SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

Condensed consolidated interim financial statements (unaudited)
And independent auditors’ report on review of interim financial statements
For the three-month ended 31 March 2017

Index

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS

The Shareholders
Saudi Electricity Company
Saudi Joint Stock Company
Riyadh, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying 31 March 2017 condensed consolidated interim financial statements of Saudi Electricity Company ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprises:

- the condensed consolidated statement of financial position as at 31 March 2017;
- the condensed consolidated statement of profit or loss for the three-month period ended 31 March 2017;
- the condensed consolidated statement of comprehensive income for the three-month period ended 31 March 2017;
- the condensed consolidated statement of changes in equity for the three-month period ended 31 March 2017;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2017; and
- the notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2017 condensed consolidated interim financial statements of Saudi Electricity Company and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

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License No. 348

Date: 10 May 2017
Corresponding to: 14 Shabaan 1438H

Condensed consolidated interim statement of financial position (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

	Note	**31 March 2017**	31 December 2016	1 January 2016
Assets				
Non-current assets				
Property, plant and equipment- net	**13**	**383,966,641**	374,009,392	331,716,685
Investment property	**14**	**535,144**	538,595	538,595
Intangible assets- net		**390,345**	394,311	354,469
Equity accounted investees	**15**	**1,570,338**	1,570,338	1,607,223
Held-to-maturity investments	**16**	**178,893**	228,893	210,273
Available-for-sale financial assets	**17**	**290,952**	290,952	281,595
Total non-current assets		**386,932,313**	377,032,481	334,708,840
Current assets				
Inventories	**18**	**7,224,623**	6,997,552	6,592,834
Receivable from electricity consumers - net		**28,956,576**	28,564,041	20,512,544
Loans and advances		**2,772,349**	3,290,970	4,974,034
Prepayments and other receivables		**4,115,240**	4,203,790	4,038,159
Cash and cash equivalents		**1,790,610**	1,486,163	2,231,078
Total current assets		**44,859,398**	44,542,516	38,348,649
Total assets		**431,791,711**	421,574,997	373,057,489

(All amounts in thousands Saudi Riyals unless otherwise stated)

	Note	**31 March 2017**	31 December 2016	1 January 2016
Equity and liabilities				
Equity				
Share capital	**19**	**41,665,938**	41,665,938	41,665,938
Statutory reserve	**21**	**2,863,305**	2,863,305	2,646,630
General reserve	**21**	**569,506**	569,506	557,898
Other reserves		**(104,513)**	(118,975)	(507,211)
Retained earnings		**25,553,803**	20,618,023	16,836,693
Total equity		**70,548,039**	65,597,797	61,199,948
Non-current liabilities				
Long- term Loans	**22.1**	**47,413,090**	43,385,525	30,622,886
Sukuk	**22.2**	**26,065,350**	26,065,350	34,940,490
Loans from the government	**22.3**	**42,899,794**	42,411,517	39,991,482
Employees' benefits obligation		**6,850,010**	6,633,038	7,069,622
Deferred revenue		**36,304,407**	34,299,945	29,101,853
Deferred government grants	**23**	**46,421,220**	46,667,608	46,035,284
Fair value of derivatives	**24**	**335,670**	360,722	492,729
Assets retirement obligation		**189,006**	187,550	176,126
Total non-current liabilities		**206,478,547**	200,011,255	188,430,472
Current liabilities				
Trade payables		**54,507,628**	54,415,766	41,435,321
Accruals and other payables		**6,982,355**	6,832,303	7,012,457
Provision for other liabilities and charges		**131,806**	132,420	138,771
Short- term Loans	**22.1**	**13,880,622**	13,651,541	3,673,974
Sukuk	**22.2**	**7,000,000**	8,875,140	-
Customer refundable deposits		**1,871,593**	1,845,081	1,743,429
Payable to the government	**25**	**58,099,049**	58,099,049	58,098,794
Advance from customers		**12,245,757**	12,077,255	11,290,327
Fair value of derivatives	**24**	**46,315**	37,390	33,996
Total current liabilities		**154,765,125**	155,965,945	123,427,069
Total liabilities		**361,243,672**	355,977,200	311,857,541
Total equity and liabilities		**431,791,711**	421,574,997	373,057,489

The accompanying notes from 1 through 32 form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of profit or loss (unaudited)
(All amounts in thousands Saudi Riyals unless otherwise stated)

		For the three- month ended 31 March	
	Note	**2017**	2016
Revenue	**9**	**8,920,293**	8,894,702
Cost of sales	**10**	**(9,573,944)**	(9,236,715)
Gross loss		**(653,651)**	(342,013)
General and administrative expenses		**(255,868)**	(219,389)
Other income- net		**304,380**	153,987
Waived municipality levy	**11**	**6,119,547**	-
Human resource productivity improvements program	**12**	**(231,846)**	-
Operating profit/(loss) for the period		**5,282,562**	(407,415)
Finance income		**1,197**	17,698
Finance expense		**(345,845)**	(405,758)
Net finance costs		**(344,648)**	(388,060)
Profit/(loss) for the period before zakat		**4,937,914**	(795,475)
Zakat	**29**	**(2,134)**	(2,830)
Net profit/(loss) for the period		**4,935,780**	(798,305)
Earnings per share			
(expressed in SR per share)			
Basic and diluted earnings per share	**30**	**1.18**	(0.19)

The accompanying notes from 1 through 32 form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of other comprehensive income (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

	For the three- month ended 31 March	
	2017	2016
Net profit/(loss) for the period	**4,935,780**	(798,305)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges – effective portion	**14,462**	(28,158)
Total items that may be reclassified subsequently to profit or loss	**14,462**	(28,158)
Other comprehensive income/(loss) for the period	**14,462**	(28,158)
Total comprehensive income/(loss) for the period	**4,950,242**	(826,463)

The accompanying notes from 1 through 32 form an integral part of these condensed consolidated interim financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of changes in equity (unaudited)
(All amounts in Thousands Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	General reserve	Other reserves			Total other reserves	Retained earnings	Total equity
				Fair value of derivatives	Employees end of service benefits	Change in fair value of available for sale investments			
					31 March 2017				
Balance at 1 January 2017	**41,665,938**	**2,863,305**	**569,506**	**(391,205)**	**253,908**	**18,322**	**(118,975)**	**20,618,023**	**65,597,797**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,935,780**	**4,935,780**
Other comprehensive income	**-**	**-**	**-**	**14,462**	**-**	**-**	**14,462**	**-**	**14,462**
Total comprehensive income	**-**	**-**	**-**	**14,462**	**-**	**-**	**14,462**	**4,935,780**	**4,950,242**
Balance at 31 March 2017	**41,665,938**	**2,863,305**	**569,506**	**(376,743)**	**253,908**	**18,322**	**(104,513)**	**25,553,803**	**70,548,039**
					31 March 2016				
Balance at 1 January 2016	41,665,938	2,646,630	557,898	(516,176)	-	8,965	(507,211)	16,836,693	61,199,948
Net loss for the period	-	-	-	-	-	-	-	(798,305)	(798,305)
Other comprehensive income	-	-	-	(28,158)	-	-	(28,158)	-	(28,158)
Total comprehensive income	-	-	-	(28,158)	-	-	(28,158)	(798,305)	(826,463)
Balance at 31 March 2016	41,665,938	2,646,630	557,898	(544,334)	-	8,965	(535,369)	16,038,388	60,373,485

The accompanying notes from 1through 32 form an integral part of these condensed consolidated interim financial statements.

(All amounts in thousands Saudi Riyals unless otherwise stated)

	Note	For the three- month ended **31 March 2017**	31 March 2016
Cash flow from operating activities			
Profit (Loss) for the period before zakat		**4,937,914**	(795,475)
Adjustments for:			
Depreciation of property, plant and equipment		**3,725,463**	3,233,672
Amortisation of intangible assets		**3,965**	8,019
Amortisation of deferred government grant		**(246,389)**	(145,660)
Net finance cost		**344,647**	388,060
Provision for doubtful debts		**101,445**	69,275
Provision for slow moving inventories		**579**	-
Loss on disposal of property, plant and equipment		**6,038**	4,646
Waived municipality levy		**(6,119,547)**	-
Employees' end of service benefits		**414,850**	202,809
Changes in working capital:			
Inventory		**(227,649)**	(823,469)
Receivable from electricity consumers		**(493,980)**	(1,323,450)
Prepayments and other receivables		**88,548**	(323,264)
Loans and advances		**508,296**	91,650
Trade payables		**6,211,409**	5,635,141
Accruals and other payables		**206,269**	(407,507)
Customer refundable deposits		**26,513**	24,471
Advances from customers		**168,502**	(209,417)
Deferred revenue		**2,004,463**	774,064
Net finance costs paid		**(382,384)**	(219,528)
Zakat paid		**(139)**	(4,233)
Employees' end of services benefits paid		**(197,878)**	(93,931)
Net cash generated from operating activities		**11,080,935**	6,085,873
Cash flow from investing activities			
Payments for the acquisition of property, plant and equipment		**(13,685,298)**	(14,046,258)
Payments for the acquisition of investment in associated companies		**-**	(22,500)
Proceeds from sale of assets and properties		**-**	950
Intangible assets		**-**	(936)
Proceeds from held to maturity investments		**50,000**	-
Loans to associated companies		**10,325**	-
Net cash used in investing activities		**(13,624,973)**	(14,068,744)
Cash flow from financing activities			
Proceeds from borrowings		**4,945,830**	8,031,848
Repayment of borrowings and sukuk		**(2,076,046)**	(200,894)
Dividends paid		**(21,299)**	(1,341)
Net cash generated from financing activities		**2,848,485**	7,829,613
Net increase (decrease) in cash and cash equivalents		**304,447**	(153,258)
Cash and cash equivalents at the beginning of the period		**1,486,163**	2,231,078
Cash and cash equivalents at end of the period		**1,790,610**	2,077,820

The accompanying notes from 1 through 32 form an integral part of these condensed consolidated interim financial statements.

1 Reporting entity

The Saudi Electricity Company (the "Holding Company" or ''SEC'') was formed pursuant to the Council of Ministers' Resolution Number 169 dated 11 Sha'ban 1419H corresponding to 29 November 1998, which reorganised the Electricity Sector in the Kingdom of Saudi Arabia by merging all local companies that provided electricity services (10 joint stock companies that covered most of the geographical areas of the Kingdom), in addition to the projects of the General Electricity Corporation, a government corporation belonging to the Ministry of Industry and Electricity (11 operating projects that covered various areas in north of the Kingdom) into the Holding Company.

The Holding Company was founded pursuant to the Royal Decree No. M/16 dated 6 Ramadan 1420H corresponding to 13 December 1999, in accordance with the Council of Ministers' Resolution Number 153, dated 5 Ramadan 1420H corresponding to 12 December 1999 and the Minister of Commerce's Resolution Number 2047 dated 30 Dhul-Hijjah 1420H corresponding to 5 April 2000 as a Saudi joint stock company and registered in Riyadh under Commercial Registration Number 1010158683, dated 28 Muhurram1421H corresponding to 3 May 2000.

The Holding Company's principal activities are generation, transmission and distribution of electric power. The Company is the major provider of electric power all over the Kingdom of Saudi Arabia, serving governmental, industrial, agricultural, commercial and residential consumers.

The Holding Company is a tariff-regulated company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Electricity and Co-generation Regulatory Authority (the "Authority") which was established on 13 November 2001 according to Council of Ministers' Resolution No. 169 dated 11 Sha'aban 1419H. The change on tariff was made through the Council of Ministers' Resolution Number 170 dated 12 Rajab 1421H and was effective from 1 Sha'aban 1421H corresponding to 28 October 2000 whereby the tariff on the highest bracket was set at a rate of 26 Halala per Kilowatts/hour.

This was further amended by the Council of Ministers in its Decision Number 333 dated 16 Shawwal 1430H, corresponding to 5 October 2009, which granted the Board of Directors of the Electricity and Co-generation Regulatory Authority the right to review and adjust the non-residential (commercial, industrial and governmental) electricity tariff and approve them as long as the change does not exceed 26 Halala for each kilowatt per hour, taking into consideration, among other matters, the electrical consumption at peak times. This tariff was implemented starting 19 Rajab 1431H, corresponding to 1 July 2010.

On 17 Rabi Awal 1437H corresponding to 28 December 2015, Council of Ministers issued its resolution number 95, increasing prices of power related products effective from 18 Rabi Awal 1437H corresponding to 29 December 2015, and increasing electricity consumption tariff for all consumers, starting from 1 Rabi Thani 1437H corresponding to 11 January 2016.

According to the Holding Company's bylaws, the financial year begins on 1st January and ends on 31st December of each Gregorian year.

The address of its registered headquarter is located in Riyadh, Kingdom of Saudi Arabia.

2 Basis of preparation

2.1 First-time adoption of IFRS

For all periods up to and including the year ended 31 December 2016, Saudi Electricity Company and its subsidiaries together referred to as "Group" prepared its condensed consolidated interim financial statements in accordance with the accounting standards promulgated by the Saudi Organisation for Certified Public Accountants (SOCPA).

These financial statements do not include all the information needed for the annual financial statements and should be read along with the annual consolidated financial statements prepared at the end of the each year in accordance with the International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia ("IFRS") and the other publications issued by the Saudi Organisation for Certified Public Accountants (SOCPA). Note 5 gives details on the first time adoption of IFRS by the Group.

2 Basis of preparation (continued)

2.2 Statement of compliance

These condensed consolidated interim financial statements for the three-month period ended 31 March 2017 have been prepared in accordance with IAS 34, "Interim Financial Reporting". These condensed consolidated interim financial statements do not include all of the information needed for full annual financial statements.

2.3 Measurement basis

These condensed consolidated interim financial statements have been prepared under the historical cost basis, except for the available-for-sale assets, financial assets and financial liabilities (including derivative instruments) which are measured at fair value.

The condensed consolidated interim financial information is presented in Saudi Riyals ("SR"), which is also the Holding company's functional and presentation currency.

The Group's Board of Directors has authorised these condensed consolidated interim financial statements for issuance on 9 May 2017.

2.4 Changes in accounting policies and disclosures

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's condensed consolidated interim financial statements are disclosed below.

The Group intends to adopt these standards, if applicable, when they become effective.

Standards issued but not yet applied
IFRS 9: Financial Instruments

IFRS 9, "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Group elected not to early adopt IFRS 9.

The Group's financial assets would appear to satisfy the conditions for classification as either amortised cost or fair value through other comprehensive income (FVOCI) or fair value through statement of profit or loss and hence there will be no significant change to the accounting for those assets.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities except for the derivatives. The derecognition rules remain consistent with the requirements of IAS 39 Financial Instruments Recognition and Measurement and have not been changed.

Under the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

2 Basis of preparation (continued)

2.4 Changes in accounting policies and disclosures (continued)

IFRS 15: Revenue from Contracts with Customers

The International Accounting Standards Board (IASB) has issued a new standard for the recognition of revenue IFRS 15 Revenue from contracts with customers". This will replace IAS 18 Revenue which covers revenue arising from the sale of goods and the rendering of services and IAS 11 Construction Contracts which covers revenue from construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and allows early adoption. The Group elected not to early adopt IFRS 15.

IFRS 16: Leases

The IASB has issued a new standard for the recognition of leases IFRS 16,"Leases". This standard will replace:
- IAS 17 Leases
- IFRIC 4 Whether an arrangement contains a lease
- SIC 15 Operating leases – Incentives
- SIC-27 Evaluating the substance of transactions involving the legal form of a lease

Under IAS 17, lessees were required to make a distinction between a finance lease (on statement of financial position) and an operating lease (off statement of financial position). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption of certain short-term leases and leases of low-value assets.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The mandatory date for adoption for the standard is 1 January 2019, and allows early adoption. The Group elected not to early adopt IFRS 16.

The Group is currently assessing the impact of the application of the standards and the amendments mentioned above.

3 Critical accounting estimates and judgements

The preparation of the Group's condensed consolidated interim financial statements in accordance with "IAS 34" requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, costs, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date.

Estimates and judgements 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.

Revisions to accounting estimates are recognised in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

3.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial-year are addressed below.

3 Critical accounting estimates and judgements (continued)

3.1 Critical accounting estimates and assumptions (continued)

Impairment of non-financial assets

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the condensed interim consolidated statement of profit or loss.

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

Provisions

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

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

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

Useful lives of property, plant and equipment

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

Assumptions for employees' benefits obligation

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

Assets retirement obligation (ARO)

Significant estimates and assumptions are made in determining the provision for ARO as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the reporting date represents management's best estimate of the present value of the future costs.

3 Critical accounting estimates and judgements (continued)

3.1 Critical accounting estimates and assumptions (continued)

Zakat

The Holding Company and its subsidiaries are subject to the legislation of the General Authority of Zakat and Tax ("GAZT"). Accrual of Zakat is recognised in the condensed interim consolidated statement of profit or loss. Additional Zakat liabilities, if any, related to prior years' assessments arising from the GAZT are accounted for in the period in which the final assessment are finalized.

Assumptions for fair value financial derivatives

The Group uses the most observable market inputs when measuring the fair value of an asset or a liability. Fair values are classified in a fair value hierarchy based on the inputs used in the valuation which are shown as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be obtained at the measurement date.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

3.2 Critical accounting judgements in applying the Group's accounting policies

Joint arrangements - Independent Power Producers ('IPPs') and Independent Water and Power Project ('IWPP')

Based on the Group's control assessment, investments held in four different IPPs and IWPP are classified as joint operations. Based on management's judgement, the contractual arrangement establishes that the parties to the joint arrangement share their interests in the assets and liabilities relating to the arrangement.

Therefore, the Group recognises in relation to their interest in the above mentioned joint operations:
- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

Determining whether an arrangement contains a lease

(i). Independent Power Producers ("IPPs")

The Group has, over a period of time, established a number of Independent Power Project (IPP) arrangements in order to develop, construct, own, operate and maintain electricity generation plants all over the Kingdom. A key input to these power plants is the fuel used in the turbines for the production of electricity, this is provided to SEC at a subsidised rate that has been agreed between the Group and Saudi Aramco (sole supplier of fuel in KSA) and is supplied to the power plant free of charge under IPP arrangement.

Standard agreements are in place to govern Independent Power Project ("IPP"). Under the terms of the arrangements, IPPs will build and operate a power plant to generate electricity using fuel supplied by the Group. The Group will offtake all of the plant's generated power.

Analysing the substance of the current terms of the arrangements, management considers these do not meet finance lease requirement according to IAS 17 and should be classified as operating leases.

(All amounts in thousands Saudi Riyals unless otherwise stated)

3 Critical accounting estimates and judgements (continued)

3.2 Critical accounting judgements in applying the Group's accounting policies (continued)

Joint arrangements - Independent Power Producers ('IPPs') and Independent Water and Power Project ('IWPP') (continued)

Determining whether an arrangement contains a lease (continued)

(ii). Other items of property, plant and equipment

The Group has established a number of short-term lease arrangements for the lease of different types of motor vehicles and computers in order to support its day to day operations. It is highly improbable for the Group to renew the rental lease agreements for a period more than the initial 3-year agreement period.

Management considers the Group is not exposed to a majority of the risks and rewards of ownership of the leased asset. Accordingly, in consideration of the facts and evidence, it is deemed appropriate to classify the motor vehicle and computers arrangement as an operating lease in accordance with the requirements of IAS 17.

4 Summary of significant accounting policies

4.1 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

These condensed consolidated interim financial statements are prepared for Saudi Electricity Company and its subsidiaries (collectively referred to as "the Group"). Details of subsidiaries are as follows:

	Country of incorporation and place of business	**Proportion of ordinary shares held by parent (%)**
National Grid S.A. Company	Kingdom of Saudi Arabia	100
Dawiyat Telecom Company	Kingdom of Saudi Arabia	100
Electricity Sukuk Company	Kingdom of Saudi Arabia	100
Saudi Electricity for Projects Development Co.	Kingdom of Saudi Arabia	100
Saudi Electricity Global Sukuk Company	Cayman Islands	100
Saudi Electricity Global Sukuk Company – 2	Cayman Islands	100
Saudi Electricity Global Sukuk Company – 3	Cayman Islands	100

4. Summary of significant accounting policies (continued)

4.1 Consolidation (continued)

There were no changes in the percentage of ordinary shares held by the Holding Company as at 1 January 2016, 31 December 2016 and 31 March 2017.

These condensed consolidated interim financial statements contain the assets, liabilities and operating results of the subsidiaries referred to in this note in the table show above. The proportion of the voting rights in the subsidiary undertakings held directly by the Holding Company do not differ from the proportion of ordinary shares held. The fiscal year of the subsidiaries starts from the beginning of January and ends by the end of December of each Gregorian year.

(1) The National Grid S.A. ("NGS") is a limited liability company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration numbered 1010306123 dated 29 Rabi Thani 1432H, (corresponding to 3 April 2011). NGS is wholly owned by Saudi Electricity Company (the Holding Company). NGS is engaged in electricity transmission activities including operating, controlling and maintenance of the electricity transmission system and leasing of transmission line capacity. NGS provides services to one customer (the Holding Company).

NGS was formed as a part of the Holding Company's plan to split its main activities into separate companies pursuant to the board of directors resolution no. 1/81/2008 dated 25 Dhul Hijjah 1429H corresponding to 23 December 2008 and resolution no. 1/86/2009 dated 7 Jumada Al Awal 1430H corresponding to 3 May 2009. Accordingly, the Holding Company's board of directors agreed on 1 January 2012 to transfer all of the Holding Company transmission activity's assets and liabilities to NGS at their net book value as of 1 January 2012.

(2) Dawiyat Telecom Company ("DTC") is a limited liability company established in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010277672 dated 25 Dhul-Hijjah 1430H (corresponding to 12 December 2009), in accordance with the Company's articles of association dated 23 Jumad Thani 1430H (corresponding to 16 June 2009), and is wholly owned by Saudi Electricity Company (the Holding Company).

On 25 Rajab 1437H (corresponding to 2 May 2016), DTC obtained license no. 37-20-001 to provide type (B) services from the Telecommunication and Information Technology Authority. The license period is for 10 years that ends on 24/7/1447H

DTC's main activity is the construction, leasing, managing and operating of electric and fibre optics networks to provide telecommunication services.

(3) Electricity Sukuk Company ("ESC") is a limited liability company established in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010233775 dated 16 Jumad Awal 1428H (corresponding to 2 June 2007), ESC is wholly owned by Saudi Electricity Company (the Holding Company).

The principal activity of ESC is to provide support services required with respect to sukuks issued by the Holding Company, its subsidiaries and other related companies, after obtaining the required approval from relevant authorities.

ESC was incorporated to act as a trustee of special assets (Sukuk assets) according to the agreements of transferring the sukuk assets between ESC (as a trustee or custodian), the Holding Company (as issuer) and SABB for financial instruments (as agent for the sukuk holders).

(4) Saudi Electricity Global Sukuk Company was established in the Cayman Islands as a limited liability company. The company was established to provide the necessary services and support for the issuance of international bonds and SUKUK.

(5) Saudi Electricity Global Sukuk Company - 2 was established in the Cayman Islands as a limited liability company. The company was established to provide the necessary services and support for the issuance of international bonds and SUKUK.

(6) Saudi Electricity Global Sukuk Company - 3 was established in the Cayman Islands as a limited liability company. The company was established to provide the necessary services and support for the issuance of international bonds and SUKUK.

(All amounts in thousands Saudi Riyals unless otherwise stated)

4 Summary of significant accounting policies (continued)

4.1 Consolidation (continued)

(7) Saudi Electricity for Projects Development Company was established in the Kingdom of Saudi Arabia as a limited liability company. The company's activity is to manage construction projects, develop detailed designs, purchase materials, and execute projects in the energy sector.

Joint-arrangements

The Group assesses contractual arrangements to determine whether the Group is a party to a joint arrangement, i.e. where two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. If one party can control the arrangement, the arrangement is not a joint arrangement. It is the existence of the contractual agreement that establishes joint control between two or more parties within the arrangement. Without such an agreement, a joint arrangement cannot be distinguished from a subsidiary or an associate.

The Group categorises its joint arrangements as joint operations or joint ventures.

A joint operation is a joint arrangement where the contractual agreement provides rights to assets and obligations for liabilities for those parties sharing joint control. Parties who share joint control over a joint operation are joint operators.

If the Group is a joint operator as a party to a joint operation, it recognises its share of assets, liabilities, revenue and expenses in relation to its involvement in the joint operation.

Joint operations	Country of incorporation and place of business	Proportion of ordinary shares held by parent (%)
A- Independent Power Producers 'IPPs'		
Hajr for Electricity Production Company	Kingdom of Saudi Arabia	50
Rabigh Electricity Company	Kingdom of Saudi Arabia	20
Dhuruma Electricity Company	Kingdom of Saudi Arabia	50
Al Mourjan for Electricity Production Co.	Kingdom of Saudi Arabia	50
B- Independent Water and Power Projects ('IWPPs')		
Water and Electricity Company	Kingdom of Saudi Arabia	50

There were no changes in the percentage of ordinary shares held by the parent as at 1 January 2016, 31 December 2016 and 31 March 2017.

(1) Hajr for Electricity Production Company was established pursuant to the Board of Directors' Resolution No. 4/95/2010 dated 12 Ramadan 1431H corresponding to 22 August 2010, with a share capital of SR 2 million. During 2011, a new partner was admitted and the capital was increased by SR 8 million to become SR 10 million, fully paid. The Group 's share became 50% of total shareholder's equity, furthermore during 2015, the Group contributed in the capital increase of Hajr for Electricity Production Company –according to its ownership percentage- by an amount of SR 1,248 million which was transferred from loan extended previously. The Group's share in Hajr for Electricity Production Company capital became SR 1,253 million.

(2) Pursuant to the Board of Directors' Resolution No. 06/76/2008 dated 26 Jumad Awal 1429H corresponding to 3 June 2008, the Group established Rabigh Electricity Company with a share capital of SR 2 million. During 2009, Rabigh Electricity Company increased its capital from SR 2 million to SR 10 million by admission of new shareholders and the Group's share became 20% of the partners' shareholding.

During 2013, the Group contributed in the capital increase of Rabigh Electricity Company –according to a signed shareholders' agreement- by an amount of SR 183 million which was transferred from loan extended previously. The Group's share in Rabigh Electricity Company capital became SR 185 million.

(All amounts in thousands Saudi Riyals unless otherwise stated)

4 Summary of significant accounting policies (continued)

4.1 Consolidation (continued)

(3) Pursuant to the Board of Directors' Resolution No. 4/88/2009 dated 18 Ramadan 1430H corresponding to 8 September 2009, the Group established Dhuruma Electricity Company (a closed joint stock company) with a share capital of SR 2 million. During 2011, a new shareholders has been admitted and the capital has been increased by SR 2 million to become SR 4 million. The Group's share represents 50% of the investee's share capital.

(4) Pursuant to the Board of Directors' Resolution No. 4/107/2012 dated 27 Rabi Awal 1433H corresponding to 19 February 2012, the Group established Al Mourjan for Electricity Production Company (a closed joint stock company) with a share capital of SR 2 million. During 2013, a new shareholders was admitted and the capital was increased to SR 10 million. The Group's share represents 50% of the investee's share capital.

(5) The Group entered into a partnership agreement with Saline Water Conversion Corporation to establish a limited liability company in the name of "Water and Electricity Company" pursuant to the Supreme Economic Council's Decision No. 5/23 dated 23 Rabi Awal 1423H which encourages the participation of the private sector in the water desalination project. The Group's share at inception amounting to SR 15 million was paid in full and consists of 300,000 share representing 50% of the investee's share capital.

Equity accounted investees

Companies in which the Group has the ability to exercise significant influence over operating and financial policies and jointly controlled entities (joint operation) are recorded in the condensed consolidated interim financial statements using the equity method of accounting.

Significant influence is the power to participate in the investee's financial and operating policy decisions, but is not control or joint control over those policies.

		Proportion of ordinary shares held by the Company (%)		
Investment	**Country of incorporation and place of business**	**31 March 2017**	31 December 2016	1 January 2016
Gulf Cooperation Council Interconnection Authority	Kingdom of Saudi Arabia	**31.6**	31.6	31.6
Laboratory Company to Inspect Electrical Equipment	Kingdom of Saudi Arabia	**25**	25	-
Al Fadhly Co-Generation Company	Kingdom of Saudi Arabia	**30**	30	-

When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carring amount is reduced to nil and recognition of further losses is continued when the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

4.2 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each respective entity operates (the "functional currency"). The condensed consolidated interim financial statements are presented in Saudi Riyals ("SR"), which is the Company's functional and presentation currency.

(ii) Foreign currencies transactions

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the Group's condensed consolidated interim statement of profit or loss.

(All amounts in thousands Saudi Riyals unless otherwise stated)

4 Summary of significant accounting policies (continued)

4.2 Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

(iii) Foreign operations and translation differences

At the date of preparation of the statement of financial position, these subsidiaries' assets and liabilities are translated to Saudi riyals, which is the Group's functional and presentation currency, on the basis of the conversion rates prevailing at the date of the condensed consolidated interim statement of financial position. The condensed consolidated interim statement of profit or loss is translated on the basis of the weighted average conversion rate for the year. Equity elements, except for retained earnings, are translated on the basis of the conversion prices prevailing at the date of origination of each element. The adjustments on the translation of currencies related to these equity elements are recorded as a separate line item in equity.

4.3 Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Cost includes all amounts necessary to bring the asset to the present condition and location to be ready for its intended use by management. Such costs includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects (qualifying assets), if the recognition criteria are met, and costs incurred during the commissioning period, net of proceeds from sale of trial production.

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item, and where such parts/ components have a useful life different from the other parts and required to be replaced at different intervals, the Group shall recognise such parts as individual components of the asset with specific useful lives and depreciate them accordingly.

Likewise, when a major overhaul (planned or unplanned) is performed, its directly attributable cost is recognised in the carrying amount of property, plant and equipment if the recognition criteria are satisfied. The useful life of a major overhaul is generally equal to the period up to the next scheduled overhaul. The carrying amount of the replaced part is derecognised. If the next major overhaul occurs prior to the planned date, any existing net book value of the previous major overhaul is expensed immediately. All other repair and maintenance costs are recognised in the statement of condensed consolidated interim profit or loss as incurred.

Depreciation is calculated from the date the item of property, plant and equipment is available for their intended use or in respect of self-constructed assets from the date such assets are completed and ready for the intended use. Land and assets under construction, which are not ready for their intended use, are not depreciated.

Depreciation on assets is calculated on a straight-line basis over the useful life of the asset as follows:

Buildings	10 - 40	years
Machinery and equipment	5 - 30	years
Transmission and distribution networks	5 - 40	years
Capital spare parts	10 – 25	years
Vehicles and heavy equipment	5 – 15	years
Others	5 - 25	years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each reporting date.

An item of property, plant and equipment and any significant component initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of retired, sold or otherwise derecognised property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset, and are recognised within ''Other gains / (losses) – net'' in the statement of profit or loss.

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.

4 Summary of significant accounting policies (continued)

4.4 Investment properties

Investment property is land held for purposes other than for use in Group's operating activities. The Group holds investment properties as excess administrative property, which are held for rental income and/or capital appreciation purposes. Investment properties are measured in accordance with the cost model, and as these properties are land they are not depreciated.

Investment properties are derecognised when either they have been disposed of or when the investment property when it owner occupied or not held for capital appreciation.

Expenditure incurred to replace a component of an item of investment properties that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of investment properties. All other expenditure is recognised in the statement of profit or loss as the expense is incurred.

4.5 Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation 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 amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Amortisation of intangible assets is calculated on a straight-line basis over the useful life of the asset as follows:

Software	10	years
Right-of-use pipeline	20	years

The useful life of an intangible asset with a definite life is reviewed at each reporting date to determine whether there is any indication that its current life assessment continues to be supportable. If not, the change in the useful life assessment is made on a prospective basis.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired either individually or at the aggregated cash generating unit level.

Gains or losses arising from derecognising an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the condensed consolidated interim statement of profit or loss when the asset is derecognised.

4.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are instead tested annually for impairment. Assets subject to amortisation/depreciation are reviewed for impairment whenever events or change in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

4 Summary of significant accounting policies (continued)

4.6 Impairment of non-financial assets (continued)

The recoverable amount is the highest of an asset's fair value less cost of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash generating unit, "CGU").

Non-financial assets other than goodwill that have been fully or partially impaired are reviewed for possible reversal of all or part of the impairment loss at the end of each reporting period.

4.7 Financial assets

4.7.1 Classification

The Group classifies its financial assets in the following categories:
- financial assets at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets; and
- held-to-maturity investments.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current assets.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'receivable from electricity consumers', 'loans and advances', 'prepayments and other receivables' and 'cash and cash equivalents' in the statement of financial position.

(c) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. This asset class includes the Sukuk held by the Group.

(d) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

4.7.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income (if any) are reclassified to the statement of condensed consolidated interim profit or loss as gains and losses from investment securities.

4 Summary of significant accounting policies (continued)

4.7 Financial assets (continued)

4.7.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs in the case of a financial asset not at fair value through profit or loss. Transaction costs are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the condensed consolidated interim statement of profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for ‘financial assets at fair value through profit or loss - in the statement of profit or loss within other income or other expenses;
- for available-for-sale financial assets which are monetary securities in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments, are recognised in the statement of profit or loss as part of other income.

Details on how the fair value of financial instruments is determined are disclosed in note 6.2.

4.7.4 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired, and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of profit or loss – is removed from equity and recognised in the interim statement of profit or loss.

For loans and receivables and held-to-maturity, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the condensed interim consolidated statement of profit or loss.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the condensed interim consolidated statement of profit or loss.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the condensed interim consolidated statement of profit or loss.

4 Summary of significant accounting policies (continued)

4.8 Inventories

Inventories include stores and spares for generation, transmission and distribution business, fuel inventory and other materials.

Inventories are initially measured at cost which comprises costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The Group uses the weighted average cost method to value its inventories. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period.

Subsequent to initial recognition, inventories are to be measured at the lower of cost and net realisable value.

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

4.9 Electricity receivables

Electricity receivables are amounts due from customers. Electricity receivables are recognised initially at their original invoiced value except where the time value of money is material, in which case receivables are recognised at fair value and subsequently measured at amortised cost.

4.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances, time deposits, and highly liquid investments with original maturities of three-month or less (if applicable) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

4.11 Statutory reserve

In accordance with the Regulations for Companies and the Company’s bylaws, 10% of net income for the year is transferred to the statutory reserve. The Company’s General Assembly may discontinue such transfer when the reserve equals 30% of the share capital. This reserve is not available for distribution.

4.12 Financial liabilities

Borrowings, sukuks and loans from the government (note 22) are recognised initially at fair value, net of transaction costs incurred.

They are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

The transaction costs directly attributable to the issuance of debt are deducted in arriving at the initial carrying amount, unless the liability is to be measured subsequently at fair value through the statement of profit or loss. The transaction costs that are deducted from initial carrying amount are then subsequently amortised through the statement of profit or loss over the term of the debt using the effective interest method.

Transaction costs that can be deducted from the initial carrying amount are costs which are incrementally incurred as a result of raising the finance (i.e. legal fees, commission, etc.). The charge to the statement of profit or loss is recognised as part of interest expense for the period.

After initial recognition, the Group measures financial liabilities (other than financial liabilities which are measured at fair value through profit or loss) at amortised cost. Amortised cost is the amount at which the debt was measured at initial recognition minus repayments, plus interest calculated using the effective interest method. The adjustments are calculated using the effective interest method. The difference between the proceeds (net of transaction cost) and the redemption value is recognised in the statement of profit or loss over the period of the loan or borrowing.

4 Summary of significant accounting policies (continued)

4.12 Financial liabilities (continued)

Borrowings, sukuks and loans from the government is derecognised when the obligation under the liability is discharged or cancelled, or expires. When 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 the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the condensed interim consolidated statement of profit or loss.

4.13 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

All other borrowing costs are recognised in the condensed interim consolidated statement of profit or loss in the period in which they are incurred.

4.14 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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

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

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss within ‘Other gains / (losses)’.

Amounts accumulated in equity are reclassified to statement of profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the statement of profit or loss within ‘Finance income/cost’.

4 Summary of significant accounting policies (continued)

4.14 Derivative financial instruments and hedging activities (continued)

Cash flow hedge (continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss within 'Other gains / (losses)'.

4.15 Employees' benefits

4.15.1 Short-term obligations

Short-term benefits are those amounts expected to be settled wholly within 12 months of the end of the period in which the employees render the service that gives rise to the benefits.

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves and benefits-in-kind that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employees' benefit obligations under "other payables" in the condensed interim consolidated statement of financial position.

4.15.2 Post-employment obligation

The Group provides end of service benefits to its employees in accordance with the requirements of articles 87 and 88 of the Labour and Workmen Law (1969) issued by the Ministry of Labour of the Kingdom of Saudi Arabia. The entitlement to these benefits, is based upon the employees' basic salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are recognised over the service period.

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

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality United States government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Past-service costs are recognised immediately in the condensed interim consolidated statement of profit or loss.

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

4.16 Assets retirement obligation

The Group records the present value of estimated costs of legal decommissioning obligations required to restore the site to its original condition in the period in which the obligation is incurred. The nature of these activities includes dismantling and removing structures, dismantling operating facilities, closure of plant and waste sites, restoration, reclamation and re-vegetation of affected areas.

4 Summary of significant accounting policies (continued)

4.16 Assets retirement obligation (continued)

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related property, plant and equipment to the extent that it was incurred as a result of the development / construction of the asset.

Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the condensed interim consolidated statement of profit or loss as part of financial charges.

4.17 Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. In the particular case of SEC, the Company is tariff-regulated. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Government grants, including non-monetary grants at fair value, shall be recognised provided that there is a reasonable assurance that:

- the Group will comply with the conditions attaching to them; and
- the grants will be received.

Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

The manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government.

Grants received against specific expenses are recognised in the statement of income in the same period in which its relevant expenses are recognised. The Group assesses the relationship between the grant and the relevant expenses upon recognition.

A provision of the estimated-results obligations is provided if it seems probable to pay the grant that was recognised previously.

Government grants related to depreciable assets are recognised in the statement of income over the periods and on the basis of the percentages used to recognise the depreciation expenses of the underlying assets.

Government grants related to non-depreciable assets which require the attainment of certain obligations are recognised in the statement of income over the periods where the cost of achievement of obligations are incurred. For example, a land granted may have the condition of constructing a building over the site and it may be reasonable to recognise the grant in the statement of income over the life of the building.

However, non-depreciable assets that are unconditional of the attainment of some obligations are recognised in the statement of income at their nominal values in the same period.

The accounting treatment of below-market interest rate loans are recognised as follows: the difference between the nominal value of the loan and its fair value is recognised within non-current liabilities in the statement of financial position as a deferred government grant.

4.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

4 Summary of significant accounting policies (continued)

4.18 Provisions (continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-zakat rate that reflects current market assessments of the time value of money and the risks specific to liability. The increase in the provision due to the passage of time is recognised as interest expense.

4.19 Deferred revenue

Deferred revenue relates to electricity service connection tariffs received from consumers which are deferred and recognised on a straight-line basis over the average useful lives of the equipment used in serving the consumers, estimated between 20 to 30 years.

4.20 Trade payables and government payables

Trade payables and government payables represent liabilities for goods and services provided to the Group prior to the end of the period which are not settled yet.

Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

4.21 Zakat and income tax

The Company and its subsidiaries are subject to Zakat according to the regulations of the General Authority for Zakat and Income in the Kingdom of Saudi Arabia ("GAZT"). Zakat is recognized in the condensed interim consolidated statement of profit or loss. Additional Zakat liabilities, if any, related to prior years' assessments arising from the GAZT are accounted for in the period in which the final assessment are finalized.

4.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable by the Group. The Group recognises revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the Group.

The Group is a rate regulated entity therefore the amount of revenue arising on a transaction is pre-determined and fixed by Electricity and Co-generation Regulatory Authority ('ECRA') for the period.

Types of revenue relate to the group are detailed as follows:

4.22.1 Revenue from electricity sales

Revenue from electricity sales is recognised based on the consumption of electric power measured by Kilowatt/hour. Revenue on power consumed by consumers but not yet billed until the date of the interim consolidated statement of financial position is accrued.

4.22.2 Revenue from meter reading, maintenance and bills preparation tariff

Revenue from meter reading, maintenance and bills preparation tariff represents the monthly fixed tariff based on the capacity of the meter used by the consumers, and is recognised over the period the service is provided. Revenue from meter reading, maintenance and bills preparation tariff that is not billed until the date of the interim consolidated statement of financial position is accrued.

4.22.3 Revenue from electricity connection tariff

Electricity service connection tariff received from consumers is deferred and recognised on a straight-line basis over the average useful lives of the equipment used in serving the subscribers.

4 Summary of significant accounting policies (continued)

4.22 Revenue recognition (continued)

4.22.4 Revenue of transmission system

Revenue from transmission system comprises of fees for use of transmission networks, and is recognised when bills are issued to licensed co-generation and power providers. Revenue is measured based on the fees approved by Electricity and Co-generation Regulatory Authority according to capacity and quantities of power transmitted.

4.23 Dividend income

Dividend income is recognised when the right to receive the payment is established.

4.24 Leases

Leases of assets or properties where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the condensed interim consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets and properties acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to condensed interim consolidated statement of profit or loss on a straight-line basis over the period of the lease.

4.25 Dividends

Dividend distribution to the Holding Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Holding Company's shareholders.

4.26 Segment reporting

An operating segment is one of the Group components which carries out operating activities through which it can earn revenues or incur expenses (including revenues and expenses related to transactions with other components of the same Group), where its operating results are regularly reviewed by the entity's operating decision maker regarding the resources that will be allocated to the segment and to evaluate its performance and which have separate financial information available.

An operating segment may carry out activities from which it has not earned revenues yet. For example, pre-operating transactions can be considered as operating segments before they earn revenues.

4.27 Offsetting of financial instruments

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

5 First time adoption of IFRS

As stated in note 2, for all periods up to and including the year ended 31 December 2016, the Group was required to prepare its condensed interim consolidated financial statements in accordance with the generally accepted accounting standards promulgated by the SOCPA.

From the period beginning 1 January 2017, the Group is required to prepare its first set of condensed interim consolidated financial statements in accordance with the requirements of IFRS as adopted by SOCPA in the KSA.

In order to prepare its first set of IFRS, as endorsed by SOCPA, financial statements for the year ending 31 December 2017, management has prepared an opening IFRS, as endorsed by SOCPA, compliant statement of financial position as at 1 January 2016, the Group's date of transition to IFRS.

This note explains the material adjustments made by the Group to SOCPA reported financial position, financial performance, equity and cash flows to comply with the requirements of IFRS; and the exemption applied in adopting IFRS as allowed under IFRS 1 "First time adoption of International Financial Reporting Standards".

5.1 Exemption applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemption:

(i) Deemed cost – IFRS 1 provides an optional exemption for a rate regulated entity to use the carrying amount of property, plant and equipment ("PPE") and intangible assets at the date of transition as deemed cost on the date of transition when the carrying amount includes costs that do not qualify for capitalisation in accordance with IFRS. This exemption is only available to items of PPE and intangible assets that are only used in rate regulated operations as defined by IFRS 1. The Group has taken this exemption, and has used the carrying amount of the PPE and intangible assets under the previous GAAP as deemed cost on transition date.

In applying this exemption at the date of transition to IFRS, the Group shall test for impairment the assets for which the exemption has been used. The assets were tested for impairment at the date of transition and it was determined that no assets were impaired.

Additionally, the Group has applied the following exception:

Loans from the government: - first time adopter shall classify all loans from the government as a financial liability or an equity instrument in accordance with IAS 32 "Financial Instruments: - presentation and disclosure" and shall apply the requirements of IFRS 9 "Financial Instruments" and IAS 20 "Accounting for government grants and disclosure of government assistance" prospectively on loans from the government existing at the date of transition to IFRS and may not recognise the benefit of the below market rate loan as a government loan.

Consequently, considering that the Group did not, under its previous GAAP, recognise and measure government merger loan at a below-market rate of interest on a basis consistent with IFRS requirements, it uses its previous GAAP carrying amount of the said loans at the date of transition to IFRS as the carrying amount of the loan in the opening IFRS statement of financial position. The Group shall apply the requirements of IFRS 9 to the merger loan after the date of transition to IFRS. The Holding Company will start the implementation of IFRS 9 from the beginning of its effective date.

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.2 Reconciliation of SOCPA to IFRS condensed consolidated interim statement of financial position as at 1 January 2016 (date of transition to IFRS)

	Note	31 December 2015 SOCPA	Effects of transition to IFRS	1 January 2016 IFRS
Assets				
Non-current assets				
Property, plant and equipment	5.3.1	315,512,112	16,204,573	331,716,685
Investment property	5.3.2	-	538,595	538,595
Intangible assets	5.3.3	197,892	156,577	354,469
Equity accounted Investees	5.3.4	3,572,487	(1,965,264)	1,607,223
Held-to-maturity investments	5.3.4	-	210,273	210,273
Available-for-sale financial assets	5.3.5	-	281,595	281,595
Total non-current assets		319,282,491	15,426,349	334,708,840
Current assets				
Inventories	5.3.6/a	6,495,066	97,768	6,592,834
Receivable from electricity consumers- net	5.3.6/a	20,512,384	160	20,512,544
Loans and advances	5.3.8	-	4,974,034	4,974,034
Prepayments and other receivables	5.3.9	8,841,894	(4,803,735)	4,038,159
Loans to associated companies	5.3.7	859,885	(859,885)	-
Cash and cash equivalents	5.3.6/a	2,038,229	192,849	2,231,078
Total current assets		38,747,458	(398,809)	38,348,649
Total assets		**358,029,949**	**15,027,540**	**373,057,489**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.2 Reconciliation of SOCPA to IFRS condensed consolidated interim statement of financial position as at 1 January 2016 (date of transition to IFRS) (continued)

	Note	31 December 2015 SOCPA	Effects of transition to IFRS	1 January 2016 IFRS
Equity and liability				
Equity				
Share capital		41,665,938	-	41,665,938
Statutory reserve	5.3.6/c	2,629,210	17,420	2,646,630
General reserve		557,898	-	557,898
Other reserves	5.3.19	-	(507,211)	(507,211)
Cash flows hedging contracts	5.3.19	(550,186)	550,186	-
Retained earnings	5.3.20	16,046,267	790,426	16,836,693
Total equity		**60,349,127**	**850,821**	**61,199,948**
Non-current liabilities				
Long term loans	5.3.6/b	22,266,954	8,355,932	30,622,886
Sukuk		34,940,490	-	34,940,490
Loans from the government		39,991,482	-	39,991,482
Government payables	5.3.15	100,445,372	(100,445,372)	-
Employees' benefits obligation	5.3.10	6,019,260	1,050,362	7,069,622
Deferred revenue	5.3.11	29,370,073	(268,220)	29,101,853
Deferred government grant	5.3.12	-	46,035,284	46,035,284
Customer refundable deposits	5.3.14	1,743,429	(1,743,429)	-
Provision for cash flow hedging contracts	5.3.13	212,231	(212,231)	-
Fair value of derivatives	5.3.13	-	492,729	492,729
Assets retirement obligation	5.3.6/b	-	176,126	176,126
Total non-current liabilities		234,989,291	(46,558,819)	188,430,472
Current liabilities				
Trade payables	5.3.16	52,460,414	(11,025,093)	41,435,321
Accruals and other payables	5.3.17	6,883,995	128,462	7,012,457
Provisions for other liabilities and charges	5.3.17	-	138,771	138,771
Short term loans	5.3.6/b	3,347,122	326,852	3,673,974
Customer refundable deposits	5.3.14	-	1,743,429	1,743,429
Government payable	5.3.18	-	58,098,794	58,098,794
Advance from customers	5.3.16	-	11,290,327	11,290,327
Fair value of derivatives	5.3.6/b	-	33,996	33,996
Total current liabilities		62,691,531	60,735,538	123,427,069
Total liabilities		**297,680,822**	**14,176,719**	**311,857,541**
Total equity and liabilities		**358,029,949**	**15,027,540**	**373,057,489**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.3 Notes to the reconciliation of opening statement of financial position as at 1 January 2016

5.3.1 Property, plant and equipment

Adjustments in property, plant and equipment mainly relate to:

- Under IFRS where parts (major components) of an item of property, plant and equipment are significant and have different useful lives, they are accounted for as separate items of property, plant and equipment, and depreciated separately.

- The Group has recognised property, plant and equipment in respect of its share of assets of entities under joint operations, which were previously accounted for under the equity method.

The adjustments in property, plant and equipment are summarised in the table below:

Particulars	**1 January 2016**
Impact of componentisation resulted in a decrease in accumulated depreciation.	5,589,648
Group share of fixed assets of entities under joint operations. (note 5.3.6/a)	11,309,864
Reclassifications of items:	
- Investment property (note 5.3.2)	(538,595)
- Intangible assets (note 5.3.3)	(156,344)
	16,204,573

5.3.2 Investment property

Under IFRS, land held by the Group for rental purposes or for capital appreciation is required to be classified as investment property. Accordingly, the Group has re-classified SR 538.6 million from property, plant and equipment to investment property.

5.3.3 Intangible assets

The Group reclassified certain intangible assets from property, plant and equipment amounting to SR 156.34 million. In addition, the Group has consolidated its interest in intangible assets from joint operation amounting to SR 0.23 million (these operations were previously accounted for using the equity method).

5.3.4 Equity accounted Investees

Under SOCPA, all investments were classified under the heading ‘investments accounted for using the equity method and others’. Under IFRS, the Group has designated such investments as ‘available for sale investments’ and ‘held to maturity investments’ based on the characteristics of the investments.

	1 January 2016
IFRS reclassifications:	
Held-to-maturity investments	210,273
Available-for-sale financial assets	272,630
IFRS adjustment:	
Elimination of investments previously accounted for using the equity method accounted	1,482,361
	1,965,264

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.3.5 Available-for-sale financial assets

Under IFRS, unquoted equity investments that are classified as available for sale financial assets are required to be carried at fair value with fair value change being recognised in other comprehensive income. Previously, the Group carried these investments at cost.

Adjustments in available for sale financial assets are summarised in the table below:

	1 January 2016
Reclassification from 'investments accounted for using the equity method and others'	272,630
Fair value adjustment to available-for-sale (“AFS”) financial assets	8,965
	281,595

5.3.6 Group’s interest in joint operations

Under IFRS, the Group’s investment in Independent Power Producers (IPPs) are classified as joint operations and require a line by line consolidation of the Group share of all incomes and expenditures and statement of financial position assets and liabilities. Historically, these investments were accounted for using the equity method. The changes to each line item affected are shown below.

(a) Interest in joint operations’ assets

The Group’s interest in assets held by joint operations are as follows:

	1 January 2016
Property, plant and equipment	11,309,864
Intangible assets	232
Inventories	97,768
Receivables and others	160
Prepayments and other receivables	137,741
Loans and advances	4,058
Cash and cash equivalents	192,849
	11,742,672

(b) Interest in joint operations’ liabilities

The Group’s interest in liabilities owed by joint operations are as follows:

	1 January 2016
Borrowings	8,355,932
Employees’ benefits obligations	2,559
Derivative financial instruments *	280,498
Assets retirement obligation	176,126
Trade payables	265,203
Provisions for liabilities and other charges	267,233
Borrowings (current portion)	326,852
Derivative financial instruments (current portion)	33,996
	9,708,399

* corresponding to the Group’s interest in joint operations’ derivative financial instruments SR 418m net of elimination entries of SR 138m

(All amounts in thousands Saudi Riyals unless otherwise stated)

(c) Interest in joint operations' equity

The Group's interest in the equity of entities under joint operations are as follows:

	1 January 2016
Statutory reserve	17,420
Other reserves *	34,010
Retained earnings **	(62,713)
	(11,283)

* corresponding to the Group's interest in joint operations' other comprehensive income reserves SR 475m net of elimination entries of SR 441m
** corresponding to the Group's interest in joint operations' retained earnings SR 298m net of elimination entries of SR 360m

5.3.7 Loans to associated companies

At the date of transition to IFRS, loans to associated companies amounting to SR 860 million were reclassified from 'loans to associated companies 'to 'loans and advances'.

5.3.8 Loans and advances

The IFRS adjustments are summarised in the table below:

	1 January 2016
Reclassifications	
Reclassification of loans to associated companies (note 5.3.7)	859,885
Reclassification of prepayments and other receivables (note 5.3.9)	4,941,476
Group's interest in 'joint operations' assets (note 5.3.6)	4,058
Elimination	
Elimination of intercompany loans between group companies	(831,385)
	4,974,034

5.3.9 Prepayments and other receivables

The IFRS adjustments are summarised in the table below:

	1 January 2016
Reclassifications	
Reclassification to loans and advances	(4,941,476)
IFRS adjustment	
Group's interest in joint operations' assets (note 5.3.6)	137,741
Total	**(4,803,735)**

5.3.10 Employees' benefit obligations

Under IFRS, employee end of service benefits are classified as a defined benefit obligation, which are required to be calculated using actuarial valuations. Historically, the Group calculated this obligation in accordance with Saudi labour law without considering expected future service period of employees, salary increments and discount rates. The Group made an assessment by the actuary on 1 January 2016, which resulted in additional liability as described below:

	1 January 2016
Re-measurement of end of service benefits obligation in accordance with IFRS 19	1,047,803
Group's interest in joint operations' liabilities (note 5.3.6/b)	2,559
Total	**1,050,362**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.3.11 Deferred revenue

The adjustment of SR 268 million represents the elimination of deferred income relating to electrical equipment transferred to the Group by Joint Operations (IPPs) without consideration.

5.3.12 Deferred government grant

Deferred government grant were previously recognised as part of long-term government payables and amortised over the respective government loan period. Under IFRS, the deferred government grant is amortised over the life of the related assets for which the loans are used.

The adjustments to deferred government grant are summarised in the table below:

	1 January 2016
IFRS adjustment	
Reclassification of long-term government payables to deferred government grant.	42,346,578
Adjustment in amortisation of deferred government grant	3,688,706
	46,035,284

5.3.13 Derivative financial instruments liabilities

Below are the adjustments to this category at the date of transition:

	1 January 2016
Reclassified from provisions for cash flow hedging contracts	212,231
Group's interest in joint operations' liabilities (note 5.3.6/b)	418,177
Reversal of previously recognised fair value movement in cash flow hedges (note 5.3.6/b)	(137,679)
Total	**492,729**

5.3.14 Customers refundable deposits

An amount of SR 1.74 billion pertaining to customer refundable deposits payable on demand has been reclassified from non-current liabilities to current liabilities under 'customer refundable deposits'.

5.3.15 Long term government payables

Long term government payables have been reclassified based on the nature of the balance:
- Fuel payables and others amounting to SR 58.1 billion was reclassified to current liabilities; and
- Deferred income of SR 42.35 billion relating to loans from the government was reclassified to deferred government grant (note 5.3.12).

5.3.16 Trade payables

An amount of SR 11.3 billion related to advances from electricity service connection projects has been reclassified from 'trade payables' to 'advances from customers' given the difference in nature, liquidity and timing of the liability. In addition, an amount of SR 265 million has been added to trade payables representing the Group's interest in joint operations' liabilities (note 5.3.6/b).

5.3.17 Accruals and other payables

The IFRS adjustments are summarised in the table below:

	1 January 2016
Group's interest in joint operations' liabilities (note 5.3.6/b)	267,233
Reclassification to provisions for other liabilities and charges	(138,771)
Balance as at 1 January 2016 as per IFRS	**128,462**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.3.18 Payable to the government

Under IFRS, the Group's SR 58.1 billion payable to the government requires to be included in current liabilities as there are no specified repayment terms. Previously, these were classified as non-current liabilities (note 5.3.15).

5.3.19 Other reserves

At the date of transition to IFRS, 'other comprehensive income' has been adjusted by the following:

	1 January 2016
Reclassification of the effective portion of the floating-to-fixed interest rate swap contracts (previously under SOCPA, this amount was classified as equity within 'provision for cash flows hedging contracts')	(550,186)
Fair value change of available-for-sale financial instruments (previously, these investments were measured at cost)	8,965
Group's interest in joint operations	(441,625)
Excluding cash flow hedges that were recorded in accordance with the equity method in the books of the holding company	475,635
Other comprehensive income reserves as at 1 January 2016	**(507,211)**

5.3.20 *Retained earnings*

	1 January 2016
IFRS adjustments affecting the retained earnings:	
Componentisation of property, plant and equipment (note 5.3.1)	5,589,648
Amortisation of deferred government grants (note 5.3.12)	(3,688,706)
Employees' benefits obligation (note 5.3.10)	(1,047,803)
Elimination of retained earnings pertaining to joint operations (note 5.3.6/c) *	(62,713)
	790,426

* corresponding to the Group's interest in joint operations' retained earnings SR 298m net of elimination entries of SR 360m

5.4 Reconciliation of SOCPA to IFRS condensed consolidated interim statement of financial position as at 31 March 2016

	Note	31 March 2016 SOCPA	Effects of transition to IFRS	31 March 2016 IFRS
Assets				
Non-current assets				
Property, plant and equipment	5.6.1	325,789,558	16,734,469	342,524,027
Investment properties	5.3.2	-	538,595	538,595
Intangible assets	5.6.2	197,892	149,494	347,386
Equity accounted Investees	5.6.3	3,636,583	(2,006,860)	1,629,723
Held-to-maturity investments	5.3.4	-	210,273	210,273
Available-for-sale financial assets	5.3.5	-	281,595	281,595
Total non-current assets		329,624,033	15,907,566	345,531,599
Current assets				
Inventories	5.6.4/a	7,284,144	132,158	7,416,302
Receivable from electricity consumers- net	5.6.4/a	21,832,569	10,149	21,842,718
Loans to associated companies	5.6.5	747,367	(747,367)	-
Loans and advances	5.6.6	-	4,994,902	4,994,902
Prepayments and other receivables	5.6.7	9,185,897	(4,824,477)	4,361,420
Cash and cash equivalents	5.6.4/a	1,817,364	260,457	2,077,821
Total current assets		40,867,341	(174,178)	40,693,163
Total assets		**370,491,374**	**15,733,388**	**386,224,762**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.4 Reconciliation of SOCPA to IFRS condensed consolidated interim statement of financial position as at 31 March 2016 (continued)

	Note	31 March 2016 SOCPA	Effects of transition to IFRS	31 March 2016 IFRS
Equity and liability				
Equity				
Share capital		41,665,938	-	41,665,938
Statutory reserve	5.6.4/c	2,629,210	17,420	2,646,630
General reserve		557,898	-	557,898
Other reserves	5.6.19	-	(535,369)	(535,369)
Cash flow hedging contracts		(544,333)	544,333	-
Retained earnings	5.6.20	14,672,506	1,365,882	16,038,388
Total equity		58,981,219	1,392,266	60,373,485
Non-current liabilities				
Long term loans	5.6.8	22,066,059	8,706,465	30,772,524
Sukuks		34,940,490	-	34,940,490
Loans from the government	5.6.9	39,991,482	445,569	40,437,051
Long term Government payables	5.6.10	100,445,372	(100,445,372)	-
Employees' benefits obligations	5.6.11	6,062,033	1,116,818	7,178,851
Deferred revenue	5.6.12	30,687,054	(811,138)	29,875,916
Deferred government grant	5.6.13	-	45,889,624	45,889,624
Customer refundable deposits	5.6.15	1,767,900	(1,767,900)	-
Provision for cash flows hedging contracts		242,319	(242,319)	-
Fair value of derivatives	5.6.14	-	510,525	510,525
Assets retirement obligation	5.6.4/b	-	178,983	178,983
Total non-current liabilities		236,202,709	(46,418,745)	189,783,964
Current liabilities				
Trade payables	5.6.16	57,887,170	(10,740,708)	47,146,462
Accruals and other payables	5.6.17	6,822,034	71,245	6,893,279
Provision for other liabilities and charges	5.6.18	-	132,117	132,117
Short term loans	5.6.4/b	10,598,242	311,478	10,909,720
Customer refundable deposits	5.6.15	-	1,767,900	1,767,900
Payable to the government	5.6.10	-	58,098,794	58,098,794
Advance from customers	5.6.16	-	11,080,910	11,080,910
Fair value of derivatives	5.6.4/b	-	38,131	38,131
Total current liabilities		75,307,446	60,759,867	136,067,313
Total liabilities		**311,510,155**	**14,341,122**	**325,851,277**
Total equity and liabilities		**370,491,374**	**15,733,388**	**386,224,762**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.5 Reconciliation of SOCPA to IFRS total comprehensive income for the period ended 31 March 2016

Reconciliation of SOCPA to IFRS condensed consolidated interim statement of profit or loss for the period ended 31 March 2016

		Three- month ended		
	Note	**31 March 2016 SOCPA**	**Effects of transition to IFRS**	**31 March 2016 IFRS**
Revenue	5.7.1	8,901,680	(6,978)	8,894,702
Cost of sales	5.7.2	(10,105,922)	869,207	(9,236,715)
Gross loss		**(1,204,242)**	**862,229**	**(342,013)**
General and administrative expenses	5.7.3	(179,048)	(40,341)	(219,389)
Other income - net	5.7.4	9,529	144,458	153,987
Operating loss for the period		**(1,373,761)**	**966,346**	**(407,415)**
Finance income		-	17,698	17,698
Finance costs		-	(405,758)	(405,758)
Finance costs - net	5.7.5	-	(388,060)	(388,060)
Loss for the period before zakat		**(1,373,761)**	**578,286**	**(795,475)**
Zakat	5.7.6	-	(2,830)	(2,830)
Loss for the period		**(1,373,761)**	**575,456**	**(798,305)**

5.5.1. Reconciliation of SOCPA to IFRS condensed consolidated interim statement of other comprehensive income for the period ended 31 March 2016

		Three- month ended		
	Note	**31 March 2016 SOCPA**	**Effects of transition to IFRS**	**31 March 2016 IFRS**
Loss for the period		**(1,373,761)**	**575,456**	**(798,305)**
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedges		-	(28,157)	(28,157)
Other comprehensive income for the period		**-**	**(28,157)**	**(28,157)**
Total comprehensive income		**(1,373,761)**	**547,299**	**(826,462)**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.6 Notes to the reconciliation of SOCPA to IFRS condensed consolidated interim statement of financial position as at 31 March 2016

5.6.1 Property, plant and equipment

The IFRS adjustments to property, plant and equipment are detailed below:

Particulars	**31 March 2016**
Opening balance sheet adjustment (note 5.3.1)	**16,204,573**
Changes for the period ended 31 March 2016:	
Fully depreciated assets and componentisation of property, plant and equipment	995,211
The Group's interest in joint operations' assets	(381,763)
Expenses ineligible for capitalisation	(226,324)
Capitalisation of borrowing costs	135,892
Net movement during the period in items reclassified to intangible assets from property, plant and equipment as in the opening balances adjustments as required by IFRS	6,880
Total	**16,734,469**

5.6.2 Intangible assets

In addition to the reclassification of SR 156.6 million of items as at the date of transition, an additional amount of SR 6.88 million from property, plant and equipment to intangible assets during the period ended 31 March 2016. Also intangible assets includes the Group's interest in the assets of the joint operations amounting to SR 232 thousand.

5.6.3 *Equity accounted investees*

The IFRS adjustments to investments accounted for using the equity method are given below:

	31 March 2016
IFRS reclassification:	
Opening balance sheet adjustment (Note 5.3.4)	1,965,264
IFRS adjustment:	
Reversal of investments accounted for using the equity method which are classified as joint operations under IFRS	41,596
Total	**2,006,860**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.6.4 *Group's interest in joint operations' assets and liabilities*

(a) Interest in joint operations' assets

The Group's interest in assets held by joint operations are as follows:

	31 March 2016
Property, plant and equipment	10,928,102
Intangible assets	232
Inventories	132,158
Receivables and others	10,149
Loans and advances	6,029
Prepayments and other receivables	134,532
Cash and cash equivalents	260,457
	11,471,659

(b) Interest in joint operations' liabilities

The Group's interest in liabilities owed by joint operations are as follows:

	31 March 2016
Borrowings	8,728,352
Employees' benefits obligations	2,694
Derivative financial instruments *	268,207
Assets retirement obligation	178,983
Trade payables	340,202
Accruals and other payables	200,590
Provision for other liabilities and charges	2,772
Borrowings (current portion)	311,478
Derivative financial instruments (current portion)	38,131
	10,071,409

* This amount represents the group's interest of the joint operations liability of SR 436 million less the elimination entries of SR 167 million.

(c) Interest in joint operations' equity

The Group's interests in the equity of joint operations were as follows:

	31 March 2016
Statutory reserve	17,420
Retained earnings *	(44,811)
	(27,391)

* This amount represents the group's interest of the joint operations retained earnings of SR 321 million less the elimination entries of SR 366 million.

5.6.5 Loans to associated companies

As at 31 March 2016, loans to associated companies amounting to SR 747.37 million were reclassified to 'loans and advances'.

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.6.6 Loans and advances

The following IFRS adjustments have been recorded as at 31 March 2016:

	31 March 2016
Reclassifications:	
Reclassification from prepayments	4,960,373
Reclassification from loans to associates	747,367
Group's interest in joint operations' assets (previously accounted for using the equity method under SOCPA) (note 5.6.4/a)	6,029
Elimination:	
Elimination of the intercompany loans between the Group companies	(718,867)
	4,994,902

5.6.7 Prepayments and other receivables

The following IFRS adjustments have been recorded as at 31 March 2016:

	31 March 2016
Reclassifications:	
Reclassification to loans and advances	(4,959,009)
IFRS adjustment:	
Group's interest in joint operations' assets (note 5.6.4/a)	134,532
	(4,824,477)

5.6.8 Borrowings

The following IFRS adjustments have been recorded as at 31 March 2016:

	31 March 2016
Group’s interest in joint operations’ liabilities (note 5.6.4/b)	8,728,352
Related transaction issuance costs	(21,887)
	8,706,465

5.6.9 Loans from the government

The amount of SR 445.5 million relates to the interest for the three-month period ended 31 March 2016 in respect of loans from the government which were previously adjusted on a yearly basis.

5.6.10 Long term government payables

Long term government payables have been reclassified based on the nature of the balance:
- Fuel and other payables amounting to SR 58.1 billion was reclassified to current liabilities; and
- Deferred income of SR 42.35 billion relating to loans from the government was reclassified to deferred government grant (note 5.3.12).

5.6.11 Employees’ benefit obligations

The following IFRS adjustments have been recorded as at 31 March 2016:

	31 March 2016
Opening balance sheet adjustments	1,047,803
Post-employment benefit charge for the period	66,321
Group’s interest in joint operations’ liabilities (note 5.6.4/b)	2,694
	1,116,818

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.6.12 Deferred revenue

The following IFRS adjustments have been recorded as at 31 March 2016:

	31 March 2016
Elimination of deferred income relating to electrical equipment transferred to the Group by Joint Operations	(814,172)
Amortisation adjustment for the period	3,034
	(811,138)

This adjustment represents the elimination of deferred income of SR 811 million relating to electrical equipment that were transferred to the group from joint operations (IPPs) without consideration.

5.6.13 Deferred government grant

The following IFRS adjustments have been recorded as at 31 March 2016:

	31 March 2016
Opening balance sheet adjustments	46,035,285
Adjustment in amortisation for the period	(145,661)
Total	**45,889,624**

5.6.14 Derivative financial instruments liabilities

The following IFRS adjustments have been recorded as at 31 March 2016:

	31 March 2016
Reclassification of cash flow hedging contracts	242,319
Group’s interest in joint operations’ liabilities (note 5.6.4/b)*	268,206
	510,525

* This amount represents the group's interest of the joint operations liabilities of SR 436 million less the elimination entries of SR 167 million.

5.6.15 *Customer refundable deposits*

An amount of SAR 1.77 billion pertaining to customer refundable deposits payable on demand has been reclassified from non-current to current liabilities under the heading of customer deposits.

5.6.16 Trade payables

An amount of SAR 11.08 billion related to advances from electricity service connection projects has been reclassified from ‘trade payables’ to ‘advances from customers’. In addition, an amount of SR 340.2 million has been added to trade payables representing the Group’s interest in joint operations’ liabilities (note 5.6.4/b).

5.6.17 Accruals and other payables

The IFRS adjustments are summarised in the table below:

	31 March 2016
Reclassification to provisions for other liabilities and charges	(129,345)
Group’s interest in joint operations’ liabilities (note 5.6.4/b)	200,590
Total	**71,245**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.6.18 Provision for other liabilities and charges

	31 March 2016
Reclassification from accruals and other payables	129,345
Group's interest in joint operations' liabilities (note 5.6.4/b)	2,772
Total	**132,117**

5.6.19 Other reserves

The following IFRS adjustments have been recorded as at 31 March 2016:

	31 March 2016
Reclassification of the effective portion of the floating-to-fixed interest rate swap contracts	(544,334)
Fair value change of available for sale financial assets	8,965
Other comprehensive income reserves as at 31 March 2016	**(535,369)**

5.6.20 Retained earnings

	31 March 2016
IFRS adjustments affecting the retained earnings:	
Fully depreciated assets and componentisation of property, plant and equipment	5,589,648
Amortisation of deferred government grants at the date of transition	(3,688,706)
Re-measurement of post-employment benefits at the date of transition	(1,047,803)
Decrease in depreciation expense for the first quarter as a result of the fully depreciated assets and componentisation of property, plant and equipment	995,211
Expenses ineligible for capitalisation	(226,324)
Additional finance cost expensed under IFRS during the first quarter of 2016	(288,845)
Amortisation of government grants on the useful lives of the underlying assets during the first quarter of 2016	146,867
Amortisation of deferred revenue on a daily basis as required under IFRS	(3,034)
Post-employment benefits based on the actuarial valuation	(66,321)
Elimination of retained earnings pertaining to joint operations (previously accounted for using the equity method under SOCPA)	(44,811)
Total IFRS adjustments	**1,365,882**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.7 Notes to the reconciliation of SOCPA to IFRS condensed consolidated interim statement of profit or loss for the three-month period ended 31 March 2016

5.7.1 Revenue

Based on IFRS guidance, the Group has amended its amortisation basis for deferred revenue resulting in a reduction of SR 3 million. A further SR 3.9 million was reduced due to certain revenue arising from joint operations which has now been eliminated.

5.7.2 Cost of sales

The following IFRS adjustments have been recorded as at 31 March 2016:

	For the period ended 31 March 2016
Impact of changes in depreciation expense relating to fully depreciated assets and componentisation adjustments	961,296
Costs for the period that are ineligible for capitalisation under IFRS	(182,557)
Post-employment benefit charge for the period	(47,609)
Effect on cost of sales from the reversal of equity accounting of investments in joint operations that were recorded using the equity method under SOCPA (share of profits from these investments was netted off against cost of sales under SOCPA)	(5,680)
Elimination of the Group’s share in the income of joint operations measured under equity method	143,757
	869,207

5.7.3 General and administrative expenses

The following IFRS adjustments have been recorded as at 31 March 2016:

	For the period ended 31 March 2016
Impact of changes in depreciation expense relating to fully depreciated assets and componentisation adjustments	33,915
Costs for the period that are ineligible for capitalisation under IFRS	(43,727)
Re-measurement of post-employment benefit liability for the period	(18,712)
Group's share of investments’ results that are classified as joint operations under IFRS	(11,817)
	(40,341)

5.7.4 Other income

Other income are mainly adjusted by the amortisation of the government grants (deferred income) and their classification as other income. Previously, these grants were amortised based on the related loan repayment period while it is based on the related assets’ useful lives under IFRS.

5.7.5 Finance costs

The following IFRS adjustments have been recorded as at 31 March 2016:

	For the period ended 31 March 2016
Finance costs ineligible for capitalisation under IFRS during first quarter of 2016	286,845
Group's share of investments’ results that are classified as joint operations under IFRS during the period	101,215
	388,060

5.7.6 Zakat

The IFRS adjustment to Zakat is related to the Group’s share in the results of the joint operations during the period.

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.8 Reconciliation of SOCPA to IFRS consolidated statement of financial position as at 31 December 2016

	Notes	31 December 2016 SOCPA	Effects of transition to IFRS	31 December 2016 IFRS
Assets				
Non-current assets				
Property, plant and equipment	5.10.1	354,394,105	19,615,287	374,009,392
Investment properties	5.3.2	-	538,595	538,595
Intangible assets	5.10.2	181,810	212,501	394,311
Equity accounted Investees	5.10.3	3,674,338	(2,104,000)	1,570,338
Held-to-maturity investments		-	228,893	228,893
Available-for-sale financial assets	5.10.4	-	290,952	290,952
Total non-current assets		358,250,253	18,782,228	377,032,481
Current assets				
Inventories	5.10.5/a	6,930,273	67,279	6,997,552
Receivable from electricity consumers - net		28,564,041	-	28,564,041
Loans and advances*	5.10.6	583,838	2,707,132	3,290,970
Prepayments and other receivables	5.10.7	7,420,224	(3,216,434)	4,203,790
Cash and cash equivalents	5.10.5/a	1,222,146	264,017	1,486,163
Total current assets		44,720,522	(178,006)	44,542,516
Total assets		**402,970,775**	**18,604,222**	**421,574,997**

*Previously stated as loans to associates under SOCPA

(All amounts in thousands Saudi Riyals unless otherwise stated)

	Notes	31 December 2016 SOCPA	Effects of transition to IFRS	31 December 2016 IFRS
Equity and liability				
Equity				
Share capital		41,665,938	-	41,665,938
Statutory reserve	5.10.5/c	2,839,668	23,637	2,863,305
General reserve		569,506	-	569,506
Other comprehensive income reserves	5.10.17	-	(118,975)	(118,975)
Cash flow hedging contracts reserve	5.10.17	(443,698)	443,698	-
Retained earnings	5.10.18	17,392,209	3,225,814	20,618,023
Total equity		**62,023,623**	**3,574,174**	**65,597,797**
Non-current liabilities				
Long term loans	5.10.8	34,985,615	8,399,910	43,385,525
Sukuk		26,065,350	-	26,065,350
Loans from the government		42,411,517	-	42,411,517
Employees' benefits obligation	5.10.10	5,723,895	909,143	6,633,038
Deferred revenue	5.10.11	35,064,467	(764,522)	34,299,945
Deferred government grant	5.10.12	-	46,667,608	46,667,608
Fair value of derivatives	5.10.13	-	360,722	360,722
Assets retirement obligation	5.10.5/b	-	187,550	187,550
Customer refundable deposits	5.10.14	1,845,081	(1,845,081)	-
Long term Government payables	5.10.9	100,025,591	(100,025,591)	-
Provision for cash flows hedging contracts	5.10.13	122,049	(122,049)	-
Total non-current liabilities		**246,243,565**	**(46,232,310)**	**200,011,255**
Current liabilities				
Trade payables	5.10.15	66,385,773	(11,970,007)	54,415,766
Accruals and other payables	5.10.16	6,833,806	(1,503)	6,832,303
Provision for other liabilities and charges	5.10.16	-	132,420	132,420
Short term loans	5.10.5/b	12,608,868	1,042,673	13,651,541
Sukuk (current portion)		8,875,140	-	8,875,140
Customer refundable deposits	5.10.14	-	1,845,081	1,845,081
Government payable	5.10.9	-	58,099,049	58,099,049
Advance from customers	5.10.15	-	12,077,255	12,077,255
Fair value of derivatives	5.10.5/b	-	37,390	37,390
Total current liabilities		94,703,587	61,262,358	155,965,945
Total liabilities		**340,947,152**	**15,030,048**	**355,977,200**
Total equity and liabilities		**402,970,775**	**18,604,222**	**421,574,997**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.9 Reconciliation of consolidated total comprehensive income for the year ended 31 December 2016

	Note	2016 SOCPA	Effects of transition to IFRS	2016 IFRS
Revenue	5.11.1	49,914,757	(53,759)	49,860,998
Cost of sales	5.11.2	(46,907,873)	3,726,914	(43,180,959)
Gross profit		**3,006,884**	**3,673,155**	**6,680,039**
General and administrative expenses	5.11.3	(984,032)	(154,223)	(1,138,255)
Other income - net	5.11.4	251,178	757,191	1,008,369
Human resource productivity improvements program		(110,257)	-	(110,257)
Operating income for the year		**2,163,773**	**4,276,123**	**6,439,896**
Finance income		-	7,378	7,378
Finance costs		-	(1,828,845)	(1,828,845)
Finance costs - net	5.11.5	-	(1,821,467)	(1,821,467)
Share of loss of investments accounted for using the equity method		(59,189)	-	(59,189)
Profit for the year before zakat		**2,104,584**	**2,454,656**	**4,559,240**
Zakat	5.11.6	-	(2,187)	(2,187)
Profit for the year		**2,104,584**	**2,452,469**	**4,557,053**

5.9.1. Reconciliation of SOCPA to IFRS interim statement of other comprehensive income for the period ended 31 December 2016

	Note	2016 SOCPA	Effects of transition to IFRS	2016 IFRS
Profit for the year		**2,104,584**	**2,452,469**	**4,557,053**
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of Employees' benefits obligation		-	253,908	253,908
		-	253,908	253,908
Items that may be reclassified subsequently to profit or loss:				
Change in fair value of available-for-sale financial assets		-	9,357	9,357
Cash flow hedges		-	124,971	124,971
		-	134,328	134,328
Other comprehensive income for the period		**-**	**388,236**	**388,236**
Total comprehensive income		**2,104,584**	**2,840,705**	**4,945,289**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.10 Notes to the reconciliation of SOCPA to IFRS consolidated statement of financial position as at 31 December 2016

5.10.1 Property, plant and equipment

At 31 December 2016, the following IFRS transition adjustments were recorded:

At transition date	**31 December 2016**
Opening balance sheet adjustment (note 5.3.1)	16,204,573
Changes during the year	
Fully depreciated assets and componentisation of property, plant and equipment	4,153,454
Movement in the Group's interest in joint operations' assets	(12,666)
Expenses ineligible for capitalisation	(880,949)
Capitalisation of additional borrowing costs	219,275
Reclassification to intangible assets	(55,924)
Change in the net book value of the disposed assets as a result of the fully depreciated assets and componentisation of assets	(12,476)
Total	**19,615,287**

5.10.2 Intangible assets

In addition to the reclassification of SR 156.6 million of items as at the date of transition, an additional amount of SR 55.9 million was reclassified from property, plant and equipment to intangible assets during the year. Additional intangible assets were added for SR 233 thousand relating to the Group’s interest in joint operations assets.

Adjustments in intangible assets are summarised in the table below:

	31 December 2016
Reclassification from property, plant and equipment at the transition date	156,334
Reclassification from property, plant and equipment during the year	55,934
Group's interest in joint operations' assets (note 5.10.5/a)	233
Total	**212,501**

5.10.3 Equity accounted investees

The following IFRS transition adjustments were recorded:

	31 December 2016
Opening balance sheet adjustment (note 5.3.4)	1,965,264
IFRS adjustment:	
Reversal of movements for the period in investments accounted for using the equity method which are classified as joint operations under IFRS	138,736
Total	**2,104,000**

5.10.4 Available-for-sale financial assets

At 31 December 2016, the following IFRS transition adjustments were recorded:

	31 December 2016
Opening balance sheet adjustments(note 5.3.5)	281,595
Change in fair value of AFS	9,357
	290,952

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.10.5 ***Group's interest in joint operations' assets and liabilities (previously accounted for using the equity method under SOCPA)***

(a) Interest in joint operations' assets

The Group's interest in joint operations' assets are as follows:

	31 December 2016
Property, plant and equipment	11,297,198
Intangible assets	233
Inventories	67,279
Loans and advances	6,419
Prepayments and other receivables	49,942
Cash and cash equivalents	264,017
	11,685,088

(b) Interest in joint operations' liabilities

The Group's interest in joint operations' liabilities are as follows:

	31 December 2016
Borrowings	8,542,671
Employees' benefits obligations	2,993
Derivative financial instruments *	238,675
Assets retirement obligation	187,550
Trade payables **	107,249
Accruals and other payables	130,917
Borrowings (current portion)	1,042,673
Current portion of derivative financial instruments at fair value – liability	37,390
	10,290,118

* This amount represents the Group's interest in joint operations derivatives amounting to SAR 314 million less elimination entries for SR 102 million.
** This amount represents the Group's interest in joint operations trade payables amounting to SR 394 million less elimination entries of SR 259 million.

(c) Interest in joint operations' equity

The Group's interest in joint operations' equity are as follows:

	31 December 2016
Statutory reserve	23,637
Other reserves*	52,493
Retained earnings **	(67,584)
	8,546

*corresponding to the Group's interest in joint operations' other comprehensive income reserves SR 371m net of elimination entries of SR 322m
**corresponding to the Group's interest in joint operations' retained earnings SR 396m net of elimination entries of SR 464m

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.10.6 Loans and advances

At 31 December 2016, the following IFRS transition adjustments were recorded:

	31 December 2016
Reclassification:	
Reclassification from 'prepayments and other receivables'	3,266,376
IFRS adjustment:	
Group's interest in joint operations assets (previously accounted for using the equity method under SOCPA) (note 5.10.5/a)	6,419
Elimination entry:	
Group's intercompany loans	(565,663)
	2,707,132

5.10.7 Prepayments and other receivables

At 31 December 2016, the following IFRS transition adjustments were recorded:

	31 December 2016
Reclassification:	
Reclassification to 'loans and advances'	(3,266,376)
IFRS adjustment:	
Group's interest in joint operations assets (note 5.10.5/a)	49,942
	(3,216,434)

5.10.8 Long term loans

At 31 December 2016, the following IFRS transition adjustments were recorded:

	31 December 2016
Reclassification:	
Group's interest in joint operations' liabilities (5.10.5/b)	8,542,671
Transaction issuance cost related to loans	(142,761)
Total	**8,399,910**

5.10.9 Long term government payables

Long term government payables have been reclassified based on the nature of the balance:

- Fuel payables and others amounting to SR 58.1 billion was reclassified to current liabilities; and
- Deferred income of SR 42.35 billion relating to loans from the government was reclassified to deferred government grant (note 5.3.12).

5.10.10 Employees' benefits obligation

At 31 December 2016, the following IFRS transition adjustments were recorded:

	31 December 2016
Opening balance sheet adjustments	1,047,803
Expense recorded during the year as a result of the actuarial valuation of the Employees' benefit obligation	112,255
Re-measurement of post-employment benefit liability for the period according to IAS 19	(253,908)
Group's interest in joint operations' liabilities (note 5.10.5/b)	2,993
	909,143

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.10.11 Deferred revenue

At 31 December 2016, the following IFRS transition adjustments were recorded:

	31 December 2016
Elimination of the deferred revenue related to the electrical equipment transferred to the Group by joint operations	(781,716)
Amortisation of government grant adjustment for the year	17,194
	(764,522)

This adjustment represents the elimination of deferred income of SR 764 million relating to electrical equipment that were transferred to the group from joint operations (IPPs) without consideration.

5.10.12 Deferred government grant

At 31 December 2016, the following IFRS transition adjustments were recorded:

Particulars	**31 December 2016**
Reclassification from long-term Payable to the government at year-end	41,926,542
Amortisation adjustment at the transition date	3,688,706
Reversal of the amortisation determined under SOCPA	1,823,217
Amortisation adjustment during the year under IFRS	(770,857)
	46,667,608

5.10.13 Derivative financial instruments

At 31 December 2016, the following IFRS transition adjustments were recorded:

	31 December 2016
Balance as of 31 December 2016 under SOCPA	122,047
Group's interest in joint operations' liabilities (note 5.10.5/b)*	238,675
	360,722

*corresponding to the Group's interest in joint operations' derivative financial instruments SR 341m net of elimination entries SR 102m.

5.10.14 Customer refundable deposits

At 31 December 2016, an amount of SR 1.845 million pertaining to the 'on demand customer refundable deposits' have been reclassified from non-current to current liabilities.

5.10.15 Trade payables

An amount of SR 12.08 billion relating to advances from electricity service connection projects has been reclassified from 'trade payables' to 'advances from customers. In addition, the Group's interest in joint operations' liabilities of SR 107.2 million has been added to trade payables.

5.10.16 Accruals and other payables

At 31 December 2016, the following IFRS transition adjustments were recorded:

	31 December 2016
Reclassification to provision for other liabilities and charges	(132,420)
Total	**(132,420)**
IFRS adjustments:	
Group's interest in joint operations' liabilities	
Accruals and other payables	130,917
Total	**(1,503)**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.10.17 Other reserves

At 31 December 2016, the following IFRS transition adjustments were recorded:

	31 December 2016
Reclassification of the effective portion of the floating-to-fixed interest rate swap contracts	(443,698)
Gain on re-measurement of post-employment obligations for the year in accordance with IAS 19	253,908
Fair value change of available-for-sale financial instruments	18,322
Group's interest in joint operations' (note 5.7.6/c)*	52,493
Total	**(118,975)**

* corresponding to the Group’s interest in joint operations’ other comprehensive income reserves SR 371m net of elimination entries of SR 424m

5.10.18 Retained earnings

	31 December 2016
IFRS adjustments affecting the retained earnings:	
- Fully depreciated assets and componentisation of property, plant and equipment	5,589,648
- Amortisation of deferred government grants	(3,688,706)
- Employees’ benefits obligation	(1,047,803)
- Decrease in depreciation as a result of the fully depreciated assets and componentisation of property, plant and equipment	4,153,454
- Ineligible capitalised expenses	(880,949)
- Amortisation of government grants on the useful lives of the underlying assets	770,859
- Amortisation of deferred revenue on a daily basis	(17,194)
- Difference in the capital gain recognised further to the disposal of fixed assets resulting from the change in net book value of the disposed assets due to the fully depreciated assets and componentisation of property, plant and equipment	(12,476)
- Additional finance cost expensed under IFRS	(1,461,180)
- Employees’ benefits obligation based on the actuarial valuation	(112,255)
- Elimination of retained earnings pertaining to joint operations (note 5.10.5/c) *	(67,584)
Total IFRS adjustments	**3,225,814**

* corresponding to the Group’s interest in joint operations’ retained earnings SR 397m net of elimination entries SR 464m

5.11 Notes to the reconciliation of SOCPA to IFRS condensed consolidated interim statement of profit or loss for the year ended 31 December 2016

5.11.1 Revenue

At 31 December 2016, the following IFRS transition adjustments were recorded:

	For the year ended 31 December 2016
Elimination of amortization of deferred revenue for electrical equipment transferred by joint operations	(36,565)
Change in amortisation basis of deferred revenue	(17,194)
	(53,759)

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.11.2 Cost of sales

At 31 December 2016, the following IFRS transition adjustments were recorded:

	For the year ended 31 December 2016
Impact of changes in depreciation expense relating to useful lives and componentisation adjustments	4,042,071
Costs for the period that are ineligible for capitalisation under IFRS	(722,376)
Re-measurement of post-employment benefit liability for the period	(61,893)
Effect on cost of sales from the reversal of equity accounting of investments in joint operations that were recorded using the equity method under SOCPA (share of profits from these investments was netted off against cost of sales under SOCPA)	(103,162)
Elimination of the Group's share in the income of joint operations measured under equity method	572,274
Total	**3,726,914**

5.11.3 General and administrative expenses

At 31 December 2016, the following IFRS transition adjustments were recorded:

	For the year ended 31 December 2016
Impact of changes in depreciation expense relating to useful lives and componentisation adjustments	111,382
Costs for the period that are ineligible for capitalisation under IFRS	(158,307)
Re-measurement of post-employment benefit liability for the period	(51,070)
Group's share of investments' results that are classified as joint operations under IFRS	(56,228)
Total	**(154,223)**

5.11.4 Other income / (expense)- net

At 31 December 2016, the following IFRS transition adjustments were recorded:

	For the year ended 31 December 2016
Amortisation of government grants under IFRS	770,857
Difference in the gain on disposal of property, plant and equipment resulting from change in book value	(12,476)
Group's share of investments' results that are classified as joint operations under IFRS	(1,190)
Total	**757,191**

5.11.5 Finance costs

At 31 December 2016, the following IFRS transition adjustments were recorded:

	For the year ended 31 December 2016
Finance expense incurred by the Group which were not eligible for capitalisation	(1,461,206)
Group's share of investments' results that are classified as joint operations under IFRS	(360,261)
Total	**(1,821,467)**

(All amounts in thousands Saudi Riyals unless otherwise stated)

5.11.6 Zakat

The IFRS adjustment to Zakat is related to the Group's share in the results of the joint operations during the period.

Statement of cash flows

The impact on cash flows is as flows:

	SOCPA for the three-month period ended 31 March 2016	***IFRS for the three-month period ended 31 March 2016***	***Difference***
Net cash from operating activities	***7,084,390***	***6,085,873***	***(997,517)***
Net cash used in investing activities	***(14,353,139)***	***(14,068,744)***	***284,395***
Net cash from financing activities	***7,048,884***	***7,829,613***	***780,729***

The cash flows have been adjusted to correspond with the revised results per IFRS standards.

6 Financial risk management

6.1 Financial risk factors

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements. The Group applied IFRS 1's short-term exemption relating to disclosures about financial instruments. The Group does not present some comparative information for the disclosures required by IFRS 7 'Financial Instruments: Disclosures' about the nature and extent of risks arising from financial instruments.

The Group's activities expose it to market risk (currency risk, 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. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

i. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

ii. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by floating-to-fixed interest rate swaps.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Each Group entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to sales, including outstanding receivables. Customers are not independently rated. The Group assesses the credit quality of the customer taking into account its past experience and other factors.

Sales are settled in cash, SADAD or using major credit cards.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

(All amounts in thousands Saudi Riyals unless otherwise stated)

6 Financial risk management (continued)

6.1 Financial risk factors (continued)

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The objective of liquidity risk management is to ensure that the Group has enough funding facilities available to meet its current and future obligations. The Group aims to maintain enough flexibility in funding by keeping appropriate credit facilities available.

6.2 Fair-value measurement

The Group measures its financial instruments at fair value at reporting date.

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

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

For assets and liabilities that are recognised in the condensed interim consolidated statement of financial position on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 March 2017.

	31 March 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets	-	-	290,952	290,952
Total assets	**-**	**-**	**290,952**	**290,952**
Liabilities				
Derivatives financial instruments at fair value used for hedging	-	381,985	-	381,985
Total liabilities	**-**	**381,985**	**-**	**381,985**

The following table presents the group's financial assets and liabilities that are measured at fair value. No significant change has occurred for the year ended 31 December 2016.

	31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets	-	-	290,952	290,952
Total assets	**-**	**-**	**290,952**	**290,952**
Liabilities				
Derivatives financial instruments at fair value used for hedging	-	398,112	-	398,112
Total liabilities	**-**	**398,112**	**-**	**398,112**

(All amounts in thousands Saudi Riyals unless otherwise stated)

6 Financial risk management (continued)

6.2 Fair value measurement (continued)

The following table presents the group's financial assets and liabilities that are measured at fair value at 1 January 2016.

	1 January 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets	-	-	281,595	281,595
Total assets	**-**	**-**	**281,595**	**281,595**
Liabilities	-	-	-	-
Derivatives financial instruments at fair value used for hedging	-	526,725	-	526,725
Total liabilities	**-**	**526,725**	**-**	**526,725**

6.3 Valuation techniques used to derive level 2 fair-value

Level 2 hedging derivatives interest rate swaps ('IRS'). Interest rate swaps are fair valued using the mark-to-market value (or fair value) of the interest rate swap technique. The effects of discounting are generally insignificant for Level 2 derivatives.

6.4 Fair value measurements using significant unobservable inputs (Level 3)

The Group has four available-for-sale financial assets i.e., 8% Stake in Shuaiba Water and Electricity Company (SWEC), 8% Stake in Shuqaiq Water and Electricity Company, 5% Stake in Jubail Water and Power Company (JWAP), and 8% Stake in Shuaibah Expansion Holdings Company (SEHO). The fair valuation of these four investments is carried out using the dividend valuation model (DVM).

In accordance with this methodology, the expected future dividends from the investments are projected (the historical dividend pay-out pattern is used as a basis for future projections over the investment horizon), and discounted using the cost of equity as the relevant discount rate to ascertain the fair value of these investments.

Total unrealised gains for the period included in other comprehensive income ('change in fair-value of available-for-sale financial assets') for available for sale securities was "nil".

Total unrealised gains for the period included in other comprehensive income ('change in fair-value of available-for-sale financial assets') for available for sale securities as at 1 January 2016 was SR 8.9 million.
Projected dividends and cost of equity (Ke) are the main input variables for the utilised model for the fair valuation of AFS Investments. An increase/decrease of 5% in the cost of equity (Ke) will lead to an increase/decrease of SR 12.2 million in the fair valuation of AFS investments.
A 5% increase/decrease in the projected dividends will lead to an increase/decrease of SR 14.5 million in the fair valuation of AFS investments.

6.5 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount:
- Trade receivables
- Other current financial assets
- Cash and cash equivalents
- Trade and other payables
- Borrowings
- Sukuks
- Other current financial liabilities

7 Seasonality of operations

The Group's financial results for this three-month period are not necessarily indicative of results to be expected for the full year.

The operations and revenues of the Group are affected by seasonal weather changes during the year. Revenues are materially lower during the winter months due to lower consumption of electricity whereas higher revenues are earned during summer months due to the increase in consumption of electricity as a result of high temperatures experienced in the Kingdom of Saudi Arabia during these months. Therefore, the results of operations for this interim period (first quarter of year 2017) may not be an accurate indication of the actual results for the full year.

8 Operating segments and the future restructuring of the Group's activities

The Group's main operating activities are divided into generation, transmission and distribution of electric power and customer services activities. These activities complement each other in delivering electricity to the consumer. The Group's revenue is currently recognised from selling electricity to the end consumer based on the official tariff set by the government. All the Group's operations are based in the Kingdom of Saudi Arabia.

Following is a description of the Group's main operating segments:

Generation: Generation and provision of electricity power;

Transmission: transmission of power from generation stations using the transmission network to the distribution network and operation and maintenance of the electricity transmission system;

Distribution and customer services: Receipt of power from the transmission network and distribute it to Company's consumers. It is also engaged in issuance, distribution and collection of electric consumption bills.

	Saudi Electricity Company	National Grid S,A, Company	Joint operations	Other Subsidiaries	Inter-Group Balances	Total
For the three-month period ended 31 March 2017 (SR in thousands)						
Revenue	8,923,806	2,541,859	579,625	7,346	(3,132,343)	8,920,293
Cost of revenue	(10,582,628)	(1,662,977)	(460,682)	(2,204)	3,134,547	(9,573,944)
Net income for the period	4,785,999	129,077	19,541	1,163	-	4,935,780
As at 31 March 2017 (SR in thousands)						
Property, plant and equipment	252,955,634	119,696,157	11,314,850	-	-	383,966,641
Total assets	411,267,728	120,791,221	12,701,665	292,989	(113,261,892)	431,791,711
Total liabilities	345,957,260	105,702,839	11,157,744	172,357	(101,746,528)	361,243,672

8 Operating segments and the future restructuring of the Group's activities (continued)

	Saudi Electricity Company	National Grid S.A. Company	Joint operations	Other Subsidiaries	Inter-Group Balances	Total
For the three-month period ended 31 March 2016 (SR in thousands)						
Revenue	8,896,923	2,081,135	507,417	3,279	(2,594,052)	8,894,702
Cost of revenue	(9,841,913)	(1,621,225)	(367,629)	(984)	2,595,036	(9,236,715)
Net income for the year	(793,685)	(31,195)	23,560	3,015	-	(798,305)
As at 31 December 2016 (SR in thousands)						
Property, plant and equipment	248,452,535	114,259,659	11,297,198	-	-	374,009,392
Total assets	402,901,758	115,536,536	12,759,229	292,661	(109,915,187)	421,574,997
Total liabilities	342,376,505	100,577,231	11,250,094	173,192	(98,399,822)	355,977,200

Group restructuring

The Group is currently implementing an integrated plan which aims to split its principal activities into different independent entities (corresponding to operating segments) and develop inter-selling prices between the entities. Therefore, revenues, expenses, profits, assets and liabilities for each reportable segment will be specified for each entity upon completion of such process to assess the performance of each entity's activity, to allocate resources and measure the results of their operation separately. As part of the plan, National Grid S.A. Company was established and the basis of inter-company transaction agreements was approved by the board of directors. The National Grid S.A. Company started its transmission activities on 1 January 2012.

9 Revenue

	Three- month ended	
	31 March 2017	31 March 2016
Electricity sales	**7,549,807**	7,606,284
Electricity service connection tariffs	**594,208**	541,523
Meter reading, maintenance and bills preparation tariffs	**306,642**	292,039
Transmission system revenues	**424,033**	331,053
Other operational revenue	**45,603**	123,803
	8,920,293	8,894,702

10 Cost of sales

	Three- month ended	
	31 March 2017	31 March 2016
Depreciation of operation and maintenance assets	**3,626,399**	3,152,151
Operation and maintenance expenses	**2,777,660**	2,994,089
Fuel	**1,453,385**	1,509,407
Purchased energy	**1,716,500**	1,581,068
	9,573,944	9,236,715

(All amounts in thousands Saudi Riyals unless otherwise stated)

11 Waiver of Municipality levy liability

Based on the royal decree to cancel the electricity charge of 2% of the consumption for the municipalities, as well as exempting the group from paying the actual amounts due to the municipalities for the electricity charge from the consumption, the group reversed the outstanding balance in related to municipalities amounting to SR 6.1 billion as at 31 December 2016 from current liabilities to other income in the condensed consolidated interim statement of profit or loss for the current period.

12 Human resource productivity improvements program

The amount represents expenses the Company has commitment to pay in accordance with productivity improvement programs. The objective of this program is to improve and align human resources with working requirements.

13 Property, plant and equipment and intangible assets

As at 31 March 2017, property, the cost plant and equipment is SR 584 billion (31 December 2016: SR 570 billion). Accumulated depreciation is SR 200 billion (31 December 2016: SR 196.3 billion). The group has made additions to property, plant and equipment during the three-month ended 31 March 2017 was SR 13.7 billion of which SR 11.9 billion was transferred from projects under construction. The additions to projects under construction was SR 12.9 billion. The net book value of the disposed assets is SR 6.08 million (31 December 2016: SR 98.12 million).

14 Investment property

The carrying value of investment property is SR 535 million as at 31 March 2017. Management performed an independent valuation as at 31 December 2016 and determined the fair value of investment property to SR 1.4 billion. Management consider that the fair value as at 31 March 2017 is not significantly different from the fair value as at 31 December 2016.

An independent valuation of the Group’s land classified as investment property was performed by independent evaluators to determine the fair value of the land at 31 December 2016. The fair values of the properties have been determined by M/S Medad Valuation Advisory Int. Co. Limited.

The following table sets out the valuation techniques used in the determination of fair value of investment property, as well as the key unobservable inputs used in the valuation models.

The fair value measurement information in accordance with IFRS 13 at 31 December 2016 are given below.

	Fair value measurements at 31 December 2016 using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Fair-value measurements			
- Land	-	1,398,402	-

Valuation techniques used to derive Level 2 fair values

Level 2 fair values of land have been generally derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

The real estate valuation followed by the Group is in line with the International Valuation Standards Council (“IVSC”) as well as Royal Institution of Chartered Surveyors (“RICS”).

(All amounts in thousands Saudi Riyals unless otherwise stated)

15 Investments accounted for using the equity method

		Percentage of ownership held by the Holding Company %		
	Country of incorporation and place of operation	**31 March 2017**	**31 December 2016**	**1 January 2016**
GCC Inter-Connection Authority	Kingdom of Saudi Arabia	31.6	31.6	31.6
Gulf Laboratory for Electrical Equipment Diagnoses	Kingdom of Saudi Arabia	25	25	-
Al Fadhly Co-Generation Company	Kingdom of Saudi Arabia	30	30	-

The balances related to these investments are as follows:

	31 March 2017	31 December 2016	1 January 2016
GCC Inter-Connection Authority	**1,548,721**	1,548,721	1,607,223
Gulf Laboratory for Electrical Equipment Diagnoses	**21,167**	21,167	-
Al Fadhly Co-Generation Company	**450**	450	-
Total	**1,570,338**	1,570,338	1,607,223

16 Held-to-maturity investments

	31 March 2017	31 December 2016	1 January 2016
Saudi British Bank's Sukuk "SABB"	**20,000**	70,000	70,000
Sadara Company for Basic Services' Sukuk "Sadara"	**25,000**	25,000	25,000
Al-Billad Bank's Sukuk	**20,000**	20,000	-
Arabian Aramco Total Services Company's Sukuk "SATORP"	**21,893**	21,893	23,273
NCB Sukuk	**17,000**	17,000	17,000
Petrochem Sukuk	**10,000**	10,000	10,000
Almarai Sukuk	**40,000**	40,000	40,000
ANB Sukuk	**25,000**	25,000	25,000
Total	**178,893**	228,893	210,273

17 Available-for-sale financial assets

	31 March 2017	31 December 2016	1 January 2016
Shuaiba Water and Electricity Company	**133,415**	133,415	134,463
Shuquiq Water and Electricity Company	**99,160**	99,160	88,536
Jubail Water and Power Company	**43,193**	43,193	46,206
Shuaibah Expansion Holdings	**15,184**	15,184	12,390
Total	**290,952**	290,952	281,595

(All amounts in thousands Saudi Riyals unless otherwise stated)

18 Inventories

	31 March 2017	31 December 2016	1 January 2016
Generation plant materials and supplies	**2,903,714**	2,951,572	3,200,217
Distribution network materials and supplies	**3,158,820**	2,818,450	2,567,466
Transmission network materials and supplies	**331,846**	326,070	371,156
Fuel and oil	**920,487**	949,775	441,135
Other	**394,576**	437,083	506,214
	7,709,443	7,482,950	7,086,188
Less: Write-down to net realisable value	**(484,820)**	(485,398)	(493,354)
Total	**7,224,623**	6,997,552	6,592,834

19 Share capital

The share capital of the Holding Company is divided into 4,166,593,815 shares amounting to a total of SR 41,665,938,150 at a par value of SR 10 each.

20 Transactions with owners, recognised directly in equity

In accordance with the Company's by-laws, dividends of at least 5% of paid in capital, net of reserves, should be distributed to shareholders, with due care to the provisions of the Council of Ministers' Resolution No.169 dated 11 Sha'aban 1419H, whereby the Government has waived its share in the distributed dividends for a period of ten years from the date of the Company's formation, provided that dividends do not exceed 10% of the par value of the shares. In cases where the distribution exceeds 10% of the shares' par value, the Government's share shall be treated similar to the share of other shareholders. The Government has agreed to extend this waiver for another ten years based on the Council of Ministers' Resolution No. 327 dated 24 Ramadan 1430H corresponding to 13 September 2009.

The General Assembly, in its meeting held on 19 April 2017, approved distributing of cash dividends for the year 2016 to shareholders amounting of SR 547 million (SR 0.70 per share) representing 7% of the par value per share (2015: SR 547 million).

21 Reserves

A- General reserve
General reserve consists of the balances of the reserves that were recorded in the financial statements of the Saudi consolidated Electricity Companies at the date of the merger, in addition to the collections of surcharge from individuals subsequent to 31 December 2001.

B- Statutory reserve
In accordance with the Company's bylaws which was amended to correspond to the new Companies' law and was endorsed in the extraordinary general assembly meeting dated 19 April 2017, 10% of net income for the year is transferred to the statutory reserve until the reserve equals 30% of the share capital.

22 Other non-derivative financial liabilities measured at amortised cost

Movements in borrowings during the period are as follows:

	Borrowings	**Sukuk**	**Loans from the government**	**Total**
As at 1 January 2017	57,037,066	34,940,490	42,411,517	134,389,073
Proceeds from new borrowings	4,500,000	-	-	4,500,000
Repayments	(211,941)	(1,875,140)	-	(2,087,081)
Additions to deferred costs	(31,413)	-	-	(31,413)
Amortisation of government grants	-	-	488,277	488,277
As at 31 March 2017	**61,293,712**	**33,065,350**	**42,899,794**	**137,258,856**

22 Other non-derivative financial liabilities measured at amortised cost (continued)
22.1 Borrowings

22.1.1 Long term bank borrowings

(a) On 28 July 2008, the Group obtained a sharia-compliant loan for SR 6 billion from a syndicate of local banks which has been fully drawn. The loan is repayable over 22 equal semi-annual instalments starting 3 November 2009. The loan balance amounted to SR 1.9 billion as at 31 March 2017 (31 December 2016: SR 1.9 billion and 1 January 2016: SR 2.5 billion).

(b) On 13 July 2009, the Group signed a financing agreement with the Public Investments Fund whereby the Group received a direct loan of SR 2.6 billion which has been fully drawn. The loan is repayable within 15 years over 24 equal semi-annual instalments starting 31 December 2012.The loan balance amounted to SR 1.6 billion as at 31 March 2017 (31 December 2016: SR 1.6 billion and 1 January 2016: SR 1.8 billion)

(c) On 27 January 2010, the Group signed a financing agreement with the Export-Import Bank of the United States, and the Export Development Bank of Canada whereby the Group received a direct loan amounting to SR 4.1 billion (US$ 1.1 billion) which has been fully drawn. The loan is repayable within 12 years over 23 equal semi-annual instalments starting 25 May 2010. The loan balance amounted to SR 1.6 billion as of 31 March 2017 (31 December 2016: SR 1.6 billion and 1 January 2016: SR 2 billion).

(d) On 13 December 2010, the Group signed an agreement with a syndicate of local banks whereby the Group obtained a sharia compliant loan of SR 5 billion which has been fully drawn. The loan is repayable within 15 years over 26 equal semi-annual instalments starting 13 May 2013. The loan balance amounted to SR 3.4 billion as of 31 March 2017 (31 December 2016: SR 3.4 billion and 1 January 2016: SR 3.8 billion).

(e) On 22 June 2011, the Group signed an agreement with Export and Import French Bank whereby the Group obtained a loan of SR 3.7 billion (US$ 989.1 million) which has been fully drawn. The loan is repayable within 12 years over 24 equal semi-annual instalments starting 11 January 2012. The loan balance amounted to SR 2 billion as of 31 March 2017 (31 December 2016: SR 2.2 billion and 1 January 2016: SR 2.5 billion).

(f) On 29 March 2012, the Group signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim) where a syndicate of international banks participated in financing the loan led by HSBC Group, Tokyo-Mitsubishi Bank, Sumitomo Mitsui Banking Corporation, Mizuho Bank and KFW Bankengruppe. The loan amount is SR 5.3 billion (US$ 1.4 billion) which has been fully drawn. The loan is repayable within 12 years over 24 equal semi-annual instalments starting 7 May 2015. The loan balance amounted to SR 4.3 billion as of 31 March 2017 (31 December 2016: SR 4.3 billion and 1 January 2016: SR 4.8 billion).

(g) On 18 December 2013, the Group signed a loan agreement guaranteed by two Export Japanese banks (NEXI) and (JBIC) where Export Japanese Bank (JBIC), Tokyo-Mitsubishi Bank, and Mizuho Bank participated in financing the loan. The amount of the loan is SR 1.4 billion (US$ 366 million). The loan is repayable within 12 years over 24 equal semi-annual instalments starting 27 July 2015. The loan balance amounted to SR 1 billion as of 31 March 2017 (31 December 2016: SR 1 billion and 1 January 2016: SR 1.1 billion).

(h) On 19 December 2013, the Group signed a loan agreement guaranteed by two export Korean banks (K Shore and K Exim), where the export Korean banks, and various international banks, Tokyo-Mitsubishi Bank, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, Deutsche Bank and KfW IPEX-Bank have participated in financing the loan. The amount of the loan is SR 6.1 billion (US$ 1.6 billion) which has been fully drawn. The loan is repayable within 12 years with a grace period of 3 years. The loan balance amounted to SR 6 billion as of 31 March 2017 (31 December 2016: SR 6.1 billion and 1 January 2016: 6.1 billion).

(i) On 29 June 2016, the Group signed a loan agreement with China Bank for trading and manufacturing, The amount of the loan is SR 5.6 billion (USD 1,5 billion) which has been fully drawn. The loan is repayable over 5 years in 6 semi-annual instalments starting from 20 December 2018, The loan balance amounted to SR 5.6 billion as at 31 March 2017 (31 December 2016: SR 5.6 billion).

22 Other non-derivative financial liabilities measured at amortised cost (continued)
22.1 Borrowings (continued)

22.1.1 Long term bank borrowings (continued)

(j) On 19 September 2016, the Group obtained a sharia-compliant loan with a group of local banks, the amount of the loan is SR 5 billion. The loan is repayable over seven years in 11 semi-annual instalments starting from 19 September 2018. The loan balance amounted to SR 8 billion as at 31 March 2017 (31 December 2016: SR 5 billion).

On March 26, 2017, the aforementioned murabaha financing agreement was amended. The loan was raised from SR 3 billion to SR 8 billion. The additional funding was obtained from four local banks: Arab National Bank, National Commercial Bank, Banque Saudi Fransi and Samba Financial Group.

(k) On 27 October 2016, the Group signed a financing agreement with a number of international banks such as Banco Santander and Credit Agricole Group under which the Group obtained a loan of US$ 420 million (SR 1.575 billion). This facility is extended to 12.77 year and is obtained by a guarantee of Korean Commercial Insurance Company and no guarantees have been offered by the Company. As at 31 March 2017, the utilised amount of this facility amounted to SR 1.57 billion (31 December 2016: SR 1.57 billion). The loan is repayable in 24 semi-annual instalments starting from 3 February 2018.

(l) On March 16, 2017, the Group signed a financing agreement with Saudi British Bank under which the Group will receive a Shariah compliant loan of SR 1.5 billion payable in March 2020 and were fully drawn as at 31 March 2017

The long-term loans mentioned above are used in financing construction projects. These loans are secured by promissory notes singed by the Company for the nominal value of the loan plus the interest payments and/or murabaha margin.

22.1.2 Short term bank borrowings

(a) On 1 December 2015, the Group signed a credit facility agreement in Saudi Riyals with National Commercial Bank (NCB) amounting to SR 0.7 billion. The utilised balance of this facility in the form of an Islamic Murabaha arrangement amounted to 0.7 billion as of 31 March 2017 (31 December 2016: SR 0.5 billion and 1 January 2016: SR nil) and is due for repayment during August 2017.

(b) On 16 December 2015, the Group signed a credit facility agreement in the form of an Islamic Murabaha arrangement with National Commercial Bank (NCB) and SAMBA Financial Group. The amount of the facility is SR 2.5 billion and is available for three years. The utilised balance of this facility amounted to SR 2.5 billion as of 31 March 2017 (31 December 2016: SR 2.5 billion and 1 January 2016: SR 1 billion), and is due for repayment during June 2017.

(c) On 6 January 2016, the Group signed a US Dollars denominated credit facility agreement for three years. Financing was made by Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, JP Morgan Bank, Crédit Agricole Group and Deutsche Bank. This facility amounted to SR 5.25 billion (US$ 1.4 billion). The utilised balance of this facility amounted to SR 5.25 billion as of 31 March 2017 (31 December 2016: SR 5.25 billion), and is due for repayment during February 2018.

(d) On 3 May 2016, the Group signed a credit facilities agreement with an Al Rajihi Bank, in Saudi Riyals amounting to SR 1 Billion. The utilised balance of the facilities in the form of an Islamic Murabaha arrangement amounted to SR 1 billion as at 31 March 2017 (31 December 2016: SR 1 billion) and is due for repayment during February 2018.

(e) On 16 June 2016, the Group signed a credit facilities agreement with SAMBA Bank amounting to SR 500 million. As at 31 March 2017, the utilised amount of these facilities amounted to SR 500 million (31 December 2016: SR 500 million) and is due for repayment during April 2018.

22.1.3 Bank facilities

On 7 December 2015, The Group signed a framework financing agreement with Export Korean Bank (KExim) for three years starting from the date of signing. The agreement entitles the Company to obtain various loans in the future at its option up to SR 11.25 billion (US$ 3 billion). The Group has unutilised signed credit facilities with local commercial banks amounting to SR 3.4 billion as of 31 March 2017 (31 December 2016: SR 3.4 billion).

(All amounts in thousands Saudi Riyals unless otherwise stated)

22 Other non-derivative financial liabilities measured at amortised cost (continued)
22.1 Borrowings (continued)

22.1.4 Bank borrowings of the joint operations

The Group's interest in the Joint operations' bank borrowings as at 31 March 2017 are as follows:

	31 March 2017		31 December 2016		1 January 2016	
	Short Term	**Long Term**	Short Term	Long Term	Short Term	Long Term
Dhuruma Electricity Company	**116,476**	**2,364,538**	107,814	2,419,818	110,982	2,381,241
Rabigh Electricity Company	**91,592**	**1,193,176**	55,847	1,223,385	68,557	1,128,659
Hajr for Electricity Production Company	**130,919**	**3,262,949**	130,919	3,261,241	147,312	3,384,882
Al Mourjan for Electricity Production Co.	**747,093**	**1,666,564**	748,093	1,638,228	-	1,461,149
Total	**1,086,080**	**8,487,227**	1,042,673	8,542,672	326,851	8,355,931

22.2 Sukuk

Outstanding Sukuk payable as of 31 March 2017 are as follows:

Local Sukuk

Issue	**Date of issue**	**Par value**	**Total issued amount**	**Maturity date**
Sukuk 3	10 May 2010	SR 10 Thousand	SR 7 Billion	2030
Sukuk 4	30 January 2014	SR 1 Million	SR 4.5 Billion	2054

The above Sukuks have been, issued at par value with no discount or premium. The Sukuks bear a rate of return at SIBOR plus a margin payable quarterly from the net income received from the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company", a wholly owned subsidiary of the Holding Company.

The Holding Company has undertaken to purchase these Sukuks from Sukuk holders at dates specified in the relevant prospectus.

At each purchase date, the Company shall pay an amount of 5% to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk's par value at the percentage shown against the purchase date, as follows:

	Percentage		
	90%	**60%**	**30%**
	First purchase year	**Second purchase year**	**Third purchase year**
Sukuk 3	2017	2020	2025

	Percentage		
	95%	**60%**	**30%**
	First purchase year	**Second purchase year**	**Third purchase year**
Sukuk 4	2024	2034	2044

The Group has entirely purchased the first issuance of Sukuk (Sukuk 1) on 15 July 2012 amounting to SR 5 billion.

The Group has entirely purchased the second issuance of Sukuk (Sukuk 2) on 6 July 2014 amounting to SR 7 billion.

22 Other non-derivative financial liabilities measured at amortised cost (continued)
22.2 Sukuk (continued)

Global Sukuk

(a) During April 2012 the Group issued a global sukuk amounting to SR 6.6 billion equivalent to approximately (US$ 1.75 billion). The issuance consists of two types of sukuk certificates. The first type amounting to US$ 0.5 billion maturing after 5 years with fixed rate of 2.665%, the second type amounting to US$ 1.25 billion maturing after 10 years with fixed rate of 4.211%.

The Group has repaid an amount of US$ 0.5 billion (SR 1,875 million) during the first quarter of 2017 which represents a repayment of the first portion of this sukuk.

(b) During April 2013 the Group also issued a global sukuk amounting SR 7.5 billion equivalent to (US$ 2 billion). The issuance consists of two types of sukuk certificates. The first type amounting to US$ 1 billion matures after 10 years with a fixed rate of 3.473%. The second type amounting to US$ 1 billion matures after 30 years with a fixed rate of 5.06%.

(c) During April 2014 the Group also issued a global sukuk amounting to SR 9.4 billion equivalent to (US$ 2.5 billion). The issuance consists of two types of sukuk certificates. The first type amounting to US$ 1.5 billion mature after 10 years with a fixed rate of 4%. The second type amounting to US$ 1 billion matures after 30 years with a fixed rate of 5.5%.

22.3 Loans from the government

(a) Pursuant to the Council of Ministers' resolution number 169 dated 11 Sha'ban 1419H, the net dues of the Government to the Group and the net dues of the Group to the Government were determined in accordance with rules and procedures stipulated for in the minutes of meetings signed by the Minister of Industry and Electricity and the Minister of Finance and National Economy dated 27 Jumad Thani 1418H corresponding to 29 October 1997. The net difference payable to the Government by the Group, as determined at the Group of the business day preceding the issuance of the Royal Decree for the incorporation of the Group, is a non-interest bearing long term loan with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Group. The loan is to be revisited later, subject to the financial condition of the Government and the Group.

The minutes of the meeting held on 21 Rajab 1422H corresponding to 8 October 2001 between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Group from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Group finalised the amount due which included the claims of the Group and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on 15 Rajab 1426H corresponding to 19 August 2005 which brought the balance of Government loan amounted to SR 14.9 billion.

(b) The Council of Ministers approved in its meeting held on Monday 12 Jumad Awal 1431H corresponding to 26 April 2010 to grant the Group a loan amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Group within 2 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. This loan was fully drawn as at 31 March 2017 (31 December 2016: fully drawn, 1 January 2016: fully drawn). The Group has recognised the amount received from the Government loan above discounted to its present value.

(c) The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Group a loan amounting to SR 51.1 billion repayable over 25 years. The loan has no interest charge and will be paid to the Group within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. An amount of SR 38.3 billion from this loan has been drawn as at 31 March 2017 (31 December 2016: SR 38.3 billion and 1 January 2016: SR 38.3 billion). The Group has recognised the amount received from the Government discounted to its present value.

However, the loan agreement provides that the loan amount will be reduced by proceeds collected by the Group due to any increase in the residential sector tariff. In light of the latest tariff amendments, the Group is currently determining the effect on the loan maturity or future payments not drawn yet.

(All amounts in thousands Saudi Riyals unless otherwise stated)

22 Other non-derivative financial liabilities measured at amortised cost (continued)

22.3 Loans from the government (continued)

(d) The Council of Ministers approved in its meeting held on Monday 9 Jumad Awal 1435H corresponding to 10 March 2014 to grant the Group a loan amounting to SR 49.4 billion repayable over 25 years. The loan is interest free and will be paid to the Group within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. An amount of SR 16.1 billion from this loan has been drawn as at 31 March 2017 (31 December 2016: SR 16.1 billion and 1 January 2016: SR 14.1 billion). The Group has recognised the amount received from the Government loan above discounted to its present value.

23 Deferred government grant

Deferred government grants amounting to SR 46.4 billion as at 31 March 2017 (31 December 2016: SR 46.7 billion and 1 January 2016: SR 46 billion) representing the difference between the loan amounts received from the Government and the discounted present value of these loans (described in note 22).

24 Derivative financial instruments

The Group has interest rate hedging contracts with several banks to hedge the fluctuations in interest rates on loans for an amount of SR 9.76 billion on 31 March 2017 (31 December 2016: SR 9.76 billion and 1 January 2016: SR 12.44 billion) which includes a US Dollar portion representing approximately 15% of the notional amount. The hedging contracts are based on the swap between the Group and the banks of fixed rates against floating rates on the original loan amounts every six-months.

25 Government payable

The government payable includes SR 57 billion representing the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012 pursuant to the ministerial minutes of meeting and resolutions which resolved to transfer the Group's liability to Saudi Arabian Oil Company ("Saudi Aramco") to the account of the Ministry of Finance according to specific procedures and approvals, the latest was before the end of 2013. Payable to the government also includes SR 0.9 billion related to assets transferred by the Royal Commission for Jubail and Yanbu.

26 Employees' benefits obligation

	31 March 2017	31 December 2016
Employees end of Service Benefits	**5,444,763**	5,467,696
Employees savings fund	**1,052,855**	1,013,842
Human resources productivity improvement program	**352,392**	151,500
	6,850,010	6,633,038

Employees' end of service benefits

The Group carried out an employees' benefits actuarial valuation, using the projected unit credit method, of its liability as at 31 December 2016 arising from the end of service benefits to qualifying in-service employees.
The economic assumptions for the valuations are shown in the table below.

	31 December 2016	**1 January 2016**
Gross discount rate	3.7%	3.2%
Price inflation	2.9%	2%
Salary inflation	4.9%	4%
Net discount rate	(1.14%)	(0.77%)

(All amounts in thousands Saudi Riyals unless otherwise stated)

26 Employees' benefits obligation (continued)

Employees' end of service benefits (continued)

The key demographic assumptions for the valuations are shown in the table below.

Withdrawal rate	5.0%
Assumed retirement age	58 years and 3 months (Gregorian calendar) / 60 years (Hijri calendar). Employees older than the normal retired age are assumed to retire immediately on valuation date.
Pre-retirement mortality	The Group based the pre-retirement mortality on the life table for Saudi Arabia, sourced from the World Health Organisation's Global Health Observatory Data Repository.

The reconciliation of the defined benefit obligation ("DBO") for the year ending 31 December 2016, as required by paragraphs 140(a) and 141 (a-h) of IAS 19, are presented in the table below.

	Income statement	**Re-measurement**	**Cash movements**	**Total**
As at 1 January 2016				**(6,057,886)**
Current service cost	(439,924)	-	-	**(439,924)**
(Interest cost)	(232,408)	-	-	**(232,408)**
Gain/(loss) from change in financial assumptions	-	220,317	-	**220,317**
Experience gains/(losses)		33,591	-	**33,591**
Benefit payments	-	-	1,008,614	**1,008,614**
As at 31 December 2016	**(672,332)**	**253,908**	**1,008,614**	**(5,467,696)**
As at 1 January 2017				**(5,467,696)**
Current service cost	(106,717)	-	-	**(106,717)**
Interest cost	(45,601)	-	-	**(45,601)**
Benefit payments	-	-	175,251	**175,251**
Expected as at 31 March 2017	**(152,318)**	**-**	**175,251**	**(5,444,763)**

27 Contingent liabilities

(a) There is a dispute between the Group and Saudi Aramco for handling crude oil fees. The disputed amount since the Group's inception on 5 April 2000 to 31 March 2017 is approximately SR 4.7 billion (31 December 2016: SR 4.7 billion and 1 January 2016: SR 4.4 billion). The Group's management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above. Accordingly, the difference has not been recorded in the Group's accounting records. In addition, Saudi Aramco is supplying the Group with light fuel oil rather than heavy fuel oil to one of its stations. This has resulted in an accumulated difference of SR 2.7 billion as on 31 March 2017 (31 December 2016: SR 2.6 billion and 1 January 2016: SR 2 billion) not accounted for under liabilities in the Group's accounting records.

(b) Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2016, estimated at SR 3.1 billion. The Group believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned government agency and accordingly, is governed by the Council of Ministers' resolution no. 169 dated 11 Sha'aban 1419H and Council of Ministers' resolution no. 327 dated 24 Ramadan 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.

(c) The Group has provided guarantees to some of the commercial banks against its share for financing a loan granted to some of its investee companies. The guarantee amounted to US$ 18 million equivalent to SR 68 million as of 31 March 2017 (31 December 2016: US$ 18 million equivalent to SR 68 million and 1 January 2016: US$ 15 million equivalent to SR 56 million).

27 Contingent liabilities (continued)

Settlement of the dispute with Saudi Aramco

The Group provides electricity power to governmental agencies, ministries and Saudi Aramco. The tariffs applied are approved by the Council of Ministers and are similar to the tariffs applied to other consumers, except for the tariff used for Saline Water Conversion Corporation (SWCC) which is in accordance with a Government resolution. As for the residential property of Saudi Aramco, the Group believes that these should be charged the commercial tariff. However, Saudi Aramco has objected to this tariff and is settling the electricity supplied to these the properties based on the industrial tariff.

The Council of Ministers has issued the resolution number 114 on 10 Rabi Thani 1430H corresponding to 5 April 2009 to end this dispute and to charge Saudi Aramco on the basis of the residential and commercial tariff instead of the industrial tariff. The Electricity and Co-generation Regulatory Authority ("the regulator") will have to specify the residential and commercial enterprises of Saudi Aramco. Accordingly, the Group, Saudi Aramco and the regulator held several meetings to settle this matter where the regulator has specified the disputed residential and commercial enterprises of Saudi Aramco.

The Group has executed the regulator decree number 49/432 dated 8 Jumad Awal 1432H corresponding to 11 April 2011 classifying Saudi Aramco electricity consumption tariff starting from 1 January 2012. Accordingly, the disputed residential and commercial enterprises mentioned above were identified, and the agreed upon tariff were applied on Saudi Aramco's consumption.

Further, the Group has also completed the calculation of the previous years' consumption since date of inception up to 31 December 2011 according to regulator decree mentioned above and has submitted the invoices to Saudi Aramco with total amount of SR 729 million.

During 2013, the Group has completed the reconciliation procedures with Saudi Aramco for these revenues and recognised them in the condensed consolidated statement of profit or loss. The Group is currently following up with Saudi Aramco the procedures to collect this amount.

28 Capital commitments

(a) These comprise the unexecuted portion – as of the date of interim consolidated statement of financial position - of capital contracts conducted by the Group for the erection and installation of power plants and other assets approximately amounting to SR 195 billion (31 December 2016: SR 192 billion and 1 January 2016: SR 88.55 billion).

(b) The Group has long-term energy purchase agreements with independent power providers whereby the Group has undertaken to purchase all energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years, and renewable for further periods by mutual consent of both parties, in addition to the future commitments provided by the Group to finance certain investees in the form of subordinate loans or common equity amounting to SR 0.7 billion (31 December 2016: SR 0.7 billion and 1 January 2016: SR 0.7 billion).

29 Zakat

The Group settled zakat payable as of 31 December 2008 and filed zakat returns for the year 2009 to 2016. These returns are being reviewed by the General Authority for zakat and income ("DZIT"). A claim with a total of SR 375 million has been received for these years but the Group has rejected this claim and does not expect this claim to result in any future obligation.

The Group did not record Zakat for the period ended 31 March 2017 (2016: Nil) further to the negative zakat base relating to the reporting period. The Zakat expense shown in the condensed consolidated interim statement of profit or loss relates to Group's interest in joint operations.

30 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Holding Company by the weighted average number of ordinary shares in issue during the period.

(All amounts in thousands Saudi Riyals unless otherwise stated)

30 Earning per share (continued)

Diluted

Diluted earnings per share is calculated by dividing the profit for the period by the adjusted weighted average number of ordinary shares outstanding during the period, to assume conversion of all dilutive potential shares into ordinary shares.

As at 31 March 2017 and 31 March 2016, diluted earnings per share is equal to basic earnings per share.

	Three- month ended	
	31 March 2017	31 March 2016
Earnings		
Profit (loss) for the period	**4,935,780**	(789,305)
Weighted average number of ordinary shares in issue	**4,166,593,815**	4,166,593,815
Basic and diluted earnings per share (SAR)	**1.18**	(0.19)

31 Related-party transactions

The Group ultimate controlling party is the Government of the Kingdom of Saudi Arabia. Saudi Aramco and Saline Water Conversion Corporation are companies under common control (both companies ultimately controlled by the Government of the Kingdom of Saudi Arabia).

The following transactions were carried out with related parties:

(a) sales of electricity

	Three- month ended	
	31 March 2017	31 March 2016
Sales of electricity:		
- Group ultimate controlling party	**2,127,690**	2,186,116
- Entities under control of the Group ultimate controlling party		
Saudi Aramco	**75,743**	79,808
Saline Water Conversion Corporation	**55,950**	40,071
Total	**2,259,383**	2,305,995

(b) purchases of energy and municipality fees

	Three- month ended	
	31 March 2017	31 March 2016
Purchases of energy:		
- Entities under control of the Group ultimate controlling party		
Aramco	**1,729,742**	3,172,964
Saline Water Conversion Corporation	**166,894**	132,620
- Joint operations		
Dhuruma Electricity Company	**162,281**	174,369
Rabigh Electricity Company	**242,916**	252,880
Hajr for Electricity Production Company	**237,052**	210,371
	2,538,885	3,943,204
Municipality fees:		
- Group ultimate controlling party	**-**	118,724
	-	118,724
	2,538,885	4,061,928

(All amounts in thousands Saudi Riyals unless otherwise stated)

31 Related-party transactions (continued)

The Group purchases fuel from Saudi Aramco and power from Saline Water Conversion Corporation at rates stipulated for in the respective governmental resolutions.

(c) period-end balances arising from sales of electricity/purchases of energy/municipality fees

	31 March 2017	31 December 2016	1 January 2016
Due from related parties:			
- Group ultimate controlling party			
- Entities under control of the Group ultimate controlling party			
Saudi Aramco	**1,561,909**	1,320,944	1,315,669
Saline Water Conversion Corporation	**493,027**	439,451	227,540
Total receivables from related parties	**2,054,936**	1,760,395	1,543,209
Due to related parties:			
- Group ultimate controlling party			
Transferred from Saudi Aramco	**57,200,589**	57,200,589	57,200,589
Municipality fees	**-**	6,119,546	5,390,308
	57,200,589	63,320,135	62,590,897
- Entities under control of the Group ultimate controlling party			
Saudi Aramco	**84,486,129**	83,651,364	73,668,251
Transferred to Government payables	**57,200,589**	57,200,589	57,200,589
Net payable to Saudi Aramco	**27,285,540**	26,450,775	16,467,662
Saline Water Conversion Corporation	**10,547,937**	10,430,862	10,049,688
Dhuruma Electricity Company	**121,252**	129,236	123,433
Hajr for Electricity Production Company	**132,319**	134,110	145,441
Water and Electricity Company	**77,278**	74,566	107,245
Rabigh Electricity Company	**79,118**	153,536	84,998

(d) loans and grants from related parties

	31 March 2017	31 December 2016	1 January 2016
Loans and grants from the government:			
- Group ultimate controlling party			
Government Loan	**42,899,794**	42,411,517	39,991,489
Deferred government grant	**46,421,219**	46,667,608	46,035,284
	89,321,013	89,079,125	86,026,773

(a) key management compensation

Key management includes directors (executive and non-executive) and members of the Executive Committee. The compensation paid or payable to key management for employee services is shown below:

	31 March 2017	31 December 2016
Salaries and other short-term benefits	**1,164**	3,680
Employees' end of service benefits paid	**9,523**	-
Total	**10,687**	3,680

32 Non-cash transactions

Investing and financing transactions that do not require the use of cash or cash equivalents are excluded from the statement of cash flows.

For the three-month period ended 31 March 2017, the principal non-cash transaction is the write-off of the Municipality levy for which a decree of the Ministers Council was issued and which decided to waive these fees amounting to SR 6,119,546. This transaction was considered a non-cash transaction.