dhruva
A Ryan LLC Affiliate

UNIQUS



BUILDING THE KINGDOM, ACCOUNTING FOR COMPLEXITY

An IFRS and tax point of view for infrastructure companies operating in Saudi Arabia

October 2026

Table of

CONTENTS

Foreword	02
Why this matters now	04
Service concessions: the threshold question (IFRIC 12)	07
Which asset does the operator own? (IFRIC 12 models)	11
Recognising construction and operations revenue (IFRS 15)	17
Financing the build: borrowing costs (IAS 23)	20
Cost overruns: which party bears the risk?	23
Credit risk on the grantor receivable (IFRS 9)	25
Maintenance, restoration and hand-back (IAS 37)	28
Also on the CFO's radar	30
Disclosure: where reporting quality is won (SIC-29 & IFRS 18)	33
Tax comments	35
1. Taxing the project company: CIT/Zakat and WHT across the life of project	36
2. Day one to day last: VAT and RETT shape project economics in PPP Bids	41
3. Transfer pricing comments	44
A CFO action agenda	45



Foreword

A note to finance leaders building the Kingdom's next decade

Saudi Arabia is delivering one of the largest infrastructure programmes the world has seen. The giga-projects, the transport and utility networks that connect them, and a deliberate pivot to private capital under the Private Sector Participation Law have created a pipeline measured in hundreds of billions of riyals. Behind every one of those headline numbers sits a set of accounting judgements that will shape how the project looks to boards, lenders, rating agencies and investors for the next twenty-five to thirty years.

The uncomfortable truth for many finance teams is that these judgements are not made in the finance function, and they are not made at the reporting date. They are often made unknowingly at the negotiating table, in the drafting of a payment mechanism, a residual-interest clause, a claims regime or a hand-back condition. By the time the transaction reaches the general ledger, the accounting answer is largely fixed. A concession that could have capitalised its construction-phase interest may instead be expensing it; revenue that management expected this year may be constrained to a later one; a receivable assumed to be risk-free may carry a real expected loss charge; and tax consequences relating to taxes (such as Zakat, Value Added Tax or Real Estate Transaction Tax) may emerge in ways that were never anticipated at financial close. A tax impact not factored in a financial model could impact the entire project IRR.

This publication is deliberately opinionated. Rather than restate the standards, we set out where we believe the genuine judgement lies, which interpretation we would defend, and what a CFO should do about it now. We focus on the four areas that concentrate the most risk for infrastructure entities in the Kingdom, i.e., service concessions under IFRIC 12, construction and operations revenue under IFRS 15, the financing of long-build assets under IAS 23, and the long-tail exposures of IFRS 9 and IAS 37, and we close with the standards and disclosures that increasingly define reporting quality, and a practical agenda for the finance leader.

Our central message is simple. In this market, accounting is not the scorekeeping that happens after the deal or tax is just not about compliance filings – it is part of the deal. The finance functions that treat it that way will report with confidence, defend their numbers under scrutiny, and give their capital providers the transparency that Vision 2030 is built to reward.



Dinesh Jangid
Regional Managing Partner
Middle East
Uniqus Consulting



Manish Bansal
Associate Partner
Saudi Arabia
Dhruva Consultants



Saad M. Alkhathlan
Managing Partner
Saudi Arabia
Uniqus Consulting



Farhan Farouk
Senior Advisor
Saudi Arabia
Dhruva Consultants



Zaid Khatri
Associate Partner
Saudi Arabia
Uniqus Consulting



Why this matters now

Saudi Arabia adopted full IFRS Accounting Standards as issued by the IASB, with limited additional local disclosures for all publicly accountable entities from 2017, under the oversight of the Saudi Organization for Chartered and Professional Accountants (SOCPA). SOCPA runs a formal endorsement process for each new IASB pronouncement and has already endorsed IFRS 18 and IFRS 19 for future application. The practical consequence is important: an infrastructure group reporting in the Kingdom applies the same technical literature as its international peers. The judgements below are not local GAAP quirks but rather the hardest questions in global IFRS, applied to an unusually fast-moving market.

That market is defined by scale and by structure. The giga-projects, e.g., NEOM, the Red Sea, Qiddiya, Diriyah and others sit alongside a deliberate shift toward private capital. The 2021 Private Sector Participation Law and the National Center for Privatization & PPP (NCP) have built a pipeline of build-operate-transfer (BOT), build-own-operate-transfer (BOOT) and design-build-finance-operate (DBFO) structures across roads, water, power, social infrastructure and transport. A recurring feature of the Kingdom's deals is the availability-payment model, where the grantor pays for the asset being available to a pre-defined standard, rather than for how much the public uses it which, as we will see, pulls the accounting decisively in one direction.

Three market realities sharpen every judgement in this publication. First, acute cost inflation and scarce specialist capacity make construction cost estimates volatile, and those estimates drive revenue and margin. Second, counterparties are frequently government-related entities, which tempts finance teams to treat receivables as risk-free, a treatment IFRS 9 does not permit. Third, concession tenors are long, so day-one judgements on models, provisions and impairment compound for decades. Getting them right at the outset is far cheaper than re-stating them later.

It is worth being precise about who applies what. SOCPA's framework distinguishes public interest entities (listed companies, banks, insurers and other publicly accountable entities), which apply full IFRS to smaller private entities, which may apply IFRS for SMEs. Most infrastructure operators of any scale, and certainly the concession SPVs behind giga-project packages and their listed sponsors, sit firmly in the full-IFRS population. That matters because the interpretations in this publication like IFRIC 12, the IFRS 15 constraint, the IFRS 9 ECL model, live in full IFRS; there is no simplified escape route for a material concession, and lenders and rating agencies will expect the full-IFRS treatment regardless of the SPV's legal size.

Five structural features of the Kingdom's infrastructure programme create conditions where IFRS judgements are simultaneously high-stakes and technically demanding:

Feature	Accounting issues	Primary Standard
Availability-payment model dominates BOT/ BOOT/DBFO	Financial asset model (IFRIC 12 para 16) is presumptive; intangible model requires affirmative evidence of genuine demand risk	IFRIC 12, para 15-17
Government-related entities as counterparties	ECL cannot default to nil; credit quality must be explicitly benchmarked using PD tables and supported LGD	IFRS 9, para 5.5
Multi-decade concession tenors (20-35 years)	Day-one judgements on model, ECL, and provisions compound; restatement cost scales with tenor	IFRIC 12, IAS 37
Cost inflation and supply-chain volatility	Cost-to-complete estimates drive revenue; each revision flows through current-period margin immediately	IFRS 15, para B16-B19
Blended finance: sukuk + DFI + sovereign guarantee	Financial liability classification, IAS 20 grant recognition, and IFRS 9 hybrid analysis apply concurrently	IAS 32, IFRS 9, IAS 20





Service concessions: the threshold question (IFRIC 12)

For any PPP or concession, IFRIC 12 is the gateway standard, and its central conclusion is counter-intuitive: the operator usually does not recognise the infrastructure as its own property, plant and equipment, even though it designs, builds, finances and runs the asset for decades. The operator instead recognises the rights it holds under the contract. Many finance teams instinctively expect a large, fixed asset and a matching depreciation charge – IFRIC 12 frequently delivers neither, and the difference reshapes the balance sheet, EBITDA and gearing.

Whether the arrangement is in scope of IFRIC 12?

In order for IFRIC 12 to apply the grantor must control or regulate the services the operator provides with the infrastructure, to whom the services are provided, and at what price; and the grantor controls any significant residual interest in the infrastructure at the end of the term.

The residual-interest test is met not only by legal ownership but by beneficial entitlement or a mandated hand-back. Where both tests hold, the asset is the grantor's in substance and the operator is a service provider, not an asset owner.

Where the tests are not met, a different model applies entirely. A genuinely privately owned asset with pricing freedom and no hand-back may sit as PP&E under IAS 16; a right to use a specified asset may be a lease under IFRS 16; and a whole-of-life outsourcing may fall to be analysed as a supply or a lease.

ILLUSTRATIVE - A COMMON SCOPING TRAP

On 1 January 2026, Entity A (the operator) entered into a 25-year BOOT concession agreement with the Ministry of Water (the grantor) to design, construct, finance, and operate a desalination plant in the Western Region. Key contract terms:

- Entity A constructs the plant over 3 years at a cost of SAR 1,200m. Fair value of construction services at completion: SAR 1,500m.
- The Ministry of Water specifies: (i) minimum daily output of 500,000 m3; (ii) quality standards per Saudi Standards; (iii) geographic service zone (Western Region only); (iv) a fixed tariff of SAR 100m/year availability payment, payable regardless of actual water drawn.
- On expiry of the 25-year term, the plant reverts to the Ministry of Water at nil consideration.
- In addition to the availability payment, Entity A earns a variable O&M fee of approximately SAR 8m/year based on actual volume treated.

Step 1: Control Test Analysis:

Control Test	Contract Evidence	Conclusion for Entity A
Test 1: Does the Ministry control what services Entity A provides, to whom, and at what price?	The illustration specifies Grantor receives 500,000 m3/per day for the geographic area of western region at a fixed available tariff. Entity A has no discretion to serve alternative customers or change the tariff.	Entity A is providing services under the Ministry's direction and consequently, this criterion is satisfied.
Test 2: Does the Ministry control any significant residual interest in the plant at end of term?	The illustration provides that at expiry of the Concession Period; the plant shall revert to the Ministry at nil consideration in good working order. Therefore, Entity A retains no residual interest after Year 25.	The Ministry holds the residual interest in the plant and consequently, this criterion is satisfied.
IFRIC 12 scope conclusion	Both tests met.	Entity A does not recognise the desalination plant as its own PP&E and therefore, not capitalised on Entity A's balance sheet under IAS 16.

Step 2: Model Selection: Allocating consideration

Cash Flow Stream	Nature	Model
SAR 100m/year availability payment (25 annual payments commencing on practical completion (2029))	Unconditional - payable regardless of actual water drawn. Entity A bears no volume risk on this stream. The grantor gives Entity A an unconditional contractual right to receive cash.	Financial Asset: Entity A recognises a concession receivable equal to the present value of future availability payments.
SAR ~8m/year variable O&M fee	Demand dependent - varies with actual volume. Entity A bears volume risk.	IFRS 15: Entity A recognises O&M service revenue as the service is delivered each year. Not part of the IFRIC 12 asset.

As we can see, Entity A's balance sheet at 1 January 2029 (construction completion) shows a Concession Receivable from Ministry of Water as SAR 1,500m. No plant asset is recognised in their accounting records and no depreciation charge arises. Further, Entity A splits each SAR 100m annual receipt between finance income (at EIR on the opening receivable balance) and principal reduction. The annual O&M fee of SAR 8m is recognized as IFRS 15 service revenue each year.

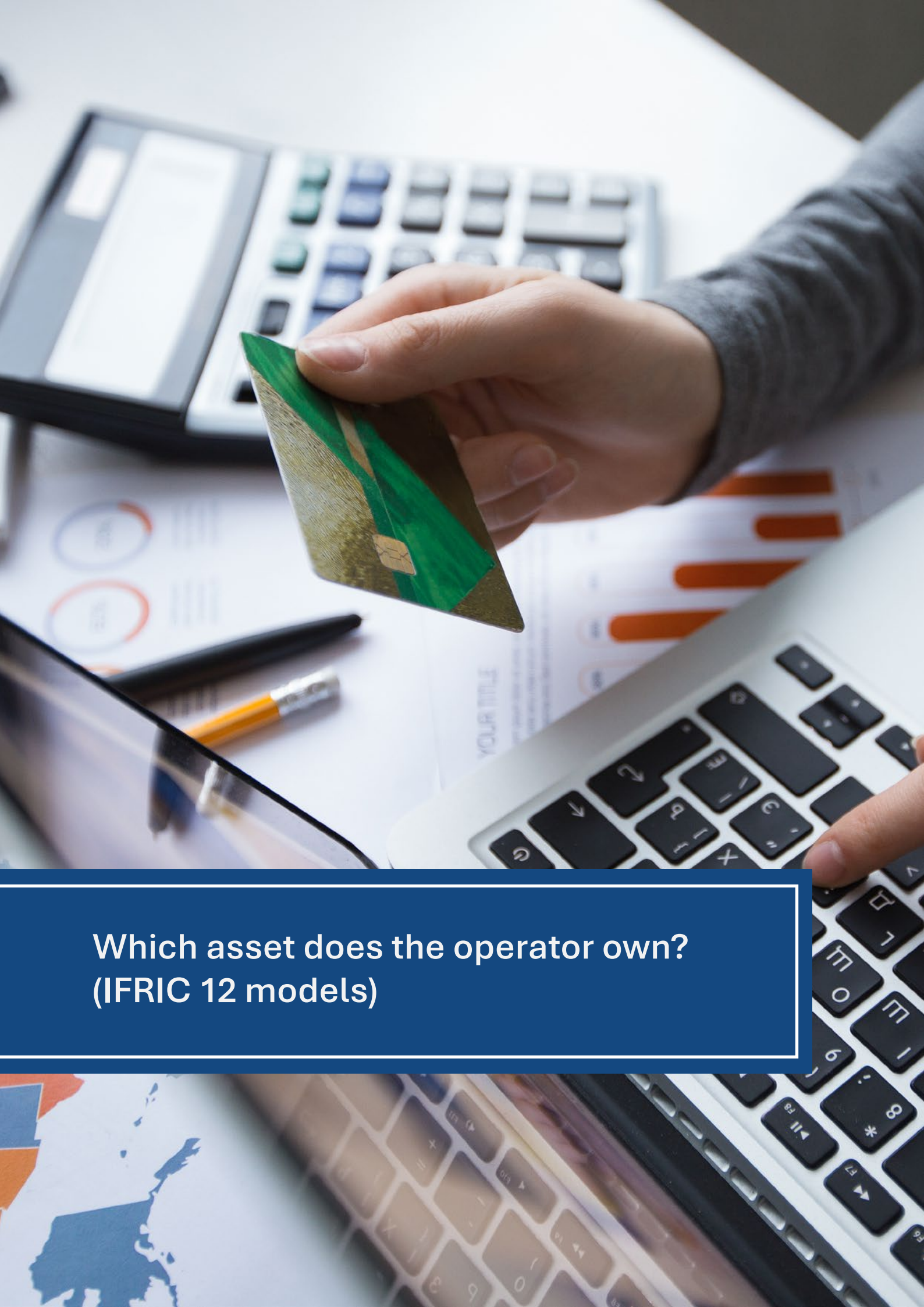
Entity A's most common error in this structure is treating the plant as PP&E and depreciating it over 25 years. This overstates assets on day one, replaces correct EIR income with straight-line depreciation, and creates a materially misstated expense profile for the full 25-year term - an error that requires a restatement of every set of accounts from construction completion.

OUR POINT OF VIEW

Scope the arrangement before you model it. Document the two control tests explicitly, with the specific contract clauses that satisfy each. In BOOT structures the residual-interest clause is usually the decisive fact - legal title held by Entity A during the concession term does not override IFRIC 12. Two further facts alter the scoping conclusion, both require explicit analysis at financial close:

1. Where the concession covers substantially all of the asset's useful life, the grantor controls whatever residual remains at expiry even without an explicit hand-back clause, and IFRIC 12 applies; and
2. Conversely, when the grantor holds a purchase option at fair value determined at exercise date, the operator retains residual value risk and the residual-interest test may not be met, taking the arrangement outside IFRIC 12 scope entirely.





Which asset does the operator own? (IFRIC 12 models)

The scoping decision is therefore not a formality - it selects the entire accounting model, and it is the first place we see errors in practice. The payment mechanism in the contract (not the sector or the project's label) determines which accounting model must be applied.

Model	Trigger (IFRIC 12)	Asset Recognised	Key Post-Construction Treatment
Financial Asset	Grantor gives unconditional right to receive cash regardless of usage	Receivable at fair value at initial recognition. Subsequently measured using the amortised cost model or FVOCI– whichever model used must be applied consistently over the life of the arrangement	Cash split: receivable repayment + finance income at EIR. Operating revenue recognised separately under IFRS 15.
Intangible Asset	Operator has right to charge users; genuine demand risk sits with operator	Intangible at fair value under IAS 38	Amortised over concession. IAS 36 impairment when indicators arise.
Bifurcated (Mixed)	Consideration partly unconditional, partly demand-dependent	Financial asset for guaranteed portion + intangible for demand portion	Allocation fixed at inception at relative fair values. Cannot be revised retrospectively.

The classification is not merely presentational. It changes the timing and geography of profit, whether construction-phase interest is capitalised, whether an expected-credit-loss charge arises, and how the balance sheet grosses up. A bifurcated arrangement magnifies all of this because the split itself is a judgement that must be made at inception and applied consistently.

The models also diverge after construction. Under the intangible model, the operator continues to recognise revenue and cash as it charges users, amortises the intangible on a pattern reflecting how benefits are consumed, and tests it for impairment when demand disappoints. Under the financial-asset model, cash received is split between repayment of the receivable and finance income, and the operation-phase service revenue is recognised separately under IFRS 15. Two operators running physically identical assets can therefore report very different revenue, EBITDA and asset bases every single year of the concession, purely because of a classification made at inception. This is why the model choice is a strategic reporting decision, not a technical footnote.

Once inside IFRIC 12, the payment mechanism determines which asset the entity will recognise. Under the financial asset model, the receivable is generally measured at amortised cost using the effective interest method. The EIR is locked at inception and cannot be revised even if market rates change. Under the bifurcated model the split between financial asset and intangible must be computed at inception using risk-adjusted discount rates and can never be re-opened, making it the single most error-prone judgement in the Kingdom.

ILLUSTRATIVE - EIR MECHANICS AND BIFURCATION

Entity A completes construction of the Northern Highway on 1 January 2029 under a 22-year availability concession. The Ministry pays SAR 120m per year regardless of traffic. Fair value of construction service: SAR 1,500m. Entity A also has a concurrent toll-road concession with a guaranteed availability stream of SAR 60m per year plus variable toll revenue of SAR 30m per year. Construction fair value of the toll road: SAR 1,000m.

Step 1: EIR Computation - Northern Highway Financial Asset (SAR 1,500m, 22 years, SAR 120m/ year)

Year	Opening Receivable SAR (millions)	EIR Income @ 5.57% SAR (millions)	Cash Received SAR (millions)	Principal Recovered SAR (millions)	Closing Receivable SAR (millions)
1	1,500	83.6	120	36.4	1,464
2	1,464	82	120	38	1,425
3	1,425	79	120	41	1,385
4	1,385	77	120	43	1,342
5	1,342	75	120	45	1,297
6	1,297	72	120	48	1,249
7	1,249	70	120	50	1,199
8	1,199	67	120	53	1,145
9	1,145	64	120	56	1,089
10	1,089	61	120	59	1,030

Year	Opening Receivable SAR (millions)	EIR Income @ 5.57% SAR (millions)	Cash Received SAR (millions)	Principal Recovered SAR (millions)	Closing Receivable SAR (millions)
11	1,030	57	120	63	967
12	967	54	120	66	901
13	901	50	120	70	832
14	832	46	120	74	758
15	758	42	120	78	680
16	680	38	120	82	598
17	598	33	120	87	511
18	511	29	120	91	420
19	420	23	120	97	323
20	323	18	120	102	221
21	221	12	120	108	114
22	114	6	120	114	0
		1,140	2,640	1,500	

Year 1 finance income: SAR 83.6m (SAR 1,500m × 5.57%). Principal recovered: only SAR 36.4m - the receivable moves in early years because the EIR income consumes almost all of each SAR 120m payment. By Year 10, cumulative principal recovered is only SAR 729.9m on a SAR 1,500m receivable. This front-loaded income profile must be modelled before draw-down - covenant DSCR and EBITDA calculations built on an incorrect assumption that the receivable runs down evenly will fail in early years.

Step 2: Bifurcation - Toll Road (SAR 1,000m construction fair value, risk-adjusted discount rates)

Stream	Amount per year	Nature	Discount Rate	PV SAR	Allocation %	Day-1 Recognition
Guaranteed availability (Ministry)	SAR 60m	Unconditional with no volume risk. Sovereign counterparty.	5.57%[1]	SAR 740m	74%	Dr Concession Receivable SAR 740m
Variable toll revenue (road users)	SAR 30m	Demand dependent. Entity A bears volume risk.	10.0%[2]	SAR 260m	26%	Dr Intangible Concession Right SAR 260m
Total				SAR 100m (scaled from SAR 1,013m)	100%	Cr Revenue - Construction SAR 1,000m

Using a single discount rate for both streams instead of risk-adjusted rates shifts the split by approximately 7 percentage points (74% from 67%) reducing the concession receivable at inception by SAR 74m. A lower opening receivable compresses IFRS 9 EIR income in every post-construction year, narrows the IFRS 9 ECL measurement base, and alters the IFRS 18 financing/operating classification of receipts across all 22 years of the concession. The choice of discount rate is therefore a day-one accounting policy decision with a 22-year P&L tail - it must be documented, tested against comparable transaction rates, and reviewed before the financial close.

1. As the grantor is the same and credit risk is identical, assuming the same EIR as highway
2. The rate is an illustrative assumption; in practice it would be determined by reference to comparable transactions representing project estimated WACC, reflecting traffic volume and risk borne by entity

OUR POINT OF VIEW

Where a service concession arrangement contains both an unconditional guaranteed payment from the grantor and demand-dependent consideration arising from the operator's right to charge users, the two components should be assessed separately for accounting purposes. IFRIC 12 distinguishes a financial asset arising from an unconditional contractual right to receive cash from the grantor from an intangible asset arising from a right to charge users, and requires the consideration attributable to each component to be accounted for separately. The economic characteristics of the two components may differ materially: the guaranteed stream is principally exposed to the credit characteristics of the grantor, whereas the value of the right to charge users is dependent on future utilisation and other demand-related factors.

Accordingly, applying a single discount rate to both components is not appropriate merely for convenience and requires justification. The discount rate or rates used in allocating the total construction consideration should reflect the characteristics and risks of the respective components and be supported by an appropriate valuation methodology and observable market evidence. Where sufficiently different risk characteristics exist, using differentiated rates may result in a materially different allocation between the financial asset and intangible asset at initial recognition. A lower rate applied to the relatively more certain guaranteed cash flows will generally result in a higher initial financial asset, with the residual consideration allocated to the intangible asset.

This initial allocation is consequential because the financial asset is subsequently subject to IFRS 9; where measured at amortised cost or FVOCI, interest is recognised using the effective interest method. The opening carrying amount therefore affects subsequent interest income, ECL, and the concession receivable balance across the entire concession term. The methodology and assumptions used to determine the allocation must be established and documented at initial recognition, with the selected rate or rates supported by observable market data and valuation analysis. Where appropriate, the methodology should be reviewed by treasury, an independent valuation specialist, and the auditor before or at financial close - not retrospectively



Recognising construction and operations revenue (IFRS 15)

For a contractor, revenue is the number everything else flows from and IFRS 15 makes it significantly harder to recognise early, harder to lock in when costs overrun, and harder to include claims before they are substantially agreed. Three judgements dominate: measuring progress accurately using cost-to-cost; constraining variable consideration (claims, bonuses, LDs) to amounts where reversal is highly improbable; and deciding whether a scope change is a contract modification requiring retroactive re-measurement or a change in estimate that flows forward.

The cost-to-cost method makes the total cost estimate the operative number at every reporting date. A 10% cost overrun on a SAR 2bn contract recognised at 60% completion produces an immediate SAR 120m revenue catch-up adjustment - downward. It flows through the current period with no smoothing and no spread. In a market where steel, concrete, and specialist labour costs are volatile and subcontractor claims are common, that is not a theoretical risk.

Under IFRIC 12 the operator provides two distinct services over the life of a deal, i.e., construction/ upgrade and operation/ maintenance - and both are accounted for under IFRS 15. Identifying these as separate performance obligations, and allocating the transaction price between them, is the starting judgement; bundling them, or ignoring the operations obligation, distorts the whole revenue profile.

Over-time recognition and measuring progress

The construction phase in most instances meets the criteria for recognising revenue over time, because the grantor controls the asset as it is built. The judgement then moves to how much and when. Over-time recognition needs a method, typically cost-to-cost method as that usually faithfully depicts progress. In a market with volatile input costs and long supply chains, estimates of total cost to complete swing materially, and each revision flows straight through margin. A single contractor delivering multiple giga-project packages should expect intense audit focus on the governance and consistency of those estimates, and on whether uninstalled materials are inflating measured progress.

Variable consideration: claims, incentives and penalties

Infrastructure contracts are saturated with variability, e.g., milestone bonuses, KPI-linked availability deductions, liquidated damages and, above all, variation claims. IFRS 15 requires each to be estimated (using an expected value or the most likely amount, as appropriate) and then applies the constraint, i.e., variable amounts are included only to the extent it is highly

probable that a significant reversal of revenue will not occur in later periods. In practice this defers recognition of contested claims and unapproved variations until they are substantially certain, routinely a later point than commercial teams assume.

A related and frequently blurred judgement is whether a scope change is a contract modification (re-measuring the transaction price and, often, progress) or a change in estimate of variable consideration. The two are accounted for differently, and in fast-moving Kingdom projects variation orders regularly run ahead of formal documentation, leaving finance to characterise them after the fact.

Two further traps: financing and agency

Long-dated availability receivables can contain a significant financing component, requiring revenue to be measured at a discounted amount and interest to be recognised separately, easy to overlook when cash and revenue are assumed to move together. And where the operator procures through subcontractors, the principal-versus-agent assessment determines whether revenue is grossed up or shown net, materially changing headline revenue even when margin is unaffected.

OUR POINT OF VIEW

Every estimate revision is a P&L event under IFRS 15 — there is no corridor, no averaging, no deferral. the cumulative catch-up in para 86 is mandatory and hits the current period in full. The constraint is a high bar: “highly probable” is not “more likely than not,” and an unapproved variation subject to the customer’s discretion does not clear it. Further, an unapproved scope change in certain cases maybe a variable consideration, not a modification, and classifying it otherwise to accelerate recognition is not a supportable position.



Financing the build: borrowing costs (IAS 23)

Concessions are capital-intensive and highly geared, so the treatment of borrowing costs during a multi-year build is rarely immaterial - and here IFRIC 12 and IAS 23 interact in a way that surprises many teams: the accounting model, not the economics of the financing, decides whether interest is capitalised or expensed.

The qualifying asset test. IAS 23 defines a qualifying asset as one that necessarily takes a substantial period of time to get ready for its intended use or sale. A multi-year concession construction clearly meets this test, but only where the asset being constructed is recognised on Entity A's balance sheet. Under the intangible model, the concession right is Entity A's asset and is a qualifying asset; directly attributable borrowing costs are capitalised during the construction period. Under the financial asset model, the concession receivable is explicitly excluded from IAS 23 due to it being a financial asset, and the standard does not apply. Consequently, attributable borrowing costs are expensed as incurred. Under the bifurcated model, borrowing costs are allocated pro-rata to the financial asset component (expensed) and the intangible component (capitalised), computed from the relative carrying amounts of each at each balance sheet date during construction.

Commencement, suspension, and cessation. Even where capitalisation is permitted, IAS 23 imposes three further conditions: capitalisation commences only when expenditure on the asset is being incurred, borrowing costs are being incurred, and activities necessary to prepare the asset for use are in progress. It must be suspended during extended periods of inactivity. A material risk on giga-projects where regulatory approvals, supply-chain disruptions, or design changes halt active development for months. It ceases when the asset is substantially complete and ready for intended use, even if administrative or minor finishing work continues. Finance teams that capitalise interest throughout a construction period without monitoring these conditions and treating the draw-down period and the qualifying period as identical overstate the intangible asset and understate in-period P&L during any suspension.

Specific versus general borrowings. Where Entity A raises a specific facility for the concession, the borrowing cost eligible for capitalisation is the actual cost incurred less any investment income on temporary investment of those borrowings. Where Entity A draws on a general pool, the capitalisation rate is the weighted average cost of all general borrowings outstanding during the period, applied to expenditure on the qualifying asset. In a project finance structure, where the SPV borrows specifically for the concession, the specific borrowing rule applies and the calculation is straightforward. Where Entity A is a corporate entity drawing on a revolving facility shared across multiple projects, the general pool calculation requires a defensible allocation methodology, documented and applied consistently across all qualifying assets in the period.

The P&L consequence of getting the model wrong. On a SAR 2,000m concession with SAR 100m of directly attributable borrowing costs per year across a 3-year build: under the intangible model, SAR 300m is capitalised (zero construction-phase interest expense). Under the financial asset model, SAR 300m is expensed and SAR 100m per year hits EBIT during build. Under the bifurcated model at 71.6% financial asset / 28.4% intangible, SAR 214.8m is expensed and SAR 85.2m is capitalised. If the project finance facility was modelled on intangible-model assumptions and the correct model is financial asset, Entity A faces SAR 300m of unplanned construction-phase P&L charges - enough to breach EBIT covenants on a facility whose terms were agreed around a different accounting outcome.

OUR POINT OF VIEW

IAS 23 is unambiguous: a financial asset is excluded from the standard regardless of how long it takes to construct. The receivable qualifies simply because construction takes three years. The exclusion is categorical, not subject to a qualifying-asset override. On the suspension question, a delay caused by external factors such as regulatory approvals or supply-chain disruption is not automatically an extended period of inactivity and activities necessary to prepare the asset must have genuinely ceased, not merely slowed.





Cost overruns: which party bears the risk?

Construction cost overruns are endemic to large infrastructure concessions. The accounting consequence is binary and determined entirely by the concession agreement - not by the magnitude of the overrun or the stage of construction at which it arises.

Overruns borne by the operator

Where the operator bears the overrun, the transaction price under IFRS 15 is unchanged. The grantor's obligation - whether a fixed receivable or a right to charge users — remains as originally agreed. Additional costs reduce the operator's construction margin and are expensed as incurred; they do not adjust the opening concession receivable or intangible asset, as those balances reflect the fair value of construction services the grantor agreed to receive, not the operator's outturn cost.

Where cumulative overruns render the contract onerous, IAS 37 requires a provision for the excess of unavoidable costs over expected economic benefits, recognised immediately and updated at each reporting date during the construction phase.

Overruns borne by the grantor

Where the grantor contractually agrees to fund the overrun, the additional amount increases the IFRS 15 transaction price. Variable consideration is included only when it is highly probable that a significant reversal will not occur and until that threshold is met, the incremental amount is constrained, excluded from revenue, and excluded from the concession asset carrying amount.

Once confirmed and the constraint lifted, the concession asset is remeasured upward. For bifurcated arrangements under IFRIC 12, any increase in the guaranteed payment stream requires the bifurcation to be re-performed using the original risk-adjusted rates, and the effective interest rate on the financial asset is recalculated at the modification date per IFRS 9.



OUR POINT OF VIEW

The concession agreement should specify, unambiguously, the overrun allocation mechanism before financial close. Ambiguity triggers variable consideration constraints under IFRS 15, delays asset recognition, and where the arrangement is project-financed- may breach lender covenants that are tied to the concession receivable balance. Legal, commercial, and accounting teams must align on this before execution.



Credit risk on the grantor receivable (IFRS 9)

Under the financial-asset model the concession receivable is within the scope of IFRS 9 and is therefore subject to the expected credit loss (ECL) model. Given that the counterparty is a ministry or a government-related entity it is common to assume the loss allowance is nil. However, IFRS 9 does not allow that assumption to be made by default. It requires a forward-looking, probability-weighted estimate that reflects credit risk, tenor and the time value of money, refreshed at each reporting date.

Classification and the SPPI test. Before ECL applies, Entity A must confirm that the concession receivable is classified at amortised cost. That classification requires two conditions to be met: the asset is held within a business model whose objective is to collect contractual cash flows; and the contractual cash flows are solely payments of principal and interest (SPPI). The SPPI test is the more demanding of the two on a concession receivable. A fixed availability payment with a CPI escalation clause will normally pass as the escalation reflects changes in the general price level and does not introduce leverage or exposure to risks unrelated to a basic lending arrangement. A payment mechanism indexed to the grantor's own fiscal receipts, or one with a revenue-sharing feature where Entity A remits upside above a threshold, introduces a variable that is not consistent with SPPI and will cause the receivable to fail the test and be mandatorily measured at fair value through profit or loss Thereby, introducing annual fair value volatility on what management regards as a stable infrastructure asset. Finance teams must perform and document the SPPI test at initial recognition as it cannot be revisited after classification is established.

The three-stage ECL model. IFRS 9 requires Entity A to recognise a loss allowance equal to 12-month ECL (Stage 1) from the date of initial recognition. The allowance moves to lifetime ECL (Stage 2) if there has been a significant increase in credit risk (SICR) since initial recognition, and remains at lifetime ECL (Stage 3) once the asset is credit impaired. The critical discipline is that the transition from Stage 1 to Stage 2 is triggered by a relative deterioration in credit quality, assessed against the credit risk at initial recognition and not by an absolute level of credit risk or by a missed payment. A grantor that begins the concession rated AA- and is downgraded to A- three years later may well have suffered a significant increase in credit risk even though it remains investment grade, depending on how Entity A has defined its SICR threshold at inception.

Measuring ECL: PD, LGD, EAD, and discounting. ECL is the product of three inputs, probability-weighted across multiple scenarios and discounted at the EIR: the probability of default (PD), the loss given default (LGD), and the exposure at default (EAD). For Stage 1, PD is the 12-month probability; for Stage 2 and 3, it is the lifetime probability across the remaining tenor of the receivable, which on a 22-year concession is a very long horizon. Published rating-agency default studies (Moody's Annual Default Study, S&P Global Default, Transition, and Recovery) provide the primary source for PD benchmarks on rated sovereign and quasi-sovereign counterparties. LGD reflects the severity of loss conditional on default: for a concession receivable secured against an infrastructure asset, LGD is driven by the enforceability of Entity A's contractual rights under the concession agreement and the residual value of the underlying infrastructure relative to the outstanding receivable

balance, both of which require legal and valuation support, updated periodically. EAD is the gross carrying amount of the receivable at the balance sheet date. All three inputs must reflect forward-looking information and reasonable and supportable forecasts, not solely historical experience.

Sovereign and quasi-sovereign counterparties: why nil is rarely right. The argument that a ministry counterparty carries nil credit risk conflates sovereign willingness and ability to pay at a political level with the specific contractual obligation of a government entity under a concession agreement. IFRS 9 draws no such distinction. A 12-month PD of 0.04% for an Aa3-rated government-related entity, applied to a SAR 800m receivable with a 35% LGD, produces a 12-month ECL of SAR 0.11m. While small, it is not zero, and requires documentation, disclosure, and update at every reporting date. The disclosure obligation under IFRS 7 is independent of the size of the allowance: Entity A must disclose the basis for measuring ECL, the inputs and assumptions used, and the sensitivity of the allowance to changes in those inputs, whether the allowance is SAR 0.11m or SAR 44m. An unsupported nil allowance carries the same disclosure obligation and the same audit exposure as a supported small one, with no analytical work to defend it.

SICR and Stage migration. IFRS 9 introduces a rebuttable presumption that a significant increase in credit risk has occurred when contractual payments are more than 30 days past due. For a long-dated concession receivable, the more operationally relevant triggers are credit-quality-based: a downgrade of a defined magnitude from the inception rating, breach of a fiscal ratio covenant in the concession agreement, or a change in the sovereign's external credit outlook. Entity A must define these triggers at inception, document them in the ECL methodology paper, and monitor them at every reporting date. A Stage 2 migration on a SAR 800m receivable — moving from 12-month ECL of SAR 0.11m to a lifetime ECL that may be SAR 4-8m depending on tenor and updated PD is a material P&L event triggered by a rating change alone, with no missed payment and no restructuring. Under IFRS 18 (effective 1 January 2027), the incremental Stage 2 charge is a financing expense, sitting below operating profit; the covenant and investor communication implications must be anticipated, not managed in arrears.

OUR POINT OF VIEW

IFRS 9 contains no carve-out for government counterparties, and the SPPI test applies without regard to counterparty credit quality. We believe the SICR assessment as a relative test anchored to the credit risk at initial recognition and not an absolute investment-grade threshold. An entity should define SICR triggers explicitly in the ECL methodology at inception rather than applying judgement retrospectively when a downgrade occurs. On LGD, we would not accept a zero or near-zero LGD without a legal opinion on enforcement rights and an independent valuation of the residual infrastructure asset: the argument that a government will always pay conflates political intent with contractual enforceability, and IFRS 9 requires the latter to be assessed on its own terms.



Maintenance, restoration and hand-back (IAS 37)

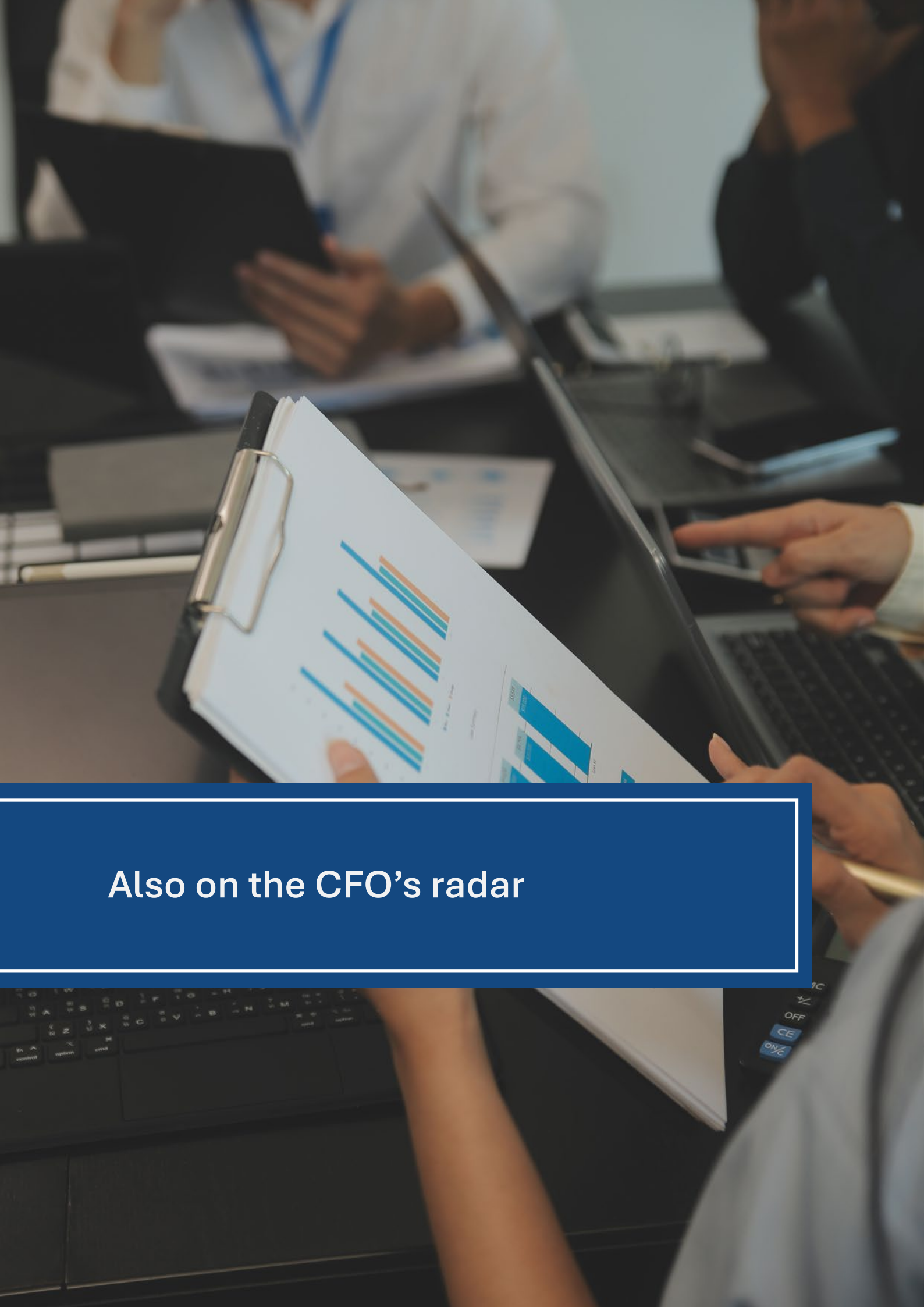
Concessions typically oblige the operator to keep the asset to a defined standard and to return it in a specified condition at the end of the term. IAS 37 governs when these obligations become provisions - and the line it draws is often misunderstood.

The key discipline is that a provision arises only where there is a present obligation the entity cannot realistically avoid. Routine and even major periodic maintenance is frequently not provided for in advance, because the entity could in principle avoid the cost by its future actions (or by how it operates the asset). By contrast, a contractual restore-and-return obligation, or a requirement to hand the asset back to a mandated standard, usually is a present obligation - and IFRIC 12 specifically directs the operator to IAS 37 for the cost of restoring the infrastructure used to provide the service.

Three further points bite in practice. Provisions are measured at the present value of the expected outflow, so for long concessions the discount rate and its unwinding are themselves material. The onerous-contract test can apply where operating obligations exceed the economic benefits expected. And where maintenance instead replaces a distinct component of a recognised asset, it may be capitalised rather than provided for, a classification judgement that changes both the balance sheet and the expense profile.

OUR POINT OF VIEW

The receivable and the hand-back obligation are the parts of the deal that outlive the excitement of financial close. We would build the restoration and hand-back provisioning model - and its discount-rate policy - into the day-one accounting paper, not the year-three audit file, and we would separate genuine present obligations from avoidable future maintenance rigorously. Both are estimates that compound over decades; both are increasingly challenged.



Also on the CFO’s radar

Beyond the four core areas, several standards routinely shape the numbers and deserve early attention. Each carries its own judgement, and each has bitten infrastructure entities before.

IFRS 16 Leases

The boundary between a concession (IFRIC 12) and a lease is a genuine scoping question, and separately the operator may hold land, right-of-use assets and embedded leases within project, land and O&M contracts. Our stance: test the IFRIC 12 scope first, then sweep the remaining arrangements for embedded leases rather than assuming there are none.

IAS 20 Government Grants

Grantor capital contributions, land granted at nil or nominal value, and viability-gap funding must be identified and accounted for as grants rather than netted invisibly against cost. In a market where the state is both grantor and sponsor, the grant/ concession-consideration boundary needs deliberate analysis.

IFRS 11 Joint Arrangements

Consortium and SPV structures decide whether an interest is equity-accounted or brought in line by line, which changes revenue, assets and gearing dramatically. The assessment turns on the contractual sharing of control and rights to assets versus net assets, not on the equity percentage alone.

IAS 36 Impairment

Intangible concession rights and financial-model-based cash-generating units must be tested when indicators arise and in this sector indicators are common: traffic or demand below forecast, cost overruns, and tariff or availability deduction changes. A robust, regularly refreshed model is the best defence.

IAS 12 Income Taxes

Deferred tax on the concession asset interacts with the Kingdom's Zakat and corporate income tax regime, and multinational sponsors must now weigh the global minimum tax (Pillar Two). The temporary differences on IFRIC 12 assets are not intuitive and repay early modelling.

IFRS 18 Presentation and Disclosure

Now endorsed by SOCPA, IFRS 18 introduces defined subtotals and disclosure of management performance measures. For infrastructure entities who are the typical heavy users of non-GAAP EBITDA-style metrics, it will reshape how results are presented and constrain how bespoke measures are shown.

OUR POINT OF VIEW

None of these standards is "secondary" on a real concession - each has produced restatements in this sector. We would run a structured scoping pass across all six at the outset of every material deal, rather than discovering an embedded lease, a mis-scoped joint arrangement or an overlooked grant during the audit. The cheapest issue to fix is the one identified before the accounts are drafted.





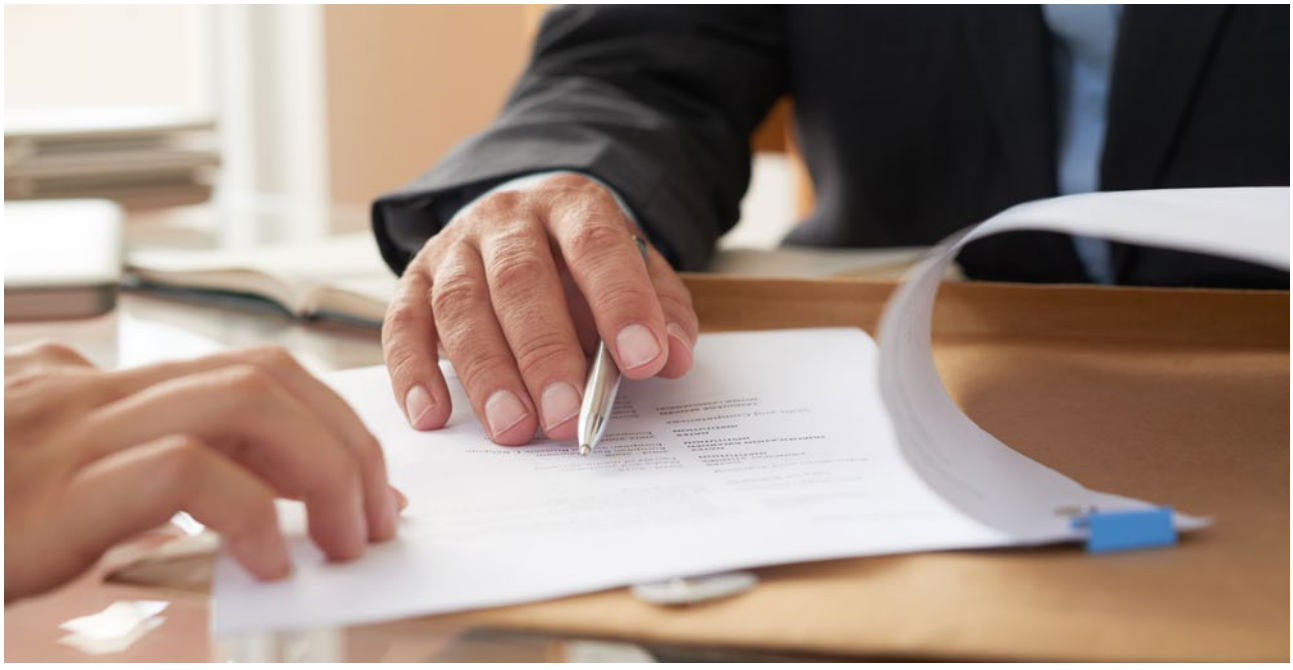
Disclosure: where reporting quality is won (SIC-29 & IFRS 18)

Two entities can apply IFRIC 12 identically and still communicate very differently, because the standard leaves significant room in disclosure. SIC-29 requires operators (and grantors) to disclose the key features of each concession - its terms, the rights and obligations it creates, and changes during the period - and this is where a reader first understands whether the numbers rest on a financial asset, an intangible, or a split.

Beyond SIC-29, the judgements throughout this publication are exactly the "significant judgements and estimates" that IAS 1 (and, prospectively, IFRS 18) expect entities to spell out: the concession model chosen and why, the basis for any bifurcation split, the constraint applied to variable consideration, the ECL methodology on grantor receivables, and the assumptions behind restoration provisions. Thin, boilerplate disclosure here is a red flag to analysts and auditors alike; specific, quantified disclosure is what builds credibility with capital providers.

OUR POINT OF VIEW

Disclosure is not the tidy-up at the end - on a concession it is half the message. We would disclose the model, the split, and the key estimates specifically and with numbers, and we would treat a page of generic accounting-policy text as a missed opportunity to explain a thirty-year commitment to the people funding it.





Tax comments

1. Taxing the project company: CIT/Zakat and WHT across the life of project

Saudi Arabia is witnessing a paradigm shift in how it delivers infrastructure and public services, with Public-Private Partnerships (PPPs) emerging as a central pillar of development under Vision 2030. In KSA, Public-Private Partnerships (PPPs) operate by typically establishing a Special Purpose Vehicle (SPV) to execute the project.

The tax and Zakat implications for a KSA PPP project depend on the ownership structure of the SPV, financing arrangements and the classification of assets in the financial statements.

In a PPP, the project company's accounting model is the starting point for its CIT and Zakat analysis. A concession may be reported as a financial asset or an intangible asset, but that classification does not, by itself, determine whether the income is subject to tax or zakat, which costs are deductible, or whether an asset can be deducted from the Zakat base. The ownership of the project company, the concession terms and the substance of its financing arrangements must be considered.

Ownership determines the starting point. The project company's shareholder composition determines the extent to which its results are subject to CIT or Zakat. A mixed-ownership SPV will may need to account for both.

Financing can create CIT leakages. Project debt may generate substantial borrowing costs in early years, but the tax deduction may be limited. Tax depreciation or other deductions may also differ from accounting charges, while restrictions on using carried-forward losses can delay relief for construction-phase losses.

CIT Implications

CIT is a charge on the taxable profits of the project company, and it applies to the extent the SPV is owned, directly or indirectly, by foreign i.e. non-Saudi/non-GCC shareholders. Where the shareholders are Saudi or GCC nationals, the entity will be subject to Zakat instead, and a mixed-ownership SPV sits in both regimes at once, apportioned to the respective shareholdings. All income accrued in the Kingdom from an activity carried on in the Kingdom is within charge, so the live question is rarely whether the income is taxable, but how much of it is and when.

The long-term contract rule does much of the work in a construction-phase SPV. For a taxpayer, who uses the accrual method of accounting, income and expenses relating to a "long term contract" shall be calculated on the basis of the percentage of the work completed during the taxable year. Such percentage shall be determined by comparing the costs of the contract incurred during the taxable year with the total estimated cost of the contract. Long term contract would mean contract for the manufacture, installation, construction, or performance of services, and whose execution is not completed within the year in which execution started.

What the Tax Authority allows against the income is a matter of Tax Law rather than the accounting. Ordinary expenses necessary for the realisation of the taxable income are deductible, whether accrued or paid. Accounting depreciation is not accepted: tax depreciation is computed on the rates and categories prescribed under the tax regulations on a reducing-balance basis, and the depreciation difference between the two calculations is considered as a temporary difference and is added to/deducted from the net book profit.

Interest is where the leakage usually appears - The deduction is limited to the lower of (i) the actual interest expense incurred and (ii) interest income plus 50% of taxable income before interest income and expense. Anything above that line is not deductible and cannot be carried forward, so the disallowance is permanent rather than deferred. This limit is particularly significant for a project-financed SPV in its early years, when interest costs are high and taxable profits are low.

Losses are the mirror image of the same problem - Tax losses may be carried forward and offset against future taxable profits, but the set off is capped at 25% of taxable profits in a given year and carryback is generally not available. On a long build with no operating revenue, that means construction-phase losses relieve only gradually once the project turns profitable. The draft Tax Law removes the cap and allows full losses to be offset without any limit until exhausted; but until the draft Tax Law is enacted, the cap stands.

Zakat Implications

Zakat is calculated on the Zakat base rather than on profit, and it applies where the SPV is owned by Saudi or GCC nationals. The rate is 2.578% of the Zakat base where the year-end follows the Gregorian calendar. Since the Zakat base is derived from the closing balance of equity, liabilities and assets rather than from the income statement, it is the balance sheet and not the profit and loss account that normally decides the outcome.

The regulations now impose a floor and a ceiling in the form of Minimum and Maximum Zakat Base - Where the computed Zakat base falls below adjusted net profit, the minimum Zakat base is the lower of (i) non-deductible assets plus the adjustment to net profit, and (ii) net adjusted profit. The maximum Zakat base is owners' equity and the like plus the difference between adjusted net profit or loss and net book profit or loss.

Expenses recorded in the income statement are deductible provided they are actual and related to business activity.

Net fixed assets and equivalents may be deducted from the Zakat base under Zakat Regulations, and it extends the definition to cover assets financed to a lessee under finance leases in BOT and similar projects, capital works and projects under construction held for use in the activity rather than for sale, non-current real estate investments not intended for sale, and raw land used in the activity unless it is held for sale. For an infrastructure SPV, the deduction therefore turns on how the asset is classified and used, which means the disclosure in the financial statements matters as much as the asset itself.

Article 74 is the provision that matters most on a PPP - A BOT or similar contract may be deducted by the lessor -the builder, producer, developer or seller of the benefit, product or service, only where a series of conditions are met: the lessor commits to establish the project; commits to operate it for the sale of the benefit, product or service during the contract term; the lessee commits to buy that benefit, product or service during the period of contract; the subject of the contract is principally focused on the operation of the asset to produce and sell the output rather than the funding of the asset itself. If the purpose of the contract is to fund the asset, the contract cost cannot be deducted from the Zakat base regardless of its classification in the financial statements of the lessor; the lessor may not be a Zakat payer for financing activities; the assets are classified as non-current assets of the lessor; and the lessor's activity shall be aligned with build, operate and transfer project.

The practical consequence is that a project company is likely to have insignificant deductibles from its Zakat base unless the project is regarded as a BOT or similar arrangement. For a non-BOT arrangement, the ZATCA is highly unlikely to accept the non-current receivable as deductible. Whilst the Zakat regulations allow the non-addition of the non-current liability on a proportionate basis to the Zakat base, there may still be some Zakat leakage.

Shareholders' loan is another important consideration. Under the Zakat Regulations, shareholders' loan are treated as liabilities in a capital or private company only where the financial statements are approved by a chartered accountant in the Kingdom; they are classified as liabilities in those statements; the payment period is specified in the financing contract; the financing proceeds are consistent with market price; and ownership is not wholly controlled by one party, as in a sole proprietorship or single-person company. If any condition fails, the loan is treated as ownership rights (equity) and adds to the base without any capping. Whether or not the non-current financial asset is deductible where no BOT arrangement applies, the discipline is to keep equity at the minimum the regulations allow and to satisfy every condition before relying on shareholder debt.

Withholding Tax (WHT)

Withholding tax is the tax charged on payments made to non-residents, and it falls on services rather than goods. No WHT applies to payments to domestic parties, and none applies on the purchase of goods and materials, whether bought locally or from a non-resident. What is caught is the non-supply (services) rendered by a non-resident to a KSA resident entity. Under KSA Tax By-laws, the rates are prescribed as:

Nature of payment	WHT Rate
Management fees	20%
Royalties	15%
Dividend distributed	5%
Rent	5%
Return on loans (Interest)	5%
Technical & Consulting services	5%
Airline Tickets/Air or Sea Freight (outbound)	5%
International Telecommunication Services	5%
Any other payment not described above	15%

Treaties prevail over domestic Tax Law- KSA has signed more than 60 effective double tax treaties, and under Article 35 of the Tax Laws, the treaty conditions prevail over domestic law.

Timing and responsibility are where cross-border contracts most often go wrong. WHT is a statutory obligation of the payer and crystallizes at the point of actual payment rather than at accrual, and non-compliance exposes the payer to tax and delay penalties irrespective of the contractual arrangement with the non-resident supplier. Every cross-border contract involving payments from the Kingdom to a non-resident should therefore carry explicit WHT deduction language.

On a project-financed SPV, the largest exposure is usually the financing itself. WHT applies to interest on loans paid to non-resident banks, and banks in practice do not accept a deduction of withholding taxes from interest or from financing charges such as arrangement fees. The structural answer is to arrange the financing through a consortium of Saudi and non-Saudi banks with a Saudi bank appointed as lead to coordinate the syndicate and administer the facility. All debt-related payments are then made to the lead bank and are regarded as domestic, which should take them outside WHT altogether.

OUR POINT OF VIEW

CIT and Zakat implications depend on the ownership structure of the Project entity undertaking PPP Projects. The major concern while determining the tax and zakat liability of the entity is to consider the tax adjustments (including tax depreciation, interest deductibility rule and utilization of carried forward tax losses. From Zakat perspective, the deductibility of financial asset is a key concern for the Project Company. The recognition and disclosure of finance income in the audited financial statements may well be critical to assessing the underlying economic viability of a PPP project. Applicability of WHT arises depending on the residency status of the beneficial owner of the income and nature of services received by the KSA resident entity.



2. Day one to day last: VAT and RETT shape project economics in PPP Bids

Tax considerations in PPP projects are often determined long before the first tax return is filed. Key VAT and Real Estate Transaction Tax (RETT) implications are frequently embedded in bid-stage negotiations, concession structures, land and usufruct arrangements, EPC contracting strategies, payment mechanisms, refinancing transactions and asset transfer or handback provisions. As a result, contractual terms that appear commercially neutral can significantly influence project cash flows, working capital requirements, bid pricing, financing assumptions and overall investment returns.

Two indirect taxes sit at the centre of many PPP arrangements in the Kingdom. VAT considerations commonly arise in relation to construction, operation and maintenance activities, availability payments, imported goods, financing arrangements and asset transfers, while RETT may become relevant where project structures involve real estate rights, usufruct arrangements or transfers of project assets, including certain BOOT-type models. Under the current RETT framework, transfers of project assets require careful analysis, particularly as RETT is generally assessed based on the fair market value of real estate at the time of the actual transfer, although certain transfers to government entities and public legal persons may qualify for exemption.

Given the scale, duration and complexity of PPP projects, early assessment of these issues is critical to preserving value, improving cash flow certainty and mitigating tax risk. We discussed and provide our views below on a number of the key VAT and RETT issues commonly encountered across the PPP project lifecycle in Saudi Arabia.

The Tax Clock Starts Early: VAT Timing Mismatch

A common assumption in PPP projects is that no Output VAT arises during the construction or development phase because the project has not yet commenced operations and no revenue is being generated. However, from a KSA VAT perspective, the analysis is not always aligned with the project's accounting or commercial phases. Depending on the contractual structure, ZATCA could take the view that the Project Company is already providing construction or development services to the procuring authority during the construction period, even before the asset becomes operational.

This distinction is particularly important where the Project Company is responsible for designing, constructing and delivering the project asset under the PPP arrangement. If the activities performed by the SPV are regarded as a continuous taxable supply of services, VAT may become due during the development period rather than only after commercial operations commence. As a result, the timing of VAT liabilities may be driven by the contractual mechanism rather than the project's revenue profile.

Same Walls, Different Tax: VAT on Accommodation PPPs

For accommodation-heavy PPP projects, the classification of a facility as residential real estate or non-residential accommodation can have a significant VAT impact. Key indicators include the actual use of the property, duration of occupancy, whether it is intended for long-term staff housing or temporary accommodation, and whether accommodation is provided as part of a broader service package.

The classification directly affects input VAT recovery on construction, operation and maintenance costs. Residential leasing may restrict VAT recovery and create long-term VAT leakage, whereas non-residential accommodation may support a more favorable VAT recovery position. Accordingly, accommodation arrangements should be carefully evaluated during the bid, structuring and financial modelling stages, as an incorrect classification can materially affect project cash flows and overall project returns.

Two Borders, One Price Tag: VAT on EPC Contracts, Onshore vs Offshore

EPC contracts typically involve a combination of goods and services and, in many cases, are treated as a single supply of construction services for VAT purposes. Where the EPC contractor is established in Saudi Arabia, VAT at 15% generally applies to the full contract value, regardless of how goods and services are priced within the contract.

Additional complexities arise where the EPC contractor is located outside Saudi Arabia involving importation and supply of goods in KSA. Imported goods and imported services follow different VAT rules, with import VAT generally arising at customs on goods, while services may be subject to VAT under the reverse charge mechanism. As a result, the VAT treatment can be heavily influenced by how the EPC arrangement is structured, priced and documented. Same amount may be taxed twice if appropriate bifurcation between goods and services are not maintained.

Last Mile, RETT Exempt or Exposed?

Determine when does the liability arises and at what value

As a standard, the RETT liability arises at the end of the concession, when the asset gets transferred to the offtaker. However, there may be exceptional circumstances where the RETT liability could crystallize earlier – For example wherein as part of the concession agreement, there is a lease / usufruct agreement exceeding 50 years.

Also, given the RETT is to be paid generally at the end of the concession, modelling the RETT exposure on the terminal value is important – accordingly appropriate future value of the asset should be determined as per applicable valuation principles.

RETT exemption – whether applicable

In a PPP construct, there may be certain RETT reliefs available. It is important to determine and identify whether the relevant conditions for the relief are being fulfilled or not. One of key reliefs is exemption around the transfer of real estate to a government body. The current legislation does not clearly address whether a commercially operated company owned by the Government qualifies as a 'public entity or public legal person. Consequently, exemption eligibility may not always be straightforward and should not be assumed without careful analysis.

Another practical challenge is the concept of "public benefit". The fact that a PPP project delivers public services or public infrastructure does not automatically mean that it qualifies as a project of public benefit for RETT purposes. The status generally needs to be formally established and appropriately documented. As per the Guidelines, the Law of Associations and Non-Profit Organizations defines Public Interest Entities and Projects as those whose purpose is to achieve public benefit, provided this is stipulated in their establishment license. Accordingly, whether a project or entity is treated as for public benefit has to be tested under the applicable laws.



OUR POINT OF VIEW

As Saudi Arabia's Vision 2030 drives unprecedented private sector participation in infrastructure, indirect taxes are increasingly becoming a key determinant of project economics. VAT and RETT should be assessed and reflected in bid pricing from the outset. An unexpected tax cost can materially erode project returns, while failing to account for available reliefs may result in an uncompetitive bid.

Importantly, many indirect tax outcomes are driven not by the tax rate itself, but by transaction structuring, contractual arrangements, the status of the offtaker, and the allocation of risks between stakeholders. These considerations should therefore be addressed well before financial close.

To manage tax risks effectively, we recommend investors and project sponsors:

- Model VAT cash flow impacts and refund timelines as part of project financing.
- Carefully assess the VAT treatment of EPC and operating arrangements.
- Determine the legal and VAT status of the offtaker at an early stage.
- Seek clarity from ZATCA on material tax positions and clearly allocate residual tax risks contractually.

3. Transfer pricing comments

Under the KSA TP Bylaws, the applicability of transfer pricing provisions is contingent upon the existence of a related-party relationship and undertaking transactions with such related party (ies). It is therefore critical to assess whether entities involved in a transaction qualify as "related parties" under the Bylaws, either by virtue of ownership interests or through the ability to exercise effective control over management or decision-making processes.

Following the identification of related parties, the next step is to map and categorize all intercompany transactions that may arise throughout the lifecycle of the project.

Documentation & Compliance

Since SPV would be subject to KSA Transfer Pricing regulations, it would be required to maintain evidence supporting the arm's length nature of related-party transactions and submit the necessary filings. Key compliance requirements include:

- Controlled Transaction Disclosure Form: File with ZATCA along with annual tax/zakat returns.
- Transfer Pricing Affidavit: Certified by an independent licensed SOCPA auditor to confirm that the TP policy has been consistently applied and would be required to be appended along with the CTDF.
- Local File and Master File: If the total value of related party transactions exceeds prescribed threshold of SAR 6 million for mixed/tax paying entities, then it would be required to prepare Local File as per the KSA TP Bylaws.
- Country-by-Country Report: If the consolidated turnover of the Group wherein the financials of SPV is consolidated on a line-by-line basis exceeds SAR 3.2 Billion during the year immediately preceding the current Tax/ Zakat Reporting Year as reflected in its Consolidated Financial Statements for that preceding year, then the SPV would be required to comply with the provisions of filing of country-by-country report / notification on the AEOI portal must submit a CbC Report relevant



A CFO action agenda

If there is one theme running through this publication, it is that the accounting is decided at the negotiating table, not at the reporting date. The payment mechanism, the residual-interest terms, the claims and incentive regime, the financing structure and the hand-back conditions each map directly to an IFRS outcome - the concession model, the revenue profile, capitalized interest, ECL and long-term provisions. The finance leaders who add the most value are in the room before financial close, translating commercial terms into their reporting consequences rather than discovering them later.

The same is true of tax. The contract structure, financing mix and shareholder arrangements agreed before financial close largely determine the Project Company's CIT, Zakat, WHT, VAT, RETT and transfer pricing outcomes. The capital structure and the choice of lenders drive interest deductibility, the Zakat base and withholding tax leakage. The payment mechanism and EPC structure drive VAT timing, refund lag and recoverability. Related-party EPC, O&M, management and shareholder funding arrangements must be priced on arm's-length terms, so that the position holds up on review. Tax advisers who are in the room early can build these consequences into the bid model, and the cost of an unexpected tax charge or leakage is avoided.

- **Get finance into the deal early -** review the payment mechanism, residual-interest and hand-back clauses before they are signed, not after.
- **Fix the IFRIC 12 model at close -** decide financial asset, intangible or bifurcated, document the split, and take the position to the board.
- **Write a day-one accounting position paper** for every material concession, covering scope, model, revenue, borrowing costs, ECL and provisions.
- **Unify the claims and incentives view** across commercial, legal and finance, with one register and one "highly probable" threshold under IFRS 15.
- **Support the ECL** on grantor receivables with a documented, benchmarked methodology - never a default of nil.
- **Model the tax and Pillar Two** consequences early and prepare for IFRS 18's presentation and MPM disclosures.
- **Disclose specifically -** model, split and key estimates, with numbers - to earn the confidence of lenders, investors and auditors.

- **CIT perspective -** the Project Company needs to carefully evaluate the treatment of non-deductible expenses, in particular, limitation on interest deductibility, in determining taxable income and computing the tax liability. Thin capitalisation rules will apply to the non-Saudi/ non-GCC shareholder, which may limit the deductibility of interest for tax purposes, hence could give rise to significant tax exposure.
- **Zakat perspective -** the financial asset should be deductible for Zakat purposes if the arrangement is regarded as BOT or similar type of arrangement.
- **For Zakat optimization,** the Project Company should maintain the minimum share capital allowed under the regulations based on the activities to be performed while ensuring an appropriate debt equity ratio.
- **WHT -** In practice, Banks generally do not accept any deduction of withholding taxes from interest and other financing charges such as arrangement fees. Therefore, bank loans should be obtained from KSA resident banks to the extent possible, followed by banks resident in favorable treaty jurisdictions. Consideration may also be given to appointing a local bank as the lead bank for a syndicate of local and non-Saudi banks to mitigate withholding tax exposure on various payments.
- **VAT -** Plan for VAT as a funding cost. Development-phase VAT can fall due before payment is received, and input VAT refunds can take 2 to 4 months, so the funding plan should allow for the lag. Tax positions should be carefully evaluated so there are no surprises later.
- **RETT –** Correctly determine whether to factor in an exemption or to factor 5% RETT in the pricing upfront. Seek clarity through advisors'/ tax authority if needed.

Done well, IFRS is not a compliance exercise bolted onto a giga-project - it is a lens that makes the economics of a thirty-year commitment transparent to boards, lenders and investors. That transparency is precisely what the Kingdom's deepening capital markets, and Vision 2030's ambition to attract global capital, increasingly reward. Similarly, tax should not be treated as a mere compliance exercise. Tax should be discussed as a matter of priority early in the project lifecycle to mitigate any surprises later on and also if done well can be effective way of value protection/ creation for the stakeholders.

TEAM

Get in touch with

DHRUVA CONSULTANTS
(A RYAN AFFILIATE)

AMR SAMAK
Associate Partner
amr.samak@dhruvaadvisors.com

MANISH BANSAL
Associate Partner
manish.bansal@dhruvaadvisors.com

FARHAN FAROUK
Senior Advisor
farhan.farouk@dhruvaadvisors.com

GOPAL AGARWAL
Director
gopal.agarwal@dhruvaadvisors.com

UNIQUS CONSULTING

DINESH JANGID
Regional Managing Partner
dj@uniqus.com

ZAID KHATRI
Associate Partner ARC
zaidkhatri@uniqus.com

SAAD M. ALKHATHLAN
Managing Partner
saadalkhathlan@uniqus.com

DUBAI
204, Emaar Square,
Building 4, PO Box 127165,
Dubai, UAE
Tel: + 971-4240-8477

ABU DHABI
1905, Addax Tower City of
Lights, Al Reem Island, Abu
Dhabi, UAE
Tel : +971-2678-0054

SAUDI ARABIA
308, 7775 King Fahd Road,
Al Olaya, 2970, Riyadh 12212,
Saudi Arabia

www.dhruvaconsultants.com

Disclaimer:
This information contained herein is in summary form and is therefore intended for general guidance only. This publication is not intended to address the circumstances of any particular individual or entity. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. This publication is not a substitute for detailed research and opinion. Before acting on any matters contained herein, reference should be made to subject matter experts and professional judgment needs to be exercised. Dhruva Consultants will not accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication.