146,238)
	1,004,330	431,773

The Company does not account for any fixed rate financial assets or financial liabilities at fair value and therefore, the Company is not exposed to interest rate risk relating to fixed interest rate loans.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant

	Profit or loss	
	<u>'100 bps increase</u>	<u>'100 bps decrease</u>
31 December 2022		
Variable rate financial liabilities	(27,252)	27,252
Interest rate swaps	<u>17,209</u>	<u>(17,209)</u>
Net sensitivity	<u>(10,043)</u>	<u>10,043</u>
31 December 2021		
Variable rate financial liabilities	(21,181)	21,181
Interest rate swaps	<u>18,205</u>	<u>(18,205)</u>
Net sensitivity	<u>(2,976)</u>	<u>2,976</u>

Derivative assets and liabilities designated as cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the carrying amounts of the related hedging instruments.

	<i>Carrying amount</i>	<i>Total</i>	<i>Profit or loss 12 months or less</i>	<i>More than one year</i>
31 December 2022				
<i>Interest rate swaps</i>				
Assets	<u>59,556</u>	<u>59,556</u>	<u>41,190</u>	<u>18,366</u>
31 December 2021				
<i>Interest rate swaps</i>				
Liabilities	<u>75,518</u>	<u>75,518</u>	<u>53,142</u>	<u>22,376</u>

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 economic best interest.

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29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized in to different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable input).

The following table shows an analysis of financial instruments which are either measured at fair value in the financial statements or else where their fair value is different to carrying value by their level of fair value hierarchy.

	<i>Carrying amount</i>	<i>Fair Value</i>			<i>Total</i>
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
<i>As at 31 December 2022</i>					
<i>Financial assets</i>					
Fair value of derivatives	<u>59,556</u>	-	<u>59,556</u>	-	<u>59,556</u>
<i>As at 31 December 2021</i>					
<i>Financial liability</i>					
Long-term financing – fixed rate bearing	243,750	-	-	243,750	243,750
Fair value of derivatives	<u>75,518</u>	-	<u>75,518</u>	-	<u>75,518</u>
	<u>319,268</u>	<u>-</u>	<u>75,518</u>	<u>245,611</u>	<u>321,129</u>

Fair value of other financial instruments have been assessed by management to be approximate to the carrying amounts due to frequent re-pricing or their short term nature.

The following tables show the valuation techniques used in measuring Level 2 fair values for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable inputs used.

Valuation technique and significant unobservable inputs

Type	Valuation technique
Interest rate swaps	Swap models: The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Company and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.

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30. SHAREHOLDERS' SHARE IN EQUITY

The share of the shareholders in the Company's equity is as follows:

	<i>Saudi Malaysian water and electricity Company</i>	<i>Water and Electricity holding Company</i>	<i>Saudi Electricity Company</i>	<i>Total</i>
31 December 2022				
Share capital	936,300	499,360	124,840	1,560,500
Statutory reserve	166,607	88,857	22,215	277,679
Retained earnings	421,684	362,873	92,004	876,561
Other reserves	(1,981)	(1,146)	(286)	(3,413)
	<u>1,522,610</u>	<u>949,944</u>	<u>238,773</u>	<u>2,711,327</u>
31 December 2021				
Share capital	936,300	499,360	124,840	1,560,500
Statutory reserve	141,652	75,548	18,887	236,087
Retained earnings	391,070	344,704	87,462	823,236
Other reserves	(41,367)	(24,478)	(6,120)	(71,965)
	<u>1,427,655</u>	<u>895,134</u>	<u>225,069</u>	<u>2,547,858</u>

31. SUBSEQUENT EVENTS

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to 30 June 2022) (hereinafter referred as "the Law") came into force on 26/6/1444 H (corresponding to 19 January 2023). For certain provisions of the Law, full compliance is expected not later than two years from 26/6/1444H (corresponding to 19 January 2023). The management is in process of assessing the impact of the New Companies Law and will amend its Articles of Association/By-Laws for any changes to align the Articles to the provisions of the Law. Consequently, the Company shall present the amended Articles of Association / By-Laws to the shareholders/partners in their Extraordinary / Annual General Assembly meeting for their ratification.

Other than this no event has occurred up to the date of the approval of these financial statements by the Board of Directors of the Company which could materially affect the financial statements and the related disclosures for year ended 31 December 2022.

32. COMPARATIVE FIGURES

For the year ended 31 December 2022, management has reviewed the presentation of cost of sales and general and administrative expenses and has concluded that certain amounts from these should be reclassified from cost of sales to administrative expenses. The comparative for the year ended 31 December 2022 has been reclassified as follows to conform with current period presentation.

<u>Description</u>	<u>Reclassified from</u>	<u>Reclassified to</u>	<u>Amount</u>
Insurance Cost	Cost of sales	Administrative expenses	24,049

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors and authorized for issue on 15 March 2023 (corresponding to 23 Shaban 1444H).