

ARABIAN DRILLING COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

with

Independent Auditor's Report

Arabian Drilling Company
(A Saudi Joint Stock Company)

Consolidated financial statements with independent auditor's report
For the year ended 31 December 2022

INDEX	PAGE
Independent auditor's report	-
Consolidated statement of financial position	1 - 2
Consolidated statement of profit or loss and other comprehensive income	3
Consolidated statement of changes in equity	4
Consolidated statement of cash flows	5 - 6
Notes to the consolidated financial statements	7 - 56



KPMG Professional Services

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

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

الطابق ١٦، برج البرغش
٦١٨٩ طريق الأمير تركي، الكورنيش
ص.ب ٤٨٠٣
الخير ٣١٤٦ - ٣٤٤١٢
المملكة العربية السعودية
سجل تجاري رقم ٢٠٥١٠٦٢٣٢٨

المركز الرئيسي في الرياض

Independent auditor's report

To the Shareholders of Arabian Drilling Company (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Arabian Drilling Company ("the Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the 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.

© 2023 KPMG Professional Services, a professional closed joint stock company registered in the Kingdom of Saudi Arabia. With the paid-up capital of (40,000,000) SAR. (Previously known as "KPMG Al Fozan & Partners Certified Public Accountants") A non-partner member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

© 2023 كي بي إم جي للاستشارات المهنية شركة مساهمة مغلقة، مسجلة في المملكة العربية السعودية، رأس مالها (٤٠,٠٠٠,٠٠٠) ريال سعودي منوع بالكامل، المسماة سابقاً "شركة كي بي إم جي للوزان وشركاء محاسبين ومراجعون قانونيون". وهي عضو غير شريك في الشبكة العالمية لشركات كي بي إم جي المستقلة والتابعة لـ كي بي إم جي العالمية المحدودة، شركة إنجليزية محدودة بضمان. جميع الحقوق محفوظة.

Commercial Registration of the headquarters in Riyadh is 1010425494.



Independent auditor's report

To the Shareholders of Arabian Drilling Company (A Saudi Joint Stock Company) (Continued)

Key audit matter (continued)

Revenue recognition

The key audit matter	How the matter was addressed in our audit
<p>Refer note 3.2 for the accounting policy relating to revenue recognition and Note 17 for revenue disclosure.</p> <p>During the year ended 31 December 2022, the Group recognized revenue of SR 2.70 billion (2021: SR 2.20 billion) from drilling and related services.</p> <p>Revenue recognized from drilling contracts contain elements that entails judgement assumptions such as options to drill additional wells, lumpsum fees, mobilisation, and demobilisation fees that are recognized during the drilling contract period upon completion of related performance obligations.</p> <p>We considered this to be a key audit matter as the revenue is material within the overall context of the Group's consolidated financial statements and associated inherent risk of overstatement of revenue, which may have a material impact on the Group's consolidated financial statements.</p>	<p>Among other things, our procedures included the following:</p> <ul style="list-style-type: none">– Assessed and tested the design and implementation and operating effectiveness of management's internal controls system which govern the process around recognition of revenue.– Inquired about existence of any actual and / or suspected fraud from the management and tested the relevant controls.– We evaluated management's assessment in identifying performance obligations, estimated duration of drilling period and recognition of revenue for the drilling contracts.– We reviewed the contracts on a sample basis, management assessments of these contracts, and the corresponding revenue recognition for each contract to check its appropriateness in accordance with applicable standard.– Tested sample of journal entries and inspected underlying the supporting documents and accounting records to evaluate the appropriateness of these journal entries.– Evaluated the adequacy and relevance of disclosures made by the management in the consolidated financial statements.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 24 Sha'ban 1443H corresponding to 27 March 2022G.

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.



Independent auditor's report

To the Shareholders of Arabian Drilling Company (A Saudi Joint Stock Company) (Continued)

Other Information (continued)

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 Audit Committee, are responsible for overseeing the Group's financial reporting process.

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.



Independent auditor's report

To the Shareholders of Arabian Drilling Company (A Saudi Joint Stock Company) (Continued)

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

- 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.

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 Arabian Drilling Company ("the Company") and its subsidiary ("the Group").

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.

For KPMG Professional Services

Abdulaziz Abdullah Alnaim
License No: 394



Al Khobar, 24 Shaban 1444H
Corresponding to: 16 March 2023G

Arabian Drilling Company
(A Saudi Joint Stock Company)

Consolidated statement of financial position

(All amounts in Saudi Riyals unless otherwise stated)

	Note	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Property, plant and equipment	4	6,490,620,979	5,258,884,037
Intangible assets	5	-	5,517,718
Right-of-use assets	6.1	199,262,775	1,791,683
Mobilization cost	18.1	15,026,668	2,384,589
Total non-current assets		6,704,910,422	5,268,578,027
Current assets			
Inventories	7	172,540,843	143,329,355
Trade and other receivables	8	825,059,412	701,042,787
Advance income tax	21	-	9,268,917
Mobilization cost	18.1	6,732,553	2,587,251
Derivative financial instrument	9	378,192	-
Short term deposits		1,000,000,000	-
Cash and cash equivalents	10	832,024,714	411,621,031
		2,836,735,714	1,267,849,341
Assets held for sale	11	12,402,180	7,792,608
Total current assets		2,849,137,894	1,275,641,949
Total assets		9,554,048,316	6,544,219,976
EQUITY AND LIABILITIES			
Equity			
Share capital	12	890,000,000	22,580,000
Share premium	12	790,675,825	-
Additional paid-in capital	12	-	97,420,800
Statutory reserve	13	267,000,000	18,883,921
Cash flow hedge reserve	9	-	(4,440,687)
Retained earnings		3,642,148,763	4,057,324,636
Total equity		5,589,824,588	4,191,768,670
Liabilities			
Non-current liabilities			
Long-term borrowings	14	2,481,138,537	835,617,643
Lease liabilities	6.2	136,013,930	-
Employees' benefit obligations	15	273,216,040	250,965,672
Mobilization revenue	17.1	115,613,850	5,965,052
Deferred tax liabilities	21	148,798,818	207,377,297
Trade payable	16	-	15,189,800
Derivative financial instrument	9	-	4,440,687
Total non-current liabilities		3,154,781,175	1,319,556,151

(continued)

Arabian Drilling Company
(A Saudi Joint Stock Company)

Consolidated statement of financial position (continued)

(All amounts in Saudi Riyals unless otherwise stated)

	<u>Note</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
Current liabilities			
Trade and other payables	16	584,811,273	456,551,216
Current portion of long-term borrowings	14	46,460,449	545,472,803
Current portion of lease liabilities	6.2	63,806,499	1,847,313
Mobilization revenue	17.1	60,216,798	8,458,721
Provision for zakat and income tax	21	54,147,534	20,565,102
Total current liabilities		809,442,553	1,032,895,155
Total liabilities		3,964,223,728	2,352,451,306
Total equity and liabilities		9,554,048,316	6,544,219,976



Khalid Nouh
(Chairman)



Ghassan Mirdad
(Chief Executive Officer)



Hubert Lafeuille
(Chief Financial Officer)

The accompanying notes 1 through 29 form an integral part of these consolidated financial statements.

Arabian Drilling Company
(A Saudi Joint Stock Company)


Consolidated statement of profit or loss and other comprehensive income

(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2022	2021
Revenue	17	2,703,535,475	2,198,968,512
Cost of revenue	18	(1,902,092,383)	(1,723,349,645)
Gross profit		801,443,092	475,618,867
Provision for impairment on financial assets		(47,306)	-
General and administrative expenses	19	(179,600,335)	(112,065,873)
Other expense – net		(2,702,159)	(163,593)
		619,093,292	363,389,401
Finance cost	20	(94,318,292)	(37,986,037)
Finance income		27,525,180	1,343,244
Finance cost - net		(66,793,112)	(36,642,793)
Profit before zakat and income tax		552,300,180	326,746,608
Zakat and income tax credit / (expenses)	21	5,419,779	(53,163,103)
Profit for the year		557,719,959	273,583,505
Other comprehensive income			
<i>Items that may be reclassified to the consolidated statement of profit or loss in subsequent periods:</i>			
Cash flow hedge reserve – reclassified to consolidated statement of profit or loss	9	4,440,687	-
Cash flow hedge reserve – effective portion of changes in fair value	9	-	10,692,130
<i>Items that will not be reclassified to the consolidated statement of profit or loss in subsequent periods:</i>			
Remeasurements of employee benefit obligations	15	(8,125,752)	12,743,228
Impact of deferred tax	21	793,244	(1,307,393)
Other comprehensive (loss) / income for the year		(2,891,821)	22,127,965
Total comprehensive income for the year		554,828,138	295,711,470
Earnings per share (Saudi Riyals)			
Basic and diluted	23	6.85	3.42


Khalid Noun
(Chairman)


Ghassan Mirdad
(Chief Executive Officer)


Hubert Lafeuille
(Chief Financial Officer)

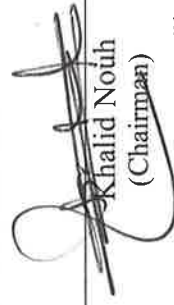
The accompanying notes 1 through 29 form an integral part of these consolidated financial statements.

Arabian Drilling Company
(A Saudi Joint Stock Company)

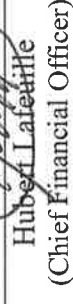
Consolidated statement of changes in equity

(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Share Premium	Additional paid-in capital	Statutory reserve	Cash flow hedge reserve	Retained earnings	Total
As at 1 January 2021	22,580,000	-	97,420,800	18,883,921	(15,132,817)	3,788,414,614	3,912,166,518
<i>Total comprehensive income for the year</i>							
Profit for the year	-	-	-	-	-	273,583,505	273,583,505
Other comprehensive income for the year	-	-	-	-	10,692,130	11,435,835	22,127,965
Total comprehensive income for the year	-	-	-	-	10,692,130	285,019,340	295,711,470
Zakat and income tax reimbursed by Shareholders (Note 26)	-	-	-	-	-	21,072,942	21,072,942
Dividends (Note 27)	-	-	-	-	-	(37,182,260)	(37,182,260)
As at 31 December 2021	22,580,000	-	97,420,800	18,883,921	(4,440,687)	4,057,324,636	4,191,768,670
As at 1 January 2022	22,580,000	-	97,420,800	18,883,921	(4,440,687)	4,057,324,636	4,191,768,670
<i>Total comprehensive income for the year</i>							
Profit for the year	-	-	-	-	-	557,719,959	557,719,959
Other comprehensive income for the year	-	-	-	-	4,440,687	(7,332,508)	(2,891,821)
Total comprehensive income for the year	-	-	-	-	4,440,687	550,387,451	554,828,138
Transfer to share capital (Note 12)	777,420,000	-	(97,420,800)	-	-	(679,999,200)	-
Transfer to statutory reserve (Note 13)	-	-	-	248,116,079	-	(248,116,079)	-
Issue of new shares (Note 12)	90,000,000	790,675,825	-	-	-	-	880,675,825
Dividends (Note 27)	-	-	-	-	-	(37,448,045)	(37,448,045)
As at 31 December 2022	890,000,000	790,675,825	-	267,000,000	-	3,642,148,763	5,589,824,588


Khalid Nohh
(Chairman)


Ghassan Mirdad
(Chief Executive Officer)


Hubert Lafontaine
(Chief Financial Officer)

The accompanying notes 1 through 29 form an integral part of these consolidated financial statements.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Consolidated statement of cash flows

(All amounts in Saudi Riyals unless otherwise stated)


	Note	For the year ended 31 December	
		2022	2021
Cash flows from operating activities			
Profit after zakat and income tax		557,719,959	273,583,505
<i>Adjustment for:</i>			
Depreciation on property, plant & equipment	4	510,993,440	539,061,080
Depreciation on right of use assets	6.1	8,771,629	2,964,865
Amortization on intangible assets	5	5,517,718	5,763,826
Provision for slow moving inventories	7	10,204,778	14,664,002
Provision for impairment of financial assets		47,306	-
Provision for income tax refundable	19	9,268,917	-
Provision for advances and other receivables	19	12,941,430	6,708,705
Provision for employee benefit obligations	15	34,857,946	33,333,988
Gain on disposal of non-current assets held for sale		(1,628,952)	(4,419,867)
Amortization of mobilization cost	18.1	4,868,815	20,538,699
Amortization of mobilization revenue	17.1	(14,843,125)	(36,538,899)
Finance cost	20	94,318,292	37,986,037
Finance income		(27,525,180)	(1,343,244)
Zakat and tax (income) / expense	21	(5,419,779)	53,163,103
		1,200,093,194	945,465,800
<i>Changes in:</i>			
Inventories		(39,416,266)	(63,828)
Trade and other receivables		(155,784,429)	(198,164,930)
Trade and other payables		122,225,803	(26,913,719)
Mobilization cost paid	18.1	(21,656,196)	-
Mobilization revenue received	17.1	176,250,000	-
Cash generated from operations		1,281,712,106	720,323,323
Zakat and income tax paid	21	(18,783,024)	(21,905,900)
Employee's benefit obligation paid	15	(20,733,330)	(22,197,142)
Net cash generated from operating activities		1,242,195,752	676,220,281
Cash flows from investing activities			
Additions to property, plant and equipment	4	(1,749,343,361)	(247,627,282)
Additions to intangible assets	5	-	(149,890)
Proceeds from disposal of assets held for sale		3,632,359	19,558,113
Short term deposits		(1,000,000,000)	-
Finance income received		21,375,180	1,343,244
Net cash used in investing activities		(2,724,335,822)	(226,875,815)

(continued)

Arabian Drilling Company
(A Saudi Joint Stock Company)

Consolidated statement of cash flows (continued)
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2022	2021
Cash flows from financing activities			
Proceeds from long term borrowings	14	2,500,000,000	-
Proceeds from issuance of new shares	12	880,675,825	-
Repayment of long-term borrowings	14	(1,377,434,235)	(631,593,302)
Payment of lease liabilities	6.2	(9,546,835)	(3,181,888)
Finance cost paid		(69,476,479)	(42,468,892)
Dividends paid		(21,674,523)	-
Net cash generated from / (used in) financing activities		1,902,543,753	(677,244,082)
Net change in cash and cash equivalents		420,403,683	(227,899,616)
Cash and cash equivalents at the beginning of the year		411,621,031	639,520,647
Cash and cash equivalents at the end of the year	10	832,024,714	411,621,031
Significant non-cash transactions			
Additions to right-of-use assets and lease liabilities	6.1	206,242,721	-
Transfer from property, plant and equipment to assets held for sale		6,612,979	7,792,608
Dividend adjusted against receivable from shareholders		24,929,068	28,026,714


Khalid Nouh
(Chairman)


Ghassan Mirdad
(Chief Executive Officer)


Hubert Lafeuille
(Chief Financial Officer)

The accompanying notes 1 through 29 form an integral part of these consolidated financial statements.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

1. CORPORATE INFORMATION

Arabian Drilling Company (the “Company” or “ADC”) and its wholly owned subsidiary, Ofsat Arabia LLC (“Ofsat”), collectively the “Group” are principally engaged in the drilling of oil and natural gas wells, operations, maintenance and hauling of rigs and related activities.

The accompanying consolidated financial information includes the financial information of the Company and its wholly owned subsidiary, Ofsat Arabia LLC (“Ofsat”). Ofsat is a Limited Liability Company incorporated in the Kingdom of Saudi Arabia.

The Company is a Saudi Joint Stock Company licensed under foreign investment license number 2031047241 issued by the Ministry of Investment on 18 Dhu-al-Hijja 1424H (corresponding to 13 December 2003G) and operating under commercial registration number 2051026089 issued in Dammam on 3 Safar 1423H (corresponding to 16 April 2002G). The registered address of the Company is P.O. Box 4110, Al-Khobar 31952, Kingdom of Saudi Arabia.

During the year 2021, the Board of Directors (“BoD”) of the Company recommended to shareholders to initiate legal formalities to file for an Initial Public Offering (“IPO Application”) with the relevant regulatory authorities in the Kingdom of Saudi Arabia.

On 29 June 2022, the Capital Market Authority (CMA) approved the application filed by the Company to float 26,700,000 ordinary shares in an Initial Public Offering (IPO) on Saudi Stock Exchange (Tadawul). The planned stake sale represents 30% of the Company’s total shares post listing.

On 18 September 2022, the Company announced its intention to proceed with the initial public offering and listing of its ordinary shares, where offering comprises a sale of

- 17,700,000 shares by way of offer for sale by the existing shareholders of the Company; and
- issuance of 9,000,000 new shares.

On 18 October 2022, the Company announced commencement of retail subscription period until 20 October 2022 at an offer price of SR 100 per share. Allotment of shares to new shareholders completed on 3 November 2022 and the Company’s ordinary shares trading was commenced in Saudi Stock Exchange (Tadawul) on 7 November 2022 (also refer note 12).

This resulted in a free float of 30% of the Company’s share capital post listing. Shareholders and their ownership in the Company, pre and post offering is as follows:

Shareholder	Pre-Offering			Post-Offering		
	No of Shares	Ownership (%)	Nominal Value	No of Shares	Ownership (%)	Nominal Value
Industrialization and Energy Services Company (TAQA)	40,800,000	51%	408,000,000	31,773,000	35.7%	317,730,000
Services Pétroliers Schlumberger S.A. (SPS)	39,200,000	49%	392,000,000	30,527,000	34.3%	305,270,000
Free float	-	-	-	26,700,000	30%	267,000,000
Total	80,000,000	100%	800,000,000	89,000,000	100%	890,000,000

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

2. Basis of preparation and use of judgements and estimates

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization of Chartered and Professional Accountants (SOCPA). Details of the Company's accounting policies are included in note 3.

These consolidated financial statements are prepared using historical cost convention, using going concern assumption, except for derivative financial instruments which are measured at fair value and employees' benefits obligation which is measured at projected unit credit method.

2.2 Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgments and estimates that affect the application of the group accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Information about judgements made in applying accounting policies that have the most significant effects on the amount recognized in the consolidated financial statements are disclosed below:

(a) Employees' benefit obligations

Employees' benefits obligation represent obligations that will be settled in the future and require assumptions to project these obligations. IAS 19 requires management to make further assumptions regarding variables such as discount rates, rate of compensation increases, mortality rates, employment turnover and future healthcare costs. The Group's management use an external actuary for performing this calculation. Changes in key assumptions can have a significant impact on the projected benefit obligation and/or periodic employees' benefits costs incurred.

(b) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

2. Basis of preparation and use of judgements and estimates (continued)

2.2 Use of judgements and estimates (continued)

(c) Expected Credit Loss ("ECL")

The Group applies the simplified and general method for assessing expected and specific credit losses in accordance with IFRS 9.

The Group uses the simplified model using a provision matrix to estimate expected credit losses for government and semi-government entities and financial assets at amortized cost. Expected credit losses are calculated over 12 months, or projected credit losses over a lifetime in which the credit value has not decreased or the credit values has decreased, based on the change in the credit risk associated with the financial instrument.

To measure expected credit losses, trade receivables are grouped based on the characteristics of the joint credit risk and the days in which they are due. Historical loss rates are adjusted to reflect current and future information in accordance with indicators of macroeconomic activity that affect customers' ability to settle receivables. The Group has defined gross domestic product and inflation as primary inputs for adjusting historical loss ratios according to expected changes to these factors.

(d) Useful lives of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives of property, plant and equipment and intangible assets for calculating depreciation and amortization respectively. This estimate is determined after considering expected usage of the assets and physical wear and tear. The management at least annually reviews the estimated useful lives and the depreciation and amortization method to ensure that the method and periods of depreciation and amortization are consistent with the expected pattern of economic benefit of the assets.

(e) Residual value

The residual value of the asset represents the estimated amount that the entity will receive from the disposal of the asset less the estimated disposal costs, if the asset is indeed of age and in the condition it is expected to be in at the end of its useful life.

The management reconsider the residual value of the asset at least at the end of each financial year, and if expectations differ from previous estimates, this is treated as a change in accounting estimate, in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates, and Errors".

(f) Provision or impairment of obsolete, slow moving and damaged inventories

Inventory is stated at cost or net realizable value, whichever is lower. The amount of write-off and any reduction in inventory to the net realizable value and inventory losses is recognized as an expense in the same period in which the write-off or expense occurred. A provision (if necessary) is made for obsolete, slow moving and damaged inventories in accordance with the Group's policy.

The Group re-assesses the net realizable value in each subsequent period in accordance with the Group's policy. When there is a change in the initial estimate which previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

2. Basis of preparation and use of judgements and estimates (continued)

2.2 Use of judgements and estimates (continued)

(g) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(h) Going concern

The Group's management conducted an assessment of the Group's ability to continue to operate in accordance with the principle of going concern and reached a conclusion that the group has sufficient resources to enable it to continue operating in the foreseeable future. Also, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Accordingly, these consolidated financial statements have been prepared on the going concern basis.

(i) Zakat and tax

The Company and its subsidiary are subject to the legislation of the Zakat, Tax and Customs Authority ("ZATCA"). Accrual of Zakat and tax is recognized in the consolidated statement of profit or loss and other comprehensive income. Additional zakat and tax liabilities, calculated by Authorities, if any, related to prior years zakat and tax declaration is recognized in the year in which final declaration is issued.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the amounts used for taxation purpose. The group reassess the deferred tax at each reporting period and deferred tax will be adjusted based on the outcome of the completed assessments.

(j) Leases

The Group management uses the below estimates to determine the lease where the Group acts:

As a lessee

- lease term whether the group is reasonably certain to exercise the extension options, and
- incremental borrowing rate for calculating the present value of the lease payments.

The Group leases warehouse, vehicles, rigs and related equipments. The leases have an option to renew the lease contracts on its expiry. Where practicable, the Company includes the extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant change in the circumstances within its control. The lease payments are discounted using the Group's incremental borrowing rate ("IBR"). Management has applied judgments and estimates to determine the IBR at the commencement of the lease.

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

2. Basis of preparation and use of judgements and estimates (continued)

2.2 Use of judgements and estimates (continued)

(j) Leases (continued)

As a lessor

- to determine the lease term at inception or on modification of a contract that contains a lease component,
- to allocate the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone selling prices, and
- determines at lease inception whether each lease is a finance lease or an operating lease

(k) Revenue

There is use of judgement in the Group's revenue recognition, and the judgement include an options to drill additional wells, lumpsum fees, mobilization, and demobilization fees that are recognized during the drilling contract period upon completion of related performance obligations. In addition, the progress towards complete satisfaction of the performance obligation at the end of the reporting period is estimated, as the completion date of the drilling period is unknown at the end of the reporting period. (Refer note 3.2)

(l) Fair Value Measurement - 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.

3. Significant accounting policies

The principal accounting policies applied in the preparation of consolidated financial statements of the Group are set out below. These policies have been consistently applied to all years presented.

3.1 Basis of consolidation

(a) Subsidiary

These consolidated financial statements comprise the financial statements of the Company and its subsidiary. Subsidiary financial statements reporting period and accounting framework is aligned with the Company's reporting period and accounting framework. Subsidiary is an entity over which the Group has control. 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; and
- The ability to use its power over the investee to affect its returns.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3.1 Basis of consolidation (continued)

(a) Subsidiary (continued)

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 with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

Non-controlling interests are measured by their proportionate share of the identifiable net assets of the acquiree at the date of acquisition.

The Group re-assesses 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-off 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 are attributed to the equity holders of the parent of the Group and to the non-controlling interests, if any. When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies in line with the Group's accounting policies.

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 and liabilities of the subsidiary;
- 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; and
- Reclassifies the parent's share of component 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.

(b) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealized losses, if any, are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(c) Loss of control

When the group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in consolidated statement profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.2 Revenue

Revenue is measured at the fair value of the consideration received or receivable in the ordinary course of the Group's activities. Revenue from performance of services is recognized in the accounting period in which the services are rendered. The Group has concluded that it is the principal in its revenue arrangement since it is the prime obligor and is exposed to credit risk.

The Group recognizes revenue based on a five-step model as set out in IFRS 15.

IFRS 15 requires that revenue is recognized from contracts with customers based on the following five step model as follows:

- Identification of contracts with customer;
- Identification of performance obligations in the contract;
- Determination of transaction price;
- Allocation of transaction price to performance obligations in the contract; and
- Recognition of revenue when the Company satisfies the performance obligation.

The Group has following revenue streams:

(a) Drilling revenue

Revenue against drilling services is recorded over time as the customers simultaneously receive and consume the related benefit, using the output method where the customers sign the service entry sheet for the month as acknowledgement of the receipt of services. The services are billed to the customers based on the day rate specified in the contract upon acknowledgement of the receipt of services.

The Group does not expect to have any contracts where the period between the transfer of the promised services to the customer and payment by the customer exceeds one year except for contractual retentions in certain cases, and accordingly, the transaction prices are not adjusted for the time value of money. As per the contracts with the customers, there is no financing, non-cash consideration and consideration payable to customer involved in the transaction price.

Revenue from drilling activities was recognized in accordance with the rates agreed under the terms of the drilling contracts, which include approximately equal service and lease components.

The Company allocates the transaction price, based on stand-alone selling prices, related to its drilling revenue which contain both leasing and service elements. Revenue from such leasing arrangements is recorded in the consolidated statement of profit or loss on a straight-line basis over the period of the respective lease.

(b) Rig move revenue

The Group provides services to the customer relating to relocation of rigs on the customer's instructions. Revenue against such services is recorded over time as the customer simultaneously receives and consumes the related benefit, using the output method where the customer signs the service entry sheet for the month as acknowledgement of the receipt of services. Revenue is recognized upon completion of underlying performance obligation and customers' acknowledgement of the receipt of services.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.2 Revenue (continued)

(c) Mobilization revenue

Mobilization revenue represents fee for initial mobilization of rigs. These activities do not constitute delivery of a separate service to the customers but are necessary to fulfill the drilling services mentioned above.

Accordingly, mobilization revenues are recognized as contract liabilities and are amortized over the term of the respective contracts with customers for drilling services.

(d) Catering and other revenue

The Group provides catering services and sub-contracts its manpower to its customers based on pre-agreed unit rates. Revenue against such services is recorded over time, as the customer simultaneously receives and consumes the related benefit, using the output method where the customer signs the time sheet for the month as acknowledgement of the receipt of services. Revenue is recognized upon customers' acknowledgement of the receipt of services.

3.3 Foreign currencies

(a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("functional currency"). The Group's cash flows, financing and transactions occur in more than one currency. Since a significant portion of revenue and capital expenditure is denominated in USD, management believes that USD is the currency with the most influence over the Group's operations. Accordingly, USD is considered to be the functional currency of the Group.

Management has elected to prepare these consolidated financial statements in Saudi Riyals which is the Group's presentation currency and believes that there is no translation impact on these consolidated financial statements since Saudi Riyal (SR) is pegged to USD.

(b) Transactions and balances

The USD is the functional currency of the Group, other major transactions of the Group are in SR which is pegged to USD. All other foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on translation of monetary items are recognized in the consolidated statement of profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates at the dates of the initial transactions.

Foreign exchange differences resulting from the translation of cash flow hedges are recognized to the extent that the hedge is effective in the statement of other comprehensive income.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

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

The Group classifies all other assets as non-current.

A liability is current when:

- It is expected to be settled in 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 Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3.5 Finance income and finance costs

The group finance income and finance costs includes the following:

- interest income,
- interest expenses,
- the net gain or loss on financial assets measured at FVTPL,
- the foreign currency gain or loss on financial assets and financial liabilities, impairment losses and reversals on investment in debt securities carried at amortized cost or FVOCI,
- hedge ineffectiveness recognized in the consolidated statement of profit or loss, and
- the reclassification of net gains and losses previously recognized in OCI on cash flow hedges of interest rate risk for borrowings.

The interest income or expenses is recognized using effective interest method. Dividend income is recognized in consolidated statement of profit or loss on the date on which Group's right to receive the payment is established.

The effective interest rate is rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instruments to:

- the gross carrying amount of the financial assets or
- the amortized cost of the financial liability.

In calculating interest income and expenses, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.6 Zakat and income taxes

In accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"), the Group is subject to zakat and income tax to the extent attributable to the effective Saudi and foreign shareholding respectively within the Group. Provision for zakat and income tax is charged to profit or loss for the year. Additional amounts, if any, are accounted for when determined to be required for payment.

Zakat

Zakat is levied based on adjusted income subject to zakat or the zakat base in accordance with the Regulations of the Zakat, Tax and Customs Authority ("ZATCA") in KSA whatever is higher. The Group computes its zakat by using the zakat base. The zakat provision is charged to the consolidated statement of profit or loss and other comprehensive income. Differences, if any, resulting from the final assessments are adjusted in the period of their finalization.

Income tax

Income tax expenses comprises of current and deferred tax. Expenses are charged to consolidated statement of profit or loss except to that it relates to a business combination, or items recognized directly in equity or other comprehensive income.

The Group has determined that interest and penalties related to income tax, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the taxable payable or receivable in respect of the previous years. The amount of the current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are allowed to offset only if certain criteria are met.

All shares in the Saudi-resident companies held directly or indirectly by Saudi Arabian Oil Company ("Saudi Aramco") are subject to the Saudi Arabian Income Tax Law of 2004. However, article 2(a) of the income tax law, provides an exemption from the above requirement to the Companies listed in KSA. Hence indirect shareholding of Saudi Aramco is not subject to Income tax.

Deferred tax

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

Temporary differences in relation to right-of-use assets and a lease liability for a specific lease are regarded as a net package (the lease) for the purpose of recognizing deferred tax.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.6 Zakat and income taxes (continued)

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

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met

3.7 Property, plant and equipment

Recognition and measurement

Property, plant and equipment except for freehold land and asset under construction are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Asset under construction are carried at historical cost less impairment (if any) and are transferred to property, plant and equipment when ready for use as intended by management. Historical cost includes expenditure that is directly attributable to the acquisition of the items including eligible capitalized borrowing costs.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted as separate items (major components) of property, plant and equipment. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Subsequent expenditure

Subsequent expenditures are capitalized only if it is probable that future economic benefits associated with the expenditure will flow to the Group.

Depreciation

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using straight line method over their estimated useful lives, and depreciation expenses are charged to consolidated statement of profit or loss and other comprehensive income. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted as appropriate.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

<u>Class of assets</u>	<u>Useful lives (in years)</u>
Building and portable cabins	10 – 33
Rig, machinery and equipment	7 – 30
Furniture, fixtures and office equipment	7
Vehicles	4 – 7

Freehold Land is not depreciated. No depreciation is charged on assets under construction until transferred to property, plant and equipment.

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.7 Property, plant and equipment (continued)

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected 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 statement of profit or loss and other comprehensive income when the asset is derecognized.

Carrying value of property, plant and equipment is written down immediately to its recoverable amounts if carrying amount is greater than its estimated recoverable amount.

3.8 Intangible assets

Intangible assets acquired are measured on initial recognition as cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each annual reporting period. The amortization expense on intangible assets with finite useful lives is recognized in the consolidated statement profit or loss in the expense category consistent with the function of the intangible asset.

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

Group intangible assets represents acquired software (i.e., SAP). Amortization is calculated to write off the cost of intangible assets less their estimated residual values using straight-line method over their estimated useful life of five years. Amortization methods, useful lives and residual values are reviewed at each reporting and adjusted if appropriate.

3.9 Leases

At inception of a contract, the Group assess 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.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognizes 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.

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.9 Leases (continued)

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 will be 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 Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized 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 consolidated statement of profit or loss and other comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.9 Leases (continued)

As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. 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 operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the group is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. It assess the lease classification of a sub-lease with reference to the right-of-use assets 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.

The Group provides drilling services to its customers which include both leasing and service components.

Lease revenue

The Group recognizes the lease payments received under operating leases as income on a straight line basis over the lease term as part of drilling revenue. The drilling contracts do not include any variable lease payments or escalation clauses.

3.10 Assets held for sale

Non-current assets or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets (if any), which continued to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held for sale or held for distribution and subsequent gains and losses on remeasurement are recognized in the consolidated statement of profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position.

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.11 Financial instruments

(a) Recognition and initial measurement

Trade receivable and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

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

(b) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost; fair value through OCI ("FVOCI"); or FVTPL.

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

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

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

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

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

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

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

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.11 Financial instruments (continued)

(b) Classification and subsequent measurement (continued)

Financial assets - Business model and 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 realizing 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.

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

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

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

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

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

In making this assessment, the Group considers:

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

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

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.11 Financial instruments (continued)

(b) Classification and subsequent measurement (continued)

Financial assets - Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the consolidated statement of profit or loss. However, refer note 9 for derivatives designated as hedging instruments.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognized in the consolidated statement of profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in the consolidated statement of profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to the consolidated statement of profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in the consolidated statement of profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to the consolidated statement of profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses:

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the consolidated statement of profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the consolidated statement of profit or loss. Any gain or loss on derecognition is also recognized in the consolidated statement of profit or loss. Note 9 for financial liabilities designated as hedging instruments.

(c) Derecognition

Financial assets

The Group derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expires, or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
 - substantially all of the risks and rewards of ownership of the financial asset are transferred or
 - Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.11 Financial Instruments (continued)

(c) Derecognition (continued)

Financial liabilities

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

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

Interest rate benchmark reform

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized 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:

- if 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.

(d) Offsetting

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

(e) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Derivatives are initially measured at fair value on the date of contract entered and subsequently remeasured at their fair value at each reporting date. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of item being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.11 Financial Instruments (continued)

(e) Derivative financial instruments and hedge accounting (continued)

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Hedges directly affected by Interest Rate Benchmark Reform (“IBOR reform”):

The Group adopted the phase 2 amendments in the prior year and retrospectively applied them from 1 January 2021.

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

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

The Group amends the description of the hedging instrument only if the following conditions are met;

- it makes a change required by IBOR reform by using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument;
- the chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- the original hedging instrument is not derecognized.

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

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

Cash flow hedges

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

For the hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to consolidated statement of profit or loss in the same period or periods during which the hedged expected future cash flows affect the consolidated statement of profit or loss.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.11 Financial Instruments (continued)

(e) Derivative financial instruments and hedge accounting (continued)

Cash flow hedges (continued)

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

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

3.12 Impairment of financial and non-financial assets

(a) Non-derivative financial assets

Financial instruments and contract assets

The Group recognizes loss allowances for ECLs on:

- financial assets measured at amortized cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

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

Loss allowances for trade receivables including unbilled revenue are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the 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, that includes forward-looking information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

- the debtor 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 more than 730 days past due.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.12 Impairment of financial and non-financial assets (continued)

(a) Non-derivative financial assets (continued)

Financial instruments and contract assets (continued)

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).

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

Measurement of ECLs

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

Credit-impaired financial assets

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

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

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to consolidated statement of profit or loss and is recognized in other comprehensive income.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For third party customers, Group has a policy of writing off the gross carrying amount when the management has reasonable evidence that the financial asset no longer recoverable, based on historical experience of recoveries of similar assets. For the related parties, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery, then the amount is written 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.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.12 Impairment of financial and non-financial assets (continued)

(b) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in the consolidated statement of profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.13 Inventories

Group inventories primarily represent spare parts and consumables used to provide the drilling service, which are carried at the lower of cost or net realizable value. The cost of inventories are determined using the weighted average method.

At each reporting date, spare parts and consumables are assessed for impairment. If spare parts and consumables are impaired, their carrying amount is reduced to written down value; the impairment losses are recognized immediately in the consolidated statement of profit or loss and other comprehensive income. Provision for obsolete, slow moving and damaged inventories is made considering various factors including age of the inventory items, historic usage and expected future utilization.

3.14 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and cash in current accounts with banks and other short-term high-liquidity investments with original maturities of three months or less (if any) available to the Group without any restrictions. Deposits with original maturities over 3 months below 12 months is reported as short term deposits in the consolidated statement of financial position under current assets and any deposits over 12 months will be included in non-current assets.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.15 Equity

Ordinary shares are classified as equity. Incremental costs, if any, directly attributable to the issue of new shares are shown in equity as a deduction, net of tax and zakat, from the proceeds.

Share premium represents the proceeds (net of issuance cost) from issue of new shares over and above the par value.

3.16 Statutory reserves

In accordance with Company's Bylaws, the Group has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

3.17 Dividends

Provision is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3.18 Trade and other payables

Trade payable and accrued liabilities are obligations to be paid for goods and services that have been acquired in the ordinary course of business from suppliers. These are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

3.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the year in which they are incurred.

3.20 Employees' benefit obligations

Short-term obligations

Short-term benefits are those amounts expected to be settled wholly within 12 months of the end of the period in which the employees render the service that gives rise to the benefits. Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves and benefits-in-kind that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. These liabilities are presented part of "trade and other payables" in the consolidated statement of financial position.

Post-employment obligation

The Group provides end of service benefits to its employees in accordance with the requirements of the Saudi Arabia Labor and Workmen Law. The entitlement to these benefits, is based upon the employees' last drawn salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are recognized over the service period.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.20 Employees' benefit obligations (continued)

Post-employment obligation (continued)

The employee benefits obligation plans are not funded. Accordingly, valuations of the obligations under those plans are carried out by an independent actuary based on the projected unit credit method and the liability is recorded based on an actuarial valuation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Past-service costs are recognized immediately in the consolidated statement of profit or loss.

The interest cost is calculated by applying the discount rate to the balance of the defined benefit obligation. This cost is included in employee benefit expense in the consolidated statement of profit or loss. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise.

Termination benefits

The Group pays termination benefits upon the termination of the employee's services before the date of normal retirement, or when the employee accepts the voluntary termination of his services. The Group recognizes termination benefits at the earlier of when;

- The Group can no longer withdraw the offer; or
- The Group recognizes restructuring costs and includes termination benefits in the event of an offer to encourage retirement, termination benefits are measured based on the number of employees expected to accept the offer. Benefits that occur more than 12 months after the end of the reporting period are discounted at their present value.

3.21 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

The Board of Directors ("BoD") of the Group assesses the financial performance and position of the Group and makes strategic decisions. The BoD has been identified as being the CODM.

Segment results reported to the Group's CODM represent revenue and cost of revenue and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.22 Earnings per share

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year.

3.23 Value Added Tax (VAT)

The Group is subject to a value added tax ("VAT") for providing services. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of services provided (output VAT) less VAT paid on purchases made / services received with the relevant supporting invoices (input VAT). The Group reports revenue net of value added tax for all the periods presented in the consolidated statement of profit or loss and other comprehensive income.

Assets and expenses are recognized net of VAT, except that when VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case, VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

3.24 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

3.25 Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable are recorded in the consolidated financial statement under trade and other payables. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

3.26 Withholding Tax (WHT)

The Group withholds taxes on certain transactions with non-resident parties, including dividend payments to the shareholders, as required under the Saudi Arabian Income Tax Law.

3.27 Cost of revenue

Cost of revenue includes labor cost, consumables, depreciation, mobilization costs, rig move, direct and indirect overheads related to provision of services.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

3.28 General and administrative expenses

All other expenses, excluding cost of revenue, financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of revenue and general and administrative expenses, when required, are made on a consistent basis.

3.29 New standards, amendments and interpretations

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

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

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16), effective date 1 April 2021;
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37), effective date 1 January 2022;
- Annual Improvements to IFRS Standards 2018-2020, effective date 1 January 2022;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16), effective date 1 January 2022; and
- Reference to the Conceptual Framework (Amendments to IFRS 3), effective date 1 January 2022.

(b) New and revised standards issued but not yet effective

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective.

- IFRS 17 Insurance contracts (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 1 January 2023.
- Classification of liabilities as current or non-current (Amendments to IAS 1), effective for annual periods beginning on or after 1 January 2024.
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) effective for annual periods beginning on or after 1 January 2024.
- Non-current Liabilities with Covenants (Amendments to IAS 1), effective for annual periods beginning on or after 1 January 2024.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The above-mentioned standards are not expected to have a significant impact on the Consolidated financial statement of the Group.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

4. Property, plant and equipment

Cost	Freehold Land	Buildings and portable cabins	Rig, machinery and equipment	Furniture, fixtures and office equipment	Vehicles	Assets under construction	Total
Balance at 1 January 2022	88,236,250	99,385,669	10,826,217,554	111,018,955	145,671,754	131,520,647	11,402,050,829
Additions	-	-	-	-	-	1,749,343,361	1,749,343,361
Transfer	-	307,600	516,337,749	456,309	-	(517,101,658)	-
Transfers to held for sale	-	-	(49,620,189)	-	(2,715,985)	-	(52,336,174)
Balance at 31 December 2022	88,236,250	99,693,269	11,292,935,114	111,475,264	142,955,769	1,363,762,350	13,099,058,016
Accumulated depreciation and impairment							
Balance at 1 January 2022	-	(22,779,749)	(5,939,859,231)	(64,258,762)	(116,269,050)	-	(6,143,166,792)
Charge for the year	-	(2,694,257)	(497,373,769)	(6,525,647)	(4,399,767)	-	(510,993,440)
Transfers to held for sale	-	-	43,007,210	-	2,715,985	-	45,723,195
Balance at 31 December 2022	-	(25,474,006)	(6,394,225,790)	(70,784,409)	(117,952,832)	-	(6,608,437,037)
Carrying amounts at 31 December 2022	88,236,250	74,219,263	4,898,709,324	40,690,855	25,002,937	1,363,762,350	6,490,620,979

- Rig, machinery and equipment represents assets used for drilling contracts to provide drilling service to its customers.
- Asset under construction as at 31 December 2022 primarily represent the costs incurred towards construction of rigs and procurement of related machinery and equipment. The rigs and related equipment are expected to be completed and available for use during the year 2023.
- As at reporting date, asset under construction include advances for capital expenditure amounting to SR 85.22 million (2021: SR 20.55 million) against which management has recognized a provision of SR 17.25 million (2021: SR 6.71 million). Accordingly for the year ended 31 December 2022 the Group has recognized an expense amounting to SR 10.54 million (2021: SR 6.71 million).
- During the year, finance cost of SR 20.45 million (2021: SR Nil) has been capitalized.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

4. Property, plant and equipment (continued)

Cost	Freehold Land	Buildings and portable cabins	Rig, machinery and equipment	Furniture, fixtures and office equipment	Vehicles	Assets under construction	Total
Balance at 1 January 2021	88,236,250	86,182,702	10,888,783,683	106,039,479	159,020,083	142,309,018	11,470,571,215
Additions	-	-	-	-	-	247,627,282	247,627,282
Transfer	-	13,202,967	239,912,810	4,979,476	320,400	(258,415,653)	-
Disposals/ Transfers to held for sale	-	-	(302,478,939)	-	(13,668,729)	-	(316,147,668)
Balance at 31 December 2021	88,236,250	99,385,669	10,826,217,554	111,018,955	145,671,754	131,520,647	11,402,050,829
<u>Accumulated depreciation and impairment</u>							
Balance at 1 January 2021	-	(20,274,939)	(5,724,930,441)	(55,575,108)	(107,578,662)	-	(5,908,359,150)
Charge for the year	-	(2,504,810)	(509,615,121)	(8,683,654)	(18,257,495)	-	(539,061,080)
Disposals/ Transfers to held for sale	-	-	294,686,331	-	9,567,107	-	304,253,438
Balance at 31 December 2021	-	(22,779,749)	(5,939,859,231)	(64,258,762)	(116,269,050)	-	(6,143,166,792)
Carrying amounts at 31 December 2021	88,236,250	76,605,920	4,886,358,323	46,760,193	29,402,704	131,520,647	5,258,884,037

Depreciation charge for the year ended 31 December have been allocated as follows:

	2022	2021
Costs of revenue (note 18)	502,198,488	531,384,589
General and administrative expenses (note 19)	8,794,952	7,676,491
	<u>510,993,440</u>	<u>539,061,080</u>

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

5. Intangible assets

	<u>2022</u>	<u>2021</u>
Cost		
1 January	28,889,513	28,739,623
Additions	-	149,890
31 December	28,889,513	28,889,513
Accumulated amortization		
1 January	(23,371,795)	(17,607,969)
Charge for the year	(5,517,718)	(5,763,826)
31 December	(28,889,513)	(23,371,795)
Net book value as at 31 December	-	5,517,718

Amortization expenses for the year ended 31 December 2022 of SR 5.52 million (2021: SR 5.76 million) has been charged to general and administrative expenses.

6. Leases

Leases as lessee

The Group leases vehicles, warehouse, rigs and related equipments for a period ranging from 3 to 5 years. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes. Lease payments are renegotiated during renewal of the contract to reflect market rentals. The Group has elected not to recognize right-of-use assets and lease liabilities for the short-term and/or leases of low-value items.

Extension and termination options are included to maximize operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension options held are exercisable only by mutual agreement of the Group and the respective lessor. Information about leases for which the Group is a lessee is presented below.

6.1 Right-of-use assets

Book value	Vehicles	Warehouse	Rigs and related equipment	Total
As at 1 January 2022	8,657,521	1,937,119	-	10,594,640
Additions for the year	9,018,948	5,489,532	191,734,241	206,242,721
Adjustment related to completed leases	(8,657,521)	(1,937,119)	-	(10,594,640)
As at 31 December 2022	9,018,948	5,489,532	191,734,241	206,242,721
Accumulated depreciation				
As at 1 January 2022	(7,420,731)	(1,382,226)	-	(8,802,957)
Charge for the year	(2,425,895)	(1,012,353)	(5,333,381)	(8,771,629)
Adjustment related to completed leases	8,657,521	1,937,119	-	10,594,640
As at 31 December 2022	(1,189,105)	(457,460)	(5,333,381)	(6,979,946)
Carrying amount at 31 December 2022	7,829,843	5,032,072	186,400,860	199,262,775

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

6. Leases (continued)

6.1 Right-of-use assets (continued)

<u>Book value</u>	<u>Vehicles</u>	<u>Warehouse</u>	<u>Total</u>
As at 1 January 2022 and 31 December 2021	8,657,521	1,937,119	10,594,640
<u>Accumulated depreciation</u>			
As at 1 January 2021	(4,947,154)	(890,938)	(5,838,092)
Charge for the year	(2,473,577)	(491,288)	(2,964,865)
As at 31 December 2021	(7,420,731)	(1,382,226)	(8,802,957)
Carrying amount at 31 December 2021	1,236,790	554,893	1,791,683

6.2 Lease liabilities

	<u>2022</u>	<u>2021</u>
At 1 January	1,847,313	4,838,903
Additions	206,242,721	-
Unwinding of interest on lease liability (note 20)	1,277,230	190,298
Payments during the year	(9,546,835)	(3,181,888)
At 31 December	199,820,429	1,847,313
Non-current portion	136,013,930	-
Current portion	63,806,499	1,847,313
Balance as at 31 December	199,820,429	1,847,313

Maturity analysis of lease liabilities are as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Less than one year	72,348,563	1,879,308
Two to five years	140,845,769	-
Over five years	2,911,250	-
Total undiscounted cash flow	216,105,582	1,879,308
Less: Unwinding of interest on lease liabilities	(16,285,153)	(31,995)
Carrying value of lease liabilities	199,820,429	1,847,313

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

	<u>31 December 2022</u>	<u>31 December 2021</u>
Depreciation charge for right-of-use assets		
Cost of revenue (note 18)	6,345,734	2,545,628
General and administrative expenses (note 19)	2,425,895	419,237
	8,771,629	2,964,865

Finance cost on lease liabilities

Unwinding of interest on lease liability (note 20)	1,277,230	190,298
--	-----------	---------

Other amounts recognized in the consolidated statement of profit and loss and other comprehensive income:

Expense relating to short term leases for the year ended 31 December 2022 amounted to SR 108.85 million (2021: SR 90.81 million) are charged to consolidated statement of profit or loss and other comprehensive income.

Amounts presented in the consolidated statement of cash flows:

The total cash outflow for leases is SR 9.55 million (2021: SR 3.18 million).

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

7. Inventories

	31 December 2022	31 December 2021
Spare parts, supplies and consumables	201,212,689	166,116,821
Less: provision for obsolete, slow moving and damaged inventories	(28,671,846)	(22,787,466)
	172,540,843	143,329,355

During the year, Group has charged spare parts, supplies and consumables amounting to SR 171.64 million (2021: SR 136.01 million). Movement in provision for obsolete, slow moving and damaged inventories is as follows

	2022	2021
1 January	22,787,466	20,298,866
Charge for the year	10,204,778	14,664,002
Written off during the year	(4,320,398)	(12,175,402)
31 December	28,671,846	22,787,466

8. Trade and other receivables

	31 December 2022	31 December 2021
Trade receivables:		
Third parties	329,496,482	-
Unbilled receivable	285,544,354	66,668,247
Related parties	134,750,734	569,385,217
Retentions receivable	-	4,229,415
	749,791,570	640,282,879
Less: allowance for ECL	(3,481,737)	(3,434,431)
	746,309,833	636,848,448

Other receivables:

Prepayments	38,024,934	27,171,108
Advance to suppliers	21,820,406	2,134,755
Zakat and income tax reimbursable from shareholders	11,183,843	32,129,067
Other	7,720,396	2,759,409
	825,059,412	701,042,787

Movement in allowance for ECL is as follows:

	2022	2021
1 January	3,434,431	10,254,746
Charge for the year	47,306	-
Write-offs	-	(6,820,315)
31 December	3,481,737	3,434,431

Information about the Group's exposure to credit and market risks, and impairment losses for trade receivables are included in note 25.1 (b). The aging analysis of these trade receivable is as follows:

	31 December 2022	31 December 2021
Not due	285,544,354	476,067,379
Overdue up to 90 days	428,247,283	125,533,545
Overdue for a period between 91 to 180 days	6,870,560	22,105,914
Overdue for a period between 181 to 270 days	17,353,166	8,282,048
Overdue for a period between 271 to 365 days	5,919,847	8,169,793
Overdue above 366 days	5,856,360	124,200
	749,791,570	640,282,879

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

9. Derivative financial instrument

The Group entered into an interest rate swap arrangement designated as a cash flow hedge instrument to cover cash flow fluctuations arising from variable interest rate murabaha loans. The interest rate swap results in the Group receiving floating Saudi Interbank Offer Rate ("SIBOR") while paying a fixed rate of interest under certain conditions. As per Group policy, derivative instruments are not used for trading or speculative purposes. All derivatives as at 31 December 2022 and 2021 are classified as cash flow hedges.

Pursuant to repayment of underlying murabaha loans (refer note 14.1) during the year 2022, hedged future cash flows are no longer expected to occur, accordingly the Group immediately reclassified the accumulated hedge reserve immediately to the consolidated statement of profit or loss.

As at 31 December 2022, the interest rate swap contract notional value amounting to SR 66.97 million is expected to mature in March 2023 (31 December 2021: SR 334.83 million). Based on the expected maturity date of the contracts, the carrying value of derivative financial instruments are classified in the consolidated statement of financial position.

The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the year, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are not indicative of market risk nor of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives. Refer note 25.2 where the Group exposure to risk and valuation techniques are disclosed.

The fair values of the derivative financial instruments are summarized in the below table:

	31 December 2022	31 December 2021
Derivative financial instrument		
Current asset	378,192	-
Derivative financial instrument		
Non-current liabilities	-	4,440,687
Cash flow hedge reserve	-	(4,440,687)

The table below analyses the changes in fair value recognized in other comprehensive income for the year ended 31 December:

	2022	2021
Cash flow hedge reclassified to consolidated statement of profit or loss	4,440,687	-
Effective portion of cash flow hedge including in consolidated statement of other comprehensive income	-	10,692,130
	4,440,687	10,692,130

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

10. Cash and cash equivalents

	31 December 2022	31 December 2021
<i>Cash at bank</i>		
- in current accounts	831,829,386	411,553,912
Cash in hand	195,328	67,119
	<u>832,024,714</u>	<u>411,621,031</u>

11. Assets held for sale

Assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. These assets are measured at the lower of their carrying amount and fair value less costs to sell. Assets classified as held for sale primarily represents discarded vehicles, rigs and related equipment, and the Group dispose these assets in accordance with the policy approved by CODM.

	2022	2021
Balance as at 1 January	7,792,608	11,036,625
Transfer from property, plant and equipment	6,612,979	7,792,608
Disposed during the year	(2,003,407)	(11,036,625)
Balance as at 31 December	<u>12,402,180</u>	<u>7,792,608</u>

Assets are carried at lower of fair value and carrying value as on 31 December 2022 and 2021, accordingly no impairment loss is recorded for the year ended 31 December 2022 and 2021.

12. Share capital, share premium and additional paid-in capital

As at 31 December 2022, the share capital of the Company comprised of 89,000,000 shares at a nominal value of SR 10 per share (31 December 2021: 2,258,000 shares at a nominal value of SR 10 per share). The legal formalities for increase in share capital were completed during the year ended 31 December 2022. Share capital has been increased during the year as follows:

- (a) Pursuant to shareholders resolution dated 17 March 2022, the Company transferred SR 680 million from retained earnings and SR 97.4 million from additional paid-in capital to share capital and additional shares are issued in proportion to their existing shareholding; and
- (b) Issue of 9,000,000 new shares (refer to note 1)

The Company issued 9,000,000 new shares at an offer price of SR 100. The differential price over the nominal value recorded as share premium amounting to SR 790.68 million, after offsetting the issuance cost amounting to SR 19.32 million.

13. Statutory reserve

In accordance with the Company's Bylaw's and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to maintain a statutory reserve equal to maximum of 30% of its share capital. Shareholders have resolved to transfer voluntarily the retained earnings amounting to SR 248.12 million to statutory reserve to meet the threshold specified above. This reserve currently is not available for distribution to the shareholders of the Company.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

14. Long term borrowings

	31 December 2022	31 December 2021
Sukuk (note 14.2)	2,000,000,000	-
Murabaha borrowings (note 14.1)	500,000,000	1,377,434,235
Add: accrued finance costs	46,460,449	3,656,211
	2,546,460,449	1,381,090,446
Less: unamortized transaction cost	(18,861,463)	-
	2,527,598,986	1,381,090,446
Long-term borrowings are presented as follows:		
Current maturity under current liabilities	46,460,449	545,472,803
Non-current portion	2,481,138,537	835,617,643
	2,527,598,986	1,381,090,446
Movement in unamortized transaction cost is as follows:		
Balance at beginning of year	-	-
Transaction cost incurred during the year	22,349,723	-
Less: amortization for the year	(3,488,260)	-
Balance at end of year	18,861,463	-

14.1 Murabaha borrowings

The Group had long-term murabaha facility agreements with Saudi commercial banks with a total facility of SR 3.7 billion to finance the capital expenditure and working capital requirements of the Group. During the year the Group has voluntarily paid the outstanding murabaha borrowings before contractual maturities utilizing the sukuk proceeds (refer note 14.2). Early settlement of the murabaha borrowings did not result in penalty from the banks.

During the year, the Group has obtained a new murabaha facility of SR 500 million from a Saudi commercial bank to finance capital expenditure and accordingly the Group capitalized the borrowing cost incurred on qualifying assets for the year ended 31 December 2022 amounting to SR 2.95 million (refer note 4) (31 December 2021: SR Nil). New murabaha facility is repayable over a period of 5 years starting from February 2024 through November 2028 on a quarterly basis. These loans bear finance costs based on prevailing market rate which are based on Saudi Inter-Bank Offer Rates ("SIBOR") plus an applicable margin. The covenants of this borrowing facility require the Group to maintain certain level of financial conditions and certain other requirements. As at 31 December 2022, the Group was in compliance with the covenants of the borrowing facility.

14.2 Sukuk

During the year ended 31 December 2022, the Group issued Sukuk amounting to SR 2 billion after obtaining necessary regulatory approvals and incurred a transaction cost of SR 22.3 million. In line with sukuk prospectus, Group management utilized these proceeds towards repayment of existing murabaha borrowings (refer to note 14.1) and for other corporate purposes including procurement of additional rigs.

The repayment of the Sukuk is due in a single installment in 2027 and it bears finance costs based on prevailing market rates which are based on SIBOR plus an applicable margin. The Group capitalized the borrowing cost incurred on qualifying assets for the year ended 31 December 2022 amounting to SR 17.5 million (refer note 4) (31 December 2021: SR Nil). The covenants of the Sukuk requires the Group to maintain certain level of financial conditions and certain other requirements. As at 31 December 2022, the Group was in compliance with such covenants.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

14. Long term borrowings

14.3 Maturity profile of principal portion of the borrowings including accrued interest as at:

	31 December 2022	31 December 2021
Year ended		
2022	-	545,472,803
2023	46,460,449	437,849,786
2024	100,000,000	176,785,714
2025	100,000,000	176,785,714
2026	100,000,000	44,196,429
2027	2,100,000,000	-
2028	100,000,000	-
	<u>2,546,460,449</u>	<u>1,381,090,446</u>

15. Employees' benefit obligations

15.1 General description of the plan

The Group provides end of service benefits to its employees in accordance with the requirements of the Saudi Arabia Labor and Workmen Law. The entitlement to these benefits, is based upon the employees' last drawn salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are recognized over the service period. The valuation of employee benefit obligations under the projected unit credit method was carried out by an independent actuary as at 31 December 2022 and 2021.

15.2 Movement in liability recognized in the consolidated statement of financial position

	2022	2021
1 January	250,965,672	252,572,054
Charge for the year	34,857,946	33,333,988
Benefits paid during the year	(20,733,330)	(22,197,142)
Remeasurements loss / (gain)	8,125,752	(12,743,228)
31 December	<u>273,216,040</u>	<u>250,965,672</u>

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

	2022	2021
Current service cost	28,241,473	27,569,631
Interest expense	6,616,473	5,764,357
Recognized in consolidated statement of profit or loss	<u>34,857,946</u>	<u>33,333,988</u>
Remeasurements (gain) / loss:		
- financial assumptions	(6,395,685)	(7,382,751)
- experience adjustments	14,521,437	(5,360,477)
Recognized in consolidated other comprehensive income	<u>8,125,752</u>	<u>(12,743,228)</u>

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

15. Employees' benefit obligations

15.4 Key actuarial assumptions used to calculate the defined unfunded benefit obligation:

	2022	2021
Discount rate	4.10%	2.75%
Salary growth rate	3%	2%
Mortality rate	A 1949-52	A 1949-52

15.5 Sensitivity analysis for actuarial assumptions

	2022	2021
Discount rate		
- 1% increase	(19,601,014)	(18,539,102)
- 1% decrease	22,470,881	21,340,986
Salary growth rate		
- 1% increase	23,481,566	22,201,670
- 1% decrease	(20,862,670)	(19,656,779)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee benefit obligations.

Expected maturity analysis

The weighted average duration of the defined benefit obligation as at reporting period is 8 years (31 December 2021: 8 years). The expected maturity analysis of undiscounted post-employment benefits is as follows:

	Less than a year	Between 1 - 2 years	Between 2 - 5 years	Over 5 years	Total
31 December 2022	29,290,139	30,540,338	94,661,621	705,295,266	859,787,364
31 December 2021	27,142,351	27,052,305	80,178,279	518,573,959	652,946,894

16. Trade and other Payable

	31 December 2022	31 December 2021
Trade payable	174,486,434	159,129,729
Less: non-current trade payable	-	(15,189,800)
	174,486,434	143,939,929
Accrued expenses	366,333,801	271,082,048
Dividends payable	-	9,155,546
Value added tax and other taxes payable	35,209,860	26,800,977
Other	8,781,178	5,572,716
	584,811,273	456,551,216

The carrying amounts of trade and other payable approximate their fair values.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

17. Revenue

	For the year ended 31 December	
	2022	2021
Drilling revenue	2,193,883,809	1,650,200,556
Rig move revenue	410,393,795	423,862,975
Mobilization revenue (note 17.1)	14,843,125	36,538,899
Catering and other revenue	84,414,746	88,366,082
	2,703,535,475	2,198,968,512

17.1 Mobilization revenue

	2022	2021
1 January	14,423,773	50,962,672
Additions	176,250,000	-
Revenue recognized during the year	(14,843,125)	(36,538,899)
31 December	175,830,648	14,423,773

Mobilization revenue is presented in the accompanying consolidated statement of financial position as follows:

Current portion	60,216,798	8,458,721
Non-current portion	115,613,850	5,965,052
	175,830,648	14,423,773

18. Cost of revenue

	For the year ended 31 December	
	2022	2021
Salaries, wages and benefits	1,072,330,139	908,929,819
Depreciation on property, plant and equipment (note 4)	502,198,488	531,384,589
Material consumables and rig move expenses	275,409,319	217,662,378
Provision for obsolete, slow moving and damaged inventories (note 7)	10,204,778	14,664,002
Depreciation on right-of-use assets (note 6)	6,345,734	2,545,628
Mobilization cost (note 18.1)	4,868,815	20,538,699
Other	30,735,110	27,624,530
	1,902,092,383	1,723,349,645

18.1 Mobilization cost

	2022	2021
1 January	4,971,840	25,510,539
Additions	21,656,196	-
Charge for the year	(4,868,815)	(20,538,699)
31 December	21,759,221	4,971,840

Mobilization cost is presented in the accompanying consolidated statement of financial position as follows:

Current portion	6,732,553	2,587,251
Non-current portion	15,026,668	2,384,589
	21,759,221	4,971,840

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

19. General and administration expense

	For the year ended 31 December	
	2022	2021
Salaries and benefits	110,674,233	78,288,685
Provision for advances and other receivables	12,941,430	6,708,705
Provision for income tax refundable (note 21)	9,268,917	-
Professional services	8,925,635	3,644,110
Depreciation on property, plant and equipment (note 4)	8,794,952	7,676,491
Office supplies	6,779,548	3,281,859
Amortization (note 5)	5,517,718	5,763,826
Depreciation on right-of-use assets (note 6)	2,425,895	419,237
Other	14,272,007	6,282,960
	179,600,335	112,065,873

20. Finance cost

	For the year ended 31 December	
	2022	2021
Finance cost on murabaha loans	34,494,301	26,568,856
Finance cost on sukuk	55,539,975	-
Finance cost on derivatives	1,540,012	11,040,891
Finance cost on lease liabilities (note 6.2)	1,277,230	190,298
Other finance costs	1,466,774	185,992
	94,318,292	37,986,037

21. Zakat and income tax

21.1 Components of zakat base

The Company and its subsidiary file their zakat and income tax declaration on a standalone basis. The significant components of the zakat base of the Company, under zakat and income tax regulations, are principally comprised of shareholders' equity, provisions at the beginning of year, long-term murabaha borrowings and adjusted profit, less deduction for the net book value of property and equipment and certain other items.

21.2 Zakat and income tax (credit) / expense

	For the year ended 31 December	
	2022	2021
Zakat charge	14,719,476	20,625,593
Current tax expenses	37,645,980	4,694,549
Deferred tax (reversal) /charge (note 21.6)	(57,785,235)	27,842,961
Net (reversal) / charge to consolidated statement of profit or loss	(5,419,779)	53,163,103
Deferred tax (reversal) / charge to other comprehensive income (note 21.6)	(793,244)	1,307,393
	(6,213,023)	54,470,496

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

21. Zakat and income tax (continued)

21.3 Provision for zakat and income tax

	Zakat	Income tax	Total
1 January 2022	20,286,544	278,558	20,565,102
Current year charge	14,719,476	37,645,980	52,365,456
Payments made during the year	(16,115,617)	(2,667,407)	(18,783,024)
31 December 2022	18,890,403	35,257,131	54,147,534
1 January 2021	10,052,732	7,098,128	17,150,860
Current year charge	8,842,335	3,688,192	12,530,527
Adjustment relating to prior year	11,783,258	1,006,357	12,789,615
	20,625,593	4,694,549	25,320,142
Payments made during the year	(10,391,781)	(11,514,119)	(21,905,900)
31 December 2021	20,286,544	278,558	20,565,102

21.4 Numerical reconciliation of income tax expense

	For the year ended 31 December	
	2022	2021
Profit before zakat and income tax	552,300,180	326,746,608
Income tax rate applicable to the Group	20%	20%
Income tax on profit before zakat and income tax	110,460,036	65,349,322
Reconciliation:		
Tax effect on profit subject to Zakat	(56,595,486)	(31,805,515)
Tax effect of change in effective shareholding	(73,823,139)	-
Tax effect on permanent and other differences	(180,666)	(1,006,297)
	(20,139,255)	32,537,510

21.5 Advance tax

Movement in advance tax as at:

	2022	2021
1 January	9,268,917	9,268,917
Provision against refundable advance taxes	(9,268,917)	-
31 December	-	9,268,917

21.6 Deferred Taxes

The balance comprises deductible / (taxable) temporary differences attributable to:

	31 December 2022	31 December 2021
Employees' benefit obligations	273,216,040	250,943,493
Property, plant and equipment	(2,491,698,603)	(2,296,855,954)
Provisions	49,403,583	25,872,553
Taxable temporary differences - net	(2,169,078,980)	(2,020,039,908)
Deferred tax liability	(148,798,818)	(207,377,297)

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

21. Zakat and income tax (continued)

21.6 Deferred Taxes (continued)

Movement in deferred taxes is attributable to:

	Employees' benefit obligations	Property, plant and equipment	Provisions	Total
1 January 2022	25,761,859	(235,795,232)	2,656,076	(207,377,297)
(Charge) / credited to consolidated statement of profit or loss	(7,812,482)	64,864,706	733,011	57,785,235
Credited to consolidated statement of other comprehensive income	793,244	-	-	793,244
31 December 2022	18,742,621	(170,930,526)	3,389,087	(148,798,818)
1 January 2021	25,935,104	(206,933,265)	2,771,218	(178,226,943)
(Charge) / credited to consolidated statement of profit or loss	1,134,148	(28,861,967)	(115,142)	(27,842,961)
Charge to consolidated statement of other comprehensive income	(1,307,393)	-	-	(1,307,393)
31 December 2021	25,761,859	(235,795,232)	2,656,076	(207,377,297)

During the year, the Group has completed its listing requirements as disclosed in note 1 to these consolidated financial statements. Pursuant to listing, the Group's tax base subject to income tax have been reduced from 51.33% to 34.3%. Accordingly, the Group has restricted the recognition of temporary differences to 34.3% of applicable tax rate as at 31 December 2022 and recorded a deferred tax credit amounting to SR 73.82 million (refer note 21.4).

Further, movement in deferred tax balances is primarily due to temporary differences arising during the year on movement in provisions and depreciation of property, plant and equipment.

21.7 Status of assessments

Arabian Drilling Company

The Zakat, Tax and Customs Authority ("ZATCA") has finalized the Company's zakat and income tax assessments for the years upto 2014 and for the years 2019 and 2020. During 2021, the Company received additional zakat assessments for the years 2015 through 2018 amounting to SR 11 million which reduced to SR 3.9 million during the year ended 31 December 2022. The Company has filed an appeal against such assessment with General Secretariat of the Zakat, Tax and Customs Committees ("GSTC"), and the final outcome of such appeal is pending as of the date of approval of these consolidated financial statements. Management of the Company believes that the provision for zakat and income tax payable as at reporting date is adequate and no additional zakat or income tax liability will arise upon the ultimate resolution of such appeal.

Ofsat Arabia LLC

The Zakat, Tax and Customs Authority ("ZATCA") has finalized the Company's zakat and income tax assessments for the years upto 2020.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

22. Contingencies and commitments

- i. As at 31 December 2022, the Group's bankers have issued guarantees on behalf of the Group amounting to SR 385.19 million (31 December 2021: SR 483.3 million) and the letters of credit issued in the normal course of business amounting to SR 77.69 million (31 December 2021: SR 38.3 million).
- ii. The capital expenditure contracted by the Group but not incurred till 31 December 2022 was approximately SR 540.12 million (31 December 2021: SR 118.4 million).

23. Basic and diluted earnings per share

Basic and diluted earnings per share are calculated as follows:

	For the year ended 31 December	
	2022	2021
Profit attributable to the shareholders of the Group	557,719,959	273,583,505
Weighted average number of ordinary shares for basic and diluted earnings per share	81,430,137	80,000,000
Basic and diluted earnings per share	6.85	3.42

23.1 Weighted-average number of ordinary shares

	2022	2021
Issued shares at 1 January (note 23.2)	80,000,000	80,000,000
Effect of new shares issued in November 2022	1,430,137	-
Weighted-average number of shares at 31 December	81,430,137	80,000,000

23.2 The weighted average number of shares for the year ended 31 December 2021 has been adjusted to 80,000,000 shares, to the extent of increase in shares resulted from capitalization of retained earnings and additional paid-in capital with no additional consideration (refer to note 13).

24. Segment information

A segment is a distinguishable component of the Group that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

The Group operates principally in the following two operating segments:

- i) Provision of drilling and related services through land rigs; and
- ii) Provision of drilling and related services through off-shore rigs.

Other segments primarily represents transportation service provided by subsidiary to transport the land Rigs. Transactions between the Company and subsidiary is reported part of intersegment revenue and cost this will have nil impact to the segment results.

The Group's Chief Operating Decision Maker ("CODM") reviews the internal management reports of each segment atleast on a quarterly basis. The segment disclosures are in consistent with the information reviewed by CODM to make any strategic decision.

Intersegment revenue and intersegment cost represents the transactions between entities within the Group which have been eliminated during the consolidation process.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

24. Segment information (continued)

Consolidated financial information as of 31 December 2022 and 2021 and for the year ended 31 December 2022 and 2021, summarized below based on above stated operating segments:

a) Segment results

For the year ended 31 December 2022

	Land rigs	Off-shore rigs	Other	Total
Revenue from external customers	1,894,763,670	801,862,775	6,909,030	2,703,535,475
Intersegment revenue	-	-	172,933,906	172,933,906
Intersegment cost	(172,933,906)	-	-	(172,933,906)
Cost of revenue	(1,326,974,452)	(424,033,079)	(151,084,852)	(1,902,092,383)
Segment results	394,855,312	377,829,696	28,758,084	801,443,092

For the year ended 31 December 2021

	Land rigs	Off-shore rigs	Other	Total
Revenue from external customers	1,643,421,712	552,534,887	3,011,913	2,198,968,512
Intersegment revenue	-	-	170,672,508	170,672,508
Intersegment cost	(170,672,508)	-	-	(170,672,508)
Cost of revenue	(1,183,883,183)	(399,976,444)	(139,490,018)	(1,723,349,645)
Segment results	288,866,021	152,558,443	34,194,403	475,618,867

Reconciliation of segment results with profit before zakat and income tax

	For the year ended 31 December	
	2022	2021
Total results for reporting segments	801,443,092	475,618,867
Impairment losses on financial assets, net	(47,306)	-
General and administrative expenses	(179,600,335)	(112,065,873)
Other operating income / (expense) - net	(2,702,159)	(163,593)
Finance costs - net	(66,793,112)	(36,642,793)
Profit before zakat and income tax	552,300,180	326,746,608

b) Segment assets

As at 31 December 2022

	Land rigs	Off-shore rigs	Other	Eliminations	Total
Property, plant & equipment	2,498,135,261	3,366,614,052	228,141,744	-	6,092,891,057
Right of use assets	-	186,400,860	-	-	186,400,860
Mobilization cost	-	21,759,221	-	-	21,759,221
Inventories	127,786,313	40,054,646	4,699,884	-	172,540,843
Trade receivables	385,075,501	359,501,993	53,512,246	(48,298,170)	749,791,570
Assets held for sale	3,059,829	8,936,656	-	-	11,996,485
	3,014,056,904	3,983,267,428	286,353,874	(48,298,170)	7,235,380,036

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

24. Segment information (continued)

b) Segment assets (continued)

As at 31 December 2021

	Land rigs	Off-shore rigs	Other	Eliminations	Total
Property, plant & equipment	2,596,936,058	2,115,676,372	230,815,123	-	4,943,427,553
Mobilization cost	-	4,971,840	-	-	4,971,840
Inventories	106,848,779	32,580,903	3,899,673	-	143,329,355
Trade receivables	490,840,143	144,742,398	64,995,331	(60,294,993)	640,282,879
Assets held for sale	-	7,792,608	-	-	7,792,608
	<u>3,194,624,980</u>	<u>2,305,764,121</u>	<u>299,710,127</u>	<u>(60,294,993)</u>	<u>5,739,804,235</u>

Reconciliation of segment assets with total assets

	31 December 2022	31 December 2021
Total segment assets	7,235,380,036	5,739,804,235
Cash and cash equivalents	832,024,714	411,621,031
Short term deposits	1,000,000,000	-
Unallocated property, plant & equipment (corporate assets)	397,729,922	315,456,484
Intangible assets	-	5,517,718
Unallocated Right of use assets	12,861,915	1,791,683
Unallocated assets held for sale	405,695	-
Others	75,646,034	69,750,267
	<u>9,554,048,316</u>	<u>6,543,941,418</u>

c) Other information

Revenue from all the contracts with customers are generated within Kingdom of Saudi Arabia. Revenue derived from customers are presented below:

	31 December 2022	31 December 2021
Customer 1	1,717,255,855	1,191,444,046
Customer 2	794,743,017	859,962,387
Customer 3	167,914,929	139,287,810
Customer 4	16,146,844	-
Others	7,474,830	8,274,269
	<u>2,703,535,475</u>	<u>2,198,968,512</u>

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

25. Financial risk management

25.1 Financial risk factors

The Group's activities expose it to a variety of financial risks including the effects of changes in market risk (including currency risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the management under policies approved by the board of directors.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors have overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors are responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Board of Directors oversee how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(a) Market risk

(i) Foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are primarily in Saudi Riyals and USD. Since Saudi Riyal is pegged to USD, the Group believes that the currency risk for the financial instruments is not significant.

(ii) Fair value and cash flow interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group borrows at interest rates on commercial terms.

The Group manages its cash flow interest rate risk by using variable-to-fixed interest rate swaps. The Group raises certain of its long-term murabaha borrowings at variable rates and swaps them into fixed rates. During 2022 and 2021, the Group's borrowings were denominated in Saudi Riyals.

At 31 December 2022, the Group had variable interest bearing financial liabilities of Saudi Riyals 2.53 billion (2021: Saudi Riyals 1.38 billion), and had the interest rate varied by 1% with all the other variables held constant, net change in profit before zakat and income tax would have been approximately SR 25.3 million (2021: SR 14.2 million) lower/higher, mainly as a result of lower/higher financial charges on floating rate borrowings.

The Group's receivables and payables are carried at amortized cost and are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. Hence, the Group is not exposed to fair value interest rate risk.

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

25. Financial risk management (continued)

25.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group's financial assets and liabilities are not exposed to price risk.

(b) Credit risk

Credit risk arises from cash and cash equivalents (including short term deposits) carried at amortized cost, as well as credit exposures to customers, including outstanding receivables. Cash and cash equivalents and short term deposits represent low credit risk as they are placed with reputable banks.

Credit risk represents the financial loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The maximum exposure to credit risk is equal to the carrying amount of financial assets. At 31 December 2022, 99.8% (2021: 99.4%) of trade receivables were due from four customers. Management believes that this concentration of credit risk is mitigated as the customers have an established track record of regular and timely payments.

For trade receivables, an internal risk assessment process determines the credit quality of the customers, taking into account their financial positions, past experiences and other factors. Individual risk limits are set based on internal or external credit worthiness ratings in accordance with limits set by the management. The carrying amount of trade receivables relates to a few customers for whom there is no recent history of default.

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables:

	31 December 2022		
	Weighted average loss rate	Gross carrying amount	Loss allowance
Not due	0.5%	285,544,354	1,502,664
Overdue up to 90 days	0.1%	428,247,283	384,708
Overdue from 91 to 180 days	1.0%	6,870,560	66,046
Overdue from 181 to 365 days	4.0%	23,273,013	928,611
Overdue 365 days	10.2%	5,856,360	599,708
	0.5%	749,791,570	3,481,737

	31 December 2021		
	Weighted average loss rate	Gross carrying amount	Loss allowance
Not due	0.4%	476,067,379	2,056,302
Overdue up to 90 days	0.5%	125,533,545	660,473
Overdue from 91 to 180 days	1.3%	22,105,914	284,636
Overdue from 181 to 365 days	2.6%	16,451,841	426,979
Overdue 365 days	4.9%	124,200	6,041
	0.5%	640,282,879	3,434,431

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

25. Financial risk management (continued)

25.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters. In addition, the Group has access to credit facilities.

Cash flow forecasting is performed by the management which monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Reconciliation of movements of liabilities to cash flows arising from financing activities are not presented separately since these movements are included in the respective notes to the financial statements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2022	Carrying amount	Contractual cashflows			
		Total	Less than 1 year	2 to 5 years	More than 5 years
Non-derivative financial liabilities					
Long term borrowings	2,546,460,449	3,066,888,462	177,579,831	2,785,997,399	103,311,232
Lease liabilities	199,820,429	216,105,582	72,348,563	140,845,769	2,911,250
Trade and other payables	547,993,239	547,993,239	547,993,239	-	-
	3,294,274,117	3,830,987,283	797,921,633	2,926,843,168	106,222,482

31 December 2021	Carrying amount	Contractual cashflows			
		Total	Less than 1 year	2 to 5 years	More than 5 years
Derivative financial liability					
Interest rate swap	4,440,687	4,440,687	-	4,440,687	-
Non-derivative financial liabilities					
Long term borrowings	1,381,090,446	1,424,151,433	569,853,959	810,101,045	44,196,429
Lease liabilities	1,847,313	1,879,308	1,879,308	-	-
Trade and other payables	419,501,890	419,501,890	404,312,090	15,189,800	-
	1,806,880,336	1,849,973,318	976,045,357	829,731,532	44,196,429

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

25. Financial risk management (continued)

25.2 Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The Group has an established control framework with respect to the measurement of fair values. Management has overall responsibility for overseeing all significant fair value measurements, including level three fair values.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues (if any) are reported to the Group's management.

Fair values hierarchy

All financial instruments for which fair value is recognized or disclosed are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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 at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no such transfers during the year ended 31 December 2022 and 2021.

As at 31 December 2022 and 2021, the fair values of the Group's financial instruments, except for cash flow hedge reserve at fair value through other comprehensive income, are estimated to approximate their carrying values since the financial instruments are short term in nature, carry interest rates which are based on prevailing market interest rates and are expected to be realized at their current carrying values within twelve months from the date of consolidated statement of financial position. The fair values of the non-current financial liabilities are estimated to approximate their carrying values as these carry interest rates which are based on prevailing market interest rates.

Cash flow hedge at fair value through other comprehensive income is carried at fair value which is assessed by management to fall in Level 2 of the fair value hierarchy as at 31 December 2022 and 2021. There are no transfers between levels during the year ended 31 December 2022 and 2021.

25.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

25. Financial risk management (continued)

25.3 Capital risk management (continued)

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings which includes long-term murabaha borrowings and lease liabilities as shown in the consolidated statement of financial position, less cash and cash equivalents. Total equity is as per the consolidated statement of financial position.

The gearing ratios at 31 December were as follows:

	31 December 2022	31 December 2021
Total borrowings (including lease liabilities)	2,727,419,415	1,382,937,759
Less: cash and cash equivalents (including short term deposits)	(1,832,024,714)	(411,621,031)
Net debt	895,394,701	971,316,728
Total equity	5,589,824,588	4,191,768,670
Gearing ratio	16%	23%
	2022	2021
As at 1 January	2,727,419,415	1,382,937,759
Finance costs	94,318,292	37,986,037
Finance costs paid	(74,241,968)	(42,659,190)
Repayment of long term borrowings	(1,373,945,976)	(631,593,302)
Principal element of lease payments	(8,269,605)	(2,991,590)
Other changes in cash and cash equivalents	(469,885,457)	227,637,014
As at 31 December	895,394,701	971,316,728

25.4 Categories of financial instruments

The financial instruments by category are detailed in the table below:

	31 December 2022	31 December 2021
Financial assets at amortized cost		
Trade and other receivables	762,977,392	672,779,292
Short term deposits	1,000,000,000	-
Cash and cash equivalents	832,024,714	411,621,031
Financial asset at fair value through other comprehensive income		
Derivative financial instrument	378,192	-
Financial liabilities at amortized cost		
Long-term murabaha borrowings	2,546,460,449	1,381,090,446
Lease liabilities	199,820,429	1,847,313
Trade and other payables	547,993,239	419,501,890
Financial liability at fair value through other comprehensive income		
Derivative financial instrument	-	4,440,687

Short term deposits represent the deposit held with commercial banks having original maturity over 3 months but less than 12 months and yield financial income at prevailing market rates based on Saudi Inter Bank Offered Rate (SIBOR). These deposits are denominated in Saudi Riyals.

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

26. Related party transactions and balances

During the year, the Company's ordinary shares were listed on Saudi Stock Exchange (refer to note 1). This has resulted in change in Group's ownership structure and consequently change in related parties' relationships. As at 31 December 2022 related parties comprise the shareholders, directors, associated companies (representing entities directly or indirectly controlled by the Group's shareholders) and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest (other related parties).

Prior to the listing, the immediate controlling party of the Group was TAQA and the ultimate controlling party of the Group was the Government of the Kingdom of Saudi Arabia (the "KSA Government"). Related parties comprise the shareholders, directors, Government controlled entities, associated companies, and key management personnel. Accordingly the significant transactions with the government entities until the date of loss of control by TAQA is included part of this consolidated financial statements.

a) *Following are the significant transactions entered into by the Group with its related parties:*

	For the year ended 31 December	
	2022	2021
Revenue from Government controlled entities	1,522,661,389	1,330,731,856
Revenue from an associated company	775,366,369	859,962,387
Rental income from an associated company	54,262	750,000
Costs charged by an associated company	6,086,693	12,049,111
Zakat and income tax reimbursable by shareholders	11,183,843	32,129,067

Prior to listing, promoter shareholders (i.e., TAQA and SPS) have agreed to reimburse the Group for their share of Zakat and tax, including any future obligations arising from the assessments, accordingly this reimbursement is adjusted against in Equity. However, Zakat and tax expenses of the group for any assessment period after 2021 will not be reimbursed.

These transactions are based on the agreed terms between the Group and the respective related parties.

b) *Key management personnel compensation:*

	For the year ended 31 December	
	2022	2021
Salaries and other short-term employee benefits	20,607,304	13,546,545
Post-employment benefits	1,316,776	573,144
	21,924,080	14,119,689

Additionally, the Group incurred board of directors' fee, including travelling cost for the year ended 31 December 2022 amounting to SR 1.06 million, (For the year ended 31 December 2021: SR 0.3 million).

c) *Due from related parties:*

	31 December 2022	31 December 2021
Schlumberger Middle East S.A., an associated company	201,904,665	306,881,138
SPS, a shareholder	11,183,843	7,740,283
TAQA Well Services, an associated company	4,891,538	2,066,262
Saudi Arabian Oil Company, a government controlled entity	-	230,710,658
Al-Khafaji Joint Operations, a government controlled entity	-	29,727,159
TAQA, a shareholder	-	19,187,966
	217,980,046	596,313,466

Arabian Drilling Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements

(All amounts in Saudi Riyals unless otherwise stated)

27. Dividends

During the year ended 31 December 2022, the Company's shareholders approved cash dividends of SR 16.58 per share totaling to SR 37.45 million (2021: approved cash dividends of SR 16.47 per share totaling to SR 37.18 million).

28. Subsequent events

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

Except for subsequent event mentioned elsewhere in these Consolidated financial statements, there are no other significant subsequent event occurred between 31 December 2022 and the date of approval of these consolidated financial statements, which may have material impact on these consolidated financial statements.

29. Approval of consolidated financial statements

These consolidated financial statements were approved by the Board of Directors and authorized for issue on 16 March 2023G (corresponding to 24 Shaban 1444H).