

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

Condensed consolidated interim financial statements (unaudited)
Together with independent auditors report on review
For the three-month and six-month periods ended 30 June 2021

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Condensed consolidated interim financial statements (unaudited) and independent auditor's review report

For the three-month and six- month periods ended 30 June 2021

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كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

Independent auditor's report on review of condensed consolidated interim financial statements

To the Shareholders of Saudi Electricity Company – A Saudi Joint Stock Company

Introduction

We have reviewed the accompanying 30 June 2021 condensed consolidated interim financial statements of Saudi Electricity Company ("the Company") and its subsidiaries ("the Group") which comprise:

- the condensed consolidated interim statement of financial position as at 30 June 2021.
- the condensed consolidated interim statement of income for the three-month and six-month periods ended 30 June 2021.
- the condensed consolidated interim statement of other comprehensive income for the three -month and six-month periods ended 30 June 2021.
- the condensed consolidated interim statement of changes in equity for the six-month period ended 30 June 2021.
- the condensed consolidated interim statement of cash flows for the six-month period ended 30 June 2021; 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 30 June 2021 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.

KPMG Professional Services

Hani Hamzah A. Bedairi
License No: 460



Date: 1 Muharram 1443 H
Corresponding to: 9 August 2021

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كي بي إم جي للاستشارات المهنية شركة مهنية مساهمة مغلقة، مسجلة في المملكة العربية السعودية، رأس مالها (١٥,٠٠٠,٠٠٠) ريال سعودي مدفوع بالكامل، المسماة سابقاً "شركة كي بي إم جي الفوزان وشركاه محاسبون ومراجعون قانونيون". وهي عضو غير شريك في الشبكة العالمية لشركات كي بي إم جي المستقلة والتابعة لكي بي إم جي العالمية المحدودة، شركة انجليزية محدودة بضمان. جميع الحقوق محفوظة.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Condensed Consolidated Interim Statement of Financial Position as at 30 June 2021 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

	Notes	30 June 2021 (unaudited)	31 December 2020 (audited)
Assets			
Non-current assets			
Property, plant and equipment, net	10	438,905,087	436,779,330
Right of use assets, net		81,680	111,331
Investment properties		451,105	452,652
Intangible assets, net		443,241	469,568
Equity accounted investees		1,459,249	1,464,936
Financial assets at amortised cost		34,114	34,114
Financial assets through other comprehensive income		349,618	349,618
Total non-current assets		441,724,094	439,661,549
Current assets			
Inventories, net	11	4,714,783	4,937,483
Receivables from sale of electricity, net	12	40,058,030	34,968,645
Loans and advances		569,478	623,324
Prepayments and other receivables	13	1,529,556	719,480
Cash and cash equivalents		4,532,461	4,539,092
Total current assets		51,404,308	45,788,024
Total assets		493,128,402	485,449,573
Equity and liabilities			
Equity			
Share capital		41,665,938	41,665,938
Statutory reserve		4,153,366	4,153,366
General reserve		702,343	702,343
Other reserves		(451,891)	(742,498)
Contractual reserve – Mudaraba instrument	15	860,593	927,375
Retained earnings		33,948,849	33,147,465
Total equity before Mudaraba Instrument (1)		80,879,198	79,853,989
Fair value for Mudaraba instrument		159,169,000	159,169,000
Fair value adjustment of Mudaraba instrument		8,751,563	8,751,563
Mudaraba instrument (2)		167,920,563	167,920,563
Total equity (1+2)		248,799,761	247,774,552
Liabilities			
Non-current liabilities			
Long term loans	16.2	58,353,341	56,145,525
Long term Sukuk	16.1	33,742,181	44,160,434
Employees' benefits obligation		7,358,619	7,259,950
Non-current portion of deferred revenue		59,306,749	56,619,625
Deferred government grants		1,505,162	1,089,377
Derivative financial instruments	16.3	676,837	937,806
Asset retirement obligations		264,878	270,425
Non-current portion of lease liabilities		52,480	62,067
Total non-current liabilities		161,260,247	166,545,209
Current liabilities			
Short term loans and facilities	16.2	12,784,526	13,413,842
Short term Sukuk	16.1	10,418,540	-
Trade payables		17,254,885	14,145,642
Accruals and other liabilities		24,741,358	26,289,101
Provision for other liabilities and charges		795,505	365,411
Refundable deposits from customers		1,999,386	1,997,558
Advances from subscribers		13,032,065	12,710,153
Current portion of deferred revenue		1,898,537	2,024,808
Current portion of lease liabilities		29,064	56,085
Derivative financial instruments	16.3	114,528	127,212
Total current liabilities		83,068,394	71,129,812
Total liabilities		244,328,641	237,675,021
Total equity and liabilities		493,128,402	485,449,573

The accompanying notes from 1 to 27 form an integral part of these condensed consolidated interim financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)
Condensed Consolidated Interim Statement of Income (unaudited)

For the three-month and six-month periods ended 30 June 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

	Note	For the three-month ended 30 June		For the six-month ended 30 June	
		2021	2020	2021	2020
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating revenue	20	18,936,091	16,668,463	32,284,462	28,066,183
Cost of revenue	21	(12,122,746)	(15,879,499)	(22,543,040)	(28,469,569)
Gross profit / (loss)		6,813,345	788,964	9,741,422	(403,386)
Other (expenses) / income, net	22	(274,636)	573,254	(141,582)	956,362
Fuel supply adjustment		-	(597,355)	-	(837,771)
Provision for receivable from consumption of electricity and other receivables, net		147,893	(50,149)	(470,347)	(36,396)
General and administrative expenses		(224,261)	(364,235)	(407,368)	(600,113)
Operating profit / (loss) for the period		6,462,341	350,479	8,722,125	(921,304)
Finance income		(42,271)	625	984	953
Finance expense		(579,849)	(1,703,117)	(1,173,440)	(2,800,567)
Finance costs, net	23	(622,120)	(1,702,492)	(1,172,456)	(2,799,614)
Share of (loss) / profit from equity accounted investees		(3,435)	2,503	(22,865)	196
Profit / (loss) for the period before zakat and tax		5,836,786	(1,349,510)	7,526,804	(3,720,722)
Zakat / deferred tax (expense) / income	19	(8,712)	480,948	(9,601)	410,700
Net profit / (loss) for the period		5,828,074	(868,562)	7,517,203	(3,310,022)
Earnings / (loss) per share (expressed in SAR)					
Basic and diluted earnings / (loss) per share	24	0.94	(0.21)	0.89	(0.79)

The accompanying notes from 1 to 27 form an integral part of these condensed consolidated interim financial statements.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Condensed consolidated interim statement of other comprehensive income (unaudited)**

For the three-month and six-month periods ended 30 June 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

	For the three months ended		For the six months ended 30	
	30 June		June	
	2021	2020	2021	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net profit / (loss) for the period	5,828,074	(868,562)	7,517,203	(3,310,022)
Other comprehensive income/ (loss) :				
<u>Items that may be reclassified subsequently to condensed consolidated statement of income:</u>				
Cash flow hedges – effective portion	49,115	(147,982)	290,875	(594,823)
Total items that may be reclassified to condensed consolidated income statement	49,115	(147,982)	290,875	(594,823)
<u>Items that will not be reclassified subsequently to condensed consolidated statement of income:</u>				
Re-measurement of employees' benefits obligation	(268)	-	(268)	-
Total items that will not be reclassified to condensed consolidated statement of income	(268)	-	(268)	-
Other comprehensive income / (loss) for the period	48,847	(147,982)	290,607	(594,823)
Total comprehensive income / (loss) for the period	5,876,921	(1,016,544)	7,807,810	(3,904,845)

The accompanying notes from 1 to 27 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)
For the six-month ended 30 June 2021
(All amounts in thousands Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	General reserve	Other reserves				Contractual reserve for Mudaraba Instrument	Retained earnings	Total equity before Mudaraba Instrument (1)	Mudaraba instrument			Total equity (1+2)
				Fair value of derivatives	Employees' benefits obligation	Financial asset at FVOCI	Total other reserve				Fair value of Mudaraba instrument	Fair value adjustment for Mudaraba instrument	Mudaraba instrument (2)	
Balance as at 1 January 2020 (audited)	41,665,938	3,850,811	702,343	(636,373)	551,366	52,445	(32,562)	-	27,383,342	73,569,872	-	-	-	73,569,872
Net (loss) for the period	-	-	-	-	-	-	-	-	(3,310,022)	(3,310,022)	-	-	-	(3,310,022)
Other comprehensive loss	-	-	-	(594,823)	-	-	(594,823)	-	-	(594,823)	-	-	-	(594,823)
Total comprehensive loss	-	-	-	(594,823)	-	-	(594,823)	-	(3,310,022)	(3,904,845)	-	-	-	(3,904,845)
Dividends to shareholders (Notes 13)								(749,291)	(749,291)					(749,291)
Balance at 30 June 2020 (unaudited)	41,665,938	3,850,811	702,343	(1,231,196)	551,366	52,445	(627,385)	-	23,324,029	68,915,736	-	-	-	68,915,736
Balance at 1 January 2021 (audited)	41,665,938	4,153,366	702,343	(1,102,482)	282,996	76,988	(742,498)	927,375	33,147,465	79,853,989	159,169,000	8,751,563	167,920,563	247,774,552
Net income for the period	-	-	-	-	-	-	-	-	7,517,203	7,517,203	-	-	-	7,517,203
Other comprehensive Income	-	-	-	290,875	(268)	-	290,607	-	-	290,607	-	-	-	290,607
Total comprehensive income	-	-	-	290,875	(268)	-	290,607	-	7,517,203	7,807,810	-	-	-	7,807,810
Transfer to Contractual reserve – Mudaraba instrument	-	-	-	-	-	-	-	3,799,203	(3,799,203)	-	-	-	-	-
Paid from the Contractual reserve	-	-	-	-	-	-	-	(3,865,985)		(3,865,985)	-	-	-	(3,865,985)
Dividends to shareholders (Notes 13)	-	-	-	-	-	-	-	(2,916,616)	(2,916,616)		-	-	-	(2,916,616)
Balance at 30 June 2021 (unaudited)	41,665,938	4,153,366	702,343	(811,607)	282,728	76,988	(451,891)	860,593	33,948,849	80,879,198	159,169,000	8,751,563	167,920,563	248,799,761

The accompanying notes from 1 to 27 form an integral part of these condensed consolidated interim financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of cash flows (unaudited)
For the six-month ended 30 June 2021
(All amounts in thousands Saudi Riyals unless otherwise stated)

	30 June 2021	30 June 2020
	(unaudited)	(unaudited)
Cash flow from operating activities		
Profit / (loss) for the period before zakat and income tax	7,526,804	(3,720,722)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	9,542,607	9,270,370
Depreciation of right of use assets	29,744	82,638
Amortisation of intangible assets	33,327	29,496
Finance costs, net	1,172,456	2,799,614
Employees' benefits obligation	304,761	206,743
Provision of inventory	65,375	75,817
Provision for receivable from consumption of electricity and other receivables, net	470,347	36,396
Share of loss / (profit) from equity accounted investees	22,865	(196)
Provision and other charges	529,363	8,427
Amortisation of deferred government grant	(27,996)	(797,375)
Depreciation of investment property	1,547	1,581
Gain on disposal of property, plant and equipment	(35,609)	(964)
Cash flow after adjustment of non-cash item	19,635,591	7,991,825
<i>Changes in working capital:</i>		
Inventories	157,325	125,130
Receivables from sale of electricity	(5,597,446)	(7,511,786)
Prepayments and other receivables	(772,362)	(213,934)
Loans and advances	53,846	67,330
Trade payables	3,109,243	6,444,326
Accruals and other liabilities	1,153,329	697,405
Refundable deposits from customers	1,828	(1,547)
Advances from subscribers	321,912	(3,914,638)
Deferred revenue	2,560,853	5,878,686
Employee benefits' obligation paid	(261,566)	(24,742)
Cash generated from operating activities	20,362,553	9,538,055
Zakat paid	(108,870)	(4,105)
Net cash generated from operating activities	20,253,683	9,533,950
Cash flow from investing activities		
Purchase of property, plant and equipment	(13,775,495)	(9,519,486)
Proceeds from sale of property, plant and equipment	47,412	91
Proceeds from financial investments at amortised cost	(7000)	2,117
Net cash used in investing activities	(13,735,083)	(9,517,278)
Cash flow from financing activities		
Proceeds from loans	8,137,587	6,963,381
Repayments of loans	(6,437,296)	(3,998,686)
Payment of Mudaraba Coupon	(3,865,985)	-
Payment for lease liabilities	(37,667)	(90,640)
Receipt of government grant	443,781	177,657
Dividends paid	(2,923,340)	(713,601)
Net finance costs paid	(1,842,311)	(2,734,132)
Net cash used in financing activities	(6,525,231)	(396,021)
Net change in cash and cash equivalents	(6,631)	(379,349)
Cash and cash equivalents at the beginning of the period	4,539,092	1,918,304
Cash and cash equivalents at the end of the period	4,532,461	1,538,955

The accompanying notes from 1 to 27 form an integral part of these condensed consolidated interim financial statements.

1 CORPORATE INFORMATION

The Saudi Electricity Company (“Company”) was formed pursuant to the Council of Ministers’ Resolution Number 169 dated 11 Sha’ban 1419H corresponding to 29th 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 governmental corporation belonging to the Ministry of Industry and Electricity (11 operating projects that covered various areas in the north of the Kingdom) into the Company.

The Company was founded as a Saudi joint stock company pursuant to the Royal Decree No. M/16 dated 6 Ramadan 1420H corresponding to 13th December 1999, in accordance with the Council of Ministers’ Resolution Number 153, dated 5th Ramadan 1420H corresponding to 12th December 1999 and the Minister of Commerce’s Resolution Number 2047 dated 30 Dhul-Hijjah 1420H corresponding to 5th April 2000 as a Saudi joint stock company according to the Commercial Registration by Riyadh Number 1010158683, dated 28 Muhurram 1421H corresponding to 3 May 2000.

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

The Company is a tariff-regulated company of electricity. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Water & Electricity Regulatory Authority (the “Authority”) which was established on 13th 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 28th 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 5th October 2009, which granted the Board of Directors of the Water & Electricity 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 electricity consumption at peak times. This tariff was implemented starting 19 Rajab 1431H, corresponding to 1st July 2010.

On 17th Rabi Awal 1437H corresponding to 28th December 2015, Council of Ministers issued its resolution (Number 95), to increase price of electricity effective from 18 Rabi Awal 1437H corresponding to 29th December 2015, and to increase electricity consumption tariff for all categories with the highest band being 32 Halala per Kilowatts/hour, which came into effect from 1 Rabi Thani 1437H corresponding to 11th January 2016.

On 24 of Rabi Awal 1439H corresponding to 12 December 2017, the Council of Ministers issued a resolution (Number 166) to increase the prices of electricity and electricity consumption rates for some categories of subscribers with the highest band being 30 Halala per Kilowatts/hour. This change was effective from 1 January 2018 without referring to the previous highest band of 32 Halala. According to Royal Decree No. 14006 dated 23 Rabi 'al-Awwal 1439 H corresponding to 11 December 2017, the Saudi Electricity Company shall pay a government fee equivalent to the difference between the previous and the new tariffs. On 21 of Rabi Awal, 1442 Royal Decree No. (16031) was issued to cancel the government fee.

In light of a letter; No. 2057-dated 29/03/1442 corresponding to 15th November 2020, received by the Company from the Minister of Energy, Chairman of the Ministerial Committee for restructuring the electricity sector; the government fee has been cancelled as of 1 January 2021, with the aim of Ministerial Committee to restructure the electricity sector in Saudi Arabia and approved the organization of revenues of Saudi Electricity Company (Note 21).

1 CORPORATE INFORMATION – CONTINUED

Pursuant to Royal Order No. 2719 - dated 14/01/1438 corresponding to 15th October 2016, and Ministry of Finance letter No. 5627 - dated 02/06/1441 corresponding to 27th January 2020, the balancing account has been activated by the Ministry of Finance starting from 2019 and based on the Ministry of Finance letter No. 8491 dated 16/08/1442 corresponding to 29th March 2021, regulated revenues for the Company were approved according to the minimum operating cost model for determining the required revenue for the fiscal year 2020. In line with the letter; No. 2057-dated 29 Rabi Awal 1442 corresponding to 15th November 2020, received by the Company from the Minister of Energy, Chairman of the Ministerial Committee for restructuring the electricity sector, the required revenue methodology has been approved for the Company, which is according to the Regulated asset base model using a specified weighted average cost of capital for the year 2021(Note 20).

According to the 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.

Saudi Electricity Company is referred to as (“Company”) or together with its subsidiaries and joint operations as (“Group”) throughout the financials. The subsidiaries and joint operations are listed below.

Subsidiary Company’s name	Country of registration and place of business	Ownership in ordinary shares %		Principal activity
		30 June 2021	31 December 2020	
National Grid S.A. Company “Grid Company”	Kingdom of Saudi Arabia	100	100	Transmission
Dawiyat Telecommunication Company *	Kingdom of Saudi Arabia	100	100	Telecommuni- cation
Electricity Sukuk Company	Kingdom of Saudi Arabia	100	100	Financing
Saudi Electricity for Projects Development Co. (business not commenced)	Kingdom of Saudi Arabia	100	100	Projects Management
Saudi Electricity Global Sukuk Company	Cayman Islands	100	100	Financing
Saudi Electricity Global Sukuk Company – 2	Cayman Islands	100	100	Financing
Saudi Electricity Global Sukuk Company – 3	Cayman Islands	100	100	Financing
Saudi Electricity Global Sukuk Company – 4	Cayman Islands	100	100	Financing
Saudi Electricity Global Sukuk Company – 5	Cayman Islands	100	100	Financing
Saudi Power Procurement Company	Kingdom of Saudi Arabia	100	100	Main buyer
Dawiyat Integrated Company for Telecommunications and Information Technology **	Kingdom of Saudi Arabia	100	100	Telecommuni- cation
Saudi Energy Production Company	Kingdom of Saudi Arabia	100	100	Energy Production

* Dawiyat Telecommunication Company obtained a license from the Communications and Information Technology Commission to provide rental services for communications facilities.

** Dawiyat Integrated Company for Telecommunications and Information Technology obtained from the Communications and Information Technology Commission a license to provide wholesale services for the infrastructure.

1 CORPORATE INFORMATION – CONTINUED

These condensed consolidated interim financial statements include Group’s share in the following joint operation:

	Country of registration and place of business	Holding company ownership percentage shares%	
		30 June 2021	31 December 2020
Independent Power Producers			
Hajr for Electricity Production Company	Kingdom of Saudi Arabia	50	50
Rabigh Electricity Company	Kingdom of Saudi Arabia	20	20
Dhuruma Electricity Company	Kingdom of Saudi Arabia	50	50
Al Mourjan for Electricity Production Company	Kingdom of Saudi Arabia	50	50

Joint Venture

Dawiyat Telecommunication Company established the Global Data Centre Company on 11 September 2018 with shareholding of 50% in the Kingdom of Saudi Arabia. Its main activity is the extension and installation of computer networks, communications, operating systems, computer consultancy activities and computer facilities management information. The investment has been accounted for using the equity method of accounting.

2 SIGNIFICANT EVENTS

Since the beginning of 2020, the Coronavirus (COVID-19) pandemic has adversely impacted the world, causing disturbances in the economic and commercial sectors in general, both globally and locally. The Kingdom of Saudi Arabia has taken incentive measures and initiatives to support the economy in order to reduce the adverse effects of that pandemic.

The Group management continuously monitors all other variables that may affect the activities of the Group and The Management believes that there is no significant impact on the Group's results for the period ended 30 June 2021 but given the inability to determine the time period for this pandemic and the precautionary measures to be taken in the future it is currently difficult to determine the size and the extent of the financial impact on the results of the Group accurately and until the date of the issuance of these financial statements. Despite this, the Group does not expect that there will be significant future adverse impacts related to the going concern of the Group's operations.

3 BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six-month period ended 30 June 2021 have been prepared in accordance with IAS 34 ‘Interim financial reporting’ as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Chartered and Professional Accountants.

These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2020.

4 USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of the Group's condensed consolidated interim financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants 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.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the Group's annual consolidated financial statements as of 31 December 2020.

5 BASIS OF MEASUREMENT

The condensed consolidated financial statements have been prepared on a historical cost basis, except for:

- financial assets through other comprehensive income, financial assets and financial liabilities including derivative financial instruments and Mudaraba instrument that are measured at fair value;
- employees' benefits obligations at the present value of future obligations using the projected unit credit method.

These condensed consolidated interim financial statements of the Group have been presented in Saudi Riyal, which also represents the functional and presentation currency. All values are shown to the nearest thousand SAR unless otherwise stated.

6 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparation of these condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2020.

Accounting policies adopted in preparation of these condensed consolidated interim financial statements are described in note 6 of the Group's consolidated financial statements for the year ended 31 December 2020.

The effect of changes in accounting policies as a result of applying the new international financial reporting standards

There are no new standards issued, however, several amendments to the standards are in effect from 1 January 2021, which have been explained in the Group's annual financial statements and that have no impact on the Group's condensed consolidated interim financial statements.

7 FINANCIAL RISK MANAGEMENT

7.1 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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming the market participants act in their economic best interest.

7 FINANCIAL RISK MANAGEMENT - CONTINUED

7.1 Fair-value measurement - continued

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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).

For assets and liabilities that are recognised in the condensed consolidated interim financial statements 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:

As of 30 June 2021 (Unaudited)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Financial assets through other comprehensive income	-	-	349,618	349,618
Total assets	-	-	349,618	349,618
Liabilities				
Derivative Financial Instruments	-	791,365	-	791,365
Financial instruments liabilities	-	791,365	-	791,365
Equity				
Mudaraba instrument	-	-	159,169,000	159,169,000
Total Equity financial instrument	-	-	159,169,000	159,169,000

As of 31 December 2020 (Audited)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Financial assets through other comprehensive income	-	-	349,618	349,618
Total assets	-	-	349,618	349,618
Liabilities				
Derivative Financial Instruments	-	1,065,018	-	1,065,018
Financial instruments liabilities	-	1,065,018	-	1,065,018
Equity				
Mudaraba instrument	-	-	159,169,000	159,169,000
Total Equity financial instrument	-	-	159,169,000	159,169,000

Valuation techniques used in measuring Level 2 fair value

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.

7 FINANCIAL RISK MANAGEMENT - CONTINUED

7.1 Fair-value measurement - continued

Fair value measurements using significant unobservable inputs (Level 3)

The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current default swap or bond prices.

The Group has four financial assets financial asset through OCI i.e.

- 8% Stake in Shuaiba Water and Electricity Company;
- 8% Stake in Shuqaiq Water and Electricity Company;
- 5% Stake in Jubail Water and Power Company;
- 8% Stake in Shuaiba Expansion Holdings Company.

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.

Projected dividends and cost of equity are the main input variables for the utilised model for the fair valuation of financial assets at fair value through other comprehensive income.

There have been no transfers between level 1, level 2 and level 3 fair values during the six months ended 30 June 2021.

Movement in level 3 fair value financial instruments represented in financial assets at other comprehensive income during the period / year is as follows:

	<u>30 June 2021</u>	<u>31 December 2020</u>
	<u>Unaudited</u>	<u>Audited</u>
Balance at the beginning of the period/year	349,618	325,075
The change in the fair value of financial assets through other comprehensive income	-	24,543
Balance at the end of the period / year	<u>349,618</u>	<u>349,618</u>

Fair value of financial assets and liabilities measured at amortised cost

The fair value of the financial assets and liabilities approximates their carrying amount.

Mudaraba instrument

The fair value of the Mudaraba is determined based on an income approach where perpetual cash flows based on the profit rate of the instrument are discounted at an appropriate discount rate of 4.3% derived based a cost of debt reflecting a yield to maturity of Kingdom of Saudi Arabia Government Sukuk with longest maturity plus a premium for the perpetual nature of the instrument based on the regulatory weighted average cost of capital is estimated at 6%.

8 SEASONALITY OF OPERATIONS

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. Therefore, the results of operations for this interim period may not be an accurate indication of the actual results for the full year.

9 OPERATING SEGMENTS AND THE FUTURE RESTRUCTURING OF THE GROUP'S ACTIVITIES

The main operating activities of the Group are divided into generation, transmission, distribution and subscriber services which are complementary to each other in the production and delivery of electricity to the consumer. The Group's revenues are currently realized from the sale of energy to the final customer according to the official tariff which is regulated decided. All operations are carried out within the Kingdom.

The description of the main works for each activity is as follows:

Generation: Generating and saving electricity.

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

Distribution and Subscriber Services: Receiving and distributing power from transmission networks to subscribers. Issuance and distribution of consumption bills and collection.

Principal buyer: Purchase of power within Group companies and from other power producer.

The Group is working on implementing an integrated plan aimed at segregating the activities into independent separate companies, as part of the Kingdom of Saudi Arabia's plan to restructure the electricity sector. Work is underway to develop legal arrangements for it.

The Company has entered into agreements with its subsidiaries (including Saudi Power Procurement Company) to lease electricity, transmission networks, buy and sell energy for both the generation and distribution activities. This will enable various stakeholders to measure the performance and results of the separate companies.

As at the date of approval of these condensed consolidated financial statements, the process to split the activities of the Group in to independent separate companies is ongoing. Consequently, the financial information of the Saudi Electricity Company in the following schedule includes the generation activities (the generation license is being transferred to the Saudi Power Production Company), distribution and subscribers' services.

The financial information is presented as follows:

- For the joint operations as a separate segment for the electricity production, generation and distribution;
- For National Grid S.A. Company which includes transmission of electricity and the operation and maintenance of the transmission system;
- For Saudi Power Procurement Company includes purchase of electricity from the generation and maintenance sectors, generating equipment and other energy production companies, and selling electricity to the distribution sector; and
- For other segments includes the telecommunication activities sector.

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9 SEGMENT INFORMATION AND FUTURE STRUCTURE OF THE GROUP'S ACTIVITIES – CONTINUED

For the six-month ended 30 June 2021 – SAR Million

	Saudi Electricity Company	National Grid Company	Saudi Power Procurement Company	Joint Operations	Other subsidiaries	Elimination Intercompany transactions	Total
Revenue							
External customers	32,135	-	-	-	177	(28)	32,284
Between segments	-	8,812	50	698	-	(9,560)	-
Total revenue	32,135	8,812	50	698	177	(9,588)	32,284
Cost of revenue							
Fuel	(3,320)	-	-	-	-	-	(3,320)
Purchase power	(5,138)	-	-	-	-	698	(4,440)
Government fee	-	-	-	-	-	-	-
Operating and maintenance costs	(13,031)	(1,052)	-	(172)	(11)	8,867	(5,399)
Depreciation - Operation and maintenance	(5,384)	(3,690)	-	(230)	(50)	-	(9,354)
Depreciation – Right of use asset	(30)	-	-	-	-	-	(30)
Total cost of revenue	(26,903)	(4,742)	-	(402)	(61)	9,565	(22,543)
General and administrative expenses	(45)	(50)	(44)	(45)	(35)	-	(219)
Depreciation - general and administrative	(188)	-	-	-	-	-	(188)
Total general and administrative expenses	(233)	(50)	(44)	(45)	(35)	-	(407)
Other revenue, net	85	7	-	-	28	(262)	(142)
Provision for receivable from consumption of electricity and other receivables, net	(470)	-	-	-	-	-	(470)
Finance cost, net	(947)	(294)	-	(216)	-	285	(1,172)
Share of loss from equity accounted investee	(23)	-	-	-	-	-	(23)
Zakat / deferred tax (expense) / income	-	-	-	(3)	(7)	-	(10)
Net profit for the period	3,644	3,733	6	32	102	-	7,517
As at 30 June 2021 - SAR Million							
Property, plant and equipment, net	257,821	168,498	-	10,259	2,327	-	438,905
Total assets	432,019	168,851	1,252	11,729	2,956	(123,679)	439,128
Total liabilities	220,838	113,543	10,437	9,176	1,814	(111,479)	244,329

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9 SEGMENT INFORMATION AND FUTURE STRUCTURE OF THE GROUP'S ACTIVITIES – CONTINUED

For the six-month ended 30 June 2020 – SAR Million

	Saudi Electricity Company	National Grid Company	Saudi Power Procurement Company	Joint Operations	Other subsidiaries	Elimination Intercompany transactions	Total
Revenue							
External customers	28,015	-	-	-	78	(27)	28,066
Between segments	-	7,063	-	640	-	(7,703)	-
Total revenue	28,015	7,063	-	640	78	(7,730)	28,066
Cost of revenue							
Fuel	(3,171)	-	-	-	-	-	(3,171)
Purchase power	(4,815)	-	-	-	-	640	(4,175)
Operating and maintenance costs	(11,115)	(924)	-	(142)	(2)	7,066	(5,117)
Government fee	(6,903)	-	-	-	-	-	(6,903)
Depreciation - Operation and maintenance	(5,273)	(3,564)	-	(183)	(30)	28	(9,022)
Depreciation - Right of use asset	(82)	-	-	-	-	-	(82)
Total cost of revenue	(31,359)	(4,488)	-	(325)	(32)	7,734	(28,470)
General and administrative expenses	(203)	(63)	-	(62)	(23)	-	(351)
Depreciation - general and administrative	(249)	-	-	-	-	-	(249)
Total general and administrative expenses	(452)	(63)	-	(62)	(23)	-	(600)
Other revenue, net	1,563	17	-	14	7	(644)	957
Fuel supply adjustment	(838)	-	-	-	-	-	(838)
Share of profit from equity accounted investee	-	-	-	-	-	-	-
Finance cost, net	(2,555)	(652)	-	(232)	(1)	640	(2,800)
Provision for receivable from consumption of electricity and other receivables, net	(36)	-	-	-	-	-	(36)
Zakat / deferred tax (expense) / income	166	218	-	27	-	-	411
Net (loss) / profit for the period	(5,496)	2,095	-	62	29	-	(3,310)
As at 31 December 2020 - SAR Million							
Property, plant and equipment, net	256,114	168,313	-	-	10,421	1,931	436,779
Total assets	431,249	168,669	2	11,853	2,202	(128,525)	485,450
Total liabilities	222,499	120,674	-	9,490	1,336	(116,324)	237,675

10 PROPERTY, PLANT AND EQUIPMENT, NET

As at 30 June 2021, the cost of property, plant and equipment is SAR 706 billion (31 December 2020: SAR 696 billion). Accumulated depreciation is SAR 268 billion (31 December 2020: SAR 259 billion).

An amount of SAR 13 billion (31 December 2020: SAR 24 billion) was transferred from projects under construction to property, plant and equipment. The additions to projects under construction for the period amounting to SAR 15 billion (31 December 2020: SAR 33 billion).

Capitalized Finance charges during the period on projects under construction amounting to SAR 486 million (33 December 2020: SAR 1.7 billion).

11 INVENTORIES, NET

	30 June 2021	31 December 2020
	Unaudited	Audited
Material and supplies - Generation plant	2,243,927	2,476,851
Materials and supplies - Distribution network	1,822,383	1,490,280
Materials and supplies - Transmission network	364,845	361,378
Fuel and oil	912,232	1,304,368
Others	251,733	112,477
Total	5,595,120	5,745,354
Less: Provision for slow moving inventories (a)	(880,337)	(807,871)
Total	4,714,783	4,937,483

(a) The movement in the provision for slow-moving inventories during the period / year is as follows:

	30 June 2021	31 December 2020
	Unaudited	Audited
Balance at the beginning of the period / year	807,871	817,125
Charge for the period / year	72,466	-
Reversal for the period / year	-	(9,254)
Balance at the end of the period / year	880,337	807,871

12 RECEIVABLES FROM SALE OF ELECTRICITY, NET

Receivable from consumption of electricity	30 June 2021	31 December 2020
	Unaudited	Audited
Governmental institutions	14,279,324	11,476,392
Commercial, residential and industrial	12,910,512	12,614,486
Receivables for electricity service connection projects	2,015,340	2,083,300
Due from related parties	1,297,438	795,454
Other government receivables (a)	6,131,363	6,131,363
Total electricity consumers' receivable	36,633,977	33,100,995
Less: provision for doubtful electricity receivables (b)	(1,975,597)	(1,467,536)
Add: Unbilled revenues	5,399,650	3,335,186
Total	40,058,030	34,968,645

(a) This represents the Balancing Fund receivable from the Ministry of Finance.

(b) The movement in the provision for doubtful electricity receivables during the period / year is as follow:

	30 June 2021	31 December 2020
	Unaudited	Audited
Balance at the beginning of the period / year	1,467,536	1,549,779
Charge for the period / year	508,061	204,122
Written off during the period / year	-	(286,365)
Balance at the end of the period / year	1,975,597	1,467,536

13 Prepayment and other receivables

	30 June 2021	31 December 2020
	Unaudited	Audited
Prepaid expenses and others	309,147	32,467
Insurance and other claims	161,394	168,415
Other receivable net	1,257,200	754,497
Total	1,727,741	955,379
Less: Provision for doubtful other receivables balances (a)	(198,185)	(235,899)
Total	1,529,556	719,480

(a) The movement in the other receivable balances during the period / year is as follow:

	30 June 2021	31 December 2020
	Unaudited	Audited
Balance at the beginning of the period / year	235,899	186,383
Charge for the period / year	(37,714)	49,516
Balance at the end of the period / year	198,185	235,899

14 TRANSACTION WITH THE OWNERS THAT ARE RECOGNIZED DIRECTLY TO EQUITY

The Company's General Assembly, in its meeting held on 15 Ramadan 1442H corresponding to 27 April 2021, approved the distribution of cash dividends for the year 2020 to the shareholders of the Company amounting to SAR 2.9 billion, SAR 0.70 per share, representing 7% of the par value of the share (2019: SAR 749.3 million).

15 CONTRACTUAL RESERVE FOR MUDARABA INSTRUMENT

Pursuant to the letter received by the Company from His Royal Highness the Minister of Energy, chairman of the ministerial committee for the restructuring of the electrical sector (No. 01-2057-1442H dated 29/03/1442H corresponding to 15/11/2020), regarding the issuance of a royal order No. 16031 approving the settlement of net government dues from the Company and signing Mudaraba agreement with the government of the Kingdom of Saudi Arabia represented by the Ministry of Finance, to transfer the net financial liabilities accrued to the government by the Company by the end of year 2019, amounting to SAR 167.9 billion, into a financial instrument within equity.

The General Assembly, held on 12/05/1442H corresponding to 27th December 2020, approved the creation of contractual reserve for the purpose of profit payment on Mudaraba agreement signed between the Company and the Ministry of Finance which is referred in the Mudaraba agreement. Furthermore, The General Assembly also authorized the Board of Directors to transfer the amount from the Company's retained profits to the contractual reserve and utilised agreed reserve to pay the Mudaraba profits in accordance with the provisions of the Mudaraba Agreement as follows:

	30 June 2021	31 December 2020
	Unaudited	Audited
Balance at the beginning of the period / year	927,375	-
Transferred from retained earnings during period / year	3,799,203	927,375
Paid	(3,865,985)	-
Balance at the end of the period / year	860,593	927,375

16 FINANCIAL INSTRUMENTS

16.1 Financial instruments other than interest bearing Liabilities

	30 June 2021	31 December 2020
	Unaudited	Audited
Financial liabilities at fair value		
Financial instruments at fair value	791,365	1,065,018
	791,365	1,065,018
Other financial liabilities carried at amortized cost, other than interest bearing loans		
Trade payables	17,254,885	14,145,642
Accruals and other liabilities	24,741,358	26,289,101
Refundable deposits from customers	1,999,386	1,997,558
Total other financial liabilities carried at amortized cost, other than interest bearing loans	43,995,629	42,432,301

16.2 Interest bearing liabilities

Classification of loans as presented on the condensed consolidated interim statement of financial position as of 30 June 2021 is as follows:

	Bank Loans	Sukuk	Total
	(Unaudited)	(Unaudited)	(Unaudited)
Non-current	58,353,341	33,742,181	92,095,522
Current	12,784,526	10,418,540	23,203,066
	71,137,867	44,160,721	115,298,588

16 FINANCIAL INSTRUMENTS – CONTINUED

16.2 Interest bearing liabilities - continued

The classification of loans presented in the condensed consolidated interim statement of financial position as of 31 December 2020 is as follows:

	Bank Loans	Sukuks	Total
	(Audited)	(Audited)	(Audited)
Non-current	56,145,525	44,160,434	100,305,959
Current	13,413,842	-	13,413,842
	<u>69,559,367</u>	<u>44,160,434</u>	<u>113,719,801</u>

Movements in borrowings during the year /period are as follows:

	Bank loans	Sukuk	Government loans	Total
As at 1 January 2020 (audited)	71,653,314	39,289,736	48,698,302	159,641,352
Proceeds	10,043,960	4,875,000	-	14,918,960
Repayments	(12,155,719)	-	-	(12,155,719)
Net change in deferred costs	17,812	(4,302)	-	13,510
Increase in present value of loans	-	-	1,937,082	1,937,082
Transferred to Mudaraba instrument	-	-	(50,635,384)	(50,635,384)
As at 31 December 2020 (audited)	69,559,367	44,160,434	-	113,719,801
Proceeds	8,137,587	-	-	8,137,587
Repayments	(6,437,296)	-	-	(6,437,296)
Net change in deferred costs	(121,791)	287	-	(121,504)
As at 30 June 2021 (unaudited)	71,137,867	44,160,721	-	115,298,588

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16 FINANCIAL INSTRUMENTS – CONTINUED

16.2 Interest bearing liabilities - continued

16.2.1 Bank loans

The classification of bank loans in the Condensed consolidated statement of financial position is as follows:

Non-current:	30 June 2021	31 December 2020
	Unaudited	Audited
Saudi Electricity Company	<u>50,931,137</u>	<u>48,544,121</u>
Joint operations	<u>7,422,204</u>	<u>7,601,404</u>
	<u>58,353,341</u>	<u>56,145,525</u>
Current:		
Saudi Electricity Company	<u>12,243,006</u>	<u>12,920,878</u>
Joint operations	<u>541,520</u>	<u>492,964</u>
	<u>12,784,526</u>	<u>13,413,842</u>

16-2-1 Loans

The following are the long- term loans of the Saudi Electricity Company:

	Loan currency	Maturity date	Principal amount	30 June 2021	31 December 2020
				Unaudited	Audited
Domestic Bank 2	SAR	2025	5,000,000	1,729,200	1,921,600
Domestic Bank 3	SAR	2025	10,000,000	4,085,715	6,761,906
Domestic Bank 5	SAR	2021	1,300,000	-	216,667
Domestic Bank 6	SAR	2026	3,500,000	2,625,000	2,625,000
Domestic Bank 7	SAR	2024	2,400,000	2,310,000	2,340,000
Domestic Bank 8	SAR	2026	15,200,000	15,048,000	15,200,000
Domestic Bank 9	SAR	2029	1,850,000	1,850,000	1,850,000
Domestic Bank 10	SAR	2027	9,000,000	9,000,000	3,000,000
Direct loan from the Public Investment Fund	SAR	2024	2,583,375	648,944	756,413
International syndicated loan 1	USD	2021	4,057,417	-	146,353
International Bank 2	USD	2024	3,709,125	815,301	969,903
International syndicated loan 3	USD	2026	5,251,120	2,406,358	2,625,128
International syndicated loan 4	USD	2028	7,240,715	4,386,221	4,687,886
International Bank 5	USD	2021	5,625,710	-	936,933
International syndicated loan 6	USD	2029	3,375,585	2,390,393	2,531,671
International syndicated loan 7	USD	2029	1,575,336	1,115,860	1,181,507
International syndicated loan 8	USD	2022	6,562,878	6,562,878	6,562,878
Total value			88,231,261	54,973,870	54,313,845
<i>Less: The current portion of long-term loans</i>				(3,686,546)	(5,404,683)
<i>Less: The Unamortized portion of the prepaid fees and other fees</i>				(356,187)	(365,041)
<i>Non-current portion of long-term loans</i>				<u>50,931,137</u>	<u>48,544,121</u>

16 FINANCIAL INSTRUMENTS - CONTINUED

16.2 Interest bearing liabilities - continued

16.2.1 Bank loans - continued

The following are short-term loans for the Saudi Electricity Company:

	Loan currency	Principal amount	30 June 2021 Unaudited	31 December 2020 Audited
Domestic revolving bank loan 1	SAR	1,000,000	-	500,000
Domestic bank facilities 4	SAR	2,500,000	2,500,000	1,000,000
International syndicated loan 3	USD	8,066,263	5,918,872	5,920,748
Commercial payment facility	SAR	550,000	137,588	95,447
Total short-term loans		12,116,263	8,556,460	7,516,195
<i>Current portion of long-term loans</i>			3,686,546	5,404,683
Total short-term loans and current portion of long-term loans			12,243,006	12,920,878

Bank loans for joint operations:

The Group's share in bank loans for joint operations is as follows:

	30 June 2021		31 December 2020	
	Current	Non Current	Current	Non Current
	Unaudited		Audited	
Dhuruma Electricity Company	121,643	1,961,811	116,172	2,016,067
Rabigh Electricity Company	88,571	956,758	92,818	979,461
Hajr for Electricity Production Company	220,717	2,665,159	218,684	2,735,247
Al Mourjan for Electricity Production Company	110,589	1,838,476	65,290	1,870,629
Total	541,520	7,422,204	492,964	7,601,404

16.2.2 Sukuk

The outstanding Sukuk as of 30th June 2021 are as follows:

Local sukuk

Issue	Date of issue	Par value	Total issued amount	Maturity date
Sukuk 3	10 May 2010	SAR 10 Thousand	SAR 5.73 Billion	2030
Sukuk 4	30 January 2014	SAR 1 Million	SAR 4.5 Billion	2054

The Sukuk have been issued at par value with no discount or premium. The Sukuk 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 Company.

The Company has undertaken to purchase these Sukuk from Sukuk holders at dates specified in prospectus. At each purchase date, the Group 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 date	Second purchase date	Third purchase date
Sukuk 3	2022	2024	2026
	Percentage		
	95%	60%	30%
	First purchase date	Second purchase date	Third purchase date
Sukuk 4	2024	2034	2044

16 FINANCIAL INSTRUMENTS - CONTINUED

16.2 Interest bearing liabilities - continued

16.2.2 Sukuk - continued

The Group repurchased SAR 1.27 billion during second quarter of 2017, out of total Sukuk 3 issued (SAR 7 billion). The remaining balance has been rescheduled until it is fully purchased before May 2022. The Company has classified SAR 10 billion as Short term Sukuk.

Global Sukuk

1. During April 2012 the Group issued a global Sukuk amounting to SAR 6.6 billion equivalent to approximately (US\$ 1.75 billion). The issuance consists of two tranches of Sukuk certificates. The first tranche amounting to US\$ 0.5 billion maturing after 5 years with fixed rate of 2.665%, the second tranche amounting to US\$ 1.25 billion maturing after 10 years with fixed rate of 4.211%. The Group has repaid SAR 1.9 billion (US \$ 0.5 billion) during the first quarter of 2017, representing the repayment of the first type of these Sukuk.
2. During April 2013 the Group also issued a global Sukuk amounting SAR 7.5 billion equivalent to (US\$ 2 billion). The issuance consists of two types of Sukuk certificates. The first type amounting to SAR 3.75 billion (US\$ 1 billion) matures after 10 years with a fixed rate of 3.473%. The second type amounting to SAR 3.75 billion (US\$ 1 billion) matures after 30 years with a fixed rate of 5.06%.
3. During April 2014 the Group also issued a global Sukuk amounting to SAR 9.4 billion equivalent to (US\$ 2.5 billion). The issuance consists of two types of Sukuk certificates. The first with a value of SAR 5.6 billion (US \$ 1.5 billion), after 10 years with a fixed interest rate of 4% and the second with a value of 3.75 billion Saudi Riyals (US \$ 1 billion) is due after 30 years with a fixed rate of 5.5%.
4. During September 2018 the Group also issued a global Sukuk amounting to SAR 7.5 billion (equivalent to US\$ 2 billion). The issuance consists of two types of Sukuk certificates. The first with a value of SAR 3 billion (US \$ 800 million), 5 years tenure with a fixed interest rate of 4.222% per annum and the second with a value of SAR 4.5 billion Saudi Riyals (US \$ 1.2 billion), 10 years tenure with a fixed rate of 4.723% per annum.
5. During September 2020 the Company issued an international green Sukuk amounting to SAR 4.87 Billion (US\$1.3 billion). The issuance consists of two types of Sukuk certificates. The first one with value of SAR 2.43 billion (US\$ 650 million) maturing after 5 years tenure with a fixed rate 1.74% and the second one with a value SAR 2.43 billion (US\$ 650 million) maturing after 10 years tenure with fixed rate 2.413%.

16.3 Derivative financial instruments

The Group has interest rate hedging contracts with several banks for an amount of SAR 13 billion as of 30 June 2021 (31 December 2020: SAR 14.4 billion).

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

All derivatives as at 30 June 2021 are classified as cash flow hedges. Derivatives are classified as non-current liabilities in the parent company and current liabilities or non-current liabilities through the joint operations.

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

	30 June 2021	31 December 2020
	Unaudited	Audited
Derivative financial instruments at fair value:		
Current	114,528	127,212
Non-current	676,837	937,806
	791,365	1,065,018

17 CONTINGENT LIABILITIES

- (a) A committee has been formed represented by various stakeholders, who will study Contingent liabilities and give their recommendations to the Ministerial Committee, the most important of which are the following:
- During July 2020, an agreement was signed to settle the dispute between the Saudi Electricity Company and the Saudi Aramco. As per the settlement, Saudi Aramco paid to the Saudi Electricity Company an amount representing claims for consumption and various projects which were previously disputed. The settlement included an end to the dispute over the fuel price difference for the Company's generation station in Al-Shuaiba, where the Saudi Electricity Company recorded an amount of SAR 808 million, representing the fuel cost difference which is in favour of Saudi Aramco. The total disputed amounts for the period prior to 2017 is estimated at SAR 2.6 billion. The Company does not expect any additional commitment.
 - According to Council of Ministers resolution No. 216 dated 16 January 2018 whereby an agreement has been signed with Saudi Aramco regarding the recognition of handling fees as of 1 June 2018, the total disputed amount from the beginning of the Company's incorporation on April 5, 2000 until May 30, 2018 amounted to SAR 6.1 billion. The Company does not expect any resulting outflow of resources from such commitment.
- (b) The Group has provided guarantees to some commercial banks and other parties with a total value amounting to SAR 37 million as at 30 June 2021 (31 December 2020: SAR 449 million).

18 CAPITAL COMMITMENT

The capital commitments at the date of the interim condensed consolidated financial position comprise of unexecuted portion of capital contracts conducted by the Group for the development and installation of stations and other assets amounting to SAR 42 billion as of 30 June 2021 (31 December 2020: SAR 47 billion).

19 ZAKAT AND TAX

The Group has submitted its Zakat and tax return for the year ended 31 December 2019 within the statutory term. The Company has also submitted a request to consolidated Zakat declaration for the Saudi Electricity Company and its subsidiaries, which has been approved by the Authority. Based on the approval, the Company will commence application starting from the year ended 31 December 2020.

The Company completed Zakat assessments until 2014. A claim was received from Zakat, Tax and Customs Authority on 29 April 2021 for the modification of the Zakat return for the years from 2015 to 2018 amounting to SAR 1.7 billion.

The Company has submitted an objection to the claim resulting from the amendment of the declaration for those financial years within the statutory period allowed. The Company's management believes that the Company's position in this objection is supported by sufficient documents. This is based on the Authority's practice considering the difference between the credit current account and debit in accordance with the executive regulations for levying zakat issued by Ministerial Resolution No. 2082. The Company does not expect any major future obligations as a result of such claim.

20 OPERATING REVENUE

	Three-month ended 30 June		Six-month ended 30 June	
	2021	2020	2021	2020
	Unaudited	Unaudited	Unaudited	Unaudited
Electricity Sales	16,741,727	15,388,623	27,855,893	25,178,385
Meter reading, maintenance and bills preparation tariff	359,298	345,998	715,318	689,403
Electricity connection tariff	532,503	595,422	1,042,853	1,218,435
Transmission revenue	479,956	172,489	972,244	719,254
Other operating revenue*	822,607	165,931	1,698,154	260,706
Total operating revenue	18,936,091	16,668,463	32,284,462	28,066,183

* In line with the letter; No. 2057-dated 03/29/1442 H corresponding to 15th November 2020, received by the Company from the Minister of Energy, Chairman of the Ministerial Committee for restructuring the electricity sector, the required revenue methodology has been approved for the Company, which is according to the Regulated asset base model with a specified weighted average cost of capital for the year 2021. As specified, the Company recognized an amount of SAR 1.1 billion in the condensed consolidated interim income statement other operating income for the period ended 30 June 2021 (30 June 2020: Nil).

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21 COST OF REVENUE

	Three-month ended 30 June		Six-month ended 30 June	
	2021	2020	2021	2020
	Unaudited	Unaudited	Unaudited	Unaudited
Fuel	2,212,722	2,113,545	3,319,956	3,170,734
Purchased power	2,319,128	2,136,142	4,440,447	4,174,871
Operations and maintenance	2,876,463	2,606,990	5,398,950	5,117,376
Government fees*	-	4,510,677	-	6,903,232
Depreciation - operations and maintenance	4,699,474	4,471,121	9,353,943	9,020,719
Depreciation – right of use asset	14,959	41,024	29,744	82,638
Total operating costs of revenue	12,122,746	15,879,499	22,543,040	28,469,570

* The government fee was cancelled in accordance with the letter of the Minister of Energy, Chairman of the Ministerial Committee for the Restructuring of the Electricity Sector and the Saudi Electricity Company No. 2057- Dated 03/29/1442 H corresponding to 15 November 2020 (Note 1).

22 OTHER INCOME AND EXPENSES, NET

	Three-month ended 30 June		Six-month ended 30 June	
	2021	2020	2021	2020
	Unaudited	Unaudited	Unaudited	Unaudited
Amortisation of Government grants	14,105	455,305	27,996	797,375
Provisions for other claims	(484,608)	-	(484,608)	-
Net income and other expenses	168,167	111,539	261,724	143,386
Gain / (loss) on disposal of property, plant and equipment	15,244	(1,667)	35,609	964
Dividend received	12,456	8,077	17,697	14,637
Net (expenses) and other income	(274,636)	573,254	(141,582)	956,362

Amounts classified under “provisions for other claims” represent provisions taken for disputed claims of third parties.

23 FINANCE COSTS, NET

	Three-month ended 30 June		Six-month ended 30 June	
	2021	2020	2021	2020
	Unaudited	Unaudited	Unaudited	Unaudited
Finance expense				
Bank loans	789,358	1,631,092	1,588,498	2,492,128
Government loans	-	581,124	-	1,162,250
Lease Contracts	339	1,375	966	3,200
Changes in present value of employees’ benefit obligation	27,603	34,232	55,206	68,464
Changes in present value relating to asset retirement obligation	2,383	2,000	15,078	4,000
Less: Capitalised interest	(239,834)	(546,706)	(486,308)	(929,475)
Total finance expenses	579,849	1,703,117	1,173,440	2,800,567
Finance income				
Interest income	42,271	(625)	(984)	(953)
Total finance income	42,271	(625)	(984)	(953)
Net finance costs	622,120	1,702,492	1,172,456	2,799,614

24 EARNINGS PER SHARE

Basic earnings /(loss) per share is calculated by dividing the profit / (loss) attributable to equity holders of the Company less Mudaraba instrument profit by the weighted average number of ordinary shares in issue during the period.

The diluted earnings / (loss) per share equal to the basic earnings / (loss) per share for the period ended 30th June 2021 and 30th June 2020 as there are no financial instruments with a dilutive effect on basic earnings per share.

	For the three-month period ended		For the six-month period ended	
	30 June 2021 Unaudited	30 June 2020 Unaudited	30 June 2021 Unaudited	30 June 2020 Unaudited
Profit /(loss) for the period "Saudi Riyals"	5,828,074,000	(868,562,000)	7,517,203,000	(3,310,022,000)
Less: profit attributable to Mudaraba Instrument	<u>(1,910,096,000)</u>	-	<u>(3,799,203,000)</u>	-
Adjusted net profit / (loss) for the period -" Saudi Riyals"	<u>3,917,978,000</u>	<u>(868,562,000)</u>	<u>3,718,000,000</u>	<u>(3,310,022,000)</u>
Weighted average ordinary shares at the period end - share	<u>4,166,593,815</u>	<u>4,166,593,815</u>	<u>4,166,593,815</u>	<u>4,166,593,815</u>
Basic and diluted earnings / (loss) per share "Saudi Riyals"	<u>0.94</u>	<u>(0.21)</u>	<u>0.89</u>	<u>(0.79)</u>

The following is the note of earnings per share without deducting dividends for the Mudaraba instrument:

	For the three-month period ended		For the six-month period Ended	
	30 June 2021 Unaudited	30 June 2020 Unaudited	30 June 2021 Unaudited	30 June 2020 Unaudited
Profit /(loss) for the period "Saudi Riyals"	5,828,074,000	(868,562,000)	7,517,203,000	(3,310,022,000)
Weighted average ordinary Shares at period end - share	<u>4,166,593,815</u>	<u>4,166,593,815</u>	<u>4,166,593,815</u>	<u>4,166,593,815</u>
Basic and diluted earnings / (loss) per share "Saudi Riyals"	<u>1.40</u>	<u>(0.21)</u>	<u>1.80</u>	<u>(0.79)</u>

25 RELATED PARTIES TRANSACTIONS AND BALANCES

The Group is ultimately controlled by the Government of the Kingdom of Saudi Arabia through the ownership of the main shareholder (Public Investment Fund), Saudi Aramco and Saline Water Conversion Corporation (SWCC), companies under common control (all companies ultimately controlled by the Government of the Kingdom of Saudi Arabia) in addition to the joint operation companies.

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25 RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

The following transactions were carried out with related parties:

(a) Sales of electricity

	For the six-month period ended	
	30 June 2021	30 June 2020
	Unaudited	Unaudited
Sales of electricity:		
- Group's ultimate controlling party	5,331,871	4,872,377
- Entities under control of the Group's ultimate controlling party		
Saudi Aramco	230,842	144,429
Saline Water Conversion Corporation	252,146	262,887
	<u>5,814,859</u>	<u>5,279,693</u>

(b) Purchases of energy and Fuel:

	For the six-month ended	
	30 June 2021	30 June 2020
	Unaudited	Unaudited
Entities under control of the Group's ultimate controlling party		
Saudi Aramco	4,484,180	5,011,518
Saline Water Conversion Corporation	460,639	293,595
Joint operations:		
Dhuruma Electricity Company	317,392	299,750
Rabigh Electricity Company	466,294	424,134
Hajr for Electricity Production Company	388,158	384,842
Al Mourjan for Electricity Production Company	226,402	177,514
Al-Fadhili Company for Cogeneration	107,354	-
	<u>6,450,419</u>	<u>6,591,353</u>

The Group purchases fuel and power from Saudi Aramco and power from Saline Water Conversion Corporation at prices stipulated within the respective governmental resolutions. The Group purchases energy from joint operation in accordance with their respective contracts.

(c) Period-end balances arising from sales of electricity/purchases of power and fuel/Loans:

	30 June	31 December
	2021	2020
	Unaudited	Audited
Due from related parties:		
Group's ultimate controlling party -Electricity receivables , Governmental receivables	20,410,687	17,194,708
Entities under the control of the Group's ultimate controlling party		
Saudi Aramco – Receivable from consumption of electricity	374,920	170,929
Saline Water Conversion Corporation– Receivable from consumption of electricity	922,518	624,525
Al-Fadhli Co-production loans	253,874	253,874
Loan to Global Data Center Company	30,250	30,250
Total Due from related parties	<u>21,992,249</u>	<u>18,274,286</u>
Due to related parties:		
Entities under control of the Group's ultimate controlling party		
Saudi Aramco *	10,907,337	10,077,791
Saline Water Conversion Corporation	1,132,967	354,349
	<u>12,040,304</u>	<u>10,432,140</u>

* The credit receivables include fuel used by the Company and fuel used by Independent Power Producer and purchase energy.

25 RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

(d) Loans and grants from related parties

	30 June 2021	31 December 2020
	Unaudited	Audited
Loans and grants from the Government:		
Group's ultimate controlling party		
Deferred Government grant	1,505,161	1,089,377
Public Investment Fund Loan	648,944	756,413
	2,154,105	1,845,790

(e) Compensation of key management personnel

Key management includes members of the Board of Directors and members of the Executive Committee. The compensation paid is shown below:

	For the six-month ended	
	30 June 2021	30 June 2020
	Unaudited	Unaudited
Annual and periodic bonus	5,768	4,947
Employees' end of service benefits	10,031	8,304
	15,799	13,251

26 SUBSEQUENT EVENTS

On July 7, 2021, the Saudi Electricity Company signed a green credit facility agreement, financed and guaranteed by the Japan Bank for International Cooperation with a consortium of international banks without any guarantees and covenants form company to support the Company's green projects in the field of transmission and distribution networks with an amount of USD 500 million for a period of 12 years

27 APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Group's condensed consolidated interim financial statements were approved by Board of Director on 29 Dhual Hijja 1442 H corresponding to 8 August 2021.