مــرافــق
MARAFIQ

POWER AND WATER UTILITY COMPANY FOR JUBAIL AND YANBU (MARAFIQ) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(1 JANUARY 2023 - 31 DECEMBER 2023)

WITH INDEPENDENT AUDITOR'S REPORT

marafiq.com.sa

MARAFIQ

POWER AND WATER UTILITY COMPANY FOR JUBAIL AND YANBU (MARAFIQ)
AND ITS SUBSIDIARIES (A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

Contents **Page(s)**

KPMG Professional Services
16th Floor, Al Barghash Tower
6189 Prince Turki Road, Al Corniche
P.O. Box 4803
Al Khobar, 34412 - 3146
Kingdom of Saudi Arabia
Commercial Registration No 2051062328

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية
الطابق ١٦، برج البرغش
٦١٨٩ طريق الأمير تركي، الكورنيش
ص.ب ٤٨٠٣
الخبر ٣٤٤١٢ - ٣١٤٦
المملكة العربية السعودية
سجل تجاري رقم ٢٠٥١٠٦٢٣٢٨

المركز الرئيسي في الرياض

Independent Auditor's Report

To the Shareholders of Power and Water Utility Company for Jubail and Yanbu (MARAFIQ)

Opinion

We have audited the consolidated financial statements of **Power and Water Utility Company for Jubail and Yanbu (MARAFIQ) ("the Company")** and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated income statement, consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), that is endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated 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.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter **Recognition of revenue**	
See note 24 to the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The Group applies IFRS 15 'Revenue from contracts with customers' to account for its revenue. The amount of revenue recognized by the Group during the year ended 31 December 2023 is SR 6.4 billion.	Among other things, our procedures included the following: ● Assessed the design, implementation and operating effectiveness of management's internal controls system which govern the process around recognition of revenue.

Independent Auditor's Report

To the Shareholders of Power and Water Utility Company for Jubail and Yanbu (MARAFIQ) (continued)

Key Audit Matter (continued)
Recognition of revenue (continued)

The key audit matter	How the matter was addressed in our audit
The Group is engaged in providing utility services including Water, Power and Gas to various customers. Revenue from services is recognized when the service is rendered over time as the customers simultaneously receive and consume the benefit. Revenue is considered to be one of the significant indicators for measuring the performance of the Group, resulting in a possible inherent risk of recognizing revenue which is more than its actual value. At the year end, accrued revenue is recognized considering consumption pattern of consumers, based on recent billing reports The revenue recognition is considered as a key audit matter due to the materiality of the amount of revenue and judgement involved in estimating accrued revenue at the year-end.	• Inquired about existence of any actual and / or suspected fraud from the management. Furthermore, inquired about management's philosophy on fraud awareness and tested the operating effectiveness of related controls. • Assessed the impact of judgments and assumptions on management's estimates and on sample basis tested the transactions covering the revenue and accrued revenue recognized during the year. • Evaluated that revenue is recognized in accordance with International Financial Reporting Standards (IFRS) as endorsed in Kingdom of Saudi Arabia. • Tested a sample of journal entries which included specific risks of material misstatements and inspected underlying supporting documents. • Performed recalculation of unbilled revenue and subsequent testing of revenue accrued to assess that revenue accrued at year-end is not materially misstated. • Evaluated the relevance and adequacy of disclosures made by the management in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS 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 and Company's By-laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group 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 Group's financial reporting process.

KPMG

Independent Auditor's Report

To the Shareholders of Power and Water Utility Company for Jubail and Yanbu (MARAFIQ) (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

KPMG

Independent Auditor's Report

To the Shareholders of Power and Water Utility Company for Jubail and Yanbu (MARAFIQ) (continued)

Auditor's Responsibilities for the Audit of the Consolidated 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 **Power and Water Utility Company for Jubail and Yanbu (MARAFIQ)** and its subsidiaries.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Professional Services

Dr. Abdullah Hamad Al Fozan
License No: 348

Al Khobar, 11 March 2024G
Corresponding to: 1 Ramadan 1445H.

كي.بي.إم.جي للاستشارات المهنية
Lic No. 46
C.R. 2051062328
K : 1
KPMG
ترخيص رقم ٤٦
س.ت: ٢٠٥١٠٦٢٣٢٨
KPMG Professional Services

POWER AND WATER UTILITY COMPANY FOR JUBAIL AND YANBU (MARAFIQ)
AND ITS SUBSIDIARIES (A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

مرافق
MARAFIQ

	Note	2023 SR '000	2022 SR '000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**19,633,250**	19,990,861
Intangible assets	7	**12,633**	13,925
Equity accounted investees	8.4	**56,321**	68,783
Long-term receivables and prepayments	9	**225,369**	280,461
Total non-current assets		**19,927,573**	20,354,030
Current assets			
Inventories, net	10	**270,838**	296,306
Trade receivables, net	11	**1,086,110**	867,600
Prepayments and other current assets	12	**450,098**	446,730
Short-term deposits	13	**131,000**	1,575,900
Cash and cash equivalents	14	**1,186,936**	685,694
Total current assets		**3,124,982**	3,872,230
TOTAL ASSETS		**23,052,555**	24,226,260
EQUITY AND LIABILITIES			
EQUITY			
Share capital	15	**2,500,000**	2,500,000
Statutory reserve	15.1	**342,002**	321,737
Retained earnings		**5,242,173**	5,282,825
Fair value reserve for cash flow hedge of investees	23.3	**118,700**	140,295
Total equity		**8,202,875**	8,244,857
LIABILITIES			
Non-current liabilities			
Bank loans and borrowings	18	**7,243,373**	8,198,215
Lease liabilities	31	**2,508,239**	2,603,691
Other non-current liabilities	19	**2,767,409**	2,762,126
Deferred tax liabilities	22	**2,984**	4,367
Total non-current liabilities		**12,522,005**	13,568,399
Current liabilities			
Current portion of bank loans and borrowings	18	**463,278**	410,888
Current portion of lease liabilities	31	**340,821**	333,343
Trade payables	20	**606,903**	687,139
Accrued expenses and other current liabilities	21	**916,673**	981,634
Total current liabilities		**2,327,675**	2,413,004
Total liabilities		**14,849,680**	15,981,403
TOTAL EQUITY AND LIABILITIES		**23,052,555**	24,226,260

The financial statements appearing on pages 1 to 50 were approved by the Board of Directors of the Parent Company and have been signed on their behalf by:

Khalid Mohammed Al-Salem	Mohammed Berki Al-Zuabi	Muhammed Abdulhamid AlMulhim
Chairman of the Board	President & CEO	VP Finance

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

	Note	2023 SR '000	2022 SR '000
Revenue	24	**6,389,334**	6,505,093
Cost of revenue	25	**(5,264,445)**	(5,356,898)
Gross profit		**1,124,889**	1,148,195
Administrative expenses	26	**(281,588)**	(270,520)
Charge for impairment of trade receivables	11	**(10,448)**	(3,864)
Other operating income	27	**179,520**	223,095
Other operating expenses		**(6,279)**	(2,680)
Operating profit		**1,006,094**	1,094,226
Finance income	28	**92,709**	51,477
Finance cost	29	**(518,913)**	(298,029)
Share in results of equity accounted investees	8.4	**(8,149)**	4,352
Profit before Zakat and income tax		**571,741**	852,026
Zakat and income tax	22	**(45,943)**	(6,376)
Net profit for the year		**525,798**	845,650
Earnings per share:			
Basic and diluted earnings per share attributable to shareholders	17	**2.10**	3.38

Khalid Mohammed Al-Salem Chairman of the Board	Mohammed Berki Al-Zuabi President & CEO	Muhammed Abdulhamid AlMulhim VP Finance

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

مــرافــق
MARAFIQ

	Note	2023 SR '000	2022 SR '000
Net profit for the year		**525,798**	845,650
Other comprehensive income to be reclassified to income statement in subsequent periods:			
Share of (loss) / gain on cash flow hedge of a joint operation, net of deferred tax		**(17,282)**	159,194
Share of (loss) / gain on cash flow hedge of an equity accounted investee, net of deferred tax	8.4	**(4,313)**	52,405
		(21,595)	211,599
Other comprehensive income that will not be reclassified to income statement in subsequent periods:			
Re-measurement gain on defined benefit obligation, net of deferred tax		**3,815**	26,087
Other comprehensive (loss) / income for the year		**(17,780)**	237,686
Total comprehensive income for the year		**508,018**	1,083,336

Khalid Mohammed Al-Salem
Chairman of the Board

Mohammed Berki Al-Zuabi
President & CEO

Muhammed Abdulhamid AlMulhim
VP Finance

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

POWER AND WATER UTILITY COMPANY FOR JUBAIL AND YANBU (MARAFIQ) AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

مـرافـق
MARAFIQ

	Attributable to equity holders of the Parent Company				
	Share capital SR '000	Statutory reserve SR '000	Retained earnings SR '000	Fair value reserve for cash flow hedge of investees SR '000	Total SR '000
As at 1 January 2022	2,500,000	287,960	4,834,430	(71,304)	7,551,086
Net profit for the year	-	-	845,650	-	845,650
Other comprehensive income	-	-	26,087	211,599	237,686
Total comprehensive income	-	-	871,737	211,599	1,083,336
Transactions with owners					
Dividends paid (Note 16)	-	-	(389,565)	-	(389,565)
Total transactions with owners	-	-	(389,565)	-	(389,565)
Transfer to statutory reserve	-	33,777	(33,777)	-	-
As at 31 December 2022	2,500,000	321,737	5,282,825	140,295	8,244,857
As at 1 January 2023	**2,500,000**	**321,737**	**5,282,825**	**140,295**	**8,244,857**
Net profit for the year	-	-	**525,798**	-	**525,798**
Other comprehensive income	-	-	**3,815**	**(21,595)**	**(17,780)**
Total comprehensive income	-	-	**529,613**	**(21,595)**	**508,018**
Transactions with owners					
Dividends paid (Note 16)	-	-	**(550,000)**	-	**(550,000)**
Total transactions with owners	-	-	**(550,000)**	-	**(550,000)**
Transfer to statutory reserve	-	**20,265**	**(20,265)**	-	-
As at 31 December 2023	**2,500,000**	**342,002**	**5,242,173**	**118,700**	**8,202,875**

Khalid Mohammed Al-Salem
Chairman of the Board

Mohammed Berki Al-Zuabi
President & CEO

Muhammed Abdulhamid AlMulhim
VP Finance

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

	Note	2023 SR '000	2022 SR '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		**525,798**	845,650
Adjustments for:			
Depreciation of property, plant and equipment	6	**1,218,606**	1,165,314
Amortization of intangible assets	7	**9,040**	8,466
Amortization of deferred income		**(58,697)**	(57,273)
Amortization of deferred employee benefits		**4,188**	5,584
Charge for impairment of trade receivables	11	**10,448**	3,864
Provision for slow-moving and obsolete inventories	10	**11,668**	17,267
Provision for employees' benefits	19.1	**88,727**	80,567
Share in results of investments in equity accounted investees	8.4	**8,149**	(4,352)
Finance income	28	**(92,709)**	(51,477)
Finance cost	29	**518,913**	298,029
Zakat and income tax charge	22	**45,943**	6,376
Changes in:			
Trade receivables		**(228,957)**	(37,368)
Inventories		**13,800**	(40,034)
Prepayment and other current assets		**(16,754)**	(20,697)
Long term receivables and other assets		**44,105**	40,582
Trade payables		**(80,236)**	74,812
Accrued expenses and other current liabilities		**6,875**	80,407
Movement in other non-current liabilities		**4,806**	72,931
Cash generated from operating activities		**2,033,713**	2,488,648
Employees' benefits paid	19.1	**(18,464)**	(12,068)
Finance cost paid		**(490,135)**	(279,440)
Zakat and income tax paid	22	**(123,582)**	(52,444)
Net cash generated from operating activities		**1,401,532**	2,144,696
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		**(666,921)**	(753,108)
Additions to intangible assets	7	**-**	(842)
Investment in associate	8.4	**-**	(320)
Finance income received on short term deposits		**94,892**	34,455
Net movement in short-term deposits		**1,444,900**	(153,700)
Net cash generated from / (used in) investing activities		**872,871**	(873,515)

	Note	2023 SR '000	2022 SR '000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans and borrowings	18	**(926,426)**	(382,282)
Proceeds from short term borrowings		**102,000**	102,000
Repayment of short term borrowings		**(102,000)**	(102,000)
Payment of lease obligation	31	**(297,070)**	(296,294)
Dividends paid	16	**(549,665)**	(389,565)
Net cash used in financing activities		**(1,773,161)**	(1,068,141)
Net change in cash and cash equivalents		**501,242**	203,040
Cash and cash equivalents at the beginning of the year		**685,694**	482,654
Cash and cash equivalents at the end of the year	14	**1,186,936**	685,694
SUPPLEMENTAL CASH FLOW INFORMATION			
Significant non-cash transactions			
Property, plant and equipment transferred from the Royal Commission		**189,791**	1,957
Transfer to lease liabilities from obligation for assets transferred	30	**197,062**	-
Change in fair value reserve for cash flow hedge of investees		**21,595**	211,599

Khalid Mohammed Al-Salem	Mohammed Berki Al-Zuabi	Muhammed Abdulhamid AlMulhim
Chairman of the Board	President & CEO	VP Finance

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

1. CORPORATE INFORMATION

Power and Water Utility Company for Jubail and Yanbu ("Marafiq" or "the Parent Company") was incorporated pursuant to Royal Decree No. M/29 dated 21/7/1421 corresponding to 18 October 2000 as a Saudi joint stock company, in accordance with Ministerial Decision No. 2101 dated 26/12/1421 corresponding to 21 March 2001 which approved the Articles of Association of the Parent Company.

The Parent Company operates under commercial registration number 2055004968 dated 17/6/1422 corresponding to 5 September 2001 issued in Jubail Industrial City. The Parent Company's registered office is situated in the Support Industries Area of Jubail Industrial City, Kingdom of Saudi Arabia.

The issued and paid up capital of the Parent Company is divided into 250,000,000 shares of SR 10 per share amounted to SR 2,500,000,000 at the year end and was held as follows:

	2023	2022
Saudi Basic Industries Corporation ("SABIC")	**17.50%**	17.50%
Saudi Aramco Power Company ("SAPCO")	**17.50%**	17.50%
Royal Commission for Jubail & Yanbu ("Royal Commission")	**17.50%**	17.50%
Public Investment Fund ("PIF")	**17.50%**	17.50%
Free float	**30.00%**	30.00%
	100%	100%

The primary objective of the Parent Company is the operation, maintenance, construction, and management of (i) electric power systems, (ii) seawater cooling systems, (iii) desalinated water systems (including storage and distribution of process and po table water), and (iv) sanitary and industrial wastewater treatment systems to provide essential utility services to governmental, industrial, commercial, and residential customers in the industrial cities of Jubail and Yanbu. The Parent Company has also been selected by the Royal Commission as the sole power and water service provider for Jazan City for Primary and Downstream Industries (JCPDI) and the water service provider in Ras Al Khair Industrial City (RIC). In addition, the Parent Company distributes sales gas in the Light Industrial Park area of Yanbu Industrial City. The Parent Company through a consortium in Jeddah Althaniya Water Company project (45% shareholding by the Parent Company) together with Alamwal Alkhaleejiya Althaniya (35% shareholding) and Veolia Middle East (20% shareholding) has completed the process of constructing and commissioning wastewater treatment facilities in Jeddah. The Parent Company may:

- own or lease related property, facilities and networks and/or install, extend, upgrade, replace or expand facilities or networks as required on its own or through others;
- also engage in any activities necessary or complementary to those objectives, including importation of materials and the likes. The Parent Company shall provide those services to all beneficiaries in the two industrial cities of Jubail and Yanbu ;
- acquire interests in other companies and own, lease, install, extend, upgrade, replace or expand related properties, facilities and networks and to engage in any activities in realizing its objectives; and
- own interest or shares in other companies or merge with or buy such companies and to establish new companies alone inside or outside the Kingdom Saudi Arabia.

The Parent Company commenced its commercial operations on 1 January 2003. The Company's principal places of business are Jubail and Yanbu Industrial Cities.

During 2022, the shareholders of the Parent Company in their meeting held on 21 April 2022 authorized to offer Marafiq's shar es for public subscription whereby major shareholders (SABIC, SAPCO, PIF and Royal Commission) equally sold a part of their shares on Saudi Stock Exchange ('Tadawul'). On 24 November 2022, the Parent Company completed its Initial Public Offering ("IPO") and listed its 73,094,500 ordinary shares (representing 29.24% of the Marafiq's share capital) on Tadawul. The offering, after considering minority shareholders with a total of 0.76% of the Marafiq's share capital correspond to a 30% free float.

On 21 September 2021, the Council of Ministers Resolution No. 111 was issued approving the tariff for heavy consumption of electricity that was applicable to establishments operating in qualified activities or sectors belonging to industrial, commercial and agricultural consumers effective 1 January 2022. Prior to determination of qualified activities or sectors, on 20 December 2022, the Council of Ministers Resolution No. 361 was issued approving the amendment of the effective date to be from 1 January 2023. As of 31 December 2023, the Parent Company did not implement the tariff for heavy consumption of electricity and is awaiting Regulatory Authorities direction on the implementation mechanism of the electricity tariff for non-eligible industrial, commercial and agricultural consumers in line with the Council of Ministers Resolution No. 111.

1. CORPORATE INFORMATION (Continued)

Group structure

Subsidiaries

As at 31 December 2023 and 31 December 2022, the Parent Company has following subsidiaries (the Parent Company and its subsidiaries hereinafter referred to as ("the Group"):

- Marafiq Insurance Limited ("MIL"), owned 100% by the Parent Company, registered in the Island of Guernsey and is engaged in the business of captive insurance for Marafiq.

- Marafiq Water and Power Supply Company ("TAWREED"), owned 100% by the Parent Company, is registered in the Kingdom of Saudi Arabia for the purpose of purchase of water and electricity from Jubail Water and Power Company ("JWAP") and sale of these utilities to the On-Sale Parties: Saudi Power Procurement Company ("Principal Buyer"), Saline Water Conversion Corporation (SWCC) and Marafiq. TAWREED is also responsible for the purchase and supply of fuel to JWAP.

- MASA Services Company for Operation and Maintenance ("MASA"), owned 100% by Marafiq, is registered in the Kingdom of Saudi Arabia for the purpose of operation, maintenance and management of seawater cooling systems, desalinated and treated water systems, sanitary and industrial drainage systems, waste water treatment and operation and maintenance of utility services relating to management and treatment of industrial waste and hazardous waste.

Joint operating arrangement

As at 31 December 2023 and 31 December 2022, the Group has following Joint Operating Arrangement:

- Jubail Water and Power Company ("JWAP"), owned 30% by Marafiq, is registered in the Kingdom of Saudi Arabia with the principal activity being to develop, construct, own, operate and maintain an independent water and power plant in Jubail Industrial City, Kingdom of Saudi Arabia, sell water and electricity and to engage in any business or activities related or ancillary thereto. JWAP commenced its commercial operations in 2010. The Group considers JWAP as a Joint Operating Arrangement. Consequently, the Group recognized its share in assets, liabilities, revenue from sale of output and expenses of the Joint Operation in these consolidated financial statements.

Investment in associates

As at 31 December 2023 and 31 December 2022, the Group has following associates:

- Jubail and Yanbu District Cooling Company ("TABREED"), owned 20% by Marafiq, is registered in Kingdom of Saudi Arabia with the principal activity being to develop, provide and support district cooling systems for industrial, commercial and residential customers in the industrial cities of Jubail and Yanbu. During 2022, the shareholders of TABREED decided to increase the Company's share Capital by amount of SR 1.6 million. During 2022, Marafiq paid its portion of SR 0.32 million during that year.

- Jeddah Althaniya Operation and Maintenance Company ("JAOM"), owned 49% by the Parent Company, is registered for operation and maintenance of a sewage collection and treatment plant in Jeddah. Commercial operations of the Company have not commenced yet.

Investment in joint venture

As at 31 December 2023 and 31 December 2022, the Group has following joint venture:

- Jeddah Althaniya Water Company ("JAWC"), owned 45% by Marafiq, is registered for management, operation, maintenance, construction and expansion of a sewage collection and treatment plant, distribution and disposal of waste and the establishment and expansion of the necessary facilities and networks in Jeddah. Commercial operations of JAWC commenced during the year ended 31 December 2023.

The Group's ownership percentage in the above companies is the same in all periods presented in these consolidated financial statements.

Date of approval of consolidated financial statements

These consolidated financial statements of Power and Water Utility Company for Jubail and Yanbu (Marafiq) and its subsidiaries (the "Group" or "Marafiq") for the year ended 31 December 2023 were approved in accordance with a resolution of the Board of Directors on 6 March 2024G corresponding to 25 Shaban 1445H.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

These consolidated financial statements have been prepared on a historical cost basis except for the cash flow hedge of investees that is carried at fair value and obligation for post-employment defined benefits which is measured at projected unit credit method.

These consolidated financial statements are presented in Saudi Riyals which is also the Group’s functional currency and all values are rounded to the nearest thousand (SR 000), except when otherwise indicated.

2.2 Basis of consolidation

These financial statements comprise the consolidated financial statements of the Parent Company and its subsidiaries as at 31 December 2023. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

The Group will re-assess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and non-controlling interest, even if this results in the non-controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Group’s share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (Continued)
2.2 Basis of consolidation (Continued)

Non-Controlling Interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2.3 Summary of material accounting policies
Following are the material accounting policies applied by the Group in preparing its consolidated financial statements. These accounting policies have been consistently applied for all the periods presented.

The Group adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of 'material' rather than 'significant' accounting policies. Although the amendments did not result in any changes to the accounting policy themselves, they impacted the accounting policy information disclosed in certain instances.

a) Investments in associates, joint venture and joint operation
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement rather than rights to its assets and obligations for its liabilities.

The Group's investments in its associates and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associates or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated income statement reflects the Group's share of the results of operations of the associates or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associates or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associates or joint venture are eliminated to the extent of the interest in the associates or joint venture.

The aggregate of the Group's share of profit or loss of an associate and joint venture is shown on the face of the consolidated income statement outside operating profit and represents profit or loss after tax and non-controlling interests in subsidiaries of the associates or joint venture.

The financial statements of the associates and joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associates or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the loss as 'Share of results accounted investees' in the consolidated income statement.

Upon loss of significant influence over the associates or joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of associate upon loss of significant influence and the fair value of retained investment and proceeds from disposal is recognized in profit or loss.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (Continued)

2.3 Summary of material accounting policies (Continued)

a) Investments in associates, joint venture and joint operation (Continued)

A joint operation is an arrangement in which the Group has joint control and has rights to assets and obligations for liabilities relating to the joint operation. The activities are undertaken by the Group in conjunction with other joint operators involved in the use of the assets and resources of the joint operators. In relation to its interest in a joint operation, the Group as a joint operator recognizes:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sales of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

b) Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. The Group classifies all other liabilities as non-current.

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

c) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (Continued)
2.3 Summary of material accounting policies (Continued)
c) Fair value measurement (Continued)

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

At each reporting date, the Group analyses the movements in the values of assets and liabilities that are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in Note 23.

d) Revenue recognition
Revenue from contracts with customers is recognized over time to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

All Group's customers are based in the Kingdom of Saudi Arabia. The Group is engaged in providing utility services including water, power and sale of gas to various customers.

The specific recognition criteria described below must also be met before revenue is recognized.

Utility services
The Group recognises revenue as the services are rendered over time as the customers simultaneously receive and consume the benefit. As per terms of the utility contracts with the customers, the Group invoices to customers per unit of output delivered to them. The Group uses the output method to measure progress towards complete satisfaction of performance obligation in each contract and the Group recognizes revenue amount to which the Group has a right to invoice as the Group has a right to consideration from its customers in an amount that corresponds directly with the value to the customer of the entity's performance completed to date. As per the Utility User Agreements (UUA), the amount of consideration is fixed per unit of output. No variable consideration, financing, non-cash consideration and consideration payable to customer is involved in the transaction price.

Connection charges
Revenue in respect of connection charges, recovered from customers at the time of entering into an agreement, are recognized as deferred income and amortized over the expected life of customer relationship as follows:

Industrial customers	20 years
Non-industrial customers	5 years

Finance income
For all financial instruments measured at amortized cost, finance income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the consolidated income statement.

Dividends
Dividends are recognized when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (Continued)
2.3 Summary of material accounting policies (Continued)
d) Revenue recognition (Continued)

Other income
Any other income is recognized when the realization of income is virtually certain and earned by the Group on its own account. Non-cash consideration received from customers is initially recognized at fair value. Subsequent to initial recognition, non-cash consideration is recognized as revenue over the expected period over which related performance obligations are satisfied.

e) Foreign currencies
The Group's consolidated financial statements are presented in Saudi Riyals, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in the consolidated income statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to profit or loss.

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

Group companies
On consolidation, the assets and liabilities of foreign operations, if any, are translated into Saudi Riyals at the rate of exchange prevailing at the reporting date and their income statement are translated at exchange rates prevailing at the date of the transaction. The exchange differences arising on the translation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in the consolidated income statement.

f) Property, plant and equipment
Property, plant and equipment except land and capital work in progress are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts 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 Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Contributions by customers of items of property, plant and equipment, which require an obligation on the Group to either connect the customer to the network or to supply the customer with ongoing access to supply of power or water or both, are recognized at the fair value when the Group has obtained control of the item. A corresponding credit to deferred revenue is made in current and non-current liabilities combined. Revenue and the related depreciation is subsequently recognized over the contractual period stipulated in the Utility User Agreement (UUA).

An item of property, plant and equipment 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 consolidated income statement when the asset is derecognized.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (Continued)
2.3 Summary of material accounting policies (Continued)
f) Property, plant and equipment (Continued)

Depreciation is charged when the assets is available for use in the manner intended by management. 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.

Land and capital work in progress are stated at cost less impairment losses, if any, and is not depreciated until the asset is available for use in the manner intended by management.

The Group exercises judgement in determining the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear.

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

	Useful lives (in years)
Plant and machinery	**25 - 30**
Buildings, wells and civil infrastructure	**10 - 40**
Meters, pipe networks and lift stations	**20 - 25**
Power lines, cables, meters and networks	**30 - 40**
Common external facilities	**20**
Other equipment	**3 - 25**

g) Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Software licences
Intangibles mainly represent software license costs. A summary of the policies applied to the Group's intangible assets is as follows:

	Software licence
Useful lives	5 years
Amortization method used	Amortized on a straight-line basis over the useful life
Internally generated or acquired	Acquired

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement when the asset is derecognized.

h) Leases
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

A. As a Lessee
The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset is depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (Continued)
2.3 Summary of material accounting policies (Continued)
h) Leases (Continued)

A. As a Lessee (Continued)
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liability for leases of low-value assets such as IT equipment and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' in the consolidated statement of financial position.

B. As a Lessor
When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

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

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term.

i) Financial instruments — initial recognition and subsequent measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group applies the classification and measurement requirements for financial instruments under IFRS 9 'Financial Instruments'.

A financial asset or financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument, which is generally on trade date.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss - FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (Continued)
2.3 Summary of material accounting policies (Continued)
i) Financial instruments — initial recognition and subsequent measurement (Continued)

Financial assets
(i) Classification and subsequent measurement of financial assets
The Group classifies its financial assets as those to be measured subsequently at amortized cost if they meet the following criteria:
• the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The classification depends on the Group's business model for managing financial assets and the contractual terms of the financial assets cash flows. The Group initially measures the trade receivables at the transaction price as the trade receivables do not contain a significant financing component.

(ii) Business model assessment
The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
– the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
– how the performance of the portfolio is evaluated and reported to the Group's management;
– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

(iii) Impairment of financial assets
The Group recognizes a loss allowance for expected credit losses ("ECL") for financial assets measured at amortized cost. The ECL is recognized either for lifetime or for 12 months. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 months ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations
- Actual or expected significant changes in the operating results of the customer
- Significant increases in credit risk on other financial instruments of the same customer
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of customers and changes in the operating results of the customer
- Macroeconomic information (such as market interest rates or growth rates)
- Past due information adjusted for future information

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (Continued)
2.3 Summary of material accounting policies (Continued)
i) Financial instruments — initial recognition and subsequent measurement (Continued)
Financial assets (Continued)

(iii) Impairment of financial assets (Continued)
Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 360 days past due in making a contractual payment, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has adopted the simplified approach as allowed by IFRS 9 and measures the loss allowance at an amount equal to lifetime expected credit losses for all trade receivables that result from contracts with the customers. The Group determines the expected credit losses on trade receivables by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

Objective evidence that financial assets are impaired can include significant financial difficulty, default or delinquency of the counterparty, restructuring of amounts due on terms that the Group would not otherwise consider, indications that a customer will enter bankruptcy, or other observable data relating to custome rs such as adverse changes in the economic conditions that correlate with defaults by the customers.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial instruments found not to be specifically impaired are then collectively (with similar risk characteristics) assessed for any impairment that has been incurred but not yet identified.

Impairment losses for a financial instrument are recognized in the consolidated income statement and reflected in impairment for credit losses. When a subsequent event causes the amount of impairmen t loss to decrease, the decrease in impairment loss is reversed through the consolidated income statement.

When an asset is uncollectible, it is written-off against the related provision. Such assets are written-off after all the necessary procedures have been completed and the amount of loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the consolidated income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the provision. The amount of reversal is recognized in the consolidated income statement.

(iv) Derecognition of financial assets
The Group derecognizes a financial asset when the contractual cash fl ows from the asset expire or it transfers its rights to receive contractual cash fl ows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial liabilities

(i) Classification and subsequent measurement of financial liabilities
The group classifi es its financial liabilities as those to be measured subsequently at amortized cost using the effective interest method, if they are not:
• contingent consideration of an acquirer in a business combination,
• held-for-trading, or
• designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The Group does not qualify any of its financial liabilities under 'fai r value through profit or loss (FVTPL)'.

(ii) Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (Continued)
2.3 Summary of material accounting policies (Continued)
i) Financial instruments — initial recognition and subsequent measurement (Continued)
Financial liabilities (Continued)

(iii) 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 Group 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 were 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 Group first updated 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 Group applied the policies on accounting for modifications to the additional changes.

(iv) Offsetting
Financial assets and liabilities are off-set and the net amount is presented in the consolidated statement of financial position when the Group has a legal right to offset the amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

j) Impairment of non-financial assets
The Group 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 Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or Cash Generating Unit ("CGU")'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 group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a 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.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year

Impairment losses are recognized in the consolidated income statement in expense categories consistent with the function of the impaired asset.

For assets, excluding goodwill an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU'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 recognized in the consolidated income statement.

The following specific criteria are also applied in assessing impairment of specific assets:

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (Continued)

2.3 Summary of material accounting policies (Continued)

k) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in b ringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

Provision for slow-moving and obsolete inventories are made considering various factors including age of the inventory items, historic usage, expected utilization in future and evaluation from the internal technical teams.

l) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks, cash on hand and short-term deposits with a maturity of three months or less.

m) Short-term deposits

Deposits of original maturity of greater than three months but less than one year are classified as short-term deposits under current assets.

n) Cash dividend and non-cash distribution to owners of equity

The Group recognises a liability to make cash or non-cash distributions to owners of equity when the distribution is authorised and the distribution is no longer at the discretion of the Group. A distribution is authorised when it is approved by the shareholders in the General Assembly. A corresponding amount is recognized directly in equity.

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

Upon settlement of the distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in consolidated income statement.

o) Provisions

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

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

p) Zakat and income tax

The Group is subject to the Regulations of the Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an estimated basis. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which the assessment is finalized. The Zakat and income charge in the consolidated income statement represents the Zakat and income tax for the Group.

q) Earnings per share

Earnings per share are computed by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period. Weighted average number of ordinary shares as of 31 December 2023 and 31 December 2022 were 250,000,000 shares.

r) Employees' benefits

Short-term employee benefits

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (Continued)
2.3 Summary of material accounting policies (Continued)
r) Employees' benefits (Continued)

Defined benefit plan
The Group is operating unfunded post-employment defined benefit plan. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurement gains and losses are recognized in full in the period in which they occur in other comprehensive income.

Past service costs are recognized in consolidated income statement on the earlier of:

- The date of the plan amendment or curtailment; and
- The date on which the Group recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under 'cost of revenue' and 'administrative expenses' in the consolidated income statement:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income.

The defined benefit liability comprises the present value of the defined benefit obligation, less past service costs out of which the obligations are to be settled. However, currently the plan is unfunded and has no assets.

Employee home ownership program
The Parent Company has established a home ownership program that offers eligible employees the opportunity to buy residential units constructed by the Parent Company. Upon signing the sale contract with the eligible Saudi employees, the relevant housing units are classified under other non-current assets as due from employees at their present value. Down payments and instalments of purchase price received from employees are set off against the amounts due from employees classified under other non-current assets. The cost of the houses and the related purchase price is removed from other non-current assets when title to the houses is transferred to the employees on repayment of all instalments, at which time no significant gain or loss is expected to result to the Group.

Employees' savings plan
The Parent Company administers an employees' savings plan (defined contribution plan) on behalf of its employees. Contributions from the participants are recorded as a liability and deposited in a separate bank account (refer note 14 and 19.2). Under the plan, an employee's contribution varies up to 15% of their basic pay at their discretion. Provision is made for the contributions made by the Parent Company which is 10% of the employee's contribution in the first year and ultimately increasing up to 100% in the tenth year.

s) Segment reporting
A business segment is a group of assets, operations or entities:

- engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Parent Company's other components;
- the results of its operations are continuously analysed by Chief Operating Decision Maker (CODM) in order to make decisions related to resource allocation and performance assessment; and
- for which financial information is discretely available.

The Chief Executive Officer of the Parent Company is considered to be the chief operating decision maker. Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The details of Group's segments are presented in note 5 to these consolidated financial statements.

t) Cash flow hedge
The Group uses interest rate swaps (IRS) to hedge its cash flow interest rate risk for investees. Such derivative financial instruments are initially recorded at cost on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purpose of cash flow hedges the Group hedges the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

i. Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation techniques including the Discounted Cash Flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

ii. Defined benefit plans (post-employment benefits)

The cost of defined benefit post-employment benefits and the present value of the related obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate**,** yield and duration of Saudi government bonds obligation with at least an 'A' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

Age-wise "Low, Service based" withdrawal rates are used in carrying out the valuation. These age-wise withdrawal rates are generally used in the MENA region to carry out the actuarial valuation of end of service benefit schemes of companies in Oil & Gas and Energy sectors.

The rates assumed are based on the Group reinsurance mortality tables, rated down one year. In the absence of any standard mortality tables in the region, these rates are generally used in the Kingdom of Saudi Arabia in carrying out actuarial valuation of end of service benefits schemes. If any other mortality table is used it will not make any significant difference in the results. A further detail about post-employment benefit obligation is provided in Note 19.1.

iii. Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU 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 DCF model.

The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

iv. Useful lives of property, plant and equipment
The Group's 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.

v. Useful lives of intangibles
The Group shall review the amortization period and the amortization method for any intangible asset with a finite useful life at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the Group shall change the amortization period accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the Group shall change the amortization method to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IAS 8.

vi. Impairment of inventories
Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. This estimation is performed on an individual line item basis and a provision for non-moving and obsolete inventory items applied according to the inventory type and the degree of ageing or obsolescence.

vii. Zakat and income tax
The Group is subject to Zakat and income tax in accordance with Zakat, Tax and Customs Authority ("ZATCA") regulations. Zakat and income tax are provided on an accrual basis. Zakat and income tax computation involves relevant knowledge and judgment of the rules and regulations to assess the impact of Zakat and income tax liability at a particular period end. This liability is considered an estimate until the final assessment by ZATCA is carried out until which the Group retains exposure to additional Zakat and income tax liability.

viii. Impairment of financial assets
The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost. The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

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

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

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the financial asset is 360 days or more past due.

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

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

In all cases, the maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)
viii. Impairment of financial assets (Continued)

b) Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at Fair value through other comprehensive income ("FVOCI") are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 360 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties

c) Presentation of allowance for ECL in the consolidated statement of financial position
Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

d) Write-off
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

ix. Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for. A provision for onerous contracts is measured at the present value of the lower of expected cost of terminating the contract and expected net cost of continuing with the contract. Before a provision is established, the Group recognizes an impairment loss on the assets associated with that contract.

x. Lease term and estimating the incremental borrowing rate

Extension and termination options are included in a number of leases. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated) and also where such options held are exercisable only by the Group and not by the respective lessor. Options are not included in the lease liabilities where the leased assets could be replaced without significant cost or business disruptions.

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

xi. Determination of joint control

Judgement is required to determine when the Group has joint control, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements relate to the operating and capital decisions of the arrangement, such as: the approval of capital expenditure programme for each year, and appointing, remunerating and terminating the key management personnel of, or service providers to, the joint arrangement. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

Judgement is also required to classify a joint arrangement as either a joint operation or joint venture. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, it considers:
• The structure of the joint arrangement – whether it is structured through a separate vehicle
• When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:

- The legal form of the separate vehicle
- The terms of the contractual arrangement
- Other facts and circumstances (when relevant). This assessment often requires significant judgement, and a different conclusion on joint control and also whether the arrangement is a JO or a JV, may materially impact the accounting.

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

a) New and revised standards with no material effect on the consolidated financial statements

Following are the recent changes to IFRSs that were adopted on 1 January 2023:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimate (Amendments to IAS 8);
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes; and
- International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12.

The application of the revised IFRSs did not have any material impact on the amounts reported or disclosures for current and prior periods except for 'Amendments to IAS 1 and IFRS Practice Statement 2' mentioned in note 2.3.

b) Standards issued but not yet effective

The Group's management decided not to choose the early adoption of the following new and amended standards and interpretations issued which will become effective for the periods commencing on or after 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), effective for annual periods beginning on or after 1 January 2024;
- Lease liabilities in a Sale and Leaseback (Amendments to IFRS 16), effective for annual periods beginning on or after 1 January 2024;
- Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7, effective for annual periods beginning on or after 1 January 2024;
- Lack of exchangeability – Amendments to IAS 21, effective for annual periods beginning on or after 1 January 2025; and
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28), effective date yet to be determined.

The above-mentioned standards are not expected to have a material impact on the Group's consolidated financial statements.

5. OPERATING SEGMENTS

The main operating activities of the Group are divided into Power, Water, Gas and others which are complementary to each other in the production and distribution of electricity, water and gas to customers. The Group's primary revenues are currently realized from sale of power, water and gas to final customers according to the applicable tariffs.

Segment information:
The Group is organized into business units based on following reportable segments:

- Power, includes electric power generation, transmission, distribution and retail sales;
- Water, includes desalinated and treated water systems, and potable, process and industrial water production, distribution, sea water cooling systems for heavy industries, industrial and sanitary waste water treatment and disposal;
- Gas, includes sales gas distribution and retail sales of gas;
- JWAP, as explained in note 1; and
- TAWREED, as explained in note 1.

Further, Corporate, includes all other activities that are not directly attributable to identifiable operating segments. This primarily includes finance income, other income/expense, charge of impairment on trade receivables and share in results of equity accounted investees.

All of the Group's operating assets and principal activities are located in the Kingdom of Saudi Arabia.

5. OPERATING SEGMENTS (Continued)

For the year ended 31 December 2023

	Power	Water	Gas	JWAP	TAWREED	Corporate	Eliminations	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Revenue from external customers	1,636,965	2,451,457	103,872	-	2,197,040	-	-	6,389,334
Inter segment revenue	213,742	547,508	-	303,577	366,233	8,379	(1,439,439)	-
Total revenue	1,850,707	2,998,965	103,872	303,577	2,563,273	8,379	(1,439,439)	6,389,334
Depreciation and amortisation	(405,473)	(610,084)	(2,857)	(4,722)	-	-	(171,763)	(1,194,899)
Others	(995,680)	(1,903,335)	(87,058)	(152,028)	(2,551,727)	(2,441)	1,622,723	(4,069,546)
Total cost of revenue	(1,401,153)	(2,513,419)	(89,915)	(156,750)	(2,551,727)	(2,441)	1,450,960	(5,264,445)
Charge of impairment loss on trade receivables	-	-	-	-	-	(10,448)	-	(10,448)
Administrative and other expenses	(107,602)	(131,762)	(1,133)	(5,555)	(11,546)	(4,155)	12,912	(248,841)
Depreciation and amortisation	(8,159)	(24,514)	(74)	-	-	-	-	(32,747)
Total administrative and other expenses	(115,761)	(156,276)	(1,207)	(5,555)	(11,546)	(4,155)	12,912	(281,588)
Other income / expense, net	(272)	1,610	-	-	64	173,705	(1,866)	173,241
Finance income	-	3,405	-	2,150	285	86,869	-	92,709
Finance cost	(233,956)	(218,869)	-	(66,399)	-	-	311	(518,913)
Share of results in equity accounted investees	-	-	-	-	-	(8,149)	-	(8,149)
Zakat and income tax expense	(18,231)	(12,949)	-	(5,858)	(64)	(8,841)	-	(45,943)
Net profit for the year	81,334	102,467	12,750	71,165	285	234,919	22,878	525,798
As at 31 December 2023								
Total assets	8,513,059	10,473,604	172,455	2,105,723	559,329	3,035,278	(1,806,893)	23,052,555
Total liabilities	3,021,967	5,798,013	29,250	1,362,369	557,107	4,294,021	(213,047)	14,849,680

5. OPERATING SEGMENTS (Continued)

For the year ended 31 December 2022

	Power	Water	Gas	JWAP	TAWREED	Corporate	Eliminations	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Revenue from external customers	1,722,073	2,419,232	79,105	-	2,284,683	-	-	6,505,093
Inter segment revenue	226,574	628,995	-	336,514	364,252	8,665	(1,565,000)	-
Total revenue	1,948,647	3,048,227	79,105	336,514	2,648,935	8,665	(1,565,000)	6,505,093
Depreciation and amortisation	(390,589)	(569,810)	(3,007)	(3,211)	-	-	(171,762)	(1,138,379)
Others	(1,098,363)	(1,990,813)	(67,638)	(152,941)	(2,639,746)	-	1,730,982	(4,218,519)
Total cost of revenue	(1,488,952)	(2,560,623)	(70,645)	(156,152)	(2,639,746)	-	1,559,220	(5,356,898)
Charge of impairment loss on trade receivables	-	-	-	-	-	(3,864)	-	(3,864)
Administrative and other expenses	(92,677)	(135,552)	(822)	(5,853)	(9,189)	(3,939)	12,913	(235,119)
Depreciation and amortisation	(5,302)	(25,411)	(3)	-	-	(4,685)	-	(35,401)
Total administrative and other expenses	(97,979)	(160,963)	(825)	(5,853)	(9,189)	(8,624)	12,913	(270,520)
Other income / expense, net	(115)	1,739	-	-	33	223,895	(5,137)	220,415
Finance income	-	1,034	-	520	-	49,923	-	51,477
Finance cost	(125,845)	(99,559)	-	(68,779)	-	(4,193)	347	(298,029)
Share of results in equity accounted investees	-	-	-	-	-	4,352	-	4,352
Zakat and income tax expense	40,713	(25,964)	43	(12,589)	(33)	(8,546)	-	(6,376)
Net profit for the year	276,469	203,891	7,678	93,661	-	261,608	2,343	845,650
As at 31 December 2022								
Total assets	8,655,951	10,590,569	162,981	2,317,198	563,515	3,805,644	(1,869,598)	24,226,260
Total liabilities	3,163,591	5,597,293	23,759	1,552,587	561,578	5,326,896	(244,301)	15,981,403

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Plant & machinery	Buildings, wells & civil infrastructure	Meters, pipe networks & lift stations	Power lines, cables, meters & networks	Common external facilities	Other equipment	Capital work – in-progress (Note 6.3)	Total
Cost:	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Balance at 1 January 2022	411,511	17,795,393	3,816,909	4,735,541	3,519,893	90,369	821,294	1,603,799	32,794,709
Additions	-	49,163	6,937	2,561	20,873	-	20,761	655,720	756,015
Disposals	-	(512)	-	-	-	-	(442)	-	(954)
Transfers (Note 6.5)	-	210,834	22,482	-	12,435	-	19,102	(276,783)	(11,930)
Balance at 31 December 2022	411,511	18,054,878	3,846,328	4,738,102	3,553,201	90,369	860,715	1,982,736	33,537,840
Additions	**-**	**59,678**	**120,246**	**66,846**	**1,416**	**-**	**43,684**	**576,873**	**868,743**
Disposals	**-**	**(1,740)**	**(78)**	**-**	**-**	**-**	**(38,955)**	**-**	**(40,773)**
Transfers (Note 6.5)	**-**	**710,630**	**22,909**	**401,739**	**203,502**	**-**	**85,877**	**(1,432,405)**	**(7,748)**
Balance at 31 December 2023	**411,511**	**18,823,446**	**3,989,405**	**5,206,687**	**3,758,119**	**90,369**	**951,321**	**1,127,204**	**34,358,062**
Accumulated depreciation:									
Balance at 1 January 2022	49,278	7,326,264	1,482,204	1,979,208	986,185	48,582	510,898	-	12,382,619
Depreciation (Note 6.1)	11,488	638,249	101,705	234,358	107,903	4,504	67,107	-	1,165,314
Disposals	-	(512)	-	-	-	-	(442)	-	(954)
Balance at 31 December 2022	60,766	7,964,001	1,583,909	2,213,566	1,094,088	53,086	577,563	-	13,546,979
Depreciation (Note 6.1)	**11,488**	**661,691**	**104,127**	**253,069**	**116,828**	**4,504**	**66,899**	**-**	**1,218,606**
Disposals	**-**	**(1,740)**	**(78)**	**-**	**-**	**-**	**(38,955)**	**-**	**(40,773)**
Balance at 31 December 2023	**72,254**	**8,623,952**	**1,687,958**	**2,466,635**	**1,210,916**	**57,590**	**605,507**	**-**	**14,724,812**
Carrying value:									
Balance at 31 December 2023	**339,257**	**10,199,494**	**2,301,447**	**2,740,052**	**2,547,203**	**32,779**	**345,814**	**1,127,204**	**19,633,250**
Balance at 31 December 2022	350,745	10,090,877	2,262,419	2,524,536	2,459,113	37,283	283,152	1,982,736	19,990,861

6. **PROPERTY, PLANT AND EQUIPMENT** (Continued)

6.1 Allocation of depreciation charge for the year

	2023	2022
	SR '000	SR '000
Cost of revenue (note 25)	**1,185,884**	1,130,220
Administrative expenses (note 26)	**32,722**	35,094
	1,218,606	1,165,314

6.2 Right-of-use assets

Additions to right-of-use assets during the year ended 31 December 2023 amounted to SR 119.66 million (31 December 2022: SR 0.95 million). The following table presents depreciation and carrying values of right-of-use assets by class of assets:

	2023		2022	
	Depreciation	**Carrying value**	Depreciation	Carrying value
	SR '000	**SR '000**	SR '000	SR '000
Land	**11,488**	**314,085**	11,488	325,573
Plant & machinery	**35,105**	**527,001**	33,497	536,176
Buildings, wells & civil infrastructure	**17,452**	**245,688**	17,483	258,964
Meters, pipe networks & lift stations	**120,146**	**1,016,643**	114,507	1,063,082
Power lines, cables, meters & networks	**35,707**	**587,747**	35,599	615,466
Other equipment	**11,774**	**5,931**	15,970	9,847
	231,672	**2,697,095**	228,544	2,809,108

6.3 Capital work-in-progress

Capital work-in-progress mainly represents costs incurred on new projects for installation of plant and machinery, civil infrastructure and equipment for various facilities of the Group.

6.4 Assets under charge

Property, plant and equipment as of 31 December 2023 with a carrying amount of SR 4,366.3 million (31 December 2022: SR 4,585.7 million) are subject to a first charge and second charge to secure SIDF loans (refer to Note 18).

6.5 Transfers

During the year, assets amounting to SR 7.7 million (31 December 2022: SR 11.9 million) were transferred to intangible assets.

7. INTANGIBLE ASSETS

	2023	2022
	SR '000	SR '000
Cost:		
Opening balance	**128,105**	132,943
Additions	**-**	842
Transfers from capital work in progress (Note 6.5)	**7,748**	11,930
Write-off / disposals	**-**	(17,610)
Closing balance	**135,853**	128,105
Accumulated amortization:		
Opening balance	**114,180**	123,324
Amortization	**9,040**	8,466
Write-off / disposals	**-**	(17,610)
Closing balance	**123,220**	114,180
Carrying value:		
At 31 December	**12,633**	13,925

8. GROUP INFORMATION

8.1 Subsidiaries

(i) One of the subsidiaries, TAWREED, entered into twenty years Power and Water Purchase Agreement (PWPA) with Jubail Water and Power Company (JWAP) for JWAP to construct, own, operate and transfer an Independent Water and Power Plant (IWPP). As per the PWPA, JWAP agreed to sell the entire power and water capacity and output of the IWPP only to TAWREED as per the rates stipulated in the PWPA.

(ii) TAWREED entered into a back-to-back On-Sale Agreement (the "On-Sale Agreement") with Saudi Electric Company (SEC), Saline Water Conversion Corporation (SWCC) and Marafiq (the three jointly known as the "On-Sale Parties") for a similar term of twenty years to sell the entire power and water purchased from JWAP. Based on the terms of the On-Sale Agreement, all costs incurred by TAWREED, such as the cost of power and water capacity and water output, fuel cost, overheads and development costs, etc., are to be repaid by the On-Sale Parties without any mark up.

(iii) On 30 June 2022, TAWREED and the On-Sale Parties signed a novation agreement in relation to the On-Sale Agreement, whereby Saudi Electricity Company (SEC) was released from all its rights, obligations and liabilities under the On-Sale Agreement, and Saudi Power Procurement Company (SPPC or Principal Buyer) assumed all of SEC rights, obligations and liabilities under the On-Sale Agreement.

8.2 Joint operation

Key financial highlights of JWAP which has been accounted for as Joint Operation are provided below:

Summarized statement of financial position

	2023	2022
	SR '000	SR '000
Current assets	**1,308,596**	1,219,146
Non-current assets	**5,710,772**	6,505,119
Current liabilities	**882,740**	825,810
Non-current liabilities	**3,658,782**	4,349,749
Equity	**2,477,846**	2,548,706

Summarized statement of profit or loss and other comprehensive income

	2023	2022
	SR '000	SR '000
Revenue	**1,011,925**	1,121,713
Profit before Zakat	**256,745**	354,167
Zakat and income tax	**(19,529)**	(41,965)
Net profit for the year	**237,216**	312,202
Other comprehensive income	**(57,514)**	530,596
Total comprehensive income	**179,702**	842,798

Summarized statement of cashflows

	2023	2022
	SR '000	SR '000
Cash flows from operating activities	**138,925**	309,392
Cash flows from investing activities	**849,776**	493,860
Cash flows used in financing activities	**(895,315)**	(897,032)
Net change in cash and cash equivalents	**93,386**	(93,780)

8. GROUP INFORMATION (Continued)

8.3 Equity accounted investees

As at 31 December 2023 and 31 December 2022, the Group has following equity accounted investees which are not individually material to the consolidated financial statements:

Associates:

- Jubail and Yanbu District Cooling Company ("TABREED"), owned 20% by the Parent Company, is registered in Kingdom of Saudi Arabia with the principal activity to develop, provide and support district cooling systems for industrial, commercial and residential customers in the industrial cities of Jubail and Yanbu. As at 31 December 2023, the investment was carried at SR 2.05 million (31 December 2022: SR 1.78 million) using equity accounting method.
- Jeddah Althaniya Operation and Maintenance Company ("JAOM"), owned 49% by the Parent Company, is registered for operation and maintenance of a sewage collection and treatment plant in Jeddah. Commercial operations of the Company have not commenced yet. As at 31 December 2023, the investment was carried at SR 0.14 million (31 December 2022: 0.14 million) using equity accounting method.

Joint venture:

- Jeddah Althaniya Water Company ("JAWC"), owned 45% by the Parent Company, is registered for management, operation, maintenance, construction and expansion of a sewage collection and treatment plant, distribution and disposal of waste and the establishment and expansion of the necessary facilities and networks in Jeddah. The commercial operations of JAWC commenced during the year. As at 31 December 2023, the investment was carried at SR 54.13 million (31 December 2022: SR 66.86 million) using equity accounting method.

8.4 Movement of investment in equity accounted investees is:

	2023	2022
	SR '000	SR '000
Opening balance	**68,783**	11,706
Additions	**-**	320
Share of results	**(8,149)**	4,352
	60,634	16,378
Movement in OCI	**(4,313)**	52,405
Closing balance	**56,321**	68,783

8.5 The following table analyses, in aggregate, the carrying amount and share of profit and OCI of the investees:

	Joint Venture		**Associates**	
	2023	2022	**2023**	2022
	SR'000	SR'000	**SR'000**	SR'000
Carrying amount of interest in investees	**54,127**	66,867	**2,194**	1,916
Share of:				
- (Loss) / profit from continuing operations	**(8,427)**	2,903	**278**	1,449
- Other comprehensive (loss) / income	**(4,313)**	52,405	**-**	-
	(12,740)	55,308	**278**	1,449

8.6 As at year end, the Group investees have conventional financial assets and conventional financial liabilities. Conventional financial assets include cash, time deposits and short-term investments. Conventional financial liabilities include long-term borrowings facilities. MIL has conventional financial assets amounting to SR 52.04 million (31 December 2022: SR 42.53 million) on which MIL earned interest income amounting to SR 2.17 million (31 December 2022: SR 0.33 million). JWAP has conventional financial liabilities amounting to 947.43 million (31 December 2022: SR 1,100.89 million). No other investee has conventional financial assets and conventional financial liabilities at the reporting date.

9. LONG TERM RECEIVABLES AND PREPAYMENTS

	2023	2022
	SR '000	SR '000
Due from employees under home ownership program (Note 9.1)	163,623	200,542
Non-current portion of fair value of derivatives (Note 23.3)	36,884	49,268
Deferred employees benefit (Note 9.1)	13,915	18,103
Deferred cost (Note 9.2)	10,947	12,548
	225,369	280,461

9.1 Due from employees under home ownership program

The Parent Company has established an employee home ownership program (HOP) that offers eligible employees the opportunity to buy residential units constructed by the Parent Company. The cost of land and construction costs of the housing units are repayable by employees over a period up to twenty years. The ownership of the housing units is transferred to employees upon full payment of the amounts due. This amount, recorded at amortized cost, represents the cost of housing units sold to the employees under employee home ownership program.

The Group does not expect any impairment losses against this balance given the historical default experience together with the underlying value of the residential units and that the amounts due are deductible from monthly salaries of employees. There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for due from employee home ownership program.

The Parent Company discounts the carrying amount of due from employees under home ownership program using effective interest method and recognizes deferred employee benefit asset which is being amortized on straight line over average duration of home ownership scheme to the consolidated income statement.

9.2 Deferred cost

Deferred cost relates to Parent Company's proportionate share in JWAP for costs incurred in accordance with the operation and maintenance (O&M) agreement. These are amortised over the term of O&M agreement starting from the commencement of commercial operations of JWAP.

10. INVENTORIES, NET

	2023	2022
	SR '000	SR '000
Spare parts	414,314	406,468
Fuel oil	15,577	37,524
Others	14,478	14,177
	444,369	458,169
Less: Provision for slow-moving and obsolete inventories	(173,531)	(161,863)
	270,838	296,306

The movement in the provision for slow-moving and obsolete inventories is:

	2023	2022
	SR '000	SR '000
Opening balance	161,863	144,596
Provided during the year	11,668	17,267
Closing balance	173,531	161,863

11. TRADE RECEIVABLES, NET

	2023	2022
	SR '000	SR '000
Trade receivables – related parties (Note 30.2)	919,419	709,765
Trade receivables – others	197,624	183,252
	1,117,043	893,017
Provision for impairment	(30,933)	(25,417)
	1,086,110	867,600

11. TRADE RECEIVABLES, NET (Continued)

For terms and conditions relating to trade receivables from related party receivables, refer to Note 30. Trade receivables are non-interest bearing and are generally on terms of 30 to 45 days.

The movement in allowance for impairment in respect of trade receivables during the year is:

	2023	2022
	SR '000	SR '000
Opening balance	**25,417**	22,882
Provision for the year	**10,448**	3,864
Write off during the year	**(4,932)**	(1,329)
Closing balance	**30,933**	25,417

As at year end, the ageing analysis of trade receivables is as follows:

	Total	**Up to 6 months**	**6 to 12 months**	**More than 12 months**
ECL percentage 2023		**1.1%**	**14.6%**	**21.5%**
ECL percentage 2022		1%	10.6%	30.8%
Gross balance (SR in '000)				
2023	**1,117,043**	**1,018,428**	**27,899**	**70,716**
2022	893,017	800,993	53,758	38,266

See Note 23 on credit risk of trade receivables, which discusses how the Group manages and measures credit risk of trade receivables that are neither past due nor impaired.

12. PREPAYMENTS AND OTHER CURRENT ASSETS

	2023	2022
	SR '000	SR '000
Accrued revenue	**235,127**	226,652
Advances and other receivables	**80,462**	76,345
Prepayments	**78,784**	72,851
Current portion of fair value of derivatives	**25,783**	31,400
Power margin (Note 12.1)	**24,413**	26,183
Accrued finance income	**5,529**	13,299
	450,098	446,730

12.1 Power margin represents compensation receivable by the Parent Company for the power produced by JWAP , refer note 27.1.

13. SHORT-TERM DEPOSITS

Short-term deposits are placed with commercial banks for varying periods between three and twelve months and earn finance income at market rates of interest.

14. CASH AND CASH EQUIVALENTS

	2023	2022
	SR '000	SR '000
Cash in hand	**6**	26
Cash at bank	**257,930**	510,668
Short term deposits	**929,000**	175,000
Cash and cash equivalents	**1,186,936**	685,694

Cash and cash equivalents include cash and bank balances and demand deposits with original maturities of three months or less.

Short-term deposits earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods of up to three months from the date of placement, depending on the immediate cash requirements of the Group.

Bank balances at 31 December 2023 include SR 42.8 million (31 December 2022: SR 35.4 million) representing employees' contributions and finance income pertaining to the employees' saving plan.

15.SHARE CAPITAL AND RESERVES

	2023	2022
Authorized and issued shares		
Ordinary shares of SR 10 each – Number	**250,000,000**	250,000,000
Ordinary shares issued and fully paid – SR '000	**2,500,000**	2,500,000

15.1 Statutory reserve

In accordance with the policy of the Parent Company, the Parent Company must set aside a statutory reserve by the appropriation of 4% of net profit for the year. This reserve is not available for distribution to the shareholders.

16. DIVIDENDS

	2023	2022
Dividends to shareholders - SR '000	**550,000**	450,000
Dividend per share – SR	**2.2**	1.8

During the year ended 31 December 2023, the Board of Directors of the Parent Company in their meeting held on 01 March 2023 announced to distribute cash dividends for second half of 2022 amounting to SR 275 million (SR 1.10 per share), which was paid on 23 March 2023. Further, the Board of Directors of the Parent Company approved interim dividends for first half of 2023 on 02 August 2023 amounting to SR 275 million (SR 1.10 per share), which was paid on 30 August 2023. During the year ended 31 December 2022, the Parent Company distributed cash dividends amounting to SR 175 million (SR 0.70 per share) and SR 275 million (SR 1.10 per share), which was paid net of Zakat and income tax.

17. EARNINGS PER SHARE

	2023	2022
Profit attributable to ordinary shareholders – SR '000	**525,798**	845,650
Weighted average number of ordinary shares outstanding during the year	**250,000,000**	250,000,000
Basic and dilutive earnings per share – SR	**2.10**	3.38

Basic earnings per share for profit attributable to ordinary shares holders for the year ended 31 December 2023 and 31 December 2022 are computed based on the weighted average number of shares outstanding during such years. The diluted earnings per share are the same as the basic earnings per share as the Group does not have any dilutive instruments in issue.

18. BANK LOANS AND BORROWINGS

	2023	2022
	SR '000	SR '000
MARAFIQ		
Shariah compliant long-term loans		
Fourth Murabaha	**1,500,000**	1,500,000
Fifth Murabaha	**1,500,000**	1,500,000
Sixth Murabaha	**2,900,000**	3,400,000
SIDF (a related party)	**554,000**	787,000
	6,454,000	7,187,000
Less: Unamortised transaction costs	**(45,500)**	(66,137)
	6,408,500	7,120,863
JWAP		
Shariah compliant and other long-term loans (Note 18.2)	**1,309,758**	1,503,184
Less: Unamortised transaction costs	**(11,607)**	(14,944)
	1,298,151	1,488,240
	7,706,651	8,609,103

18. BANK LOANS AND BORROWINGS (Continued)

Bank loans and borrowings are presented in these consolidated financial statements as follows:

	2023	2022
	SR '000	SR '000
Current maturity under current liabilities	**463,278**	410,888
Non-current maturity under non-current liabilities	**7,243,373**	8,198,215
	7,706,651	8,609,103

Movement in bank loans and borrowings is as follows:

	2023	2022
	SR '000	SR '000
Opening balance	**8,690,184**	9,072,466
Repayments	**(926,426)**	(382,282)
	7,763,758	8,690,184
Less: Unamortized transaction costs	**(57,107)**	(81,081)
Closing balance	**7,706,651**	8,609,103

18.1 *MARAFIQ*

Murabaha

During 2019, the Parent Company entered into three loan agreements with three banks to restructure its Murabaha facilities with loans having extended tenor. The loans have aggregate amount of SR 5.9 billion (SR 1.5 billion, SR 1.5 billion and SR 2.9 billion) which was fully utilized as at 31 December 2023.

The Parent Company's payment obligations under the Murabaha Facility Documents rank pari passu with the claims of all its other unsecured creditors, except for obligations mandatorily preferred by law. The loan agreements include certain covenants including debt to tangible net worth and debt service coverage, to be maintained by the Parent Company during the term of the loans and at the year-end. The Parent Company complied with such covenants as of year ended 31 December 2023. The loans carry finance charges at Saudi Inter Bank Offered Rate (SIBOR) plus a margin. Principal repayment of loans commences from 2025 and maturing on 2034. During the year, an early repayment of SR 500 million was made by the Parent Company for Sixth Murabaha.

Saudi Industrial Development Fund (SIDF)

The loan agreements entered into with SIDF, a related party, on 26 May 2016 provided for two loans with an aggregate amount of SR 1.6 billion to finance the construction of Parent Company's production facilities. The Parent Company had drawn full amount as at 31 December 2018. Up-front fees and annual administrative expenses are charged by SIDF under the loan agreement. The loans are payable in seventeen unequal semi-annual instalments which commenced in January 2018 and maturing in 2025.

The above loans are secured by a mortgage on certain assets of the Parent Company (Note 6.4). The covenants of the borrowing facility with SIDF require the Parent Company to maintain certain level of financial conditions. The Parent Company complied with such covenants as of year ended 31 December 2023.

18.2 *JWAP*

	2023	2022
	SR '000	SR '000
International (Note a)	**921,514**	1,023,149
Islamic (Note b)	**362,323**	402,284
KEIC covered (Note c)	**25,921**	77,751
	1,309,758	1,503,184

a) JWAP obtained international term facility of SR 5,895 million (including standby facility of SR 172 million) from international facility lenders with respect to financing of a portion of the project. Repayments terms require unequal semi-annual instalments starting from 30 September 2010 and ending on 31 March 2029. The facility carries interest rates at Secured Overnight Financing Rate (SOFR) plus a margin.

b) The Islamic loan is structured in a manner whereby the Islamic lenders purchased certain assets of JWAP and leased the assets to JWAP on 30 September 2010 for 20 years lease term. The cost of the lease is set by reference to SOFR plus a margin and is repayable in semi-annual instalments.

18. BANK LOANS AND BORROWINGS (Continued)
18.2 JWAP (Continued)

c) JWAP obtained KEIC covered loan facility of SR 2,419 million from facility lenders with respect to financing of a portion of the project. Repayment terms require equal semi-annual instalments as a percentage of loan from 30 September 2010 and ending on 31 March 2024. The facility carries interest rate at SOFR plus a margin.

JWAP and the arrangers have signed a Common Terms Agreement ("CTA"). Under the CTA, the lenders share in security granted by JWAP. This security includes charges over the JWAP's assets (including plant and bank accounts) and the key project contracts. The CTA also includes certain covenants requiring JWAP to maintain certain financial ratios and restricting additional indebtedness and distributions to JWAP's shareholders.

During 2023, JWAP completed its transition to alternative benchmark rate as part of interest rate benchmark reform (IBOR reform). All the IBOR exposure as at 31 December 2023 indexed to US dollar London Inter-bank Offered Rate have been switched to the Secured Overnight Financing Rate. The transition had no material impact on the consolidated financial statements.

The aggregate maturities of gross carrying value of loans are summarised as follows:

	2023	2022
	SR '000	SR '000
2023	-	426,426
2024	**471,117**	471,117
2025	**1,100,939**	1,150,939
2026	**822,402**	872,402
2027	**838,527**	888,527
2028	**990,773**	1,040,773
2029 and above	**3,540,000**	3,840,000
	7,763,758	8,690,184

19. OTHER NON-CURRENT LIABILITIES

	2023	2022
	SR '000	SR '000
Obligation for assets transferred (Note 30.4)	**1,355,445**	1,362,717
Obligation for post-employment defined benefits (Note 19.1)	**757,292**	690,844
Non-current portion of deferred income (Note 19.3)	**568,893**	611,175
Employees' savings plan (Note 19.2)	**69,073**	56,877
Retention payable	**6,541**	32,265
Others	**10,165**	8,248
	2,767,409	2,762,126

19.1 Post-employment defined benefit plan

The Group has post-employment defined benefit plan. The benefits are required by Saudi Labor and Workman Law. The Group recognises the benefits in the consolidated income statement and consolidated statement of profit or loss and other comprehensive income. The benefits are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

The following table summarizes the components of the net benefit expense recognized in consolidated income statement and amounts recognized in the consolidated statement of financial position.

Movement in the present value of defined benefit obligation

	2023	2022
	SR '000	SR '000
Defined benefit obligation at 1 January	**690,844**	646,982
Interest cost	**36,121**	19,635
Current service cost	**52,606**	60,932
Net benefit expense recognized in consolidated income statement	**88,727**	80,567
Re-measurement gain recognized in other comprehensive income	**(3,815)**	(24,637)
Benefits paid	**(18,464)**	(12,068)
Defined benefit obligation at 31 December	**757,292**	690,844

19. OTHER NON-CURRENT LIABILITIES (Continued)

19.1 Post-employment defined benefit plan (Continued)

Remeasurement gain recognized in other comprehensive income relates to:

	2023	2022
	SR '000	SR '000
Financial assumptions	**83**	(25,864)
Demographic assumptions	**1,952**	796
Experience adjustments	**(5,850)**	431
	(3,815)	(24,637)

Significant assumptions used in determining the post-employment defined benefit obligation include the following:

	2023	2022
Discount rate	**4.60% to 4.7%**	4.05% to 4.6%
Future salary increases	**5.05% to 4.7%**	4.3% to 4.6%
Normal retirement age	**60 years**	60 years
Withdrawal rate	**Low, Service based**	Low, Service based

At 31 December 2023, the weighted-average duration of the defined benefit obligation was 10.71 years (2022: 11.04 years).

A quantitative sensitivity analysis for discount rate assumption on the defined benefit obligation as at 31 December is as follows:

Assumption	Discount rate	
Sensitivity Level	**1% increase**	**1% decrease**
	SR '000	**SR '000**
Defined benefit obligation as at 31 December 2023	**681,738**	**841,751**
Defined benefit obligation as at 31 December 2022	621,039	768,897

Assumption	Future salary increases	
Sensitivity Level	**1% increase**	**1% decrease**
	SR 000	**SR 000**
Defined benefit obligation as at 31 December 2023	**844,507**	**678,147**
Defined benefit obligation as at 31 December 2022	771,914	617,738

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The Group expects to pay SR 39.7 million in contributions to its defined benefit plans in 2024.

19.2 Employees' savings plan

	2023	2022
	SR '000	SR '000
Opening balance	**56,877**	51,628
Additions	**19,001**	12,778
Payments	**(6,805)**	(7,529)
Closing balance	**69,073**	56,877

19.3 Deferred income includes receipt of connection charges during the year amounting to SR 11.03 million (31 December 2022: SR 28.3 million).

20. TRADE PAYABLES

	2023	2022
	SR '000	SR '000
Trade payables	**214,668**	228,573
Due to related parties (Note 30.3)	**203,133**	203,130
Retention payable	**166,631**	232,503
Due to contractors	**22,471**	22,933
	606,903	687,139

21. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2023	2022
	SR '000	SR '000
Inventory accruals	**309,092**	220,933
Accrued expenses and other payables	**287,624**	272,161
Accrued expenses and other payables – related parties (Note 30.3)	**124,561**	164,516
Current portion of deferred income (Note 19.3)	**57,148**	56,943
Provision for Zakat and income tax (Note 22)	**39,780**	116,755
Accrued finance charges	**34,820**	30,015
Others	**63,648**	120,311
	916,673	981,634

22. ZAKAT AND INCOME TAX

Zakat and income tax charge for the year represents the accumulated amount of the Zakat and income tax provision made by the Group.

During the year ended 31 December 2017, Royal Decree No. 131 was issued whereby the scope of taxable persons was expanded to include Kingdom resident capital companies with respect to shares owned directly or indirectly by persons engaged in the production of oil and hydrocarbons. This amendment resulted in a change in tax profile of companies having shares owned, whether directly or indirectly, by Saudi Arabian oil and hydrocarbon producing companies that were previously subject to Zakat. Due to SAPCO's (a shareholder of the Parent Company) connection with Saudi Aramco, the Parent Company and its investees were subject to income tax to the extent of SAPCO's shareholding in the Parent Company.

Pursuant to the Royal Decree No. (M/153) issued on 5 Dhu al-Qi'dah 1441 H (corresponding to 26 June 2020), in respect of the amendment of Paragraph (A) of article 2 of the Income Tax Law issued by Royal Decree No. (M/1) on 15/1/1425H, as amended by Royal Decree No. (M/131) on 29/12/1438H, shares held directly or indirectly in listed companies on the Tadawul by taxpayers engaged in oil and hydrocarbon activities are exempt from the application of corporate income tax.

After completing its listing process on 24 November 2022, Marafiq is no longer subject to income tax and is subject to Zakat only. Accordingly, deferred tax assets and liabilities of SR 7.4 million and SR 126.4 million respectively arising as result of SAPCO's shareholding in the Parent Company which were recognized in the consolidated statement of financial position as of the date of listing were charged off to consolidated income statement and consolidated statement of profit or loss and other comprehensive income.

Amounts recognized in consolidated income statement

	2023	2022
	SR '000	SR '000
Zakat		
- Charge for the year	**42,498**	51,153
- Prior year charge	**1,082**	64,200
Income tax		
- Current tax charge	**3,195**	12,006
- Prior tax (reversal) / charge	**(168)**	204
- Deferred tax reversal	**(664)**	(121,187)
	45,943	6,376

Amounts recognized in consolidated statement of profit or loss and other comprehensive income

	2023	2022
	SR '000	SR '000
Deferred tax related to:		
- re-measurement defined benefit obligation	-	(1,450)
- cash flow hedge on investees	**(719)**	(7,974)
	(719)	(9,424)

22. ZAKAT AND INCOME TAX (Continued)

The principal elements of the Zakat base of the Parent Company are as follows:

	2023	2022
	SR '000	SR '000
Non-current assets	**19,565,164**	19,815,739
Non-current liabilities	**11,367,358**	12,210,580
Opening shareholder equity	**8,992,114**	8,299,559
Net income before Zakat and tax	**540,945**	828,537
Spare parts	**352,005**	349,148
Dividends paid	**549,665**	389,565

Some of the above amounts have been adjusted in arriving at approximate Zakat base and the Zakat charge for the year.

(i) Movement in Zakat and income tax provision

	2023	2022
	SR '000	SR '000
As at 1 January	**116,755**	41,636
Provision for Zakat and income tax	**45,628**	63,159
Prior year charge	**979**	64,404
Payment of Zakat and income tax	**(123,582)**	(52,444)
As at 31 December	**39,780**	116,755

(ii) Deferred tax liabilities

	2023	2022
	SR '000	SR '000
Balance at 1 January	**4,367**	126,443
Charge for the year	**-**	8,184
Reversal during the year	**(1,383)**	(130,260)
Balance at 31 December	**2,984**	4,367

Deferred tax liabilities as of 31 December 2023 relates to taxable temporary differences for JWAP.

(iii) Deferred tax assets

	2023	2022
	SR '000	SR '000
Balance at 1 January	-	7,430
Credit for the year	-	(7,430)
Balance at 31 December	-	-

(iv) Status of assessments

Power and Water Utility Company for Jubail and Yanbu (Marafiq)
During 2021, Zakat, Tax and Custom Authority (ZATCA) issued a final assessment for the years 2015, 2016 and 2017 to Marafiq with an additional Zakat liability of approximately SR 27 million, SR 54 million and SR 19 million respectively. Marafiq filed appeals against the ZATCA's final assessments within statutory time limit. During the same year, ZATCA issued its revised assessment rejecting Marafiq's contentions in its appeals. Marafiq filed appeals against ZATCA's revised assessments to the General Secretariat of Tax Committees (GSTC).

During 2022, Marafiq approached ZATCA's Alternate Dispute Resolution Committee (ADRC) to negotiate the additional Zakat liability imposed on the years 2015 through 2017. ADRC reverted with an offer of SR 64.2 million to close the open assessments for the years 2015 through 2017. Marafiq accepted ZATCA's offer and paid SR 64.2 million to settle additional Zakat liability in January 2023.

22. ZAKAT AND INCOME TAX (Continued)
(iv) Status of assessments (Continued)

Power and Water Utility Company for Jubail and Yanbu (Marafiq) (continued)
Zakat returns for the years up to 31 December 2022 have been filed with ZATCA within statutory deadline s and ZATCA review is awaited. ZATCA has requested additional information for the years 2018, 2021 and 2022 which has been responded by Marafiq.

Marafiq Water and Power Supply Company (TAWREED)
During 2021, ZATCA issued an assessment for the year 2015 and 2016 raising additional Zakat demand of SR 2.2 million. Tawreed filed an appeal against said assessments within the due date. During August 2021, ZATCA issued its revised assessment rejecting Tawreed's contention in appeal. Tawreed filed an appeal against ZATCA's revised assessments to GSTC.

During 2022, TAWREED filed an application for Zakat amnesty per Ministerial Resolution No. 13597, in order to apply the provisions of the new Zakat Regulations issued in 2019 in their 2015 and 2016 declaration. TAWREED received preliminary acceptance from ZATCA in January 2023 and ZATCA requested TAWREED to withdraw its active case with GSTC for the year 2015 and 2016. Accordingly, TAWREED withdrew its case from GSTC and finalized the review of its Zakat amnesty application by paying an additional Zakat liability of SR 7,300 to ZATCA.

Zakat returns for the years up to 31 December 2022 have been submitted within the statutory deadline. ZATCA has raised certain additional queries for the years 2018 through 2021 which have been responded by TAWREED and ZATCA's review is awaited.

Jubail Water and Power Company (JWAP)
During 2023, JWAP received Zakat and income tax assessment from ZATCA for 2017 with an additional income tax and Zakat liability of SR 5.93 million. JWAP paid the amount in full and settled the additional income tax and Zakat liability during the year ended 31 December 2023.

JWAP has submitted its Zakat and income tax returns for the years up to 31 December 2022, within statutory deadlines. Zakat and income tax assessments have been finalized by ZATCA for the years up to 2012 and for the years 2017 and 2018. The assessments for the years 2019 to 2022 are under review by ZATCA.

Masa Services Company for Operation and Maintenance (MASA)
Subsequent to the year ended 31 December 2023, ZATCA issued assessments for the years 2017 and 2018 to MASA for additional Zakat and income tax liability amounting to SR 0.76 million on which provision has been recognized in the consolidated financial statements.

Zakat and income tax assessment for the years since inception through 2022 are under review by ZATCA. Zakat and income tax returns up to the year 31 December 2022 have been submitted within the statutory deadline.

(v) Reconciliation of accounting profit to income tax charge

	2023	2022
	SR '000	SR '000
Profit before Zakat and income tax	**571,741**	852,026
Tax at 20% on taxable income	**15,404**	196,673
Effect of profit subject to Zakat	**(12,324)**	(153,742)
Impact of deferred tax due in change in tax status of Parent Company	-	(152,354)
Prior year (reversal) / charge	**(168)**	204
Effect of other permanent differences	**(549)**	242
Income tax charge for the year	**2,363**	(108,977)

23. FINANCIAL INSTRUMENTS

23.1 Financial assets

	2023	2022
	SR '000	SR '000
Due from employee home ownership program (Note 9)	**163,623**	200,542
Trade receivables (Note 11)	**1,117,043**	893,017
Other receivables	**265,069**	266,134
Short term deposits	**131,000**	1,575,900
Cash and cash equivalents (Note 14)	**1,186,936**	685,694
Total financial assets not measured at fair value	**2,863,671**	3,621,287

23.2 Financial liabilities

	2023	2022
	SR '000	SR '000
Loans and borrowings (Note 18)	**7,763,758**	8,690,184
Lease liabilities (Note 31)	**2,849,060**	2,937,034
Other non-current liabilities	**1,441,224**	1,460,107
Trade payables (Note 20)	**606,903**	687,139
Accrued expense and other payables	**819,745**	807,936
Total financial liabilities not measured at fair value	**13,480,690**	14,582,400

23.2.1 Bank loans and borrowings (Note 18)

	Interest rate %	Maturity	**2023**	2022
			SR '000	SR '000
Marafiq				
Fourth Murabaha	SIBOR + margin	2034	**1,500,000**	1,500,000
Fifth Murabaha	SIBOR + margin	2034	**1,500,000**	1,500,000
Sixth Murabaha	SIBOR + margin	2034	**2,900,000**	3,400,000
SIDF	-	2025	**554,000**	787,000
JWAP				
International loans	SOFR + margin	2029	**921,514**	1,023,149
KEIC covered loans	SOFR + margin	2024	**362,323**	77,751
Islamic loans	SOFR + margin	2029	**25,921**	402,284
			7,763,758	8,690,184

23.3 Measurement of fair values

Fair value hedge

The Group's financial assets and financial liabilities are measured at amortized cost except for the cash flow hedge in investees that is carried at fair value on a recurring basis.

The Group has not disclosed the fair value for financial instruments such as short-term trade and other receivables, trade and other payables and cash and bank balances, as their carrying amounts are a reasonable approximation of fair values largely because of short-term maturity of these instruments. The fair value of Murabaha, SIDF and other loans facilities is approximately the same as their carrying value.

As at 31 December 2023, JWAP held Interest Rate Swaps ("IRS") of a notional value of SR 1.29 billion (31 December 2022: SR 1.8 billion), in order to reduce its exposure to interest rate risks against long-term financing. The table below shows the fair values of derivative financial instruments, recorded as liabilities, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor the credit risk.

	31 December 2023		31 December 2022	
		Notional amount		*Notional amount*
	SR '000	***SR '000***	*SR '000*	*SR '000*
Cash flow hedges				
Interest rate swaps assets	**62,667**	**1,290,000**	80,668	1,830,000

23. FINANCIAL INSTRUMENTS (Continued)
23.3 Measurement of fair values (Continued)

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

Fair values of cash flows hedge of SR 25.8 million and SR 36.9 million represents the current and non-current portion of the positive mark to market values of the interest rate swaps as of 31 December 2023 (31 December 2022: SR 31.4 million and SR 49.3 million respectively represents positive mark to market values). The cash flow hedge reserve represents the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognized in the consolidated income statement when the hedged transaction impacts the income or loss. Under the finance agreements, the hedges are required to be held until the maturity date of the loans. Changes in fair value of the undesignated portion of the IRS are recognised in the consolidated income statement.

Interest rate swaps are fair valued by calculating present value of the estimated future cash flows. 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 Group and of the counterparty; this is calculated based on credit spreads derived from current default swap or bond prices.

Fair value hierarchy of financial instruments

	Fair value			
31 December 2023	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
	SR'000			
Share of cash flow hedge reserve of investees	**-**	**118,700**	**-**	**118,700**

	Fair value			
31 December 2022	Level 1	Level 2	Level 3	Total fair value
	SR'000			
Share of cash flow hedge reserve of investees	-	140,295	-	140,295

23.4 Financial instruments risk management objectives and policies
The Group's principal financial assets include cash and cash equivalents, trade receivables and certain other receivables that arrive directly from its operations. The Group's principal financial liabilities comprise loans and borrowings as well as trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's financial risk activities are governed by appropriate policies and procedures. Financial risks are identified, measured and managed in accordance with Group policies and risk appetite.

The Board of Directors review and agree policies for managing each of these risks, which are summarised below.

Fair value measurement
For information about the methods and assumptions used in determining the fair value of derivatives refer to note 23.3. For other financial assets and financial liabilities of the Group, their fair value approximates the carrying value, unless specifically disclosed in the relevant note.

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 prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity price risk and commodity price risk. Financial instruments affected by market risk include: loans and borrowings, deposits, and certain other financial instruments.

23. FINANCIAL INSTRUMENTS (Continued)

23.4 Financial instruments risk management objectives and policies (Continued)

Market risk (Continued)

Cash flow and interest rate risk

Managing interest rate benchmark reform and associated risk

A fundamental reform of major rate benchmarks is being undertaken globally, including replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (Referred to 'IBOR reform'). The Group had exposures to IBORs, primarily indexed to USD LIBOR, on its financial instruments that have been replaced as part of these market-wide initiatives. The panel bank submissions for USD LIBOR ceased in mid-2023. The Group completed its transition whereby all the IBOR exposures indexed to USD LIBOR have been switched to Secured Overnight Financing Rate (SOFR). The transition did not have any material impact on the consolidated financial statements.

As part of the Group's risk management strategy, the Group uses financial instruments to manage exposures arising from variation of interest rates that could affect profit or loss and other comprehensive income and applies hedge accounting to these instruments. During the year, the hedged item and hedging instrument were transitioned to risk-free rate, that is, SOFR. The hedge documentation has been amended accordingly. The Group has transitioned hedged item and instrument from 6-month LIBOR to 6-month SOFR. As the critical terms of the hedging contracts and their corresponding hedged items are identical, the Group performs a qualitative assessment of effectiveness, and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying interest rates.

Interest rate sensitivity

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

	2023	2022
	SR '000	SR '000
Increase/decrease by 100 basis points	**-/+62,244**	-/+64,536

The interest rate swaps settle on a semi-annual basis. The floating rate on the interest rate swaps is the relevant interbank rate. The Group will settle the difference between the fixed and floating interest rate on a net basis fixed contract rates and floating interest amounts, calculated by reference to the agreed notional principal amounts.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries including foreign currency amounts due from related parties.

The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars. Since Saudi Riyal is on a fixed parity with the US Dollar, the management believes that the Group does not have any significant exposure to currency risk.

Commodity price risk

The Group is affected by the volatility of certain commodities, primarily fuel oil. The Group's Board of Directors have developed and enacted a risk management strategy dealing with commodity price risk and its mitigation by entering into long-term contracts with Saudi Aramco for supply of fuel.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its investing activities, including deposits with banks and financial institutions.

Expected credit loss allowance as at 31 December 2023 (31 December 2022: immaterial) in respect of cash and cash equivalents, accrued revenue, due from employee home ownership program and short-term deposits was immaterial.

23. FINANCIAL INSTRUMENTS (Continued)

23.4 Financial instruments risk management objectives and policies (Continued)

Credit risk *(Continued)*

Trade receivables

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit worthiness analysis. At 31 December 2023, the Group had 9 customers (31 December 2022: 8 customers) that owed it more than SR 20 million each and accounted for approximately 65.9% (31 December 2022: 48.1%) of gross receivables.

The requirement for impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are combined into homogenous categories based on their classification into industrial, government, residential and commercial categories and assessed for impairment collectively. The calculation is based on historical data adjusted for future outlook and expectations. Loss rates are calculated using a 'roll rate' method based on the probability of receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments. The calculation is based on historical data adjusted for future outlook and expectations.

The expected credit loss estimates are disclosed in Note 11. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as medium, as its customers are located in multiple locations and several industries and operate in largely independent markets.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Treasury Department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the management and may be updated throughout the year subject to approval of the higher management. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group's maximum exposure to credit risk for the components of the consolidated statement of financial position is the carrying amounts as illustrated in Note 23.1.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group manages its liquidity risk by managing the working capital and ensuring that the bank facilities are available.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, Islamic Murabaha loans and other sources of funding. 6.06% of the Group's debt will mature in less than one year at 31 December 2023 (31 December 2022: 4.9%) based on the carrying value of borrowings reflected in the consolidated financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

		Contractual undiscounted cash flows			
As at 31 December 2023	**Carrying value**	**Within 12 months**	**2 to 5 years**	**> 5 years**	**Total**
	SR '000	**SR '000**	**SR '000**	**SR '000**	**SR '000**
Loans and borrowings	**7,706,651**	**797,080**	**4,595,089**	**4,135,797**	**9,527,966**
Lease liabilities	**2,849,060**	**341,893**	**873,157**	**1,846,374**	**3,061,424**
Other non-current liabilities	**1,441,224**	**-**	**6,541**	**1,434,683**	**1,441,224**
Trade payables	**606,903**	**606,903**	**-**	**-**	**606,903**
Accrued expense and other payables	**819,745**	**819,745**	**-**	**-**	**819,745**
	13,423,583	**2,565,621**	**5,474,787**	**7,416,854**	**15,457,262**

23. FINANCIAL INSTRUMENTS (Continued)

23.4 Financial instruments risk management objectives and policies (Continued)

Liquidity risk (Continued)

		Contractual undiscounted cash flows			
As at 31 December 2022	Carrying value	Within 12 months	2 to 5 years	> 5 years	Total
	SR '000	SR '000	SR '000	SR '000	SR '000
Loans and borrowings	8,609,103	621,558	3,979,856	5,196,315	9,797,729
Lease liabilities	2,937,034	339,512	1,003,496	1,795,248	3,138,256
Other non-current liabilities	1,460,107	-	32,265	1,427,842	1,460,107
Trade payables	687,139	687,139	-	-	687,139
Accrued expense and other payables	807,936	807,936	-	-	807,936
	14,501,319	2,456,145	5,015,617	8,419,405	15,891,167

Capital management

Capital includes equity attributable to the equity holders of the Parent Company.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is total debt to tangible net worth. The Group's policy is to keep the gearing ratio less than 3%. Tangible net worth includes share capital, reserves, retained earnings, excluding dividend declared or paid and any unrealized income from investment in securities.

The Group's net debt to adjusted equity ratio as at year end was as follows:

	2023	2022
	SR '000	SR '000
Total liabilities	**14,849,680**	15,981,403
Less: cash and cash equivalents	**(1,186,936)**	(685,694)
Net debt	**13,662,744**	15,295,709
Total equity	**8,202,875**	8,244,857
Fair value reserve of cash flow hedge of investees	**(118,700)**	(140,295)
Adjusted equity	**8,084,175**	8,104,562
Net debt to adjusted equity ratio	**1.69**	1.89

In order to achieve its overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants may lead to call-back of facilities. There have been no breaches of the financial covenants of any loans and borrowing in the current period. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2023 and 31 December 2022.

24. REVENUE

Revenue from contracts with customers is disaggregated as follows:

	2023	2022
	SR '000	SR '000
Power	**3,206,992**	3,381,304
Water	**3,042,159**	3,006,531
Others	**140,183**	117,258
	6,389,334	6,505,093

24.1 The Group provides utility services to various customers across the Kingdom of Saudi Arabia. Revenue from contract with customers is recognized over time (Refer note 2.3 (d)).

25. COST OF REVENUE

	2023	2022
	SR '000	SR '000
Power and water costs	**1,488,748**	1,518,754
Fuel and chemicals	**1,310,627**	1,456,286
Depreciation (Note 6.1)	**1,185,884**	1,130,220
Employees related costs	**650,280**	634,699
Operating and maintenance expenses	**240,105**	241,377
Repair and maintenance	**169,461**	164,882
Provision for slow-moving and obsolete inventories (Note 10)	**11,668**	17,267
Amortization of intangible assets	**9,015**	8,159
Others	**198,657**	185,254
	5,264,445	5,356,898

25.1 Cost of revenue includes inventories consumed during the year amounting to SR 409.9 million (2022: SR 390.4 million).

26. ADMINISTRATIVE EXPENSES

	2023	2022
	SR '000	SR '000
Employees related costs	**183,650**	166,813
Depreciation (Note 6.1)	**32,722**	35,094
Services contracts	**31,994**	42,724
Donations	**6,530**	3,553
Amortization of intangible assets	**25**	307
Others	**26,667**	22,029
	281,588	270,520

27. OTHER OPERATING INCOME

	2023	2022
	SR '000	SR '000
Power margin (Note 27.1)	**147,413**	157,432
Gain on sale of scrap	**14,963**	41,292
Others	**17,144**	24,371
	179,520	223,095

27.1 Power margin

The Supreme Economic Council in its resolution number 369/27 dated 29 Shawwal 1427 (20 November 2006) mentioned that the Parent Company would be compensated for selling the entire power produced by the IWPP to SEC instead of selling it to the Parent Company's customers and for its efforts to establish the initial set-up and to start the IWPP project. Pursuant to signing of novation agreement in relation to the On-Sale Agreement the rights, obligations and liabilities under the On-Sale Agreement were assumed by Principal Buyer (Refer note 8.1). Management, based on its understanding, is invoicing power margin to Principal Buyer instead of SEC since 30 June 2022. During the year, the Parent Company did not recognize any income from SEC (2022: SR 73.3 million) and recognized SR 147.4 million from Principal Buyer (2022: SR 84 million) for power margin income representing the agreed compensation to be received.

28. FINANCE INCOME

	2023	2022
	SR '000	SR '000
Income on short term deposits	**87,123**	44,933
Unwinding of discount on HOP receivable	**5,586**	6,544
	92,709	51,477

29. FINANCE COST

	2023	2022
	SR '000	SR '000
Finance cost on loans and borrowings (Note 29.1)	**477,557**	269,053
Finance cost on lease liabilities (Note 31)	**13,610**	13,624
Others	**27,746**	15,352
	518,913	298,029

29.1 This includes finance cost on Shariah compliant facilities amounting SR 444.12 million (2022: SR 221.04 million).

30. RELATED PARTY TRANSACTIONS AND BALANCES

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at mutually agreed terms and conditions. Outstanding balances at the year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2023, the Group did not record any provision for impairment of receivables (31 December 2022: Nil) relating to amounts owed by related parties except for SR 4.9 million receivable which was written off during 2023. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

The government of Kingdom of Saudi Arabia is the ultimate controlling party of the Parent Company. Related parties include shareholders, subsidiaries, associates, joint ventures, key management personnel and other related parties including entities under control, joint control or significant influence of the shareholders as well as government entities. Following are significant transactions and balances with related parties other than those disclosed elsewhere in the consolidated financial statements.

30.1 Significant transactions with related parties

(i) Billings for providing power and water services to related parties in accordance with long term supply agreements are as follows:

	2023	2022
Shareholders	**SR '000**	SR '000
SABIC and its subsidiaries	**1,694,270**	1,745,521
Royal Commission	**169,819**	158,972
Other related parties		
Saudi Aramco and its subsidiaries	**1,566,647**	1,514,069
Principal Buyer	**1,980,377**	1,076,084
SWCC	**731,115**	725,712
SEC	**106**	1,007,578
Other government entities	**102,908**	197,861
	6,245,242	6,425,797

(ii) Costs include fuel oil and gas costs in accordance with long-term purchase agreements as follows:

	2023	2022
	SR '000	SR '000
Other related parties		
Saudi Aramco and its subsidiaries	**1,344,603**	1,454,793
SEC	**76,726**	80,682
Principal Buyer	**34,137**	46,801
SWCC	**33,611**	24,447
	1,489,077	1,606,723

30. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

30.2 Due from related parties

Trade receivables

	2023	2022
	SR '000	SR '000
Shareholders		
SABIC and its subsidiaries	184,398	172,445
Royal Commission	82,661	36,881
Other related parties		
Saudi Aramco and its subsidiaries	267,830	207,782
SWCC	186,466	123,449
Principal Buyer	152,874	74,020
SEC	2,599	2,670
Other government entities	42,591	92,518
	919,419	709,765

Prepayments and other current assets

	2023	2022
	SR '000	SR '000
Other related parties		
Principal Buyer	175,950	127,589
SWCC	61,138	52,554
	237,088	180,143

30.3 Due to related parties

Trade payables

	2023	2022
	SR '000	SR '000
Shareholder		
Royal Commission	53	-
Other related parties		
Saudi Aramco and its subsidiaries	203,080	203,130
	203,133	203,130

Retention payable

	2023	2022
	SR '000	SR '000
Shareholder		
Royal Commission	22	22
	22	22

Accrued expenses and other current liabilities

	2023	2022
	SR '000	SR '000
Shareholder		
Royal Commission	8,705	13,702
Other related parties		
Saudi Aramco and its subsidiaries	107,257	137,817
SEC	8,599	12,997
	124,561	164,516

30. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

30.4 Due to a shareholder

Future minimum lease payments of leases under the lease contracts with Royal Commission for Jubail and Yanbu, together with the present value of the net minimum lease payments are as follows:

	2023	2022
	SR '000	SR '000
Lease obligation in respect of assets on lease from Royal Commission (Note (i))		
- Non-current	**2,505,210**	2,596,506
- Current	**329,782**	327,281
	2,834,992	2,923,787
Obligation in respect of asset transferred from Royal Commission (Note (ii))	**1,355,445**	1,362,717
	4,190,437	4,286,504

(i) Based on the formal agreement signed between the Parent Company and the Royal Commission in 2006, effective 1 January 2003, the Royal Commission leased to the Parent Company power and water operating facilities at Yanbu and water operating facilities at Jubail, valued at SR 3,373 million. The obligation under this lease will be payable by the Parent Company in 20 equal annual instalments of SR 168.7 million each.

The Parent Company signed the second lease agreement in 2016 with Royal Commission in Yanbu for additional power and water operating facilities valued at SR 1,526.6 million. The obligation under this lease will be payable by the Parent Company in 31 annual instalments.

The Parent Company signed the third lease agreement in 2017 with Royal Commission in Yanbu for additional power and water operating facilities valued at SR 318.8 million. The obligation under this lease will be payable by the Parent Company in 33 annual instalments.

The Parent Company signed the fourth lease agreement in 2017 with Royal Commission in Jubail for additional power and water operating facilities valued at SR 1,777.8 million. The obligation under this lease will be payable by the Parent Company in 25 annual instalments.

The Parent Company signed the fifth lease agreement in 2018 with Royal Commission in Yanbu for additional water operating facilities valued at SR 13.1 million. The obligation under this lease will be payable by the Parent Company in 25 annual instalments.

The Parent Company signed the sixth lease agreement in 2019 with Royal Commission in Yanbu for additional water operating facilities valued at SR 1.2 million. The obligation under this lease will be payable by the Parent Company in 29 annual instalments.

The Parent Company signed the seventh lease agreement in 2020 with Royal Commission in Yanbu for additional water operating facilities valued at SR 510.9 million. The obligation under this lease will be payable by the Parent Company in 25 annual instalments.

The Parent Company signed the eighth lease agreement in 2023 with Royal Commission in Yanbu for additional water operating facilities valued at SR 45.61 million. The obligation under this lease will be payable by the Parent Company in 25 annual instalments.

The Parent Company signed the ninth lease agreement in 2023 with Royal Commission in Jubail for additional water operating facilities valued at SR 151.45 million. The obligation under this lease will be payable by the Parent Company in 25 annual instalments.

(ii) The Parent Company has outstanding obligation against assets received from the Royal Commission aggregating to SR 1,355.4 million (31 December 2022: SR 1,362.7 million) for which the finalization of the terms and conditions of payment are pending and accordingly, the balance has been classified as a non-current liability (Note 19).

30. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

30.5 Transactions with key management personnel

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

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

	2023	2022
	SR '000	SR '000
Short-term employee benefits	**29,191**	29,853
Post-employment defined benefit plan	**5,992**	4,896
Total compensation paid to key management personnel	**35,183**	34,749

31. LEASES LIABILITIES

Leases as lessee (IFRS 16)

The Group has various type of leases which typically run for a period of 1 to 50 years, with some leases containing an option to mutually renew the lease after that date.

i. Lease liabilities

	2023	2022
	SR '000	SR '000
Current portion	**340,821**	333,343
Non-current portion	**2,508,239**	2,603,691
	2,849,060	2,937,034

Movement in lease liabilities

	2023	2022
	SR '000	SR '000
Balance at 1 January	**2,937,034**	3,232,378
Additions	**209,096**	950
Interest on lease liabilities	**13,610**	13,624
Payment during the year	**(310,680)**	(309,918)
Balance at 31 December	**2,849,060**	2,937,034

32. COMMITMENTS AND CONTINGENCIES

Capital commitments

Capital expenditure contracted by the Group at the end of the year but not incurred is SR 574.1 million (31 December 2022: SR 952.7 million).

Other commitment

One of the Group companies, TAWREED entered into an agreement with Saudi Aramco to purchase fuel required for the IWPP for a period of twenty years and the cost of the fuel will be reimbursed by On-Sale Parties on a monthly basis without any mark-up.

Contingent liabilities

At 31 December 2023, bank guarantees and letter of credits have been issued amounting to SR 539.2 million (31 December 2022: SR 504.9 million) by the Group's bankers, on behalf of the Group in the ordinary course of business.

33. SUBSEQUENT EVENTS

i. The Board of Directors of the Parent Company in their meeting held on 6 March 2024 announced to distribute cash dividends for second half of 2023 amounting to SR 275 million (SR 1.1 per share).

ii. Subsequent to the year end, one of the suppliers of the Group, Saudi Aramco announced increase in prices of energy products effective from 1 January 2024 that may have a material impact on the Group's operating results for the year ending 31 December 2024 onwards. Currently, management is in the process of ascertaining relevant financial impacts.