

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
WITH
INDEPENDENT AUDITOR'S REPORT

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022**

<u>INDEX</u>	<u>PAGE</u>
Independent auditor's report	-
Consolidated statement of financial position	1
Consolidated statement of profit or loss and other comprehensive income	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flows	4
Notes to the consolidated financial statements	5 –62



KPMG Professional Services

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Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

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

المركز الرئيسي في الرياض

Independent auditor's report

To the Shareholders of Electrical Industries Company (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Electrical Industries Company ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), that is endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report

To the Shareholders of Electrical Industries Company (A Saudi Joint Stock Company) (Continued)

Key audit matter (continued)

Expected credit loss allowance on trade receivables

The key audit matter	How the matter was addressed in our audit
<p>Refer to Notes 3 (f) for the accounting policies, Note 2.5 for the disclosure of critical accounting estimates and judgements and Notes 11 and 36 for the related disclosures in the accompanying consolidated financial statements.</p> <p>As at 31 December 2022, the Group maintains an ECL allowance amounting to Saudi Riyals 12.9 million against trade receivables amounting to Saudi Riyals 473.5 million.</p> <p>The Group's management has applied a simplified ECL model to determine the ECL allowance on trade receivables as at 31 December 2022. The ECL model involves the use of various assumptions, macro-economic factors and study of historical trends relating to the Group's trade receivables collections experience in line with the requirements of International Financial Reporting Standard 9 'Financial Instruments' ("IFRS 9").</p> <p>We considered this a key audit matter due to the judgements and estimates involved in the application of the ECL model.</p>	<p>Our audit procedures in this area include, among others:</p> <ul style="list-style-type: none"> – Obtained understanding of the accounting policy adopted and the methodology applied by the Group management in the ECL model to determine the ECL allowance for trade receivables. – Obtained understanding of and evaluated the design, implementation and operating effectiveness of key internal controls over the measurement of expected credit losses on trade receivables, including credit approval process, credit monitoring management, segmentation by risk characteristics, aging analysis review, forward-looking and estimation of allowance for expected credit losses – Tested the completeness and accuracy of the aging report for trade receivables. – Involved our specialist in assessing the methodology applied by the Group management in the ECL model in accordance with the requirements of IFRS 9, tested the key assumptions used by management and assessed the reasonableness of the estimates used to record the provision for impairment of trade receivables; and – Evaluated the adequacy and appropriateness of related disclosures made by the management in the consolidated financial statements.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 14 Shaban 1443H corresponding to 17 March 2022G.



Independent auditor's report

To the Shareholders of Electrical Industries Company (A Saudi Joint Stock Company) (Continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, the Board of Directors, are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



Independent auditor's report

To the Shareholders of Electrical Industries Company (A Saudi Joint Stock Company) (Continued)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Electrical Industries Company ("the Company") and its subsidiaries ("the Group").

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Professional Services

Abdulaziz Abdullah Alnaim

License No: 394



Al Khobar, 11 Ramadan 1444H
Corresponding to: 02 April 2023G

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	31 December 2022	31 December 2021
ASSETS			
Property, plant and equipment	6	253,890,680	270,564,761
Right of use assets	7	24,561,440	29,986,060
Intangible assets	8	10,052,760	6,922,481
Financial assets at fair value through other comprehensive income	9	15,500,032	15,410,544
Total non-current assets		304,004,912	322,883,846
Inventories	10	718,865,713	441,200,314
Trade and other receivables	11	464,199,155	388,762,176
Prepayments and other current assets	12	64,404,097	29,556,576
Cash and cash equivalents	13	122,295,427	65,630,379
Total current assets		1,369,764,392	925,149,445
TOTAL ASSETS		1,673,769,304	1,248,033,291
EQUITY AND LIABILITIES			
Share capital	14	450,000,000	450,000,000
Statutory reserve	15	62,175,598	52,758,597
Treasury shares	16	(9,861,621)	(9,861,621)
Foreign currency translation reserve	17	(2,121,897)	(1,457,106)
Share based payment reserve	19	1,432,378	1,308,332
Fair value reserve	18	126,336	36,848
Retained earnings		129,010,081	95,017,743
Total equity		630,760,875	587,802,793
Liabilities			
Long term borrowings	20	-	16,605,296
Lease liabilities	7	22,619,993	27,167,506
Employees' benefits	21	90,870,112	80,528,461
Total non-current liabilities		113,490,105	124,301,263
Current portion of long-term borrowings	20	16,605,296	14,632,184
Short-term murabaha borrowings	22	415,017,949	196,527,538
Trade and other payables	23	150,432,521	124,005,395
Accrued expenses and other current liabilities	24	327,291,754	182,760,707
Current portion of lease liabilities	7	3,290,115	4,024,675
Zakat and income tax payable	25	16,880,689	13,978,736
Total current liabilities		929,518,324	535,929,235
Total liabilities		1,043,008,429	660,230,498
TOTAL EQUITY AND LIABILITIES		1,673,769,304	1,248,033,291

The consolidated financial statements including accompanying notes appearing on pages 5 to 62 were authorised for issue by the Board of Directors of the Group on 6 Ramadan 1444H (corresponding to 28 March 2023G) and signed on their behalf by:


Yousef Al Quraishi
(Designated member)


Tariq Al Tahini
(Managing Director)



Medhat A. Ghaleb
(EVP Finance and IT)

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

	Notes	For the year ended 31 December	
		2022	2021
Revenue	26	1,066,088,833	770,687,910
Cost of sales	27	(828,466,825)	(621,137,738)
Gross profit		237,622,008	149,550,172
Operating expenses			
Selling and distribution expenses	28	(46,584,622)	(32,643,664)
General and administrative expenses	29	(54,159,730)	(47,608,094)
Expected credit loss allowance	11	(3,171,978)	(2,469,274)
Other income	30	1,090,056	4,044,681
Foreign currency exchange loss		(3,186,292)	(615,510)
Operating profit		131,609,442	70,258,311
Finance cost	31	(19,577,624)	(7,916,390)
Profit before zakat and income tax		112,031,818	62,341,921
Zakat and income tax expense	25	(17,861,808)	(13,496,451)
Profit for the year		94,170,010	48,845,470
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Loss on re-measurements of defined benefit liability	21	(5,760,671)	(3,531,323)
Equity investments at FVOCI – net change in fair value	9.2	89,488	36,848
		(5,671,183)	(3,494,475)
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences	17	(664,791)	(1,457,106)
		(664,791)	(1,457,106)
Other comprehensive loss for the year		(6,335,974)	(4,951,581)
Total comprehensive income for the year		87,834,036	43,893,889
Earnings per share			
Basic	32	2.12	1.10
Diluted	32	2.10	1.09


Yousef Al Quraishi
(Designated member)


Tariq Al Tahini
(Managing Director)


Medhat A. Ghaleb
(EVP Finance and IT)

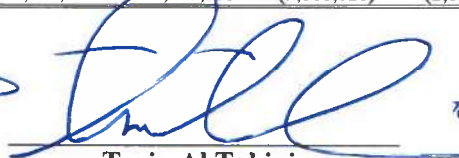
ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

	Note	Share capital	Statutory reserve	Treasury shares	Foreign currency translation reserve	Share based payment reserve	Fair value reserve	Retained earnings	Total
As at 1 January 2021		450,000,000	47,874,050	(9,861,621)	-	629,375	-	76,873,742	565,515,546
<i>Total comprehensive income for the year</i>									
Profit for the year		-	-	-	-	-	-	48,845,470	48,845,470
Other comprehensive (loss) / income for the year		-	-	-	(1,457,106)	-	36,848	(3,531,323)	(4,951,581)
Total comprehensive (loss) / income for the year		-	-	-	(1,457,106)	-	36,848	45,314,147	43,893,889
Transfer to statutory reserve		-	4,884,547	-	-	-	-	(4,884,547)	-
<i>Transactions with owners in their capacity as owner</i>									
Equity settled share-based payment		-	-	-	-	839,164	-	-	839,164
Utilisation of share-based payment reserve		-	-	-	-	(160,207)	-	-	(160,207)
Dividends	35	-	-	-	-	-	-	(22,285,599)	(22,285,599)
Total transactions with owners in their capacity as owners		-	-	-	-	678,957	-	(22,285,599)	(21,606,642)
As at 31 December 2021		450,000,000	52,758,597	(9,861,621)	(1,457,106)	1,308,332	36,848	95,017,743	587,802,793
<i>Total comprehensive income for the year</i>									
Profit for the year		-	-	-	-	-	-	94,170,010	94,170,010
Other comprehensive (loss) / income for the year		-	-	-	(664,791)	-	89,488	(5,760,671)	(6,335,974)
Total comprehensive (loss) / income for the year		-	-	-	(664,791)	-	89,488	88,409,339	87,834,036
Transfer to statutory reserve		-	9,417,001	-	-	-	-	(9,417,001)	-
<i>Transactions with owners in their capacity as owners</i>									
Equity settled share-based payment		-	-	-	-	124,046	-	-	124,046
Dividends	35	-	-	-	-	-	-	(45,000,000)	(45,000,000)
Total transactions with owners in their capacity as owners		-	-	-	-	124,046	-	(45,000,000)	(44,875,954)
As at 31 December 2022		450,000,000	62,175,598	(9,861,621)	(2,121,897)	1,432,378	126,336	129,010,081	630,760,875



Yousef Al Quraishi
(Designated member)



Tariq Al Tahini
(Managing Director)



Medhat A. Ghaleb
(EVP Finance and IT)

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

	Notes	2022	2021
Cash flows from operating activities			
Profit before zakat and tax		112,031,818	62,341,921
<i>Adjustments for:</i>			
Depreciation on property, plant and equipment	6.1	21,974,069	21,711,182
Depreciation of right of use assets	7.1	4,197,940	3,642,625
Amortization of intangibles assets	8.1	1,583,912	3,365,919
Provision for expected credit loss allowance	11	3,171,978	2,469,274
Allowance for inventory obsolescence	10.1	4,473,058	1,906,917
Finance cost	31	19,577,624	7,916,390
Share based payment expense		124,046	839,164
Employee benefit obligations	21.1	7,759,765	6,967,901
(Gain)/ loss on disposal of property, plant and equipment	30	(120,000)	811,516
		174,774,210	111,972,809
Changes in working capital			
Inventories		(282,889,675)	(182,328,069)
Trade and other receivables		(78,361,693)	37,138,206
Prepayments and other current assets		(34,847,521)	(2,488,155)
Trade and other payables		26,742,285	34,315,815
Accrued expenses and other current liabilities		144,531,047	37,126,471
Cash (used in) / generated from operating activities		(50,051,347)	35,737,077
Employees' benefits paid	21	(3,178,785)	(3,865,696)
Finance cost paid		(19,459,808)	(7,731,958)
Zakat and income tax paid	25	(14,959,855)	(12,007,454)
Net cash (used in) / generated from operating activities		(87,649,795)	12,131,969
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(8,748,694)	(24,127,326)
Purchase of intangibles assets	8	(1,802,214)	(900,668)
Proceeds from disposal of property, plant and equipment		120,000	-
Payment for financial assets at FVOCI		-	(73,696)
Net cash used in investing activities		(10,430,908)	(25,101,690)
Cash flows from financing activities			
Net movement on short-term borrowings	36.3	218,490,411	45,353,625
Repayments of long-term borrowings	36.3	(14,750,000)	(13,000,000)
Principal payment of lease liabilities	36.3	(3,983,126)	(2,086,520)
Payments against share-based payment reserve		-	(160,207)
Dividend paid	35	(45,000,000)	(22,285,599)
Net cash from financing activities		154,757,285	7,821,299
Net increase / (decrease) in cash and cash equivalents		56,676,583	(5,148,422)
Cash and cash equivalents at the beginning of the year		65,630,379	70,792,172
Effect of movement in exchange rate on cash and cash equivalents		(11,535)	(13,371)
Cash and cash equivalents at the end of the year	13	122,295,427	65,630,379
Significant non-cash transactions			
Additions to right-of-use assets and lease liabilities		-	22,781,938
Exchange differences on property, plant and equipment and right of use assets		1,763,412	1,501,413
Amortization of transaction cost		117,816	184,432

Yousef Al Quraishi
(Designated member)

Tariq Al Tahini
(Managing Director)

Medhat A. Ghaleb
(EVP Finance and IT)

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

1. ORGANIZATION AND ACTIVITIES

Electrical Industries Company (the “Company” or “EIC”) and its subsidiaries (collectively the “Group”) consist of the Company and its following subsidiaries registered as limited liability Companies:

	Effective ownership at 31 December	
	2022	2021
<u>Kingdom of Saudi Arabia:</u>		
Wahah Electric Supply Company of Saudi Arabia Limited (“WESCOSA”)	100%	100%
Saudi Transformers Company Limited (“STC”)	100%	100%
Saudi Power Transformers Company Limited (“SPTC”)	100%	100%
<u>United Arab Emirates:</u>		
Gulf Electrical Equipment Company L.L.C. (“GEEC”)	100%	100%
<u>Belgium:</u>		
Pauwels Transformers NV (“PTNV”) (100% owned by GEEC)	100%	100%

The Group is principally engaged in the manufacturing, assembly, supply and repair and maintenance of transformers, compact substations and low voltage distribution panels, electrical distribution boards, cable trays, switch gears and other electrical equipment as well as provision of technical services relating to these activities.

The Company is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration (“CR”) number 2050056359 issued in Dammam on 22 Shaban 1428 H (4 September 2007). These consolidated financial statements include the operations of the Company and its branch registered in Dammam under CR number 2050105757 dated 24 Rajab 1436H (13 May 2015). The registered address of the Company is P.O. Box 6033, Al Khobar 31442, Kingdom of Saudi Arabia.

On 15 April 2021, the Group incorporated PTNV, a limited liability company in Belgium. PTNV is principally engaged in manufacturing of transformers and providing related services.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) (here and after refer to as “IFRS as endorsed in KSA”).

2.2 Basis of measurement

The consolidated financial statements have been prepared on a going concern basis, applying a historical cost convention, except for employee benefits obligation which is recognized at the present value of future obligations using the Projected Unit Credit Method, employee share options program and financial assets classified as fair value through other comprehensive income items that have been measured at fair value.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (Continued)

2.3 Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has sufficient resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern. Therefore, the consolidated financial statements are continued to be prepared on the going concern basis.

2.4 Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals ("SR") which is the functional and presentation currency of the Group. All amounts have been rounded to the nearest Saudi Riyals unless otherwise indicated.

2.5 Significant accounting judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Group's accounting policies, management has made certain judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

a. Useful lives and residual values of property, plant and equipment

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets are the useful lives and residual values of property, plant and equipment. Management determines the estimated useful lives and residual value of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual values and useful lives annually and future depreciation charges are adjusted where management believes the useful lives and residual values differ from previous estimates.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (Continued)

2.5 Significant accounting judgements and estimates (Continued)

b. Impairment of non-financial assets

Impairment exists when the carrying value of an asset or Cash Generating Unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a Discounted Cash Flows (DCF) model. The cash flows are derived from the budget and marketing terms forecast for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

c. Employees' benefits

The cost of the defined benefit plans are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, withdrawal before normal retirement age, future salary increases etc. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. Any changes in these assumptions will impact the carrying amount of the obligation. All assumptions are reviewed at each reporting date. The relevant assumptions and sensitivity of the assumptions are detailed in the relevant note in these consolidated financial statements.

d. Useful lives of intangibles assets

Management reviews the amortization period and the amortization method at each reporting date. If the expected useful life of the asset is different from previous estimates, the Group changes the amortization period accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the Group changes the amortization method to reflect the changed pattern.

e. Zakat and income tax

The Company and its Saudi based subsidiaries are subject to the legislation of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat and income tax computation involves relevant knowledge and judgment of the zakat and income tax rules and regulations to assess the impact of zakat and income tax liability at a particular period end. This liability is considered an estimate until the final assessment is carried out by relevant authorities until which the Group retains exposure to additional zakat and income tax liability.

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

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (Continued)

2.5 Significant accounting judgements and estimates (Continued)

f. Leases - IFRS 16

The Group leases land, building and vehicles. The leases have an option to renew the lease contracts on its expiry. Where practicable, the Group includes the extension options in new leases to provide operational flexibility. The Group determines the lease term as non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination clauses. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. After the commencement date, the Group reassesses whether it is reasonably certain to exercise the options if there is a significant change in the circumstances within its control. The lease payments are discounted using the Group's incremental borrowing rate ("IBR"). Management has applied judgments and estimates to determine the IBR at the commencement of the lease.

g. Expected credit losses (ECL) on trade receivables

ECLs are unbiased probability-weighted estimates of credit losses which are determined by evaluating a range of possible outcomes and taking into account past events, current conditions, and assessment of future economic conditions. The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for grouping of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust historical credit loss experience with forward-looking information. At each reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed. The Group has used relevant historical information and loss experience to determine the probability of default of the instruments and incorporated forward looking information, including significant changes in external market indicators which involved significant estimates and judgements. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstance and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic condition may also not be representative of customer's actual default in the future.

h. Allowance for slow moving and obsolete inventory

The Group determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to its use. The estimate of the Group's allowance for inventory obsolescence could change from period to period, which could be due to assessment of the future usage of inventory.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

2. BASIS OF PREPARATION (Continued)

2.5 Significant accounting judgements and estimates (Continued)

i. Fair value measurement – financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation techniques including the Discounted Cash Flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

j. Provision and contingencies

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

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

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

The Group offers warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claims information, as well as recent trends that might suggest that past cost information may differ from future claims.

k. Share based payment

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the assumptions and models used for estimating fair value for share-based payment transactions are disclosed in the relevant notes to the consolidated financial statements.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for change in accounting policy as disclosed in note 3(h).

(a) Current versus non-current classification

The Group presents assets and liabilities in these consolidated financial statements based on current / non-current classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve months from the consolidated statement of financial position date; or
- cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(b) Basis of consolidation

Subsidiaries

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. 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 result 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
- The Group's voting rights and potential voting rights

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

Subsidiaries (Continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment

Property, plant, and equipment except capital work in progress is carried at historical cost less accumulated depreciation and impairment if any. Capital work in progress is carried at historical cost less impairment (if any) and are transferred to property, plant, and equipment when ready for use as intended by management. Historical cost includes expenditure that is directly attributable to the acquisition or construction of the assets.

Assets in the course of construction or development are capitalised in the capital work-in-progress account. The asset under construction or development is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of capital work-in-progress comprises its purchase price, construction / development costs and any other directly attributable costs to the construction or acquisition of an item of capital work-in-progress intended by management.

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

No depreciation is charged on capital work in progress until transferred to property, plant and equipment. Land is not depreciated. Depreciation is charged to the consolidated statement of profit or loss and other comprehensive income, using the straight-line method, to allocate the costs of the related assets less their residual values over the following estimated useful lives:

Class of assets	Useful life (in years)
Buildings and leasehold improvements	5 – 33
Plant and machinery	3 – 30
Furniture, fixtures and office equipment	3 – 10
Vehicles	4

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated statement of profit or loss and other comprehensive income as and when incurred. Major renewals and improvements, if any, are capitalised and the assets so replaced are retired.

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.

An item of property, plant and equipment (PPE) is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Major spare parts and stand-by equipment qualify for recognition as property, plant and equipment when the Group expects to use them during more than one year. Transfers are made to relevant operating assets category as and when such items are available for use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Leases

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

Lease liabilities

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

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

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

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is presented as a separate line in the consolidated statement of financial position.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related RoU asset) whenever:

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

Short-term leases and leases of low-value assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Leases (Continued)

Right-of-use assets (RoU)

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

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

RoU assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the RoU asset reflects that the Group expects to exercise a purchase option, the related RoU asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The RoU assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 “Impairment of Assets” to determine whether a RoU asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of lease liability and the RoU asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the consolidated statement of profit or loss and other comprehensive income.

(e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets acquired in a business combination are recognized at their fair value. Intangible assets under development are stated at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the consolidated statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangible assets (Continued)

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

A summary of the policies applied to the Group's intangible assets is as follows:

	Computer software licences
Useful lives	3 years
Amortisation method used	Amortised on a straight-line over the useful life

(f) Financial instruments

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – equity investment; or FVTPL

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

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortised cost or FVOCI, if any, as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Classification and subsequent measurement (Continued)

Financial assets (Continued)

Financial assets - Business model and assessment

The Group assesses the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining an interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets. Financial assets, if any, that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL.

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Classification and subsequent measurement (Continued)

Financial assets (Continued)

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest (Continued)

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

Financial assets - Subsequent measurement and gains and losses:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in consolidated statement of profit or loss and other comprehensive income
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in the consolidated profit or loss and other comprehensive income.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in the consolidated statement of profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses

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

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Derecognition

Financial assets

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

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

Financial liabilities

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

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

Offsetting

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

(g) Impairment

Non-derivative financial assets

Financial instruments

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment (Continued)

Non-derivative financial assets (Continued)

Financial instruments (Continued)

For trade receivables and contract assets (if any), the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For all customers, the Group has a policy of writing off the gross carrying amount when the financial asset is no longer recoverable based on historical experience of recoveries of similar assets. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities, if available as per agreement with customers, to comply with the Group's procedures for recovery of amounts due.

Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, the whole production facility is treated as a single reportable segment. Management has determined that whole plant and machinery represent as a single CGUs, no individual assets can able to generate an independent cash-flows. All the assets in the facilities are interlinked. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in consolidated statement of profit or loss and OCI. They are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Inventories

Raw materials and spares, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of First in first out. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Allowance for inventory obsolescence is made considering various factors including age of the inventory items, historic usage and expected utilization in future.

Effective 1 May 2022, the Group changed its cost formula from weighted average to first in first out (FIFO) to determine the value of its inventories. This change in the cost formula represents a change in accounting policy. Management considers that its newly implemented accounting system allows use of FIFO method which provides the closest approximation to actual cost flows and accurately matches with the physical flow of goods thereby allocates the earliest costs incurred against revenue and thus better represent its inventory management policy. Consequently, the balance of inventory on hand at any point represents the most recent purchases or production. The change in accounting policy for current year resulted in decrease in cost of sales amounting to SR 3.5 million with corresponding increase in inventories, net profit for the year and increase in basic and diluted earnings per share by SR 0.08. However, as the impact of change in accounting policy relating to prior periods is not material, therefore, related adjustments have been recognized in the year 2022, accordingly comparative have not been restated.

Supplemental information

Although the change in accounting policy was effective from 1st May 2022; however, the impact of change in policy was not recognized in the quarterly financial statements for the period ended 30 June 2022 and 30 September 2022. Had the impact of change in accounting policy recognized in the quarterly financial statements for the period ended 30 June 2022, the impact would have been as follows:

	30 June 2022 (Un-audited)		30 June 2022 (Un-audited)
<u>EQUITY</u>	(Previously stated)	Adjustments	(Revised)
Equity			
Retained earnings	80,730,599	4,821,383	85,551,982
<u>CURRENT ASSETS</u>			
Inventories	536,384,250	4,821,383	541,205,633

The impact of change in accounting policy in the consolidated statement of profit or loss and other comprehensive income for the six months' period ended 30 June 2022 is as follows:

	30 June 2022 (Un-audited)		30 June 2022 (Un-audited)
	(Previously stated)	Adjustments	(Revised)
Cost of sales	364,414,962	(4,821,383)	359,593,579
Profit for the period	30,712,856	4,821,383	35,534,239
Basic earnings per share	0.69	0.11	0.80
Diluted earnings per share	0.69	0.11	0.80

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Inventories (Continued)

Had the impact of change in accounting policy recognized in the quarterly financial statement for the period ended 30 September 2022, the impact would have been as follows:

	30 September 2022 (Un-audited) (Previously stated)	Adjustments	30 September 2022 (Un-audited) (Revised)
<u>EQUITY</u>			
Equity			
Retained earnings	104,333,801	4,810,970	109,144,771
<u>CURRENT ASSETS</u>			
Inventories	711,080,108	4,810,970	715,891,078

The impact of change in accounting policy in the consolidated statement of profit or loss and other comprehensive income for the nine months' period ended 30 September 2022 is as follows:

	30 September 2022 (Un-audited) (Previously stated)	Adjustments	30 September 2022 (Un-audited) (Revised)
Cost of sales	553,524,099	(4,810,970)	548,713,129
Profit for the period	54,316,058	4,810,970	59,127,028
Basic earnings per share	1.22	0.11	1.33
Diluted earnings per share	1.21	0.11	1.32

(i) Cash and cash equivalents

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

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

(j) Share capital

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

(k) Statutory reserves

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

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost. Treasury shares are presented as a deduction from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium or discount which is presented in equity.

(m) Employees' benefits

Employees' benefits required by Saudi Labour and Workman Law are accrued by the Group and charged to the consolidated statement of profit and loss and other comprehensive income. The liability is calculated as a defined benefit obligation at the current value of the vested benefits to which the employee is entitled, should the employee leave at the reporting date. Benefit payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Kingdom of Saudi Arabia.

The liability or asset recognised in the consolidated statement of financial position in respect of defined benefit plan 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 cost method.

The present value of the defined benefit obligation is determined by discounting the estimated future outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefit will be paid and that have terms approximating the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employees' benefit expense in the consolidated statement of profit and loss and other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the consolidated statement of changes in equity and in the consolidated statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in the consolidated statement of profit and loss and other comprehensive income as past service costs.

(n) Share based compensation

The Group has announced an Employee Share Incentive Plan effective 1 April 2020, whereby qualifying employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments.

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in note 19.

The cost mentioned above is recognised in employee benefits expense, together with a corresponding increase in equity (share based compensation reserve), over the period in which the service conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Share based compensation (Continued)

Service conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. There are no market performance conditions or non-market performance conditions attached to the award. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because service conditions have not been met. Where awards include a non-vesting condition, the transactions are treated as vested irrespective of whether the non-vesting condition is satisfied, provided that service conditions are satisfied. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(o) Borrowings

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

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the consolidated statement of profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

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

(p) Trade payables

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

(q) Accrued expenses and other current liabilities

Accrued expenses and other current liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Provisions

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. 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. If the effect of the time value of money are material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Warranty provisions - The Group offers warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Warranty provisions and reversals are charged to "Cost of sales". Adjustments are made to the warranty provision considering the changes in recent trends, technological improvements and legal and constructive obligation of the Group.

(s) Revenue from contract with customers

Sale of goods

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. The Group recognizes revenue when control of the goods has transferred, being when the products are delivered to the customer, the customer has full discretion over the use or sale of such goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location as per the terms of the contract, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales-related warranties associated with goods cannot be purchased separately, and serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' consistent with its previous accounting treatment.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Performance of services

The Group provides installation and maintenance services under fixed-price and variable price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual cost spent relative to the total expected cost to complete.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue from contract with customers (Continued)

Performance of services (Continued)

If the contract includes an hourly fee, revenue is recognised in the amount to which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable as per the credit terms. Some contracts include multiple deliverables, such as the sale of equipment and related installation services. However, the installation is simple, does not include an integration service and could be performed by another party. It is therefore accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. If contracts include the installation of equipment, revenue for the equipment is recognised at a point in time when the equipment is delivered, the legal title has passed and the customer has accepted the equipment and the revenue from services is recognised over the period of time. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the consolidated statement of profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(t) Expenses

All expenses, other than cost of sales and financial charges are classified as general and administrative expenses and selling and distribution expenses. Allocation between cost of revenue, administrative expenses and selling and distribution are made based on the factors determined by the management and applied consistently.

(u) Cost of sales

Cost of sales includes raw materials consumed, labor cost, consumables, depreciation, direct and indirect overheads related to sales and provision of good and services.

(v) Foreign currencies

Transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies of Group at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

Group companies

The results and financial position of the foreign subsidiary having reporting currencies other than Saudi Riyals are translated into Saudi Riyals as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing exchange rate at the date of that consolidated statement of financial position;
- income and expenses for each statement of profit or loss are translated at average exchange rates

Cumulative adjustments resulting from the translations of the financial statements of the foreign subsidiary into Saudi Riyals are recognized in consolidated statement of other comprehensive income. When investment in the foreign subsidiary is disposed off or sold, currency translation differences that were recorded in other comprehensive income are recognized in consolidated statement of profit or loss as part of gain or loss on disposal or sale.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Contingencies

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

(x) Zakat and income tax

Zakat is provided for in accordance with Zakat, Tax and Customs Authority (“ZATCA”) regulations applicable in the Kingdom of Saudi Arabia. Income tax for foreign subsidiaries is provided for in accordance with the relevant income tax regulations of the countries of incorporation.

Zakat, for the Company and its local subsidiaries are filed at group level, is calculated based on approximate zakat base and adjusted net profit and is charged to profit or loss. Additional amounts, if any, are accounted for when determined to be required for payment.

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

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

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

(y) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Business combinations (Continued)

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of gross assets acquired is concentrated in a single identifiable assets or group of similar identifiable assets.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. The Company's Board of Directors are considered to be the chief operating decision maker. Segment results that are reported to the Group's Chief Operating Decision Maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. As the operations of the Group are conducted in different countries, accordingly, for management purposes, the Group is organized into business units based on its products and services.

(aa) Earnings per share

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

(ab) Dividend distribution

Dividends are recorded in the consolidated financial statements in the period in which they are approved by shareholders of the Group. Interim dividends are recorded once approved from Board of Directors.

(ac) Operating profit

Operating profit is the result generated from continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance cost, share of profit of equity accounted investees and zakat & income taxes.

(ad) Finance income and finance costs

The Group finance income and finance costs includes the following:

- interest expenses and income
- dividend income

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

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

New and revised standards issued but not yet effective

The amendments to existing standards that are issued, but not yet effective, up to the date of issuance of the Group's Consolidated financial statements are disclosed below. The Group intends to adopt these amendments to existing standards, if applicable, when they become effective:

- IFRS 17 Insurance Contracts, effective for annual periods beginning on or after 1 January 2023.
- Amendments to IFRS 17, effective for annual periods beginning on or after 1 January 2023
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2), effective for annual periods beginning on or after 1 January 2023.
- Definition of Accounting Estimate (Amendments to IAS 8), effective for annual periods beginning on or after 1 January 2023.
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction and Amendments to IAS 12 Income Taxes, effective for annual periods beginning on or after 1 January 2023.
- Initial Application of IFRS 17 and IFRS 9, Comparative Information (Amendments to IFRS 17), effective for annual periods beginning on or after 1 January 2023.
- Classification of liabilities as current or non-current (Amendments to IAS 1), effective for annual periods beginning on or after 1 January 2024.
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16), effective for annual periods beginning on or after 1 January 2024.
- Non-current Liabilities with Covenants (Amendments to IAS 1), effective for annual periods beginning on or after 1 January 2024.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The above-mentioned standards are not expected to have a significant impact on the Group's consolidated financial statements.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

5. SEGMENT REPORTING

(a) Information about reportable segments

The Board of Directors monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segments profits and is measured consistently in the consolidated financial statements.

The Group operates principally in the following two operating segments, and these are identified as operating segments based on the products and services offered:

- Manufacturing, assembly and supply of various types of electrical equipment; and
- Provision of technical services.

No operating segments have been aggregated to form the above reportable operating segments. There is no inter-segment revenue.

Information regarding the results of each reportable segment as of 31 December 2022 and 2021 and for the year ended 31 December 2022 and 2021 are summarized as follows:

	Manufacturing, assembly & supply	Services	Total
Year ended 31 December 2022			
Revenue from external customers	990,525,551	75,563,282	1,066,088,833
Cost of sales	(781,303,277)	(27,698,163)	(809,001,440)
Selling and distribution expenses	(42,045,094)	(3,645,803)	(45,690,897)
General and administrative expenses	(49,823,651)	(2,721,120)	(52,544,771)
Depreciation of property, plant and equipment	(21,105,090)	(868,979)	(21,974,069)
Other income	1,090,056	-	1,090,056
Foreign currency exchange loss	(3,186,292)	-	(3,186,292)
Segment results	94,152,203	40,629,217	134,781,420
As at 31 December 2022			
Segment assets	1,345,265,690	91,689,858	1,436,955,548
Segment liabilities	148,609,059	1,823,462	150,432,521

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

5. SEGMENT REPORTING (Continued)

(a) Information about reportable segments (Continued)

	Manufacturing, assembly & supply	Services	Total
Year ended 31 December 2021			
Revenue from external customers	702,250,246	68,437,664	770,687,910
Cost of sales	(575,901,591)	(25,828,777)	(601,730,368)
Selling and distribution expenses	(29,575,307)	(2,380,756)	(31,956,063)
General and administrative expenses	(43,195,645)	(2,796,238)	(45,991,883)
Depreciation of property, plant and equipment	(18,240,188)	(3,470,994)	(21,711,182)
Other income	4,044,681	-	4,044,681
Foreign currency exchange loss	(615,510)	-	(615,510)
Segment results	<u>38,766,686</u>	<u>33,960,899</u>	<u>72,727,585</u>
As at 31 December 2021			
Segment assets	1,025,248,766	75,278,485	1,100,527,251
Segment liabilities	110,220,716	13,784,679	124,005,395

Finance cost, zakat and income tax expense and expected credit loss allowance are not allocated to individual segments as the underlying instruments are managed on a group basis.

Certain financial and non-financial assets such as financial asset at fair value through other comprehensive income, right of use assets, intangibles assets, prepayment and other current assets and cash and cash equivalents are not allocated to those segments as they are managed on a group basis.

Certain financial and non-financial liabilities such as lease liabilities, employee benefit obligations, loans and borrowings, accrued expenses and other current liabilities are not allocated to those segments as they are also managed on a group basis.

(b) Reconciliation of information on reportable segments to the amount reported in the consolidated financial statements

Reconciliation of profit before zakat and income tax

	2022	2021
Segments results	134,781,420	72,727,585
Finance cost	(19,577,624)	(7,916,390)
Expected credit loss allowance	(3,171,978)	(2,469,274)
Profit before zakat and income tax	<u>112,031,818</u>	<u>62,341,921</u>

Reconciliation of total assets

	31 December 2022	31 December 2021
Segments assets	1,436,955,548	1,100,527,251
Other unallocated assets	236,813,756	147,506,040
Total assets	<u>1,673,769,304</u>	<u>1,248,033,291</u>

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

5. SEGMENT REPORTING (Continued)

(b) Reconciliation of information on reportable segments to the amount reported in the consolidated financial statements (Continued)

Reconciliation of total liabilities

	31 December 2022	31 December 2021
Segments liabilities	150,432,521	124,005,395
Other unallocated liabilities	892,575,908	536,225,103
Total liabilities	<u>1,043,008,429</u>	<u>660,230,498</u>

(c) Geographic information

The geographic information analyses the Group's revenue and non-current assets by the Company's country of domicile and other countries. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

Revenue

	2022	2021
Kingdom of Saudi Arabia	981,325,159	706,625,008
Gulf countries (other than Kingdom of Saudi Arabia)	36,456,617	63,101,413
Europe	23,759,742	899,437
Asia	24,547,315	62,052
	<u>1,066,088,833</u>	<u>770,687,910</u>

Non-current assets

	31 December 2022	31 December 2021
Kingdom of Saudi Arabia	264,748,159	278,246,994
Europe	23,756,721	29,226,308
	<u>288,504,880</u>	<u>307,473,302</u>

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets, and intangible assets.

(d) Major customers

Revenue of approximately SR 303.08 million for the year ended 31 December 2022 were derived from two external customers (2021: SR 256.8 million were derived from three external customers).

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings & leasehold improvements	Plant & machinery	Furniture, fixture & office equipment	Vehicles	Capital work in Progress	Total
<u>Cost</u>							
As at 1 January 2021	41,741,269	241,352,146	270,474,949	42,132,566	6,192,492	9,121,407	611,014,829
Additions	-	444,710	12,172,765	627,142	335,500	10,547,209	24,127,326
Transfers	-	925,188	3,475,037	1,454,167	-	(5,854,392)	-
Disposals	-	-	(13,031,726)	(342,918)	(1,439,112)	-	(14,813,756)
Exchange differences	-	-	(784,103)	(22,602)	-	-	(806,705)
As at 31 December 2021	41,741,269	242,722,044	272,306,922	43,848,355	5,088,880	13,814,224	619,521,694
Additions	-	5,000	986,384	529,510	-	7,227,800	8,748,694
Transfers	-	1,221,620	3,339,050	1,479,135	-	(6,039,805)	-
Disposals	-	-	(348,406)	(4,850)	(578,900)	-	(932,156)
Transfers to intangible assets	-	-	-	-	-	(2,911,977)	(2,911,977)
Reclassifications	-	1,120,165	(1,682,962)	(1,123,501)	21,820	1,664,478	-
Exchange differences	-	-	(597,941)	8,045	-	-	(589,896)
As at 31 December 2022	41,741,269	245,068,829	274,003,047	44,736,694	4,531,800	13,754,720	623,836,359
<u>Accumulated depreciation</u>							
As at 1 January 2021	-	107,169,412	188,897,519	40,580,293	4,650,010	-	341,297,234
Charge for the year	-	7,983,978	12,600,569	1,088,523	38,112	-	21,711,182
On disposals	-	-	(12,224,115)	(1,778,125)	-	-	(14,002,240)
Exchange differences	-	-	(47,871)	(1,372)	-	-	(49,243)
As at 31 December 2021	-	115,153,390	189,226,102	39,889,319	4,688,122	-	348,956,933
Charge for the year	-	7,778,479	13,110,378	983,593	101,619	-	21,974,069
On disposals	-	-	(348,407)	(4,849)	(578,900)	-	(932,156)
Reclassifications	-	(854,452)	350,785	510,848	(7,181)	-	-
Exchange differences	-	-	(52,164)	(1,003)	-	-	(53,167)
As at 31 December 2022	-	122,077,417	202,286,694	41,377,908	4,203,660	-	369,945,679
<u>Carrying amount</u>							
As at 31 December 2022	41,741,269	122,991,412	71,716,353	3,358,786	328,140	13,754,720	253,890,680
As at 31 December 2021	41,741,269	127,568,654	83,080,820	3,959,036	400,758	13,814,224	270,564,761

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Cost of sales	27	19,465,385	19,407,369
Selling and distribution expenses	28	893,725	687,602
General and administrative expenses	29	1,614,959	1,616,211
		21,974,069	21,711,182

6.2 The buildings and leasehold improvements of the Group are constructed on land parcels leased under renewable lease agreements with the Saudi Industrial Property Authority ("Modon") ranging from 20 to 25 Hijra years expiring on 12 Rabi II 1454 H (corresponding to 20 July 2032).

6.3 Land parcels with a cost of SR 6.6 million as at 31 December 2022 (31 December 2021: SR 6.6 million) are held under the name of an ex-executive on behalf of the Group.

6.4 Capital work-in-progress as at 31 December 2022 principally represents certain machineries under installation and improvements to the buildings which are expected to be completed in 2023.

6.5 Property plant and equipment with a carrying amount of SR 69.20 million (31 December 2021: SR 73.02 million) is currently mortgaged as collateral with Saudi Industrial Development Fund ("SIDF") against the loan obtained by the Group.

7. RIGHT OF USE ASSETS

The Group has leases in respect of various parcels of land, building and vehicles. Rental contracts are typically made for fixed periods of 4 to 25 years and considered an extension option where the Group's management is reasonably certain to exercise. The lease agreements do not impose any covenants. Leased assets are not used as security for borrowing purposes.

	<u>Land & buildings</u>	<u>Vehicles</u>	<u>Total</u>
<u>Book value</u>			
As at 1 January 2021	8,430,104	5,589,664	14,019,768
Additions	22,781,938	-	22,781,938
Exchange differences	(800,634)	-	(800,634)
As at 31 December 2021	30,411,408	5,589,664	36,001,072
Exchange differences	(1,288,636)	-	(1,288,636)
As at 31 December 2022	29,122,772	5,589,664	34,712,436
<u>Accumulated depreciation</u>			
As at 1 January 2021	1,264,553	1,164,516	2,429,069
Charge for the year	2,245,162	1,397,463	3,642,625
Exchange differences	(56,682)	-	(56,682)
As at 31 December 2021	3,453,033	2,561,979	6,015,012
Charge for the year	2,800,458	1,397,482	4,197,940
Exchange differences	(61,956)	-	(61,956)
At 31 December 2022	6,191,535	3,959,461	10,150,996
<u>Carrying amount</u>			
As at 31 December 2022	22,931,237	1,630,203	24,561,440
As at 31 December 2021	26,958,375	3,027,685	29,986,060

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

7. RIGHT OF USE ASSETS (Continued)

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

	Notes	2022	2021
Cost of sales	27	1,379,475	1,379,475
Selling and distribution expenses	28	377,843	377,843
General and administrative expenses	29	2,440,622	1,885,307
		4,197,940	3,642,625

Lease liabilities

	Notes	2022	2021
Balance as at beginning of the year		31,192,181	11,290,188
Additions during the year		-	22,781,938
Interest charge for the year	31	655,769	741,601
Exchange differences		(1,298,947)	(793,425)
Payments during the year		(4,638,895)	(2,828,121)
Balance as at end of the year		25,910,108	31,192,181
Non-current portion		22,619,993	27,167,506
Current portion		3,290,115	4,024,675
Balance as at end of the year		25,910,108	31,192,181

Amount recognised in consolidated statement of profit or loss and other comprehensive income:

	2022	2021
Depreciation of right of use assets	4,197,940	3,642,625
Interest on lease liabilities	655,769	741,601

Amount recognised in consolidated statement of cash flow for leased assets:

	2022	2021
Principal portion of lease liabilities	3,983,126	2,086,520
Interest payment	655,769	741,601
Short term leases	1,200,000	374,166
	5,838,895	3,202,287

For short-term leases (a lease term of 12 months or less), the Group has opted to recognise a lease expense on a straight-line basis as permitted by International Financial Reporting Standard 'IFRS' 16 Leases. Short-term lease expense for the year 2022 amounting to SR 1.2 million (2021: SR 0.37 million) was recorded in the consolidated statement of profit and loss and other comprehensive income.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

8. INTANGIBLES ASSETS

	Computer software	License, designs & prototypes	Intangible assets under development	Total
Cost				
As at 01 January 2021	13,814,050	18,747,120	3,411,758	35,972,928
Additions	561,374	-	339,294	900,668
Transfers	-	2,641,432	(2,641,432)	-
As at 31 December 2021	14,375,424	21,388,552	1,109,620	36,873,596
Additions	-	-	1,802,214	1,802,214
Transfers	2,825,542	-	(2,825,542)	-
Transfer from property, plant & equipment	2,911,977	-	-	2,911,977
Reclassification	-	(2,641,431)	2,641,431	-
As at 31 December 2022	20,112,943	18,747,121	2,727,723	41,587,787
Accumulated amortization				
As at 01 January 2021	12,157,172	14,428,024	-	26,585,196
Charge for the year	464,640	2,901,279	-	3,365,919
As at 31 December 2021	12,621,812	17,329,303	-	29,951,115
Charge for the year	489,283	1,094,629	-	1,583,912
As at 31 December 2022	13,111,095	18,423,932	-	31,535,027
Carrying amount				
As at 31 December 2022	7,001,848	323,189	2,727,723	10,052,760
As at 31 December 2021	1,753,612	4,059,249	1,109,620	6,922,481

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

	Note	2022	2021
Cost of sales	27	1,217,424	2,835,898
Selling and distribution expenses	28	310,323	391,888
General and administrative expenses	29	56,165	138,133
		1,583,912	3,365,919

8.2 Intangible assets under development as of 31 December 2022 represents costs incurred for the development of computer software in progress, which are expected to be completed in 2023.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity instruments designated at fair value through other comprehensive income ("FVOCI") include investments in equity shares of listed and non-listed companies. The Group holds non-controlling interests in these companies. These investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature. As at reporting date, the Group hold investments in equity securities as follows:

	<u>Notes</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
<i>Non- listed equity investments</i>			
GCC Electrical Testing Laboratory Company ("GLC")	9.1	15,300,000	15,300,000
<i>Listed equity investments</i>			
ACWA Power Company		200,032	110,544
Closing balance		<u>15,500,032</u>	<u>15,410,544</u>

9.1 The investment in GLC, a closed joint stock company registered in the Kingdom of Saudi Arabia, represents 2.5% equity interest with an objective to test and certify electrical products. GLC has not commenced commercial operations as of the date of the issuance of these consolidated financial statements.

9.2 Movement in financial assets fair value reserve is as follows:

	<u>2022</u>	<u>2021</u>
At beginning of the year	36,848	-
Fair value gain on equity investments at FVOCI recognised in other comprehensive income	89,488	36,848
At the end of the year	<u>126,336</u>	<u>36,848</u>

9.3 No strategic investments were disposed of during the year 2022 and 2021, and there were no transfers of any cumulative gain or loss within equity to these investments.

9.4 The Group has received dividends from ACWA Power Company amounting to SR 1,013 (2021: nil).

10. INVENTORIES

	<u>31 December 2022</u>	<u>31 December 2021</u>
Raw materials	304,307,888	251,376,737
Work-in-progress	204,153,945	96,825,639
Spare parts and supplies, not held for sale	6,249,750	6,487,106
Finished goods	75,458,862	56,111,788
Goods-in-transit	144,478,119	41,708,837
	<u>734,648,564</u>	<u>452,510,107</u>
Less: allowance for inventory obsolescence	(15,782,851)	(11,309,793)
	<u>718,865,713</u>	<u>441,200,314</u>

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

10. INVENTORIES (Continued)

Inventories recognized as expense during the year ended 31 December 2022 amounted to SR 634 million (31 December 2021: SR 462 million) and included under cost of sales.

10.1 The movement in provision for inventory obsolescence during the year is as follows

	2022	2021
Balance at beginning of the year	11,309,793	9,402,876
Provision during the year	4,473,058	1,906,917
Balance at the end of the year	15,782,851	11,309,793

Inventory provision amounting to SR 4.5 million (2021: SR 1.9 million) is recognised within cost of sales.

Effective 1 May 2022, the Group changed its cost formula from weighted average to first in first out (FIFO) to determine the value of its inventories. For further details, refer note 3(h).

11. TRADE AND OTHER RECEIVABLES

	Notes	31 December 2022	31 December 2021
Trade receivables		473,552,296	394,590,832
Less: impairment loss allowance		(12,957,225)	(11,706,226)
		460,595,071	382,884,606
Due from related parties	33.1	3,604,084	5,877,570
		464,199,155	388,762,176

The movement in impairment loss allowance during the year is as follows:

	2022	2021
Balance at beginning of the year	11,706,226	10,594,476
Provision during the year	3,171,978	2,469,274
Write off during the year	(1,920,979)	(1,357,524)
Balance at the end of the year	12,957,225	11,706,226

Trade receivables are recognised initially at the amount of transaction price, unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Due to the short-term nature of the trade receivables, their carrying amount is considered to be the same as their fair value.

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 365 days past due.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

11. TRADE AND OTHER RECEIVABLES (Continued)

The following table details the risk profile of trade receivables based on the Group's provision matrix.

31 December 2022

	Loss rate	Gross carrying amount	Loss allowance
0-90 days past due	0.23% to 1.48%	376,220,458	4,162,936
91- 180 days past due	3.01% to 9.12%	34,615,705	1,858,451
181- 365 days past due	0.00% to 12.92%	22,263,144	955,033
More than 365 days past due	8.51% to 51.76%	40,452,989	5,980,805
		473,552,296	12,957,225

31 December 2021

	Loss rate	Gross carrying amount	Loss allowance
0-90 days past due	0.02% to 0.15%	295,501,402	303,068
91- 180 days past due	0.04% to 2.62%	45,988,649	272,865
181- 365 days past due	0.06% to 2.23%	26,143,341	152,925
More than 365 days past due	0.40% to 100%	26,957,440	10,977,368
		394,590,832	11,706,226

11.1 The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	31 December 2022	31 December 2021
Saudi Riyals	311,656,427	236,057,684
United States Dollars	153,891,511	151,389,632
United Arab Emirates Dirhams	4,158	4,119,169
Euros	8,000,200	3,024,347
	473,552,296	394,590,832

The Group does not hold any collateral as security against trade receivables

12. PREPAYMENTS AND OTHER CURRENT ASSETS

	Notes	31 December 2022	31 December 2021
Advances to suppliers		48,108,342	11,788,924
Advances to employees		12,813,453	11,661,885
Prepaid expenses		1,612,485	3,573,219
Others	12.1	1,869,817	2,532,548
		64,404,097	29,556,576

12.1 This mainly includes margin deposits with banks and deposits with ZATCA.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

13. CASH AND CASH EQUIVALENTS

As at 31 December 2022 and 2021 cash and cash equivalents comprise of the following:

	31 December 2022	31 December 2021
<i>Cash at bank</i>		
- balance in current accounts	67,688,974	65,347,182
- short term deposit having original maturity less than 3 months	54,425,000	-
Cash in hand	181,453	283,197
	122,295,427	65,630,379

Cash and cash equivalents comprise cash at banks, cash on hand, short term deposits at prevailing market rate, with original maturity of three months or less, which are subject to an insignificant risk of changes in value.

Balances with banks are assessed to have low credit risk of default since these banks are highly regulated by the central banks of the respective countries. Accordingly, management of the Group estimates the loss allowance on balances with banks at the end of the reporting period at an amount equal to 12-month ECL. None of the balances with banks at the end of the reporting period are past due and taking into account the historical default experience and the current credit ratings of the bank, the management of the Group have assessed that there is no impairment, and hence have not recorded any loss allowances on these balances.

14. SHARE CAPITAL

The authorized, issued and fully paid-up share capital comprises of 45,000,000 (2021: 45,000,000) ordinary shares of SR10 each. Following are the major shareholders of EIC:

Shareholders	Country of Incorporation	Shareholding percentage 2022	2021
Ajda Industrial and Technical Services Company ("AITS")	Kingdom of Saudi Arabia	28.00%	28.00%
Saad Abdullah AlTuwaijri Holding Company	Kingdom of Saudi Arabia	22.80%	22.80%

- 14.1** Subsequent to the year end, the Company's Board of Directors recommended in its meeting held on 28 March 2023 for capital increase by way of issuing bonus shares to the shareholders of the Company by granting one share to every four shares. The grant is subject to the approval of the relevant authorities and the Extraordinary General Assembly on the capital increase and the number of shares to be granted.

15. STATUTORY RESERVE

In accordance with the Company's By-laws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of the profit for the year to a statutory reserve until it equals to at least 30% of its share capital. The statutory reserve in these consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

16. TREASURY SHARES

Treasury shares are shares bought back by the Company in advance for the purpose of issuing shares under the employee share incentive program. During the years ended 31 December 2022 and 2021, no further shares were purchased. As at 31 December 2022 and 2021, the Group holds 500,000 treasury shares.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

17. FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve comprises of all the foreign currency differences arising from the translation of the financial statements of foreign subsidiary. Cumulative adjustments resulting from the translations of the financial statements of the foreign subsidiary into Saudi Riyals are recognized in consolidated statement of other comprehensive income. When investment in the foreign subsidiary is disposed off or sold, currency translation differences that were recorded in other comprehensive income are recognized in consolidated statement of profit or loss as part of gain or loss on disposal or sale.

18. FAIR VALUE RESERVE

The fair value reserve comprise of the cumulative net changes in the fair value of the equity securities designated at FVOCI.

19. EMPLOYEE SHARE INCENTIVE PROGRAM ("ESIP")

The Group has announced an Equity-Settled Employee Share Incentive Plan effective 1 April 2020, whereby qualifying employees of the Group are eligible to purchase the Company's shares (the "initial shares") either through upfront payment or payroll deductions over a period of three years. The value of such shares will be determined using the average share price of the preceding month and should not exceed the employee's three basic salaries. Any employee who withdraws from the ESIP before completion of three years, will receive back the amount contributed for the initial shares.

Bonus type 1 shares:

The employees who have subscribed for the initial shares, are eligible for additional bonus shares which will be allocated to employees without any additional consideration, subject to completion of service condition of three years, based on employee categories as detailed below.

Employee designation	Number of shares for each year of service with the Group at the time of subscription with the ESIP
Employees	50 shares
Managers	75 shares
Executives	100 shares

Bonus type 2 shares:

The employees who continue in the scheme are eligible for additional bonus shares without any additional consideration, subject to completion of service condition as mentioned below, if they continue to hold the initial and bonus type 1 shares:

Numbers of years of service (from date of joining ESIP)	Additional shares for every 1,000 initial shares held
5 Years	200 Shares
10 Years	450 Shares
15 Years	750 Shares
20 Years	1,100 Shares
25 Years	1,500 Shares
28 Years	2,000 Shares

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

19. EMPLOYEE SHARE INCENTIVE PROGRAM (Continued)

During the year, the Group has recognized share-based compensation expense amounting to SR 124,046 (2021: 839,164) in the consolidated statement of profit or loss with corresponding credit in share-based compensation reserve in the consolidated statement of changes in equity. Both Bonus type 1 and Bonus type 2 shares are classified as equity settled shares-based payment.

The fair value for each option is estimated at the grant date using the Stochastic Simulation Pricing model, taking into account the terms and conditions upon which the share options were granted. Following are the key assumptions used:

	31 December 2022	31 December 2021
Share Price - this is the average share price of the preceding month at the date of joining ESIP	14.44 - 14.74	14.44 - 14.74
Risk-free interest rate	1.26%	1.26%
Standard deviation of historical returns of Share Price	12%	12%
Retirement age	60 years	60 years

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behaviour.

20. LONG TERM BORROWINGS

	31 December 2022	31 December 2021
Saudi Industrial Development Fund ("SIDF")	16,650,000	31,400,000
Less: unamortized transaction cost	(44,704)	(162,520)
	16,605,296	31,237,480

Long-term borrowings are presented in consolidated statement of financial position as follows:

	31 December 2022	31 December 2021
Current portion	16,605,296	14,632,184
Non- current portion	-	16,605,296
	16,605,296	31,237,480

20.1 Movement in unamortized transaction cost is as follows:

	Notes	2022	2021
Balance at beginning of the year		162,520	346,952
Less: amortization for the year	31	(117,816)	(184,432)
Balance at the end of the year		44,704	162,520

This represents loan obtained by a subsidiary of the Group, named Saudi Power Transformers Company Limited ("SPTC") from SIDF of SR 56.9 million to finance the construction of SPTC's plant facilities, which was fully drawn by 31 December 2014. The loan is denominated in Saudi Riyals. In 2015, SPTC rescheduled the loan and as per the rescheduling agreement the loan is payable in fifteen un-equal semi-annual instalments which commenced in 2017. In July 2020, SPTC again rescheduled the loan repayments with no changes to other terms of the borrowing agreement. The revised payment plan is as follows:

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

20. LONG TERM BORROWINGS (Continued)

	2022	2021
Year ending 31 December		
2022	-	14,750,000
2023	16,650,000	16,650,000
	16,650,000	31,400,000

The covenants of the loans agreements require SPTC to maintain certain level of financial conditions, place limitations on dividend distributions and on annual capital and rental expenditures.

As per the loan agreement between SPTC and SIDF, SPTC have to comply with certain loan covenants related to maintenance of financial ratios (current ratio 1:1 and liabilities to tangible net worth ratio 3:1). As of 31 December 2022, and 2021, SPTC was in compliance with the loan covenants.

21. EMPLOYEES' BENEFITS

The Group operates a defined benefit plan in line with the Labor Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labor Law of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plans are unfunded plans and the benefit payment obligation are met when they fall due upon termination of employment. The latest valuation of employee benefit obligations under the projected unit credit method was carried out by an independent actuary as of 31 December 2022.

	2022	2021
Balance as at 1 January	80,528,461	73,894,933
Current service cost	6,051,358	5,735,605
Interest expense	1,708,407	1,232,296
Payments	(3,178,785)	(3,865,696)
Remeasurement	5,760,671	3,531,323
Balance as at 31 December	90,870,112	80,528,461

21.1 Amount recognised in the consolidated statement of profit or loss and other comprehensive income

	2022	2021
Current service cost	6,051,358	5,735,605
Interest cost on defined benefit obligation	1,708,407	1,232,296
Amount recognised in consolidated statement of profit or loss	7,759,765	6,967,901

	2022	2021
Re-measurement		
Loss due to change in experience adjustments	4,546,995	5,448,377
Loss / (gain) due to change in financial assumptions	631,744	(1,895,314)
Loss / (gain) due to change in demographic assumptions	581,932	(21,740)
Amount recognised in consolidated statement of other comprehensive income	5,760,671	3,531,323

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

21. EMPLOYEES' BENEFITS (Continued)

21.2 Key actuarial assumptions

Significant assumptions used in determining the post-employment defined benefit obligation includes the following:

	31 December 2022	31 December 2021
Discount rate	4.70%	2.15%
Future salary increases	2.25%	1.70%

21.3 Sensitivity analysis for actuarial assumptions

A quantitative sensitivity analysis for significant assumption on the defined benefit obligations are as follows.

	31 December 2022	31 December 2021
Increase in discount rate of 0.5%	(2,271,114)	(2,450,074)
Decrease in discount rate of 0.5%	3,711,528	2,594,731
Increase in salary of 0.5%	3,823,216	2,696,592
Decrease in salary of 0.5%	(2,403,323)	(2,569,734)

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

21.4 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 4.44 years (2021 – 6.18 years). The expected maturity analysis of undiscounted employees' benefit is as follows:

	31 December 2022	31 December 2021
Year 1	8,471,197	10,149,723
Year 2	14,727,313	12,755,196
Year 3	9,501,046	8,928,021
Year 4	12,890,209	8,856,206
Year 5	10,715,212	10,297,072
Beyond 5 years	58,549,432	39,423,357

22. SHORT-TERM MURABHA BORROWINGS

These represent short-term murabaha borrowings at 31 December 2022 and 2021 obtained from commercial banks having maturity of three to six months and bear financial charges at prevailing market rates which are based on Saudi inter-bank offer rate. The loans are principally secured by corporate guarantees provided by the Company.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

23. TRADE AND OTHER PAYABLES

	Notes	31 December 2022	31 December 2021
Trade payables		150,432,521	123,934,152
Due to a related party	33.2	-	71,243
		150,432,521	124,005,395

Due to short term nature of the trade and other payables not measured at fair value, management consider that their carrying amounts approximate their fair value.

24. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	Notes	31 December 2022	31 December 2021
Accrued expenses		160,150,016	56,828,687
Advances from customers		153,250,903	119,252,303
Value added tax payable		8,581,388	3,212,630
Warranty provision	24.1	3,251,820	2,132,531
Others		2,057,627	1,334,556
		327,291,754	182,760,707

24.1 The Group provides warranties for general repairs of defects that existed at the time of sale. Provisions related to these assurance-type warranties are recognised when the product is sold, or the service is provided to the customer. Initial recognition is based on historical experience. The estimate of warranty-related costs is reviewed annually.

The movement in warranty provision is as follows

	2022	2021
Balance at beginning of the year	2,132,531	1,369,560
Provision during the year	2,231,744	2,084,243
Provision used during the year	(1,112,455)	(1,321,272)
Balance at the end of the year	3,251,820	2,132,531

25. ZAKAT AND INCOME TAX PAYABLE

The Company and its Saudi based subsidiaries are subject to zakat. The Group files zakat return on a consolidated basis for the Company and its wholly owned Saudi based subsidiaries. The significant components of the zakat base of each company under zakat regulations principally comprised of shareholders' equity, provisions at the beginning of year, long-term borrowings and adjusted net income, less deduction for the net book value of property, plant and equipment, investments, spare parts and supplies and certain other items.

25.1 Zakat and income tax expense

	2022	2021
Zakat expense	13,929,785	13,496,451
Income tax expense	3,932,023	-
	17,861,808	13,496,451

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

25. ZAKAT AND INCOME TAX PAYABLE (Continued)

Movement in zakat payable is as follows:

	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	13,978,736	12,489,739
Charge for the year	13,929,785	13,496,451
Payments during the year	(11,712,948)	(12,007,454)
Balance at the end of the year	<u>16,195,573</u>	<u>13,978,736</u>

25.2 Status of zakat assessments

The Group has obtained zakat certificates from ZATCA for the years through 2021. ZATCA has finalized the Group's zakat assessments for the years through 2014. Assessments for the years 2015 to 2021 are currently under review by ZATCA.

In 2020, the Group received additional zakat and withholding tax assessments for the years from 2015 to 2018 amounting to Saudi Riyals 6.4 million and Saudi Riyals 1.3 million, respectively. The Group filed appeals against such assessments with ZATCA, and ZATCA accepted the appeals for 2015 and 2017 in full, with partial acceptance of 2016 and 2018 objections. Accordingly, the Group filed appeals against such revised assessments related to 2016 and 2018 with the General Secretariat of Tax Committees ("GSTC") relating to additional zakat and withholding tax assessments of Saudi Riyals 6.2 million and Saudi Riyals 0.4 million, respectively. In 2021, the GSTC's Committee for the Resolution of tax Violation and Disputes issued revised assessments and reduced the Zakat and withholding tax assessments to Saudi Riyals 3.9 million and Saudi Riyals 80 thousand respectively. The Group has not accepted the revised assessments and filed appeals against GSTC's appeal committee for Tax Violations and Disputes.

In 2021, the Group received zakat assessments for the years 2019 and 2020 amounting to Saudi Riyals 4.7 million and Saudi Riyals 2.7 million, respectively. The Group accepted and paid Saudi Riyals 290,945 and filed appeal against the balance amounts with ZATCA. In 2022, ZATCA cancelled the appealed zakat assessments and notified the Group that it will receive new assessments. The Group has not accepted this action taken by ZATCA and filed appeals against it with the General Secretariat of Tax Committees ("GSTC").

The Group believes that their contentions are in accordance with the applicable ZATCA regulations, and no material liability will arise upon finalization of such assessments. Accordingly, no provision for such outstanding assessments has been made in the consolidated financial statements for the year ended 31 December 2022.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

25. ZAKAT AND INCOME TAX PAYABLE (Continued)

25.3 Income tax expense

The subsidiary of the Group incorporated in Belgium is subject to the income tax under the respective tax regime.

Movement in income tax payable is as follows:

	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	-	-
Charge for the year	3,932,023	-
Payment during the year	(3,246,907)	-
Balance at the end of the year	<u>685,116</u>	<u>-</u>

Numerical reconciliation of income tax expenses to profit for the year

Current tax expense for the year has been provided at a rate of 25% of the adjusted net taxable income as follows

	<u>31 December 2022</u>	<u>31 December 2021</u>
Profit before zakat and income tax	112,031,818	-
Tax rate	25% <u>28,007,955</u>	- <u>-</u>
Tax effect of profit subject to Zakat	(25) % (23,213,497)	- -
Tax effect of disallowed expenses	<u>(4.50) %</u> <u>(862,435)</u>	- -
	<u>20.50%</u> <u>3,932,023</u>	- -

26. REVENUE

26.1 Revenue streams

The Group generates revenue primarily from:

- Sale of transformers, compact substations and low voltage distribution panels, electrical distribution boards, cable trays, switch gears and;
- Technical services relating to installation, maintenance and operation relating to these activities.

	<u>2022</u>	<u>2021</u>
Revenue from contracts with customers	<u>1,066,088,833</u>	<u>770,687,910</u>

26.2 Disaggregation of revenue from contract with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market, types of customers and timing of revenue recognition. The table also include a reconciliation of the disaggregated revenue with the Group's reportable segments.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

26. REVENUE (Continued)

26.2 Disaggregation of revenue from contract with customers (Continued)

For the year ended 31 December 2022			
	Manufacturing, assembly & supply	Services	Total
Primary geographical markets			
Kingdom of Saudi Arabia	913,240,755	68,084,404	981,325,159
Gulf countries (other than Kingdom of Saudi Arabia)	35,503,017	953,600	36,456,617
Asia	24,241,315	306,000	24,547,315
Europe	17,540,464	6,219,278	23,759,742
	<u>990,525,551</u>	<u>75,563,282</u>	<u>1,066,088,833</u>
Major types of customers			
Government	284,825,432	31,027,377	315,852,809
Non- Government	705,700,119	44,535,905	750,236,024
	<u>990,525,551</u>	<u>75,563,282</u>	<u>1,066,088,833</u>
Timing of revenue recognition			
Products transferred at a point in time	990,525,551	-	990,525,551
Services transferred over time	-	75,563,282	75,563,282
	<u>990,525,551</u>	<u>75,563,282</u>	<u>1,066,088,833</u>
External revenue as reported in reportable segments (note 5)	<u>990,525,551</u>	<u>75,563,282</u>	<u>1,066,088,833</u>
For the year ended 31 December 2021			
	Manufacturing, assembly & supply	Services	Total
Primary geographical markets			
Kingdom of Saudi Arabia	640,779,401	65,845,607	706,625,008
Gulf countries (other than Kingdom of Saudi Arabia)	60,612,734	2,488,679	63,101,413
Asia	62,052	-	62,052
Europe	796,059	103,378	899,437
	<u>702,250,246</u>	<u>68,437,664</u>	<u>770,687,910</u>
Major types of Customers			
Government	246,665,198	22,010,834	268,676,032
Non- Government	455,585,048	46,426,830	502,011,878
	<u>702,250,246</u>	<u>68,437,664</u>	<u>770,687,910</u>
Timing of revenue recognition			
Products transferred at a point in time	702,250,246	-	702,250,246
Services transferred over time	-	68,437,664	68,437,664
	<u>702,250,246</u>	<u>68,437,664</u>	<u>770,687,910</u>
External revenue as reported in reportable segments (note 5)	<u>702,250,246</u>	<u>68,437,664</u>	<u>770,687,910</u>

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

26. REVENUE (Continued)

26.3 Contract balances

The following table provide information about the trade receivables and contract liabilities from contract with customers.

	Notes	31 December 2022	31 December 2021
Trade receivables- <i>Gross</i>	11	473,552,296	394,590,832
Advance from customers, which are included in accrued and other current liabilities	24	153,250,903	119,252,303

The contract liabilities primarily relate to the payment received from customers before the Group transfers the related goods or renders services.

The movement of advances from customers are as follows:

	2022	2021
As at beginning of the year	119,252,303	91,257,021
Received during the year	423,385,001	259,307,759
Amount adjusted against revenue	(389,386,401)	(231,312,477)
As at end of the year	153,250,903	119,252,303

26.4 Performance obligations

Information about the Group's performance obligations are summarised below

26.4.1 Manufacturing, assembly and supply

The performance obligation is satisfied when control of the goods has been transferred, being when the products are delivered to the customer, the customer has full discretion over the use or sale of such goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. The Group does not have any remaining performance obligation as contracts entered for sale of goods are for a shorter duration and satisfied concurrently with delivery of goods.

Payment terms with customers vary depending upon the contractual terms of each contract and generally falls in the range of 30 to 90 days from the completion of performance obligation. There is no significant financing component in any transaction with the customers.

26.4.2 Services

Revenue from providing services is recognised in the accounting period in which the services are rendered, and payment is generally due upon completion of the services. In some contracts, short-term advances are required before the installation service is provided.

The remaining performance obligation as at 31 December 2022 is expected to be recognised within one year.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

27. COST OF SALES

	Notes	2022	2021
Raw materials consumed		626,073,930	451,491,987
Salaries and benefits		137,251,718	111,865,405
Depreciation of property, plant and equipment	6.1	19,465,385	19,407,369
Stores and spares consumed		10,471,410	10,126,348
Short term lease expense and utilities		9,773,130	6,823,981
Repairs and maintenance		6,814,125	4,154,156
Provision of employee benefit obligations		5,153,626	4,603,555
Allowance for inventory obsolescence	10.1	4,473,058	1,906,917
Depreciation of right of use assets	7.1	1,379,475	1,379,475
Amortization of intangible assets	8.1	1,217,424	2,835,898
Others		6,393,544	6,542,647
		828,466,825	621,137,738

28. SELLING AND DISTRIBUTION EXPENSES

	Notes	2022	2021
Salaries and benefits		18,060,154	15,085,598
Freight		11,581,188	6,148,991
Sales commission		5,681,110	1,967,515
Warranties	24.1	2,231,744	2,084,243
Product development		1,587,134	1,618,286
Office expenses		1,502,821	457,010
Advertisement		1,284,780	501,399
Royalty		959,664	699,756
Provision of employee benefit obligations		941,436	825,632
Depreciation of property, plant and equipment	6.1	893,725	687,602
Depreciation of right of use assets	7.1	377,843	377,843
Amortization of intangible assets	8.1	310,323	391,888
Others		1,172,700	1,797,901
		46,584,622	32,643,664

29. GENERAL AND ADMINISTRATIVE EXPENSES

	Notes	2022	2021
Salaries and benefits		31,460,040	25,888,424
Office expenses		6,280,850	5,828,205
Rent and utilities		2,726,091	2,663,837
Professional services		2,622,784	3,492,889
Depreciation of right of use assets	7.1	2,440,622	1,885,307
Provision of employee benefit obligations		1,664,703	1,538,714
Depreciation of property, plant and equipment	6.1	1,614,959	1,616,211
Board of Directors' fees		1,600,000	1,600,000
Repairs and maintenance		480,029	389,884
Amortization of intangible assets	8.1	56,165	138,133
Others		3,213,487	2,566,490
		54,159,730	47,608,094

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

30. OTHER INCOME

	2022	2021
Gain on scrap sales	795,681	2,359,922
Gain/(loss) on disposal of property, plant and equipment	120,000	(811,516)
Others	174,375	2,496,275
	1,090,056	4,044,681

31. FINANCE COST

	Notes	2022	2021
Interest on borrowings		18,804,039	6,990,357
Interest on lease liabilities	7	655,769	741,601
Amortization of transaction costs	20.1	117,816	184,432
		19,577,624	7,916,390

32. EARNING PER SHARE

The calculation of basic EPS has been based on the profit attributable to ordinary shareholders and weighted average number of ordinary share outstanding. The calculation of diluted EPS has been based on the profit attributable to ordinary shareholders and weighted average number of ordinary share outstanding after adjustment for the effect of dilutive potential ordinary shares.

	2022	2021
Profit attributable to the shareholders of Electrical Industries Company	94,170,010	48,845,470
Weighted average number of ordinary shares for basic earnings per share	44,500,000	44,500,000
Weighted average number of ordinary shares deemed to be issued under ESIP	318,265	315,549
Weighted average number of ordinary shares for the purpose of diluted earnings	44,818,265	44,815,549
Basic earnings per share	2.12	1.10
Diluted earnings per share	2.10	1.09

Weighted average number of ordinary shares outstanding as at 31 December 2022 are adjusted by weighted average number of treasury shares bought back by the Company for the purpose of issuing shares under the employee share incentive program (see Note 19).

33. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include the Company's shareholders, associated companies and their shareholders, key management personnel, Board of Directors, and entities controlled, jointly controlled or significantly influenced by such parties ("Other Related Parties"). Terms and conditions of these transactions are approved by the Group's management. During the period, the Group transacted with the following related parties.

Name	Relationship
Ajda Industrial and Technology Services Company	Major Shareholder
Saad Abdullah Al-Tuwaijri Sons Holding Company	Major Shareholder
Ali Zaid Al Quraishi and Partners Electrical Services of Saudi Arabia ("AQESA")	Other related party
Al Toukhi Company for Industrial Trading and Contracting	Other related party
Ali Zaid Al Quraishi & Brothers Company	Other related party

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

33. RELATED PARTY TRANSACTION AND BALANCES (Continued)

The following are the nature and significant transactions with the related parties during the year and its related balances as at end of the year.

Name of related party	Nature of transaction	2022	2021
	Revenue from sale of goods	320,639	4,507,736
Ali Zaid Al Quraishi and Partners Electrical Services of Saudi Arabia	Purchase of raw materials	616,124	-
	Cost and expenses charged	-	64,872

33.1 Due from related parties

	31 December 2022	31 December 2021
Ali Zaid Al Quraishi & Brothers Company	-	3,653,676
Ali Zaid Al Quraishi and Partners Electrical Services of Saudi Arabia	1,400,190	-
Al Toukhi Company for Industrial Trading and Contracting	2,203,894	2,223,894
	3,604,084	5,877,570

33.2 Due to a related party

	31 December 2022	31 December 2021
Ali Zaid Al Quraishi and Partners Electrical Services of Saudi Arabia	-	71,243
	-	71,243

All the due to / due from balances are interest free, unsecured and expected to be settled within twelve months and no provision of doubtful debts has been made against these balances.

33.3 Compensation of key management personnel

	2022	2021
Salaries and other short-term employee benefits	9,626,496	7,970,413
Post-employment benefit	627,459	595,578
Share based payment expense	204,402	138,830
	10,458,357	8,704,821

Additionally, Board of Directors' fee for the year ended 31 December 2022 was SR 1.6 million (2021:SR 1.6 million).

Advances to employees includes advances to a key management personnel amounting to SR 1.3 million as at 31 December 2022 (31 December 2021: SR 1.4 million).

34. CONTINGENCIES AND CAPITAL COMMITMENTS

	31 December 2022	31 December 2021
Bank guarantees	357,945,609	182,499,976
Letter of credits	142,145,333	230,409,606
Capital expenditure	10,935,731	4,600,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

35. DIVIDEND

The Company's Board of Directors, at their meeting held on 17 March 2022, have proposed cash dividends of SR 1 per share totalling to SR 45 million, for the year ended 31 December 2021, which was approved in the annual general meeting held on 20 April 2022.

The Company's Board of Directors, at their meeting held on 16 March 2021, have proposed cash dividends of SR 0.5 per share totalling to SR 22.3 million, for the year ended 31 December 2020, which was approved in the annual general meeting held on 26 April 2021.

36. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT

36.1 Financial risk factors

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

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

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

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

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

A) Market risk

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 of interest rate risk, currency risk and price risk.

Fair value and cash flow interest rate risk

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

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The fixed rate borrowings carried at amortised cost are not subject to interest rate risk, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. Hence, the Group's exposure to fair value of fixed interest rate risk is not material.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

36. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (Continued)

36.1 Financial risk factors (Continued)

The short-term murabaha borrowings interest rates with banks are subject to change upon re-negotiation of the facilities which takes place at frequent intervals. At 31 December 2022, if the interest rate were to shift by 1%, there would be a maximum increase or decrease in the interest expense by SR 4.1 million (2021: Saudi Riyals 1.7 million).

A) Market risk

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to movements in foreign exchange rates. The Company's transactions are primarily in Saudi Riyals, United States Dollars (USD), United Arab Emirates Dirhams (AED) and Euros (EUR). Since Saudi Riyal is pegged to United States Dollars and United Arab Emirates, management of the Group believes that the currency risk for the financial instruments is not significant. The fluctuation in exchange rates against Euro are monitored on a continuous basis. The Group's exposure to foreign currency risk at the end of the reporting period was as follows:

	<u>USD</u>	<u>AED</u>	<u>EUR</u>	<u>GBP</u>
31 December 2022				
Trade receivables	153,891,511	4,158	8,000,200	-
Bank balances	27,807,136	216,230	4,135,927	10,007
Trade payables	21,971,380	524,669	9,229,769	223,278
	<u>USD</u>	<u>AED</u>	<u>EUR</u>	<u>GBP</u>
31 December 2021				
Trade receivables	40,355,242	4,003,884	746,264	-
Bank balances	4,716,314	80,005	287,130	149,354
Trade payables	17,060,063	159,398	3,590,693	-

Price risk

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the Consolidated Statement of Financial Position as at fair value through other comprehensive income (FVOCI). The Group hold certain strategic investments and does not foresee any significant risks arising out of its portfolio of holding. Certain investments are held in listed equity securities whereas others are non-listed equity investments.

Based on the assumption that the equity price of respective quoted investment at reporting date had increased / (decreased) by 5% (2021:5%) with all other variables held constant would results in change in value of investment in such equity securities by SR 10,002 (2021: 5,527) with consequent impact on Other comprehensive income.

B) Credit risk

Credit risk represents the financial loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The maximum exposure to credit risk is equal to the carrying amount of financial assets The Group's gross maximum exposure to credit risk at the reporting date are as follows:

Financial assets	31 December 2022	31 December 2021
Trade and other receivables	477,156,380	400,468,402
Cash and cash equivalents	122,295,427	65,630,379
Other current assets	1,869,817	2,532,548
	<u>601,321,624</u>	<u>468,631,329</u>

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

36. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (Continued)

36.1 Financial risk factors (Continued)

B) Credit risk (Continued)

Trade receivables

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by the Group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. Credit risk relating to trade receivables and expected credit loss assessment are covered below.

Expected credit losses

The Group is exposed to credit risk in the event of non-payment by customers. The Group limits its credit risk to customers by establishing credit limits for each customer and monitoring existing receivables. The Group does not require collateral in respect of trade receivables. In general, it is presumed that credit risk has significantly increased since initial recognition if the payments are more than 30 days past due. Trade receivables are written off when there is no reasonable expectations of recovery. Where receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in the consolidated statement of profit or loss. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. At 31 December 2022, 26% of trade receivables were due from two customers (2021: 13.2% of trade receivables were due from one customer). Management believes that this concentration of credit risk is mitigated as the customer has established track record of regular and timely payments.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. default risk associated with the sector and industry in which customers operate).

The following table provides information about the exposure to credit risk for trade receivables for all customers

	31 December 2022	31 December 2021
0-90 days past due	376,220,458	295,501,402
91- 180 days past due	34,615,705	45,988,649
181- 365 days past due	22,263,144	26,143,341
More than 365 days past due	40,452,989	26,957,440
	473,552,296	394,590,832

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

36. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (Continued)

36.1 Financial risk factors (Continued)

B) Credit risk (Continued)

Expected credit losses (Continued)

The Group categorises its trade receivables as due from corporates and Government customers. Major classification of trade receivables as at 31 December was as follows:

	2022		2021	
	Amount	%	Amount	%
Corporates	348,246,060	74%	331,788,407	84%
Government	125,306,236	26%	62,802,425	16%
	473,552,296	100%	394,590,832	100%

Cash and cash equivalents

The cash and cash equivalents are held with bank and financial institution counterparties. Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have no credit risk based on the external credit ratings of the counterparties.

Due from related parties

The Group held due from related parties. The Group uses a similar approach for assessment of ECLs for these receivables. Based on an assessment of qualitative and quantitative factors that are indicative of the risk of default (including but not limited to management accounts and applying experienced credit judgement), these exposures are considered to have low credit risk. Therefore, impairment on these balances has been measured on the 12-month expected credit loss basis; and the amount of the allowance is negligible.

C) Liquidity Risk

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

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

Cash flow forecasting is performed by the management which monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

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

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

36. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (Continued)

36.1 Financial risk factors (Continued)

C) Liquidity risk (Continued)

31 December 2022	Carrying amount	Contractual cashflows			
		Less than one year	2 to 5 Years	Over 5 Years	Total
Lease liabilities	25,910,108	4,358,370	9,167,525	16,781,911	30,307,806
Short-term murabaha borrowings	415,017,949	415,017,949	-	-	415,017,949
Long term borrowings	16,605,296	16,650,000	-	-	16,650,000
Trade and other payables	150,432,521	150,432,521	-	-	150,432,521
Accrued expenses and other liabilities	315,458,546	315,458,546	-	-	315,458,546
	923,424,420	901,917,386	9,167,525	16,781,911	927,866,822

31 December 2021	Carrying amount	Contractual cashflows			
		Less than one year	2 to 5 Years	Over 5 Years	Total
Lease liabilities	31,192,181	4,444,611	17,681,499	13,986,048	36,112,158
Short-term murabaha borrowings	196,527,538	196,527,538	-	-	196,527,538
Long term borrowings	31,237,480	15,270,000	17,170,000	-	32,440,000
Trade and other payables	124,005,395	124,005,395	-	-	124,005,395
Accrued expenses and other liabilities	179,548,077	177,415,546	-	-	177,415,546
	562,510,671	517,663,090	34,851,499	13,986,048	566,500,637

36.2 Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated statement of financial position, less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at 31 December were as follows:

	31 December 2022	31 December 2021
Total borrowings	431,623,245	227,765,018
Lease liabilities	25,910,108	31,192,181
Less: cash and cash equivalents	(122,295,427)	(65,630,379)
Net debt	335,237,926	193,326,820
Total equity	630,760,875	587,802,793
Total capital	965,998,801	781,129,613
Gearing ratio	35%	25%

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

36. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (Continued)

36.3 Reconciliation of movement of liabilities to cash flows arising from financing activities

	Liabilities			Equity		Total
	Lease liabilities	Short term borrowing	Long term borrowing	Share based compensation reserve	Retained earnings	
2022						
Balance as at beginning of the year	31,192,181	196,527,538	31,237,480	1,308,332	95,017,743	355,283,274
<i>Changes from financing cash flow</i>						
Proceeds from the borrowing	-	892,246,037	-	-	-	892,246,037
Repayment of borrowing	-	(673,755,626)	(14,750,000)	-	-	(688,505,626)
Payment of lease liabilities	(3,983,126)	-	-	-	-	(3,983,126)
Dividend paid	-	-	-	-	(45,000,000)	(45,000,000)
Total changes from financing cash flow	(3,983,126)	218,490,411	(14,750,000)	-	(45,000,000)	154,757,285
 The effect of changes from foreign exchange rate	 (1,298,947)	 -	 -	 -	 -	 (1,298,947)
<i>Other changes</i>						
Interest expense	655,769	18,804,039	117,816	-	-	19,577,624
Interest paid	(655,769)	(18,804,039)	-	-	-	(19,459,808)
Total Liability related changes	-	-	117,816	-	-	117,816
Total Equity related changes	-	-	-	124,046	78,992,338	79,116,384
 Balance as at end of the year	 25,910,108	 415,017,949	 16,605,296	 1,432,378	 129,010,081	 587,975,812

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts in Saudi Riyal unless otherwise stated)

36. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (Continued)

36.3 Reconciliation of movement of liabilities to cash flows arising from financing activities (Continued)

	Liabilities			Equity		Total
	Lease liabilities	Short term borrowing	Long term borrowing	Share based compensation reserve	Retained earnings	
2021						
Balance as at beginning of the year	11,290,188	151,173,913	44,053,048	629,375	76,873,742	284,020,266
<i>Changes from financing cash flow</i>						
Proceeds from the borrowing	-	422,225,000	-	-	-	422,225,000
Repayment of borrowing	-	(376,871,375)	(13,000,000)	-	-	(389,871,375)
Payment of lease liabilities	(2,086,520)	-	-	-	-	(2,086,520)
Dividend paid	-	-	-	-	(22,285,599)	(22,285,599)
Payment against share-based payment reserve	-	-	-	(160,207)	-	(160,207)
Total changes from financing cash flow	(2,086,520)	45,353,625	(13,000,000)	(160,207)	(22,285,599)	7,821,299
The effect of changes from foreign exchange rate	(793,425)	-	-	-	-	(793,425)
<i>Other changes</i>						
New leases	22,781,938	-	-	-	-	22,781,938
Interest expense	741,601	6,990,357	184,432	-	-	7,916,390
Interest paid	(741,601)	(6,990,357)	-	-	-	(7,731,958)
Total Liability related changes	22,781,938	-	184,432	-	-	22,966,370
Total Equity related changes	-	-	-	839,164	40,429,600	41,268,764
Balance as at end of the year	31,192,181	196,527,538	31,237,480	1,308,332	95,017,743	355,283,274

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(All amounts in Saudi Riyal unless otherwise stated)

36. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (Continued)

36.4 Fair value estimation

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

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

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

Significant valuation issues are reported to the Group's management.

Fair values hierarchy

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

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

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

36. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (Continued)

36.4 Fair value estimation (Continued)

The table below presents the financial assets at their fair values as at 31 December 2022 and 2021 based on the fair value hierarchy:

Financial Assets at FVOCI	Level 1	Level 2	Level 3	Total
31 December 2022				
Non- Listed equity investments	-	-	15,300,000	15,300,000
Listed equity investments	200,032	-	-	200,032
Total as at 31 December 2022	200,032	-	15,300,000	15,500,032
31 December 2021				
Non- Listed equity investments			15,300,000	15,300,000
Listed equity investments	110,544	-	-	110,544
Total as at 31 December 2021	110,544	-	15,300,000	15,410,544

The fair value of quoted securities classified at fair value through other comprehensive income fall under level 1 in fair value hierarchy as mentioned above. These securities are listed in Stock Exchange. There is an active market for the Company's listed equity investment. The fair value is determined from quotation obtained from stock exchange as of reporting date.

The fair value of unquoted securities classified at fair value through other comprehensive income fall under level 3 in fair value hierarchy. Valuation models for valuing securities for which there is no active market requires significant unobservable inputs and a higher degree of management judgement and estimation in the determination of fair value, including but not limited to selection of the appropriate valuation model, determination of expected future cash flows selection of discount rates.

Management has used discounted cash flow approach while valuing underlying investee (included in these consolidated financial statements) which holds unquoted equity portfolio. The discounted cash flow approach includes significant unobservable inputs such as Weighted average cost 17.80% and long-term growth rate 2%.

ELECTRICAL INDUSTRIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

(All amounts in Saudi Riyal unless otherwise stated)

36. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (Continued)

36.5 Categories of financial instrument

The Group classifies its financial instruments into the following measurement categories:

	31 December 2022	31 December 2021
Financial assets measured at amortised cost		
Trade and other receivables	477,156,380	400,468,402
Cash and cash equivalents	122,295,427	65,630,379
Other current assets	1,869,817	2,532,548
	<u>601,321,624</u>	<u>468,631,329</u>
Financial asset at fair value through other comprehensive income		
Equity securities	<u>15,500,032</u>	<u>15,410,544</u>
Financial liabilities measured at amortised cost		
Long term borrowings	-	16,605,296
Current portion of long-term borrowings	16,605,296	14,632,184
Lease liabilities	25,910,108	31,192,181
Trade and other payables	150,432,521	124,005,395
Accrued expenses and other liabilities	315,458,546	179,548,077
Short-term murabaha borrowings	<u>415,017,949</u>	<u>196,527,538</u>
	<u>923,424,420</u>	<u>562,510,671</u>

37. SUBSEQUENT EVENT

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

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

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with the current period presentation of the consolidated financial statements.

39. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENT

These Consolidated financial statements were approved by the Board of Directors and authorized for issue on 28 March 2023G (corresponding to 6 Ramadan1444H).