

RABIGH ARABIAN WATER & ELECTRICITY COMPANY
(A Limited Liability Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2023
together with the
Independent Auditor's Report

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

CONTENTS	PAGE
Independent auditor's report	1-3
Financial Statements	
Statement of financial position	4
Statement of profit or loss	5
Statement of other comprehensive income	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9 -34



KPMG Professional Services

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Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

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

Opinion

We have audited the financial statements of **Rabigh Arabian and Water Electricity Company (A Limited Liability Company)** ("the Company"), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss, 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 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.

Other Matter

Financial statements of the Company for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 04 Ramadhan 1444H (corresponding to 26 March 2023)



Independent Auditor's Report

To the Shareholders of Rabigh Arabian Water Electricity Company (A Limited Liability Company) (continued)

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies, Articles of Association and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



Independent Auditor's Report

To the Shareholders of Rabigh Arabian Water and Electricity Company (A Limited Liability Company) (continued)

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of **Rabigh Arabian Water and Electricity Company (A Limited Liability Company)** ("the Company").

KPMG Professional Services

Naif Abdulrahman Edrees
License No: 457



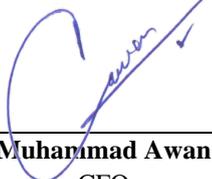
Riyadh on: March 27, 2024
Corresponding to: Ramadan 17, 1445H

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

	<i>Note</i>	2023	2022
		<u>SR</u>	<u>SR</u>
<u>ASSETS</u>			
Non-Current Assets			
Property, plant and equipment	7	5,569,144,535	5,742,801,811
Capital work in progress	8	2,439,552	2,071,107
Intangible assets	9	9,586,964	10,605,050
Deferred tax asset	10	-	126,809
Fair value of derivatives- non current	11	11,266,807	23,866,532
Deferred cost- non current	12	187,381,226	203,865,992
		<u>5,779,819,084</u>	<u>5,983,337,301</u>
Current Assets			
Inventories	13	151,151,095	147,919,067
Fair value of derivatives	11	17,313,968	18,095,664
Deferred cost	12	16,484,766	16,439,726
Accounts receivable, prepayments and other receivable	14	141,625,325	133,373,143
Cash and cash equivalents	15	229,111,420	311,849,459
		<u>555,686,574</u>	<u>627,677,059</u>
Total Assets		<u>6,335,505,658</u>	<u>6,611,014,360</u>
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share Capital	16	1,000,000,000	1,000,000,000
Statutory reserve	17	278,629,762	242,766,455
Retained earnings		436,692,325	290,213,730
Cash flow hedge reserve	11	28,580,775	41,962,196
		<u>1,743,902,862</u>	<u>1,574,942,381</u>
Non-Current Liabilities			
Loans and borrowings	18	3,985,018,172	4,368,815,341
Employees' terminal benefits	19	2,626,446	2,224,066
Deferred tax liabilities	10	42,599	-
		<u>3,987,687,217</u>	<u>4,371,039,407</u>
Current Liabilities			
Accounts payable, accrued and other liabilities	20	210,535,436	254,357,470
Current portion of loans and borrowings	18	393,380,143	410,675,102
		<u>603,915,579</u>	<u>665,032,572</u>
Total Shareholder's Equity and Liabilities		<u>4,591,602,796</u>	<u>5,036,071,979</u>
		<u>6,335,505,658</u>	<u>6,611,014,360</u>

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

The financial statements on pages 4 to 34 have been approved by the Board of Directors for issuance on 10-08-1445H (corresponding to 20-March- 2024) and signed by:



Muhammad Awan
CFO



Asim Bagher
Executive Managing Director

Rabigh Arabian Water & Electricity Company

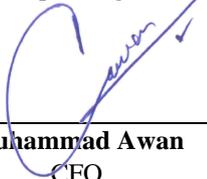
(A Limited Liability Company)

STATEMENT OF PROFIT OR LOSS**For the year ended 31 December 2023**

	<i>Note</i>	2023 <u>SR</u>	2022 <u>SR</u>
Revenue	24	1,164,720,983	1,156,012,376
Cost of revenue	23	(531,922,762)	(548,459,051)
Gross Profit		632,798,221	607,553,325
Expenses			
General and administrative	22	(27,470,989)	(31,966,431)
Impairment loss on trade receivables	14.1	(9,595,429)	(1,837,420)
Operating Profit		595,731,803	573,749,474
Finance costs		(253,884,556)	(190,612,646)
Income from bank deposits		12,476,632	12,453,450
Other income	25	3,278,855	92,545
Exchange loss – net		(191,293)	(1,336,602)
Profit before Zakat and Income Tax		357,411,441	394,346,221
Zakat and income tax reversal / (charge)	21	1,391,040	(10,008,268)
Deferred tax charge	21	(169,408)	(150,243)
Net profit for the year		358,633,073	384,187,710

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

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Muhammad Awan
CFO



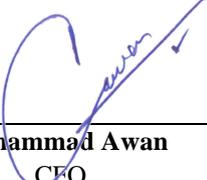
Asim Bagher
Executive Managing Director

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2023

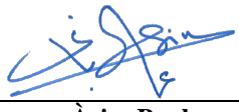
	<i>Note</i>	2023 <u>SR</u>	2022 <u>SR</u>
Net profit for the year		358,633,073	384,187,710
Other comprehensive income			
<i>Items that will not be reclassified to statement of profit or loss in subsequent periods:</i>			
Re-measurement gain / (loss) on defined benefit plans	19	<u>(41,171)</u>	<u>(565,901)</u>
<i>Items that may be reclassified to statement of profit or loss in subsequent periods:</i>			
Net (loss) / gain on cash flow hedges	11	<u>(13,381,421)</u>	41,962,196
Total Comprehensive Income for the year		<u>345,210,481</u>	<u>425,584,005</u>

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

The financial statements on pages 4 to 34 have been approved by the Board of Directors for issuance on 10-08-1445H (corresponding to 20-March- 2024) and signed by:



Muhammad Awan
CFO



Asim Bagher
Executive Managing Director

RABIGH ARABIAN WATER & ELECTRICITY COMPANY

(A Limited Liability Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	<i>Share Capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Cash flow hedge reserve SR</i>	<i>Total SR</i>
Balance at 1 January 2022	1,757,446,095	204,347,684	1,283,814,598	-	3,245,608,377
Net profit for the year	-	-	384,187,710	-	384,187,710
Other comprehensive loss for the year	-	-	(565,901)	41,962,196	41,396,295
Total comprehensive income for the year	-	-	383,621,809	41,962,196	425,584,005
Transfer to statutory reserve	-	38,418,771	(38,418,771)	-	-
Dividends (<i>note 17.1</i>)	-	-	(1,338,803,906)	-	(1,338,803,906)
Capital reduction (<i>note 16</i>)	(757,446,095)	-	-	-	(757,446,095)
Balance at 31 December 2022	1,000,000,000	242,766,455	290,213,730	41,962,196	1,574,942,381
Net profit for the year	-	-	358,633,073	-	358,633,073
Other comprehensive loss for the year	-	-	(41,171)	(13,381,421)	(13,422,592)
Total comprehensive income for the year	-	-	358,591,902	(13,381,421)	345,210,481
Transfer to statutory reserve	-	35,863,307	(35,863,307)	-	-
Dividends (<i>note 17.1</i>)	-	-	(176,250,000)	-	(176,250,000)
Balance at 31 December 2023	1,000,000,000	278,629,762	436,692,325	28,580,775	1,743,902,862

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

The financial statements on pages 4 to 34 have been approved by the Board of Directors for issuance on 10-08-1445H (corresponding to 20-March- 2024) and signed by:


Muhammad Awan

CFO


Asim Bagher

Executive Managing Director

Rabigh Arabian Water & Electricity Company

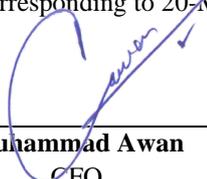
(A Limited Liability Company)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

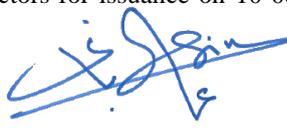
	<i>Note</i>	2023	2022
		<u>SR</u>	<u>SR</u>
OPERATING ACTIVITIES			
Net profit for the year before zakat and income tax		357,411,441	394,346,221
Non-cash adjustments to reconcile net profit before zakat and income tax to net cash flows:			
Depreciation of property, plant and equipment	7	214,403,540	212,476,704
Amortization of intangible assets	9	1,018,086	1,018,086
Provision for employees' terminal benefits	19	472,555	524,768
Income from bank deposits		(12,476,632)	(12,453,450)
Allowance for impairment of receivables		9,595,429	1,837,420
Other Income	25	(3,278,855)	-
Amortization of upfront fees	18	9,582,974	10,218,188
Finance costs		244,301,582	180,394,458
Amortization of deferred cost	12	16,439,726	15,944,282
Operating cashflows before working capital adjustments		837,469,846	804,306,677
Working capital adjustments:			
Inventories		(3,232,028)	(6,956,586)
Accounts receivable, prepayments and other receivable		(17,852,199)	98,775,661
Accounts payable, accrued, and other liabilities		5,099,220	752
Cash from operations		821,484,839	896,126,504
Zakat and income tax paid	21	(9,993,123)	(12,160,810)
Employees' terminal benefits paid	19	(111,346)	(465,291)
Net cash from operating activities		811,380,370	883,500,403
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	7	(40,746,264)	(27,084,253)
Addition to capital work in progress	8	(368,445)	(1,249,989)
Income from bank deposits		12,476,632	12,453,450
Proceeds from disposal of property, plant and equipment		400,227	-
Net cash used in investing activities		(28,237,850)	(15,880,792)
FINANCING ACTIVITIES			
Repayment of term loans		(410,675,102)	(398,460,782)
Receipt of bank loans		-	2,333,361,839
Upfront fees on loan paid	18	-	(22,322,029)
Transaction costs paid	28	-	(13,360,713)
Dividends paid	17.1	(213,750,000)	(1,396,553,906)
Finance costs paid		(241,455,457)	(180,394,458)
Payment of deferred cost	12	-	(236,250,000)
Repayment of capital to the Shareholder's	16	-	(757,446,095)
Net cash used in financing activities		(865,880,559)	(671,426,144)
Net (Decrease)/ Increase in Bank Balances and Cash		(82,738,039)	196,193,467
Bank balances and cash at the beginning of the year		311,849,459	115,655,992
Bank Balances and Cash at the end of the year	15	229,111,420	311,849,459

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

The financial statements on pages 4 to 34 have been approved by the Board of Directors for issuance on 10-08-1445H (corresponding to 20-March- 2024) and signed by:



Muhammad Awan
CFO



Asim Bagher
Executive Managing Director

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

1. CORPORATE INFORMATION

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

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

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

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

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

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

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

The new Companies Law was promulgated dated 19 January 2023. Management is in the process of assessing the impact and any required changes to the Company by-laws.

The Company is ultimately owned by ACWA Power Company-Saudi Listed Joint Stock Company (‘Ultimate Parent Company’).

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 (“KSA”) 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 the projected unit credit method, using the accrual basis of accounting and the going concern concept.

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

2 BASIS OF PREPARATION (CONTINUED)

2.3 Functional and presentation currency

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

3. 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:

3.1 Revenue from the sale of electricity, steam and water

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

3.2 Property, plant and equipment

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

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

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

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

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

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

3.3 Impairment of non-financial assets

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

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.3 Impairment of non-financial assets (continued)

recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

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

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

3.4 Inventories

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

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

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

Consumables

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

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

- a) Stand-by equipment items acquired together with the plant/production line or purchased subsequently but related to a particular plant or production line and will rarely be required are critical to plant operation and must be available at stand-by at all times. These are capitalized as part of property, plant and equipment and depreciated from purchase date over a period which is shorter of the component's useful life or the remaining useful life of the plant in which it is to be utilized. These do not form part of inventory provided capitalization criteria under property, plant and equipment is met.
- b) Repairable items that are plant/production line specific with long lead times and will be replaced and refurbished frequently (mostly during turnarounds). These are capitalised as part of property, plant and

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.4 Inventories (continued)

Capital spare parts (continued)

equipment where the capitalization criteria are met. Depreciation is started from day of installation of these items in the plant, and the depreciation period is the shorter of the useful life of the component and the remaining useful life of the plant and equipment in which it is installed. These do not form part of inventory.

- c) General capital spares and other consumables items which are not of a critical nature and are of a general nature, i.e., not plant specific and which may be required at any time for facilitating plant operations. They are generally classified as 'consumables and spare parts' under inventory unless they exceed the threshold and have a useful life of more than one year, under which case they are recorded under property, plant and equipment (and depreciated similar to repairable items). Spares and consumables under inventories are subject to assessment for obsolescence provision and are charged to the statement of profit or loss upon their installation or use. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Where such items meet criteria for capitalisation, their depreciation method is similar to repairable items as noted above.

3.5 Zakat and Income Tax

Zakat and income tax are provided for in accordance regulations of the Zakat, Tax and Customs Authority (ZATCA), and charged to the statement of profit or loss.

3.6 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.

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

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.6 Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

Interest rate benchmark reform (continued)

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.

The Company’s loans and derivatives are based on USD LIBORs and SAIBORs and the contractual rates for IBOR transition are being discussed among counterparties and no changes have been contractually agreed as yet.

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.

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

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

4. SIGNIFICANT ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

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:

a) Impairment of non-financial assets

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

b) Impairment of inventories

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

c) Useful life of property, plant and equipment

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

5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

- 5.1 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 3.4.1.1) 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

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS (CONTINUED)

5.1.1 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.

6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

7. PROPERTY, PLANT AND EQUIPMENT

	<i>Land</i>	<i>Building</i>	<i>Power and desalination plant</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Office furniture and equipment</i>	<i>Mobile heavy equipment</i>	<i>Mechanical tools</i>	<i>Strategic spares</i>	<i>Total</i>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Cost:										
As at 1 January 2023	752,399	7,200,684	8,140,031,879	8,956,429	6,204,202	38,849,360	2,952,600	18,179,205	97,933,478	8,321,060,176
Additions during the year	-	-	38,357,078	-	291,180	1,751,496	-	332,921	13,589	40,746,264
Disposal / transfers	-	-	-	-	(558,194)	-	-	-	-	(558,194)
As at 31 December 2023	752,399	7,200,684	8,178,388,957	8,956,429	5,937,188	40,600,856	2,952,600	18,512,126	97,947,067	8,361,248,246
Accumulated depreciation:										
As at 1 January 2023	-	1,604,047	2,478,212,230	8,814,012	4,972,423	36,938,217	2,913,764	16,732,309	28,071,363	2,578,258,365
Charge for the year	-	419,949	209,101,800	-	626,905	1,097,944	34,500	709,479	2,412,964	214,403,540
Disposal / transfer	-	-	-	-	(558,194)	-	-	-	-	(558,194)
As at 31 December 2023	-	2,023,996	2,687,314,030	8,814,012	5,041,134	38,036,161	2,948,264	17,441,788	30,484,327	2,792,103,711
Net book values at:										
31 December 2023	752,399	5,176,688	5,491,074,927	142,417	896,054	2,564,695	4,336	1,070,338	67,462,740	5,569,144,535

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

7 PROPERTY, PLANT AND EQUIPMENT (continued)

- a) Property, plant and equipment includes the power and desalination plants at a net book value of SR 5.6 billion (2022: SR 5.8 billion), which is currently being depreciated over 40 years period. The power and desalination plants are constructed on land leased by one of the shareholders of the Company for a period of 25 years for a nominal amount. Management believes that the land lease would be extended for similar period(s).
- b) The depreciation charge has been allocated to the statement of profit or loss as follows:

	<i>2023</i>	<i>2022</i>
	<u>SR</u>	<u>SR</u>
Charged to statement of profit or loss		
Cost of revenue	211,515,053	209,057,182
General and administrative expenses (note 7)	2,888,487	3,419,522
	<u>214,403,540</u>	<u>212,476,704</u>

8. CAPITAL WORK IN PROGRESS

Capital work in progress comprises of the following:

	<i>2023</i>	<i>2022</i>
	<u>SR</u>	<u>SR</u>
Phase 1 (note (a) below)	1,189,563	821,118
Phase II (note (b) to note (c) below)	1,249,989	1,249,989
	<u>2,439,552</u>	<u>2,071,107</u>

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

	<i>2023</i>	<i>2022</i>
	<u>SR</u>	<u>SR</u>
At the beginning of the year	821,118	821,118
Additions during the year	368,445	-
At the end of the year	<u>1,189,563</u>	<u>821,118</u>

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

	<i>2023</i>	<i>2022</i>
	<u>SR</u>	<u>SR</u>
At the beginning of the year	-	-
Additions during the year	1,249,989	1,249,989
Transferred to property, plant and equipment	-	-
At the end of the year	<u>1,249,989</u>	<u>1,249,989</u>

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

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

9. INTANGIBLE ASSETS

	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
Cost:		
At the beginning and the end of the year	<u>24,299,730</u>	24,299,730
Amortization:		
At the beginning of the year	<u>13,694,680</u>	12,676,594
Charge for the year	<u>1,018,086</u>	1,018,086
At the end of the year	<u>14,712,766</u>	13,694,680
Net book value as at 31 December	<u>9,586,964</u>	10,605,050

Intangible assets represent the amount paid to secure contracts/license in respect of the delivery of limestone and are being amortised over the period of 25 years. The amortization charge has been allocated to direct cost.

10. DEFERRED TAX

Deferred tax relates to the following:

	<u>Net balance</u>	<u>Recognised</u>	<u>Net balance</u>	<u>Deferred tax</u>	<u>Deferred tax</u>
	<u>at 1 Jan</u>	<u>in profit or</u>	<u>at 31 Dec</u>	<u>assets</u>	<u>liabilities</u>
		<u>loss</u>			
<u>2023</u>					
Property, plant and equipment	(1,224,069)	(76,379)	(1,300,448)	-	(1,300,448)
Unused tax losses	1,347,841	(97,623)	1,250,218	1,250,218	-
Others	3,037	4,594	7,631	7,631	-
	<u>126,809</u>	<u>(169,408)</u>	<u>(42,599)</u>	<u>1,257,849</u>	<u>(1,300,448)</u>
Deferred tax assets and liabilities off-set				(1,257,849)	1,257,849
Net deferred tax asset / (liability)				-	<u>(42,599)</u>
<u>2022</u>					
Property, plant and equipment	(1,128,419)	(95,650)	(1,224,069)	-	(1,224,069)
Unused tax losses*	1,402,517	(54,676)	1,347,841	1,347,841	-
Others	2,954	83	3,037	3,037	-
	<u>277,052</u>	<u>(150,243)</u>	<u>126,809</u>	<u>1,350,878</u>	<u>(1,224,069)</u>
Deferred tax assets and liabilities off-set				(1,224,069)	(1,224,069)
Net deferred tax asset / (liability)				126,809	-

The Company has SR 219.9 million (2022: SR 220.0 million) of tax losses carried forward in relation to the non – Saudi Shareholder’s of the Company. As the Company, based on projection of future profitability, believes that it would not have sufficient taxable profits in the future, therefore, the Company has recognized a deferred tax asset amounting to SR 1.3 million (2022: SR 1.4 million) relating to tax losses (note 14). However, unrecognized deferred tax assets would be re-assessed at each reporting date and would be recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

10. DEFERRED TAX (CONTINUED)

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

	<i>2023</i>	<i>2022</i>
	<u>SR</u>	<u>SR</u>
At the beginning of the year	126,809	277,052
Deferred tax charge during the year recognized in in the statement of profit or loss	<u>(169,408)</u>	(150,243)
At the end of the year	<u>(42,599)</u>	126,809

11. FAIR VALUE OF DERIVATIVES

As at 31 December 2023, the Company held Special Commission Rate Swaps (“IRS”) of a notional value of SR 725 million (2022: SR 832 million) in order to hedge risk related to floating interest rate that is LIBOR rate on USD denominated loan borrowed from Alinma bank for total amount of USD 250 million (SR 937.5 million) (note 18). The table below shows 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.

		Notional		Fair value	
		2023	2022	2023	2022
Hedge item	Hedge instruments				
Interest payments on floating rate loans	Interest rate swaps	725,000,000	832,000,000	28,580,775	41,962,196
Less: Current portion				<u>(17,313,968)</u>	<u>(18,095,664)</u>
Non-current portion				<u>11,266,807</u>	<u>23,866,532</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.

12. DEFERRED COST

During 2022, the Company restructured its financing facilities. As per WECA agreement, any benefits resulting from such restructuring are to be shared with the off taker (i.e. PRC) as part of tariff adjustment in a fair and equitable manner. Accordingly, the Company has shared such benefits with PRC through a cash payment of SR 236.2 million. Management has classified such payments as deferred cost and is amortizing such cash payment over the remaining period of the contract with PRC on a straight-line basis against revenue.

Movement of deferred cost during the year is as follows:

	<i>2023</i>	<i>2022</i>
	<u>SR</u>	<u>SR</u>
Beginning balance	220,305,718	-
Cash payment during the year	-	236,250,000
Amortization during the year	<u>(16,439,726)</u>	(15,944,282)
Balance at the end of the year	<u>203,865,992</u>	220,305,718
Current portion of deferred cost	<u>(16,484,766)</u>	(16,439,726)
Non-current portion of deferred cost	<u>187,381,226</u>	203,865,992

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

13. INVENTORIES

	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
Spare parts	132,946,038	132,762,209
Consumables	15,399,397	13,368,229
Chemicals	4,615,287	3,598,256
	<u>152,960,723</u>	<u>149,728,694</u>
Less: Impairment for inventory	<u>(1,809,627)</u>	<u>(1,809,627)</u>
	<u>151,151,095</u>	<u>147,919,067</u>

14. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES

	<i>Note</i>	<u>2023</u>	<u>2022</u>
		<u>SR</u>	<u>SR</u>
Trade accounts receivable		126,602,794	112,870,411
Less: impairment of trade receivables	14.1	<u>(11,432,849)</u>	<u>(1,837,420)</u>
Net trade accounts receivable		<u>115,169,945</u>	<u>111,032,991</u>
Advances to suppliers		6,654,510	5,312,023
Prepaid expenses		1,800,529	1,509,433
Advance income tax (note 21)		3,589,573	3,594,161
Unbilled receivable and other receivables		<u>14,410,768</u>	<u>11,924,535</u>
		<u>141,625,325</u>	<u>133,373,143</u>

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

	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
Neither past due nor impaired	115,169,945	111,032,992
Past due 1-90 Days	610,435	-
More than 90 Days	<u>10,822,414</u>	<u>1,837,420</u>
	<u>126,602,794</u>	<u>112,870,411</u>

14.1 The movement in allowance for impairment, in respect of trade receivables during the year was as follows:

	<u>2023</u>	<u>2022</u>
Opening balance at 1 January	1,837,420	-
Impairment charge	<u>9,595,429</u>	<u>1,837,420</u>
Closing balance at 31 December	<u>11,432,849</u>	<u>1,837,420</u>

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

15. CASH AND CASH EQUIVALENTS

	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
Cash in hand	45,000	45,000
Time deposits (note 15.1)	75,000,000	75,000,000
Cash at banks	<u>154,066,420</u>	<u>236,804,459</u>
	<u>229,111,420</u>	<u>311,849,459</u>

15.1 It represents deposits at rate of 5.80% p.a profit rate due to mature on 29 February 2024.

The management has conducted a review for allowance for expected credit loss as required under IFRS 9 and based on such assessment considering that all balances are with strong credit rated banks, management considers that no impairment allowance was required.

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

16. SHARE CAPITAL

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

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

During the year 2022, one of the shareholders of the Company Oasis Power One Conventional Energy and Water Company transferred its 6% shareholding to Arabian Company for Water and Power Projects Limited (ACWA Power). Furthermore, during the year, the shareholders resolved to reduce the Company's capital from SR 1,757,446,095 to SR 1,000,000,000. All legal formalities have been completed in this regard. As a result, the revised capital and shareholding of the Company, as at 31 December 2023, is as follows:

	<u>31 December 2023</u>		
	<i>No. Shares of SR 1 each</i>	<i>SR</i>	<i>Percentage of shareholding</i>
Arabian Company for Water and Power Projects Limited (ACWA Power)	799,999,996	799,999,996	80%
Oasis Power One Conventional Energy and Water Company	190,000,002	190,000,002	19%
Rabigh Refining & Petrochemicals Company (PRC)	10,000,002	10,000,002	1%
	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>100%</u>

	<u>31 December 2022</u>		
	<i>No. Shares of SR 1 each</i>	<i>SR</i>	<i>Percentage of shareholding</i>
Arabian Company for Water and Power Projects Limited (ACWA Power)	799,999,996	799,999,996	80%
Oasis Power One Conventional Energy and Water Company	190,000,002	190,000,002	19%
Rabigh Refining & Petrochemicals Company (PRC)	10,000,002	10,000,002	1%
	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>100%</u>

17. STATUTORY RESERVE AND DIVIDEND PAYABLE

17.1 Statutory Reserve

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

17.2 Dividends

The Board of Directors of the Company have approved dividend of SR 176.3 million (2022: 1,338.8 million), from which SR 105 million (2022: SR 1,230 million) has been paid in cash during the year. Further management has also paid an amount of SR 108.7 million (2022: SR 166.5 million) declared in prior year.

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

18. LOANS AND BORROWINGS

During the prior year, Oasis Power One Conventional Energy and Water Company (the shareholder) entered into a Murabaha agreement with a local bank. This agreement was later novated to the Company on 30 December 2021. Loan was approved in two tranches. The loan is repayable in 16 bi-annual instalments starting in June 2023 and is secured against a charge over plant and equipment of the Company.

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

	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
Alinma Bank - Tranche A (note (a))	1,592,958,226	1,831,181,502
Alinma Bank - Tranche B (note (b))	724,071,921	832,355,228
APICORP (note (c))	442,244,531	455,725,313
Arab National Bank (note (d))	1,662,839,438	1,713,527,175
	4,422,114,116	4,832,789,218
Less: Upfront fee (note (e))	(50,156,250)	(50,156,250)
Less: Transaction costs (note (f))	(13,360,713)	(13,360,713)
Plus: Amortization of upfront fees (note (e))	19,801,162	10,218,188
Total loan recorded in the books of the Company	4,378,398,315	4,779,490,443
Less: current portion	(393,380,143)	(410,675,102)
Non-current portion	3,985,018,172	4,368,815,341

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

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

19. EMPLOYEES' TERMINAL BENEFITS

General Description of the plan

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

	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
Defined benefits obligation at beginning of the year	2,224,066	1,879,125
Included in statement of profit or loss		
Current service cost	397,032	489,264
Interest cost	75,523	35,504
Included in statement of other comprehensive income		
Actuarial loss on the obligation	(41,171)	565,901
Transfer (to)/from related party	-	(280,437)
Benefits paid	(111,346)	(465,291)
Defined benefits obligation at the end of the year	<u>2,626,446</u>	<u>2,224,066</u>

The following is the breakup of the actuarial loss:

	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
Actuarial loss - financial assumptions	23,919	105,740
Actuarial (gain) - demographic assumptions	(78,804)	(263,831)
Actuarial loss - experience adjustment	96,056	723,992
	<u>(41,171)</u>	<u>565,901</u>

Actuarial assumptions

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

	<u>2023</u>	<u>2022</u>
Discount rate (%)	4.60	4.05
Future salary increases (%)	5.05	4.30
Retirement age (years)	60	60

The sensitivity of EOSB, as at 31 December 2023, to changes in the weighted principal assumptions is as follows:

	<u>Impact on EOSB liability Increase / (decrease)</u>		
	<u>Change in assumption</u>	<u>Increase in rate</u>	<u>Decrease in rate</u>
	<u>by</u>	<u>rate</u>	<u>rate</u>
		<u>SR</u>	<u>SR</u>
Discount rate	1%	83,424	89,878
Future salary increases	1%	20,605	(20,605)

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

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

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

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

20. ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
Accrued expenses and other payables	24,740,960	31,916,904
Accrued finance costs	747,145	-
Due to a related party	86,115,397	93,829,996
Zakat and income tax payable (note 21)	12,580,520	13,071,938
Trade accounts payable	214,379	486,697
Other payable	14,887,035	6,301,935
Dividends payable	71,250,000	108,750,000
	210,535,436	254,357,470

21. ZAKAT AND INCOME TAXCHARGE / (REVERSAL) FOR THE YEAR

Zakat and income tax consists of the following:

	<u>2022</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
Zakat charge relating to Saudi shareholder's (note below)	9,351,351	9,857,190
Income tax relating to non - Saudi shareholder's	154,916	151,078
Prior year reversal of provision for income tax (note 21.2)	(10,897,307)	-
	(1,391,040)	10,008,268

Zakat and income tax payable/ (advance)

	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
Zakat (note a)	12,580,520	13,071,938
Income tax (note b)	(3,589,573)	(3,594,161)
At 31 December	8,990,947	9,477,777

21.1 Zakat

The zakat provision is based on the following:

	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
Equity (Saudi shareholder's share)	1,422,625,259	1,045,873,701
Provisions and loans	4,013,772,198	206,280,452
Less: book value of long-term assets (Saudi shareholder's share)	(5,548,259,460)	(6,115,718,169)
	(111,862,003)	(4,863,564,016)
Adjusted net income for the year (Saudi shareholder's share)	374,054,040	394,287,594
Zakat base	374,054,040	394,287,594

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

Provision during the year

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

	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
At the beginning of the year	13,071,938	15,194,665
Charge for the year	9,351,351	9,857,190
Payment during the year	(9,842,769)	(11,979,917)
At the end of the year	12,580,520	13,071,938

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

21. ZAKAT AND INCOME TAX CHARGE FOR THE YEAR (CONTINUED)

21.2 Income tax

For the year ended 31 December 2023, income tax relating to the non-Saudi shareholder's of SR 0.15 million (2022: SR 0.18 million) consists of the charge for the year and has been provided for based on estimated taxable profit at the rate of 20%. Moreover, a deferred tax charge amounting to SR 0.15 million (2022: SR 0.2 million) was recognized during the year (note 10).

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

	2023 <u>SR</u>	2022 <u>SR</u>
At the beginning of the year	(3,594,161)	(3,564,346)
Provided during the year	154,916	151,078
Advance payments made during the year	(150,354)	(180,893)
Income tax advance	<u>(3,589,573)</u>	<u>(3,594,161)</u>

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

	2023 <u>SR</u>	2022 <u>SR</u>
Accounting profit before zakat and income tax	<u>368,308,748</u>	<u>394,346,221</u>
Income tax expense as per tax rate of 20% applicable in KSA	<u>73,661,750</u>	<u>78,869,244</u>
Saudi shareholding not subject to tax	(73,385,518)	(78,573,484)
Non-deductible expenses for tax purposes	(674,195)	(474,276)
Deductible expenses for tax purposes	-	7,981
Others	<u>722,287</u>	<u>471,856</u>
At the effective income tax rate of 0.08% (2022: 0.08%)	<u>324,324</u>	<u>301,321</u>
Income tax charged to statement of profit or loss	<u>154,916</u>	<u>151,078</u>
Deferred tax charged to statement of profit or loss	<u>169,408</u>	<u>150,243</u>
	<u>324,324</u>	<u>301,321</u>

Status of assessments – Zakat and income tax

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

During November 2018, the Zakat Tax and Customs Authority ("ZATCA" or "the Authority") issued assessments for the years from 2007 to 2013, claiming additional tax, Zakat and withholding tax amounting to SR 10.7 million including delay penalties. The Company submitted its objection against the assessments on 22 January 2019, which was escalated to the General Secretariat of Tax Committees ("GSTC") on 2 July 2019. The hearing with the Tax Violations and Dispute Resolution Committee ("TVDRC") was held on 10 June 2022, wherein the TVDRC accepted the dispute on the tax and Zakat items, whilst rejected the dispute on the withholding tax and delay penalties. The formal TVDRC Resolution was issued on 1 August 2022, which was in accordance with the TVDRC hearing with the revised amount expected to be in the range of circa SR 1.85 million. The ZATCA appealed the TVDRC Resolution on the tax and Zakat items, to the Tax Violations and Dispute Appeal Committee ("TVDAC") and escalated its objection on 25 August 2021. The Company also escalated its objection to the TVDAC, against the TVDRC's Resolution on the withholding tax and delay penalty items. Both appeal escalations are registered under one GSTC/TVDAC case number and the objection case is under the TVDAC's review. On December 1, 2022 the Company settled the withholding tax liability of SR 0.67 million as a part of this assessment and took the advantage of ZATCA amnesty in eliminating the penalty. On April 27 2023, TVDAC issued a resolution rejecting appeal from ZATCA on grounds of statute of limitation. Consequently, during year ended 31 December 2023, Company has reversed the provision of SAR 10.7 related to open assessment for the years from 2007 to 2013.

During December 2018, the ZATCA issued an assessment for the year 2017, claiming additional tax and Zakat including delay penalties, amounting to SR 47.1 million. The Company filed an objection against the assessment for the entire amount on 21 February 2019. On 25 September 2019, the ZATCA

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

21. ZAKAT AND INCOME TAXCHARGE FOR THE YEAR (CONTINUED)

21.2 Income tax (continued)

Status of assessments – Zakat and income tax (continued)

issued a revised assessment claiming SR 2.5 million for tax and Zakat, including penalties. The Company registered the case with the GSTC on 22 November 2019. The case is still under review with The Saudi General Secretariat of Zakat, Tax, and Customs Committees (“GSZTCC”).

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

During April 2022, the ZATCA issued an assessment for the year ended 31 December 2016, claiming additional tax, Zakat and delay penalties amounting to SR 23.6 million. The claim mainly related to the disagreement on depreciation difference and incorrect shareholding percentages applied. The Company duly submitted its objection during June 2022 which was rejected by ZATCA. Therefore, the Company submitted its appeal to the GSTC on October 6, 2022. The TVDRC rejected the Company’s objection including depreciation difference and other main items which had been accepted for 2015. The Company has received the formal resolution from TVDRC, and an appeal was filed against the TVDRC decision. The TVDAC is currently reviewing the appeal filed. Based on the documents submitted and arguments made by the Company. The management has not made any provision in this regard.

The tax returns for the year 2016 and 2018 to 2022 have been submitted and are currently being reviewed by the ZATCA.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2023</i>	<i>2022</i>
	<u>SR</u>	<u>SR</u>
Employee costs	14,456,698	16,779,679
Insurance	3,599,075	3,567,118
Depreciation (note 17)	2,888,487	3,419,522
Legal and professional	2,795,520	3,412,862
IT related expenses	1,739,251	1,239,677
Telecommunications	247,153	540,109
Rent (note 22.1)	493,725	418,075
Training and development	286,500	327,500
Governmental fees	237,015	187,566
Community relations	200,000	183,333
Vehicle and transportation	213,190	153,800
Travelling and lodging	152,425	146,800
Other	161,950	1,590,390
	<u>27,470,989</u>	<u>31,966,431</u>

22.1 Rent includes rentals for employee accommodation spaces with short term lease contracts.

23. COST OF REVENUE

	<i>2023</i>	<i>2022</i>
	<u>SR</u>	<u>SR</u>
Operation and maintenance cost	311,158,771	330,891,283
Depreciation (note 17)	211,515,053	209,057,182
Other supply and administrative expenses	8,230,852	7,492,500
Amortization (note 9)	1,018,086	1,018,086
	<u>531,922,762</u>	<u>548,459,051</u>

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

24. REVENUE

	2023	2022
	<u>SR</u>	<u>SR</u>
Sale of electricity	401,996,289	398,368,671
Sale of water	384,579,199	380,434,262
Sale of steam	394,585,221	393,153,725
Amortization of deferred cost (note 12)	(16,439,726)	(15,944,282)
	<u>1,164,720,983</u>	<u>1,156,012,376</u>

25. OTHER INCOME

	2023	2022
	<u>SR</u>	<u>SR</u>
Gain on disposal of property, plant and equipment	400,226	-
Liquidity damages levy (note 25.1)	2,878,629	-
Miscellaneous	-	92,545
	<u>3,278,855</u>	<u>92,545</u>

25.1 Liquidity damages levied on Operation and maintenance contractor for unplanned capacity outages during the year.

26. RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its activities, the Company transacts business with its related parties at mutually agreed terms. Related parties include the Company's shareholders, directors, the key management personnel, and other entities which are under common control through the Company's shareholders ("Affiliates").

Significant transactions with related parties during the period and significant balances at the reporting date are as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>	
			<i>2023</i>	<i>2022</i>
			<u>SR</u>	<u>SR</u>
Rabigh Refining & Petrochemicals Company (PRC)	Shareholder	Operating revenue, net	1,164,720,983	1,156,012,376
Arabian Company for Water and Power Projects Limited (ACWA Power)	Parent Company	Limestone fee expense	4,687,500	4,687,500
		Management fee expense	3,544,355	2,625,000
		Secondment fees	1,801,252	1,805,139
Rabigh Power Company	Affiliate	Operation and maintenance services	311,158,771	330,891,283
		Advance paid to RPC	15,065,914	13,905,358
		Employees' terminal benefits transferred to/from related party	-	280,437

The balances relating to the above transactions are included in note 19, 22, 23 and 24.

Terms and conditions of transactions with related parties:

The transactions with related parties are made on mutually agreed terms approved by the management. Outstanding balances at the year-end, other than the term loans are unsecured, interest free and settlement occurs in cash. There are no guarantees provided or received for any related party receivables or payables.

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

26 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

For the year ended 31 December 2023, the Company has recorded impairment of receivables relating to amounts owed by related parties SR 9,595,429 (2022:SR 1,837,420). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel

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

	<u>2023</u> <u>SR</u>	<u>2022</u> <u>SR</u>
Short-term benefits	<u>1,892,625</u>	<u>1,507,931</u>
Employees' terminal benefits	<u>431,237</u>	<u>243,106</u>

27. CONTINGENCIES AND COMMITMENTS

At 31 December 2023, the Company had capital expenditure commitments of SR 58.64 million (2022: SR 47.08million).

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

	<u>2023</u> <u>SR</u>	<u>2022</u> <u>SR</u>
Within one year	<u>1,053,688,738</u>	1,047,493,934
After one year but not more than five years	<u>5,192,707,100</u>	5,200,004,822
More than five years	<u>7,464,916,883</u>	8,511,307,908
	<u>13,711,312,721</u>	<u>14,758,806,664</u>

28. CAPITAL MANAGEMENT

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

The Company manages its capital structure and makes adjustments to it in light of changes in business condition. No changes were made in the objectives, policies or processes during the years ended 31 December 2023 and 31 December 2022. The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus debt. The Company includes within debt, current and non-current portion of long term payable.

	<u>2023</u> <u>SR</u>	<u>2022</u> <u>SR</u>
Debt – long term payable (including current portion)	<u>4,378,398,315</u>	4,779,490,443
Equity	<u>1,744,468,763</u>	1,574,942,381
Capital and debt	<u>6,122,867,078</u>	<u>6,354,432,824</u>
Gearing ratio	<u>71.51%</u>	<u>75.22%</u>

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Market risk

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

i) Interest rate risk

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

The Company has exposure to LIBOR and SIBOR denominated financial instruments in respect of loan from bank, as mentioned in note 18. This exposure may have a potential impact of the rate transition from LIBOR to Risk Free Rate (under IBOR reforms), however, the impact is not yet known at the reporting date.

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

	<u>Increase/decrease in basis points</u>	<u>Effect on profit before zakat and income tax</u>
31 December 2023	+100	25,121,038
	-100	(25,121,038)
31 December 2022	+100	47,794,904
	-100	(47,794,904)

IBOR Reforms

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates (referred to as 'IBOR reform'). In 2021, the Company undertook amendments to most financial instruments with contractual terms indexed to IBORs such that they incorporate new benchmark rates, e.g., SOFR. As of 31 December 2023, the Company's remaining IBOR exposure is indexed to US dollar LIBOR. The alternative reference rate for US dollar LIBOR is the Secured Overnight Financing Rate ("SOFR"). Currently, the Company is in process of implementing appropriate fallback clauses for all US dollar LIBOR indexed exposures. These clauses will switch the instrument from USD LIBOR to SOFR as and when USD LIBOR or related synthetic settings ceases. As announced by the Financial Conduct Authority ("FCA") in early 2022, the panel bank submissions for the overnight and 12-month US dollar LIBOR ceased on June 2023. In addition, the FCA announced in early 2023 that the one-, three- and six-month synthetic US dollar LIBOR settings will cease on September 2024.

The Company evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The Company also monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Company is expecting to complete the reforms latest by 30 September 2024.

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 the IBOR reform.

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Market risk (continued)

i) Interest rate risk (continued)

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.

When the interest rate benchmark reform 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.

ii) Foreign currency risk

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

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

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

Liquidity risk

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

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

2023	<i>Upto 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
<i>Non-derivative financial liabilities</i>				
Accounts payables and accruals	197,954,916	-	-	197,954,916
Loans and borrowings	689,064,040	3,445,320,200	1,306,482,900	5,440,867,140
Total	<u>887,018,956</u>	<u>3,445,320,200</u>	<u>1,306,482,900</u>	<u>5,638,822,056</u>
2022	<i>Upto 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
<i>Non-derivative financial liabilities</i>				
Accounts payables and accruals	241,285,532	-	-	241,285,532
Loans and borrowings	410,675,102	2,080,210,439	2,341,903,676	4,832,789,217
Total	<u>651,960,634</u>	<u>2,080,210,439</u>	<u>2,341,903,676</u>	<u>5,074,074,749</u>

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. As at 31 December 2023, no significant credit risk were identified by the management. The Company's maximum credit 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

2023	<i>No fixed maturity</i>	<i>Within 3 3 months to 1 months</i>	<i>year</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Non-derivative financial assets						
Trade accounts receivable	-	115,169,945	10,822,414	610,435	-	126,602,794
Cash and cash equivalents	154,111,420	-	75,000,000	-	-	229,111,420
Total	154,111,420	115,169,945	75,000,000	610,435	-	355,714,214
Derivative financial assets						
Interest rate swaps used for hedging	-	17,349,754	10,423,593	807,428	-	28,580,775
	<u>154,111,420</u>	<u>115,169,945</u>	<u>92,349,754</u>	<u>11,034,028</u>	<u>807,428</u>	<u>384,294,989</u>
2022						
	<i>No fixed maturity</i>	<i>Within 3 3 months to 1 months</i>	<i>year</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Non-derivative financial assets						
Trade accounts receivable	-	111,032,992	1,837,420	-	-	112,870,411
Cash and cash equivalents	236,849,459	-	75,000,000	-	-	311,804,459
Total	236,849,459	111,032,992	76,837,420	-	-	424,674,870
Derivative financial assets						
Interest rate swaps used for hedging	-	37,223,471	3,320,331	1,418,394	-	41,962,196
	<u>236,849,459</u>	<u>111,032,992</u>	<u>114,060,891</u>	<u>3,320,331</u>	<u>1,418,394</u>	<u>466,637,066</u>

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

Trade accounts receivable

The Company is not exposed to significant credit risk from its operating activities, as 100% sales of the Company and resulting trade accounts receivables are due from a shareholder (note 14).

Cash and cash equivalents

The Company seeks to manage its credit risk with respect to banks balances by only dealing with reputable banks. The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2023 and 2022 is the carrying amounts of such bank balances.

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

30. 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.

2023	<i>Carrying amount</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
<i>Financial assets</i>					
Fair value of derivatives	28,580,775	-	28,580,775	-	28,580,775

2022	<i>Carrying amount</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
<i>Financial assets</i>					
Fair value of derivatives	41,962,196	-	41,962,196	-	41,962,196

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.

Rabigh Arabian Water & Electricity Company
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

31. 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.

32. COMPARATIVE FIGURES

Certain figures for the prior year have been reclassified or adjusted to conform to the presentation in the current year. Summary of reclassifications/adjustments are as follows.

32.1 Statement of profit and loss

Particulars

	<u>As previously reported</u>	<u>Reclassifications to conform to the presentation in the current period</u>	<u>As reported in these financial statements</u>
Revenue	1,154,174,956	1,837,420	1,156,012,376
Impairment loss on trade receivables	-	(1,837,420)	(1,837,420)

32.2 Statement of financial position

Particulars

	<u>As previously reported</u>	<u>Reclassifications to conform to the presentation in the current period</u>	<u>As reported in these financial statements</u>
<i>Current assets:</i>			
Allowance for impairment of trade receivables	-	(1,837,420)	(1,837,420)
<i>Current liabilities:</i>			
Accrued expenses and other payables	33,754,324	(1,837,420)	31,916,904

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 4 to 34 have been approved by the Board of Directors for issuance on 10-08-1445H (corresponding to 20-March- 2024).