

**ARABIAN DRILLING COMPANY
(A LIMITED LIABILITY COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
AND INDEPENDENT AUDITOR'S REPORT**

ARABIAN DRILLING COMPANY
(A limited liability company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Page
Independent auditor's report	2 - 3
Consolidated statement of comprehensive income	4
Consolidated statement of financial position	5 - 6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8 - 9
Notes to the consolidated financial statements	10 - 43



Independent auditor's report to the shareholders of Arabian Drilling Company

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Arabian Drilling Company (the "Company") and its subsidiary (together the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the code of professional conduct and ethics, 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 these requirements.

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 International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's Articles of Association, 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 i.e. the Audit Committee, is responsible for overseeing the Group's financial reporting process.



Independent auditor's report to the shareholders of Arabian Drilling Company (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, 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.

PricewaterhouseCoopers

Ashraf M. Al-Zamzami
License number 587

19 April 2020

ARABIAN DRILLING COMPANY
(A limited liability company)
Consolidated statement of comprehensive income
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2019	2018
Revenue	4	2,814,276,018	2,453,680,651
Cost of revenue	5	(2,256,105,185)	(1,879,665,184)
Impairment losses	8, 14	(19,270,462)	(277,653,789)
Gross profit		538,900,371	296,361,678
Impairment losses on financial assets	12	(17,145,265)	(12,031,489)
General and administrative expenses	6	(139,122,062)	(113,974,756)
Other operating (loss) income - net		(2,425,371)	4,501,730
Operating profit		380,207,673	174,857,163
Financial costs	7	(100,825,010)	(66,037,402)
Financial income		-	173,542
Financial costs - net		(100,825,010)	(65,863,860)
Profit before zakat and income tax		279,382,663	108,993,303
Zakat expense	23	(8,565,847)	(10,697,286)
Income tax expense	23	(40,397,020)	(5,709,466)
Profit for the year		230,419,796	92,586,551
Other comprehensive (loss) income			
<i>Item that may be reclassified to profit or loss</i>			
Fair value changes in cash flow hedge	19	(17,356,036)	7,555,559
<i>Item that will not be reclassified to profit or loss</i>			
Remeasurements of employee benefit obligations	21	13,326,442	5,659,409
Impact of deferred tax	23	(1,368,092)	(545,578)
		11,958,350	5,113,831
Other comprehensive (loss) income for the year		(5,397,686)	12,669,390
Total comprehensive income for the year		225,022,110	105,255,941

The accompanying notes are an integral part of these consolidated financial statements.

ARABIAN DRILLING COMPANY
(A limited liability company)
Consolidated statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

		As at 31 December	
	Note	2019	2018
Assets			
Non-current assets			
Property and equipment	8	5,799,453,807	5,880,905,552
Intangible assets	9	16,882,989	19,674,999
Right-of-use assets	10	7,717,497	-
Mobilization cost	4	22,457,576	46,444,304
Fair value of cash flow hedge	19	-	4,256,814
Total non-current assets		5,846,511,869	5,951,281,669
Current assets			
Inventories	11	167,256,887	162,763,974
Trade and other receivables	12	1,041,709,721	945,942,948
Mobilization cost	4	38,783,536	44,987,618
Cash and cash equivalents	13	221,272,841	78,839,725
		1,469,022,985	1,232,534,265
Non-current assets held for sale	14	11,036,625	-
Total current assets		1,480,059,610	1,232,534,265
Total assets		7,326,571,479	7,183,815,934
Equity and liabilities			
Equity			
Share capital	15	22,580,000	22,580,000
Additional paid-in capital	16	97,420,800	97,420,800
Statutory reserve	17	18,883,921	18,883,921
Fair value of cash flow hedge	19	(13,099,222)	4,256,814
Retained earnings		3,500,913,620	3,298,439,505
Total equity		3,626,699,119	3,441,581,040
Liabilities			
Non-current liabilities			
Long-term murabaha borrowings	20	1,735,479,305	1,920,731,704
Lease liabilities	10	4,777,821	-
Employee benefit obligations	21	247,625,526	242,183,957
Mobilization revenue	4	38,975,356	73,490,866
Deferred tax liability	23	153,500,764	113,007,494
Trade payable	22	16,000,801	19,484,134
Fair value of cash flow hedge	19	13,099,222	-
Total non-current liabilities		2,209,458,795	2,368,898,155

(continued)

ARABIAN DRILLING COMPANY
(A limited liability company)
Consolidated statement of financial position (continued)
(All amounts in Saudi Riyals unless otherwise stated)

		As at 31 December	
	Note	2019	2018
Current liabilities			
Trade and other payables	22	622,383,097	639,772,923
Current portion of long-term murabaha borrowings	20	794,065,054	647,015,975
Current portion of lease liabilities	10	2,947,177	-
Mobilization revenue	4	62,470,450	75,850,555
Zakat payable	23	8,547,787	10,697,286
Total current liabilities		1,490,413,565	1,373,336,739
Total liabilities		3,699,872,360	3,742,234,894
Total equity and liabilities		7,326,571,479	7,183,815,934

The accompanying notes are an integral part of these consolidated financial statements.

ARABIAN DRILLING COMPANY
(A limited liability company)
Consolidated statement of changes in equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Industrializ- ation and Energy Services Company - TAQA ("TAQA")	Services Petroliers Schlumberger S.A. ("SPS")	Total
Share capital				
31 December 2019 and 2018	15	11,515,800	11,064,200	22,580,000
Additional paid-in capital				
31 December 2019 and 2018	16	49,684,608	47,736,192	97,420,800
Statutory reserve				
31 December 2019 and 2018	17	9,630,800	9,253,121	18,883,921
Fair value of cash flow hedge				
1 January 2018		(1,682,360)	(1,616,385)	(3,298,745)
Fair value changes		3,853,335	3,702,224	7,555,559
31 December 2018	19	2,170,975	2,085,839	4,256,814
Fair value changes		(8,851,578)	(8,504,458)	(17,356,036)
31 December 2019	19	(6,680,603)	(6,418,619)	(13,099,222)
Retained earnings				
1 January 2018		1,722,223,997	1,551,243,409	3,273,467,406
Profit before zakat and income tax		55,586,585	53,406,718	108,993,303
Zakat and income tax	23	(10,955,963)	(5,450,789)	(16,406,752)
Profit for the year		44,630,622	47,955,929	92,586,551
Zakat and income tax reimbursable by shareholders		10,398,555	6,334,251	16,732,806
Gain on remeasurements of employee benefit obligations, net of deferred tax		2,861,581	2,252,250	5,113,831
Dividends	18	(45,625,155)	(43,835,934)	(89,461,089)
31 December 2018		1,734,489,600	1,563,949,905	3,298,439,505
Profit before zakat and income tax		142,485,158	136,897,505	279,382,663
Zakat and income tax	23	(10,396,108)	(38,566,759)	(48,962,867)
Profit for the year		132,089,050	98,330,746	230,419,796
Zakat and income tax reimbursable by shareholders		8,119,681	964,032	9,083,713
Gain on remeasurements of employee benefit obligations, net of deferred tax		6,734,501	5,223,849	11,958,350
Dividends	18	(24,983,749)	(24,003,995)	(48,987,744)
31 December 2019		1,856,449,083	1,644,464,537	3,500,913,620
31 December 2019		1,920,599,688	1,706,099,431	3,626,699,119
31 December 2018		1,807,491,783	1,634,089,257	3,441,581,040

The accompanying notes are an integral part of these consolidated financial statements.

ARABIAN DRILLING COMPANY
(A limited liability company)
Consolidated statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

		For the year ended 31 December	
	Note	2019	2018
Cash flows from operating activities			
Profit before zakat and income tax		279,382,663	108,993,303
<u>Adjustments for:</u>			
Depreciation	8, 10	620,148,619	566,726,744
Amortization	9	5,451,026	1,836,612
Impairment losses	8, 14	19,270,462	277,653,789
Provision for slow-moving inventories	11	9,532,895	3,567,105
Allowance for Expected Credit Losses ("ECL")	12	17,145,265	12,031,489
Provision for employee benefit obligations	21	37,741,801	31,328,912
Loss (gain) on disposal of property and equipment		1,621,838	(4,703,191)
Amortization of mobilization cost	4	51,422,626	44,332,756
Amortization of mobilization revenue	4	(81,645,615)	(97,792,687)
Financial costs	7	100,825,010	66,037,402
Financial income		-	(173,542)
<u>Changes in working capital:</u>			
Increase in inventories		(14,025,808)	(32,151,998)
Increase in trade and other receivables		(122,224,576)	(282,855,657)
(Decrease) increase in trade and other payables		(12,340,622)	349,349,538
Cash generated from operations		912,305,584	1,044,180,575
Mobilization cost paid	4	(21,231,816)	(73,203,090)
Mobilization revenue received	4	33,750,000	113,256,714
Zakat and income tax paid	23	(16,463,635)	(29,663,103)
Employee benefit obligations paid	21	(18,973,790)	(1,454,391)
Financial costs paid		(94,817,597)	(67,617,191)
Financial income received		-	173,542
Net cash inflow from operating activities		794,568,746	985,673,056
Cash flows from investing activities			
Payments for purchase of property and equipment	8	(568,030,738)	(2,038,284,844)
Proceeds from disposal of property and equipment		-	4,742,566
Payments for purchase of intangible assets	9	(2,376,934)	(6,775,222)
Murabaha deposits redeemed		-	175,099,167
Net cash outflow from investing activities		(570,407,672)	(1,865,218,333)
Cash flows from financing activities			
Dividends paid	18	(34,729,075)	(54,732,014)
Proceeds from long-term murabaha borrowings		560,271,413	1,183,000,000
Repayment of long-term murabaha borrowings		(604,482,146)	(476,567,662)
Principal element of lease payments		(2,788,150)	-
Net cash (outflow) inflow from financing activities		(81,727,958)	651,700,324
Net change in cash and cash equivalents		142,433,116	(227,844,953)
Cash and cash equivalents at beginning of year		78,839,725	306,684,678
Cash and cash equivalents at end of year	13	221,272,841	78,839,725

(continued)

ARABIAN DRILLING COMPANY
(A limited liability company)
Consolidated statement of cash flows (continued)
 (All amounts in Saudi Riyals unless otherwise stated)

		For the year ended 31 December	
	Note	2019	2018
Non-cash operating, investing and financing activities:			
Right-of-use assets recorded against lease liabilities	2.1	10,513,148	-
Prepaid lease rentals adjusted against right-of-use assets	2.1	81,492	-
Zakat and income tax reimbursable from shareholders		9,083,713	16,732,806
Purchase of property and equipment on credit		-	19,484,134

The accompanying notes are an integral part of these consolidated financial statements.

**ARABIAN DRILLING COMPANY
(A limited liability company)**

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Arabian Drilling Company (the “Company” or “ADC”) and its subsidiary (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 Company is a limited liability company licensed under foreign investment license number 2031047241 issued by The Ministry of Investment (previously Saudi Arabian General Investment Authority) on 18 Dhu-al-Hijja 1424 H (13 December 2003) and operating under commercial registration number 2051026089 issued in Dammam on 3 Safar 1423 H (16 April 2002). The registered address of the Company is P.O. Box 4110, Al-Khobar 31952, Kingdom of Saudi Arabia.

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned Saudi Arabian subsidiary, Ofsat Arabia LLC (“Ofsat”). Ofsat is principally involved in rig hauling, operations, maintenance, rig moving and related activities.

The accompanying consolidated financial statements were approved and authorized for issue by the Company’s Board of Directors on 19 April 2020.

2 Summary of significant accounting policies

The principal accounting policies applied for the preparation of consolidated financial statements of the Group are set out below.

2.1 Basis of preparation

(a) Statement of compliance

These consolidated financial statements of the Group have been prepared in compliance with International Financial Reporting Standards (“IFRS”), that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

(b) Historical cost convention

These consolidated financial statements are prepared under the historical cost convention except for fair value of cash flow hedge, lease liabilities and employee benefit obligations as explained in the relevant accounting policies.

(c) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies as a result of adopting IFRS 16 - ‘Leases’ (“IFRS 16”) effective 1 January 2019. The other standards did not have any impact on the Group’s accounting policies and accordingly did not require any retrospective adjustments.

The impact of the adoption of IFRS 16 is disclosed below and the new accounting policies are disclosed in Note 2.9.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

IFRS 16

The Group has adopted IFRS 16 from 1 January 2019 but did not restate comparative information or adjust the opening equity as allowed by the transitional provisions of IFRS 16. Accordingly, the Group has recorded lease liabilities and right-of-use assets arising from the application of IFRS 16 in the statement of financial position at 1 January 2019 and right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made under the previously applicable accounting standards.

(ii) Reconciliation of operating lease commitments disclosed as at 31 December 2018 and lease liability recognized as at 1 January 2019:

	Saudi Riyals
Operating lease commitments disclosed as at 31 December 2018	82,555,562
Adjustments:	
Less: commitments against contracts not falling under the scope of IFRS 16	(73,294,352)
Add: adjustments as a result of a different treatment of extension options	2,000,000
Less: discounted using the Group's incremental borrowing rate of at the date of initial application	(748,062)
Lease liability recognized as at 1 January 2019	10,513,148
Current lease liabilities	3,146,060
Non-current lease liabilities	7,367,088
	10,513,148

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

(iii) *Right-of-use assets*

The Group's right-of-use assets relate to a warehouse facility and vehicles. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iv) *Adjustments recognised in the statement of financial position at 1 January 2019*

The change in accounting policy affected the following items in the statement of financial position at 1 January 2019:

- Right-of-use assets - increased by Saudi Riyals 10.6 million.
- Trade and other receivable - decreased by Saudi Riyals 0.1 million (adjustment for prepaid rent).
- Lease liabilities - increased by Saudi Riyals 10.5 million.

(d) Standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Basis of consolidation

(a) Subsidiary

These consolidated financial statements comprise the financial statements of the Company and its subsidiary. 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.

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.

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.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

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:

- Derecognises the assets and liabilities of the subsidiary;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of component previously recognised 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 unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.3 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 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. The services are billed to the customer upon acknowledgement of the receipt of services.

(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. The services are billed to the customer upon acknowledgement of the receipt of services.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

(c) Mobilization revenue and cost

Mobilization revenue represents fee for initial mobilization of rigs while mobilization cost represents the related costs incurred. 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 revenue and mobilization cost are recognized as contract liabilities and contract assets, respectively, and are amortized over the term of the respective contracts with customers for drilling services.

(d) Manpower sub-contracting and other revenue

The Group 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. The services are billed to the customer upon acknowledgement of the receipt of services.

2.4 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 is pegged to USD.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognized in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate applicable at the date of the initial transactions.

2.5 Financial income

Financial income is measured using the effective interest rate method, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

2.6 Zakat and income taxes

In accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"), the Group is subject to zakat attributable to the effective Saudi shareholding and to income tax attributable to the effective foreign shareholding in 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. Further, the amounts for zakat and income tax expense for the year are presented in the consolidated statement of changes in equity in accordance with the guidance issued by SOCPA for companies with mixed ownership in line with the terms of the agreement between the shareholders of the Company with zakat allocated to the Saudi shareholder and income tax allocated to the foreign shareholder.

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. Consequently, the Group is also subject to income tax for the indirect shareholding of 2.33% of Saudi Aramco, being a shareholder in TAQA, which is charged to profit or loss and allocated to TAQA in the consolidated statement of changes in equity.

Income tax based on the applicable income tax rate is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences. Deferred income tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on property and equipment so as to allocate its cost, less estimated residual value, on a straight line basis over the estimated useful lives of the assets. The depreciation expense is recognized in profit or loss in the expense category consistent with the function of the property and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each annual reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss. Major spare parts and stand-by equipment qualify for recognition as property and equipment when the Group expects to use them during more than one year. Transfers are made to relevant operating assets category as and when such items are available for use.

Assets in the course of construction or development are capitalised as construction-in-progress. The asset under construction or development is transferred to the appropriate category in property and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of construction-in-progress comprises its purchase price, construction / development costs and any other directly attributable costs to the construction or acquisition of an item of construction-in-progress intended by management. Construction-in-progress is not depreciated.

2.8 Intangible assets

Intangible assets represent software cost and are amortized using straight-line method over their estimated useful life of seven years.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. 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 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 profit or loss when the asset is derecognised.

2.9 Leases

Accounting policy applied from 1 January 2019

At the inception of the contract the Group assesses whether a contract is or contains a lease. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

The lease liability is initially measured at the net present value of the lease payments payable at the commencement date of the lease. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms, security and conditions.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party quotations which are adjusted to reflect changes in financing conditions since such quotations were received; and
- makes adjustments specific to the lease, for example lease term, country, currency and security.

Lease liabilities include the net present value of the following lease payments:

- fixed lease payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of purchase options, if the Group is reasonably certain to exercise the options;
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease; and
- lease payments to be made under reasonably certain extension options.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect lease payments made.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement of the lease and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 "Provisions, contingent liabilities and contingent assets". The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset to the Company or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the date when the asset is ready for use.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

Accounting policy applied until 31 December 2018

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The financial information presented as of and for the year ended 31 December 2018 does not reflect the requirements of IFRS 16 and is not comparable to the financial information presented as of and for the year ended 31 December 2019.

2.10 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

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.

2.11 Financial instruments

2.11.1 Financial assets

(i) Classification

The Group's financial assets are classified and measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

(ii) Recognition and derecognition

At initial recognition, the Group measures financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of financial asset.

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

ARABIAN DRILLING COMPANY

(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

(iii) Measurement

Subsequent measurement of financial assets depends on the Group's business model for managing the assets and the cash flow characteristics of the assets. Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and interest are measured at amortised cost. A gain or loss on a financial instrument that is subsequently measured at amortized cost and is not part of the hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is calculated using the effective interest rate method.

2.11.2 Financial liabilities

All financial liabilities are recognised at the time when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in profit or loss.

2.11.3 Derivative financial instruments and hedge accounting

Derivatives are measured at fair value and any related transaction costs are recognised in profit or loss. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in a separate reserve shown under equity. The amount accumulated in equity is reclassified to profit or loss in the period during which the hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss. If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

Hedge effectiveness is determined at the inception of the hedge relationship and periodically to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group performs a qualitative and quantitative assessment of effectiveness at each reporting date. The ineffective portion, if material, is recognized in profit or loss, within other operating income / (loss).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

2.11.4 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and net amounts are reported in the consolidated financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

ARABIAN DRILLING COMPANY

(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

2.12 Impairment of financial and non-financial assets

2.12.1 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or Cash Generating Unit's ("CGU") exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

2.12.2 Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost.

For trade receivables and contract assets, the Group applies the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the related financial assets. The amount of loss is charged to profit or loss.

The loss rates are based on probability of default assigned by reputed credit rating agencies to the relevant credit rating of the Group's customers. The loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the expected rate of increase in inflation for the upcoming year in the Kingdom of Saudi Arabia as the most relevant factor, and accordingly adjusts the loss rates based on such expected changes

Trade receivables and contract assets are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, significant decrease in credit worthiness of the customer, the failure of the customer to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 730 days past due.

2.13 Inventories

Inventories principally represent spare parts and consumables, which are stated at cost. Spare parts and consumables are stated at cost. Cost is 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 recognised immediately in profit or loss.

2.14 Trade receivables

Trade receivables are amounts due from customers for the services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less allowance for ECL.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

2.15 Cash and cash equivalents

For the purpose of consolidated statement of financial position and presentation in the consolidated statement of cash flows, cash and cash equivalents include cash in hand, cash at bank and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.16 Share capital

Ordinary shares are classified as equity.

2.17 Trade payables

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

2.18 Borrowings

Borrowings are initially recognised at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of comprehensive income as other income or finance costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

2.19 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 in profit or loss.

2.20 Employee benefit obligations

The Company and its subsidiary operate their respective single post-employment benefit schemes of defined benefit plan driven by the labor laws and workman laws of the Kingdom of Saudi Arabia which are based on employee's most recent salary and number of service years.

The post-employment benefits plans are not funded. Accordingly, valuations of the obligations under the plans are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

ARABIAN DRILLING COMPANY

(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

Current and past service costs related to post-employment benefits and unwinding of liability at discount rates used are recognized immediately in profit or loss.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and transferred to retained earnings in the consolidated statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

2.21 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by shareholders of the Company.

3 Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve month period are discussed below:

(a) Employee benefit obligations

Management has adopted certain actuarial assumptions for valuation of present value of employee benefit obligations based on actuarial advice. For further details see Note 22.

(b) Impairment of property and equipment

Management, in accordance with the accounting policy stated in 2.12.1, tests assets or CGUs for impairment whenever impairment indicators exist. Among others, the events or changes in circumstances which could indicate that an asset or CGU may be impaired mainly include the following:

- A significant decrease in the market prices of services rendered by the Group;
- A significant change in the extent or manner in which an asset is being used or in its physical condition including a significant decrease in current and projected future cash inflows; and
- A current-period operating loss combined with a history and forecast of operating or cash flow losses.

Management determines the recoverable amount of the assets based on value-in-use calculations. These calculations require the use of estimates in relation to the future cash flows and use of an appropriate discount rate applicable to the circumstances of the Group. For further details on estimates used by the management to determine the recoverable amounts of the assets based on value-in-use calculations see Note 8.1.

Future events could cause the estimates used in these value-in-use calculations to change adversely with a consequent effect on the future results of the Group. Management has performed a sensitivity analysis around the estimates. Reasonably possible changes in discount and growth rates and forecasted market prices used may cause the carrying value to exceed the recoverable value of the assets resulting in additional impairment in future periods.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

4 Revenue

The Group has disaggregated revenue into various categories according to the nature of revenue earned.

4.1 Revenue streams

	Note	2019	2018
Drilling revenue		2,230,817,715	1,939,264,526
Rig move revenue		436,288,837	371,554,888
Mobilization revenue	4.2	81,645,615	97,792,687
Manpower sub-contracting and other revenue		65,523,851	45,068,550
		<u>2,814,276,018</u>	<u>2,453,680,651</u>

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, 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.

4.2 Mobilization revenue

	2019	2018
Revenue		
1 January	666,001,503	552,744,789
Additions	33,750,000	113,256,714
31 December	<u>699,751,503</u>	<u>666,001,503</u>
Accumulated amortization		
1 January	(516,660,082)	(418,867,395)
Additions	(81,645,615)	(97,792,687)
31 December	<u>(598,305,697)</u>	<u>(516,660,082)</u>
	<u>101,445,806</u>	<u>149,341,421</u>

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

Current portion presented under current liabilities	62,470,450	75,850,555
Non-current portion presented under non-current liabilities	38,975,356	73,490,866
	<u>101,445,806</u>	<u>149,341,421</u>

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

4.3 Mobilization cost

	2019	2018
Cost		
1 January	322,107,393	248,904,303
Additions	21,231,816	73,203,090
31 December	343,339,209	322,107,393
Accumulated amortization		
1 January	(230,675,471)	(186,342,715)
Additions	(51,422,626)	(44,332,756)
31 December	(282,098,097)	(230,675,471)
	61,241,112	91,431,922

Mobilization cost are presented in the accompanying consolidated statements of financial position as follows:

Current portion presented under current assets	38,783,536	44,987,618
Non-current portion presented under non-current assets	22,457,576	46,444,304
	61,241,112	91,431,922

5 Cost of revenue

	Note	2019	2018
Salaries, wages and benefits		1,134,861,249	941,334,735
Depreciation	8, 10	612,764,789	562,203,829
Repairs and maintenance		209,565,011	160,069,434
Rent		199,829,526	144,398,919
Mobilization cost	4.3	51,422,626	44,332,756
Rig move expense		12,261,673	7,221,807
Provision for slow-moving inventories	11	9,532,895	3,567,105
Other		25,867,416	16,536,599
		2,256,105,185	1,879,665,184

6 General and administrative expenses

	Note	2019	2018
Salaries and benefits		89,367,608	80,507,493
Professional services		16,232,145	9,408,395
Depreciation	8, 10	7,383,830	4,522,915
Amortization	9	5,451,026	1,836,612
Office supplies		4,123,144	3,240,757
Other		16,564,309	14,458,584
		139,122,062	113,974,756

ARABIAN DRILLING COMPANY**(A limited liability company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

7 Financial costs

	Note	2019	2018
Financial costs on murabaha loans		94,578,714	79,273,598
Financial costs on derivatives		2,465,251	8,498,532
Financial costs on lease liabilities	10	357,910	-
Other financial costs		3,423,135	1,344,185
		100,825,010	89,116,315
Less: financial costs capitalized to property and equipment	8	-	(23,078,913)
		100,825,010	66,037,402

ARABIAN DRILLING COMPANY**(A limited liability company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

8 Property and equipment

	1 January	Additions	Disposals / transfers	Impairment losses	31 December
2019					
Cost					
Land	88,236,250	-	-	-	88,236,250
Buildings and portable cabins	79,847,613	-	6,335,089	-	86,182,702
Rig, machinery and equipment	9,366,276,115	4,500,000	980,632,160	-	10,351,408,275
Furniture, fixtures and office equipment	91,421,854	74,930	14,470,451	-	105,967,235
Vehicles	158,485,443	1,437,500	(902,860)	-	159,020,083
Construction-in-progress	676,537,431	562,018,308	(1,045,121,181)	-	193,434,558
	10,460,804,706	568,030,738	(44,586,341)	-	10,984,249,103
Accumulated depreciation / impairment					
Buildings and portable cabins	(15,580,093)	(2,347,423)	-	-	(17,927,516)
Rig, machinery and equipment	(4,458,779,369)	(588,353,922)	11,451,524	-	(5,035,681,767)
Furniture, fixtures and office equipment	(41,398,720)	(6,318,640)	20,950	-	(47,696,410)
Vehicles	(64,140,972)	(20,251,491)	902,860	-	(83,489,603)
	(4,579,899,154)	(617,271,476)	12,375,334	-	(5,184,795,296)
Net book value	5,880,905,552				5,799,453,807

ARABIAN DRILLING COMPANY

(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

	1 January	Additions	Disposals / transfers	Impairment losses	31 December
2018					
Cost					
Land	88,236,250	-	-	-	88,236,250
Buildings and portable cabins	78,104,773	391,500	1,351,340	-	79,847,613
Rig, machinery and equipment	7,775,653,567	72,113	1,590,550,435	-	9,366,276,115
Furniture, fixtures and office equipment	29,269,763	897,102	61,254,989	-	91,421,854
Vehicles	155,177,543	-	3,307,900	-	158,485,443
Construction-in-progress	280,458,383	2,056,408,263	(1,660,329,215)	-	676,537,431
	<u>8,406,900,279</u>	<u>2,057,768,978</u>	<u>(3,864,551)</u>	<u>-</u>	<u>10,460,804,706</u>
Accumulated depreciation / impairment					
Buildings and portable cabins	(14,002,385)	(1,577,708)	-	-	(15,580,093)
Rig, machinery and equipment	(3,666,689,651)	(515,414,953)	979,024	(277,653,789)	(4,458,779,369)
Furniture, fixtures and office equipment	(15,687,364)	(28,364,208)	2,652,852	-	(41,398,720)
Vehicles	(42,964,397)	(21,369,875)	193,300	-	(64,140,972)
	<u>(3,739,343,797)</u>	<u>(566,726,744)</u>	<u>3,825,176</u>	<u>(277,653,789)</u>	<u>(4,579,899,154)</u>
Net book value	<u>4,667,556,482</u>				<u>5,880,905,552</u>

- a) Construction-in-progress at 31 December 2019 principally represent costs incurred on procurement and construction of certain rigs and wheel loaders and renovation of base camp which are expected to complete in 2020.
- b) During 2018, the Group had capitalized financial charges of Saudi Riyals 23.1 million related to borrowing costs directly attributable to qualifying assets (2019: Nil).
- c) Depreciation is charged to profit or loss over the following estimated economic useful lives:

	Number of years
• Buildings and portable cabins	10 - 33
• Rig, machinery and equipment	7 - 20
• Furniture, fixtures and office equipment	7
• Vehicles	4

ARABIAN DRILLING COMPANY**(A limited liability company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

8.1 Impairment losses

During 2018, the Company determined that the recoverable amount of three of its rigs (AD 44, AD 45 and AD 70), considered as separate CGUs, were lower than their carrying amounts due to significant decline in the future expected net cash flows of each rig.

The carrying amounts, recoverable values and resultant impairment losses as at 31 December 2018 are as follows:

Rig number	Carrying amount	Recoverable value (value in use)	Impairment losses
AD 44	130,902,869	73,757,953	57,144,916
AD 45	123,705,480	73,423,348	50,282,132
AD 70	879,543,908	709,317,167	170,226,741
	1,134,152,257	856,498,468	277,653,789

The key estimates used by the Group's management for the impairment calculations were as follows:

- Projected cash flows using approved budgets and forecasts;
- The growth rate considered to project certain cash flows beyond the period covered by management approved budget and forecasts;
- The discount rate used was approximately 8.6% based on weighted average cost of capital in the cash flow projects; and
- Expected contract prices over the course of the useful life of the rigs.

As at 31 December 2019, the Group's management has recalculated the recoverable values of AD 44, AD 45 and AD 70 and concluded that no further impairment or any impairment reversal is required. The key estimates used by the Group's management were not materially different than those used as at 31 December 2018.

9 Intangible assets

	2019	2018
Cost		
1 January	26,059,657	19,284,435
Additions	2,376,934	6,775,222
Transfer	303,032	-
31 December	28,739,623	26,059,657
Accumulated amortization		
1 January	(6,384,658)	(4,548,046)
Additions	(5,451,026)	(1,836,612)
Transfer	(20,950)	-
31 December	(11,856,634)	(6,384,658)
Net book value		
31 December	16,882,989	19,674,999

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

10 Leases

	1 January 2019	Right-of-use recognised upon adoption of IFRS 16 (Note 2.1)	Depreciation	31 December 2019
Warehouse	-	1,937,119	(403,566)	1,533,553
Vehicles	-	8,657,521	(2,473,577)	6,183,944
	-	10,594,640	(2,877,143)	7,717,497

	Note	
Lease liabilities		
As at 1 January 2019		-
Lease liabilities recognised upon adoption of IFRS 16	2.1	10,513,148
Repayments		(3,146,060)
		7,367,088
Financial costs	7	357,910
As at 31 December 2019		7,724,998
Lease liabilities are presented as follows:		
Non-current portion		4,777,821
Current maturity shown under current liabilities		2,947,177
		7,724,998

Future financial costs on lease liabilities amounts to Saudi Riyals 0.4 million.

i) Amounts recognised in profit and loss

	2019	2018
Depreciation charge of right-of-use assets		
Cost of revenue	2,473,577	-
General and administrative expenses	403,566	-
	2,877,143	-

ii) Amounts presented in the consolidated statement of cash flows

The total cash outflow for leases in 2019 was Saudi Riyals 3.1 million.

iii) Additional information about the Group's leasing activities

The Group has leases in respect of various parcels of warehouse facility and vehicles. 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.

Extension and termination options are included to maximise 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.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

iv) *Other amounts recognised in profit and loss*

Expense relating to short-term leases for the year ended 31 December 2019 amounted to Saudi Riyals 1.3 million.

11 Inventories

	2019	2018
Spare parts and supplies, not held for sale	187,500,142	173,474,334
Less: provision for slow-moving inventories	(20,243,255)	(10,710,360)
	167,256,887	162,763,974

Movement in provision for slow-moving inventories is as follows:

	2019	2018
1 January	10,710,360	7,143,255
Additions	9,532,895	3,567,105
31 December	20,243,255	10,710,360

12 Trade and other receivables

	Note	2019	2018
Trade:			
Billed		227,952,435	352,242,519
Unbilled		187,848,913	40,184,824
Related party - billed	24	320,192,585	239,973,503
Retentions receivable		250,544,504	213,726,344
Less: allowance for ECL		(30,652,305)	(13,507,040)
		955,886,132	832,620,150
Prepayments		30,303,414	15,134,576
Refundable value added tax		14,155,954	45,066,680
Advance income tax - net	23	16,241,444	11,764,997
Related party	24	-	872,674
Other		25,122,777	40,483,871
		1,041,709,721	945,942,948

Movement in allowance for ECL is as follows:

	2019	2018
1 January	13,507,040	1,475,551
Additions	17,145,265	12,031,489
31 December	30,652,305	13,507,040

(a) The Group applies the simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

- (b) Customers are allowed credit period from the invoice date ranging from 30 to 60 days based on the agreed terms with the customer. These relate to a number of corporate customers from whom there is no history of default. The aging analysis of these trade receivable is as follows:

	2019	2018
Not due	221,315,934	255,723,811
Over due up to 90 days	668,543,378	483,048,512
Over due for a period between 91 to 180 days	20,933,549	51,912,040
Over due for a period between 181 to 365 days	32,078,079	39,115,762
Over due for a period between 366 to 730 days	33,550,665	4,983,377
Over 730 days	10,116,832	11,343,688
	986,538,437	846,127,190

The Group considers any trade receivables overdue for more than 730 days to be in default and are accordingly fully provided for. The loss rates for the ageing brackets are not significant.

- (c) The other classes within trade and other receivable do not contain impaired assets. The maximum exposure to the credit risk at the reporting date is the carrying amount of each class of receivable.

- (d) The Group does not hold any collateral as security.

13 Cash and cash equivalents

	2019	2018
Cash in hand	40,797	136,883
Cash at bank	221,232,044	78,702,842
	221,272,841	78,839,725

14 Non-current assets held for sale

During 2019, based on the approval of the Company's Board of Directors, the Company initiated a plan to actively seek buyers for two rigs previously classified under construction work-in-progress. Accordingly, such rigs have been classified in the accompanying 2019 consolidated statement of financial position as non-current assets held for sale and are carried at their fair value less cost to sell resulting in a write-down of Saudi Riyals 19.3 million to their carrying values presented in the accompanying consolidated statement of comprehensive income as impairment losses. The carrying amount, fair value less cost to sell and the resultant impairment losses are as follows:

Rig number	Carrying amount	Fair value less cost to sell	Impairment losses
AD 90	15,108,906	5,518,313	9,590,593
AD 100	15,198,181	5,518,312	9,679,869
	30,307,087	11,036,625	19,270,462

ARABIAN DRILLING COMPANY**(A limited liability company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

15 Share capital

The share capital of the Company as of 31 December consisted of 225,800 shares stated at Saudi Riyals 100 per share as follows:

Shareholder	Country of incorporation	Shareholding percentage	
		2019	2018
TAQA	Kingdom of Saudi Arabia	51	51
SPS	France	49	49
		100	100

16 Additional paid-in capital

This represents funding provided by the Company's shareholders in proportion to their shareholding for the purpose of meeting the Company's working capital and capital expenditure requirements.

17 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to maintain a statutory reserve equal to a minimum of 30% of its share capital. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

18 Dividends

	2019	2018
1 January	34,729,075	-
Dividend approved in shareholders' meeting held on 18 March 2019	48,987,744	-
Dividend approved in shareholders' meeting held on 22 March 2018	-	89,461,089
Dividends paid	(34,729,075)	(54,732,014)
Dividends adjusted against zakat and income tax reimbursable	(34,846,545)	-
31 December	14,141,199	34,729,075

Also see Note 24 (e).

19 Fair value of cash flow hedge

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.

The fair value of the derivative is calculated using a discounted cash flow analysis and is accordingly categorized in Level 3 of the fair value hierarchy. Significant market data used as input for such valuation includes interest rate (SIBOR) curves. At 31 December 2019, the impact of a reasonably expected change in the interest rate (SIBOR) curves is not expected to be material.

At 31 December 2019, the carrying amount and fair value of the hedging instrument is Saudi Riyals 13.1 million - liability (2018: Saudi Riyals 4.3 million - asset). There were no transfers between levels of fair value hierarchy during the period.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

20 Long-term murabaha borrowings

	2019	2018
Murabaha borrowings	2,517,342,403	2,561,553,136
Add: accrued financial costs	12,201,956	6,194,543
	2,529,544,359	2,567,747,679
Less: current portion presented under current liabilities	(794,065,054)	(647,015,975)
	1,735,479,305	1,920,731,704

The Company has long-term murabaha facility agreements with four local commercial banks with a total facility of Saudi Riyals 3.53 billion to finance the capital expenditure and working capital requirements of the Company. These loans bear financial charges based on prevailing market rates which are based on SIBOR. The aggregate outstanding maturities of the loans based on their respective repayment schedules, are spread in 2020 through 2026. The loans are secured principally by the assignment of certain trade receivables. The covenants of the borrowing facilities require the Company to maintain certain level of financial conditions and certain other requirements.

At 31 December 2019, the Company obtained waivers against certain covenants of the borrowing facilities which it was not in compliance with. Such waivers were obtained before 31 December 2019.

Maturity profile of long-term murabaha borrowings

	2019	2018
Years ending 31 December:		
2019	-	647,015,975
2020	794,065,054	607,339,288
2021	619,943,452	445,419,644
2022	477,452,380	302,928,572
2023	240,225,610	227,044,200
2024	176,695,710	176,695,710
Thereafter	221,162,153	161,304,290
	2,529,544,359	2,567,747,679

21 Employee benefit obligations

21.1 General description of the plan

The Group operates a defined benefit plan in line with the labor law requirement in the Kingdom of Saudi Arabia. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the labor laws of the Kingdom of Saudi Arabia. Employees' end of service benefit plan is an unfunded plan and the benefit payment obligations are met when they fall due upon termination of or resignation from employment. The latest valuation of employee benefit obligations under the projected unit credit method was carried out by an independent actuary as at 31 December 2019.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

21.2 Movement in net liability recognized in the consolidated statement of financial position

	2019	2018
1 January	242,183,957	217,968,845
Current service cost	27,182,836	23,923,554
Interest expense	10,558,965	7,405,358
Payments	(18,973,790)	(1,454,391)
Remeasurements	(13,326,442)	(5,659,409)
31 December	247,625,526	242,183,957

21.3 Amounts recognised in the consolidated statement of comprehensive income

	2019	2018
Current service cost	27,182,836	23,923,554
Interest expense	10,558,965	7,405,358
Total amount recognised in profit or loss	37,741,801	31,328,912

Remeasurements

Gain due to experience adjustments	(13,326,442)	(5,659,409)
Total amount recognised in comprehensive income	(13,326,442)	(5,659,409)

21.4 Key actuarial assumptions

	2019	2018
Discount rate	2.5%	4.00% - 4.55%
Salary growth rate	2.0%	4.00% - 4.55%

21.5 Sensitivity analysis for actuarial assumptions

	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	1%	(20,758,372)	17,717,314
Salary growth rate	1%	1%	18,483,477	(21,784,677)

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.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

21.6 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 6 to 8 years (2018: 10 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 2019	26,288,162	30,216,074	79,115,389	519,788,466	655,408,091

22 Trade and other payables

	Note	2019	2018
Trade payable		282,670,399	338,844,976
Less: non-current trade payable		(16,000,801)	(19,484,134)
		266,669,598	319,360,842
Accrued expenses		328,004,253	261,368,106
Dividends payable	18	14,141,199	34,729,075
Due to related parties	24	12,115,631	49,120
Other		1,452,416	24,265,780
		622,383,097	639,772,923

23 Zakat and income tax matters

23.1 Components of zakat base

The Company and its Subsidiary file their zakat and income tax declaration on an unconsolidated 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 net income, less deduction for the net book value of property and equipment and certain other items.

23.2 Income tax expense

	2019	2018
Current tax	1,271,842	6,775,410
Deferred tax charged to profit or loss	39,125,178	(1,065,944)
	40,397,020	5,709,466
Deferred tax charged to other comprehensive income	1,368,092	545,578
	41,765,112	6,255,044

ARABIAN DRILLING COMPANY**(A limited liability company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

23.3 Provision for zakat and income tax

	Zakat	Income tax	Total
1 January 2019	10,697,286	(11,764,997)	(1,067,711)
Provision	8,547,787	1,225,057	9,772,844
Adjustment relating to prior year	18,060	46,785	64,845
	8,565,847	1,271,842	9,837,689
Payment	(10,715,346)	(337,127)	(11,052,473)
Advance tax payments	-	(5,411,162)	(5,411,162)
31 December 2019	8,547,787	(16,241,444)	(7,693,657)
1 January 2018	10,767,801	354,895	11,122,696
Provision	10,697,286	6,775,410	17,472,696
Payment	(10,767,801)	(354,895)	(11,122,696)
Advance tax payments	-	(18,540,407)	(18,540,407)
31 December 2018	10,697,286	(11,764,997)	(1,067,711)

23.4 Numerical reconciliation of income tax expense to prima facie tax payable

	2019	2018
Profit before zakat and income tax	279,382,663	108,993,303
Income tax rate applicable to the Group	20%	20%
Effective shareholding subject to income tax	51.33%	51.33%
Income tax on effective shareholding	28,681,424	11,189,252
Reconciliation:		
Add: tax effect of permanent differences	10,117,366	(4,275,366)
Add: deferred tax not recorded for a subsidiary	1,551,445	(1,204,420)
Add: prior year tax adjustment	46,785	-
	40,397,020	5,709,466

23.5 Status of certificates and final assessments

- (i) The GAZT has finalized the Company's zakat and income tax assessments for the years through 2014. Assessments for the years 2015 through 2018 are currently under review by the GAZT.
- (ii) During 2015, the GAZT issued additional assessments for Ofsat amounting to Saudi Riyals 0.5 million for the years 2000 through 2004. Ofsat has appealed against the above assessments and management of Ofsat believes that no material liability will arise upon the ultimate resolution of these appeals. Further, during 2017, Ofsat also received additional assessments from the GAZT for the years 2005 through 2012 amounting to Saudi Riyals 0.2 million which were fully settled by Ofsat in 2017. Ofsat's assessments for the years 2013 through 2018 are currently under review by the GAZT.
- (iii) The Group has obtained zakat and income tax certificates for the years through 2018.

ARABIAN DRILLING COMPANY
(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

23.6 Deferred taxes

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

	2019	2018
Employee benefit obligations	247,625,526	236,091,013
Property and equipment	(1,800,061,643)	(1,353,358,985)
Other	57,201,704	16,474,145
Taxable temporary differences - net	(1,495,234,413)	(1,100,793,827)
Deferred tax liability	153,500,764	113,007,494

Movement in deferred taxes is attributable to:

	Employee benefit obligations	Property and equipment	Other	Total
1 January 2019	24,237,104	(138,935,833)	1,691,235	(113,007,494)
Charged to consolidated statement of comprehensive income	1,184,132	(45,858,495)	4,181,093	(40,493,270)
31 December 2019	25,421,236	(184,794,328)	5,872,328	(153,500,764)
1 January 2018	21,703,141	(135,382,481)	151,480	(113,527,860)
Charged to consolidated statement of comprehensive income	2,533,963	(3,553,352)	1,539,755	520,366
31 December 2018	24,237,104	(138,935,833)	1,691,235	(113,007,494)

24 Related party transactions and balances

Related parties comprise the shareholders, directors, associated companies and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest (other related parties).

- (a) The Company is controlled by TAQA which is the Company's immediate and ultimate parent.
- (b) Following are the significant transactions entered into by the Group with its related parties:

Nature of transactions	2019	2018
Revenue from an associated company	838,911,355	465,996,442
Rent income from an associated company	729,200	747,771
Costs charged by an associated company	34,099,735	19,845,989
Purchase of property and equipment from an associated company	-	226,064,478

ARABIAN DRILLING COMPANY**(A limited liability company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

(c) Key management personnel compensation:

	2019	2018
Salaries and other short-term employee benefits	13,880,840	11,094,048
Post-employment benefits	556,854	1,528,583
	14,437,694	12,622,631

Board of directors' fee for the year ended 31 December 2019 was Saudi Riyals 0.1 million (2018: Saudi Riyals 0.1 million).

(d) Due from related parties

	2019	2018
Schlumberger Middle East S.A. ("SMESA")	320,192,585	239,973,503
Arabian Geophysical & Surveying Company ("ARGAS")	-	872,674
	320,192,585	240,846,177

During 2019, the Group provided certain services and issued the related invoices to SMESA amounting to Saudi Riyals 19.9 million. Such invoices are currently under dispute and SMESA has withheld the payment until the final resolution of such dispute. Management of the Group believes that such invoices are based on the work performed under the contractual terms as agreed between the Group and SMESA. Subsequent to year end, the Group and SMESA have formed an Internal Technical Committee (the "Committee") with equal representation from both parties to resolve such dispute. As of the date of approval of these consolidated financial statements, the Committee's decision is pending.

Management of the Group has assessed that, there is a 50% probability that the final resolution of the Committee will be in the Group's favor and the invoices will be paid by SMESA. Accordingly, a provision of Saudi Riyals 9.9 million has been recognized in the accompanying consolidated financial statements for the year ended 31 December 2019.

(e) Due to related parties

	2019	2018
SPS	12,055,339	-
ARGAS	60,292	-
TAQA	-	49,120
	12,115,631	49,120

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 programme focuses on the unpredictability of financial markets and seeks to minimise 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.

ARABIAN DRILLING COMPANY

(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

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

The Group's risk management policies are established to identify and analyse 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 Group's Audit Committee oversees 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. The Audit Committee is assisted in its oversight role by Internal Audit department. Internal Audit department undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(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 2019, the Group's borrowings were denominated in Saudi Riyals.

At 31 December 2019, the Group had variable interest bearing financial liabilities of Saudi Riyals 2.5 billion (2018: Saudi Riyals 2.6 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 Saudi Riyals 25.6 million (2018: Saudi Riyals 6.6 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 amortised 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.

(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 carried at amortised cost, as well as credit exposures to customers, including outstanding receivables.

Cash and cash equivalents represent low credit risk as they are placed with reputable local banks.

ARABIAN DRILLING COMPANY

(A limited liability company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

Credit risk represents the accounting 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 2019, 99.7% of trade receivables were due from three customers (2018: 99.9% due from three 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.

Management believes that it is not exposed to significant credit risk.

(c) Liquidity risk

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. At 31 December 2019, the Group's current liabilities exceeded its current assets by Saudi Riyals 10.4 million (2018: Saudi Riyals 140.8 million). The Group expects to generate sufficient operating cash flows in the next twelve months to cover the shortfall.

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.

The table below summarises the Group's financial liabilities based on undiscounted contractual cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

The Group's trading portfolio of derivative instruments with a negative fair value has been included at their fair value within the 'less than one year' time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net fair value basis, rather than by maturity date.

ARABIAN DRILLING COMPANY**(A limited liability company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

	Less than one year	1 to 2 Years	2 to 5 years	Over 5 years	Total
2019					
Derivatives					
Fair value of cash flow hedge	13,099,222	-	-	-	13,099,222
Financial liabilities					
Long-term murabaha borrowings	794,065,054	619,943,452	894,373,700	221,162,153	2,529,544,359
Lease liabilities	3,146,060	3,146,060	1,823,030	-	8,115,150
Future interest on long-term murabaha borrowings	71,406,435	46,100,869	44,300,753	2,488,590	164,296,647
Trade and other payables	622,383,097	7,999,201	8,001,600	-	638,383,898
	1,491,000,646	677,189,582	948,499,083	223,650,743	3,340,340,054
	Less than one year	1 to 2 years	2 to 5 years	Over 5 years	Total
2018					
Derivatives					
Fair value of cash flow hedge	4,256,814	-	-	-	4,256,814
Financial liabilities					
Long-term murabaha borrowings	647,015,975	607,339,288	975,392,416	338,000,000	2,567,747,679
Future interest on long-term murabaha borrowings	102,794,420	77,394,219	105,482,602	19,384,775	305,056,016
Trade and other payables	639,772,923	11,482,534	8,001,600	-	659,257,057
	1,389,583,318	696,216,041	1,088,876,618	357,384,775	3,532,060,752

25.2 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.

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 plus net debt.

ARABIAN DRILLING COMPANY**(A limited liability company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

The gearing ratios at 31 December were as follows:

	2019	2018
Total borrowings	2,537,269,357	2,567,747,679
Less: cash and cash equivalents	(221,272,841)	(78,839,725)
Net debt	2,315,996,516	2,488,907,954
Total equity	3,626,699,119	3,441,581,040
Gearing ratio	64%	72%

25.3 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 are reported to the Group's management.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

As at 31 December 2019 and 2018, the fair values of the Group's current financial instruments, except for cash flow hedge 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 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 3 of the fair value hierarchy.

ARABIAN DRILLING COMPANY**(A limited liability company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

26 Categories of financial instruments

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

	2019	2018
Financial assets at amortised cost		
Trade and other receivables	986,538,437	854,816,544
Cash and cash equivalents	221,272,841	78,839,725
Total	1,207,811,278	933,656,269
Derivatives		
Fair value of cash flow hedge	(13,099,222)	4,256,814
	2019	2018
Financial liabilities at amortised cost		
Long-term murabaha borrowings	2,529,544,359	2,567,747,679
Lease liabilities	7,724,998	-
Trade and other payables	638,383,898	659,257,057
Total	3,175,653,255	3,227,004,736

27 Contingencies and commitments

- (i) At 31 December 2019, the Group was contingently liable for bank guarantees and letters of credit issued in the normal course of the Group's business amounting to Saudi Riyals 253.9 million and Saudi Riyals 91.7 million respectively (2018: Saudi Riyals 119.9 million and Saudi Riyals 85.4 million, respectively).
- (ii) The capital expenditure contracted by the Group but not incurred till 31 December 2019 was approximately Saudi Riyals 227.1 million (2018: Saudi Riyals 202.0 million).
- (iii) As at 31 December 2018, the Group had various operating leases for a term of three years. Rental expense for the year ended 31 December 2018 amounted to Saudi Riyals 65.0 million. Commitments for minimum lease payments under non-cancelable operating leases as of 31 December 2018 were Saudi Riyals 82.6 million.
- (iv) Also see Note 23.

28 Non-adjusting subsequent events

The existence of novel coronavirus (COVID-19) was confirmed in early 2020. COVID-19 has since been declared as a pandemic by the World Health Organization, causing disruptions to businesses and economic activity globally including the Kingdom of Saudi Arabia. The Group considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, management does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group's results.