

**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 2022**

**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 2022**

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KPMG Professional Services

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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
الخبير ٣١٤٦ - ٣٤٤١٢
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 (collectively referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, 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 significant 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 2022, 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 (ISAs) 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

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 2022 is SR 6.5 billion.

How the matter was addressed in our audit

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 |
| <p>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.</p> <p>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</p> <p>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.</p> | <ul style="list-style-type: none"> • 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.



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.



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



Abdulaziz Abdullah Alnaim

License No: 394

Al Khobar, 8 March 2023G

Corresponding to: 16 Shaban 1444H.

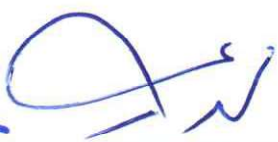
POWER AND WATER UTILITY COMPANY FOR JUBAIL AND YANBU (MARAFIQ) AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

| | Note | 2022 SR '000 | 2021 SR '000 |
|--|------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 19,990,861 | 20,412,090 |
| Intangible assets | 7 | 13,925 | 9,619 |
| Equity accounted investees | 8.4 | 68,783 | 11,706 |
| Long-term receivables and prepayments | 9 | 280,461 | 272,418 |
| Deferred tax assets | 22 | - | 7,430 |
| Total non-current assets | | 20,354,030 | 20,713,263 |
| Current assets | | | |
| Inventories, net | 10 | 296,306 | 273,539 |
| Trade receivables, net | 11 | 867,600 | 834,096 |
| Prepayments and other current assets | 12 | 446,730 | 384,155 |
| Short-term deposits | 13 | 1,575,900 | 1,422,200 |
| Cash and cash equivalents | 14 | 685,694 | 482,654 |
| Total current assets | | 3,872,230 | 3,396,644 |
| TOTAL ASSETS | | 24,226,260 | 24,109,907 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 15 | 2,500,000 | 2,500,000 |
| Statutory reserve | 15.1 | 321,737 | 287,960 |
| Retained earnings | | 5,282,825 | 4,834,430 |
| Equity before fair value reserve for cash flow hedge of investees | | 8,104,562 | 7,622,390 |
| Fair value reserve for cash flow hedge of investees | 23.3 | 140,295 | (71,304) |
| Total equity | | 8,244,857 | 7,551,086 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Bank loans and borrowings | 18 | 8,198,215 | 8,617,965 |
| Lease liabilities | 31 | 2,603,691 | 2,865,048 |
| Other non-current liabilities | 19 | 2,762,126 | 2,752,632 |
| Deferred tax liabilities | 22 | 4,367 | 126,443 |
| Total non-current liabilities | | 13,568,399 | 14,362,088 |
| Current liabilities | | | |
| Current portion of bank loans and borrowings | 18 | 410,888 | 361,066 |
| Current portion of lease liabilities | 31 | 333,343 | 367,330 |
| Trade payables | 20 | 687,139 | 612,327 |
| Accrued expenses and other current liabilities | 21 | 981,634 | 856,010 |
| Total current liabilities | | 2,413,004 | 2,196,733 |
| Total liabilities | | 15,981,403 | 16,558,821 |
| TOTAL EQUITY AND LIABILITIES | | 24,226,260 | 24,109,907 |

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
Chairman of the Board



Mohammed Berki Al-Zuabi
President & CEO



Muhammed Abdulhamid AlMulhim
VP Finance

The accompanying notes from 1 to 34 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 INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

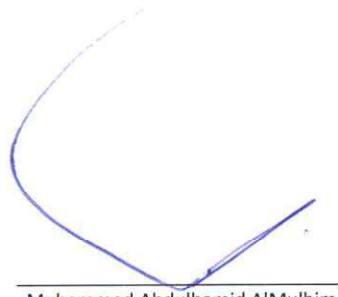
| | Note | 2022 SR '000 | 2021 SR '000 |
|---|------|------------------|------------------|
| Revenue | 24 | 6,505,093 | 6,192,287 |
| Cost of revenue | 25 | (5,356,898) | (5,187,002) |
| Gross profit | | 1,148,195 | 1,005,285 |
| Administrative expenses | 26 | (270,520) | (245,603) |
| (Charge) / reversal for impairment of trade receivables | 11 | (3,864) | 1,873 |
| Other operating income | 27 | 223,095 | 245,574 |
| Other operating expenses | | (2,680) | (9,413) |
| Operating profit | | 1,094,226 | 997,716 |
| Finance income | 28 | 51,477 | 19,606 |
| Finance costs | 29 | (298,029) | (236,518) |
| Share in results of equity accounted investees | 8.4 | 4,352 | 849 |
| Profit before Zakat and income tax | | 852,026 | 781,653 |
| Zakat and income tax | 22 | (6,376) | (116,999) |
| Profit for the year | | 845,650 | 664,654 |
| Attributable to: | | | |
| Equity holders of the Parent Company | | 845,650 | 631,999 |
| Non-controlling interest | 1 | - | 32,655 |
| | | 845,650 | 664,654 |
| Earnings per share: | | | |
| Basic and diluted earnings per share attributable to shareholders | 17 | 3.38 | 2.53 |



Khalid Mohammed Al-Salem
Chairman of the Board



Mohammed Berki Al-Zuabi
President & CEO



Muhammed Abdulhamid AlMulhim
VP Finance

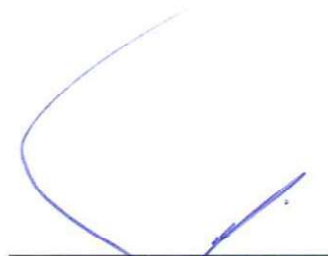
The accompanying notes from 1 to 34 form an integral part of these consolidated financial statements.

POWER AND WATER UTILITY COMPANY FOR JUBAIL AND YANBU (MARAFIQ) AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

| | Note | 2022 SR '000 | 2021 SR '000 |
|--|------|------------------|-----------------|
| Profit for the year | | 845,650 | 664,654 |
| <i>Other comprehensive income to be reclassified to income statement in subsequent periods:</i> | | | |
| Share of gain on cash flow hedge of a joint operation, net of deferred tax | | 159,194 | 80,394 |
| Share of gain on cash flow hedge of an equity accounted investee, net of deferred tax | 8.4 | 52,405 | 10,448 |
| | | 211,599 | 90,842 |
| <i>Other comprehensive income that will not be reclassified to income statement in subsequent periods:</i> | | | |
| Re-measurement gain on defined benefit obligation, net of deferred tax | | 26,087 | 6,107 |
| Other comprehensive income for the year | | 237,686 | 96,949 |
| Total comprehensive income for the year | | 1,083,336 | 761,603 |
| Attributable to: | | | |
| Equity holders of the Parent Company | | 1,083,336 | 728,948 |
| Non-controlling interest | | - | 32,655 |
| | | 1,083,336 | 761,603 |


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 34 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 2022

| | Attributable to equity holders of the Parent Company | | | | Total SR '000 | Non-controlling interest SR '000 | Total equity SR '000 |
|--|--|---------------------------------|---------------------------------|---|------------------|--|-------------------------|
| | Share capital SR '000 | Statutory reserve SR '000 | Retained earnings SR '000 | Fair value reserve for cash flow hedge of investees SR '000 | | | |
| As at 1 January 2021 | 2,500,000 | 261,010 | 4,334,889 | (162,146) | 6,933,753 | 53,633 | 6,987,386 |
| Profit for the year | - | - | 631,999 | - | 631,999 | 32,655 | 664,654 |
| Other comprehensive income | - | - | 6,107 | 90,842 | 96,949 | - | 96,949 |
| Total comprehensive income | - | - | 638,106 | 90,842 | 728,948 | 32,655 | 761,603 |
| <i>Transactions with owners</i> | | | | | | | |
| Dividends paid (Note 16) | - | - | (140,605) | - | (140,605) | (12,735) | (153,340) |
| Acquisition of non-controlling interest (Note 1) | - | - | 28,990 | - | 28,990 | (73,553) | (44,563) |
| Total transactions with owners | - | - | (111,615) | - | (111,615) | (86,288) | (197,903) |
| Transfer to statutory reserve | - | 26,950 | (26,950) | - | - | - | - |
| As at 31 December 2021 | 2,500,000 | 287,960 | 4,834,430 | (71,304) | 7,551,086 | - | 7,551,086 |
| As at 1 January 2022 | 2,500,000 | 287,960 | 4,834,430 | (71,304) | 7,551,086 | - | 7,551,086 |
| Profit for the year | - | - | 845,650 | - | 845,650 | - | 845,650 |
| Other comprehensive income | - | - | 26,087 | 211,599 | 237,686 | - | 237,686 |
| Total comprehensive income | - | - | 871,737 | 211,599 | 1,083,336 | - | 1,083,336 |
| <i>Transactions with owners</i> | | | | | | | |
| Dividends paid (Note 16) | - | - | (389,565) | - | (389,565) | - | (389,565) |
| Total transactions with owners | - | - | (389,565) | - | (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 | - | 8,244,857 |



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 34 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 CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

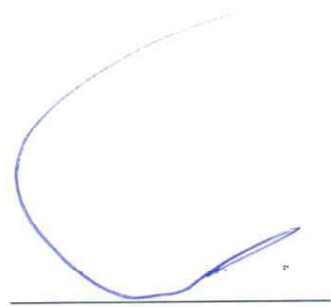
| | | 2022 | 2021 |
|---|-------------|------------------|----------------|
| | Note | SR '000 | SR '000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit for the year | | 845,650 | 664,654 |
| <i>Adjustments for:</i> | | | |
| Depreciation of property, plant and equipment | 6 | 1,165,314 | 1,140,672 |
| Amortization of intangible assets | 7 | 8,466 | 28,461 |
| Amortization of deferred income | | (57,273) | (58,638) |
| Amortization of deferred employee benefits | | 5,584 | 5,584 |
| Charge / (reversal) for impairment of trade receivables | 11 | 3,864 | (1,873) |
| Loss on disposal of property, plant and equipment | | - | 3,818 |
| Provision for slow-moving and obsolete inventories | 10 | 17,267 | 25,161 |
| Provision for employees' benefits | 19.1 | 80,567 | 79,077 |
| Share in results of investments in equity accounted investees | 8.4 | (4,352) | (849) |
| Finance income | 28 | (51,477) | (19,606) |
| Finance costs | 29 | 298,029 | 236,518 |
| Zakat and income tax charge | 22 | 6,376 | 116,999 |
| <i>Changes in:</i> | | | |
| Trade receivables | | (37,368) | 74,542 |
| Inventories | | (40,034) | 13,834 |
| Prepayment and other current assets | | (20,697) | 100,570 |
| Long term receivables and other assets | | 40,582 | 51,104 |
| Trade payables | | 74,812 | 27,634 |
| Accrued expenses and other current liabilities | | 80,407 | (3,605) |
| Movement in other non-current liabilities | | 72,931 | - |
| Cash generated from operating activities | | 2,488,648 | 2,484,057 |
| Employees' benefits paid | 19.1 | (12,068) | (18,627) |
| Finance costs paid | | (279,440) | (181,476) |
| Zakat and income tax paid | 22 | (52,444) | (53,941) |
| Net cash from operating activities | | 2,144,696 | 2,230,013 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions to property, plant and equipment | | (753,108) | (786,442) |
| Additions to intangible assets | 7 | (842) | (9) |
| Investment in associate | 8.4 | (320) | - |
| Finance income received on short term deposits | | 34,455 | 10,348 |
| Net movement in short-term deposits | | (153,700) | (195,900) |
| Net cash used in investing activities | | (873,515) | (972,003) |

POWER AND WATER UTILITY COMPANY FOR JUBAIL AND YANBU (MARAFIQ) AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

| | Note | 2022 SR '000 | 2021 SR '000 |
|--|------|--------------------|--------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of bank loans and borrowings | 18 | (382,282) | (484,581) |
| Proceeds from short term borrowings | | 102,000 | 173,400 |
| Repayment of short term borrowings | | (102,000) | (173,400) |
| Payment of lease obligation | 31 | (296,294) | (619,370) |
| Acquisition of non-controlling interest | 1 | - | (57,298) |
| Movement in other non-current liabilities | | - | (68,317) |
| Dividends paid, net of Zakat | 16 | (389,565) | (140,605) |
| Net cash used in financing activities | | (1,068,141) | (1,370,171) |
| Net change in cash and cash equivalents | | 203,040 | (112,161) |
| Cash and cash equivalents at the beginning of the year | | 482,654 | 594,815 |
| Cash and cash equivalents at the end of the year | 14 | 685,694 | 482,654 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | | |
| Significant non-cash transactions | | | |
| Property, plant and equipment transferred from the Royal Commission | | - | 563,851 |
| Addition to right-of-use assets / lease liabilities | 31 | 950 | 4,259 |
| Transfers to intangibles from capital work in progress | 6.5 | 11,930 | 32,863 |
| Change in fair value reserve for cash flow hedge of investees | | 211,599 | 95,626 |
| Dividends receivable related to NCI transferred to Parent Company on acquisition | | - | 12,735 |


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 34 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)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

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:

| | 2022 | 2021 |
|--|---------------|-------------|
| Saudi Basic Industries Corporation ("SABIC") | 17.50% | 24.81% |
| Saudi Aramco Power Company ("SAPCO") | 17.50% | 24.81% |
| Royal Commission for Jubail & Yanbu ("Royal Commission") | 17.50% | 24.81% |
| Public Investment Fund ("PIF") | 17.50% | 24.81% |
| Free float / other private sector investors | 30.00% | 0.76% |
| | 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 potable 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 Alkhaleejia Althaniya (35% shareholding) and Veolia Middle East (20% shareholding) is in 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.

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.

During 2022, the shareholders of the Parent Company in their meeting held on 21 April 2022 authorized to offer Marafiq's shares 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.

Group structure

Subsidiaries

As at 31 December 2022 and 31 December 2021, 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.

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1. CORPORATE INFORMATION (Continued)

Group structure (Continued)

Subsidiaries (continued)

- MASA Services Company for Operation and Maintenance (formerly Marafiq SAUR Operation and Maintenance Co.) ("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.
- On 1 July 2021, Marafiq exercised its right to acquire remaining 49% shareholding from Saur International Co (SAUR). Marafiq and SAUR signed share purchase agreement and determined purchase consideration in accordance with the shareholder agreement. Consequently, Marafiq paid SR 44.6 million (net of SR 12.7 million received from MASA for dividends related to SAUR) as consideration for acquisition of 49% interest in MASA. As a result, SR 28.9 million was recognised as gain on acquisition of non-controlling interest in consolidated statement of changes in equity for the year ended 31 December 2021.

Joint operating arrangement

As at 31 December 2022 and 31 December 2021, 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 2022 and 31 December 2021, 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. Marafiq paid its portion of SR 0.32 million during the 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 2022 and 31 December 2021, 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.

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 2022 were approved in accordance with a resolution of the Board of Directors on 9 Shaban 1444H corresponding to 1 March 2023G.

2. BASIS OF PREPARATION AND SIGNIFICANT 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.

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

2.2 Basis of consolidation

These financial statements comprise the consolidated financial statements of the Parent Company and its subsidiaries as at 31 December 2022. 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.

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 significant accounting policies

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

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

2.3 Summary of significant accounting policies (Continued)

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 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 profit of equity 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.

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.

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

2.3 Summary of significant accounting policies (Continued)

b) Current versus non-current classification (Continued)

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.

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.

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

2.3 Summary of significant accounting policies (Continued)

d) Revenue recognition (Continued)

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.

Unutilized booked capacity

Booked capacity revenue represents billing to customers if utility services usage is less than the agreed quantity (booked capacity) stipulated in the respective Utility User Agreement (UUA) with customers. Such revenues are invoiced and recognized in the period in which it becomes probable that the economic benefit will flow to the Group. The Parent Company is no longer entitled to claim such revenue for invoices issued after 2014 in accordance with Water and Electricity Regulatory Authority (WERA) directive.

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.

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.

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

2.3 Summary of significant accounting policies (Continued)

e) Foreign currencies (Continued)

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.

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. The Company reviews the residual value and useful lives annually and future depreciation charges are adjusted where the Company believes the useful lives differ from previous estimates.

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 |

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

2.3 Summary of significant accounting policies (Continued)

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.

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 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.

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

2.3 Summary of significant accounting policies (Continued)

h) Leases (Continued)

B. As a Lessor (Continued)

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) Borrowing costs

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

j) 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.

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.

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

2.3 Summary of significant accounting policies (Continued)

j) Financial instruments — initial recognition and subsequent measurement (Continued)

Financial assets (Continued)

(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

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 customers 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 impairment 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.

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

2.3 Summary of significant accounting policies (Continued)

j) Financial instruments — initial recognition and subsequent measurement (Continued)

Financial assets (Continued)

(iv) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows 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. A financial liability is derecognized from the consolidated statement of financial position when the Group has discharged its obligation or the contract is cancelled or expires.

Financial liabilities

(i) Classification and subsequent measurement of financial liabilities

The group classifies 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 'fair 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.

(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 changed as a result of interest rate benchmark reform, the Group updated 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.

k) 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.

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

2.3 Summary of significant accounting policies (Continued)

k) Impairment of non-financial assets (Continued)

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.

l) 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 bringing 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.

m) 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.

n) 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.

o) 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 Annual 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.

p) Provisions

General

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 provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the 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

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

2.3 Summary of significant accounting policies (Continued)

p) Provisions (Continued)

Restructuring provisions

Restructuring provisions are recognized only when the Group has a constructive obligation, which is when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

Decommissioning liability

Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of the relevant asset. The cash flows are discounted at a rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed in the consolidated income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied, are added to or deducted from the cost of the asset.

q) 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 is 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. The Zakat and income tax charge, if any, assessable on the non-controlling shareholder, is included in non-controlling interest (Refer note 22).

r) Deferred tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized on all deductible temporary difference, carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which these assets can be utilized.

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset/liability to be utilized. Unrecognized deferred income tax assets/liabilities are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

s) 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 2022 and 31 December 2021 were 250,000,000 shares.

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

2.3 Summary of significant accounting policies (Continued)

t) 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.

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 consolidated statement of profit or loss and 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.

u) 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.

(v) Expenses

General and administration expenses include direct and indirect costs not specifically part of cost of revenue. Allocations between general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

Cost of sales is recognized on an accrual basis. This includes salaries and benefits, repairs and maintenance, stores and spares consumed, contracted manpower cost and other attributable overhead costs. Operating costs are recognized on a historical cost basis.

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

2.3 Summary of significant accounting policies (Continued)

w) Cash flow hedge

The Group uses interest rate swaps (IRS) to hedge its cash flow interest rate risk for JWAP. 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.

x) Value added tax

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

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.

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3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

ii. Defined benefit plans (post-employment benefits) (Continued)

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.

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 in accordance with Zakat, Tax and Customs Authority ("ZATCA") regulations. Zakat is provided on an accrual basis. Zakat computation involves relevant knowledge and judgment of the Zakat rules and regulations to assess the impact of Zakat 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 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.

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3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

viii. Impairment of financial assets (Continued)

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).

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 any 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

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3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

x. Lease term and estimating the incremental borrowing rate (Continued)

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.

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 are required to be adopted in annual periods beginning on 1 January 2022:

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements to IFRS Standards 2018-2020;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Reference to the Conceptual Framework (Amendments to IFRS 3).

The application of the revised IFRSs did not have any material impact on the amounts reported for current and prior periods.

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 2023:

- IFRS 17 Insurance Contracts, effective for annual periods beginning on or after 1 January 2023;
- Amendments to IFRS 17, effective for annual periods beginning on or after 1 January 2023;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2), effective for annual periods beginning on or after 1 January 2023;
- Definition of Accounting Estimate (Amendments to IAS 8), effective for annual periods beginning on or after 1 January 2023;
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes, effective for annual periods beginning on or after 1 January 2023;
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17), effective for annual periods beginning on or after 01 January 2023;

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4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

b) Standards issued but not yet effective (Continued)

- Classification of liabilities as current or non-current (Amendments to IAS 1), effective for annual periods beginning on or after 01 January 2024;
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16), effective for annual periods beginning on or after 01 January 2024;
- Non-current Liabilities with Covenants (Amendments to IAS 1) effective for annual periods beginning on or after 01 January 2024; and
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28), with effective annual periods 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 services to final customers according to the applicable tariffs.

Based on management decision and in line with changes in management reporting and to facilitate a better decision making about resource allocation and performance assessment, the expenses in prior periods have been reallocated based on the revised allocation methodology to be in line with Water and Power Regulations. Accordingly, segmental information for prior periods was adjusted in line with the current period presentation.

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 includes finance income/expense, other income/expense 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.

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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 |
| External customers | 1,722,073 | 2,419,232 | 79,105 | - | 2,284,683 | - | - | 6,505,093 |
| Inter segment | 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 and finance income, net | (115) | 2,773 | - | 520 | 33 | 273,818 | (5,137) | 271,892 |
| Finance costs | (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 |

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5. OPERATING SEGMENTS (Continued)

For the year ended 31 December 2021

| | Power | Water | Gas | JWAP | TAWREED | Corporate | Eliminations | Total |
|--|-------------|-------------|----------|-----------|-------------|-----------|--------------|-------------|
| | SR'000 | SR'000 | SR'000 | SR'000 | SR'000 | SR'000 | SR'000 | SR'000 |
| External customers | 1,576,258 | 2,330,664 | 66,300 | - | 2,219,065 | - | - | 6,192,287 |
| Inter segment | 196,399 | 652,713 | - | 330,791 | 358,063 | 5,894 | (1,543,860) | - |
| Total revenue | 1,772,657 | 2,983,377 | 66,300 | 330,791 | 2,577,128 | 5,894 | (1,543,860) | 6,192,287 |
| Depreciation and amortisation | (389,443) | (565,861) | (3,449) | (2,145) | - | (5,145) | (171,724) | (1,137,767) |
| Others | (956,732) | (2,011,931) | (57,545) | (146,852) | (2,568,451) | - | 1,692,276 | (4,049,235) |
| Total cost of revenue | (1,346,175) | (2,577,792) | (60,994) | (148,997) | (2,568,451) | (5,145) | 1,520,552 | (5,187,002) |
| Reversal of impairment loss on trade receivables | 1,444 | 429 | - | - | - | - | - | 1,873 |
| Administrative and other expenses | (83,366) | (126,916) | (791) | (4,649) | (8,677) | (5,491) | 15,653 | (214,237) |
| Depreciation and amortisation | (2,266) | (29,070) | (30) | - | - | - | - | (31,366) |
| Total administrative and other expenses | (85,632) | (155,986) | (821) | (4,649) | (8,677) | (5,491) | 15,653 | (245,603) |
| Other income / expense and finance income | - | 1,392 | - | 203 | 1,615 | 257,841 | (5,284) | 255,767 |
| Finance costs | (70,748) | (90,139) | - | (72,068) | (1,503) | (4,531) | 2,471 | (236,518) |
| Share of results in equity accounted investees | - | - | - | - | - | 849 | - | 849 |
| Zakat and income tax expense | (63,456) | (24,243) | (275) | (7,672) | - | (21,304) | (49) | (116,999) |
| Net profit for the year | 208,090 | 137,038 | 4,210 | 97,608 | 112 | 228,113 | (10,517) | 664,654 |
| Non-controlling interest (NCI) | - | 32,655 | - | - | - | - | - | 32,655 |
| As at 31 December 2021 | | | | | | | | |
| Total assets | 8,752,713 | 10,805,604 | 163,196 | 2,409,735 | 481,912 | 3,248,055 | (1,751,308) | 24,109,907 |
| Total liabilities | 3,295,429 | 5,778,607 | 19,168 | 1,806,009 | 479,976 | 5,469,937 | (290,305) | 16,558,821 |

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6. PROPERTY, PLANT AND EQUIPMENT

| | Land (Note 6.2) | 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 2021 | 411,511 | 17,587,172 | 3,702,140 | 4,612,334 | 3,129,233 | 90,369 | 700,322 | 1,281,888 | 31,514,969 |
| Additions | - | 9,558 | 80,198 | 118,318 | 357,900 | - | 75,911 | 712,667 | 1,354,552 |
| Disposals | - | (32,854) | (6,298) | - | - | - | (2,797) | - | (41,949) |
| Transfers (Note 6.5) | - | 231,517 | 40,869 | 4,889 | 32,760 | - | 47,858 | (390,756) | (32,863) |
| Balance at 31 December 2021 | 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 |
| Accumulated depreciation: | | | | | | | | | |
| Balance at 1 January 2021 | 34,113 | 6,727,487 | 1,385,981 | 1,749,624 | 876,627 | 44,078 | 450,873 | - | 11,268,783 |
| Depreciation (Note 6.1) | 15,165 | 620,335 | 98,704 | 229,584 | 109,558 | 4,504 | 62,822 | - | 1,140,672 |
| Disposals | - | (21,558) | (2,481) | - | - | - | (2,797) | - | (26,836) |
| Balance at 31 December 2021 | 49,278 | 7,326,264 | 1,482,204 | 1,979,208 | 986,185 | 48,582 | 510,898 | - | 12,382,619 |
| Depreciation (Note 6.1) | 13,576 | 638,249 | 99,617 | 234,358 | 107,903 | 4,504 | 67,107 | - | 1,165,314 |
| Disposals | - | (512) | - | - | - | - | (442) | - | (954) |
| Balance at 31 December 2022 | 62,854 | 7,964,001 | 1,581,821 | 2,213,566 | 1,094,088 | 53,086 | 577,563 | - | 13,546,979 |
| Carrying value: | | | | | | | | | |
| Balance at 31 December 2022 | 348,657 | 10,090,877 | 2,264,507 | 2,524,536 | 2,459,113 | 37,283 | 283,152 | 1,982,736 | 19,990,861 |
| Balance at 31 December 2021 | 362,233 | 10,469,129 | 2,334,705 | 2,756,333 | 2,533,708 | 41,787 | 310,396 | 1,603,799 | 20,412,090 |

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6. PROPERTY, PLANT AND EQUIPMENT (Continued)

6.1 Allocation of depreciation charge for the year

| | <u>2022</u> | <u>2021</u> |
|-----------------------------------|-------------------------|-------------------------|
| | SR '000 | SR '000 |
| Cost of revenue (note 25) | 1,130,220 | 1,109,306 |
| Administrative expenses (note 26) | 35,094 | 31,366 |
| | <u>1,165,314</u> | <u>1,140,672</u> |

6.2 Leased assets

The carrying value of right-of-use assets was SR 3,344 million as of 31 December 2022 (31 December 2021: SR 3,589 million) which includes land leased by JWAP from TAWREED for a period of 23 years. Additions to right-of-use assets were SR 0.95 million (31 December 2021: SR 4.2 million).

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 2022 with a carrying amount of SR 4,585.7 million (31 December 2021: SR 4,805 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 11.9 million were also transferred to intangible assets (31 December 2021: SR 32.9 million).

7. INTANGIBLE ASSETS

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------|-----------------------|
| | SR '000 | SR '000 |
| <u>Cost:</u> | | |
| Opening balance | 132,943 | 189,056 |
| Additions | 842 | 9 |
| Transfers from capital work in progress (Note 6.5) | 11,930 | 32,863 |
| Write-off / disposals | (17,610) | (88,985) |
| Closing balance | <u>128,105</u> | <u>132,943</u> |
| <u>Accumulated amortization:</u> | | |
| Opening balance | 123,324 | 183,848 |
| Amortization | 8,466 | 28,461 |
| Write-off / disposals | (17,610) | (88,985) |
| Closing balance | <u>114,180</u> | <u>123,324</u> |
| <u>Carrying value:</u> | | |
| At 31 December | <u>13,925</u> | <u>9,619</u> |

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 has 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.

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8. GROUP INFORMATION (Continued)

8.1 Subsidiaries (Continued)

- (iii) On 30 June 2022, TAWREED and the On-Sale Parties signed a novation agreement in relation to the On-Sale Agreement, whereby 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 Saudi Electricity Company's (SEC) rights, obligations and liabilities under the On-Sale Agreement.

8.2 Joint operation

Key financial highlights of Jubail Water and Power Company which has been accounted for as Joint Operation are provided below:

Summarized statement of financial position

| | 2022 | 2021 |
|-------------------------|------------------|----------------|
| | SR '000 | SR '000 |
| Current assets | 1,219,146 | 1,023,645 |
| Non-current assets | 6,505,119 | 7,008,804 |
| Current liabilities | 825,810 | 881,302 |
| Non-current liabilities | 4,349,749 | 5,138,729 |
| Equity | 2,548,706 | 2,012,419 |

Summarized statement of profit or loss and other comprehensive income

| | 2022 | 2021 |
|----------------------------|------------------|----------------|
| | SR '000 | SR '000 |
| Revenue | 1,121,713 | 1,102,637 |
| Profit before Zakat | 354,167 | 350,934 |
| Zakat and income tax | (41,965) | (25,573) |
| Profit for the year | 312,202 | 325,361 |
| Other comprehensive income | 530,596 | 267,874 |
| Total comprehensive income | 842,798 | 593,235 |

Summarized statement of cashflows

| | 2022 | 2021 |
|---|------------------|----------------|
| | SR '000 | SR '000 |
| Cash flows from operating activities | 313,748 | 364,196 |
| Cash flows from investing activities | 489,505 | 635,843 |
| Cash flows used in financing activities | (897,032) | (896,430) |
| Net change in cash and cash equivalents | (93,779) | 103,609 |

8.3 Equity accounted investees

As at 31 December 2022 and 31 December 2021, 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 2022, the investment was carried at SR 1.8 million (31 December 2021: Nil) 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 2022, the investment was carried at SR 0.15 million (31 December 2021: 0.15 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. Commercial operations of the Company have not commenced yet. As at 31 December 2022, the investment was carried at SR 66.9 million (31 December 2021: SR 11.6 million) using equity accounting method.

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8. GROUP INFORMATION (Continued)

8.4 Movement of investment in equity accounted investees is:

| | 2022 | 2021 |
|-------------------------------------|----------------|---------|
| | SR '000 | SR '000 |
| Opening balance at 1 January | 11,706 | 409 |
| Additions (Note 1) | 320 | - |
| Share of results (Note 8.5 and 8.6) | 4,352 | 849 |
| | 16,378 | 1,258 |
| Movement in OCI (Note 8.5) | 52,405 | 10,448 |
| Closing balance at 31 December | 68,783 | 11,706 |

8.5 Share of results include profit for the year and share of OCI for JAWC amounting to SR 2.9 million (31 December 2021: SR 0.8 million) and SR 52.4 million (31 December 2021: SR 10.4 million) respectively.

8.6 Share of results include profit for the year for TABREED amounting to SR 1.4 million (31 December 2021: Nil).

9. LONG TERM RECEIVABLES AND PREPAYMENTS

| | 2022 | 2021 |
|--|----------------|---------|
| | SR '000 | SR '000 |
| Due from employees under home ownership program (Note 9.1) | 200,542 | 234,580 |
| Non-current portion of fair value of derivatives (Note 23.3) | 49,268 | - |
| Deferred employees benefit (Note 9.1) | 18,103 | 23,687 |
| Deferred cost (Note 9.2) | 12,548 | 14,151 |
| | 280,461 | 272,418 |

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

| | 2022 | 2021 |
|--|------------------|-----------|
| | SR '000 | SR '000 |
| Spare parts | 406,468 | 365,820 |
| Fuel oil | 37,524 | 40,665 |
| Others | 14,177 | 11,650 |
| | 458,169 | 418,135 |
| Less: Provision for slow-moving and obsolete inventories | (161,863) | (144,596) |
| | 296,306 | 273,539 |

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

| | 2022 | 2021 |
|--------------------------|----------------|----------|
| | SR '000 | SR '000 |
| Opening balance | 144,596 | 169,300 |
| Provision written-off | - | (49,865) |
| Provided during the year | 17,267 | 25,161 |
| Closing balance | 161,863 | 144,596 |

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11. TRADE RECEIVABLES, NET

| | <u>2022</u> | <u>2021</u> |
|---|----------------|----------------|
| | SR '000 | SR '000 |
| Trade receivables – related parties (Note 30.2) | 709,765 | 624,578 |
| Trade receivables – others | 183,252 | 232,400 |
| | 893,017 | 856,978 |
| Provision for impairment | (25,417) | (22,882) |
| | <u>867,600</u> | <u>834,096</u> |

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:

| | <u>2022</u> | <u>2021</u> |
|---|---------------|---------------|
| | SR '000 | SR '000 |
| Opening balance | 22,882 | 24,717 |
| Charge / (reversal) of provision during the year | 3,864 | (1,873) |
| (Write off) / reversal of write-off during the year | (1,329) | 38 |
| Closing balance | <u>25,417</u> | <u>22,882</u> |

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

| | <u>Total</u> | <u>Up to 6 months</u> | <u>6 to 12 months</u> | <u>More than 12 months</u> |
|-----------------------------------|----------------|-----------------------|-----------------------|----------------------------|
| ECL percentage 2022 | | 1% | 10.6% | 30.8% |
| ECL percentage 2021 | | 1.5% | 6.7% | 23.1% |
| Gross balance (SR in '000) | | | | |
| 2022 | 893,017 | 800,993 | 53,758 | 38,266 |
| 2021 | 856,978 | 780,708 | 41,352 | 34,918 |

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

| | <u>2022</u> | <u>2021</u> |
|--|----------------|----------------|
| | SR '000 | SR '000 |
| Accrued revenue | 226,652 | 224,307 |
| Advances and other receivables | 76,345 | 76,179 |
| Prepayments and others | 72,851 | 70,426 |
| Current portion of fair value of derivatives | 31,400 | - |
| Power margin (Note 12.1) | 26,183 | 10,422 |
| Accrued finance income | 13,299 | 2,821 |
| | <u>446,730</u> | <u>384,155</u> |

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

| | <u>2022</u> | <u>2021</u> |
|----------------------------------|----------------|----------------|
| | SR '000 | SR '000 |
| Cash in hand | 26 | 6 |
| Cash at bank | 510,668 | 482,648 |
| Short term deposits | 175,000 | - |
| Cash and cash equivalents | <u>685,694</u> | <u>482,654</u> |

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14. CASH AND CASH EQUIVALENTS (Continued)

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 2022 include SR 35.4 million (31 December 2021: SR 32.1 million) representing employees' contributions and finance income pertaining to the employees' saving plan.

15. SHARE CAPITAL AND RESERVES

| | <u>2022</u> | <u>2021</u> |
|--|------------------|------------------|
| Authorized and issued shares | | |
| Ordinary shares of SR 10 each – Number | <u>250,000</u> | 250,000 |
| Ordinary shares issued and fully paid – SR 000 | <u>2,500,000</u> | <u>2,500,000</u> |

15.1 Statutory reserve

In accordance with By-laws of the Parent Company, the Parent Company must set aside a statutory reserve by the appropriation of 4% of net profit until the reserve equals 20% of the share capital. This reserve is not available for distribution to the shareholders.

16. DIVIDENDS

During the year ended 31 December 2022, the shareholders of the Parent Company in their meeting held on 21 April 2022 approved to distribute dividends amounting to SR 175 million (SR 0.70 per share) for the year ended 31 December 2021, which was paid net of Zakat and income tax on 12 May 2022.

Further, the shareholders of the Parent Company approved interim dividends on 13 September 2022 amounting to SR 275 million (SR 1.10 per share), which was paid net of Zakat and income tax on 29 September 2022.

17. EARNINGS PER SHARE

| | <u>2022</u> | <u>2021</u> |
|--|----------------|----------------|
| | <u>SR '000</u> | <u>SR '000</u> |
| Profit attributable to ordinary shareholders – SR | <u>845,650</u> | 631,999 |
| Weighted average number of ordinary shares outstanding during the year | <u>250,000</u> | 250,000 |
| Basic and dilutive earnings per share – SR | <u>3.38</u> | 2.53 |

Basic earnings per share for profit and loss attributable to ordinary shares holders for the year ended 31 December 2022 and 31 December 2021 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

| | <u>2022</u> | <u>2021</u> |
|---|------------------|------------------|
| | <u>SR '000</u> | <u>SR '000</u> |
| MARAFIQ | | |
| Fourth Murabaha | 1,500,000 | 1,500,000 |
| Fifth Murabaha | 1,500,000 | 1,500,000 |
| Sixth Murabaha | 3,400,000 | 3,400,000 |
| SIDF (a related party) | 787,000 | 990,000 |
| | <u>7,187,000</u> | 7,390,000 |
| Less: Unamortised transaction costs | <u>(66,137)</u> | (75,154) |
| | <u>7,120,863</u> | 7,314,846 |
| JWAP | | |
| Shariah compliant and other long-term loans (Note 18.2) | 1,503,184 | 1,682,466 |
| Less: Unamortised transaction costs | <u>(14,944)</u> | (18,281) |
| | <u>1,488,240</u> | 1,664,185 |
| | <u>8,609,103</u> | <u>8,979,031</u> |

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18. BANK LOANS AND BORROWINGS (Continued)

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

| | 2022 | 2021 |
|--|------------------|-----------|
| | SR '000 | SR '000 |
| Current maturity under current liabilities | 410,888 | 361,066 |
| Non-current maturity under non-current liabilities | 8,198,215 | 8,617,965 |
| | 8,609,103 | 8,979,031 |

Movement in bank loans and borrowings is as follows:

| | 2022 | 2021 |
|-------------------------------------|------------------|-----------|
| | SR '000 | SR '000 |
| Opening balance | 9,072,466 | 9,557,047 |
| Repayments | (382,282) | (484,581) |
| | 8,690,184 | 9,072,466 |
| Less: Unamortized transaction costs | (81,081) | (93,435) |
| Closing balance | 8,609,103 | 8,979,031 |

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 6.4 billion (SR 1.5 billion, SR 1.5 billion and SR 3.4 billion) which was fully utilized as at 31 December 2022.

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 financial 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 2022. The loans carry finance charges at Saudi Inter Bank Offered Rate (SIBOR) plus a margin.

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 2022

18.2 JWAP

| | 2022 | 2021 |
|------------------------|------------------|-----------|
| | SR '000 | SR '000 |
| International (Note a) | 1,023,149 | 1,114,631 |
| Islamic (Note b) | 402,284 | 438,254 |
| KEIC covered (Note c) | 77,751 | 129,581 |
| | 1,503,184 | 1,682,466 |

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. These facilities carry interest rates at London Inter Bank Offer Rate (USD LIBOR) 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 USD LIBOR plus a margin and is repayable in semi-annual instalments.

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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 USD LIBOR 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.

The aggregate maturities of undiscounted cashflows of the loans are summarised as follows:

| | 2022 SR '000 | 2021 SR '000 |
|----------------|-------------------------------|-------------------------------|
| 2022 | - | 382,282 |
| 2023 | 426,426 | 426,426 |
| 2024 | 471,117 | 471,117 |
| 2025 | 1,150,939 | 1,150,939 |
| 2026 | 872,402 | 872,402 |
| 2027 | 888,527 | 888,527 |
| 2028 and above | 4,880,773 | 4,880,773 |
| | 8,690,184 | 9,072,466 |

19. OTHER NON-CURRENT LIABILITIES

| | 2022 SR '000 | 2021 SR '000 |
|---|-------------------------------|-------------------------------|
| Obligation for assets transferred (Note 30.4) | 1,362,717 | 1,362,717 |
| Obligation for post-employment defined benefits (Note 19.1) | 690,844 | 646,982 |
| Non-current portion of deferred income (Note 19.3) | 611,175 | 620,712 |
| Employees' savings plan (Note 19.2) | 56,877 | 51,628 |
| Retention payables | 32,265 | 13,925 |
| Non-current portion of fair value of derivatives | - | 50,026 |
| Others | 8,248 | 6,642 |
| | 2,762,126 | 2,752,632 |

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

| | 2022 SR '000 | 2021 SR '000 |
|---|-------------------------------|-------------------------------|
| Defined benefit obligation at 1 January | 646,982 | 592,457 |
| Interest cost | 19,635 | 24,673 |
| Current service cost | 60,932 | 54,404 |
| Net benefit expense recognized in consolidated income statement | 80,567 | 79,077 |
| Re-measurement gain recognized in other comprehensive income | (24,637) | (5,925) |
| Benefits paid | (12,068) | (18,627) |
| Defined benefit obligation at 31 December | 690,844 | 646,982 |

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19. OTHER NON-CURRENT LIABILITIES (Continued)

19.1 Post-employment defined benefit plan (Continued)

Remeasurement gain recognized in other comprehensive income relates to:

| | <u>2022</u> | <u>2021</u> |
|-------------------------|-----------------|-------------|
| | SR '000 | SR '000 |
| Financial assumptions | (25,864) | 946 |
| Demographic assumptions | 796 | (179) |
| Experience adjustments | 431 | (6,692) |
| | (24,637) | (5,925) |

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

| | <u>2022</u> | <u>2021</u> |
|-------------------------|----------------------|--------------|
| Discount rate | 4.05% to 4.6% | 2.3% to 3.1% |
| Future salary increases | 4.3% to 4.6% | 1.7% to 3.5% |
| Normal retirement age | 60 years | 60 years |
| Withdrawal rate | Low, Service | Low, Service |

At 31 December 2022, the weighted-average duration of the defined benefit obligation was 11.04 years (2021: 11.81 years).

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

| Assumption | <u>Discount rate</u> | |
|--|--------------------------------|--------------------|
| | <u>1% increase</u> | <u>1% decrease</u> |
| Sensitivity Level | SR '000 | SR '000 |
| Defined benefit obligation as at 31 December 2022 | 621,039 | 768,897 |
| Defined benefit obligation as at 31 December 2021 | 540,797 | 683,551 |
| Assumption | <u>Future salary increases</u> | |
| Sensitivity Level | <u>1% increase</u> | <u>1% decrease</u> |
| | SR 000 | SR 000 |
| Defined benefit obligation as at 31 December 2022 | 771,914 | 617,738 |
| Defined benefit obligation as at 31 December 2021 | 685,654 | 537,889 |

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 36.1 million in contributions to its defined benefit plans in 2023.

19.2 Employees' savings plan

| | <u>2022</u> | <u>2021</u> |
|-----------------|----------------|-------------|
| | SR '000 | SR '000 |
| Opening balance | 51,628 | 43,603 |
| Additions | 12,778 | 14,387 |
| Payments | (7,529) | (6,362) |
| Closing balance | 56,877 | 51,628 |

19.3 Deferred income includes receipt of connection charges during the year amounting to SR 28.3 million (31 December 2021: SR 9.5 million).

20. TRADE PAYABLES

| | <u>2022</u> | <u>2021</u> |
|------------------------------------|----------------|-------------|
| | SR '000 | SR '000 |
| Trade payables | 228,573 | 276,842 |
| Retention payable | 232,503 | 211,911 |
| Due to related parties (Note 30.3) | 203,130 | 86,276 |
| Due to contractors | 22,933 | 37,298 |
| | 687,139 | 612,327 |

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21. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

| | 2022 | 2021 |
|---|----------------|---------|
| | SR '000 | SR '000 |
| Inventory accruals | 220,933 | 184,676 |
| Accrued expenses and other payables | 228,260 | 169,926 |
| Accrued expenses and other payables – related parties (Note 30.3) | 164,516 | 182,155 |
| Provision for Zakat and income tax (Note 22) | 116,755 | 41,636 |
| Current portion of deferred income (Note 19.3) | 56,943 | 56,567 |
| Accrued finance charges | 30,015 | 23,780 |
| Current portion of fair value of derivatives | - | 36,474 |
| Others | 164,212 | 160,796 |
| | 981,634 | 856,010 |

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

| | 2022 | 2021 |
|------------------------------------|------------------|---------|
| | SR '000 | SR '000 |
| Zakat | | |
| - Charge for the year | 51,153 | 39,856 |
| - Prior year charge | 64,200 | 5,577 |
| Income tax | | |
| - Current tax charge | 12,006 | 11,419 |
| - Prior tax charge | 204 | 598 |
| - Deferred tax (reversal) / charge | (121,187) | 59,549 |
| | 6,376 | 116,999 |

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

| | 2022 | 2021 |
|---|----------------|---------|
| | SR '000 | SR '000 |
| Deferred tax related to: | | |
| - re-measurement defined benefit obligation | (1,450) | (182) |
| - cash flow hedge on investees | (7,974) | (5,488) |
| | (9,424) | (5,670) |

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22. ZAKAT AND INCOME TAX (Continued)

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

| | 2022 | 2021 |
|---------------------------------|-------------------|----------------|
| | SR '000 | SR '000 |
| Non-current assets | 19,815,739 | 19,891,267 |
| Non-current liabilities | 12,210,580 | 12,778,970 |
| Opening shareholder equity | 8,299,559 | 7,669,486 |
| Net income before Zakat and tax | 828,537 | 771,545 |
| Spare parts | 349,148 | 308,696 |
| Dividends paid, net of Zakat | 389,565 | 140,605 |

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

| | 2022 | 2021 |
|------------------------------------|-----------------|----------------|
| | SR '000 | SR '000 |
| As at 1 January | 41,636 | 38,127 |
| Provision for Zakat and income tax | 63,159 | 51,275 |
| Prior year charge | 64,404 | 6,175 |
| Payment of Zakat and income tax | (52,444) | (53,941) |
| As at 31 December | 116,755 | 41,636 |

The income tax charge for the year ended 31 December 2021 of SR 6.1 million for the non-controlling interest has been included as part of the non-controlling interest.

(ii) Deferred tax liabilities

| | 2022 | 2021 |
|--------------------------|------------------|----------------|
| | SR '000 | SR '000 |
| Balance at 1 January | 126,443 | 69,697 |
| Charge for the year | 8,184 | 56,746 |
| Reversal during the year | (130,260) | - |
| Balance at 31 December | 4,367 | 126,443 |

Deferred tax liabilities as of 31 December 2022 relates to taxable temporary differences for JWAP. Deferred tax liabilities as at 31 December 2021 relate to taxable temporary differences arising on property, plant and equipment.

(iii) Deferred tax assets

| | 2022 | 2021 |
|------------------------|----------------|----------------|
| | SR '000 | SR '000 |
| Balance at 1 January | 7,430 | 15,017 |
| Credit for the year | (7,430) | (7,587) |
| Balance at 31 December | - | 7,430 |

(iv) Status of assessments

Power and Water Utility Company for Jubail and Yanbu (Marafiq)

During 2021, the ZATCA issued a final assessment for the years ended 31 December 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, the 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 the year, Marafiq approached ZATCA's Alternate Dispute Resolution Committee (ADRC) to negotiate the additional Zakat liability imposed on the years 2015 through 2017. ADRC has reverted with an offer of SR 64.2 million to close the open assessments for the years 2015 through 2017. Marafiq has accepted ZATCA's offer and paid SR 64.2 million to settle its additional Zakat liability in January 2023.

Income tax and Zakat returns for the year ended 31 December 2018 through 2021 have been filed with ZATCA within statutory deadlines and ZATCA review is awaited.

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22. ZAKAT AND INCOME TAX (Continued)

(iv) Status of assessments (Continued)

Marafiq Water and Power Supply Company (TAWREED)

Zakat and income tax assessment has been finalised up to 2014. During 2021, ZATCA has 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, the ZATCA issued its revised assessment rejecting TAWREED's contention in appeal. TAWREED filed an appeal against ZATCA's revised assessments to GSTC.

During the year, TAWREED has filed an application for the Zakat amnesty per Ministerial Resolution No. 13597, in order to apply the provisions of the New Zakat Regulations (NZR) 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 FY 2015 and 2016. Accordingly, TAWREED has withdrawn its case from GSTC and is currently following up with ZATCA to finalize the review of its Zakat amnesty application which would result in additional Zakat liability of approximately SR 7,000.

Income tax and Zakat return for the year ended 31 December 2021 has been submitted within the statutory deadline. The ZATCA has raised certain additional queries for the years 2018 through 2020 which has been submitted by TAWREED and ZATCA's review is awaited.

Jubail Water and Power Company (JWAP)

Zakat and income tax assessments have been received and settled up to year 2012 and for 2018. The assessments for the years from 2013 to 2017 and 2019 to 2021 are under review by the ZATCA.

In 2021, JWAP received its assessment order from the ZATCA for the year 2018 with an additional tax, Zakat and withholding tax of SR 0.1 million SR 160.3 million and SR 0.2 million respectively. The Company filed an appeal against the ZATCA's assessment to GSTC which was subsequently rejected. During the year, JWAP settled open assessment of 2018 with Tax Dispute and Appeal Committee of ZATCA for SR 14.2 million.

Zakat and income tax return for the year ended 31 December 2021 have been filed within statutory deadline.

Masa Services Company for Operation and Maintenance (MASA)

The Zakat and income tax assessment for the years since inception through 2021 are under review by ZATCA. Income tax and Zakat returns for the year ended 31 December 2021 have been submitted within the statutory deadline.

(v) On 15 February 2019, Transfer Pricing By-Laws ("TP By-Laws") were enacted as part of tax law and became binding on taxpayers for periods ending on or after 31 December 2018. TP By-Laws require additional disclosure form of controlled transactions along with annual tax returns to be submitted to ZATCA, summarizing the related party transactions, counter parties including country, amount and Transfer Pricing method. The Parent Company has submitted disclosure forms and affidavits for the year ended 31 December 2021 within the statutory time limit.

(vi) Reconciliation of accounting profit to income tax charge

| | 2022 | 2021 |
|--|------------------|----------------|
| | SR '000 | SR '000 |
| Profit before Zakat and income tax | 852,026 | 781,653 |
| Tax at 20% | 196,673 | 167,715 |
| Effect of profit subject to Zakat | (153,742) | (120,354) |
| Effect of permanent differences | - | 19,576 |
| Impact of deferred tax due in change in tax status of Parent Company | (152,354) | - |
| Impact of deferred tax due to change in shareholding in MASA | - | 4,031 |
| Prior year charge | 204 | 598 |
| Others | 242 | - |
| Income tax charge for the year | (108,977) | 71,566 |

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23. FINANCIAL INSTRUMENTS

23.1 Financial assets

| | 2022 | 2021 |
|---|------------------|------------------|
| | SR '000 | SR '000 |
| Due from employee home ownership program (Note 9) | 200,542 | 234,580 |
| Trade receivables (Note 11) | 893,017 | 856,978 |
| Other receivables | 284,237 | 270,257 |
| Short term deposits | 1,575,900 | 1,422,200 |
| Cash and cash equivalents (Note 14) | 685,694 | 482,654 |
| Total financial assets not measured at fair value | <u>3,639,390</u> | <u>3,266,669</u> |

23.2 Financial liabilities

| | 2022 | 2021 |
|--|-------------------|-------------------|
| | SR '000 | SR '000 |
| Loans and borrowings (Note 18) | 8,690,184 | 9,072,465 |
| Lease liabilities (Note 31) | 2,937,034 | 3,232,378 |
| Other non-current liabilities | 1,460,107 | 1,435,005 |
| Trade payables (Note 20) | 687,139 | 612,327 |
| Accrued expense and other payables | 924,691 | 707,551 |
| Total financial liabilities not measured at fair value | <u>14,699,155</u> | <u>15,059,726</u> |

23.2.1 Bank loans and borrowings (Note 18)

| | Interest rate % | Maturity | 2022 | 2021 |
|---------------------|--------------------|----------|------------------|------------------|
| | | | 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 | 3,400,000 | 3,400,000 |
| SIDF | - | 2025 | 787,000 | 990,000 |
| JWAP | | | | |
| International loans | USD LIBOR + margin | 2029 | 1,023,149 | 1,114,631 |
| KEIC covered loans | USD LIBOR + margin | 2024 | 77,751 | 129,581 |
| Islamic loans | USD LIBOR + margin | 2029 | 402,284 | 438,254 |
| | | | <u>8,690,184</u> | <u>9,072,466</u> |

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 JWAP 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 2022, JWAP held Interest Rate Swaps ("IRS") of a notional value of SR 1.8 billion (31 December 2021: SR 2.9 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 2022 | | 31 December 2021 | |
|---------------------------------|------------------|-----------------|------------------|-----------------|
| | Notional amount | Notional amount | Notional amount | Notional amount |
| | SR '000 | SR '000 | SR '000 | SR '000 |
| Cash flow hedges | | | | |
| Interest rate swaps assets | 80,668 | 1,830,000 | - | - |
| Interest rate swaps liabilities | - | - | 86,500 | 2,280,000 |

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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 31.4 million and SR 49.3 million represents the current and non-current portion of the positive mark to market values of the interest rate swaps as of 31 December 2022 (31 December 2021: SR 36.5 million and SR 50 million respectively represents negative 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 | | | |
|---|------------|----------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | Total fair value |
| 31 December 2022 | | | | |
| Share of cash flow hedge reserve of investees | - | 140,295 | - | - |
| | | | | |
| | Fair value | | | |
| 31 December 2021 | Level 1 | Level 2 | Level 3 | Total fair value |
| Share of cash flow hedge reserve of investees | - | (71,304) | - | (71,304) |

Derivative liabilities designated as cash flow hedges

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

| | Carrying amount | Expected cash flows | | | |
|----------------------------|-----------------|---------------------|-------------------|--------------------|----------------------|
| | | Total | 12 months or less | More than one year | More than five years |
| 31 December 2022 | | | | | |
| Interest rate swaps | | | | | |
| Liabilities | - | - | - | - | - |
| | | | | | |
| 31 December 2021 | | | | | |
| Interest rate swaps | | | | | |
| Liabilities | 86,500 | 11,965 | 8,214 | 7,182 | (3,431) |

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.

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23. FINANCIAL INSTRUMENTS (Continued)

23.4 Financial instruments risk management objectives and policies (Continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market 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.

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 has exposures to IBORs, primarily indexed to USD LIBOR, on its financial instruments that will be replaced as part of these market-wide initiatives. As announced by FCA in early 2022, the panel bank submissions for USD LIBOR will cease in mid-2023. The Group is assessing the impact and next steps to ensure a smooth transition from LIBOR to the new benchmark rates.

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. Majority of those financial instruments are also referenced to USD LIBOR.

The Group monitor and manages transition to alternative rates. The Group evaluates the extent to which contracts reference IBOR cashflows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

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:

| | <u>2022</u> | <u>2021</u> |
|---------------------------------------|------------------|-------------------|
| | SR '000 | SR '000 |
| Increase/decrease by 100 basis points | <u>-/+64,536</u> | <u>-/+ 65,064</u> |

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.

No impairment allowance was recognized as at 31 December 2022 (31 December 2021: Nil) in respect of cash and cash equivalents, accrued revenue, due from employee home ownership program and short term deposits.

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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 2022, the Group had 8 customers (31 December 2021: 8 customers) that owed it more than SR 20 million each and accounted for approximately 48.1% (31 December 2021: 43.2%) of gross receivables.

The requirement for an 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 maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 23.1. 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 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. 4.9% of the Group's debt will mature in less than one year at 31 December 2022 (31 December 2021: 4.8%) 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:

| As at 31 December 2022 | Carrying value | Contractual undiscounted cash flows | | | |
|------------------------------------|-------------------|-------------------------------------|------------------|------------------|-------------------|
| | | Within 12 months | 2 to 5 years | > 5 years | Total |
| | SR '000 | SR '000 | SR '000 | SR '000 | SR '000 |
| Loans and borrowings | 8,690,184 | 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 | 924,691 | 924,691 | - | - | 924,691 |
| | 14,699,155 | 2,572,900 | 5,015,617 | 8,419,405 | 16,007,922 |

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23. FINANCIAL INSTRUMENTS (Continued)

23.4 Financial instruments risk management objectives and policies (Continued)

Liquidity risk (Continued)

| As at 31 December 2021 | Carrying value SR '000 | Contractual undiscounted cash flows | | | |
|------------------------------------|---------------------------|-------------------------------------|----------------------------|----------------------|-------------------|
| | | Within 12 months SR '000 | 2 to 5 years SR '000 | > 5 years SR '000 | Total SR '000 |
| Loans and borrowings | 9,072,466 | 550,894 | 3,534,818 | 6,196,564 | 10,282,276 |
| Lease liabilities | 3,232,378 | 386,071 | 1,361,031 | 1,668,274 | 3,415,376 |
| Other non-current liabilities | 1,435,005 | - | - | 1,435,005 | 1,435,005 |
| Trade payables | 612,327 | 612,327 | - | - | 612,327 |
| Accrued expense and other payables | 707,551 | 707,551 | - | - | 707,551 |
| | 15,059,727 | 2,256,843 | 4,895,849 | 9,299,843 | 16,452,535 |

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:

| | 2022 SR '000 | 2021 SR '000 |
|--|-------------------------------|-------------------------------|
| Total liabilities | 15,981,403 | 16,558,821 |
| Less: cash and cash equivalents | (685,694) | (482,654) |
| Net debt | 15,295,709 | 16,076,167 |
| Total equity | 8,244,857 | 7,551,086 |
| Fair value reserve of cash flow hedge of investees | (140,295) | 71,304 |
| Adjusted equity | 8,104,562 | 7,622,390 |
| Net debt to adjusted equity ratio | 1.89 | 2.11 |

In order to achieve this 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 2022 and 31 December 2021.

24. REVENUE

Revenue from contracts with customers is disaggregated as follows:

| | 2022 SR '000 | 2021 SR '000 |
|--------|-------------------------------|-------------------------------|
| Power | 3,381,304 | 3,191,128 |
| Water | 3,006,531 | 2,897,583 |
| Others | 117,258 | 103,576 |
| | 6,505,093 | 6,192,287 |

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)).

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25. COST OF REVENUE

| | 2022 | 2021 |
|--|------------------|-----------|
| | SR '000 | SR '000 |
| Power and water costs | 1,518,754 | 1,435,486 |
| Fuel and chemicals | 1,456,286 | 1,413,853 |
| Depreciation (Note 6.1) | 1,130,220 | 1,109,306 |
| Employees related costs | 634,699 | 609,933 |
| Operating and maintenance expenses | 241,377 | 221,209 |
| Repair and maintenance | 164,882 | 180,621 |
| Provision for slow-moving and obsolete inventories (Note 10) | 17,267 | 25,161 |
| Amortization of intangible assets | 8,159 | 28,461 |
| Others | 185,254 | 162,972 |
| | 5,356,898 | 5,187,002 |

25.1 Cost of revenue includes inventories consumed during the year amounting to SR 390.4 million (2021 SR 328.6 million).

The comparative figures for the year ended on 31 December 2021 have been reclassified to conform with the current year presentation of the consolidated income statement (refer to note 33).

26. ADMINISTRATIVE EXPENSES

| | 2022 | 2021 |
|-----------------------------------|----------------|---------|
| | SR '000 | SR '000 |
| Employees related costs | 166,813 | 140,811 |
| Services contracts | 42,724 | 16,308 |
| Depreciation (Note 6.1) | 35,094 | 31,366 |
| Donations | 3,553 | 11,222 |
| Amortization of intangible assets | 307 | - |
| Others | 22,029 | 45,896 |
| | 270,520 | 245,603 |

The comparative figures for the year ended on 31 December 2021 have been reclassified to conform with the current year presentation of the consolidated income statement (refer to note 33).

27. OTHER OPERATING INCOME

| | 2022 | 2021 |
|------------------------------|----------------|---------|
| | SR '000 | SR '000 |
| Power margin (Note 27.1) | 157,432 | 157,724 |
| Gain on sale of scrap | 41,292 | 11,755 |
| Vendor penalties (Note 27.2) | 22,077 | 51,917 |
| Others (Note 27.3) | 2,294 | 24,178 |
| | 223,095 | 245,574 |

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 recognized SR 73.3 million from SEC (2021: SR 157.7 million) and SR 84 million from Principal Buyer for power margin income representing the agreed compensation to be received.

27.2 Vendor penalties

This represents penalty from contractors of various projects where the Parent Company encashed the bank guarantee on breach of contractual terms.

27.3 Others

During 2021, the Parent Company received SR 14.3 million on account of project savings shared between all shareholders of JWAP in the proportion of their shareholding.

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28. FINANCE INCOME

| | 2022 | 2021 |
|--|----------------|----------------|
| | SR '000 | SR '000 |
| Income on short term deposits | 44,933 | 11,902 |
| Unwinding of discount on HOP receivable (Note 9) | 6,544 | 7,704 |
| | 51,477 | 19,606 |

29. FINANCE COSTS

| | 2022 | 2021 |
|---|----------------|----------------|
| | SR '000 | SR '000 |
| Finance costs on loans and borrowings | 269,053 | 189,112 |
| Finance cost on lease liabilities (Note 31) | 13,624 | 14,357 |
| Others | 15,352 | 33,049 |
| | 298,029 | 236,518 |

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 2022, the Group did not record any provision for impairment of receivables (31 December 2021: Nil) relating to amounts owed by related parties. 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.

During 2022, the Saudi Electricity Company's (SEC) announced the carve-out of the Saudi Power Procurement Company (Principal Buyer), a wholly owned subsidiary of SEC and the transfer of its ownership to the government (Kingdom of Saudi Arabia). Transactions with SEC for the year ended 31 December 2022 were accordingly updated to reflect this change.

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

| | 2022 | 2021 |
|-----------------------------------|------------------|----------------|
| | SR '000 | SR '000 |
| <i>Shareholders</i> | | |
| SABIC and its subsidiaries | 1,745,521 | 1,761,472 |
| Royal Commission | 158,972 | 145,596 |
| <i>Other related parties</i> | | |
| Saudi Aramco and its subsidiaries | 1,514,069 | 1,458,884 |
| Saudi Electricity Company | 802,895 | 1,619,536 |
| Other government entities | 1,680,591 | 730,918 |
| | 5,902,048 | 5,716,406 |

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

| | 2022 | 2021 |
|-----------------------------------|------------------|----------------|
| | SR '000 | SR '000 |
| Saudi Aramco and its subsidiaries | 1,454,793 | 1,456,942 |
| Saudi Electricity Company | 80,682 | 64,647 |
| | 1,535,475 | 1,521,589 |

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30. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

30.2 Due from related parties

Trade receivables

| | 2022 | 2021 |
|-----------------------------------|----------------|----------------|
| | SR '000 | SR '000 |
| <i>Shareholders</i> | | |
| SABIC and its subsidiaries | 172,445 | 200,291 |
| Royal Commission | 36,881 | 73,625 |
| <i>Other related parties</i> | | |
| Saudi Aramco and its subsidiaries | 207,782 | 203,352 |
| Saudi Electricity Company | 2,670 | 2,603 |
| Other government entities | 289,987 | 144,707 |
| | 709,765 | 624,578 |

Prepayments and other receivables

| | 2022 | 2021 |
|---------------------------|----------------|----------------|
| | SR '000 | SR '000 |
| Other government entities | 180,143 | 51,664 |
| Saudi Electricity Company | - | 137,061 |
| | 180,143 | 188,725 |

30.3 Due to related parties

Trade payables

| | 2022 | 2021 |
|-----------------------------------|----------------|----------------|
| | SR '000 | SR '000 |
| <i>Other related parties</i> | | |
| Saudi Aramco and its subsidiaries | 203,130 | 86,276 |
| | 203,130 | 86,276 |

Retention payable

| | 2022 | 2021 |
|---------------------|----------------|----------------|
| | SR '000 | SR '000 |
| <i>Shareholders</i> | | |
| Royal Commission | 22 | 28 |
| | 22 | 28 |

Accrued and other liabilities

| | 2022 | 2021 |
|-----------------------------------|----------------|----------------|
| | SR '000 | SR '000 |
| <i>Shareholders</i> | | |
| Royal Commission | 13,702 | 11,029 |
| <i>Other related parties</i> | | |
| Saudi Aramco and its subsidiaries | 137,817 | 137,486 |
| Saudi Electricity Company | 12,997 | 33,640 |
| | 164,516 | 182,155 |

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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:

| | <u>2022</u> SR '000 | <u>2021</u> SR '000 |
|---|------------------------|------------------------|
| Lease obligation in respect of assets on lease from Royal Commission (Note (i)) | | |
| - Non-current | 2,596,506 | 2,848,304 |
| - Current | 327,281 | 353,620 |
| | <u>2,923,787</u> | <u>3,201,924</u> |
| Obligation in respect of asset transferred from Royal Commission (Note (ii)) | <u>1,362,717</u> | <u>1,362,717</u> |
| | <u>4,286,504</u> | <u>4,564,641</u> |

- (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.

- (ii) The Parent Company has outstanding obligation against assets received from the Royal Commission aggregating to SR 1,362.7 million (31 December 2021: 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).

30.5 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:

| | <u>2022</u> SR '000 | <u>2021</u> SR '000 |
|--|------------------------|------------------------|
| Short-term employee benefits | 29,853 | 45,617 |
| Post-employment defined benefit plan | 4,896 | 5,228 |
| Total compensation paid to key management personnel | <u>34,749</u> | <u>50,845</u> |

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31. LEASES

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

| | 2022 | 2021 |
|--------------------------------------|------------------|-----------|
| | SR '000 | SR '000 |
| Current portion | 333,343 | 367,330 |
| Non-current portion | 2,603,691 | 2,865,048 |
| | 2,937,034 | 3,232,378 |
| Movement in lease liabilities | | |
| | 2022 | 2021 |
| | SR '000 | SR '000 |
| Balance at 1 January | 3,232,378 | 3,833,132 |
| Additions | 950 | 4,259 |
| Interest on lease liabilities | 13,624 | 14,357 |
| Payment during the year | (309,918) | (619,370) |
| Balance at 31 December | 2,937,034 | 3,232,378 |

32. COMMITMENTS AND CONTINGENCIES

Capital commitments

Capital expenditure contracted by the Group at the end of the year but not incurred is SR 952 million (31 December 2021: SR 1,897 million).

Other commitment

One of the Group companies, TAWREED has 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 2022, bank guarantees and letter of credits have been issued amounting to SR 504.9 million (31 December 2021: SR 524.9 million) by the Group's bankers, on behalf of the Group in the ordinary course of business.

33. COMPARATIVE FIGURES

The comparative figures for the year ended on 31 December 2021 have been reclassified to conform with the current year presentation of the consolidated income statement. The reclassifications do not have any impact on opening balance of comparative information, retained earnings or total comprehensive income:

| | Amounts before reclassification | Reclassification | Amounts after reclassification |
|--|--|-------------------------|---|
| | SR '000 | SR '000 | SR '000 |
| Cost of revenue | | | |
| Power and water costs | 1,435,486 | - | 1,435,486 |
| Fuel and chemicals | 1,413,853 | - | 1,413,853 |
| Depreciation | 1,137,181 | (27,875) | 1,109,306 |
| Employees related costs | 703,123 | (93,190) | 609,933 |
| Operating and maintenance expenses | 214,936 | 6,273 | 221,209 |
| Repair and maintenance | 181,407 | (786) | 180,621 |
| Provision for slow-moving and obsolete inventories | 25,161 | - | 25,161 |
| Amortisation of intangible assets | 23,698 | 4,763 | 28,461 |
| Others | 152,764 | 10,208 | 162,972 |
| | 5,287,609 | (100,607) | 5,187,002 |

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33. COMPARATIVE FIGURES (Continued)

| | Amounts before reclassification | Reclassification | Amounts after reclassification |
|-----------------------------------|------------------------------------|------------------|-----------------------------------|
| | SR '000 | SR '000 | SR '000 |
| Administrative expenses | | | |
| Employees related costs | 60,724 | 80,087 | 140,811 |
| Service contracts | 16,308 | - | 16,308 |
| Donations | 11,222 | - | 11,222 |
| Depreciation | 3,491 | 27,875 | 31,366 |
| Amortization of intangible assets | 4,763 | (4,763) | - |
| Others | 48,488 | (2,592) | 45,896 |
| | <u>144,996</u> | <u>100,607</u> | <u>245,603</u> |

34. SUBSEQUENT EVENTS

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

ii. The Board of Directors of the Parent Company in their meeting held on 1 March 2023 announced to distribute cash dividends for second half of 2022 amounting to SR 275 million (SR 1.10 per share).