

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2023
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 2023

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KPMG Professional Services

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كي بي إم جي للاستشارات المهنية

وأجبة روشن ، 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 2023, 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 material 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 2023, and its financial performance and its cash flows for the year then ended in accordance with the IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) 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 Accounting Standards 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 ("the Company")**.

KPMG Professional Services


Naif Abdulrahman Edrees
License No: 457



Riyadh on: 13 March 2024
Corresponding to: 3 Ramadan 1445H

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023
(Saudi Riyal in thousands)

	<i>Notes</i>	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>			
Non-current assets			
Property, plant and equipment	5	14,175	15,015
Net Investment in finance lease	6	3,973,583	4,539,769
Fair value of derivatives	14	10,774	18,366
Deferred tax assets	19.2.2	2,077	2,129
		<u>4,000,609</u>	<u>4,575,279</u>
Current assets			
Trade Receivable	8	204,603	207,177
Prepayments and other receivables	9	14,476	14,981
Net Investment in finance lease	6	522,539	488,264
Fair value of derivatives	14	38,436	41,190
Cash and cash equivalents	7	324,294	496,142
		<u>1,104,348</u>	<u>1,247,754</u>
Total assets		<u>5,104,957</u>	<u>5,823,033</u>
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital	11	1,560,500	1,560,500
Statutory reserve	12	304,565	277,679
Other reserves	13	(12,997)	(3,413)
Retained earnings		682,444	876,561
Total equity		<u>2,534,512</u>	<u>2,711,327</u>
Liabilities			
Loans and borrowings	15	1,845,428	2,178,042
Employee benefits	16	3,342	4,061
Deferred tax liabilities	19.2.2	3,752	4,418
Non-current liabilities		<u>1,852,522</u>	<u>2,186,521</u>
Current portion of loans and borrowings	15	575,992	532,578
Trade payable	17	19,660	11,695
Accrued expenses and other liabilities	18	108,028	120,335
Zakat and income tax payable	19.3	14,243	260,577
Current liabilities		<u>717,923</u>	<u>925,185</u>
Total liabilities		<u>2,570,445</u>	<u>3,111,706</u>
Total equity and liabilities		<u>5,104,957</u>	<u>5,823,033</u>

The accompanying notes from 1 to 31 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 2023
(Saudi Riyal in thousands)

	<i>Notes</i>	<u>2023</u>	<u>2022</u>
Revenue	20	580,594	827,725
Cost of sales	21	(108,337)	(271,595)
Gross profit		472,257	556,130
Administrative expenses	22	(65,849)	(57,125)
Operating profit		406,408	499,005
Finance costs	24	(147,629)	(95,437)
Interest income on term deposits		20,750	3,171
Other income	23	12,506	52,821
Profit before zakat and income tax		292,035	459,560
Zakat and income tax expenses	19	(26,266)	(43,643)
Profit for the year		265,769	415,917
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	(10,345)	135,075
Related deferred tax	13	621	(8,104)
Cash flow hedge reserve – reclassified to profit and loss	13	--	(62,351)
Related deferred tax		--	3,741
		(9724)	68,361
<u>Items that will not be reclassified subsequently to profit or loss</u>			
Re-measurement gain on defined benefit liability	16	140	191
Other comprehensive income for the year		(9,584)	68,552
Total comprehensive income for the year		256,185	484,469

The accompanying notes from 1 to 31 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 2023
(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 2022		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)	-	-
<u>Transaction with owners:</u>						
Dividends paid net of zakat and tax recovered from shareholders	26	-	-	(321,000)	-	(321,000)
Balance as at 31 December 2022		1,560,500	277,679	876,561	(3,413)	2,711,327
Profit for the year		-	-	265,769	-	265,769
Other comprehensive income	13	-	-	-	(9,584)	(9,584)
Total comprehensive income		-	-	265,769	(9,584)	256,185
Transfer to statutory reserve	12	-	26,886	(26,886)	-	-
<u>Transaction with owners:</u>						
Dividends paid net of zakat and tax recovered from shareholders	26	-	-	(433,000)	-	(433,000)
Balance as at 31 December 2023		1,560,500	304,565	682,444	(12,997)	2,534,512

The accompanying notes from 1 to 31 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 2023
(Saudi Riyal in thousands)

	<u>Notes</u>	2023	2022
Cash flows from operating activities			
Profit before zakat and tax		292,035	459,560
Adjustments for:			
Depreciation	5	840	144,445
Finance costs	24	147,629	95,437
Finance lease income	20	(442,011)	(250,326)
Provision for employees' end of service benefits	16	666	712
		<u>(841)</u>	<u>449,828</u>
<i>Changes in:</i>			
Trade receivable		2,574	(20,066)
Prepayments and other receivables		505	17,483
Trade payable		7,965	(42,168)
Accrued expenses and other liabilities		(46,543)	54,133
Cash generated from / (used in) operations		<u>(36,340)</u>	<u>459,210</u>
Employees' end of service benefit paid	16	(1,245)	(460)
Finance costs paid		(107,345)	(145,830)
Zakat and tax paid	19	(272,600)	(37,651)
Net cash from operating activities		<u>(417,530)</u>	<u>275,269</u>
Cash flow from investing activities			
Additions to property, plant and equipment	5	--	(36,274)
Recovery of net investment in finance lease	6	973,921	517,378
Net cash generated from investing activities		<u>973,921</u>	<u>481,104</u>
Cash flow from financing activities			
Proceeds from loans and borrowings		241,825	464,049
Repayment of loans and borrowings		(537,064)	(576,886)
Dividends paid net of zakat and tax recovered from shareholders	26	(433,000)	(321,000)
Net cash used in financing activities		<u>(728,239)</u>	<u>(433,837)</u>
Net change in cash and cash equivalents		(171,848)	322,536
Cash and cash equivalents at 1 January		496,142	173,606
Cash and cash equivalents at 31 December	7	<u>324,294</u>	<u>496,142</u>
Material non-cash transactions:			
Net investment in finance lease		19,211	--
Cash flow hedge reserve recycled to profit and loss		--	62,351
Change in effective portion of fair value of cash flow hedge reserve	13	(9,724)	126,971
Re-measurement gain on defined benefit liability	16	140	191

The accompanying notes from 1 to 31 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 2023
(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.

The registered address of the Company is located at:

6936 Al Maadi,
Al Hamra District
Jeddah,
Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with the IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) 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”) (“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.

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(Saudi Riyal in thousands)

2. BASIS OF PREPARATION (CONTINUED)

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.

2.3 Going concern basis of accounting

The management has made an assessment of going concern covering a period of at least 12 months from the date these financial statements are approved. In making this assessment, the management has considered current performance, liquidity and business plan taking into account the principal risks and the mitigations available to address them.

Based on the above, the management has a reasonable expectation that the Company have adequate resources to continue their operations for a period of at least 12 months from the date these financial statements are approved. No material uncertainties that may cast significant doubt on the ability of the Company to continue as a going concern have been identified. The management therefore considers it appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements for the year ended 31 December 2023.

2.4 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.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The material accounting policies set out below have been applied consistently throughout the year covered by these financial statements. The material accounting policies adopted are as follows:

a) Financial instruments

Derivative financial instruments and hedge accounting

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.

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(Saudi Riyal in thousands)

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

a) Financial instruments (continued)

Derivative financial instruments and hedge accounting (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.

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The International Accounting Standards Board (“IASB”) has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address the issues that might affect financial reporting after the reform of a profit rate benchmark.

Interest Rate Benchmark Reform – Phase 2 relates to the replacement of benchmark rates (IBORs) with alternative risk-free rates (RFRs). These amendments address issues that arise from the implementation of the reforms. The Phase 2 amendments provide temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

The phase 2 amendments are effective for annual periods beginning on or after 1 January 2022, and include practical expedients in respect of:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform by updating the effective interest rate, resulting in no immediate profit or loss impact. This applies only when 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: and
- Permitting changes to hedge designation and documentation as a result of IBOR reform without discontinuing the existing hedge accounted relationship.

We understand that the Company’s loans and derivatives are based on USD SOFR and SAIBORs

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(Saudi Riyal in thousands)

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

a) Financial instruments (continued)

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.

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.

b) 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.

c) 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.

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(Saudi Riyal in thousands)

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

c) 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.

d) 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 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.

SHUAIBAH WATER AND ELECTRICITY COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(Saudi Riyal in thousands)

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

e) 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.

f) 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.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 New standards, amendments and interpretations adopted by the Company

3.1.1 New currently effective requirements

The Company has applied for the first time, certain standards and amendments which are effective for annual periods beginning on or after 1 January 2023. The Company has not earlier adopted any other standard, interpretation or amendment that has been issued but is not yet effective. These standards do not have any material impact on these financial statements.

Effective date	New accounting standards or amendments
1 January 2023	IFRS 17 Insurance Contracts Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 (see note 5.1.1) Definition of Accounting Estimates – Amendments to IAS 8 Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
23 May 2023	International Tax Reform-Pillar Two Model Rules – Amendments to IAS 12

3.1.1.1 Disclosure of accounting policies (amendments to IAS 1 and IFRS Practice Statement 2)

The Company has adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments also provide guidance on the application of materiality to disclosure of accounting policies. Management reviewed the accounting policies and made updates to the information disclosed in Summary of Material Accounting Policies (2022: Significant Accounting Policies) in certain circumstances in line with amendments.

3.1.2 Forthcoming requirements

There are certain new standards and amendments to standards that are required to be applied for annual periods beginning after 1 January 2024 and that are available for early adoption in annual periods beginning on 1 January 2024. These forthcoming standards or amendments are not expected to have a significant impact on these financial statements.

Effective date	New accounting standards or amendments
1 January 2024	Non-current Liabilities with Covenants – Amendments to IAS 1 And Classification of Liabilities as Current or Non-current – Amendments to IAS 1 Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7
1 January 2025	Lack of Exchangeability – Amendments to IAS 21
Available for optional adoption / effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

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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.

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.

Investment in finance lease

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

	-----2023-----							
	<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								
Balance at the beginning and end of the year 2023	6,590	11,862	--	8,768	3,904	--	9	31,133
Accumulated Depreciation								
At 1 January 2023	--	4,130	--	8,150	3,838	--	--	16,118
Depreciation charge for the year	--	423	--	368	49	--	--	840
At 31 December 2023	--	4,553	--	8,518	3,887	--	--	16,958
Net book value as at 31 December 2023	6,590	7,309	--	250	17	--	9	14,175
	-----2022-----							
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 finance lease receivable	--	(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 finance lease receivable	--	(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

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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 Net investment in finance lease as of 31 December 2023 consists of

	2023	2022
Gross investment in finance lease	5,906,049	6,877,720
Less: Unearned finance income	(1,409,927)	(1,849,687)
At 31 December	4,496,122	5,028,033
6.2 Analysed as:		
Net investment in finance lease, current	522,539	488,264
Net investment in finance lease, non-current	3,973,583	4,539,769
	4,496,122	5,028,033
6.3 The future minimum lease payments to be received consist of:		
Within one year	915,506	931,317
After one year but not more than five years	4,907,719	4,869,896
Five years onwards	82,824	1,076,507
	5,906,049	6,877,720
	2023	2022
6.4 The maturity of unearned finance income are as follows:		
Within one year	392,967	443,054
After one year but not more than five years	1,016,330	1,351,206
Five years onwards	630	55,427
	1,409,927	1,849,687

6.5 Finance income earned on the finance lease during the year was SR 442,011 (2022: SR 250,326).

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7. CASH AND CASH EQUIVALENTS

	<i>Note</i>	<u>2023</u>	<u>2022</u>
Short term deposits	<i>7.1</i>	312,625	478,850
Balances with banks		11,637	17,262
Cash in hand		32	30
		<u>324,294</u>	<u>496,142</u>

- 7.1** 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 5.14% per annum (2022: 4.5% 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

	<i>Note</i>	<u>2023</u>	<u>2022</u>
Due from SWPC	<i>8.1</i>	235,758	238,332
Less: Allowance for expected credit losses		(31,155)	(31,155)
		<u>204,603</u>	<u>207,177</u>
Movement in allowance for expected credit losses:			
Balance at start of the year		31,155	31,155
Charge for the year		--	--
Balance at the end of the year		<u>31,155</u>	<u>31,155</u>

- 8.1** 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

	<u>2023</u>	<u>2022</u>
Other receivables	7,291	7,278
Due from related parties (note 10)	4,863	1,058
Prepayments	1,305	4,508
Interest receivable on term deposits	1,017	2,137
	<u>14,476</u>	<u>14,981</u>

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10 RELATED PARTY TRANSACTIONS AND BALANCES

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

<i>Related party</i>	<i>Nature of Transaction</i>	<u>2023</u>	<u>2022</u>
Seqayah Operation and Maintenance Company – <i>Subsidiary of ultimate shareholder of parent company</i>	Cost of sales	98,788	128,403
Shuaibah Expansion Project Company – <i>Subsidiary of shareholder</i>	Plant improvement (capex)	-	25,895
ACWA Power – <i>Ultimate shareholder of Parent Company</i>	Management fee income	1,223	1,192
<i>Key management personnel compensation*</i>	Expenses incurred on behalf of affiliates	414	363
<i>Directors</i>	Expenses incurred by affiliates on behalf of the Company	12,706	2,826
	Salaries & Benefits	3,929	2,833
	Remuneration and allowances	2,365	2,447

*This includes salaries and benefits for Executive Managing Officer, Chief Financial Officer and other 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>2023</u>	<u>2022</u>
<i>Due from related parties</i>		
Seqayah Operation and Maintenance Company Shuaibah Expansion Project Company	3,332	-
ACWA Power Company	1,010	918
Shuaibah Expansion Holding Company	225	-
Shuaibah Three Water Desalination Company	147	140
First National Operations & Maintenance Co.	63	-
Rabigh Power Company	45	-
	41	-
	4,863	1,058
<i>Due to related parties</i>		
First National Operations & Maintenance Co.	343	1,848
Seqayah Operation and Maintenance Company	19,357	6,270
Saudi Malaysia Water and Electricity Company	-	2,156
Shuaibah Two Water Projects Development Company	225	196
ACWA Power Company	5,390	1,151
	25,315	11,621

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 2022: 156,050,000 shares of SR 10 each). The shareholding details of the Company as of 31 December 2023 and 2022 is set out below:

<i>Shareholders</i>	<i>Amount</i>	<i>Number of shares held</i>		<i>Percentage</i>
		2023	2022	
Saudi Malaysian Water and Electricity Company	936,300	93,630,000	93,630,000	60%
Water and Electricity Holding Company	499,360	49,936,000	49,936,000	32%
Saudi Electricity Company	124,840	12,484,000	12,484,000	8%
	<u>1,560,500</u>	<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 2023 amounted to SR 304,565 (2022: SR 277,679).

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 2022	(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	<u>(62,351)</u>	<u>3,741</u>	<u>-</u>	<u>58,610</u>
Balance as at 31 December 2022	(2,794)	168	(787)	(3,413)
Other comprehensive income/ (loss) during the year	<u>(10,345)</u>	<u>621</u>	<u>140</u>	<u>(9,584)</u>
Balance as at 31 December 2023	<u>(13,139)</u>	<u>789</u>	<u>(647)</u>	<u>(12,997)</u>

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14. FAIR VALUE OF DERIVATIVES AND CASH FLOW HEDGES

As per the provisions of facility agreements, the Company is required to hedge the interest rate risk on loans obtained by it. The Company uses derivative financial instruments to hedge its foreign currency exposures to mitigate the interest rate risk, which qualify to be designated as cash flow hedges. The tables below show a summary of the hedged items, the hedging instruments, their notional amounts and fair values for the Company. The notional amounts indicate the volume of transactions outstanding at the reporting date and are neither indicative of market risk nor credit risk.

As at 31 December 2023, the Company held Interest Rate Swaps (“IRS”) of a notional value of SR 1,435,775 (2022: SR 1,720,894), 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>2023</u>	<u>2022</u>
Hedge Item	Hedge instruments		
Interest payments on floating rate loans	Interest rate swaps	<u>1,435,775</u>	<u>1,720,894</u>
 <i>Fair value of IRSs</i>		 <u>2023</u>	 <u>2022</u>
Current portion		38,436	41,190
Non-current portion		<u>10,774</u>	<u>18,366</u>
Total		<u>49,210</u>	<u>59,556</u>

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

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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>2023</u>	<u>2022</u>
Syndicated commercial	Riyadh Bank	15.1	854,662	1,196,321
Syndicated Special Facility	Al Rajhi Bank	15.2	241,825	-
Islamic – SAR	Al Rajhi Bank	15.3	226,323	284,973
Islamic – USD	Al Rajhi Bank	15.4	272,436	381,430
Islamic – Subordinated Debt	Al Rajhi Bank	15.5	834,738	862,500
			2,429,984	2,725,224
Less: Unamortized portion of financing fees			(8,564)	(14,604)
Financing at end of the year			2,421,420	2,710,620
Current portion			575,992	532,578
Long term portion			1,845,428	2,178,042
			2,421,420	2,710,620

- 15.1** 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 installments payable each year.
- 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 installments payable each year.
- 15.3** This represents a facility bearing an interest rate of SIBOR plus an agreed margin. The loan is repayable in semi-annual variable installments payable each year.
- 15.4** 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.
- 15.5** 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.

Pursuant to the Common Terms Agreement (“CTA”) between the Company and the arrangers of the facilities, the facilities set out in (15.1) to (15.4) 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. Management believes that they are in compliance of all covenants.

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16. EMPLOYEE BENEFITS

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

	<u>2023</u>	<u>2022</u>
At beginning of the year	4,061	3,701
Charge for the year	666	712
Obligation related to employees transferred from affiliate	--	299
Actuarial gain – Other comprehensive income	(140)	(191)
Paid during the year	(1,245)	(460)
	<u>3,342</u>	<u>4,061</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>2023</u>	<u>2022</u>
Interest cost	164	94
Current service cost	502	618
	<u>666</u>	<u>712</u>

Assumptions

The principal actuarial assumptions used are as follows:

	<u>2023</u>	<u>2022</u>
Discount rate	4.60%	4.05%
Increments	5.05%	4.30%
Resignation rate		
21 - 25 years old	15.00%	8.00%
26 - 30 years old	20.00%	17.00%
31 - 50 years old	23.00%	27.00%
51 - 59 years old	28.00%	32.00%

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.

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16. EMPLOYEE BENEFITS (CONTINUED)

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>	
		<u>2023</u>	<u>2022</u>
Discount rate	+100	(121)	(134)
	-100	131	144
Increments	+100	146	162
	-100	(137)	(154)

17. TRADE PAYABLE

	<u>2023</u>	<u>2022</u>
Trade payable	4,578	5,425
Due to related parties (note 10)	15,082	6,270
	<u>19,660</u>	<u>11,695</u>

18. ACCRUALS AND OTHER LIABILITIES

	<u>2023</u>	<u>2022</u>
Accrued financing charges	66,368	32,132
VAT payable – net	12,150	9,709
Accrued salaries and benefits	3,553	4,625
Withholding tax payable	280	361
Due to other related parties (note 10)	10,233	5,351
Accrued winter period shortage adjustment	882	28,893
Board and committees fees payable	2,240	2,660
Other liabilities	12,322	36,604
	<u>108,028</u>	<u>120,335</u>

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19. ZAKAT AND INCOME TAX

Amounts recognized in profit or loss

	<u>2023</u>	<u>2022</u>
Zakat expense	8,531	12,256
Tax expense		
Current tax	17,729	262,210
Deferred tax (income)/ charge	6	(234,564)
Deferred tax related to cash flow hedge reserve recycled to profit and loss (see note 13)	-	3,741
	<u>17,735</u>	<u>31,387</u>
Zakat and tax expense	<u>26,266</u>	<u>43,643</u>

Amounts recognised in OCI

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

	<u>2023</u>	<u>2022</u>
Deferred tax loss relating to net change in relation to fair value of derivatives	<u>621</u>	<u>(8,104)</u>

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 2023, the non-Saudi shareholder owns 30% (31 December 2022: 30%) of the Company's shares and the remaining 70% (31 December 2022: 70%) is owned by the Saudi shareholders

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

	<u>2023</u>	<u>2022</u>
Equity	1,597,217	1,609,380
Loans	1,651,364	1,907,655
Opening allowances and other adjustments	23,967	21,452
Book value of long term assets	<u>(3,161,599)</u>	<u>(3,374,096)</u>
	110,949	164,391
Adjusted income for the year	<u>224,917</u>	<u>325,889</u>
Total Saudi shareholders' share of Zakat base	<u>335,866</u>	<u>490,280</u>
Adjusted income for the year	<u>224,917</u>	<u>325,889</u>
Zakat	<u>8,531</u>	<u>12,256</u>

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19. ZAKAT AND INCOME TAX (CONTINUED)

19.2 Income tax

19.2.1 Current tax

Reconciliation of effective tax rate

	2023	2022
Profit before zakat and tax	292,035	459,560
Less: profit attributable to Saudi Shareholders	(204,425)	(321,692)
Profit attributable to foreign shareholders	87,610	137,868
Tax @ 20%	17,522	27,574
Tax effect of:		
Other non-deductible differences	207	234,636
Tax expense	17,729	262,210

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:

	<i>Deferred tax assets / (liability) as at 1 January 2023</i>	Recognised in profit or loss	Recognised in other comprehensive income	<i>Deferred tax assets / (liability) as at 31 December 2023</i>
2023				
Property, plant and equipment	(845)	46	-	(799)
Employees' terminal benefits	244	(43)	-	201
Provision for doubtful debts	1,885	(9)	-	1,876
Fair value of derivatives	(3,573)	-	621	(2,952)
	(2,289)	(6)	621	(1,675)
	<i>Deferred tax assets / (liability) as at 1 January 2022</i>	Recognised in profit or loss	Recognised in other comprehensiv e income	<i>Deferred tax assets / (liability) as at 31 December 2022</i>
2022				
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)

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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 2023			
At beginning of the year	18,113	242,464	260,577
Charge for the year	8,531	17,729	26,266
Payments during the year	<u>(12,228)</u>	<u>(260,366)</u>	<u>(272,600)</u>
At end of the year	<u>14,416</u>	<u>(173)</u>	<u>14,243</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 / (over) provision for prior year	29	15	44
Payments during the year	<u>(7,922)</u>	<u>(29,729)</u>	<u>(37,651)</u>
At end of the year	<u>18,113</u>	<u>242,464</u>	<u>260,577</u>

19.4 Status of assessments

The Company has filed its zakat and tax return up to 31 December 2022, which are currently being reviewed by the ZATCA.

20. REVENUE

Revenue under original PWPA

	<i>Notes</i>	<u>2023</u>	<u>2022</u>
Capacity payments		--	516,124
Output payments	20.1	--	23,811
		--	<u>539,935</u>

Revenue under amended PWPA

Capacity payments		88,255	12,462
Output payments	20.2	50,328	25,002
Finance lease income		<u>442,011</u>	250,326
		<u>580,594</u>	<u>827,725</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. COST OF SALES

	2023	2022
Operation and maintenance costs	106,280	123,841
Depreciation (note 5)	840	144,445
Other operating costs	1,217	3,309
	108,337	271,595

22. ADMINISTRATION EXPENSES

	2023	2022
Insurance cost	23,734	23,747
Employee related costs	17,771	17,028
Legal and professional charges	15,078	9,298
Board committee fees and meeting expenses (note 10)	2,365	2,447
Withholding tax on financing costs	-	437
Provision for doubtful debts	3,090	147
Office and other expenses	3,811	4,021
	65,849	57,125

23. OTHER INCOME

	2023	2022
Management fee income (note 10)	1,223	1,192
Insurance claim (note 23.1)	11,283	49,125
Others	-	2,504
	12,506	52,821

23.1 This includes Insurance claim related to components of plant and machinery which were damaged in the previous year.

24. FINANCE COST

	2023	2022
Financing costs	177,955	47,923
Interest charges on cash flow hedges, net	(38,382)	13,750
Amortisation of finance charges	8,056	29,894
Unwinding of provision for asset retirement obligation	-	3,870
	147,629	95,437

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25. COMMITMENTS AND CONTINGENCIES

As at 31 December 2023, the Company has contractual capital expenditure commitments of SR 4.03 million (31 December 2022: SR 4 million)

26. DIVIDENDS

During the year ended 31 December 2023, the Company's Board of Directors paid dividends of SR 2.77 per share aggregating to SR 433 million including the proposed dividend of SR 117 million as at 31 December 2022 (2022: SR 2.057 per share aggregating to SR 321 million including proposed dividend of SR 30 million as at 31 December 2021). The amount of dividends noted above are net of reimbursement of zakat and income tax from shareholders as mentioned below:

	<u>2023</u>	<u>2022</u>
Dividend	707,415	355,001
Less: Reimbursement of zakat and income tax from the shareholders*	(274,415)	(34,001)
Dividends paid net of zakat and tax recovery from shareholders	<u>433,000</u>	<u>321,000</u>

*Pursuant to the Shareholders Agreement (clause 9.2), Zakat and income tax charge is recoverable from respective shareholders. Therefore, in respect of this clause, Zakat and tax expense of SR 274,415 pertaining to year 2022 is treated as deemed dividend and adjusted against dividend payments in year 2023 (SR 34,001 pertaining to year 2021 were reimbursed in year 2022).

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27. 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 activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out & monitored by senior management.

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 2023, 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 2023						
<i>Non-derivative financial assets</i>						
Net investment in finance lease	-	110,472	412,067	3,891,389	82,194	4,496,122
Trade receivables	-	204,603	-	-	-	204,603
Due from a related parties	-	4,863	-	-	-	4,863
Other financial assets	-	8,309	-	-	-	8,309
Bank Balances and short term deposits	11,637	312,625	-	-	-	324,262
	<u>11,637</u>	<u>640,872</u>	<u>412,067</u>	<u>3,491,389</u>	<u>82,194</u>	<u>5,038,159</u>
<i>Derivative financial assets</i>						
Interest rate swaps used for hedging	-	18,194	20,242	10,774	-	49,210

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.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

	<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>
<i>31 December 2022</i>						
<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 and short term deposits	17,262	478,850	-	-	-	496,112
	<u>17,262</u>	<u>767,714</u>	<u>417,050</u>	<u>3,518,690</u>	<u>1,021,079</u>	<u>5,741,795</u>
	<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>
<i>Derivative financial assets</i>						
Interest rate swaps used for hedging	-	6,180	35,010	18,272	94	59,556

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.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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.

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 2023					
<i>Non-derivative financial liabilities</i>					
Long term financing	360,590	349,907	2,282,574	-	2,993,071
Accounts payable	19,660	-	-	-	19,660
Accrued expenses and other liabilities	108,028	-	-	-	108,028
	<u>488,278</u>	<u>349,907</u>	<u>2,282,574</u>	-	<u>3,120,759</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 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>

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

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

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:

	<u>2023</u>	<u>2022</u>
<i>Fixed rate instruments</i>		
Financial liabilities		
Long-term financing	--	--
<i>Variable rate instruments</i>		
Financial liabilities		
Long-term financing	2,429,984	2,725,224
Interest rate swaps – notional amounts	(1,435,775)	(1,720,894)
	<u>994,209</u>	<u>1,004,330</u>

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

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.

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

	<u>Profit or loss</u>	
	<u>'100 bps increase</u>	<u>'100 bps decrease</u>
31 December 2023		
Variable rate financial liabilities	(24,300)	24,300
Interest rate swaps	14,358	(14,358)
Net sensitivity	<u>(9,942)</u>	<u>9,942</u>
31 December 2022		
Variable rate financial liabilities	(27,252)	27,252
Interest rate swaps	17,209	(17,209)
Net sensitivity	<u>(10,043)</u>	<u>10,043</u>

Derivative assets 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 2023				
<i>Interest rate swaps</i>				
Assets	<u>49,210</u>	<u>49,210</u>	<u>38,436</u>	<u>10,774</u>
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>

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28. 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.

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 2023</i>					
<i>Financial assets</i>					
Fair value of derivatives	49,210	-	49,210	-	49,210
<i>As at 31 December 2022</i>					
<i>Financial assets</i>					
Fair value of derivatives	59,556	-	59,556	-	59,556

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28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

29. 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 2023				
Share capital	936,300	499,360	124,840	1,560,500
Statutory reserve	182,739	97,461	24,365	304,565
Retained earnings	299,487	305,546	77,411	682,444
Other reserves	(7,483)	(4,412)	(1,102)	(12,997)
	<u>1,411,043</u>	<u>897,955</u>	<u>225,514</u>	<u>2,537,512</u>
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>

29.1 Related zakat and tax for Saudi and non-Saudi Shareholder duly adjusted as per their effective shareholding in the Company.

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30. SUBSEQUENT EVENTS

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 2023.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 25 Sha'ban 1445H, corresponding to 6th March 2024.